

105TH CONGRESS
1ST SESSION

H. R. 549

To amend the Internal Revenue Code of 1986 to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1997

Ms. NORTON introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Government Reform and Oversight, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia.

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 “District of Columbia
5 Economic Recovery Act”.

1 **SEC. 2. LIMITATION ON INCOME TAX IMPOSED ON INDIVID-**
 2 **UALS WHO ARE RESIDENTS OF THE DISTRICT**
 3 **OF COLUMBIA.**

4 (a) IN GENERAL.—Subchapter A of chapter 1 of the
 5 Internal Revenue Code of 1986 (relating to determination
 6 of tax liability) is amended by adding at the end the fol-
 7 lowing new part:

8 **“PART VIII—LIMITATION ON TAX IMPOSED ON**
 9 **RESIDENTS OF THE DISTRICT OF COLUMBIA**

“Sec. 59B. Limitation on tax.

10 **“SEC. 59B. LIMITATION ON TAX.**

11 “(a) GENERAL RULE.—The net income tax of an in-
 12 dividual who is a resident of the District of Columbia for
 13 the taxable year shall not exceed the limitation determined
 14 under subsection (b) for such year.

15 “(b) LIMITATION.—The limitation determined under
 16 this subsection is the sum of the amounts determined
 17 under paragraphs (1) and (2).

18 “(1) 15-PERCENT RATE OF DISTRICT-SOURCED
 19 INCOME IN EXCESS OF EXEMPTION AMOUNT.—The
 20 amount determined under this paragraph is an
 21 amount equal to 15 percent of so much of District-
 22 sourced income as exceeds the exemption amount.

23 “(2) AVERAGE RATE OF NON-DISTRICT-
 24 SOURCED ADJUSTED GROSS INCOME.—The amount
 25 determined under this paragraph is an amount equal

1 to the average rate of the non-District-sourced ad-
2 justed gross income.

3 “(c) DEFINITIONS.—For purposes of this section—

4 “(1) RESIDENT OF DISTRICT OF COLUMBIA.—

5 An individual is a resident of the District of Colum-
6 bia for the taxable year if—

7 “(A) such individual used a residence in
8 the District of Columbia as a place of abode
9 (and was physically present at such place) for
10 at least 183 days of such taxable year, and

11 “(B) such individual files a District of Co-
12 lumbia income tax return for such taxable year.

13 “(2) NET INCOME TAX.—The term ‘net income
14 tax’ means—

15 “(A) the sum of regular tax liability and
16 the tax imposed by section 55 (determined with-
17 out regard to this section), reduced by

18 “(B) the aggregate credits allowable under
19 part IV (other than section 31).

20 “(3) EXEMPTION AMOUNT.—The term ‘exemp-
21 tion amount’ means—

22 “(A) \$30,000 in the case of a joint return
23 or a surviving spouse,

24 “(B) \$15,000 in the case of—

1 “(i) an individual who is not a mar-
2 ried individual and is not a surviving
3 spouse, and

4 “(ii) a married individual filing a sep-
5 arate return, and

6 “(C) \$25,000 in the case of a head of a
7 household.

8 “(4) AVERAGE RATE.—The term ‘average rate’
9 means the percentage determined by dividing—

10 “(A) the sum (determined without regard
11 to this section) of the taxpayer’s regular tax li-
12 ability and the tax imposed by section 55, by

13 “(B) the taxpayer’s taxable income.

14 If the percentage determined under the preceding
15 sentence is not a whole number of percentage points,
16 such percentage shall be rounded to the nearest
17 whole number of percentage points.

18 “(5) REGULAR TAX LIABILITY.—The term ‘reg-
19 ular tax liability’ has the meaning given to such
20 term by section 26(b).

21 “(d) DISTRICT-SOURCED INCOME.—For purposes of
22 this section, the term ‘District-sourced income’ means ad-
23 justed gross income reduced by the sum of—

24 “(1) non-District-sourced adjusted gross in-
25 come,

1 “(2) net capital gain determined by taking into
 2 account only gains and losses sourced in the District
 3 of Columbia,

4 “(3) the deduction allowed by section 170, and

5 “(4) the deduction allowed by section 163 to
 6 the extent attributable to qualified residence interest
 7 (as defined in section 163(h)).

8 “(e) NON-DISTRICT-SOURCED ADJUSTED GROSS IN-
 9 COME.—For purposes of this section, the term ‘non-Dist-
 10 rict-sourced adjusted gross income’ means gross income
 11 of the taxpayer from sources outside the District of Co-
 12 lumbia reduced (but not below zero) by the deductions
 13 taken into account in determining adjusted gross income
 14 which are allocable to such income.

15 “(f) SOURCES OF INCOME.—For purposes of this sec-
 16 tion—

17 “(1) RETIREMENT INCOME AND OTHER INCOME
 18 NOT SOURCED UNDER SUBSECTION.—The source of
 19 any income not specifically provided for in this sub-
 20 section shall be treated as from sources within the
 21 District of Columbia.

22 “(2) PERSONAL SERVICES.—

23 “(A) IN GENERAL.—Compensation (other
 24 than retirement income) for services performed

1 by the taxpayer as an employee, and net earn-
2 ings from self-employment (as defined in sec-
3 tion 1402)), shall be sourced at the place such
4 services are performed.

5 “(B) SERVICES PERFORMED IN WASHING-
6 TON-BALTIMORE AREA TREATED AS PER-
7 FORMED IN THE DISTRICT OF COLUMBIA.—
8 Services performed in the Washington-Balti-
9 more area shall be treated as performed in the
10 District of Columbia.

11 “(C) INDIVIDUALS PERFORMING 80 PER-
12 CENT OF SERVICES WITHIN WASHINGTON-BAL-
13 TIMORE AREA.—If, during any taxable year, at
14 least 80 percent of the hours of service per-
15 formed by an individual are performed within
16 the Washington-Baltimore area, all such service
17 shall be treated for purposes of this paragraph
18 as performed within the District of Columbia.

19 “(D) WASHINGTON-BALTIMORE AREA.—
20 For purposes of this paragraph, the term
21 ‘Washington-Baltimore area’ means the area
22 consisting of—

23 “(i) the Washington/Baltimore Con-
24 solidated Metropolitan Statistical Area (as

1 designated by the Office of Management
2 and Budget), and

3 “(ii) St. Mary’s County, Maryland.

4 “(3) INTEREST.—

5 “(A) IN GENERAL.—Interest received or
6 accrued during the taxable year shall be treated
7 as from sources outside the District of Colum-
8 bia.

9 “(B) EXCEPTION FOR SMALL AMOUNTS OF
10 NON-DISTRICT-SOURCED INTEREST.—Interest
11 which would (but for this subparagraph) be
12 treated as from sources outside the District of
13 Columbia shall be treated as from sources in
14 the District of Columbia to the extent the
15 amount of such interest does not exceed \$400.

16 “(C) EXCEPTION FOR INTEREST PAID BY
17 DISTRICT OF COLUMBIA BUSINESSES AND RESI-
18 DENTS.—

19 “(i) BUSINESSES.—In the case of in-
20 terest paid during a calendar year by a
21 debtor which was required to file (and
22 filed) a franchise tax return with the Dis-
23 trict of Columbia for the debtor’s taxable
24 year ending with or within the prior cal-
25 endar year, an amount equal to the D.C.

percentage (as shown on such return) of such interest shall be treated as from sources within the District of Columbia. The preceding sentence shall apply only if such percentage is furnished to the taxpayer in writing on or before January 31 of the year following the calendar year in which such interest is paid.

“(ii) OTHERS.—Interest shall be treated as from sources within the District of Columbia if the interest is paid during a calendar year by a debtor—

“(I) which was required to file (and filed) an income tax return with the District of Columbia for the debtor’s taxable year ending during the prior calendar year, and

“(II) which is not required to file a franchise tax return with the District of Columbia for such taxable year.

“(D) SPECIAL RULE FOR DETERMINATION OF D.C. PERCENTAGE FOR NEW BUSINESSES.— Interest shall be treated as from sources within the District of Columbia if the interest is paid

1 during a calendar year by a debtor which was
2 required to file (and filed) a franchise tax re-
3 turn with the District of Columbia for such
4 debtor's taxable year ending during such cal-
5 endar year, but which was not required to file
6 such a return for such debtor's prior taxable
7 year.

8 “(4) DIVIDENDS.—

9 “(A) IN GENERAL.—Dividends received or
10 accrued during the taxable year shall be treated
11 as from sources outside the District of Colum-
12 bia.

13 “(B) EXCEPTION FOR SMALL AMOUNTS OF
14 NON-DISTRICT-SOURCED DIVIDENDS.—Divi-
15 dends which would (but for this subparagraph)
16 be treated as from sources outside the District
17 of Columbia shall be treated as from sources in
18 the District of Columbia to the extent the
19 amount of such dividends do not exceed \$400.

20 “(C) EXCEPTION FOR DIVIDENDS PAID BY
21 CORPORATION ENGAGED IN BUSINESS IN THE
22 DISTRICT OF COLUMBIA.—In the case of divi-
23 dends paid during a calendar year by a corpora-
24 tion which was required to file (and filed) a

franchise tax return with the District of Columbia for the debtor's taxable year ending during the prior calendar year, an amount equal to the D.C. percentage (as shown on such return) of such dividends shall be treated as from sources within the District of Columbia. The preceding sentence shall apply only if such percentage is furnished to the taxpayer in writing on or before January 31 of the year following the calendar year in which such dividends are paid.

“(5) DISPOSITION OF TANGIBLE PROPERTY.—

Income, gain, or loss from the disposition of tangible property shall be sourced to the place such property is located at the time of the disposition.

“(6) DISPOSITION OF INTANGIBLE PROPERTY.—

“(A) IN GENERAL.—Income, gain, or loss from the disposition of intangible property shall be treated as from sources outside the District of Columbia.

“(B) EXCEPTION.— If any portion of the most recent income received or accrued before such disposition which was attributable to such property was from sources within the District of Columbia, a like portion of the income, gain,

1 or loss from such disposition shall be treated as
2 from sources within the District of Columbia.

3 “(7) RENTALS.—Rents from property shall be
4 sourced at the place where such property is located.

5 “(8) ROYALTIES.—Royalties shall be treated as
6 from sources outside the District of Columbia.

7 “(9) INCOME FROM PROPRIETORSHIP.—

8 “(A) IN GENERAL.—In the case of a trade
9 or business carried on by the taxpayer as a pro-
10 prietorship, income from such trade or business
11 (other than income which is included in net
12 earnings from self-employment by the taxpayer)
13 shall be treated as from sources outside the
14 District of Columbia.

15 “(B) EXCEPTION FOR DISTRICT OF CO-
16 LUMBIA BUSINESSES.—If the taxpayer is re-
17 quired to file (and files) a franchise tax return
18 with the District of Columbia for the taxable
19 year, subparagraph (A) shall not apply to an
20 amount equal to the D.C. percentage of such
21 income.

22 “(10) INCOME FROM PARTNERSHIPS AND S
23 CORPORATIONS.—

1 “(A) PARTNERSHIPS.—In the case of a
2 taxpayer who is a partner in a partnership, in-
3 come from such partnership (other than income
4 which is included in net earnings from self-em-
5 ployment by any partner) shall be treated as
6 from sources outside the District of Columbia.

7 “(B) EXCEPTIONS.—

8 “(i) Subparagraph (A) shall not apply
9 to a partnership which was required to file
10 (and filed) a franchise tax return with the
11 District of Columbia for the partnership’s
12 taxable year ending with or within the tax-
13 payer’s taxable year to the extent of the
14 D.C. percentage of the taxpayer’s distribu-
15 tive share of the partnership income.

16 “(ii) Subparagraph (A) shall not
17 apply to a partnership which was not re-
18 quired to file a franchise tax return with
19 the District of Columbia for the partner-
20 ship’s taxable year ending with or within
21 the taxpayer’s taxable year to the extent of
22 the taxpayer’s distributive share of part-
23 nership income which is not (as determined
24 under this subsection) from sources outside
25 the District of Columbia.

1 “(C) S CORPORATIONS.—Rules similar to
2 the rules of this paragraph shall apply to share-
3 holders of an S corporation.

4 “(11) INCOME IN RESPECT OF A DECEDENT;
5 INCOME FROM AN ESTATE.—Income in respect of a
6 decedent, and income from an estate, shall be
7 sourced at the place where the decedent was domi-
8 ciled at the time of his death.

9 “(12) INCOME FROM A TRUST.—Income (other
10 than retirement income) from a trust shall be treat-
11 ed as from the same sources as the income of the
12 trust to which it is attributable.

13 “(g) DEFINITIONS RELATING TO SUBSECTION (f).—
14 For purposes of subsection (f)—

15 “(1) RETIREMENT INCOME.—The term ‘retire-
16 ment income’ has the meaning given such term by
17 section 114(b)(1) of title 4, United States Code (de-
18 termined without regard to subparagraph (I) there-
19 of).

20 “(2) D.C. PERCENTAGE.—The term ‘D.C. per-
21 centage’ means the percentage determined by divid-
22 ing—

23 “(A) the net income taxable in the District
24 of Columbia (as shown on the original return
25 for the taxable year), by

1 “(B) total net income from all sources (as
2 shown on such return).

3 The preceding sentence shall be applied based on
4 amounts shown on the original applicable District of
5 Columbia franchise or income tax return.

6 “(h) SECTION NOT TO APPLY TO ESTATES AND
7 TRUSTS.—This section shall not apply to an estate or
8 trust.

9 “(i) REGULATIONS.—The Secretary shall prescribe
10 such regulations as may be necessary or appropriate to
11 carry out the purposes of this section, including regula-
12 tions to prevent the abuse of the purposes of this section
13 through the manipulation of the rules of subsection (f) by
14 means of personal service corporations or otherwise.”

15 (b) CONFORMING AMENDMENTS.—

16 (1) Paragraph (1) of section 55(c) of such Code
17 is amended by adding at the end the following:

18 “Such regular tax shall be determined without re-
19 gard to section 59B.”

20 (2) The table of parts for subchapter A of chap-
21 ter 1 of such Code is amended by adding at the end
22 the following new item:

 “Part VIII. Limitation on tax imposed on residents of the District
 of Columbia.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years ending after the
3 date of the enactment of this Act.

4 **SEC. 3. ANNUAL TREASURY STUDY ON IMPACT OF TAX RE-**
5 **DUCTIONS FOR RESIDENTS OF DISTRICT OF**
6 **COLUMBIA.**

7 (a) IN GENERAL.—The Secretary of the Treasury or
8 his delegate shall conduct an annual study of the impact
9 of part VIII of subchapter A of chapter 1 of the Internal
10 Revenue Code of 1986 (relating to limitation on tax im-
11 posed on residents of the District of Columbia) on the
12 economy of the District of Columbia. In determining such
13 impact, the study shall include an evaluation of changes
14 in the following (among others):

15 (1) The number and characteristics of individ-
16 uals who are residents of the District of Columbia
17 who claim the benefits provided by such part and
18 the number and characteristics of such individuals
19 who choose not to claim such benefits.

20 (2) Investment in the District of Columbia.

21 (3) Capital gain net income of such individuals
22 determined for property within the District of Co-
23 lumbia.

24 (4) Tax revenues to the District of Columbia.

1 (5) The number of new businesses in the Dis-
2 trict of Columbia, the number and size of establish-
3 ments in the District of Columbia, and the growth
4 of existing businesses as measured by growth in em-
5 ployment and taxes payable to the District of Co-
6 lumbia.

7 (6) The number and characteristics of house-
8 holds residing in the District of Columbia.

9 (7) The employment and earnings of individuals
10 who are residents of the District of Columbia.

11 (8) Changes in the characteristics of employ-
12 ment within the District of Columbia, including the
13 proportion of jobs in the District of Columbia which
14 are held by residents of the District of Columbia.

15 (9) Home sales and residential rental activity in
16 the District of Columbia, by price levels of the prop-
17 erty involved.

18 (10) Tax structure in the District of Columbia,
19 including incentives for businesses to operate in the
20 District of Columbia.

21 (11) The number and characteristics of Federal
22 income tax filers (by filing and income category)
23 claiming deductions for charitable contributions,
24 home mortgage interest, and investment interest.

1 (12) Comparable factors, by jurisdiction, for
2 other governmental jurisdictions within the Wash-
3 ington metropolitan statistical area.

4 (b) REPORTS.—The report of each such study shall
5 be submitted to—

6 (1) the Committee on Ways and Means, and
7 the Committee on Governmental Reform and Over-
8 sight, of the House of Representatives, and

9 (2) the Committee on Finance, and the Com-
10 mittee on Governmental Affairs, of the Senate.

11 (c) BASELINE.—As soon as practical after the date
12 of the enactment of this Act, the Secretary of the Treasury
13 or his delegate shall collect baseline data for purposes of
14 the study under subsection (a).

○