

108TH CONGRESS
1ST SESSION

H. R. 225

To amend the Internal Revenue Code of 1986 to allow individuals to exclude dividend income.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 2003

Mr. WILSON of South Carolina introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to allow individuals to exclude dividend income.

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 “Dividend Taxation
5 Elimination Act of 2003”.

6 SEC. 2. EXEMPTION OF DIVIDEND INCOME FROM TAX.

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

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

3 **SEC. 116. EXCLUSION OF DIVIDENDS RECEIVED BY INDIVIDUALS.**

5 “(a) EXCLUSION FROM GROSS INCOME.—Gross income does not include dividends which are otherwise includable in gross income and which are received during the
6 taxable year by an individual.

9 “(b) LIMITATION BEFORE 2007.—In the case of a
10 taxable year beginning before January 1, 2007, the aggregate amount excluded under subsection (a) for any taxable
11 year shall not exceed—

13 “(1) \$25,000 in the case of taxable years beginning
14 during 2003,

15 “(2) \$50,000 in the case of taxable years beginning
16 during 2004,

17 “(3) \$75,000 in the case of taxable years beginning
18 during 2005, and

19 “(4) \$100,000 in the case of taxable years beginning
20 during 2006.

21 In the case of a joint return, the preceding sentence shall
22 be applied by doubling each amount contained therein.

23 “(c) SPECIAL RULES.—For purposes of this section—

1 “(1) EXCLUSION NOT TO APPLY TO CAPITAL
2 GAIN DIVIDENDS FROM REGULATED INVESTMENT
3 COMPANIES AND REAL ESTATE INVESTMENT
4 TRUSTS.—

5 **“For treatment of capital gain dividends, see sections 854(a) and 857(c).**

6 “(2) CERTAIN NONRESIDENT ALIENS INELI-
7 GIBLE FOR EXCLUSION.—In the case of a non-
8 resident alien individual, subsection (a) shall apply
9 only in determining the taxes imposed for the tax-
able year pursuant to sections 871(b)(1) and 877(b).

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

13 “(4) CERTAIN DIVIDENDS EXCLUDED.—Sub-
14 section (a) shall not apply to any dividend from a
15 corporation which for the taxable year of the cor-
16 poration in which the distribution is made is a cor-
17 poration exempt from tax under section 521 (relat-
18 ing to farmers’ cooperative associations).”.

19 (b) CONFORMING AMENDMENTS.—

20 (1) Subparagraph (A) of section 32(i)(2) of
21 such Code is amended by inserting “(determined
22 without regard to section 116)” before the comma.

23 (2) Subparagraph (B) of section 86(b)(2) of
24 such Code is amended to read as follows:

1 “(B) increased by the sum of—
2 “(i) the amount of interest received or
3 accrued by the taxpayer during the taxable
4 year which is exempt from tax, and

5 “(ii) the amount of dividends received
6 during the taxable year which are excluded
7 from gross income under section 116.”.

8 (3) 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 (4) Subsection (c) of section 584 of such Code
15 is amended by adding at the end the following new
16 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 (5) 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 (6) 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 (7) 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.”.

“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.

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