

111TH CONGRESS  
2D SESSION

# H. R. 5725

To amend the Internal Revenue Code of 1986 to repeal taxes on the income of senior citizens and to improve income security of senior citizens.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 13, 2010

Mr. POSEY (for himself and Mrs. BLACKBURN) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Energy and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To amend the Internal Revenue Code of 1986 to repeal taxes on the income of senior citizens and to improve income security of senior citizens.

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 “Senior Citizens Income  
5       Security Act of 2010”.

1 **SEC. 2. REPEAL OF 1993 INCOME TAX INCREASE ON SOCIAL**  
2 **SECURITY BENEFITS.**

3 (a) RESTORATION OF PRIOR LAW FORMULA.—Sub-  
4 section (a) of section 86 of the Internal Revenue Code of  
5 1986 is amended to read as follows:

6 “(a) IN GENERAL.—Gross income for the taxable  
7 year of any taxpayer described in subsection (b) (notwith-  
8 standing section 207 of the Social Security Act) includes  
9 Social Security benefits in an amount equal to the lesser  
10 of—

11 “(1) one-half of the Social Security benefits re-  
12 ceived during the taxable year, or

13 “(2) one-half of the excess described in sub-  
14 section (b)(1).”.

15 (b) REPEAL OF ADJUSTED BASE AMOUNT.—Sub-  
16 section (c) of section 86 of such Code is amended to read  
17 as follows:

18 “(c) BASE AMOUNT.—For purposes of this section,  
19 the term ‘base amount’ means—

20 “(1) except as otherwise provided in this sub-  
21 section, \$25,000,

22 “(2) \$32,000 in the case of a joint return, and

23 “(3) zero in the case of a taxpayer who—

24 “(A) is married as of the close of the tax-  
25 able year (within the meaning of section 7703)

1 but does not file a joint return for such year,  
2 and

3 “(B) does not live apart from his spouse at  
4 all times during the taxable year.”.

5 (c) CONFORMING AMENDMENTS.—

6 (1) Subparagraph (A) of section 871(a)(3) of  
7 such Code is amended by striking “85 percent” and  
8 inserting “50 percent”.

9 (2)(A) Subparagraph (A) of section 121(e)(1)  
10 of the Social Security Amendments of 1983 (Public  
11 Law 98–21) is amended—

12 (i) by striking “(A) There” and inserting  
13 “There”;

14 (ii) by striking “(i)” immediately following  
15 “amounts equivalent to”; and

16 (iii) by striking “, less (ii)” and all that  
17 follows and inserting a period.

18 (B) Paragraph (1) of section 121(e) of such Act  
19 is amended by striking subparagraph (B).

20 (C) Paragraph (3) of section 121(e) of such Act  
21 is amended by striking subparagraph (B) and by re-  
22 designating subparagraph (C) as subparagraph (B).

23 (D) Paragraph (2) of section 121(e) of such  
24 Act is amended in the first sentence by striking  
25 “paragraph (1)(A)” and inserting “paragraph (1)”.

1 (d) MAINTENANCE OF TRANSFERS TO HOSPITAL IN-  
2 SURANCE TRUST FUND.—

3 (1) IN GENERAL.—There are hereby appro-  
4 priated to the Hospital Insurance Trust Fund estab-  
5 lished under section 1817 of the Social Security Act  
6 amounts equal to the reduction in revenues to the  
7 Treasury by reason of the enactment of this section.  
8 Amounts appropriated by the preceding sentence  
9 shall be transferred from the general fund at such  
10 times and in such manner as to replicate to the ex-  
11 tent possible the transfers which would have oc-  
12 curred to such Trust Fund had this section not been  
13 enacted.

14 (2) REPORTS.—The Secretary of the Treasury  
15 or the Secretary's delegate shall annually report to  
16 the Committee on Ways and Means of the House of  
17 Representatives and the Committee on Finance of  
18 the Senate the amounts and timing of the transfers  
19 under this subsection.

20 (e) EFFECTIVE DATES.—

21 (1) IN GENERAL.—Except as otherwise pro-  
22 vided in this subsection, the amendments made by  
23 this section shall apply to taxable years beginning  
24 after December 31, 2009.

1           (2) SUBSECTION (c)(1).—The amendment made  
2           by subsection (c)(1) shall apply to benefits paid after  
3           December 31, 2009.

4           (3) SUBSECTION (c)(2).—The amendments  
5           made by subsection (c)(2) shall apply to tax liabil-  
6           ities for taxable years beginning after December 31,  
7           2009.

8   **SEC. 3. ELIMINATE MANDATORY WITHDRAWALS ON IRAS.**

9           (a) IN GENERAL.—Subsection (a) of section 401 of  
10          the Internal Revenue Code of 1986 is amended by striking  
11          paragraph (9).

12          (b) CONFORMING AMENDMENTS.—

13               (1) Section 403(b)(10) of such Code is amend-  
14               ed by striking “ sections 401(a)(9)” and inserting “  
15               section”.

16               (2) Subsections (a)(6) and (b)(3) of section 408  
17               of such Code are both amended by striking “section  
18               401(a)(9) and”.

19               (3) Section 408A(c)(5) of such Code is amend-  
20               ed to read as follows:

21               “(5) MANDATORY DISTRIBUTION RULES NOT  
22               TO APPLY BEFORE DEATH.—Notwithstanding sub-  
23               sections (a)(6) and (b)(3) of section 408 (relating to  
24               required distributions), the incidental death benefit

1 requirements of section 401(a) shall not apply to  
2 any Roth IRA.”.

3 (4) Section 402(c) of such Code is amended—

4 (A) in paragraph (4) by striking subpara-  
5 graph (B), by inserting “and” at the end of  
6 subparagraph (A), and by redesignating sub-  
7 paragraph (C) as subparagraph (B), and

8 (B) in paragraph (11)(A)—

9 (i) by inserting “(as in effect on the  
10 day before the date of the enactment of  
11 this phrase)” after “section 401(a)(9)(E)”,  
12 and

13 (ii) by inserting “and” at the end of  
14 clause (i), by striking “, and” at the end  
15 of clause (ii) and inserting a period, and  
16 by striking clause (iii).

17 (5) Section 409(d) of such Code is amended by  
18 striking “to any distribution required under section  
19 401(a)(9) or”.

20 (6) Section 457(d) of such Code is amended—

21 (A) in paragraph (1) by striking subpara-  
22 graph (B), by inserting “and” at the end of  
23 subparagraph (A), and be redesignating sub-  
24 paragraph (C) as subparagraph (B), and

1 (B) by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).

3 (7) Section 4974(b) of such Code is amended  
4 by striking “401(a)(9)”.

5 **SEC. 4. ELIMINATE PAYROLL TAX FOR MEDICARE AND SOCIAL SECURITY BENEFICIARIES.**

7 (a) IN GENERAL.—Section 3101 of the Internal Revenue Code of 1986 is amended by adding at the end the  
9 following:

10 “(d) EXCEPTION.—Subsections (a) and (b) shall not  
11 apply to any individual who—

12 “(1) is entitled to benefits under part A of title  
13 XVIII of the Social Security Act or is enrolled under  
14 part B of such title, or

15 “(2) is entitled to a monthly insurance benefit  
16 under title II of the Social Security Act based on  
17 such individual’s wages and self-employment income.”.

19 (b) SELF-EMPLOYMENT.—Section 1401 of such Code  
20 is amended by adding at the end the following new sub-  
21 section:

22 “(d) EXCEPTION.—In the case of any individual  
23 who—

1           “(1) is entitled to benefits under part A of title  
2       XVIII of the Social Security Act or is enrolled under  
3       part B of such title, or

4           “(2) is entitled to a monthly insurance benefit  
5       under title II of the Social Security Act based on  
6       such individual’s wages and self-employment income,  
7       subsections (a) and (b) shall be applied for the taxable  
8       year by substituting one-half of the percent otherwise  
9       specified in such subsections.”.

10       (c) EFFECTIVE DATES.—

11           (1) The amendment made by subsection (a)  
12       shall apply to wages paid after December 31, 2009.

13           (2) The amendment made by subsection (b)  
14       shall apply to enumeration paid in taxable years  
15       ending after the date of the enactment of this Act.

16       (d) TRUST FUNDS HELD HARMLESS.—There is  
17       hereby appropriated (out of any money in the Treasury  
18       not otherwise appropriated) for each fiscal year to each  
19       fund under the Social Security Act an amount equal to  
20       the reduction in the transfers to such fund for such fiscal  
21       year by reason of the amendments made by this section.



1 **SEC. 5. AUTHORITY TO ELECT VOUCHER PROGRAM IN-**  
2 **STEAD OF MEDICARE PART A ENTITLEMENT.**

3 (a) IN GENERAL.—Section 226 of the Social Security  
4 Act (42 U.S.C. 426) is amended by adding at the end the  
5 following new subsections:

6 “(k) WAIVER OF ENTITLEMENT AND ELECTION OF  
7 VOUCHER PROGRAM.—

8 “(1) IN GENERAL.—Notwithstanding the pre-  
9 vious provisions of this section, the Secretary shall  
10 establish a procedure under which an individual oth-  
11 erwise entitled under subsection (a) to benefits  
12 under part A of title XVIII may waive such entitle-  
13 ment and be automatically enrolled in the Medicare  
14 Alternative Voucher Program established under sub-  
15 section (l) if—

16 “(A) at the time such waiver is made the  
17 individual—

18 “(i) has a health savings account de-  
19 scribed in subsection (d) of section 223 of  
20 the Internal Revenue Code of 1986; and

21 “(ii) is enrolled under a high deduct-  
22 ible health plan, as defined in subsection  
23 (c)(1) of such section; and

24 “(B) the individual waives such entitlement  
25 during the individual’s initial enrollment period  
26 described in section 1837(d).

1           “(2) TREATMENT UNDER THE INTERNAL REV-  
2       ENUE CODE OF 1986.—An individual who waives en-  
3       titlement under paragraph (1) shall not be treated  
4       as entitled to benefits under title XVIII for purposes  
5       of section 223(b)(7) of the Internal Revenue Code of  
6       1986.

7           “(3) INELIGIBILITY FOR PART B OR D BENE-  
8       FITS.—An individual shall not be eligible for benefits  
9       under part B or D of title XVIII during the period  
10      for which the individual waives entitlement under  
11      part A of such title under paragraph (1).

12          “(4) TERMINATION OF WAIVER AND REENROLL-  
13      MENT UNDER MEDICARE PROGRAM.—The Secretary  
14      shall establish a procedure under which an individual  
15      who waives entitlement under paragraph (1) may  
16      terminate such waiver during an annual period that  
17      shall be the same as the annual general enrollment  
18      period described in section 1837(e). For purposes of  
19      applying parts B and D of title XVIII, such indi-  
20      vidual shall be treated as if the individual were enti-  
21      tled to benefits under part A of such title as of the  
22      date such individual terminates the waiver under  
23      this paragraph. An individual who has terminated  
24      such a waiver may not subsequently make such a  
25      waiver.

1       “(1) MEDICARE ALTERNATIVE VOUCHER PRO-  
2 GRAM.—

3               “(1) ESTABLISHMENT OF PROGRAM.—The Sec-  
4 retary shall establish a program to be known as the  
5 Medicare Alternative Voucher Program (in this sub-  
6 section referred to as the ‘voucher program’) con-  
7 sistent with this subsection.

8               “(2) AUTOMATIC ENROLLMENT.—An individual  
9 who waives entitlement under subsection (k)(1) shall  
10 be enrolled in the voucher program for the period  
11 during which such waiver is in effect.

12              “(3) AMOUNT OF VOUCHER.—

13                      “(A) AMOUNT BASED ON AGE COHORT.—

14                              “(i) IN GENERAL.—Subject to clause  
15 (ii), for each month that an individual  
16 within an age cohort is enrolled in the  
17 voucher program, the Secretary shall pro-  
18 vide a voucher to such individual in an  
19 amount that is equal to the monthly actu-  
20 arial rate for that month computed under  
21 section 1818(d)(1) multiplied by the age  
22 cohort adjustment factor for such age co-  
23 hort under subparagraph (B).

1                   “(ii) MONTHLY LIMIT.—The amount  
2                   of a voucher provided to an individual for  
3                   a month may not exceed \$200.

4                   “(B) AGE COHORT ADJUSTMENT FAC-  
5                   TOR.—For each age cohort the Secretary shall  
6                   determine an age cohort adjustment factor  
7                   equal to the ratio of—

8                   “(i) the monthly actuarial rate de-  
9                   scribed in section 1818(d)(1) as deter-  
10                  mined by the Secretary for individuals in  
11                  such age cohort, to

12                  “(ii) the monthly actuarial rate de-  
13                  scribed in such section.

14                  “(C) AGE COHORT DEFINED.—For pur-  
15                  poses of this paragraph, an ‘age cohort’ means  
16                  a group of individuals whose age falls within a  
17                  span of 5 consecutive years, consistent with the  
18                  following:

19                         “(i) The first such span begins at age  
20                         65.

21                         “(ii) Other spans follow consecutively.

22                  “(4) PERMISSIBLE USE OF VOUCHER.—A  
23                  voucher under paragraph (3) may be used only for  
24                  the following purposes:

1           “(A) As a contribution into a health sav-  
 2           ings account established by such individual, as  
 3           described in subsection (k)(1)(A).

4           “(B) For payment of premiums for enroll-  
 5           ment of such individual under a high deductible  
 6           health plan described in such subsection.

7           “(5) EFFECT OF SUBSEQUENT TERMINATION  
 8           OF WAIVER.—If an individual terminates a waiver  
 9           under subsection (k)(3), the enrollment of such indi-  
 10          vidual in the voucher program shall be terminated  
 11          on the date on which the termination becomes effec-  
 12          tive.”.

13          (b) AMENDMENT OF INTERNAL REVENUE CODE OF  
 14          1986.—Paragraph (7) of section 223(b) of the Internal  
 15          Revenue Code of 1986 (relating to Medicare eligible indi-  
 16          viduals) is amended to read as follows:

17           “(7) MEDICARE ELIGIBLE INDIVIDUALS.—

18           “(A) IN GENERAL.—The limitation under  
 19           this subsection for any month with respect to  
 20           an individual shall be zero for any month such  
 21           individual is entitled to benefits under title  
 22           XVIII of the Social Security Act.

23           “(B) MEDICARE ALTERNATIVE VOUCHER  
 24           PROGRAM.—In the case of an individual who is  
 25           enrolled in the Medicare Alternative Voucher

1           Program under section 226(l) of the Social Se-  
 2           curity Act, the applicable limitation under sub-  
 3           paragraphs (A) and (B) of paragraph (2) shall  
 4           be increased by the amount of the voucher de-  
 5           scribed in paragraph (3) of such section which  
 6           is contributed to a health savings account of  
 7           such individual.”.

8           (c) EFFECTIVE DATE.—

9           (1) IN GENERAL.—The amendment made by  
 10          subsection (a) shall take effect on the date that is  
 11          six months after the date of the enactment of this  
 12          Act and shall apply to an individual who becomes  
 13          entitled to benefits under part A of title XVIII of  
 14          the Social Security Act on or after such date of the  
 15          enactment.

16          (2) AMENDMENT OF INTERNAL REVENUE CODE  
 17          OF 1986.—The amendment made by subsection (b)  
 18          shall apply to months ending after the date referred  
 19          to in paragraph (1), in taxable years ending after  
 20          such date.

21 **SEC. 6. PARTIAL EXCLUSION OF INTEREST, DIVIDENDS,**  
 22 **AND CAPITAL GAINS RECEIVED BY INDIVID-**  
 23 **UALS.**

24          (a) IN GENERAL.—Part III of subchapter B of chap-  
 25          ter 1 of the Internal Revenue Code of 1986 (relating to

1 amounts specifically excluded from gross income) is  
2 amended by inserting after section 115 the following new  
3 section:

4 **“SEC. 116. PARTIAL EXCLUSION FOR INTEREST, DIVIDENDS,**  
5 **AND CAPITAL GAINS RECEIVED BY INDIVID-**  
6 **UALS.**

7 “(a) IN GENERAL.—Gross income does not include  
8 the sum of amounts received during the taxable year by  
9 an individual as—

10 “(1) dividends from a domestic corporation,

11 “(2) interest, and

12 “(3) capital gains.

13 “(b) LIMITATION.—The aggregate amount excluded  
14 under subsection (a) for any taxable year shall not exceed  
15 \$250 (\$500 in the case of a joint return), as identified  
16 by the taxpayer on the return of tax for such year.

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

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

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

24 “(A) a mutual savings bank, cooperative  
25 bank, domestic building and loan association,

1 industrial loan association or bank, or credit  
2 union, or

3 “(B) any other savings or thrift institution  
4 which is chartered and supervised under Fed-  
5 eral or State law, the deposits or accounts in  
6 which are insured under Federal or State law  
7 or which are protected and guaranteed under  
8 State law,

9 “(3) interest on—

10 “(A) evidences of indebtedness (including  
11 bonds, debentures, notes, and certificates)  
12 issued by a domestic corporation in registered  
13 form, and

14 “(B) to the extent provided in regulations  
15 prescribed by the Secretary, other evidences of  
16 indebtedness issued by a domestic corporation  
17 of a type offered by corporations to the public,

18 “(4) interest on obligations of the United  
19 States, a State, or a political subdivision of a State  
20 (not excluded from gross income of the taxpayer  
21 under any other provision of law), and

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



1       “(d) DIVIDENDS.—For purposes of this section, the  
 2 term ‘dividend’ means qualified dividend income (as de-  
 3 fined in paragraph (11)(B) of section 1(h)) (determined  
 4 without regard to paragraph (13) thereof).

5       “(e) SPECIAL RULES.—For purposes of this sec-  
 6 tion—

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

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

13                       “(B) real estate investment trusts to the  
 14 extent provided in section 857(c)(3).

15       “(2) DISTRIBUTIONS BY A TRUST.—For pur-  
 16 poses of subsection (a), the amount of interest prop-  
 17 erly allocable to a beneficiary under section 652 or  
 18 662 shall be deemed to have been received by the  
 19 beneficiary ratably on the same date that the inter-  
 20 est was received by the estate or trust.

21       “(3) CERTAIN NONRESIDENT ALIENS INELI-  
 22 GIBLE FOR EXCLUSION.—In the case of a non-  
 23 resident alien individual, subsection (a) shall apply  
 24 only—

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

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

8           (b) CONFORMING AMENDMENTS.—

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

“Sec. 116. Partial exclusion for interest, dividends, and capital gains received  
 by individuals.”.

13          (2) Subsection (h) of section 1 of such Code is  
 14          amended by adding at the end the following:

15          “(13) COORDINATION WITH PARTIAL EXCLU-  
 16          SION FOR INTEREST, DIVIDENDS, AND CAPITAL  
 17          GAINS RECEIVED BY INDIVIDUALS.—For purposes of  
 18          this section, dividends and capital gains excluded  
 19          from gross income by section 116 shall not be taken  
 20          into account.”.

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

1 the extent the interest thereon is excludable from  
2 gross income under section 116”.

3 (4) Subsection (c) of section 584 of such Code  
4 is amended by adding at the end thereof the fol-  
5 lowing new sentence: “The proportionate share of  
6 each participant in the amount of interest received  
7 by the common trust fund and to which section 116  
8 applies shall be considered for purposes of such sec-  
9 tion as having been received by such participant.”.

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

14 “(7) INTEREST.—There shall be included the  
15 amount of any interest excluded from gross income  
16 pursuant to section 116.”.

17 (6) Section 854 of such Code is amended by  
18 adding at the end thereof the following new sub-  
19 section:

20 “(c) TREATMENT UNDER SECTION 116 FOR OTHER  
21 DIVIDENDS AND TAXABLE INTEREST.—

22 “(1) IN GENERAL.—For purposes of section  
23 116, in the case of any dividend (other than a divi-  
24 dend described in subsection (a)) received from a  
25 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 interest if the aggregate in-  
5                terest received by such company during the tax-  
6                able year equals or exceeds 75 percent of its  
7                gross income,

8                “(B) the entire amount of such dividend  
9                shall be treated as interest if the aggregate in-  
10               interest received by such company during the tax-  
11               able year equals or exceeds 75 percent of its  
12               gross income, or

13               “(C) if subparagraphs (A) and (B) do not  
14               apply, a portion of such dividend shall be treat-  
15               ed as a dividend (and a portion of such divi-  
16               dend shall be treated as interest) based on the  
17               portion of the company’s gross income which  
18               consists of aggregate dividends or aggregate in-  
19               terest, as the case may be.

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

1           “(2) NOTICE TO SHAREHOLDERS.—The amount  
2           of any distribution by a regulated investment com-  
3           pany which may be taken into account as a dividend  
4           and as interest for purposes of the exclusion under  
5           section 116 shall not exceed the amount so des-  
6           ignated by the company in a written notice to its  
7           shareholders mailed not later than 45 days after the  
8           close of its taxable year.

9           “(3) DEFINITIONS.—For purposes of this sub-  
10          section—

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

14                 “(B) The term ‘aggregate dividends re-  
15                 ceived’ includes only dividends described in sec-  
16                 tion 116(d).

17                 “(C) The term ‘aggregate interest received’  
18                 includes only interest described in section  
19                 116(c).”.

20           (7) Subsection (c) of section 857 of such Code  
21           is amended by adding at the end the following new  
22           paragraph:

23           “(3) TREATMENT AS INTEREST.—

24                 “(A) IN GENERAL.—For purposes of sec-  
25                 tion 116, in the case of a dividend (other than

1 a capital gain dividend, as defined in subsection  
2 (b)(3)(C)) received from a real estate invest-  
3 ment trust which meets the requirements of  
4 this part for the taxable year in which it paid  
5 the dividend—

6 “(i) such dividend shall be treated as  
7 interest if the aggregate interest received  
8 by the real estate investment trust for the  
9 taxable year equals or exceeds 75 percent  
10 of its gross income, or

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

16 “(B) ADJUSTMENTS TO GROSS INCOME  
17 AND AGGREGATE INTEREST RECEIVED.—For  
18 purposes of paragraph (2)—

19 “(i) gross income does not include the  
20 net capital gain,

21 “(ii) gross income and aggregate in-  
22 terest received shall each be reduced by so  
23 much of the deduction allowable by section  
24 163 for the taxable year (other than for in-  
25 terest on mortgages on real property

1 owned by the real estate investment trust)  
 2 as does not exceed aggregate interest re-  
 3 ceived by the taxable year, and

4 “(iii) gross income shall be reduced by  
 5 the sum of the taxes imposed by para-  
 6 graphs (4), (5), and (6) of section 857(b).

7 “(C) AGGREGATE INTEREST RECEIVED.—  
 8 The term ‘aggregate interest received’ includes  
 9 only interest described in section 116(c).

10 “(D) NOTICE TO SHAREHOLDERS.—The  
 11 amount of any distribution by a real estate in-  
 12 vestment trust which may be taken into account  
 13 as interest for purposes of the exclusion under  
 14 section 116 shall not exceed the amount so des-  
 15 ignated by the trust in a written notice to its  
 16 shareholders mailed not later than 45 days  
 17 after the close of its taxable year.”.

18 (8) The heading for subsection (c) of section  
 19 857 of such Code is amended by inserting “AND IN-  
 20 TEREST” after “DIVIDENDS”.

21 (c) EFFECTIVE DATE.—The amendments made by  
 22 this section shall apply to taxable years beginning after  
 23 December 31, 2009.

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