

105TH CONGRESS
2D SESSION

H. R. 3215

To amend the Internal Revenue Code of 1986 to provide a partial exclusion from gross income for dividends and interest received by individuals.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 12, 1998

Mr. HULSHOF (for himself, Mr. KUCINICH, Mr. MCCRERY, Mr. WELLER, Mr. ENGLISH of Pennsylvania, Mr. WELDON of Florida, Mr. TORRES, Mr. CHRISTENSEN, Mr. HAYWORTH, and Mr. HERGER) 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 a partial exclusion from gross income for dividends and interest received by individuals.

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 “Savings Advancement
5 and Enhancement (SAVE) Act of 1998”.

6 **SEC. 2. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND**
7 **INCOME FROM TAX.**

8 (a) IN GENERAL.—Part III of subchapter B of chap-
9 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 OF DIVIDENDS AND INTER-**
5 **EST RECEIVED BY INDIVIDUALS.**

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

9 “(1) dividends from domestic corporations, or

10 “(2) interest.

11 “(b) LIMITATIONS.—

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

16 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
17 section (a)(1) shall not apply to any dividend from
18 a corporation which, for the taxable year of the cor-
19 poration in which the distribution is made, or for the
20 next preceding taxable year of the corporation, is a
21 corporation exempt from tax under section 501 (re-
22 lating to certain charitable, etc., organization) or
23 section 521 (relating to farmers’ cooperative associa-
24 tions).

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

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

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

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

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

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

18 “(3) interest on—

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

23 “(B) to the extent provided in regulations
24 prescribed by the Secretary, other evidences of

1 indebtedness issued by a domestic corporation
2 of a type offered by corporations to the public,
3 “(4) interest on obligations of the United
4 States, a State, or a political subdivision of a State
5 (not excluded from gross income of the taxpayer
6 under any other provision of law), and

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

10 “(d) SPECIAL RULES.—For purposes of this sec-
11 tion—

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

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

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

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

1 that the dividends and interest were received by the
2 estate or trust.

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

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

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

15 (b) CONFORMING AMENDMENTS.—

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

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

20 (2) Paragraph (2) of section 265(a) of such
21 Code is amended by inserting before the period at
22 the end the following: “, or to purchase or carry ob-
23 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 (e) 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.

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