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1ST SESSION

H. R. 850

To amend the Internal Revenue Code of 1986 to provide tax incentives
for the establishment of tax enterprise zones.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1993

Mr. MOAKLEY (for himself and Mr. STUDDS) introduced the following bill;
which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide
tax incentives for the establishment of tax enterprise zones.

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 “Tax Enterprise Zone Act of 1993”.

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

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

3 **SEC. 2. STATEMENT OF PURPOSE.**

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

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

11 (2) to promote meaningful employment for tax
 12 enterprise zone residents, and

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

15 **SEC. 3. DESIGNATION AND TREATMENT OF URBAN TAX**
 16 **ENTERPRISE ZONES AND RURAL DEVELOP-**
 17 **MENT INVESTMENT ZONES.**

18 (a) IN GENERAL.—Chapter 1 (relating to normal
 19 taxes and surtaxes) is amended by inserting after sub-
 20 chapter T the following new subchapter:

21 **“Subchapter U—Designation and Treatment**
 22 **of Tax Enterprise Zones**

“Part I. Designation of tax enterprise zones.

“Part II. Incentives for tax enterprise zones.

1 **“PART I—DESIGNATION OF TAX ENTERPRISE**

2 **ZONES**

 “Sec. 1391. Designation procedure.

 “Sec. 1392. Eligibility and selection criteria.

 “Sec. 1393. Definitions and special rules.

3 **“SEC. 1391. DESIGNATION PROCEDURE.**

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

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

10 “(2) designated by—

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

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

18 “(b) NUMBER OF DESIGNATIONS.—

19 “(1) AGGREGATE LIMIT.—The appropriate Sec-
20 retaries may designate in the aggregate 50 nomi-
21 nated areas as tax enterprise zones under this sec-
22 tion, subject to the availability of eligible nominated
23 areas. Not more than 25 urban tax enterprise zones

1 may be designated and not more than 25 rural de-
2 velopment investment zones may be designated.
3 Such designations may be made only during cal-
4 endar years after 1992 and before 1998.

5 “(2) ANNUAL LIMITS.—

6 “(A) URBAN TAX ENTERPRISE ZONES.—

7 The number of urban tax enterprise zones des-
8 igned under paragraph (1)—

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

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

11 and

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

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

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

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

19 and

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

21 “(3) ADVANCE DESIGNATIONS PERMITTED.—

22 For purposes of this subchapter, a designation dur-
23 ing any calendar year shall be treated as made on
24 January 1 of the following calendar year if the ap-
25 propriate Secretary, in making such designation,

1 specifies that such designation is effective as
2 of such January 1.

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

6 “(1) the local governments and the State in
7 which the nominated area is located have the au-
8 thority—

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

11 “(B) to provide assurances satisfactory to
12 the appropriate Secretary that the commit-
13 ments under section 1392(c) will be fulfilled,

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

19 “(3) the appropriate Secretary determines that
20 any information furnished is reasonably accurate,
21 and

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

1 “(d) PERIOD FOR WHICH DESIGNATION IS IN EF-
2 FECT.—

3 “(1) IN GENERAL.—Any designation of an area
4 as a tax 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 15th calendar
8 year following the calendar year in which such
9 date occurs,

10 “(B) the termination date designated by
11 the State and local governments as provided for
12 in their nomination, or

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

15 “(2) REVOCATION OF DESIGNATION.—

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

21 “(i) has modified the boundaries of
22 the area, or

23 “(ii) is not complying substantially
24 with the State and local commitments pur-
25 suant to section 1392(c).

1 “(B) APPLICABLE PROCEDURES.—A des-
2 ignation may be revoked by the appropriate
3 Secretary under subparagraph (A) only after a
4 hearing on the record involving officials of the
5 State or local government involved.

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

7 “(a) IN GENERAL.—The appropriate Secretary may
8 make a designation of any nominated area under section
9 1391 only on the basis of the eligibility and selection cri-
10 teria set forth in this section.

11 “(b) ELIGIBILITY CRITERIA.—

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

16 “(A) POPULATION.—The nominated area
17 has a population (as determined by the most re-
18 cent census data available) of not less than
19 4,000.

20 “(B) DISTRESS.—The nominated area is
21 one of pervasive poverty, unemployment, and
22 general distress. For purposes of determining
23 whether any area is an area of general distress,
24 the factors to be taken into account may in-
25 clude high crime rates, high vacancy rates, and

1 designation as a disaster area or high density
2 drug trafficking area.

3 “(C) SIZE.—The nominated area—

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

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

9 “(iii) is located entirely within 1
10 State.

11 “(D) UNEMPLOYMENT RATE.—The unem-
12 ployment rate (as determined by the appro-
13 priate available data) is not less than 1.5 times
14 the national unemployment rate.

15 “(E) POVERTY RATE.—The poverty rate
16 (as determined by the most recent census data
17 available) for not less than 90 percent of the
18 population census tracts (or where not tracted,
19 the equivalent county divisions as defined by
20 the Bureau of the Census for the purposes of
21 defining poverty areas) within the nominated
22 area is not less than 20 percent.

23 “(F) COURSE OF ACTION.—There has been
24 adopted for the nominated area a course of ac-

1 tion which meets the requirements of subsection
2 (c).

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

7 “(A) POPULATION.—The nominated area
8 has a population (as determined by the most re-
9 cent census data available) of not less than
10 1,000.

11 “(B) DISTRESS.—The nominated area is
12 one of general distress.

13 “(C) SIZE.—The nominated area—

14 “(i) does not exceed 10,000 square
15 miles,

16 “(ii) consists of areas within not more
17 than 4 contiguous counties,

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

21 “(iv) is located entirely within 1
22 State.

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

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

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

5 “(iii) JOB LOSS.—The amount of
6 wages attributable to employment in the
7 area, and subject to tax under section
8 3301 during the preceding calendar year,
9 is not more than 95 percent of such wages
10 during the 5th preceding calendar year.

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

16 “(E) COURSE OF ACTION.—There has been
17 adopted for the nominated area a course of ac-
18 tion which meets the requirements of subsection
19 (c).

20 “(c) REQUIRED STATE AND LOCAL COURSE OF AC-
21 TION.—

22 “(1) IN GENERAL.—No nominated area may be
23 designated as a tax enterprise zone unless the local
24 government and the State in which it is located
25 agree in writing that, during any period during

1 which the area is a tax enterprise zone, the govern-
2 ments will follow a specified course of action de-
3 signed to reduce the various burdens borne by em-
4 ployers or employees in the area.

5 “(2) COURSE OF ACTION.—The course of action
6 under paragraph (1) may be implemented by both
7 governments and private nongovernmental entities,
8 may not be funded from proceeds of any Federal
9 program (other than discretionary proceeds), and
10 may include—

11 “(A) a certification by the State insurance
12 commissioner (or similar State official) that
13 basic commercial property insurance of a type
14 comparable to that insurance generally in force
15 in urban or rural areas, whichever is applicable,
16 throughout the State is available to businesses
17 within the tax enterprise zone,

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

20 “(C) an increase in the level, or efficiency
21 of delivery, of local public services within the
22 tax enterprise zone,

23 “(D) actions to reduce, remove, simplify,
24 or streamline government paperwork require-
25 ments applicable within the tax enterprise zone,

1 “(E) the involvement in the program by
2 public authorities or private entities, organiza-
3 tions, neighborhood associations, and commu-
4 nity groups, particularly those within the nomi-
5 nated area, including a written commitment to
6 provide jobs and job training for, and technical,
7 financial, or other assistance to, employers, em-
8 ployees, and residents of the nominated area,

9 “(F) the giving of special preference to
10 contractors owned and operated by members of
11 any socially and economically disadvantaged
12 group (within the meaning of section 8(a) of
13 the Small Business Act (15 U.S.C. 637(a)),

14 “(G) the gift (or sale at below fair market
15 value) of surplus land in the tax enterprise zone
16 to neighborhood organizations agreeing to oper-
17 ate a business on the land,

18 “(H) the establishment of a program
19 under which employers within the tax enterprise
20 zone may purchase health insurance for their
21 employees on a pooled basis,

22 “(I) the establishment of a program to en-
23 courage local financial institutions to satisfy
24 their obligations under the Community Rein-
25 vestment Act of 1977 (12 U.S.C. 2901 et seq.)

1 by making loans to enterprise zone businesses,
2 with emphasis on startup and other small-busi-
3 ness concerns (as defined in section 3(a) of the
4 Small Business Act (15 U.S.C. 632(a)),

5 “(J) the giving of special preference to
6 qualified low-income housing projects located in
7 tax enterprise zones, in the allocation of the
8 State housing credit ceiling applicable under
9 section 42, and

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

14 “(3) RECOGNITION OF PAST EFFORTS.—In
15 evaluating courses of action agreed to by any State
16 or local government, the appropriate Secretary shall
17 take into account the past efforts of the State or
18 local government in reducing the various burdens
19 borne by employers and employees in the area in-
20 volved.

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

23 “(A) IN GENERAL.—The course of action
24 implemented under paragraph (1) may not in-

1 clude any action to assist any establishment in
2 relocating from one area to another area.

3 “(B) EXCEPTION.—The limitation estab-
4 lished in subparagraph (A) shall not be con-
5 strued to prohibit assistance for the expansion
6 of an existing business entity through the estab-
7 lishment of a new branch, affiliate, or subsidi-
8 ary if—

9 “(i) the establishment of the new
10 branch, affiliate, or subsidiary will not re-
11 sult in an increase in unemployment in the
12 area of original location or in any other
13 area where the existing business entity
14 conducts business operations, and

15 “(ii) there is no reason to believe that
16 the new branch, affiliate, or subsidiary is
17 being established with the intention of clos-
18 ing down the operations of the existing
19 business entity in the area of its original
20 location or in any other area where the ex-
21 isting business entity conducts business op-
22 erations.

23 “(d) SELECTION CRITERIA.—From among the nomi-
24 nated areas eligible for designation under subsection (b)
25 by the appropriate Secretary, such appropriate Secretary

1 shall make designations of tax enterprise zones on the
2 basis of the following factors (each of which is to be given
3 equal weight):

4 “(1) STATE AND LOCAL COMMITMENTS.—The
5 strength and quality of the commitments which have
6 been promised as part of the course of action rel-
7 ative to the fiscal ability of the nominating State
8 and local governments.

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

18 “(3) PRIVATE COMMITMENTS.—The level of
19 commitments by private entities of additional re-
20 sources and contributions to the economy of the
21 nominated area, including the creation of new or ex-
22 panded business activities.

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

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

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

7 “(5) REVITALIZATION POTENTIAL.—The poten-
8 tial for the revitalization of the nominated area as
9 a result of zone designation, taking into account
10 particularly the number of jobs to be created and re-
11 tained.

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

13 For purposes of this subchapter—

14 “(1) URBAN TAX ENTERPRISE ZONE.—The
15 term ‘urban tax enterprise zone’ means a tax enter-
16 prise zone which meets the requirements of section
17 1392(b)(1).

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

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

1 “(4) LOCAL GOVERNMENT.—The term ‘local
2 government’ means—

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

6 “(B) any combination of political subdivi-
7 sions described in subparagraph (A) recognized
8 by the appropriate Secretary.

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

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

16 “(A) outside of a metropolitan statistical
17 area (within the meaning of section
18 143(k)(2)(B)), or

19 “(B) determined by the Secretary of Agri-
20 culture, after consultation with the Secretary of
21 Commerce, to be a rural area.

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

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

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

11 “(3) COORDINATION WITH TARGETED JOBS
12 CREDIT.—The term ‘qualified zone wages’ shall not
13 include wages attributable to service rendered during
14 the 1-year period beginning with the day the individ-
15 ual begins work for the employer if any portion of
16 such wages is taken into account in determining the
17 credit under section 51.

18 “(c) QUALIFIED ZONE EMPLOYEE.—For purposes of
19 this section—

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

24 “(A) substantially all of the services per-
25 formed during such period by such employee for

1 such employer are performed within a tax en-
2 terprise zone in a trade or business of the em-
3 ployer, and

4 “(B) the principal place of abode of such
5 employee while performing such services is
6 within such tax enterprise zone.

7 “(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—
8 The term ‘qualified zone employee’ shall not in-
9 clude—

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

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

14 “(C) any individual employed by the em-
15 ployer at any facility described in section
16 144(c)(6)(B), and

17 “(D) any individual employed by the em-
18 ployer in a trade or business the principal activ-
19 ity of which is farming (within the meaning of
20 subparagraphs (A) or (B) of section
21 2032A(e)(5)), but only if, as of the close of the
22 taxable year, the sum of—

23 “(i) the aggregate unadjusted bases
24 (or, if greater, the fair market value) of

1 the assets owned by the employer which
2 are used in such a trade or business, and

3 “(ii) the aggregate value of assets
4 leased by the employer which are used in
5 such a trade or business (as determined
6 under regulations prescribed by the Sec-
7 retary),

8 exceeds \$500,000.

9 “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-
10 PLOYER.—

11 “(1) IN GENERAL.—If the employment of any
12 employee is terminated by the taxpayer before the
13 day 1 year after the day on which such employee
14 began work for the employer—

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

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

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

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

8 “(A) IN GENERAL.—Paragraph (1) shall
9 not apply to—

10 “(i) a termination of employment of
11 an employee who voluntarily leaves the em-
12 ployment of the taxpayer,

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

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

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

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

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

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

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

20 “(B) determining the amount of the tax
21 imposed by section 55.

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

23 “(a) WAGES.—For purposes of this subpart, the term
24 ‘wages’ has the same meaning as when used in section
25 51.

1 “(b) CONTROLLED GROUPS.—For purposes of this
2 subpart—

3 “(1) all employers treated as a single employer
4 under subsection (a) or (b) of section 52 shall be
5 treated as a single employer for purposes of this
6 subpart, and

7 “(2) the credit (if any) determined under sec-
8 tion 1394 with respect to each such employer shall
9 be its proportionate share of the wages giving rise
10 to such credit.

11 “(c) CERTAIN OTHER RULES MADE APPLICABLE.—
12 For purposes of this subpart, rules similar to the rules
13 of section 51(k) and subsections (c), (d), and (e) of section
14 52 shall apply.

15 “(d) NOTICE OF AVAILABILITY OF ADVANCE PAY-
16 MENT OF EARNED INCOME CREDIT.—Each employer
17 shall take reasonable steps to notify all qualified zone em-
18 ployees of the availability to eligible individuals of receiv-
19 ing advanced payments of the credit under section 32 (re-
20 lating to the earned income credit).

21 **“Subpart B—Investment Incentives**

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

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

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

“Sec. 1397B. Other incentives.

“Sec. 1397C. Enterprise zone business defined.

1 **“SEC. 1396. DEDUCTION FOR PURCHASE OF ENTERPRISE**
2 **ZONE STOCK.**

3 “(a) GENERAL RULE.—In the case of an individual,
4 there shall be allowed as a deduction an amount equal to
5 50 percent of the aggregate amount paid in cash by the
6 taxpayer during the taxable year for the purchase of enter-
7 prise zone stock.

8 “(b) LIMITATION.—

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

13 “(A) \$25,000, or

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

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

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

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

1 person on the basis of the respective purchase
2 prices per share.

3 “(3) AGGREGATION WITH FAMILY MEMBERS.—

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

12 “(c) ENTERPRISE ZONE STOCK.—For purposes of
13 this section—

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

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

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

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

22 “(A) IN GENERAL.—Such term shall in-
23 clude such stock only to the extent that the pro-
24 ceeds of such issuance are used by such issuer
25 during the 12-month period beginning on the

1 date of issuance to purchase (as defined in sec-
2 tion 179(d)(2)) qualified enterprise zone prop-
3 erty.

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

8 “(i) the original use of which in a tax
9 enterprise zone commences with the issuer,
10 and

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

13 “(3) REDEMPTIONS.—The term ‘enterprise
14 zone stock’ shall not include any stock acquired from
15 a corporation which made a substantial stock re-
16 demption or distribution (without a bona fide busi-
17 ness purpose therefor) in an attempt to avoid the
18 purposes of this section.

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

22 “(1) such corporation is an enterprise zone
23 business or, in the case of a new corporation, such
24 corporation is being organized for purposes of being
25 an enterprise zone business,

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

3 “(3) the sum of—

4 “(A) the money,

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

7 “(C) the value of property leased to the
8 corporation (as determined under regulations
9 prescribed by the Secretary),

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

11 “(4) more than 20 percent of the total voting
12 power, and 20 percent of the total value, of the
13 stock of such corporation is owned directly by indi-
14 viduals or estates or indirectly by individuals
15 through partnerships or trusts.

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

19 “(e) DISPOSITIONS OF STOCK.—

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

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

1 “(A) any stock the basis of which is re-
2 duced under paragraph (1) (and any other
3 property the basis of which is determined in
4 whole or in part by reference to the adjusted
5 basis of such stock) shall be treated as section
6 1245 property, and

7 “(B) any reduction under paragraph (1)
8 shall be treated as a deduction allowed for de-
9 preciation.

10 If an exchange of any stock described in paragraph
11 (1) qualifies under section 354(a), 355(a), or
12 356(a), the amount of gain recognized under section
13 1245 by reason of this paragraph shall not exceed
14 the amount of gain recognized in the exchange (de-
15 termined without regard to this paragraph).

16 “(3) CERTAIN EVENTS TREATED AS DISPOSI-
17 TIONS.—For purposes of determining the amount
18 treated as ordinary income under section 1245 by
19 reason of paragraph (2), paragraph (3) of section
20 1245(b) (relating to certain tax-free transactions)
21 shall not apply.

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

24 “(A) IN GENERAL.—If—

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

10 “(ii) section 1245(a) applies to such
11 disposition by reason of paragraph (2),
12 then the tax imposed by this chapter for the
13 taxable year in which such disposition occurs
14 shall be increased by the amount determined
15 under subparagraph (B).

16 “(B) ADDITIONAL AMOUNT.—For purposes
17 of subparagraph (A), the additional amount
18 shall be equal to the amount of interest (deter-
19 mined at the rate applicable under section
20 6621(a)(2)) that would accrue—

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

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

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

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

10 “(ii) determining the amount of the
11 tax imposed by section 55.

12 “(f) DISQUALIFICATION.—

13 “(1) ISSUER CEASES TO QUALIFY.—If, during
14 the 10-year period beginning on the date enterprise
15 zone stock was purchased by the taxpayer, the issuer
16 of such stock ceases to be a qualified enterprise zone
17 issuer (determined without regard to subsection
18 (d)(3)), then notwithstanding any provision of this
19 subtitle other than paragraph (2), the taxpayer shall
20 be treated for purposes of subsection (e) as dispos-
21 ing of such stock (and any other property the basis
22 of which is determined in whole or in part by ref-
23 erence to the adjusted basis of such stock) during
24 the taxable year during which such cessation occurs

1 at its fair market value as of the 1st day of such
2 taxable year.

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

9 “(g) OTHER SPECIAL RULES.—

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

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

19 **“SEC. 1397. 50 PERCENT EXCLUSION FOR GAIN FROM NEW**
20 **ZONE INVESTMENTS.**

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

1 “(b) QUALIFIED ZONE ASSET.—For purposes of this
2 section—

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

5 “(A) any qualified zone stock,

6 “(B) any qualified zone business property,

7 and

8 “(C) any qualified zone partnership inter-
9 est.

10 “(2) QUALIFIED ZONE STOCK.—

11 “(A) IN GENERAL.—Except as provided in
12 subparagraph (B), the term ‘qualified zone
13 stock’ means any stock in a domestic corpora-
14 tion if—

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

18 “(ii) as of the time such stock was is-
19 sued, such corporation was an enterprise
20 zone business (or, in the case of a new cor-
21 poration, such corporation was being orga-
22 nized for purposes of being an enterprise
23 zone business), and

24 “(iii) during substantially all of the
25 taxpayer’s holding period for such stock,

1 such corporation qualified as an enterprise
2 zone business.

3 “(B) EXCLUSION OF STOCK FOR WHICH
4 DEDUCTION UNDER SECTION 1396 ALLOWED.—
5 The term ‘qualified zone stock’ shall not include
6 any stock the basis of which is reduced under
7 section 1396(e)(1).

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

14 “(3) QUALIFIED ZONE BUSINESS PROPERTY.—

15 “(A) IN GENERAL.—The term ‘qualified
16 zone business property’ means tangible property
17 if—

18 “(i) such property was acquired by
19 the taxpayer by purchase (as defined in
20 section 179(d)(2)) after the date on which
21 the designation of the tax enterprise zone
22 took effect,

23 “(ii) the original use of such property
24 in a tax enterprise zone commences with
25 the taxpayer, and

1 “(iii) during substantially all of the
2 taxpayer’s holding period for such prop-
3 erty, substantially all of the use of such
4 property was in a tax enterprise zone and
5 in an enterprise zone business of the tax-
6 payer.

7 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
8 PROVEMENTS.—The requirements of clauses (i)
9 and (ii) of subparagraph (A) shall be treated as
10 satisfied with respect to—

11 “(i) property which is substantially
12 improved by the taxpayer, and

13 “(ii) any land on which such property
14 is located.

15 For purposes of the preceding sentence, prop-
16 erty shall be treated as substantially improved
17 by the taxpayer if, during any 24-month period
18 beginning after the date on which the designa-
19 tion of the tax enterprise zone took effect, addi-
20 tions to basis with respect to such property in
21 the hands of the taxpayer exceed the greater of
22 (i) an amount equal to the adjusted basis at the
23 beginning of such 24-month period in the hands
24 of the taxpayer, or (ii) \$5,000.

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

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

9 “(A) such interest is acquired by the tax-
10 payer from the partnership solely in exchange
11 for cash,

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

17 “(C) during substantially all of the tax-
18 payer’s holding period for such interest, such
19 partnership qualified as an enterprise zone
20 business.

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

23 “(5) TREATMENT OF SUBSEQUENT PUR-
24 CHASERS.—The term ‘qualified zone asset’ includes
25 any property which would be a qualified zone asset

1 but for paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in
2 the hands of the taxpayer if such property was a
3 qualified zone asset in the hands of any prior holder.

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

15 “(7) TREATMENT OF ZONE TERMINATIONS.—
16 The termination of any designation of an area as a
17 tax enterprise zone shall be disregarded for purposes
18 of determining whether any property is a qualified
19 zone asset.

20 “(c) OTHER DEFINITIONS AND SPECIAL RULES.—
21 For purposes of this section—

22 “(1) QUALIFIED CAPITAL GAIN.—Except as
23 otherwise provided in this subsection, the term
24 ‘qualified capital gain’ means any long-term capital
25 gain.

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

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

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

14 “(1) SALES AND EXCHANGES.—Gain on the
15 sale or exchange of an interest in a pass-thru entity
16 held by the taxpayer (other than an interest in an
17 entity which was an enterprise zone business during
18 substantially all of the period the taxpayer held such
19 interest) for more than 5 years shall be treated as
20 gain described in subsection (a) to the extent such
21 gain is attributable to amounts which would be
22 qualified capital gain on qualified zone assets (deter-
23 mined as if such assets had been sold on the date
24 of the sale or exchange) held by such entity for more
25 than 5 years and throughout the period the taxpayer

1 held such interest. A rule similar to the rule of para-
2 graph (2)(C) shall apply for purposes of the preced-
3 ing sentence.

4 “(2) INCOME INCLUSIONS.—

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

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

16 “(i) such amount is attributable to
17 qualified capital gain recognized on the
18 sale or exchange by the pass-thru entity of
19 property which is a qualified zone asset in
20 the hands of such entity and which was
21 held by such entity for the period required
22 under subsection (a), and

23 “(ii) such amount is includible in the
24 gross income of the taxpayer by reason of
25 the holding of an interest in such entity

1 which was held by the taxpayer on the date
2 on which such pass-thru entity acquired
3 such asset and at all times thereafter be-
4 fore the disposition of such asset by such
5 pass-thru entity.

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

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

17 “(A) any partnership,

18 “(B) any S corporation,

19 “(C) any regulated investment company,

20 and

21 “(D) any common trust fund.

22 “(e) SALES AND EXCHANGES OF INTERESTS IN
23 PARTNERSHIPS AND S CORPORATIONS WHICH ARE
24 QUALIFIED ZONE BUSINESSES.—In the case of the sale
25 or exchange of an interest in a partnership, or of stock

1 in an S corporation, which was an enterprise zone business
2 during substantially all of the period the taxpayer held
3 such interest or stock, the amount of qualified capital gain
4 shall be determined without regard to—

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

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

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

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

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

17 “(B) having held such asset during any
18 continuous period immediately preceding the
19 transfer during which it was held (or treated as
20 held under this subsection) by the transferor.

21 “(2) TRANSFERS TO WHICH SUBSECTION AP-
22 PLIES.—This subsection shall apply to any trans-
23 fer—

24 “(A) by gift,

25 “(B) at death, or

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

5 “(b) QUALIFIED ZONE ASSET.—For purposes of this
6 section—

7 “(1) IN GENERAL.—The term ‘qualified zone
8 asset’ has the meaning given such term by section
9 1397.

10 “(2) TIME FOR TESTING.—

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

15 “(B) PURCHASES.—In the case of a pur-
16 chase of property, the determination of whether
17 such property is a qualified zone asset shall be
18 made as of the time of such purchase.

19 “(c) OTHER DEFINITIONS.—For purposes of this
20 section—

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

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

3 “(d) BUSINESS OR PROPERTY CEASES TO QUAL-
4 IFY.—

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

14 “(2) LIMITATION ON GAIN RECOGNIZED.—The
15 amount of gain recognized pursuant to paragraph
16 (1) with respect to any asset shall not exceed the
17 lesser of—

18 “(A) the amount of gain which was not
19 recognized under subsection (a) by the reason
20 of the purchase of such asset, or

21 “(B) the excess of the fair market value
22 referred to in paragraph (1) over the adjusted
23 basis of such asset.

24 “(3) CESSATION OF ENTERPRISE ZONE STATUS
25 NOT TO CAUSE RECAPTURE.—An asset shall not fail

1 to be treated as a qualified zone asset for purposes
2 of paragraph (1) solely by reason of the termination
3 of a tax enterprise zone designation.

4 “(4) QUALIFIED ZONE REPLACEMENT ASSET.—
5 For purposes of paragraph (1), the term ‘qualified
6 zone replacement asset’ means any qualified zone
7 asset the purchase of which resulted in the non-
8 recognition of gain under subsection (a) with respect
9 to any other property.

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

16 “(f) COORDINATION WITH INSTALLMENT METHOD
17 REPORTING.—This section shall not apply to any gain
18 from any installment sale (as defined in section 453(b))
19 if section 453(a) applies to such sale.

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

23 “(1) the statutory period for the assessment of
24 any deficiency with respect to such gain shall not ex-
25 pire before the expiration of 3 years from the date

1 the Secretary is notified by the taxpayer (in such
2 manner as the Secretary may by regulations pre-
3 scribe) of—

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

6 “(B) the taxpayer’s intention not to pur-
7 chase qualified zone replacement asset within
8 the reinvestment period, or

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

11 “(2) such deficiency may be assessed before the
12 expiration of such 3-year period notwithstanding the
13 provisions of any law or rule of law which would oth-
14 erwise prevent such assessment.

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

16 “(a) INCREASE IN EXPENSING UNDER SECTION
17 179.—In the case of an enterprise zone business, section
18 179(b)(1) shall be applied by substituting ‘\$20,000’ for
19 ‘\$10,000’.

20 “(b) ORDINARY LOSS TREATMENT FOR CERTAIN
21 PROPERTY.—

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

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

5 “(3) SPECIAL RULES.—

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

9 “(i) Paragraphs (1), (2), and (3) of
10 section 1244(d).

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

13 “(B) COORDINATION WITH SECTION
14 1231.—Losses treated as ordinary losses by rea-
15 son of this subsection shall not be taken into
16 account in applying section 1231.

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

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

20 “(1) any qualified business entity, and

21 “(2) any qualified proprietorship.

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

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

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

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

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

13 “(4) substantially all of the services performed
14 for such entity by its employees are performed in a
15 tax enterprise zone,

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

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

24 “(7) less than 5 percent of the average of the
25 aggregate unadjusted bases of the property of such

1 entity is attributable to nonqualified financial prop-
2 erty.

3 “(c) QUALIFIED PROPRIETORSHIP.—For purposes of
4 this section, the term ‘qualified proprietorship’ means,
5 with respect to any taxable year, any qualified business
6 carried on by an individual as a proprietorship if for such
7 year—

8 “(1) at least 80 percent of the total gross in-
9 come of such individual from such business is de-
10 rived from the active conduct of such business in a
11 tax enterprise zone,

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

15 “(3) substantially all of the intangible property
16 of such business is used in, and exclusively related
17 to, the active conduct of such business,

18 “(4) substantially all of the services performed
19 for such individual in such business by employees of
20 such business are performed in a tax enterprise
21 zone,

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

24 “(6) less than 5 percent of the average of the
25 aggregate unadjusted bases of the property of such

1 individual which is used in such business is attrib-
2 utable to collectibles (as defined in section
3 408(m)(2)) other than collectibles that are held pri-
4 marily for sale to customers in the ordinary course
5 of such business, and

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

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

12 “(d) QUALIFIED BUSINESS.—For purposes of this
13 section—

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

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

21 “(A) in the case of real property which is
22 not residential rental property (as defined in
23 section 168(e)(2)), the lessee is an enterprise
24 zone business, or

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

3 “(i) such property was originally
4 placed in service after the date the tax en-
5 terprise zone was designated, or

6 “(ii) such property is rehabilitated
7 after such date in a rehabilitation which
8 meets requirements based on the principles
9 of section 42(e)(3).

10 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
11 PERTY.—The rental to others of tangible personal
12 property shall be treated as a qualified business if
13 and only if substantially all of the rental of such
14 property is by enterprise zone businesses or by resi-
15 dents of a tax enterprise zone.

16 “(4) TREATMENT OF BUSINESS HOLDING IN-
17 TANGIBLES.—The term ‘qualified business’ shall not
18 include any trade or business consisting predomi-
19 nantly of the development or holding of intangibles
20 for sale or license.

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

23 “(A) any trade or business consisting of
24 the operation of any facility described in section
25 144(c)(6)(B), and

1 “(B) any trade or business the principal
2 activity of which is farming (within the meaning
3 of subparagraphs (A) or (B) of section
4 2032A(e)(5)), but only if, as of the close of the
5 preceding taxable year, the sum of—

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

10 “(ii) the aggregate value of assets
11 leased by the taxpayer which are used in
12 such a trade or business,

13 exceeds \$500,000.

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

16 “(e) NONQUALIFIED FINANCIAL PROPERTY.—For
17 purposes of this section, the term ‘nonqualified financial
18 property’ means debt, stock, partnership interests, op-
19 tions, futures contracts, forward contracts, warrants, no-
20 tional principal contracts, annuities, and other similar
21 property specified in regulations; except that such term
22 shall not include—

23 “(1) reasonable amounts of working capital
24 held in cash, cash equivalents, or debt instruments
25 with a term of 18 months or less, or

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

3 **“Subpart C—Regulations**

 “Sec. 1397C. Regulations.

4 **“SEC. 1397C. REGULATIONS.**

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

8 “(1) regulations limiting the benefit of this part
9 in circumstances where such benefits, in combination
10 with benefits provided under other Federal pro-
11 grams, would result in an activity being 100 percent
12 or more subsidized by the Federal Government,

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

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

17 (b) CLERICAL AMENDMENT.—The table of sub-
18 chapters for chapter 1 is amended by inserting after the
19 item relating to subchapter T the following new item:

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

1 **SEC. 4. SPECIAL RULES FOR REDEVELOPMENT BONDS**
2 **PROVIDING FINANCING FOR TAX ENTER-**
3 **PRISE ZONES.**

4 (a) IN GENERAL.—Subsection (c) of section 144 (re-
5 lating to qualified redevelopment bonds) is amended by
6 adding at the end thereof the following new paragraph:

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

12 “(A) TREATMENT AS DESIGNATED
13 BLIGHTED AREA.—Such tax enterprise zone
14 shall be treated as a designated blighted area
15 during such 60-month period (or, if shorter, the
16 period such designation is in effect). Any area
17 designated by reason of the preceding sentence
18 shall not be taken into account in applying
19 paragraph (4)(C).

20 “(B) SECURITY FOR BONDS.—The require-
21 ments of paragraph (2)(B) shall be treated as
22 met with respect to a financed area that is
23 within a tax enterprise zone if the general pur-
24 pose governmental unit guarantees the payment
25 of principal and interest on the issue either di-
26 rectly or through insurance, a letter of credit,

1 or a similar agreement but only if the cost
2 thereof is financed other than with proceeds of
3 any tax-exempt private activity bond or earn-
4 ings on such proceeds.

5 “(C) EXPANSION OF REDEVELOPMENT
6 PURPOSES.—

7 “(i) IN GENERAL.—The term ‘redevelop-
8 opment purposes’ includes the making of
9 loans to any enterprise zone business (as
10 defined in section 1397B) for—

11 “(I) the acquisition of land with-
12 in the tax enterprise zone for use in
13 such business, or

14 “(II) the acquisition, construc-
15 tion, reconstruction, or improvement
16 by such business of land, or property
17 of a character subject to the allowance
18 for depreciation, for use in such busi-
19 ness.

20 “(ii) \$2,500,000 LIMITATION.—Clause
21 (i) shall apply to loans made to any enter-
22 prise zone business only if the aggregate
23 principal amount of such loans (whether or
24 not financed by the same issue) does not
25 exceed \$2,500,000. For purposes of the

1 preceding sentence, all persons treated as a
2 single employer under subsection (a) or (b)
3 of section 52 shall be treated as 1 person.

4 “(iii) LOANS MUST BE MADE WITHIN
5 18 MONTHS AFTER BONDS ISSUED; REPAY-
6 MENTS MUST BE USED FOR REDEMP-
7 TIONS.—Clause (i) shall apply only to
8 loans—

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

12 “(II) repayments of principal on
13 which are used not later than the
14 close of the 1st semiannual period be-
15 ginning after the date the repayment
16 is received to redeem bonds which are
17 part of such issue, and

18 “(III) the effective rate of inter-
19 est on which does not exceed the yield
20 on the issue by more than 0.125 per-
21 centage points.

22 In determining the effective rate of interest
23 for purposes of subclause (III), there shall
24 be taken into account all fees, charges, and
25 other amounts (other than amounts for

1 any credit report) borne by the borrower
2 which are attributable to the loan or the
3 bond issue.

4 “(iv) HOUSING LOANS EXCLUDED.—
5 Clause (i) shall not apply to any loan to be
6 used directly or indirectly to provide resi-
7 dential real property.

8 “(v) COORDINATION WITH RESTRIC-
9 TIONS ON USE OF PROCEEDS.—Paragraphs
10 (6) and (8) shall apply notwithstanding
11 clause (i); except that in applying para-
12 graph (6), subsection (a)(8) shall be treat-
13 ed as not including a reference to a facility
14 the primary purpose of which is retail food
15 services.

16 “(D) ISSUER TO DESIGNATE AMOUNT OF
17 ISSUE TO BE USED FOR LOANS.—Subparagraph
18 (C) shall not apply with respect to any issue
19 unless the issuer designates before the date of
20 issuance the amount of the proceeds of such
21 issue which is to be used for loans to which
22 subparagraph (C)(i) applies. If such amount ex-
23 ceeds the principal amount of loans to which
24 subparagraph (C)(i) applies, an amount of pro-
25 ceeds equal to such excess shall be used not

1 later than the close of the 1st semiannual pe-
2 riod beginning after the close of the 18-month
3 period referred to in subparagraph (C)(iii) to
4 redeem bonds which are part of such issue.

5 “(E) DE MINIMIS REDEMPTIONS NOT RE-
6 QUIRED.—Subparagraphs (C)(iii) and (D) shall
7 not be construed to require amounts of less
8 than \$250,000 to be used to redeem bonds. The
9 Secretary may by regulation treat related issues
10 as 1 issue for purposes of the preceding sen-
11 tence.

12 “(F) PENALTY.—

13 “(i) IN GENERAL.—In the case of
14 property with respect to which financing
15 was provided under this paragraph, if at
16 any time during the 10-period beginning
17 on the date such financing was provided—

18 “(I) such property ceases to be in
19 use in an enterprise zone business (as
20 defined in section 1397B), or

21 “(II) substantially all of the use
22 of such property ceases to be in a tax
23 enterprise zone,

24 there is hereby imposed on the trade or
25 business to which such financing was pro-

1 vided a penalty equal to 1.25 percent of so
2 much of the face amount of all financing
3 provided (whether or not from the same
4 issue and whether or not such issue is out-
5 standing) before such cessation to the
6 trade or business using such property.

7 “(ii) NO PENALTY BY REASON OF
8 ZONE TERMINATION.—No penalty shall be
9 imposed under clause (i) solely by reason
10 of the termination or revocation of a tax
11 enterprise zone designation.

12 “(iii) EXCEPTION FOR BANK-
13 RUPTCY.—Clause (i) shall not apply to any
14 cessation resulting from bankruptcy.”

15 (b) VOLUME CAP ONLY CHARGED WITH 50 PER-
16 CENT OF TAX ENTERPRISE ZONE REDEVELOPMENT
17 BONDS.—Subsection (g) of section 146 is amended by
18 striking “and” at the end of paragraph (3), by striking
19 the period at the end of paragraph (4) and inserting “,
20 and”, and by adding at the end thereof the following new
21 paragraph:

22 “(5) 50 percent of any qualified redevelopment
23 bond issued—

24 “(A) as part of an issue 95 percent or
25 more of the net proceeds of which are to be

1 used for 1 or more redevelopment purposes (as
2 defined in section 144(c)) in a tax enterprise
3 zone, and

4 “(B) during the 60-month period begin-
5 ning on the date of the designation of such
6 zone.”

7 (c) PENALTIES FOR LOANS MADE TO BUSINESSES
8 THAT CEASE TO BE ENTERPRISE ZONE BUSINESSES,
9 ETC.—Subsection (b) of section 150 is amended by adding
10 at the end thereof the following new paragraph:

11 “(6) ENTERPRISE ZONE REDEVELOPMENT
12 BONDS.—In the case of any financing provided by
13 an issue the interest on which is exempt from tax by
14 reason of section 144(c)(9)—

15 “(A) IN GENERAL.—No deduction shall be
16 allowed under this chapter for interest on such
17 financing which accrues during the period be-
18 ginning on the first day of the calendar year
19 which includes the date on which—

20 “(i) the trade or business to which the
21 financing was provided ceases to be an en-
22 terprise zone business (as defined in sec-
23 tion 1397B), or

24 “(ii) substantially all of the use of the
25 property (determined in accordance with

1 subchapter U) with respect to which the fi-
2 nancing was provided ceases to be in a tax
3 enterprise zone.

4 The preceding sentence shall not apply solely by
5 reason of the termination or revocation of a tax
6 enterprise zone designation.

7 “(B) EXCEPTION FOR BANKRUPTCY.—This
8 paragraph shall not apply to any cessation re-
9 sulting from bankruptcy.”

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

11 (a) ENTERPRISE ZONE EMPLOYMENT CREDIT PART
12 OF GENERAL BUSINESS CREDIT.—

13 (1) Subsection (b) of section 38 (relating to
14 current year business credit) is amended by striking
15 “plus” at the end of paragraph (7), by striking the
16 period at the end of paragraph (8) and inserting “,
17 plus”, and by adding at the end the following new
18 paragraph:

19 “(9) the enterprise zone employment credit de-
20 termined under section 1394(a).”

21 (2) Subsection (d) of section 39 is amended by
22 adding at the end thereof the following new para-
23 graph:

24 “(4) NO CARRYBACK OF SECTION 1394 CREDIT
25 BEFORE ENACTMENT.—No portion of the unused

1 business credit for any taxable year which is attrib-
2 utable to the enterprise zone employment credit de-
3 termined under section 1394 may be carried to a
4 taxable year ending before the date of the enactment
5 of section 1394.”

6 (b) NONITEMIZERS ALLOWED DEDUCTION FOR EN-
7 TERPRISE ZONE STOCK.—Subsection (a) of section 62 is
8 amended by inserting after paragraph (14) the following
9 new paragraph:

10 “(15) ENTERPRISE ZONE STOCK.—The deduc-
11 tion allowed by section 1396.”

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

14 (1) Subsection (a) of section 280C (relating to
15 rule for targeted jobs credit) is amended—

16 (A) by striking “the amount of the credit
17 determined for the taxable year under section
18 51(a)” and inserting “the sum of the credits
19 determined for the taxable year under sections
20 51(a) and 1394(a)”, and

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

24 (2) Subsection (c) of section 196 (relating to
25 deduction for certain unused business credits) is

1 amended by striking “and” at the end of paragraph
2 (4), by striking the period at the end of paragraph
3 (5) and inserting “, and”, and by adding at the end
4 the following new paragraph:

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

7 (d) OTHER AMENDMENTS.—

8 (1)(A) Section 172(d)(2) (relating to modifica-
9 tions with respect to net operating loss deduction) is
10 amended to read as follows:

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

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

19 “(B) the exclusion provided by section
20 1397 shall not be allowed.”

21 (B) Subparagraph (B) of section 172(d)(4) is
22 amended by inserting “, (2)(B),” after “paragraph
23 (1)”.

24 (2) Subsection (c) of section 381 (relating to
25 carryovers in certain corporate acquisitions) is

1 amended by adding at the end the following new
2 paragraph:

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

11 (3) Paragraph (4) of section 642(c) is amended
12 to read as follows:

13 “(4) ADJUSTMENTS.—To the extent that the
14 amount otherwise allowable as a deduction under
15 this subsection consists of gain described in section
16 1397(a), proper adjustment shall be made for any
17 exclusion allowable to the estate or trust under sec-
18 tion 1397. In the case of a trust, the deduction al-
19 lowed by this subsection shall be subject to section
20 681 (relating to unrelated business income).”

21 (4) Paragraph (3) of section 643(a) is amended
22 by adding at the end thereof the following new sen-
23 tence: “The exclusion under section 1397 shall not
24 be taken into account.”

1 (5) Paragraph (4) of section 691(c) is amended
2 by striking “1201, and 1211” and inserting “1201,
3 1397, and 1211”.

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

8 (7) Paragraph (1) of section 1371(d) (relating
9 to coordination with investment credit recapture) is
10 amended by inserting before the period at the end
11 the following “and for purposes of section
12 1394(d)(3)”.

13 (8) Subsection (a) of section 1016 (relating to
14 adjustments to basis) is amended by striking “and”
15 at the end of paragraph (25), by striking the period
16 at the end of paragraph (26) and inserting a semi-
17 colon, and by adding at the end thereof the following
18 new paragraphs:

19 “(27) in the case of stock with respect to which
20 a deduction was allowed under section 1396(a), to
21 the extent provided in section 1396(e); and

22 “(28) in the case of property the acquisition of
23 which resulted under section 1397A in the non-
24 recognition of any part of the gain realized on the

1 sale or exchange of other property, to the extent pro-
2 vided in section 1397A(e).”

3 (9) Section 1223 (relating to holding period of
4 property) is amended by redesignating paragraph
5 (15) as paragraph (16) and by inserting after para-
6 graph (14) the following new paragraph:

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

15 **SEC. 6. EFFECTIVE DATE.**

16 (a) GENERAL RULE.—The amendments made by this
17 Act shall take effect on the date of the enactment of this
18 Act.

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

22 (1) establishing the procedures for nominating
23 areas for designation as tax enterprise zones,

1 (2) establishing a method for comparing the
2 factors listed in section 1392(d) of the Internal Rev-
3 enue Code of 1986 (as added by this Act),

4 (3) establishing recordkeeping requirements
5 necessary or appropriate to assist the studies re-
6 quired by part IV, and

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

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