

103^D CONGRESS
1ST SESSION

H. R. 1950

To provide assistance to families, enhance economic growth and opportunity,
and advance education reform.

IN THE HOUSE OF REPRESENTATIVES

APRIL 29, 1993

Mr. WOLF (for himself, Mr. ALLARD, Mr. ARMEY, Mr. KINGSTON, and Mr. LEVY) introduced the following bill; which was referred jointly to the Committees on Ways and Means, Education and Labor, and the Judiciary

AUGUST 2, 1993

Additional sponsors: Mr. HUTCHINSON, Mr. BARTLETT of Maryland, Mr. HYDE, Mr. KING, Mr. PAXON, Mr. TAYLOR of North Carolina, Mr. DORNAN, Mr. LIGHTFOOT, Mr. CRAPO, Mr. GALLEGLY, Mr. DUNCAN, Mr. GINGRICH, Mr. PACKARD, Mr. LIPINSKI, Mr. GREENWOOD, Mr. HUNTER, Mr. BAKER of California, Mr. BURTON of Indiana, Mr. POMBO, Mr. DOOLITTLE, Mr. SENSENBRENNER, Mr. ISTOOK, and Mr. INHOFE

A BILL

To provide assistance to families, enhance economic growth
and opportunity, and advance education reform.

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

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as “The
5 Family and Economic Recovery Act”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-
2 wise expressly provided, whenever in this Act an amend-
3 ment or repeal is expressed in terms of an amendment
4 to, or repeal of, a section or other provision, the reference
5 shall be considered to be made to a section or other provi-
6 sion of the Internal Revenue Code of 1986.

7 **TITLE I—TAX RELIEF FOR**
8 **FAMILIES**

9 **SEC. 101. TAX CREDIT FOR CHILDREN.**

10 (a) IN GENERAL.—Subpart B of part IV of sub-
11 chapter A of chapter 1 (relating to foreign tax credit, etc.)
12 is amended by adding at the end thereof the following new
13 section:

14 **“SEC. 30A. CREDIT FOR CHILDREN.**

15 “(a) GENERAL RULE.—In the case of an eligible indi-
16 vidual, there shall be allowed as a credit against the tax
17 imposed by this chapter and chapter 21 for the taxable
18 year an amount equal to \$600 multiplied by the number
19 of qualifying children of the taxpayer who have not at-
20 tained the age of 19 as of the close of the calendar year
21 in which the taxable year of the taxpayer begins.

22 “(b) LIMITATION BASED ON AMOUNT OF TAX.—The
23 credit allowed by subsection (a) for a taxable year shall
24 not exceed the excess (if any) of—

1 “(1) the sum of the regular tax (reduced by the
2 sum of the credits allowable under subpart A and
3 section 32) and the tax imposed by chapter 21, over

4 “(2) the tentative minimum tax,
5 for the taxable year.

6 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
7 poses of this section—

8 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
9 individual’ has the meaning given to such term by
10 section 32(c)(1) (determined without regard to sub-
11 paragraph (B) thereof).

12 “(2) QUALIFYING CHILD.—The term ‘qualifying
13 child’ has the meaning given to such term by section
14 32(c)(3) (determined without regard to subpara-
15 graphs (C) and (E) thereof).

16 “(3) CERTAIN OTHER RULES APPLY.—Sub-
17 sections (d) and (e) of section 32 shall apply.”

18 (b) DENIAL OF DOUBLE BENEFIT.—Subparagraph
19 (A) of section 21(b)(1) (defining qualifying individual) is
20 amended by inserting “(other than an individual described
21 in section 30A(a))” after “taxpayer”.

1 (c) CONFORMING AMENDMENT.—The table of sec-
2 tions for such subpart B is amended by adding at the end
3 thereof the following new item:

“Sec. 30A. Credit for children.”

4 (d) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 1993.

7 **SEC. 102. REFUNDABLE CREDIT FOR ADOPTION EXPENSES.**

8 (a) CREDIT FOR ADOPTION EXPENSES.—

9 (1) IN GENERAL.—Subpart C of part IV of sub-
10 chapter A of chapter 1 (relating to refundable cred-
11 its) is amended by redesignating section 35 as sec-
12 tion 36 and by inserting after section 34 the follow-
13 ing new section:

14 **“SEC. 35. ADOPTION EXPENSES.**

15 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
16 dividual, there shall be allowed as a credit against the tax
17 imposed by this subtitle for the taxable year the amount
18 of the qualified adoption expenses paid or incurred by the
19 taxpayer during such taxable year.

20 “(b) LIMITATIONS.—

21 “(1) DOLLAR LIMITATION.—The aggregate
22 amount of qualified adoption expenses which may be
23 taken into account under subsection (a) with respect
24 to the adoption of a child shall not exceed \$5,000.

1 “(2) INCOME LIMITATION.—The amount allow-
2 able as a credit under subsection (a) for any taxable
3 year shall be reduced (but not below zero) by an
4 amount which bears the same ratio to the amount
5 so allowable (determined without regard to this
6 paragraph but with regard to paragraph (1)) as—

7 “(A) the amount (if any) by which the tax-
8 payer’s adjusted gross income exceeds \$60,000,
9 bears to

10 “(B) \$40,000.

11 For purposes of this paragraph, adjusted gross in-
12 come shall be determined without regard to section
13 136.

14 “(3) DENIAL OF DOUBLE BENEFIT.—

15 “(A) IN GENERAL.—No credit shall be al-
16 lowed under subsection (a) for any expense for
17 which a deduction or credit is allowable under
18 any other provision of this chapter.

19 “(B) GRANTS.—No credit shall be allowed
20 under subsection (a) for any expenses paid from
21 any funds received under any Federal, State, or
22 local program.

23 “(c) QUALIFIED ADOPTION EXPENSES.—For pur-
24 poses of this section, the term ‘qualified adoption ex-
25 penses’ means reasonable and necessary adoption fees,

1 court costs, attorney fees, and other expenses which are
2 directly related to the legal adoption of a child by the tax-
3 payer and which are not incurred in violation of State or
4 Federal law or in carrying out any surrogate parenting
5 arrangement. The term ‘qualified adoption expenses’ shall
6 not include any expenses in connection with the adoption
7 by an individual of a child who is the child of such individ-
8 ual’s spouse.”.

9 (2) CLERICAL AMENDMENT.—The table of sec-
10 tions for such subpart C is amended by striking the
11 last item and inserting the following:

“Sec. 35. Adoption expenses.
“Sec. 36. Overpayments of tax.”

12 (b) EFFECTIVE DATE.—The amendments made by
13 subsection (a) shall apply to taxable years beginning after
14 December 31, 1993.

1 **TITLE II—FAMILY SAVINGS**
2 **INCENTIVES**
3 **Subtitle A—Increase in Income**
4 **Limitations for Deductible IRA**
5 **Contributions; Increase in IRA**
6 **Contribution Limits; Penalty-**
7 **Free Withdrawals for Home**
8 **Ownership, Education, and**
9 **Medical Expenses**

10 **SEC. 201. INCREASE IN INCOME LIMITATIONS.**

11 (a) IN GENERAL.—Subparagraph (B) of section
12 219(g)(3) is amended—

13 (1) by striking “\$40,000” in clause (i) and in-
14 serting “\$100,000”, and

15 (2) by striking “\$25,000” in clause (ii) and in-
16 serting “\$75,000”.

17 (b) COST-OF-LIVING ADJUSTMENT.—Section
18 219(g)(3) is amended by adding at the end the following
19 new subparagraph:

20 “(C) COST-OF-LIVING ADJUSTMENT.—In
21 the case of taxable years beginning after 1994,
22 the applicable dollar amounts under subpara-
23 graph (B) shall be adjusted in the same manner
24 as under subsection (h), except that such sub-
25 section shall be applied—

1 “(i) by substituting ‘\$20,000’ for
2 ‘\$500’ each place it appears in paragraph
3 (1), and

4 “(ii) by substituting the appropriate
5 dollar amounts for the amounts contained
6 in paragraph (2).”

7 (c) IRA ALLOWED FOR SPOUSES WHO ARE NOT AC-
8 TIVE PLAN PARTICIPANTS.—Section 219(g)(1) is amend-
9 ed by striking “or the individual’s spouse”.

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 1994.

13 **SEC. 202. INFLATION ADJUSTMENT FOR DEDUCTIBLE**
14 **AMOUNT.**

15 (a) IN GENERAL.—Section 219 is amended by redес-
16 ignating subsection (h) as subsection (i) and by inserting
17 after subsection (g) the following new subsection:

18 “(h) COST-OF-LIVING ADJUSTMENTS.—

19 “(1) IN GENERAL.—If the cost-of-living amount
20 for any calendar year is equal to or greater than
21 \$500, then each applicable dollar amount (as pre-
22 viously adjusted under this subsection) for any tax-
23 able year beginning in any subsequent calendar year
24 shall be increased by \$500.

1 “(2) COST-OF-LIVING AMOUNT.—The cost-of-
2 living amount for any calendar year is the excess (if
3 any) of—

4 “(A) \$2,000, increased by the cost-of-living
5 adjustment for such calendar year, over

6 “(B) the applicable dollar amount in effect
7 under subsection (b)(1)(A) for taxable years be-
8 ginning in such calendar year.

9 “(3) COST-OF-LIVING ADJUSTMENT.—For pur-
10 poses of this subsection—

11 “(A) IN GENERAL.—The cost-of-living ad-
12 justment for any calendar year is the percent-
13 age (if any) by which—

14 “(i) the CPI for such calendar year,
15 exceeds

16 “(ii) the CPI for 1992.

17 “(B) CPI FOR ANY CALENDAR YEAR.—The
18 CPI for any calendar year shall be determined
19 in the same manner as under section 1(f)(4).

20 “(4) APPLICABLE DOLLAR AMOUNT.—For pur-
21 poses of this subsection, the term ‘applicable dollar
22 amount’ means the dollar amount in effect under
23 any of the following provisions:

24 “(A) Subsection (b)(1)(A).

25 “(B) Subsection (c)(2)(A)(i).

1 “(C) The last sentence of subsection
2 (c)(2).”

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 408(a)(1) is amended by striking
5 “in excess of \$2,000 on behalf of any individual”
6 and inserting “on behalf of any individual in excess
7 of the amount in effect for such taxable year under
8 section 219(b)(1)(A)”.

9 (2) Section 408(b)(2)(B) is amended by strik-
10 ing “\$2,000” and inserting “the dollar amount in
11 effect under section 219(b)(1)(A)”.

12 (3) Section 408(j) is amended by striking
13 “\$2,000”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 1993.

17 **SEC. 203. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE**
18 **USED WITHOUT PENALTY TO PURCHASE**
19 **FIRST HOMES, TO PAY HIGHER EDUCATION,**
20 **OR FINANCIALLY DEVASTATING MEDICAL EX-**
21 **PENSES, OR BY THE LONG-TERM UNEM-**
22 **PLOYED.**

23 (a) IN GENERAL.—Paragraph (2) of section 72(t)
24 (relating to exceptions to 10-percent additional tax on
25 early distributions from qualified retirement plans) is

1 amended by adding at the end thereof the following new
2 subparagraph:

3 “(D) DISTRIBUTIONS FROM CERTAIN
4 PLANS FOR FIRST HOME PURCHASES OR EDU-
5 CATIONAL EXPENSES.—Distributions to an in-
6 dividual from an individual retirement plan, or
7 from amounts attributable to employer con-
8 tributions made pursuant to elective deferrals
9 described in subparagraph (A) or (C) of section
10 402(g)(3) or section 501(c)(18)(D)(iii)—

11 “(i) which are qualified first-time
12 homebuyer distributions (as defined in
13 paragraph (6)); or

14 “(ii) to the extent such distributions
15 do not exceed the qualified higher edu-
16 cation expenses (as defined in paragraph
17 (7)) of the taxpayer for the taxable year.”

18 (b) FINANCIALLY DEVASTATING MEDICAL EX-
19 PENSES.—

20 (1) IN GENERAL.—Section 72(t)(3)(A) is
21 amended by striking “(B),”.

22 (2) CERTAIN LINEAL DESCENDANTS AND AN-
23 CESTORS TREATED AS DEPENDENTS.—Subpara-
24 graph (B) of section 72(t)(2) is amended by striking

1 “medical care” and all that follows and inserting
2 “medical care determined—

3 “(i) without regard to whether the
4 employee itemizes deductions for such tax-
5 able year, and

6 “(ii) by treating such employee’s de-
7 pendants as including—

8 “(I) all children and grand-
9 children of the employee or such em-
10 ployee’s spouse, and

11 “(II) all ancestors of the em-
12 ployee or such employee’s spouse.”

13 (3) CONFORMING AMENDMENT.—Subparagraph
14 (B) of section 72(t)(2) is amended by striking “or
15 (C)” and inserting “, (C) or (D)”.

16 (c) DEFINITIONS.—Section 72(t) is amended by add-
17 ing at the end thereof the following new paragraphs:

18 “(6) QUALIFIED FIRST-TIME HOMEBUYER DIS-
19 TRIBUTIONS.—For purposes of paragraph
20 (2)(D)(i)—

21 “(A) IN GENERAL.—The term ‘qualified
22 first-time homebuyer distribution’ means any
23 payment or distribution received by an individ-
24 ual to the extent such payment or distribution
25 is used by the individual before the close of the

1 60th day after the day on which such payment
2 or distribution is received to pay qualified ac-
3 quisition costs with respect to a principal resi-
4 dence of a first-time homebuyer who is such in-
5 dividual or the spouse, child, or grandchild of
6 such individual.

7 “(B) QUALIFIED ACQUISITION COSTS.—
8 For purposes of this paragraph, the term
9 ‘qualified acquisition costs’ means the costs of
10 acquiring, constructing, or reconstructing a res-
11 idence. Such term includes any usual or reason-
12 able settlement, financing, or other closing
13 costs.

14 “(C) FIRST-TIME HOMEBUYER; OTHER
15 DEFINITIONS.—For purposes of this para-
16 graph—

17 “(i) FIRST-TIME HOMEBUYER.—The
18 term ‘first-time homebuyer’ means any in-
19 dividual if—

20 “(I) such individual (and if mar-
21 ried, such individual’s spouse) had no
22 present ownership interest in a prin-
23 cipal residence during the 3-year pe-
24 riod ending on the date of acquisition

1 of the principal residence to which
2 this paragraph applies, and

3 “(II) subsection (a)(6), (h), or
4 (k) of section 1034 did not suspend
5 the running of any period of time
6 specified in section 1034 with respect
7 to such individual on the day before
8 the date the distribution is applied
9 pursuant to subparagraph (A)(ii).

10 In the case of an individual described in
11 section 143(i)(1)(C) for any year, an own-
12 ership interest shall not include any inter-
13 est under a contract of deed described in
14 such section.

15 “(ii) PRINCIPAL RESIDENCE.—The
16 term ‘principal residence’ has the same
17 meaning as when used in section 1034.

18 “(iii) DATE OF ACQUISITION.—The
19 term ‘date of acquisition’ means the date—

20 “(I) on which a binding contract
21 to acquire the principal residence to
22 which subparagraph (A) applies is en-
23 tered into, or

1 “(II) on which construction or re-
2 construction of such a principal resi-
3 dence is commenced.

4 “(D) SPECIAL RULE WHERE DELAY IN AC-
5 QUISITION.—If any distribution from any indi-
6 vidual retirement plan fails to meet the require-
7 ments of subparagraph (A) solely by reason of
8 a delay or cancellation of the purchase or con-
9 struction of the residence, the amount of the
10 distribution may be contributed to an individual
11 retirement plan as provided in section
12 408(d)(3)(A)(i) (determined by substituting
13 ‘120 days’ for ‘60 days’ in such section), except
14 that—

15 “(i) section 408(d)(3)(B) shall not be
16 applied to such contribution, and

17 “(ii) such amount shall not be taken
18 into account in determining whether sec-
19 tion 408(d)(3)(A)(i) applies to any other
20 amount.

21 “(7) QUALIFIED HIGHER EDUCATION EX-
22 PENSES.—For purposes of paragraph (2)(D)(ii)—

23 “(A) IN GENERAL.—The term ‘qualified
24 higher education expenses’ means tuition, fees,

1 books, supplies, and equipment required for the
2 enrollment or attendance of—

3 “(i) the taxpayer,

4 “(ii) the taxpayer’s spouse, or

5 “(iii) the taxpayer’s child (as defined
6 in section 151(c)(3)) or grandchild,

7 at an eligible educational institution (as defined
8 in section 135(c)(3)).

9 “(B) COORDINATION WITH SAVINGS BOND
10 PROVISIONS.—The amount of qualified higher
11 education expenses for any taxable year shall be
12 reduced by any amount excludable from gross
13 income under section 135.”.

14 (d) PENALTY-FREE DISTRIBUTIONS FOR CERTAIN
15 UNEMPLOYED INDIVIDUALS.—Paragraph (2) of section
16 72(t) is amended by adding at the end thereof the follow-
17 ing new subparagraph:

18 “(E) DISTRIBUTIONS TO UNEMPLOYED INDI-
19 VIDUALS.—A distribution from an individual retire-
20 ment plan (other than a plan referred to in
21 subclause (I) or (II) of paragraph (6)(A)(iii)) to an
22 individual after separation from employment, if—

23 “(i) such individual has received unemploy-
24 ment compensation for 12 consecutive weeks

1 under any Federal or State unemployment com-
2 pensation law by reason of such separation, and

3 “(ii) such distributions are made during
4 any taxable year during which such unemploy-
5 ment compensation is paid or the succeeding
6 taxable year.”.

7 (e) SPECIAL RULE FOR CERTAIN DISASTER VIC-
8 TIMS.—For purposes of section 72(t)(6) of the Internal
9 Revenue Code of 1986, an individual whose principal resi-
10 dence was destroyed or substantially damaged by Hurri-
11 cane Andrew, Hurricane Iniki, or Typhoon Omar shall be
12 treated as a first-time homebuyer with respect to such resi-
13 dence if the individual rebuilds it or with respect to any
14 other principal residence acquired to replace such resi-
15 dence.

16 (f) CONFORMING AMENDMENTS.—

17 (1) Section 401(k)(2)(B)(i) is amended by
18 striking “or” at the end of subclause (III), by strik-
19 ing “and” at the end of subclause (IV) and inserting
20 “or”, and by inserting after subclause (IV) the fol-
21 lowing new subclause:

22 “(V) the date on which qualified
23 first-time homebuyer distributions (as
24 defined in section 72(t)(6)) or dis-
25 tributions for qualified higher edu-

1 cation expenses (as defined in section
2 72(t)(7)) are made, and”.

3 (2) Section 403(b)(11) is amended by striking
4 “or” at the end of subparagraph (A), by striking the
5 period at the end of subparagraph (B) and inserting
6 “, or”, and by inserting after subparagraph (B) the
7 following new subparagraph:

8 “(C) for qualified first-time homebuyer dis-
9 tributions (as defined in section 72(t)(6)) or for
10 the payment of qualified higher education ex-
11 penses (as defined in section 72(t)(7)).”.

12 (g) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to payments and distributions after
14 December 31, 1993.

15 **Subtitle B—Exclusion for Em-**
16 **ployer-Provided Educational As-**
17 **sistance To Include Educational**
18 **Assistance for Spouse and De-**
19 **pendents of Employee**

20 **SEC. 211. EXPANSION OF EXCLUSION FOR EMPLOYER-PRO-**
21 **VIDED EDUCATIONAL ASSISTANCE.**

22 (a) IN GENERAL.—Paragraph (1) of section 127(b)
23 (relating to educational assistance program) is amended
24 by inserting “or their spouses and dependents (as defined

1 in section 152)” after “employees” the second place it ap-
2 pears.

3 (b) EXCLUSION MADE PERMANENT.—

4 (1) Section 127 is amended by striking sub-
5 section (d) and by redesignating subsection (e) as
6 subsection (d).

7 (2) Subsection (a) of section 103 of the Tax
8 Extension Act of 1991 is amended by striking para-
9 graph (2).

10 (c) CONFORMING AMENDMENT.—Paragraph (1) of
11 section 127(c) is amended—

12 (1) by striking “education of the employee” in
13 subparagraph (A) and inserting “education of a
14 qualified individual”,

15 (2) by striking “retained by the employee” and
16 inserting “retained by the qualified individual”, and

17 (3) by adding at the end thereof the following
18 new sentence: “For purposes of this paragraph, the
19 term ‘qualified individual’ means the employee and
20 the spouse and any dependent (as defined in section
21 152) of the employee.”

22 (d) EFFECTIVE DATES.—

23 (1) IN GENERAL.—Except as provided in para-
24 graph (2), the amendments made by this section

1 shall apply to taxable years beginning after Decem-
2 ber 31, 1993.

3 (2) EXCLUSION MADE PERMANENT.—The
4 amendments made by subsection (b) shall apply to
5 taxable years beginning after December 31, 1991.

6 **TITLE III—MEDICAL CARE SAV-**
7 **INGS ACCOUNTS; HEALTH**
8 **CARE COST CONTROLS; DE-**
9 **DUCTION FOR HEALTH IN-**
10 **SURANCE COSTS OF SELF-EM-**
11 **PLOYED INDIVIDUALS**

12 **SEC. 301. MEDICAL CARE SAVINGS BENEFITS.**

13 (a) IN GENERAL.—Part III of subchapter B of chap-
14 ter 1 is amended by inserting after section 125 the follow-
15 ing new section:

16 **“SEC. 125A. MEDICAL CARE SAVINGS BENEFITS.**

17 “(a) IN GENERAL.—A medical care savings benefit
18 is a qualified benefit which consists of a Health Plan meet-
19 ing the requirements of this section that includes, as part
20 thereof, a Medical Care Savings Account, as set forth in
21 section 408A.

22 “(b) ESTABLISHMENT OF MEDICAL CARE SAVINGS
23 BENEFIT.—A medical care savings benefit shall be estab-
24 lished as a Health Plan which provides that all or part
25 of the premium differential realized by instituting a Quali-

1 fied Higher Deductible Health Plan is credited to a par-
2 ticipating employee during a plan year to pay for medical
3 care described in section 213(d) and, to the extent that
4 any amount remains credited to that participant at the
5 end of each plan year, such amount is deposited to a sec-
6 tion 408(A) medical care savings account for that partici-
7 pant.

8 “(c) PAYMENTS FROM ACCOUNT BALANCE.—If the
9 plan provides for level installment payments, the plan may
10 also provide that the maximum amount of reimbursement
11 at a particular time during the period of coverage may
12 be limited to the amount of actual contributions to the
13 arrangement. A participant may be advanced, interest
14 free, such amounts necessary to cover incurred medical ex-
15 penses which exceed the amount then credited to the par-
16 ticipant’s account, upon the participant’s agreement to
17 repay such advancement from future installments or upon
18 ceasing to be a participant.

19 “(d) REPORTING.—Employers shall cause to be is-
20 sued to participating employees, not less frequently than
21 quarterly, a statement setting forth amounts remaining in
22 their accounts.

23 “(e) LIMITS ON AMOUNTS CONTRIBUTED TO MEDI-
24 CAL CARE SAVINGS ACCOUNT.—The maximum amount
25 that may be contributed annually to a Medical Care Sav-

1 ings Account shall not exceed the premium differential set
2 forth in subsection (b). For purposes of determining the
3 maximum premium differential in those years when only
4 the Qualified Higher Deductible Plan is offered, the dif-
5 ferential shall be the difference between the premiums for
6 the Qualified Higher Deductible Plan and the plan pre-
7 viously offered, based on bona fide quotes for a Health
8 Plan offering similar benefits for similar employees in the
9 same geographic area. Additionally, this method for cal-
10 culating said premium differential shall also be used by
11 an employer that has not previously sponsored a Health
12 Plan but desires to institute a medical care savings bene-
13 fit.

14 “(f) HEALTH PLAN.—The term ‘Health Plan’ means
15 an employee welfare benefit plan providing medical care
16 (as defined in section 213(d) of the Internal Revenue Code
17 of 1954) to participants or beneficiaries directly or
18 through insurance, reimbursement, or otherwise.

19 “(g) QUALIFIED HIGHER DEDUCTIBLE PLAN.—The
20 term ‘Qualified Higher Deductible Plan’ is a Health Plan
21 which provides for payment of covered benefits in excess
22 of the higher deductible, which higher deductible shall not
23 exceed \$3,000 in 1992 and, adjusted annually thereafter
24 for increases in the cost of living in accordance with regu-
25 lations prescribed by the Secretary.

1 “(h) PREVENTATIVE HEALTH CARE.—By allowing
2 medical expenses payable from a medical care savings ben-
3 efit to be those permitted under section 213(d) of the In-
4 ternal Revenue Code, participating employees are encour-
5 aged to use this benefit to promote good health, to use
6 preventative medical and health procedures, and to seek
7 appropriate consultive and second opinions.

8 “(i) PREEMPTION.—Insurance policies issued as a
9 part of a medical care savings benefit shall not be required
10 to duplicate expenses that may be proper expenses covered
11 by the medical care savings benefit. Additionally, the high-
12 er deductible insurance plan may provide that the deduct-
13 ible specified in the policy may be increased by the amount
14 of any benefits payable by any other health benefits pro-
15 gram or plan.”.

16 (b) MEDICAL CARE SAVINGS ACCOUNTS.—Subpart A
17 of part I of subchapter D of chapter 1 is amended by in-
18 serting after section 408 the following new section:

19 **“SEC. 408A. MEDICAL CARE SAVINGS ACCOUNTS.**

20 “(a) MEDICAL CARE SAVINGS ACCOUNTS.—For pur-
21 poses of this section, the term ‘medical care savings ac-
22 count’ means a trust created or organized in the United
23 States for the exclusive benefit of an individual, his de-
24 pendants (as defined in section 152) or beneficiaries, but

1 only if the written instrument creating the trust meets the
2 following requirements:

3 “(1) No contributions will be accepted unless it
4 is in cash.

5 “(2) The trustee is a bank (as defined in sub-
6 section (d)), insurance company (as defined in sec-
7 tion 816), or such other person who demonstrates to
8 the satisfaction of the Secretary that the manner in
9 which such other person will administer the trust
10 will be consistent with the requirements of this sec-
11 tion.

12 “(3) No part of the trust funds will be invested
13 in life insurance contracts.

14 “(4) The interest of an individual in the bal-
15 ance of the account is nonforfeitable.

16 “(5) The assets of the trust will not be commin-
17 gled with other property except in a common trust
18 fund or common investment fund.

19 “(b) TAX TREATMENT OF ACCOUNTS.—

20 “(1) EXEMPTION FROM TAX.—Any medical
21 care savings account is exempt from taxation under
22 this subtitle unless such account has ceased to be a
23 medical care savings account by reason of paragraph
24 (2) or (3). Notwithstanding the preceding sentence,
25 any such account is subject to the taxes imposed by

1 section 511 (relating to imposition of tax on unre-
2 lated business income of charitable, etc. organiza-
3 tions).

4 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
5 EMPLOYEE ENGAGES IN PROHIBITED TRANS-
6 ACTION.—

7 “(A) IN GENERAL.—If, during any taxable
8 year of the individual for whose benefit any
9 medical care savings account is established,
10 that individual, dependent, or his beneficiary
11 engages in any transaction prohibited by section
12 4975 with respect to such account, such ac-
13 count ceases to be a medical care savings ac-
14 count as of the first day of such taxable year.
15 For purposes of this paragraph the individual
16 for whose benefit any account was established is
17 treated as the creator of such account.

18 “(B) ACCOUNT TREATED AS DISTRIBUTING
19 ALL ITS ASSETS.—In any case in which any ac-
20 count ceases to be a medical savings account by
21 reason of subparagraph (A) as of the first day
22 of any taxable year, section 511 shall apply as
23 if there were a distribution on such first day in
24 an amount equal to the fair market value (on

1 such first day) of all assets in the account (on
2 such first day).

3 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-
4 RITY.—If, during any taxable year of the individual
5 for whose benefit a medical care savings account is
6 established, that individual uses the account or any
7 portion thereof as security for a loan, the portion so
8 used is treated as distributed to that individual.

9 “(4) COMMINGLING MEDICAL CARE SAVINGS AC-
10 COUNT AMOUNTS IN CERTAIN COMMON TRUST
11 FUNDS AND COMMON INVESTMENT FUNDS.—Any
12 common trust fund or common investment fund of
13 individual medical care savings account assets which
14 is exempt from taxation under this subtitle does not
15 cease to be exempt on account of the participation
16 or inclusion of assets of a trust exempt from tax-
17 ation under section 501(a) which is described in sec-
18 tion 401(a).

19 “(c) TREATMENT OF DISTRIBUTIONS.—

20 “(1) IN GENERAL.—Except as otherwise pro-
21 vided in this subsection, any amount paid or distrib-
22 uted out of a medical savings account shall be in-
23 cluded in gross income by the distributee.

24 “(2) DISTRIBUTIONS FOR MEDICAL EX-
25 PENSES.—Distributions from a medical care savings

1 account shall not be taxable to the distributee, for
2 amounts paid directly or indirectly for medical ex-
3 penses as defined in section 213(d).

4 “(3) 10 PERCENT ADDITIONAL TAX FOR EARLY
5 WITHDRAWALS.—Distributions described in para-
6 graph 1 and not described in paragraph 2 shall be
7 subject to an additional 10 percent tax for distribu-
8 tions made prior to age 59½ of the distributee.

9 “(4) ROLLOVER CONTRIBUTION.—An amount is
10 described in this paragraph as a rollover contribu-
11 tion which shall not be included in the gross income
12 of the distributee if it meets the requirements of
13 subparagraphs (A) and (B).

14 “(A) IN GENERAL.—Paragraph (1) does
15 not apply to any amount paid or distributed out
16 of a medical care savings account to the individ-
17 ual for whose benefit the account is maintained
18 if the entire amount received is paid into a
19 medical care savings account for the benefit of
20 such individual not later than the sixtieth day
21 after the day on which he receives the payment
22 or distribution.

23 “(B) LIMITATION.—This paragraph does
24 not apply to any amount described in para-
25 graph (A) received by an individual from a

1 medical savings account if at any time during
2 the one-year period ending on the day of such
3 receipt such individual received any other
4 amount described in that subparagraph from a
5 medical care savings account which was not in-
6 cludible in his gross income because of the ap-
7 plication of this paragraph.

8 “(C) DENIAL OF ROLLOVER TREATMENT
9 FOR INHERITED ACCOUNTS, ETC.—

10 “(i) IN GENERAL.—In the case of an
11 inherited medical savings account—

12 “(I) this paragraph shall not
13 apply to any amount received by an
14 individual from such an account (and
15 no amount transferred from such ac-
16 count to another medical care savings
17 account shall be excluded from gross
18 income by reason of such transfer),
19 and

20 “(II) such inherited account shall
21 not be treated as a medical care sav-
22 ings account for purposes of determin-
23 ing whether any other amount is a
24 rollover contribution.

1 “(ii) INHERITED MEDICAL CARE SAV-
2 INGS ACCOUNT.—

3 “(I) the individual for whose ben-
4 efit the account is maintained ac-
5 quired such account by reason of the
6 death of another individual, and

7 “(II) such individual was not the
8 surviving spouse of such other individ-
9 ual.

10 “(d) BANK.—For purposes of subsection (a)(2), the
11 term ‘bank’ means—

12 “(1) a bank (as defined in section 581),

13 “(2) an insured credit union (within the mean-
14 ing of section 101(6) of the Federal Credit Union
15 Act), and

16 “(3) a corporation which, under the laws of the
17 State of its incorporation, is subject to supervision
18 and examination by the Commissioner of Banking or
19 other officer of such State in charge of the adminis-
20 tration of the banking laws of such state.”.

21 (c) CLERICAL AMENDMENTS.—

22 (1) The table of sections for part III of sub-
23 chapter B of chapter 1 is amended by inserting after
24 the item relating to section 125 the following new
25 item:

 “Sec. 125A. Medical care savings benefits.”

1 (2) The table of sections for subpart A of part
2 I of subchapter D of chapter 1 is amended by insert-
3 ing after the item relating to section 408 the follow-
4 ing new item:

“Sec. 408A. Medical care savings accounts.”

5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to taxable years beginning after
7 December 31, 1993.

8 **SEC. 302. DEDUCTION FOR HEALTH INSURANCE COSTS OF**
9 **SELF-EMPLOYED INCREASED AND MADE PER-**
10 **MANENT.**

11 (a) PERMANENT EXTENSION OF DEDUCTION.—

12 (1) IN GENERAL.—Subsection (l) of section 162
13 (relating to special rules for health insurance costs
14 of self-employed individuals) is amended by striking
15 paragraph (6).

16 (2) CONFORMING AMENDMENT.—Paragraph (2)
17 of section 110(a) of the Tax Extension Act of 1991
18 is hereby repealed.

19 (3) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to taxable years begin-
21 ning after December 31, 1991.

22 (b) INCREASE IN AMOUNT OF DEDUCTION.—

23 (1) IN GENERAL.—Paragraph (1) of section
24 162(l) is amended by striking “25 percent of” and

1 inserting “100 percent (50 percent in the case of
2 taxable years beginning in 1995 or 1996) of”.

3 (2) EFFECTIVE DATE.—The amendment made
4 by paragraph (1) shall apply to taxable years begin-
5 ning after December 31, 1994.

6 **SEC. 303. PREEMPTION FROM INSURANCE MANDATES FOR**
7 **QUALIFIED SMALL EMPLOYER PURCHASING**
8 **GROUPS.**

9 (a) QUALIFIED SMALL EMPLOYER PURCHASING
10 GROUP DEFINED.—For purposes of this section, an asso-
11 ciation is a qualified small employer purchasing group if—

12 (1) the association submits an application to
13 the Secretary of Health and Human Services at such
14 time and in such form as the Secretary may require;
15 and

16 (2) on the basis of information contained in the
17 application and any other information the Secretary
18 may require, the Secretary determines that—

19 (A) the association is administered solely
20 under the authority and control of its member
21 employers,

22 (B) the association’s membership consists
23 solely of employers with not more than 100 em-
24 ployees (except that an employer member of the
25 group may retain its membership in the group

1 if, after the Secretary determines that the asso-
2 ciation meets the requirements of this para-
3 graph, the number of employees of the employer
4 member increases to more than 100),

5 (C) with respect to each State in which its
6 members are located, the association consists of
7 not fewer than 100 employers, and

8 (D) at the time the association submits its
9 application, the health benefit plans with re-
10 spect to the employer members of the associa-
11 tion are in compliance with applicable State
12 laws relating to health benefit plans.

13 (b) PREEMPTION FROM INSURANCE MANDATES.—

14 (1) FINDING.—Congress finds that employer
15 purchasing groups organized for the purpose of ob-
16 taining health insurance for employer members af-
17 fect interstate commerce.

18 (2) PREEMPTION OF STATE MANDATES.—In the
19 case of a qualified small employer purchasing group
20 described in subsection (a), no provision of State law
21 shall apply that requires the offering, as part of the
22 health benefit plan with respect to an employer
23 member of such a group, of any services, category
24 of care, or services of any class or type of provider.

1 (3) PREEMPTION OF PROVISIONS PROHIBITING
2 EMPLOYER GROUPS FROM PURCHASING HEALTH IN-
3 SURANCE.—In the case of a qualified small employer
4 purchasing group described in subsection (a), no
5 provision of State or local law shall apply that pro-
6 hibits a group of employers from purchasing health
7 insurance with respect to member employers of the
8 group or their employees.

9 (c) EFFECTIVE DATE.—This section shall take effect
10 60 days after the date of the enactment of this Act.

11 **TITLE IV—EDUCATIONAL**
12 **CHOICE PROGRAMS**

13 **SECTION 401. SHORT TITLE.**

14 This title may be cited as the “Educational Choice
15 Programs Act”.

16 **SEC. 402. PURPOSES.**

17 The purposes of this title are—

18 (1) to assist and encourage States and localities
19 to—

20 (A) give children from middle- and low-in-
21 come families more of the same choices of all el-
22 ementary and secondary schools and other aca-
23 demic programs that children from wealthier
24 families already have;

1 (B) improve schools and other academic
2 programs by giving middle- and low-income par-
3 ents increased consumer power to choose the
4 schools and programs that they determine best
5 fit the needs of their children;

6 (C) more fully engage middle- and low-in-
7 come parents in their children's schooling; and

8 (D) through families, provide new funds at
9 the school site that teachers and principals can
10 use to help all children achieve the high edu-
11 cational standards called for by the National
12 Education Goals;

13 (2) to encourage the creation and use of supple-
14 mentary academic programs during and after regu-
15 lar school hours, on weekends, and during school va-
16 cation periods for children of middle- and low-in-
17 come families; and

18 (3) to demonstrate, through a competitive dis-
19 cretionary grant program, the effects of State and
20 local programs that give middle- and low-income
21 families more of the same choices of all schools, pub-
22 lic, private or religious, that wealthier families have.

23 **SEC. 403. AUTHORIZATION OF APPROPRIATIONS.**

24 (a) AUTHORIZATION.—For the purpose of carrying
25 out this title, there are authorized to be appropriated

1 \$1,000,000,000 for fiscal year 1993 and such sums as
2 may be necessary for each of the fiscal years 1994 through
3 2000.

4 (b) NATIONAL EVALUATION.—From the sums appro-
5 priated for any fiscal year for carrying out this title, the
6 Secretary may reserve up to \$2,000,000 to carry out the
7 national evaluation described in section 412.

8 (c) REMAINDER OF FUNDS.—The Secretary shall use
9 any funds remaining after such reservation to make com-
10 petitive grants to States and to localities to carry out eligi-
11 ble programs under this title.

12 **SEC. 404. ELIGIBILITY.**

13 A State or locality is eligible for a grant under this
14 title if—

15 (1) it has taken significant steps to provide a
16 choice of schools to families with school children re-
17 siding in the program area described in the applica-
18 tion submitted under section 407, including families
19 who are not eligible for scholarships under this title;

20 (2) during the year for which assistance is
21 sought, assurances are made that if awarded a grant
22 under this title, such State or locality will provide
23 scholarships to parents of eligible children that may
24 be redeemed for elementary or secondary education
25 for their children at a broad variety of public and

1 private elementary and secondary schools, including
2 religious schools, if any, serving the area; and

3 (3) it allows lawfully operating public and pri-
4 vate elementary and secondary schools, including re-
5 ligious schools, if any, serving the area to participate
6 in its program.

7 **SEC. 405. SCHOLARSHIPS.**

8 (a) SCHOLARSHIP AWARDS.—With funds awarded
9 under this title, each grantee under this title shall provide
10 scholarships to the parents of eligible children, in accord-
11 ance with section 406.

12 (b) SCHOLARSHIP VALUE.—The value of each schol-
13 arship shall be the sum of—

14 (1) \$2,000 from funds provided under this title;
15 and

16 (2) an additional amount, if any, of State, local,
17 and nongovernmental funds.

18 (c) TAX EXEMPTION.—Scholarships shall not be
19 deemed income of the parents for Federal income tax pur-
20 poses or for determining eligibility for any other Federal
21 program.

22 **SEC. 406. ELIGIBLE CHILDREN.**

23 (a) ELIGIBILITY.—With funds awarded under this
24 title, each grantee shall provide a scholarship—

25 (1) to the parents of children who—

1 (A) reside in the program area described in
2 the application submitted under section 407;

3 (B) will attend a public or private elemen-
4 tary or secondary school that is participating in
5 the program; and

6 (C) are from a middle- or low-income fam-
7 ily, as determined by the grantee in accordance
8 with regulations of the Secretary, except that
9 the maximum family income for eligibility may
10 not exceed the State or national median family
11 income (adjusted for family size), whichever is
12 higher, as determined by the Secretary, in con-
13 sultation with the Bureau of the Census, on the
14 basis of the most recent satisfactory data avail-
15 able; and

16 (2) in each year of its program to each child
17 who received a scholarship during the previous year
18 of the program, unless—

19 (A) the child no longer resides in the pro-
20 gram area;

21 (B) the child no longer attends school; or

22 (C) the child's family income exceeds, by
23 20 percent or more, the maximum family in-
24 come of families who received scholarship in the
25 preceding year.

1 (b) PRIORITY.—If the amount of the grant under this
2 title is not sufficient to provide a scholarship to each child
3 up to the income level for which the grantee applied as
4 described in subsection (a)(1)(C), the grantee shall pro-
5 vide scholarships to the lowest income families.

6 **SEC. 407. APPLICATIONS.**

7 (a) APPLICATION.—Each State or locality that wishes
8 to receive a grant under this title shall submit an applica-
9 tion to the Secretary at such time and in such manner
10 as the Secretary may reasonably require.

11 (b) CONTENTS.—Each such application shall con-
12 tain—

13 (1) a description of the program area;

14 (2) an economic profile of children residing in
15 the program area, in terms of family income and
16 poverty status;

17 (3) the family income range of children who will
18 be eligible to participate in the proposed program,
19 consistent with section 406(a)(1)(C), and a descrip-
20 tion of the applicant's method for identifying chil-
21 dren who fall within that range;

22 (4) an estimate of the number of children, with-
23 in the income range specified in paragraph (3), who
24 would be eligible to receive scholarships under the
25 program;

1 (5) information demonstrating that the appli-
2 cant's proposed program complies with the eligibility
3 requirements of section 404 and with the other re-
4 quirements of this title;

5 (6) a description of the procedures the appli-
6 cant has used, including timely and meaningful con-
7 sultation with private school officials, to encourage
8 public and private elementary and secondary schools
9 to participate in the programs and to ensure maxi-
10 mum educational choices for the parents of eligible
11 children and for other children residing in the pro-
12 gram area;

13 (7) an identification of the public, private, and
14 religious elementary and secondary schools that are
15 eligible and have chosen to participate in the pro-
16 gram;

17 (8) a description of how the applicant will in-
18 form children and their parents of the program and
19 of the choices available to them under the program,
20 including the availability of supplementary academic
21 services under section 410(2);

22 (9) a description of the procedures to be used
23 to provide scholarships to parents and to enable par-
24 ents to use such scholarships, such as the issuance
25 of checks payable to both parents and schools;

1 (10) a description of—

2 (A) the procedures by which a school will
3 make a pro rata refund to the grantee of a
4 scholarship for any participating child who, be-
5 fore completing 50 percent of the school attend-
6 ance period for which the scholarship was is-
7 sued—

8 (i) is released or expelled from the
9 school; or

10 (ii) withdraws for any reason; or

11 (B) another refund policy that addresses
12 special circumstances an applicant can reason-
13 ably anticipate and that the applicant dem-
14 onstrates, to the Secretary's satisfaction, ade-
15 quate protection of participating children, in
16 light of the purposes of this title;

17 (11) a description of procedures the applicant
18 will use to—

19 (A) determine a child's continuing eligi-
20 bility to participate in the program; and

21 (B) bring new children into the program;

22 (12) an assurance that the applicant will co-
23 operate in carrying out the national evaluation de-
24 scribed in section 412;

1 (13) an assurance that the applicant will main-
2 tain such records relating to the program as the
3 Secretary may require and will comply with the Sec-
4 retary's reasonable requests for information about
5 the program;

6 (14) a description of State and local funds (in-
7 cluding tax benefits) and nongovernmental funds, if
8 any, that will be available under section 405(b)(2) to
9 supplement scholarship funds provided under this
10 title; and

11 (15) such other assurance and information as
12 the Secretary may require.

13 (c) REVISIONS.—Each such application shall be up-
14 dated annually as may be needed to reflect revised condi-
15 tions.

16 **SEC. 408. APPROVAL OF PROJECTS.**

17 (a) SELECTION.—From applications received each
18 year, the Secretary shall select programs on the basis of—

19 (1) the number and variety of educational
20 choices that are available under the program to fam-
21 ilies of eligible children;

22 (2) the extent to which educational choices
23 among public, private, and religious schools are
24 available to all families in the program area, includ-

1 ing families that are not eligible for scholarships
2 under this title;

3 (3) the proportion of children who will partici-
4 pate in the program who are from low-income fami-
5 lies;

6 (4) the applicant's financial support of the pro-
7 gram, including the amount of State, local, and non-
8 governmental funds that will be provided to supple-
9 ment Federal funds, including not only direct ex-
10 penditures for scholarships, but also other economic
11 incentives provided to families participating in the
12 program, such as a tax relief program. In consider-
13 ing this factor, the Secretary may take differences in
14 local conditions into account; and

15 (5) other criteria established by the Secretary.

16 (b) GEOGRAPHIC DISTRIBUTION.—The Secretary
17 shall ensure that, to the extent feasible, grants are award-
18 ed for programs in urban and rural areas and in a variety
19 of geographic areas throughout the Nation.

20 **SEC. 409. AMOUNTS AND LENGTH OF GRANTS.**

21 (a) AWARDS.—The Secretary shall award annual
22 grants taking into account the availability of appropria-
23 tions, the number and quality of applications, and other
24 factors related to the purposes of this title that the Sec-
25 retary determines are appropriate.

1 (b) RENEWAL.—Each grant under this title may be
2 for a period of up to 4 years, and may be renewed for
3 an additional 4-year period.

4 **SEC. 410. USES OF FUNDS.**

5 The Federal portion of any scholarship awarded
6 under this title shall be used for the following purposes:

7 (1) first, for—

8 (A) the payment of tuition and fees at the
9 school selected by the parents of the child for
10 whom the scholarship was provided; and

11 (B) the reasonable costs of the child's
12 transportation to the school, if—

13 (i) the school is not the school to
14 which the child would be assigned in the
15 absence of a program under this title; and

16 (ii) the parents of an eligible child
17 choose to use scholarship funds for that
18 purpose;

19 (2) second, if the parents so choose, to obtain
20 supplementary academic services for the child, at a
21 cost of not more than \$500, from any provider cho-
22 sen by the parents that the grantee, in accordance
23 with regulations of the Secretary, determines is ca-
24 pable of providing such services and has an appro-
25 priate refund policy; and

1 (3) finally, any remaining funds shall be used—

2 (A) for educational programs that help
3 students achieve high levels of academic excel-
4 lence in the school attended by the child for
5 whom a scholarship was issued, if the child at-
6 tends a public school; or

7 (B) by the grantee for additional scholar-
8 ships in the year or the succeeding year of its
9 program, in accordance with this title, if the
10 child attends a private school.

11 **SEC. 411. EFFECT OF PROGRAMS.**

12 (a) CHAPTER 1.—Notwithstanding any other provi-
13 sion of law, a local educational agency that, in the absence
14 of an educational choice program that is funded under this
15 title, would provide services to a participating child under
16 part A of chapter 1 of title I of the Elementary and Sec-
17 ondary Education Act of 1965, shall provide such services
18 to such child.

19 (b) INDIVIDUALS WITH DISABILITIES.—Nothing in
20 this title shall be read to affect the applicability or require-
21 ments of part B of the Individuals With Disabilities Edu-
22 cation Act.

23 (c) AID.—(1) Scholarships under this title are to aid
24 families, not institutions. A parent's expenditure of schol-
25 arship funds at a school or for supplementary academic

1 services shall not constitute Federal financial aid or assist-
2 ance to that school or to the provider of supplementary
3 academic services.

4 (2) Notwithstanding paragraph (1), a school or pro-
5 vider of supplementary academic services that receives
6 scholarship funds under this title shall, as a condition of
7 participation under this title, comply with the anti dis-
8 crimination provisions of section 601 of title VI of the
9 Civil Rights Act of 1964 (42 U.S.C. 1681) and section
10 504 of the Rehabilitation Act of 1973 (27 U.S.C. 794).

11 (3) The Secretary shall promulgate new regulations
12 to implement the provisions of paragraph (2), taking into
13 account the purposes of this title and the nature, variety,
14 and missions of schools and providers that may participate
15 in providing services to children under this title.

16 (d) OTHER FEDERAL FUNDS.—No Federal, State, or
17 local agency may, in any year, take into account Federal
18 funds provided to a grantee or to the parents of any child
19 under this title in determining whether to provide any
20 other funds from Federal, State, or local resources, or in
21 determining the amount of such assistance, to such grant-
22 ee or to a school attended by such child.

23 (e) EXISTING PROVISIONS OF LAW.—Nothing in this
24 title shall be construed to supersede or modify any provi-
25 sion of a State constitution or State law that prohibits

1 the expenditure of public funds in or by religious or other
2 private institutions, except that no provision of a State
3 constitution or State law shall be construed or applied to
4 prohibit any grantee from paying the administrative costs
5 of a program under this title or providing any Federal
6 funds received under this title to parents for use at reli-
7 gious or other private institutions.

8 (f) NO DISCRETION.—Nothing in this title shall be
9 construed to authorize the Secretary to exercise any direc-
10 tion, supervision, or control over the curriculum, program
11 of instruction, administration, or personnel of any edu-
12 cational institution or school participating in a program
13 under this title.

14 (g) DISCRIMINATION.—No person shall, on the
15 ground of race, color, or national origin, be excluded from
16 participation in, be denied the benefits of, or be subjected
17 to discrimination under any program or activity under this
18 title.

19 **SEC. 412. NATIONAL EVALUATION.**

20 With funds reserved under section 403(b), the Sec-
21 retary shall conduct a national evaluation of the program
22 authorized by this title. Such evaluation shall, at a mini-
23 mum—

24 (1) assess the implementation of assisted pro-
25 grams and their effect on participants, schools, and

1 communities in the program area, including parental
2 involvement in, and satisfaction with, the program
3 and their children's education;

4 (2) compare educational achievement of partici-
5 pating children with the achievement of similar non-
6 participating children before, during, and after the
7 program; and

8 (3) compare—

9 (A) educational achievement of children
10 who use scholarships to attend schools other
11 than the ones they would attend in the absence
12 of the program; with

13 (B) educational achievement of children
14 who attend the schools they would attend in the
15 absence of the program.

16 **SEC. 413. ENFORCEMENT.**

17 (a) REGULATIONS.—The Secretary shall promulgate
18 regulations to enforce the provisions of this title.

19 (b) PRIVATE CAUSE.—No provision or requirement
20 of this title shall be enforced through a private cause of
21 action.

22 **SEC. 414. DEFINITIONS.**

23 For the purpose of this title—

24 (1) the terms “elementary school”, “local edu-
25 cational agency”, “parent”, “secondary school”, and

1 “State educational agency” have the same meanings
2 given such terms in section 1471 of the Elementary
3 and Secondary Education Act of 1965;

4 (2) the term “locality” means—

5 (A) a unit of general purpose local govern-
6 ment, such as a city, township, or village; or

7 (B) a local educational agency;

8 (3) the term “Secretary” means the Secretary
9 of Education; and

10 (4) the term “State” means each of the 50
11 States, the District of Columbia, and the Common-
12 wealth of Puerto Rico.

13 **TITLE V—GRANTS TO ENCOUR-**
14 **AGE EMPLOYERS TO ADOPT**
15 **FLEXIBLE WORK AND FAMILY**
16 **POLICIES**

17 **SEC. 501. PURPOSES.**

18 The purpose of this title is to provide grants as start
19 up funds for employers to—

20 (1) explore, initiate, or expand flexible work
21 policies (including for example, flexitime, part-time
22 work, job sharing, telecommuting, flexiplace, or com-
23 pressed work weeks) in an effort to ease the work
24 and family demands on employees;

1 (2) efficiently adapt to the Family and Medical
2 Leave Act of 1993 in a comprehensive manner while
3 strategically planning for changes in work force de-
4 mographics;

5 (3) assess the needs of employees and deter-
6 mine various work and family policies and human
7 resource policies that best fit with a particular work
8 force or workplace;

9 (4) design work and family programs in such a
10 way that improves recruitment, retention and pro-
11 ductivity in the context of a changing work force;
12 and

13 (5) share and communicate successful work and
14 family policies with the outside business community.

15 **SEC. 502. APPLICATIONS.**

16 (a) IN GENERAL.—To receive a grant under this title,
17 an employer must submit an application to the Secretary
18 of Labor at such time and in such manner as such Sec-
19 retary may prescribe.

20 (b) CONTENTS OF APPLICATION.—Each application
21 shall contain—

22 (1) a description of the employer’s business, in-
23 cluding the number of employees and their demo-
24 graphic makeup;

1 (2) an economic and work profile of the families
2 of employees of such employer, including the work
3 and family situations of the employees who would
4 benefit from a program and their family income
5 range;

6 (3) a description of the work and family pro-
7 gram the employer plans to implement, including a
8 description of—

9 (A) the methods to be used to assess the
10 needs of employees,

11 (B) the methods to be used to determine
12 which work and family policies best fit the
13 needs of both the employer and the employees,

14 (C) how the new policies will be piloted or
15 implemented, and

16 (D) which work policies will be focused
17 upon, and how support for such policies will be
18 developed and integrated into the management
19 structure;

20 (4) a profile of surrounding businesses that
21 might benefit from the type of program proposed
22 and how information on that program will be shared
23 with those businesses; and

1 (5) how, and the extent to which, the efforts of
2 the applicant will be communicated back to the De-
3 partment of Labor.

4 **SEC. 503. APPROVAL OF APPLICATIONS.**

5 (a) IN GENERAL.—The Secretary of Labor shall ap-
6 prove applications on the basis of—

7 (1) the comprehensiveness of the approach of
8 the applicant’s work and family programs, the ef-
9 forts made to survey and assess the work and family
10 needs of employees, and the number of families im-
11 pacted and the economic demands on the families af-
12 fected;

13 (2) the applicant’s ability and commitment to
14 developing an ongoing and comprehensive approach
15 to flexible work and family policies; and

16 (3) the efforts by the applicant to share infor-
17 mation of its work and family policies with the sur-
18 rounding business community as well as their ability
19 to provide information to the Department of Labor
20 on the development and implementation of their poli-
21 cies.

22 (b) DIVERSITY OF APPROVED APPLICATIONS.—The
23 Secretary of Labor shall ensure that, to the extent fea-
24 sible, grants are awarded to a variety of businesses with
25 varying work populations and economic means as well as

1 variety in both urban and rural areas and in different geo-
2 graphic areas throughout the Nation.

3 **SEC. 504. LIMIT ON AMOUNT OF GRANTS; AUTHORIZATION**
4 **OF APPROPRIATIONS.**

5 (a) LIMIT ON AMOUNT OF GRANTS.—The maximum
6 grant that may be awarded under this title to a business
7 for any year shall not exceed \$50,000.

8 (b) AUTHORIZATION.—There are authorized to be ap-
9 propriated to carry out this title \$10,000,000 for fiscal
10 year 1993, to remain available until expended or the close
11 of fiscal year 1994.

12 (c) FUNDS NOT USED FOR GRANTS.—If funds ap-
13 propriated pursuant to subsection (b) remain available as
14 of the close of fiscal year 1994, the Secretary of Labor
15 shall conduct a national evaluation of the various pro-
16 grams funded by grants under this title. Notwithstanding
17 subsection (b), such funds may be used during fiscal year
18 1995 for such purpose.

1 **TITLE VI—REDUCING THE COST**
2 **OF CAPITAL BY REDUCING**
3 **CAPITAL GAINS TAX RATES,**
4 **INDEXING THE BASIS OF CER-**
5 **TAIN ASSETS, AND EXCLUD-**
6 **ING GAIN FROM SALES OF**
7 **PRINCIPAL RESIDENCES**

8 **SEC. 601. REDUCTION IN INDIVIDUAL CAPITAL GAINS**
9 **RATE.**

10 (a) GENERAL RULE.—Subsection (h) of section 1 (re-
11 lating to maximum capital gains rate) is amended to read
12 as follows:

13 “(h) MAXIMUM CAPITAL GAINS RATE.—If a taxpayer
14 has a net capital gain for any taxable year, then the tax
15 imposed by this section shall not exceed the sum of—

16 “(A) a tax computed at the rates and in
17 the same manner as if this subsection had not
18 been enacted on the taxable income reduced by
19 the net capital gain, plus

20 “(B) a tax equal to 15 percent of the net
21 capital gain in excess of—

22 “(i) the maximum amount of taxable
23 income to which the 15-percent rate ap-
24 plies under the table applicable to the tax-
25 payer, reduced by

1 “(ii) the taxable income to which sub-
2 paragraph (A) applies.

3 (b) PHASEOUT OF PERSONAL EXEMPTIONS AND LIM-
4 ITATION ON DEDUCTION OF ITEMIZED DEDUCTIONS NOT
5 TO RESULT FROM NET CAPITAL GAIN.—

6 (1)(A) Subparagraphs (A) and (B) of section
7 151(d)(3) (relating to phaseout of exemption
8 amount) are each amended by inserting “modified”
9 before “adjusted gross income”.

10 (B) Paragraph (3) of section 151(d) of such
11 Code is amended by redesignating subparagraphs
12 (D) and (E) as subparagraphs (E) and (F), respec-
13 tively, and by inserting after subparagraph (C) the
14 following new subparagraph:

15 “(D) MODIFIED ADJUSTED GROSS IN-
16 COME.—For purposes of this paragraph, the
17 term ‘modified adjusted gross income’ means
18 adjusted gross income reduced by net capital
19 gain.”

20 (2) Subsection (a) of section 68 (relating to
21 overall limitation on itemized deductions) is amend-
22 ed by inserting “(reduced by net capital gain (deter-
23 mined in accordance with the last sentence of section
24 151(d)(3)(D)))” after “adjusted gross income”.

25 (c) TECHNICAL AMENDMENTS.—

1 (1) Paragraph (1) of section 170(e) is amended
2 by striking “the amount of gain” in the material fol-
3 lowing subparagraph (B)(ii) and inserting “13/28
4 (19/34 in the case of a corporation) of the amount
5 of gain”.

6 (2)(A) The second sentence of section
7 7518(g)(6)(A) is amended by striking “28 percent
8 (34 percent in the case of a corporation)” and in-
9 serting “15 percent”.

10 (B) The second sentence of section
11 607(h)(6)(A) of the Merchant Marine Act, 1936, is
12 amended by striking “28 percent (34 percent in the
13 case of a corporation)” and inserting “15 percent”.

14 **SEC. 602. REDUCTION IN CORPORATE CAPITAL GAINS**
15 **RATE.**

16 (a) GENERAL RULE.—Section 1201 (relating to al-
17 ternative tax for corporations) is amended by redesignat-
18 ing subsection (b) as subsection (c), and by striking sub-
19 section (a) and inserting the following:

20 “(a) GENERAL RULE.—If for any taxable year a cor-
21 poration has a net capital gain, then, in lieu of the tax
22 imposed by sections 11, 511, or 831(a) (whichever ap-
23 plies), there is hereby imposed a tax (if such tax is less
24 than the tax imposed by such section) which shall consist
25 of the sum of—

1 “(1) a tax computed on the taxable income re-
2 duced by the net capital gain, at the same rates and
3 in the same manner as if this subsection had not
4 been enacted, plus

5 “(2) a tax of 15 percent of the net capital gain.

6 “(b) TRANSITIONAL RULE.—In the case of a taxable
7 year which includes December 31, 1992, the amount of
8 the net capital gain for purposes of subsection (a) shall
9 not exceed the net capital gain determined by only taking
10 into account gains and losses properly taken into account
11 for the portion of the taxable year on or after such date.”

12 (b) TECHNICAL AMENDMENTS.—

13 (1) Clause (iii) of section 852(b)(3)(D) is
14 amended by striking “66 percent” and inserting “85
15 percent”.

16 (2) Paragraphs (1) and (2) of section 1445(e)
17 are each amended by striking “34 percent” and in-
18 serting “15 percent”.

19 **SEC. 603. REDUCTION OF MINIMUM TAX RATE ON CAPITAL**
20 **GAINS.**

21 Subparagraph (A) of section 55(b)(1) (relating to
22 tentative minimum tax) is amended to read as follows:

23 “(A) the sum of—

24 “(i) 15 percent of the lesser of—

1 “(I) the net capital gain (deter-
2 mined with the adjustments provided
3 in this part and (to the extent appli-
4 cable) the limitations of sections
5 1(h)(2) and 1201(b)), or

6 “(II) so much of the alternative
7 minimum taxable income for the tax-
8 able year as exceeds the exemption
9 amount, plus

10 “(ii) 20 percent (24 percent in the
11 case of a taxpayer other than a corpora-
12 tion) of the amount (if any) by which the
13 excess referred to in clause (i)(II) exceeds
14 the net capital gain (as so determined), re-
15 duced by”.

16 **SEC. 604. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
17 **OF DETERMINING GAIN OR LOSS.**

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

22 **“SEC. 1022. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
23 **OF DETERMINING GAIN OR LOSS.**

24 “(a) GENERAL RULE.—

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

7 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
8 The deduction for depreciation, depletion, and amor-
9 tization shall be determined without regard to the
10 application of paragraph (1) to the taxpayer or any
11 other person.

12 “(b) INDEXED ASSET.—

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

15 “(A) stock in a corporation, and

16 “(B) tangible property (or any interest
17 therein), which is a capital asset of property
18 used in the trade or business (as defined in sec-
19 tion 1231(b)).

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

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

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

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

6 “(D) CERTAIN PREFERRED STOCK.—Stock
7 which is fixed and preferred as to dividends and
8 does not participate in corporate growth to any
9 significant extent.

10 “(E) STOCK IN CERTAIN CORPORATIONS.—
11 Stock in—

12 “(i) an S corporation (within the
13 meaning of section 1361),

14 “(ii) a personal holding company (as
15 defined in section 542), and

16 “(iii) a foreign corporation.

17 “(3) EXCEPTION FOR STOCK IN FOREIGN COR-
18 PORATION WHICH IS REGULARLY TRADED ON NA-
19 TIONAL OR REGIONAL EXCHANGE.—Clause (iii) of
20 paragraph (2)(E) shall not apply to stock in a for-
21 eign corporation the stock of which is listed on the
22 New York Stock Exchange, the American Stock Ex-
23 change, or any domestic regional exchange for which
24 quotations are published on a regular basis other
25 than—

1 “(A) stock of a foreign investment com-
2 pany (within the meaning of section 1246(b)),
3 and

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

7 “(c) INDEXED BASIS.—For purposes of this sec-
8 tion—

9 “(1) INDEXED BASIS.—The indexed basis for
10 any asset is—

11 “(A) the adjusted basis of the asset, multi-
12 plied by

13 “(B) the applicable inflation ratio.

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

17 “(A) the gross national product deflator
18 for the calendar quarter in which the disposi-
19 tion takes place, by

20 “(B) the gross national product deflator
21 for the calendar quarter in which the asset was
22 acquired by the taxpayer (or, if later, the cal-
23 endar quarter ending December 31, 1992).

24 The applicable inflation ratio shall not be taken into
25 account unless it is greater than 1. The applicable

1 inflation ratio for any asset shall be rounded to the
2 nearest one-tenth of 1 percent.

3 “(3) GROSS NATIONAL PRODUCT
4 DEFLATOR.—The gross national product
5 deflator for any calendar quarter is the implicit
6 price deflator for the gross national product for
7 such quarter (as shown in the first revision
8 thereof).

9 “(4) SECRETARY TO PUBLISH TABLES.—
10 The Secretary shall publish tables specifying
11 the applicable inflation ratios for each calendar
12 quarter.

13 “(d) SPECIAL RULES.—For purposes of this sec-
14 tion—

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

18 “(A) a substantial improvement to prop-
19 erty,

20 “(B) in the case of stock of a corporation,
21 a substantial contribution to capital, and

22 “(C) any other portion of an asset to the
23 extent that separate treatment of such portion
24 is appropriate to carry out the purposes of this
25 section.

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

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

7 “(B) CERTAIN SHORT SALES.—For pur-
8 poses of applying subparagraph (A), an asset
9 shall be treated as not an indexed asset for any
10 short sale period during which the taxpayer or
11 the taxpayer’s spouse sells short property sub-
12 stantially identical to the asset. For purposes of
13 the preceding sentence, the short sale period be-
14 gins on the day after the substantially identical
15 property is sold and ends on the closing date
16 for the sale.

17 “(3) TREATMENT OF CERTAIN DISTRIBU-
18 TIONS.—A distribution with respect to stock in a
19 corporation which is not a dividend shall be treated
20 as a disposition.

21 “(4) SECTION CANNOT INCREASE ORDINARY
22 LOSS.—To the extent that (but for this paragraph)
23 this section would create or increase a net ordinary
24 loss to which section 1231(a)(2) applies or an ordi-
25 nary loss to which any other provision of this title

1 applies, such provision shall not apply. The taxpayer
2 shall be treated as having a long-term capital loss in
3 an amount equal to the amount of the ordinary loss
4 to which the preceding sentence applies.

5 “(5) ACQUISITION DATE WHERE THERE HAS
6 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
7 WITH RESPECT TO THE TAXPAYER.—If there has
8 been a prior application of subsection (a)(1) to an
9 asset while such asset was held by the taxpayer, the
10 date of acquisition of such asset by the taxpayer
11 shall be treated as not earlier than the date of the
12 most recent such prior application.

13 “(6) COLLAPSIBLE CORPORATIONS.—The appli-
14 cation of section 341(a) (relating to collapsible cor-
15 porations) shall be determined without regard to this
16 section.

17 “(e) CERTAIN CONDUIT ENTITIES.—

18 “(1) REGULATED INVESTMENT COMPANIES;
19 REAL ESTATE INVESTMENT TRUSTS; COMMON TRUST
20 FUNDS.—

21 “(A) IN GENERAL.—Stock in a qualified
22 investment entity shall be an indexed asset for
23 any calendar month in the same ratio as the
24 fair market value of the assets held by such en-
25 tity at the close of such month which are in-

1 dexed assets bears to the fair market value of
2 all assets of such entity at the close of such
3 month.

4 “(B) RATIO OF 90 PERCENT OR MORE.—If
5 the ratio for any calendar month determined
6 under subparagraph (A) would (but for the sub-
7 paragraph) be 90 percent or more, such ratio
8 for such month shall be 100 percent.

9 “(C) RATIO OF 10 PERCENT OR LESS.—If
10 the ratio for any calendar month determined
11 under subparagraph (A) would (but for this
12 subparagraph) be 10 percent or less, such ratio
13 for such month shall be zero.

14 “(D) VALUATION OF ASSETS IN CASE OF
15 REAL ESTATE INVESTMENT TRUSTS.—Nothing
16 in this paragraph shall require a real estate in-
17 vestment trust to value its assets more fre-
18 quently than once each 36 months (except
19 where such trust ceases to exist). The ratio
20 under subparagraph (A) for any calendar
21 month for which there is no valuation shall be
22 the trustee’s good faith judgment as to such
23 valuation.

1 “(E) QUALIFIED INVESTMENT ENTITY.—

2 For purposes of this paragraph, the term

3 ‘qualified investment entity’ means—

4 “(i) a regulated investment company
5 (within the meaning of section 851),

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

8 “(iii) a common trust fund (within the
9 meaning of section 584).

10 “(2) PARTNERSHIPS.—In the case of a partner-
11 ship, the adjustment made under subsection (a) at
12 the partnership level shall be passed through to the
13 partners.

14 “(3) SUBCHAPTER S CORPORATIONS.—In the
15 case of an electing small business corporation, the
16 adjustment under subsection (a) at the corporate
17 level shall be passed through to the shareholders.

18 “(f) DISPOSITIONS BETWEEN RELATED PERSONS.—

19 “(1) IN GENERAL.—This section shall not apply
20 to any sale or other disposition of property between
21 related persons except to the extent that the basis
22 of such property in the hands of the transferee is a
23 substituted basis.

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

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

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

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

12 “(1) to secure or increase an adjustment under
13 subsection (a), or

14 “(2) to increase (by reason of an adjustment
15 under subsection (a)) a deduction for depreciation,
16 depletion, or amortization,

17 the Secretary may disallow part or all of such adjustment
18 or increase.

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

20 “(1) NET LEASE PROPERTY DEFINED.—The
21 term ‘net lease property’ means leased real property
22 where—

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

1 “(B) for the period of the lease, the sum
2 of the deductions with respect to such property
3 which are allowable to the lessor solely by rea-
4 son of section 162 (other than rents and reim-
5 bursed amounts with respect to such property)
6 is 15 percent or less of the rental income pro-
7 duced by such property.

8 “(2) STOCK INCLUDES INTEREST IN COMMON
9 TRUST FUND.—The term ‘stock in a corporation’ in-
10 cludes any interest in a common fund (as defined in
11 section 584(a)).

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

15 (b) CLERICAL AMENDMENT.—This table of sections
16 for part II of subchapter O of such chapter 1 is amended
17 by inserting after the item relating to section 1021 the
18 following new item:

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

19 (c) ADJUSTMENT TO APPLY FOR PURPOSES OF DE-
20 TERMINING EARNINGS AND PROFITS.—Subsection (f) of
21 section 312 (relating to effect on earnings and profits of
22 gain or loss and of receipt of tax-free distributions) is
23 amended by adding at the end thereof the following new
24 paragraph:

1 “(3) EFFECT ON EARNINGS AND PROFITS OF
2 INDEXED BASIS.—For substitution of indexed basis
3 for adjusted basis in the case of the disposition of
4 certain assets after December 31, 1992, see section
5 1022(a)(1).”

6 **SEC. 605. INDEXING OF LIMITATION ON CAPITAL LOSSES**
7 **OF INDIVIDUALS.**

8 Section 1211 (relating to limitation on capital losses)
9 is amended by adding at the end thereof the following new
10 subsection:

11 “(c) INDEXATION OF LIMITATION ON
12 NONCORPORATE TAXPAYERS.—

13 “(1) IN GENERAL.—In the case of any taxable
14 year beginning in a calendar year after 1993, the
15 \$3,000 and \$1,500 amounts under subsection (b)(1)
16 shall be increased by an amount equal to—

17 “(A) such dollar amount, multiplied by

18 “(B) the applicable inflation adjustment
19 for the calendar year in which the taxable year
20 begins.

21 “(2) APPLICABLE INFLATION ADJUSTMENT.—

22 For purposes of paragraph (1), the applicable infla-
23 tion adjustment for any calendar year is the percent-
24 age (if any) by which—

1 “(A) the gross national product deflator
2 for the last calendar quarter of the preceding
3 calendar year, exceeds

4 “(B) the gross national product deflator
5 for the last calendar quarter of 1990.

6 For purposes of this paragraph, the term ‘gross na-
7 tional product deflator’ has the meaning given such
8 term by section 1022(c)(3).”

9 **SEC. 606. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**
10 **RESIDENCE.**

11 (a) IN GENERAL.—Section 121 (relating to one-time
12 exclusion of gain from sale of principal residence by indi-
13 vidual who has attained age 55) is amended to read as
14 follows:

15 **“SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**
16 **RESIDENCE.**

17 “(a) GENERAL RULE.—Gross income does not in-
18 clude gain from the sale or exchange of property if such
19 property has been owned and used by the taxpayer as the
20 taxpayer’s principal residence.

21 “(b) SPECIAL RULES.—

22 “(1) TENANT-STOCKHOLDER IN COOPERATIVE
23 HOUSING CORPORATION.—For purposes of this sec-
24 tion, if the taxpayer holds stock as a tenant-stock-
25 holder (as defined in section 216) in a cooperative

1 housing corporation (as defined in such section),
2 then the use requirements of subsection (a) shall be
3 applied to the house or apartment which the tax-
4 payer was entitled to occupy as such stockholder.

5 “(2) INVOLUNTARY CONVERSIONS.—For pur-
6 poses of this section, the destruction, theft, seizure,
7 requisition, or condemnation of property shall be
8 treated as the sale of such property.

9 “(3) PROPERTY USED IN PART AS PRINCIPAL
10 RESIDENCE.—In the case of property only a portion
11 of which has been owned and used by the taxpayer
12 as the taxpayer’s principal residence, this section
13 shall apply with respect to so much of the gain from
14 sale or exchange of such property as is determined,
15 under regulations prescribed by the Secretary, to be
16 attributable to the portion of the property so owned
17 and used by the taxpayer.”

18 (b) CONFORMING AMENDMENTS.—

19 (1) Paragraph (3) of section 1033(h) is amend-
20 ed to read as follows:

21 “(3) For exclusion from gross income of gain
22 from involuntary conversion of principal residence,
23 see section 121.”

24 (2) Subsection (l) of section 1034 is amended
25 to read as follows:

1 “(l) TERMINATION.—This section shall not apply to
2 any sale or exchange occurring after December 31, 1992,
3 in taxable years ending after such date.”

4 (3) Section 1038 is amended by striking sub-
5 section (e) and redesignating subsections (f) and (g)
6 as subsections (e) and (f), respectively.

7 (4) Paragraph (7) of section 1250(d) is amend-
8 ed to read as follows:

9 “(7) DISPOSITION OF PRINCIPAL RESIDENCE.—
10 Subsection (a) shall not apply to a disposition of
11 property to the extent used by the taxpayer as the
12 taxpayer’s principal residence (within the meaning of
13 section 121).”

14 (5) Subsection (c) of section 6012 is amended
15 by striking “one-time exclusion of gain from sale of
16 principal residence by individual who has attained
17 age 55” and inserting “exclusion of gain from sale
18 of principal residence”.

19 (c) CLERICAL AMENDMENT.—The table of sections
20 for part III of subchapter B of chapter 1 is amended by
21 striking the item relating to section 121 and inserting the
22 following new item:

“Sec. 121. Exclusion of gain from sale of principal residence.”

23 **SEC. 607. EFFECTIVE DATES.**

24 (a) IN GENERAL.—Except as provided in subsection
25 (b), the amendments made by this subtitle shall apply to

1 sales or exchanges occurring after December 31, 1992, in
2 taxable years ending after such date.

3 (b) INDEXING OF LOSS LIMITATION.—The amend-
4 ments made by section 605 shall apply to taxable years
5 beginning after December 31, 1992.

6 **TITLE VII—ENTERPRISE ZONES**

7 **SEC. 700. PURPOSE.**

8 It is the purpose of this title to provide for the estab-
9 lishment of enterprise zones in order to stimulate entre-
10 preneurship, particularly by zone residents, the creation
11 of new jobs, particularly for disadvantaged workers and
12 long-term unemployed individuals, and to promote revital-
13 ization of economically distressed areas primarily by pro-
14 viding or encouraging—

15 (1) tax relief at the Federal, State, and local
16 levels;

17 (2) regulatory relief at the Federal, State, and
18 local levels; and

19 (3) improved local services and an increase in
20 the economic stake of enterprise zone residents in
21 their own community and its development, particu-
22 larly through the increased involvement of private,
23 local, and neighborhood organizations.

1 **Subtitle A—Designation of**
2 **Enterprise Zones**

3 **SEC. 701. DESIGNATION OF ZONES.**

4 (a) GENERAL RULE.—Chapter 80 (relating to gen-
5 eral rules) is amended by adding at the end thereof the
6 following new subchapter:

7 **“Subchapter D—Designation of Enterprise**
8 **Zones**

 “Sec. 7880. Designation.

9 **“SEC. 7880. DESIGNATION.**

10 “(a) DESIGNATION OF ZONES.—

11 “(1) DEFINITION.—For purposes of this title,
12 the term ‘enterprise zone’ means any area—

13 “(A) which is nominated by one or more
14 local governments and the State or States in
15 which it is located for designation as an enter-
16 prise zone (hereinafter in this section referred
17 to as a ‘nominated area’), and

18 “(B) which the Secretary of Housing and
19 Urban Development, after consultation with—

20 “(i) the Secretaries of Agriculture,
21 Commerce, Labor, and the Treasury; the
22 Director of the Office of Management and
23 Budget; and the Administrator of the
24 Small Business Administration, and

1 “(ii) in the case of an area on an In-
2 dian reservation, the Secretary of the Inte-
3 rior,
4 designates as an enterprise zone.

5 “(2) AUTHORITY TO DESIGNATE.—The Sec-
6 retary of Housing and Urban Development is au-
7 thorized to designate enterprise zones in accordance
8 with the provisions of this section.

9 “(3) LIMITATIONS ON DESIGNATIONS.—

10 “(A) PUBLICATION OF REGULATIONS.—
11 Before designating any area as an enterprise
12 zone and not later than 4 months following the
13 date of the enactment of this section, the Sec-
14 retary of Housing and Urban Development
15 shall prescribe by regulation, after consultation
16 with the officials described in paragraph
17 (1)(B)—

18 “(i) the procedures for nominating an
19 area, and

20 “(ii) the procedures for designation as
21 an enterprise zone, including a method for
22 comparing courses of action under sub-
23 section (d) proposed for nominated areas,
24 and the other factors specified in sub-
25 section (e).

1 “(B) TIME LIMITATIONS.—The Secretary
2 of Housing and Urban Development shall des-
3 ignate nominated areas as enterprise zones only
4 during the 48-month period beginning on the
5 later of—

6 “(i) the first day of the first month
7 following the month in which the effective
8 date of the regulations described in sub-
9 paragraph (A) occurs, or

10 “(ii) June 30, 1992.

11 “(C) NUMBER OF DESIGNATIONS.—

12 “(i) IN GENERAL.—The Secretary of
13 Housing and Urban Development may des-
14 ignate—

15 “(I) not more than 50 nominated
16 areas as enterprise zones under this
17 section, and

18 “(II) not more than 15 nomi-
19 nated areas as enterprise zones during
20 the first 12-month period beginning
21 on the date determined under sub-
22 paragraph (B), not more than 30 by
23 the end of the second 12-month pe-
24 riod, not more than 45 by the end of
25 the third 12-month period, and not

1 more than 50 by the end of the fourth
2 12-month period.

3 “(ii) MINIMUM DESIGNATION IN
4 RURAL AREAS.—Of the areas designated as
5 enterprise zones, at least one-third must be
6 areas that are—

7 “(I) within a local government
8 jurisdiction or jurisdictions with a
9 population of less than 50,000 (as de-
10 termined using the most recent census
11 data available);

12 “(II) outside of a metropolitan
13 statistical area (within the meaning of
14 section 143(k)(2)(B)); or

15 “(III) determined by the Sec-
16 retary of Housing and Urban Devel-
17 opment, after consultation with the
18 Secretary of Commerce, to be rural
19 areas.

20 “(D) PROCEDURAL RULES.—The Sec-
21 retary of Housing and Urban Development
22 shall not make any designations under this sec-
23 tion unless—

1 “(i) the local government and the
2 State in which the nominated area is lo-
3 cated have the authority to—

4 “(I) nominate such area for des-
5 ignation as an enterprise zone,

6 “(II) make the State and local
7 commitments under subsection (d),
8 and

9 “(III) provide assurances satis-
10 factory to the Secretary of Housing
11 and Urban Development that such
12 commitments will be fulfilled, and

13 “(ii) a nomination therefor is submit-
14 ted by such State and local governments in
15 such a manner and in such form, and con-
16 tains such information, as the Secretary of
17 Housing and Urban Development shall
18 prescribe by regulation.

19 “(4) NOMINATION PROCESS FOR INDIAN RES-
20 ERVATIONS.—In the case of a nominated area on an
21 Indian reservation, the reservation governing body
22 (as determined by the Secretary of the Interior)
23 shall be deemed to be both the State and local gov-
24 ernments with respect to such area.

1 “(b) TIME PERIOD FOR WHICH DESIGNATION IS IN
2 EFFECT.—

3 “(1) IN GENERAL.—Any designation of an area
4 as an enterprise zone shall remain in effect during
5 the period beginning on the date of the designation
6 and ending on the earliest of—

7 “(A) December 31 of the 24th calendar
8 year following the calendar year in which such
9 date occurs,

10 “(B) the termination date specified by the
11 State and local governments as provided in the
12 nomination submitted in accordance with sub-
13 section (a)(3)(D)(ii),

14 “(C) such other date as the Secretary of
15 Housing and Urban Development shall specify
16 as a condition of designation, or

17 “(D) the date upon which the Secretary of
18 Housing and Urban Development revokes such
19 designation.

20 “(2) REVOCATION OF DESIGNATION.—The Sec-
21 retary of Housing and Urban Development, after
22 consultation with the officials described in subsection
23 (a)(1)(B), may revoke the designation of an area if
24 the Secretary of Housing and Urban Development
25 determines that the State or a local government in

1 which the area is located is not complying substan-
2 tially with the agreed course of action for the area.

3 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

4 “(1) IN GENERAL.—The Secretary of Housing
5 and Urban Development may designate a nominated
6 area as an enterprise zone only if it meets the re-
7 quirements of paragraphs (2) and (3).

8 “(2) AREA REQUIREMENTS.—A nominated area
9 meets the requirements of this paragraph if—

10 “(A) the area is within the jurisdiction of
11 the local government;

12 “(B) the boundary of the area is continu-
13 ous; and

14 “(C) the area—

15 “(i) has a population, as determined
16 by the most recent census data available,
17 of not less than—

18 “(I) 4,000 if any portion of such
19 area (other than a rural area de-
20 scribed in subsection (a)(3)(C)(ii)) is
21 located within a metropolitan statis-
22 tical area (as designated by the Direc-
23 tor of the Office of Management and
24 Budget) with a population of 50,000
25 or more; or

1 “(II) 1,000 in any other case; or

2 “(ii) is entirely within an Indian res-
3 ervation (as determined by the Secretary of
4 the Interior).

5 “(3) ELIGIBILITY REQUIREMENTS.—For pur-
6 poses of paragraph (1), a nominated area meets the
7 requirements of this paragraph if the State or local
8 governments in which the nominated area is located
9 certifies, and the Secretary of Housing and Urban
10 Development accepts such certification, that—

11 “(A) the area is one of pervasive poverty,
12 unemployment and general distress;

13 “(B) the unemployment rate for the area,
14 as determined by the appropriate available
15 data, was not less than 1.5 times the national
16 unemployment rate for the period;

17 “(C) the poverty rate (as determined by
18 the most recent census data available) for each
19 populous census tract (or where not tracted, the
20 equivalent county division as defined by the Bu-
21 reau of the Census for the purpose of defining
22 poverty areas) within the area was not less than
23 1.5 times the national poverty rate for the pe-
24 riod to which such data relate; and

1 “(D) the area meets at least one of the fol-
2 lowing criteria:

3 “(i) Not less than 70 percent of the
4 households living in the area have incomes
5 below 80 percent of the median income of
6 households of the local government (deter-
7 mined in the same manner as under sec-
8 tion 119(b)(2) of the Housing and Com-
9 munity Development Act of 1974).

10 “(ii) The population of the area de-
11 creased by 20 percent or more between
12 1970 and 1980 (as determined from the
13 most recent census available).

14 “(4) ELIGIBILITY REQUIREMENTS FOR RURAL
15 AREAS.—For purposes of paragraph (1), a nomi-
16 nated area that is a rural area described in sub-
17 section (a)(3)(C)(ii) meets the requirements of para-
18 graph (3) if the State and local governments in
19 which it is located certify and the Secretary, after
20 such review of supporting data as he deems appro-
21 priate, accepts such certification, that the area
22 meets—

23 “(A) the criteria set forth in subpara-
24 graphs (A) and (B) of paragraph (3); and

1 “(B) not less than one of the criteria set
2 forth in the other subparagraphs of paragraph
3 (3).

4 “(d) REQUIRED STATE AND LOCAL COMMIT-
5 MENTS.—

6 “(1) IN GENERAL.—No nominated area shall be
7 designated as an enterprise zone unless the State
8 and the local government or governments of the ju-
9 risdictions in which the nominated area is located
10 agree in writing that, during any period during
11 which the nominated area is an enterprise zone, such
12 governments will follow a specified course of action
13 designed to reduce the various burdens borne by em-
14 ployers or employees in such area.

15 “(2) COURSE OF ACTION.—The course of action
16 under paragraph (1) may include, but is not limited
17 to—

18 “(A) the reduction or elimination of tax
19 rates or fees applying within the enterprise
20 zone,

21 “(B) actions to reduce, remove, simplify,
22 or streamline governmental requirements apply-
23 ing within the enterprise zone,

24 “(C) an increase in the level or efficiency
25 of local services within the enterprise zone, for

1 example, crime prevention, and drug enforce-
2 ment prevention and treatment,

3 “(D) involvement in the program by pri-
4 vate entities, organizations, neighborhood asso-
5 ciations, and community groups, particularly
6 those within the nominated area, including a
7 commitment from such private entities to pro-
8 vide jobs and job training for, and technical, fi-
9 nancial or other assistance to, employers, em-
10 ployees, and residents of the nominated area,

11 “(E) mechanisms to increase equity owner-
12 ship by residents and employees within the en-
13 terprise zone,

14 “(F) donation (or sale below market value)
15 of land and buildings to benefit low and mod-
16 erate income people,

17 “(G) linkages to—

18 “(i) job training,

19 “(ii) transportation,

20 “(iii) education,

21 “(iv) day care,

22 “(v) health care, and

23 “(vi) other social service support,

24 “(H) provision of supporting public facili-
25 ties, and infrastructure improvements,

1 “(I) encouragement of local entrepreneur-
2 ship; and

3 “(J) other factors determined essential to
4 support enterprise zone activities and encourage
5 livability or quality of life.

6 “(3) LATER MODIFICATION OF A COURSE OF
7 ACTION.—The Secretary of Housing and Urban De-
8 velopment may by regulation prescribe procedures to
9 permit or require a course of action to be updated
10 or modified during the time that a designation is in
11 effect.

12 “(e) PRIORITY OF DESIGNATION.—In choosing nomi-
13 nated areas for designation, the Secretary of Housing and
14 Urban Development shall give preference to the nominated
15 areas—

16 “(1) with respect to which the strongest and
17 highest quality contributions have been promised as
18 part of the course of action, taking into consider-
19 ation the fiscal ability of the nominating State and
20 local governments to provide tax relief,

21 “(2) with respect to which the nominating State
22 and local governments have provided the most effec-
23 tive and enforceable guarantees that the proposed
24 course of action will actually be carried out during
25 the period of the enterprise zone designation,

1 “(3) with respect to which private entities have
2 made the most substantial commitments in addi-
3 tional resources and contributions, including the cre-
4 ation of new or expanded business activities, and

5 “(4) which best exhibit such other factors deter-
6 mined by the Secretary of Housing and Urban De-
7 velopment, including relative distress, as are consist-
8 ent with the intent of the enterprise zone program
9 and have the greatest likelihood of success.

10 “(f) GEOGRAPHIC DISTRIBUTION.—In making des-
11 ignations, the Secretary of Housing and Urban Develop-
12 ment will take into consideration a reasonable geographic
13 distribution of enterprise zones.

14 “(g) DEFINITIONS.—For the purposes of this title—

15 “(1) GOVERNMENTS.—If more than one govern-
16 ment seeks to nominate an area as an enterprise
17 zone, any reference to, or requirement of, this sec-
18 tion shall apply to all such governments.

19 “(2) STATE.—The term ‘State’ shall also in-
20 clude the Commonwealth of Puerto Rico, the Virgin
21 Islands, Guam, American Samoa, the Common-
22 wealth of the Northern Mariana Islands, and any
23 other possession of the United States.

24 “(3) LOCAL GOVERNMENT.—The term ‘local
25 government’ means—

1 “(A) any county, city, town, township, par-
2 ish, village, or other general purpose political
3 subdivision of a State,

4 “(B) any combination of political subdivi-
5 sions described in subparagraph (A) recognized
6 by the Secretary of Housing and Urban Devel-
7 opment, and

8 “(C) the District of Columbia.

9 “(h) CROSS REFERENCES FOR—

“(1) definitions, see section 1391,

“(2) treatment of employees in enterprise zones,
 see section 1392, and

“(3) treatment of investments in enterprise zones,
 see sections 1393 and 1394.”.

10 (b) CLERICAL AMENDMENT.—The table of sub-
11 chapters for chapter 80 is amended by adding at the end
12 thereof the following new item:

 “SUBCHAPTER D. Designation of enterprise zones.”.

13 **SEC. 702. REPORTING REQUIREMENTS.**

14 Not later than the close of the second calendar year
15 after the calendar year in which the Secretary of Housing
16 and Urban Development first designates areas as enter-
17 prise zones, and at the close of each second calendar year
18 thereafter, the Secretary of Housing and Urban Develop-
19 ment shall submit to the Congress a report on the effects
20 of such designation in accomplishing the purposes of this
21 title.

1 **SEC. 703. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

2 (a) COORDINATION WITH RELOCATION ASSIST-
3 ANCE.—The designation of an enterprise zone under sec-
4 tion 7880 of the Internal Revenue Code of 1986 (as added
5 by this title) shall not—

6 (1) constitute approval of a Federal or federally
7 assisted program or project (within the meaning of
8 the Uniform Relocation Assistance and Real Prop-
9 erty Acquisition Policies Act of 1970 (42 U.S.C.
10 4601)); or

11 (2) entitle any person displaced from real prop-
12 erty located in such zone to any rights or any bene-
13 fits under such title.

14 (b) COORDINATION WITH ENVIRONMENTAL POL-
15 ICY.—Designation of an enterprise zone under section
16 7880 of the Internal Revenue Code of 1986 shall not con-
17 stitute a Federal action for purposes of applying the pro-
18 cedural requirements of the National Environmental Pol-
19 icy Act of 1969 (42 U.S.C. 4341) or other provisions of
20 Federal law relating to the protection of the environment.

1 **Subtitle B—Federal Income Tax**
2 **Incentives**

3 **SEC. 711. DEFINITIONS AND REGULATIONS; EMPLOYEE**
4 **CREDIT; CAPITAL GAIN EXCLUSION; STOCK**
5 **EXPENSING.**

6 (a) GENERAL RULE.—Chapter 1 (relating to normal
7 tax and surtax rules) is amended by inserting after sub-
8 chapter T the following new subchapter:

9 **“Subchapter U—Enterprise Zones**

 “Sec. 1391. Definitions and regulatory authority.
 “Sec. 1392. Credit for enterprise zone employees.
 “Sec. 1393. Enterprise zone capital gain.
 “Sec. 1394. Enterprise zone stock.

10 **“SEC. 1391. DEFINITIONS AND REGULATORY AUTHORITY.**

11 “(a) ENTERPRISE ZONE.—

12 “(1) IN GENERAL.—For purposes of this sub-
13 chapter, the term ‘enterprise zone’ means any area
14 which the Secretary of Housing and Urban Develop-
15 ment designates pursuant to section 7880(a) as a
16 Federal enterprise zone for purposes of this title.

17 “(2) TERMINATION OF ENTERPRISE ZONE.—An
18 area will cease to constitute an enterprise zone once
19 its designation as such terminates or is revoked
20 under section 7880(b).

21 “(b) ENTERPRISE ZONE BUSINESS.—

22 “(1) IN GENERAL.—For purposes of this sub-
23 chapter, the term ‘enterprise zone business’ means

1 an activity constituting the active conduct of a trade
2 or business within an enterprise zone, and with re-
3 spect to which—

4 “(A) at least 80 percent of the gross in-
5 come in each calendar year is attributable to
6 the active conduct of a trade or business within
7 an enterprise zone,

8 “(B) less than 10 percent of the property
9 (as measured by unadjusted basis) constitutes
10 stocks, securities, or property held for use by
11 customers,

12 “(C) less than 10 percent of the property
13 constitutes collectibles (as defined in section
14 408(m)(2)), unless such collectibles constitute
15 property held primarily for sale to customers in
16 the ordinary course of the active trade or
17 business,

18 “(D) substantially all of the property
19 (whether owned or leased) is located within an
20 enterprise zone, and

21 “(E) substantially all of the employees
22 work within an enterprise zone.

23 “(2) RELATED ACTIVITIES TAKEN INTO AC-
24 COUNT.—Except as otherwise provided in regula-
25 tions, all activities conducted by a taxpayer and per-

1 sons related to the taxpayer shall be treated as one
2 activity for purposes of paragraph (1).

3 “(3) SPECIAL RULES.—

4 “(A) RENTAL REAL PROPERTY.—For pur-
5 poses of paragraph (1), real property located
6 within an enterprise zone and held for use by
7 customers other than related persons shall be
8 treated as the active conduct of a trade or busi-
9 ness for purposes of paragraph (1)(A) and as
10 not subject to paragraph (1)(B).

11 “(B) TERMINATION OF ENTERPRISE ZONE
12 BUSINESS.—An activity shall cease to be an en-
13 terprise zone business if—

14 “(i) the designation of the enterprise
15 zone in which the activity is conducted ter-
16 minates or is revoked pursuant to section
17 7880(b);

18 “(ii) more than 50 percent (by value)
19 of the activity’s property or services are
20 obtained from related persons other than
21 enterprise zone businesses; or

22 “(iii) more than 50 percent of the ac-
23 tivity’s gross income is attributable to
24 property or services provided to related

1 persons other than enterprise zone busi-
2 nesses.

3 “(c) ENTERPRISE ZONE PROPERTY.—

4 “(1) IN GENERAL.—For purposes of this sub-
5 chapter, the term ‘enterprise zone property’ means
6 any property used in the active conduct of an enter-
7 prise zone business.

8 “(2) TERMINATION OF ENTERPRISE ZONE.—

9 The treatment of property as enterprise zone prop-
10 erty under subparagraph (A) shall not terminate
11 upon the termination or revocation of the designa-
12 tion of the enterprise zone in which the property is
13 located, but instead shall terminate immediately
14 after the first sale or exchange of such property oc-
15 ccurring after the expiration or revocation.

16 “(d) RELATED PERSONS.—For purposes of this sub-
17 chapter, a person shall be treated as related to another
18 person if—

19 “(1) the relationship of such persons is de-
20 scribed in section 267(b) or 707(b)(1), or

21 “(2) such persons are engaged in trades or
22 businesses under common control (within the mean-
23 ing of subsections (a) and (b) of section 52).

1 For purposes of paragraph (1), in applying section 267(b)
2 or 707(b)(1), ‘33 percent’ shall be substituted for ‘50 per-
3 cent’.

4 “(e) REGULATORY AUTHORITY.—The Secretary shall
5 prescribe such regulations as may be necessary or appro-
6 priate to carry out the purposes of title VI of the Family
7 and Economic Recovery Act, including—

8 “(1) providing that Federal tax relief is un-
9 available to an activity that does not stimulate em-
10 ployment in, or revitalization of, enterprise zones,

11 “(2) providing for appropriate coordination with
12 other Federal programs that, in combination, might
13 enable activity within enterprise zones to be more
14 than 100 percent subsidized by the Federal govern-
15 ment, and

16 “(3) preventing the avoidance of the rules in
17 this subchapter.

18 **“SEC. 1392. CREDIT FOR ENTERPRISE ZONE EMPLOYEES.**

19 “(a) GENERAL RULE.—In the case of a taxpayer who
20 is an enterprise zone employee, there shall be allowed as
21 a credit against the tax imposed by this subtitle for the
22 taxable year an amount equal to 5 percent of so much
23 of the qualified wages of the taxpayer for the taxable year
24 as does not exceed \$10,500.

25 “(b) DEFINITIONS.—For purposes of this section—

1 “(1) ENTERPRISE ZONE EMPLOYEE.—The term
2 ‘enterprise zone employee’ means an individual—

3 “(A) performing services during the tax-
4 able year that are directly related to the con-
5 duct of an enterprise zone business,

6 “(B) substantially all of the services de-
7 scribed in paragraph (1)(A) are performed
8 within an enterprise zone, and

9 “(C) the employer for whom the services
10 described in paragraph (1)(A) are performed is
11 not the Federal government, any State govern-
12 ment or subdivision thereof, or any local gov-
13 ernment.

14 “(2) WAGES.—The term ‘wages’ has the mean-
15 ing given to such term by subsection (b) of section
16 3306 (determined without regard to any dollar limi-
17 tation contained in such subsection).

18 “(3) QUALIFIED WAGES.—The term ‘qualified
19 wages’ means all wages of the taxpayer, to the ex-
20 tent attributable to services described in paragraph
21 (1).

22 “(c) LIMITATIONS.—

23 “(1) PHASE-OUT OF CREDIT.—The amount of
24 the credit allowable to a taxpayer under subsection

1 (a) for any taxable year shall not exceed the excess
2 (if any) of—

3 “(A) \$525, over

4 “(B) 10.5 percent of so much of the tax-
5 payer’s total wages (whether or not constituting
6 qualified wages) as exceeds \$20,000.

7 “(2) PARTIAL TAXABLE YEAR.—If designation
8 of an area as an enterprise zone occurs, expires, or
9 is revoked pursuant to section 7880 on a date other
10 than the first or last day of the taxable year of the
11 taxpayer, or in the case of a short taxable year, the
12 limitations specified in subsection (c)(1) shall be ad-
13 justed on a pro rata basis (based upon the number
14 of days).

15 “(d) REDUCTION OF CREDIT TO TAXPAYERS SUB-
16 JECT TO ALTERNATIVE MINIMUM TAX.—The credit al-
17 lowed under this section for the taxable year shall be re-
18 duced by the amount (if any) of tax imposed by section
19 55 (relating to the alternative minimum tax) with respect
20 to such taxpayer for such year.

21 “(e) CREDIT TREATED AS SUBPART C CREDIT.—For
22 purposes of this title, the credit allowed under subsection
23 (a) shall be treated as a credit allowed under subpart C
24 of part IV of subchapter A of this chapter.

1 **“SEC. 1393. ENTERPRISE ZONE CAPITAL GAIN.**

2 “(a) GENERAL RULE.—Gross income does not in-
3 clude the amount of any gain constituting enterprise zone
4 capital gain.

5 “(b) DEFINITION.—For purposes of this section—

6 “(1) IN GENERAL.—The term ‘enterprise zone
7 capital gain’ means gain—

8 “(A) treated as long-term capital gain,

9 “(B) allocable in accordance with the rules
10 under subsection (b)(5) of section 338 to the
11 sale or exchange of enterprise zone property,
12 and

13 “(C) properly attributable to periods of use
14 in an enterprise zone business.

15 “(2) LIMITATIONS.—Enterprise zone capital
16 gain does not include any gain attributable to—

17 “(A) the sale or exchange of property not
18 constituting enterprise zone property with re-
19 spect to the taxpayer throughout the period of
20 twenty-four full calendar months immediately
21 preceding the sale or exchange,

22 “(B) any collectibles (as defined in section
23 408(m)), or

24 “(C) sales or exchanges to persons con-
25 trolled by the same interests.

1 “(c) BASIS.—Amounts excluded from gross income
2 pursuant to subsection (a) shall not be applied in reduc-
3 tion to the basis of any property held by the taxpayer.

4 **“SEC. 1394. ENTERPRISE ZONE STOCK.**

5 “(a) GENERAL RULE.—At the election of any individ-
6 ual, the aggregate amount paid by such taxpayer during
7 the taxable year for the purchase of enterprise zone stock
8 on the original issue of such stock by a qualified issuer
9 shall be allowed as a deduction.

10 “(b) LIMITATIONS.—

11 “(1) CEILING.—The maximum amount allowed
12 as a deduction under subsection (a) to a taxpayer
13 shall not exceed \$100,000 for any taxable year, nor
14 \$500,000 during the taxpayer’s lifetime.

15 “(A) EXCESS AMOUNTS.—If the amount
16 otherwise deductible by any person under sub-
17 section (a) exceeds the limitation under this
18 paragraph (1)—

19 “(i) the amount of such excess shall
20 be treated as an amount paid in the next
21 taxable year, and

22 “(ii) the deduction allowed for any
23 taxable year shall be allocated among the
24 enterprise zone stock purchased by such

1 person in accordance with the purchase
2 price per share.

3 “(2) RELATED PERSON.—

4 “(A) IN GENERAL.—The taxpayer and all
5 individuals related to the taxpayer shall be
6 treated as one person for purposes of the limi-
7 tations described in subsection (b)(1).

8 “(B) EXCESS AMOUNTS.—The limitations
9 described in subsection (b)(1) shall be allocated
10 among the taxpayer and related persons in ac-
11 cordance with their respective purchases of en-
12 terprise zone stock.

13 “(3) PARTIAL TAXABLE YEAR.—If designation
14 of an area as an enterprise zone occurs, expires, or
15 is revoked pursuant to section 7880 on a date other
16 than the first or last day of the taxable year of the
17 taxpayer, or in the case of a short taxable year, the
18 limitations specified in subsection (b)(1) shall be ad-
19 justed on a pro rata basis (based upon the number
20 of days).

21 “(c) DISPOSITIONS OF STOCK.—

22 “(1) GAIN TREATED AS ORDINARY INCOME.—
23 Except as otherwise provided in regulations, if a tax-
24 payer disposes of any enterprise zone stock with re-
25 spect to which a deduction was allowed under sub-

1 section (a), the amount realized upon such disposi-
2 tion shall be treated as ordinary income and recog-
3 nized notwithstanding any other provision of this
4 subtitle.

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

7 “(A) IN GENERAL.—If a taxpayer disposes
8 of any enterprise zone stock before the end of
9 the 5-year period beginning on the date such
10 stock was purchased by the taxpayer, the tax
11 imposed by this chapter for the taxable year in
12 which such disposition occurs shall be increased
13 by the amount determined under subparagraph
14 (B).

15 “(B) ADDITIONAL AMOUNT.—For purposes
16 of subparagraph (A), the additional amount
17 shall be equal to the amount of interest (deter-
18 mined at the rate applicable under section
19 6621(a)(2)) that would accrue—

20 “(i) during the period beginning on
21 the date the stock was purchased by the
22 taxpayer and ending on the date such
23 stock was disposed of by the taxpayer,

24 “(ii) on an amount equal to the aggre-
25 gate decrease in tax of the taxpayer result-

1 ing from the deduction allowed under this
2 subsection (a) with respect to the stock so
3 disposed of.

4 “(d) DISQUALIFICATION.—

5 “(1) ISSUER OR STOCK CEASES TO QUALIFY.—

6 If a taxpayer elects the deduction under subsection
7 (a) with respect to enterprise zone stock, and ei-
8 ther—

9 “(A) the issuer with respect to which the
10 election was made ceases to be a qualified is-
11 suer, or

12 “(B) the proceeds from the issuance of the
13 taxpayer’s enterprise zone stock fail or other-
14 wise cease to be invested by the issuer in enter-
15 prise zone property, then, notwithstanding any
16 provision of this subtitle other than paragraph
17 (2) to the contrary, the taxpayer shall recognize
18 as ordinary income the amount of the deduction
19 allowed under subsection (a) with respect to the
20 issuer’s enterprise zone stock.

21 “(2) SPECIAL RULES.—

22 “(A) LIQUIDATION.—Where enterprise
23 zone property acquired with proceeds from the
24 issuance of enterprise zone stock is sold or ex-
25 changed pursuant to a plan of complete liquida-

1 tion, the treatment described in paragraph (1)
2 shall be inapplicable.

3 “(B) TERMINATION OF ENTERPRISE
4 ZONE.—The treatment of an activity as an en-
5 terprise zone business shall not cease for pur-
6 poses of paragraph (1) solely by reason of the
7 termination or revocation of the designation of
8 the enterprise zone with respect to the activity.

9 “(C) PARTIAL DISQUALIFICATION.—Where
10 some, but not all, of the property acquired by
11 the issuer with the proceeds of enterprise zone
12 stock ceases to constitute enterprise zone prop-
13 erty, the treatment described in paragraph (1)
14 shall be modified as follows—

15 “(i) the total amount recognized as
16 ordinary income by all shareholders of the
17 issuer shall be limited to an amount of de-
18 duction allowed up to the unadjusted basis
19 of property ceasing to constitute enterprise
20 zone property,

21 “(ii) the amount recognized shall be
22 allocated among enterprise zone stock with
23 respect to which the election in subsection
24 (a) was made in the reverse order in which
25 such stock was issued, and

1 “(iii) the amount recognized shall be
2 apportioned among taxpayers having made
3 the election in subsection (a) in the ratios
4 in which the stock described in paragraph
5 (2)(C)(ii) was purchased.

6 “(3) ADDITIONAL AMOUNT.—If income is rec-
7 ognized pursuant to paragraph (1) at any time be-
8 fore the close of the 5th calendar year ending after
9 the date the enterprise zone stock was purchased,
10 the tax imposed by this chapter with respect to such
11 income shall be increased by an amount equal to the
12 amount of interest (determined at the rate applica-
13 ble under section 6621(a)(2)) that would accrue—

14 “(A) during the period beginning on the
15 date the stock was purchased by the taxpayer
16 and ending on the date of the disqualification
17 event described in paragraph (1),

18 “(B) on an amount equal to the aggregate
19 decrease in tax of the taxpayer resulting from
20 the deduction allowed under this subsection (a)
21 with respect to the stock so disqualified.

22 “(e) DEFINITIONS.—For purposes of this section—

23 “(1) ENTERPRISE ZONE STOCK.—The term ‘en-
24 terprise zone stock’ means common stock issued by
25 a qualified issuer, but only to the extent that the

1 amount of proceeds of such issuance are used by
2 such issuer no later than twelve months followed is-
3 suance to acquire and maintain an equal amount of
4 newly acquired enterprise zone property.

5 “(2) QUALIFIED ISSUER.—

6 “(A) IN GENERAL.—The term ‘qualified is-
7 suer’ means any subchapter C corporation
8 which—

9 “(i) does not have more than one
10 class of stock,

11 “(ii) is engaged solely in the conduct
12 of one or more enterprise zone businesses,

13 “(iii) does not own or lease more than
14 \$50,000,000 of total property (including
15 money), as measured by the unadjusted
16 basis of the property, and

17 “(iv) more than 20 percent of the
18 total voting power and 20 percent of the
19 total value of the stock of such corporation
20 is owned by individuals, partnerships, es-
21 tates or trusts.

22 “(B) LIMITATION ON TOTAL ISSUANCES.—

23 A qualified issuer may issue no more than an
24 aggregate of \$50,000,000 of enterprise zone
25 stock.

1 “(C) AGGREGATION.—For purposes of ap-
2 plying the limitations under paragraph (2), the
3 issuer and all related persons shall be treated
4 as one person.

5 “(3) AMOUNT PAID.—For purposes of sub-
6 section (a), the amount ‘paid’ by a taxpayer for any
7 taxable year shall not include the issuance of evi-
8 dences of indebtedness of the taxpayer (whether or
9 not such indebtedness is guaranteed by another per-
10 son), nor amounts paid by the taxpayer after the
11 close of the taxable year.

12 “(f) ISSUANCES IN EXCHANGE FOR PROPERTY.—If
13 enterprise zone stock is issued in exchange for property,
14 then notwithstanding any provision of subchapter C of this
15 chapter to the contrary—

16 “(1) the issuance shall be treated for purposes
17 of this subtitle as the sale of the property at its then
18 fair market value to the corporation, and a contribu-
19 tion to the corporation of the proceeds immediately
20 thereafter in exchange for the enterprise zone stock,
21 and

22 “(2) the issuer’s basis for the property shall be
23 equal to the fair market value of such property at
24 the time of issuance.

1 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
2 title, if a taxpayer elects the deduction under subsection
3 (a), the taxpayer’s basis (without regard to this sub-
4 section) for the enterprise zone stock with respect to such
5 election shall be reduced by the deduction allowed or allow-
6 able.

7 “(h) LIMITATIONS ON ASSESSMENT AND COLLEC-
8 TION.—If a taxpayer elects the deduction under subsection
9 (a) for any taxable year, then—

10 “(1) the period for assessment and collection of
11 any deficiency attributable to any part of the deduc-
12 tion shall not expire before one year following expi-
13 ration of such period of the qualified issuer that in-
14 cludes the circumstances giving rise to the defi-
15 ciency, and

16 “(2) such deficiency may be assessed before ex-
17 piration of the period described in paragraph (1)
18 notwithstanding any provisions of this subtitle to the
19 contrary.

20 “(i) CROSS REFERENCE.—

**“For treatment of the deduction under subsection
(a) for purposes of the alternative minimum tax, see
section 56.”.**

21 (b) TECHNICAL AMENDMENT.—Subsection (a) of
22 section 1016 (relating to adjustments to basis) is amended
23 by striking out “and” at the end of paragraph (23); by
24 striking out the period at the end of paragraph (24) and

1 inserting in lieu thereof “; and”; and by adding at the
2 end thereof the following new paragraph:

3 “(25) to the extent provided in section 1394(g),
4 in the case of stock with respect to which a deduc-
5 tion was allowed or allowable under section
6 1394(a).”.

7 (c) CLERICAL AMENDMENT.—The table of sub-
8 chapters for chapter 1 is amended by inserting after the
9 item relating to subchapter T the following new item:

“SUBCHAPTER U. Enterprise zones.”.

10 **SEC. 712. CORPORATE ALTERNATIVE MINIMUM TAX.**

11 Section 56(g)(4)(B) (relating to adjustments based
12 on adjusted current earnings of corporations) is amended
13 by adding the following new clause at the end thereof:

14 “(iii) EXCLUSION OF ENTERPRISE
15 ZONE CAPITAL GAIN.—Clause (i) shall not
16 apply in the case of any enterprise zone
17 capital gain (as defined in section
18 1393(b)), and such gain shall not be in-
19 cluded in income for purposes of comput-
20 ing alternative minimum taxable income.”

21 **SEC. 713. ADJUSTED GROSS INCOME DEFINED.**

22 Section 62(a) (relating to the definition of adjusted
23 gross income) is amended by inserting after paragraph
24 (13) the following new paragraph:

1 “(14) ENTERPRISE ZONE STOCK.—The deduc-
2 tion allowed by section 1394.”.

3 **SEC. 714. EFFECTIVE DATE.**

4 The amendments made by this subtitle shall apply to
5 taxable years ending after December 31, 1993.

6 **Subtitle C—Regulatory Flexibility**

7 **SEC. 721. DEFINITION OF SMALL ENTITIES IN ENTERPRISE**
8 **ZONE FOR PURPOSES OF ANALYSIS OF REGU-**
9 **LATORY FUNCTIONS.**

10 Section 601 of title 5, United States Code, is amend-
11 ed by—

12 (1) striking out “and” at the end of paragraph
13 (5); and

14 (2) striking out paragraph (6) and inserting in
15 lieu thereof the following:

16 “(6) the term ‘small entity’ means—

17 “(A) a small business, small organization,
18 or small governmental jurisdiction defined in
19 paragraphs (3), (4), and (5) of this section, re-
20 spectively; and

21 “(B) any qualified enterprise zone busi-
22 ness; any unit of government that nominated an
23 area which the Secretary of Housing and Urban
24 Development designates as an enterprise zone
25 (within the meaning of section 7880 of the In-

1 ternal Revenue Code of 1986) that has a rule
2 pertaining to the carrying out of any project,
3 activity, or undertaking within such zone; and
4 any not-for-profit enterprise carrying out a sig-
5 nificant portion of its activities within such a
6 zone; and

7 “(7) the term ‘qualified enterprise zone busi-
8 ness’ means any person, corporation, or other en-
9 tity—

10 “(A) which is engaged in the active con-
11 duct of a trade or business within an enterprise
12 zone (within the meaning of section 7880 of the
13 Internal Revenue Code of 1986); and

14 “(B) for whom at least 50 percent of its
15 employees are qualified employees (within the
16 meaning of section 1392(b)(1) of such Code).”

17 **SEC. 722. WAIVER OR MODIFICATION OF AGENCY RULES IN**
18 **ENTERPRISE ZONES.**

19 (a) Chapter 6 of title 5, United States Code, is
20 amended by redesignating sections 611 and 612 as sec-
21 tions 612 and 613, respectively, and inserting the follow-
22 ing new section immediately after section 610:

1 **“§ 611. Waiver or modification of agency rules in en-**
2 **terprise zones**

3 “(a) Upon the written request of any government
4 which nominated an area that the Secretary of Housing
5 and Urban Development has designated as an enterprise
6 zone under section 7880 of the Internal Revenue Code of
7 1986, an agency is authorized, in order to further the job
8 creation, community development, or economic revitaliza-
9 tion objectives with respect to such zone, to waive or mod-
10 ify all or part of any rule which it has authority to promul-
11 gate, as such rule pertains to the carrying out of projects,
12 activities, or undertakings within such zone.

13 “(b) Nothing in this section shall authorize an agency
14 to waive or modify any rule adopted to carry out a statute
15 or Executive order which prohibits, or the purpose of
16 which is to protect persons against, discrimination on the
17 basis of race, color, religion, sex, familial status, national
18 origin, age, or handicap.

19 “(c) A request under subsection (a) shall specify the
20 rule or rules to be waived or modified and the change pro-
21 posed, and shall briefly describe why the change would
22 promote the achievement of the job creation, community
23 development, or economic revitalization objectives of the
24 enterprise zone. If such a request is made to any agency
25 other than the Department of Housing and Urban Devel-
26 opment, the requesting government shall send a copy of

1 the request to the Secretary of Housing and Urban Devel-
2 opment at the time the request is made.

3 “(d) In considering a request, the agency shall weigh
4 the extent to which the proposed change is likely to further
5 job creation, community development, or economic revital-
6 ization within the enterprise zone against the effect the
7 change is likely to have on the underlying purposes of ap-
8 plicable statutes in the geographic area which would be
9 affected by the change. The agency shall approve the re-
10 quest whenever it finds, in its discretion, that the public
11 interest which the proposed change would serve in further-
12 ing such job creation, community development, or eco-
13 nomic revitalization outweighs the public interest which
14 continuation of the rule unchanged would serve. The agen-
15 cy shall not approve any request to waive or modify a rule
16 if that waiver or modification would—

17 “(1) violate a statutory requirement (including
18 any requirements of the Fair Labor Standards Act
19 of 1938 (52 Stat. 1060; 29 U.S.C. 201 et seq.)); or

20 “(2) be likely to present a significant risk to the
21 public health, including environmental or occupa-
22 tional health or safety, or of environmental pollution.

23 “(e) If a request is disapproved, the agency shall in-
24 form all the requesting governments, and the Department
25 of Housing and Urban Development, in writing of the rea-

1 sons therefor and shall, to the maximum extent possible,
2 work with such governments to develop an alternative,
3 consistent with the standards contained in subsection (d).

4 “(f) Agencies shall discharge their responsibilities
5 under this section in an expeditious manner, and shall
6 make a determination on requests not later than 90 days
7 after their receipt.

8 “(g) A waiver or modification of a rule under sub-
9 section (a) shall not be considered to be a rule, rule-
10 making, or regulation under chapter 5 of this title. To fa-
11 cilitate reaching its decision on any requested waiver or
12 modification, the agency may seek the views of interested
13 parties and, if the views are to be sought, determine how
14 they should be obtained and to what extent, if any, they
15 should be taken into account in considering the request.
16 The agency shall publish a notice in the Federal Register
17 stating any waiver or modification of a rule under this
18 section, the time such waiver or modification takes effect
19 and its duration, and the scope of applicability of such
20 waiver or modification.

21 “(h) In the event that an agency proposes to amend
22 a rule for which a waiver or modification under this sec-
23 tion is in effect, the agency shall not change the waiver
24 or modification to impose additional requirements unless
25 it determines, consistent with standards contained in sub-

1 section (d), that such action is necessary. Such determina-
2 tions shall be published with the proposal to amend such
3 rule.

4 “(i) No waiver or modification of a rule under this
5 section shall remain in effect with respect to an enterprise
6 zone after the enterprise zone designation has expired or
7 has been revoked.

8 “(j) For purposes of this section, the term ‘rule’
9 means (1) any rule as defined in section 551(4) of this
10 title or (2) any rulemaking conducted on the record after
11 opportunity for an agency hearing pursuant to sections
12 556 and 557 of this title.”.

13 (b) The analysis for chapter 6 of title 5, United
14 States Code, is amended by redesignating the items relat-
15 ing to sections 611 and 612 as items relating to sections
16 612 and 613, respectively, and by inserting after the item
17 relating to section 610 the following new item:

“611. Waiver or modification of agency rules in enterprise
zones.”.

18 (c) Section 601(2) of such title 5 is amended by in-
19 serting “(except for purposes of section 611” immediately
20 before “means”.

21 (d) Section 613 of such title 5, as redesignated by
22 subsection (a), is amended—

23 (1) in subsection (a) by inserting “(except sec-
24 tion 611)” immediately after “chapter”; and

1 to the maximum extent possible, the processing of any ap-
2 plication involving the establishment of a foreign-trade
3 zone within an enterprise zone designated pursuant to sec-
4 tion 7880 of the Internal Revenue Code of 1986.

5 (b) APPLICATION PROCEDURE.—In processing appli-
6 cations for the establishment of ports of entry pursuant
7 to “An Act making appropriations for sundry civil ex-
8 penses of the Government for the fiscal year ending June
9 thirtieth, nineteen hundred and fifteen, and for other pur-
10 poses”, approved August 1, 1914 (38 Stat. 609), the Sec-
11 retary of the Treasury shall consider on a priority basis
12 and expedite, to the maximum extent possible, the process-
13 ing of any application involving the establishment of a port
14 of entry which is necessary to permit the establishment
15 of a foreign-trade zone within an enterprise zone so des-
16 igned.

17 (c) APPLICATION EVALUATION.—In evaluating appli-
18 cations for the establishment of foreign-trade zones and
19 ports of entry in connection with enterprise zones so des-
20 igned, the Foreign-Trade Zone Board and the Secretary
21 of the Treasury shall approve the applications, to the max-
22 imum extent practicable, consistent with their respective
23 statutory responsibilities.

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