

103^D CONGRESS
2^D SESSION

H. R. 4792

To amend the Internal Revenue Code of 1986 to provide tax incentives to encourage small investors, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 19, 1994

Mr. MANZULLO (for himself, Mr. LIVINGSTON, Mr. LEVY, Mr. SENSENBRENNER, Mr. MCHUGH, Mr. CANADY, and Mr. PACKARD) 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 provide tax incentives to encourage small investors, 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 “Small Investors Tax Relief Act of 1994”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
2 sion of the Internal Revenue Code of 1986.

3 **SEC. 2. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND**
4 **INCOME FROM TAX.**

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

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

11 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
12 come does not include the sum of the amounts received
13 during the taxable year by an individual as—

14 “(1) dividends from domestic corporations, or

15 “(2) interest.

16 “(b) LIMITATIONS.—

17 “(1) MAXIMUM AMOUNT.—The aggregate
18 amount excluded under subsection (a) for any tax-
19 able year shall not exceed \$2,000 (\$4,000 in the
20 case of a joint return).

21 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
22 section (a)(1) shall not apply to any dividend from
23 a corporation which, for the taxable year of the cor-
24 poration in which the distribution is made, or for the
25 next preceding taxable year of the corporation, is a

1 corporation exempt from tax under section 501 (re-
2 lating to certain charitable, etc., organization) or
3 section 521 (relating to farmers' cooperative associa-
4 tions).

5 “(3) INDEXING FOR INFLATION.—In the case of
6 any taxable year beginning after 1995—

7 “(A) the \$2,000 amount under paragraph
8 (1) shall be increased by an amount equal to—

9 “(i) \$2,000, multiplied by

10 “(ii) the cost-of-living adjustment
11 under section 1(f)(3) for the calendar year
12 in which the taxable year begins, except
13 that subparagraph (B) thereof shall be ap-
14 plied by substituting ‘1994’ for ‘1992’, and

15 “(B) the \$4,000 amount under paragraph
16 (1) shall be increased to an amount equal to
17 twice the amount determined under subpara-
18 graph (A) for the taxable year.

19 If the dollar amount determined after the increase
20 under subparagraph (A) is not a multiple of \$100,
21 such dollar amount shall be rounded to the next low-
22 est multiple of \$100.

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

24 “(1) DISTRIBUTIONS FROM REGULATED IN-
25 VESTMENT COMPANIES AND REAL ESTATE INVEST-

1 MENT TRUSTS.—Subsection (a) shall apply with re-
2 spect to distributions by—

3 “(A) regulated investment companies to
4 the extent provided in section 854(c), and

5 “(B) real estate investment trusts to the
6 extent provided in section 857(c).

7 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
8 poses of subsection (a), the amount of dividends and
9 interest properly allocable to a beneficiary under sec-
10 tion 652 or 662 shall be deemed to have been re-
11 ceived by the beneficiary ratably on the same date
12 that the dividends and interest were received by the
13 estate or trust.

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

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

24 “(B) in determining the tax imposed for
25 the taxable year pursuant to section 877(b).”

1 (b) CLERICAL AND CONFORMING AMENDMENTS.—

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

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

6 (2) Paragraph (2) of section 265(a) is amended
7 by inserting before the period at the end thereof the
8 following: “, or to purchase or carry obligations or
9 shares, or to make deposits, to the extent the inter-
10 est thereon is excludable from gross income under
11 section 116”.

12 (3) Subsection (c) of section 584 is amended by
13 adding at the end the following new sentence: “The
14 proportionate share of each participant in the
15 amount of dividends or interest received by the com-
16 mon trust fund and to which section 116 applies
17 shall be considered for purposes of such section as
18 having been received by such participant.”

19 (4) Subsection (a) of section 643 is amended by
20 inserting after paragraph (6) the following new
21 paragraph:

22 “(7) DIVIDENDS OR INTEREST.—There shall be
23 included the amount of any dividends or interest ex-
24 cluded from gross income pursuant to section 116.”

1 (5) Section 854 is amended by adding at the
2 end the following new subsection:

3 “(c) TREATMENT UNDER SECTION 116.—

4 “(1) IN GENERAL.—For purposes of section
5 116, in the case of any dividend (other than a divi-
6 dend described in subsection (a)) received from a
7 regulated investment company which meets the re-
8 quirements of section 852 for the taxable year in
9 which it paid the dividend—

10 “(A) the entire amount of such dividend
11 shall be treated as a dividend if the aggregate
12 dividends and interest received by such com-
13 pany during the taxable year equal or exceed 75
14 percent of its gross income, or

15 “(B) if subparagraph (A) does not apply,
16 a portion of such dividend shall be treated as
17 a dividend (and a portion of such dividend shall
18 be treated as interest) based on the portion of
19 the company’s gross income which consists of
20 aggregate dividends or aggregate interest, as
21 the case may be.

22 For purposes of the preceding sentence, gross in-
23 come and aggregate interest received shall each be
24 reduced by so much of the deduction allowable by

1 section 163 for the taxable year as does not exceed
2 aggregate interest received for the taxable year.

3 “(2) NOTICE TO SHAREHOLDERS.—The amount
4 of any distribution by a regulated investment com-
5 pany which may be taken into account as a dividend
6 for purposes of the exclusion under section 116 shall
7 not exceed the amount so designated by the com-
8 pany in a written notice to its shareholders mailed
9 not later than 45 days after the close of its taxable
10 year.

11 “(3) DEFINITIONS.—For purposes of this sub-
12 section—

13 “(A) the term ‘gross income’ does not in-
14 clude gain from the sale or other disposition of
15 stock or securities, and

16 “(B) the term ‘aggregate dividends re-
17 ceived’ includes only dividends received from do-
18 mestic corporations other than dividends de-
19 scribed in section 116(b)(2).

20 In determining the amount of any dividend for pur-
21 poses of subparagraph (B), the rules provided in sec-
22 tion 116(c)(1) (relating to certain distributions)
23 shall apply.”

24 (6) Subsection (c) of section 857 of such Code
25 is amended to read as follows:

1 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
2 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

3 “(1) IN GENERAL.—For purposes of section
4 116 (relating to an exclusion for dividends and inter-
5 est received by individuals) and section 243 (relating
6 to deductions for dividends received by corpora-
7 tions), a dividend received from a real estate invest-
8 ment trust which meets the requirements of this
9 part shall not be considered as a dividend.

10 “(2) TREATMENT AS INTEREST.—In the case of
11 a dividend (other than a capital gain dividend, as de-
12 fined in subsection (b)(3)(C)) received from a real
13 estate investment trust which meets the require-
14 ments of this part for the taxable year in which it
15 paid the dividend—

16 “(A) such dividend shall be treated as in-
17 terest if the aggregate interest received by the
18 real estate investment trust for the taxable year
19 equals or exceeds 75 percent of its gross in-
20 come, or

21 “(B) if subparagraph (A) does not apply,
22 the portion of such dividend which bears the
23 same ratio to the amount of such dividend as
24 the aggregate interest received bears to gross
25 income shall be treated as interest.

1 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
2 GREGATE INTEREST RECEIVED.—For purposes of
3 paragraph (2)—

4 “(A) gross income does not include the net
5 capital gain,

6 “(B) gross income and aggregate interest
7 received shall each be reduced by so much of
8 the deduction allowable by section 163 for the
9 taxable year (other than for interest on mort-
10 gages on real property owned by the real estate
11 investment trust) as does not exceed aggregate
12 interest received by the taxable year, and

13 “(C) gross income shall be reduced by the
14 sum of the taxes imposed by paragraphs (4),
15 (5), and (6) of section 857(b).

16 “(4) NOTICE TO SHAREHOLDERS.—The amount
17 of any distribution by a real estate investment trust
18 which may be taken into account as interest for pur-
19 poses of the exclusion under section 116 shall not
20 exceed the amount so designated by the trust in a
21 written notice to its shareholders mailed not later
22 than 45 days after the close of its taxable year.”

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply with respect to amounts received

1 after December 31, 1994, in taxable years ending after
2 such date.

3 **SEC. 3. INDEXING OF CERTAIN ASSETS FOR PURPOSES OF**
4 **DETERMINING GAIN OR LOSS.**

5 (a) IN GENERAL.—Part II of subchapter O of chap-
6 ter 1 (relating to basis rules of general application) is
7 amended by inserting after section 1021 the following new
8 section:

9 **“SEC. 1022. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
10 **OF DETERMINING GAIN OR LOSS.**

11 “(a) GENERAL RULE.—

12 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
13 JUSTED BASIS.—Except as provided in paragraph
14 (2), if an indexed asset which has been held for
15 more than 1 year is sold or otherwise disposed of,
16 then, for purposes of this title, the indexed basis of
17 the asset shall be substituted for its adjusted basis.

18 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
19 The deduction for depreciation, depletion, and amor-
20 tization shall be determined without regard to the
21 application of paragraph (1) to the taxpayer or any
22 other person.

23 “(b) INDEXED ASSET.—

24 “(1) IN GENERAL.—For purposes of this sec-
25 tion, the term ‘indexed asset’ means—

1 “(A) stock in a corporation,

2 “(B) tangible property (or any interest
3 therein), which is a capital asset or property
4 used in the trade or business (as defined in sec-
5 tion 1231(b)), and

6 “(C) the principal residence of the tax-
7 payer (within the meaning of section 1034).

8 “(2) CERTAIN PROPERTY EXCLUDED.—For
9 purposes of this section, the term ‘indexed asset’
10 does not include—

11 “(A) CREDITOR’S INTEREST.—Any interest
12 in property which is in the nature of a credi-
13 tor’s interest.

14 “(B) OPTIONS.—Any option or other right
15 to acquire an interest in property.

16 “(C) NET LEASE PROPERTY.—In the case
17 of a lessor, net lease property (within the mean-
18 ing of subsection (h)(1)).

19 “(D) CERTAIN PREFERRED STOCK.—Stock
20 which is preferred as to dividends and does not
21 participate in corporate growth to any signifi-
22 cant extent.

23 “(E) STOCK IN CERTAIN CORPORATIONS.—
24 Stock in—

1 “(i) an S corporation (within the
2 meaning of section 1361),

3 “(ii) a personal holding company (as
4 defined in section 542), and

5 “(iii) a foreign corporation.

6 “(3) EXCEPTION FOR STOCK IN FOREIGN COR-
7 PORATION WHICH IS REGULARLY TRADED ON NA-
8 TIONAL OR REGIONAL EXCHANGE.—Clause (iii) of
9 paragraph (2)(E) shall not apply to stock in a for-
10 eign corporation the stock of which is listed on the
11 New York Stock Exchange, the American Stock Ex-
12 change, or any domestic regional exchange for which
13 quotations are published on a regular basis other
14 than—

15 “(A) stock of a foreign investment com-
16 pany (within the meaning of section 1246(b)),
17 and

18 “(B) stock in a foreign corporation held by
19 a United States person who meets the require-
20 ments of section 1248(a)(2).

21 “(c) INDEXED BASIS.—For purposes of this sec-
22 tion—

23 “(1) INDEXED BASIS.—The indexed basis for
24 any asset is—

1 “(A) the adjusted basis of the asset, multi-
2 plied by

3 “(B) the applicable inflation ratio.

4 “(2) APPLICABLE INFLATION RATIO.—The ap-
5 plicable inflation ratio for any asset is the percent-
6 age arrived at by dividing—

7 “(A) the CPI for the calendar year preced-
8 ing the calendar year in which the disposition
9 takes place, by

10 “(B) the CPI for the calendar year preced-
11 ing the calendar year in which the asset was ac-
12 quired by the taxpayer (or, in the case of an
13 asset acquired before 1995, the CPI for 1993).

14 The applicable inflation ratio shall not be taken into
15 account unless it is greater than 1. The applicable
16 inflation ratio for any asset shall be rounded to the
17 nearest one-tenth of 1 percent.

18 “(3) CPI.—The CPI for any calendar year shall
19 be determined under section 1(f)(4).

20 “(4) SECRETARY TO PUBLISH TABLES.—The
21 Secretary shall publish tables specifying the applica-
22 ble inflation ratio for each calendar year.

23 “(d) SPECIAL RULES.—For purposes of this sec-
24 tion—

1 “(1) TREATMENT AS SEPARATE ASSET.—In the
2 case of any asset, the following shall be treated as
3 a separate asset:

4 “(A) A substantial improvement to prop-
5 erty.

6 “(B) In the case of stock of a corporation,
7 a substantial contribution to capital.

8 “(C) Any other portion of an asset to the
9 extent that separate treatment of such portion
10 is appropriate to carry out the purposes of this
11 section.

12 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
13 THROUGHOUT HOLDING PERIOD.—

14 “(A) IN GENERAL.—The applicable infla-
15 tion ratio shall be appropriately reduced for cal-
16 endar months at any time during which the
17 asset was not an indexed asset.

18 “(B) CERTAIN SHORT SALES.—For pur-
19 poses of applying subparagraph (A), an asset
20 shall be treated as not an indexed asset for any
21 short sale period during which the taxpayer or
22 the taxpayer’s spouse sells short property sub-
23 stantially identical to the asset. For purposes of
24 the preceding sentence, the short sale period be-
25 gins on the day after the substantially identical

1 property is sold and ends on the closing date
2 for the sale.

3 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
4 corporation which is not a dividend shall be treated
5 as a disposition.
6

7 “(4) SECTION CANNOT INCREASE ORDINARY
8 LOSS.—To the extent that (but for this paragraph)
9 this section would create or increase a net ordinary
10 loss to which section 1231(a)(2) applies or an ordi-
11 nary loss to which any other provision of this title
12 applies, such provision shall not apply. The taxpayer
13 shall be treated as having a long-term capital loss in
14 an amount equal to the amount of the ordinary loss
15 to which the preceding sentence applies.

16 “(5) ACQUISITION DATE WHERE THERE HAS
17 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
18 WITH RESPECT TO THE TAXPAYER.—If there has
19 been a prior application of subsection (a)(1) to an
20 asset while such asset was held by the taxpayer, the
21 date of acquisition of such asset by the taxpayer
22 shall be treated as not earlier than the date of the
23 most recent such prior application.

24 “(6) COLLAPSIBLE CORPORATIONS.—The appli-
25 cation of section 341(a) (relating to collapsible

1 corporations) shall be determined without regard to
2 this section.

3 “(e) CERTAIN CONDUIT ENTITIES.—

4 “(1) REGULATED INVESTMENT COMPANIES;
5 REAL ESTATE INVESTMENT TRUSTS; COMMON TRUST
6 FUNDS.—

7 “(A) IN GENERAL.—Stock in a qualified
8 investment entity shall be an indexed asset for
9 any calendar month in the same ratio as the
10 fair market value of the assets held by such en-
11 tity at the close of such month which are in-
12 dexed assets bears to the fair market value of
13 all assets of such entity at the close of such
14 month.

15 “(B) RATIO OF 90 PERCENT OR MORE.—If
16 the ratio for any calendar month determined
17 under subparagraph (A) would (but for this
18 subparagraph) be 90 percent or more, such
19 ratio for such month shall be 100 percent.

20 “(C) RATIO OF 10 PERCENT OR LESS.—If
21 the ratio for any calendar month determined
22 under subparagraph (A) would (but for this
23 subparagraph) be 10 percent or less, such ratio
24 for such month shall be zero.

1 “(D) VALUATION OF ASSETS IN CASE OF
2 REAL ESTATE INVESTMENT TRUSTS.—Nothing
3 in this paragraph shall require a real estate in-
4 vestment trust to value its assets more fre-
5 quently than once each 36 months (except
6 where such trust ceases to exist). The ratio
7 under subparagraph (A) for any calendar
8 month for which there is no valuation shall be
9 the trustee’s good faith judgment as to such
10 valuation.

11 “(E) QUALIFIED INVESTMENT ENTITY.—
12 For purposes of this paragraph, the term
13 ‘qualified investment entity’ means—

14 “(i) a regulated investment company
15 (within the meaning of section 851),

16 “(ii) a real estate investment trust
17 (within the meaning of section 856), and

18 “(iii) a common trust fund (within the
19 meaning of section 584).

20 “(2) PARTNERSHIPS.—In the case of a partner-
21 ship, the adjustment made under subsection (a) at
22 the partnership level shall be passed through to the
23 partners.

24 “(3) SUBCHAPTER S CORPORATIONS.—In the
25 case of an electing small business corporation, the

1 adjustment under subsection (a) at the corporate
2 level shall be passed through to the shareholders.

3 “(f) DISPOSITIONS BETWEEN RELATED PERSONS.—

4 “(1) IN GENERAL.—This section shall not apply
5 to any sale or other disposition of property between
6 related persons except to the extent that the basis
7 of such property in the hands of the transferee is a
8 substituted basis.

9 “(2) RELATED PERSONS DEFINED.—For pur-
10 poses of this section, the term ‘related persons’
11 means—

12 “(A) persons bearing a relationship set
13 forth in section 267(b), and

14 “(B) persons treated as single employer
15 under subsection (b) or (c) of section 414.

16 “(g) TRANSFERS TO INCREASE INDEXING ADJUST-
17 MENT OR DEPRECIATION ALLOWANCE.—If any person
18 transfers cash, debt, or any other property to another per-
19 son and the principal purpose of such transfer is—

20 “(1) to secure or increase an adjustment under
21 subsection (a), or

22 “(2) to increase (by reason of an adjustment
23 under subsection (a)) a deduction for depreciation,
24 depletion, or amortization,

1 the Secretary may disallow part or all of such adjustment
2 or increase.

3 “(h) DEFINITIONS.—For purposes of this section:

4 “(1) NET LEASE PROPERTY DEFINED.—The
5 term ‘net lease property’ means leased real property
6 where—

7 “(A) the term of the lease (taking into ac-
8 count options to renew) was 50 percent or more
9 of the useful life of the property, and

10 “(B) for the period of the lease, the sum
11 of the deductions with respect to such property
12 which are allowable to the lessor solely by rea-
13 son of section 162 (other than rents and reim-
14 bursed amounts with respect to such property)
15 is 15 percent or less of the rental income pro-
16 duced by such property.

17 “(2) STOCK INCLUDES INTEREST IN COMMON
18 TRUST FUND.—The term ‘stock in a corporation’ in-
19 cludes any interest in a common trust fund (as de-
20 fined in section 584(a)).

21 “(i) REGULATIONS.—The Secretary shall prescribe
22 such regulations as may be necessary or appropriate to
23 carry out the purposes of this section.”

24 (b) ADJUSTMENT TO APPLY FOR PURPOSES OF DE-
25 TERMINING EARNINGS AND PROFITS.—Subsection (f) of

1 section 312 (relating to effect on earnings and profits of
2 gain or loss and of receipt of tax-free distributions) is
3 amended by adding at the end thereof the following new
4 paragraph:

5 “(3) EFFECT ON EARNINGS AND PROFITS OF
6 INDEXED BASIS.—

**“For substitution of indexed basis for adjusted
basis in the case of the disposition of certain assets
after December 31, 1994, see section 1022(a)(1).”**

7 (c) CLERICAL AMENDMENT.—The table of sections
8 for part II of subchapter O of such chapter 1 is amended
9 by inserting after the item relating to section 1021 the
10 following new item:

 “Sec. 1022. Indexing of certain assets for purposes of determining
gain or loss.”

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to dispositions after December 31,
13 1994.

14 **SEC. 4. REDUCTION IN CAPITAL GAINS TAX FOR INDIVID-**
15 **UALS.**

16 (a) GENERAL RULE.—Part I of subchapter P of
17 chapter 1 (relating to treatment of capital gains) is
18 amended by adding at the end thereof the following new
19 section:

20 **“SEC. 1203. CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.**

21 “(a) IN GENERAL.—In the case of an individual,
22 there shall be allowed as a deduction for the taxable year

1 an amount equal to the annual capital gains deduction (if
2 any) determined under subsection (b).

3 “(b) ANNUAL CAPITAL GAINS DEDUCTION.—

4 “(1) IN GENERAL.—For purposes of subsection
5 (a), the annual capital gains deduction determined
6 under this subsection is the lesser of—

7 “(A) the net capital gain for the taxable
8 year, or

9 “(B) \$50,000 (\$100,000 in the case of a
10 joint return).

11 “(2) COORDINATION WITH EXCLUSION FOR
12 GAIN FROM SMALL BUSINESS STOCK.—For purposes
13 of paragraph (1)(A), net capital gain shall be deter-
14 mined without regard to any gain from the sale or
15 exchange of qualified small business stock (as de-
16 fined in section 1202(c)) held for more than 5 years.

17 “(3) CERTAIN INDIVIDUALS NOT ELIGIBLE.—
18 This subsection shall not apply to any individual
19 with respect to whom a deduction under section 151
20 is allowable to another taxpayer for a taxable year
21 beginning in the calendar year in which such individ-
22 ual’s taxable year begins.

23 “(4) ANNUAL DEDUCTION NOT AVAILABLE FOR
24 SALES TO RELATED PERSONS.—The amount of the
25 net capital gain taken into account under paragraph

1 (1)(A) shall not exceed the amount of the net capital
2 gain determined by not taking into account gains
3 and losses from sales and exchanges to any related
4 person (as defined in section 267(f)).

5 “(5) INDEXING FOR INFLATION.—In the case of
6 any taxable year beginning after 1995—

7 “(A) the \$50,000 amount under paragraph
8 (1)(B) shall be increased by an amount equal
9 to—

10 “(i) \$50,000, multiplied by

11 “(ii) the cost-of-living adjustment
12 under section 1(f)(3) for the calendar year
13 in which the taxable year begins, except
14 that subparagraph (B) thereof shall be ap-
15 plied by substituting ‘1994’ for ‘1992’, and

16 “(B) the \$100,000 amount under para-
17 graph (1)(B) shall be increased to an amount
18 equal to twice the amount determined under
19 subparagraph (A) for the taxable year.

20 If the dollar amount determined after the increase
21 under this paragraph is not a multiple of \$1,000,
22 such dollar amount shall be rounded to the next low-
23 est multiple of \$1,000.

1 “(c) SECTION NOT TO APPLY TO ESTATES OR
2 TRUSTS.—No deduction shall be allowed under this sec-
3 tion to an estate or trust.

4 “(d) SPECIAL RULES.—

5 “(1) DEDUCTION AVAILABLE ONLY FOR SALES
6 OR EXCHANGES AFTER DECEMBER 31, 1994.—The
7 amount of the net capital gain taken into account
8 under subsection (b)(1)(A) shall not exceed the
9 amount of the net capital gain determined by only
10 taking into account gains and losses from sales and
11 exchanges after December 31, 1994.

12 “(2) SPECIAL RULE FOR PASS-THRU ENTI-
13 TIES.—

14 “(A) IN GENERAL.—In applying this sec-
15 tion with respect to any pass-thru entity, the
16 determination of when the sale or exchange oc-
17 curs shall be made at the entity level.

18 “(B) PASS-THRU ENTITY DEFINED.—For
19 purposes of subparagraph (A), the term ‘pass-
20 thru entity’ means—

21 “(i) a regulated investment company,

22 “(ii) a real estate investment trust,

23 “(iii) an S corporation,

24 “(iv) a partnership,

25 “(v) an estate or trust, and

1 “(vi) a common trust fund.”

2 (b) CONFORMING AMENDMENTS.—

3 (1) Subsection (a) of section 62 is amended by
4 inserting after paragraph (15) the following new
5 paragraph:

6 “(16) CAPITAL GAINS DEDUCTION.—The deduc-
7 tion allowed by section 1203.”

8 (2) Paragraph (2) of section 172(d) is amended
9 by inserting “and the deduction provided by section
10 1203” after “1202”.

11 (3)(A) Section 220 (relating to cross reference)
12 is amended to read as follows:

13 **“SEC. 220. CROSS REFERENCES.**

**“(1) For deduction for net capital gains in the case
of a taxpayer other than a corporation, see section
1203.**

**“(2) For deductions in respect of a decedent, see
section 691.”**

14 (B) The table of sections for part VII of sub-
15 chapter B of chapter 1 is amended by striking “ref-
16 erence” in the item relating to section 220 and in-
17 serting “references”.

18 (4) Paragraph (4) of section 691(c) is amended
19 by inserting “1203,” after “1202,”.

20 (5) The second sentence of paragraph (2) of
21 section 871(a) is amended by inserting “or 1203”
22 after “1202”.

1 (c) CLERICAL AMENDMENT.—The table of sections
2 for part I of subchapter P of chapter 1 is amended by
3 adding at the end thereof the following new item:

“Sec. 1203. Capital gains deduction for individuals.”

4 (d) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to sales or exchanges after Decem-
6 ber 31, 1994, in taxable years ending after such date.

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