

104TH CONGRESS
2D SESSION

H. R. 3244

To amend the Internal Revenue Code of 1986 to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia.

IN THE HOUSE OF REPRESENTATIVES

APRIL 15, 1996

Ms. NORTON 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 provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia.

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 “District of Columbia
5 Economic Recovery Act”.

1 **SEC. 2. LIMITATION ON INCOME TAX IMPOSED ON INDIVID-**
 2 **UALS WHO ARE RESIDENTS OF THE DISTRICT**
 3 **OF COLUMBIA.**

4 (a) IN GENERAL.—Subchapter A of chapter 1 of the
 5 Internal Revenue Code of 1986 (relating to determination
 6 of tax liability) is amended by adding at the end the fol-
 7 lowing new part:

8 **“PART VIII—LIMITATION ON TAX IMPOSED ON**
 9 **RESIDENTS OF THE DISTRICT OF COLUMBIA**

“Sec. 59B. Limitation on tax.

10 **“SEC. 59B. LIMITATION ON TAX.**

11 “(a) GENERAL RULE.—The net income tax of an in-
 12 dividual who is a resident of the District of Columbia for
 13 the taxable year shall not exceed the limitation determined
 14 under subsection (b) for such year.

15 “(b) LIMITATION.—The limitation determined under
 16 this subsection is the sum of the amounts determined
 17 under paragraphs (1) and (2).

18 “(1) 15-PERCENT RATE OF DISTRICT-SOURCED
 19 INCOME IN EXCESS OF EXEMPTION AMOUNT.—The
 20 amount determined under this paragraph is an
 21 amount equal to 15 percent of so much of District-
 22 sourced income as exceeds the exemption amount.

23 “(2) AVERAGE RATE OF NON-DISTRICT-
 24 SOURCED ADJUSTED GROSS INCOME.—The amount
 25 determined under this paragraph is an amount equal

1 to the average rate of the non-District-sourced ad-
2 justed gross income.

3 “(c) DEFINITIONS.—For purposes of this section—

4 “(1) RESIDENT OF DISTRICT OF COLUMBIA.—
5 An individual is a resident of the District of Colum-
6 bia for the taxable year if—

7 “(A) such individual used a residence in
8 the District of Columbia as a place of abode
9 (and was physically present at such place) for
10 at least 183 days of such taxable year, and

11 “(B) such individual files a District of Co-
12 lumbia income tax return for such taxable year.

13 “(2) NET INCOME TAX.—The term ‘net income
14 tax’ means—

15 “(A) the sum of regular tax liability and
16 the tax imposed by section 55 (determined with-
17 out regard to this section), reduced by

18 “(B) the aggregate credits allowable under
19 part IV (other than section 31).

20 “(3) EXEMPTION AMOUNT.—The term ‘exemp-
21 tion amount’ means—

22 “(A) \$30,000 in the case of a joint return
23 or a surviving spouse,

24 “(B) \$15,000 in the case of—

1 “(i) an individual who is not a mar-
2 ried individual and is not a surviving
3 spouse, and

4 “(ii) a married individual filing a sep-
5 arate return, and

6 “(C) \$25,000 in the case of a head of a
7 household.

8 “(4) AVERAGE RATE.—The term ‘average rate’
9 means the percentage determined by dividing—

10 “(A) the sum (determined without regard
11 to this section) of the taxpayer’s regular tax li-
12 ability and the tax imposed by section 55, by

13 “(B) the taxpayer’s taxable income.

14 If the percentage determined under the preceding
15 sentence is not a whole number of percentage points,
16 such percentage shall be rounded to the nearest
17 whole number of percentage points.

18 “(5) REGULAR TAX LIABILITY.—The term ‘reg-
19 ular tax liability’ has the meaning given to such
20 term by section 26(b).

21 “(d) DISTRICT-SOURCED INCOME.—For purposes of
22 this section, the term ‘District-sourced income’ means ad-
23 justed gross income reduced by the sum of—

24 “(1) non-District-sourced adjusted gross in-
25 come,

1 “(2) net capital gain determined by taking into
2 account only gains and losses sourced in the District
3 of Columbia,

4 “(3) the deduction allowed by section 170, and

5 “(4) the deduction allowed by section 163 to
6 the extent attributable to qualified residence interest
7 (as defined in section 163(h)).

8 “(e) NON-DISTRICT-SOURCED ADJUSTED GROSS IN-
9 COME.—For purposes of this section, the term ‘non-Dis-
10 trict-sourced adjusted gross income’ means gross income
11 of the taxpayer from sources outside the District of Co-
12 lumbia reduced (but not below zero) by the deductions
13 taken into account in determining adjusted gross income
14 which are allocable to such income.

15 “(f) SOURCES OF INCOME.—For purposes of this sec-
16 tion—

17 “(1) RETIREMENT INCOME AND OTHER INCOME
18 NOT SOURCED UNDER SUBSECTION.—The source of
19 any income not specifically provided for in this sub-
20 section shall be treated as from sources within the
21 District of Columbia.

22 “(2) PERSONAL SERVICES.—

23 “(A) IN GENERAL.—Compensation (other
24 than retirement income) for services performed
25 by the taxpayer as an employee, and net earn-

1 ings from self-employment (as defined in sec-
2 tion 1402)), shall be sourced at the place such
3 services are performed.

4 “(B) SERVICES PERFORMED IN WASHING-
5 TON-BALTIMORE AREA TREATED AS PER-
6 FORMED IN THE DISTRICT OF COLUMBIA.—
7 Services performed in the Washington-Balti-
8 more area shall be treated as performed in the
9 District of Columbia.

10 “(C) INDIVIDUALS PERFORMING 80 PER-
11 CENT OF SERVICES WITHIN WASHINGTON-BAL-
12 TIMORE AREA.—If, during any taxable year, at
13 least 80 percent of the hours of service per-
14 formed by an individual are performed within
15 the Washington-Baltimore area, all such service
16 shall be treated for purposes of this paragraph
17 as performed within the District of Columbia.

18 “(D) WASHINGTON-BALTIMORE AREA.—
19 For purposes of this paragraph, the term
20 ‘Washington-Baltimore area’ means the area
21 consisting of—

22 “(i) the Washington/Baltimore Con-
23 solidated Metropolitan Statistical Area (as
24 designated by the Office of Management
25 and Budget), and

1 “(ii) St. Mary’s County, Maryland.

2 “(3) INTEREST.—

3 “(A) IN GENERAL.—Interest received or
4 accrued during the taxable year shall be treated
5 as from sources outside the District of Colum-
6 bia.

7 “(B) EXCEPTION FOR SMALL AMOUNTS OF
8 NON-DISTRICT-SOURCED INTEREST.—Interest
9 which would (but for this subparagraph) be
10 treated as from sources outside the District of
11 Columbia shall be treated as from sources in
12 the District of Columbia to the extent the
13 amount of such interest does not exceed \$400.

14 “(C) EXCEPTION FOR INTEREST PAID BY
15 DISTRICT OF COLUMBIA BUSINESSES AND RESI-
16 DENTS.—

17 “(i) BUSINESSES.—In the case of in-
18 terest paid during a calendar year by a
19 debtor which was required to file (and
20 filed) a franchise tax return with the Dis-
21 trict of Columbia for the debtor’s taxable
22 year ending with or within the prior cal-
23 endar year, an amount equal to the D.C.
24 percentage (as shown on such return) of
25 such interest shall be treated as from

1 sources within the District of Columbia.
2 The preceding sentence shall apply only if
3 such percentage is furnished to the tax-
4 payer in writing on or before January 31
5 of the year following the calendar year in
6 which such interest is paid.

7 “(ii) OTHERS.—Interest shall be
8 treated as from sources within the District
9 of Columbia if the interest is paid during
10 a calendar year by a debtor—

11 “(I) which was required to file
12 (and filed) an income tax return with
13 the District of Columbia for the debt-
14 or’s taxable year ending during the
15 prior calendar year, and

16 “(II) which is not required to file
17 a franchise tax return with the Dis-
18 trict of Columbia for such taxable
19 year.

20 “(D) SPECIAL RULE FOR DETERMINATION
21 OF D.C. PERCENTAGE FOR NEW BUSINESSES.—
22 Interest shall be treated as from sources within
23 the District of Columbia if the interest is paid
24 during a calendar year by a debtor which was
25 required to file (and filed) a franchise tax re-

1 turn with the District of Columbia for such
2 debtor's taxable year ending during such cal-
3 endar year, but which was not required to file
4 such a return for such debtor's prior taxable
5 year.

6 “(4) DIVIDENDS.—

7 “(A) IN GENERAL.—Dividends received or
8 accrued during the taxable year shall be treated
9 as from sources outside the District of Colum-
10 bia.

11 “(B) EXCEPTION FOR SMALL AMOUNTS OF
12 NON-DISTRICT-SOURCED DIVIDENDS.—Divi-
13 dends which would (but for this subparagraph)
14 be treated as from sources outside the District
15 of Columbia shall be treated as from sources in
16 the District of Columbia to the extent the
17 amount of such dividends do not exceed \$400.

18 “(C) EXCEPTION FOR DIVIDENDS PAID BY
19 CORPORATION ENGAGED IN BUSINESS IN THE
20 DISTRICT OF COLUMBIA.—In the case of divi-
21 dends paid during a calendar year by a corpora-
22 tion which was required to file (and filed) a
23 franchise tax return with the District of Colum-
24 bia for the debtor's taxable year ending during
25 the prior calendar year, an amount equal to the

1 D.C. percentage (as shown on such return) of
2 such dividends shall be treated as from sources
3 within the District of Columbia. The preceding
4 sentence shall apply only if such percentage is
5 furnished to the taxpayer in writing on or be-
6 fore January 31 of the year following the cal-
7 endar year in which such dividends are paid.

8 “(5) DISPOSITION OF TANGIBLE PROPERTY.—
9 Income, gain, or loss from the disposition of tangible
10 property shall be sourced to the place such property
11 is located at the time of the disposition.

12 “(6) DISPOSITION OF INTANGIBLE PROP-
13 ERTY.—

14 “(A) IN GENERAL.—Income, gain, or loss
15 from the disposition of intangible property shall
16 be treated as from sources outside the District
17 of Columbia.

18 “(B) EXCEPTION.— If any portion of the
19 most recent income received or accrued before
20 such disposition which was attributable to such
21 property was from sources within the District
22 of Columbia, a like portion of the income, gain,
23 or loss from such disposition shall be treated as
24 from sources within the District of Columbia.

1 “(7) RENTALS.—Rents from property shall be
2 sourced at the place where such property is located.

3 “(8) ROYALTIES.—Royalties shall be treated as
4 from sources outside the District of Columbia.

5 “(9) INCOME FROM PROPRIETORSHIP.—

6 “(A) IN GENERAL.—In the case of a trade
7 or business carried on by the taxpayer as a pro-
8 prietorship, income from such trade or business
9 (other than income which is included in net
10 earnings from self-employment by the taxpayer)
11 shall be treated as from sources outside the
12 District of Columbia.

13 “(B) EXCEPTION FOR DISTRICT OF CO-
14 LUMBIA BUSINESSES.—If the taxpayer is re-
15 quired to file (and files) a franchise tax return
16 with the District of Columbia for the taxable
17 year, subparagraph (A) shall not apply to an
18 amount equal to the D.C. percentage of such
19 income.

20 “(10) INCOME FROM PARTNERSHIP.—

21 “(A) IN GENERAL.—In the case of a tax-
22 payer who is a partner in a partnership, income
23 from such partnership (other than income
24 which is included in net earnings from self-em-

1 ployment by any partner) shall be treated as
2 from sources outside the District of Columbia.

3 “(B) EXCEPTIONS.—

4 “(i) Subparagraph (A) shall not apply
5 to a partnership which was required to file
6 (and filed) a franchise tax return with the
7 District of Columbia for the partnership’s
8 taxable year ending with or within the tax-
9 payer’s taxable year to the extent of the
10 D.C. percentage of the taxpayer’s distribu-
11 tive share of the partnership income.

12 “(ii) Subparagraph (A) shall not
13 apply to a partnership which was not re-
14 quired to file a franchise tax return with
15 the District of Columbia for the partner-
16 ship’s taxable year ending with or within
17 the taxpayer’s taxable year to the extent of
18 the taxpayer’s distributive share of part-
19 nership income which is not (as determined
20 under this subsection) from sources outside
21 the District of Columbia.

22 “(11) INCOME IN RESPECT OF A DECEDENT;
23 INCOME FROM AN ESTATE.—Income in respect of a
24 decendent, and income from an estate, shall be

1 sourced at the place where the decedent was domi-
2 ciled at the time of his death.

3 “(12) INCOME FROM A TRUST.—Income (other
4 than retirement income) from a trust shall be treat-
5 ed as from the same sources as the income of the
6 trust to which it is attributable.

7 “(g) DEFINITIONS RELATING TO SUBSECTION (f).—
8 For purposes of subsection (f)—

9 “(1) RETIREMENT INCOME.—The term ‘retire-
10 ment income’ has the meaning given such term by
11 section 114(b)(1) of title 4, United States Code (de-
12 termined without regard to subparagraph (I) there-
13 of).

14 “(2) D.C. PERCENTAGE.—The term ‘D.C. per-
15 centage’ means the percentage determined by divid-
16 ing—

17 “(A) the net income taxable in the District
18 of Columbia (as shown on the original return
19 for the taxable year), by

20 “(B) total net income from all sources (as
21 shown on such return).

22 The preceding sentence shall be applied based on
23 amounts shown on the original applicable District of
24 Columbia franchise or income tax return.

1 “(h) SECTION NOT TO APPLY TO ESTATES AND
2 TRUSTS.—This section shall not apply to an estate or
3 trust.

4 “(i) REGULATIONS.—The Secretary shall prescribe
5 such regulations as may be necessary or appropriate to
6 carry out the purposes of this section.”

7 (b) CONFORMING AMENDMENTS.—

8 (1) Paragraph (1) of section 55(c) of such Code
9 is amended by adding at the end the following:
10 “Such regular tax shall be determined without re-
11 gard to section 59B.”

12 (2) The table of parts for subchapter A of chap-
13 ter 1 of such Code is amended by adding at the end
14 the following new item:

 “Part VIII. Limitation on tax imposed on residents of the District
 of Columbia.”

15 (c) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years ending after the
17 date of the enactment of this Act.

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