

Calendar No. 665

105TH CONGRESS
2^D SESSION
H. R. 4579

AN ACT

To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, to amend the Social Security Act to establish the Protect Social Security Account into which the Secretary of the Treasury shall deposit budget surpluses until a reform measure is enacted to ensure the long-term solvency of the OASDI trust funds, and for other purposes.

SEPTEMBER 29, 1998

Read the second time and placed on the calendar

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IN THE SENATE OF THE UNITED STATES

SEPTEMBER 28, 1998

Received and read the first time

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To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, to amend the Social Security Act to establish the Protect Social Security Account into which the Secretary of the Treasury shall deposit budget surpluses until a reform

measure is enacted to ensure the long-term solvency of the OASDI trust funds, 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
 9 to, or repeal of, a section or other provision, the reference
 10 shall be considered to be made to a section or other provi-
 11 sion of the Internal Revenue Code of 1986.

12 (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 individuals.
- Sec. 105. Special rule for members of uniformed services and Foreign Service in determining exclusion of gain from sale of principal residence.
- 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 tuition programs.
- Sec. 112. Modification of arbitrage rebate rules applicable to public school construction 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

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- Sec. 301. Research credit.
- Sec. 302. Work opportunity credit.
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- Sec. 304. Contributions of stock to private foundations; expanded public inspection of private foundations' annual returns.
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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. Designation of and tax incentives for renewal communities.
- Sec. 603. Extension of expensing of environmental remediation costs to renewal communities.
- Sec. 604. Extension of work opportunity tax credit for renewal communities.
- Sec. 605. Conforming and clerical amendments.

Sec. 606. Evaluation and reporting requirements.

Sec. 607. Exclusion of effects of this Act from paygo scorecard.

TITLE VII—ESTABLISHMENT OF THE PROTECT SOCIAL
SECURITY ACCOUNT

Sec. 701. Establishment of special reserve account.

Sec. 702. Effective date.

1 **TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND FAMILIES**
2
3
4 **Subtitle A—General Provisions**

5 **SEC. 101. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.**
6

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.—

1 (1) Paragraphs (1) and (2) of section 63(f) are
2 each amended by striking “\$600” and inserting
3 “\$750”.

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

7 (c) TECHNICAL AMENDMENTS.—

8 (1) Subparagraph (B) of section 1(f)(6) is
9 amended by striking “(other than with” and all that
10 follows through “shall be applied” and inserting
11 “(other than with respect to sections 63(c)(4) and
12 151(d)(4)(A)) shall be applied”.

13 (2) Paragraph (4) of section 63(c) is amended
14 by adding at the end the following flush sentence:
15 “The preceding sentence shall not apply to the
16 amount referred to in paragraph (2)(A).”.

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

20 **SEC. 102. EXEMPTION OF CERTAIN INTEREST AND DIVI-**
21 **DEND INCOME FROM TAX.**

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

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

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

6 “(b) LIMITATIONS.—

7 “(1) MAXIMUM AMOUNT.—The aggregate
8 amount excluded under subsection (a) for any tax-
9 able year shall not exceed \$200 (\$400 in the case of
10 a joint return).

11 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
12 section (a) shall not apply to any dividend from a
13 corporation which, for the taxable year of the cor-
14 poration in which the distribution is made, or for the
15 next preceding taxable year of the corporation, is a
16 corporation exempt from tax under section 501 (re-
17 lating to certain charitable, etc., organization) or
18 section 521 (relating to farmers’ cooperative associa-
19 tions).

20 “(c) SPECIAL RULES.—For purposes of this sec-
21 tion—

22 “(1) EXCLUSION NOT TO APPLY TO CAPITAL
23 GAIN DIVIDENDS FROM REGULATED INVESTMENT

1 COMPANIES AND REAL ESTATE INVESTMENT
2 TRUSTS.—

“For treatment of capital gain dividends, see sections 854(a) and 857(c).”

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

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

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

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

18 (b) CONFORMING AMENDMENTS.—

19 (1)(A) Subparagraph (A) of section 135(c)(4) is
20 amended by inserting “116,” before “137”.

21 (B) Subsection (d) of section 135 is amended
22 by redesignating paragraph (4) as paragraph (5)
23 and by inserting after paragraph (3) the following
24 new paragraph:

1 “(4) COORDINATION WITH SECTION 116.—This
2 section shall be applied before section 116.”.

3 (2) Paragraph (2) of section 265(a) is amended
4 by inserting before the period “, or to purchase or
5 carry obligations or shares, or to make deposits, to
6 the extent the interest thereon is excludable from
7 gross income under section 116”.

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

11 “The proportionate share of each participant in the
12 amount of dividends or interest received by the common
13 trust fund and to which section 116 applies shall be con-
14 sidered for purposes of such section as having been re-
15 ceived by such participant.”.

16 (4) Subsection (a) of section 643 is amended by
17 redesignating paragraph (7) as paragraph (8) and
18 by inserting after paragraph (6) the following new
19 paragraph:

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

23 (5) Section 854(a) is amended by inserting
24 “section 116 (relating to partial exclusion of divi-

1 dividends and interest received by individuals) and”
2 after “For purposes of”.

3 (6) Section 857(c) is amended to read as fol-
4 lows:

5 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
6 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

7 “(1) TREATMENT FOR SECTION 116.—For pur-
8 poses of section 116 (relating to partial exclusion of
9 dividends and interest received by individuals), a
10 capital gain dividend (as defined in subsection
11 (b)(3)(C)) received from a real estate investment
12 trust which meets the requirements of this part shall
13 not be considered as a dividend.

14 “(2) TREATMENT FOR SECTION 243.—For pur-
15 poses of section 243 (relating to deductions for divi-
16 dends received by corporations), a dividend received
17 from a real estate investment trust which meets the
18 requirements of this part shall not be considered as
19 a dividend.”.

20 (7) The table of sections for part III of sub-
21 chapter B of chapter 1 is amended by inserting after
22 the item relating to section 115 the following new
23 item:

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

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

4 **SEC. 103. NONREFUNDABLE PERSONAL CREDITS ALLOWED**
5 **AGAINST ALTERNATIVE MINIMUM TAX.**

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

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

11 “(1) the taxpayer’s regular tax liability for the
12 taxable year; and

13 “(2) the tax imposed for the taxable year by
14 section 55(a).

15 For purposes of applying the preceding sentence, para-
16 graph (2) shall be treated as being zero for any taxable
17 year beginning during 1998.”.

18 (b) CONFORMING AMENDMENTS.—

19 (1) Subsection (d) of section 24 is amended by
20 striking paragraph (2) and by redesignating para-
21 graph (3) as paragraph (2).

22 (2) Section 32 is amended by striking sub-
23 section (h).

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

4 **SEC. 104. 100 PERCENT DEDUCTION FOR HEALTH INSUR-**
5 **ANCE COSTS OF SELF-EMPLOYED INDIVID-**
6 **UALS.**

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

10 “(1) ALLOWANCE OF DEDUCTION.—In the case
11 of an individual who is an employee within the
12 meaning of section 401(c)(1), there shall be allowed
13 as a deduction under this section an amount equal
14 to 100 percent of the amount paid during the tax-
15 able year for insurance which constitutes medical
16 care for the taxpayer, his spouse, and dependents.”.

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

20 **SEC. 105. SPECIAL RULE FOR MEMBERS OF UNIFORMED**
21 **SERVICES AND FOREIGN SERVICE IN DETER-**
22 **MINING EXCLUSION OF GAIN FROM SALE OF**
23 **PRINCIPAL RESIDENCE.**

24 (a) IN GENERAL.—Subsection (d) of section 121 (re-
25 lating to exclusion of gain from sale of principal residence)

1 is amended by adding at the end the following new para-
2 graph:

3 “(9) MEMBERS OF UNIFORMED SERVICES AND
4 FOREIGN SERVICE.—

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

12 “(B) QUALIFIED OFFICIAL EXTENDED
13 DUTY.—For purposes of this paragraph—

14 “(i) IN GENERAL.—The term ‘quali-
15 fied official extended duty’ means any pe-
16 riod of extended duty as a member of the
17 uniformed services or a member of the
18 Foreign Service during which the member
19 serves at a duty station which is at least
20 50 miles from such property or is under
21 Government orders to reside in Govern-
22 ment quarters.

23 “(ii) UNIFORMED SERVICES.—The
24 term ‘uniformed services’ has the meaning
25 given such term by section 101(a)(5) of

1 title 10, United States Code, as in effect
2 on the date of the enactment of the Tax-
3 payer Relief Act of 1998.

4 “(iii) FOREIGN SERVICE OF THE
5 UNITED STATES.—The term ‘member of
6 the Foreign Service’ has the meaning given
7 the term ‘member of the Service’ by para-
8 graph (1), (2), (3), (4), or (5) of section
9 103 of the Foreign Service Act of 1980, as
10 in effect on the date of the enactment of
11 the Taxpayer Relief Act of 1998.

12 “(iv) EXTENDED DUTY.—The term
13 ‘extended duty’ means any period of active
14 duty pursuant to a call or order to such
15 duty for a period in excess of 90 days or
16 for an indefinite period.”.

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

20 **SEC. 106. \$1,000,000 EXEMPTION FROM ESTATE AND GIFT**
21 **TAXES.**

22 (a) IN GENERAL.—Subsection (c) of section 2010
23 (relating to applicable credit amount) is amended to read
24 as follows:

25 “(c) APPLICABLE CREDIT AMOUNT.—

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

3 “(2) APPLICABLE EXCLUSION AMOUNT.—For
4 purposes of the provisions of this title which refer to
5 this subsection, the applicable exclusion amount is
6 \$1,000,000.”.

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

10 **Subtitle B—Provisions Relating to** 11 **Education**

12 **SEC. 111. ELIGIBLE EDUCATIONAL INSTITUTIONS PER-** 13 **MITTED TO MAINTAIN QUALIFIED TUITION** 14 **PROGRAMS.**

15 (a) IN GENERAL.—Paragraph (1) of section 529(b)
16 (defining qualified State tuition program) is amended by
17 inserting “or by 1 or more eligible educational institu-
18 tions” after “maintained by a State or agency or instru-
19 mentality thereof”.

20 (b) TECHNICAL AMENDMENTS.—

21 (1) The texts of sections 72(e)(9), 135(c)(2)(C),
22 135(d)(1)(D), 529, 530, and 4973(e)(1)(B) are each
23 amended by striking “qualified State tuition pro-
24 gram” each place it appears and inserting “qualified
25 tuition program”.

1 (2) The paragraph heading for paragraph (9) of
2 section 72(e) and the subparagraph heading for sub-
3 paragraph (B) of section 530(b)(2) are each amend-
4 ed by striking “STATE”.

5 (3) The subparagraph heading for subpara-
6 graph (C) of section 135(c)(2) is amended by strik-
7 ing “QUALIFIED STATE TUITION PROGRAM” and in-
8 serting “QUALIFIED TUITION PROGRAMS”.

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

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

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

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

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

1 **SEC. 112. MODIFICATION OF ARBITRAGE REBATE RULES**
2 **APPLICABLE TO PUBLIC SCHOOL CONSTRUC-**
3 **TION BONDS.**

4 (a) IN GENERAL.—Subparagraph (C) of section
5 148(f)(4) is amended by adding at the end the following
6 new clause:

7 “(xviii) 4-YEAR SPENDING REQUIRE-
8 MENT FOR PUBLIC SCHOOL CONSTRUCTION
9 ISSUE.—

10 “(I) IN GENERAL.—In the case
11 of a public school construction issue,
12 the spending requirements of clause
13 (ii) shall be treated as met if at least
14 10 percent of the available construc-
15 tion proceeds of the construction issue
16 are spent for the governmental pur-
17 poses of the issue within the 1-year
18 period beginning on the date the
19 bonds are issued, 30 percent of such
20 proceeds are spent for such purposes
21 within the 2-year period beginning on
22 such date, 50 percent of such pro-
23 ceeds are spent for such purposes
24 within the 3-year period beginning on
25 such date, and 100 percent of such
26 proceeds are spent for such purposes

1 within the 4-year period beginning on
2 such date.

3 “(II) PUBLIC SCHOOL CON-
4 STRUCTION ISSUE.—For purposes of
5 this clause, the term ‘public school
6 construction issue’ means any con-
7 struction issue if no bond which is
8 part of such issue is a private activity
9 bond and all of the available construc-
10 tion proceeds of such issue are to be
11 used for the construction (as defined
12 in clause (iv)) of public school facili-
13 ties to provide education or training
14 below the postsecondary level or for
15 the acquisition of land that is func-
16 tionally related and subordinate to
17 such facilities.

18 “(III) OTHER RULES TO
19 APPLY.—Rules similar to the rules of
20 the preceding provisions of this sub-
21 paragraph which apply to clause (ii)
22 also apply to this clause.”.

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

1 **Subtitle C—Provisions Relating to**
2 **Social Security**

3 **SEC. 121. INCREASES IN THE SOCIAL SECURITY EARNINGS**
4 **LIMIT FOR INDIVIDUALS WHO HAVE AT-**
5 **TAINED RETIREMENT AGE.**

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

10 “(iv) for each month of any taxable year
11 ending after 1998 and before 2000,
12 \$1,416.66²/₃;

13 “(v) for each month of any taxable year
14 ending after 1999 and before 2001,
15 \$1,541.66²/₃;

16 “(vi) for each month of any taxable year
17 ending after 2000 and before 2002,
18 \$2,166.66²/₃;

19 “(vii) for each month of any taxable year
20 ending after 2001 and before 2003, \$2,500.00;

21 “(viii) for each month of any taxable year
22 ending after 2002 and before 2004,
23 \$2,608.33¹/₃;

1 “(ix) for each month of any taxable year
2 ending after 2003 and before 2005,
3 \$2,833.33¹/₃;

4 “(x) for each month of any taxable year
5 ending after 2004 and before 2006, \$2,950.00;

6 “(xi) for each month of any taxable year
7 ending after 2005 and before 2007,
8 \$3,066.66²/₃;

9 “(xii) for each month of any taxable year
10 ending after 2006 and before 2008,
11 \$3,195.83¹/₃; and

12 “(xiii) for each month of any taxable year
13 ending after 2007 and before 2009,
14 \$3,312.50.”.

15 (b) CONFORMING AMENDMENTS.—

16 (1) Section 203(f)(8)(B)(ii) of such Act (42
17 U.S.C. 403(f)(8)(B)(ii)) is amended—

18 (A) by striking “after 2001 and before
19 2003” and inserting “after 2007 and before
20 2009”; and

21 (B) in subclause (II), by striking “2000”
22 and inserting “2006”.

23 (2) The second sentence of section 223(d)(4)(A)
24 of such Act (42 U.S.C. 423(d)(4)(A)) is amended by

1 inserting “and section 121 of the Taxpayer Relief
2 Act of 1998” after “1996”.

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

6 **SEC. 122. RECOMPUTATION OF BENEFITS AFTER NORMAL**
7 **RETIREMENT AGE.**

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

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

15 “(I) the second year following the year
16 with respect to which the recomputation is
17 made, in any such case in which the individual
18 is entitled to old-age insurance benefits, the in-
19 dividual has attained retirement age (as defined
20 in section 216(l)) as of the end of the year pre-
21 ceding the year with respect to which the re-
22 computation is made, and the year with respect
23 to which the recomputation is made would not
24 be substituted in recomputation under this sub-
25 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 (b) CONFORMING AMENDMENTS.—

7 (1) Section 215(f)(7) of such Act (42 U.S.C.
8 415(f)(7)) is amended by inserting “, and as
9 amended by section 122(b)(2) of the Taxpayer Relief
10 Act of 1998,” after “This subsection as in effect in
11 December 1978”.

12 (2) Subparagraph (A) of section 215(f)(2) of
13 the Social Security Act as in effect in December
14 1978 and applied in certain cases under the provi-
15 sions of such Act as in effect after December 1978
16 is amended—

17 (A) by striking “in the case of an individ-
18 ual who did not die” and all that follows and
19 inserting “in the case of an individual who did
20 not die in the year with respect to which the re-
21 computation is made, for monthly benefits be-
22 ginning with benefits for January of—”; and

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

24 “(i) the second year following the year with
25 respect to which the recomputation is made, in

1 any such case in which the individual is entitled
2 to old-age insurance benefits, the individual has
3 attained age 65 as of the end of the year pre-
4 ceding the year with respect to which the re-
5 computation is made, and the year with respect
6 to which the recomputation is made would not
7 be substituted in recomputation under this sub-
8 section for a benefit computation year in which
9 no wages or self-employment income have been
10 credited previously to such individual, or

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

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

1 **TITLE II—PROVISIONS PRIMARILY AFFECTING FARMING**
2 **AND OTHER BUSINESSES**

3 **Subtitle A—Increase in Expense**
4 **Treatment for Small Businesses**

5 **SEC. 201. INCREASE IN EXPENSE TREATMENT FOR SMALL**
6 **BUSINESSES.**

7
8 (a) GENERAL RULE.—Paragraph (1) of section
9 179(b) (relating to dollar limitation) is amended to read
10 as follows:

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

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

17 (c) STUDY.—The Secretary of the Treasury (or the
18 Secretary’s delegate)—

19 (1) shall conduct a comprehensive study of the
20 recovery periods and depreciation methods under
21 section 168 of the Internal Revenue Code of 1986,
22 and

23 (2) shall submit the results of such study, to-
24 gether with recommendations for determining such
25 periods and methods in a more rational manner, to

1 the Committee on Ways and Means of the House of
2 Representatives and the Committee on Finance of
3 the Senate.

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 such 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 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 CONTRIBUTORS,
2 ETC.—Paragraph (1) shall not require the dis-
3 closure of the name or address of any contribu-
4 tor to the organization. In the case of an orga-
5 nization described in section 501(d), subpara-
6 graph (A) shall not require the disclosure of the
7 copies referred to in section 6031(b) with re-
8 spect to such organization.

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

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

23 “(5) EXEMPT STATUS APPLICATION MATE-
24 RIALS.—For purposes of paragraph (1), the term
25 ‘exempt status applicable materials’ means the appli-

1 cation for recognition of exemption under section
2 501 and any papers submitted in support of such
3 application and any letter or other document issued
4 by the Internal Revenue Service with respect to such
5 application.”.

6 (2) CONFORMING AMENDMENTS.—

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

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

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

24 (D) Section 6685 is amended by striking
25 “or (e)”.

1 (E) Section 7207 is amended by striking
2 “or (e)”.

3 (3) EFFECTIVE DATE.—

4 (A) IN GENERAL.—Except as provided in
5 subparagraph (B), the amendments made by
6 this subsection shall apply to requests made
7 after the later of December 31, 1998, or the
8 60th day after the Secretary of the Treasury
9 first issues the regulations referred to such sec-
10 tion 6104(d)(4) of the Internal Revenue Code
11 of 1986, as amended by this section.

12 (B) PUBLICATION OF ANNUAL RETURNS.—
13 Section 6104(d) of such Code, as in effect be-
14 fore the amendments made by this subsection,
15 shall not apply to any return the due date for
16 which is after the date such amendments take
17 effect under subparagraph (A).

18 **SEC. 305. SUBPART F EXEMPTION FOR ACTIVE FINANCING**

19 **INCOME.**

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

1 “(h) SPECIAL RULE FOR INCOME DERIVED IN THE
2 ACTIVE CONDUCT OF BANKING, FINANCING, OR SIMILAR
3 BUSINESSES.—

4 “(1) IN GENERAL.—For purposes of subsection
5 (e)(1), foreign personal holding company income
6 shall not include qualified banking or financing in-
7 come of an eligible controlled foreign corporation.

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

10 “(A) IN GENERAL.—The term ‘eligible con-
11 trolled foreign corporation’ means a controlled
12 foreign corporation which—

13 “(i) is predominantly engaged in the
14 active conduct of a banking, financing, or
15 similar business; and

16 “(ii) conducts substantial activity with
17 respect to such business.

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

22 “(i) more than 70 percent of the gross
23 income of the controlled foreign corpora-
24 tion is derived directly from the active and
25 regular conduct of a lending or finance

1 business from transactions with customers
2 which are not related persons,

3 “(ii) it is engaged in the active con-
4 duct of a banking business and is an insti-
5 tution licensed to do business as a bank in
6 the United States (or is any other corpora-
7 tion not so licensed which is specified by
8 the Secretary in regulations), or

9 “(iii) it is engaged in the active con-
10 duct of a securities business and is reg-
11 istered as a securities broker or dealer
12 under section 15(a) of the Securities Ex-
13 change Act of 1934 or is registered as a
14 Government securities broker or dealer
15 under section 15C(a) of such Act (or is
16 any other corporation not so registered
17 which is specified by the Secretary in regu-
18 lations).

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
24 which—

1 “(i) is derived in the active conduct of
2 a banking, financing, or similar business
3 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) is derived from one 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 AND
22 NONSECURITIES BUSINESSES.—No income of
23 an eligible controlled foreign corporation not de-
24 scribed in clause (ii) or (iii) of paragraph
25 (2)(B) (or of a qualified business unit of such

1 corporation) shall be treated as qualified bank-
2 ing or financing income unless more than 30
3 percent of such corporation's or unit's gross in-
4 come is derived directly from the active and
5 regular conduct of a lending or finance business
6 from transactions with customers which are not
7 related persons and which are located within
8 such corporation's or unit's home country.

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

20 “(D) DETERMINATIONS MADE SEPA-
21 RATELY.—For purposes of this paragraph, the
22 qualified banking or financing income of an eli-
23 gible controlled foreign corporation and each
24 qualified business unit of such corporation shall

1 be determined separately for such corporation
2 and each such unit by taking into account—

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

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

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

16 “(A) making loans;

17 “(B) purchasing or discounting accounts
18 receivable, notes, or installment obligations;

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

22 “(D) issuing letters of credit or providing
23 guarantees;

24 “(E) providing charge and credit card
25 services; or

1 “(F) rendering services or making facilities
2 available in connection with activities described
3 in subparagraphs (A) through (E) carried on
4 by—

5 “(i) the corporation (or qualified busi-
6 ness unit) rendering services or making fa-
7 cilities available; or

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

13 “(5) OTHER DEFINITIONS.—For purposes of
14 this subsection—

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

21 “(B) HOME COUNTRY.—Except as pro-
22 vided in regulations—

23 “(i) CONTROLLED FOREIGN CORPORA-
24 TION.—The term ‘home country’ means,
25 with respect to any controlled foreign cor-

1 poration, the country under the laws of
2 which the corporation was created or orga-
3 nized.

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

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

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

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

18 “(6) COORDINATION WITH EXCEPTION FOR
19 DEALERS.—Paragraph (1) shall not apply to income
20 described in subsection (c)(2)(C)(ii) of a dealer in
21 securities (within the meaning of section 475) which
22 is an eligible controlled foreign corporation described
23 in paragraph (2)(B)(iii).

24 “(7) ANTI-ABUSE RULES.—For purposes of ap-
25 plying this subsection and subsection (c)(2)(C)(ii)—

1 “(A) there shall be disregarded any item of
2 income, gain, loss, or deduction with respect to
3 any transaction or series of transactions one of
4 the principal purposes of which is qualifying in-
5 come or gain for the exclusion under this sec-
6 tion, including any transaction or series of
7 transactions a principal purpose of which is the
8 acceleration or deferral of any item in order to
9 claim the benefits of such exclusion through the
10 application of this subsection;

11 “(B) there shall be disregarded any item of
12 income, gain, loss, or deduction of an entity
13 which is not engaged in regular and continuous
14 transactions with customers which are not re-
15 lated persons;

16 “(C) there shall be disregarded any item of
17 income, gain, loss, or deduction with respect to
18 any transaction or series of transactions utiliz-
19 ing, or doing business with—

20 “(i) one or more entities in order to
21 satisfy any home country requirement
22 under this subsection; or

23 “(ii) a special purpose entity or ar-
24 rangement, including a securitization, fi-
25 nancing, or similar entity or arrangement,

1 if one of the principal purposes of such trans-
2 action or series of transactions is qualifying in-
3 come or gain for the exclusion under this sub-
4 section; and

5 “(D) a related person, an officer, a direc-
6 tor, or an employee with respect to any con-
7 trolled foreign corporation (or qualified business
8 unit) which would otherwise be treated as a
9 customer of such corporation or unit with re-
10 spect to any transaction shall not be so treated
11 if a principal purpose of such transaction is to
12 satisfy any requirement of this subsection.

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

19 “(9) APPLICATION.—This subsection, sub-
20 section (c)(2)(C)(ii), and the last sentence of sub-
21 section (e)(2) shall apply only to the first taxable
22 year of a foreign corporation beginning after Decem-
23 ber 31, 1998, and before January 1, 2000, and to
24 taxable years of United States shareholders with or

1 within which such taxable year of such foreign cor-
2 poration ends.”.

3 (b) INCOME DERIVED FROM INSURANCE BUSI-
4 NESS.—

5 (1) INCOME ATTRIBUTABLE TO ISSUANCE OR
6 REINSURANCE.—

7 (A) IN GENERAL.—Section 953(a) (defin-
8 ing insurance income) is amended to read as
9 follows:

10 “(a) INSURANCE INCOME.—

11 “(1) IN GENERAL.—For purposes of section
12 952(a)(1), the term ‘insurance income’ means any
13 income which—

14 “(A) is attributable to the issuing (or rein-
15 suring) of an insurance or annuity contract;
16 and

17 “(B) would (subject to the modifications
18 provided by subsection (b)) be taxed under sub-
19 chapter L of this chapter if such income were
20 the income of a domestic insurance company.

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

24 (B) EXEMPT INSURANCE INCOME.—Sec-
25 tion 953 (relating to insurance income) is

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

3 “(e) EXEMPT INSURANCE INCOME.—For purposes of
4 this section—

5 “(1) EXEMPT INSURANCE INCOME DEFINED.—

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

9 “(i) is attributable to the issuing (or
10 reinsuring) of an exempt contract by such
11 company or a qualifying insurance com-
12 pany branch of such company; and

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

16 “(B) EXCEPTION FOR CERTAIN ARRANGE-
17 MENTS.—Such term shall not include income
18 attributable to the issuing (or reinsuring) of an
19 exempt contract as the result of any arrange-
20 ment whereby another corporation receives a
21 substantially equal amount of premiums or
22 other consideration in respect of issuing (or re-
23 insuring) a contract which is not an exempt
24 contract.

1 “(C) DETERMINATIONS MADE SEPA-
2 RATELY.—For purposes of this subsection and
3 section 954(i), the exempt insurance income
4 and exempt contracts of a qualifying insurance
5 company or any qualifying insurance company
6 branch of such company shall be determined
7 separately for such company and each such
8 branch by taking into account—

9 “(i) in the case of the qualifying in-
10 surance company, only items of income, de-
11 duction, gain, or loss, and activities of such
12 company not properly allocable or attrib-
13 utable to any qualifying insurance com-
14 pany branch of such company; and

15 “(ii) in the case of a qualifying insur-
16 ance company branch, only items of in-
17 come, deduction, gain, or loss and activities
18 properly allocable or attributable to such
19 unit.

20 “(2) EXEMPT CONTRACT.—

21 “(A) IN GENERAL.—The term ‘exempt
22 contract’ means an insurance or annuity con-
23 tract issued or reinsured by a qualifying insur-
24 ance company or qualifying insurance company
25 branch in connection with property in, liability

1 arising out of activity in, or the lives or health
2 of residents of, a country other than the United
3 States.

4 “(B) MINIMUM HOME COUNTRY INCOME
5 REQUIRED.—

6 “(i) IN GENERAL.—No contract of a
7 qualifying insurance company or of a
8 qualifying insurance company branch shall
9 be treated as an exempt contract unless
10 such company or branch derives more than
11 30 percent of its net written premiums
12 from exempt contracts (determined without
13 regard to this subparagraph)—

14 “(I) which cover applicable home
15 country risks; and

16 “(II) with respect to which no
17 policyholder, insured, annuitant, or
18 beneficiary is a related person (as de-
19 fined in section 954(d)(3)).

20 “(ii) APPLICABLE HOME COUNTRY
21 RISKS.—The term ‘applicable home coun-
22 try risks’ means risks in connection with
23 property in, liability arising out of activity
24 in, or the lives or health of residents of,
25 the home country of the qualifying insur-

1 ance company or qualifying insurance com-
2 pany branch, as the case may be, issuing
3 or reinsuring the contract covering the
4 risks.

5 “(C) SUBSTANTIAL ACTIVITY REQUIRE-
6 MENTS FOR CROSS BORDER RISKS.—A contract
7 issued by a qualifying insurance company or
8 qualifying insurance company branch which
9 covers risks other than applicable home country
10 risks (as defined in subparagraph (B)(ii)) shall
11 not be treated as an exempt contract unless
12 such company or branch, as the case may be—

13 “(i) conducts substantial activity with
14 respect to an insurance business in its
15 home country; and

16 “(ii) performs in its home country
17 substantially all of the activities necessary
18 to give rise to the income generated by
19 such contract.

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

23 “(A) is subject to regulation as an insur-
24 ance (or reinsurance) company by its home
25 country, and is licensed, authorized, or regu-

1 lated by the applicable insurance regulatory
2 body for its home country to sell insurance, re-
3 insurance, or annuity contracts to persons other
4 than related persons (within the meaning of
5 section 954(d)(3)) in such home country;

6 “(B) derives more than 50 percent of its
7 aggregate net written premiums from the
8 issuance or reinsurance by such controlled for-
9 eign corporation and each of its qualifying in-
10 surance company branches of contracts—

11 “(i) covering applicable home country
12 risks (as defined in paragraph (2)) of such
13 corporation or branch, as the case may be;
14 and

15 “(ii) with respect to which no policy-
16 holder, insured, annuitant, or beneficiary is
17 a related person (as defined in section
18 954(d)(3));

19 except that in the case of a branch, such pre-
20 miums shall only be taken into account to the
21 extent such premiums are treated as earned by
22 such branch in its home country for purposes of
23 such country’s tax laws; and

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

4 “(4) QUALIFYING INSURANCE COMPANY
5 BRANCH.—The term ‘qualifying insurance company
6 branch’ means a qualified business unit (within the
7 meaning of section 989(a)) of a controlled foreign
8 corporation if—

9 “(A) such unit is licensed, authorized, or
10 regulated by the applicable insurance regulatory
11 body for its home country to sell insurance, re-
12 insurance, or annuity contracts to persons other
13 than related persons (within the meaning of
14 section 954(d)(3)) in such home country; and

15 “(B) such controlled foreign corporation is
16 a qualifying insurance company, determined
17 under paragraph (3) as if such unit were a
18 qualifying insurance company branch.

19 “(5) LIFE INSURANCE OR ANNUITY CON-
20 TRACT.—For purposes of this section and section
21 954, the determination of whether a contract issued
22 by a controlled foreign corporation or a qualified
23 business unit (within the meaning of section 989(a))
24 is a life insurance contract or an annuity contract

1 shall be made without regard to sections 72(s),
2 101(f), 817(h), and 7702 if—

3 “(A) such contract is regulated as a life in-
4 surance or annuity contract by the corpora-
5 tion’s or unit’s home country; and

6 “(B) no policyholder, insured, annuitant,
7 or beneficiary with respect to the contract is a
8 United States person.

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

11 “(A) CONTROLLED FOREIGN CORPORA-
12 TION.—The term ‘home country’ means, with
13 respect to a controlled foreign corporation, the
14 country in which such corporation is created or
15 organized.

16 “(B) QUALIFIED BUSINESS UNIT.—The
17 term ‘home country’ means, with respect to a
18 qualified business unit (as defined in section
19 989(a)), the country in which the principal of-
20 fice of such unit is located and in which such
21 unit is licensed, authorized, or regulated by the
22 applicable insurance regulatory body to sell in-
23 surance, reinsurance, or annuity contracts to
24 persons other than related persons (as defined
25 in section 954(d)(3)) in such country.

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

3 “(A) the rules of section 954(h)(7) (other
4 than subparagraph (B) thereof) shall apply;

5 “(B) there shall be disregarded any item of
6 income, gain, loss, or deduction of, or derived
7 from, an entity which is not engaged in regular
8 and continuous transactions with persons which
9 are not related persons;

10 “(C) there shall be disregarded any change
11 in the method of computing reserves a principal
12 purpose of which is the acceleration or deferral
13 of any item in order to claim the benefits of
14 this subsection or section 954(i);

15 “(D) a contract of insurance or reinsur-
16 ance shall not be treated as an exempt contract
17 (and premiums from such contract shall not be
18 taken into account for purposes of paragraph
19 (2)(B) or (3)) if—

20 “(i) any policyholder, insured, annu-
21 itant, or beneficiary is a resident of the
22 United States and such contract was mar-
23 keted to such resident and was written to
24 cover a risk outside the United States; or

1 “(ii) the contract covers risks located
2 within and without the United States and
3 the qualifying insurance company or quali-
4 fying insurance company branch does not
5 maintain such contemporaneous records,
6 and file such reports, with respect to such
7 contract as the Secretary may require;

8 “(E) the Secretary may prescribe rules for
9 the allocation of contracts (and income from
10 contracts) among 2 or more qualifying insur-
11 ance company branches of a qualifying insur-
12 ance company in order to clearly reflect the in-
13 come of such branches; and

14 “(F) premiums from a contract shall not
15 be taken into account for purposes of para-
16 graph (2)(B) or (3) if such contract reinsures
17 a contract issued or reinsured by a related per-
18 son (as defined in section 954(d)(3)).

19 For purposes of subparagraph (D), the determina-
20 tion of where risks are located shall be made under
21 the principles of section 953.

22 “(8) COORDINATION WITH SUBSECTION (c).—
23 In determining insurance income for purposes of
24 subsection (c), exempt insurance income shall not in-

1 clude income derived from exempt contracts which
2 cover risks other than applicable home country risks.

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

7 “(10) APPLICATION.—This subsection and sec-
8 tion 954(i) shall apply only to the first taxable year
9 of a foreign corporation beginning after December
10 31, 1998, and before January 1, 2000, and to tax-
11 able years of United States shareholders with or
12 within which such taxable year of such foreign cor-
13 poration ends.

14 “(11) CROSS REFERENCE.—

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

15 (2) EXEMPTION FROM FOREIGN PERSONAL
16 HOLDING COMPANY INCOME.—Section 954 (defining
17 foreign base company income) is amended by adding
18 at the end the following new subsection:

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

21 “(1) IN GENERAL.—For purposes of subsection
22 (c)(1), foreign personal holding company income
23 shall not include qualified insurance income of a
24 qualifying insurance company.

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

4 “(A) received from a person other than a
5 related person (within the meaning of sub-
6 section (d)(3)) and derived from the invest-
7 ments made by a qualifying insurance company
8 or a qualifying insurance company branch of its
9 reserves allocable to exempt contracts or of 80
10 percent of its unearned premiums from exempt
11 contracts (as both are determined in the man-
12 ner prescribed under paragraph (4)), or

13 “(B) received from a person other than a
14 related person (within the meaning of sub-
15 section (d)(3)) and derived from investments
16 made by a qualifying insurance company or a
17 qualifying insurance company branch of an
18 amount of its assets allocable to exempt con-
19 tracts equal to—

20 “(i) in the case of property, casualty,
21 or health insurance contracts, one-third of
22 its premiums earned on such insurance
23 contracts during the taxable year (as de-
24 fined in section 832(b)(4)); and

1 “(ii) in the case of life insurance or
2 annuity contracts, 10 percent of the re-
3 serves described in subparagraph (A) for
4 such contracts.

5 “(3) PRINCIPLES FOR DETERMINING INSUR-
6 ANCE INCOME.—Except as provided by the Sec-
7 retary, for purposes of subparagraphs (A) and (B)
8 of paragraph (2)—

9 “(A) in the case of any contract which is
10 a separate account-type contract (including any
11 variable contract not meeting the requirements
12 of section 817), income credited under such
13 contract shall be allocable only to such contract;
14 and

15 “(B) income not allocable under subpara-
16 graph (A) shall be allocated ratably among con-
17 tracts not described in subparagraph (A).

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

21 “(A) PROPERTY AND CASUALTY CON-
22 TRACTS.—The unearned premiums and reserves
23 of a qualifying insurance company or a qualify-
24 ing insurance company branch with respect to
25 property, casualty, or health insurance con-

1 tracts shall be determined using the same meth-
2 ods and interest rates which would be used if
3 such company or branch were subject to tax
4 under subchapter L, except that—

5 “(i) the interest rate determined for
6 the functional currency of the company or
7 branch, and which, except as provided by
8 the Secretary, is calculated in the same
9 manner as the Federal mid-term rate
10 under section 1274(d), shall be substituted
11 for the applicable Federal interest rate;
12 and

13 “(ii) such company or branch shall
14 use the appropriate foreign loss payment
15 pattern.

16 “(B) LIFE INSURANCE AND ANNUITY CON-
17 TRACTS.—The amount of the reserve of a quali-
18 fying insurance company or qualifying insur-
19 ance company branch for any life insurance or
20 annuity contract shall be equal to the greater
21 of—

22 “(i) the net surrender value of such
23 contract (as defined in section
24 807(e)(1)(A)), or

1 “(ii) the reserve determined under
2 paragraph (5).

3 “(C) LIMITATION ON RESERVES.—In no
4 event shall the reserve determined under this
5 paragraph for any contract as of any time ex-
6 ceed the amount which would be taken into ac-
7 count with respect to such contract as of such
8 time in determining foreign statement reserves
9 (less any catastrophe, deficiency, equalization,
10 or similar reserves).

11 “(5) AMOUNT OF RESERVE.—The amount of
12 the reserve determined under this paragraph with
13 respect to any contract shall be determined in the
14 same manner as it would be determined if the quali-
15 fying insurance company or qualifying insurance
16 company branch were subject to tax under sub-
17 chapter L, except that in applying such sub-
18 chapter—

19 “(A) the interest rate determined for the
20 functional currency of the company or branch,
21 and which, except as provided by the Secretary,
22 is calculated in the same manner as the Federal
23 mid-term rate under section 1274(d), shall be
24 substituted for the applicable Federal interest
25 rate;

1 “(B) the highest assumed interest rate
2 permitted to be used in determining foreign
3 statement reserves shall be substituted for the
4 prevailing State assumed interest rate; and

5 “(C) tables for mortality and morbidity
6 which reasonably reflect the current mortality
7 and morbidity risks in the company’s or
8 branch’s home country shall be substituted for
9 the mortality and morbidity tables otherwise
10 used for such subchapter.

11 The Secretary may provide that the interest rate
12 and mortality and morbidity tables of a qualifying
13 insurance company may be used for 1 or more of its
14 qualifying insurance company branches when appro-
15 priate.

16 “(6) DEFINITIONS.—For purposes of this sub-
17 section, any term used in this subsection which is
18 also used in section 953(e) shall have the meaning
19 given such term by section 953.”.

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

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

4 (c) SPECIAL RULES FOR DEALERS.—Section
5 954(e)(2)(C) is amended to read as follows:

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

15 “(i) any item of income, gain, deduc-
16 tion, or loss (other than any item described
17 in subparagraph (A), (E), or (G) of para-
18 graph (1)) from any transaction (including
19 hedging transactions) entered into in the
20 ordinary course of such dealer’s trade or
21 business as such a dealer; and

22 “(ii) if such dealer is a dealer in secu-
23 rities (within the meaning of section 475),
24 any interest or dividend or equivalent
25 amount described in subparagraph (E) or

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

16 (d) EXEMPTION FROM FOREIGN BASE COMPANY
17 SERVICES INCOME.—Paragraph (2) of section 954(e) is
18 amended by inserting “or” at the end of subparagraph
19 (A), by striking “, or” at the end of subparagraph (B)
20 and inserting a period, by striking subparagraph (C), and
21 by adding at the end the following new flush sentence:

22 “Paragraph (1) shall also not apply to income which
23 is exempt insurance income (as defined in section
24 953(e)) or which is not treated as foreign personal

1 holding income by reason of subsection (c)(2)(C)(ii),
 2 (h), or (i).”.

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

9 **Subtitle B—Generalized System of** 10 **Preferences**

11 **SEC. 311. EXTENSION OF GENERALIZED SYSTEM OF PREF-** 12 **ERENCES.**

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

17 (b) RETROACTIVE APPLICATION FOR CERTAIN LIQ-
 18 UIDATIONS AND RELIQUIDATIONS.—

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

22 (A) of an article to which duty-free treat-
 23 ment under title V of the Trade Act of 1974
 24 would have applied if such title had been in ef-
 25 fect during the period beginning on July 1,

1 1998, and ending on the day before the date of
2 the enactment of this Act; and

3 (B) that was made after June 30, 1998,
4 and before the date of the enactment of this
5 Act,

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

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

17 (A) to locate the entry; or

18 (B) to reconstruct the entry if it cannot be
19 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(e) 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 (D)(i) For purposes of subparagraph (A), in
22 the case of a qualified partnership with respect to
23 which a regulated investment company meets the
24 holding requirement of clause (iii)—

1 (I) the subparagraphs referred to in sub-
2 paragraph (A) shall not apply to gains and
3 losses recognized directly by such partnership
4 for purposes of determining such company's
5 distributive share of such gains and losses; and

6 (II) such company's distributive share of
7 such gains and losses (as so determined) shall
8 be treated as recognized directly by such com-
9 pany.

10 The preceding sentence shall apply only if the quali-
11 fied partnership provides the company with written
12 documentation of such distributive share as so deter-
13 mined.

14 (ii) For purposes of clause (i), the term "quali-
15 fied partnership" means, with respect to a regulated
16 investment company, any partnership if—

17 (I) the partnership is an investment com-
18 pany registered under the Investment Company
19 Act of 1940;

20 (II) the regulated investment company is
21 permitted to invest in such partnership by rea-
22 son of section 12(d)(1)(E) of such Act or an ex-
23 emptive order of the Securities and Exchange
24 Commission under such section; and

1 (III) the regulated investment company
2 and the partnership have the same taxable year.

3 (iii) A regulated investment company meets the
4 holding requirement of this clause with respect to a
5 qualified partnership if (as of January 1, 1998)—

6 (I) the value of the interests of the regu-
7 lated investment company in such partnership
8 is 35 percent or more of the value of such com-
9 pany's total assets; or

10 (II) the value of the interests of the regu-
11 lated investment company in such partnership
12 and all other qualified partnerships is 90 per-
13 cent or more of the value of such company's
14 total assets.

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

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

19 **ACT OF 1997.**

20 (a) AMENDMENT RELATED TO SECTION 202 OF 1997
21 ACT.—Paragraph (2) of section 163(h) of the 1986 Code
22 is amended by striking “and” at the end of subparagraph
23 (D), by striking the period at the end of subparagraph
24 (E) and inserting “, and”, and by adding at the end the
25 following new subparagraph:

1 “(F) any interest allowable as a deduction
2 under section 221 (relating to interest on edu-
3 cational loans).”.

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

12 (c) AMENDMENT RELATED TO SECTION 506 OF 1997
13 ACT.—

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

16 “For purposes of subparagraph (A), the value of an
17 item shall be treated as shown on a return if the
18 item is disclosed in the return, or in a statement at-
19 tached to the return, in a manner adequate to ap-
20 prise the Secretary of the nature of such item.”.

21 (2) Paragraph (9) of section 6501(c) of the
22 1986 Code is amended by striking the last sentence.

23 (d) AMENDMENTS RELATED TO SECTION 904 OF
24 1997 ACT.—

1 (1) Paragraph (1) of section 9510(c) of the
2 1986 Code is amended to read as follows:

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

6 “(A) the payment of compensation under
7 subtitle 2 of title XXI of the Public Health
8 Service Act (as in effect on August 5, 1997) for
9 vaccine-related injury or death with respect to
10 any vaccine—

11 “(i) which is administered after Sep-
12 tember 30, 1988; and

13 “(ii) which is a taxable vaccine (as de-
14 fined in section 4132(a)(1)) at the time
15 compensation is paid under such subtitle 2,
16 or

17 “(B) the payment of all expenses of admin-
18 istration (but not in excess of \$9,500,000 for
19 any fiscal year) incurred by the Federal Gov-
20 ernment in administering such subtitle.”.

21 (2) Section 9510(b) of the 1986 Code is amend-
22 ed by adding at the end the following new para-
23 graph:

24 “(3) LIMITATION ON TRANSFERS TO VACCINE
25 INJURY COMPENSATION TRUST FUND.—No amount

1 may be appropriated to the Vaccine Injury Com-
2 pensation Trust Fund on and after the date of any
3 expenditure from the Trust Fund which is not per-
4 mitted by this section. The determination of whether
5 an expenditure is so permitted shall be made without
6 regard to—

7 “(A) any provision of law which is not con-
8 tained or referenced in this title or in a revenue
9 Act; and

10 “(B) whether such provision of law is a
11 subsequently enacted provision or directly or in-
12 directly seeks to waive the application of this
13 paragraph.”.

14 (e) AMENDMENTS RELATED TO SECTION 915 OF
15 1997 ACT.—

16 (1) Section 915 of the Taxpayer Relief Act of
17 1997 is amended—

18 (A) in subsection (b), by inserting “or
19 1998” after “1997”; and

20 (B) by amending subsection (d) to read as
21 follows:

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

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

4 (f) AMENDMENTS RELATED TO SECTION 1012 OF
5 1997 ACT.—

6 (1) Paragraph (2) of section 351(c) of the 1986
7 Code, as amended by section 6010(c) of the 1998
8 Act, is amended by inserting “, or the fact that the
9 corporation whose stock was distributed issues addi-
10 tional stock,” after “dispose of part or all of the dis-
11 tributed stock”.

12 (2) Clause (ii) of section 368(a)(2)(H) of the
13 1986 Code, as amended by section 6010(c) of the
14 1998 Act, is amended by inserting “, or the fact
15 that the corporation whose stock was distributed
16 issues additional stock,” after “dispose of part or all
17 of the distributed stock”.

18 (g) AMENDMENT RELATED TO SECTION 1082 OF
19 1997 ACT.—Subparagraph (F) of section 172(b)(1) of the
20 1986 Code is amended by adding at the end the following
21 new clause:

22 “(iv) COORDINATION WITH PARA-
23 GRAPH (2).—For purposes of applying
24 paragraph (2), an eligible loss for any tax-
25 able year shall be treated in a manner

1 similar to the manner in which a specified
2 liability loss is treated.”.

3 (h) AMENDMENT RELATED TO SECTION 1084 OF
4 1997 ACT.—Paragraph (3) of section 264(f) of the 1986
5 Code is amended by adding at the end the following flush
6 sentence:

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

17 (i) AMENDMENT RELATED TO SECTION 1205 OF
18 1997 ACT.—Paragraph (2) of section 6311(d) of the 1986
19 Code is amended by striking “under such contracts” in
20 the last sentence and inserting “under any such contract
21 for the use of credit or debit cards for the payment of
22 taxes imposed by subtitle A”.

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

1 **SEC. 504. AMENDMENTS RELATED TO TAX REFORM ACT OF**
2 **1984.**

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

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

9 (b) CONFORMING AMENDMENTS.—

10 (1) Paragraph (3) of section 67(b) of the 1986
11 Code is amended by striking “for losses described in
12 subsection (c)(3) or (d) of section 165” and insert-
13 ing “for casualty or theft losses described in para-
14 graph (2) or (3) of section 165(c) or for losses de-
15 scribed in section 165(d)”.

16 (2) Paragraph (3) of section 68(c) 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 (3) Paragraph (1) of section 873(b) is amended
23 to read as follows:

24 “(1) LOSSES.—The deduction allowed by sec-
25 tion 165 for casualty or theft losses described in
26 paragraph (2) or (3) of section 165(c), but only if

1 the loss is of property located within the United
2 States.”.

3 (c) EFFECTIVE DATES.—

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

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

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

13 **SEC. 505. OTHER AMENDMENTS.**

14 (a) AMENDMENTS RELATED TO SECTION 6103 OF
15 1986 CODE.—

16 (1) Subsection (j) of section 6103 of the 1986
17 Code is amended by adding at the end the following
18 new paragraph:

19 “(5) DEPARTMENT OF AGRICULTURE.—Upon
20 request in writing by the Secretary of Agriculture,
21 the Secretary shall furnish such returns, or return
22 information reflected thereon, as the Secretary may
23 prescribe by regulation to officers and employees of
24 the Department of Agriculture whose official duties
25 require access to such returns or information for the

1 purpose of, but only to the extent necessary in,
2 structuring, preparing, and conducting the census of
3 agriculture pursuant to the Census of Agriculture
4 Act of 1997 (Public Law 105–113).”.

5 (2) Paragraph (4) of section 6103(p) of the
6 1986 Code is amended by striking “(j)(1) or (2)” in
7 the material preceding subparagraph (A) and in sub-
8 paragraph (F) and inserting “(j)(1), (2), or (5)”.

9 (3) The amendments made by this subsection
10 shall apply to requests made on or after the date of
11 the enactment of this Act.

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

15 (1) Paragraph (2) of section 9503(f) of the
16 1986 Code is amended to read as follows:

17 “(2) notwithstanding section 9602(b), obliga-
18 tions held by such Fund after September 30, 1998,
19 shall be obligations of the United States which are
20 not interest-bearing.”.

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

23 (c) CLERICAL AMENDMENTS.—

24 (1) Clause (i) of section 51(d)(6)(B) of the
25 1986 Code is amended by striking “rehabilitation

1 plan” and inserting “plan for employment”. The ref-
 2 erence to plan for employment in such clause shall
 3 be treated as including a reference to the rehabilita-
 4 tion plans referred to in such clause as in effect be-
 5 fore the amendment made by the preceding sen-
 6 tence.

7 (2) Subparagraphs (C) and (D) of section
 8 6693(a)(2) of the 1986 Code are each amended by
 9 striking “Section” and inserting “section”.

10 **TITLE VI—AMERICAN COMMU-**
 11 **NITY RENEWAL ACT OF 1998**

12 **SEC. 601. SHORT TITLE.**

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

15 **SEC. 602. DESIGNATION OF AND TAX INCENTIVES FOR RE-**
 16 **NEWAL COMMUNITIES.**

17 (a) IN GENERAL.—Chapter 1 is amended by adding
 18 at the end the following new subchapter:

19 **“Subchapter X—Renewal Communities**

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community
 business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

20 **“PART I—DESIGNATION**

“Sec. 1400E. Designation of renewal communities.

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

22 **“(a) DESIGNATION.—**

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

3 “(A) which is nominated by one or more
4 local governments and the State or States in
5 which it is located for designation as a renewal
6 community (hereinafter in this section referred
7 to as a ‘nominated area’); and

8 “(B) which the Secretary of Housing and
9 Urban Development designates as a renewal
10 community, after consultation with—

11 “(i) the Secretaries of Agriculture,
12 Commerce, Labor, and the Treasury; the
13 Director of the Office of Management and
14 Budget; and the Administrator of the
15 Small Business Administration; and

16 “(ii) in the case of an area on an In-
17 dian reservation, the Secretary of the Inte-
18 rior.

19 “(2) NUMBER OF DESIGNATIONS.—

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

1 “(B) MINIMUM DESIGNATION IN RURAL
2 AREAS.—Of the areas designated under para-
3 graph (1), at least 4 must be areas—

4 “(i) which are within a local govern-
5 ment jurisdiction or jurisdictions with a
6 population of less than 50,000,

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

10 “(iii) which are determined by the
11 Secretary of Housing and Urban Develop-
12 ment, after consultation with the Secretary
13 of Commerce, to be rural areas.

14 “(3) AREAS DESIGNATED BASED ON DEGREE
15 OF POVERTY, ETC.—

16 “(A) IN GENERAL.—Except as otherwise
17 provided in this section, the nominated areas
18 designated as renewal communities under this
19 subsection shall be those nominated areas with
20 the highest average ranking with respect to the
21 criteria described in subparagraphs (B), (C),
22 and (D) of subsection (c)(3). For purposes of
23 the preceding sentence, an area shall be ranked
24 within each such criterion on the basis of the
25 amount by which the area exceeds such cri-

1 terion, with the area which exceeds such cri-
2 terion by the greatest amount given the highest
3 ranking.

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

11 “(C) PRIORITY FOR EMPOWERMENT ZONES
12 AND ENTERPRISE COMMUNITIES WITH RESPECT
13 TO FIRST HALF OF DESIGNATIONS.—With re-
14 spect to the first 10 designations made under
15 this section—

16 “(i) 10 shall be chosen from nomi-
17 nated areas which are empowerment zones
18 or enterprise communities (and are other-
19 wise eligible for designation under this sec-
20 tion); and

21 “(ii) of such 10, 2 shall be areas de-
22 scribed in paragraph (2)(B).

23 “(4) LIMITATION ON DESIGNATIONS.—

24 “(A) PUBLICATION OF REGULATIONS.—

25 The Secretary of Housing and Urban Develop-

1 ment shall prescribe by regulation no later than
2 4 months after the date of the enactment of
3 this section, after consultation with the officials
4 described in paragraph (1)(B)—

5 “(i) the procedures for nominating an
6 area under paragraph (1)(A);

7 “(ii) the parameters relating to the
8 size and population characteristics of a re-
9 newal community; and

10 “(iii) the manner in which nominated
11 areas will be evaluated based on the cri-
12 teria specified in subsection (d).

13 “(B) TIME LIMITATIONS.—The Secretary
14 of Housing and Urban Development may des-
15 ignate nominated areas as renewal communities
16 only during the 24-month period beginning on
17 the first day of the first month following the
18 month in which the regulations described in
19 subparagraph (A) are prescribed.

20 “(C) PROCEDURAL RULES.—The Secretary
21 of Housing and Urban Development shall not
22 make any designation of a nominated area as a
23 renewal community under paragraph (2) un-
24 less—

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

4 “(I) to nominate such area for
5 designation as a renewal community;

6 “(II) to make the State and local
7 commitments described in subsection
8 (d); and

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

13 “(ii) a nomination regarding such
14 area is submitted in such a manner and in
15 such form, and contains such information,
16 as the Secretary of Housing and Urban
17 Development shall by regulation prescribe;
18 and

19 “(iii) the Secretary of Housing and
20 Urban Development determines that any
21 information furnished is reasonably accu-
22 rate.

23 “(5) NOMINATION PROCESS FOR INDIAN RES-
24 ERVATIONS.—For purposes of this subchapter, in
25 the case of a nominated area on an Indian reserva-

1 tion, the reservation governing body (as determined
2 by the Secretary of the Interior) shall be treated as
3 being both the State and local governments with re-
4 spect to such area.

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

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

11 “(A) December 31, 2006,

12 “(B) the termination date designated by
13 the State and local governments in their nomi-
14 nation, or

15 “(C) the date the Secretary of Housing
16 and Urban Development revokes such designa-
17 tion.

18 “(2) REVOCATION OF DESIGNATION.—The Sec-
19 retary of Housing and Urban Development may re-
20 voke the designation under this section of an area if
21 such Secretary determines that the local government
22 or the State in which the area is located—

23 “(A) has modified the boundaries of the
24 area, or

1 “(B) is not complying substantially with,
2 or fails to make progress in achieving, the State
3 or local commitments, respectively, described in
4 subsection (d).

5 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

6 “(1) IN GENERAL.—The Secretary of Housing
7 and Urban Development may designate a nominated
8 area as a renewal community under subsection (a)
9 only if the area meets the requirements of para-
10 graphs (2) and (3) of this subsection.

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

13 “(A) the area is within the jurisdiction of
14 one or more local governments;

15 “(B) the boundary of the area is continu-
16 ous; and

17 “(C) the area—

18 “(i) has a population, of at least—

19 “(I) 4,000 if any portion of such
20 area (other than a rural area de-
21 scribed in subsection (a)(2)(B)(i)) is
22 located within a metropolitan statis-
23 tical area (within the meaning of sec-
24 tion 143(k)(2)(B)) which has a popu-
25 lation of 50,000 or greater; or

1 “(II) 1,000 in any other case; or

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

5 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
6 nated area meets the requirements of this paragraph
7 if the State and the local governments in which it
8 is located certify (and the Secretary of Housing and
9 Urban Development, after such review of supporting
10 data as he deems appropriate, accepts such certifi-
11 cation) that—

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

14 “(B) the unemployment rate in the area,
15 as determined by the most recent available
16 data, was at least 1½ times the national unem-
17 ployment rate for the period to which such data
18 relate;

19 “(C) the poverty rate for each population
20 census tract within the nominated area is at
21 least 20 percent; and

22 “(D) in the case of an urban area, at least
23 70 percent of the households living in the area
24 have incomes below 80 percent of the median
25 income of households within the jurisdiction of

1 the local government (determined in the same
2 manner as under section 119(b)(2) of the
3 Housing and Community Development Act of
4 1974).

5 “(4) CONSIDERATION OF HIGH INCIDENCE OF
6 CRIME.—The Secretary of Housing and Urban De-
7 velopment shall take into account, in selecting nomi-
8 nated areas for designation as renewal communities
9 under this section, the extent to which such areas
10 have a high incidence of crime.

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

19 “(d) REQUIRED STATE AND LOCAL COMMIT-
20 MENTS.—

21 “(1) IN GENERAL.—The Secretary of Housing
22 and Urban Development may designate any nomi-
23 nated area as a renewal community under subsection
24 (a) only if—

1 “(A) the local government and the State in
2 which the area is located agree in writing that,
3 during any period during which the area is a
4 renewal community, such governments will fol-
5 low a specified course of action which meets the
6 requirements of paragraph (2) and is designed
7 to reduce the various burdens borne by employ-
8 ers or employees in such area; and

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

11 “(2) COURSE OF ACTION.—

12 “(A) IN GENERAL.—A course of action
13 meets the requirements of this paragraph if
14 such course of action is a written document,
15 signed by a State (or local government) and
16 neighborhood organizations, which evidences a
17 partnership between such State or government
18 and community-based organizations and which
19 commits each signatory to specific and measur-
20 able goals, actions, and timetables. Such course
21 of action shall include at least five of the follow-
22 ing:

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

1 “(ii) An increase in the level of effi-
2 ciency of local services within the renewal
3 community.

4 “(iii) Crime reduction strategies, such
5 as crime prevention (including the provi-
6 sion of such services by nongovernmental
7 entities).

8 “(iv) Actions to reduce, remove, sim-
9 plify, or streamline governmental require-
10 ments applying within the renewal commu-
11 nity.

12 “(v) Involvement in the program by
13 private entities, organizations, neighbor-
14 hood organizations, and community
15 groups, particularly those in the renewal
16 community, including a commitment from
17 such private entities to provide jobs and
18 job training for, and technical, financial, or
19 other assistance to, employers, employees,
20 and residents from the renewal community.

21 “(vi) State or local income tax bene-
22 fits for fees paid for services performed by
23 a nongovernmental entity which were for-
24 merly performed by a governmental entity.

1 “(vii) The gift (or sale at below fair
2 market value) of surplus real property
3 (such as land, homes, and commercial or
4 industrial structures) in the renewal com-
5 munity to neighborhood organizations,
6 community development corporations, or
7 private companies.

8 “(B) RECOGNITION OF PAST EFFORTS.—
9 For purposes of this section, in evaluating the
10 course of action agreed to by any State or local
11 government, the Secretary of Housing and
12 Urban Development shall take into account the
13 past efforts of such State or local government
14 in reducing the various burdens borne by em-
15 ployers and employees in the area involved.

16 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-
17 MENTS.—The economic growth promotion require-
18 ments of this paragraph are met with respect to a
19 nominated area if the local government and the
20 State in which such area is located certify in writing
21 that such government and State, respectively, have
22 repealed or otherwise will not enforce within the
23 area, if such area is designated as a renewal commu-
24 nity—

1 “(A) licensing requirements for occupa-
2 tions that do not ordinarily require a profes-
3 sional degree;

4 “(B) zoning restrictions on home-based
5 businesses which do not create a public nui-
6 sance;

7 “(C) permit requirements for street ven-
8 dors who do not create a public nuisance;

9 “(D) zoning or other restrictions that im-
10 pede the formation of schools or child care cen-
11 ters; and

12 “(E) franchises or other restrictions on
13 competition for businesses providing public
14 services, including but not limited to taxicabs,
15 jitneys, cable television, or trash hauling,
16 except to the extent that such regulation of busi-
17 nesses and occupations is necessary for and well-tai-
18 lored to the protection of health and safety.

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

23 “(1) a designation as a renewal community; and

24 “(2) a designation as an empowerment zone or
25 enterprise community,

1 both of such designations shall be given full effect with
2 respect to such area.

3 “(f) DEFINITIONS AND SPECIAL RULES.—For pur-
4 poses of this subchapter—

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

9 “(2) STATE.—The term ‘State’ includes Puerto
10 Rico, the Virgin Islands of the United States, Guam,
11 American Samoa, the Northern Mariana Islands,
12 and any other possession of the United States.

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

15 “(A) any county, city, town, township, par-
16 ish, village, or other general purpose political
17 subdivision of a State;

18 “(B) any combination of political subdivi-
19 sions described in subparagraph (A) recognized
20 by the Secretary of Housing and Urban Devel-
21 opment; and

22 “(C) the District of Columbia.

23 “(4) APPLICATION OF RULES RELATING TO
24 CENSUS TRACTS AND CENSUS DATA.—The rules of
25 sections 1392(b)(4) and 1393(a)(9) shall apply.

1 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;**
2 **RENEWAL COMMUNITY BUSINESS**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

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

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

8 “(b) QUALIFIED COMMUNITY ASSET.—For purposes
9 of this section—

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

12 “(A) any qualified community stock;

13 “(B) any qualified community partnership
14 interest; and

15 “(C) any qualified community business
16 property.

17 “(2) QUALIFIED COMMUNITY STOCK.—

18 “(A) IN GENERAL.—Except as provided in
19 subparagraph (B), the term ‘qualified commu-
20 nity stock’ means any stock in a domestic cor-
21 poration if—

22 “(i) such stock is acquired by the tax-
23 payer after December 31, 1999, and before
24 January 1, 2007, at its original issue (di-

1 rectly or through an underwriter) from the
2 corporation solely in exchange for cash;

3 “(ii) as of the time such stock was
4 issued, such corporation was a renewal
5 community business (or, in the case of a
6 new corporation, such corporation was
7 being organized for purposes of being a re-
8 newal community business); and

9 “(iii) during substantially all of the
10 taxpayer’s holding period for such stock,
11 such corporation qualified as a renewal
12 community business.

13 “(B) REDEMPTIONS.—A rule similar to
14 the rule of section 1202(c)(3) shall apply for
15 purposes of this paragraph.

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

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

23 “(B) as of the time such interest was ac-
24 quired, such partnership was a renewal commu-
25 nity business (or, in the case of a new partner-

1 ship, such partnership was being organized for
2 purposes of being a renewal community busi-
3 ness); and

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

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

10 “(4) QUALIFIED COMMUNITY BUSINESS PROP-
11 ERTY.—

12 “(A) IN GENERAL.—The term ‘qualified
13 community business property’ means tangible
14 property if—

15 “(i) such property was acquired by
16 the taxpayer by purchase (as defined in
17 section 179(d)(2)) after December 31,
18 1999, and before January 1, 2007;

19 “(ii) the original use of such property
20 in the renewal community commences with
21 the taxpayer; and

22 “(iii) during substantially all of the
23 taxpayer’s holding period for such prop-
24 erty, substantially all of the use of such

1 property was in a renewal community busi-
2 ness of the taxpayer.

3 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
4 PROVEMENTS.—The requirements of clauses (i)
5 and (ii) of subparagraph (A) shall be treated as
6 satisfied with respect to—

7 “(i) property which is substantially
8 improved (within the meaning of section
9 1400B(b)(4)(B)(ii)) by the taxpayer before
10 January 1, 2007; and

11 “(ii) any land on which such property
12 is located.

13 “(c) CERTAIN RULES TO APPLY.—Rules similar to
14 the rules of paragraphs (5), (6), and (7) of subsection (b),
15 and subsections (e), (f), and (g), of section 1400B shall
16 apply for purposes of this section.

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

18 “For purposes of this part, the term ‘renewal commu-
19 nity business’ means any entity or proprietorship which
20 would be a qualified business entity or qualified propri-
21 etorship under section 1397B if—

22 “(1) references to renewal communities were
23 substituted for references to empowerment zones in
24 such section; and

1 “(2) ‘80 percent’ were substituted for ‘50 per-
2 cent’ in subsections (b)(2) and (c)(1) of such sec-
3 tion.

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

 “Sec. 1400H. Family development accounts for renewal commu-
 nity EITC recipients.

 “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.

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

7 “(a) ALLOWANCE OF DEDUCTION.—

8 “(1) IN GENERAL.—There shall be allowed as a
9 deduction—

10 “(A) in the case of a qualified individual,
11 the amount paid in cash for the taxable year by
12 such individual to any family development ac-
13 count for such individual’s benefit; and

14 “(B) in the case of any person other than
15 a qualified individual, the amount paid in cash
16 for the taxable year by such person to any fam-
17 ily development account for the benefit of a
18 qualified individual but only if the amount so
19 paid is designated for purposes of this section
20 by such individual.

21 No deduction shall be allowed under this paragraph
22 for any amount deposited in a family development

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

4 “(2) LIMITATION.—

5 “(A) IN GENERAL.—The amount allowable
6 as a deduction to any individual for any taxable
7 year by reason of paragraph (1)(A) shall not
8 exceed the lesser of—

9 “(i) \$2,000, or

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

13 “(B) PERSONS DONATING TO FAMILY DE-
14 VELOPMENT ACCOUNTS OF OTHERS.—The
15 amount which may be designated under para-
16 graph (1)(B) by any qualified individual for any
17 taxable year of such individual shall not exceed
18 \$1,000.

19 “(3) SPECIAL RULES FOR CERTAIN MARRIED
20 INDIVIDUALS.—Rules similar to rules of section
21 219(c) shall apply to the limitation in paragraph
22 (2)(A).

23 “(4) COORDINATION WITH IRA’S.—No deduc-
24 tion shall be allowed under this section to any per-
25 son by reason of a payment to an account for the

1 benefit of a qualified individual if any amount is
2 paid into an individual retirement account (including
3 a Roth IRA) for the benefit of such individual.

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

7 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

8 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
9 COME.—Except as otherwise provided in this sub-
10 section, any amount paid or distributed out of a
11 family development account shall be included in
12 gross income by the payee or distributee, as the case
13 may be.

14 “(2) EXCLUSION OF QUALIFIED FAMILY DEVEL-
15 OPMENT DISTRIBUTIONS.—Paragraph (1) shall not
16 apply to any qualified family development distribu-
17 tion.

18 “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBU-
19 TION.—For purposes of this section—

20 “(1) IN GENERAL.—The term ‘qualified family
21 development distribution’ means any amount paid or
22 distributed out of a family development account
23 which would otherwise be includible in gross income,
24 to the extent that such payment or distribution is
25 used exclusively to pay qualified family development

1 expenses for the holder of the account or the spouse
2 or dependent (as defined in section 152) of such
3 holder.

4 “(2) QUALIFIED FAMILY DEVELOPMENT EX-
5 PENSES.—The term ‘qualified family development
6 expenses’ means any of the following:

7 “(A) Qualified higher education expenses.

8 “(B) Qualified first-time homebuyer costs.

9 “(C) Qualified business capitalization
10 costs.

11 “(D) Qualified medical expenses.

12 “(E) Qualified rollovers.

13 “(3) QUALIFIED HIGHER EDUCATION EX-
14 PENSES.—

15 “(A) IN GENERAL.—The term ‘qualified
16 higher education expenses’ has the meaning
17 given such term by section 72(t)(7), determined
18 by treating postsecondary vocational edu-
19 cational schools as eligible educational institu-
20 tions.

21 “(B) POSTSECONDARY VOCATIONAL EDU-
22 CATION SCHOOL.—The term ‘postsecondary vo-
23 cational educational school’ means an area vo-
24 cational education school (as defined in sub-
25 paragraph (C) or (D) of section 521(4) of the

1 Carl D. Perkins Vocational and Applied Tech-
2 nology Education Act (20 U.S.C. 2471(4))
3 which is in any State (as defined in section
4 521(33) of such Act), as such sections are in
5 effect on the date of the enactment of this sec-
6 tion.

7 “(C) COORDINATION WITH OTHER BENE-
8 FITS.—The amount of qualified higher edu-
9 cation expenses for any taxable year shall be re-
10 duced as provided in section 25A(g)(2).

11 “(4) QUALIFIED FIRST-TIME HOMEBUYER
12 COSTS.—The term ‘qualified first-time homebuyer
13 costs’ means qualified acquisition costs (as defined
14 in section 72(t)(8) without regard to subparagraph
15 (B) thereof) with respect to a principal residence
16 (within the meaning of section 121) for a qualified
17 first-time homebuyer (as defined in such section).

18 “(5) QUALIFIED BUSINESS CAPITALIZATION
19 COSTS.—

20 “(A) IN GENERAL.—The term ‘qualified
21 business capitalization costs’ means qualified
22 expenditures for the capitalization of a qualified
23 business pursuant to a qualified plan.

24 “(B) QUALIFIED EXPENDITURES.—The
25 term ‘qualified expenditures’ means expendi-

1 tures included in a qualified plan, including
2 capital, plant, equipment, working capital, and
3 inventory expenses.

4 “(C) QUALIFIED BUSINESS.—The term
5 ‘qualified business’ means any business that
6 does not contravene any law.

7 “(D) QUALIFIED PLAN.—The term ‘quali-
8 fied plan’ means a business plan which meets
9 such requirements as the Secretary may specify.

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

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

20 “(A) such taxpayer, or

21 “(B) any qualified individual who is—

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

23 “(ii) any dependent (as defined in sec-
24 tion 152) of the taxpayer.

1 Rules similar to the rules of section 408(d)(3) shall
2 apply for purposes of this paragraph.

3 “(d) TAX TREATMENT OF ACCOUNTS.—

4 “(1) IN GENERAL.—Any family development ac-
5 count is exempt from taxation under this subtitle
6 unless such account has ceased to be a family devel-
7 opment account by reason of paragraph (2). Not-
8 withstanding the preceding sentence, any such ac-
9 count is subject to the taxes imposed by section 511
10 (relating to imposition of tax on unrelated business
11 income of charitable, etc., organizations). Notwith-
12 standing any other provision of this title (including
13 chapters 11 and 12), the basis of any person in such
14 an account is zero.

15 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
16 ITED TRANSACTIONS.—For purposes of this section,
17 rules similar to the rules of section 408(e) shall
18 apply.

19 “(3) OTHER RULES TO APPLY.—Rules similar
20 to the rules of paragraphs (4), (5), and (6) of sec-
21 tion 408(d) shall apply for purposes of this section.

22 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
23 poses of this title, the term ‘family development account’
24 means a trust created or organized in the United States
25 for the exclusive benefit of a qualified individual or his

1 beneficiaries, but only if the written governing instrument
2 creating the trust meets the following requirements:

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

5 “(A) no contribution will be accepted un-
6 less it is in cash; and

7 “(B) contributions will not be accepted for
8 the taxable year in excess of \$3,000 (deter-
9 mined without regard to any contribution made
10 under section 1400I (relating to demonstration
11 program to provide matching amounts in re-
12 newal communities)).

13 “(2) The requirements of paragraphs (2)
14 through (6) of section 408(a) are met.

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

18 “(1) who is a bona fide resident of a renewal
19 community throughout the taxable year; and

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

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

23 “(1) COMPENSATION.—The term ‘compensa-
24 tion’ has the meaning given such term by section
25 219(f)(1).

1 “(2) MARRIED INDIVIDUALS.—The maximum
2 deduction under subsection (a) shall be computed
3 separately for each individual, and this section shall
4 be applied without regard to any community prop-
5 erty laws.

6 “(3) TIME WHEN CONTRIBUTIONS DEEMED
7 MADE.—For purposes of this section, a taxpayer
8 shall be deemed to have made a contribution to a
9 family development account on the last day of the
10 preceding taxable year if the contribution is made on
11 account of such taxable year and is made not later
12 than the time prescribed by law for filing the return
13 for such taxable year (not including extensions
14 thereof).

15 “(4) EMPLOYER PAYMENTS; CUSTODIAL AC-
16 COUNTS.—Rules similar to the rules of sections
17 219(f)(5) and 408(h) shall apply for purposes of this
18 section.

19 “(5) REPORTS.—The trustee of a family devel-
20 opment account shall make such reports regarding
21 such account to the Secretary and to the individual
22 for whom the account is maintained with respect to
23 contributions (and the years to which they relate),
24 distributions, and such other matters as the Sec-

1 retary may require under regulations. The reports
2 required by this paragraph—

3 “(A) shall be filed at such time and in
4 such manner as the Secretary prescribes in
5 such regulations; and

6 “(B) shall be furnished to individuals—

7 “(i) not later than January 31 of the
8 calendar year following the calendar year
9 to which such reports relate; and

10 “(ii) in such manner as the Secretary
11 prescribes in such regulations.

12 “(6) INVESTMENT IN COLLECTIBLES TREATED
13 AS DISTRIBUTIONS.—Rules similar to the rules of
14 section 408(m) shall apply for purposes of this sec-
15 tion.

16 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
17 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

18 “(1) IN GENERAL.—If any amount is distrib-
19 uted from a family development account and is not
20 used exclusively to pay qualified family development
21 expenses for the holder of the account or the spouse
22 or dependent (as defined in section 152) of such
23 holder, the tax imposed by this chapter for the tax-
24 able year of such distribution shall be increased by
25 the sum of—

1 “(A) 100 percent of the portion of such
2 amount which is includible in gross income and
3 is attributable to amounts contributed under
4 section 1400I (relating to demonstration pro-
5 gram to provide matching amounts in renewal
6 communities); and

7 “(B) 10 percent of the portion of such
8 amount which is includible in gross income and
9 is not described in subparagraph (A).

10 For purposes of this subsection, distributions which
11 are includable in gross income shall be treated as at-
12 tributable to amounts contributed under section
13 1400I to the extent thereof. For purposes of the pre-
14 ceding sentence, all family development accounts of
15 an individual shall be treated as one account.

16 “(2) EXCEPTION FOR CERTAIN DISTRIBUTI-
17 ONS.—Paragraph (1) shall not apply to distribu-
18 tions which are—

19 “(A) made on or after the date on which
20 the account holder attains age 59½,

21 “(B) made to a beneficiary (or the estate
22 of the account holder) on or after the death of
23 the account holder, or

1 “(C) attributable to the account holder’s
2 being disabled within the meaning of section
3 72(m)(7).

4 “(i) TERMINATION.—No deduction shall be allowed
5 under this section for any amount paid to a family devel-
6 opment account for any taxable year beginning after De-
7 cember 31, 2006.

8 **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**
9 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
10 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
11 **NEWAL COMMUNITIES.**

12 “(a) DESIGNATION.—

13 “(1) DEFINITIONS.—For purposes of this sec-
14 tion, the term ‘FDA matching demonstration area’
15 means any renewal community—

16 “(A) which is nominated under this section
17 by each of the local governments and States
18 which nominated such community for designa-
19 tion as a renewal community under section
20 1400E(a)(1)(A); and

21 “(B) which the Secretary of Housing and
22 Urban Development designates as an FDA
23 matching demonstration area after consultation
24 with—

1 “(i) the Secretaries of Agriculture,
2 Commerce, Labor, and the Treasury, the
3 Director of the Office of Management and
4 Budget, and the Administrator of the
5 Small Business Administration; and

6 “(ii) in the case of a community on an
7 Indian reservation, the Secretary of the In-
8 terior.

9 “(2) NUMBER OF DESIGNATIONS.—

10 “(A) IN GENERAL.—The Secretary of
11 Housing and Urban Development may des-
12 ignate not more than 5 communities as FDA
13 matching demonstration areas.

14 “(B) MINIMUM DESIGNATION IN RURAL
15 AREAS.—Of the areas designated under sub-
16 paragraph (A), at least 2 must be areas de-
17 scribed in section 1400E(a)(2)(B).

18 “(3) LIMITATIONS ON DESIGNATIONS.—

19 “(A) PUBLICATION OF REGULATIONS.—
20 The Secretary of Housing and Urban Develop-
21 ment shall prescribe by regulation no later than
22 4 months after the date of the enactment of
23 this section, after consultation with the officials
24 described in paragraph (1)(B)—

1 “(i) the procedures for nominating a
2 renewal community under paragraph
3 (1)(A) (including procedures for coordinat-
4 ing such nomination with the nomination
5 of an area for designation as a renewal
6 community under section 1400E); and

7 “(ii) the manner in which nominated
8 renewal communities will be evaluated for
9 purposes of this section.

10 “(B) TIME LIMITATIONS.—The Secretary
11 of Housing and Urban Development may des-
12 ignate renewal communities as FDA matching
13 demonstration areas only during the 24-month
14 period beginning on the first day of the first
15 month following the month in which the regula-
16 tions described in subparagraph (A) are pre-
17 scribed.

18 “(4) DESIGNATION BASED ON DEGREE OF POV-
19 ERTY, ETC.—The rules of section 1400E(a)(3) shall
20 apply for purposes of designations of FDA matching
21 demonstration areas under this section.

22 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
23 FECT.—Any designation of a renewal community as an
24 FDA matching demonstration area shall remain in effect
25 during the period beginning on the date of such designa-

1 tion and ending on the date on which such area ceases
2 to be a renewal community.

3 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
4 OPMENT ACCOUNTS.—

5 “(1) IN GENERAL.—Not less than once each
6 taxable year, the Secretary shall deposit (to the ex-
7 tent provided in appropriation Acts) into a family
8 development account of each qualified individual (as
9 defined in section 1400H(f))—

10 “(A) who is a resident throughout the tax-
11 able year of an FDA matching demonstration
12 area; and

13 “(B) who requests (in such form and man-
14 ner as the Secretary prescribes) such deposit
15 for the taxable year,

16 an amount equal to the sum of the amounts depos-
17 ited into all of the family development accounts of
18 such individual during such taxable year (determined
19 without regard to any amount contributed under this
20 section).

21 “(2) LIMITATIONS.—

22 “(A) ANNUAL LIMIT.—The Secretary shall
23 not deposit more than \$1000 under paragraph
24 (1) with respect to any individual for any tax-
25 able year.

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.

6 **“SEC. 1400K. COMMERCIAL REVITALIZATION 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.

24 “(2) CREDIT PERIOD.—

1 “(A) IN GENERAL.—The term ‘credit pe-
2 riod’ means, with respect to any building, the
3 period of 10 taxable years beginning with the
4 taxable year in which the building is placed in
5 service.

6 “(B) APPLICABLE RULES.—Rules similar
7 to the rules under paragraphs (2) and (4) of
8 section 42(f) shall apply.

9 “(c) QUALIFIED REVITALIZATION BUILDINGS AND
10 EXPENDITURES.—For purposes of this section—

11 “(1) QUALIFIED REVITALIZATION BUILDING.—
12 The term ‘qualified revitalization building’ means
13 any building (and its structural components) if—

14 “(A) such building is located in a renewal
15 community and is placed in service after De-
16 cember 31, 1999;

17 “(B) a commercial revitalization credit
18 amount is allocated to the building under sub-
19 section (e); and

20 “(C) depreciation (or amortization in lieu
21 of depreciation) is allowable with respect to the
22 building.

23 “(2) QUALIFIED REVITALIZATION EXPENDI-
24 TURE.—

1 “(A) IN GENERAL.—The term ‘qualified
2 revitalization expenditure’ means any amount
3 properly chargeable to capital account—

4 “(i) for property for which deprecia-
5 tion is allowable under section 168 and
6 which is—

7 “(I) nonresidential real property;

8 or

9 “(II) an addition or improvement
10 to property described in subclause (I);

11 and

12 “(ii) in connection with the construc-
13 tion of any qualified revitalization building
14 which was not previously placed in service
15 or in connection with the substantial reha-
16 bilitation (within the meaning of section
17 47(c)(1)(C)) of a building which was
18 placed in service before the beginning of
19 such rehabilitation.

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 “(d) WHEN EXPENDITURES TAKEN INTO AC-
10 COUNT.—

11 “(1) IN GENERAL.—Qualified revitalization ex-
12 penditures with respect to any qualified revitaliza-
13 tion building shall be taken into account for the tax-
14 able year in which the qualified revitalization build-
15 ing is placed in service. For purposes of the preced-
16 ing sentence, a substantial rehabilitation of a build-
17 ing shall be treated as a separate building.

18 “(2) PROGRESS EXPENDITURE PAYMENTS.—
19 Rules similar to the rules of subsections (b)(2) and
20 (d) of section 47 shall apply for purposes of this sec-
21 tion.

22 “(e) LIMITATION ON AGGREGATE CREDITS ALLOW-
23 ABLE WITH RESPECT TO BUILDINGS LOCATED IN A
24 STATE.—

1 “(1) IN GENERAL.—The amount of the credit
2 determined under this section for any taxable year
3 with respect to any building shall not exceed the
4 commercial revitalization credit amount (in the case
5 of an amount determined under subsection
6 (b)(1)(B), the present value of such amount as de-
7 termined under the rules of section 42(b)(2)(C)) al-
8 located to such building under this subsection by the
9 commercial revitalization credit agency. Such alloca-
10 tion shall be made at the same time and in the same
11 manner as under paragraphs (1) and (7) of section
12 42(h).

13 “(2) COMMERCIAL REVITALIZATION CREDIT
14 AMOUNT FOR AGENCIES.—

15 “(A) IN GENERAL.—The aggregate com-
16 mercial revitalization credit amount which a
17 commercial revitalization credit agency may al-
18 locate for any calendar year is the amount of
19 the State commercial revitalization credit ceil-
20 ing determined under this paragraph for such
21 calendar year for such agency.

22 “(B) STATE COMMERCIAL REVITALIZATION
23 CREDIT CEILING.—The State commercial revi-
24 talization credit ceiling applicable to any
25 State—

1 “(i) for each calendar year after 1999
2 and before 2007 is \$2,000,000 for each re-
3 newal community in the State; and

4 “(ii) zero for each calendar year
5 thereafter.

6 “(C) COMMERCIAL REVITALIZATION CRED-
7 IT AGENCY.—For purposes of this section, the
8 term ‘commercial revitalization credit agency’
9 means any agency authorized by a State to
10 carry out this section.

11 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
12 IZATION CREDIT AGENCIES.—

13 “(1) PLANS FOR ALLOCATION.—Notwithstand-
14 ing any other provision of this section, the commer-
15 cial revitalization credit amount with respect to any
16 building shall be zero unless—

17 “(A) such amount was allocated pursuant
18 to a qualified allocation plan of the commercial
19 revitalization credit agency which is approved
20 (in accordance with rules similar to the rules of
21 section 147(f)(2) (other than subparagraph
22 (B)(ii) thereof)) by the governmental unit of
23 which such agency is a part; and

24 “(B) such agency notifies the chief execu-
25 tive officer (or its equivalent) of the local juris-

1 diction within which the building is located of
2 such allocation and provides such individual a
3 reasonable opportunity to comment on the allo-
4 cation.

5 “(2) QUALIFIED ALLOCATION PLAN.—For pur-
6 poses of this subsection, the term ‘qualified alloca-
7 tion plan’ means any plan—

8 “(A) which sets forth selection criteria to
9 be used to determine priorities of the commer-
10 cial revitalization credit agency which are ap-
11 propriate to local conditions;

12 “(B) which considers—

13 “(i) the degree to which a project con-
14 tributes to the implementation of a strate-
15 gic plan that is devised for a renewal com-
16 munity through a citizen participation
17 process;

18 “(ii) the amount of any increase in
19 permanent, full-time employment by reason
20 of any project; and

21 “(iii) the active involvement of resi-
22 dents and nonprofit groups within the re-
23 newal community; and

1 “(C) which provides a procedure that the
2 agency (or its agent) will follow in monitoring
3 compliance with this section.

4 “(g) TERMINATION.—This section shall not apply to
5 any building placed in service after December 31, 2006.

6 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

7 “(a) GENERAL RULE.—In the case of a renewal com-
8 munity business (as defined in section 1400G), for pur-
9 poses of section 179—

10 “(1) the limitation under section 179(b)(1)
11 shall be increased by the lesser of—

12 “(A) \$35,000; or

13 “(B) the cost of section 179 property
14 which is qualified renewal property placed in
15 service during the taxable year; and

16 “(2) the amount taken into account under sec-
17 tion 179(b)(2) with respect to any section 179 prop-
18 erty which is qualified renewal property shall be 50
19 percent of the cost thereof.

20 “(b) RECAPTURE.—Rules similar to the rules under
21 section 179(d)(10) shall apply with respect to any quali-
22 fied renewal property which ceases to be used in a renewal
23 community by a renewal community business.

24 “(c) QUALIFIED RENEWAL PROPERTY.—For pur-
25 poses of this section—

1 “(1) IN GENERAL.—The term ‘qualified renewal
2 property’ means any property to which section 168
3 applies (or would apply but for section 179) if—

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

8 “(B) such property would be qualified zone
9 property (as defined in section 1397C) if ref-
10 erences to renewal communities were sub-
11 stituted for references to empowerment zones in
12 section 1397C.

13 “(2) CERTAIN RULES TO APPLY.—The rules of
14 subsections (a)(2) and (b) of section 1397C shall
15 apply for purposes of this section.”.

16 **SEC. 603. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
17 **REMEDIAION COSTS TO RENEWAL COMMU-**
18 **NITIES.**

19 (a) EXTENSION.—Paragraph (2) of section 198(c)
20 (defining targeted area) is amended by redesignating sub-
21 paragraph (C) as subparagraph (D) and by inserting after
22 subparagraph (B) the following new subparagraph:

23 “(C) RENEWAL COMMUNITIES IN-
24 CLUDED.—Except as provided in subparagraph

1 (B), such term shall include a renewal commu-
2 nity (as defined in section 1400E).”.

3 (b) **EXTENSION OF TERMINATION DATE FOR RE-**
4 **NEWAL COMMUNITIES.**—Subsection (h) of section 198 is
5 amended by inserting before the period “(December 31,
6 2006, in the case of a renewal community, as defined in
7 section 1400E).”.

8 **SEC. 604. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
9 **FOR RENEWAL COMMUNITIES**

10 (a) **EXTENSION.**—Subsection (c) of section 51 (relat-
11 ing to termination) is amended by adding at the end the
12 following new paragraph:

13 “(5) **EXTENSION OF CREDIT FOR RENEWAL**
14 **COMMUNITIES.**—

15 “(A) **IN GENERAL.**—In the case of an indi-
16 vidual who begins work for the employer after
17 the date contained in paragraph (4)(B), for
18 purposes of section 38—

19 “(i) in lieu of applying subsection (a),
20 the amount of the work opportunity credit
21 determined under this section for the tax-
22 able year shall be equal to—

23 “(I) 15 percent of the qualified
24 first-year wages for such year; and

1 “(II) 30 percent of the qualified
2 second-year wages for such year;

3 “(ii) subsection (b)(3) shall be applied
4 by substituting ‘\$10,000’ for ‘\$6,000’;

5 “(iii) paragraph (4)(B) shall be ap-
6 plied by substituting for the date contained
7 therein the last day for which the designa-
8 tion under section 1400E of the renewal
9 community referred to in subparagraph
10 (B)(i) is in effect; and

11 “(iv) rules similar to the rules of sec-
12 tion 51A(b)(5)(C) shall apply.

13 “(B) QUALIFIED FIRST- AND SECOND-
14 YEAR WAGES.—For purposes of subparagraph
15 (A)—

16 “(i) IN GENERAL.—The term ‘quali-
17 fied wages’ means, with respect to each 1-
18 year period referred to in clause (ii) or
19 (iii), as the case may be, the wages paid or
20 incurred by the employer during the tax-
21 able year to any individual but only if—

22 “(I) the employer is engaged in a
23 trade or business in a renewal com-
24 munity throughout such 1-year period;

1 “(II) the principal place of abode
2 of such individual is in such renewal
3 community throughout such 1-year
4 period; and

5 “(III) substantially all of the
6 services which such individual per-
7 forms for the employer during such 1-
8 year period are performed in such re-
9 newal community.

10 “(ii) QUALIFIED FIRST-YEAR
11 WAGES.—The term ‘qualified first-year
12 wages’ means, with respect to any individ-
13 ual, qualified wages attributable to service
14 rendered during the 1-year period begin-
15 ning with the day the individual begins
16 work for the employer.

17 “(iii) QUALIFIED SECOND-YEAR
18 WAGES.—The term ‘qualified second-year
19 wages’ means, with respect to any individ-
20 ual, qualified wages attributable to service
21 rendered during the 1-year period begin-
22 ning on the day after the last day of the
23 1-year period with respect to such individ-
24 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. 605. 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(d)(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(d)(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 at
13 the end the following new subparagraph:

14 “(E) section 1400H(g)(6) (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(a)(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) The last sentence of section 50(b)(3) is
20 amended to read as follows: “If any qualified reha-
21 bilitated building or qualified revitalization building
22 is used by the tax-exempt organization pursuant to
23 a lease, this paragraph shall not apply for purposes
24 of determining the amount of the rehabilitation cred-
25 it or the commercial revitalization credit.”.

1 (10) Subparagraph (C) of section 50(b)(4) is
2 amended—

3 (A) by inserting “or commercial revitaliza-
4 tion” after “rehabilitated” in the text and head-
5 ing; and

6 (B) by inserting “or commercial revitaliza-
7 tion” after “rehabilitation”.

8 (11) Subparagraph (C) of section 469(i)(3) is
9 amended—

10 (A) by inserting “or section 1400K” after
11 “section 42”; and

12 (B) by striking “CREDIT” in the heading
13 and inserting “AND COMMERCIAL REVITALIZA-
14 TION CREDITS”.

15 (h) CLERICAL AMENDMENTS.—The table of sub-
16 chapters for chapter 1 is amended by adding at the end
17 the following new item:

“Subchapter X. Renewal Communities.”.

18 **SEC. 606. EVALUATION AND REPORTING REQUIREMENTS.**

19 Not later than the close of the fourth calendar year
20 after the year in which the Secretary of Housing and
21 Urban Development first designates an area as a renewal
22 community under section 1400E of the Internal Revenue
23 Code of 1986, and at the close of each fourth calendar
24 year thereafter, such Secretary shall prepare and submit
25 to the Congress a report on the effects of such designa-

1 tions in stimulating the creation of new jobs, particularly
2 for disadvantaged workers and long-term unemployed in-
3 dividuals, and promoting the revitalization of economically
4 distressed areas.

5 **SEC. 607. EXCLUSION OF EFFECTS OF THIS ACT FROM**
6 **PAYGO SCORECARD.**

7 Upon the enactment of this Act, the Director of the
8 Office of Management and Budget shall not make any es-
9 timates of changes in receipts under section 252(d) of the
10 Balanced Budget and Emergency Deficit Control Act of
11 1985 resulting from the enactment of this Act.

12 **TITLE VII—ESTABLISHMENT OF**
13 **THE PROTECT SOCIAL SECU-**
14 **RITY ACCOUNT**

15 **SEC. 701. ESTABLISHMENT OF SPECIAL RESERVE AC-**
16 **COUNT.**

17 Section 201 of the Social Security Act is amended
18 by adding at the end the following new subsection:

19 “(n)(1) There is established within the Treasury a
20 special reserve account to be known as the ‘Protect Social
21 Security Account’ (hereinafter in this subsection referred
22 to as the ‘account’). The account shall be used to save
23 budget surpluses until a reform measure is enacted to en-
24 sure the long-term solvency of the OASDI trust funds.

1 “(2) The Secretary of the Treasury shall pay into the
2 account annually at the end of each fiscal year during the
3 fiscal-year period beginning on October 1, 1997, and end-
4 ing on September 30, 2008, amounts totalling, in the ag-
5 gregate, 90 percent of the projected surplus, if any, in the
6 total budget of the United States Government for that fis-
7 cal-year period.

8 “(3) For purposes of determining budget surpluses
9 under paragraph (2), within 10 days after the date of en-
10 actment of this subsection, the Secretary of the Treasury,
11 in consultation with the Director of the Office of Manage-
12 ment and Budget, shall project the budget surplus, if any,
13 for the total budget of the United States Government for
14 the fiscal-year period beginning on October 1, 1997, and
15 ending on September 30, 2008.

16 “(4) The Secretary of the Treasury shall invest the
17 funds held in the account pending enactment of the reform
18 measure referred to in paragraph (1). The purposes for
19 which obligations of the United States may be issued
20 under chapter 31 of title 31, United States Code, are here-
21 by extended to authorize, in the manner provided in sub-
22 section (d), the issuance at par of public-debt obligations
23 for purchase for the account. The interest on, and the pro-
24 ceeds from redemption of, any obligations held in the ac-
25 count shall be credited to and form a part of the account.

1 “(5) As used in this subsection, the term ‘total budg-
2 et of the United States Government’ means all spending
3 and receipt accounts of the United States Government
4 that are designated as on-budget or off-budget accounts.”.

5 **SEC. 702. EFFECTIVE DATE.**

6 The amendment made by section 701 shall apply
7 to fiscal years beginning on or after October 1, 1997.

 Passed the House of Representatives September 26,
1998.

Attest:

ROBIN H. CARLE,
Clerk.