

107TH CONGRESS  
2D SESSION

# H. R. 5413

To amend the Internal Revenue Code of 1986 to give a deduction to corporations for dividends paid and to exclude dividends from gross income.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 19, 2002

Mr. BURR of North Carolina (for himself, Mr. PAUL, Mr. CANNON, Mr. ROYCE, Mr. ENGLISH, Mr. AKIN, and Mr. PETRI) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to give a deduction to corporations for dividends paid and to exclude dividends from gross income.

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 “Dividend Incentive and  
5 Tax Simplification Act of 2002”.

6 **SEC. 2. DEDUCTION FOR DIVIDENDS PAID.**

7 (a) IN GENERAL.—Part VIII of subchapter B of  
8 chapter 1 of the Internal Revenue Code of 1986 (relating

1 to special deductions for corporations) is amended by add-  
 2 ing at the end the following new section:

3 **“SEC. 250. DIVIDENDS PAID BY CORPORATIONS.**

4       “(a) IN GENERAL.—In the case of a domestic cor-  
 5 poration, there shall be allowed as a deduction for the tax-  
 6 able year an amount equal to the amount of dividends paid  
 7 during the taxable year.

8       “(b) EXCEPTIONS.—Subsection (a) shall not apply  
 9 to—

10               “(1) any dividend from—

11                       “(A) a regulated investment company,

12                       “(B) a real estate investment trust, or

13                       “(C) an S corporation,

14               “(2) any dividend of a corporation which for  
 15 the taxable year of the corporation in which the dis-  
 16 tribution is made is a corporation exempt from tax  
 17 under section 521 (relating to farmers’ cooperative  
 18 associations), and

19               “(3) any dividend described in section 404(k).

20       “(c) DISALLOWANCE OF DIVIDENDS RECEIVED DE-  
 21 DUCTION.—In the case of the deduction allowed by sub-  
 22 section (a) with respect to any dividend, no deduction shall  
 23 be allowed under any other provision of this part with re-  
 24 spect to such dividend.”.

1 (b) CLERICAL AMENDMENT.—The table of sections  
 2 for part VIII of subchapter B of chapter 1 of such Code  
 3 is amended by adding at the end the following new item:

“Sec. 250. Dividends paid by corporations.”.

4 (c) EFFECTIVE DATE.—The amendments made by  
 5 this section shall apply to taxable years beginning after  
 6 December 31, 2002.

7 **SEC. 3. DIVIDENDS RECEIVED BY INDIVIDUALS TAXED AT**  
 8 **CAPITAL GAIN RATES.**

9 (a) IN GENERAL.—Subsection (h) of section 1 of the  
 10 Internal Revenue Code of 1986 (relating to maximum cap-  
 11 ital gains rate) is amended by adding at the end the fol-  
 12 lowing new paragraph:

13 “(13) DIVIDENDS TAXED AS NET CAPITAL  
 14 GAIN.—

15 “(A) IN GENERAL.—For purposes of this  
 16 subsection, the term ‘net capital gain’ means  
 17 net capital gain (determined without regard to  
 18 this paragraph) increased by qualified dividend  
 19 income.

20 “(B) QUALIFIED DIVIDEND INCOME.—For  
 21 purposes of this paragraph, the term ‘qualified  
 22 dividend income’ means dividends received from  
 23 domestic corporations during the taxable year  
 24 other than—

1 “(i) any dividend from a corporation  
2 which for the taxable year of the corpora-  
3 tion in which the distribution is made, or  
4 the preceding taxable year, is a corporation  
5 exempt from tax under section 501 or 521,

6 “(ii) any dividend from a real estate  
7 investment trust which, for the taxable  
8 year in which the dividend is paid, quali-  
9 fied under part II of subchapter M,

10 “(iii) any amount allowed as a deduc-  
11 tion under section 591 (relating to deduc-  
12 tion for dividends paid by mutual savings  
13 banks, etc.),

14 “(iv) any dividend described in section  
15 404(k),

16 “(v) any dividend on any share of  
17 stock with respect to which the holding pe-  
18 riod requirements of section 246(c) are not  
19 met, and

20 “(vi) any dividend which the taxpayer  
21 takes into account as investment income  
22 under section 163(d)(4)(B).

23 “(C) SPECIAL RULE FOR NONRESIDENT  
24 ALIENS.—In the case of a nonresident alien in-  
25 dividual, subparagraph (A) shall apply only—

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

7 “(ii) in determining the tax imposed  
 8 for the taxable year pursuant to section  
 9 877.

10 “(D) TREATMENT OF DIVIDENDS FROM  
 11 REGULATED INVESTMENT COMPANIES.—

**“For treatment of dividends from regulated investment companies, see section 854.”.**

12 (b) TREATMENT OF DIVIDENDS FROM REGULATED  
 13 INVESTMENT COMPANIES.—

14 (1) Subsection (a) of section 854 of such Code  
 15 is amended by inserting “section 1(h)(13) (relating  
 16 to maximum rate of tax on dividends) and” after  
 17 “For purposes of”.

18 (2) Paragraph (1) of section 854(b) of such  
 19 Code is amended by redesignating subparagraph (B)  
 20 as subparagraph (C) and by inserting after subpara-  
 21 graph (A) the following new subparagraph:

22 “(B) MAXIMUM RATE UNDER SECTION  
 23 1(H).—

1 “(i) IN GENERAL.—If the aggregate  
 2 dividends received by a regulated invest-  
 3 ment company during any taxable year are  
 4 less than 95 percent of its gross income,  
 5 then, in computing the maximum rate  
 6 under section 1(h)(13), rules similar to the  
 7 rules of subparagraph (A) shall apply.

8 “(ii) GROSS INCOME.—For purposes  
 9 of clause (i), in the case of 1 or more sales  
 10 or other dispositions of stock or securities,  
 11 the term ‘gross income’ includes only the  
 12 excess of—

13 “(I) the net short-term capital  
 14 gain from such sales or dispositions,  
 15 over

16 “(II) the net long-term capital  
 17 loss from such sales or dispositions.”.

18 (3) Subparagraph (C) of section 854(b)(1) of  
 19 such Code, as redesignated by paragraph (2), is  
 20 amended by striking “subparagraph (A)” and insert-  
 21 ing “subparagraph (A) or (B)”.

22 (4) Paragraph (2) of section 854(b) of such  
 23 Code is amended by inserting “the maximum rate  
 24 under section 1(h)(13) and” after “for purposes of”.

1       (c) EXCLUSION OF DIVIDENDS FROM INVESTMENT  
2 INCOME.—Subparagraph (B) of section 163(d)(4) of such  
3 Code is amended by adding at the end the following flush  
4 sentence:

5           “Such term shall include qualified dividend in-  
6 come (as defined in section 1(h)(13)(B)) only to  
7 the extent the taxpayer elects to treat such in-  
8 come as investment income for purposes of this  
9 subsection.”.

10       (d) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2002.

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