

103<sup>D</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 948

To amend the Internal Revenue Code of 1986 to allow a deduction for dividends paid by domestic corporations, to reduce the tax on capital gains from assets held for more than 3 years, and to restore the investment tax credit for certain property.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 17, 1993

Mr. REGULA introduced the following bill; which was referred to the  
Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for dividends paid by domestic corporations, to reduce the tax on capital gains from assets held for more than 3 years, and to restore the investment tax credit for certain property.

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. ALLOWANCE OF DEDUCTION FOR DIVIDENDS**

4 **PAID BY DOMESTIC CORPORATIONS.**

5 (a) IN GENERAL.—Section 243 of the Internal Reve-  
6 nue Code of 1986 (relating to dividends received by cor-  
7 porations) is amended to read as follows:

1 **“SEC. 243. DIVIDENDS PAID BY DOMESTIC CORPORATIONS.**

2       “(a) GENERAL RULE.—In the case of a domestic cor-  
3 poration which is subject to taxation under this chapter,  
4 there shall be allowed as a deduction for the taxable year  
5 an amount equal to the dividends paid by such corporation  
6 during the taxable year.

7       “(b) DIVIDENDS.—For purposes of this section, the  
8 term ‘dividend’ means any dividend (as defined in section  
9 316) to which section 301 applies.

10       “(c) CERTAIN CORPORATIONS NOT ELIGIBLE.—No  
11 deduction shall be allowed under this section with respect  
12 to dividends paid by any corporation which is—

13               “(1) an S corporation (as defined in section  
14 1361(a)(1));

15               “(2) a regulated investment company (as de-  
16 fined in section 851(a));

17               “(3) a real estate investment trust (as defined  
18 in section 856(a)); or

19               “(4) a personal holding company (as defined in  
20 section 542).

21       “(d) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS  
22 OF MUTUAL SAVINGS BANKS, ETC.—For purposes of this  
23 section, any amount allowed as a deduction under section  
24 591 (relating to deduction for dividends paid by mutual  
25 savings banks, etc.) shall not be treated as a dividend.”

1           (b) REPEAL OF DEDUCTIONS FOR DIVIDENDS RE-  
2 CEIVED FROM DOMESTIC CORPORATIONS AND RULES RE-  
3 LATING THERETO; REPEAL OF DEDUCTION FOR DIVI-  
4 DENDS PAID ON CERTAIN PREFERRED STOCK OF PUBLIC  
5 UTILITIES.—Sections 244 (relating to dividends received  
6 on certain preferred stock), 246 (relating to rules applying  
7 to deductions for dividends received), and 247 (relating  
8 to dividends paid on certain preferred stock of public utili-  
9 ties) of such Code are hereby repealed.

10           (c) CONFORMING AMENDMENTS.—

11                   (1) DIVIDENDS RECEIVED FROM CERTAIN FOR-  
12 EIGN CORPORATIONS.—

13                           (A) TRANSFER OF PROVISION SPECIFYING  
14 DEDUCTIBLE PERCENTAGE OF DIVIDEND RE-  
15 CEIVED.—

16                                   (i) Paragraph (1) of section 245(a) of  
17 such Code (relating generally to dividends  
18 received from 10-percent owned foreign  
19 corporations) is amended by striking “the  
20 percent (specified in section 243 for the  
21 taxable year)” and inserting “the applica-  
22 ble percentage determined under para-  
23 graph (12)”.

1           (ii) Subsection (a) of section 245 of  
2           such Code is amended by adding at the  
3           end thereof the following new paragraph:

4           “(12) APPLICABLE PERCENTAGE.—

5           “(A) IN GENERAL.—For purposes of para-  
6           graph (1), the applicable percentage is—

7           “(i) 100 percent in the case of divi-  
8           dends received by a small business invest-  
9           ment company operating under the Small  
10          Business Investment Act of 1958 (15  
11          U.S.C. 661 and following),

12          “(ii) 80 percent in the case of divi-  
13          dends not described in clause (i) from a  
14          20-percent owned corporation, and

15          “(iii) 70 percent in the case of any  
16          other dividends.

17          “(B) 20-PERCENT OWNED CORPORATION.—

18          For purposes of subparagraph (A), the term  
19          ‘20-percent owned corporation’ means any cor-  
20          poration if 20 percent or more of the stock in  
21          such corporation (by vote and value) is owned  
22          by the taxpayer. For purposes of the preceding  
23          sentence, stock described in section 1504(a)  
24          shall not be taken into account.”

1 (iii) Subparagraph (B) of section  
2 245(c)(1) of such Code is amended by  
3 striking “section 243(c)(2)” and inserting  
4 “subsection (a)(12)(B)”.

5 (B) TRANSFER OF LIMITATION ON AGGRE-  
6 GATE AMOUNT OF DIVIDENDS RECEIVED DE-  
7 DUCTION, EXCLUSION OF CERTAIN DIVIDENDS,  
8 ETC.—Section 245 of such Code (relating to  
9 dividends received from certain foreign corpora-  
10 tions) is amended by adding at the end the fol-  
11 lowing new subsections:

12 “(e) LIMITATION AND SPECIAL RULES.—

13 “(1) LIMITATION ON AGGREGATE AMOUNT OF  
14 DEDUCTION.—

15 “(A) IN GENERAL.—Except as provided by  
16 subparagraph (B), the aggregate amount of the  
17 deductions allowed by subsections (a) and (b)  
18 shall not exceed the percentage determined  
19 under subparagraph (C) of the taxable income  
20 computed without regard to—

21 “(i) the deductions allowed by section  
22 172,

23 “(ii) any adjustment under section  
24 1059, and

1           “(iii) any capital loss carryback to the  
2           taxable year under section 1212(a)(1).

3           “(B) EFFECT OF NET OPERATING LOSS.—  
4           Subparagraph (A) shall not apply for any tax-  
5           able year for which there is a net operating loss  
6           (as determined under section 172).

7           “(c) SPECIAL RULES.—The provisions of  
8           subparagraph (A) shall be applied—

9           “(i) first separately with respect to  
10           dividends from 20-percent owned corpora-  
11           tions and the percentage determined under  
12           this subparagraph shall be 80 percent, and

13           “(ii) then separately with respect to  
14           dividends not from 20-percent owned cor-  
15           porations and the percentage determined  
16           under this subparagraph shall be 70 per-  
17           cent and the taxable income shall be re-  
18           duced by the aggregate amount of divi-  
19           dends from 20-percent owned corporations.

20           “(2) EXCLUSION OF CERTAIN DIVIDENDS.—

21           “(A) IN GENERAL.—No deduction shall be  
22           allowed under subsection (a) or (b) in respect of  
23           any dividend on any share of stock—

1           “(i) which is sold or otherwise dis-  
2           posed of in any case in which the taxpayer  
3           has held such share for 45 days or less, or

4           “(ii) to the extent that the taxpayer is  
5           under an obligation (whether pursuant to a  
6           short sale or otherwise) to make cor-  
7           responding payments with respect to posi-  
8           tions in substantially similar or related  
9           property.

10           “(B) 90-DAY RULE IN THE CASE OF CER-  
11           TAIN PREFERENCE DIVIDENDS.—In the case of  
12           any stock having preference in dividends, the  
13           holding period specified in subparagraph (A)(i)  
14           shall be 90 days in lieu of 45 days if the tax-  
15           payer receives dividends with respect to such  
16           stock which are attributable to a period or peri-  
17           ods aggregating in excess of 366 days.

18           “(C) DETERMINATION OF HOLDING PERI-  
19           ODS.—For purposes of this subsection, in deter-  
20           mining the period for which the taxpayer has  
21           held any share of stock—

22           “(i) the day of disposition, but not the  
23           day of acquisition, shall be taken into ac-  
24           count,

1           “(ii) there shall not be taken into ac-  
2           count any day which is more than 45 days  
3           (or 90 days in the case of stock to which  
4           subparagraph (B) applies) after the date  
5           on which such share becomes ex-dividend,  
6           and

7           “(iii) paragraph (4) of section 1223  
8           shall not apply.

9           “(D) HOLDING PERIOD REDUCED FOR PE-  
10          RIODS WHERE RISK OF LOSS DIMINISHED.—  
11          The holding periods determined under the pre-  
12          ceding provisions of this subparagraph shall be  
13          appropriately reduced (in the manner provided  
14          in regulations prescribed by the Secretary) for  
15          any period (during such periods) in which—

16                 “(i) the taxpayer has an option to sell,  
17                 is under a contractual obligation to sell, or  
18                 has made (and not closed) a short sale of,  
19                 substantially identical stock or securities,

20                 “(ii) the taxpayer is the grantor of an  
21                 option to buy substantially identical stock  
22                 or securities, or

23                 “(iii) under regulations prescribed by  
24                 the Secretary, a taxpayer has diminished  
25                 his risk of loss by holding 1 or more other

1 positions with respect to substantially simi-  
2 lar or related property.

3 The preceding sentence shall not apply in the case of any  
4 qualified covered call (as defined in section 1092(c)(4) but  
5 without regard to the requirement that gain or loss with  
6 respect to the option not be ordinary income or loss).

7 “(f) CROSS REFERENCE.—

“**For special rule relating to mutual savings banks,  
etc., to which section 593 applies, see section 596.**”

8 (2) NET OPERATING LOSS DEDUCTION.—Para-  
9 graph (5) of section 172(d) of such Code is amended  
10 to read as follows:

11 “(5) COMPUTATION OF DEDUCTION FOR DIVI-  
12 DENDS RECEIVED FROM CERTAIN FOREIGN COR-  
13 PORATIONS.—The deduction allowed by section 245  
14 (relating to dividends received from certain foreign  
15 corporations) shall be computed without regard to  
16 section 245(e)(1).”

17 (3) DIVIDENDS RECEIVED DEDUCTION RE-  
18 DUCED WHERE PORTFOLIO STOCK IS DEBT FI-  
19 NANCED.—

20 (A) Subsections (a) and (e) of section  
21 246A of such Code (relating to dividends re-  
22 ceived deduction reduced where portfolio stock  
23 is debt financed) are each amended by striking  
24 “243, 244, or”.

1 (B) Subsection (b) of section 246A of such  
2 Code is amended to read as follows:

3 “(b) SECTION NOT TO APPLY TO DIVIDENDS FOR  
4 WHICH 100 PERCENT DIVIDENDS RECEIVED DEDUCTION  
5 ALLOWABLE.—Subsection (a) shall not apply to dividends  
6 received by a small business investment company operat-  
7 ing under the Small Business Investment Act of 1958.”

8 (4) LIMITATION ON DIVIDENDS RECEIVED DE-  
9 DUCTION FOR MUTUAL SAVINGS BANKS, ETC.—Sec-  
10 tion 596 of such Code (relating to limitation on divi-  
11 dends received deduction) is amended by striking  
12 “sections 243, 244, and 245” and inserting in lieu  
13 thereof “section 245”.

14 (d) CLERICAL AMENDMENTS.—The table of sections  
15 for part VIII of subchapter B of chapter 1 is amended  
16 by striking the items relating to sections 243, 244, 246,  
17 and 247 and inserting after the item relating to section  
18 241 the following:

“Sec. 243. Dividends paid by domestic corporations.”

19 (e) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to distributions made after June  
21 30, 1993 under the following schedule:

22 (1) for the period beginning July 1, 1993,  
23 through December 31, 1994, the amount of the de-  
24 duction for the taxable year shall be no more than

1 50 percent of the permitted deduction calculated  
2 under this section;

3 (2) for the period beginning January 1, 1995,  
4 through December 31, 1996, the amount of the de-  
5 duction for the taxable year shall be no more than  
6 75 percent of the permitted deduction calculated  
7 under this section; and

8 (3) for the period beginning January 1, 1997,  
9 the amount of the deduction for the taxable year  
10 shall be 100% of the permitted deduction calculated  
11 under this section.

12 **SEC. 2. REDUCTION IN CAPITAL GAINS TAX.**

13 (a) GENERAL RULE.—Subsection (h) of section 1 of  
14 the Internal Revenue Code of 1986 (relating to maximum  
15 capital gains rate is amended to read as follows:

16 “(j) MAXIMUM CAPITAL GAINS RATE.—

17 “(1) IN GENERAL.—If a taxpayer has a quali-  
18 fied net capital gain for any taxable year, then the  
19 tax imposed by this section shall not exceed the sum  
20 of—

21 “(A) a tax computed at the rates and in  
22 the same manner as if this subsection had not  
23 been enacted on the taxable income reduced by  
24 the qualified net capital gain, plus

25 “(B) a tax equal to the sum of—

1           “(i) 23 percent of the 3-to-6 year net  
2           gain,

3           “(ii) 21 percent of the 6-to-9 year net  
4           gain,

5           “(iii) 19 percent of the 9-to-12 year  
6           net gain,

7           “(iv) 17 percent of the 12-to-15 year  
8           net gain, plus

9           “(v) 15 percent of the over 15-year  
10          net gain.

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

13               “(A) QUALIFIED NET CAPITAL GAIN.—The  
14               term ‘qualified net capital gain’ means the less-  
15               er of—

16                       “(i) the net capital gain determined  
17                       by taking into account only gains and  
18                       losses from dispositions of assets held for  
19                       more than 3 years, or

20                       “(ii) the net capital gain.

21               “(B) 3-TO-6 YEAR NET GAIN.—The term  
22               ‘3-to-6 year net gain’ means the lesser of—

23                       “(i) the net capital gain determined  
24                       by only taking into account gains and

1 losses from dispositions of assets held for  
2 more than 3 but not more than 6 years, or

3 “(ii) the qualified net capital gain.

4 “(C) 6-TO-9 YEAR NET GAIN.—The term  
5 ‘6-to-9 year net gain’ means the lesser of—

6 “(i) the net capital gain determined  
7 by only taking into account gains and  
8 losses from dispositions of assets held for  
9 more than 6 but not more than 9 years, or

10 “(ii) the qualified net capital gain re-  
11 duced by the 3-to-6 year net gain.

12 “(D) OTHER DEFINITIONS.—The 9-to-12  
13 year net gain, 12-to-15 year net gain, and over  
14 15-year net gain shall be determined under  
15 principles similar to the principles of subpara-  
16 graph (C).

17 “(3) SPECIAL RULE.—If the highest rate of tax  
18 set forth in subsection (a), (b), (c), (d), or (e)  
19 (whichever applies) for any taxable year exceeds 28  
20 percent, the amount of the tax determined under  
21 such subsection which is attributable to the excess of  
22 the net capital gain over the qualified net capital  
23 gain shall not exceed 28 percent of such excess.”.

1 (b) QUALIFIED NET CAPITAL GAIN NOT TAKEN  
2 INTO ACCOUNT IN PHASE-OUT.—Subparagraph (A) of  
3 section 1(g)(1) of such Code is amended to read as follows:

4 “(A) taxable income reduced by the quali-  
5 fied net capital gain (as defined in subsection  
6 (j)(2)), over”.

7 (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 1991.

10 **SEC. 3. RESTORATION OF INVESTMENT TAX CREDIT FOR**  
11 **PROPERTY WITH LONG USEFUL LIFE.**

12 (a) GENERAL RULE.—Section 46 of the Internal  
13 Revenue Code of 1986 (relating to amount of credit) is  
14 amended by striking the period in subparagraph (3) and  
15 insert in lieu thereof “, and” followed by the following new  
16 subparagraph:

17 “(4) manufacturing equipment credit.”.

18 (b) MANUFACTURING EQUIPMENT CREDIT.—Section  
19 48 of the Internal Revenue Code of 1986 is amended by  
20 adding at the end thereof the following new section:

21 **“SEC. 48a. MANUFACTURING EQUIPMENT CREDIT.**

22 “(a) IN GENERAL.—For purposes of section 46, the  
23 manufacturing equipment credit for any taxable year is  
24 10 percent of the portion of the amortizable basis of any  
25 property if—

1           “(1) such property is used as an integral part  
2 of manufacturing, production, or extraction, by a do-  
3 mestic manufacturing company, situated within the  
4 United States, or its territories, wherein over 50  
5 percent of the total voting stock of such company is  
6 owned and controlled by citizens of the United  
7 States;

8           “(2) the class life of such property (as defined  
9 in section 168(i)(1)) exceeds 24 months;

10           “(3) such property is not public utility property  
11 (as defined in section 46(f)(5).

12           “(b) PHASE OUT OF CREDIT.—For periods after De-  
13 cember 31, 1993, the applicable manufacturing equipment  
14 credit for any taxable year shall be 7.5 percent of the por-  
15 tion of the amortizable basis of the property.”.

16           (c) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply solely to a period beginning Janu-  
18 ary 1, 1993, through December 31, 1996.

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