

105TH CONGRESS
2D SESSION

H. R. 3103

To amend the Internal Revenue Code of 1986 to increase the standard deduction for married individuals, to exclude certain amounts of interest and dividends from gross income, to increase the deduction for the health insurance costs of self-employed individuals, and to allow private colleges to establish prepaid tuition plans.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 27, 1998

Mr. PITTS (for himself, Ms. GRANGER, Mr. SUNUNU, Mr. HULSHOF, Mr. BLUNT, Mr. COOK, Mr. PICKERING, Mr. BOB SCHAFER of Colorado, Mr. SNOWBARGER, Mr. BRADY, Mr. COOKSEY, Mr. ROGAN, Mr. PETERSON of Pennsylvania, Mr. WATKINS, Mr. CANNON, Mr. PEASE, Mr. REDMOND, Mr. ADERHOLT, Mrs. EMERSON, Mr. SHIMKUS, Mr. HUTCHINSON, and Mr. RYUN) 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 standard deduction for married individuals, to exclude certain amounts of interest and dividends from gross income, to increase the deduction for the health insurance costs of self-employed individuals, and to allow private colleges to establish prepaid tuition plans.

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

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Family Reinvestment
3 and Shaping Our Future Act”.

4 **SEC. 2. INCREASE IN BASIC STANDARD DEDUCTION FOR**
5 **MARRIED INDIVIDUALS.**

6 (a) IN GENERAL.—Paragraph (2) of section 63(c) of
7 the Internal Revenue Code of 1986 (relating to standard
8 deduction) is amended—

9 (1) by striking “\$5,000” in subparagraph (A)
10 and inserting “twice the dollar amount in effect
11 under subparagraph (C) for the taxable year”,

12 (2) by adding “or” at the end of subparagraph
13 (B),

14 (3) by striking “in the case of” and all that fol-
15 lows in subparagraph (C) and inserting “in any
16 other case.”, and

17 (4) by striking subparagraph (D).

18 (b) TECHNICAL AMENDMENT.—Subparagraph (B) of
19 section 1(f)(6) of such Code is amended by striking “sub-
20 section (c)(4) of section 63 (as it applies to subsections
21 (c)(5)(A) and (f) of such section)” and inserting “section
22 63(c)(4)”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 1997.

1 **SEC. 3. PARTIAL EXCLUSION OF DIVIDENDS AND INTEREST**
2 **RECEIVED BY INDIVIDUALS.**

3 (a) IN GENERAL.—Part III of subchapter B of chap-
4 ter 1 of the Internal Revenue Code of 1986 (relating to
5 amounts specifically excluded from gross income) is
6 amended by inserting after section 115 the following new
7 section:

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

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

13 “(1) dividends from domestic corporations, or

14 “(2) interest.

15 “(b) LIMITATIONS.—

16 “(1) MAXIMUM AMOUNT.—The aggregate
17 amount excluded under subsection (a) for any tax-
18 able year shall not exceed \$200 (\$400 in the case of
19 a joint return).

20 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
21 section (a)(1) shall not apply to any dividend from
22 a corporation which, for the taxable year of the cor-
23 poration in which the distribution is made, or for the
24 next preceding taxable year of the corporation, is a
25 corporation exempt from tax under section 501 (re-
26 lating to certain charitable, etc., organizations) or

1 section 521 (relating to farmers' cooperative associa-
2 tions).

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

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

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

10 “(A) a mutual savings bank, cooperative
11 bank, domestic building and loan association,
12 industrial loan association or bank, or credit
13 union, or

14 “(B) any other savings or thrift institution
15 which is chartered and supervised under Fed-
16 eral or State law,

17 the deposits or accounts in which are insured under
18 Federal or State law or which are protected and
19 guaranteed under State law,

20 “(3) interest on—

21 “(A) evidences of indebtedness (including
22 bonds, debentures, notes, and certificates)
23 issued by a domestic corporation in registered
24 form, and

1 “(B) to the extent provided in regulations
2 prescribed by the Secretary, other evidences of
3 indebtedness issued by a domestic corporation
4 of a type offered by corporations to the public,

5 “(4) interest on obligations of the United
6 States, a State, or a political subdivision of a State
7 (not excluded from gross income of the taxpayer
8 under any other provision of law), and

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

12 “(d) SPECIAL RULES.—For purposes of this sec-
13 tion—

14 “(1) DISTRIBUTIONS FROM REGULATED IN-
15 VESTMENT COMPANIES AND REAL ESTATE INVEST-
16 MENT TRUSTS.—Subsection (a) shall apply with re-
17 spect to distributions by—

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

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

22 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
23 poses of subsection (a), the amount of dividends and
24 interest properly allocable to a beneficiary under sec-
25 tion 652 or 662 shall be deemed to have been re-

1 received by the beneficiary ratably on the same date
2 that the dividends and interest were received by the
3 estate or trust.

4 “(3) CERTAIN NONRESIDENT ALIENS INELI-
5 GIBLE FOR EXCLUSION.—In the case of a non-
6 resident alien individual, subsection (a) shall apply
7 only—

8 “(A) in determining the tax imposed for
9 the taxable year pursuant to section 871(b)(1)
10 and only in respect of dividends and interest
11 which are effectively connected with the conduct
12 of a trade or business within the United States,
13 or

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

16 (b) CONFORMING AMENDMENTS.—

17 (1) The table of sections for part III of sub-
18 chapter B of chapter 1 of such Code is amended by
19 inserting after the item relating to section 115 the
20 following new item:

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

21 (2) Paragraph (2) of section 265(a) of such
22 Code is amended by inserting before the period at
23 the end the following: “, or to purchase or carry ob-
24 ligations or shares, or to make deposits, to the ex-

1 tent the interest thereon is excludable from gross in-
2 come under section 116”.

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

6 “The proportionate share of each participant in the
7 amount of dividends or interest received by the common
8 trust fund and to which section 116 applies shall be con-
9 sidered for purposes of such section as having been re-
10 ceived by such participant.”.

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

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

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

20 “(c) TREATMENT UNDER SECTION 116.—

21 “(1) IN GENERAL.—For purposes of section
22 116, in the case of any dividend (other than a divi-
23 dend described in subsection (a)) received from a
24 regulated investment company which meets the re-

1 requirements of section 852 for the taxable year in
2 which it paid the dividend—

3 “(A) the entire amount of such dividend
4 shall be treated as a dividend if the sum of the
5 aggregate dividends and the aggregate interest
6 received by such company during the taxable
7 year equals or exceeds 75 percent of its gross
8 income, or

9 “(B) if subparagraph (A) does not apply,
10 there shall be taken into account under section
11 116 only the portion of such dividend which
12 bears the same ratio to the amount of such div-
13 idend as the sum of the aggregate dividends re-
14 ceived and aggregate interest received bears to
15 gross income.

16 For purposes of the preceding sentence, gross in-
17 come and aggregate interest received shall each be
18 reduced by so much of the deduction allowable by
19 section 163 for the taxable year as does not exceed
20 aggregate interest received for the taxable year.

21 “(2) NOTICE TO SHAREHOLDERS.—The amount
22 of any distribution by a regulated investment com-
23 pany which may be taken into account as a dividend
24 for purposes of the exclusion under section 116 shall
25 not exceed the amount so designated by the com-

1 pany in a written notice to its shareholders mailed
2 not later than 60 days after the close of its taxable
3 year.

4 “(3) DEFINITIONS.—For purposes of this sub-
5 section—

6 “(A) The term ‘gross income’ does not in-
7 clude gain from the sale or other disposition of
8 stock or securities.

9 “(B) The term ‘aggregate dividends’ in-
10 cludes only dividends received from domestic
11 corporations other than dividends described in
12 section 116(b)(2). In determining the amount
13 of any dividend for purposes of this subpara-
14 graph, the rules provided in section 116(d)(1)
15 (relating to certain distributions) shall apply.

16 “(C) The term ‘interest’ has the meaning
17 given such term by section 116(e).”.

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

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

22 “(1) IN GENERAL.—For purposes of section
23 116 (relating to an exclusion for dividends and inter-
24 est received by individuals) and section 243 (relating
25 to deductions for dividends received by corpora-

1 tions), a dividend received from a real estate invest-
2 ment trust which meets the requirements of this
3 part shall not be considered as a dividend.

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

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

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

20 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
21 GREGATE INTEREST RECEIVED.—For purposes of
22 paragraph (2)—

23 “(A) gross income does not include the net
24 capital gain,

1 “(B) gross income and aggregate interest
2 received shall each be reduced by so much of
3 the deduction allowable by section 163 for the
4 taxable year (other than for interest on mort-
5 gages on real property owned by the real estate
6 investment trust) as does not exceed aggregate
7 interest received by the taxable year, and

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

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

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

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 1997.

1 **SEC. 4. DEDUCTION FOR 100 PERCENT OF THE HEALTH IN-**
2 **SURANCE COSTS OF SELF-EMPLOYED INDI-**
3 **VIDUALS.**

4 (a) IN GENERAL.—Paragraph (1) of section 162(l)
5 of the Internal Revenue Code of 1986 (relating to special
6 rules for health insurance costs of self-employed individ-
7 uals) is amended to read as follows:

8 “(1) ALLOWANCE OF DEDUCTION.—In the case
9 of an individual who is an employee within the
10 meaning of section 401(c)(1), there shall be allowed
11 as a deduction under this section an amount equal
12 to the amount paid during the taxable year for in-
13 surance which constitutes medical care for the tax-
14 payer, his spouse, and dependents.”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 subsection (a) shall apply to taxable years beginning after
17 December 31, 1997.

18 **SEC. 5. EXCLUSION FROM GROSS INCOME OF EDUCATION**
19 **DISTRIBUTIONS FROM QUALIFIED TUITION**
20 **PROGRAMS; COVERAGE OF PRIVATE PRO-**
21 **GRAMS.**

22 (a) EXCLUSION.—

23 (1) IN GENERAL.—Subparagraph (B) of section
24 529(c)(3) of the Internal Revenue Code of 1986 (re-
25 lating to distributions) is amended to read as fol-
26 lows:

1 “(B) DISTRIBUTIONS FOR QUALIFIED
2 HIGHER EDUCATION EXPENSES.—If a distribu-
3 tee elects the application of this subparagraph
4 for any taxable year—

5 “(i) no amount shall be includible in
6 gross income by reason of a distribution
7 which consists of providing a benefit to the
8 distributee which, if paid for by the dis-
9 tributee, would constitute payment of a
10 qualified higher education expense, and

11 “(ii) the amount which (but for the
12 election) would be includible in gross in-
13 come by reason of any other distribution
14 shall not be so includible in an amount
15 which bears the same ratio to the amount
16 which would be so includible as the amount
17 of the qualified higher education expenses
18 of the distributee bears to the amount of
19 the distribution.”.

20 (2) ADDITIONAL TAX ON AMOUNTS NOT USED
21 FOR HIGHER EDUCATION EXPENSES.—Section 529
22 of such Code is amended by adding at the end the
23 following new subsection:

24 “(f) ADDITIONAL TAX FOR DISTRIBUTIONS NOT
25 USED FOR EDUCATIONAL EXPENSES.—

1 “(1) IN GENERAL.—The tax imposed by section
2 530(d)(4) shall apply to payments and distributions
3 from qualified tuition programs in the same manner
4 as such tax applies to education individual retire-
5 ment accounts.

6 “(2) EXCESS CONTRIBUTIONS RETURNED BE-
7 FORE DUE DATE OF RETURN.—Paragraph (1) shall
8 not apply to the distribution to a contributor of any
9 contribution paid during a taxable year to a quali-
10 fied tuition program to the extent that such con-
11 tribution exceeds the limitation in section 4973(e) if
12 such distribution (and the net income with respect
13 to such excess contribution) meets requirements
14 comparable to the requirements of clauses (i) and
15 (ii) of section 530(d)(4)(C).”.

16 (3) COORDINATION WITH EDUCATION CRED-
17 ITS.—Section 25A(e)(2) of such Code is amended by
18 inserting “529(e)(3)(B) or” before “530(d)(2)”.

19 (4) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to distributions after
21 December 31, 1997, for education furnished in aca-
22 demic periods beginning after such date.

23 (b) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-
24 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

1 (1) IN GENERAL.—Paragraph (1) of section
2 529(b) of such Code (defining qualified State tuition
3 program) is amended by inserting “or by 1 or more
4 eligible educational institutions” after “maintained
5 by a State or agency or instrumentality thereof”.

6 (2) LIMITATION ON CONTRIBUTIONS TO QUALI-
7 FIED TUITION PROGRAMS NOT MAINTAINED BY A
8 STATE.—Subsection (b) of section 529 of such Code
9 is amended by adding at the end the following new
10 paragraph:

11 “(8) LIMITATION ON CONTRIBUTIONS TO
12 QUALIFIED TUITION PROGRAMS NOT MAINTAINED BY
13 A STATE.—In the case of a program not maintained
14 by a State or agency or instrumentality thereof, such
15 program shall not be treated as a qualified tuition
16 program unless it limits the annual contribution to
17 the program on behalf of a designated beneficiary to
18 \$5,000.”.

19 (3) TAX ON EXCESS CONTRIBUTIONS.—

20 (A) IN GENERAL.—Subsection (a) of sec-
21 tion 4973 of such Code is amended by striking
22 “or” at the end of paragraph (3), by redesignig-
23 nating paragraph (4) as paragraph (5), and by
24 inserting after paragraph (3) the following new
25 paragraph:

1 “(4) a qualified tuition program (as defined in
2 section 529) not maintained by a State or any agen-
3 cy or instrumentality thereof, or”.

4 (B) EXCESS CONTRIBUTIONS DEFINED.—
5 Section 4973(e) of such Code is amended to
6 read as follows:

7 “(e) EXCESS CONTRIBUTIONS TO PRIVATE QUALI-
8 FIED TUITION PROGRAM AND EDUCATION INDIVIDUAL
9 RETIREMENT ACCOUNTS.—For purposes of this section—

10 “(1) IN GENERAL.—In the case of private edu-
11 cation investment accounts maintained for the bene-
12 fit of any 1 beneficiary, the term ‘excess contribu-
13 tions’ means the amount by which the amount con-
14 tributed for the taxable year to such accounts ex-
15 ceeds \$5,000.

16 “(2) PRIVATE EDUCATION INVESTMENT AC-
17 COUNT.—For purposes of paragraph (1), the term
18 ‘private education investment account’ means—

19 “(A) a qualified tuition program (as de-
20 fined in section 529) not maintained by a State
21 or any agency or instrumentality thereof, and

22 “(B) an education individual retirement
23 account (as defined in section 530).

1 “(3) SPECIAL RULES.—For purposes of para-
2 graph (1), the following contributions shall not be
3 taken into account:

4 “(A) Any contribution which is distributed
5 out of the education individual retirement ac-
6 count in a distribution to which section
7 530(d)(4)(C) applies.

8 “(B) Any contribution to a qualified tui-
9 tion program (as so defined) described in sec-
10 tion 530(b)(2)(B) from any such account.

11 “(C) Any rollover contribution.”.

12 (4) CONFORMING AMENDMENTS.—

13 (A) Paragraph (2) of section 26(b) of such
14 Code is amended by redesignating subpara-
15 graphs (E) through (Q) as subparagraphs (F)
16 through (R), respectively, and by inserting after
17 subparagraph (D) the following new subpara-
18 graph:

19 “(E) section 529(f) (relating to additional
20 tax on certain distributions from qualified tui-
21 tion programs),”.

22 (B) The text and headings of sections 529
23 and 530 of such Code are amended by striking
24 “qualified State tuition program” each place it

1 appears and inserting “qualified tuition pro-
2 gram”.

3 (C)(i) The section heading of section 529
4 of such Code is amended to read as follows:

5 **“SEC. 529. QUALIFIED TUITION PROGRAMS.”.**

6 (ii) The item relating to section 529 of
7 such Code in the table of sections for part VIII
8 of subchapter F of chapter 1 is amended by
9 striking “State”.

10 (5) EFFECTIVE DATE.—The amendments made
11 by this subsection shall take effect on January 1,
12 1998.

13 (c) CHANGE OF QUALIFIED TUITION PROGRAM OR
14 OF DESIGNATED BENEFICIARY.—

15 (1) IN GENERAL.—Clause (i) of section
16 529(c)(3)(C) of such Code is amended by inserting
17 “to another qualified tuition program for the benefit
18 of the designated beneficiary or” after “trans-
19 ferred”.

20 (2) INCLUSION OF SIBLINGS AS MEMBER OF
21 FAMILY.—Paragraph (2) of section 529(e) of such
22 Code is amended by inserting before the period at
23 the end the following: “, except that such term shall
24 include any sibling (whether by the whole or half
25 blood) of the designated beneficiary”.

1 (3) EFFECTIVE DATE.—The amendments made
2 by this subsection shall take effect on January 1,
3 1998.

○