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H. R. 50

To amend the Internal Revenue Code of 1986 to eliminate the double taxation of dividends.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 2003

Mr. COX (for himself, Mrs. BIGGERT, Mr. BROWN of South Carolina, Mr. CANTOR, Mrs. JO ANN DAVIS of Virginia, Mr. DEMINT, Mr. DUNCAN, Mr. ENGLISH, Mr. FLAKE, Mr. GALLEGLY, Mr. HERGER, Mr. HYDE, Mr. ISTOOK, Mr. KOLBE, Mr. LATHAM, Mr. NETHERCUTT, Mr. OTTER, Mr. PAUL, Mr. PENCE, Mr. PETRI, Mr. PLATTS, Mr. SESSIONS, Mr. SHAD-EGG, Mr. SHUSTER, Mr. SMITH of Michigan, Mr. SOUDER, Mr. SWEENEY, Mr. TIAHRT, Mr. WELDON of Florida, and 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 eliminate the double taxation of dividends.

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 “Investor Protection,
5 Market Stabilization, and Tax Fairness Restoration Act
6 of 2003”.

1 **SEC. 2. FINDINGS.**

2 Congress finds that:

3 (1) Corporate earnings paid out as dividends
4 are taxed once at the full corporate rate, and again
5 at the full individual rate, leading to an effective
6 rate that can be in excess of 60%.

7 (2) This confiscatory taxation of dividends has
8 contributed to a steady diminution of dividend pay-
9 out ratios and the virtual elimination of dividends as
10 the primary method of rewarding equity investors
11 for risk.

12 (3) When taxation makes dividend distributions
13 uneconomical, investors are forced to look at sale or
14 collateralization of stock as essentially the only ways
15 of achieving an adequate rate of return on invest-
16 ment.

17 (4) As a result, even companies with healthy
18 earnings are unable to protect their investors from
19 loss during a stock market downturn.

20 **SEC. 3. PURPOSE.**

21 The purpose of this Act is to protect taxpaying inves-
22 tors in America's equity markets, promote a greater cor-
23 relation between earnings and equity prices, and encour-
24 age economic growth by eliminating the unfair double tax-
25 ation of dividends.

1 **SEC. 4. ELIMINATION OF DOUBLE TAX ON DIVIDENDS.**

2 (a) **DIVIDENDS RECEIVED BY INDIVIDUALS.—**

3 (1) **CREDIT FOR TAX PAID BY DISTRIBUTING**
4 **CORPORATION.—**Part IV of subchapter A of chapter
5 1 of the Internal Revenue Code of 1986 is amended
6 by adding at the end thereof the following new sub-
7 part:

8 **“Subpart H—Individual Shareholder Credit**

“Sec. 54. Allowance of shareholder credit.

“Sec. 54A. Determination of shareholder credit.

“Sec. 54B. Inclusion of shareholder credit.

9 **“SEC. 54. ALLOWANCE OF SHAREHOLDER CREDIT.**

10 “(a) **GENERAL RULE.—**In the case of a taxpayer
11 other than a corporation, there shall be allowed as a credit
12 against the tax imposed by this chapter for the taxable
13 year an amount equal to the shareholder credits deter-
14 mined with respect to dividends from domestic corpora-
15 tions received by the taxpayer during the taxable year.

16 “(b) **LIMITATION.—**The amount allowed as a credit
17 under subsection (a) for any taxable year shall not exceed
18 the sum of—

19 “(1) the regular tax liability of the taxpayer for
20 the taxable year reduced by the sum of the credits
21 allowable under this part (other than subpart C),
22 and

23 “(2) the minimum tax imposed by section 55.

1 “(c) NONRESIDENT ALIENS.—No credit shall be al-
2 lowed under this section to any nonresident alien with re-
3 spect to any dividend unless such dividend is taxable under
4 section 871(b) (relating to income effectively connected
5 with United States business).

6 **“SEC. 54A. DETERMINATION OF SHAREHOLDER CREDIT.**

7 “(a) GENERAL RULE.—For purposes of this subpart,
8 the shareholder credit with respect to any dividend paid
9 by a domestic corporation is an amount which bears the
10 same ratio to such corporation’s post-2002 Federal income
11 taxes as—

12 “(1) the amount of such dividend (determined
13 without regard to section 54B), bears to

14 “(2) such corporation’s post-2002 undistributed
15 earnings.

16 “(b) POST-2002 FEDERAL INCOME TAXES.—For
17 purposes of this section—

18 “(1) IN GENERAL.—The term ‘post-2002 Fed-
19 eral income taxes’ means the sum of—

20 “(A) the Federal income taxes with respect
21 to the taxable year of the distributing corpora-
22 tion in which the dividend is distributed, plus

23 “(B) the Federal income taxes with respect
24 to prior taxable years of such corporation begin-
25 ning after December 31, 2002, reduced by the

1 amount of shareholder credits determined with
2 respect to distributions by such corporation in
3 such prior taxable years.

4 “(2) FEDERAL INCOME TAXES.—The term
5 ‘Federal income taxes’ means any tax paid by the
6 corporation under this chapter. Any shareholder
7 credit determined under this section with respect to
8 a dividend received by the corporation during any
9 taxable year shall be treated as a tax paid by the
10 corporation under this chapter for such taxable year.

11 “(c) POST-2002 UNDISTRIBUTED EARNINGS.—For
12 purposes of this section, the term ‘post-2002 undistributed
13 earnings’ means the earnings and profits of the distrib-
14 uting corporation accumulated in taxable years beginning
15 after December 31, 2002, determined—

16 “(1) as of the close of the taxable year in which
17 the dividend is distributed, and

18 “(2) without diminution by reason of dividends
19 distributed during such taxable year.

20 **“SEC. 54B. INCLUSION OF SHAREHOLDER CREDIT.**

21 “In the case of a taxpayer other than a corporation,
22 gross income shall include the amount of the shareholder
23 credits determined under section 54A with respect to divi-
24 dends received by such shareholder.”

1 (2) CLERICAL AMENDMENT.—The table of sub-
2 parts for part IV of subchapter A of chapter 1 of
3 such Code is amended by adding at the end thereof
4 the following new item:

“Subpart H. Individual shareholder credit.”

5 (3) EFFECTIVE DATE.—The amendments made
6 by this subsection shall apply to dividends paid out
7 of earnings and profits for taxable years beginning
8 after December 31, 2002.

9 (b) DIVIDENDS RECEIVED BY CORPORATIONS.—

10 (1) IN GENERAL.—Subsection (a) of section
11 243 of such Code (relating to dividends received by
12 corporations) is amended to read as follows:

13 “(a) GENERAL RULE.—In the case of a corporation,
14 there shall be allowed as a deduction an amount equal to
15 100 percent of the amount received as dividends from a
16 domestic corporation which is subject to taxation under
17 this chapter.”

18 (2) DIVIDENDS ON CERTAIN PREFERRED
19 STOCK.—Section 244 of such Code (relating to divi-
20 dends received on certain preferred stock) is amend-
21 ed—

22 (A) by striking “70 percent” in subsection

23 (a)(3) and inserting “100 percent”,

24 (B) by striking “(a) IN GENERAL.—”, and

25 (C) by striking subsection (b).

1 (3) TECHNICAL, CONFORMING AND CLERICAL
2 AMENDMENTS.—

3 (A) Section 243 of such Code (relating to
4 dividends received by corporations) is amended
5 by striking subsections (b) and (c) and by re-
6 designating subsections (d) and (e) as sub-
7 sections (b) and (c), respectively.

8 (B) Subsection (b) of section 246 of such
9 Code (relating to rules applying to deductions
10 for dividends received) is amended—

11 (i) in paragraph (1) by striking
12 “243(a)(1), 244(a)” each time it appears
13 and inserting “243, 244” and by striking
14 “the percentage determined under para-
15 graph (3) of”, and

16 (ii) by striking paragraph (3).

17 (C)(i) Subparagraph (A) of section
18 805(a)(4) of such Code (relating to dividends
19 received by life insurance companies) is amend-
20 ed by striking all that follows “subparagraph
21 (B))” and inserting a period.

22 (ii) Subparagraph (B) of section 805(a)(4)
23 of such Code is amended—

1 (I) by striking “243(a)(1), 244(a)”
2 each place it appears and inserting “243,
3 244”,

4 (II) by striking “the percentage deter-
5 mined under section 246(b)(3) of”, and

6 (III) by striking “(and such limitation
7 shall be applied as provided in section
8 246(b)(3))”.

9 (iii) Paragraph (4) of section 805(a) of
10 such Code is amended by striking subpara-
11 graphs (C), (D), (E), and (F) and inserting the
12 following:

13 “(C) DISTRIBUTIONS OUT OF TAX-EXEMPT
14 INTEREST.—No deduction shall be allowed by
15 reason of this paragraph with respect to any
16 dividend to the extent the dividend is a distribu-
17 tion out of tax-exempt interest.”

18 (D) Subparagraph (C) of section 861(a)(2)
19 of such Code (relating to income from sources
20 within the United States) is amended by strik-
21 ing “243(e)” and inserting “243(c)”.

22 (E) Subparagraph (B) of section
23 1504(c)(2) of such Code (relating to definition
24 of includible insurance companies) is amended
25 by striking clause (i) and by redesignating

1 clauses (ii) and (iii) as clauses (i) and (ii), re-
2 spectively.

3 (4) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to taxable years end-
5 ing after the date of the enactment of this Act.

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