

108TH CONGRESS
1ST SESSION

S. 24

To amend the Internal Revenue Code of 1986 to exclude from gross income dividends received by individuals.

IN THE SENATE OF THE UNITED STATES

JANUARY 7, 2003

Mrs. HUTCHISON introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to exclude from gross income dividends 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. EXCLUSION OF DIVIDEND INCOME FROM TAX.**

4 (a) IN GENERAL.—Part III of subchapter B of chap-
5 ter 1 of the Internal Revenue Code of 1986 (relating to
6 amounts specifically excluded from gross income) is
7 amended by inserting after section 115 the following new
8 section:

1 **“SEC. 116. EXCLUSION OF DIVIDENDS RECEIVED BY INDI-**
2 **VIDUALS.**

3 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
4 come does not include dividends otherwise includible in
5 gross income which are received during the taxable year
6 by an individual.

7 “(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection
8 (a) shall not apply to any dividend from a corporation
9 which, for the taxable year of the corporation in which
10 the distribution is made, or for the next preceding taxable
11 year of the corporation, is a corporation exempt from tax
12 under section 501 (relating to certain charitable, etc., or-
13 ganization) or section 521 (relating to farmers’ coopera-
14 tive associations).

15 “(c) SPECIAL RULES.—For purposes of this sec-
16 tion—

17 “(1) EXCLUSION NOT TO APPLY TO CAPITAL
18 GAIN DIVIDENDS FROM REGULATED INVESTMENT
19 COMPANIES AND REAL ESTATE INVESTMENT
20 TRUSTS.—

“For treatment of capital gain dividends, see sec-
tions 854(a) and 857(c).

21 “(2) 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 dividends 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 “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-
9 ERSHIP PLANS.—Subsection (a) shall not apply to
10 any dividend described in section 404(k).”

11 (b) CONFORMING AMENDMENTS.—

12 (1)(A) Subparagraph (A) of section 135(c)(4)
13 of such Code is amended by inserting “116,” before
14 “137”.

15 (B) Subsection (d) of section 135 of such Code
16 is amended by redesignating paragraph (4) as para-
17 graph (5) and by inserting after paragraph (3) the
18 following new paragraph:

19 “(4) COORDINATION WITH SECTION 116.—This
20 section shall be applied before section 116.”

21 (2) Subsection (c) of section 584 of such Code
22 is amended by adding at the end thereof the fol-
23 lowing new flush sentence:

24 “The proportionate share of each participant in the
25 amount of dividends received by the common trust fund

1 and to which section 116 applies shall be considered for
2 purposes of such section as having been received by such
3 participant.”

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

8 “(7) DIVIDENDS.—There shall be included the
9 amount of any dividends excluded from gross income
10 pursuant to section 116.”

11 (4) Section 854(a) of such Code is amended by
12 inserting “section 116 (relating to exclusion of divi-
13 dends received by individuals) and” after “For pur-
14 poses of”.

15 (5) Section 857(c) of such Code is amended to
16 read as follows:

17 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
18 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

19 “(1) TREATMENT FOR SECTION 116.—For pur-
20 poses of section 116 (relating to exclusion of divi-
21 dends received by individuals), a capital gain divi-
22 dend (as defined in subsection (b)(3)(C)) received
23 from a real estate investment trust which meets the
24 requirements of this part shall not be considered as
25 a dividend.

1 “(2) TREATMENT FOR SECTION 243.—For pur-
2 poses of section 243 (relating to deductions for divi-
3 dends received by corporations), a dividend received
4 from a real estate investment trust which meets the
5 requirements of this part shall not be considered as
6 a dividend.”

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

 “Sec. 116. Exclusion of dividends received by individuals.”

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

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