

108TH CONGRESS
1ST SESSION

H. R. 2

IN THE SENATE OF THE UNITED STATES

MAY 12, 2003

Received

AN ACT

To provide for reconciliation pursuant to section 201 of the concurrent resolution on the budget for fiscal year 2004.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CON-**
 2 **TENTS.**

3 (a) **SHORT TITLE.**—This Act may be cited as the
 4 “Jobs and Growth Reconciliation Tax Act of 2003”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
 6 wise expressly provided, whenever in this Act an amend-
 7 ment or repeal is expressed in terms of an amendment
 8 to, or repeal of, a section or other provision, the reference
 9 shall be considered to be made to a section or other provi-
 10 sion of the Internal Revenue Code of 1986.

11 (c) **TABLE OF CONTENTS.**—The table of contents of
 12 this Act is as follows:

Sec. 1. Short title; references; table of contents.

**TITLE I—ACCELERATION OF CERTAIN PREVIOUSLY ENACTED
 TAX REDUCTIONS**

Sec. 101. Acceleration of increase in child tax credit.

Sec. 102. Acceleration of 15-percent individual income tax rate bracket expansion for married taxpayers filing joint returns.

Sec. 103. Acceleration of increase in standard deduction for married taxpayers filing joint returns.

Sec. 104. Acceleration of 10-percent individual income tax rate bracket expansion.

Sec. 105. Acceleration of reduction in individual income tax rates.

Sec. 106. Minimum tax relief to individuals.

TITLE II—GROWTH INCENTIVES FOR BUSINESS

Sec. 201. Increase and extension of bonus depreciation.

Sec. 202. Increased expensing for small business.

Sec. 203. 5-year carryback of certain net operating losses.

**TITLE III—REDUCTIONS IN TAXES ON DIVIDENDS AND CAPITAL
 GAINS**

Sec. 301. Reduction in capital gains rates for individuals; repeal of 5-year holding period requirement.

Sec. 302. Dividends of individuals taxed at capital gain rates.

Sec. 303. Sunset of title.

TITLE IV—CORPORATE ESTIMATED TAX PAYMENTS FOR 2003

Sec. 401. Time for payment of corporate estimated taxes.

1 **TITLE I—ACCELERATION OF**
 2 **CERTAIN PREVIOUSLY EN-**
 3 **ACTED TAX REDUCTIONS**

4 **SEC. 101. ACCELERATION OF INCREASE IN CHILD TAX**
 5 **CREDIT.**

6 (a) IN GENERAL.—The items relating to calendar
 7 years 2001 through 2008 in the table contained in para-
 8 graph (2) of section 24(a) (relating to per child amount)
 9 are amended to read as follows:

“2003, 2004, 2005	\$1,000
2006, 2007, or 2008	700”.

10 (b) ADVANCE PAYMENT OF PORTION OF INCREASED
 11 CREDIT IN 2003.—

12 (1) IN GENERAL.—Subchapter B of chapter 65
 13 (relating to abatements, credits, and refunds) is
 14 amended by inserting after section 6428 the fol-
 15 lowing new section:

16 **“SEC. 6429. ADVANCE PAYMENT OF PORTION OF IN-**
 17 **CREASED CHILD CREDIT FOR 2003.**

18 “(a) IN GENERAL.—Each taxpayer who claimed a
 19 credit under section 24 on the return for the taxpayer’s
 20 first taxable year beginning in 2002 shall be treated as
 21 having made a payment against the tax imposed by chap-

1 ter 1 for such taxable year in an amount equal to the child
2 tax credit refund amount (if any) for such taxable year.

3 “(b) CHILD TAX CREDIT REFUND AMOUNT.—For
4 purposes of this section, the child tax credit refund
5 amount is the amount by which the aggregate credits al-
6 lowed under part IV of subchapter A of chapter 1 for such
7 first taxable year would have been increased if—

8 “(1) the per child amount under section
9 24(a)(2) for such year were \$1,000,

10 “(2) only qualifying children (as defined in sec-
11 tion 24(c)) of the taxpayer for such year who had
12 not attained age 17 as of December 31, 2003, were
13 taken into account, and

14 “(3) section 24(d)(1)(B)(ii) did not apply.

15 “(c) TIMING OF PAYMENTS.—In the case of any over-
16 payment attributable to this section, the Secretary shall,
17 subject to the provisions of this title, refund or credit such
18 overpayment as rapidly as possible and, to the extent prac-
19 ticable, before October 1, 2003. No refund or credit shall
20 be made or allowed under this section after December 31,
21 2003.

22 “(d) COORDINATION WITH CHILD TAX CREDIT.—

23 “(1) IN GENERAL.—The amount of credit
24 which would (but for this subsection and section 26)
25 be allowed under section 24 for the taxpayer’s first

1 taxable year beginning in 2003 shall be reduced (but
2 not below zero) by the payments made to the tax-
3 payer under this section. Any failure to so reduce
4 the credit shall be treated as arising out of a mathe-
5 matical or clerical error and assessed according to
6 section 6213(b)(1).

7 “(2) JOINT RETURNS.—In the case of a pay-
8 ment under this section with respect to a joint re-
9 turn, half of such payment shall be treated as hav-
10 ing been made to each individual filing such return.

11 “(e) NO INTEREST.—No interest shall be allowed on
12 any overpayment attributable to this section.”.

13 (2) CLERICAL AMENDMENT.—The table of sec-
14 tions for subchapter B of chapter 65 is amended by
15 adding at the end the following new item:

“Sec. 6429. Advance payment of portion of increased child credit for
2003.”.

16 (c) EFFECTIVE DATES.—

17 (1) SUBSECTION (a).—The amendment made
18 by subsection (a) shall apply to taxable years begin-
19 ning after December 31, 2002.

20 (2) SUBSECTION (b).—The amendments made
21 by subsection (b) shall take effect on the date of the
22 enactment of this Act.

1 **SEC. 102. ACCELERATION OF 15-PERCENT INDIVIDUAL IN-**
 2 **COME TAX RATE BRACKET EXPANSION FOR**
 3 **MARRIED TAXPAYERS FILING JOINT RE-**
 4 **TURNS.**

5 (a) IN GENERAL.—The item relating to 2005 in the
 6 table contained in subparagraph (B) of section 1(f)(8) (re-
 7 lating to applicable percentage) is amended to read as fol-
 8 lows:

“2003, 2004, and 2005 200”.

9 (b) CONFORMING AMENDMENTS.—

10 (1) Section 1(f)(8)(A) is amended by striking
 11 “2004” and inserting “2002”.

12 (2) Section 302(e) of the Economic Growth and
 13 Tax Relief Reconciliation Act of 2001 is amended by
 14 striking “2004” and inserting “2002”.

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

18 **SEC. 103. ACCELERATION OF INCREASE IN STANDARD DE-**
 19 **DUCTION FOR MARRIED TAXPAYERS FILING**
 20 **JOINT RETURNS.**

21 (a) IN GENERAL.—The item relating to 2005 in the
 22 table contained in paragraph (7) of section 63(c) (relating
 23 to applicable percentage) is amended to read as follows:

“2003, 2004, and 2005 200”.

1 (b) CONFORMING AMENDMENT.—Section 301(d) of
2 the Economic Growth and Tax Relief Reconciliation Act
3 of 2001 is amended by striking “2004” and inserting
4 “2002”.

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

8 **SEC. 104. ACCELERATION OF 10-PERCENT INDIVIDUAL IN-**
9 **COME TAX RATE BRACKET EXPANSION.**

10 (a) IN GENERAL.—Clause (i) of section 1(i)(1)(B)
11 (relating to the initial bracket amount) is amended by
12 striking “(\$12,000 in the case of taxable years beginning
13 before January 1, 2008)” and inserting “(\$12,000 in the
14 case of taxable years beginning after December 31, 2005,
15 and before January 1, 2008)”.

16 (b) INFLATION ADJUSTMENT.—Subparagraph (C) of
17 section 1(i)(1) is amended to read as follows:

18 “(C) INFLATION ADJUSTMENT.—In pre-
19 scribing the tables under subsection (f) which
20 apply with respect to taxable years beginning in
21 calendar years after 2000—

22 “(i) the Secretary shall make no ad-
23 justment to the \$12,000 initial bracket
24 amount for any taxable year,

1 “(ii)(I) the Secretary shall make no
2 adjustment to the \$14,000 initial bracket
3 amount for any taxable year beginning be-
4 fore January 1, 2004,

5 “(II) the cost-of-living adjustment
6 used in making adjustments to the
7 \$14,000 initial bracket amount for any
8 taxable year beginning during 2004 or
9 2005 shall be determined under subsection
10 (f)(3) by substituting ‘2002’ for ‘1992’ in
11 subparagraph (B) thereof, and

12 “(III) the cost-of-living adjustment
13 used in making adjustments to the
14 \$14,000 initial bracket amount for any
15 taxable year beginning after December 31,
16 2008, shall be determined under subsection
17 (f)(3) by substituting ‘2007’ for ‘1992’ in
18 subparagraph (B) thereof, and

19 “(iii) the adjustments under clause
20 (ii) shall not apply to the amount referred
21 to in subparagraph (B)(iii).

22 If any amount after adjustment under the pre-
23 ceding sentence is not a multiple of \$50, such
24 amount shall be rounded to the next lowest
25 multiple of \$50.”.

1 (c) EFFECTIVE DATE.—

2 (1) IN GENERAL.—The amendments made by
 3 this section shall apply to taxable years beginning
 4 after December 31, 2002.

5 (2) TABLES FOR 2003.—The Secretary of the
 6 Treasury shall modify each table which has been
 7 prescribed under section 1(f) of the Internal Rev-
 8 enue Code of 1986 for taxable years beginning in
 9 2003 and which relates to the amendment made by
 10 this section to reflect such amendment.

11 **SEC. 105. ACCELERATION OF REDUCTION IN INDIVIDUAL**
 12 **INCOME TAX RATES.**

13 (a) IN GENERAL.—The table in paragraph (2) of sec-
 14 tion 1(i) (relating to reductions in rates after June 30,
 15 2001) is amended to read as follows:

"In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2001	27.5%	30.5%	35.5%	39.1%
2002	27.0%	30.0%	35.0%	38.6%
2003 and thereafter	25.0%	28.0%	33.0%	35.0%".

16 (b) EFFECTIVE DATE.—The amendment made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 2002.

19 **SEC. 106. MINIMUM TAX RELIEF TO INDIVIDUALS.**

20 (a) IN GENERAL.—

21 (1) Subparagraph (A) of section 55(d)(1) is
 22 amended by striking "\$49,000 in the case of taxable

1 years beginning in 2001, 2002, 2003, and 2004”
2 and inserting “\$64,000 in the case of taxable years
3 beginning in 2003, 2004, and 2005”.

4 (2) Subparagraph (B) of section 55(d)(1) is
5 amended by striking “\$35,750 in the case of taxable
6 years beginning in 2001, 2002, 2003, and 2004”
7 and inserting “\$43,250 in the case of taxable years
8 beginning in 2003, 2004, and 2005”.

9 (b) EFFECTIVE DATE.—The amendments made by
10 subsection (a) shall apply to taxable years beginning after
11 December 31, 2002.

12 **TITLE II—GROWTH INCENTIVES** 13 **FOR BUSINESS**

14 **SEC. 201. INCREASE AND EXTENSION OF BONUS DEPRECIATION.** 15 **TION.**

16 (a) IN GENERAL.—Section 168(k) (relating to special
17 allowance for certain property acquired after September
18 10, 2001, and before September 11, 2004) is amended by
19 adding at the end the following new paragraph:

20 “(4) 50-PERCENT BONUS DEPRECIATION FOR
21 CERTAIN PROPERTY.—

22 “(A) IN GENERAL.—In the case of 50-per-
23 cent bonus depreciation property—

1 “(i) paragraph (1)(A) shall be applied
2 by substituting ‘50 percent’ for ‘30 per-
3 cent’, and

4 “(ii) except as provided in paragraph
5 (2)(C), such property shall be treated as
6 qualified property for purposes of this sub-
7 section.

8 “(B) 50-PERCENT BONUS DEPRECIATION
9 PROPERTY.—For purposes of this subsection,
10 the term ‘50-percent bonus depreciation prop-
11 erty’ means property described in paragraph
12 (2)(A)(i)—

13 “(i) the original use of which com-
14 mences with the taxpayer after May 5,
15 2003,

16 “(ii) which is acquired by the taxpayer
17 after May 5, 2003, and before January 1,
18 2006, but only if no written binding con-
19 tract for the acquisition was in effect be-
20 fore May 6, 2003, and

21 “(iii) which is placed in service by the
22 taxpayer before January 1, 2006, or, in
23 the case of property described in para-
24 graph (2)(B) (as modified by subpara-

1 graph (C) of this paragraph), before Janu-
2 ary 1, 2007.

3 “(C) SPECIAL RULES.—Rules similar to
4 the rules of subparagraphs (B) and (D) of
5 paragraph (2) shall apply for purposes of this
6 paragraph; except that references to September
7 10, 2001, shall be treated as references to May
8 5, 2003.

9 “(D) AUTOMOBILES.—Paragraph (2)(E)
10 shall be applied by substituting ‘\$9,200’ for
11 ‘\$4,600’ in the case of 50-percent bonus depre-
12 ciation property.

13 “(E) ELECTION OF 30 PERCENT BONUS.—
14 If a taxpayer makes an election under this sub-
15 paragraph with respect to any class of property
16 for any taxable year, subparagraph (A)(i) shall
17 not apply to all property in such class placed in
18 service during such taxable year.”.

19 (b) EXTENSION OF PLACED IN SERVICE DATES,
20 ETC. FOR 30-PERCENT BONUS DEPRECIATION PROP-
21 erty.—

22 (1) IN GENERAL.—Clause (iv) of section
23 168(k)(2)(A) is amended—

24 (A) by striking “January 1, 2005” and in-
25 serting “January 1, 2006”, and

1 (B) by striking “January 1, 2006” (as in
2 effect before the amendment made by subpara-
3 graph (A)) and inserting “January 1, 2007”.

4 (2) PORTION OF BASIS TAKEN INTO AC-
5 COUNT.—

6 (A) Subparagraphs (B)(ii) and (D)(i) of
7 section 168(k)(2) are each amended by striking
8 “September 11, 2004” each place it appears in
9 the text and inserting “January 1, 2006”.

10 (B) Clause (ii) of section 168(k)(2)(B) is
11 amended by striking “PRE-SEPTEMBER 11,
12 2004” in the heading and inserting “PRE-JANU-
13 ARY 1, 2006”.

14 (3) ACQUISITION DATE.—Clause (iii) of section
15 168(k)(2)(A) is amended by striking “September 11,
16 2004” each place it appears and inserting “January
17 1, 2006”.

18 (4) ELECTION.—Clause (iii) of section
19 168(k)(2)(C) is amended by adding at the end the
20 following: “The preceding sentence shall be applied
21 separately with respect to property treated as quali-
22 fied property by paragraph (4) and other qualified
23 property.”.

24 (c) CONFORMING AMENDMENTS.—

1 (1) The subsection heading for section 168(k) is
2 amended by striking “SEPTEMBER 11, 2004” and
3 inserting “JANUARY 1, 2006”.

4 (2) The heading for clause (i) of section
5 1400L(b)(2)(C) is amended by striking “30-PER-
6 CENT ADDITIONAL ALLOWABLE PROPERTY” and in-
7 serting “BONUS DEPRECIATION PROPERTY UNDER
8 SECTION 168(k)”.

9 (d) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years ending after the
11 date of the enactment of this Act.

12 **SEC. 202. INCREASED EXPENSING FOR SMALL BUSINESS.**

13 (a) IN GENERAL.—Paragraph (1) of section 179(b)
14 (relating to dollar limitation) is amended to read as fol-
15 lows:

16 “(1) DOLLAR LIMITATION.—The aggregate cost
17 which may be taken into account under subsection
18 (a) for any taxable year shall not exceed \$25,000
19 (\$100,000 in the case of taxable years beginning
20 after 2002 and before 2008).”.

21 (b) INCREASE IN QUALIFYING INVESTMENT AT
22 WHICH PHASEOUT BEGINS.—Paragraph (2) of section
23 179(b) (relating to reduction in limitation) is amended by
24 inserting “(\$400,000 in the case of taxable years begin-
25 ning after 2002 and before 2008)” after “\$200,000”.

1 (c) OFF-THE-SHELF COMPUTER SOFTWARE.—Para-
2 graph (1) of section 179(d) (defining section 179 prop-
3 erty) is amended to read as follows:

4 “(1) SECTION 179 PROPERTY.—For purposes of
5 this section, the term ‘section 179 property’ means
6 property—

7 “(A) which is—

8 “(i) tangible property (to which sec-
9 tion 168 applies), or

10 “(ii) computer software (as defined in
11 section 197(e)(3)(B)) which is described in
12 section 197(e)(3)(A)(i), to which section
13 167 applies, and which is placed in service
14 in a taxable year beginning after 2002 and
15 before 2008,

16 “(B) which is section 1245 property (as
17 defined in section 1245(a)(3)), and

18 “(C) which is acquired by purchase for use
19 in the active conduct of a trade or business.

20 Such term shall not include any property described
21 in section 50(b) and shall not include air condi-
22 tioning or heating units.”.

23 (d) ADJUSTMENT OF DOLLAR LIMIT AND PHASEOUT
24 THRESHOLD FOR INFLATION.—Subsection (b) of section

1 179 (relating to limitations) is amended by adding at the
2 end the following new paragraph:

3 “(5) INFLATION ADJUSTMENTS.—

4 “(A) IN GENERAL.—In the case of any
5 taxable year beginning in a calendar year after
6 2003 and before 2008, the \$100,000 and
7 \$400,000 amounts in paragraphs (1) and (2)
8 shall each be increased by an amount equal
9 to—

10 “(i) such dollar amount, multiplied by

11 “(ii) the cost-of-living adjustment de-
12 termined under section 1(f)(3) for the cal-
13 endar year in which the taxable year be-
14 gins, by substituting ‘calendar year 2002’
15 for ‘calendar year 1992’ in subparagraph
16 (B) thereof.

17 “(B) ROUNDING.—

18 “(i) DOLLAR LIMITATION.—If the
19 amount in paragraph (1) as increased
20 under subparagraph (A) is not a multiple
21 of \$1,000, such amount shall be rounded
22 to the nearest multiple of \$1,000.

23 “(ii) PHASEOUT AMOUNT.—If the
24 amount in paragraph (2) as increased
25 under subparagraph (A) is not a multiple

1 of \$10,000, such amount shall be rounded
2 to the nearest multiple of \$10,000.”.

3 (e) REVOCATION OF ELECTION.—Paragraph (2) of
4 section 179(c) (relating to election irrevocable) is amended
5 to read as follows:

6 “(2) REVOCATION OF ELECTION.—An election
7 under paragraph (1) with respect to any taxable
8 year beginning after 2002 and before 2008, and any
9 specification contained in any such election, may be
10 revoked by the taxpayer with respect to any prop-
11 erty. Such revocation, once made, shall be irrev-
12 ocable.”.

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

16 **SEC. 203. 5-YEAR CARRYBACK OF CERTAIN NET OPERATING**
17 **LOSSES.**

18 (a) IN GENERAL.—Subparagraph (H) of section
19 172(b)(1) is amended—

20 (1) by inserting “5-YEAR CARRYBACK OF CER-
21 TAIN LOSSES.—” after “(H)”, and

22 (2) by striking “or 2002” and inserting “,
23 2002, 2003, 2004 or 2005”.

1 (b) TEMPORARY SUSPENSION OF 90 PERCENT LIMIT
2 ON CERTAIN NOL CARRYBACKS.—Subclause (I) of sec-
3 tion 56(d)(1)(A)(ii) is amended—

4 (1) by striking “or 2002” and inserting “,
5 2002, 2003, 2004, or 2005”, and

6 (2) by striking “and 2002” and inserting “,
7 2002, 2003, 2004, or 2005”.

8 (c) TECHNICAL CORRECTIONS.—

9 (1) Subparagraph (H) of section 172(b)(1) is
10 amended by striking “a taxpayer which has”.

11 (2) Section 102(c)(2) of the Job Creation and
12 Worker Assistance Act of 2002 (Public Law 107–
13 147) is amended by striking “before January 1,
14 2003” and inserting “after December 31, 1990”.

15 (3)(A) Subclause (I) of section 56(d)(1)(A)(i) is
16 amended by striking “attributable to carryovers”.

17 (B) Subclause (I) of section 56(d)(1)(A)(ii) is
18 amended—

19 (i) by striking “for taxable years” and in-
20 serting “from taxable years”, and

21 (ii) by striking “carryforwards” and insert-
22 ing “carryovers”.

23 (d) EFFECTIVE DATES.—

24 (1) IN GENERAL.—Except as provided in para-
25 graph (2), the amendments made by this section

1 shall apply to net operating losses for taxable years
2 ending after December 31, 2002.

3 (2) TECHNICAL CORRECTIONS.—The amend-
4 ments made by subsection (c) shall take effect as if
5 included in the amendments made by section 102 of
6 the Job Creation and Worker Assistance Act of
7 2002.

8 (3) ELECTION.—In the case of a net operating
9 loss for a taxable year ending during 2003—

10 (A) any election made under section
11 172(b)(3) of such Code may (notwithstanding
12 such section) be revoked before November 1,
13 2003, and

14 (B) any election made under section 172(j)
15 of such Code shall (notwithstanding such sec-
16 tion) be treated as timely made if made before
17 November 1, 2003.

18 **TITLE III—REDUCTION IN TAXES**
19 **ON DIVIDENDS AND CAPITAL**
20 **GAINS**

21 **SEC. 301. REDUCTION IN CAPITAL GAINS RATES FOR INDI-**
22 **VIDUALS; REPEAL OF 5-YEAR HOLDING PE-**
23 **RIOD REQUIREMENT.**

24 (a) IN GENERAL.—

1 (1) Sections 1(h)(1)(B) and 55(b)(3)(B) are
2 each amended by striking “10 percent” and insert-
3 ing “5 percent”.

4 (2) The following sections are each amended by
5 striking “20 percent” and inserting “15 percent”:

6 (A) Section 1(h)(1)(C).

7 (B) Section 55(b)(3)(C).

8 (C) Section 1445(e)(1).

9 (D) The second sentence of section
10 7518(g)(6)(A).

11 (E) The second sentence of section
12 607(h)(6)(A) of the Merchant Marine Act,
13 1936.

14 (b) CONFORMING AMENDMENTS.—

15 (1) Section 1(h) is amended—

16 (A) by striking paragraphs (2) and (9),

17 (B) by redesignating paragraphs (3)
18 through (8) as paragraphs (2) through (7), re-
19 spectively, and

20 (C) by redesignating paragraphs (10),
21 (11), and (12) as paragraphs (8), (9), and (10),
22 respectively.

23 (2) Paragraph (3) of section 55(b) is amended
24 by striking “In the case of taxable years beginning
25 after December 31, 2000, rules similar to the rules

1 of section 1(h)(2) shall apply for purposes of sub-
2 paragraphs (B) and (C).”.

3 (3) Paragraph (7) of section 57(a) is amend-
4 ed—

5 (A) by striking “42 percent” the first place
6 it appears and inserting “7 percent”, and

7 (B) by striking the last sentence.

8 (c) TRANSITIONAL RULES FOR TAXABLE YEARS
9 WHICH INCLUDE MAY 6, 2003.—For purposes of apply-
10 ing section 1(h) of the Internal Revenue Code of 1986 in
11 the case of a taxable year which includes May 6, 2003—

12 (1) The amount of tax determined under sub-
13 paragraph (B) of section 1(h)(1) of such Code shall
14 be the sum of—

15 (A) 5 percent of the lesser of—

16 (i) the net capital gain determined by
17 taking into account only gain or loss prop-
18 erly taken into account for the portion of
19 the taxable year on or after May 6, 2003
20 (determined without regard to collectibles
21 gain or loss, gain described in section
22 1(h)(6)(A)(i) of such Code, and section
23 1202 gain), or

1 (ii) the amount on which a tax is de-
2 termined under such subparagraph (with-
3 out regard to this subsection),

4 (B) 8 percent of the lesser of—

5 (i) the qualified 5-year gain (as de-
6 fined in section 1(h)(9) of the Internal
7 Revenue Code of 1986, as in effect on the
8 day before the date of the enactment of
9 this Act) properly taken into account for
10 the portion of the taxable year before May
11 6, 2003, over

12 (ii) the excess (if any) of—

13 (I) the amount on which a tax is
14 determined under such subparagraph
15 (without regard to this subsection),
16 over

17 (II) the amount on which a tax is
18 determined under subparagraph (A),
19 plus

20 (C) 10 percent of the excess (if any) of—

21 (i) the amount on which a tax is de-
22 termined under such subparagraph (with-
23 out regard to this subsection), over

1 (ii) the sum of the amounts on which
2 a tax is determined under subparagraphs
3 (A) and (B).

4 (2) The amount of tax determined under sub-
5 paragraph (C) of section (1)(h)(1) of such Code
6 shall be the sum of—

7 (A) 15 percent of the lesser of—

8 (i) the excess (if any) of the amount
9 of net capital gain determined under sub-
10 paragraph (A)(i) of paragraph (1) of this
11 subsection over the amount on which a tax
12 is determined under subparagraph (A) of
13 paragraph (1) of this subsection, or

14 (ii) the amount on which a tax is de-
15 termined under such subparagraph (C)
16 (without regard to this subsection), plus

17 (B) 20 percent of the excess (if any) of—

18 (i) the amount on which a tax is de-
19 termined under such subparagraph (C)
20 (without regard to this subsection), over

21 (ii) the amount on which a tax is de-
22 termined under subparagraph (A) of this
23 paragraph.

1 (3) For purposes of applying section 55(b)(3)
2 of such Code, rules similar to the rules of para-
3 graphs (1) and (2) of this subsection shall apply.

4 (4) In applying this subsection with respect to
5 any pass-thru entity, the determination of when
6 gains and loss are properly taken into account shall
7 be made at the entity level.

8 (5) For purposes of applying section 1(h)(11)
9 of such Code, as added by section 302 of this Act,
10 to this subsection, dividends which are qualified divi-
11 dend income shall be treated as gain properly taken
12 into account for the portion of the taxable year on
13 or after May 6, 2003.

14 (6) Terms used in this subsection which are
15 also used in section 1(h) of such Code shall have the
16 respective meanings that such terms have in such
17 section.

18 (d) EFFECTIVE DATES.—

19 (1) IN GENERAL.—Except as otherwise pro-
20 vided by this subsection, the amendments made by
21 this section shall apply to taxable years ending on or
22 after May 6, 2003.

23 (2) WITHHOLDING.—The amendment made by
24 subsection (a)(2)(C) shall apply to amounts paid
25 after the date of the enactment of this Act.

1 (3) SMALL BUSINESS STOCK.—The amend-
2 ments made by subsection (b)(3) shall apply to dis-
3 positions on or after May 6, 2003.

4 **SEC. 302. DIVIDENDS OF INDIVIDUALS TAXED AT CAPITAL**
5 **GAIN RATES.**

6 (a) IN GENERAL.—Section 1(h) (relating to max-
7 imum capital gains rate), as amended by section 301, is
8 amended by adding at the end the following new para-
9 graph:

10 “(11) DIVIDENDS TAXED AS NET CAPITAL
11 GAIN.—

12 “(A) IN GENERAL.—For purposes of this
13 subsection, the term ‘net capital gain’ means
14 net capital gain (determined without regard to
15 this paragraph), increased by qualified dividend
16 income.

17 “(B) QUALIFIED DIVIDEND INCOME.—For
18 purposes of this paragraph—

19 “(i) IN GENERAL.—The term ‘quali-
20 fied dividend income’ means dividends re-
21 ceived during the taxable year from domes-
22 tic corporations.

23 “(ii) CERTAIN DIVIDENDS EX-
24 CLUDED.—Such term shall not include—

1 “(I) any dividend from a corpora-
2 tion which for the taxable year of the
3 corporation in which the distribution
4 is made, or the preceding taxable
5 year, is a corporation exempt from tax
6 under section 501 or 521,

7 “(II) any amount allowed as a
8 deduction under section 591 (relating
9 to deduction for dividends paid by
10 mutual savings banks, etc.), and

11 “(III) any dividend described in
12 section 404(k).

13 “(iii) EXCLUSION OF CERTAIN DIVI-
14 DENDS.—Such term shall not include any
15 dividend on any share of stock—

16 “(I) with respect to which the
17 holding period requirements of section
18 246(c) are not met, or

19 “(II) to the extent that the tax-
20 payer is under an obligation (whether
21 pursuant to a short sale or otherwise)
22 to make related payments with respect
23 to positions in substantially similar or
24 related property.

25 “(C) SPECIAL RULES.—

1 “(i) AMOUNTS TAKEN INTO ACCOUNT
2 AS INVESTMENT INCOME.—Qualified divi-
3 dend income shall not include any amount
4 which the taxpayer takes into account as
5 investment income under section
6 163(d)(4)(B).

7 “(ii) EXTRAORDINARY DIVIDENDS.—
8 If an individual receives, with respect to
9 any share of stock, qualified dividend in-
10 come from 1 or more dividends which are
11 extraordinary dividends (within the mean-
12 ing of section 1059(c)), any loss on the
13 sale or exchange of such share shall, to the
14 extent of such dividends, be treated as
15 long-term capital loss.

16 “(iii) TREATMENT OF DIVIDENDS
17 FROM REGULATED INVESTMENT COMPA-
18 NIES AND REAL ESTATE INVESTMENT
19 TRUSTS.—A dividend received from a regu-
20 lated investment company or a real estate
21 investment trust shall be subject to the
22 limitations prescribed in sections 854 and
23 857.”.

24 (b) EXCLUSION OF DIVIDENDS FROM INVESTMENT
25 INCOME.—Subparagraph (B) of section 163(d)(4) (defin-

1 ing net investment income) is amended by adding at the
2 end the following flush sentence:

3 “Such term shall include qualified dividend in-
4 come (as defined in section 1(h)(11)(B)) only to
5 the extent the taxpayer elects to treat such in-
6 come as investment income for purposes of this
7 subsection.”.

8 (c) TREATMENT OF DIVIDENDS FROM REGULATED
9 INVESTMENT COMPANIES.—

10 (1) Subsection (a) of section 854 (relating to
11 dividends received from regulated investment compa-
12 nies) is amended by inserting “section 1(h)(11) (re-
13 lating to maximum rate of tax on dividends and in-
14 terest) and” after “For purposes of”.

15 (2) Paragraph (1) of section 854(b) (relating to
16 other dividends) is amended by redesignating sub-
17 paragraph (B) as subparagraph (C) and by inserting
18 after subparagraph (A) the following new subpara-
19 graph:

20 “(B) MAXIMUM RATE UNDER SECTION
21 1(h).—

22 “(i) IN GENERAL.—If the aggregate
23 dividends received by a regulated invest-
24 ment company during any taxable year are
25 less than 95 percent of its gross income,

1 then, in computing the maximum rate
2 under section 1(h)(11), rules similar to the
3 rules of subparagraph (A) shall apply.

4 “(ii) GROSS INCOME.—For purposes
5 of clause (i), in the case of 1 or more sales
6 or other dispositions of stock or securities,
7 the term ‘gross income’ includes only the
8 excess of—

9 “(I) the net short-term capital
10 gain from such sales or dispositions,
11 over

12 “(II) the net long-term capital
13 loss from such sales or dispositions.”.

14 (3) Subparagraph (C) of section 854(b)(1), as
15 redesignated by paragraph (2), is amended by strik-
16 ing “subparagraph (A)” and inserting “subpara-
17 graph (A) or (B)”.

18 (4) Paragraph (2) of section 854(b) is amended
19 by inserting “the maximum rate under section
20 1(h)(11) and” after “for purposes of”.

21 (5) Subsection (b) of section 854 is amended by
22 adding at the end the following new paragraph:

23 “(5) COORDINATION WITH SECTION 1(h)(11).—
24 For purposes of paragraph (1)(B), an amount shall
25 be treated as a dividend only if the amount is quali-

1 fied dividend income (within the meaning of section
2 1(h)(11)(B)).”.

3 (d) TREATMENT OF DIVIDENDS RECEIVED FROM
4 REAL ESTATE INVESTMENT TRUSTS.—Section 857(c)
5 (relating to restrictions applicable to dividends received
6 from real estate investment trusts) is amended to read as
7 follows:

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

10 “(1) SECTION 243.—For purposes of section
11 243 (relating to deductions for dividends received by
12 corporations), a dividend received from a real estate
13 investment trust which meets the requirements of
14 this part shall not be considered a dividend.

15 “(2) SECTION 1(h)(11).—For purposes of sec-
16 tion 1(h)(11) (relating to maximum rate of tax on
17 dividends), rules similar to the rules of section
18 854(b)(1)(B) shall apply to dividends received from
19 a real estate trust which meets the requirements of
20 this part.”.

21 (e) CONFORMING AMENDMENTS.—

22 (1) Paragraph (3) of section 1(h), as redesign-
23 nated by section 301, is amended to read as follows:

1 “(3) ADJUSTED NET CAPITAL GAIN.—For pur-
2 poses of this subsection, the term ‘adjusted net cap-
3 ital gain’ means the sum of—

4 “(A) net capital gain (determined without
5 regard to paragraph (11)) reduced (but not
6 below zero) by the sum of—

7 “(i) unrecaptured section 1250 gain,

8 and

9 “(ii) 28-percent rate gain, plus

10 “(B) qualified dividend income (as defined
11 in paragraph (11)).”.

12 (2) Subsection (f) of section 301 is amended
13 adding at the end the following new paragraph:

14 “(4) For taxation of dividends received by indi-
15 viduals at capital gain rates, see section 1(h)(11).”.

16 (3) Paragraph (1) of section 306(a) is amended
17 by adding at the end the following new subpara-
18 graph:

19 “(D) TREATMENT AS DIVIDEND.—For
20 purposes of section 1(h)(11), any amount treat-
21 ed as ordinary income under this paragraph
22 shall be treated as a dividend received from the
23 corporation.”.

1 (4)(A) Subpart C of part II of subchapter C of
2 chapter 1 (relating to collapsible corporations) is re-
3 pealed.

4 (B)(i) Section 338(h) is amended by striking
5 paragraph (14).

6 (ii) Sections 467(c)(5)(C), 1255(b)(2), and
7 1257(d) are each amended by striking “,
8 341(e)(12),”.

9 (iii) The table of subparts for part II of sub-
10 chapter C of chapter 1 is amended by striking the
11 item related to subpart C.

12 (5) Section 531 is amended by striking “equal
13 to” and all that follows and inserting “equal to 15
14 percent of the accumulated taxable income.”.

15 (6) Section 541 is amended by striking “equal
16 to” and all that follows and inserting “equal to 15
17 percent of the undistributed personal holding com-
18 pany income.”.

19 (7) Section 584(c) is amended by adding at the
20 end the following new flush sentence:

21 “The proportionate share of each participant in the
22 amount of dividends received by the common trust fund
23 and to which section 1(h)(11) applies shall be considered
24 for purposes of such paragraph as having been received
25 by such participant.”.

1 (8) Paragraph (5) of section 702(a) is amended
2 to read as follows:

3 “(5) dividends with respect to which section
4 1(h)(11) or part VII of subchapter B applies,”.

5 (f) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to taxable years beginning after
7 December 31, 2002.

8 **SEC. 303. SUNSET OF TITLE.**

9 All provisions of, and amendments made by, this title
10 shall not apply to taxable years beginning after December
11 31, 2012, and the Internal Revenue Code of 1986 shall
12 be applied and administered to such years as if such provi-
13 sions and amendments had never been enacted.

14 **TITLE IV—CORPORATE ESTI-**
15 **MATED TAX PAYMENTS FOR**
16 **2003**

17 **SEC. 401. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
18 **TAXES.**

19 Notwithstanding section 6655 of the Internal Rev-
20 enue Code of 1986, 52 percent of the amount of any re-
21 quired installment of corporate estimated tax which is

- 1 otherwise due in September 2003 shall not be due until
- 2 October 1, 2003.

Passed the House of Representatives May 9, 2003.

Attest:

JEFF TRANDAHL,

Clerk.