

105TH CONGRESS
2D SESSION

H. R. 4579

To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 16, 1998

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

A BILL

To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, and for other purposes.

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, ETC.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Taxpayer Relief Act of 1998”.

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

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

4 (c) TABLE OF CONTENTS.—

Sec. 1. Short title, etc.

TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND
 FAMILIES

Subtitle A—General Provisions

- Sec. 101. Elimination of marriage penalty in standard deduction.
 Sec. 102. Exemption of certain interest and dividend income from tax.
 Sec. 103. Nonrefundable personal credits allowed against alternative minimum
 tax.
 Sec. 104. 100 percent deduction for health insurance costs of self-employed in-
 dividuals.
 Sec. 105. Special rule for members of uniformed services and Foreign Service
 in determining exclusion of gain from sale of principal resi-
 dence.
 Sec. 106. \$1,000,000 exemption from estate and gift taxes.

Subtitle B—Provisions Relating to Education

- Sec. 111. Eligible educational institutions permitted to maintain qualified tui-
 tion programs.
 Sec. 112. Modification of arbitrage rebate rules applicable to public school con-
 struction bonds.

Subtitle C—Provisions Relating to Social Security

- Sec. 121. Increases in the social security earnings limit for individuals who
 have attained retirement age.
 Sec. 122. Recomputation of benefits after normal retirement age.

TITLE II—PROVISIONS PRIMARILY AFFECTING FARMING AND
 OTHER BUSINESSES

Subtitle A—Increase in Expense Treatment for Small Businesses

- Sec. 201. Increase in expense treatment for small businesses.

Subtitle B—Provisions Relating to Farmers

- Sec. 211. Income averaging for farmers made permanent.
 Sec. 212. 5-year net operating loss carryback for farming losses.
 Sec. 213. Production flexibility contract payments.

Subtitle C—Increase in Volume Cap on Private Activity Bonds

- Sec. 221. Increase in volume cap on private activity bonds.

TITLE III—EXTENSION AND MODIFICATION OF CERTAIN
 EXPIRING PROVISIONS

Subtitle A—Tax Provisions

- Sec. 301. Research credit.
- Sec. 302. Work opportunity credit.
- Sec. 303. Welfare-to-work credit.
- Sec. 304. Contributions of stock to private foundations; expanded public inspection of private foundations' annual returns.
- Sec. 305. Subpart F exemption for active financing income.

Subtitle B—Generalized System of Preferences

- Sec. 311. Extension of Generalized System of Preferences.

TITLE IV—REVENUE OFFSET

- Sec. 401. Treatment of certain deductible liquidating distributions of regulated investment companies and real estate investment trusts.

TITLE V—TECHNICAL CORRECTIONS

- Sec. 501. Definitions; coordination with other titles.
- Sec. 502. Amendments related to Internal Revenue Service Restructuring and Reform Act of 1998.
- Sec. 503. Amendments related to Taxpayer Relief Act of 1997.
- Sec. 504. Amendments related to Tax Reform Act of 1984.
- Sec. 505. Other amendments.

TITLE VI—AMERICAN COMMUNITY RENEWAL ACT OF 1998

- Sec. 601. Short title.
- Sec. 602. Findings and purpose.

Subtitle A—Designation and Evaluation of Renewal Communities

- Sec. 611. Short title.
- Sec. 612. Statement of purpose.
- Sec. 613. Designation of renewal communities.
- Sec. 614. Evaluation and reporting requirements.
- Sec. 615. Interaction with other Federal programs.

Subtitle B—Tax Incentives for Renewal Communities

- Sec. 621. Tax treatment of renewal communities.
- Sec. 622. Extension of work opportunity tax credit for renewal communities.
- Sec. 623. Conforming and clerical amendments.

1 **TITLE I—PROVISIONS PRI-**
2 **MARILY AFFECTING INDIVID-**
3 **UALS AND FAMILIES**

4 **Subtitle A—General Provisions**

5 **SEC. 101. ELIMINATION OF MARRIAGE PENALTY IN STAND-**
6 **ARD DEDUCTION.**

7 (a) IN GENERAL.—Paragraph (2) of section 63(c)
8 (relating to standard deduction) is amended—

9 (1) by striking “\$5,000” in subparagraph (A)
10 and inserting “twice the dollar amount in effect
11 under subparagraph (C) for the taxable year”,

12 (2) by adding “or” at the end of subparagraph
13 (B),

14 (3) by striking “in the case of” and all that fol-
15 lows in subparagraph (C) and inserting “in any
16 other case.”, and

17 (4) by striking subparagraph (D).

18 (b) ADDITIONAL STANDARD DEDUCTION FOR AGED
19 AND BLIND TO BE THE SAME FOR MARRIED AND UN-
20 MARRIED INDIVIDUALS.—

21 (1) Paragraphs (1) and (2) of section 63(f) are
22 each amended by striking “\$600” and inserting
23 “\$750”.

1 (2) Subsection (f) of section 63 is amended by
2 striking paragraph (3) and by redesignating para-
3 graph (4) as paragraph (3).

4 (c) **TECHNICAL AMENDMENT.**—Subparagraph (B) of
5 section 1(f)(6) is amended by striking “(other than with”
6 and all that follows through “shall be applied” and insert-
7 ing “(other than with respect to sections 63(c)(4) and
8 151(d)(4)(A)) shall be applied”.

9 (d) **EFFECTIVE DATE.**—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 1998.

12 **SEC. 102. EXEMPTION OF CERTAIN INTEREST AND DIVI-**
13 **DEND INCOME FROM TAX.**

14 (a) **IN GENERAL.**—Part III of subchapter B of chap-
15 ter 1 (relating to amounts specifically excluded from gross
16 income) is amended by inserting after section 115 the fol-
17 lowing new section:

18 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**
19 **EST RECEIVED BY INDIVIDUALS.**

20 “(a) **EXCLUSION FROM GROSS INCOME.**—Gross in-
21 come does not include dividends and interest received dur-
22 ing the taxable year by an individual.

23 “(b) **LIMITATIONS.**—

24 “(1) **MAXIMUM AMOUNT.**—The aggregate
25 amount excluded under subsection (a) for any tax-

1 able year shall not exceed \$200 (\$400 in the case of
2 a joint return).

3 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
4 section (a) shall not apply to any dividend from a
5 corporation which, for the taxable year of the cor-
6 poration in which the distribution is made, or for the
7 next preceding taxable year of the corporation, is a
8 corporation exempt from tax under section 501 (re-
9 lating to certain charitable, etc., organization) or
10 section 521 (relating to farmers’ cooperative associa-
11 tions).

12 “(c) SPECIAL RULES.—For purposes of this sec-
13 tion—

14 “(1) DISTRIBUTIONS FROM REGULATED IN-
15 VESTMENT COMPANIES AND REAL ESTATE INVEST-
16 MENT TRUSTS.—Subsection (a) shall apply with re-
17 spect to distributions by—

18 “(A) regulated investment companies sub-
19 ject to the limitations provided in section
20 854(b), and

21 “(B) real estate investment trusts subject
22 to the limitations provided in section 857(c).

23 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
24 poses of subsection (a), the amount of dividends and
25 interest properly allocable to a beneficiary under sec-

1 tion 652 or 662 shall be deemed to have been re-
2 ceived by the beneficiary ratably on the same date
3 that the dividends and interest were received by the
4 estate or trust.

5 “(3) CERTAIN NONRESIDENT ALIENS INELI-
6 GIBLE FOR EXCLUSION.—In the case of a non-
7 resident alien individual, subsection (a) shall apply
8 only—

9 “(A) in determining the tax imposed for
10 the taxable year pursuant to section 871(b)(1)
11 and only in respect of dividends and interest
12 which are effectively connected with the conduct
13 of a trade or business within the United States,
14 or

15 “(B) in determining the tax imposed for
16 the taxable year pursuant to section 877(b).

17 “(4) DIVIDENDS FROM EMPLOYEE STOCK OWN-
18 ERSHIP PLANS.—Subsection (a) shall not apply to
19 any dividend described in section 404(k).”

20 (b) CONFORMING AMENDMENTS.—

21 (1) Paragraph (2) of section 265(a) is amended
22 by inserting before the period “, or to purchase or
23 carry obligations or shares, or to make deposits, to
24 the extent the interest thereon is excludable from
25 gross income under section 116”.

1 (2) Subsection (c) of section 584 is amended by
2 adding at the end thereof the following new flush
3 sentence:

4 “The proportionate share of each participant in the
5 amount of dividends or interest received by the common
6 trust fund and to which section 116 applies shall be con-
7 sidered for purposes of such section as having been re-
8 ceived by such participant.”

9 (3) Subsection (a) of section 643 is amended by
10 redesignating paragraph (7) as paragraph (8) and
11 by inserting after paragraph (6) the following new
12 paragraph:

13 “(7) DIVIDENDS OR INTEREST.—There shall be
14 included the amount of any dividends or interest ex-
15 cluded from gross income pursuant to section 116.”

16 (4) Section 854 is amended to read as follows:

17 **“SEC. 854. LIMITATIONS APPLICABLE TO DIVIDENDS RE-**
18 **CEIVED FROM REGULATED INVESTMENT**
19 **COMPANY.**

20 “(a) CAPITAL GAIN DIVIDEND.—For purposes of sec-
21 tion 116 (relating to partial exclusion of dividends and in-
22 terest received by individuals) and section 243 (relating
23 to deductions for dividends received by corporations), a
24 capital gain dividend (as defined in section 852(b)(3)) re-

1 ceived from a regulated investment company shall not be
2 considered as a dividend.

3 “(b) OTHER DIVIDENDS.—

4 “(1) AMOUNT TREATED AS DIVIDEND.—

5 “(A) DEDUCTION UNDER SECTION 243.—

6 In any case in which—

7 “(i) a dividend is received from a reg-
8 ulated investment company (other than a
9 dividend to which subsection (a) applies),
10 and

11 “(ii) such investment company meets
12 the requirements of section 852(a) for the
13 taxable year during which it paid such div-
14 idend,

15 then, in computing any deduction under section
16 243, there shall be taken into account only that
17 portion of such dividend designated under this
18 subparagraph by the regulated investment com-
19 pany and such dividend shall be treated as re-
20 ceived from a corporation which is not a 20-per-
21 cent owned corporation.

22 “(B) EXCLUSION UNDER SECTION 116.—If
23 the aggregate dividends and interest received by
24 a regulated investment company during any
25 taxable year are less than 95 percent of its

1 gross income, then in computing the exclusion
2 under section 116, rules similar to the rules of
3 subparagraph (A) shall apply.

4 “(C) LIMITATIONS.—

5 “(i) SECTION 243.—The aggregate
6 amount which may be designated as divi-
7 dends under subparagraph (A) shall not
8 exceed the aggregate dividends received by
9 the company for the taxable year.

10 “(ii) SECTION 116.—The aggregate
11 amount which may be designated as divi-
12 dends under subparagraph (B) shall not
13 exceed the sum of the aggregate dividends
14 and aggregate interest received by the
15 company for the taxable year.

16 “(2) NOTICE TO SHAREHOLDERS.—The amount
17 of any distribution by a regulated investment com-
18 pany which may be taken into account as a dividend
19 for purposes of the exclusion under section 116 and
20 the deduction under section 243 shall not exceed the
21 amount so designated by the company in a written
22 notice to its shareholders mailed not later than 60
23 days after the close of its taxable year.

24 “(3) DEFINITIONS.—For purposes of this sub-
25 section—

1 “(A) GROSS INCOME.—In the case of 1 or
2 more sales or other dispositions of stock or se-
3 curities, the term ‘gross income’ includes only
4 the excess of—

5 “(i) the net short-term capital gain
6 from such sales or dispositions, over

7 “(ii) the net long-term capital loss
8 from such sales or dispositions.

9 “(B) AGGREGATE DIVIDENDS.—

10 “(i) IN GENERAL.—The term ‘aggre-
11 gate dividends’ does not include dividends
12 described in section 116(b)(2) (relating to
13 dividends excluded from income).

14 “(ii) DISTRIBUTIONS FROM REAL ES-
15 TATE INVESTMENT TRUSTS AND OTHER
16 REGULATED INVESTMENT COMPANIES.—In
17 determining the amount of any dividend
18 for purposes of this subparagraph, the
19 rules of section 116(c)(1) shall apply; ex-
20 cept that, for purposes of applying sub-
21 paragraph (C)(i) of paragraph (1), aggre-
22 gate dividends shall not include a distribu-
23 tion from a real estate investment trust
24 which, for the taxable year of the trust in
25 which the dividend is paid, qualifies under

1 part II of subchapter M (section 856 and
2 following).

3 “(C) AGGREGATE INTEREST.—The term
4 ‘aggregate interest’ means only interest includ-
5 ible in gross income. Gross income and aggre-
6 gate interest received shall each be reduced by
7 so much of the deduction allowable by section
8 163 for the taxable year as does not exceed ag-
9 gregate interest received for the taxable year.

10 “(4) SPECIAL RULE FOR COMPUTING DEDUC-
11 TION UNDER SECTION 243.—For purposes of sub-
12 paragraph (A) of paragraph (1), an amount shall be
13 treated as a dividend for the purpose of paragraph
14 (1) only if a deduction would have been allowable
15 under section 243 to the regulated investment com-
16 pany determined—

17 “(A) as if section 243 applied to dividends
18 received by a regulated investment company,

19 “(B) after the application of section 246
20 (but without regard to subsection (b) thereof),
21 and

22 “(C) after the application of section
23 246A.”

24 (5) Subsection (c) of section 857 is amended to
25 read as follows:

1 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
2 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

3 “(1) CAPITAL GAIN DIVIDEND.—For purposes
4 of section 116 (relating to partial exclusion of divi-
5 dends and interest received by individuals), a capital
6 gain dividend (as defined in subsection (b)(3)(C)) re-
7 ceived from a real estate investment trust which
8 meets the requirements of this part shall not be con-
9 sidered as a dividend.

10 “(2) ONLY PORTION OF DIVIDEND EXCLUD-
11 ABLE UNDER SECTION 116 IN CERTAIN CASES.—

12 “(A) IN GENERAL.—In any case in
13 which—

14 “(i) a dividend is received from a real
15 estate investment trust (other than a cap-
16 ital gain dividend, as defined in subsection
17 (b)(3)(C)),

18 “(ii) such trust meets the require-
19 ments of this part for the taxable year dur-
20 ing which it paid such dividend, and

21 “(iii) the aggregate interest received
22 by such trust during the taxable year is
23 less than 95 percent of its gross income,
24 then, in computing any exclusion under section
25 116, there shall be taken into account only that

1 portion of such dividend designated under this
2 subparagraph as interest by the real estate in-
3 vestment trust.

4 “(B) LIMITATION.—The aggregate amount
5 which may be designated as interest under sub-
6 paragraph (A) shall not exceed the aggregate
7 interest received by the trust for the taxable
8 year.

9 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
10 GREGATE INTEREST RECEIVED.—For purposes of
11 this subsection—

12 “(A) gross income does not include net
13 capital gain,

14 “(B) gross income and aggregate interest
15 received shall each be reduced by so much of
16 the deduction allowable by section 163 for the
17 taxable year (other than for interest on mort-
18 gages on real property owned by the real estate
19 investment trust) as does not exceed aggregate
20 interest received for the taxable year, and

21 “(C) gross income shall be reduced by the
22 sum of the taxes imposed by paragraphs (4),
23 (5), and (6) of subsection (b).

1 “(4) AGGREGATE INTEREST.—For purposes of
2 this subsection, the term ‘aggregate interest’ means
3 only interest includible in gross income.

4 “(5) NOTICE TO SHAREHOLDERS.—The amount
5 of any distribution by a real estate investment trust
6 which may be taken into account as interest for pur-
7 poses of the exclusion under section 116 shall not
8 exceed the amount so designated by the trust in a
9 written notice to its shareholders mailed not later
10 than 60 days after the close of its taxable year.

11 “(6) CROSS REFERENCE.—

**“For restriction on dividends received by a cor-
poration, see section 243(d)(3).”**

12 (6) The table of sections for part III of sub-
13 chapter B of chapter 1 is amended by inserting after
14 the item relating to section 115 the following new
15 item:

“Sec. 116. Partial exclusion of dividends and interest received by
individuals.”

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 1998.

19 **SEC. 103. NONREFUNDABLE PERSONAL CREDITS ALLOWED**
20 **AGAINST ALTERNATIVE MINIMUM TAX.**

21 (a) IN GENERAL.—Subsection (a) of section 26 is
22 amended to read as follows:

1 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
2 aggregate amount of credits allowed by this subpart for
3 the taxable year shall not exceed the sum of—

4 “(1) the taxpayer’s regular tax liability for the
5 taxable year, and

6 “(2) the tax imposed for the taxable year by
7 section 55(a).”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Subsection (d) of section 24 is amended by
10 striking paragraph (2) and by redesignating para-
11 graph (3) as paragraph (2).

12 (2) Section 32 is amended by striking sub-
13 section (h).

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 1997.

17 **SEC. 104. 100 PERCENT DEDUCTION FOR HEALTH INSUR-**
18 **ANCE COSTS OF SELF-EMPLOYED INDIVID-**
19 **UALS.**

20 (a) IN GENERAL.—Paragraph (1) of section 162(l)
21 (relating to special rules for health insurance costs of self-
22 employed individuals) is amended to read as follows:

23 “(1) ALLOWANCE OF DEDUCTION.—In the case
24 of an individual who is an employee within the
25 meaning of section 401(c)(1), there shall be allowed

1 as a deduction under this section an amount equal
 2 to 100 percent of the amount paid during the tax-
 3 able year for insurance which constitutes medical
 4 care for the taxpayer, his spouse, and dependents.”

5 (b) EFFECTIVE DATE.—The amendment made by
 6 this section shall apply to taxable years beginning after
 7 December 31, 1998.

8 **SEC. 105. SPECIAL RULE FOR MEMBERS OF UNIFORMED**
 9 **SERVICES AND FOREIGN SERVICE IN DETER-**
 10 **MINING EXCLUSION OF GAIN FROM SALE OF**
 11 **PRINCIPAL RESIDENCE.**

12 (a) IN GENERAL.—Subsection (d) of section 121 (re-
 13 lating to exclusion of gain from sale of principal residence)
 14 is amended by adding at the end the following new para-
 15 graph:

16 “(9) MEMBERS OF UNIFORMED SERVICES AND
 17 FOREIGN SERVICE.—

18 “(A) IN GENERAL.—The running of the 5-
 19 year period described in subsection (a) shall be
 20 suspended with respect to an individual during
 21 any time that such individual or such individ-
 22 ual’s spouse is serving on qualified official ex-
 23 tended duty as a member of the uniformed
 24 services or of the Foreign Service.

1 “(B) QUALIFIED OFFICIAL EXTENDED
2 DUTY.—For purposes of subparagraph (A)—

3 “(i) IN GENERAL.—For purposes of
4 this paragraph, the term ‘qualified official
5 extended duty’ means any period of ex-
6 tended duty as a member of the uniformed
7 services or a member of the Foreign Serv-
8 ice during which the member serves at a
9 duty station which is at least 50 miles
10 from such property or is under Govern-
11 ment orders to reside in Government quar-
12 ters.

13 “(ii) UNIFORMED SERVICES.—For
14 purposes of clause (i), the term ‘uniformed
15 services’ shall have the meaning given such
16 term by section 101(a)(5) of title 10,
17 United States Code, as in effect on the
18 date of the enactment of this paragraph.

19 “(iii) FOREIGN SERVICE OF THE
20 UNITED STATES.—For purposes of clause
21 (i), the term ‘member of the Foreign Serv-
22 ice’ has the meaning given the term ‘mem-
23 ber of the Service’ by paragraph (1), (2),
24 (3), (4), or (5) of section 103 of the For-
25 eign Service Act of 1980, as in effect on

1 the date of the enactment of this para-
2 graph.

3 “(iv) EXTENDED DUTY.—The term
4 ‘extended duty’ means any period of active
5 duty pursuant to a call or order to such
6 duty for a period in excess of 90 days or
7 for an indefinite period.”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to sales and exchanges after the
10 date of the enactment of this Act.

11 **SEC. 106. \$1,000,000 EXEMPTION FROM ESTATE AND GIFT**
12 **TAXES.**

13 (a) IN GENERAL.—Subsection (c) of section 2010
14 (relating to applicable credit amount) is amended to read
15 as follows:

16 “(c) APPLICABLE CREDIT AMOUNT.—

17 “(1) IN GENERAL.—For purposes of this sec-
18 tion, the applicable credit amount is \$345,800.

19 “(2) APPLICABLE EXCLUSION AMOUNT.—For
20 purposes of the provisions of this title which refer to
21 this subsection, the applicable exclusion amount is
22 \$1,000,000.”

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to estates of decedents dying, and
25 gifts made, after December 31, 1998.

1 **Subtitle B—Provisions Relating to**
2 **Education**

3 **SEC. 111. ELIGIBLE EDUCATIONAL INSTITUTIONS PER-**
4 **MITTED TO MAINTAIN QUALIFIED TUITION**
5 **PROGRAMS.**

6 (a) IN GENERAL.—Paragraph (1) of section 529(b)
7 (defining qualified State tuition program) is amended by
8 inserting “or by 1 or more eligible educational institu-
9 tions” after “maintained by a State or agency or instru-
10 mentality thereof”.

11 (b) TECHNICAL AMENDMENTS.—

12 (1) The texts of sections 72(e)(9), 135(c)(2)(C),
13 135(d)(1)(D), 529, 530, and 4973(e)(1)(B) are each
14 amended by striking “qualified State tuition pro-
15 gram” each place it appears and inserting “qualified
16 tuition program”.

17 (2) The paragraph heading for paragraph (9) of
18 section 72(e) and the subparagraph heading for sub-
19 paragraph (B) of section 530(b)(2) are each amend-
20 ed by striking “QUALIFIED STATE TUITION PRO-
21 GRAMS” and inserting “QUALIFIED TUITION PRO-
22 GRAMS”.

23 (3) The subparagraph heading for subpara-
24 graph (C) of section 135(c)(2) is amended by strik-

1 ing “QUALIFIED STATE TUITION PROGRAM” and in-
 2 serting “QUALIFIED TUITION PROGRAMS”.

3 (4) Sections 529(c)(3)(D)(i) and 6693(a)(2)(C)
 4 are each amended by striking “qualified State tui-
 5 tion programs” and inserting “qualified tuition pro-
 6 grams”.

7 (5)(A) The section heading of section 529 is
 8 amended to read as follows:

9 **“SEC. 529. QUALIFIED TUITION PROGRAMS.”.**

10 (B) The item relating to section 529 in the
 11 table of sections for part VIII of subchapter F of
 12 chapter 1 is amended by striking “State”.

13 (c) EFFECTIVE DATE.—The amendments made by
 14 this section shall take effect on January 1, 1999.

15 **SEC. 112. MODIFICATION OF ARBITRAGE REBATE RULES**

16 **APPLICABLE TO PUBLIC SCHOOL CONSTRUC-**
 17 **TION BONDS.**

18 (a) IN GENERAL.—Subparagraph (C) of section
 19 148(f)(4) is amended by adding at the end the following
 20 new clause:

21 “(xviii) 4-YEAR SPENDING REQUIRE-
 22 MENT FOR PUBLIC SCHOOL CONSTRUCTION
 23 ISSUE.—

24 “(I) IN GENERAL.—In the case
 25 of a public school construction issue,

1 the spending requirements of clause
2 (ii) shall be treated as met if at least
3 10 percent of the available construc-
4 tion proceeds of the construction issue
5 are spent for the governmental pur-
6 poses of the issue within the 1-year
7 period beginning on the date the
8 bonds are issued, 30 percent of such
9 proceeds are spent for such purposes
10 within the 2-year period beginning on
11 such date, 50 percent of such pro-
12 ceeds are spent for such purposes
13 within the 3-year period beginning on
14 such date, and 100 percent of such
15 proceeds are spent for such purposes
16 within the 4-year period beginning on
17 such date.

18 “(II) PUBLIC SCHOOL CON-
19 STRUCTION ISSUE.—For purposes of
20 this clause, the term ‘public school
21 construction issue’ means any con-
22 struction issue if no bond which is
23 part of such issue is a private activity
24 bond and all of the available construc-
25 tion proceeds of such issue are to be

1 used for the construction (as defined
2 in clause (iv)) of public school facili-
3 ties to provide education or training
4 below the postsecondary level or for
5 the acquisition of land that is func-
6 tionally related and subordinate to
7 such facilities.

8 “(III) OTHER RULES TO
9 APPLY.—Rules similar to the rules of
10 the preceding provisions of this sub-
11 paragraph which apply to clause (ii)
12 also apply to this clause.”

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall apply to obligations issued after Decem-
15 ber 31, 1998.

16 **Subtitle C—Provisions Relating to** 17 **Social Security**

18 **SEC. 121. INCREASES IN THE SOCIAL SECURITY EARNINGS** 19 **LIMIT FOR INDIVIDUALS WHO HAVE AT-** 20 **TAINED RETIREMENT AGE.**

21 (a) IN GENERAL.—Section 203(f)(8)(D) of the Social
22 Security Act (42 U.S.C. 403(f)(8)(D)) is amended by
23 striking clauses (iv) through (vii) and inserting the follow-
24 ing new clauses:

1 “(iv) for each month of any taxable
2 year ending after 1998 and before 2000,
3 \$1,416.66²/₃,

4 “(v) for each month of any taxable
5 year ending after 1999 and before 2001,
6 \$1,541.66²/₃,

7 “(vi) for each month of any taxable
8 year ending after 2000 and before 2002,
9 \$2,166.66²/₃, and

10 “(vii) for each month of any taxable
11 year ending after 2001 and before 2003,
12 \$2,500.”.

13 (b) CONFORMING AMENDMENT.—The second sen-
14 tence of section 223(d)(4)(A) of such Act (42 U.S.C.
15 423(d)(4)(A)) is amended by inserting “and section 121
16 of the Taxpayer Relief Act of 1998” after “1996”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply with respect to taxable years end-
19 ing after 1998.

20 **SEC. 122. RECOMPUTATION OF BENEFITS AFTER NORMAL**
21 **RETIREMENT AGE.**

22 (a) IN GENERAL.—Section 215(f)(2)(D)(i) of the So-
23 cial Security Act (42 U.S.C. 415(f)(2)(D)(i)) is amended
24 to read as follows:

1 “(i) in the case of an individual who did not die
2 in the year with respect to which the recomputation
3 is made, for monthly benefits beginning with bene-
4 fits for January of—

5 “(I) the second year following the year
6 with respect to which the recomputation is
7 made, in any such case in which the individual
8 is entitled to old-age insurance benefits, the in-
9 dividual has attained retirement age (as defined
10 in section 216(l)) as of the end of the year pre-
11 ceding the year with respect to which the re-
12 computation is made, and the year with respect
13 to which the recomputation is made would not
14 be substituted in recomputation under this sub-
15 section for a benefit computation year in which
16 no wages or self-employment income have been
17 credited previously to such individual, or

18 “(II) the first year following the year with
19 respect to which the recomputation is made, in
20 any other such case; or”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 215(f)(7) of such Act (42 U.S.C.
23 415(f)(7)) is amended by inserting “, and as
24 amended by section 122(b)(2) of the Taxpayer Relief

1 Act of 1998,” after “This subsection as in effect in
2 December 1978”.

3 (2) Subparagraph (A) section 215(f)(2) of the
4 Social Security Act as in effect in December 1978
5 and applied in certain cases under the provisions of
6 such Act as in effect after December 1978 is amend-
7 ed—

8 (A) by striking “in the case of an individ-
9 ual who did not die” and all that follows and
10 inserting “in the case of an individual who did
11 not die in the year with respect to which the re-
12 computation is made, for monthly benefits be-
13 ginning with benefits for January of—”; and

14 (B) by adding at the end the following:

15 “(i) the second year following the year with
16 respect to which the recomputation is made, in
17 any such case in which the individual is entitled
18 to old-age insurance benefits, the individual has
19 attained age 65 as of the end of the year pre-
20 ceeding the year with respect to which the re-
21 computation is made, and the year with respect
22 to which the recomputation is made would not
23 be substituted in recomputation under this sub-
24 section for a benefit computation year in which

1 no wages or self-employment income have been
2 credited previously to such individual, or

3 “(ii) the first year following the year with
4 respect to which the recomputation is made, in
5 any other such case; or”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply with respect to recomputations of
8 primary insurance amounts based on wages paid and self
9 employment income derived after 1997 and with respect
10 to benefits payable after December 31, 1998.

11 **TITLE II—PROVISIONS PRIMARILY AFFECTING FARMING**
12 **AND OTHER BUSINESSES**

14 **Subtitle A—Increase in Expense**
15 **Treatment for Small Businesses**

16 **SEC. 201. INCREASE IN EXPENSE TREATMENT FOR SMALL**
17 **BUSINESSES.**

18 (a) GENERAL RULE.—Paragraph (1) of section
19 179(b) (relating to dollar limitation) is amended to read
20 as follows:

21 “(1) DOLLAR LIMITATION.—The aggregate cost
22 which may be taken into account under subsection
23 (a) for any taxable year shall not exceed \$25,000.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 1998.

4 **Subtitle B—Provisions Relating to**
5 **Farmers**

6 **SEC. 211. INCOME AVERAGING FOR FARMERS MADE PER-**
7 **MANENT.**

8 Subsection (c) of section 933 of the Taxpayer Relief
9 Act of 1997 is amended by striking “, and before January
10 1, 2001”.

11 **SEC. 212. 5-YEAR NET OPERATING LOSS CARRYBACK FOR**
12 **FARMING LOSSES.**

13 (a) IN GENERAL.—Paragraph (1) of section 172(b)
14 (relating to net operating loss deduction) is amended by
15 adding at the end the following new subparagraph:

16 “(G) FARMING LOSSES.—In the case of a
17 taxpayer which has a farming loss (as defined
18 in subsection (i)) for a taxable year, such farm-
19 ing loss shall be a net operating loss carryback
20 to each of the 5 taxable years preceding the
21 taxable year of such loss.”

22 (b) FARMING LOSS.—Section 172 is amended by re-
23 designating subsection (i) as subsection (j) and by insert-
24 ing after subsection (h) the following new subsection:

1 “(i) RULES RELATING TO FARMING LOSSES.—For
2 purposes of this section—

3 “(1) IN GENERAL.—The term ‘farming loss’
4 means the lesser of—

5 “(A) the amount which would be the net
6 operating loss for the taxable year if only in-
7 come and deductions attributable to farming
8 businesses (as defined in section 263A(e)(4))
9 are taken into account, or

10 “(B) the amount of the net operating loss
11 for such taxable year.

12 “(2) COORDINATION WITH SUBSECTION
13 (b)(2).—For purposes of applying subsection (b)(2),
14 a farming loss for any taxable year shall be treated
15 in a manner similar to the manner in which a speci-
16 fied liability loss is treated.

17 “(3) ELECTION.—Any taxpayer entitled to a 5-
18 year carryback under subsection (b)(1)(G) from any
19 loss year may elect to have the carryback period
20 with respect to such loss year determined without re-
21 gard to subsection (b)(1)(G). Such election shall be
22 made in such manner as may be prescribed by the
23 Secretary and shall be made by the due date (includ-
24 ing extensions of time) for filing the taxpayer’s re-
25 turn for the taxable year of the net operating loss.

1 Such election, once made for any taxable year, shall
 2 be irrevocable for that taxable year.”

3 (c) COORDINATION WITH FARM DISASTER
 4 LOSSES.—Clause (ii) of section 172(b)(1)(F) is amended
 5 by adding at the end the following flush sentence:

6 “Such term shall not include any farming
 7 loss (as defined in subsection (i)).”

8 (d) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to net operating losses for taxable
 10 years beginning after December 31, 1997.

11 **SEC. 213. PRODUCTION FLEXIBILITY CONTRACT PAY-**
 12 **MENTS.**

13 The option under section 112(d)(3) of the Federal
 14 Agriculture Improvement and Reform Act of 1996 (7
 15 U.S.C. 7212(d)(3)) shall be disregarded in determining
 16 the taxable year for which the payment for fiscal year
 17 1999 under a production flexibility contract under subtitle
 18 B of title I of such Act is properly includible in gross in-
 19 come for purposes of the Internal Revenue Code of 1986.

20 **Subtitle C—Increase in Volume**
 21 **Cap on Private Activity Bonds**

22 **SEC. 221. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY**
 23 **BONDS.**

24 (a) IN GENERAL.—Subsection (d) of section 146 (re-
 25 lating to volume cap) is amended by striking paragraph

1 (2), by redesignating paragraphs (3) and (4) as para-
 2 graphs (2) and (3), respectively, and by striking para-
 3 graph (1) and inserting the following new paragraph:

4 “(1) IN GENERAL.—The State ceiling applicable
 5 to any State for any calendar year shall be the
 6 greater of—

7 “(A) an amount equal to \$75 multiplied by
 8 the State population, or

9 “(B) \$225,000,000.

10 Subparagraph (B) shall not apply to any possession
 11 of the United States.”

12 (b) CONFORMING AMENDMENT.—Sections 25(f)(3)
 13 and 42(h)(3)(E)(iii) are each amended by striking “sec-
 14 tion 146(d)(3)(C)” and inserting “section 146(d)(2)(C)”.

15 (c) EFFECTIVE DATE.—The amendments made by
 16 this section shall apply to calendar years after 1998.

17 **TITLE III—EXTENSION AND**
 18 **MODIFICATION OF CERTAIN**
 19 **EXPIRING PROVISIONS**
 20 **Subtitle A—Tax Provisions**

21 **SEC. 301. RESEARCH CREDIT.**

22 (a) TEMPORARY EXTENSION.—

23 (1) IN GENERAL.—Paragraph (1) of section
 24 41(h) (relating to termination) is amended—

1 (A) by striking “June 30, 1998” and in-
2 serting “February 29, 2000”,

3 (B) by striking “24-month” and inserting
4 “44-month”, and

5 (C) by striking “24 months” and inserting
6 “44 months”.

7 (2) TECHNICAL AMENDMENT.—Subparagraph
8 (D) of section 45C(b)(1) is amended by striking
9 “June 30, 1998” and inserting “February 29,
10 2000”.

11 (3) EFFECTIVE DATE.—The amendments made
12 by this subsection shall apply to amounts paid or in-
13 curred after June 30, 1998.

14 (b) INCREASE IN PERCENTAGES UNDER ALTER-
15 NATIVE INCREMENTAL CREDIT.—

16 (1) IN GENERAL.—Subparagraph (A) of section
17 41(c)(4) is amended—

18 (A) by striking “1.65 percent” and insert-
19 ing “2.65 percent”,

20 (B) by striking “2.2 percent” and inserting
21 “3.2 percent”, and

22 (C) by striking “2.75 percent” and insert-
23 ing “3.75 percent”.

1 (2) **EFFECTIVE DATE.**—The amendments made
 2 by this subsection shall apply to taxable years begin-
 3 ning after June 30, 1998.

4 **SEC. 302. WORK OPPORTUNITY CREDIT.**

5 (a) **TEMPORARY EXTENSION.**—Subparagraph (B) of
 6 section 51(c)(4) (relating to termination) is amended by
 7 striking “June 30, 1998” and inserting “February 29,
 8 2000”.

9 (b) **EFFECTIVE DATE.**—The amendment made by
 10 this section shall apply to individuals who begin work for
 11 the employer after June 30, 1998.

12 **SEC. 303. WELFARE-TO-WORK CREDIT.**

13 Subsection (f) of section 51A (relating to termi-
 14 nation) is amended by striking “April 30, 1999” and in-
 15 serting “February 29, 2000”.

16 **SEC. 304. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDA-
 17 TIONS; EXPANDED PUBLIC INSPECTION OF
 18 PRIVATE FOUNDATIONS’ ANNUAL RETURNS.**

19 (a) **SPECIAL RULE FOR CONTRIBUTIONS OF STOCK
 20 MADE PERMANENT.**—

21 (1) **IN GENERAL.**—Paragraph (5) of section
 22 170(e) is amended by striking subparagraph (D)
 23 (relating to termination).

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall apply to contributions made
3 after June 30, 1998.

4 (b) EXPANDED PUBLIC INSPECTION OF PRIVATE
5 FOUNDATIONS' ANNUAL RETURNS, ETC.—

6 (1) IN GENERAL.—Section 6104 (relating to
7 publicity of information required from certain ex-
8 empt organizations and certain trusts) is amended
9 by striking subsections (d) and (e) and inserting
10 after subsection (c) the following new subsection:

11 “(d) PUBLIC INSPECTION OF CERTAIN ANNUAL RE-
12 TURNS AND APPLICATIONS FOR EXEMPTION.—

13 “(1) IN GENERAL.—In the case of an organiza-
14 tion described in subsection (c) or (d) of section 501
15 and exempt from taxation under section 501(a)—

16 “(A) a copy of—

17 “(i) the annual return filed under sec-
18 tion 6033 (relating to returns by exempt
19 organizations) by such organization, and

20 “(ii) if the organization filed an appli-
21 cation for recognition of exemption under
22 section 501, the exempt status application
23 materials of such organization,

24 shall be made available by such organization for
25 inspection during regular business hours by any

1 individual at the principal office of such organi-
2 zation and, if such organization regularly main-
3 tains 1 or more regional or district offices hav-
4 ing 3 or more employees, at each such regional
5 or district office, and

6 “(B) upon request of an individual made
7 at such principal office or such a regional or
8 district office, a copy of such annual return and
9 exempt status application materials shall be
10 provided to such individual without charge
11 other than a reasonable fee for any reproduc-
12 tion and mailing costs.

13 The request described in subparagraph (B) must be
14 made in person or in writing. If such request is
15 made in person, such copy shall be provided imme-
16 diately and, if made in writing, shall be provided
17 within 30 days.

18 “(2) 3-YEAR LIMITATION ON INSPECTION OF
19 RETURNS.—Paragraph (1) shall apply to an annual
20 return filed under section 6033 only during the 3-
21 year period beginning on the last day prescribed for
22 filing such return (determined with regard to any
23 extension of time for filing).

24 “(3) EXCEPTIONS FROM DISCLOSURE REQUIRE-
25 MENT.—

1 “(A) NONDISCLOSURE OF CONTRIBU-
2 TORS.—Paragraph (1) shall not require the dis-
3 closure of the name or address of any contribu-
4 tor to the organization.

5 “(B) NONDISCLOSURE OF CERTAIN OTHER
6 INFORMATION.—Paragraph (1) shall not re-
7 quire the disclosure of any information if the
8 Secretary withheld such information from pub-
9 lic inspection under subsection (a)(1)(D).

10 “(4) LIMITATION ON PROVIDING COPIES.—
11 Paragraph (1)(B) shall not apply to any request if,
12 in accordance with regulations promulgated by the
13 Secretary, the organization has made the requested
14 documents widely available, or the Secretary deter-
15 mines, upon application by an organization, that
16 such request is part of a harassment campaign and
17 that compliance with such request is not in the pub-
18 lic interest.

19 “(5) EXEMPT STATUS APPLICATION MATE-
20 RIALS.—For purposes of paragraph (1), the term
21 ‘exempt status applicable materials’ means the appli-
22 cation for recognition of exemption under section
23 501 and any papers submitted in support of such
24 application and any letter or other document issued

1 by the Internal Revenue Service with respect to such
2 application.”

3 (2) CONFORMING AMENDMENTS.—

4 (A) Subsection (c) of section 6033 is
5 amended by adding “and” at the end of para-
6 graph (1), by striking paragraph (2), and by re-
7 designating paragraph (3) as paragraph (2).

8 (B) Subparagraph (C) of section
9 6652(c)(1) is amended by striking “subsection
10 (d) or (e)(1) of section 6104 (relating to public
11 inspection of annual returns)” and inserting
12 “section 6104(d) with respect to any annual re-
13 turn”.

14 (C) Subparagraph (D) of section
15 6652(c)(1) is amended by striking “section
16 6104(e)(2) (relating to public inspection of ap-
17 plications for exemption)” and inserting “sec-
18 tion 6104(d) with respect to any exempt status
19 application materials (as defined in such sec-
20 tion)”.

21 (D) Section 6685 is amended by striking
22 “or (e)”.

23 (E) Section 7207 is amended by striking
24 “or (e)”.

1 (3) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to taxable years end-
3 ing after December 31, 1998.

4 **SEC. 305. SUBPART F EXEMPTION FOR ACTIVE FINANCING**
5 **INCOME.**

6 (a) INCOME DERIVED FROM BANKING, FINANCING
7 OR SIMILAR BUSINESSES.—Section 954(h) (relating to in-
8 come derived in the active conduct of banking, financing,
9 or similar businesses) is amended to read as follows:

10 “(h) SPECIAL RULE FOR INCOME DERIVED IN THE
11 ACTIVE CONDUCT OF BANKING, FINANCING, OR SIMILAR
12 BUSINESSES.—

13 “(1) IN GENERAL.—For purposes of subsection
14 (c)(1), foreign personal holding company income
15 shall not include qualified banking or financing in-
16 come of an eligible controlled foreign corporation.

17 “(2) ELIGIBLE CONTROLLED FOREIGN COR-
18 PORATION.—For purposes of this subsection—

19 “(A) IN GENERAL.—The term ‘eligible con-
20 trolled foreign corporation’ means a controlled
21 foreign corporation which—

22 “(i) is predominantly engaged in the
23 active conduct of a banking, financing, or
24 similar business, and

1 “(ii) conducts substantial activity with
2 respect to such business.

3 “(B) PREDOMINANTLY ENGAGED.—A con-
4 trolled foreign corporation shall be treated as
5 predominantly engaged in the active conduct of
6 a banking, financing, or similar business if—

7 “(i) more than 70 percent of the gross
8 income of the controlled foreign corpora-
9 tion is derived directly from the active and
10 regular conduct of a lending or finance
11 business from transactions with customers
12 which are not related persons, or

13 “(ii) it is engaged in the active con-
14 duct of a banking business and is an insti-
15 tution licensed to do business as a bank in
16 the United States (or is any other corpora-
17 tion not so licensed which is specified by
18 the Secretary in regulations).

19 “(3) QUALIFIED BANKING OR FINANCING IN-
20 COME.—For purposes of this subsection—

21 “(A) IN GENERAL.—The term ‘qualified
22 banking or financing income’ means income of
23 an eligible controlled foreign corporation—

1 “(i) which is derived in the active con-
2 duct of a banking, financing, or similar
3 business by—

4 “(I) such eligible controlled for-
5 eign corporation, or

6 “(II) a qualified business unit of
7 such eligible controlled foreign cor-
8 poration,

9 “(ii) which is derived from 1 or more
10 transactions—

11 “(I) with customers located in a
12 country other than the United States,
13 and

14 “(II) substantially all of the ac-
15 tivities in connection with which are
16 conducted directly by the corporation
17 or unit in its home country, and

18 “(iii) is treated as earned by such cor-
19 poration or unit in its home country for
20 purposes of such country’s tax laws.

21 “(B) LIMITATION ON NONBANKING BUSI-
22 NESSES.—No income of an eligible controlled
23 foreign corporation not described in paragraph
24 (2)(B)(ii) (or of a qualified business unit of
25 such corporation) shall be treated as qualified

1 banking or financing income unless more than
2 30 percent of such corporation's or unit's gross
3 income is derived directly from the active and
4 regular conduct of a lending or finance business
5 from transactions with customers which are not
6 related persons and which are located within
7 such corporation's or unit's home country.

8 “(C) SUBSTANTIAL ACTIVITY REQUIRE-
9 MENT FOR CROSS BORDER INCOME.—The term
10 ‘qualified banking or financing income’ shall
11 not include income derived from 1 or more
12 transactions with customers located in a coun-
13 try other than the home country of the eligible
14 controlled foreign corporation or a qualified
15 business unit of such corporation unless such
16 corporation or unit conducts substantial activity
17 with respect to a banking, financing, or similar
18 business in its home country.

19 “(D) DETERMINATIONS MADE SEPA-
20 RATELY.—For purposes of this subsection, the
21 qualified banking or financing income of an eli-
22 gible controlled foreign corporation and each
23 qualified business unit of such corporation shall
24 be determined separately for such corporation
25 and each such unit by taking into account—

1 “(i) in the case of the eligible con-
2 trolled foreign corporation, only items of
3 income, deduction, gain, or loss and activi-
4 ties of such corporation not properly allo-
5 cable or attributable to any qualified busi-
6 ness unit of such corporation, and

7 “(ii) in the case of a qualified busi-
8 ness unit, only items of income, deduction,
9 gain, or loss and activities properly alloca-
10 ble or attributable to such unit.

11 “(4) LENDING OR FINANCE BUSINESS.—For
12 purposes of this subsection, the term ‘lending or fi-
13 nance business’ means the business of—

14 “(A) making loans,

15 “(B) purchasing or discounting accounts
16 receivable, notes, or installment obligations,

17 “(C) engaging in leasing (including enter-
18 ing into leases and purchasing, servicing, and
19 disposing of leases and leased assets),

20 “(D) issuing letters of credit or providing
21 guarantees,

22 “(E) providing charge and credit card
23 services, or

24 “(F) rendering services or making facilities
25 available in connection with activities described

1 in subparagraphs (A) through (E) carried on
2 by—

3 “(i) the corporation (or qualified busi-
4 ness unit) rendering services or making fa-
5 cilities available, or

6 “(ii) another corporation (or qualified
7 business unit of a corporation) which is a
8 member of the same affiliated group (as
9 defined in section 1504, but determined
10 without regard to section 1504(b)(3)).

11 “(5) OTHER DEFINITIONS.—For purposes of
12 this subsection—

13 “(A) CUSTOMER.—The term ‘customer’
14 means, with respect to any controlled foreign
15 corporation or qualified business unit, any per-
16 son which has a customer relationship with
17 such corporation or unit and which is acting in
18 its capacity as such.

19 “(B) HOME COUNTRY.—Except as pro-
20 vided in regulations—

21 “(i) CONTROLLED FOREIGN CORPORA-
22 TION.—The term ‘home country’ means,
23 with respect to any controlled foreign cor-
24 poration, the country under the laws of

1 which the corporation was created or orga-
2 nized.

3 “(ii) QUALIFIED BUSINESS UNIT.—
4 The term ‘home country’ means, with re-
5 spect to any qualified business unit, the
6 country in which such unit maintains its
7 principal office.

8 “(C) LOCATED.—The determination of
9 where a customer is located shall be made
10 under rules prescribed by the Secretary.

11 “(D) QUALIFIED BUSINESS UNIT.—The
12 term ‘qualified business unit’ has the meaning
13 given such term by section 989(a).

14 “(E) RELATED PERSON.—The term ‘relat-
15 ed person’ has the meaning given such term by
16 subsection (d)(3).

17 “(6) ANTI-ABUSE RULES.—For purposes of ap-
18 plying this subsection and subsection (c)(2)(C)(ii)—

19 “(A) there shall be disregarded any item of
20 income, gain, loss, or deduction with respect to
21 any transaction or series of transactions one of
22 the principal purposes of which is qualifying in-
23 come or gain for the exclusion under this sec-
24 tion, including any transaction or series of
25 transactions a principal purpose of which is the

1 acceleration or deferral of any item in order to
2 claim the benefits of such exclusion through the
3 application of this subsection,

4 “(B) there shall be disregarded any item of
5 income, gain, loss, or deduction with respect to
6 any transaction or series of transactions utiliz-
7 ing, or doing business with—

8 “(i) an entity which is not engaged in
9 regular and continuous transactions with
10 customers which are not related persons,
11 or

12 “(ii) to the extent provided in regula-
13 tions—

14 “(I) one or more entities in order
15 to satisfy any home country require-
16 ment under this subsection, or

17 “(II) a special purpose vehicle,
18 including a securitization vehicle, an
19 intragroup financing arrangement, or
20 any similar entity or arrangement,
21 and

22 “(C) a related person, an officer, a direc-
23 tor, or an employee with respect to any con-
24 trolled foreign corporation (or qualified business
25 unit) which would otherwise be treated as a

1 customer of such corporation or unit with re-
2 spect to any transaction shall not be so treated
3 if a principal purpose of such transaction is to
4 satisfy any requirement of this subsection.

5 “(7) REGULATIONS.—The Secretary shall pre-
6 scribe such regulations as may be necessary or ap-
7 propriate to carry out the purposes of this sub-
8 section, subsection (c)(1)(B)(i), subsection
9 (c)(2)(C)(ii), and the last sentence of subsection
10 (e)(2).

11 “(8) APPLICATION.—This subsection, sub-
12 section (c)(2)(C)(ii), and the last sentence of sub-
13 section (e)(2) shall apply only to the first taxable
14 year of a foreign corporation beginning after Decem-
15 ber 31, 1998, and before January 1, 2000, and to
16 taxable years of United States shareholders with or
17 within which such taxable year of such foreign cor-
18 poration ends.”

19 (b) INCOME DERIVED FROM INSURANCE BUSI-
20 NESS.—

21 (1) INCOME ATTRIBUTABLE TO ISSUANCE OR
22 REINSURANCE.—

23 (A) IN GENERAL.—Section 953(a) (defin-
24 ing insurance income) is amended to read as
25 follows:

1 “(a) INSURANCE INCOME.—

2 “(1) IN GENERAL.—For purposes of section
3 952(a)(1), the term ‘insurance income’ means any
4 income which—

5 “(A) is attributable to the issuing (or rein-
6 suring) of an insurance or annuity contract,
7 and

8 “(B) would (subject to the modifications
9 provided by subsection (b)) be taxed under sub-
10 chapter L of this chapter if such income were
11 the income of a domestic insurance company.

12 “(2) EXCEPTION.—Such term shall not include
13 any exempt insurance income (as defined in sub-
14 section (e)).”

15 (B) EXEMPT INSURANCE INCOME.—Sec-
16 tion 953 (relating to insurance income) is
17 amended by adding at the end the following
18 new subsection:

19 “(e) EXEMPT INSURANCE INCOME.—For purposes of
20 this section—

21 “(1) EXEMPT INSURANCE INCOME DEFINED.—

22 “(A) IN GENERAL.—The term ‘exempt in-
23 surance income’ means income derived by a
24 qualifying insurance company which—

1 “(i) is attributable to the issuing (or
2 reinsuring) of an exempt contract by such
3 company or a qualifying insurance com-
4 pany branch of such company, and

5 “(ii) is treated as earned by such com-
6 pany or branch in its home country for
7 purposes of such country’s tax laws.

8 “(B) EXCEPTION FOR CERTAIN ARRANGE-
9 MENTS.—Such term shall not include income
10 attributable to the issuing (or reinsuring) of an
11 exempt contract as the result of any arrange-
12 ment whereby another corporation receives a
13 substantially equal amount of premiums or
14 other consideration in respect of issuing (or re-
15 insuring) a contract which is not an exempt
16 contract.

17 “(C) DETERMINATIONS MADE SEPA-
18 RATELY.—For purposes of this subsection and
19 section 954(i), the exempt insurance income
20 and exempt contracts of a qualifying insurance
21 company or any qualifying insurance company
22 branch of such company shall be determined
23 separately for such company and each such
24 branch by taking into account—

1 “(i) in the case of the qualifying in-
2 surance company, only net premiums,
3 items of income, deduction, gain, or loss,
4 and activities of such company not prop-
5 erly allocable or attributable to any quali-
6 fying insurance company branch of such
7 company, and

8 “(ii) in the case of a qualifying insur-
9 ance company branch, only net premiums,
10 items of income, deduction, gain, or loss
11 and activities properly allocable or attrib-
12 utable to such unit.

13 “(2) EXEMPT CONTRACT.—

14 “(A) IN GENERAL.—The term ‘exempt
15 contract’ means an insurance or annuity con-
16 tract issued or reinsured by a qualifying insur-
17 ance company or qualifying insurance company
18 branch in connection with property in, liability
19 arising out of activity in, or the lives or health
20 of residents of, a country other than the United
21 States.

22 “(B) MINIMUM HOME COUNTRY INCOME
23 REQUIRED.—

24 “(i) IN GENERAL.—No contract of a
25 qualifying insurance company or of a

1 qualifying insurance company branch shall
2 be treated as an exempt contract unless
3 such company or branch derives more than
4 30 percent of its net written premiums
5 from exempt contracts (determined without
6 regard to this subparagraph)—

7 “(I) which cover applicable home
8 country risks, and

9 “(II) with respect to which no
10 policyholder, insured, annuitant, or
11 beneficiary is a related person (as de-
12 fined in section 954(d)(3)).

13 “(ii) APPLICABLE HOME COUNTRY
14 RISKS.—The term ‘applicable home coun-
15 try risks’ means risks in connection with
16 property in, liability arising out of activity
17 in, or the lives or health of residents of,
18 the home country of the qualifying insur-
19 ance company or qualifying insurance com-
20 pany branch, as the case may be, issuing
21 or reinsuring the contract covering the
22 risks.

23 “(C) SUBSTANTIAL ACTIVITY REQUIRE-
24 MENTS FOR CROSS BORDER RISKS.—A contract
25 issued by a qualifying insurance company or

1 qualifying insurance company branch which
2 covers risks other than applicable home country
3 risks (as defined in subparagraph (B)(ii)) shall
4 not be treated as an exempt contract unless
5 such company or branch, as the case may be—

6 “(i) conducts substantial activity with
7 respect to an insurance business in its
8 home country, and

9 “(ii) performs in its home country
10 substantially all of the activities necessary
11 to give rise to the income generated by
12 such contract.

13 “(3) QUALIFYING INSURANCE COMPANY.—The
14 term ‘qualifying insurance company’ means any con-
15 trolled foreign corporation which—

16 “(A) is subject to regulation as an insur-
17 ance (or reinsurance) company by its home
18 country, and is licensed, authorized, or regu-
19 lated by the applicable insurance regulatory
20 body for its home country to sell insurance, re-
21 insurance, or annuity contracts to persons other
22 than related persons (within the meaning of
23 section 954(d)(3)) in such home country,

24 “(B) derives more than 50 percent of its
25 aggregate net written premiums from the

1 issuance or reinsurance by such controlled for-
2 eign corporation and each of its qualifying in-
3 surance company branches of contracts—

4 “(i) covering applicable home country
5 risks (as defined in paragraph (2)) of such
6 corporation or branch, as the case may be,
7 and

8 “(ii) with respect to which no policy-
9 holder, insured, annuitant, or beneficiary is
10 a related person (as defined in section
11 954(d)(3)),

12 except that in the case of a branch, such pre-
13 miums shall only be taken into account to the
14 extent such premiums are treated as earned by
15 such branch in its home country for purposes of
16 such country’s tax laws, and

17 “(C) is engaged in the insurance business
18 and would be subject to tax under subchapter
19 L if it were a domestic corporation.

20 “(4) QUALIFYING INSURANCE COMPANY
21 BRANCH.—The term ‘qualifying insurance company
22 branch’ means a qualified business unit (within the
23 meaning of section 989(a)) of a controlled foreign
24 corporation if—

1 “(A) such unit is licensed, authorized, or
2 regulated by the applicable insurance regulatory
3 body for its home country to sell insurance, re-
4 insurance, or annuity contracts to persons other
5 than related persons (within the meaning of
6 section 954(d)(3)) in such home country, and

7 “(B) such controlled foreign corporation is
8 a qualifying insurance company, determined
9 under paragraph (3) as if such unit were a
10 qualifying insurance company branch.

11 “(5) LIFE INSURANCE OR ANNUITY CON-
12 TRACT.—For purposes of this section and section
13 954, the determination of whether a contract issued
14 by a controlled foreign corporation is a life insurance
15 contract or an annuity contract shall be made with-
16 out regard to sections 72(s), 101(f), 817(h), and
17 7702 if—

18 “(A) such contract is regulated as a life in-
19 surance or annuity contract by the corpora-
20 tion’s home country, and

21 “(B) no policyholder, insured, annuitant,
22 or beneficiary with respect to the contract is a
23 United States person.

24 “(6) HOME COUNTRY.—For purposes of this
25 subsection, except as provided in regulations—

1 “(A) CONTROLLED FOREIGN CORPORA-
2 TION.—The term ‘home country’ means, with
3 respect to a controlled foreign corporation, the
4 country in which such corporation is created or
5 organized.

6 “(B) QUALIFIED BUSINESS UNIT.—The
7 term ‘home country’ means, with respect to a
8 qualified business unit (as defined in section
9 989(a)), the country in which the principal of-
10 fice of such unit is located and in which such
11 unit is licensed, authorized, or regulated by the
12 applicable insurance regulatory body to sell in-
13 surance, reinsurance, or annuity contracts to
14 persons other than related persons (as defined
15 in section 954(d)(3)) in such country.

16 “(7) ANTI-ABUSE RULES.—For purposes of ap-
17 plying this subsection and section 954(i)—

18 “(A) the rules of section 954(h)(6) shall
19 apply,

20 “(B) there shall be disregarded any change
21 in the method of computing reserves a principal
22 purpose of which is the acceleration or deferral
23 of any item in order to claim the benefits of
24 this subsection or section 954(i),

1 “(C) a contract of insurance or reinsur-
2 ance shall not be treated as an exempt contract
3 (and premiums from such contract shall not be
4 taken into account for purposes of paragraph
5 (2)(B) or (3)) if—

6 “(i) any policyholder, insured, annu-
7 itant, or beneficiary is a resident of the
8 United States and such contract was mar-
9 keted to such resident and was written to
10 cover a risk outside the United States, or

11 “(ii) the contract covers risks located
12 within and without the United States and
13 the qualifying insurance company or quali-
14 fying insurance company branch does not
15 maintain such contemporaneous records,
16 and file such reports, with respect to such
17 contract as the Secretary may require,

18 “(D) the Secretary may prescribe rules for
19 the allocation of contracts (and income from
20 contracts) among 2 or more qualifying insur-
21 ance company branches of a qualifying insur-
22 ance company in order to clearly reflect the in-
23 come of such branches, and

24 “(E) premiums from a contract shall not
25 be taken into account for purposes of para-

1 graph (2)(B) or (3) if such contract reinsures
2 a contract issued or reinsured by a related per-
3 son (as defined in section 954(d)(3)).

4 For purposes of subparagraph (C), the determina-
5 tion of where risks are located shall be made under
6 the principles of section 953.

7 “(8) COORDINATION WITH SUBSECTION (c).—
8 This subsection and section 954(i) shall not apply to
9 related person insurance income to which subsection
10 (c) applies.

11 “(9) REGULATIONS.—The Secretary shall pre-
12 scribe such regulations as may be necessary or ap-
13 propriate to carry out the purposes of this sub-
14 section and section 954(i).

15 “(10) APPLICATION.—This subsection and sec-
16 tion 954(i) shall apply only to the first taxable year
17 of a foreign corporation beginning after December
18 31, 1998, and before January 1, 2000, and to tax-
19 able years of United States shareholders with or
20 within which such taxable year of such foreign cor-
21 poration ends.

22 “(11) CROSS REFERENCE.—

“**For income exempt from foreign personal hold-
ing company income, see section 954(i).**”

23 (2) EXEMPTION FROM FOREIGN PERSONAL
24 HOLDING COMPANY INCOME.—Section 954 (defining

1 foreign base company income) is amended by adding
2 at the end the following new subsection:

3 “(i) SPECIAL RULE FOR INCOME DERIVED IN THE
4 ACTIVE CONDUCT OF INSURANCE BUSINESS.—

5 “(1) IN GENERAL.—For purposes of subsection
6 (c)(1), foreign personal holding company income
7 shall not include qualified insurance income of a
8 qualifying insurance company.

9 “(2) QUALIFIED INSURANCE INCOME.—The
10 term ‘qualified insurance income’ means income of a
11 qualifying insurance company which is—

12 “(A) received from a person other than a
13 related person (within the meaning of sub-
14 section (d)(3)) and derived from the invest-
15 ments made by a qualifying insurance company
16 or a qualifying insurance company branch of its
17 reserves allocable to exempt contracts or of 80
18 percent of its unearned premiums from exempt
19 contracts (as both are determined in the man-
20 ner prescribed under paragraph (4)), or

21 “(B) received from a person other than a
22 related person (within the meaning of sub-
23 section (d)(3)) and derived from investments
24 made by a qualifying insurance company or a
25 qualifying insurance company branch of an

1 amount of its assets allocable to exempt con-
2 tracts equal to—

3 “(i) in the case of property, casualty,
4 or health insurance contracts, one-third of
5 its premiums earned on such insurance
6 contracts during the taxable year (as de-
7 fined in section 832(b)(4)), and

8 “(ii) in the case of life insurance or
9 annuity contracts, 10 percent of the re-
10 serves described in subparagraph (A) for
11 such contracts.

12 “(3) PRINCIPLES FOR DETERMINING INSUR-
13 ANCE INCOME.—Except as provided by the Sec-
14 retary, for purposes of subparagraphs (A) and (B)
15 of paragraph (2)—

16 “(A) in the case of any contract which is
17 a separate account-type contract (including any
18 variable contract not meeting the requirements
19 of section 817), income credited under such
20 contract shall be allocable only to such contract,
21 and

22 “(B) income not allocable under subpara-
23 graph (A) shall be allocated ratably among con-
24 tracts not described in subparagraph (A).

1 “(4) METHODS FOR DETERMINING UNEARNED
2 PREMIUMS AND RESERVES.—For purposes of para-
3 graph (2)(A)—

4 “(A) PROPERTY AND CASUALTY CON-
5 TRACTS.—The unearned premiums and reserves
6 of a qualifying insurance company or a qualify-
7 ing insurance company branch with respect to
8 property, casualty, or health insurance con-
9 tracts shall be determined using the same meth-
10 ods and interest rates which would be used if
11 such company or branch were subject to tax
12 under subchapter L, except that—

13 “(i) the interest rate determined for
14 the functional currency of the company’s
15 or branch’s home country, and which, ex-
16 cept as provided by the Secretary, is cal-
17 culated in the same manner as the Federal
18 mid-term rate under section 1274(d), shall
19 be substituted for the applicable Federal
20 interest rate, and

21 “(ii) such company or branch shall
22 use the appropriate foreign loss payment
23 pattern.

24 “(B) LIFE INSURANCE AND ANNUITY CON-
25 TRACTS.—The amount of the reserve of a quali-

1 qualifying insurance company or qualifying insur-
2 ance company branch for any life insurance or
3 annuity contract shall be equal to the greater
4 of—

5 “(i) the net surrender value of such
6 contract (as defined in section
7 807(e)(1)(A)), or

8 “(ii) the reserve determined under
9 paragraph (5).

10 “(C) LIMITATION ON RESERVES.—In no
11 event shall the reserve determined under this
12 paragraph for any contract as of any time ex-
13 ceed the amount which would be taken into ac-
14 count with respect to such contract as of such
15 time in determining foreign statement reserves
16 (less any catastrophe, deficiency, equalization,
17 or similar reserves).

18 “(5) AMOUNT OF RESERVE.—The amount of
19 the reserve determined under this paragraph with
20 respect to any contract shall be determined in the
21 same manner as it would be determined if the quali-
22 fying insurance company or qualifying insurance
23 company branch were subject to tax under sub-
24 chapter L, except that in applying such sub-
25 chapter—

1 “(A) the interest rate determined for the
2 functional currency of the company’s or
3 branch’s home country, and which, except as
4 provided by the Secretary, is calculated in the
5 same manner as the Federal mid-term rate
6 under section 1274(d), shall be substituted for
7 the applicable Federal interest rate,

8 “(B) the highest assumed interest rate
9 permitted to be used in determining foreign
10 statement reserves shall be substituted for the
11 prevailing State assumed interest rate, and

12 “(C) tables for mortality and morbidity
13 which reasonably reflect the current mortality
14 and morbidity risks in the company’s or
15 branch’s home country shall be substituted for
16 the mortality and morbidity tables otherwise
17 used for such subchapter.

18 The Secretary may provide that the interest rate
19 and mortality and morbidity tables of a qualifying
20 insurance company may be used for 1 or more of its
21 qualifying insurance company branches when appro-
22 priate.

23 “(6) DEFINITIONS.—For purposes of this sub-
24 section, any term used in this subsection which is

1 also used in section 953(e) shall have the meaning
2 given such term by section 953.”

3 (3) RESERVES.—Section 953(b) is amended by
4 redesignating paragraph (3) as paragraph (4) and
5 by inserting after paragraph (2) the following new
6 paragraph:

7 “(3) Reserves for any insurance or annuity con-
8 tract shall be determined in the same manner as
9 under section 954(i).”

10 (c) SPECIAL RULES FOR DEALERS.—Section
11 954(e)(2)(C) is amended to read as follows:

12 “(C) EXCEPTION FOR DEALERS.—Except
13 as provided by regulations, in the case of a reg-
14 ular dealer in property which is property de-
15 scribed in paragraph (1)(B), forward contracts,
16 option contracts, or similar financial instru-
17 ments (including notional principal contracts
18 and all instruments referenced to commodities),
19 there shall not be taken into account in comput-
20 ing foreign personal holding company income—

21 “(i) any item of income, gain, deduc-
22 tion, or loss (other than any item described
23 in subparagraph (A), (E), or (G) of para-
24 graph (1)) from any transaction (including
25 hedging transactions) entered into in the

1 ordinary course of such dealer's trade or
2 business as such a dealer, and

3 “(ii) if such dealer is a dealer in secu-
4 rities (within the meaning of section 475),
5 any interest or dividend or equivalent
6 amount described in subparagraph (E) or
7 (G) of paragraph (1) from any transaction
8 (including any hedging transaction or
9 transaction described in section
10 956(c)(2)(J)) entered into in the ordinary
11 course of such dealer's trade or business as
12 such a dealer in securities, but only if the
13 income from the transaction is attributable
14 to activities of the dealer in the country
15 under the laws of which the dealer is cre-
16 ated or organized (or in the case of a
17 qualified business unit described in section
18 989(a), is attributable to activities of the
19 unit in the country in which the unit both
20 maintains its principal office and conducts
21 substantial business activity).”

22 (d) EXEMPTION FROM FOREIGN BASE COMPANY
23 SERVICES INCOME.—Paragraph (2) of section 954(e) is
24 amended by inserting “or” at the end of subparagraph
25 (A), by striking “; or” at the end of subparagraph (B)

1 and inserting a period, by striking subparagraph (C), and
 2 by adding at the end the following new flush sentence:

3 “Paragraph (1) shall also not apply to income which is
 4 exempt insurance income (as defined in section 953(e))
 5 or which is not treated as foreign personal holding income
 6 by reason of subsection (c)(2)(C)(ii), (h), or (i).”

7 (e) EXEMPTION FOR GAIN.—Section 954(c)(1)(B)(i)
 8 (relating to net gains from certain property transactions)
 9 is amended by inserting “other than property which gives
 10 rise to income not treated as foreign personal holding com-
 11 pany income by reason of subsection (h) for the taxable
 12 year” before the comma at the end.

13 **Subtitle B—Generalized System of** 14 **Preferences**

15 **SEC. 311. EXTENSION OF GENERALIZED SYSTEM OF PREF-** 16 **ERENCES.**

17 (a) EXTENSION OF DUTY-FREE TREATMENT UNDER
 18 SYSTEM.—Section 505 of the Trade Act of 1974 (29
 19 U.S.C. 2465) is amended by striking “June 30, 1998” and
 20 inserting “February 29, 2000”.

21 (b) RETROACTIVE APPLICATION FOR CERTAIN LIQ-
 22 UIDATIONS AND RELIQUIDATIONS.—

23 (1) IN GENERAL.—Notwithstanding section 514
 24 of the Tariff Act of 1930 or any other provision of
 25 law, and subject to paragraph (2), any entry—

1 (A) of an article to which duty-free treat-
2 ment under title V of the Trade Act of 1974
3 would have applied if such title had been in ef-
4 fect during the period beginning on July 1,
5 1998, and ending on the day before the date of
6 the enactment of this Act, and

7 (B) that was made after June 30, 1998,
8 and before the date of the enactment of this
9 Act,

10 shall be liquidated or reliquidated as free of duty,
11 and the Secretary of the Treasury shall refund any
12 duty paid with respect to such entry. As used in this
13 subsection, the term “entry” includes a withdrawal
14 from warehouse for consumption.

15 (2) REQUESTS.—Liquidation or reliquidation
16 may be made under paragraph (1) with respect to
17 an entry only if a request therefor is filed with the
18 Customs Service, within 180 days after the date of
19 the enactment of this Act, that contains sufficient
20 information to enable the Customs Service—

21 (A) to locate the entry; or

22 (B) to reconstruct the entry if it cannot be
23 located.

1 **TITLE IV—REVENUE OFFSET**

2 **SEC. 401. TREATMENT OF CERTAIN DEDUCTIBLE LIQUIDAT-**
3 **ING DISTRIBUTIONS OF REGULATED INVEST-**
4 **MENT COMPANIES AND REAL ESTATE IN-**
5 **VESTMENT TRUSTS.**

6 (a) IN GENERAL.—Section 332 (relating to complete
7 liquidations of subsidiaries) is amended by adding at the
8 end the following new subsection:

9 “(c) DEDUCTIBLE LIQUIDATING DISTRIBUTIONS OF
10 REGULATED INVESTMENT COMPANIES AND REAL ES-
11 TATE INVESTMENT TRUSTS.—If a corporation receives a
12 distribution from a regulated investment company or a
13 real estate investment trust which is considered under sub-
14 section (b) as being in complete liquidation of such com-
15 pany or trust, then, notwithstanding any other provision
16 of this chapter, such corporation shall recognize and treat
17 as a dividend from such company or trust an amount
18 equal to the deduction for dividends paid allowable to such
19 company or trust by reason of such distribution.”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) The material preceding paragraph (1) of
22 section 332(b) is amended by striking “subsection
23 (a)” and inserting “this section”.

1 (2) Paragraph (1) of section 334(b) is amended
2 by striking “section 332(a)” and inserting “section
3 332”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to distributions after May 21,
6 1998.

7 **TITLE V—TECHNICAL** 8 **CORRECTIONS**

9 **SEC. 501. DEFINITIONS; COORDINATION WITH OTHER TI-**
10 **TLES.**

11 (a) DEFINITIONS.—For purposes of this title—

12 (1) 1986 CODE.—The term “1986 Code”
13 means the Internal Revenue Code of 1986.

14 (2) 1998 ACT.—The term “1998 Act” means
15 the Internal Revenue Service Restructuring and Re-
16 form Act of 1998 (Public Law 105–206).

17 (3) 1997 ACT.—The term “1997 Act” means
18 the Taxpayer Relief Act of 1997 (Public Law 105–
19 34).

20 (b) COORDINATION WITH OTHER TITLES.—For pur-
21 poses of applying the amendments made by any title of
22 this Act other than this title, the provisions of this title
23 shall be treated as having been enacted immediately before
24 the provisions of such other titles.

1 **SEC. 502. AMENDMENTS RELATED TO INTERNAL REVENUE**
2 **SERVICE RESTRUCTURING AND REFORM ACT**
3 **OF 1998.**

4 (a) AMENDMENT RELATED TO SECTION 1101 OF
5 1998 ACT.—Paragraph (5) of section 6103(h) of the 1986
6 Code, as added by section 1101(b) of the 1998 Act, is
7 redesignated as paragraph (6).

8 (b) AMENDMENT RELATED TO SECTION 3001 OF
9 1998 ACT.—Paragraph (2) of section 7491(a) of the 1986
10 Code is amended by adding at the end the following flush
11 sentence:

12 “Subparagraph (C) shall not apply to any qualified
13 revocable trust (as defined in section 645(b)(1)) with
14 respect to liability for tax for any taxable year end-
15 ing after the date of the decedent’s death and before
16 the applicable date (as defined in section
17 645(b)(2)).”.

18 (c) AMENDMENTS RELATED TO SECTION 3201 OF
19 1998 ACT.—

20 (1) Section 7421(a) of the 1986 Code is amend-
21 ed by striking “6015(d)” and inserting “6015(e)”.

22 (2) Subparagraph (A) of section 6015(e)(3) is
23 amended by striking “of this section” and inserting
24 “of subsection (b) or (f)”.

25 (d) AMENDMENT RELATED TO SECTION 3301 OF
26 1998 ACT.—Paragraph (2) of section 3301(c) of the 1998

1 Act is amended by striking “The amendments” and insert-
2 ing “Subject to any applicable statute of limitation not
3 having expired with regard to either a tax underpayment
4 or a tax overpayment, the amendments”.

5 (e) AMENDMENT RELATED TO SECTION 3401 OF
6 1998 ACT.—Section 3401(c) of the 1998 Act is amend-
7 ed—

8 (1) in paragraph (1), by striking “7443(b)”
9 and inserting “7443A(b)”; and

10 (2) in paragraph (2), by striking “7443(c)” and
11 inserting “7443A(c)”.

12 (f) AMENDMENT RELATED TO SECTION 3433 OF
13 1998 ACT.—Section 7421(a) of the 1986 Code is amended
14 by inserting “6331(i),” after “6246(b),”.

15 (g) AMENDMENT RELATED TO SECTION 3708 OF
16 1998 ACT.—Subparagraph (A) of section 6103(p)(3) of
17 the 1986 Code is amended by inserting “(f)(5),” after
18 “(c), (e),”.

19 (h) AMENDMENT RELATED TO SECTION 5001 OF
20 1998 ACT.—

21 (1) Subparagraph (B) of section 1(h)(13) of the
22 1986 Code is amended by striking “paragraph
23 (7)(A)” and inserting “paragraph (7)(A)(i)”.

24 (2)(A) Subparagraphs (A)(i)(II), (A)(ii)(II),
25 and (B)(ii) of section 1(h)(13) of the 1986 Code

1 shall not apply to any distribution after December
2 31, 1997, by a regulated investment company or a
3 real estate investment trust with respect to—

4 (i) gains and losses recognized directly by
5 such company or trust, and

6 (ii) amounts properly taken into account
7 by such company or trust by reason of holding
8 (directly or indirectly) an interest in another
9 such company or trust to the extent that such
10 subparagraphs did not apply to such other com-
11 pany or trust with respect to such amounts.

12 (B) Subparagraph (A) shall not apply to any
13 distribution which is treated under section 852(b)(7)
14 or 857(b)(8) of the 1986 Code as received on De-
15 cember 31, 1997.

16 (C) For purposes of subparagraph (A), any
17 amount which is includible in gross income of its
18 shareholders under section 852(b)(3)(D) or
19 857(b)(3)(D) of the 1986 Code after December 31,
20 1997, shall be treated as distributed after such date.

21 (i) EFFECTIVE DATE.—The amendments made by
22 this section shall take effect as if included in the provisions
23 of the 1998 Act to which they relate.

1 **SEC. 503. AMENDMENTS RELATED TO TAXPAYER RELIEF**

2 **ACT OF 1997.**

3 (a) AMENDMENT RELATED TO SECTION 202 OF 1997
4 ACT.—Paragraph (2) of section 163(h) of the 1986 Code
5 is amended by striking “and” at the end of subparagraph
6 (D), by striking the period at the end of subparagraph
7 (E) and inserting “, and”, and by adding at the end the
8 following new subparagraph:

9 “(F) any interest allowable as a deduction
10 under section 221 (relating to interest on edu-
11 cational loans).”

12 (b) PROVISION RELATED TO SECTION 311 OF 1997
13 ACT.—In the case of any capital gain distribution made
14 after 1997 by a trust to which section 664 of the 1986
15 Code applies with respect to amounts properly taken into
16 account by such trust during 1997, paragraphs
17 (5)(A)(i)(I), (5)(A)(ii)(I), and (13)(A) of section 1(h) of
18 the 1986 Code (as in effect for taxable years ending on
19 December 31, 1997) shall not apply.

20 (c) AMENDMENT RELATED TO SECTION 506 OF 1997
21 ACT.—

22 (1) Section 2001(f)(2) of the 1986 Code is
23 amended by adding at the end the following:

24 “For purposes of subparagraph (A), the value of an
25 item shall be treated as shown on a return if the
26 item is disclosed in the return, or in a statement at-

1 tached to the return, in a manner adequate to ap-
2 prise the Secretary of the nature of such item.”.

3 (2) Paragraph (9) of section 6501(c) of the
4 1986 Code is amended by striking the last sentence.

5 (d) AMENDMENTS RELATED TO SECTION 904 OF
6 1997 ACT.—

7 (1) Paragraph (1) of section 9510(c) of the
8 1986 Code is amended to read as follows:

9 “(1) IN GENERAL.—Amounts in the Vaccine In-
10 jury Compensation Trust Fund shall be available, as
11 provided in appropriation Acts, only for—

12 “(A) the payment of compensation under
13 subtitle 2 of title XXI of the Public Health
14 Service Act (as in effect on August 5, 1997) for
15 vaccine-related injury or death with respect to
16 any vaccine—

17 “(i) which is administered after Sep-
18 tember 30, 1988, and

19 “(ii) which is a taxable vaccine (as de-
20 fined in section 4132(a)(1)) at the time
21 compensation is paid under such subtitle 2,
22 or

23 “(B) the payment of all expenses of admin-
24 istration (but not in excess of \$6,000,000 for

1 any fiscal year) incurred by the Federal Gov-
2 ernment in administering such subtitle.”.

3 (2) Section 9510(b) of the 1986 Code is amend-
4 ed by adding at the end the following new para-
5 graph:

6 “(3) LIMITATION ON TRANSFERS TO VACCINE
7 INJURY COMPENSATION TRUST FUND.—No amount
8 may be appropriated to the Vaccine Injury Com-
9 pensation Trust Fund on and after the date of any
10 expenditure from the Trust Fund which is not per-
11 mitted by this section. The determination of whether
12 an expenditure is so permitted shall be made without
13 regard to—

14 “(A) any provision of law which is not con-
15 tained or referenced in this title or in a revenue
16 Act, and

17 “(B) whether such provision of law is a
18 subsequently enacted provision or directly or in-
19 directly seeks to waive the application of this
20 paragraph.”.

21 (e) AMENDMENTS RELATED TO SECTION 915 OF
22 1997 ACT.—

23 (1) Section 915 of the Taxpayer Relief Act of
24 1997 is amended—

1 (A) in subsection (b), by inserting “or
2 1998” after “1997”, and

3 (B) by amending subsection (d) to read as
4 follows:

5 “(d) EFFECTIVE DATE.—This section shall apply to
6 taxable years ending with or within calendar year 1997.”.

7 (2) Paragraph (2) of section 6404(h) of the
8 1986 Code is amended by inserting “Robert T. Staf-
9 ford” before “Disaster”.

10 (f) AMENDMENTS RELATED TO SECTION 1012 OF
11 1997 ACT.—

12 (1) Paragraph (2) of section 351(c) of the 1986
13 Code, as amended by section 6010(c) of the 1998
14 Act, is amended by inserting “, or the fact that the
15 corporation whose stock was distributed issues addi-
16 tional stock,” after “dispose of part or all of the dis-
17 tributed stock”.

18 (2) Clause (ii) of section 368(a)(2)(H) of the
19 1986 Code, as amended by section 6010(c) of the
20 1998 Act, is amended by inserting “, or the fact
21 that the corporation whose stock was distributed
22 issues additional stock,” after “dispose of part or all
23 of the distributed stock”.

24 (g) AMENDMENT RELATED TO SECTION 1082 OF
25 1997 ACT.—Subparagraph (F) of section 172(b)(1) of the

1 1986 Code is amended by adding at the end the following
2 new clause:

3 “(iv) COORDINATION WITH PARA-
4 GRAPH (2).—For purposes of applying
5 paragraph (2), an eligible loss for any tax-
6 able year shall be treated in a manner
7 similar to the manner in which a specified
8 liability loss is treated.”

9 (h) AMENDMENT RELATED TO SECTION 1084 OF
10 1997 ACT.—Paragraph (3) of section 264(f) of the 1986
11 Code is amended by adding at the end the following flush
12 sentence:

13 “If the amount described in subparagraph (A) with
14 respect to any policy or contract does not reasonably
15 approximate its actual value, the amount taken into
16 account under subparagraph (A) shall be the greater
17 of the amount of the insurance company liability or
18 the insurance company reserve with respect to such
19 policy or contract (as determined for purposes of the
20 annual statement approved by the National Associa-
21 tion of Insurance Commissioners) or shall be such
22 other amount as is determined by the Secretary.”

23 (i) AMENDMENT RELATED TO SECTION 1205 OF
24 1997 ACT.—Paragraph (2) of section 6311(d) of the 1986
25 Code is amended by striking “under such contracts” in

1 the last sentence and inserting “under any such contract
2 for the use of credit or debit cards for the payment of
3 taxes imposed by subtitle A”.

4 (j) EFFECTIVE DATE.—The amendments made by
5 this section shall take effect as if included in the provisions
6 of the Taxpayer Relief Act of 1997 to which they relate.

7 **SEC. 504. AMENDMENTS RELATED TO TAX REFORM ACT OF**
8 **1984.**

9 (a) IN GENERAL.—Subparagraph (C) of section
10 172(d)(4) of the 1986 Code is amended to read as follows:

11 “(C) any deduction for casualty or theft
12 losses allowable under paragraph (2) or (3) of
13 section 165(c) shall be treated as attributable
14 to the trade or business; and”.

15 (b) CONFORMING AMENDMENTS.—

16 (1) Paragraph (3) of section 67(b) of the 1986
17 Code is amended by striking “for losses described in
18 subsection (c)(3) or (d) of section 165” and insert-
19 ing “for casualty or theft losses described in para-
20 graph (2) or (3) of section 165(c) or for losses de-
21 scribed in section 165(d)”.

22 (2) Paragraph (3) of section 68(c) of the 1986
23 Code is amended by striking “for losses described in
24 subsection (c)(3) or (d) of section 165” and insert-
25 ing “for casualty or theft losses described in para-

1 graph (2) or (3) of section 165(c) or for losses de-
2 scribed in section 165(d)”.

3 (3) Paragraph (1) of section 873(b) is amended
4 to read as follows:

5 “(1) LOSSES.—The deduction allowed by sec-
6 tion 165 for casualty or theft losses described in
7 paragraph (2) or (3) of section 165(c), but only if
8 the loss is of property located within the United
9 States.”

10 (c) EFFECTIVE DATES.—

11 (1) The amendments made by subsections (a)
12 and (b)(3) shall apply to taxable years beginning
13 after December 31, 1983.

14 (2) The amendment made by subsection (b)(1)
15 shall apply to taxable years beginning after Decem-
16 ber 31, 1986.

17 (3) The amendment made by subsection (b)(2)
18 shall apply to taxable years beginning after Decem-
19 ber 31, 1990.

20 **SEC. 505. OTHER AMENDMENTS.**

21 (a) AMENDMENTS RELATED TO SECTION 6103 OF
22 1986 CODE.—

23 (1) Subsection (j) of section 6103 of the 1986
24 Code is amended by adding at the end the following
25 new paragraph:

1 “(5) DEPARTMENT OF AGRICULTURE.—Upon
2 request in writing by the Secretary of Agriculture,
3 the Secretary shall furnish such returns, or return
4 information reflected thereon, as the Secretary may
5 prescribe by regulation to officers and employees of
6 the Department of Agriculture whose official duties
7 require access to such returns or information for the
8 purpose of, but only to the extent necessary in,
9 structuring, preparing, and conducting the census of
10 agriculture pursuant to the Census of Agriculture
11 Act of 1997 (Public Law 105–113).”.

12 (2) Paragraph (4) of section 6103(p) of the
13 1986 Code is amended by striking “(j)(1) or (2)” in
14 the material preceding subparagraph (A) and in sub-
15 paragraph (F) and inserting “(j)(1), (2), or (5)”.

16 (3) The amendments made by this subsection
17 shall apply to requests made on or after the date of
18 the enactment of this Act.

19 (b) AMENDMENT RELATED TO SECTION 9004 OF
20 TRANSPORTATION EQUITY ACT FOR THE 21ST CEN-
21 TURY.—

22 (1) Paragraph (2) of section 9503(f) of the
23 1986 Code is amended to read as follows:

24 “(2) notwithstanding section 9602(b), obliga-
25 tions held by such Fund after September 30, 1998,

1 shall be obligations of the United States which are
2 not interest-bearing.”

3 (2) The amendment made by paragraph (1)
4 shall take effect on October 1, 1998.

5 (c) CLERICAL AMENDMENT.—Clause (i) of section
6 51(d)(6)(B) of the 1986 Code is amended by striking “re-
7 habilitation plan” and inserting “plan for employment”.

8 **TITLE VI—AMERICAN COMMU-**
9 **NITY RENEWAL ACT OF 1998**

10 **SEC. 601. SHORT TITLE.**

11 This title may be cited as the “American Community
12 Renewal Act of 1998”.

13 **SEC. 602. FINDINGS AND PURPOSE.**

14 (a) FINDINGS.—The Congress makes the following
15 findings:

16 (1) Many of the Nation’s urban centers are
17 places with high levels of poverty, high rates of wel-
18 fare dependency, high crime rates, poor schools, and
19 joblessness.

20 (2) Federal tax incentives and regulatory re-
21 forms can encourage economic growth, job creation,
22 and small business formation in many urban centers.

23 (3) Encouraging private sector investment in
24 America’s economically distressed urban and rural
25 areas is essential to breaking the cycle of poverty

1 and the related ills of crime, drug abuse, illiteracy,
2 welfare dependency, and unemployment.

3 (b) PURPOSE.—The purpose of this title is to in-
4 crease job creation, small business expansion and forma-
5 tion, educational opportunities, and homeownership, and
6 to foster moral renewal, in economically depressed areas
7 by providing Federal tax incentives, regulatory reforms,
8 school reform pilot projects, and homeownership incen-
9 tives.

10 **Subtitle A—Designation and Eval-** 11 **uation of Renewal Communities**

12 **SEC. 611. SHORT TITLE.**

13 This subtitle may be cited as the “Renewing Amer-
14 ican Communities Act of 1998”.

15 **SEC. 612. STATEMENT OF PURPOSE.**

16 It is the purpose of this subtitle to provide for the
17 establishment of renewal communities in order to stimu-
18 late the creation of new jobs, particularly for disadvan-
19 tagged workers and long-term unemployed individuals, and
20 to promote revitalization of economically distressed areas
21 primarily by providing or encouraging—

22 (1) tax relief at the Federal, State, and local
23 levels;

24 (2) regulatory relief at the Federal, State, and
25 local levels; and

1 (3) improved local services and an increase in
 2 the economic stake of renewal community residents
 3 in their own community and its development, par-
 4 ticularly through the increased involvement of pri-
 5 vate, local, and neighborhood organizations.

6 **SEC. 613. DESIGNATION OF RENEWAL COMMUNITIES.**

7 (a) IN GENERAL.—Chapter 1 of the Act is amended
 8 by adding at the end the following new subchapter:

9 **“Subchapter X—Renewal Communities**

 “Part I. Designation.

10 **“PART I—DESIGNATION**

 “Sec. 1400E. Designation of Renewal Communities.

11 **“SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

12 “(a) DESIGNATION.—

13 “(1) DEFINITIONS.—For purposes of this title,
 14 the term ‘renewal community’ means any area—

15 “(A) which is nominated by one or more
 16 local governments and the State or States in
 17 which it is located for designation as a renewal
 18 community (hereinafter in this section referred
 19 to as a ‘nominated area’), and

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

22 “(i) the Secretaries of Agriculture,
 23 Commerce, Labor, and the Treasury; the

1 Director of the Office of Management and
2 Budget; and the Administrator of the
3 Small Business Administration, and

4 “(ii) in the case of an area on an In-
5 dian reservation, the Secretary of the Inte-
6 rior,

7 designates as a renewal community.

8 “(2) NUMBER OF DESIGNATIONS.—

9 “(A) IN GENERAL.—The Secretary of
10 Housing and Urban Development may des-
11 ignate not more than 20 nominated areas as re-
12 newal communities.

13 “(B) MINIMUM DESIGNATION IN RURAL
14 AREAS.—Of the areas designated under para-
15 graph (1), at least 20 percent must be areas—

16 “(i) which are within a local govern-
17 ment jurisdiction or jurisdictions with a
18 population of less than 50,000 (as deter-
19 mined under the most recent census data
20 available),

21 “(ii) which are outside of a metropoli-
22 tan statistical area (within the meaning of
23 section 143(k)(2)(B)), or

24 “(iii) which are determined by the
25 Secretary of Housing and Urban Develop-

1 ment, after consultation with the Secretary
2 of Commerce, to be rural areas.

3 “(C) ADDITIONAL DESIGNATIONS TO RE-
4 PLACE REVOKED DESIGNATIONS.—

5 “(i) IN GENERAL.—The Secretary of
6 Housing and Urban Development may des-
7 ignate one additional area under subpara-
8 graph (A) to replace each area for which
9 the designation is revoked under subsection
10 (b)(2), but in no event may more than 20
11 areas designated under this subsection
12 bear designations as renewal communities
13 at any time.

14 “(ii) EXTENSION OF TIME LIMIT ON
15 DESIGNATIONS.—In the case of any des-
16 ignation made under this subparagraph,
17 paragraph (4)(B) shall be applied by sub-
18 stituting ‘36-month’ for ‘24-month’.

19 “(3) AREAS DESIGNATED BASED ON DEGREE
20 OF POVERTY, ETC.—

21 “(A) IN GENERAL.—Except as otherwise
22 provided in this section, the nominated areas
23 designated as renewal communities under this
24 subsection shall be those nominated areas with
25 the highest average ranking with respect to the

1 criteria described in subparagraphs (C), (D),
2 and (E) of subsection (c)(3). For purposes of
3 the preceding sentence, an area shall be ranked
4 within each such criterion on the basis of the
5 amount by which the area exceeds such cri-
6 terion, with the area which exceeds such cri-
7 terion by the greatest amount given the highest
8 ranking.

9 “(B) EXCEPTION WHERE INADEQUATE
10 COURSE OF ACTION, ETC.—An area shall not be
11 designated under subparagraph (A) if the Sec-
12 retary of Housing and Urban Development de-
13 termines that the course of action described in
14 subsection (d)(2) with respect to such area is
15 inadequate.

16 “(C) PRIORITY FOR EMPOWERMENT ZONES
17 AND ENTERPRISE COMMUNITIES WITH RESPECT
18 TO FIRST HALF OF DESIGNATIONS.—With re-
19 spect to the first half of the designations made
20 under this section, the nominated areas des-
21 ignated as renewal communities shall be chosen
22 first from nominated areas which are enterprise
23 zones or empowerment communities (and are
24 otherwise eligible for designation under this sec-

1 tion), and then from other nominated areas
2 which are so eligible.

3 “(D) SEPARATE APPLICATION TO RURAL
4 AND OTHER AREAS.—Subparagraph (A) shall
5 be applied separately with respect to areas de-
6 scribed in paragraph (2)(B) and to other areas.

7 “(4) LIMITATION ON DESIGNATIONS.—

8 “(A) PUBLICATION OF REGULATIONS.—
9 The Secretary of Housing and Urban Develop-
10 ment shall prescribe by regulation no later than
11 4 months after the date of the enactment of
12 this section, after consultation with the officials
13 described in paragraph (1)(B)—

14 “(i) the procedures for nominating an
15 area under paragraph (1)(A),

16 “(ii) the parameters relating to the
17 size and population characteristics of a re-
18 newal community, and

19 “(iii) the manner in which nominated
20 areas will be evaluated based on the cri-
21 teria specified in subsection (d).

22 “(B) TIME LIMITATIONS.—The Secretary
23 of Housing and Urban Development may des-
24 ignate nominated areas as renewal communities
25 only during the 24-month period beginning on

1 the first day of the first month following the
2 month in which the regulations described in
3 subparagraph (A) are prescribed.

4 “(C) PROCEDURAL RULES.—The Secretary
5 of Housing and Urban Development shall not
6 make any designation of a nominated area as a
7 renewal community under paragraph (2) un-
8 less—

9 “(i) the local governments and the
10 State in which the nominated area is lo-
11 cated have the authority—

12 “(I) to nominate such area for
13 designation as a renewal community,

14 “(II) to make the State and local
15 commitments described in subsection
16 (d), and

17 “(III) to provide assurances sat-
18 isfactory to the Secretary of Housing
19 and Urban Development that such
20 commitments will be fulfilled,

21 “(ii) a nomination regarding such
22 area is submitted in such a manner and in
23 such form, and contains such information,
24 as the Secretary of Housing and Urban

1 Development shall by regulation prescribe,
2 and

3 “(iii) the Secretary of Housing and
4 Urban Development determines that any
5 information furnished is reasonably accu-
6 rate.

7 “(5) NOMINATION PROCESS FOR INDIAN RES-
8 ERVATIONS.—For purposes of this subchapter, in
9 the case of a nominated area on an Indian reserva-
10 tion, the reservation governing body (as determined
11 by the Secretary of the Interior) shall be treated as
12 being both the State and local governments with re-
13 spect to such area.

14 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
15 FECT.—

16 “(1) IN GENERAL.—Any designation of an area
17 as a renewal community shall remain in effect dur-
18 ing the period beginning on the date of the designa-
19 tion and ending on the earliest of—

20 “(A) December 31, 2006,

21 “(B) the termination date designated by
22 the State and local governments in their nomi-
23 nation pursuant to subsection (a)(4)(C)(ii), or

1 “(C) the date the Secretary of Housing
2 and Urban Development revokes such designa-
3 tion under paragraph (2).

4 “(2) REVOCATION OF DESIGNATION.—The Sec-
5 retary of Housing and Urban Development may,
6 after a hearing on the record involving officials of
7 the State or local government involved (or both, if
8 applicable), revoke the designation of an area if the
9 Secretary of Housing and Urban Development deter-
10 mines that the local government or State in which
11 the area is located is not complying substantially
12 with the State or local commitments, respectively,
13 described in subsection (d).

14 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

15 “(1) IN GENERAL.—The Secretary of Housing
16 and Urban Development may designate any nomi-
17 nated area as a renewal community under subsection
18 (a) only if the area meets the requirements of para-
19 graphs (2) and (3) of this subsection.

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

22 “(A) the area is within the jurisdiction of
23 a local government,

24 “(B) the boundary of the area is continu-
25 ous, and

1 “(C) the area—

2 “(i) has a population, as determined
3 by the most recent census data available,
4 of at least—

5 “(I) 4,000 if any portion of such
6 area (other than a rural area de-
7 scribed in subsection (a)(2)(B)(i)) is
8 located within a metropolitan statis-
9 tical area (within the meaning of sec-
10 tion 143(k)(2)(B)) which has a popu-
11 lation of 50,000 or greater, or

12 “(II) 1,000 in any other case, or

13 “(ii) is entirely within an Indian res-
14 ervation (as determined by the Secretary of
15 the Interior).

16 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
17 nated area meets the requirements of this paragraph
18 if the State and the local governments in which it
19 is located certify (and the Secretary of Housing and
20 Urban Development, after such review of supporting
21 data as he deems appropriate, accepts such certifi-
22 cation) that—

23 “(A) the area is one of pervasive poverty,
24 unemployment, and general distress,

1 “(B) the unemployment rate in the area,
2 as determined by the appropriate available
3 data, was at least 1½ times the national unem-
4 ployment rate for the period to which such data
5 relate,

6 “(C) the poverty rate (as determined by
7 the most recent census data available) for each
8 population census tract (or where not tracted,
9 the equivalent county division as defined by the
10 Bureau of the Census for the purpose of defin-
11 ing poverty areas) within the area was at least
12 20 percent for the period to which such data re-
13 late, and

14 “(D) in the case of an urban area, at least
15 70 percent of the households living in the area
16 have incomes below 80 percent of the median
17 income of households within the jurisdiction of
18 the local government (determined in the same
19 manner as under section 119(b)(2) of the
20 Housing and Community Development Act of
21 1974).

22 “(4) CONSIDERATION OF HIGH INCIDENCE OF
23 CRIME.—The Secretary of Housing and Urban De-
24 velopment shall take into account, in selecting nomi-
25 nated areas for designation as renewal communities

1 under this section, the extent to which such areas
2 have a high incidence of crime.

3 “(5) CONSIDERATION OF COMMUNITIES IDENTI-
4 FIED IN GAO STUDY.—The Secretary of Housing
5 and Urban Development shall take into account, in
6 selecting nominated areas for designation as renewal
7 communities under this section, if the area has cen-
8 sus tracts identified in the May 12, 1998, report of
9 the Government Accounting Office regarding the
10 identification of economically distressed areas.

11 “(d) REQUIRED STATE AND LOCAL COMMIT-
12 MENTS.—

13 “(1) IN GENERAL.—The Secretary of Housing
14 and Urban Development may designate any nomi-
15 nated area as a renewal community under subsection
16 (a) only if—

17 “(A) the local government and the State in
18 which the area is located agree in writing that,
19 during any period during which the area is a
20 renewal community, such governments will fol-
21 low a specified course of action which meets the
22 requirements of paragraph (2) and is designed
23 to reduce the various burdens borne by employ-
24 ers or employees in such area, and

1 “(B) the economic growth promotion re-
2 quirements of paragraph (3) are met.

3 “(2) COURSE OF ACTION.—

4 “(A) IN GENERAL.—A course of action
5 meets the requirements of this paragraph if
6 such course of action is a written document,
7 signed by a State (or local government) and
8 neighborhood organizations, which evidences a
9 partnership between such State or government
10 and community-based organizations and which
11 commits each signatory to specific and measur-
12 able goals, actions, and timetables. Such course
13 of action shall include at least five of the follow-
14 ing:

15 “(i) A reduction of tax rates or fees
16 applying within the renewal community.

17 “(ii) An increase in the level of effi-
18 ciency of local services within the renewal
19 community.

20 “(iii) Crime reduction strategies, such
21 as crime prevention (including the provi-
22 sion of such services by nongovernmental
23 entities).

24 “(iv) Actions to reduce, remove, sim-
25 plify, or streamline governmental require-

1 ments applying within the renewal commu-
2 nity.

3 “(v) Involvement in the program by
4 private entities, organizations, neighbor-
5 hood organizations, and community
6 groups, particularly those in the renewal
7 community, including a commitment from
8 such private entities to provide jobs and
9 job training for, and technical, financial, or
10 other assistance to, employers, employees,
11 and residents from the renewal community.

12 “(vi) State or local income tax bene-
13 fits for fees paid for services performed by
14 a nongovernmental entity which were for-
15 merly performed by a governmental entity.

16 “(vii) The gift (or sale at below fair
17 market value) of surplus realty (such as
18 land, homes, and commercial or industrial
19 structures) in the renewal community to
20 neighborhood organizations, community de-
21 velopment corporations, or private compa-
22 nies.

23 “(B) RECOGNITION OF PAST EFFORTS.—

24 For purposes of this section, in evaluating the
25 course of action agreed to by any State or local

1 government, the Secretary of Housing and
2 Urban Development shall take into account the
3 past efforts of such State or local government
4 in reducing the various burdens borne by em-
5 ployers and employees in the area involved.

6 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-
7 MENTS.—The economic growth promotion require-
8 ments of this paragraph are met with respect to a
9 nominated area if the local government and the
10 State in which such area is located certify in writing
11 that such government and State, respectively, have
12 repealed or otherwise will not enforce within the
13 area, if such area is designated as a renewal commu-
14 nity—

15 “(A) licensing requirements for occupa-
16 tions that do not ordinarily require a profes-
17 sional degree,

18 “(B) zoning restrictions on home-based
19 businesses which do not create a public nui-
20 sance,

21 “(C) permit requirements for street ven-
22 dors who do not create a public nuisance,

23 “(D) zoning or other restrictions that im-
24 pede the formation of schools or child care cen-
25 ters, and

1 “(E) franchises or other restrictions on
2 competition for businesses providing public
3 services, including but not limited to taxicabs,
4 jitneys, cable television, or trash hauling,
5 except to the extent that such regulation of busi-
6 nesses and occupations is necessary for and well-tai-
7 lored to the protection of health and safety.

8 “(e) COORDINATION WITH TREATMENT OF EM-
9 POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—
10 For purposes of this title, if there are in effect with respect
11 to the same area both—

12 “(1) a designation as a renewal community, and
13 “(2) a designation as an empowerment zone or
14 enterprise community,
15 both of such designations shall be given full effect with
16 respect to such area.

17 “(f) DEFINITIONS.—For purposes of this sub-
18 chapter—

19 “(1) GOVERNMENTS.—If more than one govern-
20 ment seeks to nominate an area as a renewal com-
21 munity, any reference to, or requirement of, this sec-
22 tion shall apply to all such governments.

23 “(2) STATE.—The term ‘State’ includes Puerto
24 Rico, the Virgin Islands of the United States, Guam,

1 American Samoa, the Northern Mariana Islands,
2 and any other possession of the United States.

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

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

8 “(B) any combination of political subdivi-
9 sions described in subparagraph (A) recognized
10 by the Secretary of Housing and Urban Devel-
11 opment, and

12 “(C) the District of Columbia.”

13 **SEC. 614. EVALUATION AND REPORTING REQUIREMENTS.**

14 Not later than the close of the fourth calendar year
15 after the year in which the Secretary of Housing and
16 Urban Development first designates an area as a renewal
17 community under section 1400E of the Internal Revenue
18 Code of 1986, and at the close of each fourth calendar
19 year thereafter, such Secretary shall prepare and submit
20 to the Congress a report on the effects of such designa-
21 tions in accomplishing the purposes of this title.

22 **SEC. 615. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

23 (a) TAX REDUCTIONS.—Any reduction of taxes, with
24 respect to any renewal community designated under sec-
25 tion 1400E of the Internal Revenue Code of 1986 (as

1 added by this subtitle), under any plan of action under
2 section 1400E(d) of such Code shall be disregarded in de-
3 termining the eligibility of a State or local government for,
4 or the amount or extent of, any assistance or benefits
5 under any law of the United States (other than subchapter
6 X of chapter 1 of such Code).

7 (b) COORDINATION WITH RELOCATION ASSIST-
8 ANCE.—The designation of a renewal community under
9 section 1400E of such Code (as added by this subtitle)
10 shall not—

11 (1) constitute approval of a Federal or Feder-
12 ally assisted program or project (within the meaning
13 of the Uniform Relocation Assistance and Real
14 Property Acquisition Policies Act of 1970 (42
15 U.S.C. 4601 et seq.)), or

16 (2) entitle any person displaced from real prop-
17 erty located in such community to any rights or any
18 benefits under such Act.

19 (c) RENEWAL COMMUNITIES TREATED AS LABOR
20 SURPLUS AREAS.—Any area which is designated as a re-
21 newal community under section 1400E of such Code (as
22 added by this subtitle) shall be treated for all purposes
23 under Federal law as a labor surplus area.

24 (d) COORDINATION WITH JOB TRAINING PRO-
25 GRAMS.—Renewal communities are encouraged to coordi-

1 nate efforts with job training providers who are public,
 2 private not-for-profit, or private for-profit entities.

3 **Subtitle B—Tax Incentives for**
 4 **Renewal Communities**

5 **SEC. 621. TAX TREATMENT OF RENEWAL COMMUNITIES.**

6 Subchapter X of chapter 1 (as added by subtitle A)
 7 is amended by adding at the end the following new parts:

8 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

9 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

10 “(a) GENERAL RULE.—Gross income does not in-
 11 clude any qualified capital gain recognized on the sale or
 12 exchange of a qualified community asset held for more
 13 than 5 years.

14 “(b) QUALIFIED COMMUNITY ASSET.—For purposes
 15 of this section—

16 “(1) IN GENERAL.—The term ‘qualified com-
 17 munity asset’ means—

18 “(A) any qualified community stock,

19 “(B) any qualified community business
 20 property, and

21 “(C) any qualified community partnership
 22 interest.

23 “(2) QUALIFIED COMMUNITY STOCK.—

1 “(A) IN GENERAL.—Except as provided in
2 subparagraph (B), the term ‘qualified commu-
3 nity stock’ means any stock in a domestic cor-
4 poration if—

5 “(i) such stock is acquired by the tax-
6 payer after December 31, 1999, and before
7 January 1, 2007, at its original issue (di-
8 rectly or through an underwriter) from the
9 corporation solely in exchange for cash,

10 “(ii) as of the time such stock was
11 issued, such corporation was a renewal
12 community business (or, in the case of a
13 new corporation, such corporation was
14 being organized for purposes of being a re-
15 newal community business), and

16 “(iii) during substantially all of the
17 taxpayer’s holding period for such stock,
18 such corporation qualified as a renewal
19 community business.

20 “(B) REDEMPTIONS.—A rule similar to
21 the rule of section 1202(c)(3) shall apply for
22 purposes of this paragraph.

23 “(3) QUALIFIED COMMUNITY BUSINESS PROP-
24 ERTY.—

1 “(A) IN GENERAL.—The term ‘qualified
2 community business property’ means tangible
3 property if—

4 “(i) such property was acquired by
5 the taxpayer by purchase (as defined in
6 section 179(d)(2)) after December 31,
7 1999, and before January 1, 2007,

8 “(ii) the original use of such property
9 in the renewal community commences with
10 the taxpayer, and

11 “(iii) during substantially all of the
12 taxpayer’s holding period for such prop-
13 erty, substantially all of the use of such
14 property was in a renewal community busi-
15 ness of the taxpayer.

16 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
17 PROVEMENTS.—

18 “(i) IN GENERAL.—The requirements
19 of clauses (i) and (ii) of subparagraph (A)
20 shall be treated as satisfied with respect
21 to—

22 “(I) property which is substan-
23 tially improved by the taxpayer before
24 January 1, 2007, and

1 “(II) any land on which such
2 property is located.

3 “(ii) SUBSTANTIAL IMPROVEMENT.—
4 For purposes of clause (i), property shall
5 be treated as substantially improved by the
6 taxpayer only if, during any 24-month pe-
7 riod beginning after the date on which the
8 designation of the renewal community took
9 effect, additions to basis with respect to
10 such property in the hands of the taxpayer
11 exceed the greater of—

12 “(I) an amount equal to the ad-
13 justed basis at the beginning of such
14 24-month period in the hands of the
15 taxpayer, or

16 “(II) \$5,000.

17 “(4) QUALIFIED COMMUNITY PARTNERSHIP IN-
18 TEREST.—The term ‘qualified community partner-
19 ship interest’ means any interest in a partnership
20 if—

21 “(A) such interest is acquired by the tax-
22 payer after December 31, 1999, and before
23 January 1, 2007,

24 “(B) as of the time such interest was ac-
25 quired, such partnership was a renewal commu-

1 nity business (or, in the case of a new partner-
2 ship, such partnership was being organized for
3 purposes of being a renewal community busi-
4 ness), and

5 “(C) during substantially all of the tax-
6 payer’s holding period for such interest, such
7 partnership qualified as a renewal community
8 business.

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

11 “(5) TREATMENT OF SUBSEQUENT PUR-
12 CHASERS.—The term ‘qualified community asset’ in-
13 cludes any property which would be a qualified com-
14 munity asset but for paragraph (2)(A)(i), (3)(A)(ii),
15 or (4)(A) in the hands of the taxpayer if such prop-
16 erty was a qualified community asset in the hands
17 of all prior holders.

18 “(6) 10-YEAR SAFE HARBOR.—If any property
19 ceases to be a qualified community asset by reason
20 of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after
21 the 10-year period beginning on the date the tax-
22 payer acquired such property, such property shall
23 continue to be treated as meeting the requirements
24 of such paragraph; except that the amount of gain
25 to which subsection (a) applies on any sale or ex-

1 change of such property shall not exceed the amount
2 which would be qualified capital gain had such prop-
3 erty been sold on the date of such cessation.

4 “(7) TREATMENT OF COMMUNITY DESIGNATION
5 TERMINATIONS.—The termination of any designa-
6 tion of an area as a renewal community shall be dis-
7 regarded for purposes of determining whether any
8 property is a qualified community asset.

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

11 “(1) QUALIFIED CAPITAL GAIN.—Except as
12 otherwise provided in this subsection, the term
13 ‘qualified capital gain’ means any long-term capital
14 gain recognized on the sale or exchange of a quali-
15 fied community asset held for more than 5 years
16 (determined without regard to any period before the
17 designation of the renewal community).

18 “(2) GAIN BEFORE 2000 OR AFTER 2006 NOT
19 QUALIFIED.—The term ‘qualified capital gain’ shall
20 not include any gain attributable to periods before
21 January 1, 2000, or after December 31, 2006.

22 “(3) CERTAIN GAIN NOT QUALIFIED.—The
23 term ‘qualified capital gain’ shall not include any
24 gain which would be treated as ordinary income
25 under section 1245 or under section 1250 if section

1 1250 applied to all depreciation rather than the ad-
2 ditional depreciation.

3 “(4) INTANGIBLES AND LAND NOT INTEGRAL
4 PART OF DC ZONE BUSINESS.—The term ‘qualified
5 capital gain’ shall not include any gain which is at-
6 tributable to real property, or an intangible asset,
7 which is not an integral part of a DC Zone business.

8 “(5) RELATED PARTY TRANSACTIONS.—The
9 term ‘qualified capital gain’ shall not include any
10 gain attributable, directly or indirectly, in whole or
11 in part, to a transaction with a related person. For
12 purposes of this paragraph, persons are related to
13 each other if such persons are described in section
14 267(b) or 707(b)(1).

15 “(d) CERTAIN OTHER RULES TO APPLY.—Rules
16 similar to the rules of subsections (g), (h), (i)(2), and (j)
17 of section 1202 shall apply for purposes of this section.

18 “(e) SALES AND EXCHANGES OF INTERESTS IN
19 PARTNERSHIPS AND S CORPORATIONS WHICH ARE
20 QUALIFIED COMMUNITY BUSINESSES.—In the case of the
21 sale or exchange of an interest in a partnership, or of
22 stock in an S corporation, which was a renewal community
23 business during substantially all of the period the taxpayer
24 held such interest or stock, the amount of qualified capital
25 gain shall be determined without regard to—

1 “(1) any intangible, and any land, which is not
2 an integral part of any qualified business entity (as
3 defined in section 1400G(b)), and

4 “(2) gain attributable to periods before the des-
5 ignation of an area as a renewal community.

6 **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

7 “(a) IN GENERAL.—For purposes of this part, the
8 term ‘renewal community business’ means—

9 “(1) any qualified business entity, and

10 “(2) any qualified proprietorship.

11 Such term shall include any trades or businesses which
12 would qualify as a renewal community business if such
13 trades or businesses were separately incorporated. Such
14 term shall not include any trade or business of producing
15 property of a character subject to the allowance for deple-
16 tion under section 611.

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

21 “(1) every trade or business of such entity is
22 the active conduct of a qualified business within a
23 renewal community,

1 “(2) at least 80 percent of the total gross in-
2 come of such entity is derived from the active con-
3 duct of such business,

4 “(3) substantially all of the use of the tangible
5 property of such entity (whether owned or leased) is
6 within a renewal community,

7 “(4) substantially all of the intangible property
8 of such entity is used in, and exclusively related to,
9 the active conduct of any such business,

10 “(5) substantially all of the services performed
11 for such entity by its employees are performed in a
12 renewal community,

13 “(6) at least 35 percent of its employees are
14 residents of a renewal community,

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

21 “(8) less than 5 percent of the average of the
22 aggregate unadjusted bases of the property of such
23 entity is attributable to nonqualified financial prop-
24 erty.

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

6 “(1) at least 80 percent of the total gross in-
7 come of such individual from such business is de-
8 rived from the active conduct of such business in a
9 renewal community,

10 “(2) substantially all of the use of the tangible
11 property of such individual in such business (wheth-
12 er owned or leased) is within a renewal community,

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

16 “(4) substantially all of the services performed
17 for such individual in such business by employees of
18 such business are performed in a renewal commu-
19 nity,

20 “(5) at least 35 percent of such employees are
21 residents of a renewal community,

22 “(6) less than 5 percent of the average of the
23 aggregate unadjusted bases of the property of such
24 individual which is used in such business is attrib-
25 utable to collectibles (as defined in section

1 408(m)(2)) other than collectibles that are held pri-
2 marily for sale to customers in the ordinary course
3 of such business, and

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

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

10 “(d) QUALIFIED BUSINESS.—For purposes of this
11 section—

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

15 “(2) RENTAL OF REAL PROPERTY.—The rental
16 to others of real property located in a renewal com-
17 munity shall be treated as a qualified business if and
18 only if—

19 “(A) the property is not residential rental
20 property (as defined in section 168(e)(2)), and

21 “(B) at least 50 percent of the gross rental
22 income from the real property is from renewal
23 community businesses.

24 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
25 erty.—The rental to others of tangible personal

1 property shall be treated as a qualified business if
2 and only if substantially all of the rental of such
3 property is by renewal community businesses or by
4 residents of a renewal community.

5 “(4) TREATMENT OF BUSINESS HOLDING IN-
6 TANGIBLES.—The term ‘qualified business’ shall not
7 include any trade or business consisting predomi-
8 nantly of the development or holding of intangibles
9 for sale or license.

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

12 “(A) any trade or business consisting of
13 the operation of any facility described in section
14 144(c)(6)(B), and

15 “(B) any trade or business the principal
16 activity of which is farming (within the meaning
17 of subparagraph (A) or (B) of section
18 2032A(e)(5)), but only if, as of the close of the
19 preceding taxable year, the sum of—

20 “(i) the aggregate unadjusted bases
21 (or, if greater, the fair market value) of
22 the assets owned by the taxpayer which are
23 used in such a trade or business, and

1 “(ii) the aggregate value of assets
2 leased by the taxpayer which are used in
3 such a trade or business,
4 exceeds \$500,000.

5 “(6) CONTROLLED GROUPS.—For purposes of
6 paragraph (5)(B), all persons treated as a single em-
7 ployer under subsection (a) or (b) of section 52 shall
8 be treated as a single taxpayer.

9 “(e) NONQUALIFIED FINANCIAL PROPERTY.—For
10 purposes of this section, the term ‘nonqualified financial
11 property’ means debt, stock, partnership interests, op-
12 tions, futures contracts, forward-contracts, warrants, no-
13 tional principal contracts, annuities, and other similar
14 property specified in regulations; except that such term
15 shall not include—

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

19 “(2) debt instruments described in section
20 1221(4).

21 **“PART III—FAMILY DEVELOPMENT ACCOUNTS**

 “Sec. 1400H. Family development accounts.

 “Sec. 1400I. Demonstration program to provide matching con-
 tributions to family development accounts in certain
 renewal communities.

 “Sec. 1400J. Designation of earned income tax credit payments
 for deposit to family development account.

1 **“SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RE-**
2 **NEWAL COMMUNITY EITC RECIPIENTS.**

3 “(a) ALLOWANCE OF DEDUCTION.—

4 “(1) IN GENERAL.—There shall be allowed as a
5 deduction—

6 “(A) in the case of a qualified individual,
7 the amount paid in cash for the taxable year by
8 such individual to any family development ac-
9 count for such individual’s benefit, and

10 “(B) in the case of any person other than
11 a qualified individual, the amount paid in cash
12 for the taxable year by such person to any fam-
13 ily development account for the benefit of a
14 qualified individual.

15 No deduction shall be allowed under this paragraph
16 for any amount deposited in a family development
17 account under section 1400I (relating to demonstra-
18 tion program to provide matching amounts in re-
19 newal communities).

20 “(2) LIMITATION.—

21 “(A) IN GENERAL.—The amount allowable
22 as a deduction to any individual for any taxable
23 year by reason of paragraph (1)(A) shall not
24 exceed the lesser of—

25 “(i) \$2,000, or

1 “(ii) an amount equal to the com-
2 pensation includible in the individual’s
3 gross income for such taxable year.

4 “(B) PERSONS DONATING TO FAMILY DE-
5 VELOPMENT ACCOUNTS OF OTHERS.—The
6 amount allowable as a deduction to any person
7 for any taxable year by reason of paragraph
8 (1)(B) shall not exceed \$1,000 with respect to
9 any qualified individual.

10 “(3) SPECIAL RULES FOR CERTAIN MARRIED
11 INDIVIDUALS.—

12 “(A) IN GENERAL.—In the case of an indi-
13 vidual to whom this subparagraph applies for
14 the taxable year, the limitation of subparagraph
15 (A) of paragraph (2) shall be equal to the lesser
16 of—

17 “(i) the dollar amount in effect under
18 paragraph (2)(A)(i) for the taxable year,
19 or

20 “(ii) the sum of—

21 “(I) the compensation includible
22 in such individual’s gross income for
23 the taxable year, plus—

24 “(II) the compensation includible
25 in the gross income of such individ-

1 ual's spouse for the taxable year re-
2 duced by the amount allowed as a de-
3 duction under paragraph (1) to such
4 spouse for such taxable year.

5 “(B) INDIVIDUALS TO WHOM SUBPARA-
6 GRAPH (A) APPLIES.—Subparagraph (A) shall
7 apply to any individual if—

8 “(i) such individual files a joint return
9 for the taxable year, and

10 “(ii) the amount of compensation (if
11 any) includible in such individual's gross
12 income for the taxable year is less than the
13 compensation includible in the gross in-
14 come of such individual's spouse for the
15 taxable year.

16 “(4) ROLLOVERS.—No deduction shall be al-
17 lowed under this section with respect to any rollover
18 contribution.

19 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

20 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
21 COME.—Except as otherwise provided in this sub-
22 section, any amount paid or distributed out of a
23 family development account shall be included in
24 gross income by the payee or distributee, as the case
25 may be.

1 “(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT DISTRIBUTIONS.—Paragraph (1) shall not
2 apply to any qualified family development distribu-
3 tion.
4

5 “(3) SPECIAL RULES.—Rules similar to the
6 rules of paragraphs (4) and (5) of section 408(d)
7 shall apply for purposes of this section.

8 “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—
9

10 “(1) IN GENERAL.—The term ‘qualified family
11 development distribution’ means any amount paid or
12 distributed out of a family development account
13 which would otherwise be includible in gross income,
14 to the extent that such payment or distribution is
15 used exclusively to pay qualified family development
16 expenses for the holder of the account or the spouse
17 or dependent (as defined in section 152) of such
18 holder.

19 “(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term ‘qualified family development
20 expenses’ means any of the following:
21

22 “(A) Qualified postsecondary educational
23 expenses.

24 “(B) First-home purchase costs.

1 “(C) Qualified business capitalization
2 costs.

3 “(D) Qualified medical expenses.

4 “(E) Qualified rollovers.

5 “(3) QUALIFIED POSTSECONDARY EDU-
6 CATIONAL EXPENSES.—

7 “(A) IN GENERAL.—The term ‘qualified
8 postsecondary educational expenses’ means
9 postsecondary educational expenses paid to an
10 eligible educational institution.

11 “(B) POSTSECONDARY EDUCATIONAL EX-
12 PENSES.—The term ‘postsecondary educational
13 expenses’ means tuition, fees, room, board,
14 books, supplies, and equipment required for the
15 enrollment or attendance of a student at an eli-
16 gible educational institution.

17 “(C) ELIGIBLE EDUCATIONAL INSTITU-
18 TION.—The term ‘eligible educational institu-
19 tion’ means the following:

20 “(i) INSTITUTION OF HIGHER EDU-
21 CATION.—An institution described in sec-
22 tion 481(a)(1) or 1201(a) of the Higher
23 Education Act of 1965 (20 U.S.C.
24 1088(a)(1), 1141(a)), as such sections are

1 in effect on the date of the enactment of
2 this section.

3 “(ii) POSTSECONDARY VOCATIONAL
4 EDUCATION SCHOOL.—An area vocational
5 education school (as defined in subpara-
6 graph (C) or (D) of section 521(4) of the
7 Carl D. Perkins Vocational and Applied
8 Technology Education Act (20 U.S.C.
9 2471(4))) which is in any State (as defined
10 in section 521(33) of such Act), as such
11 sections are in effect on the date of the en-
12 actment of this section.

13 “(D) COORDINATION WITH SAVINGS BOND
14 PROVISIONS.—The amount of qualified post-
15 secondary educational expenses for any taxable
16 year shall be reduced by any amount excludable
17 from gross income under section 135.

18 “(4) FIRST-HOME PURCHASE COSTS.—

19 “(A) IN GENERAL.—The term ‘first-home
20 purchase costs’ means qualified acquisition
21 costs with respect to a qualified principal resi-
22 dence for a qualified first-time homebuyer.

23 “(B) QUALIFIED ACQUISITION COSTS.—
24 The term ‘qualified acquisition costs’ means the
25 costs of acquiring, constructing, or reconstruct-

1 ing a residence. Such term includes any usual
2 or reasonable settlement, financing, or other
3 closing costs.

4 “(C) QUALIFIED PRINCIPAL RESIDENCE.—

5 The term ‘qualified principal residence’ means a
6 principal residence (within the meaning of sec-
7 tion 1034), the qualified acquisition costs of
8 which do not exceed 100 percent of the average
9 area purchase price applicable to such residence
10 (determined in accordance with paragraphs (2)
11 and (3) of section 143(e)).

12 “(D) QUALIFIED FIRST-TIME HOME-

13 BUYER.—

14 “(i) IN GENERAL.—The term ‘quali-
15 fied first-time homebuyer’ means an indi-
16 vidual if such individual (and, in the case
17 of a married individual, the individual’s
18 spouse) has no present ownership interest
19 in a principal residence during the 3-year
20 period ending on the date of acquisition of
21 the principal residence to which this sub-
22 section applies.

23 “(ii) DATE OF ACQUISITION.—The
24 term ‘date of acquisition’ means the date
25 on which a binding contract to acquire,

1 construct, or reconstruct the principal resi-
2 dence to which this subsection applies is
3 entered into.

4 “(5) QUALIFIED BUSINESS CAPITALIZATION
5 COSTS.—

6 “(A) IN GENERAL.—The term ‘qualified
7 business capitalization costs’ means qualified
8 expenditures for the capitalization of a qualified
9 business pursuant to a qualified plan.

10 “(B) QUALIFIED EXPENDITURES.—The
11 term ‘qualified expenditures’ means expendi-
12 tures included in a qualified plan, including
13 capital, plant, equipment, working capital, and
14 inventory expenses.

15 “(C) QUALIFIED BUSINESS.—The term
16 ‘qualified business’ means any business that
17 does not contravene any law or public policy (as
18 determined by the Secretary).

19 “(D) QUALIFIED PLAN.—The term ‘quali-
20 fied plan’ means a business plan which—

21 “(i) is approved by a financial institu-
22 tion, or by a nonprofit loan fund having
23 demonstrated fiduciary integrity,

1 “(ii) includes a description of services
2 or goods to be sold, a marketing plan, and
3 projected financial statements, and

4 “(iii) may require the eligible individ-
5 ual to obtain the assistance of an experi-
6 enced entrepreneurial advisor.

7 “(6) QUALIFIED MEDICAL EXPENSES.—The
8 term ‘qualified medical expenses’ means any amount
9 paid during the taxable year, not compensated for by
10 insurance or otherwise, for medical care (as defined
11 in section 213(d)) of the taxpayer, his spouse, or his
12 dependent (as defined in section 152).

13 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
14 fied rollover’ means any amount paid from a family
15 development account of a taxpayer into another such
16 account established for the benefit of—

17 “(A) such taxpayer, or

18 “(B) any qualified individual who is—

19 “(i) the spouse of such taxpayer, or

20 “(ii) any dependent (as defined in sec-
21 tion 152) of the taxpayer. Rules similar to
22 the rules of section 408(d)(3) shall apply
23 for purposes of this paragraph.

24 “(d) TAX TREATMENT OF ACCOUNTS.—

1 “(1) IN GENERAL.—Any family development ac-
2 count is exempt from taxation under this subtitle
3 unless such account has ceased to be a family devel-
4 opment account by reason of paragraph (2). Not-
5 withstanding the preceding sentence, any such ac-
6 count is subject to the taxes imposed by section 511
7 (relating to imposition of tax on unrelated business
8 income of charitable, etc., organizations).

9 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
10 ITED TRANSACTIONS.—For purposes of this section,
11 rules similar to the rules of section 408(e) shall
12 apply.

13 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
14 poses of this title, the term ‘family development account’
15 means a trust created or organized in the United States
16 for the exclusive benefit of a qualified individual or his
17 beneficiaries, but only if the written governing instrument
18 creating the trust meets the following requirements:

19 “(1) Except in the case of a qualified rollover
20 (as defined in subsection (c)(7))—

21 “(A) no contribution will be accepted un-
22 less it is in cash, and

23 “(B) contributions will not be accepted for
24 the taxable year in excess of \$2,000 (deter-
25 mined without regard to any contribution made

1 under section 1400I (relating to demonstration
2 program to provide matching amounts in re-
3 newal communities)).

4 “(2) The trustee is a bank (as defined in sec-
5 tion 408(n)) or such other person who demonstrates
6 to the satisfaction of the Secretary that the manner
7 in which such other person will administer the trust
8 will be consistent with the requirements of this sec-
9 tion.

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

12 “(4) The interest of an individual in the bal-
13 ance in his account is nonforfeitable.

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

17 “(6) Under regulations prescribed by the Sec-
18 retary, rules similar to the rules of section 401(a)(9)
19 and the incidental death benefit requirements of sec-
20 tion 401(a) shall apply to the distribution of the en-
21 tire interest of an individual for whose benefit the
22 trust is maintained.

23 “(f) QUALIFIED INDIVIDUAL.—For purposes of this
24 section, the term ‘qualified individual’ means, for any tax-
25 able year, an individual—

1 “(1) who is a bona fide resident of a renewal
2 community throughout the taxable year, and

3 “(2) to whom a credit was allowed under sec-
4 tion 32 for the preceding taxable year.

5 “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

6 “(1) COMPENSATION.—The term ‘compensa-
7 tion’ has the meaning given such term by section
8 219(f)(1).

9 “(2) MARRIED INDIVIDUALS.—The maximum
10 deduction under subsection (a) shall be computed
11 separately for each individual, and this section shall
12 be applied without regard to any community prop-
13 erty laws.

14 “(3) TIME WHEN CONTRIBUTIONS DEEMED
15 MADE.—For purposes of this section, a taxpayer
16 shall be deemed to have made a contribution to a
17 family development account on the last day of the
18 preceding taxable year if the contribution is made on
19 account of such taxable year and is made not later
20 than the time prescribed by law for filing the return
21 for such taxable year (not including extensions
22 thereof).

23 “(4) EMPLOYER PAYMENTS.—For purposes of
24 this title, any amount paid by an employer to a fam-
25 ily development account shall be treated as payment

1 of compensation to the employee (other than a self-
2 employed individual who is an employee within the
3 meaning of section 401(c)(1)) includible in his gross
4 income in the taxable year for which the amount was
5 contributed, whether or not a deduction for such
6 payment is allowable under this section to the em-
7 ployee.

8 “(5) ZERO BASIS.—The basis of an individual
9 in any family development account of such individual
10 shall be zero.

11 “(6) CUSTODIAL ACCOUNTS.—For purposes of
12 this section, a custodial account shall be treated as
13 a trust if the assets of such account are held by a
14 bank (as defined in section 408(n)) or another per-
15 son who demonstrates, to the satisfaction of the Sec-
16 retary, that the manner in which such person will
17 administer the account will be consistent with the re-
18 quirements of this section, and if the custodial ac-
19 count would, except for the fact that it is not a
20 trust, constitute a family development account de-
21 scribed in this section. For purposes of this title, in
22 the case of a custodial account treated as a trust by
23 reason of the preceding sentence, the custodian of
24 such account shall be treated as the trustee thereof.

1 “(7) REPORTS.—The trustee of a family devel-
2 opment account shall make such reports regarding
3 such account to the Secretary and to the individual
4 for whom the account is maintained with respect to
5 contributions (and the years to which they relate),
6 distributions, and such other matters as the Sec-
7 retary may require under regulations. The reports
8 required by this paragraph—

9 “(A) shall be filed at such time and in
10 such manner as the Secretary prescribes in
11 such regulations, and

12 “(B) shall be furnished to individuals—

13 “(i) not later than January 31 of the
14 calendar year following the calendar year
15 to which such reports relate, and

16 “(ii) in such manner as the Secretary
17 prescribes in such regulations.

18 “(8) INVESTMENT IN COLLECTIBLES TREATED
19 AS DISTRIBUTIONS.—Rules similar to the rules of
20 section 408(m) shall apply for purposes of this sec-
21 tion.

22 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
23 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

24 “(1) IN GENERAL.—If any amount is distrib-
25 uted from a family development account and is not

1 used exclusively to pay qualified family development
2 expenses for the holder of the account or the spouse
3 or dependent (as defined in section 152) of such
4 holder, the tax imposed by this chapter for the tax-
5 able year of such distribution shall be increased by
6 the sum of—

7 “(A) 100 percent of the portion of such
8 amount which is includible in gross income and
9 is attributable to amounts contributed under
10 section 1400I (relating to demonstration pro-
11 gram to provide matching amounts in renewal
12 communities), and

13 “(B) 10 percent of the portion of such
14 amount which is includible in gross income and
15 is not described in paragraph (1).

16 For purposes of this subsection, the portion of a dis-
17 tributed amount which is attributable to amounts
18 contributed under section 1400I is the amount
19 which bears the same ratio to the distributed
20 amount as the aggregate amount contributed under
21 section 1400I to all family development accounts of
22 the individual bears to the aggregate amount con-
23 tributed to such accounts from all sources.

1 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distributions which are—

4 “(A) made on or after the date on which
5 the account holder attains age 59½,

6 “(B) made pursuant to subsection (e)(6),

7 “(C) made to a beneficiary (or the estate
8 of the account holder) on or after the death of
9 the account holder, or

10 “(D) attributable to the account holder’s
11 being disabled within the meaning of section
12 72(m)(7).

13 “(i) TERMINATION.—No deduction shall be allowed
14 under this section for any amount paid to a family devel-
15 opment account for any taxable year beginning after De-
16 cember 31, 2006.

17 **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**
18 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
19 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
20 **NEWAL COMMUNITIES.**

21 “(a) DESIGNATION.—

22 “(1) DEFINITIONS.—For purposes of this sec-
23 tion, the term ‘FDA matching demonstration area’
24 means any renewal community—

1 “(A) which is nominated under this section
2 by each of the local governments and States
3 which nominated such community for designa-
4 tion as a renewal community under section
5 1400E(a)(1)(A), and

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

8 “(i) the Secretaries of Agriculture,
9 Commerce, Labor, and the Treasury, the
10 Director of the Office of Management and
11 Budget, and the Administrator of the
12 Small Business Administration, and

13 “(ii) in the case of a community on an
14 Indian reservation, the Secretary of the In-
15 terior,

16 designates as an FDA matching demonstration
17 area.

18 “(2) NUMBER OF DESIGNATIONS.—

19 “(A) IN GENERAL.—The Secretary of
20 Housing and Urban Development may des-
21 ignate not more than 25 percent of the renewal
22 communities as FDA matching demonstration
23 areas.

24 “(B) MINIMUM DESIGNATION IN RURAL
25 AREAS.—Of the areas designated under para-

1 graph (1), at least 2 must be areas described in
2 section 1400E(a)(2)(B).

3 “(3) LIMITATIONS ON DESIGNATIONS.—

4 “(A) PUBLICATION OF REGULATIONS.—

5 The Secretary of Housing and Urban Develop-
6 ment shall prescribe by regulation no later than
7 4 months after the date of the enactment of
8 this section, after consultation with the officials
9 described in paragraph (1)(B)—

10 “(i) the procedures for nominating a
11 renewal community under paragraph
12 (1)(A) (including procedures for coordinat-
13 ing such nomination with the nomination
14 of an area for designation as a renewal
15 community under section 1400E), and

16 “(ii) the manner in which nominated
17 renewal communities will be evaluated for
18 purposes of this section.

19 “(B) TIME LIMITATIONS.—The Secretary
20 of Housing and Urban Development may des-
21 ignate renewal communities as FDA matching
22 demonstration areas only during the 24-month
23 period beginning on the first day of the first
24 month following the month in which the regula-

1 tions described in subparagraph (A) are pre-
2 scribed.

3 “(4) DESIGNATION BASED ON DEGREE OF POV-
4 ERTY, ETC.—The rules of section 1400E(a)(3) shall
5 apply for purposes of designations of FDA matching
6 demonstration areas under this section.

7 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
8 FECT.—Any designation of a renewal community as an
9 FDA matching demonstration area shall remain in effect
10 during the period beginning on the date of such designa-
11 tion and ending on the date on which such area ceases
12 to be a renewal community.

13 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
14 OPMENT ACCOUNTS.—

15 “(1) IN GENERAL.—Not less than once each
16 taxable year, the Secretary shall deposit (to the ex-
17 tent provided in appropriation Acts) into a family
18 development account of each qualified individual (as
19 defined in section 1400H(f)) who is a resident
20 throughout the taxable year of an FDA matching
21 demonstration area an amount equal to the sum of
22 the amounts deposited into all of the family develop-
23 ment accounts of such individual during such tax-
24 able year (determined without regard to any amount
25 contributed under this section).

1 “(2) LIMITATIONS.—

2 “(A) ANNUAL LIMIT.—The Secretary shall
3 not deposit more than \$1000 under paragraph
4 (1) with respect to any individual for any tax-
5 able year.

6 “(B) AGGREGATE LIMIT.—The Secretary
7 shall not deposit more than \$2000 under para-
8 graph (1) with respect to any individual.

9 “(3) EXCLUSION FROM INCOME.—Except as
10 provided in section 1400H, gross income shall not
11 include any amount deposited into a family develop-
12 ment account under paragraph (1).

13 “(d) TERMINATION.—No amount may be deposited
14 under this section for any taxable year beginning after De-
15 cember 31, 2006.

16 **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-**
17 **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**
18 **VELOPMENT ACCOUNT.**

19 “(a) IN GENERAL.—With respect to the return of any
20 qualified individual (as defined in section 1400H(f)) for
21 the taxable year of the tax imposed by this chapter, such
22 individual may designate that a specified portion (not less
23 than \$1) of any overpayment of tax for such taxable year
24 which is attributable to the earned income tax credit shall
25 be deposited by the Secretary into a family development

1 account of such individual. The Secretary shall so deposit
2 such portion designated under this subsection.

3 “(b) MANNER AND TIME OF DESIGNATION.—A des-
4 ignation under subsection (a) may be made with respect
5 to any taxable year—

6 “(1) at the time of filing the return of the tax
7 imposed by this chapter for such taxable year, or

8 “(2) at any other time (after the time of filing
9 the return of the tax imposed by this chapter for
10 such taxable year) specified in regulations prescribed
11 by the Secretary.

12 Such designation shall be made in such manner as the
13 Secretary prescribes by regulations.

14 “(c) PORTION ATTRIBUTABLE TO EARNED INCOME
15 TAX CREDIT.—For purposes of subsection (a), an over-
16 payment for any taxable year shall be treated as attrib-
17 utable to the earned income tax credit to the extent that
18 such overpayment does not exceed the credit allowed to
19 the taxpayer under section 32 for such taxable year.

20 “(d) OVERPAYMENTS TREATED AS REFUNDED.—
21 For purposes of this title, any portion of an overpayment
22 of tax designated under subsection (a) shall be treated as
23 being refunded to the taxpayer as of the last date pre-
24 scribed for filing the return of tax imposed by this chapter

1 (determined without regard to extensions) or, if later, the
2 date the return is filed.

3 “(e) **TERMINATION.**—This section shall not apply to
4 any taxable year beginning after December 31, 2006.

5 **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization credit.

“Sec. 1400L. Increase in expensing under section 179.

“Sec. 1400M. Expensing of renewal community environmental re-
mediation costs.

6 **“SEC. 1400K. COMMERCIAL REVITALIZATION TAX CREDIT.**

7 “(a) **GENERAL RULE.**—For purposes of section 46,
8 except as provided in subsection (e), the commercial re-
9 vitalization credit for any taxable year is an amount equal
10 to the applicable percentage of the qualified revitalization
11 expenditures with respect to any qualified revitalization
12 building.

13 “(b) **APPLICABLE PERCENTAGE.**—For purposes of
14 this section—

15 “(1) **IN GENERAL.**—The term ‘applicable per-
16 centage’ means—

17 “(A) 20 percent for the taxable year in
18 which a qualified revitalization building is
19 placed in service, or

20 “(B) at the election of the taxpayer, 5 per-
21 cent for each taxable year in the credit period.

22 The election under subparagraph (B), once made,
23 shall be irrevocable.

1 “(2) CREDIT PERIOD.—

2 “(A) IN GENERAL.—The term ‘credit pe-
3 riod’ means, with respect to any building, the
4 period of 10 taxable years beginning with the
5 taxable year in which the building is placed in
6 service.

7 “(B) APPLICABLE RULES.—Rules similar
8 to the rules under paragraphs (2) and (4) of
9 section 42(f) shall apply.

10 “(c) QUALIFIED REVITALIZATION BUILDINGS AND
11 EXPENDITURES.—For purposes of this section—

12 “(1) QUALIFIED REVITALIZATION BUILDING.—
13 The term ‘qualified revitalization building’ means
14 any building (and its structural components) if—

15 “(A) such building is located in a renewal
16 community and is placed in service after the
17 designation of such renewal community under
18 section 1400E,

19 “(B) a commercial revitalization credit
20 amount is allocated to the building under sub-
21 section (e), and

22 “(C) depreciation (or amortization in lieu
23 of depreciation) is allowable with respect to the
24 building.

1 “(2) QUALIFIED REVITALIZATION EXPENDI-
2 TURE.—

3 “(A) IN GENERAL.—The term ‘qualified
4 revitalization expenditure’ means any amount
5 properly chargeable to capital account—

6 “(i) for property for which deprecia-
7 tion is allowable under section 168 and
8 which is—

9 “(I) nonresidential real property,
10 or

11 “(II) an addition or improvement
12 to property described in subclause (I),

13 “(ii) in connection with the construc-
14 tion or substantial rehabilitation or recon-
15 struction of a qualified revitalization build-
16 ing, or

17 “(iii) for the acquisition of land in
18 connection with the qualified revitalization
19 building.

20 “(B) DOLLAR LIMITATION.—The aggre-
21 gate amount which may be treated as qualified
22 revitalization expenditures with respect to any
23 qualified revitalization building for any taxable
24 year shall not exceed the excess of—

25 “(i) \$10,000,000, reduced by

1 “(ii) any such expenditures with re-
2 spect to the building taken into account by
3 the taxpayer or any predecessor in deter-
4 mining the amount of the credit under this
5 section for all preceding taxable years.

6 “(C) CERTAIN EXPENDITURES NOT IN-
7 CLUDED.—The term ‘qualified revitalization ex-
8 penditure’ does not include—

9 “(i) STRAIGHT LINE DEPRECIATION
10 MUST BE USED.—Any expenditure (other
11 than with respect to land acquisitions) with
12 respect to which the taxpayer does not use
13 the straight line method over a recovery
14 period determined under subsection (e) or
15 (g) of section 168. The preceding sentence
16 shall not apply to any expenditure to the
17 extent the alternative depreciation system
18 of section 168(g) applies to such expendi-
19 ture by reason of subparagraph (B) or (C)
20 of section 168(g)(1).

21 “(ii) ACQUISITION COSTS.—The costs
22 of acquiring any building or interest there-
23 in and any land in connection with such
24 building to the extent that such costs ex-
25 ceed 30 percent of the qualified revitaliza-

1 tion expenditures determined without re-
2 gard to this clause.

3 “(iii) OTHER CREDITS.—Any expendi-
4 ture which the taxpayer may take into ac-
5 count in computing any other credit allow-
6 able under this title unless the taxpayer
7 elects to take the expenditure into account
8 only for purposes of this section.

9 “(5) SUBSTANTIAL REHABILITATION OR RE-
10 CONSTRUCTION.—For purposes of this subsection, a
11 rehabilitation or reconstruction shall be treated as a
12 substantial rehabilitation or reconstruction only if
13 the qualified revitalization expenditures in connec-
14 tion with the rehabilitation or reconstruction exceed
15 25 percent of the fair market value of the building
16 (and its structural components) immediately before
17 the rehabilitation or reconstruction.

18 “(d) WHEN EXPENDITURES TAKEN INTO AC-
19 COUNT.—

20 “(1) IN GENERAL.—Qualified revitalization ex-
21 penditures with respect to any qualified revitaliza-
22 tion building shall be taken into account for the tax-
23 able year in which the qualified revitalization build-
24 ing is placed in service. For purposes of the preced-
25 ing sentence, a substantial rehabilitation or recon-

1 construction of a building shall be treated as a separate
2 building.

3 “(2) PROGRESS EXPENDITURE PAYMENTS.—
4 Rules similar to the rules of subsections (b)(2) and
5 (d) of section 47 shall apply for purposes of this sec-
6 tion.

7 “(e) LIMITATION ON AGGREGATE CREDITS ALLOW-
8 ABLE WITH RESPECT TO BUILDINGS LOCATED IN A
9 STATE.—

10 “(1) IN GENERAL.—The amount of the credit
11 determined under this section for any taxable year
12 with respect to any building shall not exceed the
13 commercial revitalization credit amount (in the case
14 of an amount determined under subsection
15 (b)(1)(B), the present value of such amount as de-
16 termined under the rules of section 42(b)(2)(C)) al-
17 located to such building under this subsection by the
18 commercial revitalization credit agency. Such alloca-
19 tion shall be made at the same time and in the same
20 manner as under paragraphs (1) and (7) of section
21 42(h).

22 “(2) COMMERCIAL REVITALIZATION CREDIT
23 AMOUNT FOR AGENCIES.—

24 “(A) IN GENERAL.—The aggregate com-
25 mercial revitalization credit amount which a

1 commercial revitalization credit agency may al-
2 locate for any calendar year is the amount of
3 the State commercial revitalization credit ceil-
4 ing determined under this paragraph for such
5 calendar year for such agency.

6 “(B) STATE COMMERCIAL REVITALIZATION
7 CREDIT CEILING.—

8 “(i) IN GENERAL.—The State com-
9 mercial revitalization credit ceiling applica-
10 ble to any State for any calendar year is
11 \$2,000,000 for each renewal community in
12 the State.

13 “(ii) SPECIAL RULE WHERE COMMU-
14 NITY LOCATED IN MORE THAN 1 STATE.—
15 If a renewal community is located in more
16 than 1 State, a State’s share of the
17 amount specified in clause (i) with respect
18 to such community shall be an amount
19 that bears the same ratio to \$2,000,000 as
20 the population in the State bears to the
21 population in all States in which such com-
22 munity is located.

23 “(iii) OTHER SPECIAL RULES.—Rules
24 similar to the rules of subparagraphs (D),

1 (E), (F), and (G) of section 42(h)(3) shall
2 apply for purposes of this subsection.

3 “(C) COMMERCIAL REVITALIZATION CRED-
4 IT AGENCY.—For purposes of this section, the
5 term ‘commercial revitalization credit agency’
6 means any agency authorized by a State to
7 carry out this section.

8 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
9 IZATION CREDIT AGENCIES.—

10 “(1) PLANS FOR ALLOCATION.—Notwithstand-
11 ing any other provision of this section, the commer-
12 cial revitalization credit amount with respect to any
13 building shall be zero unless—

14 “(A) such amount was allocated pursuant
15 to a qualified allocation plan of the commercial
16 revitalization credit agency which is approved
17 (in accordance with rules similar to the rules of
18 section 147(f)(2) (other than subparagraph
19 (B)(ii) thereof)) by the governmental unit of
20 which such agency is a part, and

21 “(B) such agency notifies the chief execu-
22 tive officer (or its equivalent) of the local juris-
23 diction within which the building is located of
24 such allocation and provides such individual a

1 reasonable opportunity to comment on the allo-
2 cation.

3 “(2) QUALIFIED ALLOCATION PLAN.—For pur-
4 poses of this subsection, the term ‘qualified alloca-
5 tion plan’ means any plan—

6 “(A) which sets forth selection criteria to
7 be used to determine priorities of the commer-
8 cial revitalization credit agency which are ap-
9 propriate to local conditions,

10 “(B) which considers—

11 “(i) the degree to which a project con-
12 tributes to the implementation of a strate-
13 gic plan that is devised for a renewal com-
14 munity through a citizen participation
15 process,

16 “(ii) the amount of any increase in
17 permanent, full-time employment by reason
18 of any project, and

19 “(iii) the active involvement of resi-
20 dents and nonprofit groups within the re-
21 newal community, and

22 “(C) which provides a procedure that the
23 agency (or its agent) will follow in monitoring
24 compliance with this section.

1 “(g) TERMINATION.—This section shall not apply to
2 any building placed in service after December 31, 2002.

3 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

4 “(a) GENERAL RULE.—In the case of a renewal com-
5 munity business (as defined in section 1400G), for pur-
6 poses of section 179—

7 “(1) the limitation under section 179(b)(1)
8 shall be increased by the lesser of—

9 “(A) \$35,000, or

10 “(B) the cost of section 179 property
11 which is qualified renewal property placed in
12 service during the taxable year, and

13 “(2) the amount taken into account under sec-
14 tion 179(b)(2) with respect to any section 179 prop-
15 erty which is qualified renewal property shall be 50
16 percent of the cost thereof.

17 “(b) RECAPTURE.—Rules similar to the rules under
18 section 179(d)(10) shall apply with respect to any quali-
19 fied renewal property which ceases to be used in a renewal
20 community by a renewal community business.

21 “(c) QUALIFIED RENEWAL PROPERTY.—

22 “(1) GENERAL RULE.—For purposes of this
23 section—

24 “(A) IN GENERAL.—The term ‘qualified
25 renewal property’ means any property to which

1 section 168 applies (or would apply but for sec-
2 tion 179) if—

3 “(i) such property was acquired by
4 the taxpayer by purchase (as defined in
5 section 179(d)(2)) after December 31,
6 1999, and before January 1, 2007,

7 “(ii) the original use of which in a re-
8 newal community commences with the tax-
9 payer, and

10 “(iii) substantially all of the use of
11 which is in a renewal community and is in
12 the active conduct of a qualified business
13 (as defined in section 1400G(d)) by the
14 taxpayer in such renewal community.

15 “(B) SPECIAL RULE FOR SUBSTANTIAL
16 RENOVATIONS.—In the case of any property
17 which is substantially renovated by the tax-
18 payer, the requirements of clauses (i) and (ii)
19 of subparagraph (A) shall be treated as satis-
20 fied. For purposes of the preceding sentence,
21 property shall be treated as substantially ren-
22 ovated by the taxpayer only if, during any 24-
23 month period beginning after the date on which
24 the designation of the renewal community took
25 effect, additions to basis with respect to such

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

6 “(2) SPECIAL RULES FOR SALE-LEASEBACKS.—
7 For purposes of paragraph (1)(A)(ii), if property is
8 sold and leased back by the taxpayer within 3
9 months after the date such property was originally
10 placed in service, such property shall be treated as
11 originally placed in service not earlier than the date
12 on which such property is used under the leaseback.

13 **“SEC. 1400M. EXPENSING OF RENEWAL COMMUNITY ENVI-
14 RONMENTAL REMEDIATION COSTS.**

15 “(a) TREATMENT AS EXPENSE.—A taxpayer may
16 elect to treat any renewal community environmental reme-
17 diation cost as an expense which is not chargeable to cap-
18 ital account. Any cost so treated shall be allowable as a
19 deduction for the taxable year in which the cost is paid
20 or incurred.

21 “(b) RENEWAL COMMUNITY ENVIRONMENTAL RE-
22 MEDIATION COST.—For purposes of this section—

23 “(1) IN GENERAL.—The term ‘renewal commu-
24 nity environmental remediation cost’ means any cost
25 which—

1 “(A) is chargeable to capital account (de-
2 termined without regard to this section),

3 “(B) is paid or incurred in connection with
4 the abatement or control of environmental con-
5 taminants at a site located within a renewal
6 community, and

7 “(C) is certified by the applicable Federal
8 or State authority as being required by, and in
9 compliance with, applicable Federal and State
10 laws governing abatement and control of envi-
11 ronmental contaminants.

12 “(2) EXCEPTIONS.—Such term shall not in-
13 clude any amount paid or incurred—

14 “(A) for equipment which is used in the
15 environmental remediation and which is of a
16 character subject to an allowance for deprecia-
17 tion or amortization, or

18 “(B) in connection with a site which is on
19 the national priorities list under section
20 105(a)(8)(B) of the Comprehensive Environ-
21 mental Response, Compensation, and Liability
22 Act of 1980 (42 U.S.C. 9605(a)(8)(B)).

23 No deduction shall be allowed under this section for
24 any amount which is allowed as a deduction under
25 any other provision of this subtitle.

1 “(c) SPECIAL RULES.—For purposes of this sec-
2 tion—

3 “(1) LIMITATION BASED ON INCOME FROM
4 TRADE OR BUSINESS.—The amount allowed as a de-
5 duction under subsection (a) for any taxable year
6 shall not exceed the aggregate amount of taxable in-
7 come of the taxpayer for such taxable year which is
8 derived from the active conduct by the taxpayer of
9 any trade or business during such taxable year. For
10 purposes of this paragraph, rules similar to the rules
11 of subparagraphs (B) and (C) of section 179(b)(3)
12 shall apply. In the case of a partnership, S corpora-
13 tion, trust or other pass thru entity, this paragraph
14 shall be applied at both the entity and owner levels.

15 “(2) RECAPTURE RULES.—

16 “(A) PROPERTY NOT USED IN TRADE OR
17 BUSINESS.—The Secretary shall, by regulations,
18 provide for recapturing the benefit of any de-
19 duction allowable under subsection (a) with re-
20 spect to any property not used predominantly in
21 a trade or business at any time.

22 “(B) TREATMENT OF GAIN AS ORDINARY
23 INCOME.—For purposes of section 1245—

24 “(i) the deduction allowable under
25 subsection (a) shall be treated as a deduc-

1 tion allowable to the taxpayer for deprecia-
2 tion or amortization; and

3 “(ii) property (other than section
4 1245 property) to which the deduction
5 would otherwise have been chargeable shall
6 be treated as section 1245 property solely
7 for purposes of applying section 1245 to
8 such deduction.

9 “(d) TERMINATION.—This section shall not apply to
10 any cost paid or incurred after December 31, 2006.”

11 **SEC. 622. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
12 **FOR RENEWAL COMMUNITIES**

13 (a) EXTENSION.—Subsection (c) of section 51 (relat-
14 ing to termination) is amended by adding at the end the
15 following new paragraph:

16 “(5) EXTENSION OF CREDIT FOR RENEWAL
17 COMMUNITIES.—

18 “(A) IN GENERAL.—In the case of an indi-
19 vidual who begins work for the employer after
20 the date contained in paragraph (4)(B), for
21 purposes of section 38—

22 “(i) in lieu of applying subsection (a),
23 the amount of the work opportunity credit
24 determined under this section for the tax-
25 able year shall be equal to—

1 “(I) 15 percent of the qualified
2 first-year wages for such year, and

3 “(II) 30 percent of the qualified
4 second-year wages for such year,

5 “(ii) subsection (b)(3) shall be applied
6 by substituting ‘\$10,000’ for ‘\$6,000’,

7 “(iii) paragraph (4)(B) shall be ap-
8 plied by substituting for the date contained
9 therein the last day for which the designa-
10 tion under section 1400E of the renewal
11 community referred to in subparagraph
12 (B)(i) is in effect, and

13 “(iv) rules similar to the rules of sec-
14 tion 51A(b)(5)(C) shall apply.

15 “(B) QUALIFIED FIRST AND SECOND-YEAR
16 WAGES.—For purposes of subparagraph (A)—

17 “(i) IN GENERAL.—The term ‘quali-
18 fied wages’ means, with respect to each 1-
19 year period referred to in clause (ii) or
20 (iii), as the case may be, the wages paid or
21 incurred by the employer during the tax-
22 able year to any individual but only if—

23 “(I) the employer is engaged in a
24 trade or business in a renewal com-
25 munity throughout such 1-year period,

1 “(II) the individual is a resident
2 of such renewal community through-
3 out such 1-year period, and

4 “(III) substantially all of the
5 services which such individual per-
6 forms for the employer during such 1-
7 year period are performed in such re-
8 newal community.

9 “(ii) QUALIFIED FIRST-YEAR
10 WAGES.—The term ‘qualified first-year
11 wages’ means, with respect to any individ-
12 ual, qualified wages attributable to service
13 rendered during the 1-year period begin-
14 ning with the day the individual begins
15 work for the employer.

16 “(iii) QUALIFIED SECOND-YEAR
17 WAGES.—The term ‘qualified second-year
18 wages’ means, with respect to any individ-
19 ual, qualified wages attributable to service
20 rendered during the 1-year period begin-
21 ning on the day after the last day of the
22 1-year period with respect to such individ-
23 ual determined under clause (ii).”

1 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
2 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
3 YOUTH RESIDENCE REQUIREMENTS.—

4 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
5 and (B) of section 51(d)(5) are each amended by
6 striking “empowerment zone or enterprise commu-
7 nity” and inserting “empowerment zone, enterprise
8 community, or renewal community”.

9 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—
10 Clause (iv) of section 51(d)(7)(A) is amended by
11 striking “empowerment zone or enterprise commu-
12 nity” and inserting “empowerment zone, enterprise
13 community, or renewal community”.

14 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)
15 of section 51(d) are each amended by inserting “OR
16 COMMUNITY” in the heading after “ZONE”.

17 **SEC. 623. CONFORMING AND CLERICAL AMENDMENTS.**

18 (a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
19 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR
20 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
21 (relating to adjusted gross income defined) is amended by
22 inserting after paragraph (17) the following new para-
23 graph:

24 “(18) FAMILY DEVELOPMENT ACCOUNTS.—The
25 deduction allowed by section 1400H(a)(1)(A).”

1 (b) TAX ON EXCESS CONTRIBUTIONS.—

2 (1) TAX IMPOSED.—Subsection (a) of section
3 4973 is amended by striking “or” at the end of
4 paragraph (3), adding “or” at the end of paragraph
5 (4), and inserting after paragraph (4) the following
6 new paragraph:

7 “(5) a family development account (within the
8 meaning of section 1400H(e)),”.

9 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
10 amended by adding at the end the following new
11 subsection:

12 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
13 poses of this section, in the case of a family development
14 account, the term ‘excess contributions’ means the sum
15 of—

16 “(1) the excess (if any) of—

17 “(A) the amount contributed for the tax-
18 able year to the account (other than a qualified
19 rollover, as defined in section 1400H(c)(7), or
20 a contribution under section 1400I), over

21 “(B) the amount allowable as a deduction
22 under section 1400H for such contributions,
23 and

1 “(2) the amount determined under this sub-
2 section for the preceding taxable year reduced by the
3 sum of—

4 “(A) the distributions out of the account
5 for the taxable year which were included in the
6 gross income of the payee under section
7 1400H(b)(1),

8 “(B) the distributions out of the account
9 for the taxable year to which rules similar to
10 the rules of section 408(d)(5) apply by reason
11 of section 1400H(b)(3), and

12 “(C) the excess (if any) of the maximum
13 amount allowable as a deduction under section
14 1400H for the taxable year over the amount
15 contributed to the account for the taxable year
16 (other than a contribution under section
17 1400I).

18 For purposes of this subsection, any contribution which
19 is distributed from the family development account in a
20 distribution to which rules similar to the rules of section
21 408(d)(4) apply by reason of section 1400H(b)(3) shall
22 be treated as an amount not contributed.”

23 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
24 4975 is amended—

1 (1) by adding at the end of subsection (c) the
2 following new paragraph:

3 “(6) SPECIAL RULE FOR FAMILY DEVELOP-
4 MENT ACCOUNTS.—An individual for whose benefit a
5 family development account is established and any
6 contributor to such account shall be exempt from the
7 tax imposed by this section with respect to any
8 transaction concerning such account (which would
9 otherwise be taxable under this section) if, with re-
10 spect to such transaction, the account ceases to be
11 a family development account by reason of the appli-
12 cation of section 1400H(d)(2) to such account.”,
13 and

14 (2) in subsection (e)(1), by striking “or” at the
15 end of subparagraph (E), by redesignating subpara-
16 graph (F) as subparagraph (G), and by inserting
17 after subparagraph (E) the following new subpara-
18 graph:

19 “(F) a family development account de-
20 scribed in section 1400H(e), or”.

21 (d) INFORMATION RELATING TO CERTAIN TRUSTS
22 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
23 amended—

24 (1) by inserting “or section 1400H” after “sec-
25 tion 219”, and

1 (2) by inserting “, of any family development
2 account described in section 1400H(e),”, after “sec-
3 tion 408(a)”.

4 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
5 TION.—Clause (i) of section 6104(a)(1)(B) is amended by
6 inserting “a family development account described in sec-
7 tion 1400H(e),” after “section 408(a),”.

8 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
9 VELOPMENT ACCOUNTS.—Paragraph (2) of section
10 6693(a) is amended by striking “and” at the end of sub-
11 paragraph (C), by striking the period and inserting
12 “, and” at the end of subparagraph (D), and by adding
13 at the end the following new subparagraph:

14 “(E) section 1400H(g)(7) (relating to fam-
15 ily development accounts).”

16 (g) CONFORMING AMENDMENTS REGARDING COM-
17 MERCIAL REVITALIZATION CREDIT.—

18 (1) Section 46 (relating to investment credit) is
19 amended by striking “and” at the end of paragraph
20 (2), by striking the period at the end of paragraph
21 (3) and inserting “, and”, and by adding at the end
22 the following new paragraph:

23 “(4) the commercial revitalization credit pro-
24 vided under section 1400K.”

1 (2) Section 39(d) is amended by adding at the
2 end the following new paragraph:

3 “(9) NO CARRYBACK OF SECTION 1400K CREDIT
4 BEFORE DATE OF ENACTMENT.—No portion of the
5 unused business credit for any taxable year which is
6 attributable to any commercial revitalization credit
7 determined under section 1400K may be carried
8 back to a taxable year ending before the date of the
9 enactment of section 1400K.”

10 (3) Subparagraph (B) of section 48(a)(2) is
11 amended by inserting “or commercial revitalization”
12 after “rehabilitation” each place it appears in the
13 text and heading.

14 (4) Subparagraph (C) of section 49(a)(1) is
15 amended by striking “and” at the end of clause (ii),
16 by striking the period at the end of clause (iii) and
17 inserting “, and”, and by adding at the end the fol-
18 lowing new clause:

19 “(iv) the portion of the basis of any
20 qualified revitalization building attributable
21 to qualified revitalization expenditures.”

22 (5) Paragraph (2) of section 50(a) is amended
23 by inserting “or 1400K(d)(2)” after “section 47(d)”
24 each place it appears.

1 (6) Subparagraph (A) of section 50(b)(2) is
2 amended by inserting “or qualified revitalization
3 building (respectively)” after “qualified rehabilitated
4 building”.

5 (7) Subparagraph (B) of section 50(a)(2) is
6 amended by adding at the end the following new
7 sentence: “A similar rule shall apply for purposes of
8 section 1400K.”

9 (8) Paragraph (2) of section 50(b) is amended
10 by striking “and” at the end of subparagraph (C),
11 by striking the period at the end of subparagraph
12 (D) and inserting “; and”, and by adding at the end
13 the following new subparagraph:

14 “(E) a qualified revitalization building (as
15 defined in section 1400K) to the extent of the
16 portion of the basis which is attributable to
17 qualified revitalization expenditures (as defined
18 in section 1400K).”

19 (9) Subparagraph (C) of section 50(b)(4) is
20 amended—

21 (A) by inserting “or commercial revitaliza-
22 tion” after “rehabilitated” in the text and head-
23 ing, and

24 (B) by inserting “or commercial revitaliza-
25 tion” after “rehabilitation”.

1 (10) Subparagraph (C) of section 469(i)(3) is
2 amended—

3 (A) by inserting “or section 1400K” after
4 “section 42”; and

5 (B) by striking “CREDIT” in the heading
6 and inserting “AND COMMERCIAL REVITALIZA-
7 TION CREDITS”.

8 (h) CLERICAL AMENDMENTS.—

9 (1) The table of subchapters for chapter 1 is
10 amended by adding at the end the following new
11 item:

“Subchapter X. Renewal Communities.”

12 (2) The table of parts for subchapter X of
13 chapter 1 (as added by subtitle A) is amended by
14 adding at the end the following new items:

“Part II. Renewal community capital gain and stock.

“Part III. Family development accounts.

“Part IV. Additional Incentives.”

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