

108TH CONGRESS  
1ST SESSION

# S. 24

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

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## 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

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## 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 INDIVIDUALS.**

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

7         “(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection (a) shall not apply to any dividend from a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organization) or section 521 (relating to farmers' cooperative associations).

15         “(c) SPECIAL RULES.—For purposes of this section—

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

**“For treatment of capital gain dividends, see sections 854(a) and 857(c).**

21         “(2) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION.—In the case of a nonresident alien individual, subsection (a) shall apply 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.”

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

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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