

105TH CONGRESS
2D SESSION

H. R. 3623

To amend the Internal Revenue Code of 1986 to simplify the individual capital gains tax for all individuals and to provide modest reductions in the capital gains tax for most individuals.

IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 1998

Mr. COYNE (for himself, Mr. RANGEL, Mr. STARK, Mr. MATSUI, Mrs. KENNELLY of Connecticut, Mr. McDERMOTT, Mr. LEWIS of Georgia, Mr. NEAL of Massachusetts, and Mr. BECERRA) 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 simplify the individual capital gains tax for all individuals and to provide modest reductions in the capital gains tax for most 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; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Capital Gains Tax Simplification Act of 1998”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-

1 ment or repeal is expressed in terms of an amendment
2 to, or repeal of, a section or other provision, the reference
3 shall be considered to be made to a section or other provi-
4 sion of the Internal Revenue Code of 1986.

5 **SEC. 3. REDUCTION AND SIMPLIFICATION OF CAPITAL**
6 **GAINS TAX.**

7 (a) IN GENERAL.—Part I of subchapter P of chapter
8 1 (relating to treatment of capital gains) is amended by
9 adding at the end the following new section:

10 **“SEC. 1203. CAPITAL GAINS DEDUCTION.**

11 “If for any taxable year a taxpayer other than a cor-
12 poration has a net capital gain, 40 percent of such gain
13 shall be a deduction from gross income.”

14 (b) DEDUCTION ALLOWABLE WHETHER OR NOT
15 TAXPAYER ITEMIZES OTHER DEDUCTIONS.—

16 (1) Subsection (b) of section 63 is amended by
17 striking “and” at the end of paragraph (1), by strik-
18 ing the period at the end of paragraph (2) and in-
19 sserting “, and”, and by adding at the end the follow-
20 ing new paragraph:

21 “(3) the deduction allowed by section 1203.”

22 (2) Subsection (d) of section 63 is amended by
23 striking “and” at the end of paragraph (1), by strik-
24 ing the period at the end of paragraph (2) and in-

1 serting “, and”, and by adding at the end the follow-
2 ing new paragraph:

3 “(3) the deduction allowed by section 1203.”

4 (c) REPEAL OF TAX PREFERENCE FOR EXCLUSION
5 ON SMALL BUSINESS STOCK.—

6 (1) Subsection (a) of section 57 is amended by
7 striking paragraph (7).

8 (2) Subclause (II) of section 53(d)(1)(B)(ii) is
9 amended by striking “, (5), and (7)” and inserting
10 “and (5)”.

11 (d) TECHNICAL AND CONFORMING CHANGES.—

12 (1) Section 1 is amended by striking subsection
13 (h).

14 (2) Subsection (b) of section 55 is amended by
15 striking paragraph (3).

16 (3) Subparagraph (E) of section 163(d)(4) is
17 amended to read as follows:

18 “(E) COORDINATION WITH CAPITAL GAINS
19 DEDUCTION.—The net capital gain taken into
20 account under section 1203 for any taxable
21 year shall be reduced (but not below zero) by
22 the amount which the taxpayer takes into ac-
23 count as investment income under subpara-
24 graph (B)(iii) for such year.”

1 (4) Paragraph (1) of section 170(e) is amended
2 by striking “the amount of gain” in the material fol-
3 lowing subparagraph (B)(ii) and inserting “60 per-
4 cent (100 percent in the case of a corporation) of
5 the amount of gain”.

6 (5) Subparagraph (B) of section 172(d)(2) is
7 amended to read as follows:

8 “(B) the exclusion under section 1202 and
9 the deduction under section 1203 shall not be
10 allowed.”

11 (6) The last sentence of section 453A(c)(3) is
12 amended by striking all that follows “long-term cap-
13 ital gain,” and inserting “the maximum rate on net
14 capital gain under section 1201 or the deduction
15 under section 1203 (whichever is appropriate) shall
16 be taken into account.”

17 (7)(A) Section 641(d)(2)(A) is amended by
18 striking “Except as provided in section 1(h), the”
19 and inserting “The”.

20 (B) Section 641(d)(2)(C) is amended by insert-
21 ing after clause (iii) the following new clause:

22 “(iv) The deduction under section
23 1203.”

24 (8) Paragraph (4) of section 642(e) is amended
25 to read as follows:

1 “(4) ADJUSTMENTS.—To the extent that the
2 amount otherwise allowable as a deduction under
3 this subsection consists of gain from the sale or ex-
4 change of capital assets held for more than 1 year,
5 proper adjustment shall be made for any exclusion
6 allowable under section 1202 and any deduction al-
7 lowable under section 1203 to the estate or trust. In
8 the case of a trust, the deduction allowed by this
9 subsection shall be subject to section 681 (relating
10 to unrelated business income).”

11 (9) Section 642 is amended by adding at the
12 end the following new subsection:

13 “(j) CAPITAL GAINS DEDUCTION.—The deduction
14 under section 1203 to an estate or trust shall be computed
15 by excluding the portion (if any) of the gains for the tax-
16 able year which is includible by the income beneficiaries
17 under sections 652 and 662 (relating to inclusions of
18 amounts in gross income of beneficiaries of trusts) as gain
19 derived from the sale or exchange of capital assets.”

20 (10) The last sentence of section 643(a)(3) is
21 amended to read as follows: “The exclusion under
22 section 1202 and the deduction under section 1203
23 shall not be taken into account.”

24 (11) Subparagraph (C) of section 643(a)(6) is
25 amended by inserting “(i)” before “there shall” and

1 by inserting before the period “, and (ii) the deduc-
2 tion under section 1203 (relating to capital gains de-
3 duction) shall not be taken into account”.

4 (12) Paragraph (4) of section 691(c) is amend-
5 ed by striking “1(h),” and by inserting “1203,”
6 after “1202,”.

7 (13) The second sentence of paragraph (2) of
8 section 871(a) is amended by striking “section
9 1202” and inserting “sections 1202 and 1203”.

10 (14)(A) Paragraph (2) of section 904(b) is
11 amended by striking subparagraphs (A) and (C), by
12 redesignating subparagraph (B) as subparagraph
13 (A), and by inserting after subparagraph (A) (as so
14 redesignated) the following new subparagraph:

15 “(B) OTHER TAXPAYERS.—In the case of
16 a taxpayer other than a corporation, taxable in-
17 come from sources outside the United States
18 shall include gain from the sale or exchange of
19 capital assets only to the extent of foreign
20 source capital gain net income.”

21 (B) Subparagraph (A) of section 904(b)(2), as
22 so redesignated, is amended—

23 (i) by striking all that precedes clause (i)
24 and inserting the following:

1 “(A) CORPORATIONS.—In the case of a
2 corporation—”, and

3 (ii) by striking in clause (i) “in lieu of ap-
4 plying subparagraph (A),”.

5 (C) Paragraph (3) of section 904(b) is amended
6 by striking subparagraphs (D) and (E) and inserting
7 the following new subparagraph:

8 “(D) RATE DIFFERENTIAL PORTION.—The
9 rate differential portion of foreign source net
10 capital gain, net capital gain, or the excess of
11 net capital gain from sources within the United
12 States over net capital gain, as the case may
13 be, is the same proportion of such amount as
14 the excess of the highest rate of tax specified in
15 section 11(b) over the alternative rate of tax
16 under section 1201(a) bears to the highest rate
17 of tax specified in section 11(b).”

18 (15) Paragraph (1) of section 1402(i) is amend-
19 ed by inserting “, and the deduction provided by sec-
20 tion 1203 shall not apply” before the period at the
21 end thereof.

22 (16) Paragraph (1) of section 1445(e) is
23 amended by striking “20 percent” and inserting
24 “23.7 percent”.

1 (17)(A) The second sentence of section
2 7518(g)(6)(A) is amended—

3 (i) by striking “during a taxable year to
4 which section 1(h) or 1201(a) applies”, and

5 (ii) by striking “20 percent” and inserting
6 “23.7 percent”.

7 (B) The second sentence of section
8 607(h)(6)(A) of the Merchant Marine Act, 1936, is
9 amended—

10 (i) by striking “during a taxable year to
11 which section 1(h) or 1201(a) of such Code ap-
12 plies”, and

13 (ii) by striking “20 percent” and inserting
14 “23.7 percent”.

15 (e) CLERICAL AMENDMENT.—The table of sections
16 for part I of subchapter P of chapter 1 is amended by
17 adding at the end the following new item:

 “Sec. 1203. Capital gains deduction.”

18 (f) EFFECTIVE DATES.—

19 (1) IN GENERAL.—Except as otherwise pro-
20 vided in this subsection, the amendments made by
21 this section shall apply to taxable years beginning
22 after December 31, 1998.

23 (2) WITHHOLDING.—The amendments made by
24 subsection (d)(16) shall apply only to amounts paid
25 after December 31, 1998.

1 (3) REPEAL OF ELECTION.—Section 311 of the
2 Taxpayer Relief Act of 1997 is amended by striking
3 subsection (e).

4 (4) COORDINATION WITH PRIOR TRANSITION
5 RULE.—Any amount treated as long-term capital
6 gain by reason of paragraph (3) of section 1122(h)
7 of the Tax Reform Act of 1986 shall not be taken
8 into account for purposes of applying section 1203
9 of the Internal Revenue Code of 1986 (as added by
10 this section).

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