

PUBLIC LAW 108-27—MAY 28, 2003

**JOBS AND GROWTH TAX RELIEF
RECONCILIATION ACT OF 2003**

Public Law 108–27
108th Congress

An Act

May 28, 2003
[H.R. 2]

To provide for reconciliation pursuant to section 201 of the concurrent resolution
on the budget for fiscal year 2004.

Jobs and Growth
Tax Relief
Reconciliation
Act of 2003.
26 USC 1 note.

*Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled,*

SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CONTENTS.

(a) **SHORT TITLE.**—This Act may be cited as the “Jobs and Growth Tax Relief Reconciliation Act of 2003”.

(b) **AMENDMENT OF 1986 CODE.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) **TABLE OF CONTENTS.**—The table of contents of this Act is as follows:

Sec. 1. Short title; references; table of contents.

**TITLE I—ACCELERATION OF CERTAIN PREVIOUSLY ENACTED TAX
REDUCTIONS**

Sec. 101. Acceleration of increase in child tax credit.

Sec. 102. Acceleration of 15-percent individual income tax rate bracket expansion for married taxpayers filing joint returns.

Sec. 103. Acceleration of increase in standard deduction for married taxpayers filing joint returns.

Sec. 104. Acceleration of 10-percent individual income tax rate bracket expansion.

Sec. 105. Acceleration of reduction in individual income tax rates.

Sec. 106. Minimum tax relief to individuals.

Sec. 107. Application of EGTRRA sunset to this title.

TITLE II—GROWTH INCENTIVES FOR BUSINESS

Sec. 201. Increase and extension of bonus depreciation.

Sec. 202. Increased expensing for small business.

TITLE III—REDUCTION IN TAXES ON DIVIDENDS AND CAPITAL GAINS

Sec. 301. Reduction in capital gains rates for individuals; repeal of 5-year holding period requirement.

Sec. 302. Dividends of individuals taxed at capital gain rates.

Sec. 303. Sunset of title.

TITLE IV—TEMPORARY STATE FISCAL RELIEF

Sec. 401. Temporary State fiscal relief.

TITLE V—CORPORATE ESTIMATED TAX PAYMENTS FOR 2003

Sec. 501. Time for payment of corporate estimated taxes.

TITLE I—ACCELERATION OF CERTAIN PREVIOUSLY ENACTED TAX REDUCTIONS

SEC. 101. ACCELERATION OF INCREASE IN CHILD TAX CREDIT.

(a) **IN GENERAL.**—The item relating to calendar years 2001 through 2004 in the table contained in paragraph (2) of section 24(a) (relating to per child amount) is amended to read as follows: 26 USC 24.

“2003 or 2004	\$1,000”.
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(b) **ADVANCE PAYMENT OF PORTION OF INCREASED CREDIT IN 2003.**—

(1) **IN GENERAL.**—Subchapter B of chapter 65 (relating to abate-ments, credits, and refunds) is amended by inserting after section 6428 the following new section:

“SEC. 6429. ADVANCE PAYMENT OF PORTION OF INCREASED CHILD CREDIT FOR 2003. 26 USC 6429.

“(a) **IN GENERAL.**—Each taxpayer who was allowed a credit under section 24 on the return for the taxpayer’s first taxable year beginning in 2002 shall be treated as having made a payment against the tax imposed by chapter 1 for such taxable year in an amount equal to the child tax credit refund amount (if any) for such taxable year.

“(b) **CHILD TAX CREDIT REFUND AMOUNT.**—For purposes of this section, the child tax credit refund amount is the amount by which the aggregate credits allowed under part IV of subchapter A of chapter 1 for such first taxable year would have been increased if—

“(1) the per child amount under section 24(a)(2) for such year were \$1,000,

“(2) only qualifying children (as defined in section 24(c)) of the taxpayer for such year who had not attained age 17 as of December 31, 2003, were taken into account, and

“(3) section 24(d)(1)(B)(ii) did not apply.

“(c) **TIMING OF PAYMENTS.**—In the case of any overpayment attributable to this section, the Secretary shall, subject to the provisions of this title, refund or credit such overpayment as rapidly as possible and, to the extent practicable, before October 1, 2003. No refund or credit shall be made or allowed under this section after December 31, 2003.

“(d) **COORDINATION WITH CHILD TAX CREDIT.**—

“(1) **IN GENERAL.**—The amount of credit which would (but for this subsection and section 26) be allowed under section 24 for the taxpayer’s first taxable year beginning in 2003 shall be reduced (but not below zero) by the payments made to the taxpayer under this section. Any failure to so reduce the credit shall be treated as arising out of a mathematical or clerical error and assessed according to section 6213(b)(1).

“(2) **JOINT RETURNS.**—In the case of a payment under this section with respect to a joint return, half of such payment shall be treated as having been made to each individual filing such return.

“(e) **NO INTEREST.**—No interest shall be allowed on any overpayment attributable to this section.”.

(2) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 65 is amended by adding at the end the following new item:

“Sec. 6429. Advance payment of portion of increased child credit for 2003.”.

26 USC 24 note.
Applicability.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2002.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall take effect on the date of the enactment of this Act.

SEC. 102. ACCELERATION OF 15-PERCENT INDIVIDUAL INCOME TAX RATE BRACKET EXPANSION FOR MARRIED TAXPAYERS FILING JOINT RETURNS.

26 USC 1.

(a) IN GENERAL.—The table contained in subparagraph (B) of section 1(f)(8) (relating to applicable percentage) is amended by inserting before the item relating to 2005 the following new item:

“2003 and 2004 200”.

(b) CONFORMING AMENDMENTS.—

(1) Section 1(f)(8)(A) is amended by striking “2004” and inserting “2002”.

26 USC 1 note.

(2) Section 302(c) of the Economic Growth and Tax Relief Reconciliation Act of 2001 is amended by striking “2004” and inserting “2002”.

Applicability.
26 USC 1 note.

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

SEC. 103. ACCELERATION OF INCREASE IN STANDARD DEDUCTION FOR MARRIED TAXPAYERS FILING JOINT RETURNS.

(a) IN GENERAL.—The table contained in paragraph (7) of section 63(c) (relating to applicable percentage) is amended by inserting before the item relating to 2005 the following new item:

“2003 and 2004 200”.

26 USC 1 note.

(b) CONFORMING AMENDMENT.—Section 301(d) of the Economic Growth and Tax Relief Reconciliation Act of 2001 is amended by striking “2004” and inserting “2002”.

Applicability.
26 USC 63 note.

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

SEC. 104. ACCELERATION OF 10-PERCENT INDIVIDUAL INCOME TAX RATE BRACKET EXPANSION.

(a) IN GENERAL.—Clause (i) of section 1(i)(1)(B) (relating to the initial bracket amount) is amended by striking “(\$12,000 in the case of taxable years beginning before January 1, 2008)” and inserting “(\$12,000 in the case of taxable years beginning after December 31, 2004, and before January 1, 2008)”.

(b) INFLATION ADJUSTMENT.—Subparagraph (C) of section 1(i)(1) is amended to read as follows:

“(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2000—

“(i) except as provided in clause (ii), the Secretary shall make no adjustment to the initial bracket amounts for any taxable year beginning before January 1, 2009,

“(ii) there shall be an adjustment under subsection (f) of such amounts which shall apply only to taxable years beginning in 2004, and such adjustment shall be determined under subsection (f)(3) by substituting ‘2002’ for ‘1992’ in subparagraph (B) thereof,

“(iii) the cost-of-living adjustment used in making adjustments to the initial bracket amounts for any taxable year beginning after December 31, 2008, shall be determined under subsection (f)(3) by substituting ‘2007’ for ‘1992’ in subparagraph (B) thereof, and

“(iv) the adjustments under clauses (ii) and (iii) shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.”.

(c) **EFFECTIVE DATE.**—

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

(2) **TABLES FOR 2003.**—The Secretary of the Treasury shall modify each table which has been prescribed under section 1(f) of the Internal Revenue Code of 1986 for taxable years beginning in 2003 and which relates to the amendment made by subsection (a) to reflect such amendment.

26 USC 1 note.
Applicability.

SEC. 105. ACCELERATION OF REDUCTION IN INDIVIDUAL INCOME TAX RATES.

(a) **IN GENERAL.**—The table contained in paragraph (2) of section 1(i) (relating to reductions in rates after June 30, 2001) is amended to read as follows:

26 USC 1.

“In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2001	27.5%	30.5%	35.5%	39.1%
2002	27.0%	30.0%	35.0%	38.6%
2003 and thereafter	25.0%	28.0%	33.0%	35.0%”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after December 31, 2002.

Applicability.
26 USC 1 note.

SEC. 106. MINIMUM TAX RELIEF TO INDIVIDUALS.

(a) **IN GENERAL.**—

(1) Subparagraph (A) of section 55(d)(1) is amended by striking “\$49,000 in the case of taxable years beginning in 2001, 2002, 2003, and 2004” and inserting “\$58,000 in the case of taxable years beginning in 2003 and 2004”.

(2) Subparagraph (B) of section 55(d)(1) is amended by striking “\$35,750 in the case of taxable years beginning in 2001, 2002, 2003, and 2004” and inserting “\$40,250 in the case of taxable years beginning in 2003 and 2004”.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall apply to taxable years beginning after December 31, 2002.

Applicability.
26 USC 55 note.

SEC. 107. APPLICATION OF EGTRRA SUNSET TO THIS TITLE.

26 USC 1 note.

Each amendment made by this title shall be subject to title IX of the Economic Growth and Tax Relief Reconciliation Act of

2001 to the same extent and in the same manner as the provision of such Act to which such amendment relates.

TITLE II—GROWTH INCENTIVES FOR BUSINESS

SEC. 201. INCREASE AND EXTENSION OF BONUS DEPRECIATION.

26 USC 168.

(a) IN GENERAL.—Section 168(k) (relating to special allowance for certain property acquired after September 10, 2001, and before September 11, 2004) is amended by adding at the end the following new paragraph:

“(4) 50-PERCENT BONUS DEPRECIATION FOR CERTAIN PROPERTY.—

“(A) IN GENERAL.—In the case of 50-percent bonus depreciation property—

Applicability.

“(i) paragraph (1)(A) shall be applied by substituting ‘50 percent’ for ‘30 percent’, and

“(ii) except as provided in paragraph (2)(C), such property shall be treated as qualified property for purposes of this subsection.

“(B) 50-PERCENT BONUS DEPRECIATION PROPERTY.—For purposes of this subsection, the term ‘50-percent bonus depreciation property’ means property described in paragraph (2)(A)(i)—

“(i) the original use of which commences with the taxpayer after May 5, 2003,

“(ii) which is acquired by the taxpayer after May 5, 2003, and before January 1, 2005, but only if no written binding contract for the acquisition was in effect before May 6, 2003, and

“(iii) which is placed in service by the taxpayer before January 1, 2005, or, in the case of property described in paragraph (2)(B) (as modified by subparagraph (C) of this paragraph), before January 1, 2006.

Applicability.

“(C) SPECIAL RULES.—Rules similar to the rules of subparagraphs (B) and (D) of paragraph (2) shall apply for purposes of this paragraph; except that references to September 10, 2001, shall be treated as references to May 5, 2003.

Applicability.

“(D) AUTOMOBILES.—Paragraph (2)(E) shall be applied by substituting ‘\$7,650’ for ‘\$4,600’ in the case of 50-percent bonus depreciation property.

“(E) ELECTION OF 30-PERCENT BONUS.—If a taxpayer makes an election under this subparagraph with respect to any class of property for any taxable year, subparagraph (A)(i) shall not apply to all property in such class placed in service during such taxable year.”.

(b) EXTENSION OF CERTAIN DATES FOR 30-PERCENT BONUS DEPRECIATION PROPERTY.—

(1) PORTION OF BASIS TAKEN INTO ACCOUNT.—

(A) Subparagraphs (B)(ii) and (D)(i) of section 168(k)(2) are each amended by striking “September 11, 2004” each place it appears in the text and inserting “January 1, 2005”.

(B) Clause (ii) of section 168(k)(2)(B) is amended by striking “PRE-SEPTEMBER 11, 2004” in the heading and inserting “PRE-JANUARY 1, 2005”. 26 USC 168.

(2) ACQUISITION DATE.—Clause (iii) of section 168(k)(2)(A) is amended by striking “September 11, 2004” each place it appears and inserting “January 1, 2005”.

(3) ELECTION.—Clause (iii) of section 168(k)(2)(C) is amended by adding at the end the following: “The preceding sentence shall be applied separately with respect to property treated as qualified property by paragraph (4) and other qualified property.”. Applicability.

(c) CONFORMING AMENDMENTS.—

(1) The subsection heading for section 168(k) is amended by striking “SEPTEMBER 11, 2004” and inserting “JANUARY 1, 2005”.

(2) The heading for clause (i) of section 1400L(b)(2)(C) is amended by striking “30-PERCENT ADDITIONAL ALLOWANCE PROPERTY” and inserting “BONUS DEPRECIATION PROPERTY UNDER SECTION 168(k)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after May 5, 2003. Applicability.
26 USC 168 note.

SEC. 202. INCREASED EXPENSING FOR SMALL BUSINESS.

(a) IN GENERAL.—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:

“(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$25,000 (\$100,000 in the case of taxable years beginning after 2002 and before 2006).”.

(b) INCREASE IN QUALIFYING INVESTMENT AT WHICH PHASEOUT BEGINS.—Paragraph (2) of section 179(b) (relating to reduction in limitation) is amended by inserting “(\$400,000 in the case of taxable years beginning after 2002 and before 2006)” after “\$200,000”.

(c) OFF-THE-SHELF COMPUTER SOFTWARE.—Paragraph (1) of section 179(d) (defining section 179 property) is amended to read as follows:

“(1) SECTION 179 PROPERTY.—For purposes of this section, the term ‘section 179 property’ means property—

“(A) which is—

“(i) tangible property (to which section 168 applies), or

“(ii) computer software (as defined in section 197(e)(3)(B)) which is described in section 197(e)(3)(A)(i), to which section 167 applies, and which is placed in service in a taxable year beginning after 2002 and before 2006,

“(B) which is section 1245 property (as defined in section 1245(a)(3)), and

“(C) which is acquired by purchase for use in the active conduct of a trade or business.

Such term shall not include any property described in section 50(b) and shall not include air conditioning or heating units.”.

(d) ADJUSTMENT OF DOLLAR LIMIT AND PHASEOUT THRESHOLD FOR INFLATION.—Subsection (b) of section 179 (relating to limitations) is amended by adding at the end the following new paragraph:

“(5) INFLATION ADJUSTMENTS.—

“(A) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2003 and before 2006, the \$100,000 and \$400,000 amounts in paragraphs (1) and (2) shall each be increased by an amount equal to—

“(i) such dollar 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.—

“(i) DOLLAR LIMITATION.—If the amount in paragraph (1) as increased under subparagraph (A) is not a multiple of \$1,000, such amount shall be rounded to the nearest multiple of \$1,000.

“(ii) PHASEOUT AMOUNT.—If the amount in paragraph (2) as increased under subparagraph (A) is not a multiple of \$10,000, such amount shall be rounded to the nearest multiple of \$10,000.”

26 USC 179.

(e) REVOCATION OF ELECTION.—Paragraph (2) of section 179(c) (relating to election irrevocable) is amended by adding at the end the following new sentence: “Any such election or specification with respect to any taxable year beginning after 2002 and before 2006 may be revoked by the taxpayer with respect to any property, and such revocation, once made, shall be irrevocable.”

Applicability.
26 USC 179 note.

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

TITLE III—REDUCTION IN TAXES ON DIVIDENDS AND CAPITAL GAINS

SEC. 301. REDUCTION IN CAPITAL GAINS RATES FOR INDIVIDUALS; REPEAL OF 5-YEAR HOLDING PERIOD REQUIREMENT.

(a) IN GENERAL.—

(1) Sections 1(h)(1)(B) and 55(b)(3)(B) are each amended by striking “10 percent” and inserting “5 percent (0 percent in the case of taxable years beginning after 2007)”.

(2) The following sections are each amended by striking “20 percent” and inserting “15 percent”:

(A) Section 1(h)(1)(C).

(B) Section 55(b)(3)(C).

(C) Section 1445(e)(1).

(D) The second sentence of section 7518(g)(6)(A).

(E) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936.

46 USC
app. 1177.

(b) CONFORMING AMENDMENTS.—

(1) Section 1(h) is amended—

(A) by striking paragraphs (2) and (9),

(B) by redesignating paragraphs (3) through (8) as paragraphs (2) through (7), respectively, and

(C) by redesignating paragraphs (10), (11), and (12) as paragraphs (8), (9), and (10), respectively.

(2) Paragraph (3) of section 55(b) is amended by striking “In the case of taxable years beginning after December 31, 2000, rules similar to the rules of section 1(h)(2) shall apply for purposes of subparagraphs (B) and (C).”.

(3) Paragraph (7) of section 57(a) is amended—

26 USC 57.

(A) by striking “42 percent” the first place it appears and inserting “7 percent”, and

(B) by striking the last sentence.

(c) TRANSITIONAL RULES FOR TAXABLE YEARS WHICH INCLUDE MAY 6, 2003.—For purposes of applying section 1(h) of the Internal Revenue Code of 1986 in the case of a taxable year which includes May 6, 2003—

26 USC 1 note.

(1) The amount of tax determined under subparagraph

(B) of section 1(h)(1) of such Code shall be the sum of—

(A) 5 percent of the lesser of—

(i) the net capital gain determined by taking into account only gain or loss properly taken into account for the portion of the taxable year on or after May 6, 2003 (determined without regard to collectibles gain or loss, gain described in section 1(h)(6)(A)(i) of such Code, and section 1202 gain), or

(ii) the amount on which a tax is determined under such subparagraph (without regard to this subsection),

(B) 8 percent of the lesser of—

(i) the qualified 5-year gain (as defined in section 1(h)(9) of the Internal Revenue Code of 1986, as in effect on the day before the date of the enactment of this Act) properly taken into account for the portion of the taxable year before May 6, 2003, or

(ii) the excess (if any) of—

(I) the amount on which a tax is determined under such subparagraph (without regard to this subsection), over

(II) the amount on which a tax is determined under subparagraph (A), plus

(C) 10 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (without regard to this subsection), over

(ii) the sum of the amounts on which a tax is determined under subparagraphs (A) and (B).

(2) The amount of tax determined under subparagraph (C) of section 1(h)(1) of such Code shall be the sum of—

(A) 15 percent of the lesser of—

(i) the excess (if any) of the amount of net capital gain determined under subparagraph (A)(i) of paragraph (1) of this subsection over the amount on which a tax is determined under subparagraph (A) of paragraph (1) of this subsection, or

(ii) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), plus

(B) 20 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(3) For purposes of applying section 55(b)(3) of such Code, rules similar to the rules of paragraphs (1) and (2) of this subsection shall apply.

Applicability.

(4) In applying this subsection with respect to any pass-thru entity, the determination of when gains and losses are properly taken into account shall be made at the entity level.

(5) For purposes of applying section 1(h)(11) of such Code, as added by section 302 of this Act, to this subsection, dividends which are qualified dividend income shall be treated as gain properly taken into account for the portion of the taxable year on or after May 6, 2003.

(6) Terms used in this subsection which are also used in section 1(h) of such Code shall have the respective meanings that such terms have in such section.

Applicability.
26 USC 1 note.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided by this subsection, the amendments made by this section shall apply to taxable years ending on or after May 6, 2003.

(2) WITHHOLDING.—The amendment made by subsection (a)(2)(C) shall apply to amounts paid after the date of the enactment of this Act.

(3) SMALL BUSINESS STOCK.—The amendments made by subsection (b)(3) shall apply to dispositions on or after May 6, 2003.

SEC. 302. DIVIDENDS OF INDIVIDUALS TAXED AT CAPITAL GAIN RATES.

26 USC 1.

(a) IN GENERAL.—Section 1(h) (relating to maximum capital gains rate), as amended by section 301, is amended by adding at the end the following new paragraph:

“(11) DIVIDENDS TAXED AS NET CAPITAL GAIN.—

“(A) IN GENERAL.—For purposes of this subsection, the term ‘net capital gain’ means net capital gain (determined without regard to this paragraph) increased by qualified dividend income.

“(B) QUALIFIED DIVIDEND INCOME.—For purposes of this paragraph—

“(i) IN GENERAL.—The term ‘qualified dividend income’ means dividends received during the taxable year from—

“(I) domestic corporations, and

“(II) qualified foreign corporations.

“(ii) CERTAIN DIVIDENDS EXCLUDED.—Such term shall not include—

“(I) any dividend from a corporation which for the taxable year of the corporation in which the distribution is made, or the preceding taxable year, is a corporation exempt from tax under section 501 or 521,

“(II) any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.), and

“(III) any dividend described in section 404(k).

“(iii) COORDINATION WITH SECTION 246(c).—Such term shall not include any dividend on any share of stock—

“(I) with respect to which the holding period requirements of section 246(c) are not met (determined by substituting in section 246(c)(1) ‘60 days’ for ‘45 days’ each place it appears and by substituting ‘120-day period’ for ‘90-day period’), or

“(II) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

“(C) QUALIFIED FOREIGN CORPORATIONS.—

“(i) IN GENERAL.—Except as otherwise provided in this paragraph, the term ‘qualified foreign corporation’ means any foreign corporation if—

“(I) such corporation is incorporated in a possession of the United States, or

“(II) such corporation is eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this paragraph and which includes an exchange of information program.

“(ii) DIVIDENDS ON STOCK READILY TRADABLE ON UNITED STATES SECURITIES MARKET.—A foreign corporation not otherwise treated as a qualified foreign corporation under clause (i) shall be so treated with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States.

“(iii) EXCLUSION OF DIVIDENDS OF CERTAIN FOREIGN CORPORATIONS.—Such term shall not include any foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a foreign personal holding company (as defined in section 552), a foreign investment company (as defined in section 1246(b)), or a passive foreign investment company (as defined in section 1297).

“(iv) COORDINATION WITH FOREIGN TAX CREDIT LIMITATION.—Rules similar to the rules of section 904(b)(2)(B) shall apply with respect to the dividend rate differential under this paragraph.

Applicability.

“(D) SPECIAL RULES.—

“(i) AMOUNTS TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—Qualified dividend income shall not include any amount which the taxpayer takes into account as investment income under section 163(d)(4)(B).

“(ii) EXTRAORDINARY DIVIDENDS.—If an individual receives, with respect to any share of stock, qualified dividend income from 1 or more dividends which are extraordinary dividends (within the meaning of section 1059(c)), any loss on the sale or exchange of such share shall, to the extent of such dividends, be treated as long-term capital loss.

“(iii) TREATMENT OF DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—A dividend received from a regulated investment company or a real estate investment trust shall be subject to the limitations prescribed in sections 854 and 857.”.

26 USC 163. (b) EXCLUSION OF DIVIDENDS FROM INVESTMENT INCOME.—Subparagraph (B) of section 163(d)(4) (defining net investment income) is amended by adding at the end the following flush sentence:

“Such term shall include qualified dividend income (as defined in section 1(h)(11)(B)) only to the extent the taxpayer elects to treat such income as investment income for purposes of this subsection.”.

(c) TREATMENT OF DIVIDENDS FROM REGULATED INVESTMENT COMPANIES.—

(1) Subsection (a) of section 854 (relating to dividends received from regulated investment companies) is amended by inserting “section 1(h)(11) (relating to maximum rate of tax on dividends) and” after “For purposes of”.

(2) Paragraph (1) of section 854(b) (relating to other dividends) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

“(B) MAXIMUM RATE UNDER SECTION 1(h).—

“(i) IN GENERAL.—If the aggregate dividends received by a regulated investment company during any taxable year are less than 95 percent of its gross income, then, in computing the maximum rate under section 1(h)(11), rules similar to the rules of subparagraph (A) shall apply.

“(ii) GROSS INCOME.—For purposes of clause (i), in the case of 1 or more sales or other dispositions of stock or securities, the term ‘gross income’ includes only the excess of—

“(I) the net short-term capital gain from such sales or dispositions, over

“(II) the net long-term capital loss from such sales or dispositions.

“(iii) DIVIDENDS FROM REAL ESTATE INVESTMENT TRUSTS.—For purposes of clause (i)—

“(I) paragraph (3)(B)(ii) shall not apply, and

“(II) in the case of a distribution from a trust described in such paragraph, the amount of such distribution which is a dividend shall be subject to the limitations under section 857(c).

“(iv) DIVIDENDS FROM QUALIFIED FOREIGN CORPORATIONS.—For purposes of clause (i), dividends received from qualified foreign corporations (as defined in section 1(h)(11)) shall also be taken into account in computing aggregate dividends received.”.

(3) Subparagraph (C) of section 854(b)(1), as redesignated by paragraph (2), is amended by striking “subparagraph (A)” and inserting “subparagraph (A) or (B)”.

(4) Paragraph (2) of section 854(b) is amended by inserting “the maximum rate under section 1(h)(11) and” after “for purposes of”.

(5) Subsection (b) of section 854 is amended by adding at the end the following new paragraph:

“(5) COORDINATION WITH SECTION 1(h)(11).—For purposes of paragraph (1)(B), an amount shall be treated as a dividend only if the amount is qualified dividend income (within the meaning of section 1(h)(11)(B)).”.

Applicability.

(d) TREATMENT OF DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—Section 857(c) (relating to restrictions applicable to dividends received from real estate investment trusts) is amended to read as follows: 26 USC 857.

“(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

“(1) SECTION 243.—For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered a dividend.

“(2) SECTION 1(h)(11).—For purposes of section 1(h)(11) (relating to maximum rate of tax on dividends)—

“(A) rules similar to the rules of subparagraphs (B) and (C) of section 854(b)(1) shall apply to dividends received from a real estate investment trust which meets the requirements of this part, and

Applicability.

“(B) for purposes of such rules, such a trust shall be treated as receiving qualified dividend income during any taxable year in an amount equal to the sum of—

“(i) the excess of real estate investment trust taxable income computed under section 857(b)(2) for the preceding taxable year over the tax payable by the trust under section 857(b)(1) for such preceding taxable year, and

“(ii) the excess of the income subject to tax by reason of the application of the regulations under section 337(d) for the preceding taxable year over the tax payable by the trust on such income for such preceding taxable year.”.

(e) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 1(h), as redesignated by section 301, is amended to read as follows:

“(3) ADJUSTED NET CAPITAL GAIN.—For purposes of this subsection, the term ‘adjusted net capital gain’ means the sum of—

“(A) net capital gain (determined without regard to paragraph (11)) reduced (but not below zero) by the sum of—

“(i) unrecaptured section 1250 gain, and

“(ii) 28-percent rate gain, plus

“(B) qualified dividend income (as defined in paragraph (11)).”.

(2) Subsection (f) of section 301 is amended adding at the end the following new paragraph:

“(4) For taxation of dividends received by individuals at capital gain rates, see section 1(h)(11).”.

(3) Paragraph (1) of section 306(a) is amended by adding at the end the following new subparagraph:

“(D) TREATMENT AS DIVIDEND.—For purposes of section 1(h)(11) and such other provisions as the Secretary may specify, any amount treated as ordinary income under this paragraph shall be treated as a dividend received from the corporation.”.

(4)(A) Subpart C of part II of subchapter C of chapter 1 (relating to collapsible corporations) is repealed.

26 USC 341.

(B)(i) Section 338(h) is amended by striking paragraph (14).

26 USC 467,
1255, 1257.

(ii) Sections 467(c)(5)(C), 1255(b)(2), and 1257(d) are each amended by striking “, 341(e)(12).”

(iii) The table of subparts for part II of subchapter C of chapter 1 is amended by striking the item related to subpart C.

(5) Section 531 is amended by striking “equal to” and all that follows and inserting “equal to 15 percent of the accumulated taxable income.”

(6) Section 541 is amended by striking “equal to” and all that follows and inserting “equal to 15 percent of the undistributed personal holding company income.”

(7) Section 584(c) is amended by adding at the end the following new flush sentence:

“The proportionate share of each participant in the amount of dividends received by the common trust fund and to which section 1(h)(11) applies shall be considered for purposes of such paragraph as having been received by such participant.”

(8) Paragraph (5) of section 702(a) is amended to read as follows:

“(5) dividends with respect to which section 1(h)(11) or part VIII of subchapter B applies.”

Applicability.
26 USC 1 note.

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2002.

(2) REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—In the case of a regulated investment company or a real estate investment trust, the amendments made by this section shall apply to taxable years ending after December 31, 2002; except that dividends received by such a company or trust on or before such date shall not be treated as qualified dividend income (as defined in section 1(h)(11)(B) of the Internal Revenue Code of 1986, as added by this Act).

26 USC 1 note.

SEC. 303. SUNSET OF TITLE.

All provisions of, and amendments made by, this title shall not apply to taxable years beginning after December 31, 2008, and the Internal Revenue Code of 1986 shall be applied and administered to such years as if such provisions and amendments had never been enacted.

TITLE IV—TEMPORARY STATE FISCAL RELIEF

42 USC 1396d
note.

SEC. 401. TEMPORARY STATE FISCAL RELIEF.

(a) \$10,000,000,000 FOR A TEMPORARY INCREASE OF THE MEDICAID FMAP.—

(1) PERMITTING MAINTENANCE OF FISCAL YEAR 2002 FMAP FOR LAST 2 CALENDAR QUARTERS OF FISCAL YEAR 2003.—Subject to paragraph (5), if the FMAP determined without regard to this subsection for a State for fiscal year 2003 is less than the FMAP as so determined for fiscal year 2002, the FMAP for the State for fiscal year 2002 shall be substituted for the State’s FMAP for the third and fourth calendar quarters of fiscal year 2003, before the application of this subsection.

(2) PERMITTING MAINTENANCE OF FISCAL YEAR 2003 FMAP FOR FIRST 3 QUARTERS OF FISCAL YEAR 2004.—Subject to paragraph (5), if the FMAP determined without regard to this subsection for a State for fiscal year 2004 is less than the FMAP as so determined for fiscal year 2003, the FMAP for the State for fiscal year 2003 shall be substituted for the State's FMAP for the first, second, and third calendar quarters of fiscal year 2004, before the application of this subsection.

(3) GENERAL 2.95 PERCENTAGE POINTS INCREASE FOR LAST 2 CALENDAR QUARTERS OF FISCAL YEAR 2003 AND FIRST 3 CALENDAR QUARTERS OF FISCAL YEAR 2004.—Subject to paragraphs (5), (6), and (7), for each State for the third and fourth calendar quarters of fiscal year 2003 and for the first, second, and third calendar quarters of fiscal year 2004, the FMAP (taking into account the application of paragraphs (1) and (2)) shall be increased by 2.95 percentage points.

(4) INCREASE IN CAP ON MEDICAID PAYMENTS TO TERRITORIES.—Subject to paragraphs (6) and (7), with respect to the third and fourth calendar quarters of fiscal year 2003 and the first, second, and third calendar quarters of fiscal year 2004, the amounts otherwise determined for Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, and American Samoa under subsections (f) and (g) of section 1108 of the Social Security Act (42 U.S.C. 1308) shall each be increased by an amount equal to 5.90 percent of such amounts.

(5) SCOPE OF APPLICATION.—The increases in the FMAP for a State under this subsection shall apply only for purposes of title XIX of the Social Security Act and shall not apply with respect to—

(A) disproportionate share hospital payments described in section 1923 of such Act (42 U.S.C. 1396r–4);

(B) payments under title IV or XXI of such Act (42 U.S.C. 601 et seq. and 1397aa et seq.); or

(C) any payments under XIX of such Act that are based on the enhanced FMAP described in section 2105(b) of such Act (42 U.S.C. 1397ee(b)).

(6) STATE ELIGIBILITY.—

(A) IN GENERAL.—Subject to subparagraph (B), a State is eligible for an increase in its FMAP under paragraph (3) or an increase in a cap amount under paragraph (4) only if the eligibility under its State plan under title XIX of the Social Security Act (including any waiver under such title or under section 1115 of such Act (42 U.S.C. 1315)) is no more restrictive than the eligibility under such plan (or waiver) as in effect on September 2, 2003.

(B) STATE REINSTATEMENT OF ELIGIBILITY PERMITTED.—A State that has restricted eligibility under its State plan under title XIX of the Social Security Act (including any waiver under such title or under section 1115 of such Act (42 U.S.C. 1315)) after September 2, 2003, is eligible for an increase in its FMAP under paragraph (3) or an increase in a cap amount under paragraph (4) in the first calendar quarter (and subsequent calendar quarters) in which the State has reinstated eligibility that is no more restrictive than the eligibility under such plan (or waiver) as in effect on September 2, 2003.

(C) RULE OF CONSTRUCTION.—Nothing in subparagraph (A) or (B) shall be construed as affecting a State’s flexibility with respect to benefits offered under the State medicaid program under title XIX of the Social Security Act (42 U.S.C. 1396 et seq.) (including any waiver under such title or under section 1115 of such Act (42 U.S.C. 1315)).

(7) REQUIREMENT FOR CERTAIN STATES.—In the case of a State that requires political subdivisions within the State to contribute toward the non-Federal share of expenditures under the State medicaid plan required under section 1902(a)(2) of the Social Security Act (42 U.S.C. 1396a(a)(2)), the State shall not require that such political subdivisions pay a greater percentage of the non-Federal share of such expenditures for the third and fourth calendar quarters of fiscal year 2003 and the first, second and third calendar quarters of fiscal year 2004, than the percentage that was required by the State under such plan on April 1, 2003, prior to application of this subsection.

(8) DEFINITIONS.—In this subsection:

(A) FMAP.—The term “FMAP” means the Federal medical assistance percentage, as defined in section 1905(b) of the Social Security Act (42 U.S.C. 1396d(b)).

(B) STATE.—The term “State” has the meaning given such term for purposes of title XIX of the Social Security Act (42 U.S.C. 1396 et seq.).

Effective date.

(9) REPEAL.—Effective as of October 1, 2004, this subsection is repealed.

(b) \$10,000,000,000 TO ASSIST STATES IN PROVIDING GOVERNMENT SERVICES.—The Social Security Act (42 U.S.C. 301 et seq.) is amended by inserting after title V the following:

“TITLE VI—TEMPORARY STATE FISCAL RELIEF

42 USC 801.

“SEC. 601. TEMPORARY STATE FISCAL RELIEF.

“(a) APPROPRIATION.—There is authorized to be appropriated and is appropriated for making payments to States under this section, \$5,000,000,000 for each of fiscal years 2003 and 2004.

Deadlines.

“(b) PAYMENTS.—

“(1) FISCAL YEAR 2003.—From the amount appropriated under subsection (a) for fiscal year 2003, the Secretary of the Treasury shall, not later than the later of the date that is 45 days after the date of enactment of this Act or the date that a State provides the certification required by subsection (e) for fiscal year 2003, pay each State the amount determined for the State for fiscal year 2003 under subsection (c).

“(2) FISCAL YEAR 2004.—From the amount appropriated under subsection (a) for fiscal year 2004, the Secretary of the Treasury shall, not later than the later of October 1, 2003, or the date that a State provides the certification required by subsection (e) for fiscal year 2004, pay each State the amount determined for the State for fiscal year 2004 under subsection (c).

“(c) PAYMENTS BASED ON POPULATION.—

“(1) IN GENERAL.—Subject to paragraph (2), the amount appropriated under subsection (a) for each of fiscal years 2003

and 2004 shall be used to pay each State an amount equal to the relative population proportion amount described in paragraph (3) for such fiscal year.

“(2) MINIMUM PAYMENT.—

“(A) IN GENERAL.—No State shall receive a payment under this section for a fiscal year that is less than—

“(i) in the case of 1 of the 50 States or the District of Columbia, $\frac{1}{2}$ of 1 percent of the amount appropriated for such fiscal year under subsection (a); and

“(ii) in the case of the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa, $\frac{1}{10}$ of 1 percent of the amount appropriated for such fiscal year under subsection (a).

“(B) PRO RATA ADJUSTMENTS.—The Secretary of the Treasury shall adjust on a pro rata basis the amount of the payments to States determined under this section without regard to this subparagraph to the extent necessary to comply with the requirements of subparagraph (A).

“(3) RELATIVE POPULATION PROPORTION AMOUNT.—The relative population proportion amount described in this paragraph is the product of—

“(A) the amount described in subsection (a) for a fiscal year; and

“(B) the relative State population proportion (as defined in paragraph (4)).

“(4) RELATIVE STATE POPULATION PROPORTION DEFINED.—

For purposes of paragraph (3)(B), the term ‘relative State population proportion’ means, with respect to a State, the amount equal to the quotient of—

“(A) the population of the State (as reported in the most recent decennial census); and

“(B) the total population of all States (as reported in the most recent decennial census).

“(d) USE OF PAYMENT.—

“(1) IN GENERAL.—Subject to paragraph (2), a State shall use the funds provided under a payment made under this section for a fiscal year to—

“(A) provide essential government services; or

“(B) cover the costs to the State of complying with any Federal intergovernmental mandate (as defined in section 421(5) of the Congressional Budget Act of 1974) to the extent that the mandate applies to the State, and the Federal Government has not provided funds to cover the costs.

“(2) LIMITATION.—A State may only use funds provided under a payment made under this section for types of expenditures permitted under the most recently approved budget for the State.

“(e) CERTIFICATION.—In order to receive a payment under this section for a fiscal year, the State shall provide the Secretary of the Treasury with a certification that the State’s proposed uses of the funds are consistent with subsection (d).

“(f) DEFINITION OF STATE.—In this section, the term ‘State’ means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, the

Commonwealth of the Northern Mariana Islands, and American Samoa.

Effective date.

“(g) REPEAL.—Effective as of October 1, 2004, this title is repealed.”.

TITLE V—CORPORATE ESTIMATED TAX PAYMENTS FOR 2003

SEC. 501. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

Notwithstanding section 6655 of the Internal Revenue Code of 1986, 25 percent of the amount of any required installment of corporate estimated tax which is otherwise due in September 2003 shall not be due until October 1, 2003.

Approved May 28, 2003.

LEGISLATIVE HISTORY—H.R. 2 (S. 2) (S. 1054):

HOUSE REPORTS: Nos. 108–94 (Comm. on Ways and Means) and 108–126 (Comm. of Conference).

CONGRESSIONAL RECORD, Vol. 149 (2003):

May 9, considered and passed House.

May 14, 15, considered and passed Senate, amended, in lieu of S. 1054.

May 22, House agreed to conference report.

May 23, Senate agreed to conference report.

WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 39 (2003):

May 28, Presidential remarks.

