SUPPLEMENT

TO

DESCRIPTION OF TAX BILLS

LISTED FOR A HEARING

Before The

SUBCOMMITTEE ON TAXATION AND

DEBT MANAGEMENT GENERALLY

Of The

COMMITTEE ON FINANCE

On October 31, 1979

Prepared for the Use of the

COMMITTEE ON FINANCE

By the Staff of the

JOINT COMMITTEE ON TAXATION

October 30, 1979

JCX-1-79

I. SUMMARY

1. S. 1542--Senator Percy

Partial Exclusion of Interest Received by Individuals and Partial Exclusion for Reinvestment of Interest and Dividends

Under present law, the first $100 of dividends received by an individual from domestic corporations is excludable from gross income. No exclusion is provided for interest received by an individual with regard to savings accounts.

The bill would provide an exclusion for the first $100 of interest received by an individual on a savings account at a bank, savings and loan association, or credit union.

The bill would also provide (1) an exclusion of up to $400 for interest reinvested, and (2) an exclusion of up to $400 for dividends reinvested. Eligible amounts must be reinvested in qualifying savings accounts or in stock of domestic corporations. No amount of interest or dividends would be eligible for exclusion if the amount invested at the end of the taxable year by a taxpayer did not equal or exceed the amount invested at the beginning of the year plus excludable reinvestment income.

2. S. 1697--Senator Weicker

Election of Partial Exclusion of or Credit for Interest Received by Individuals

Under present law, interest earned on savings accounts is subject to Federal income taxation.

The bill would provide an election to individuals (1) to claim a credit against income tax liability of up to $250 for interest received from a residential financial institution, or (2) to exclude up to $1,000 of interest received from a residential financial institution.

II. DESCRIPTION OF BILLS

1. S. 1542--Senator Percy

Partial Exclusion of Interest Received by Individuals and Partial Exclusion for Reinvestment of Interest and Dividends

Present law

Under present law, the first $100 of dividends received by an individual from domestic corporations is excludable from gross income. In the case of a husband and wife, each spouse is entitled to a separate exclusion of up to $100 for dividends received with respect to stock owned by that spouse.

No exclusion from gross income is provided under present law for interest received by an individual from banks, savings and loan associations, or credit unions.

Issues

The first issue is whether an exclusion should be provided for interest received by an individual on certain savings deposits and accounts. The second issue is whether there should be provided an exclusion from gross income for a portion of dividends or interest received by an individual which is reinvested in stock or redeposited in a savings account.

Explanation of the bill

In general

The bill would provide an exclusion from gross income for interest received by an individual. The limit on the aggregate amount of interest excludable would be $100 plus an additional amount not in excess of $400 each for certain reinvestments of dividend or interest income.

$100 Interest exclusion

The bill provides that the first $100 in eligible interest received by an individual for a taxable year would be excludable from gross income. Interest eligible for the exclusion would be amounts received on a time or demand deposit with a commercial or mutual savings bank, a savings and loan association, building and loan association or similar association, and a credit union. However, interest on such deposits would be eligible for the exclusion only if the deposits or accounts of a bank, association, or credit union, are insured under Federal or State law.

Interest reinvestment exclusion

The bill also provides an exclusion from gross income for interest which is reinvested in time or demand deposits in a qualifying institution or in stock of a domestic corporation.

As under the proposed $100 exclusion, a qualifying financial institution for this purpose would include a commercial or mutual savings bank, a savings and loan association, building and loan association or similar association, and a credit union insured under Federal or State law. The reinvestment exclusion applies only if the interest received is reinvested promptly upon actual or constructive receipt.

The exclusion for reinvestment would be limited to $400. In addition, this exclusion would not be allowed for any amount if the net investment limitation described below is not satisfied.

Dividend reinvestment exclusion

The bill provides an exclusion from gross income for dividend distributions from domestic corporations which are reinvested in common or preferred stock in a domestic corporation or in time or demand deposits in a qualifying financial institution. This exclusion for reinvestment would be limited to $400 and would be in addition to the $100 exclusion under present law. In addition, this exclusion would not be allowed for any amount if the net investment limitation described below is satisfied.

Net investment limitation

No amount of dividends or interest would be eligible for the reinvestment exclusions if a net investment limitation is not satisfied. For this purpose, a taxpayer's investment base at the end of the taxable year must equal or exceed the sum of the investment base at the beginning of the taxable year and the amount of dividends and interest which would be otherwise excludable from gross income under the reinvestment provisions. The investment base would mean an amount equal to the sum of (1) the taxpayer's adjusted basis in stock issued by a domestic corporation and (2) the amount of money in all time or demand deposits in a qualifying financial institution. 1/

1/ The committee may wish to consider a number of possible technical problems if this proposal is marked up. For the net investment limitation, the committee may wish to consider if the adjusted basis of all stocks should be taken into account without regard to manner of acquisition, e.g., purchases from related parties, margin purchases, gifts, inheritances, installment purchases, taxable stock dividends, and contributions to capital. In addition, the committee may wish to refine the concept of eligible dividends, e.g., cash or property, dividend income from a preferred stock bailout, undistributed taxable income of a subchapter S corporation, and dividend treatment arising from a one-month liquidation. The committee may also wish to consider possible exceptions for distributions received from certain corporate entities, e.g., personal holding companies, mutual funds, and subchapter S corporations.

With respect to savings investments, the committee may wish to consider refinements of the interest reinvestment exclusion so that debts incurred for funds transferred at the end of a taxable year to eligible accounts would not be reflected in the determination of the ending investment base.

Effective date

The amendments made by the bill would apply to taxable years beginning after December 31, 1979.

Revenue effect

This bill would reduce budget receipts by $332 million in fiscal 1980, $2,406 million in fiscal 1981, $2,565 million in fiscal 1982, $2,731 million in fiscal 1983, and $2,673 million in fiscal 1984.

2. S. 1697--Senator Weicker

Election of Partial Exclusion of or Credit for Interest Received by Individual

Present law

Under present law, interest earned on savings accounts is subject to Federal income taxation.

Issue

The issue is whether an election should be provided to individuals to exclude from gross income the first $1,000 of interest earned on certain savings accounts or, alternatively, to claim a dollar-for-dollar credit for interest earned on savings accounts up to $250.

Explanation of the bill

The bill would provide an election to individuals (1) to exclude from gross income a portion of interest earned on savings in a residential financial institution or (2) to claim a credit on a portion of such interest.

The amount of the credit would be equal to the amount of interest received by an individual on qualifying savings but the credit could not exceed $250 for a taxable year. No special rules are provided with respect to a joint return. Thus, each spouse would be eligible for a separate election. In addition, the credit could be used to offset tax liability after reduction for all other credits which are not treated as tax payments. No tax refund would be allowable for the amount by which this credit exceeds the net tax liability.

The amount of the exclusion would be equal to the amount of interest received by an individual on qualifying savings but could not exceed $1,000 for a taxable year.

Interest eligible for the credit or exclusion would be amounts received on savings in a residential financial institution. Only such amounts paid in respect of deposits, investment certificates, or withdrawable or repurchasable shares by commercial or mutual savings banks, savings and loan associations, buildings and loan associations, or similar associations and credit unions would be eligible for the credit or exclusion.

Effective date

The amendments made by this bill would apply to taxable years beginning after December 31, 1979.

Revenue effect

This bill would reduce budget receipts by $1,195 million in fiscal 1980, $8,688 million in fiscal 1981, $9,341 million in fiscal 1982, $10,043 million in fiscal 1983, and $10,014 million in fiscal 1984.

JOINT COMMITTEE ON TAXATION

OCTOBER 30, 1979

REVISED REVENUE ESTIMATES FOR BILLS
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT
MANAGEMENT GENERALLY OF THE SENATE FINANCE
COMMITTEE ON OCTOBER 31, 1979

These are revised fiscal year revenue estimates for bills scheduled for a hearing on October 31, 1979.

$-Million

FISCAL YEARS

	1980	1981	1982	1983	1984
S. 1488	172	1,255	1,347	1,443	1,432
S. 1846	307	2,224	2,342	2,468	2,414