

103^D CONGRESS
1ST SESSION

H. R. 1636

To provide for line item veto; capital gains tax reduction; enterprise zones;
raising the social security earnings limit workfare.

IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 1993

Mr. STEARNS introduced the following bill; which was referred jointly to the
Committees on Government Operations, Rules, and Ways and Means

A BILL

To provide for line item veto; capital gains tax reduction;
enterprise zones; raising the social security earnings limit
workfare.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **TITLE I—LINE-ITEM VETO**

4 **SEC. 101. ENHANCEMENT OF SPENDING CONTROL BY THE**
5 **PRESIDENT.**

6 The Impoundment Control Act of 1974 is amended
7 by adding at the end thereof the following new title:

1 “(ii) notifies the Congress of such rescission by
2 special message accompanying the submission of the
3 President’s budget to Congress and such rescissions
4 have not been proposed previously for that fiscal
5 year.

6 “(2) The President shall submit a separate rescission
7 message for each appropriations bill under paragraph
8 (1)(B)(ii).

9 “(b) RESCISSION EFFECTIVE UNLESS DIS-
10 APPROVED.—(1)(A) Any amount of budget authority re-
11 scinded under this title as set forth in a special message
12 by the President shall be deemed canceled unless, during
13 the period described in subparagraph (B), a rescission dis-
14 approval bill making available all of the amount rescinded
15 is enacted into law.

16 “(B) The period referred to in subparagraph (A) is—

17 “(i) a Congressional review period of 20 cal-
18 endar days of session under part B, during which
19 Congress must complete action on the rescission dis-
20 approval bill and present such bill to the President
21 for approval or disapproval;

22 “(ii) after the period provided in clause (i), an
23 additional 10 days (not including Sundays) during
24 which the President may exercise his authority to
25 sign or veto the rescission disapproval bill; and

1 transmit to the House of Representatives and to the Sen-
2 ate a special message specifying—

3 “(1) the amount of budget authority rescinded;

4 “(2) any account, department, or establishment
5 of the Government to which such budget authority
6 is available for obligation, and the specific project or
7 governmental functions involved;

8 “(3) the reasons and justifications for the de-
9 termination to rescind budget authority pursuant to
10 section 1101(a)(1);

11 “(4) to the maximum extent practicable, the es-
12 timated fiscal, economic, and budgetary effect of the
13 rescission; and

14 “(5) all facts, circumstances, and considerations
15 relating to or bearing upon the rescission and the
16 decision to effect the rescission, and to the maxi-
17 mum extent practicable, the estimated effect of the
18 rescission upon the objects, purposes, and programs
19 for which the budget authority is provided.

20 “TRANSMISSION OF MESSAGES; PUBLICATION

21 “SEC. 1112. (a) DELIVERY TO HOUSE AND SEN-
22 ATE.—(1) Each special message transmitted under sec-
23 tions 1101 and 1111 shall be transmitted to the House
24 of Representatives and the Senate on the same day, and
25 shall be delivered to the Clerk of the House of Representa-
26 tives if the House of Representatives is not in session and

1 to the Secretary of the Senate if the Senate is not in ses-
2 sion.

3 “(2) Each special message transmitted pursuant to
4 paragraph (1) shall be referred to the appropriate commit-
5 tees of the House of Representatives and the Senate and
6 shall be printed as a document of each House.

7 “(b) PRINTING IN FEDERAL REGISTER.—A special
8 message transmitted under sections 1101 and 1111 shall
9 be printed in the first issue of the Federal Register pub-
10 lished after such transmittal.

11 “PROCEDURE IN THE HOUSE OF REPRESENTATIVES

12 “SEC. 1113. (a) REFERRAL.—(1) Any rescission dis-
13 approval bill introduced with respect to a special message
14 shall be referred to the appropriate committees of the
15 House of Representatives or the Senate, as the case may
16 be.

17 “(2) Any rescission disapproval bill received in the
18 House of Representatives from the Senate shall be consid-
19 ered in the House of Representatives pursuant to this sec-
20 tion.

21 “(b) FLOOR CONSIDERATION IN THE HOUSE.—

22 “(1) Debate in the House on any rescission dis-
23 approval bill and debatable motions and appeals in
24 connection therewith, shall be limited to not more
25 than 10 hours, with the time equally divided be-

1 tween, and controlled by, the majority leader and the
2 minority leader or their designees.

3 “(2)(A) Debate in the House on any debatable
4 motion or appeal in connection with such a bill shall
5 be limited to 1 hour equally divided between, and
6 controlled by, the mover and the manager of the bill,
7 except that if the manager of the bill is in favor of
8 any such motion or appeal, the time in opposition
9 thereto shall be controlled by the minority leader or
10 the minority leader’s designee.

11 “(B) Such leaders, or either of them, may, from
12 the time under their control on the passage of the
13 bill, allot additional time to any Representative dur-
14 ing the consideration of any debatable motion or ap-
15 peal.

16 “(3) A motion to further limit debate shall not
17 be debatable, and a motion to recommit (except a
18 motion to recommit with instructions to report back
19 within a specified number of days, not to exceed 1,
20 not counting any day on which the Senate is not in
21 session) shall not be in order.

22 “(c) POINT OF ORDER.—(1) It shall not be in order
23 in the Senate or the House of Representatives to consider
24 any rescission disapproval bill that relates to any matter

1 other than the rescission of budget authority transmitted
2 by the President under section 1101.

3 “(2) It shall not be in order in the Senate or the
4 House of Representatives to consider any amendment to
5 a rescission disapproval bill.

6 “(3) Paragraphs (1) and (2) may be waived or sus-
7 pended in the House only by a vote of three-fifths of the
8 members duly chosen and sworn.”.

9 **TITLE II—CAPITAL GAINS**

10 **SEC. 201. DEDUCTION FOR CAPITAL GAINS ON CERTAIN** 11 **SMALL BUSINESS STOCK.**

12 (a) IN GENERAL.—Subchapter P of chapter 1 of the
13 Internal Revenue Code of 1986 (relating to capital gains
14 and losses) is amended by adding at the end thereof the
15 following new part:

16 **“PART VII—ENTERPRISE CAPITAL INVESTMENT** 17 **INCENTIVES**

“Sec. 1301. Deduction for gain on certain small business stock.
“Sec. 1302. Definitions and special rules.

18 **“SEC. 1301. DEDUCTION FOR GAIN ON CERTAIN SMALL** 19 **BUSINESS STOCK.**

20 “(a) GENERAL RULE.—If a taxpayer has a qualified
21 small business net capital gain for any taxable year, there
22 shall be allowed as a deduction from gross income an
23 amount equal to the sum of—

24 “(1) 50 percent of the excess (if any) of—

1 “(A) qualified small business net capital
2 gain, over

3 “(B) the amount of seed capital gain, plus
4 “(2) the seed capital gain deduction.

5 “(b) QUALIFIED SMALL BUSINESS NET CAPITAL
6 GAIN.—For purposes of this section, the term ‘qualified
7 small business net capital gain’ means the lesser of—

8 “(1) the net capital gain for the taxable year,
9 or

10 “(2) the net capital gain for the taxable year
11 determined by taking into account only gain or loss
12 from sales or exchanges of qualified small business
13 stock with a holding period of more than 5 years at
14 the time of sale or exchange.

15 “(c) SEED CAPITAL GAIN DEDUCTION.—For pur-
16 poses of this section—

17 “(1) IN GENERAL.—The term ‘seed capital gain
18 deduction’ means an amount equal to the sum of the
19 amounts determined by applying the applicable per-
20 centages to the appropriate categories of seed capital
21 gain under the table contained in paragraph (2).

22 “(2) COMPUTATION OF AMOUNT.—The seed
23 capital gain deduction shall be computed as follows:

| “In the case of: | The applicable percentage is: |
|-------------------------|------------------------------------------|
| 5-year gain | 50 |
| 6-year gain | 60 |
| 7-year gain | 70 |

| “In the case of: | The applicable percentage is: |
|-------------------------|--------------------------------------|
| 8-year gain | 80 |
| 9-year gain | 90 |
| 10-year gain | 100. |

1 “(3) SEED CAPITAL GAIN.—For purposes of
2 this subsection, the term ‘seed capital gain’ means
3 the lesser of—

4 “(A) the excess (if any) of—

5 “(i) the net capital gain for the tax-
6 able year, over

7 “(ii) the qualified small business net
8 capital gain for the taxable year deter-
9 mined without regard to gain or loss de-
10 scribed in subparagraph (B), or

11 “(B) the net capital gain for the taxable
12 year determined by taking into account only
13 gain or loss from sales or exchanges of stock—

14 “(i) which is qualified small business
15 stock in a corporation which is a qualified
16 small business (determined by substituting
17 ‘\$5,000,000’ for ‘\$100,000,000’ in section
18 1302(b)(1)), and

19 “(ii) with a holding period of more
20 than 5 years at the time of the sale or ex-
21 change.

22 “(4) CATEGORIES OF GAIN.—For purposes of
23 this subsection—

1 “(A) 10-YEAR GAIN.—The term ‘10-year
2 gain’ means the lesser of—

3 “(i) the seed capital gain, or

4 “(ii) the seed capital gain determined
5 by taking into account under paragraph
6 (3)(B) only gain or loss from qualified
7 small business stock with a holding period
8 of more than 10 years at the time of the
9 sale or exchange.

10 “(B) OTHER GAIN.—The terms ‘5-, 6-,
11 7-, 8-, and 9-year gain’ mean, with respect to
12 any category, the lesser of—

13 “(i) the excess (if any) of—

14 “(I) seed capital gain, over

15 “(II) the amount determined
16 under this paragraph for categories
17 with a longer holding period, or

18 “(ii) seed capital gain determined by
19 taking into account under paragraph
20 (3)(B) only gain or loss from qualified
21 small business stock with a holding period
22 of more than 5, 6, 7, 8, or 9 years but not
23 more than 6, 7, 8, 9, or 10 years, respec-
24 tively.

1 “(d) ESTATES AND TRUSTS.—In the case of an es-
2 tate or trust, the deduction under subsection (a) shall be
3 computed by excluding the portion (if any) of the gains
4 for the taxable year from sales or exchanges of qualified
5 small business stock which, under section 652 and 662
6 (relating to inclusions of amounts in gross income of bene-
7 ficiaries of trusts), is includible by the income beneficiaries
8 as gains derived from the sale or exchange of capital as-
9 sets.

10 **“SEC. 1302. DEFINITIONS AND SPECIAL RULES.**

11 “(a) QUALIFIED SMALL BUSINESS STOCK.—For pur-
12 poses of this part—

13 “(1) IN GENERAL.—The term ‘qualified small
14 business stock’ means any stock in a corporation
15 which is originally issued after December 31, 1991,
16 if—

17 “(A) as of the date of issuance, such cor-
18 poration is a qualified small business, and

19 “(B) except as provided in subsections (d)
20 and (e), such stock is acquired by the taxpayer
21 at its original issue (directly or through an un-
22 derwriter)—

23 “(i) in exchange for money or other
24 property (not including stock), or

1 “(ii) as compensation for services
2 (other than services performed as an un-
3 derwriter of such stock).

4 “(2) 5-YEAR ACTIVE BUSINESS REQUIRE-
5 MENT.—Stock in a corporation shall not be treated
6 as qualified small business stock unless, during the
7 testing period, such corporation meets the active
8 business requirements of subsection (c).

9 “(3) CERTAIN REDEMPTIONS, EXCHANGES,
10 ETC. DISQUALIFIED.—For purposes of paragraph
11 (1)(B), and except as provided in subsections (d)
12 and (e), stock shall not be treated as acquired by the
13 taxpayer at its original issue if—

14 “(i) it is issued directly or indirectly in re-
15 demption of, or otherwise in exchange for, stock
16 which is not qualified small business stock, or

17 “(ii) it is issued in an exchange described
18 in section 351 in exchange for property other
19 than qualified small business stock, if imme-
20 diately after the exchange, both the issuer and
21 transferee of the stock are members of the
22 same controlled group of corporations (as de-
23 fined in section 1563).

24 “(b) QUALIFIED SMALL BUSINESS.—For purposes of
25 this part—

1 “(1) IN GENERAL.—The term ‘qualified small
2 business’ means any domestic corporation with re-
3 spect to which the sum of—

4 “(A) the aggregate amount of money,
5 other property, and services received by the cor-
6 poration for stock, as a contribution to capital,
7 and as paid-in surplus, plus

8 “(B) the accumulated earnings and profits
9 of the corporation,

10 does not exceed \$100,000,000. The determination
11 under the preceding sentence shall be made as of the
12 time of such issuance but shall include amounts re-
13 ceived in such issuance and all prior issuances.

14 “(2) AMOUNT TAKEN INTO ACCOUNT WITH RE-
15 SPECT TO PROPERTY AND SERVICES.—For purposes
16 of paragraph (1)—

17 “(A) PROPERTY.—The amount taken into
18 account with respect to any property other than
19 money shall be an amount equal to the adjusted
20 basis of such property for determining gain, re-
21 duced (but not below zero) by any liability to
22 which the property was subject or which was
23 assumed by the corporation. The determination
24 under the preceding sentence shall be made as

1 of the time the property was received by the
2 corporation.

3 “(B) COMPENSATION FOR SERVICES.—The
4 amount taken into account with respect to stock
5 issued for services shall be the value of such
6 services.

7 “(c) ACTIVE BUSINESS REQUIREMENT.—For pur-
8 poses of this part—

9 “(1) IN GENERAL.—For purposes of subsection
10 (a)(2), the requirements of this subsection are met
11 if, during the testing period—

12 “(A) the corporation is engaged in the ac-
13 tive conduct of a trade or business, and

14 “(B) substantially all of the assets of such
15 corporation are used in the active conduct of a
16 trade or business.

17 “(2) SPECIAL RULE FOR CERTAIN ACTIVI-
18 TIES.—For purposes of paragraph (1), if, in connec-
19 tion with any future trade or business, a corporation
20 is engaged in—

21 “(A) start-up activities described in section
22 195(c)(1)(A),

23 “(B) activities resulting in the payment or
24 incurring of expenditures which may be treated

1 as research and experimental expenditures
2 under section 174, or

3 “(C) activities with respect to in-house re-
4 search expenses described in section 41(b)(4),
5 such corporation shall be treated with respect to
6 such activities as engaged in (and assets used in
7 such activities shall be treated as used in) the active
8 conduct of a trade or business. Any determination
9 under this paragraph shall be made without regard
10 to whether a corporation has any gross income from
11 such activities at the time of the determination.

12 “(3) STOCK IN OTHER CORPORATIONS.—

13 “(A) LOOK-THRU IN CASE OF SUBSIDI-
14 ARIES.—For purposes of this subsection, stock
15 and debt in any subsidiary corporation shall be
16 disregarded and the parent corporation shall be
17 deemed to own its ratable share of the subsidi-
18 ary’s assets, and to conduct its ratable share of
19 the subsidiary’s activities.

20 “(B) PORTFOLIO STOCK.—A corporation
21 shall be treated as failing to meet the require-
22 ments of paragraph (1) if, at any time during
23 the testing period, more than 10 percent of the
24 value of its assets (in excess of liabilities) con-

1 sist of stock in other corporations which are not
2 subsidiaries of such corporation.

3 “(C) SUBSIDIARY.—For purposes of this
4 paragraph, a corporation shall be considered a
5 subsidiary if the parent owns at least 50 per-
6 cent of the combined voting power of all classes
7 of stock entitled to vote, or at least 50 percent
8 in value of all outstanding stock of such cor-
9 poration.

10 “(4) WORKING CAPITAL.—For purposes of
11 paragraph (1)(B), any assets which—

12 “(A) are held for investment, and

13 “(B) are to be used to finance future re-
14 search and experimentation or working capital
15 needs of the corporation,

16 shall be treated as used in the active conduct of a
17 trade or business.

18 “(5) MAXIMUM REAL ESTATE HOLDINGS.—A
19 corporation shall not be treated as meeting the re-
20 quirements of paragraph (1) if, at any time during
21 the testing period, more than 10 percent of the total
22 value of its assets is real property which is not used
23 in the active conduct of a trade or business. For
24 purposes of the preceding sentence, the ownership
25 of, dealing in, or renting of real property shall not

1 be treated as the active conduct of a trade or busi-
2 ness.

3 “(6) SMALL BUSINESS INVESTMENT COMPA-
4 NIES.—Paragraph (1) shall not apply to any small
5 business investment company operating under the
6 Small Business Investment Act of 1958.

7 “(7) COMPUTER SOFTWARE ROYALTIES.—For
8 purposes of paragraph (1), rights to computer soft-
9 ware which produces income described in section
10 543(d) shall be treated as an asset used in the active
11 conduct of a trade or business.

12 “(8) TESTING PERIOD.—For purposes of this
13 section, the term ‘testing period’ means, with respect
14 to any stock held by a taxpayer, the 5-year period
15 beginning with the first day of the taxpayer’s hold-
16 ing period for such stock.

17 “(d) SPECIAL RULES FOR OPTIONS, WARRANTS, AND
18 CERTAIN CONVERTIBLE INVESTMENTS.— For purposes
19 of this part—

20 “(1) IN GENERAL.—In the case of stock which
21 is acquired by the taxpayer through the exercise of
22 an applicable option or warrant, through the conver-
23 sion of convertible debt, or in exchange for securities
24 of the corporation in a transaction described in sec-
25 tion 368—

1 “(A) such stock shall be treated as ac-
2 quired by the taxpayer at original issue, and

3 “(B) such stock shall be treated as having
4 been held during the period such option, war-
5 rant, or debt was held, or such security was
6 outstanding.

7 “(2) ISSUE PRICE FOR CONVERTIBLE DEBT OR
8 SECURITY.—For purposes of section 1302(b)(1) and
9 notwithstanding section 1302(b)(2), in the case of a
10 debt instrument converted to stock, or stock issued
11 in exchange for securities in a transaction described
12 in section 368, such stock shall be treated as issued
13 for an amount equal to the sum of—

14 “(A) the principal amount of the debt or
15 security as of the time of the conversion or ex-
16 change, and

17 “(B) accrued but unpaid interest on such
18 loan or security.

19 “(3) APPLICABLE OPTION OR WARRANT.—For
20 purposes of this subsection, the term ‘applicable op-
21 tion or warrant’ means an option or warrant
22 which—

23 “(A) was issued in exchange for the per-
24 formance of services for the corporation issuing
25 it, and

1 “(B) is nontransferrable.

2 “(e) CERTAIN TAX-FREE AND OTHER TRANS-
3 FERS.—For purposes of this part—

4 “(1) IN GENERAL.—In the case of a transfer of
5 stock to which this subsection applies, the transferee
6 shall be treated as—

7 “(A) having acquired such stock in the
8 same manner as the transferor, and

9 “(B) having held such stock during any
10 continuous period immediately preceding the
11 transfer during which it was held (or treated as
12 held under this subsection) by the transferor.

13 “(2) TRANSFERS TO WHICH SUBSECTION AP-
14 PLIES.—This subsection shall apply to any trans-
15 fer—

16 “(A) by gift,

17 “(B) at death,

18 “(C) to the extent that the basis of the
19 property in the hands of the transferee is deter-
20 mined by reference to the basis of the property
21 in the hands of the transferor by reason of sec-
22 tion 334(b), 723, or 732, or

23 “(D) of qualified small business stock for
24 other qualified small business stock in a trans-

1 action described in section 351 or a reorganiza-
2 tion described in section 368.

3 “(3) INCORPORATIONS AND REORGANIZATIONS
4 INVOLVING NONQUALIFIED STOCK.—

5 “(A) IN GENERAL.—In the case of a trans-
6 action described in section 351 or a reorganiza-
7 tion described in section 368, if a qualified
8 small business stock is transferred for other
9 stock which is not qualified small business
10 stock, such transfer shall be treated as a trans-
11 fer to which this subsection applies solely with
12 respect to the person receiving such other stock.

13 “(B) LIMITATION.—This part shall apply
14 to the sale or exchange of stock treated as
15 qualified small business stock by reason of sub-
16 paragraph (A) only to the extent of the gain (if
17 any) which would have been recognized at the
18 time of the transfer described in subparagraph
19 (A) if section 351 or 368 had not applied at
20 such time.

21 “(C) SUCCESSIVE APPLICATION.—For pur-
22 poses of this paragraph, stock treated as quali-
23 fied small business stock under subparagraph
24 (A) shall be so treated for subsequent trans-
25 actions or reorganizations, except that the limi-

1 tation of subparagraph (B) shall be applied as
2 of the time of the first transfer to which sub-
3 paragraph (A) applied.

4 “(D) CONTROL TEST.—Except in the case
5 of a transaction described in section 368, this
6 paragraph shall apply only if, immediately after
7 the transaction, the corporation issuing the
8 stock owns directly or indirectly stock rep-
9 resenting control (within the meaning of section
10 368(c)) of the corporation whose stock was
11 transferred.

12 “(f) STOCK EXCHANGED FOR PROPERTY.—For pur-
13 poses of this part, in the case where the taxpayer transfers
14 property (other than money or stock) to a corporation in
15 exchange for stock in such corporation—

16 “(1) such stock shall be treated as having been
17 acquired by the taxpayer on the date of such ex-
18 change, and

19 “(2) the basis of such stock in the hands of the
20 taxpayer shall be treated as equal to the fair market
21 value of the property exchanged.

22 “(g) PASS-THRU ENTITIES.—For purposes of this
23 part, any gain or loss of a pass-thru entity which is treated
24 for purposes of this subtitle as a gain or loss of any person
25 holding an interest in such entity shall retain its character

1 as qualified small business or seed capital gain or loss in
2 the hands of such person.

3 “(h) INDEXING.—In the case of any stock issued in
4 a calendar year after 1992, the \$5,000,000 and
5 \$100,000,000 amounts in section 1301(c)(3)(B)(i) and
6 subsection (b)(1) of this section shall be increased by an
7 amount equal to—

8 “(1) such dollar amount, multiplied by

9 “(2) the cost-of-living adjustment determined
10 under section 1(f)(3) for such calendar year by sub-
11 stituting ‘1991’ for ‘1987’ in subparagraph (B)
12 thereof.”.

13 (b) MAXIMUM 14 PERCENT TAX RATE.—

14 (1) INDIVIDUALS.—Section 1(h) of such Code
15 (relating to maximum capital gains rate) is amended
16 to read as follows:

17 “(h) MAXIMUM CAPITAL GAINS RATE.—

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

21 “(A) a tax computed at the rate and in the
22 same manner as if this subsection had not been
23 enacted on the greater of—

24 “(i) taxable income reduced by the
25 amount of the net capital gain, or

1 “(ii) the amount of taxable income
2 taxed at a rate below 28 percent, plus

3 “(B) a tax of 28 percent of the amount of
4 taxable income in excess of the amount deter-
5 mined under subparagraph (A).

6 “(2) SPECIAL RULE WHERE TAXPAYER HAS
7 QUALIFIED SMALL BUSINESS NET CAPITAL OR SEED
8 CAPITAL GAIN.—

9 “(A) IN GENERAL.—If a taxpayer has
10 qualified small business net capital gain or seed
11 capital gain for any taxable year, then the tax
12 imposed by this section shall not exceed the
13 lesser of—

14 “(i) the amount determined under
15 paragraph (1), or

16 “(ii) the sum of—

17 “(I) the amount determined
18 under paragraph (1) without taking
19 into account qualified small business
20 net capital gain and seed capital gain
21 for purposes of subparagraphs (A)
22 and (B) thereof, plus

23 “(II) 14 percent of the qualified
24 small business net capital gain and
25 seed capital gain.

1 “(B) DEFINITIONS.—For purposes of this
2 paragraph, the terms ‘qualified small business
3 net capital gain’ and ‘seed capital gain’ have
4 the meanings given such terms by section 1301
5 (b) and (c), respectively.”.

6 (2) CORPORATIONS.—Section 1201(a) of such
7 Code (relating to alternative tax for corporations) is
8 amended—

9 (A) by inserting “or the corporation has a
10 qualified small business net capital gain or seed
11 capital gain” before “, then”, and

12 (B) by striking paragraph (2) and insert-
13 ing:

14 “(2) a tax equal to the sum of—

15 “(A) 34 percent of the sum of the net cap-
16 ital gain, reduced by qualified small business
17 net capital gain and seed capital gain, plus

18 “(B) 17 percent of the qualified small
19 business net capital gain and seed capital
20 gain.”.

21 (c) TREATMENT AS PREFERENCE ITEM FOR MINI-
22 MUM TAX.—Section 57(a) of such Code (relating to items
23 of tax preference under the alternative minimum tax) is
24 amended by adding at the end thereof the following new
25 paragraph:

1 “(8) CAPITAL GAINS ON SALE OF CERTAIN
2 SMALL BUSINESS STOCK.—An amount equal to the
3 deduction for the taxable year determined under sec-
4 tion 1301(a)(1).”.

5 (d) LOSSES ON SMALL BUSINESS STOCK.—Section
6 1244(c)(3)(A) of such Code (defining small business cor-
7 poration) is amended by striking “\$1,000,000” and insert-
8 ing “\$5,000,000 (adjusted at the same time and manner
9 as under section 1302(g))”.

10 (e) CONFORMING AMENDMENTS.—

11 (1) Section 62(a) of such Code is amended by
12 adding after paragraph (13) the following new para-
13 graph:

14 “(14) LONG-TERM CAPITAL GAINS.—The de-
15 duction allowed by section 1301.”.

16 (2) Subparagraph (B) of section 170(e)(1) of
17 such Code is amended by inserting “(or, in the case
18 of qualified small business stock under section 1301,
19 50 percent of the amount)” after “the amount”.

20 (3) Section 172(d)(2) of such Code is amended
21 to read as follows:

22 “(2) CAPITAL GAINS AND LOSSES OF TAX-
23 PAYERS OTHER THAN CORPORATIONS.—In the case
24 of a taxpayer other than a corporation—

1 “(A) the amount deductible on account of
2 losses from sales or exchanges of capital assets
3 shall not exceed the amount includible on ac-
4 count of gains from sales or exchanges of cap-
5 ital assets; and

6 “(B) the deduction for long-term capital
7 gains provided by section 1301 shall not be al-
8 lowed.”.

9 (4) Subparagraph (B) of section 172(d)(4) of
10 such Code is amended by inserting “, (2)(B),” after
11 “paragraph (1)”.

12 (5)(A) Section 220 of such Code is amended to
13 read as follows:

14 **“SEC. 220. CROSS REFERENCES.**

15 “(1) For deduction for long-term capital gains
16 in the case of sale of qualified small business stock,
17 see section 1301.

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

20 (B) The table of sections for part VII of sub-
21 chapter B of chapter 1 of such Code is amended by
22 striking out “reference” in the item relating to sec-
23 tion 220 and inserting “references”.

24 (6) Paragraph (4) of section 642(c) of such
25 Code is amended to read as follows:

1 “(4) ADJUSTMENTS.—To the extent that the
2 amount otherwise allowable as a deduction under
3 this subsection consists of gain from the sale or ex-
4 change of qualified small business stock held for
5 more than 5 years, proper adjustment shall be made
6 for any deduction allowable to the estate or trust
7 under section 1301 (relating to deduction for excess
8 of capital gains over capital losses). In the case of
9 a trust, the deduction allowed by this subsection
10 shall be subject to section 681 (relating to unrelated
11 business income).”.

12 (7) Paragraph (3) of section 643(a) of such
13 Code is amended by adding at the end thereof the
14 following new sentence: “The deduction under sec-
15 tion 1301 (relating to deduction for gain on quali-
16 fied small business stock) shall not be taken into ac-
17 count.”.

18 (8) Paragraph (4) of section 691(c) of such
19 Code is amended by striking out “1(h), 1201, and
20 1211” and inserting in lieu thereof “1(h), 1201,
21 1211, and 1301, and for purposes of section
22 57(a)(8)”.

23 (9) Clause (iii) of section 852(b)(3)(D) of such
24 Code is amended by striking out “66 percent” and

1 inserting “the rate differential portion (within the
2 meaning of section 904(b)(3)(E))”.

3 (10) The second sentence of paragraph (2) of
4 section 871(a) of such Code is amended by inserting
5 “such gains and losses shall be determined without
6 regard to section 1301 (relating to deduction for
7 qualified small business net capital gains) and” after
8 “except that”.

9 (11) Section 1402(i)(1) of such Code is amend-
10 ed to read as follows:

11 “(1) IN GENERAL.—In determining the net
12 earnings from self-employment of any options dealer
13 or commodities dealer—

14 “(A) notwithstanding subsection (a)(3)(A),
15 there shall not be excluded any gain or loss (in
16 the normal course of the taxpayer’s activity of
17 dealing in or trading section 1256 contracts)
18 from section 1256 contracts or property related
19 to such contracts, and

20 “(B) the deduction provided by section
21 1301 shall not apply.”.

22 (12) Section 1445(e)(1) of such Code is amend-
23 ed by striking out “34 percent (or, to the extent pro-
24 vided in regulations, 28 percent)” and inserting “34
25 percent (or, to the extent provided in regulations,

1 the alternative tax rate determined under section
2 904(b)(3)(E)(iii)''.

3 (f) EFFECTIVE DATE.—

4 (1) IN GENERAL.—The amendments made by
5 this section shall apply to stock issued after Decem-
6 ber 31, 1993.

7 (2) APPLICATION OF TAX INCENTIVE TO CUR-
8 RENT STOCK HOLDINGS OF INVESTORS.—

9 (A) IN GENERAL.—If—

10 (i) a taxpayer holds any stock on any
11 date on or after the date determined under
12 paragraph (1) which, at the time it was is-
13 sued, would be treated as qualified small
14 business stock (as defined in section
15 1302(a) of the Internal Revenue Code of
16 1986) without regard to the time it was is-
17 sued, and

18 (ii) the value of such stock on such
19 date exceeds its adjusted basis,

20 the taxpayer may elect to treat such stock as
21 having been sold on such date for an amount
22 equal to its value on such date (and as having
23 been reacquired on such date for an amount
24 equal to such value). The gain from such sale
25 shall be treated as received or accrued (and the

1 holding period of the reacquired stock shall be
2 treated as beginning) on such date. For pur-
3 poses of applying section 1301 of such Code,
4 such stock shall be treated after such reacquisi-
5 tion as acquired in the same manner and at the
6 same time as the original acquisition and the
7 requirement of section 1302(a)(1) that the
8 stock must have been issued after December
9 31, 1993, shall not apply.

10 (B) ELECTION.—An election under sub-
11 paragraph (A) with respect to any stock shall
12 be made in such manner as the Secretary may
13 prescribe. Such an election, once made with re-
14 spect to any stock, shall be irrevocable.

15 **TITLE III—SOCIAL SECURITY** 16 **EARNINGS TEST**

17 **SEC. 301. RETIREMENT TEST EXEMPT AMOUNT INCREASED.**

18 (a) IN GENERAL.—Section 203(f)(8)(D) of the Social
19 Security Act (42 U.S.C. 403(f)(8)(D)) is amended to read
20 as follows:

21 “(D) Notwithstanding any other provision of this
22 subsection, the exempt amount which is applicable to an
23 individual who has attained retirement age (as defined in
24 section 216(l)) before the close of the taxable year involved
25 shall be—

1 “(i) \$925 for each month of any taxable year
2 ending after 1992 and before 1994,

3 “(ii) \$1,020 for each month of any taxable year
4 ending after 1993 and before 1995,

5 “(iii) \$1,130 for each month of any taxable
6 year ending after 1994 and before 1996,

7 “(iv) \$1,450 for each month of any taxable year
8 ending after 1995 and before 1997,

9 “(v) \$1,750 for each month of any taxable year
10 ending after 1996 and before 1998,

11 “(vi) \$2,250 for each month of any taxable year
12 ending after 1997 and before 1999,

13 “(vii) \$2,670 for each month of any taxable
14 year ending after 1998 and before 2000,

15 “(viii) \$3,500 for each month of any taxable
16 year ending after 1999 and before 2001, and

17 “(ix) \$4,250 for each month of any taxable year
18 ending after 2000 and before 2002.”.

19 (b) CONFORMING AMENDMENT.—Section
20 203(f)(8)(B)(ii)(II) of such Act (42 U.S.C.
21 403(f)(8)(B)(ii)(II)) is amended by striking “for the cal-
22 endar year before the most recent calendar year in which
23 an increase in the exempt amount was enacted or a deter-
24 mination resulting in such an increase was made under
25 subparagraph (A)” and inserting “for the second calendar

1 year before the calendar year in which the determination
2 under subparagraph (A) is made”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years ending after De-
5 cember 31, 1992.

6 **SEC. 302. REDUCTION FACTOR WITH RESPECT TO CERTAIN**
7 **EARNINGS LOWERED TO 25 PERCENT.**

8 (a) IN GENERAL.—Section 203(f)(3) of the Social
9 Security Act (42 U.S.C. 403(f)(3)) is amended by striking
10 “33 $\frac{1}{3}$ percent” and all that follows through “paragraph
11 (8)” and inserting “equal to the sum of (A) 25 percent
12 of so much of his earnings for such year in excess of the
13 product of the applicable exempt amount as determined
14 under paragraph (8) as does not exceed \$5,000, and (B)
15 33 $\frac{1}{3}$ percent of so much of such earnings in excess of
16 such product as exceeds \$5,000,”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 subsection (a) shall apply to taxable years beginning after
19 December 31, 1997.

1 **TITLE IV—URBAN TAX ENTER-**
 2 **PRISE ZONES AND RURAL DE-**
 3 **VELOPMENT INVESTMENT**
 4 **ZONES**

5 **SEC. 401. STATEMENT OF PURPOSE.**

6 It is the purpose of this title to establish a demonstra-
 7 tion program of providing incentives for the creation of
 8 tax enterprise zones in order—

9 (1) to revitalize economically and physically dis-
 10 tressed areas, primarily by encouraging the forma-
 11 tion of new businesses and the retention and expan-
 12 sion of existing businesses,

13 (2) to promote meaningful employment for tax
 14 enterprise zone residents, and

15 (3) to encourage individuals to reside in the tax
 16 enterprise zones in which they are employed.

17 **Subtitle A—Designation and Tax**
 18 **Incentives**

19 **SEC. 411. DESIGNATION AND TREATMENT OF URBAN TAX**

20 **ENTERPRISE ZONES AND RURAL DEVELOP-**

21 **MENT INVESTMENT ZONES.**

22 (a) IN GENERAL.—Chapter 1 of the Internal Reve-
 23 nue Code of 1986 (relating to normal taxes and surtaxes)
 24 is amended by inserting after subchapter T the following
 25 new subchapter:

1 **“Subchapter U—Designation and Treatment**
 2 **of Tax Enterprise Zones**

“Part I. Designation of tax enterprise zones.

“Part II. Incentives for tax enterprise zones.

3 **“PART I—DESIGNATION OF TAX ENTERPRISE**
 4 **ZONES**

“Sec. 1391. Designation procedure.

“Sec. 1392. Eligibility and selection criteria.

“Sec. 1393. Definitions and special rules.

5 **“SEC. 1391. DESIGNATION PROCEDURE.**

6 “(a) IN GENERAL.—For purposes of this title, the
 7 term ‘tax enterprise zone’ means any area which is, under
 8 this part—

9 “(1) nominated by 1 or more local governments
 10 and the State in which it is located for designation
 11 as a tax enterprise zone, and

12 “(2) designated by—

13 “(A) the Secretary of Housing and Urban
 14 Development in the case of an urban tax enter-
 15 prise zone, or

16 “(B) the Secretary of Agriculture, in con-
 17 sultation with the Secretary of Commerce, in
 18 the case of a rural development investment
 19 zone.

20 “(b) NUMBER OF DESIGNATIONS.—

21 “(1) AGGREGATE LIMIT.—The appropriate Sec-
 22 retaries may designate in the aggregate 50 nomi-

1 nated areas as tax enterprise zones under this sec-
2 tion, subject to the availability of eligible nominated
3 areas. Not more than 25 urban tax enterprise zones
4 may be designated and not more than 25 rural de-
5 velopment investment zones may be designated.
6 Such designations may be made only during cal-
7 endar years after 1992 and before 1998.

8 “(2) ANNUAL LIMITS.—

9 “(A) URBAN TAX ENTERPRISE ZONES.—

10 The number of urban tax enterprise zones des-
11 ignated under paragraph (1)—

12 “(i) before 1995 shall not exceed 8,

13 “(ii) before 1996 shall not exceed 15,

14 and

15 “(iii) before 1997 shall not exceed 21.

16 “(B) RURAL DEVELOPMENT INVESTMENT
17 ZONES.—The number of rural development in-
18 vestment zones designated under paragraph
19 (1)—

20 “(i) before 1995 shall not exceed 8,

21 “(ii) before 1996 shall not exceed 15,

22 and

23 “(iii) before 1997 shall not exceed 21.

24 “(3) ADVANCE DESIGNATIONS PERMITTED.—

25 For purposes of this subchapter, a designation dur-

1 ing any calendar year shall be treated as made on
2 January 1 of the following calendar year if the ap-
3 propriate Secretary, in making such designation,
4 specifies that such designation is effective as of such
5 January 1.

6 “(c) LIMITATIONS ON DESIGNATIONS.—The appro-
7 priate Secretary may not make any designation under sub-
8 section (a) unless—

9 “(1) the local governments and the State in
10 which the nominated area is located have the au-
11 thority—

12 “(A) to nominate the area for designation
13 as a tax enterprise zone, and

14 “(B) to provide assurances satisfactory to
15 the appropriate Secretary that the commit-
16 ments under section 1392(c) will be fulfilled,

17 “(2) a nomination of the area is submitted
18 within a reasonable time before the calendar year for
19 which designation as a tax enterprise zone is sought
20 (or, if later, a reasonable time after the date of the
21 enactment of this subchapter),

22 “(3) the appropriate Secretary determines that
23 any information furnished is reasonably accurate,
24 and

1 “(4) the State and local governments certify
2 that no portion of the area nominated is already in-
3 cluded in a tax enterprise zone or in an area other-
4 wise nominated to be a tax enterprise zone.

5 “(d) PERIOD FOR WHICH DESIGNATION IS IN EF-
6 FECT.—

7 “(1) IN GENERAL.—Any designation of an area
8 as a tax enterprise zone shall remain in effect during
9 the period beginning on the date of the designation
10 and ending on the earliest of—

11 “(A) December 31 of the 15th calendar
12 year following the calendar year in which such
13 date occurs,

14 “(B) the termination date designated by
15 the State and local governments as provided for
16 in their nomination, or

17 “(C) the date the appropriate Secretary re-
18 vokes the designation under paragraph (2).

19 “(2) REVOCATION OF DESIGNATION.—

20 “(A) IN GENERAL.—The appropriate Sec-
21 retary shall revoke the designation of an area
22 as a tax enterprise zone if such Secretary deter-
23 mines that the local government or the State in
24 which it is located—

1 “(i) has modified the boundaries of
2 the area, or

3 “(ii) is not complying substantially
4 with the State and local commitments pur-
5 suant to section 1392(c).

6 “(B) APPLICABLE PROCEDURES.—A des-
7 ignation may be revoked by the appropriate
8 Secretary under subparagraph (A) only after a
9 hearing on the record involving officials of the
10 State or local government involved.

11 **“SEC. 1392. ELIGIBILITY AND SELECTION CRITERIA.**

12 “(a) IN GENERAL.—The appropriate Secretary may
13 make a designation of any nominated area under section
14 1391 only on the basis of the eligibility and selection cri-
15 teria set forth in this section.

16 “(b) ELIGIBILITY CRITERIA.—

17 “(1) URBAN TAX ENTERPRISE ZONES.—A nom-
18 inated area which is not a rural area shall be eligible
19 for designation under section 1391 only if it meets
20 the following criteria:

21 “(A) POPULATION.—The nominated area
22 has a population (as determined by the most re-
23 cent census data available) of not less than
24 4,000.

1 “(B) DISTRESS.—The nominated area is
2 one of pervasive poverty, unemployment, and
3 general distress.

4 “(C) SIZE.—The nominated area—

5 “(i) does not exceed 20 square miles,

6 “(ii) has a boundary which is continu-
7 ous, or consists of not more than 3 non-
8 contiguous parcels within the same metro-
9 politan area,

10 “(iii) is located entirely within 1
11 State, and

12 “(iv) does not include any portion of
13 a central business district (as such term is
14 used for purposes of the most recent Cen-
15 sus of Retail Trade).

16 “(D) UNEMPLOYMENT RATE.—The unem-
17 ployment rate (as determined by the appro-
18 priate available data) is not less than 1.5 times
19 the national unemployment rate.

20 “(E) POVERTY RATE.—The poverty rate
21 (as determined by the most recent census data
22 available) for not less than 90 percent of the
23 population census tracts (or where not tracted,
24 the equivalent county divisions as defined by
25 the Bureau of the Census for the purposes of

1 defining poverty areas) within the nominated
2 area is not less than 20 percent.

3 “(F) COURSE OF ACTION.—There has been
4 adopted for the nominated area a course of ac-
5 tion which meets the requirements of subsection
6 (c).

7 “(2) RURAL DEVELOPMENT INVESTMENT
8 ZONES.—A nominated area which is a rural area
9 shall be eligible for designation under section 1391
10 only if it meets the following criteria:

11 “(A) POPULATION.—The nominated area
12 has a population (as determined by the most re-
13 cent census data available) of not less than
14 1,000.

15 “(B) DISTRESS.—The nominated area is
16 one of general distress.

17 “(C) SIZE.—The nominated area—

18 “(i) does not exceed 10,000 square
19 miles,

20 “(ii) consists of areas within not more
21 than 4 contiguous counties,

22 “(iii) has a boundary which is contin-
23 uous, or consists of not more than 3 non-
24 contiguous parcels, and

1 “(iv) is located entirely within 1
2 State.

3 “(D) ADDITIONAL CRITERIA.—Not less
4 than 2 of the following criteria:

5 “(i) UNEMPLOYMENT RATE.—The cri-
6 terion set forth in paragraph (1)(D).

7 “(ii) POVERTY RATE.—The criterion
8 set forth in paragraph (1)(E).

9 “(iii) JOB LOSS.—The amount of
10 wages attributable to employment in the
11 area, and subject to tax under section
12 3301 during the preceding calendar year,
13 is not more than 95 percent of such wages
14 during the 5th preceding calendar year.

15 “(iv) OUT-MIGRATION.—The popu-
16 lation of the area decreased (as determined
17 by the most recent census data available)
18 by 10 percent or more between 1980 and
19 1990.

20 “(E) COURSE OF ACTION.—There has been
21 adopted for the nominated area a course of ac-
22 tion which meets the requirements of subsection
23 (c).

24 “(3) AREAS WITHIN INDIAN RESERVATIONS IN-
25 ELIGIBLE.—A nominated area shall not be eligible

1 for designation under section 1391 if any portion of
2 such area is within an Indian reservation.

3 “(c) REQUIRED STATE AND LOCAL COURSE OF AC-
4 TION.—

5 “(1) IN GENERAL.—No nominated area may be
6 designated as a tax enterprise zone unless the local
7 government and the State in which it is located
8 agree in writing that, during any period during
9 which the area is a tax enterprise zone, the govern-
10 ments will follow a specified course of action de-
11 signed to reduce the various burdens borne by em-
12 ployers or employees in the area.

13 “(2) COURSE OF ACTION.—The course of action
14 under paragraph (1) may be implemented by both
15 governments and private nongovernmental entities,
16 may not be funded from proceeds of any Federal
17 program (other than discretionary proceeds), and
18 may include—

19 “(A) a certification by the State insurance
20 commissioner (or similar State official) that
21 basic commercial property insurance of a type
22 comparable to that insurance generally in force
23 in urban or rural areas, whichever is applicable,
24 throughout the State is available to businesses
25 within the tax enterprise zone,

1 “(B) a reduction of tax rates or fees apply-
2 ing within the tax enterprise zone,

3 “(C) an increase in the level, or efficiency
4 of delivery, of local public services within the
5 tax enterprise zone,

6 “(D) actions to reduce, remove, simplify,
7 or streamline government paperwork require-
8 ments applicable within the tax enterprise zone,

9 “(E) the involvement in the program by
10 public authorities or private entities, organiza-
11 tions, neighborhood associations, and commu-
12 nity groups, particularly those within the nomi-
13 nated area, including a written commitment to
14 provide jobs and job training for, and technical,
15 financial, or other assistance to, employers, em-
16 ployees, and residents of the nominated area,

17 “(F) the giving of special preference to
18 contractors owned and operated by members of
19 any socially and economically disadvantaged
20 group (within the meaning of section 8(a) of
21 the Small Business Act (15 U.S.C. 637(a)),

22 “(G) the gift (or sale at below fair market
23 value) of surplus land in the tax enterprise zone
24 to neighborhood organizations agreeing to oper-
25 ate a business on the land,

1 “(H) the establishment of a program
2 under which employers within the tax enterprise
3 zone may purchase health insurance for their
4 employees on a pooled basis,

5 “(I) the establishment of a program to en-
6 courage local financial institutions to satisfy
7 their obligations under the Community Rein-
8 vestment Act of 1977 (12 U.S.C. 2901 et seq.)
9 by making loans to enterprise zone businesses,
10 with emphasis on startup and other small-busi-
11 ness concerns (as defined in section 3(a) of the
12 Small Business Act (15 U.S.C. 632(a)),

13 “(J) the giving of special preference to
14 qualified low-income housing projects located in
15 tax enterprise zones, in the allocation of the
16 State housing credit ceiling applicable under
17 section 42, and

18 “(K) the giving of special preference to fa-
19 cilities located in tax enterprise zones, in the al-
20 location of the State ceiling on private activity
21 bonds applicable under section 146.

22 “(3) RECOGNITION OF PAST EFFORTS.—In
23 evaluating courses of action agreed to by any State
24 or local government, the appropriate Secretary shall
25 take into account the past efforts of the State or

1 local government in reducing the various burdens
2 borne by employers and employees in the area in-
3 volved.

4 “(4) PROHIBITION OF ASSISTANCE FOR BUSI-
5 NESS RELOCATIONS.—

6 “(A) IN GENERAL.—The course of action
7 implemented under paragraph (1) may not in-
8 clude any action to assist any establishment in
9 relocating from one area to another area.

10 “(B) EXCEPTION.—The limitation estab-
11 lished in subparagraph (A) shall not be con-
12 strued to prohibit assistance for the expansion
13 of an existing business entity through the estab-
14 lishment of a new branch, affiliate, or subsidi-
15 ary if—

16 “(i) the establishment of the new
17 branch, affiliate, or subsidiary will not re-
18 sult in an increase in unemployment in the
19 area of original location or in any other
20 area where the existing business entity
21 conducts business operations, and

22 “(ii) there is no reason to believe that
23 the new branch, affiliate, or subsidiary is
24 being established with the intention of clos-
25 ing down the operations of the existing

1 business entity in the area of its original
2 location or in any other area where the ex-
3 isting business entity conducts business op-
4 erations.

5 “(d) SELECTION CRITERIA.—From among the nomi-
6 nated areas eligible for designation under subsection (b)
7 by the appropriate Secretary, such appropriate Secretary
8 shall make designations of tax enterprise zones on the
9 basis of the following factors (each of which is to be given
10 equal weight):

11 “(1) STATE AND LOCAL COMMITMENTS.—The
12 strength and quality of the commitments which have
13 been promised as part of the course of action rel-
14 ative to the fiscal ability of the nominating State
15 and local governments.

16 “(2) IMPLEMENTATION OF COURSE OF AC-
17 TION.—The effectiveness and enforceability of the
18 guarantees that the course of action will actually be
19 carried out, including the specificity with which the
20 commitments under paragraph (1) are described in
21 order that the applicable Secretary will be better
22 able to determine annually under section
23 1391(d)(2)(A)(ii) whether the commitments are
24 being carried out.

1 “(3) PRIVATE COMMITMENTS.—The level of
2 commitments by private entities of additional re-
3 sources and contributions to the economy of the
4 nominated area, including the creation of new or ex-
5 panded business activities.

6 “(4) AVERAGE RANKINGS.—The average rank-
7 ing with respect to—

8 “(A) the criteria set forth in subpara-
9 graphs (D) and (E) of subsection (b)(1), in the
10 case of an area which is not a rural area, or

11 “(B) the 2 criteria set forth in subsection
12 (b)(2)(D) that give the area a higher average
13 ranking, in the case of a rural area.

14 “(5) REVITALIZATION POTENTIAL.—The poten-
15 tial for the revitalization of the nominated area as
16 a result of zone designation, taking into account
17 particularly the number of jobs to be created and re-
18 tained.

19 **“SEC. 1393. DEFINITIONS AND SPECIAL RULES.**

20 For purposes of this subchapter—

21 “(1) URBAN TAX ENTERPRISE ZONE.—The
22 term ‘urban tax enterprise zone’ means a tax enter-
23 prise zone which meets the requirements of section
24 1392(b)(1).

1 “(2) RURAL DEVELOPMENT INVESTMENT
2 ZONE.—The term ‘rural development investment
3 zone’ means a tax enterprise zone which meets the
4 requirements of section 1392(b)(2).

5 “(3) GOVERNMENTS.—If more than 1 local gov-
6 ernment seeks to nominate an area as a tax enter-
7 prise zone, any reference to, or requirement of, this
8 subchapter shall apply to all such governments.

9 “(4) LOCAL GOVERNMENT.—The term ‘local
10 government’ means—

11 “(A) any county, city, town, township, par-
12 ish, village, or other general purpose political
13 subdivision of a State, and

14 “(B) any combination of political subdivi-
15 sions described in subparagraph (A) recognized
16 by the appropriate Secretary.

17 “(5) NOMINATED AREA.—The term ‘nominated
18 area’ means an area which is nominated by 1 or
19 more local governments and the State in which it is
20 located for designation as a tax enterprise zone
21 under this subchapter.

22 “(6) RURAL AREA.—The term ‘rural area’
23 means any area which is—

1 “(A) outside of a metropolitan statistical
2 area (within the meaning of section
3 143(k)(2)(B)), or

4 “(B) determined by the Secretary of Agri-
5 culture, after consultation with the Secretary of
6 Commerce, to be a rural area.

7 “(7) APPROPRIATE SECRETARY.—The term ‘ap-
8 propriate Secretary’ means—

9 “(A) the Secretary of Housing and Urban
10 Development in the case of urban tax enterprise
11 zones, and

12 “(B) the Secretary of Agriculture in the
13 case of rural development investment zones.

14 “(8) STATE-CHARTERED DEVELOPMENT COR-
15 PORATIONS.—An area shall be treated as nominated
16 by a State and a local government if it is nominated
17 by an economic development corporation chartered
18 by the State.

19 **“PART II—INCENTIVES FOR TAX ENTERPRISE**
20 **ZONES**

“SUBPART A. Enterprise zone employment credit.

“SUBPART B. Investment incentives.

“SUBPART C. Regulations.

21 **“Subpart A—Enterprise Zone Employment Credit**

“Sec. 1394. Enterprise zone employment credit.

“Sec. 1395. Other definitions and special rules.

1 **“SEC. 1394. ENTERPRISE ZONE EMPLOYMENT CREDIT.**

2 “(a) AMOUNT OF CREDIT.—For purposes of section
3 38, the amount of the enterprise zone employment credit
4 determined under this section with respect to any em-
5 ployer for any taxable year is 15 percent of the qualified
6 zone wages paid or incurred during such taxable year.

7 “(b) QUALIFIED ZONE WAGES.—

8 “(1) IN GENERAL.—For purposes of this sec-
9 tion, the term ‘qualified zone wages’ means any
10 wages paid or incurred by an employer for services
11 performed by an employee while such employee is a
12 qualified zone employee.

13 “(2) ONLY FIRST \$20,000 OF WAGES PER YEAR
14 TAKEN INTO ACCOUNT.—With respect to each quali-
15 fied zone employee, the amount of qualified zone
16 wages which may be taken into account for the tax-
17 able year shall not exceed \$20,000.

18 “(3) COORDINATION WITH TARGETED JOBS
19 CREDIT.—The term ‘qualified zone wages’ shall not
20 include wages attributable to service rendered during
21 the 1-year period beginning with the day the individ-
22 ual begins work for the employer if any portion of
23 such wages is taken into account in determining the
24 credit under section 51.

25 “(c) QUALIFIED ZONE EMPLOYEE.—For purposes of
26 this section—

1 “(1) IN GENERAL.—Except as otherwise pro-
2 vided in this subsection, the term ‘qualified zone em-
3 ployee’ means, with respect to any period, any em-
4 ployee of an employer if—

5 “(A) substantially all of the services per-
6 formed during such period by such employee for
7 such employer are performed within a tax en-
8 terprise zone in a trade or business of the em-
9 ployer, and

10 “(B) the principal place of abode of such
11 employee while performing such services is
12 within such tax enterprise zone.

13 “(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—
14 The term ‘qualified zone employee’ shall not in-
15 clude—

16 “(A) any individual described in subpara-
17 graph (A), (B), or (C) of section 51(i)(1),

18 “(B) any 5-percent owner (as defined in
19 section 416(i)(1)(B)),

20 “(C) any individual employed by the em-
21 ployer at any facility described in section
22 144(c)(6)(B), and

23 “(D) any individual employed by the em-
24 ployer in a trade or business the principal activ-
25 ity of which is farming (within the meaning of

1 subparagraphs (A) or (B) of section
2 2032A(e)(5)), but only if, as of the close of the
3 taxable year, the sum of—

4 “(i) the aggregate unadjusted bases
5 (or, if greater, the fair market value) of
6 the assets owned by the employer which
7 are used in such a trade or business, and

8 “(ii) the aggregate value of assets
9 leased by the employer which are used in
10 such a trade or business (as determined
11 under regulations prescribed by the Sec-
12 retary),

13 exceeds \$500,000.

14 “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-
15 PLOYER.—

16 “(1) IN GENERAL.—If the employment of any
17 employee is terminated by the taxpayer before the
18 day 1 year after the day on which such employee
19 began work for the employer—

20 “(A) no wages with respect to such em-
21 ployee shall be taken into account under sub-
22 section (a) for the taxable year in which such
23 employment is terminated, and

24 “(B) the tax under this chapter for the
25 taxable year in which such employment is ter-

1 minated shall be increased by the aggregate
2 credits (if any) allowed under section 38(a) for
3 prior taxable years by reason of wages taken
4 into account with respect to such employee.

5 “(2) CARRYBACKS AND CARRYOVERS AD-
6 JUSTED.—In the case of any termination of employ-
7 ment to which paragraph (1) applies, the carrybacks
8 and carryovers under section 39 shall be properly
9 adjusted.

10 “(3) SUBSECTION NOT TO APPLY IN CERTAIN
11 CASES.—

12 “(A) IN GENERAL.—Paragraph (1) shall
13 not apply to—

14 “(i) a termination of employment of
15 an employee who voluntarily leaves the em-
16 ployment of the taxpayer,

17 “(ii) a termination of employment of
18 an individual who before the close of the
19 period referred to in paragraph (1) be-
20 comes disabled to perform the services of
21 such employment unless such disability is
22 removed before the close of such period
23 and the taxpayer fails to offer reemploy-
24 ment to such individual, or

1 “(iii) a termination of employment of
2 an individual if it is determined under the
3 applicable State unemployment compensa-
4 tion law that the termination was due to
5 the misconduct of such individual.

6 “(B) CHANGES IN FORM OF BUSINESS.—
7 For purposes of paragraph (1), the employment
8 relationship between the taxpayer and an em-
9 ployee shall not be treated as terminated—

10 “(i) by a transaction to which section
11 381(a) applies if the employee continues to
12 be employed by the acquiring corporation,
13 or

14 “(ii) by reason of a mere change in
15 the form of conducting the trade or busi-
16 ness of the taxpayer if the employee con-
17 tinues to be employed in such trade or
18 business and the taxpayer retains a sub-
19 stantial interest in such trade or business.

20 “(4) SPECIAL RULE.—Any increase in tax
21 under paragraph (1) shall not be treated as a tax
22 imposed by this chapter for purposes of—

23 “(A) determining the amount of any credit
24 allowable under this chapter, and

1 “(B) determining the amount of the tax
2 imposed by section 55.

3 **“SEC. 1395. OTHER DEFINITIONS AND SPECIAL RULES.**

4 “(a) WAGES.—For purposes of this subpart, the term
5 ‘wages’ has the same meaning as when used in section
6 51.

7 “(b) CONTROLLED GROUPS.—For purposes of this
8 subpart—

9 “(1) all employers treated as a single employer
10 under subsection (a) or (b) of section 52 shall be
11 treated as a single employer for purposes of this
12 subpart, and

13 “(2) the credit (if any) determined under sec-
14 tion 1394 with respect to each such employer shall
15 be its proportionate share of the wages giving rise
16 to such credit.

17 “(c) CERTAIN OTHER RULES MADE APPLICABLE.—
18 For purposes of this subpart, rules similar to the rules
19 of section 51(k) and subsections (c), (d), and (e) of section
20 52 shall apply.

21 “(d) NOTICE OF AVAILABILITY OF ADVANCE PAY-
22 MENT OF EARNED INCOME CREDIT.—Each employer
23 shall take reasonable steps to notify all qualified zone em-
24 ployees of the availability to eligible individuals of receiv-

1 ing advanced payments of the credit under section 32 (re-
 2 lating to the earned income credit).

3 **“Subpart B—Investment Incentives**

“Sec. 1396. Deduction for purchase of enterprise zone stock.

“Sec. 1397. 50 percent exclusion for gain from new zone invest-
 ments.

“Sec. 1397A. Nonrecognition of gain from new zone investments.

“Sec. 1397B. Other incentives.

“Sec. 1397C. Enterprise zone business defined.

4 **“SEC. 1396. DEDUCTION FOR PURCHASE OF ENTERPRISE**
 5 **ZONE STOCK.**

6 “(a) GENERAL RULE.—In the case of an individual,
 7 there shall be allowed as a deduction an amount equal to
 8 50 percent of the aggregate amount paid in cash by the
 9 taxpayer during the taxable year for the purchase of enter-
 10 prise zone stock.

11 “(b) LIMITATION.—

12 “(1) IN GENERAL.—The maximum amount al-
 13 lowed as a deduction under subsection (a) to a tax-
 14 payer for the taxable year shall not exceed the lesser
 15 of—

16 “(A) \$25,000, or

17 “(B) the excess of \$250,000 over the
 18 amount allowed as a deduction under this sec-
 19 tion to the taxpayer for all prior taxable years.

20 “(2) EXCESS AMOUNTS.—If the amount other-
 21 wise deductible by any person under subsection (a)
 22 exceeds the limitation under paragraph (1)(A)—

1 “(A) the amount of such excess shall be
2 treated as an amount paid to which subsection
3 (a) applies during the next taxable year, and

4 “(B) the deduction allowed for any taxable
5 year shall be allocated proportionately among
6 the enterprise zone stock purchased by such
7 person on the basis of the respective purchase
8 prices per share.

9 “(3) AGGREGATION WITH FAMILY MEMBERS.—

10 The taxpayer and members of the taxpayer’s family
11 shall be treated as one person for purposes of para-
12 graph (1), and the limitations contained in such
13 paragraph shall be allocated among the taxpayer and
14 such members in accordance with their respective
15 purchases of enterprise zone stock. For purposes of
16 this paragraph, an individual’s family includes only
17 such individual’s spouse and minor children.

18 “(c) ENTERPRISE ZONE STOCK.—For purposes of
19 this section—

20 “(1) IN GENERAL.—The term ‘enterprise zone
21 stock’ means stock of a corporation if—

22 “(A) such stock is acquired on original
23 issue from the corporation, and

24 “(B) such corporation is, at the time of
25 issue, a qualified enterprise zone issuer.

1 “(2) PROCEEDS MUST BE INVESTED IN QUALI-
2 FIED ENTERPRISE ZONE PROPERTY.—

3 “(A) IN GENERAL.—Such term shall in-
4 clude such stock only to the extent that the pro-
5 ceeds of such issuance are used by such issuer
6 during the 12-month period beginning on the
7 date of issuance to purchase (as defined in sec-
8 tion 179(d)(2)) qualified enterprise zone prop-
9 erty.

10 “(B) QUALIFIED ENTERPRISE ZONE PROP-
11 erty.—For purposes of this section, the term
12 ‘qualified enterprise zone property’ means prop-
13 erty to which section 168 applies—

14 “(i) the original use of which in a tax
15 enterprise zone commences with the issuer,
16 and

17 “(ii) substantially all of the use of
18 which is in a tax enterprise zone.

19 “(3) REDEMPTIONS.—The term ‘enterprise
20 zone stock’ shall not include any stock acquired from
21 a corporation which made a substantial stock re-
22 demption or distribution (without a bona fide busi-
23 ness purpose therefor) in an attempt to avoid the
24 purposes of this section.

1 “(d) QUALIFIED ENTERPRISE ZONE ISSUER.—For
2 purposes of this section, the term ‘qualified enterprise
3 zone issuer’ means any domestic C corporation if—

4 “(1) such corporation is an enterprise zone
5 business or, in the case of a new corporation, such
6 corporation is being organized for purposes of being
7 an enterprise zone business,

8 “(2) such corporation does not have more than
9 one class of stock,

10 “(3) the sum of—

11 “(A) the money,

12 “(B) the aggregate unadjusted bases of
13 property owned by such corporation, and

14 “(C) the value of property leased to the
15 corporation (as determined under regulations
16 prescribed by the Secretary),

17 does not exceed \$5,000,000, and

18 “(4) more than 20 percent of the total voting
19 power, and 20 percent of the total value, of the
20 stock of such corporation is owned directly by indi-
21 viduals or estates or indirectly by individuals
22 through partnerships or trusts.

23 The determination under paragraph (3) shall be made as
24 of the time of issuance of the stock in question but shall
25 include amounts received for such stock.

1 “(e) DISPOSITIONS OF STOCK.—

2 “(1) BASIS REDUCTION.—For purposes of this
3 title, the basis of any enterprise zone stock shall be
4 reduced by the amount of the deduction allowed
5 under this section with respect to such stock.

6 “(2) DEDUCTION RECAPTURED AS ORDINARY
7 INCOME.—For purposes of section 1245—

8 “(A) any stock the basis of which is re-
9 duced under paragraph (1) (and any other
10 property the basis of which is determined in
11 whole or in part by reference to the adjusted
12 basis of such stock) shall be treated as section
13 1245 property, and

14 “(B) any reduction under paragraph (1)
15 shall be treated as a deduction allowed for de-
16 preciation.

17 If an exchange of any stock described in paragraph
18 (1) qualifies under section 354(a), 355(a), or
19 356(a), the amount of gain recognized under section
20 1245 by reason of this paragraph shall not exceed
21 the amount of gain recognized in the exchange (de-
22 termined without regard to this paragraph).

23 “(3) CERTAIN EVENTS TREATED AS DISPOSI-
24 TIONS.—For purposes of determining the amount
25 treated as ordinary income under section 1245 by

1 reason of paragraph (2), paragraph (3) of section
2 1245(b) (relating to certain tax-free transactions)
3 shall not apply.

4 “(4) INTEREST CHARGED IF DISPOSITION
5 WITHIN 5 YEARS OF PURCHASE.—

6 “(A) IN GENERAL.—If—

7 “(i) a taxpayer disposes of any enter-
8 prise zone stock with respect to which a
9 deduction was allowed under subsection (a)
10 (or any other property the basis of which
11 is determined in whole or in part by ref-
12 erence to the adjusted basis of such stock)
13 before the end of the 5-year period begin-
14 ning on the date such stock was purchased
15 by the taxpayer, and

16 “(ii) section 1245(a) applies to such
17 disposition by reason of paragraph (2),
18 then the tax imposed by this chapter for the
19 taxable year in which such disposition occurs
20 shall be increased by the amount determined
21 under subparagraph (B).

22 “(B) ADDITIONAL AMOUNT.—For purposes
23 of subparagraph (A), the additional amount
24 shall be equal to the amount of interest (deter-

1 mined at the rate applicable under section
2 6621(a)(2)) that would accrue—

3 “(i) during the period beginning on
4 the date the stock was purchased by the
5 taxpayer and ending on the date of such
6 disposition by the taxpayer,

7 “(ii) on an amount equal to the aggre-
8 gate decrease in tax of the taxpayer result-
9 ing from the deduction allowed under this
10 subsection (a) with respect to such stock.

11 “(C) SPECIAL RULE.—Any increase in tax
12 under subparagraph (A) shall not be treated as
13 a tax imposed by this chapter for purposes of—

14 “(i) determining the amount of any
15 credit allowable under this chapter, and

16 “(ii) determining the amount of the
17 tax imposed by section 55.

18 “(f) DISQUALIFICATION.—

19 “(1) ISSUER CEASES TO QUALIFY.—If, during
20 the 10-year period beginning on the date enterprise
21 zone stock was purchased by the taxpayer, the issuer
22 of such stock ceases to be a qualified enterprise zone
23 issuer (determined without regard to subsection
24 (d)(3)), then notwithstanding any provision of this
25 subtitle other than paragraph (2), the taxpayer shall

1 be treated for purposes of subsection (e) as dispos-
2 ing of such stock (and any other property the basis
3 of which is determined in whole or in part by ref-
4 erence to the adjusted basis of such stock) during
5 the taxable year during which such cessation occurs
6 at its fair market value as of the 1st day of such
7 taxable year.

8 “(2) CESSATION OF ENTERPRISE ZONE STATUS
9 NOT TO CAUSE RECAPTURE.—A corporation shall
10 not fail to be treated as a qualified enterprise zone
11 issuer for purposes of paragraph (1) solely by reason
12 of the termination or revocation of a tax enterprise
13 zone designation.

14 “(g) OTHER SPECIAL RULES.—

15 “(1) APPLICATION OF LIMITS TO PARTNER-
16 SHIPS AND S CORPORATIONS.—In the case of a part-
17 nership or an S corporation, the limitations under
18 subsection (b) shall apply at the partner and share-
19 holder level and shall not apply at the partnership
20 or corporation level.

21 “(2) DEDUCTION NOT ALLOWED TO ESTATES
22 AND TRUSTS.—Estates and trusts shall not be treat-
23 ed as individuals for purposes of this section.

1 **“SEC. 1397. 50 PERCENT EXCLUSION FOR GAIN FROM NEW**
2 **ZONE INVESTMENTS.**

3 “(a) GENERAL RULE.—In the case of an individual,
4 gross income shall not include 50 percent of any qualified
5 capital gain recognized on the sale or exchange of a quali-
6 fied zone asset held for more than 5 years.

7 “(b) QUALIFIED ZONE ASSET.—For purposes of this
8 section—

9 “(1) IN GENERAL.—The term ‘qualified zone
10 asset’ means—

11 “(A) any qualified zone stock,

12 “(B) any qualified zone business property,

13 and

14 “(C) any qualified zone partnership inter-
15 est.

16 “(2) QUALIFIED ZONE STOCK.—

17 “(A) IN GENERAL.—Except as provided in
18 subparagraph (B), the term ‘qualified zone
19 stock’ means any stock in a domestic corpora-
20 tion if—

21 “(i) such stock is acquired by the tax-
22 payer on original issue from the corpora-
23 tion solely in exchange for cash,

24 “(ii) as of the time such stock was is-
25 sued, such corporation was an enterprise
26 zone business (or, in the case of a new cor-

1 poration, such corporation was being orga-
2 nized for purposes of being an enterprise
3 zone business), and

4 “(iii) during substantially all of the
5 taxpayer’s holding period for such stock,
6 such corporation qualified as an enterprise
7 zone business.

8 “(B) EXCLUSION OF STOCK FOR WHICH
9 DEDUCTION UNDER SECTION 1396 ALLOWED.—
10 The term ‘qualified zone stock’ shall not include
11 any stock the basis of which is reduced under
12 section 1396(e)(1).

13 “(C) REDEMPTIONS.—The term ‘qualified
14 zone stock’ shall not include any stock acquired
15 from a corporation which made a substantial
16 stock redemption or distribution (without a
17 bona fide business purpose therefor) in an at-
18 tempt to avoid the purposes of this section.

19 “(3) QUALIFIED ZONE BUSINESS PROPERTY.—

20 “(A) IN GENERAL.—The term ‘qualified
21 zone business property’ means tangible property
22 if—

23 “(i) such property was acquired by
24 the taxpayer by purchase (as defined in
25 section 179(d)(2)) after the date on which

1 the designation of the tax enterprise zone
2 took effect,

3 “(ii) the original use of such property
4 in a tax enterprise zone commences with
5 the taxpayer, and

6 “(iii) during substantially all of the
7 taxpayer’s holding period for such prop-
8 erty, substantially all of the use of such
9 property was in a tax enterprise zone and
10 in an enterprise zone business of the tax-
11 payer.

12 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
13 PROVEMENTS.—The requirements of clauses (i)
14 and (ii) of subparagraph (A) shall be treated as
15 satisfied with respect to—

16 “(i) property which is substantially
17 improved by the taxpayer, and

18 “(ii) any land on which such property
19 is located.

20 For purposes of the preceding sentence, prop-
21 erty shall be treated as substantially improved
22 by the taxpayer if, during any 24-month period
23 beginning after the date on which the designa-
24 tion of the tax enterprise zone took effect, addi-
25 tions to basis with respect to such property in

1 the hands of the taxpayer exceed the greater of
2 (i) an amount equal to the adjusted basis at the
3 beginning of such 24-month period in the hands
4 of the taxpayer, or (ii) \$5,000.

5 “(C) LIMITATION ON LAND.—The term
6 ‘qualified zone business property’ shall not in-
7 clude land which is not an integral part of a
8 qualified business (as defined in section
9 1397C(c)).

10 “(4) QUALIFIED ZONE PARTNERSHIP INTER-
11 EST.—The term ‘qualified zone partnership interest’
12 means any interest in a partnership if—

13 “(A) such interest is acquired by the tax-
14 payer from the partnership solely in exchange
15 for cash,

16 “(B) as of the time such interest was ac-
17 quired, such partnership was an enterprise zone
18 business (or, in the case of a new partnership,
19 such partnership was being organized for pur-
20 poses of being an enterprise zone business), and

21 “(C) during substantially all of the tax-
22 payer’s holding period for such interest, such
23 partnership qualified as an enterprise zone
24 business.

1 A rule similar to the rule of paragraph (2)(C) shall
2 apply for purposes of this paragraph.

3 “(5) TREATMENT OF SUBSEQUENT PUR-
4 CHASERS.—The term ‘qualified zone asset’ includes
5 any property which would be a qualified zone asset
6 but for paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in
7 the hands of the taxpayer if such property was a
8 qualified zone asset in the hands of any prior holder.

9 “(6) 10-YEAR SAFE HARBOR.—If any property
10 ceases to be a qualified zone asset by reason of para-
11 graph (2)(A)(iii), (3)(A)(iii), or (4)(C) after the 10-
12 year period beginning on the date the taxpayer ac-
13 quired such property, such property shall continue to
14 be treated as meeting the requirements of such
15 paragraph; except that the amount of gain to which
16 subsection (a) applies on any sale or exchange of
17 such property shall not exceed the amount which
18 would be qualified capital gain had such property
19 been sold on the date of such cessation.

20 “(7) TREATMENT OF ZONE TERMINATIONS.—
21 The termination of any designation of an area as a
22 tax enterprise zone shall be disregarded for purposes
23 of determining whether any property is a qualified
24 zone asset.

1 “(c) OTHER DEFINITIONS AND SPECIAL RULES.—

2 For purposes of this section—

3 “(1) QUALIFIED CAPITAL GAIN.—Except as
4 otherwise provided in this subsection, the term
5 ‘qualified capital gain’ means any long-term capital
6 gain.

7 “(2) CERTAIN GAIN ON REAL PROPERTY NOT
8 QUALIFIED.—The term ‘qualified capital gain’ shall
9 not include any gain which would be treated as ordi-
10 nary income under section 1250 if section 1250 ap-
11 plied to all depreciation rather than the additional
12 depreciation.

13 “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER
14 TERMINATION OF ZONE DESIGNATION NOT QUALI-
15 FIED.—The term ‘qualified capital gain’ shall not in-
16 clude any gain attributable to periods after the ter-
17 mination of any designation of an area as a tax en-
18 terprise zone.

19 “(d) TREATMENT OF PASS-THRU ENTITIES.—

20 “(1) SALES AND EXCHANGES.—Gain on the
21 sale or exchange of an interest in a pass-thru entity
22 held by the taxpayer (other than an interest in an
23 entity which was an enterprise zone business during
24 substantially all of the period the taxpayer held such
25 interest) for more than 5 years shall be treated as

1 gain described in subsection (a) to the extent such
2 gain is attributable to amounts which would be
3 qualified capital gain on qualified zone assets (deter-
4 mined as if such assets had been sold on the date
5 of the sale or exchange) held by such entity for more
6 than 5 years and throughout the period the taxpayer
7 held such interest. A rule similar to the rule of para-
8 graph (2)(C) shall apply for purposes of the preced-
9 ing sentence.

10 “(2) INCOME INCLUSIONS.—

11 “(A) IN GENERAL.—Any amount included
12 in income by reason of holding an interest in a
13 pass-thru entity (other than an entity which
14 was an enterprise zone business during substan-
15 tially all of the period the taxpayer held the in-
16 terest to which such inclusion relates) shall be
17 treated as gain described in subsection (a) if
18 such amount meets the requirements of sub-
19 paragraph (B).

20 “(B) REQUIREMENTS.—An amount meets
21 the requirements of this subparagraph if—

22 “(i) such amount is attributable to
23 qualified capital gain recognized on the
24 sale or exchange by the pass-thru entity of
25 property which is a qualified zone asset in

1 the hands of such entity and which was
2 held by such entity for the period required
3 under subsection (a), and

4 “(ii) such amount is includible in the
5 gross income of the taxpayer by reason of
6 the holding of an interest in such entity
7 which was held by the taxpayer on the date
8 on which such pass-thru entity acquired
9 such asset and at all times thereafter be-
10 fore the disposition of such asset by such
11 pass-thru entity.

12 “(C) LIMITATION BASED ON INTEREST
13 ORIGINALLY HELD BY TAXPAYER.—Subpara-
14 graph (A) shall not apply to any amount to the
15 extent such amount exceeds the amount to
16 which subparagraph (A) would have applied if
17 such amount were determined by reference to
18 the interest the taxpayer held in the pass-thru
19 entity on the date the qualified zone asset was
20 acquired.

21 “(3) PASS-THRU ENTITY.—For purposes of this
22 subsection, the term ‘pass-thru entity’ means—

23 “(A) any partnership,

24 “(B) any S corporation,

1 “(C) any regulated investment company,
2 and

3 “(D) any common trust fund.

4 “(e) SALES AND EXCHANGES OF INTERESTS IN
5 PARTNERSHIPS AND S CORPORATIONS WHICH ARE
6 QUALIFIED ZONE BUSINESSES.—In the case of the sale
7 or exchange of an interest in a partnership, or of stock
8 in an S corporation, which was an enterprise zone business
9 during substantially all of the period the taxpayer held
10 such interest or stock, the amount of qualified capital gain
11 shall be determined without regard to—

12 “(1) any intangible, and any land, which is not
13 an integral part of any qualified business (as defined
14 in section 1397C(b)), and

15 “(2) gain attributable to periods before the des-
16 ignation of an area as a tax enterprise zone.

17 “(f) CERTAIN TAX-FREE AND OTHER TRANSFERS.—
18 For purposes of this section—

19 “(1) IN GENERAL.—In the case of a transfer of
20 a qualified zone asset to which this subsection ap-
21 plies, the transferee shall be treated as—

22 “(A) having acquired such asset in the
23 same manner as the transferor, and

24 “(B) having held such asset during any
25 continuous period immediately preceding the

1 transfer during which it was held (or treated as
2 held under this subsection) by the transferor.

3 “(2) TRANSFERS TO WHICH SUBSECTION AP-
4 PLIES.—This subsection shall apply to any trans-
5 fer—

6 “(A) by gift,

7 “(B) at death, or

8 “(C) from a partnership to a partner
9 thereof of a qualified zone asset with respect to
10 which the requirements of subsection (d)(2) are
11 met at the time of the transfer (without regard
12 to the 5-year holding requirement).

13 “(3) CERTAIN RULES MADE APPLICABLE.—
14 Rules similar to the rules of section 1244(d)(2) shall
15 apply for purposes of this section.

16 “(g) CERTAIN BUSINESSES TREATED AS NOT
17 QUALIFIED BUSINESSES.—For purposes of this section
18 and section 1397A, the term ‘enterprise zone business’ has
19 the meaning given such term by section 1397C except
20 that, in applying section 1397C for such purposes, the
21 term ‘qualified business’ shall not include any trade or
22 business of producing property of a character subject to
23 the allowance for depletion under section 611.

1 **“SEC. 1397A. NONRECOGNITION OF GAIN FROM NEW ZONE**
2 **INVESTMENTS.**

3 “(a) GENERAL RULE.—At the election of an individ-
4 ual, qualified capital gain (within the meaning of section
5 1397) from the sale or exchange of a qualified zone asset
6 shall be recognized only to the extent that—

7 “(1) the amount realized from such sale or ex-
8 change, exceeds

9 “(2) the cost (not heretofore taken into account
10 under this subsection) of any qualified zone asset
11 purchased directly by the taxpayer during the rein-
12 vestment period.

13 “(b) QUALIFIED ZONE ASSET.—For purposes of this
14 section—

15 “(1) IN GENERAL.—The term ‘qualified zone
16 asset’ has the meaning given such term by section
17 1397.

18 “(2) TIME FOR TESTING.—

19 “(A) SALES.—In the case of a sale or ex-
20 change of property, the determination of wheth-
21 er such property is a qualified zone asset shall
22 be made as of the time of the sale or exchange.

23 “(B) PURCHASES.—In the case of a pur-
24 chase of property, the determination of whether
25 such property is a qualified zone asset shall be
26 made as of the time of such purchase.

1 “(c) OTHER DEFINITIONS.—For purposes of this
2 section—

3 “(1) REINVESTMENT PERIOD.—The term ‘rein-
4 vestment period’ means, with respect to any sale or
5 exchange, the 6-month period beginning on the date
6 of such sale or exchange.

7 “(2) PURCHASE.—The term ‘purchase’ has the
8 meaning given to such term by section 179(d)(2).

9 “(d) BUSINESS OR PROPERTY CEASES TO QUAL-
10 IFY.—

11 “(1) IN GENERAL.—If, during the 10-year pe-
12 riod beginning on the date any qualified zone re-
13 placement asset was purchased by the taxpayer,
14 such asset ceases to be a qualified zone asset, not-
15 withstanding any provision of this subtitle other
16 than paragraph (3), the taxpayer shall be treated as
17 disposing of such asset during the taxable year dur-
18 ing which such cessation occurs at its fair market
19 value as of the 1st day of such taxable year.

20 “(2) LIMITATION ON GAIN RECOGNIZED.—The
21 amount of gain recognized pursuant to paragraph
22 (1) with respect to any asset shall not exceed the
23 lesser of—

1 “(A) the amount of gain which was not
2 recognized under subsection (a) by the reason
3 of the purchase of such asset, or

4 “(B) the excess of the fair market value
5 referred to in paragraph (1) over the adjusted
6 basis of such asset.

7 “(3) CESSATION OF ENTERPRISE ZONE STATUS
8 NOT TO CAUSE RECAPTURE.—An asset shall not fail
9 to be treated as a qualified zone asset for purposes
10 of paragraph (1) solely by reason of the termination
11 of a tax enterprise zone designation.

12 “(4) QUALIFIED ZONE REPLACEMENT ASSET.—
13 For purposes of paragraph (1), the term ‘qualified
14 zone replacement asset’ means any qualified zone
15 asset the purchase of which resulted in the non-
16 recognition of gain under subsection (a) with respect
17 to any other property.

18 “(e) BASIS OF QUALIFIED ZONE REPLACEMENT
19 ASSET.—If gain from the sale or exchange of any property
20 is not recognized by reason of subsection (a), such gain
21 shall be applied to reduce (in the order acquired) the basis
22 of any qualified zone replacement asset (as defined in sub-
23 section (d)(4)) purchased during the reinvestment period.

24 “(f) COORDINATION WITH INSTALLMENT METHOD
25 REPORTING.—This section shall not apply to any gain

1 from any installment sale (as defined in section 453(b))
2 if section 453(a) applies to such sale.

3 “(g) STATUTE OF LIMITATIONS.—If any gain is real-
4 ized by the taxpayer on any sale or exchange to which
5 an election under this section applies, then—

6 “(1) the statutory period for the assessment of
7 any deficiency with respect to such gain shall not ex-
8 pire before the expiration of 3 years from the date
9 the Secretary is notified by the taxpayer (in such
10 manner as the Secretary may by regulations pre-
11 scribe) of—

12 “(A) the taxpayer’s cost of purchasing any
13 qualified zone replacement asset,

14 “(B) the taxpayer’s intention not to pur-
15 chase a qualified zone replacement asset within
16 the reinvestment period, or

17 “(C) a failure to make such purchase with-
18 in the reinvestment period, and

19 “(2) such deficiency may be assessed before the
20 expiration of such 3-year period notwithstanding the
21 provisions of any law or rule of law which would oth-
22 erwise prevent such assessment.

23 **“SEC. 1397B. ADDITIONAL INCENTIVES.**

24 “(a) INCREASE IN EXPENSING UNDER SECTION
25 179.—In the case of an enterprise zone business, section

1 179(b)(1) shall be applied by substituting ‘\$20,000’ for
2 ‘\$10,000’.

3 “(b) ORDINARY LOSS TREATMENT FOR CERTAIN
4 PROPERTY.—

5 “(1) IN GENERAL.—Loss on any qualified zone
6 asset (as defined in section 1397(b)) held for more
7 than 2 years (5 years in the case of real property)
8 shall be treated as an ordinary loss.

9 “(2) REAL PROPERTY.—For purposes of para-
10 graph (1), the term ‘real property’ means any prop-
11 erty which is section 1250 property (as defined in
12 section 1250(c)).

13 “(3) SPECIAL RULES.—

14 “(A) CERTAIN RULES MADE APPLICA-
15 BLE.—For purposes of this subsection, rules
16 similar to the following rules shall apply:

17 “(i) Paragraphs (1), (2), and (3) of
18 section 1244(d).

19 “(ii) Subsections (b)(6), (c)(3), (d),
20 (e), and (f) of section 1397.

21 “(B) COORDINATION WITH SECTION
22 1231.—Losses treated as ordinary losses by rea-
23 son of this subsection shall not be taken into
24 account in applying section 1231.

1 **“SEC. 1397C. ENTERPRISE ZONE BUSINESS DEFINED.**

2 “(a) IN GENERAL.—For purposes of this subpart, the
3 term ‘enterprise zone business’ means—

4 “(1) any qualified business entity, and

5 “(2) any qualified proprietorship.

6 “(b) QUALIFIED BUSINESS ENTITY.—For purposes
7 of this section, the term ‘qualified business entity’ means,
8 with respect to any taxable year, any corporation or part-
9 nership if for such year—

10 “(1)(A) every trade or business of such entity
11 is the active conduct of a qualified business within
12 a tax enterprise zone, and

13 “(B) at least 80 percent of the total gross in-
14 come of such entity is derived from the active con-
15 duct of such business,

16 “(2) substantially all of the use of the tangible
17 property of such entity (whether owned or leased) is
18 within a tax enterprise zone,

19 “(3) substantially all of the intangible property
20 of such entity is used in, and exclusively related to,
21 the active conduct of any such business,

22 “(4) substantially all of the services performed
23 for such entity by its employees are performed in a
24 tax enterprise zone,

25 “(5) at least $\frac{1}{3}$ of its employees are residents
26 of a tax enterprise zone,

1 “(6) less than 5 percent of the average of the
2 aggregate unadjusted bases of the property of such
3 entity is attributable to collectibles (as defined in
4 section 408(m)(2)) other than collectibles that are
5 held primarily for sale to customers in the ordinary
6 course of such business, and

7 “(7) less than 5 percent of the average of the
8 aggregate unadjusted bases of the property of such
9 entity is attributable to nonqualified financial prop-
10 erty.

11 “(c) QUALIFIED PROPRIETORSHIP.—For purposes of
12 this section, the term ‘qualified proprietorship’ means,
13 with respect to any taxable year, any qualified business
14 carried on by an individual as a proprietorship if for such
15 year—

16 “(1) at least 80 percent of the total gross in-
17 come of such individual from such business is de-
18 rived from the active conduct of such business in a
19 tax enterprise zone,

20 “(2) substantially all of the use of the tangible
21 property of such individual in such business (wheth-
22 er owned or leased) is within a tax enterprise zone,

23 “(3) substantially all of the intangible property
24 of such business is used in, and exclusively related
25 to, the active conduct of such business,

1 “(4) substantially all of the services performed
2 for such individual in such business by employees of
3 such business are performed in a tax enterprise
4 zone,

5 “(5) at least $\frac{1}{3}$ of such employees are residents
6 of a tax enterprise zone,

7 “(6) less than 5 percent of the average of the
8 aggregate unadjusted bases of the property of such
9 individual which is used in such business is attrib-
10 utable to collectibles (as defined in section
11 408(m)(2)) other than collectibles that are held pri-
12 marily for sale to customers in the ordinary course
13 of such business, and

14 “(7) less than 5 percent of the average of the
15 aggregate unadjusted bases of the property of such
16 individual which is used in such business is attrib-
17 utable to nonqualified financial property.

18 For purposes of this subsection, the term ‘employee’ in-
19 cludes the proprietor.

20 “(d) QUALIFIED BUSINESS.—For purposes of this
21 section—

22 “(1) IN GENERAL.—Except as otherwise pro-
23 vided in this subsection, the term ‘qualified business’
24 means any trade or business.

1 “(2) RENTAL OF REAL PROPERTY.—The rental
2 to others of real property located in a tax enterprise
3 zone shall be treated as a qualified business if and
4 only if—

5 “(A) in the case of real property which is
6 not residential rental property (as defined in
7 section 168(e)(2)), the lessee is an enterprise
8 zone business, or

9 “(B) in the case of residential rental prop-
10 erty (as so defined)—

11 “(i) such property was originally
12 placed in service after the date the tax en-
13 terprise zone was designated, or

14 “(ii) such property is rehabilitated
15 after such date in a rehabilitation which
16 meets requirements based on the principles
17 of section 42(e)(3).

18 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
19 erty.—The rental to others of tangible personal
20 property shall be treated as a qualified business if
21 and only if substantially all of the rental of such
22 property is by enterprise zone businesses or by resi-
23 dents of a tax enterprise zone.

24 “(4) TREATMENT OF BUSINESS HOLDING IN-
25 TANGIBLES.—The term ‘qualified business’ shall not

1 include any trade or business consisting predomi-
2 nantly of the development or holding of intangibles
3 for sale or license.

4 “(5) CERTAIN BUSINESSES EXCLUDED.—The
5 term ‘qualified business’ shall not include—

6 “(A) any trade or business consisting of
7 the operation of any facility described in section
8 144(c)(6)(B), and

9 “(B) any trade or business the principal
10 activity of which is farming (within the meaning
11 of subparagraphs (A) or (B) of section
12 2032A(e)(5)), but only if, as of the close of the
13 preceding taxable year, the sum of—

14 “(i) the aggregate unadjusted bases
15 (or, if greater, the fair market value) of
16 the assets owned by the taxpayer which are
17 used in such a trade or business, and

18 “(ii) the aggregate value of assets
19 leased by the taxpayer which are used in
20 such a trade or business,

21 exceeds \$500,000.

22 For purposes of subparagraph (B), rules similar to
23 the rules of section 1395(b) shall apply.

24 “(e) NONQUALIFIED FINANCIAL PROPERTY.—For
25 purposes of this section, the term ‘nonqualified financial

1 property’ means debt, stock, partnership interests, op-
2 tions, futures contracts, forward contracts, warrants, no-
3 tional principal contracts, annuities, and other similar
4 property specified in regulations; except that such term
5 shall not include—

6 “(1) reasonable amounts of working capital
7 held in cash, cash equivalents, or debt instruments
8 with a term of 18 months or less, or

9 “(2) debt instruments described in section
10 1221(4).

11 **“Subpart C—Regulations**

“Sec. 1397C. Regulations.

12 **“SEC. 1397C. REGULATIONS.**

13 “The Secretary shall prescribe such regulations as
14 may be necessary or appropriate to carry out the purposes
15 of this part, including—

16 “(1) regulations limiting the benefit of this part
17 in circumstances where such benefits, in combination
18 with benefits provided under other Federal pro-
19 grams, would result in an activity being 100 percent
20 or more subsidized by the Federal Government,

21 “(2) regulations preventing abuse of the provi-
22 sions of this part, and

23 “(3) regulations dealing with inadvertent fail-
24 ures of entities to be qualified zone businesses.”.

1 (b) CLERICAL AMENDMENT.—The table of sub-
2 chapters for chapter 1 of such Code is amended by insert-
3 ing after the item relating to subchapter T the following
4 new item:

“Subchapter U. Designation and treatment of tax enterprise
zones.”.

5 **SEC. 412. TECHNICAL AND CONFORMING AMENDMENTS.**

6 (a) ENTERPRISE ZONE EMPLOYMENT CREDIT PART
7 OF GENERAL BUSINESS CREDIT.—

8 (1) Subsection (b) of section 38 of the Internal
9 Revenue Code of 1986 (relating to current year
10 business credit) is amended by striking “plus” at the
11 end of paragraph (6), by striking the period at the
12 end of paragraph (7) and inserting “, plus”, and by
13 adding at the end the following new paragraph:

14 “(8) the enterprise zone employment credit de-
15 termined under section 1394(a).”.

16 (2) Subsection (d) of section 39 of such Code
17 is amended by adding at the end thereof the follow-
18 ing new paragraph:

19 “(3) NO CARRYBACK OF SECTION 1394 CREDIT
20 BEFORE ENACTMENT.—No portion of the unused
21 business credit for any taxable year which is attrib-
22 utable to the enterprise zone employment credit de-
23 termined under section 1394 may be carried to a

1 taxable year ending before the date of the enactment
2 of section 1394.”.

3 (b) NONITEMIZERS ALLOWED DEDUCTION FOR EN-
4 TERPRISE ZONE STOCK.—Subsection (a) of section 62 of
5 such Code is amended by adding at the end thereof the
6 following new paragraph:

7 “(14) ENTERPRISE ZONE STOCK.—The deduc-
8 tion allowed by section 1396.”.

9 (c) DENIAL OF DEDUCTION FOR PORTION OF WAGES
10 EQUAL TO ENTERPRISE ZONE EMPLOYMENT CREDIT.—

11 (1) Subsection (a) of section 280C of such Code
12 (relating to rule for targeted jobs credit) is amend-
13 ed—

14 (A) by striking “the amount of the credit
15 determined for the taxable year under section
16 51(a)” and inserting “the sum of the credits
17 determined for the taxable year under sections
18 51(a) and 1394(a)”, and

19 (B) by striking “TARGETED JOBS CRED-
20 IT” in the subsection heading and inserting
21 “EMPLOYMENT CREDITS”.

22 (2) Subsection (c) of section 196 of such Code
23 (relating to deduction for certain unused business
24 credits) is amended by striking “and” at the end of
25 paragraph (4), by striking the period at the end of

1 paragraph (5) and inserting “, and”, and by adding
2 at the end the following new paragraph:

3 “(6) the enterprise zone employment credit de-
4 termined under section 1394(a).”.

5 (d) OTHER AMENDMENTS.—

6 (1)(A) Section 172(d)(2) of such Code (relating
7 to modifications with respect to net operating loss
8 deduction) is amended to read as follows:

9 “(2) CAPITAL GAINS AND LOSSES OF TAX-
10 PAYERS OTHER THAN CORPORATIONS.—In the case
11 of a taxpayer other than a corporation—

12 “(A) the amount deductible on account of
13 losses from sales or exchanges of capital assets
14 shall not exceed the amount includable on ac-
15 count of gains from sales or exchanges of cap-
16 ital assets; and

17 “(B) the exclusion provided by section
18 1397 shall not be allowed.”.

19 (B) Subparagraph (B) of section 172(d)(4) of
20 such Code is amended by inserting “, (2)(B),” after
21 “paragraph (1)”.

22 (2) Subsection (c) of section 381 of such Code
23 (relating to carryovers in certain corporate acquisi-
24 tions) is amended by adding at the end the following
25 new paragraph:

1 “(26) ENTERPRISE ZONE PROVISIONS.—The
2 acquiring corporation shall take into account (to the
3 extent proper to carry out the purposes of this sec-
4 tion and subchapter U, and under such regulations
5 as may be prescribed by the Secretary) the items re-
6 quired to be taken into account for purposes of sub-
7 chapter U in respect of the distributor or transferor
8 corporation.”.

9 (3) Paragraph (4) of section 642(c) of such
10 Code is amended to read as follows:

11 “(4) ADJUSTMENTS.—To the extent that the
12 amount otherwise allowable as a deduction under
13 this subsection consists of gain described in section
14 1397(a), proper adjustment shall be made for any
15 exclusion allowable to the estate or trust under sec-
16 tion 1397. In the case of a trust, the deduction al-
17 lowed by this subsection shall be subject to section
18 681 (relating to unrelated business income).”.

19 (4) Paragraph (3) of section 643(a) of such
20 Code is amended by adding at the end thereof the
21 following new sentence: “The exclusion under section
22 1397 shall not be taken into account.”.

23 (5) Paragraph (4) of section 691(c) of such
24 Code is amended by striking “1201, and 1211” and
25 inserting “1201, 1397, and 1211”.

1 (6) The second sentence of paragraph (2) of
2 section 871(a) of such Code is amended by inserting
3 “such gains and losses shall be determined without
4 regard to section 1397 and” after “except that”.

5 (7) Paragraph (1) of section 1371(d) of such
6 Code (relating to coordination with investment credit
7 recapture) is amended by inserting before the period
8 at the end the following “and for purposes of section
9 1394(d)(3)”.

10 (8) Subsection (a) of section 1016 of such Code
11 (relating to adjustments to basis) is amended by
12 striking “and” at the end of paragraph (23), by
13 striking the period at the end of paragraph (24) and
14 inserting a semicolon, and by adding at the end
15 thereof the following new paragraphs:

16 “(25) in the case of stock with respect to which
17 a deduction was allowed under section 1396(a), to
18 the extent provided in section 1396(e); and

19 “(26) in the case of property the acquisition of
20 which resulted under section 1397A in the non-
21 recognition of any part of the gain realized on the
22 sale or exchange of other property, to the extent pro-
23 vided in section 1397A(e).”.

24 (9) Section 1223 of such Code (relating to hold-
25 ing period of property) is amended by redesignating

1 paragraph (15) as paragraph (16) and by inserting
2 after paragraph (14) the following new paragraph:

3 “(15) In determining the period for which the
4 taxpayer has held property the acquisition of which
5 resulted under section 1397A in the nonrecognition
6 of any part of the gain realized on the sale or ex-
7 change of any qualified zone asset (as defined in sec-
8 tion 1397A(b)), there shall be included the period
9 for which such asset had been held as of the date
10 of such sale or exchange.”.

11 **SEC. 413. EFFECTIVE DATE.**

12 (a) GENERAL RULE.—The amendments made by this
13 subtitle shall take effect on the date of the enactment of
14 this Act.

15 (b) REQUIREMENT FOR RULES.—Not later than the
16 date 4 months after the date of the enactment of this Act,
17 the appropriate Secretaries shall issue rules—

18 (1) establishing the procedures for nominating
19 areas for designation as tax enterprise zones,

20 (2) establishing a method for comparing the
21 factors listed in section 1392(d) of the Internal Rev-
22 enue Code of 1986 (as added by this part),

23 (3) establishing recordkeeping requirements
24 necessary or appropriate to assist the studies re-
25 quired by subtitle E, and

1 (4) providing that State and local governments
2 shall have at least 30 days after such rules are pub-
3 lished to file applications for nominated areas before
4 such applications are evaluated and compared and
5 any area designated as a tax enterprise zone.

6 **Subtitle B—Redevelopment Bonds**
7 **for Tax Enterprise Zones**

8 **SEC. 421. SPECIAL RULES FOR REDEVELOPMENT BONDS**
9 **PROVIDING FINANCING FOR TAX ENTER-**
10 **PRISE ZONES.**

11 (a) IN GENERAL.—Subsection (c) of section 144 of
12 the Internal Revenue Code of 1986 (relating to qualified
13 redevelopment bonds) is amended by adding at the end
14 thereof the following new paragraph:

15 “(9) SPECIAL RULES FOR TAX ENTERPRISE
16 ZONES.—For purposes of this subsection, in the case
17 of bonds issued during the 60-month period begin-
18 ning on the date a tax enterprise zone is des-
19 ignated—

20 “(A) TREATMENT AS DESIGNATED
21 BLIGHTED AREA.—Such tax enterprise zone
22 shall be treated as a designated blighted area
23 during such 60-month period (or, if shorter, the
24 period such designation is in effect). Any area
25 designated by reason of the preceding sentence

1 shall not be taken into account in applying
2 paragraph (4)(C).

3 “(B) SECURITY FOR BONDS.—The require-
4 ments of paragraph (2)(B) shall be treated as
5 met with respect to a financed area that is
6 within a tax enterprise zone if the general pur-
7 pose governmental unit guarantees the payment
8 of principal and interest on the issue either di-
9 rectly or through insurance, a letter of credit,
10 or a similar agreement but only if the cost
11 thereof is financed other than with proceeds of
12 any tax-exempt private activity bond or earn-
13 ings on such proceeds.

14 “(C) EXPANSION OF REDEVELOPMENT
15 PURPOSES.—

16 “(i) IN GENERAL.—The term ‘revel-
17 opment purposes’ includes the making of
18 loans to any enterprise zone business (as
19 defined in section 1397B) for—

20 “(I) the acquisition of land with-
21 in the tax enterprise zone for use in
22 such business, or

23 “(II) the acquisition, construc-
24 tion, reconstruction, or improvement
25 by such business of land, or property

1 of a character subject to the allowance
2 for depreciation, for use in such busi-
3 ness.

4 “(ii) \$2,500,000 LIMITATION.—Clause
5 (i) shall apply to loans made to any enter-
6 prise zone business only if the aggregate
7 principal amount of such loans (whether or
8 not financed by the same issue) does not
9 exceed \$2,500,000. For purposes of the
10 preceding sentence, all persons treated as a
11 single employer under subsection (a) or (b)
12 of section 52 shall be treated as 1 person.

13 “(iii) LOANS MUST BE MADE WITHIN
14 18 MONTHS AFTER BONDS ISSUED; REPAY-
15 MENTS MUST BE USED FOR REDEMP-
16 TIONS.—Clause (i) shall apply only to
17 loans—

18 “(I) made during the 18-month
19 period beginning on the date of issu-
20 ance of the issue financing such loan,

21 “(II) repayments of principal on
22 which are used not later than the
23 close of the 1st semiannual period be-
24 ginning after the date the repayment

1 is received to redeem bonds which are
2 part of such issue, and

3 “(III) the effective rate of inter-
4 est on which does not exceed the yield
5 on the issue by more than 0.125 per-
6 centage points.

7 In determining the effective rate of interest
8 for purposes of subclause (III), there shall
9 be taken into account all fees, charges, and
10 other amounts (other than amounts for
11 any credit report) borne by the borrower
12 which are attributable to the loan or the
13 bond issue.

14 “(iv) HOUSING LOANS EXCLUDED.—
15 Clause (i) shall not apply to any loan to be
16 used directly or indirectly to provide resi-
17 dential real property.

18 “(v) COORDINATION WITH RESTRIC-
19 TIONS ON USE OF PROCEEDS.—Paragraphs
20 (6) and (8) shall apply notwithstanding
21 clause (i); except that in applying para-
22 graph (6), subsection (a)(8) shall be treat-
23 ed as not including a reference to a facility
24 the primary purpose of which is retail food
25 services.

1 “(D) ISSUER TO DESIGNATE AMOUNT OF
2 ISSUE TO BE USED FOR LOANS.—Subparagraph
3 (C) shall not apply with respect to any issue
4 unless the issuer designates before the date of
5 issuance the amount of the proceeds of such
6 issue which is to be used for loans to which
7 subparagraph (C)(i) applies. If such amount ex-
8 ceeds the principal amount of loans to which
9 subparagraph (C)(i) applies, an amount of pro-
10 ceeds equal to such excess shall be used not
11 later than the close of the 1st semiannual pe-
12 riod beginning after the close of the 18-month
13 period referred to in subparagraph (C)(iii) to
14 redeem bonds which are part of such issue.

15 “(E) DE MINIMIS REDEMPTIONS NOT RE-
16 QUIRED.—Subparagraphs (C)(iii) and (D) shall
17 not be construed to require amounts of less
18 than \$250,000 to be used to redeem bonds. The
19 Secretary may by regulation treat related issues
20 as 1 issue for purposes of the preceding sen-
21 tence.

22 “(F) PENALTY.—

23 “(i) IN GENERAL.—In the case of
24 property with respect to which financing
25 was provided under this paragraph, if at

1 any time during the 10-period beginning
2 on the date such financing was provided—

3 “(I) such property ceases to be in
4 use in an enterprise zone business (as
5 defined in section 1397B), or

6 “(II) substantially all of the use
7 of such property ceases to be in a tax
8 enterprise zone,

9 there is hereby imposed on the trade or
10 business to which such financing was pro-
11 vided a penalty equal to 1.25 percent of so
12 much of the face amount of all financing
13 provided (whether or not from the same
14 issue and whether or not such issue is out-
15 standing) before such cessation to the
16 trade or business using such property.

17 “(ii) NO PENALTY BY REASON OF
18 ZONE TERMINATION.—No penalty shall be
19 imposed under clause (i) solely by reason
20 of the termination or revocation of a tax
21 enterprise zone designation.

22 “(iii) EXCEPTION FOR BANK-
23 RUPTCY.—Clause (i) shall not apply to any
24 cessation resulting from bankruptcy.”.

1 (b) VOLUME CAP ONLY CHARGED WITH 50 PER-
2 CENT OF TAX ENTERPRISE ZONE REDEVELOPMENT
3 BONDS.—Subsection (g) of section 146 of such Code is
4 amended by striking “and” at the end of paragraph (3),
5 by striking the period at the end of paragraph (4) and
6 inserting “, and”, and by adding at the end thereof the
7 following new paragraph:

8 “(5) 50 percent of any qualified redevelopment
9 bond issued—

10 “(A) as part of an issue 95 percent or
11 more of the net proceeds of which are to be
12 used for 1 or more redevelopment purposes (as
13 defined in section 144(c)) in a tax enterprise
14 zone, and

15 “(B) during the 60-month period begin-
16 ning on the date of the designation of such
17 zone.”.

18 (c) PENALTIES FOR LOANS MADE TO BUSINESSES
19 THAT CEASE TO BE ENTERPRISE ZONE BUSINESSES,
20 ETC.—Subsection (b) of section 150 of such Code is
21 amended by adding at the end thereof the following new
22 paragraph:

23 “(6) ENTERPRISE ZONE REDEVELOPMENT
24 BONDS.—In the case of any financing provided by

1 an issue the interest on which is exempt from tax by
2 reason of section 144(c)(9)—

3 “(A) IN GENERAL.—No deduction shall be
4 allowed under this chapter for interest on such
5 financing which accrues during the period be-
6 ginning on the first day of the calendar year
7 which includes the date on which—

8 “(i) the trade or business to which the
9 financing was provided ceases to be an en-
10 terprise zone business (as defined in sec-
11 tion 1397B), or

12 “(ii) substantially all of the use of the
13 property (determined in accordance with
14 subchapter U) with respect to which the fi-
15 nancing was provided ceases to be in a tax
16 enterprise zone.

17 The preceding sentence shall not apply solely by
18 reason of the termination or revocation of a tax
19 enterprise zone designation.

20 “(B) EXCEPTION FOR BANKRUPTCY.—This
21 paragraph shall not apply to any cessation re-
22 sulting from bankruptcy.”.

1 **Subtitle C—Credit for Contribu-**
2 **tions to Certain Community De-**
3 **velopment Corporations**

4 **SEC. 431. CREDIT FOR CONTRIBUTIONS TO CERTAIN COM-**
5 **MUNITY DEVELOPMENT CORPORATIONS.**

6 (a) IN GENERAL.—For purposes of section 38 of the
7 Internal Revenue Code of 1986, the current year business
8 credit shall include the credit determined under this sec-
9 tion.

10 (b) DETERMINATION OF CREDIT.—The credit deter-
11 mined under this section for each taxable year in the credit
12 period with respect to any qualified CDC contribution
13 made by the taxpayer is an amount equal to 5 percent
14 of such contribution.

15 (c) CREDIT PERIOD.—For purposes of this section,
16 the credit period with respect to any qualified CDC con-
17 tribution is the period of 10 taxable years beginning with
18 the taxable year during which such contribution was made.

19 (d) QUALIFIED CDC CONTRIBUTION.—For purposes
20 of this section—

21 (1) IN GENERAL.—The term “qualified CDC
22 contribution” means any transfer of cash—

23 (A) which is made to a selected community
24 development corporation during the 5-year pe-

1 riod beginning on the date such corporation was
2 selected for purposes of this section,

3 (B) the amount of which is available for
4 use by such corporation for at least 10 years,

5 (C) which is to be used by such corpora-
6 tion for qualified low-income assistance within
7 its operational area, and

8 (D) which is designated by such corpora-
9 tion for purposes of this section.

10 (2) LIMITATIONS ON AMOUNT DESIGNATED.—

11 The aggregate amount of contributions to a selected
12 community development corporation which may be
13 designated by such corporation shall not exceed
14 \$2,000,000.

15 (e) SELECTED COMMUNITY DEVELOPMENT COR-
16 PORATIONS.—

17 (1) IN GENERAL.—For purposes of this section,
18 the term “selected community development corpora-
19 tion” means any corporation—

20 (A) which is described in section 501(c)(3)
21 of such Code and exempt from tax under sec-
22 tion 501(a) of such Code,

23 (B) the principal purposes of which include
24 promoting employment of, and business oppor-

1 tunities for, low-income individuals who are
2 residents of the operational area, and

3 (C) which is selected by the Secretary of
4 Housing and Urban Development for purposes
5 of this section.

6 (2) ONLY 10 CORPORATIONS MAY BE SE-
7 LECTED.—

8 (A) IN GENERAL.—The Secretary of Hous-
9 ing and Urban Development may select 10 cor-
10 porations for purposes of this section, subject to
11 the availability of eligible corporations. Such se-
12 lections may be made only before January 1,
13 1995. At least 4 of the operational areas of the
14 corporations selected must be rural areas (as
15 defined by section 1393(6) of such Code).

16 (B) PRIORITY OF DESIGNATIONS.—In se-
17 lecting corporations for purposes of this section,
18 such Secretary shall give priority to corpora-
19 tions with a demonstrated record of perform-
20 ance in administering community development
21 programs which target at least 75 percent of
22 the jobs emanating from their investment funds
23 to low income or unemployed individuals.

24 (3) OPERATIONAL AREAS MUST HAVE CERTAIN
25 CHARACTERISTICS.—A corporation may be selected

1 for purposes of this section only if its operational
2 area meets the following criteria:

3 (A) The area meets the size requirements
4 under paragraph (1)(C) or (2)(C) of section
5 1391(b) which would apply if such area were to
6 be designated as a tax enterprise zone.

7 (B) The unemployment rate (as deter-
8 mined by the appropriate available data) is not
9 less than the national unemployment rate.

10 (C) The median family income of residents
11 of such area does not exceed 80 percent of the
12 median gross income of residents of the juris-
13 diction of the local government which includes
14 such area.

15 (f) QUALIFIED LOW-INCOME ASSISTANCE.—For pur-
16 poses of this section, the term “qualified low-income as-
17 sistance” means assistance—

18 (1) which is designed to provide employment of,
19 and business opportunities for, low-income individ-
20 uals who are residents of the operational area of the
21 community development corporation, and

22 (2) which is approved by the Secretary of Hous-
23 ing and Urban Development.

1 **Subtitle D—Indian Employment**
 2 **and Investment**

3 **SEC. 441. INVESTMENT TAX CREDIT FOR PROPERTY ON IN-**
 4 **DIAN RESERVATIONS.**

5 (a) ALLOWANCE OF INDIAN RESERVATION CRED-
 6 IT.—Section 46 of the Internal Revenue Code of 1986 (re-
 7 lating to investment credits) is amended by striking “and”
 8 at the end of paragraph (2), by striking the period at the
 9 end of paragraph (3) and inserting “, and”, and by adding
 10 after paragraph (3) the following new paragraph:

11 “(4) the Indian reservation credit.”.

12 (b) AMOUNT OF INDIAN RESERVATION CREDIT.—

13 (1) IN GENERAL.—Section 48 of such Code (re-
 14 lating to the energy credit and the reforestation
 15 credit) is amended by adding after subsection (b)
 16 the following new subsection:

17 “(c) INDIAN RESERVATION CREDIT.—

18 “(1) IN GENERAL.—For purposes of section 46,
 19 the Indian reservation credit for any taxable year is
 20 the Indian reservation percentage of the qualified in-
 21 vestment in qualified Indian reservation property
 22 placed in service during such taxable year, deter-
 23 mined in accordance with the following table:

| “In the case of qualified Indian reservation property which is: | The Indian reservation percentage is: |
|--------------------------------------------------------------------------------|--------------------------------------------------|
| Reservation personal property | 10 |
| New reservation construction property | 15 |

Reservation infrastructure investment 15.

1 “(2) QUALIFIED INVESTMENT IN QUALIFIED
2 INDIAN RESERVATION PROPERTY DEFINED.—For
3 purposes of this subpart—

4 “(A) IN GENERAL.—The term ‘qualified
5 Indian reservation property’ means property—

6 “(i) which is—

7 “(I) reservation personal prop-
8 erty,

9 “(II) new reservation construc-
10 tion property, or

11 “(III) reservation infrastructure
12 investment, and

13 “(ii) not acquired (directly or indi-
14 rectly) by the taxpayer from a person who
15 is related to the taxpayer (within the
16 meaning of section 465(b)(3)(C)).

17 The term ‘qualified Indian reservation property’
18 does not include any property (or any portion
19 thereof) placed in service for purposes of con-
20 ducting or housing class I, II, or III gaming (as
21 defined in section 4 of the Indian Regulatory
22 Act (25 U.S.C. 2703)).

23 “(B) QUALIFIED INVESTMENT.—The term
24 ‘qualified investment’ means—

1 “(i) in the case of reservation infra-
2 structure investment, the amount expended
3 by the taxpayer for the acquisition or con-
4 struction of the reservation infrastructure
5 investment; and

6 “(ii) in the case of all other qualified
7 Indian reservation property, the tax-
8 payer’s basis for such property.

9 “(C) RESERVATION PERSONAL PROP-
10 PERTY.—The term ‘reservation personal prop-
11 erty’ means qualified personal property which is
12 used by the taxpayer predominantly in the ac-
13 tive conduct of a trade or business within an
14 Indian reservation. Property shall not be treat-
15 ed as ‘reservation personal property’ if it is
16 used or located outside the Indian reservation
17 on a regular basis.

18 “(D) QUALIFIED PERSONAL PROPERTY.—
19 The term ‘qualified personal property’ means
20 property—

21 “(i) for which depreciation is allow-
22 able under section 168,

23 “(ii) which is not—

24 “(I) nonresidential real property,

1 “(II) residential rental property,

2 or

3 “(III) real property which is not

4 described in (I) or (II) and which has

5 a class life of more than 12.5 years.

6 For purposes of this subparagraph, the terms

7 ‘nonresidential real property’, ‘residential rental

8 property’, and ‘class life’ have the respective

9 meanings given such terms by section 168.

10 “(E) NEW RESERVATION CONSTRUCTION

11 PROPERTY.—The term ‘new reservation con-

12 struction property’ means qualified real prop-

13 erty—

14 “(i) which is located in an Indian res-

15 ervation,

16 “(ii) which is used by the taxpayer

17 predominantly in the active conduct of a

18 trade or business within an Indian reserva-

19 tion, and

20 “(iii) which is originally placed in

21 service by the taxpayer.

22 “(F) QUALIFIED REAL PROPERTY.—The

23 term ‘qualified real property’ means property

24 for which depreciation is allowable under sec-

1 tion 168 and which is described in clause (I),
2 (II), or (III) of subparagraph (D)(ii).

3 “(G) RESERVATION INFRASTRUCTURE IN-
4 VESTMENT.—

5 “(i) IN GENERAL.—The term ‘reserva-
6 tion infrastructure investment’ means
7 qualified personal property or qualified real
8 property which—

9 “(I) benefits the tribal infrastruc-
10 ture,

11 “(II) is available to the general
12 public, and

13 “(III) is placed in service in con-
14 nection with the taxpayer’s active con-
15 duct of a trade or business within an
16 Indian reservation.

17 “(ii) PROPERTY MAY BE LOCATED
18 OUTSIDE THE RESERVATION.—Qualified
19 personal property and qualified real prop-
20 erty used or located outside an Indian res-
21 ervation shall be reservation infrastructure
22 investment only if its purpose is to connect
23 to existing tribal infrastructure in the res-
24 ervation, and shall include, but not be lim-
25 ited to, roads, power lines, water systems,

1 railroad spurs, and communications facili-
2 ties.

3 “(H) COORDINATION WITH OTHER CRED-
4 ITS.—The term ‘qualified Indian reservation
5 property’ shall not include any property with re-
6 spect to which the energy credit or the rehabili-
7 tation credit is allowed.

8 “(3) REAL ESTATE RENTALS.—For purposes of
9 this section, the rental to others of real property lo-
10 cated within an Indian reservation shall be treated
11 as the active conduct of a trade or business in an
12 Indian reservation.

13 “(4) INDIAN RESERVATION DEFINED.—For
14 purposes of this subpart, the term ‘Indian reserva-
15 tion’ means a reservation, as defined in—

16 “(A) section 3(d) of the Indian Financing
17 Act of 1974 (25 U.S.C. 1452(d)), or

18 “(B) section 4(10) of the Indian Child
19 Welfare Act of 1978 (25 U.S.C. 1903(10)).

20 “(5) LIMITATION BASED ON UNEMPLOY-
21 MENT.—

22 “(A) GENERAL RULE.—The Indian res-
23 ervation credit allowed under section 46 for any
24 taxable year shall equal—

1 “(i) if the Indian unemployment rate
2 on the applicable Indian reservation for
3 which the credit is sought exceeds 300 per-
4 cent of the national average unemployment
5 rate at any time during the calendar year
6 in which the property is placed in service
7 or during the immediately preceding 2 cal-
8 endar years, 100 percent of such credit,

9 “(ii) if such Indian unemployment
10 rate exceeds 150 percent but not 300 per-
11 cent, 50 percent of such credit, and

12 “(iii) if such Indian unemployment
13 rate does not exceed 150 percent, 0 per-
14 cent of such credit.

15 “(B) SPECIAL RULE FOR LARGE
16 PROJECTS.—In the case of a qualified Indian
17 reservation property which has (or is a compo-
18 nent of a project which has) a projected con-
19 struction period of more than 2 years or a cost
20 of more than \$1,000,000, subparagraph (A)
21 shall apply by substituting ‘during the earlier of
22 the calendar year in which the taxpayer enters
23 into a binding agreement to make a qualified
24 investment or the first calendar year in which
25 the taxpayer has expended at least 10 percent

1 of the taxpayer's qualified investment, or the
2 preceding calendar year' for 'during the cal-
3 endar year in which the property is placed in
4 service or during the immediately preceding 2
5 calendar years'.

6 “(C) DETERMINATION OF INDIAN UNEM-
7 PLOYMENT.—For purposes of this paragraph,
8 with respect to any Indian reservation, the In-
9 dian unemployment rate shall be based upon
10 Indians unemployed and able to work, and shall
11 be certified by the Secretary of the Interior.

12 “(6) COORDINATION WITH NONREVENUE
13 LAWS.—Any reference in this subsection to a provi-
14 sion not contained in this title shall be treated for
15 purposes of this subsection as a reference to such
16 provision as in effect on the date of the enactment
17 of this paragraph.”.

18 (2) LODGING TO QUALIFY.—Paragraph (2) of
19 section 50(b) of such Code (relating to property used
20 for lodging) is amended—

21 (A) by striking “and” at the end of sub-
22 paragraph (C),

23 (B) by striking the period at the end of
24 subparagraph (D) and inserting “; and” and

1 (C) by adding at the end thereof the fol-
2 lowing subparagraph:

3 “(E) new reservation construction prop-
4 erty.”.

5 (c) RECAPTURE.—Subsection (a) of section 50 of
6 such Code (relating to recapture in case of dispositions,
7 etc.), is amended by adding at the end thereof the follow-
8 ing new paragraph:

9 “(6) SPECIAL RULES FOR INDIAN RESERVATION
10 PROPERTY.—

11 “(A) IN GENERAL.—If, during any taxable
12 year, property with respect to which the tax-
13 payer claimed an Indian reservation credit—

14 “(i) is disposed of, or

15 “(ii) in the case of reservation per-
16 sonal property—

17 “(I) otherwise ceases to be in-
18 vestment credit property with respect
19 to the taxpayer, or

20 “(II) is removed from the Indian
21 reservation, converted or otherwise
22 ceases to be Indian reservation prop-
23 erty,

1 the tax under this chapter for such taxable year
2 shall be increased by the amount described in
3 subparagraph (B).

4 “(B) AMOUNT OF INCREASE.—The in-
5 crease in tax under subparagraph (A) shall
6 equal the aggregate decrease in the credits al-
7 lowed under section 38 by reason of section
8 48(c) for all prior taxable years which would
9 have resulted had the qualified investment
10 taken into account with respect to the property
11 been limited to an amount which bears the
12 same ratio to the qualified investment with re-
13 spect to such property as the period such prop-
14 erty was held by the taxpayer bears to the ap-
15 plicable recovery period under section 168(g).

16 “(C) COORDINATION WITH OTHER RECAP-
17 TURE PROVISIONS.—In the case of property to
18 which this paragraph applies, paragraph (1)
19 shall not apply and the rules of paragraphs (3),
20 (4), and (5) shall apply.”

21 (d) BASIS ADJUSTMENT TO REFLECT INVESTMENT
22 CREDIT.—Paragraph (3) of section 50(c) of such Code
23 (relating to basis adjustment to investment credit prop-
24 erty) is amended by striking “energy credit or reforest-
25 ation credit” and inserting “energy credit, reforestation

1 credit or Indian reservation credit other than with respect
2 to any expenditure for new reservation construction prop-
3 erty”.

4 (e) CERTAIN GOVERNMENTAL USE PROPERTY TO
5 QUALIFY.—Paragraph (4) of section 50(b) of such Code
6 (relating to property used by governmental units or for-
7 eign persons or entities) is amended by redesignating sub-
8 paragraphs (D) and (E) as subparagraphs (E) and (F),
9 respectively, and inserting after subparagraph (C) the fol-
10 lowing new subparagraph:

11 “(D) EXCEPTION FOR RESERVATION IN-
12 FRASTRUCTURE INVESTMENT.—This paragraph
13 shall not apply for purposes of determining the
14 Indian reservation credit with respect to res-
15 ervation infrastructure investment.”.

16 (f) APPLICATION OF AT-RISK RULES.—Subpara-
17 graph (C) of section 49(a)(1) of such Code is amended
18 by striking “and” at the end of clause (ii), by striking
19 the period at the end of clause (iii) and inserting “, and”,
20 and by adding at the end the following new clause:

21 “(iv) the qualified investment in quali-
22 fied Indian reservation property.”.

23 (g) CLERICAL AMENDMENTS.—

1 (1) The caption of section 48 of such Code is
2 amended by deleting the period at the end thereof
3 and adding “; indian reservation credit.”

4 (2) The table of sections for subpart E of part
5 IV of subchapter A of chapter 1 of such Code is
6 amended by striking out the item relating to section
7 48 and inserting the following:

“Sec. 48. Energy credit; reforestation credit; Indian reservation
credit.”.

8 (h) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to property placed in service after
10 December 31, 1993.

11 **SEC. 442. INDIAN EMPLOYMENT CREDIT.**

12 (a) ALLOWANCE OF INDIAN EMPLOYMENT CRED-
13 IT.—Section 38(b) of the Internal Revenue Code of 1986
14 (relating to general business credits), as amended by sec-
15 tion 412, is amended by striking “plus” at the end of
16 paragraph (7), by striking the period at the end of para-
17 graph (8) and inserting “, plus”, and by adding after
18 paragraph (8) the following new paragraph:

19 “(9) the Indian employment credit as deter-
20 mined under section 45(a).”.

21 (b) AMOUNT OF INDIAN EMPLOYMENT CREDIT.—
22 Subpart D of Part IV of subchapter A of chapter 1 of
23 such Code (relating to business related credits) is amended
24 by adding at the end thereof the following new section:

1 **“SEC. 45. INDIAN EMPLOYMENT CREDIT.**

2 “(a) AMOUNT OF CREDIT.—

3 “(1) IN GENERAL.—For purposes of section 38,
4 the amount of the Indian employment credit deter-
5 mined under this section with respect to any em-
6 ployer for any taxable year is 10 percent (30 percent
7 in the case of an employer with at least 85 percent
8 Indian employees throughout the taxable year) of
9 the sum of—

10 “(A) the qualified wages paid or incurred
11 during such taxable year, plus

12 “(B) qualified employee health insurance
13 costs paid or incurred during such taxable year.

14 In no event shall the amount of the Indian employ-
15 ment credit for any taxable year exceed the credit
16 limitation amount determined under subsection (e)
17 for such taxable year.

18 “(2) INDIAN EMPLOYEE.—For purposes of
19 paragraph (1), the term ‘Indian employee’ means an
20 employee who is an enrolled member of an Indian
21 tribe or the spouse of such a member.

22 “(b) QUALIFIED WAGES; QUALIFIED EMPLOYEE
23 HEALTH INSURANCE COSTS.—For purposes of this sec-
24 tion—

25 “(1) QUALIFIED WAGES.—

1 “(A) IN GENERAL.—The term ‘qualified
2 wages’ means any wages paid or incurred by an
3 employer for services performed by an employee
4 while such employee is a qualified employee.

5 “(B) COORDINATION WITH TARGETED
6 JOBS CREDIT.—The term ‘qualified wages’ shall
7 not include wages attributable to service ren-
8 dered during the 1-year period beginning with
9 the day the individual begins work for the em-
10 ployer if any portion of such wages is taken
11 into account in determining the credit under
12 section 51.

13 “(2) QUALIFIED EMPLOYEE HEALTH INSUR-
14 ANCE COSTS.—

15 “(A) IN GENERAL.—The term ‘qualified
16 employee health insurance costs’ means any
17 amount paid or incurred by an employer for
18 health insurance to the extent such amount is
19 attributable to coverage provided to any em-
20 ployee while such employee is a qualified em-
21 ployee.

22 “(B) EXCEPTION FOR AMOUNTS PAID
23 UNDER SALARY REDUCTION ARRANGEMENTS.—
24 No amount paid or incurred for health insur-
25 ance pursuant to a salary reduction arrange-

1 ment shall be taken into account under sub-
2 paragraph (A).

3 “(c) QUALIFIED EMPLOYEE.—For purposes of this
4 section—

5 “(1) IN GENERAL.—Except as otherwise pro-
6 vided in this subsection, the term ‘qualified em-
7 ployee’ means, with respect to any period, any em-
8 ployee of an employer if—

9 “(A) substantially all of the services per-
10 formed during such period by such employee for
11 such employer are performed within an Indian
12 reservation,

13 “(B) the principal place of abode of such
14 employee while performing such services is on
15 or near the reservation in which the services are
16 performed, and

17 “(C) the employee began work for such
18 employer on or after January 1, 1993.

19 “(2) CREDIT ALLOWED ONLY FOR FIRST 7
20 YEARS.—An employee shall not be treated as a
21 qualified employee for any period after the date 7
22 years after the day on which such employee first
23 began work for the employer.

24 “(3) INDIVIDUALS RECEIVING WAGES IN EX-
25 CESS OF \$30,000 NOT ELIGIBLE.—An employee shall

1 not be treated as a qualified employee for any tax-
2 able year of the employer if the total amount of the
3 wages paid or incurred by such employer to such
4 employee during such taxable year (whether or not
5 for services within an Indian reservation) exceeds
6 the amount determined at an annual rate of
7 \$30,000. The Secretary shall adjust the \$30,000
8 amount contained in the preceding sentence for
9 years beginning after 1993 at the same time and in
10 the same manner as under section 415(d).

11 “(4) EMPLOYMENT MUST BE TRADE OR BUSI-
12 NESS EMPLOYMENT.—An employee shall be treated
13 as a qualified employee for any taxable year of the
14 employer only if more than 50 percent of the wages
15 paid or incurred by the employer to such employee
16 during such taxable year are for services performed
17 in a trade or business of the employer. Any deter-
18 mination as to whether the preceding sentence ap-
19 plies with respect to any employee for any taxable
20 year shall be made without regard to subsection
21 (f)(2).

22 “(5) CERTAIN EMPLOYEES NOT ELIGIBLE.—
23 The term ‘qualified employee’ shall not include—

24 “(A) any individual described in subpara-
25 graph (A), (B), or (C) of section 51(i)(1),

1 “(B) any 5-percent owner (as defined in
2 section 416(i)(1)(B)),

3 “(C) any individual who is neither an en-
4 rolled member of an Indian tribe nor the spouse
5 of an enrolled member of an Indian tribe, and

6 “(D) any individual if the services per-
7 formed by such individual for the employer in-
8 volve the conduct of class I, II, or III gaming
9 as defined in section 4 of the Indian Gaming
10 Regulatory Act (25 U.S.C. 2703), or are per-
11 formed in a building housing such gaming ac-
12 tivity.

13 “(6) INDIAN TRIBE DEFINED.—The term ‘In-
14 dian tribe’ means any Indian tribe, band, nation,
15 pueblo, or other organized group or community, in-
16 cluding any Alaska Native village, or regional or vil-
17 lage corporation, as defined in, or established pursu-
18 ant to, the Alaska Native Claims Settlement Act (43
19 U.S.C. 1601 et seq.) which is recognized as eligible
20 for the special programs and services provided by
21 the United States to Indians because of their status
22 as Indians.

23 “(7) INDIAN RESERVATION DEFINED.—The
24 term ‘Indian reservation’ means a reservation, as de-
25 fined in—

1 “(A) section 3(d) of the Indian Financing
2 Act of 1974 (25 U.S.C. 1452(d)), or

3 “(B) section 4(10) of the Indian Child
4 Welfare Act of 1978 (25 U.S.C. 1903 (10)).

5 “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-
6 PLOYER.—

7 “(1) IN GENERAL.—If the employment of any
8 employee is terminated by the taxpayer before the
9 day 1 year after the day on which such employee
10 began work for the employer—

11 “(A) no wages (or qualified employee
12 health insurance costs) with respect to such em-
13 ployee shall be taken into account under sub-
14 section (a) for the taxable year in which such
15 employment is terminated, and

16 “(B) the tax under this chapter for the
17 taxable year in which such employment is ter-
18 minated shall be increased by the aggregate
19 credits (if any) allowed under section 38(a) for
20 prior taxable years by reason of wages (or
21 qualified employee health insurance costs) taken
22 into account with respect to such employee.

23 “(2) CARRYBACKS AND CARRYOVERS AD-
24 JUSTED.—In the case of any termination of employ-
25 ment to which paragraph (1) applies, the carrybacks

1 and carryovers under section 39 shall be properly
2 adjusted.

3 “(3) SUBSECTION NOT TO APPLY IN CERTAIN
4 CASES.—

5 “(A) IN GENERAL.—Paragraph (1) shall
6 not apply to—

7 “(i) a termination of employment of
8 an employee who voluntarily leaves the em-
9 ployment of the taxpayer,

10 “(ii) a termination of employment of
11 an individual who before the close of the
12 period referred to in paragraph (1) be-
13 comes disabled to perform the services of
14 such employment unless such disability is
15 removed before the close of such period
16 and the taxpayer fails to offer reemploy-
17 ment to such individual, or

18 “(iii) a termination of employment of
19 an individual if it is determined under the
20 applicable State unemployment compensa-
21 tion law that the termination was due to
22 the misconduct of such individual.

23 “(B) CHANGES IN FORM OF BUSINESS.—
24 For purposes of paragraph (1), the employment

1 relationship between the taxpayer and an em-
2 ployee shall not be treated as terminated—

3 “(i) by a transaction to which section
4 381(a) applies if the employee continues to
5 be employed by the acquiring corporation,
6 or

7 “(ii) by reason of a mere change in
8 the form of conducting the trade or busi-
9 ness of the taxpayer if the employee con-
10 tinues to be employed in such trade or
11 business and the taxpayer retains a sub-
12 stantial interest in such trade or business.

13 “(4) SPECIAL RULE.—Any increase in tax
14 under paragraph (1) shall not be treated as a tax
15 imposed by this chapter for purposes of—

16 “(A) determining the amount of any credit
17 allowable under this chapter, and

18 “(B) determining the amount of the tax
19 imposed by section 55.

20 “(e) CREDIT LIMITATION AMOUNT.—For purposes of
21 this section—

22 “(1) CREDIT LIMITATION AMOUNT.—The credit
23 limitation amount for a taxable year shall be an
24 amount equal to the credit rate (10 or 30 percent

1 as determined under subsection (a)) multiplied by
2 the increased credit base.

3 “(2) INCREASED CREDIT BASE.—The increased
4 credit base for a taxable year shall be the excess
5 of—

6 “(A) the sum of any qualified wages and
7 qualified employee health insurance costs paid
8 or incurred by the employer during the taxable
9 year with respect to employees whose wages
10 (paid or incurred by the employer) during the
11 taxable year do not exceed the amount deter-
12 mined under paragraph (3) of subsection (c),
13 over

14 “(B) the sum of any qualified wages and
15 qualified employee health insurance costs paid
16 or incurred by the employer (or any prede-
17 cessor) during calendar year 1993 with respect
18 to employees whose wages (paid or incurred by
19 the employer or any predecessor) during 1993
20 did not exceed \$30,000.

21 “(3) SPECIAL RULE FOR SHORT TAXABLE
22 YEARS.—For any taxable year having less than 12
23 months—

1 “(A) the amounts paid or incurred by the
2 employer shall be annualized for purposes of de-
3 termining the increased credit base, and

4 “(B) the credit limitation amount shall be
5 multiplied by a fraction, the numerator of which
6 is the number of days in the taxable year and
7 the denominator of which is 365.

8 “(f) OTHER DEFINITIONS AND SPECIAL RULES.—
9 For purposes of this section—

10 “(1) WAGES.—The term ‘wages’ has the same
11 meaning given to such term in section 51.

12 “(2) CONTROLLED GROUPS.—

13 “(A) All employers treated as a single em-
14 ployer under section (a) or (b) of section 52
15 shall be treated as a single employer for pur-
16 poses of this section.

17 “(B) The credit (if any) determined under
18 this section with respect to each such employer
19 shall be its proportionate share of the wages
20 and qualified employee health insurance costs
21 giving rise to such credit.

22 “(3) CERTAIN OTHER RULES MADE APPLICA-
23 BLE.—Rules similar to the rules of section 51(k)
24 and subsections (c), (d), and (e) of section 52 shall
25 apply.

1 “(4) COORDINATION WITH NONREVENUE
2 LAWS.—Any reference in this section to a provision
3 not contained in this title shall be treated for pur-
4 poses of this section as a reference to such provision
5 as in effect on the date of the enactment of this
6 paragraph.”.

7 (c) DENIAL OF DEDUCTION FOR PORTION OF WAGES
8 EQUAL TO INDIAN EMPLOYMENT CREDIT.—

9 (1) Subsection (a) of section 280C of such Code
10 (relating to rule for targeted jobs credit) is amended
11 by striking “51(a)” and inserting “45(a), 51(a),
12 and”.

13 (2) Subsection (c) of section 196 of such Code
14 (relating to deduction for certain unused business
15 credits) is amended by striking “and” at the end of
16 paragraph (5), by striking the period at the end of
17 paragraph (6) and inserting “, and”, and by adding
18 at the end the following new paragraph:

19 “(7) the Indian employment credit determined
20 under section 45(a).”.

21 (d) DENIAL OF CARRYBACKS TO PREENACTMENT
22 YEARS.—Subsection (d) of section 39 of such Code is
23 amended by adding at the end thereof the following new
24 paragraph:

1 “(4) NO CARRYBACK OF SECTION 45 CREDIT
2 BEFORE ENACTMENT.—No portion of the unused
3 business credit for any taxable year which is attrib-
4 utable to the Indian employment credit determined
5 under section 45 may be carried to a taxable year
6 ending before the date of the enactment of section
7 45.”.

8 (e) CLERICAL AMENDMENT.—The table of sections
9 for subpart D of part IV of subchapter A of chapter 1
10 of such Code is amended by adding at the end thereof
11 the following:

 “Sec. 45. Indian employment credit.”.

12 (f) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to wages paid or incurred after
14 December 31, 1993.

15 **Subtitle E—Study**

16 **SEC. 451. STUDY OF EFFECTIVENESS OF TAX ENTERPRISE** 17 **ZONE INCENTIVES.**

18 (a) IN GENERAL.—The Secretary of the Treasury, in
19 consultation with the appropriate Secretary (as defined in
20 section 1393(7) of the Internal Revenue Code of 1986,
21 as added by this title), shall contract within 3 months of
22 the date of the enactment of this Act, with the National
23 Academy of Sciences (hereafter in this section referred to
24 as the “Academy”) to conduct a study of the relative effec-

1 tiveness of the incentives provided by this title in achieving
2 the purposes of such title in tax enterprise zones.

3 (b) CONDUCT OF STUDY.—If the Academy contracts
4 for the conduct of the study described in subsection (a),
5 the Academy shall develop a study methodology and shall
6 oversee and manage the conduct of such study.

7 (c) REPORTS.—The Academy shall submit to the
8 Committee on Ways and Means of the House of Rep-
9 resentatives and the Committee on Finance of the Sen-
10 ate—

11 (1) not later than July 1, 1997, an interim re-
12 port setting forth the findings as a result of such
13 study, and

14 (2) not later than July 1, 2002, a final report
15 setting forth the findings as a result of such study.

16 **TITLE V—WORKFARE**

17 **SEC. 501. DEVELOPMENT OF A COMPREHENSIVE LEGISLA-**
18 **TIVE PROPOSAL REQUIRING ADULTS RECEIV-**
19 **ING AFDC TO ENTER THE WORKFORCE.**

20 (a) IN GENERAL.—The Secretary of Labor (herein-
21 after referred to as the “Secretary”), in consultation with
22 the Secretary of Health and Human Services shall develop
23 a comprehensive legislative proposal which would require
24 adults receiving aid to families with dependent children
25 under title IV of the Social Security Act (hereinafter re-

1 ferred to as “AFDC”) to enter the workforce within two
 2 years of receiving such aid.

3 (b) SPECIFIC MATTERS TO BE INCLUDED.—The
 4 proposal developed pursuant to subsection (a) shall include
 5 plans—

6 (1) for education, training, and child care which
 7 would permit adults receiving AFDC to gain the
 8 skills necessary to become financially independent;

9 (2) to assist adults receiving AFDC in finding
 10 employment in the private sector; and

11 (3) providing for placement in meaningful com-
 12 munity service jobs for those adults receiving AFDC
 13 who cannot find employment in the private sector.

14 (c) REPORT.—No later than one hundred days after
 15 January 20, 1994, the Secretary shall submit the proposal
 16 developed pursuant to subsection (a) to the Congress.

○

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