

106TH CONGRESS  
1ST SESSION

# S. 283

To amend the Internal Revenue Code of 1986 to provide a partial exclusion from gross income for dividends and interest received by individuals.

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## IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1999

Mr. MCCAIN 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 provide a partial exclusion from gross income for dividends and interest 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. SHORT TITLE.**

4       This Act may be cited as the “Middle-Income Savings  
5       and Investment Act of 1999”.

6       **SEC. 2. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND**  
7       **INCOME FROM TAX.**

8       (a) IN GENERAL.—Part III of subchapter B of chap-  
9       ter 1 of the Internal Revenue Code of 1986 (relating to  
10       amounts specifically excluded from gross income) is

1 amended by inserting after section 115 the following new  
 2 section:

3 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**  
 4 **EST RECEIVED BY INDIVIDUALS.**

5 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-  
 6 come does not include the sum of the amounts received  
 7 during the taxable year by an individual as—

8 “(1) dividends from domestic corporations, or

9 “(2) interest.

10 “(b) LIMITATIONS.—

11 “(1) MAXIMUM AMOUNT.—The aggregate  
 12 amount excluded under subsection (a) for any tax-  
 13 able year shall not exceed \$200 (\$400 in the case of  
 14 a joint return).

15 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-  
 16 section (a)(1) shall not apply to any dividend from  
 17 a corporation which, for the taxable year of the cor-  
 18 poration in which the distribution is made, or for the  
 19 next preceding taxable year of the corporation, is a  
 20 corporation exempt from tax under section 501 (re-  
 21 lating to certain charitable, etc., organization) or  
 22 section 521 (relating to farmers’ cooperative associa-  
 23 tions).

24 “(c) INTEREST.—For purposes of this section, the  
 25 term ‘interest’ means—

1           “(1) interest on deposits with a bank (as de-  
2       fined in section 581),

3           “(2) amounts (whether or not designated as in-  
4       terest) paid in respect of deposits, investment certifi-  
5       cates, or withdrawable or repurchasable shares, by—

6           “(A) a mutual savings bank, cooperative  
7       bank, domestic building and loan association,  
8       industrial loan association or bank, or credit  
9       union, or

10          “(B) any other savings or thrift institution  
11       which is chartered and supervised under Fed-  
12       eral or State law,

13       the deposits or accounts in which are insured under  
14       Federal or State law or which are protected and  
15       guaranteed under State law,

16          “(3) interest on—

17          “(A) evidences of indebtedness (including  
18       bonds, debentures, notes, and certificates)  
19       issued by a domestic corporation in registered  
20       form, and

21          “(B) to the extent provided in regulations  
22       prescribed by the Secretary, other evidences of  
23       indebtedness issued by a domestic corporation  
24       of a type offered by corporations to the public,

1 “(4) interest on obligations of the United  
 2 States, a State, or a political subdivision of a State  
 3 (not excluded from gross income of the taxpayer  
 4 under any other provision of law), and

5 “(5) interest attributable to participation shares  
 6 in a trust established and maintained by a corpora-  
 7 tion established pursuant to Federal law.

8 “(d) SPECIAL RULES.—For purposes of this  
 9 section—

10 “(1) DISTRIBUTIONS FROM REGULATED IN-  
 11 VESTMENT COMPANIES AND REAL ESTATE INVEST-  
 12 MENT TRUSTS.—Subsection (a) shall apply with re-  
 13 spect to distributions by—

14 “(A) regulated investment companies to  
 15 the extent provided in section 854(c), and

16 “(B) real estate investment trusts to the  
 17 extent provided in section 857(c).

18 “(2) DISTRIBUTIONS BY A TRUST.—For pur-  
 19 poses of subsection (a), the amount of dividends and  
 20 interest properly allocable to a beneficiary under sec-  
 21 tion 652 or 662 shall be deemed to have been re-  
 22 ceived by the beneficiary ratably on the same date  
 23 that the dividends and interest were received by the  
 24 estate or trust.

1           “(3) CERTAIN NONRESIDENT ALIENS INELI-  
 2           GIBLE FOR EXCLUSION.—In the case of a non-  
 3           resident alien individual, subsection (a) shall apply  
 4           only—

5                   “(A) in determining the tax imposed for  
 6           the taxable year pursuant to section 871(b)(1)  
 7           and only in respect of dividends and interest  
 8           which are effectively connected with the conduct  
 9           of a trade or business within the United States,  
 10          or

11                   “(B) in determining the tax imposed for  
 12          the taxable year pursuant to section 877(b).”.

13          (b) CONFORMING AMENDMENTS.—

14           (1) The table of sections for part III of sub-  
 15          chapter B of chapter 1 of such Code is amended by  
 16          inserting after the item relating to section 115 the  
 17          following new item:

                  “Sec. 116. Partial exclusion of dividends and interest received by  
   individuals.”.

18           (2) Paragraph (2) of section 265(a) of such  
 19          Code is amended by inserting before the period at  
 20          the end the following: “, or to purchase or carry ob-  
 21          ligations or shares, or to make deposits, to the ex-  
 22          tent the interest thereon is excludable from gross in-  
 23          come under section 116”.

1           (3) Subsection (c) of section 584 of such Code  
 2           is amended by adding at the end the following new  
 3           flush sentence:

4           “The proportionate share of each participant in the  
 5           amount of dividends or interest received by the common  
 6           trust fund and to which section 116 applies shall be con-  
 7           sidered for purposes of such section as having been re-  
 8           ceived by such participant.”.

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

13                 “(7) DIVIDENDS OR INTEREST.—There shall be  
 14                 included the amount of any dividends or interest ex-  
 15                 cluded from gross income pursuant to section 116.”.

16          (5) Section 854 of such Code is amended by  
 17          adding at the end the following new subsection:

18                 “(c) TREATMENT UNDER SECTION 116.—

19                         “(1) IN GENERAL.—For purposes of section  
 20                         116, in the case of any dividend (other than a divi-  
 21                         dend described in subsection (a)) received from a  
 22                         regulated investment company which meets the re-  
 23                         quirements of section 852 for the taxable year in  
 24                         which it paid the dividend—

1           “(A) the entire amount of such dividend  
2           shall be treated as a dividend if the sum of the  
3           aggregate dividends and the aggregate interest  
4           received by such company during the taxable  
5           year equals or exceeds 75 percent of its gross  
6           income, or

7           “(B) if subparagraph (A) does not apply,  
8           there shall be taken into account under section  
9           116 only the portion of such dividend which  
10          bears the same ratio to the amount of such div-  
11          idend as the sum of the aggregate dividends re-  
12          ceived and aggregate interest received bears to  
13          gross income.

14          For purposes of the preceding sentence, gross in-  
15          come and aggregate interest received shall each be  
16          reduced by so much of the deduction allowable by  
17          section 163 for the taxable year as does not exceed  
18          aggregate interest received for the taxable year.

19          “(2) NOTICE TO SHAREHOLDERS.—The amount  
20          of any distribution by a regulated investment com-  
21          pany which may be taken into account as a dividend  
22          for purposes of the exclusion under section 116 shall  
23          not exceed the amount so designated by the com-  
24          pany in a written notice to its shareholders mailed

1 not later than 60 days after the close of its taxable  
 2 year.

3 “(3) DEFINITIONS.—For purposes of this  
 4 subsection—

5 “(A) The term ‘gross income’ does not in-  
 6 clude gain from the sale or other disposition of  
 7 stock or securities.

8 “(B) The term ‘aggregate dividends’ in-  
 9 cludes only dividends received from domestic  
 10 corporations other than dividends described in  
 11 section 116(b)(2). In determining the amount  
 12 of any dividend for purposes of this subpara-  
 13 graph, the rules provided in section 116(d)(1)  
 14 (relating to certain distributions) shall apply.

15 “(C) The term ‘interest’ has the meaning  
 16 given such term by section 116(c).”.

17 (6) Subsection (c) of section 857 of such Code  
 18 is amended to read as follows:

19 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-  
 20 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

21 “(1) IN GENERAL.—For purposes of section  
 22 116 (relating to an exclusion for dividends and inter-  
 23 est received by individuals) and section 243 (relating  
 24 to deductions for dividends received by corpora-  
 25 tions), a dividend received from a real estate invest-



1       ment trust which meets the requirements of this  
2       part shall not be considered as a dividend.

3               “(2) TREATMENT AS INTEREST.—For purposes  
4       of section 116, in the case of a dividend (other than  
5       a capital gain dividend, as defined in subsection  
6       (b)(3)(C)) received from a real estate investment  
7       trust which meets the requirements of this part for  
8       the taxable year in which it paid the dividend—

9               “(A) such dividend shall be treated as in-  
10       terest if the aggregate interest received by the  
11       real estate investment trust for the taxable year  
12       equals or exceeds 75 percent of its gross in-  
13       come, or

14              “(B) if subparagraph (A) does not apply,  
15       the portion of such dividend which bears the  
16       same ratio to the amount of such dividend as  
17       the aggregate interest received bears to gross  
18       income shall be treated as interest.

19              “(3) ADJUSTMENTS TO GROSS INCOME AND AG-  
20       GREGATE INTEREST RECEIVED.—For purposes of  
21       paragraph (2)—

22              “(A) gross income does not include the net  
23       capital gain,

24              “(B) gross income and aggregate interest  
25       received shall each be reduced by so much of

1 the deduction allowable by section 163 for the  
2 taxable year (other than for interest on mort-  
3 gages on real property owned by the real estate  
4 investment trust) as does not exceed aggregate  
5 interest received by the taxable year, and

6 “(C) gross income shall be reduced by the  
7 sum of the taxes imposed by paragraphs (4),  
8 (5), and (6) of section 857(b).

9 “(4) INTEREST.—The term ‘interest’ has the  
10 meaning given such term by section 116(c).

11 “(5) NOTICE TO SHAREHOLDERS.—The amount  
12 of any distribution by a real estate investment trust  
13 which may be taken into account as interest for pur-  
14 poses of the exclusion under section 116 shall not  
15 exceed the amount so designated by the trust in a  
16 written notice to its shareholders mailed not later  
17 than 60 days after the close of its taxable year.”.

18 (c) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 1998.

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