

108TH CONGRESS  
1ST SESSION

# H. R. 178

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

JANUARY 7, 2003

Mr. RYAN of Wisconsin 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 “Double Taxation  
5 Elimination and Economic Growth Act of 2003”.

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

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

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

6 “(b) EXCEPTIONS.—Subsection (a) shall not apply  
7 to—

8 “(1) any dividend from—

9 “(A) a regulated investment company,

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

11 “(C) an S corporation,

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

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

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

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

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

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

4 **SEC. 3. DIVIDENDS RECEIVED BY INDIVIDUALS TAXED AT**  
5 **CAPITAL GAIN RATES.**

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

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

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

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

22 “(i) any dividend from a corporation  
23 which for the taxable year of the corpora-  
24 tion in which the distribution is made, or

1 the preceding taxable year, is a corporation  
2 exempt from tax under section 501 or 521,

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

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

11 “(iv) any dividend described in section  
12 404(k),

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

17 “(vi) any dividend which the taxpayer  
18 takes into account as investment income  
19 under section 163(d)(4)(B).

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

23 “(i) in determining the tax imposed  
24 for the taxable year pursuant to section  
25 871(b) and only in respect of dividends

1           which are effectively connected with the  
2           conduct of a trade or business within the  
3           United States, and

4           “(ii) in determining the tax imposed  
5           for the taxable year pursuant to section  
6           877.

7           “(D) TREATMENT OF DIVIDENDS FROM  
8           REGULATED INVESTMENT COMPANIES.—

**“For treatment of dividends from regulated in-  
vestment companies, see section 854.”.**

9           (b) TREATMENT OF DIVIDENDS FROM REGULATED  
10          INVESTMENT COMPANIES.—

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

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

19           “(B) MAXIMUM RATE UNDER SECTION  
20          1(H).—

21           “(i) IN GENERAL.—If the aggregate  
22          dividends received by a regulated invest-  
23          ment company during any taxable year are  
24          less than 95 percent of its gross income,

1           then, in computing the maximum rate  
2           under section 1(h)(13), rules similar to the  
3           rules of subparagraph (A) shall apply.

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

9                         “(I) the net short-term capital  
10                        gain from such sales or dispositions,  
11                        over

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

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

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

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

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

6           (d) **EFFECTIVE DATE.**—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2002.

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