

104TH CONGRESS
1ST SESSION

H. R. 232

To amend the Internal Revenue Code of 1986 to allow a deduction for dividends paid by domestic corporations.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1995

Mr. DORNAN introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for dividends paid by domestic corporations.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Saving and Investment
5 Act of 1995”.

6 **SEC. 2. ALLOWANCE OF DEDUCTION FOR DIVIDENDS PAID**
7 **BY DOMESTIC CORPORATIONS.**

8 (a) IN GENERAL.—Section 243 of the Internal Reve-
9 nue Code of 1986 (relating to dividends received by cor-
10 porations) is amended to read as follows:

1 **“SEC. 243. DIVIDENDS PAID BY DOMESTIC CORPORATIONS.**

2 “(a) GENERAL RULE.—In the case of a domestic cor-
3 poration which is subject to taxation under this chapter,
4 there shall be allowed as a deduction for the taxable year
5 an amount equal to the dividends paid by such corporation
6 during the taxable year.

7 “(b) DIVIDENDS.—For purposes of this section, the
8 term ‘dividend’ means any dividend (as defined in section
9 316) to which section 301 applies.

10 “(c) CERTAIN CORPORATIONS NOT ELIGIBLE.—No
11 deduction shall be allowed under this section with respect
12 to dividends paid by any corporation which is—

13 “(1) an S corporation (as defined in section
14 1361(a)(1));

15 “(2) a regulated investment company (as de-
16 fined in section 851(a));

17 “(3) a real estate investment trust (as defined
18 in section 856(a)); or

19 “(4) a personal holding company (as defined in
20 section 542).

21 “(d) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS
22 OF MUTUAL SAVINGS BANKS, ETC.—For purposes of this
23 section, any amount allowed as a deduction under section
24 591 (relating to deduction for dividends paid by mutual
25 savings banks, etc.) shall not be treated as a dividend.”

1 (b) REPEAL OF DEDUCTIONS FOR DIVIDENDS RE-
2 CEIVED FROM DOMESTIC CORPORATIONS AND RULES RE-
3 LATING THERETO; REPEAL OF DEDUCTION FOR DIVI-
4 DENDS PAID ON CERTAIN PREFERRED STOCK OF PUBLIC
5 UTILITIES.—Sections 244 (relating to dividends received
6 on certain preferred stock), 246 (relating to rules applying
7 to deductions for dividends received), and 247 (relating
8 to dividends paid on certain preferred stock of public utili-
9 ties) of such Code are hereby repealed.

10 (c) CONFORMING AMENDMENTS.—

11 (1) DIVIDENDS RECEIVED FROM CERTAIN FOR-
12 EIGN CORPORATIONS.—

13 (A) TRANSFER OF PROVISION SPECIFYING
14 DEDUCTIBLE PERCENTAGE OF DIVIDEND RE-
15 CEIVED.—Paragraph (1) of section 245(a) of
16 such Code (relating generally to dividends re-
17 ceived from 10-percent owned foreign corpora-
18 tions) is amended by striking “the percent
19 (specified in section 243 for the taxable year)”
20 and inserting in lieu thereof “85 percent (100
21 percent in the case of a small business invest-
22 ment company operating under the Small Busi-
23 ness Investment Act of 1958 (15 U.S.C. 661 et
24 seq.))”.

1 (B) TRANSFER OF LIMITATION ON AGGRE-
2 GATE AMOUNT OF DIVIDENDS RECEIVED DE-
3 DUCTION, EXCLUSION OF CERTAIN DIVIDENDS,
4 ETC.—Section 245 of such Code (relating to
5 dividends received from certain foreign corpora-
6 tions) is amended by adding at the end the fol-
7 lowing new subsections:

8 “(e) LIMITATION AND SPECIAL RULES.—

9 “(1) LIMITATION ON AGGREGATE AMOUNT OF
10 DEDUCTION.—

11 “(A) IN GENERAL.—Except as provided by
12 subparagraph (B), the aggregate amount of the
13 deductions allowed by subsections (a) and (b)
14 shall not exceed 80 percent of the taxable in-
15 come computed without regard to—

16 “(i) the deductions allowed by section
17 172,

18 “(ii) any adjustment under section
19 1059, and

20 “(iii) any capital loss carryback to the
21 taxable year under section 1212(a)(1).

22 “(B) EFFECT OF NET OPERATING LOSS.—
23 Subparagraph (A) shall not apply for any tax-
24 able year for which there is a net operating loss
25 (as determined under section 172).

1 “(2) EXCLUSION OF CERTAIN DIVIDENDS.—

2 “(A) IN GENERAL.—No deduction shall be
3 allowed under subsection (a) or (b) in respect of
4 any dividend on any share of stock—

5 “(i) which is sold or otherwise dis-
6 posed of in any case in which the taxpayer
7 has held such share for 45 days or less, or

8 “(ii) to the extent that the taxpayer is
9 under an obligation (whether pursuant to a
10 short sale or otherwise) to make cor-
11 responding payments with respect to posi-
12 tions in substantially similar or related
13 property.

14 “(B) 90-DAY RULE IN THE CASE OF CER-
15 TAIN PREFERENCE DIVIDENDS.—In the case of
16 any stock having preference in dividends, the
17 holding period specified in subparagraph (A)(i)
18 shall be 90 days in lieu of 45 days if the tax-
19 payer receives dividends with respect to such
20 stock which are attributable to a period or peri-
21 ods aggregating in excess of 366 days.

22 “(C) DETERMINATION OF HOLDING PERI-
23 ODS.—For purposes of this subsection, in deter-
24 mining the period for which the taxpayer has
25 held any share of stock—

1 “(i) the day of disposition, but not the
2 day of acquisition, shall be taken into
3 account,

4 “(ii) there shall not be taken into ac-
5 count any day which is more than 45 days
6 (or 90 days in the case of stock to which
7 subparagraph (B) applies) after the date
8 on which such share becomes ex-dividend,
9 and

10 “(iii) paragraph (4) of section 1223
11 shall not apply.

12 “(D) HOLDING PERIOD REDUCED FOR PE-
13 RIODS WHERE RISK OF LOSS DIMINISHED.—
14 The holding periods determined under the pre-
15 ceding provisions of this subparagraph shall be
16 appropriately reduced (in the manner provided
17 in regulations prescribed by the Secretary) for
18 any period (during such periods) in which—

19 “(i) the taxpayer has an option to sell,
20 is under a contractual obligation to sell, or
21 has made (and not closed) a short sale of,
22 substantially identical stock or securities,

23 “(ii) the taxpayer is the grantor of an
24 option to buy substantially identical stock
25 or securities, or

1 “(iii) under regulations prescribed by
2 the Secretary, a taxpayer has diminished
3 his risk of loss by holding 1 or more other
4 positions with respect to substantially simi-
5 lar or related property.

6 The preceding sentence shall not apply in the
7 case of any qualified covered call (as defined in
8 section 1092(c)(4) but without regard to the re-
9 quirement that gain or loss with respect to the
10 option not be ordinary income or loss).

11 “(f) CROSS REFERENCE.—

**“For special rule relating to mutual savings banks,
 etc., to which section 593 applies, see section 596.”**

12 (2) NET OPERATING LOSS DEDUCTION.—Para-
13 graph (6) of section 172(d) of such Code is amended
14 to read as follows:

15 “(6) COMPUTATION OF DEDUCTION FOR DIVI-
16 DENDS RECEIVED FROM CERTAIN FOREIGN COR-
17 PORATIONS.—The deduction allowed by section 245
18 (relating to dividends received from certain foreign
19 corporations) shall be computed without regard to
20 section 245(e)(1).”

21 (3) DIVIDENDS RECEIVED DEDUCTION RE-
22 DUCED WHERE PORTFOLIO STOCK IS DEBT FI-
23 NANCED.—

1 (A) Subsections (a) and (e) of section
2 246A of such Code (relating to dividends re-
3 ceived deduction reduced where portfolio stock
4 is debt financed) are each amended by striking
5 “243, 244, or”.

6 (B) Subsection (b) of section 246A of such
7 Code is amended to read as follows:

8 “(b) SECTION NOT TO APPLY TO DIVIDENDS FOR
9 WHICH 100 PERCENT DIVIDENDS RECEIVED DEDUCTION
10 ALLOWABLE.—Subsection (a) shall not apply to dividends
11 received by a small business investment company operat-
12 ing under the Small Business Investment Act of 1958.”

13 (4) LIMITATION ON DIVIDENDS RECEIVED DE-
14 DUCTION FOR MUTUAL SAVINGS BANKS, ETC.—Sec-
15 tion 596 of such Code (relating to limitation on divi-
16 dends received deduction) is amended by striking
17 “sections 243, 244, and 245” and inserting in lieu
18 thereof “section 245”.

19 (d) CLERICAL AMENDMENTS.—The table of sections
20 for part VIII of subchapter B of chapter 1 is amended
21 by striking the items relating to sections 243, 244, 246,
22 and 247 and inserting after the item relating to section
23 241 the following:

 “Sec. 243. Dividends paid by domestic corporations.”

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to distributions made after Decem-
3 ber 31, 1995.

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