

106TH CONGRESS
1ST SESSION

S. 593

To amend the Internal Revenue Code of 1986 to increase the maximum taxable income for the 15 percent rate bracket, to provide a partial exclusion from gross income for dividends and interest received by individuals, to provide a long-term capital gains deduction for individuals, to increase the traditional IRA contribution limit, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 11, 1999

Mr. COVERDELL (for himself, Mr. TORRICELLI, and Mr. ABRAHAM) 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 increase the maximum taxable income for the 15 percent rate bracket, to provide a partial exclusion from gross income for dividends and interest received by individuals, to provide a long-term capital gains deduction for individuals, to increase the traditional IRA contribution limit, and for other purposes.

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.**

2 This Act may be cited as the “Small Savers Act of
3 1999”.

4 **SEC 2. INCREASE IN MAXIMUM TAXABLE INCOME FOR 15**
5 **PERCENT RATE BRACKET.**

6 Section 1(f) of the Internal Revenue Code of 1986
7 (relating to adjustments in tax tables so that inflation will
8 not result in tax increases) is amended—

9 (1) in paragraph (2)—

10 (A) by redesignating subparagraphs (B)
11 and (C) as subparagraphs (C) and (D),

12 (B) by inserting after subparagraph (A)
13 the following:

14 “(B) in the case of the tables contained in
15 subsections (a), (b), (c), and (d), by increasing
16 the maximum taxable income level for the 15
17 percent rate bracket and the minimum taxable
18 income level for the 28 percent rate bracket
19 otherwise determined under subparagraph (A)
20 for taxable years beginning in any calendar year
21 after 1999, by the applicable dollar amount for
22 such calendar year,” and

23 (C) by striking “subparagraph (A)” in
24 subparagraph (C) (as so redesignated) and in-
25 serting “subparagraphs (A) and (B)”, and

26 (2) by adding at the end the following:

1 “(8) APPLICABLE DOLLAR AMOUNT.—For pur-
 2 poses of paragraph (2)(B), the applicable dollar
 3 amount for any calendar year shall be determined as
 4 follows:

5 “(A) JOINT RETURNS AND SURVIVING
 6 SPOUSES.—In the case of the table contained in
 7 subsection (a)—

“Calendar year:	Applicable Dollar Amount:
2000	\$2,000
2001	\$4,000
2002	\$6,000
2003	\$8,000
2004 and thereafter	\$10,000.

8 “(B) OTHER TABLES.—In the case of the
 9 table contained in subsection (b), (c), or (d)—

“Calendar year:	Applicable Dollar Amount:
2000	\$1,000
2001	\$2,000
2002	\$3,000
2003	\$4,000
2004 and thereafter	\$5,000.”

10 **SEC. 3. PARTIAL EXCLUSION OF DIVIDENDS AND INTEREST**
 11 **RECEIVED BY INDIVIDUALS.**

12 (a) IN GENERAL.—Part III of subchapter B of chap-
 13 ter 1 of the Internal Revenue Code of 1986 (relating to
 14 amounts specifically excluded from gross income) is
 15 amended by inserting after section 115 the following new
 16 section:

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

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

6 “(1) dividends from domestic corporations, or

7 “(2) interest.

8 “(b) LIMITATIONS.—

9 “(1) MAXIMUM AMOUNT.—The aggregate
 10 amount excluded under subsection (a) for any tax-
 11 able year shall not exceed \$250 (\$500 in the case of
 12 a joint return).

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

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

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

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

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

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

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

14 “(3) interest on—

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

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

23 “(4) interest on obligations of the United
24 States, a State, or a political subdivision of a State

1 (not excluded from gross income of the taxpayer
 2 under any other provision of law), and

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

6 “(d) SPECIAL RULES.—For purposes of this
 7 section—

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

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

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

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

23 “(3) CERTAIN NONRESIDENT ALIENS INELI-
 24 GIBLE FOR EXCLUSION.—In the case of a non-

1 resident alien individual, subsection (a) shall apply
 2 only—

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

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

11 (b) CONFORMING AMENDMENTS.—

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

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

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

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

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

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

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

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

15 “(c) TREATMENT UNDER SECTION 116.—

16 “(1) IN GENERAL.—For purposes of section
 17 116, in the case of any dividend (other than a divi-
 18 dend described in subsection (a)) received from a
 19 regulated investment company which meets the re-
 20 quirements of section 852 for the taxable year in
 21 which it paid the dividend—

22 “(A) the entire amount of such dividend
 23 shall be treated as a dividend if the sum of the
 24 aggregate dividends and the aggregate interest
 25 received by such company during the taxable

1 year equals or exceeds 75 percent of its gross
2 income, or

3 “(B) if subparagraph (A) does not apply,
4 there shall be taken into account under section
5 116 only the portion of such dividend which
6 bears the same ratio to the amount of such div-
7 idend as the sum of the aggregate dividends re-
8 ceived and aggregate interest received bears to
9 gross income.

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

15 “(2) NOTICE TO SHAREHOLDERS.—The amount
16 of any distribution by a regulated investment com-
17 pany which may be taken into account as a dividend
18 for purposes of the exclusion under section 116 shall
19 not exceed the amount so designated by the com-
20 pany in a written notice to its shareholders mailed
21 not later than 60 days after the close of its taxable
22 year.

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

1 “(A) GROSS INCOME.—The term ‘gross in-
 2 come’ does not include gain from the sale or
 3 other disposition of stock or securities.

4 “(B) AGGREGATE DIVIDENDS.—The term
 5 ‘aggregate dividends’ includes only dividends re-
 6 ceived from domestic corporations other than
 7 dividends described in section 116(b)(2). In de-
 8 termining the amount of any dividend for pur-
 9 poses of this subparagraph, the rules provided
 10 in section 116(d)(1) (relating to certain dis-
 11 tributions) shall apply.

12 “(C) INTEREST.—The term ‘interest’ has
 13 the meaning given such term by section
 14 116(c).”.

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

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

19 “(1) IN GENERAL.—For purposes of section
 20 116 (relating to an exclusion for dividends and inter-
 21 est received by individuals) and section 243 (relating
 22 to deductions for dividends received by corpora-
 23 tions), a dividend received from a real estate invest-
 24 ment trust which meets the requirements of this
 25 part shall not be considered as a dividend.

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

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

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

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

20 “(A) gross income does not include the net
 21 capital gain,

22 “(B) gross income and aggregate interest
 23 received shall each be reduced by so much of
 24 the deduction allowable by section 163 for the
 25 taxable year (other than for interest on mort-

1 gages on real property owned by the real estate
 2 investment trust) as does not exceed aggregate
 3 interest received by the taxable year, and

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

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

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

16 (c) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 1999.

19 **SEC. 4. LONG-TERM CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.**
 20

21 (a) GENERAL RULE.—Part I of subchapter P of
 22 chapter 1 of the Internal Revenue Code of 1986 (relating
 23 to treatment of capital gains) is amended by redesignating
 24 section 1202 as section 1203 and by inserting after section
 25 1201 the following new section:

1 **“SEC. 1202. CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.**

2 “(a) IN GENERAL.—In the case of an individual,
3 there shall be allowed as a deduction for the taxable year
4 an amount equal to the lesser of—

5 “(1) the net capital gain of the taxpayer for the
6 taxable year, or

7 “(2) \$5,000.

8 “(b) SALES BETWEEN RELATED PARTIES.—Gains
9 from sales and exchanges to any related person (within
10 the meaning of section 267(b) or 707(b)(1)) shall not be
11 taken into account in determining net capital gain.

12 “(c) SPECIAL RULE FOR SECTION 1250 PROP-
13 ERTY.—Solely for purposes of this section, in applying sec-
14 tion 1250 to any disposition of section 1250 property, all
15 depreciation adjustments in respect of the property shall
16 be treated as additional depreciation.

17 “(d) SECTION NOT TO APPLY TO CERTAIN TAX-
18 PAYERS.—No deduction shall be allowed under this section
19 to—

20 “(1) an individual with respect to whom a de-
21 duction under section 151 is allowable to another
22 taxpayer for a taxable year beginning in the cal-
23 endar year in which such individual’s taxable year
24 begins,

1 “(2) a married individual (within the meaning
2 of section 7703) filing a separate return for the tax-
3 able year, or

4 “(3) an estate or trust.

5 “(e) SPECIAL RULE FOR PASS-THRU ENTITIES.—

6 “(1) IN GENERAL.—In applying this section
7 with respect to any pass-thru entity, the determina-
8 tion of when the sale or exchange occurs shall be
9 made at the entity level.

10 “(2) PASS-THRU ENTITY DEFINED.—For pur-
11 poses of paragraph (1), the term ‘pass-thru entity’
12 means—

13 “(A) a regulated investment company,

14 “(B) a real estate investment trust,

15 “(C) an S corporation,

16 “(D) a partnership,

17 “(E) an estate or trust, and

18 “(F) a common trust fund.”

19 (b) COORDINATION WITH MAXIMUM CAPITAL GAINS
20 RATE.—Paragraph (3) of section 1(h) of the Internal Rev-
21 enue Code of 1986 (relating to maximum capital gains
22 rate) is amended to read as follows:

23 “(3) COORDINATION WITH OTHER PROVI-
24 SIONS.—For purposes of this subsection, the amount

1 of the net capital gain shall be reduced (but not
2 below zero) by the sum of—

3 “(A) the amount of the net capital gain
4 taken into account under section 1202(a) for
5 the taxable year, plus

6 “(B) the amount which the taxpayer elects
7 to take into account as investment income for
8 the taxable year under section
9 163(d)(4)(B)(iii).”

10 (c) DEDUCTION ALLOWABLE IN COMPUTING AD-
11 JUSTED GROSS INCOME.—Subsection (a) of section 62
12 (defining adjusted gross income) is amended by inserting
13 after paragraph (17) the following new paragraph:

14 “(18) LONG-TERM CAPITAL GAINS.—The de-
15 duction allowed by section 1202.”

16 (d) TREATMENT OF COLLECTIBLES.—

17 (1) IN GENERAL.—Section 1222 of the Internal
18 Revenue Code of 1986 (relating to other terms relat-
19 ing to capital gains and losses) is amended by in-
20 serting after paragraph (11) the following new para-
21 graph:

22 “(12) SPECIAL RULE FOR COLLECTIBLES.—

23 “(A) IN GENERAL.—Any gain or loss from
24 the sale or exchange of a collectible shall be
25 treated as a short-term capital gain or loss (as

the case may be), without regard to the period such asset was held. The preceding sentence shall apply only to the extent the gain or loss is taken into account in computing taxable income.

“(B) TREATMENT OF CERTAIN SALES OF INTEREST IN PARTNERSHIP, ETC.—For purposes of subparagraph (A), any gain from the sale or exchange of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles held by such entity shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751(f) shall apply for purposes of the preceding sentence.

“(C) COLLECTIBLE.—For purposes of this paragraph, the term ‘collectible’ means any capital asset which is a collectible (as defined in section 408(m) without regard to paragraph (3) thereof).”

(2) CHARITABLE DEDUCTION NOT AFFECTED.—

(A) Paragraph (1) of section 170(e) of such Code is amended by adding at the end the following new sentence: “For purposes of this

1 paragraph, section 1222 shall be applied with-
 2 out regard to paragraph (12) thereof (relating
 3 to special rule for collectibles).”

4 (B) Clause (iv) of section 170(b)(1)(C) of
 5 such Code is amended by inserting before the
 6 period at the end the following: “and section
 7 1222 shall be applied without regard to para-
 8 graph (12) thereof (relating to special rule for
 9 collectibles)”.

10 (e) CONFORMING AMENDMENTS.—

11 (1) Section 57(a)(7) of the Internal Revenue
 12 Code of 1986 is amended by striking “1202” and in-
 13 serting “1203”.

14 (2) Clause (iii) of section 163(d)(4)(B) of such
 15 Code is amended to read as follows:

16 “(iii) the sum of—

17 “(I) the portion of the net capital
 18 gain referred to in clause (ii)(II) (or,
 19 if lesser, the net capital gain referred
 20 to in clause (ii)(I)) taken into account
 21 under section 1202, reduced by the
 22 amount of the deduction allowed with
 23 respect to such gain under section
 24 1202, plus

1 “(II) so much of the gain de-
2 scribed in subclause (I) which is not
3 taken into account under section 1202
4 and which the taxpayer elects to take
5 into account under this clause.”

6 (3) Subparagraph (B) of section 172(d)(2) of
7 such Code is amended to read as follows:

8 “(B) the deduction under section 1202 and
9 the exclusion under section 1203 shall not be
10 allowed.”

11 (4) Section 642(c)(4) of such Code is amended
12 by striking “1202” and inserting “1203”.

13 (5) Section 643(a)(3) of such Code is amended
14 by striking “1202” and inserting “1203”.

15 (6) Paragraph (4) of section 691(c) of such
16 Code is amended inserting “1203,” after “1202,”.

17 (7) The second sentence of section 871(a)(2) of
18 such Code is amended by inserting “or 1203” after
19 “section 1202”.

20 (8) The last sentence of section 1044(d) of such
21 Code is amended by striking “1202” and inserting
22 “1203”.

23 (9) Paragraph (1) of section 1402(i) of such
24 Code is amended by inserting “, and the deduction
25 provided by section 1202 and the exclusion provided

1 by section 1203 shall not apply” before the period
 2 at the end.

3 (10) Section 121 of such Code is amended by
 4 adding at the end the following new subsection:

5 “(h) CROSS REFERENCE.—

**“For treatment of eligible gain not excluded under
 subsection (a), see section 1202.”**

6 (11) Section 1203 of such Code, as redesign-
 7 nated by subsection (a), is amended by adding at the
 8 end the following new subsection:

9 “(l) CROSS REFERENCE.—

**“For treatment of eligible gain not excluded under
 subsection (a), see section 1202.”**

10 (12) The table of sections for part I of sub-
 11 chapter P of chapter 1 of such Code is amended by
 12 striking the item relating to section 1202 and by in-
 13 serting after the item relating to section 1201 the
 14 following new items:

“Sec. 1202. Capital gains deduction.

“Sec. 1203. 50-percent exclusion for gain from certain small
 business stock.”

15 (f) EFFECTIVE DATES.—

16 (1) IN GENERAL.—Except as provided in para-
 17 graph (2), the amendments made by this section
 18 shall apply to taxable years beginning after Decem-
 19 ber 31, 1999.

1 (2) COLLECTIBLES.—The amendments made by
 2 subsection (d) shall apply to sales and exchanges
 3 after December 31, 1999.

4 **SEC. 5. INCREASE IN CONTRIBUTION LIMITS FOR TRADI-**
 5 **TIONAL IRAS.**

6 (a) INCREASE IN CONTRIBUTION LIMIT.—Paragraph
 7 (1)(A) of section 219(b) of the Internal Revenue Code of
 8 1986 (relating to maximum amount of deduction) is
 9 amended by striking “\$2,000” and inserting “\$3,000”.

10 (b) INFLATION ADJUSTMENT.—Section 219 of the
 11 Internal Revenue Code of 1986 (relating to deduction for
 12 retirement savings) is amended by redesignating sub-
 13 section (h) as subsection (i) and by inserting after sub-
 14 section (g) the following new subsection:

15 “(h) COST-OF-LIVING ADJUSTMENT.—

16 “(1) DEDUCTIBLE AMOUNTS.—In the case of
 17 any taxable year beginning in a calendar year after
 18 2009, the \$3,000 amount under subsection (b)(1)(A)
 19 shall be increased by an amount equal to—

20 “(A) such dollar amount, multiplied by

21 “(B) the cost-of-living adjustment deter-
 22 mined under section 1(f)(3) for the calendar
 23 year in which the taxable year begins, deter-
 24 mined by substituting ‘calendar year 2008’ for

1 ‘calendar year 1992’ in subparagraph (B)
2 thereof.

3 “(2) ROUNDING RULES.—If any amount after
4 adjustment under paragraph (1) is not a multiple of
5 \$100, such amount shall be rounded to the next
6 lower multiple of \$100.”

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 408(a)(1) is amended by striking
9 “in excess of \$2,000 on behalf of any individual”
10 and inserting “on behalf of any individual in excess
11 of the amount in effect for such taxable year under
12 section 219(b)(1)(A)”.

13 (2) Section 408(b)(2)(B) is amended by strik-
14 ing “\$2,000” and inserting “the dollar amount in
15 effect under section 219(b)(1)(A)”.

16 (3) Section 408(b) is amended by striking
17 “\$2,000” in the matter following paragraph (4) and
18 inserting “the dollar amount in effect under section
19 219(b)(1)(A)”.

20 (4) Section 408(j) is amended by striking
21 “\$2,000”.

22 (5) Section 408(p)(8) is amended by striking
23 “\$2,000” and inserting “the dollar amount in effect
24 under section 219(b)(1)(A)”

1 (6) Section 408A(c)(2)(A) of such Code is
2 amended to read as follows:

3 “(A) \$2,000, over”.

4 (d) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 1999.

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