

107TH CONGRESS
1ST SESSION

S. 551

To amend the Internal Revenue Code of 1986 to simplify the individual income tax by providing an election for eligible individuals to only be subject to a 15 percent tax on wage income with a tax return free filing system, to reduce the burdens of the marriage penalty and alternative minimum tax, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 15, 2001

Mr. DORGAN (for himself, Mr. GREGG, and Mr. DURBIN) 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 simplify the individual income tax by providing an election for eligible individuals to only be subject to a 15 percent tax on wage income with a tax return free filing system, to reduce the burdens of the marriage penalty and alternative minimum tax, 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; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Fair and Simple Shortcut Tax Plan”.

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

7 **TITLE I—FAIR AND SIMPLE** 8 **SHORTCUT TAX PLAN**

9 **SEC. 101. FAIR AND SIMPLE SHORTCUT TAX PLAN.**

10 (a) IN GENERAL.—Subchapter A of chapter 1 (relat-
 11 ing to determination of tax liability) is amended by adding
 12 at the end the following:

13 **“PART VIII—FAIR AND SIMPLE SHORTCUT TAX** 14 **PLAN**

“Sec. 60. Tax on individuals electing FASST.
 “Sec. 60A. Computation of applicable taxable income.
 “Sec. 60B. Credit against tax.
 “Sec. 60C. Election.
 “Sec. 60D. Liability for tax.

15 **“SEC. 60. TAX ON INDIVIDUALS ELECTING FASST.**

16 “(a) TAX IMPOSED.—If an individual who is an eligi-
 17 ble taxpayer has an election in effect under this part for
 18 a taxable year, there is hereby imposed a tax equal to 15
 19 percent of the taxpayer’s applicable taxable income.

20 “(b) COORDINATION WITH OTHER TAXES.—The tax
 21 imposed by this section shall be in lieu of any other tax
 22 imposed by this subchapter. The preceding sentence shall

1 not apply to taxes described in section 26(b)(2) other than
 2 subparagraph (A) thereof.

3 **“SEC. 60A. COMPUTATION OF APPLICABLE TAXABLE IN-**
 4 **COME.**

5 “(a) IN GENERAL.—For purposes of this part, the
 6 term ‘applicable taxable income’ means the taxpayer’s ap-
 7 plicable wage income, minus—

8 “(1) the standard deduction,

9 “(2) the deductions for personal exemptions
 10 provided in section 151, and

11 “(3) the homeowner expense deduction allow-
 12 able under subsection (c).

13 “(b) APPLICABLE WAGE INCOME.—For purposes of
 14 this part—

15 “(1) IN GENERAL.—The term ‘applicable wage
 16 income’ means, with respect to an individual, wages
 17 received by such individual for the taxable year for
 18 services performed as an employee of an employer.

19 “(2) EMPLOYMENT.—The term ‘employment’
 20 has the meaning given such term in section 3121(b).

21 “(3) WAGES.—The term ‘wages’ has the mean-
 22 ing given such term in section 3401(a).

23 “(c) HOMEOWNER EXPENSE DEDUCTION AL-
 24 LOWED.—

1 “(1) IN GENERAL.—For purposes of subsection
2 (a), there shall be allowed as a deduction for the
3 taxable year an amount equal to the product of—

4 “(A) \$5,000, and

5 “(B) a fraction, the numerator of which is
6 the number of months in such year in which the
7 taxpayer owned and used property as the tax-
8 payer’s principal residence (within the meaning
9 of section 121) and the denominator of which
10 is 12.

11 “(2) SPECIAL RULES.—For purposes of this
12 subsection—

13 “(A) MARRIED INDIVIDUALS.—In the case
14 of a married individual, the ownership and use
15 requirements of paragraph (1) shall be treated
16 as met for any month if either spouse meets
17 them.

18 “(B) DIVORCE; COOPERATIVE HOUSING.—
19 Rules similar to the rules of paragraphs (3) and
20 (4) of section 121(d) shall apply.

21 “(C) OUT-OF-RESIDENCE CARE.—If a tax-
22 payer becomes physically or mentally impaired
23 while owning and using property as a principal
24 residence, then the taxpayer shall be treated as
25 meeting the ownership and use requirements of

1 paragraph (1) during any period the taxpayer
 2 owns the property and resides in any facility
 3 (including a nursing home) licensed by a State
 4 or political subdivision to care for an individual
 5 in the taxpayer's condition.

6 **“SEC. 60B. CREDITS AGAINST TAX.**

7 “No credit shall be allowed against the tax imposed
 8 by this part other than—

9 “(1) the credit allowable under section 24 (re-
 10 lating to child tax credit),

11 “(2) the credit allowable under section 32 (re-
 12 lating to earned income credit), and

13 “(3) the credit for overpayment of tax under
 14 section 6402.

15 **“SEC. 60C. ELECTION.**

16 “(a) ELECTION.—An eligible taxpayer may elect to
 17 have this part apply for any taxable year.

18 “(b) ELIGIBLE TAXPAYER.—

19 “(1) IN GENERAL.—For purposes of this part,
 20 the term ‘eligible taxpayer’ means, with respect to
 21 any taxable year, a taxpayer who receives—

22 “(A) applicable wage income in an amount
 23 not in excess of—

24 “(i) \$100,000, in the case of a tax-
 25 payer described in section 1(a), and

1 “(ii) 50 percent of the amount in ef-
 2 fect under clause (i) for the taxable year,
 3 in the case of any other taxpayer, and

4 “(B) gross income (determined without re-
 5 gard to applicable wage income) in an amount
 6 not in excess of—

7 “(i) \$5,000, in the case of a taxpayer
 8 described in section 1(a), and

9 “(ii) 50 percent of the amount in ef-
 10 fect under clause (i) for the taxable year,
 11 in the case of any other taxpayer.

12 “(2) EXCLUSIONS.—The term ‘eligible tax-
 13 payer’ shall not include—

14 “(A) a married individual unless the indi-
 15 vidual and the spouse both have the same tax-
 16 able year and both make the election,

17 “(B) a nonresident alien individual, or

18 “(C) an estate or trust.

19 “(3) INFLATION ADJUSTMENTS.—In the case of
 20 a taxable year beginning after 2002, each dollar
 21 amount under paragraph (1) shall be increased by
 22 an amount equal to—

23 “(A) such dollar amount, multiplied by

24 “(B) the cost-of-living adjustment deter-
 25 mined under section 1(f)(3) for the calendar

1 year in which the taxable year begins, deter-
 2 mined by substituting ‘calendar year 2001’ for
 3 ‘calendar year 1992’ in subparagraph (B)
 4 thereof.

5 “(c) FORM OF ELECTION.—

6 “(1) IN GENERAL.—An individual shall make
 7 an election to have this part apply for any taxable
 8 year by furnishing an election certificate to such in-
 9 dividual’s employer not later than the close of the
 10 first payroll period after the individual commences
 11 work for such employer or January 1 of the taxable
 12 year to which such election relates, whichever is
 13 later.

14 “(2) CONTENTS OF CERTIFICATE.—The elec-
 15 tion certificate furnished under paragraph (1)
 16 shall—

17 “(A) contain such information as the Sec-
 18 retary requires to enable the Secretary to carry
 19 out this part and enable the employer to with-
 20 hold the appropriate amount of wages under
 21 section 3402, and

22 “(B) contain a certification by the em-
 23 ployee under penalty of perjury that the infor-
 24 mation furnished is correct.

1 “(3) AMENDMENT OF CERTIFICATE.—A new
 2 election certificate shall be filed within 30 days after
 3 the date of any change in the information required
 4 under paragraph (2).

5 “(4) ELECTION CERTIFICATE.—For purposes of
 6 this section, the term ‘election certificate’ means the
 7 withholding exemption certificate used for purposes
 8 of chapter 24.

9 “(5) ADVANCE PAYMENT OF EARNED INCOME
 10 AMOUNT.—The Secretary shall prescribe such regu-
 11 lations as may be necessary to allow an eligible tax-
 12 payer to treat an election certificate furnished under
 13 this section as including an earned income eligibility
 14 certificate under section 3507 in the case of an eligi-
 15 ble individual claiming the earned income credit
 16 under section 32.

17 “(d) PERIOD ELECTION IN EFFECT.—

18 “(1) IN GENERAL.—Except as provided in para-
 19 graph (2), an election under this section shall be ef-
 20 fective for the taxable year for which it is made and
 21 all subsequent taxable years.

22 “(2) TERMINATION.—An election under this
 23 part shall terminate with respect to an individual for
 24 any taxable year and all subsequent taxable years if

1 at any time during such taxable year such
2 individual—

3 “(A) is no longer an eligible taxpayer,

4 “(B) elects to terminate such individual’s
5 election, or

6 “(C) commits fraud with respect to any in-
7 formation required to be provided under this
8 section.

9 “(e) **SAFE HARBOR FOR INELIGIBILITY.**—In the case
10 of an individual who has a termination under subsection
11 (c)(2)(A), no addition to tax under section 6654 shall
12 apply to any underpayment attributable to eligible wage
13 income of such individual for such taxable year if such
14 underpayment was not due to fraud, negligence, or dis-
15 regard of rules or regulations (within the meaning of sec-
16 tion 6662).

17 “(f) **MARITAL STATUS.**—For purposes of this part,
18 marital status shall be determined under section 7703.

19 **“SEC. 60D. LIABILITY FOR TAX.**

20 “(a) **AMOUNT WITHHELD TREATED AS SATISFAC-**
21 **TION OF LIABILITY.**—Except as provided in this section,
22 any amount withheld as tax under section 3402(t) for an
23 eligible individual with an election in effect under section
24 60C for the taxable year shall be treated as complete satis-

1 faction of liability for the tax imposed by section 60(a)
 2 for such taxable year.

3 “(b) EXCEPTIONS.—Notwithstanding subsection
 4 (a)—

5 “(1) OVERPAYMENT.—If the amount withheld
 6 as tax under section 3402(t) for an eligible taxpayer
 7 with an election in effect under section 60C for the
 8 taxable year exceeds the tax imposed under section
 9 60(a) for the taxable year, the excess amount shall
 10 be treated as an overpayment for purposes of section
 11 6402.

12 “(2) UNDERPAYMENT.—

13 “(A) IN GENERAL.—If the Secretary deter-
 14 mines that the amount withheld as tax under
 15 section 3402(t) for an eligible taxpayer is less
 16 than the tax imposed under section 60(a) and
 17 such underpayment is not due to fraud, the
 18 Secretary may assess and collect such under-
 19 payment in the same manner as if such under-
 20 payment were on account of a mathematical or
 21 clerical error appearing on a return of the indi-
 22 vidual for the taxable year.

23 “(B) DE MINIMIS EXCEPTION.—If the
 24 amount by which the tax imposed by section
 25 60(a) exceeds the amount withheld as tax under

1 section 3402(t) by less than the lesser of \$100
 2 or 10 percent of the tax so imposed, the tax-
 3 payer shall be treated as having no under-
 4 payment.

5 “(c) REGULATIONS.—The Secretary shall prescribe
 6 such regulations as may be necessary to carry out the pro-
 7 visions of this section, including regulations—

8 “(1) to allow a refund of an overpayment under
 9 subsection (b)(1) to a taxpayer without requiring ad-
 10 ditional filing of information by the taxpayer, and

11 “(2) to notify taxpayers of eligibility for credits
 12 allowable under section 60B and allow a claim and
 13 refund of any credit not claimed by an eligible tax-
 14 payer during the taxable year.”.

15 (b) WITHHOLDING FROM WAGES.—Section 3402 (re-
 16 lating to income tax collected at source) is amended by
 17 adding at the end the following new subsection:

18 “(t) WITHHOLDING UNDER THE FAIR AND SIMPLE
 19 SHORTCUT TAX PLAN.—

20 “(1) IN GENERAL.—An employer making pay-
 21 ment of wages to an individual with an election in
 22 effect under section 60C shall deduct and withhold
 23 upon such wages a tax (in lieu of the tax required
 24 to be deducted and withheld under subsection (a))

determined in accordance with tables prescribed by the Secretary in accordance with paragraph (2).

“(2) WITHHOLDING TABLES.—The Secretary shall prescribe 1 or more tables which set forth amounts of wages and income tax to be deducted and withheld based on information furnished to the employer in the employee’s election form and to ensure that the aggregate amount withheld from such employee’s wages approximates the tax liability of such individual for the taxable year. Any tables prescribed under this paragraph shall—

“(A) apply with respect to the amount of wages paid during such periods as the Secretary may prescribe, and

“(B) be in such form, and provide for such amounts to be deducted and withheld, as the Secretary determines to be most appropriate to carry out the purposes of this chapter and to reflect the provisions of chapter 1 applicable to such periods, including taking into account any credits allowable under section 24 or 32.

The Secretary shall provide that any other provision of this section shall not apply to the extent such provision is inconsistent with the provisions of this subsection.

1 “(2) ELECTION CERTIFICATE.—

2 “(A) IN GENERAL.—In lieu of a with-
3 holding exemption certificate, an employee shall
4 furnish the employer with a signed election cer-
5 tificate and any amended election certificate at
6 such time and containing such information as
7 required under section 60C.

8 “(B) WHEN CERTIFICATE TAKES EF-
9 FECT.—

10 “(i) FIRST CERTIFICATE FUR-
11 NISHED.—An election certificate furnished
12 to an employer in cases in which no pre-
13 vious such certificate is in effect shall take
14 effect as of the beginning of the first pay-
15 roll period ending, or the first payment of
16 wages made without regard to a payroll pe-
17 riod, on or after the date on which such
18 certificate is so furnished.

19 “(ii) REPLACEMENT CERTIFICATE.—
20 An election certificate furnished to an em-
21 ployer which replaces an earlier certificate
22 shall take effect as of the beginning of the
23 1st payroll period ending (or the 1st pay-
24 ment of wages made without regard to a
25 payroll period) on or after the 30th day

1 after the on date which the replacement
 2 certificate is so furnished.”.

3 (c) WAIVER OF REQUIREMENT TO FILE RETURN OF
 4 INCOME.—Subsection (a)(1)(A) of section 6012 (relating
 5 to persons required to make return of income) is amended
 6 by striking “or” at the end of clause (iii), by striking the
 7 period at the end of clause (iv) and inserting “, or”, and
 8 by inserting after clause (iv) the following new clause:

9 “(v) who is an eligible taxpayer with
 10 an election in effect for the taxable year
 11 under section 60C.”.

12 (d) TECHNICAL AND CONFORMING AMENDMENTS.—

13 (1) The table of parts for subchapter A of chap-
 14 ter 1 is amended by adding at the end the following
 15 new item:

“Part VIII. Fair and Simple Shortcut Tax Plan.”.

16 (2) Section 6654(a) is amended by inserting
 17 “and section 60C(d)” after “this section”.

18 (e) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to taxable years beginning after
 20 December 31, 2001.

21 **SEC. 102. TAX CREDIT FOR EMPLOYER FASST PLAN START-**
 22 **UP COSTS.**

23 (a) IN GENERAL.—Subpart D of part IV of sub-
 24 chapter A of chapter 1 (relating to business related cred-

1 its) is amended by adding at the end the following new
 2 section:

3 **“SEC. 45E. FASST PLAN EMPLOYER START-UP CREDIT.**

4 “(a) CREDIT ALLOWED.—

5 “(1) IN GENERAL.—For purposes of section 38,
 6 the Fair and Simple Shortcut Tax plan start-up
 7 credit determined under this section for the taxable
 8 year is an amount equal to the lesser of—

9 “(A) 50 percent of eligible start-up costs of
 10 the taxpayer for the taxable year, or

11 “(B) \$1,000.

12 “(2) MAXIMUM CREDIT.—The maximum credit
 13 allowed with respect to a taxpayer under this sub-
 14 section for all taxable years shall not exceed the
 15 amount determined under paragraph (1) for all tax-
 16 able years.

17 “(b) ELIGIBLE START-UP COSTS.—For purposes of
 18 this section, the term ‘eligible start-up costs’ means
 19 amounts paid or incurred by an employer (or any prede-
 20 cessor) during the 1 year period beginning on the date
 21 on which the employer first employs 1 or more employees
 22 with an election in effect under section 60C for the taxable
 23 year, in connection with carrying out the withholding re-
 24 quirements of section 3402.

1 “(c) CREDIT AVAILABLE FOR EACH WORKSITE.—If
 2 a taxpayer maintains a separate worksite for employees,
 3 such person shall be treated as a single employer with re-
 4 spect to such worksite for purposes of the credit allowable
 5 under subsection (a).”.

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 38(b) is amended—

8 (A) by striking “plus” at the end of para-
 9 graph (12),

10 (B) by striking the period at the end of
 11 paragraph (13), and inserting a comma and
 12 “plus”, and

13 (C) by adding at the end the following new
 14 paragraph:

15 “(14) the Fair and Simple Shortcut Tax plan
 16 start-up credit determined under section 45E.”.

17 (2) The table of sections for subpart D of part
 18 IV of subchapter A of chapter 1 is amended by add-
 19 ing at the end the following new item:

“Sec. 45E. Fair and Simple Shortcut Tax plan start-up credit.”.

20 (c) EFFECTIVE DATE.—The amendments made by
 21 this section shall apply to taxable years beginning after
 22 December 31, 2001.

1 **TITLE II—PROVISIONS TO**
2 **SIMPLIFY THE TAX CODE**

3 **SEC. 201. REDUCTION IN MARRIAGE PENALTY IN STAND-**
4 **ARD DEDUCTION.**

5 (a) IN GENERAL.—Section 63(c)(2) (relating to basic
6 standard deduction) is amended to read as follows:

7 “(2) BASIC STANDARD DEDUCTION.—For pur-
8 poses of paragraph (1), the basic standard deduction
9 is—

10 “(A) 200 percent of the amount under
11 subparagraph (C) for the taxable year, in the
12 case of a joint return or a surviving spouse (as
13 defined in section 2(a)),

14 “(B) 150 percent of such amount, in the
15 case of a head of household (as defined in sec-
16 tion 2(b)), and

17 “(C) \$3,000, in the case of an individual
18 who is not married and who is not a surviving
19 spouse or head of household or a married indi-
20 vidual filing a separate return.”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to taxable years beginning after
23 December 31, 2001.

1 **SEC. 202. ALTERNATIVE MINIMUM TAX EXCLUSION OF**
 2 **SELF-EMPLOYMENT INCOME AND CERTAIN**
 3 **ITEMS OF PREFERENCE AND ADJUSTMENTS.**

4 (a) INCREASED EXEMPTION FOR SELF-EMPLOY-
 5 MENT INCOME.—Section 55(d)(1) (relating to exemption
 6 amount for taxpayers other than corporations) is amended
 7 to read as follows:

8 “(1) EXEMPTION AMOUNT FOR TAXPAYERS
 9 OTHER THAN CORPORATIONS.—In the case of a tax-
 10 payer other than a corporation, the term ‘exemption
 11 amount’ means the sum of—

12 “(A) an amount equal to—

13 “(i) \$45,000 in the case of—

14 “(I) a joint return, or

15 “(II) a surviving spouse,

16 “(ii) \$33,750 in the case of an indi-
 17 vidual who—

18 “(I) is not a married individual,

19 or

20 “(II) is not a surviving spouse,

21 and

22 “(iii) \$22,500 in the case of—

23 “(I) a married individual who
 24 files a separate return, or

25 “(II) an estate or trust, and

26 “(B) an amount equal to the lesser of—

1 “(i) the self employment income (as
 2 defined in section 1402(b)) of the taxpayer
 3 for the taxable year, or

4 “(ii) \$1,000,000.

5 For purposes of this paragraph, the term ‘surviving
 6 spouse’ has the meaning given to such term by sec-
 7 tion 2(a), and marital status shall be determined
 8 under section 7703.’’.

9 (b) EXCLUSION OF CERTAIN ITEMS OF PREFERENCE
 10 AND ADJUSTMENTS.—Section 55 (relating to alternative
 11 minimum tax imposed) is amended by adding at the end
 12 the following new subsection:

13 “(f) SPECIAL RULE FOR SMALL BUSINESSES.—

14 “(1) IN GENERAL.—For purposes of this part,
 15 in computing the alternative minimum taxable in-
 16 come of a taxpayer to which this subsection applies
 17 for any taxable year—

18 “(A) no adjustments provided in section 56
 19 which are attributable to a trade or business of
 20 the taxpayer shall be made, and

21 “(B) taxable income shall not be increased
 22 by any item of tax preference described in sec-
 23 tion 57 which is so attributable.

24 “(2) APPLICATION.—

1 “(A) IN GENERAL.—This subsection shall
 2 apply to a taxpayer for a taxable year if the
 3 taxpayer is not a corporation and the gross re-
 4 ceipts of the taxpayer for the taxable year from
 5 all trades or businesses do not exceed
 6 \$1,000,000.

7 “(B) SPECIAL RULES.—Rules similar to
 8 the rules of paragraphs (2), (3)(B), and (3)(C)
 9 of section 448(c) shall apply for purposes of
 10 this subsection.”.

11 (c) CONFORMING AMENDMENTS.—Section 55(d)(3)
 12 is amended—

13 (1) by striking “paragraph (1)(A)” and insert-
 14 ing “paragraph (1)(A)(i)” in subparagraph (A),

15 (2) by striking “paragraph (1)(B)” and insert-
 16 ing “paragraph (1)(A)(ii)” in subparagraph (B),

17 (3) by striking “paragraph (1)(C)” and insert-
 18 ing “paragraph (1)(A)(iii)” in subparagraph (C),
 19 and

20 (4) by striking “paragraph (1)(C)(i)” and in-
 21 serting “paragraph (1)(A)(iii)(I)” in the second sen-
 22 tence.

23 (d) EFFECTIVE DATE.—The amendments made by
 24 this section shall apply to taxable years beginning after
 25 December 31, 2001.

1 **SEC. 203. NONREFUNDABLE TAX CREDIT FOR TAX PREPA-**
 2 **RATION EXPENSES.**

3 (a) IN GENERAL.—Subpart A of part IV of sub-
 4 chapter A of chapter 1 (relating to nonrefundable personal
 5 credits) is amended by adding at the end the following
 6 new section:

7 **“SEC. 25B. TAX PREPARATION EXPENSES.**

8 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
 9 dividual, there shall be allowed as a credit against the tax
 10 imposed by this chapter for the taxable year an amount
 11 equal to the lesser of—

12 “(1) 50 percent of the qualified tax preparation
 13 expenses of the taxpayer for the taxable year, or

14 “(2) \$100.

15 “(b) QUALIFIED TAX PREPARATION EXPENSES.—
 16 For purposes of this section, the term ‘qualified tax prepa-
 17 ration expenses’ means expenses paid or incurred during
 18 the taxable year by an individual in connection with the
 19 preparation of the taxpayer’s Federal income tax return
 20 for such taxable year, but only if such return is electroni-
 21 cally filed. Such term shall include any expenses related
 22 to an income tax return preparer.

23 “(c) DENIAL OF DEDUCTION.—No deduction shall be
 24 allowed under this chapter for any amount taken into ac-
 25 count in determining the credit under this section.”.

1 (b) CONFORMING AMENDMENT.—The table of sec-
 2 tions for subpart A of part IV of subchapter A of chapter
 3 1 is amended by adding at the end the following new item:

“Sec. 25B. Tax preparation expenses.”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to expenses paid or incurred for
 6 taxable years beginning after December 31, 2001.

7 **SEC. 204. EXEMPTION OF CERTAIN INTEREST AND DIVI-**
 8 **DEND INCOME FROM TAX.**

9 (a) IN GENERAL.—Part III of subchapter B of chap-
 10 ter 1 (relating to amounts specifically excluded from gross
 11 income) is amended by inserting after section 115 the fol-
 12 lowing new section:

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

15 “(a) EXCLUSION FROM GROSS INCOME.—In the case
 16 of an individual who does not have an election in effect
 17 under section 60C for the taxable year, gross income does
 18 not include dividends and interest otherwise includible in
 19 gross income which are received during the taxable year
 20 by such individual.

21 “(b) LIMITATION.—The aggregate amount excluded
 22 under subsection (a) for any taxable year shall not exceed
 23 \$500 (\$1,000 in the case of a joint return).

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

9 “(1) TREATMENT OF CERTAIN DIVIDENDS.—

**“For treatment of dividends received from regu-
 lated investment companies and real estate invest-
 ment trusts, see sections 854(a), 854(b), and 857(c).”**

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

14 “(A) in determining the tax imposed for
 15 the taxable year under section 871(b)(1) and
 16 only in respect of dividends which are effectively
 17 connected with the conduct of a trade or busi-
 18 ness within the United States, or

19 “(B) in determining the tax imposed for
 20 the taxable year under section 877(b).

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

24 (b) CONFORMING AMENDMENTS.—

1 (1) Subparagraph (C) of section 32(c)(5) is
 2 amended by striking “or” at the end of clause (i),
 3 by striking the period at the end of clause (ii) and
 4 inserting “; or”, and by inserting after clause (ii)
 5 the following new clause:

6 “(iii) interest and dividends received
 7 during the taxable year which are excluded
 8 from gross income under section 116.”.

9 (2) Subparagraph (A) of section 32(i)(2) is
 10 amended by inserting “(determined without regard
 11 to section 116)” before the comma.

12 (3) Subparagraph (B) of section 86(b)(2) is
 13 amended to read as follows:

14 “(B) increased by the sum of—

15 “(i) the amount of interest received or
 16 accrued by the taxpayer during the taxable
 17 year which is exempt from tax, and

18 “(ii) the amount of interest and divi-
 19 dends received during the taxable year
 20 which are excluded from gross income
 21 under section 116.”.

22 (4) Subsection (d) of section 135 is amended by
 23 redesignating paragraph (4) as paragraph (5) and
 24 by inserting after paragraph (3) the following new
 25 paragraph:

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

3 (5)(A) Subsection (a) of section 246A is
4 amended—

5 (i) by inserting “or the exclusion from
6 gross income under section 116,” after
7 “245(a)” in the matter preceding paragraph
8 (1), and

9 (ii) by inserting “received by a corpora-
10 tion” after “dividend” in paragraph (1).

11 (B) Subsection (e) of section 246A is amended
12 by inserting “or the exclusion from gross income
13 under section 116” after “245”.

14 (6) Paragraph (2) of section 265(a) is amended
15 by inserting before the period “, or to purchase or
16 carry obligations or shares, or to make deposits, to
17 the extent the interest thereon is excludable from
18 gross income under section 116”.

19 (7) Subsection (c) of section 584 is amended by
20 adding at the end the following new flush sentence:
21 “The proportionate share of each participant in the
22 amount of dividends or interest received by the common
23 trust fund and to which section 116 applies shall be con-
24 sidered for purposes of such section as having been re-
25 ceived by such participant.”.

1 (8) Subsection (a) of section 643 is amended by
 2 redesignating paragraph (7) as paragraph (8) and
 3 by inserting after paragraph (6) the following new
 4 paragraph:

5 “(7) DIVIDENDS OR INTEREST.—There shall be
 6 included the amount of any dividends or interest ex-
 7 cluded from gross income under section 116.”.

8 (9)(A) Subsection (a) of section 854 is amended
 9 by inserting “section 116 (relating to partial exclu-
 10 sion of dividends and interest received by individ-
 11 uals) and” after “For purposes of”.

12 (B) Paragraph (1) of section 854(b) is
 13 amended—

14 (i) by striking “subparagraph (A)” in sub-
 15 paragraph (B) and inserting “subparagraphs
 16 (A) and (B)”,

17 (ii) by redesignating subparagraph (B) as
 18 subparagraph (C), and

19 (iii) by inserting after subparagraph (A)
 20 the following new subparagraph:

21 “(B) EXCLUSION UNDER SECTION 116.—If
 22 the aggregate dividends and interest received by
 23 a regulated investment company during any
 24 taxable year are less than 95 percent of its
 25 gross income, then, in computing the exclusion

1 under section 116, rules similar to the rules of
 2 subparagraph (A) shall apply.”.

3 (C) Paragraph (2) of section 854(b) is amended
 4 by inserting “the exclusion under section 116 and”
 5 after “for purposes of”.

6 (10) Subsection (c) of section 857 is amended
 7 to read as follows:

8 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
 9 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—For
 10 purposes of section 116 (relating to partial exclusion of
 11 dividends and interest received by individuals) and section
 12 243 (relating to deductions for dividends received by cor-
 13 porations), a dividend received from a real estate invest-
 14 ment trust which meets the requirements of this part shall
 15 not be considered as a dividend.”.

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

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

20 (c) EFFECTIVE DATE.—The amendments made by
 21 this section shall apply to taxable years beginning after
 22 December 31, 2001.

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