

107TH CONGRESS  
2D SESSION

# S. 3

To repeal the sunset of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

NOVEMBER 19, 2002

Mr. KYL introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To repeal the sunset of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, 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,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Contract With Inves-  
5       tors”.

6       **SEC. 2. REPEAL OF SUNSET.**

7       Title IX of the Economic Growth and Tax Relief Rec-  
8       onciliation Act of 2001 (Public Law 107–16) is repealed.

1 **SEC. 3. ACCELERATION OF INDIVIDUAL INCOME TAX RATE**  
 2 **REDUCTIONS.**

3 (a) IN GENERAL.—The table contained in section  
 4 1(i)(2) of the Internal Revenue Code of 1986 (relating to  
 5 reductions in rates after June 30, 2001) is amended—

6 (1) by striking “and 2003”,

7 (2) by striking “2004 and 2005” and inserting  
 8 “2003”, and

9 (3) by striking “2006” and inserting “2004”.

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

13 **SEC. 4. REPEAL OF ESTATE AND GENERATION-SKIPPING**  
 14 **TRANSFER TAXES ACCELERATED TO 2005.**

15 (a) ESTATE TAX REPEAL.—Section 2210 of the In-  
 16 ternal Revenue Code of 1986 (relating to termination) is  
 17 amended—

18 (1) by striking “December 31, 2009” and in-  
 19 serting “December 31, 2004” both places it appears,

20 (2) by striking “January 1, 2010” in subsection

21 (b) and inserting “January 1, 2005”, and

22 (3) by striking “December 31, 2020” in sub-  
 23 section (b)(1) and inserting “December 31, 2014”.

24 (b) GENERATION-SKIPPING TRANSFER TAX RE-  
 25 PEAL.—Section 2664 of such Code (relating to termi-

1 nation) is amended by striking “December 31, 2009” and  
 2 inserting “December 31, 2004”.

3 (c) CONFORMING AMENDMENTS.—

4 (1) The table contained in section 2010(c) of  
 5 such Code is amended—

6 (A) by striking “and 2005”,

7 (B) by inserting a period after  
 8 “\$1,500,000”, and

9 (C) by striking the last 2 items.

10 (2) Section 1014(f) of such Code is amended by  
 11 striking “December 31, 2009” and inserting  
 12 “December 31, 2004”.

13 (3) Section 1022 of such Code is amended—

14 (A) by striking “December 31, 2009” in  
 15 the heading and in subsection (a)(1) and insert-  
 16 ing “December 31, 2004”, and

17 (B) in subsection (d)(4)(A)—

18 (i) by striking “2010” and inserting  
 19 “2005”,

20 (ii) by striking “2009” in clause (ii)  
 21 and inserting “2004”.

22 (4) The table contained in section  
 23 2001(c)(2)(B) of such Code is amended—

24 (A) by inserting a period after “48 per-  
 25 cent”, and

1 (B) by striking the last 3 items.

2 (5) Section 2001(c)(2)(A) of such Code is  
3 amended by striking “2010” and inserting “2005”.

4 (6) The item in the table of sections for part  
5 II of subchapter O of chapter 1 of such Code relat-  
6 ing to section 1022 is amended by striking  
7 “December 31, 2009” and inserting “December 31,  
8 2004”.

9 (7) Section 501(d) of the Economic Growth and  
10 Tax Relief Reconciliation Act of 2001 (Public Law  
11 107–16) is amended by striking “December 31,  
12 2009” and inserting “December 31, 2004”.

13 (8) Paragraph (3) of section 511(f) of the Eco-  
14 nomic Growth and Tax Relief Reconciliation Act of  
15 2001 (Public Law 107–16) is amended by striking  
16 “December 31, 2009” and inserting “December 31,  
17 2004”.

18 (9) Paragraph (2) of section 521(e) of the Eco-  
19 nomic Growth and Tax Relief Reconciliation Act of  
20 2001 (Public Law 107–16) is amended by striking  
21 “December 31, 2009” and inserting “December 31,  
22 2004”.

23 (10) Subsection (f) of section 542 of the Eco-  
24 nomic Growth and Tax Relief Reconciliation Act of  
25 2001 (Public Law 107–16) is amended by striking

1 “December 31, 2009” each place it appears and in-  
 2 serting “December 31, 2004”.

3 (d) EFFECTIVE DATE.—The amendments made by  
 4 this section shall take effect on the date of the enactment  
 5 of this Act.

6 **SEC. 5. REDUCTION OF MAXIMUM CAPITAL GAINS RATES**  
 7 **FOR INDIVIDUALS.**

8 (a) IN GENERAL.—Section 1(h) of the Internal Rev-  
 9 enue Code of 1986 (relating to maximum capital gains  
 10 rate) is amended to read as follows:

11 “(h) MAXIMUM CAPITAL GAINS RATE.—

12 “(1) IN GENERAL.—If a taxpayer has a net  
 13 capital gain for any taxable year, the tax imposed by  
 14 this section for such taxable year shall not exceed  
 15 the sum of—

16 “(A) a tax computed on taxable income re-  
 17 duced by the net capital gain, at the rates and  
 18 in the same manner as if this subsection had  
 19 not been enacted, plus

20 “(B) 10 percent of the taxpayer’s net cap-  
 21 ital gain (or, if less, taxable income).

22 “(2) NET CAPITAL GAIN TAKEN INTO ACCOUNT  
 23 AS INVESTMENT INCOME.—For purposes of this sub-  
 24 section, the net capital gain for any taxable year  
 25 shall be reduced (but not below zero) by the amount

1 which the taxpayer elects to take into account as in-  
 2 vestment income for the taxable year under section  
 3 163(d)(4)(B)(iii).”.

4 (b) MINIMUM TAX.—

5 (1) IN GENERAL.—Subparagraph (A) of section  
 6 55(b)(1) of the Internal Revenue Code of 1986  
 7 (relating to amount of tentative tax) is amended by  
 8 redesignating clauses (ii) and (iii) as clauses (iii)  
 9 and (iv), respectively, and by inserting after clause  
 10 (i) the following new clause:

11 “(ii) MAXIMUM RATE OF TAX ON NET  
 12 CAPITAL GAIN.—The amount determined  
 13 under the first sentence of clause (i) shall  
 14 not exceed the sum of—

15 “(I) the amount determined  
 16 under such first sentence computed at  
 17 the rates and in the same manner as  
 18 if this clause had not been enacted on  
 19 the taxable excess reduced by the net  
 20 capital gain, plus

21 “(II) a tax of 10 percent of the  
 22 lesser of the net capital gain or the  
 23 taxable excess.”

24 (2) CONFORMING AMENDMENT.—Section 55(b)  
 25 of such Code is amended by striking paragraph (3).

1 (c) CONFORMING AMENDMENTS.—

2 (1) Section 57(a)(7) of the Internal Revenue  
3 Code of 1986 is amended by striking the last sen-  
4 tence.

5 (2) Paragraph (1) of section 1445(e) of such  
6 Code is amended by striking “20 percent” and in-  
7 serting “10 percent”.

8 (3)(A) The second sentence of section  
9 7518(g)(6)(A) of such Code is amended by striking  
10 “20 percent” and inserting “10 percent”.

11 (B) The second sentence of section  
12 607(h)(6)(A) of the Merchant Marine Act, 1936 is  
13 amended by striking “20 percent” and inserting “10  
14 percent”.

15 (d) EFFECTIVE DATES.—

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

19 (2) WITHHOLDING.—The amendment made by  
20 subsection (c)(2) shall apply to amounts paid after  
21 December 31, 2002.

22 **SEC. 6. INCREASE IN LIMITATION ON CAPITAL LOSSES AP-**  
23 **PLICABLE TO INDIVIDUALS.**

24 (a) IN GENERAL.—Paragraph (1) of section 1211(b)  
25 of the Internal Revenue Code of 1986 (relating to limita-

tion on capital losses for taxpayers other than corporations) is amended by striking “\$3,000 (\$1,500” and inserting “\$10,000 (\$5,000”.

(b) ADJUSTMENT FOR INFLATION.—Section 1211 of the Internal Revenue Code of 1986 (relating to limitation on capital losses) is amended by adding at the end the following new subsection:

“(c) ADJUSTMENT FOR INFLATION.—

“(1) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2003, the \$10,000 and \$5,000 amounts contained in subsection (b)(1) shall each be increased by an amount equal to—

“(A)(i) such amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins by substituting ‘calendar year 2002’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—If any increase determined under paragraph (1) is not a multiple of \$5, such increase shall be rounded to the next highest multiple of \$5.”.



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

4 **SEC. 7. ACCELERATION OF INCREASE IN CONTRIBUTIONS**  
 5 **TO CERTAIN RETIREMENT PLANS.**

6 (a) IRAs.—

7 (1) IN GENERAL.—Subparagraph (A) of section  
 8 219(b)(5) of the Internal Revenue Code of 1986  
 9 (defining deductible amount) is amended to read as  
 10 follows:

11 “(A) The deductible amount shall be  
 12 \$5,000.”.

13 (2) INFLATION ADJUSTMENT.—Section  
 14 219(b)(5)(C) of such Code is amended—

15 (A) by striking “2008” and inserting  
 16 “2003”, and

17 (B) by striking “2007” and inserting  
 18 “2002”.

19 (b) 401(k) PLANS.—

20 (1) IN GENERAL.—Paragraph (1) of section  
 21 402(g) of such Code is amended—

22 (A) by striking subparagraph (B),

23 (B) by striking “(A) LIMITATION.—” and  
 24 moving the text 2 ems to the left, and

1 (C) in such text by striking “the applicable  
2 dollar amount” and inserting “\$15,000”.

3 (2) INFLATION ADJUSTMENT.—Section  
4 402(g)(4) of such Code is amended—

5 (A) by striking “2006” and inserting  
6 “2003”, and

7 (B) by striking “2005” and inserting  
8 “2002”.

9 (3) CONFORMING AMENDMENT.—Section  
10 401(a)(30) of such Code is amended by striking  
11 “section 402(g)(1)(A)” and inserting “section  
12 402(g)(1)”.

13 (c) 457 PLANS.—

14 (1) IN GENERAL.—Subparagraph (A) of section  
15 457(b)(2) of such Code is amended by striking “the  
16 applicable dollar amount” and inserting “\$15,000”.

17 (2) INFLATION ADJUSTMENT.—Section  
18 457(e)(15) of such Code is amended to read as fol-  
19 lows:

20 “(15) COST-OF-LIVING ADJUSTMENT.—In the  
21 case of taxable years beginning after December 31,  
22 2003, the Secretary shall adjust the \$15,000  
23 amount under subsection (b)(2)(A) at the same time  
24 and in the same manner as under section 415(d),  
25 except that the base period shall be the calendar

1 quarter beginning July 1, 2002, and any increase  
 2 under this paragraph which is not a multiple of  
 3 \$500 shall be rounded to the next lowest multiple of  
 4 \$500.”.

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

8 **SEC. 8. AGE FOR BEGINNING MANDATORY DISTRIBUTIONS**  
 9 **INCREASED TO 75.**

10 (a) QUALIFIED PENSION PLANS.—Subparagraphs  
 11 (B)(iv) and (C) of section 401(a)(9) of the Internal Rev-  
 12 enue Code of 1986 (relating to required distributions) are  
 13 each amended by striking “70½” each place it appears  
 14 and inserting “75”.

15 (b) INDIVIDUAL RETIREMENT PLANS.—

16 (1) Paragraph (1) of section 219(d) of such  
 17 Code is amended—

18 (A) by striking “70½” in the text and in-  
 19 serting “75”, and

20 (B) by striking “70½” in the heading and  
 21 inserting “75”.

22 (2) Subsection (b) of section 408 of such Code  
 23 is amended by striking “70½” and inserting “75”.

24 (c) ROTH IRA’S.—Paragraph (4) of section 408A(c)  
 25 of such Code is amended—

1 (1) by striking “70½” in the text and inserting  
 2 “75”, and

3 (2) by striking “70½” in the heading and in-  
 4 serting “75”.

5 (d) SECTION 457 PLANS.—Clause (i) of section  
 6 457(d)(1)(A) of such Code is amended by striking “70½”  
 7 and inserting “75”.

8 (e) EFFECTIVE DATE.—The amendments made by  
 9 this section shall apply to distributions after December 31,  
 10 2002.

11 **SEC. 9. EXCLUSION OF DIVIDEND INCOME FROM TAX.**

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:

17 **“SEC. 116. EXCLUSION OF DIVIDENDS RECEIVED BY INDIVIDUALS.**  
 18 **VIDUALS.**

19 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-  
 20 come does not include 100 percent of the amounts received  
 21 during the taxable year by an individual as dividends from  
 22 domestic, publicly traded, C corporations (within the  
 23 meaning of section 1297(f)(3)).

24 “(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection  
 25 (a) shall not apply to any dividend from a corporation

1 which, for the taxable year of the corporation in which  
 2 the distribution is made, or for the next preceding taxable  
 3 year of the corporation, is a corporation exempt from tax  
 4 under section 501 (relating to certain charitable, etc., or-  
 5 ganization) or section 521 (relating to farmers' coopera-  
 6 tive associations).

7 “(c) SPECIAL RULES.—For purposes of this sec-  
 8 tion—

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

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

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

17 “(A) in determining the tax imposed for  
 18 the taxable year pursuant to section 871(b)(1)  
 19 and only in respect of dividends which are effec-  
 20 tively connected with the conduct of a trade or  
 21 business within the United States, or

22 “(B) in determining the tax imposed for  
 23 the taxable year pursuant to section 877(b).

1           “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-  
 2           ERSHIP PLANS.—Subsection (a) shall not apply to  
 3           any dividend described in section 404(k).”

4           (b) CONFORMING AMENDMENTS.—

5           (1)(A) Subparagraph (A) of section 135(c)(4)  
 6           of such Code is amended by inserting “116,” before  
 7           “137”.

8           (B) Subsection (d) of section 135 of such Code  
 9           is amended by redesignating paragraph (4) as para-  
 10          graph (5) and by inserting after paragraph (3) the  
 11          following new paragraph:

12           “(4) COORDINATION WITH SECTION 116.—This  
 13          section shall be applied before section 116.”

14          (2) Subsection (c) of section 584 of such Code  
 15          is amended by adding at the end thereof the fol-  
 16          lowing new flush sentence:

17          “The proportionate share of each participant in the  
 18          amount of dividends received by the common trust fund  
 19          and to which section 116 applies shall be considered for  
 20          purposes of such section as having been received by such  
 21          participant.”

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

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

4           (4) Section 854(a) of such Code is amended by  
5           inserting “section 116 (relating to exclusion of divi-  
6           dends received by individuals) and” after “For pur-  
7           poses of”.

8           (5) Section 857(c) of such Code is amended to  
9           read as follows:

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

12               “(1) TREATMENT FOR SECTION 116.—For pur-  
13               poses of section 116 (relating to exclusion of divi-  
14               dends received by individuals), a capital gain divi-  
15               dend (as defined in subsection (b)(3)(C)) received  
16               from a real estate investment trust which meets the  
17               requirements of this part shall not be considered as  
18               a dividend.

19               “(2) TREATMENT FOR SECTION 243.—For pur-  
20               poses of section 243 (relating to deductions for divi-  
21               dends received by corporations), a dividend received  
22               from a real estate investment trust which meets the  
23               requirements of this part shall not be considered as  
24               a dividend.”

1           (6) The table of sections for part III of sub-  
 2           chapter B of chapter 1 of such Code is amended by  
 3           inserting after the item relating to section 115 the  
 4           following new item:

                  “Sec. 116. Exclusion of dividends received by individuals.”

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

8   **SEC. 10. SENSE OF THE SENATE REGARDING A CONTRACT**  
 9                               **WITH INVESTORS.**

10          It is the sense of the Senate that—

11               (1) Congress should pass legislation to safe-  
 12               guard American workers’ pension and retirement ac-  
 13               counts,

14               (2) Congress should modernize this country’s  
 15               international tax provisions in order to permit  
 16               United States companies to better compete inter-  
 17               nationally,

18               (3) Congress should repeal redundant, out-  
 19               dated, and unscientific regulatory burdens on inves-  
 20               tors and United States companies and perform a  
 21               cost benefit analysis before enacting new burdens on  
 22               United States businesses and investors,

23               (4) Congress should enact meaningful tort re-  
 24               form, and



1           (5) Congress should enact meaningful tax re-  
2       form that simplifies the Federal tax code and re-  
3       duces the cost recovery periods that businesses are  
4       forced to use to recover the costs of capital.

○