

106TH CONGRESS
1ST SESSION

H. R. 1840

To amend the Internal Revenue Code of 1986 to increase the maximum taxable income for the 15 percent rate bracket, to provide a partial exclusion from gross income for dividends and interest received by individuals, to provide a long-term capital gains deduction for individuals, to increase the traditional IRA contribution limit, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 18, 1999

Mr. GRAHAM (for himself, Mr. JEFFERSON, and Mr. WEXLER) 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 increase the maximum taxable income for the 15 percent rate bracket, to provide a partial exclusion from gross income for dividends and interest received by individuals, to provide a long-term capital gains deduction for individuals, to increase the traditional IRA contribution limit, and for other purposes.

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 “Small Savers Act of
5 1999”.

1 **SEC 2. INCREASE IN MAXIMUM TAXABLE INCOME FOR 15**
2 **PERCENT RATE BRACKET.**

3 Section 1(f) of the Internal Revenue Code of 1986
4 (relating to adjustments in tax tables so that inflation will
5 not result in tax increases) is amended—

6 (1) in paragraph (2)—

7 (A) by redesignating subparagraphs (B)
8 and (C) as subparagraphs (C) and (D),

9 (B) by inserting after subparagraph (A)
10 the following:

11 “(B) in the case of the tables contained in
12 subsections (a), (b), (c), and (d), by increasing
13 the maximum taxable income level for the 15
14 percent rate bracket and the minimum taxable
15 income level for the 28 percent rate bracket
16 otherwise determined under subparagraph (A)
17 for taxable years beginning in any calendar year
18 after 1999, by the applicable dollar amount for
19 such calendar year,” and

20 (C) by striking “subparagraph (A)” in
21 subparagraph (C) (as so redesignated) and in-
22 serting “subparagraphs (A) and (B)”, and

23 (2) by adding at the end the following:

24 “(8) **APPLICABLE DOLLAR AMOUNT.**—For pur-
25 poses of paragraph (2)(B), the applicable dollar

1 amount for any calendar year shall be determined as
 2 follows:

3 “(A) JOINT RETURNS AND SURVIVING
 4 SPOUSES.—In the case of the table contained in
 5 subsection (a)—

“Calendar year:	Applicable Dollar Amount:
2000	\$2,000
2001	\$4,000
2002	\$6,000
2003	\$8,000
2004 and thereafter	\$10,000.

6 “(B) OTHER TABLES.—In the case of the
 7 table contained in subsection (b), (c), or (d)—

“Calendar year:	Applicable Dollar Amount:
2000	\$1,000
2001	\$2,000
2002	\$3,000
2003	\$4,000
2004 and thereafter	\$5,000.”

8 **SEC. 3. PARTIAL EXCLUSION OF DIVIDENDS AND INTEREST**
 9 **RECEIVED BY INDIVIDUALS.**

10 (a) IN GENERAL.—Part III of subchapter B of chap-
 11 ter 1 of the Internal Revenue Code of 1986 (relating to
 12 amounts specifically excluded from gross income) is
 13 amended by inserting after section 115 the following new
 14 section:

1 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**
2 **EST RECEIVED BY INDIVIDUALS.**

3 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
4 come does not include the sum of the amounts received
5 during the taxable year by an individual as—

6 “(1) dividends from domestic corporations, or

7 “(2) interest.

8 “(b) LIMITATIONS.—

9 “(1) MAXIMUM AMOUNT.—The aggregate
10 amount excluded under subsection (a) for any tax-
11 able year shall not exceed \$250 (\$500 in the case of
12 a joint return).

13 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
14 section (a)(1) shall not apply to any dividend from
15 a corporation which, for the taxable year of the cor-
16 poration in which the distribution is made, or for the
17 next preceding taxable year of the corporation, is a
18 corporation exempt from tax under section 501 (re-
19 lating to certain charitable, etc., organization) or
20 section 521 (relating to farmers’ cooperative associa-
21 tions).

22 “(c) INTEREST.—For purposes of this section, the
23 term ‘interest’ means—

24 “(1) interest on deposits with a bank (as de-
25 fined in section 581),

1 “(2) amounts (whether or not designated as in-
2 terest) paid in respect of deposits, investment certifi-
3 cates, or withdrawable or repurchasable shares, by—

4 “(A) a mutual savings bank, cooperative
5 bank, domestic building and loan association,
6 industrial loan association or bank, or credit
7 union, or

8 “(B) any other savings or thrift institution
9 which is chartered and supervised under Fed-
10 eral or State law,

11 the deposits or accounts in which are insured under
12 Federal or State law or which are protected and
13 guaranteed under State law,

14 “(3) interest on—

15 “(A) evidences of indebtedness (including
16 bonds, debentures, notes, and certificates)
17 issued by a domestic corporation in registered
18 form, and

19 “(B) to the extent provided in regulations
20 prescribed by the Secretary, other evidences of
21 indebtedness issued by a domestic corporation
22 of a type offered by corporations to the public,

23 “(4) interest on obligations of the United
24 States, a State, or a political subdivision of a State

1 (not excluded from gross income of the taxpayer
2 under any other provision of law), and

3 “(5) interest attributable to participation shares
4 in a trust established and maintained by a corpora-
5 tion established pursuant to Federal law.

6 “(d) SPECIAL RULES.—For purposes of this
7 section—

8 “(1) DISTRIBUTIONS FROM REGULATED IN-
9 VESTMENT COMPANIES AND REAL ESTATE INVEST-
10 MENT TRUSTS.—Subsection (a) shall apply with re-
11 spect to distributions by—

12 “(A) regulated investment companies to
13 the extent provided in section 854(c), and

14 “(B) real estate investment trusts to the
15 extent provided in section 857(c).

16 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
17 poses of subsection (a), the amount of dividends and
18 interest properly allocable to a beneficiary under sec-
19 tion 652 or 662 shall be deemed to have been re-
20 ceived by the beneficiary ratably on the same date
21 that the dividends and interest were received by the
22 estate or trust.

23 “(3) CERTAIN NONRESIDENT ALIENS INELI-
24 GIBLE FOR EXCLUSION.—In the case of a non-

1 resident alien individual, subsection (a) shall apply
2 only—

3 “(A) in determining the tax imposed for
4 the taxable year pursuant to section 871(b)(1)
5 and only in respect of dividends and interest
6 which are effectively connected with the conduct
7 of a trade or business within the United States,
8 or

9 “(B) in determining the tax imposed for
10 the taxable year pursuant to section 877(b).”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) The table of sections for part III of sub-
13 chapter B of chapter 1 of such Code is amended by
14 inserting after the item relating to section 115 the
15 following new item:

“Sec. 116. Partial exclusion of dividends and interest received by
individuals.”.

16 (2) Paragraph (2) of section 265(a) of such
17 Code is amended by inserting before the period at
18 the end the following: “, or to purchase or carry ob-
19 ligations or shares, or to make deposits, to the ex-
20 tent the interest thereon is excludable from gross in-
21 come under section 116”.

22 (3) Subsection (c) of section 584 of such Code
23 is amended by adding at the end the following new
24 flush sentence:

1 “The proportionate share of each participant in the
2 amount of dividends or interest received by the common
3 trust fund and to which section 116 applies shall be con-
4 sidered for purposes of such section as having been re-
5 ceived by such participant.”.

6 (4) Subsection (a) of section 643 of such Code
7 is amended by redesignating paragraph (7) as para-
8 graph (8) and by inserting after paragraph (6) the
9 following new paragraph:

10 “(7) DIVIDENDS OR INTEREST.—There shall be
11 included the amount of any dividends or interest ex-
12 cluded from gross income pursuant to section 116.”.

13 (5) Section 854 of such Code is amended by
14 adding at the end the following new subsection:

15 “(c) TREATMENT UNDER SECTION 116.—

16 “(1) IN GENERAL.—For purposes of section
17 116, in the case of any dividend (other than a divi-
18 dend described in subsection (a)) received from a
19 regulated investment company which meets the re-
20 quirements of section 852 for the taxable year in
21 which it paid the dividend—

22 “(A) the entire amount of such dividend
23 shall be treated as a dividend if the sum of the
24 aggregate dividends and the aggregate interest
25 received by such company during the taxable

1 year equals or exceeds 75 percent of its gross
2 income, or

3 “(B) if subparagraph (A) does not apply,
4 there shall be taken into account under section
5 116 only the portion of such dividend which
6 bears the same ratio to the amount of such div-
7 idend as the sum of the aggregate dividends re-
8 ceived and aggregate interest received bears to
9 gross income.

10 For purposes of the preceding sentence, gross in-
11 come and aggregate interest received shall each be
12 reduced by so much of the deduction allowable by
13 section 163 for the taxable year as does not exceed
14 aggregate interest received for the taxable year.

15 “(2) NOTICE TO SHAREHOLDERS.—The amount
16 of any distribution by a regulated investment com-
17 pany which may be taken into account as a dividend
18 for purposes of the exclusion under section 116 shall
19 not exceed the amount so designated by the com-
20 pany in a written notice to its shareholders mailed
21 not later than 60 days after the close of its taxable
22 year.

23 “(3) DEFINITIONS.—For purposes of this
24 subsection—

1 “(A) GROSS INCOME.—The term ‘gross in-
2 come’ does not include gain from the sale or
3 other disposition of stock or securities.

4 “(B) AGGREGATE DIVIDENDS.—The term
5 ‘aggregate dividends’ includes only dividends re-
6 ceived from domestic corporations other than
7 dividends described in section 116(b)(2). In de-
8 termining the amount of any dividend for pur-
9 poses of this subparagraph, the rules provided
10 in section 116(d)(1) (relating to certain dis-
11 tributions) shall apply.

12 “(C) INTEREST.—The term ‘interest’ has
13 the meaning given such term by section
14 116(c).”.

15 (6) Subsection (c) of section 857 of such Code
16 is amended to read as follows:

17 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
18 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

19 “(1) IN GENERAL.—For purposes of section
20 116 (relating to an exclusion for dividends and inter-
21 est received by individuals) and section 243 (relating
22 to deductions for dividends received by corpora-
23 tions), a dividend received from a real estate invest-
24 ment trust which meets the requirements of this
25 part shall not be considered as a dividend.

1 “(2) TREATMENT AS INTEREST.—For purposes
2 of section 116, in the case of a dividend (other than
3 a capital gain dividend, as defined in subsection
4 (b)(3)(C)) received from a real estate investment
5 trust which meets the requirements of this part for
6 the taxable year in which it paid the dividend—

7 “(A) such dividend shall be treated as in-
8 terest if the aggregate interest received by the
9 real estate investment trust for the taxable year
10 equals or exceeds 75 percent of its gross in-
11 come, or

12 “(B) if subparagraph (A) does not apply,
13 the portion of such dividend which bears the
14 same ratio to the amount of such dividend as
15 the aggregate interest received bears to gross
16 income shall be treated as interest.

17 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
18 GREGATE INTEREST RECEIVED.—For purposes of
19 paragraph (2)—

20 “(A) gross income does not include the net
21 capital gain,

22 “(B) gross income and aggregate interest
23 received shall each be reduced by so much of
24 the deduction allowable by section 163 for the
25 taxable year (other than for interest on mort-

1 gages on real property owned by the real estate
2 investment trust) as does not exceed aggregate
3 interest received by the taxable year, and

4 “(C) gross income shall be reduced by the
5 sum of the taxes imposed by paragraphs (4),
6 (5), and (6) of section 857(b).

7 “(4) INTEREST.—The term ‘interest’ has the
8 meaning given such term by section 116(c).

9 “(5) NOTICE TO SHAREHOLDERS.—The amount
10 of any distribution by a real estate investment trust
11 which may be taken into account as interest for pur-
12 poses of the exclusion under section 116 shall not
13 exceed the amount so designated by the trust in a
14 written notice to its shareholders mailed not later
15 than 60 days after the close of its taxable year.”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 1999.

19 **SEC. 4. LONG-TERM CAPITAL GAINS DEDUCTION FOR INDI-**
20 **VIDUALS.**

21 (a) GENERAL RULE.—Part I of subchapter P of
22 chapter 1 of the Internal Revenue Code of 1986 (relating
23 to treatment of capital gains) is amended by redesignating
24 section 1202 as section 1203 and by inserting after section
25 1201 the following new section:

1 **“SEC. 1202. CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.**

2 “(a) IN GENERAL.—In the case of an individual,
3 there shall be allowed as a deduction for the taxable year
4 an amount equal to the lesser of—

5 “(1) the net capital gain of the taxpayer for the
6 taxable year, or

7 “(2) \$5,000.

8 “(b) SALES BETWEEN RELATED PARTIES.—Gains
9 from sales and exchanges to any related person (within
10 the meaning of section 267(b) or 707(b)(1)) shall not be
11 taken into account in determining net capital gain.

12 “(c) SPECIAL RULE FOR SECTION 1250 PROP-
13 ERTY.—Solely for purposes of this section, in applying sec-
14 tion 1250 to any disposition of section 1250 property, all
15 depreciation adjustments in respect of the property shall
16 be treated as additional depreciation.

17 “(d) SECTION NOT TO APPLY TO CERTAIN TAX-
18 PAYERS.—No deduction shall be allowed under this section
19 to—

20 “(1) an individual with respect to whom a de-
21 duction under section 151 is allowable to another
22 taxpayer for a taxable year beginning in the cal-
23 endar year in which such individual’s taxable year
24 begins,

1 “(2) a married individual (within the meaning
2 of section 7703) filing a separate return for the tax-
3 able year, or

4 “(3) an estate or trust.

5 “(e) SPECIAL RULE FOR PASS-THRU ENTITIES.—

6 “(1) IN GENERAL.—In applying this section
7 with respect to any pass-thru entity, the determina-
8 tion of when the sale or exchange occurs shall be
9 made at the entity level.

10 “(2) PASS-THRU ENTITY DEFINED.—For pur-
11 poses of paragraph (1), the term ‘pass-thru entity’
12 means—

13 “(A) a regulated investment company,

14 “(B) a real estate investment trust,

15 “(C) an S corporation,

16 “(D) a partnership,

17 “(E) an estate or trust, and

18 “(F) a common trust fund.”

19 (b) COORDINATION WITH MAXIMUM CAPITAL GAINS
20 RATE.—Paragraph (3) of section 1(h) of the Internal Rev-
21 enue Code of 1986 (relating to maximum capital gains
22 rate) is amended to read as follows:

23 “(3) COORDINATION WITH OTHER PROVI-
24 SIONS.—For purposes of this subsection, the amount

1 of the net capital gain shall be reduced (but not
2 below zero) by the sum of—

3 “(A) the amount of the net capital gain
4 taken into account under section 1202(a) for
5 the taxable year, plus

6 “(B) the amount which the taxpayer elects
7 to take into account as investment income for
8 the taxable year under section
9 163(d)(4)(B)(iii).”

10 (c) DEDUCTION ALLOWABLE IN COMPUTING AD-
11 JUSTED GROSS INCOME.—Subsection (a) of section 62 of
12 the Internal Revenue Code of 1986 (defining adjusted
13 gross income) is amended by inserting after paragraph
14 (17) the following new paragraph:

15 “(18) LONG-TERM CAPITAL GAINS.—The de-
16 duction allowed by section 1202.”

17 (d) TREATMENT OF COLLECTIBLES.—

18 (1) IN GENERAL.—Section 1222 of the Internal
19 Revenue Code of 1986 (relating to other terms relat-
20 ing to capital gains and losses) is amended by in-
21 sserting after paragraph (11) the following new para-
22 graph:

23 “(12) SPECIAL RULE FOR COLLECTIBLES.—

24 “(A) IN GENERAL.—Any gain or loss from
25 the sale or exchange of a collectible shall be

1 treated as a short-term capital gain or loss (as
2 the case may be), without regard to the period
3 such asset was held. The preceding sentence
4 shall apply only to the extent the gain or loss
5 is taken into account in computing taxable in-
6 come.

7 “(B) TREATMENT OF CERTAIN SALES OF
8 INTEREST IN PARTNERSHIP, ETC.—For pur-
9 poses of subparagraph (A), any gain from the
10 sale or exchange of an interest in a partnership,
11 S corporation, or trust which is attributable to
12 unrealized appreciation in the value of collect-
13 ibles held by such entity shall be treated as gain
14 from the sale or exchange of a collectible. Rules
15 similar to the rules of section 751(f) shall apply
16 for purposes of the preceding sentence.

17 “(C) COLLECTIBLE.—For purposes of this
18 paragraph, the term ‘collectible’ means any cap-
19 ital asset which is a collectible (as defined in
20 section 408(m) without regard to paragraph (3)
21 thereof).”

22 (2) CHARITABLE DEDUCTION NOT AF-
23 FECTED.—

24 (A) Paragraph (1) of section 170(e) of
25 such Code is amended by adding at the end the

1 following new sentence: “For purposes of this
2 paragraph, section 1222 shall be applied with-
3 out regard to paragraph (12) thereof (relating
4 to special rule for collectibles).”

5 (B) Clause (iv) of section 170(b)(1)(C) of
6 such Code is amended by inserting before the
7 period at the end the following: “and section
8 1222 shall be applied without regard to para-
9 graph (12) thereof (relating to special rule for
10 collectibles)”.

11 (e) CONFORMING AMENDMENTS.—

12 (1) Section 57(a)(7) of the Internal Revenue
13 Code of 1986 is amended by striking “1202” and in-
14 serting “1203”.

15 (2) Clause (iii) of section 163(d)(4)(B) of such
16 Code is amended to read as follows:

17 “(iii) the sum of—

18 “(I) the portion of the net capital
19 gain referred to in clause (ii)(II) (or,
20 if lesser, the net capital gain referred
21 to in clause (ii)(I)) taken into account
22 under section 1202, reduced by the
23 amount of the deduction allowed with
24 respect to such gain under section
25 1202, plus

1 “(II) so much of the gain de-
2 scribed in subclause (I) which is not
3 taken into account under section 1202
4 and which the taxpayer elects to take
5 into account under this clause.”

6 (3) Subparagraph (B) of section 172(d)(2) of
7 such Code is amended to read as follows:

8 “(B) the deduction under section 1202 and
9 the exclusion under section 1203 shall not be
10 allowed.”

11 (4) Section 642(c)(4) of such Code is amended
12 by striking “1202” and inserting “1203”.

13 (5) Section 643(a)(3) of such Code is amended
14 by striking “1202” and inserting “1203”.

15 (6) Paragraph (4) of section 691(c) of such
16 Code is amended inserting “1203,” after “1202,”.

17 (7) The second sentence of section 871(a)(2) of
18 such Code is amended by inserting “or 1203” after
19 “section 1202”.

20 (8) The last sentence of section 1044(d) of such
21 Code is amended by striking “1202” and inserting
22 “1203”.

23 (9) Paragraph (1) of section 1402(i) of such
24 Code is amended by inserting “, and the deduction
25 provided by section 1202 and the exclusion provided

1 by section 1203 shall not apply” before the period
2 at the end.

3 (10) Section 121 of such Code is amended by
4 adding at the end the following new subsection:

5 “(h) CROSS REFERENCE.—

**“For treatment of eligible gain not excluded under
subsection (a), see section 1202.”**

6 (11) Section 1203 of such Code, as redesign-
7 nated by subsection (a), is amended by adding at the
8 end the following new subsection:

9 “(l) CROSS REFERENCE.—

**“For treatment of eligible gain not excluded under
subsection (a), see section 1202.”**

10 (12) The table of sections for part I of sub-
11 chapter P of chapter 1 of such Code is amended by
12 striking the item relating to section 1202 and by in-
13 sserting after the item relating to section 1201 the
14 following new items:

“Sec. 1202. Capital gains deduction.

“Sec. 1203. 50-percent exclusion for gain from certain small
business stock.”

15 (f) EFFECTIVE DATES.—

16 (1) IN GENERAL.—Except as provided in para-
17 graph (2), the amendments made by this section
18 shall apply to taxable years beginning after Decem-
19 ber 31, 1999.

1 (2) COLLECTIBLES.—The amendments made by
2 subsection (d) shall apply to sales and exchanges
3 after December 31, 1999.

4 **SEC. 5. INCREASE IN CONTRIBUTION LIMITS FOR TRADI-**
5 **TIONAL IRAS.**

6 (a) INCREASE IN CONTRIBUTION LIMIT.—Paragraph
7 (1)(A) of section 219(b) of the Internal Revenue Code of
8 1986 (relating to maximum amount of deduction) is
9 amended by striking “\$2,000” and inserting “\$3,000”.

10 (b) INFLATION ADJUSTMENT.—Section 219 of the
11 Internal Revenue Code of 1986 (relating to deduction for
12 retirement savings) is amended by redesignating sub-
13 section (h) as subsection (i) and by inserting after sub-
14 section (g) the following new subsection:

15 “(h) COST-OF-LIVING ADJUSTMENT.—

16 “(1) DEDUCTIBLE AMOUNTS.—In the case of
17 any taxable year beginning in a calendar year after
18 2009, the \$3,000 amount under subsection (b)(1)(A)
19 shall be increased by an amount equal to—

20 “(A) such dollar amount, multiplied by

21 “(B) the cost-of-living adjustment deter-
22 mined under section 1(f)(3) for the calendar
23 year in which the taxable year begins, deter-
24 mined by substituting ‘calendar year 2008’ for

1 ‘calendar year 1992’ in subparagraph (B)
2 thereof.

3 “(2) ROUNDING RULES.—If any amount after
4 adjustment under paragraph (1) is not a multiple of
5 \$100, such amount shall be rounded to the next
6 lower multiple of \$100.”

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 408(a)(1) of the Internal Revenue
9 Code of 1986 is amended by striking “in excess of
10 \$2,000 on behalf of any individual” and inserting
11 “on behalf of any individual in excess of the amount
12 in effect for such taxable year under section
13 219(b)(1)(A)”.

14 (2) Section 408(b)(2)(B) of such Code is
15 amended by striking “\$2,000” and inserting “the
16 dollar amount in effect under section 219(b)(1)(A)”.

17 (3) Section 408(b) of such Code is amended by
18 striking “\$2,000” in the matter following paragraph
19 (4) and inserting “the dollar amount in effect under
20 section 219(b)(1)(A)”.

21 (4) Section 408(j) of such Code is amended by
22 striking “\$2,000”.

23 (5) Section 408(p)(8) of such Code is amended
24 by striking “\$2,000” and inserting “the dollar
25 amount in effect under section 219(b)(1)(A)”.

1 (6) Section 408A(c)(2)(A) of such Code is
2 amended to read as follows:

3 “(A) \$2,000, over”.

4 (d) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 1999.

7 **SEC. 6. SOCIAL SECURITY NOT AFFECTED.**

8 It is the sense of the Congress that the enactment
9 of this Act shall have no impact on the solvency of the
10 social security trust funds since the revenue reductions re-
11 sulting from this Act over both the 5-year and 10-year
12 estimating periods are projected to be less than the sur-
13 plus over such periods in the non-social security portion
14 of the Federal budget.

○