

Calendar No. 426

105TH CONGRESS  
2D Session

H. R. 4579

[Report No. 105-739]

A BILL

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

SEPTEMBER 23, 1998

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

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### IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 16, 1998

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

SEPTEMBER 23, 1998

Additional sponsors: Mr. CRANE, Mr. THOMAS, Mr. SHAW, Mr. BUNNING, Mr. HOUGHTON, Mr. HERGER, Mr. McCRERY, Mr. CAMP, Mr. RAMSTAD, Mr. SAM JOHNSON of Texas, Ms. DUNN, Mr. COLLINS, Mr. PORTMAN, Mr. ENGLISH of Pennsylvania, Mr. ENSIGN, Mr. CHRISTENSEN, Mr. WATKINS, Mr. HAYWORTH, Mr. WELLER, Mr. HULSHOF, Mr. GALLEGLY, Mr. GREENWOOD, and Mr. BLILEY

SEPTEMBER 23, 1998

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italie*]

[For text of introduced bill, see copy of bill as introduced on September 16, 1998]

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## A BILL

To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives

for education, to extend certain expiring provisions, and for other purposes.

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

3       **SECTION 1. SHORT TITLE, ETC.**

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

6       (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*  
 7       *expressly provided, whenever in this Act an amendment or*  
 8       *repeal is expressed in terms of an amendment to, or repeal*  
 9       *of, a section or other provision, the reference shall be consid-*  
 10       *ered to be made to a section or other provision of the Inter-*  
 11       *nal 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 indi-  
viduals.*

*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 tui-  
tion programs.*

*Sec. 112. Modification of arbitrage rebate rules applicable to public school con-  
struction bonds.*

*Subtitle C—Provisions Relating to Social Security*

*Sec. 121. Increases in the social security earnings limit for individuals who have attained retirement age.*

*Sec. 122. Recomputation of benefits after normal retirement age.*

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

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

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

*Subtitle B—Provisions Relating to Farmers*

*Sec. 211. Income averaging for farmers made permanent.*

*Sec. 212. 5-year net operating loss carryback for farming losses.*

*Sec. 213. Production flexibility contract payments.*

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

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

**TITLE III—EXTENSION AND MODIFICATION OF CERTAIN EXPIRING  
PROVISIONS**

*Subtitle A—Tax Provisions*

*Sec. 301. Research credit.*

*Sec. 302. Work opportunity credit.*

*Sec. 303. Welfare-to-work credit.*

*Sec. 304. Contributions of stock to private foundations; expanded public inspection of private foundations' annual returns.*

*Sec. 305. Subpart F exemption for active financing income.*

*Subtitle B—Generalized System of Preferences*

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

**TITLE IV—REVENUE OFFSET**

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

**TITLE V—TECHNICAL CORRECTIONS**

*Sec. 501. Definitions; coordination with other titles.*

*Sec. 502. Amendments related to Internal Revenue Service Restructuring and Reform Act of 1998.*

*Sec. 503. Amendments related to Taxpayer Relief Act of 1997.*

*Sec. 504. Amendments related to Tax Reform Act of 1984.*

*Sec. 505. Other amendments.*

**TITLE VI—AMERICAN COMMUNITY RENEWAL ACT OF 1998**

*Sec. 601. Short title.*

*Sec. 602. 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.*

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) (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 follows in subparagraph (C) and inserting “in any*  
 15 *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 UNMARRIED INDIVIDUALS.—*  
 20

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

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

4           (c) *TECHNICAL AMENDMENTS.—*

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

10          (2) *Paragraph (4) of section 63(c) is amended by*  
 11          *adding at the end the following flush sentence:*

12          *“The preceding sentence shall not apply to the*  
 13          *amount referred to in paragraph (2)(A).”*

14          (d) *EFFECTIVE DATE.—The amendments made by this*  
 15          *section shall apply to taxable years beginning after Decem-*  
 16          *ber 31, 1998.*

17       **SEC. 102. EXEMPTION OF CERTAIN INTEREST AND DIVI-**  
 18       **DEND INCOME FROM TAX.**

19          (a) *IN GENERAL.—Part III of subchapter B of chapter*  
 20          *1 (relating to amounts specifically excluded from gross in-*  
 21          *come) is amended by inserting after section 115 the follow-*  
 22          *ing 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 amount  
8 excluded under subsection (a) for any taxable year  
9 shall not exceed \$200 (\$400 in the case of a joint re-  
10 turn).

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 corpora-  
14 tion in which the distribution is made, or for the next  
15 preceding taxable year of the corporation, is a cor-  
16 poration exempt from tax under section 501 (relating  
17 to certain charitable, etc., organization) or section  
18 521 (relating to farmers’ cooperative associations).

19 “(c) *SPECIAL RULES.*—For purposes of this section—

1 “(1) *EXCLUSION NOT TO APPLY TO CAPITAL GAIN*  
 2 *DIVIDENDS FROM REGULATED INVESTMENT COMPA-*  
 3 *NIES AND REAL ESTATE INVESTMENT TRUSTS.—*

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

4 “(2) *CERTAIN NONRESIDENT ALIENS INELIGIBLE*  
 5 *FOR EXCLUSION.—In the case of a nonresident alien*  
 6 *individual, subsection (a) shall apply only—*

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

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

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

17 (b) *CONFORMING AMENDMENTS.—*

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

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



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 the*  
6           *extent the interest thereon is excludable from gross in-*  
7           *come under section 116”.*

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

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

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

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 “sec-*  
24        *tion 116 (relating to partial exclusion of dividends*

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

3                *(6) Section 857(c) is amended to read as follows:*

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

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

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

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

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

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 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 the*  
 10 *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 sec-*  
 14 *tion 55(a).*

15 *For purposes of applying the preceding sentence, paragraph*  
 16 *(2) shall be treated as being zero for any taxable year begin-*  
 17 *ning 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 subsection*  
 23 *(h).*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 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) (re-*  
 8 *lating to special rules for health insurance costs of self-em-*  
 9 *ployed individuals) is amended to read as follows:*

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

17       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 18 *section shall apply to taxable years beginning after Decem-*  
 19 *ber 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 (relat-*  
 25 *ing 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 serv-*  
 11 *ices or of the Foreign Service.*

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

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

22 “(ii) *UNIFORMED SERVICES.*—*The*  
 23 *term ‘uniformed services’ has the meaning*  
 24 *given such term by section 101(a)(5) of title*  
 25 *10, United States Code, as in effect on the*

1                   *date of the enactment of the Taxpayer Relief*  
 2                   *Act of 1998.*

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

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

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

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

21                   (a) *IN GENERAL.—Subsection (c) of section 2010 (re-*  
 22                   *lating to applicable credit amount) is amended to read as*  
 23                   *follows:*

24                   “(c) *APPLICABLE CREDIT AMOUNT.—*

1           “(1) *IN GENERAL*.—For purposes of this section,  
2           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 this  
8           section shall apply to estates of decedents dying, and gifts  
9           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 institutions”  
18           after “maintained by a State or agency or instrumentality  
19           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 amended*  
4           *by striking “STATE”.*

5           (3) *The subparagraph heading for subparagraph*  
6           *(C) of section 135(c)(2) is amended by striking*  
7           *“QUALIFIED STATE TUITION PROGRAM” and inserting*  
8           *“QUALIFIED TUITION PROGRAMS”.*

9           (4) *Sections 529(c)(3)(D)(i) and 6693(a)(2)(C)*  
10          *are each amended by striking “qualified State tuition*  
11          *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 table*  
17          *of sections for part VIII of subchapter F of chapter*  
18          *1 is amended by striking “State”.*

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



1 **SEC. 112. MODIFICATION OF ARBITRAGE REBATE RULES AP-**  
2 **PLICABLE 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 of  
11 a public school construction issue, the  
12 spending requirements of clause (ii)  
13 shall be treated as met if at least 10  
14 percent of the available construction  
15 proceeds of the construction issue are  
16 spent for the governmental purposes of  
17 the issue within the 1-year period be-  
18 ginning on the date the bonds are  
19 issued, 30 percent of such proceeds are  
20 spent for such purposes within the 2-  
21 year period beginning on such date, 50  
22 percent of such proceeds are spent for  
23 such purposes within the 3-year period  
24 beginning on such date, and 100 per-  
25 cent of such proceeds are spent for such

1                   *purposes within the 4-year period be-*  
2                   *ginning on such date.*

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

17                  “(III) *OTHER RULES TO APPLY.*—  
18                  *Rules similar to the rules of the preced-*  
19                  *ing provisions of this subparagraph*  
20                  *which apply to clause (ii) also apply*  
21                  *to this clause.”*

22                  “(b) *EFFECTIVE DATE.*—*The amendment made by this*  
23                  *section shall apply to obligations issued after December 31,*  
24                  *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 strik-*  
 8     *ing clauses (iv) through (vii) and inserting the following*  
 9     *new clauses:*

10                     *“(iv) for each month of any taxable year*  
 11                     *ending after 1998 and before 2000, \$1,416.66<sup>2</sup>/<sub>3</sub>,*

12                     *“(v) for each month of any taxable year*  
 13                     *ending after 1999 and before 2001, \$1,541.66<sup>2</sup>/<sub>3</sub>,*

14                     *“(vi) for each month of any taxable year*  
 15                     *ending after 2000 and before 2002, \$2,166.66<sup>2</sup>/<sub>3</sub>,*

16                     *“(vii) for each month of any taxable year*  
 17                     *ending after 2001 and before 2003, \$2,500.00,*

18                     *“(viii) for each month of any taxable year*  
 19                     *ending after 2002 and before 2004, \$2,608.33<sup>1</sup>/<sub>3</sub>,*

20                     *“(ix) for each month of any taxable year*  
 21                     *ending after 2003 and before 2005, \$2,833.33<sup>1</sup>/<sub>3</sub>,*

22                     *“(x) for each month of any taxable year*  
 23                     *ending after 2004 and before 2006, \$2,950.00,*

24                     *“(xi) for each month of any taxable year*  
 25                     *ending after 2005 and before 2007, \$3,066.66<sup>2</sup>/<sub>3</sub>,*

1           “(xii) for each month of any taxable year  
 2           ending after 2006 and before 2008, \$3,195.83<sup>1</sup>/<sub>3</sub>,  
 3           and

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

6           (b) *CONFORMING AMENDMENTS.*—

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

9           (A) by striking “after 2001 and before  
 10           2003” and inserting “after 2007 and before  
 11           2009”; and

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

14           (2) The second sentence of section 223(d)(4)(A) of  
 15           such Act (42 U.S.C. 423(d)(4)(A)) is amended by in-  
 16           serting “and section 121 of the Taxpayer Relief Act  
 17           of 1998” after “1996”.

18           (c) *EFFECTIVE DATE.*—The amendments made by this  
 19           section shall apply with respect to taxable years ending  
 20           after 1998.

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

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

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

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

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

21           (b) CONFORMING AMENDMENTS.—

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

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

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

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

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

14              “(i) the second year following the year with  
15      respect to which the recomputation is made, in  
16      any such case in which the individual is entitled  
17      to old-age insurance benefits, the individual has  
18      attained age 65 as of the end of the year preced-  
19      ing the year with respect to which the recompu-  
20      tation is made, and the year with respect to  
21      which the recomputation is made would not be  
22      substituted in recomputation under this sub-  
23      section for a benefit computation year in which  
24      no wages or self-employment income have been  
25      credited previously to such individual, or

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

4           (c) *EFFECTIVE DATE*.—The amendments made by this  
 5 section shall apply with respect to recomputations of pri-  
 6 mary insurance amounts based on wages paid and self em-  
 7 ployment income derived after 1997 and with respect to  
 8 benefits payable after December 31, 1998.

9       **TITLE       II—PROVISIONS       PRI-**  
 10       **MARILY AFFECTING FARMING**  
 11       **AND OTHER BUSINESSES**

12       **Subtitle A—Increase in Expense**  
 13       **Treatment for Small Businesses**

14       **SEC. 201. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
 15       **BUSINESSES.**

16       (a) *GENERAL RULE*.—Paragraph (1) of section 179(b)  
 17 (relating to dollar limitation) is amended to read as follows:

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

21       (b) *EFFECTIVE DATE*.—The amendment made by this  
 22 section shall apply to taxable years beginning after Decem-  
 23 ber 31, 1998.

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

3     ***SEC. 211. INCOME AVERAGING FOR FARMERS MADE PERMA-***  
 4                     ***NENT.***

5             *Subsection (c) of section 933 of the Taxpayer Relief*  
 6     *Act of 1997 is amended by striking “, and before January*  
 7     *1, 2001”.*

8     ***SEC. 212. 5-YEAR NET OPERATING LOSS CARRYBACK FOR***  
 9                     ***FARMING LOSSES.***

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

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

19            *(b) FARMING LOSS.—Section 172 is amended by redes-*  
 20     *ignating subsection (i) as subsection (j) and by inserting*  
 21     *after subsection (h) the following new subsection:*

22                     *“(i) RULES RELATING TO FARMING LOSSES.—For*  
 23     *purposes of this section—*

24                             *“(1) IN GENERAL.—The term ‘farming loss’*  
 25     *means the lesser of—*



1           “(A) the amount which would be the net op-  
 2           erating loss for the taxable year if only income  
 3           and deductions attributable to farming busi-  
 4           nesses (as defined in section 263A(e)(4)) are  
 5           taken into account, or

6           “(B) the amount of the net operating loss  
 7           for such taxable year.

8           “(2) COORDINATION WITH SUBSECTION (b)(2).—  
 9           For purposes of applying subsection (b)(2), a farming  
 10          loss for any taxable year shall be treated in a manner  
 11          similar to the manner in which a specified liability  
 12          loss is treated.

13          “(3) ELECTION.—Any taxpayer entitled to a 5-  
 14          year carryback under subsection (b)(1)(G) from any  
 15          loss year may elect to have the carryback period with  
 16          respect to such loss year determined without regard to  
 17          subsection (b)(1)(G). Such election shall be made in  
 18          such manner as may be prescribed by the Secretary  
 19          and shall be made by the due date (including exten-  
 20          sions of time) for filing the taxpayer’s return for the  
 21          taxable year of the net operating loss. Such election,  
 22          once made for any taxable year, shall be irrevocable  
 23          for such taxable year.”

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

4                       *“Such term shall not include any farming*  
 5                       *loss (as defined in subsection (i)).”*

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

9       **SEC. 213. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS.**

10       *The option under section 112(d)(3) of the Federal Ag-*  
 11       *riculture Improvement and Reform Act of 1996 (7 U.S.C.*  
 12       *7212(d)(3)) shall be disregarded in determining the taxable*  
 13       *year for which the payment for fiscal year 1999 under a*  
 14       *production flexibility contract under subtitle B of title I*  
 15       *of such Act is properly includible in gross income for pur-*  
 16       *poses of the Internal Revenue Code of 1986.*

17       **Subtitle C—Increase in Volume Cap**  
 18       **on Private Activity Bonds**

19       **SEC. 221. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY**  
 20       **BONDS.**

21       (a) *IN GENERAL.*—*Subsection (d) of section 146 (relat-*  
 22       *ing to volume cap) is amended by striking paragraph (2),*  
 23       *by redesignating paragraphs (3) and (4) as paragraphs (2)*  
 24       *and (3), respectively, and by striking paragraph (1) and*  
 25       *inserting the following new paragraph:*

1           “(1) *IN GENERAL.*—*The State ceiling applicable*  
 2           *to any State for any calendar year shall be the great-*  
 3           *er of—*

4                     “(A) *an amount equal to \$75 multiplied by*  
 5                     *the State population, or*

6                     “(B) *\$225,000,000.*

7           *Subparagraph (B) shall not apply to any possession*  
 8           *of the United States.”*

9           (b) *CONFORMING AMENDMENT.*—*Sections 25(f)(3) and*  
 10           *42(h)(3)(E)(iii) are each amended by striking “section*  
 11           *146(d)(3)(C)” and inserting “section 146(d)(2)(C)”.*

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

14           ***TITLE       III—EXTENSION       AND***  
 15           ***MODIFICATION OF CERTAIN***  
 16           ***EXPIRING PROVISIONS***  
 17           ***Subtitle A—Tax Provisions***

18           ***SEC. 301. RESEARCH CREDIT.***

19           (a) *TEMPORARY EXTENSION.*—

20                     (1) *IN GENERAL.*—*Paragraph (1) of section*  
 21           *41(h) (relating to termination) is amended—*

22                             (A) *by striking “June 30, 1998” and insert-*  
 23                             *ing “February 29, 2000”,*

24                             (B) *by striking “24-month” and inserting*  
 25                             *“44-month”, and*

1                   (C) by striking “24 months” and inserting  
2                   “44 months”.

3                   (2) *TECHNICAL AMENDMENT.*—Subparagraph  
4                   (D) of section 45C(b)(1) is amended by striking  
5                   “June 30, 1998” and inserting “February 29, 2000”.

6                   (3) *EFFECTIVE DATE.*—The amendments made  
7                   by this subsection shall apply to amounts paid or in-  
8                   curred after June 30, 1998.

9                   (b) *INCREASE IN PERCENTAGES UNDER ALTERNATIVE*  
10 *INCREMENTAL CREDIT.*—

11                   (1) *IN GENERAL.*—Subparagraph (A) of section  
12                   41(c)(4) is amended—

13                               (A) by striking “1.65 percent” and insert-  
14                               ing “2.65 percent”,

15                               (B) by striking “2.2 percent” and inserting  
16                               “3.2 percent”, and

17                               (C) by striking “2.75 percent” and insert-  
18                               ing “3.75 percent”.

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

22 **SEC. 302. WORK OPPORTUNITY CREDIT.**

23                   (a) *TEMPORARY EXTENSION.*—Subparagraph (B) of  
24                   section 51(c)(4) (relating to termination) is amended by

1 *striking “June 30, 1998” and inserting “February 29,*  
 2 *2000”.*

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

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

7 *Subsection (f) of section 51A (relating to termination)*  
 8 *is amended by striking “April 30, 1999” and inserting*  
 9 *“February 29, 2000”.*

10 **SEC. 304. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDA-**  
 11 **TIONS; EXPANDED PUBLIC INSPECTION OF**  
 12 **PRIVATE FOUNDATIONS’ ANNUAL RETURNS.**

13 *(a) SPECIAL RULE FOR CONTRIBUTIONS OF STOCK*  
 14 *MADE PERMANENT.—*

15 *(1) IN GENERAL.—Paragraph (5) of section*  
 16 *170(e) is amended by striking subparagraph (D) (re-*  
 17 *lating to termination).*

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

21 *(b) EXPANDED PUBLIC INSPECTION OF PRIVATE*  
 22 *FOUNDATIONS’ ANNUAL RETURNS, ETC.—*

23 *(1) IN GENERAL.—Section 6104 (relating to pub-*  
 24 *licity of information required from certain exempt or-*  
 25 *ganizations and certain trusts) is amended by strik-*

1        *ing subsections (d) and (e) and inserting after sub-*  
 2        *section (c) the following new subsection:*

3        *“(d) PUBLIC INSPECTION OF CERTAIN ANNUAL RE-*  
 4        *TURNS AND APPLICATIONS FOR EXEMPTION.—*

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

8                *“(A) a copy of—*

9                        *“(i) the annual return filed under sec-*  
 10                        *tion 6033 (relating to returns by exempt or-*  
 11                        *ganizations) by such organization, and*

12                        *“(ii) if the organization filed an appli-*  
 13                        *cation for recognition of exemption under*  
 14                        *section 501, the exempt status application*  
 15                        *materials of such organization,*

16        *shall be made available by such organization for*  
 17        *inspection during regular business hours by any*  
 18        *individual at the principal office of such organi-*  
 19        *zation and, if such organization regularly main-*  
 20        *tains 1 or more regional or district offices hav-*  
 21        *ing 3 or more employees, at each such regional*  
 22        *or district office, and*

23                *“(B) upon request of an individual made at*  
 24        *such principal office or such a regional or dis-*  
 25        *trict office, a copy of such annual return and ex-*

1        *empt status application materials shall be pro-*  
2        *vided to such individual without charge other*  
3        *than a reasonable fee for any reproduction and*  
4        *mailing costs.*

5        *The request described in subparagraph (B) must be*  
6        *made in person or in writing. If such request is made*  
7        *in person, such copy shall be provided immediately*  
8        *and, if made in writing, shall be provided within 30*  
9        *days.*

10        *“(2) 3-YEAR LIMITATION ON INSPECTION OF RE-*  
11        *TURNS.—Paragraph (1) shall apply to an annual re-*  
12        *turn filed under section 6033 only during the 3-year*  
13        *period beginning on the last day prescribed for filing*  
14        *such return (determined with regard to any extension*  
15        *of time for filing).*

16        *“(3) EXCEPTIONS FROM DISCLOSURE REQUIRE-*  
17        *MENT.—*

18        *“(A) NONDISCLOSURE OF CONTRIBUTORS,*  
19        *ETC.—Paragraph (1) shall not require the disclo-*  
20        *sure of the name or address of any contributor*  
21        *to the organization. In the case of an organiza-*  
22        *tion described in section 501(d), subparagraph*  
23        *(A) shall not require the disclosure of the copies*  
24        *referred to in section 6031(b) with respect to*  
25        *such organization.*

1                   “(B) *NONDISCLOSURE OF CERTAIN OTHER*  
 2                   *INFORMATION.—Paragraph (1) shall not require*  
 3                   *the disclosure of any information if the Secretary*  
 4                   *withheld such information from public inspec-*  
 5                   *tion under subsection (a)(1)(D).*

6                   “(4) *LIMITATION ON PROVIDING COPIES.—Para-*  
 7                   *graph (1)(B) shall not apply to any request if, in ac-*  
 8                   *cordance with regulations promulgated by the Sec-*  
 9                   *retary, the organization has made the requested docu-*  
 10                   *ments widely available, or the Secretary determines,*  
 11                   *upon application by an organization, that such re-*  
 12                   *quest is part of a harassment campaign and that*  
 13                   *compliance with such request is not in the public in-*  
 14                   *terest.*

15                   “(5) *EXEMPT STATUS APPLICATION MATE-*  
 16                   *RIALS.—For purposes of paragraph (1), the term ‘ex-*  
 17                   *empt status applicable materials’ means the applica-*  
 18                   *tion for recognition of exemption under section 501*  
 19                   *and any papers submitted in support of such applica-*  
 20                   *tion and any letter or other document issued by the*  
 21                   *Internal Revenue Service with respect to such appli-*  
 22                   *cation.”*

23                   (2) *CONFORMING AMENDMENTS.—*

24                   (A) *Subsection (c) of section 6033 is amend-*  
 25                   *ed by adding “and” at the end of paragraph (1),*



1           *by striking paragraph (2), and by redesignating*  
 2           *paragraph (3) as paragraph (2).*

3           *(B) Subparagraph (C) of section 6652(c)(1)*  
 4           *is amended by striking “subsection (d) or (e)(1)*  
 5           *of section 6104 (relating to public inspection of*  
 6           *annual returns)” and inserting “section 6104(d)*  
 7           *with respect to any annual return”.*

8           *(C) Subparagraph (D) of section 6652(c)(1)*  
 9           *is amended by striking “section 6104(e)(2) (re-*  
 10           *lating to public inspection of applications for ex-*  
 11           *emption)” and inserting “section 6104(d) with*  
 12           *respect to any exempt status application mate-*  
 13           *rials (as defined in such section)”.*

14           *(D) Section 6685 is amended by striking*  
 15           *“or (e)”.*

16           *(E) Section 7207 is amended by striking*  
 17           *“or (e)”.*

18           *(3) EFFECTIVE DATE.—*

19           *(A) IN GENERAL.—Except as provided in*  
 20           *subparagraph (B), the amendments made by this*  
 21           *subsection shall apply to requests made after the*  
 22           *later of December 31, 1998, or the 60th day after*  
 23           *the Secretary of the Treasury first issues the reg-*  
 24           *ulations referred to such section 6104(d)(4) of the*

1           *Internal Revenue Code of 1986, as amended by*  
 2           *this section.*

3                   (B) *PUBLICATION OF ANNUAL RETURNS.*—  
 4           *Section 6104(d) of such Code, as in effect before*  
 5           *the amendments made by this subsection, shall*  
 6           *not apply to any return the due date for which*  
 7           *is after the date such amendments take effect*  
 8           *under subparagraph (A).*

9   **SEC. 305. SUBPART F EXEMPTION FOR ACTIVE FINANCING**  
 10                   **INCOME.**

11           (a) *INCOME DERIVED FROM BANKING, FINANCING OR*  
 12   *SIMILAR BUSINESSES.*—*Section 954(h) (relating to income*  
 13   *derived in the active conduct of banking, financing, or simi-*  
 14   *lar businesses) is amended to read as follows:*

15           “(h) *SPECIAL RULE FOR INCOME DERIVED IN THE AC-*  
 16   *TIVE CONDUCT OF BANKING, FINANCING, OR SIMILAR BUSI-*  
 17   *NESSES.*—

18                   “(1) *IN GENERAL.*—*For purposes of subsection*  
 19   *(c)(1), foreign personal holding company income shall*  
 20   *not include qualified banking or financing income of*  
 21   *an eligible controlled foreign corporation.*

22                   “(2) *ELIGIBLE CONTROLLED FOREIGN CORPORA-*  
 23   *TION.*—*For purposes of this subsection—*

1           “(A) *IN GENERAL.*—The term ‘eligible con-  
2           trolled foreign corporation’ means a controlled  
3           foreign corporation which—

4                   “(i) is predominantly engaged in the  
5                   active conduct of a banking, financing, or  
6                   similar business, and

7                   “(ii) conducts substantial activity with  
8                   respect to such business.

9           “(B) *PREDOMINANTLY ENGAGED.*—A con-  
10          trolled foreign corporation shall be treated as  
11          predominantly engaged in the active conduct of  
12          a banking, financing, or similar business if—

13                   “(i) more than 70 percent of the gross  
14                   income of the controlled foreign corporation  
15                   is derived directly from the active and regu-  
16                   lar conduct of a lending or finance business  
17                   from transactions with customers which are  
18                   not related persons,

19                   “(ii) it is engaged in the active con-  
20                   duct of a banking business and is an insti-  
21                   tution licensed to do business as a bank in  
22                   the United States (or is any other corpora-  
23                   tion not so licensed which is specified by the  
24                   Secretary in regulations), or

1           “(iii) it is engaged in the active con-  
 2           duct of a securities business and is reg-  
 3           istered as a securities broker or dealer under  
 4           section 15(a) of the Securities Exchange Act  
 5           of 1934 or is registered as a Government se-  
 6           curities broker or dealer under section  
 7           15C(a) of such Act (or is any other corpora-  
 8           tion not so registered which is specified by  
 9           the Secretary in regulations).

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

12           “(A) IN GENERAL.—The term ‘qualified  
 13           banking or financing income’ means income of  
 14           an eligible controlled foreign corporation  
 15           which—

16           “(i) is derived in the active conduct of  
 17           a banking, financing, or similar business  
 18           by—

19           “(I) such eligible controlled for-  
 20           eign corporation, or

21           “(II) a qualified business unit of  
 22           such eligible controlled foreign corpora-  
 23           tion,

24           “(ii) is derived from 1 or more trans-  
 25           actions—

1                   “(I) with customers located in a  
2                   country other than the United States,  
3                   and

4                   “(II) substantially all of the ac-  
5                   tivities in connection with which are  
6                   conducted directly by the corporation  
7                   or unit in its home country, and

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

11                  “(B) *LIMITATION ON NONBANKING AND NON-*  
12                  *SECURITIES BUSINESSES.*—No income of an eli-  
13                  gible controlled foreign corporation not described  
14                  in clause (ii) or (iii) of paragraph (2)(B) (or of  
15                  a qualified business unit of such corporation)  
16                  shall be treated as qualified banking or financing  
17                  income unless more than 30 percent of such cor-  
18                  poration’s or unit’s gross income is derived di-  
19                  rectly from the active and regular conduct of a  
20                  lending or finance business from transactions  
21                  with customers which are not related persons  
22                  and which are located within such corporation’s  
23                  or unit’s home country.

24                  “(C) *SUBSTANTIAL ACTIVITY REQUIREMENT*  
25                  *FOR CROSS BORDER INCOME.*—The term ‘quali-

1        *fied banking or financing income’ shall not in-*  
2        *clude income derived from 1 or more trans-*  
3        *actions with customers located in a country other*  
4        *than the home country of the eligible controlled*  
5        *foreign corporation or a qualified business unit*  
6        *of such corporation unless such corporation or*  
7        *unit conducts substantial activity with respect to*  
8        *a banking, financing, or similar business in its*  
9        *home country.*

10            “(D)    *DETERMINATIONS    MADE    SEPA-*  
11            *RATELY.—For purposes of this paragraph, the*  
12            *qualified banking or financing income of an eli-*  
13            *gible controlled foreign corporation and each*  
14            *qualified business unit of such corporation shall*  
15            *be determined separately for such corporation*  
16            *and each such unit by taking into account—*

17                    “(i) *in the case of the eligible controlled*  
18                    *foreign corporation, only items of income,*  
19                    *deduction, gain, or loss and activities of*  
20                    *such corporation not properly allocable or*  
21                    *attributable to any qualified business unit*  
22                    *of such corporation, and*

23                    “(ii) *in the case of a qualified business*  
24                    *unit, only items of income, deduction, gain,*

1                    *or loss and activities properly allocable or*  
2                    *attributable to such unit.*

3                    “(4) *LENDING OR FINANCE BUSINESS.*—*For pur-*  
4                    *poses of this subsection, the term ‘lending or finance*  
5                    *business’ means the business of—*

6                    “(A) *making loans,*

7                    “(B) *purchasing or discounting accounts re-*  
8                    *ceivable, notes, or installment obligations,*

9                    “(C) *engaging in leasing (including enter-*  
10                    *ing into leases and purchasing, servicing, and*  
11                    *disposing of leases and leased assets),*

12                    “(D) *issuing letters of credit or providing*  
13                    *guarantees,*

14                    “(E) *providing charge and credit card serv-*  
15                    *ices, or*

16                    “(F) *rendering services or making facilities*  
17                    *available in connection with activities described*  
18                    *in subparagraphs (A) through (E) carried on*  
19                    *by—*

20                    “(i) *the corporation (or qualified busi-*  
21                    *ness unit) rendering services or making fa-*  
22                    *cilities available, or*

23                    “(ii) *another corporation (or qualified*  
24                    *business unit of a corporation) which is a*  
25                    *member of the same affiliated group (as de-*

1           *fin*ed in section 1504, but determined with-  
 2           out regard to section 1504(b)(3)).

3           “(5) *OTHER DEFINITIONS.*—For purposes of this  
 4           subsection—

5           “(A) *CUSTOMER.*—The term ‘customer’  
 6           means, with respect to any controlled foreign  
 7           corporation or qualified business unit, any per-  
 8           son which has a customer relationship with such  
 9           corporation or unit and which is acting in its  
 10          capacity as such.

11          “(B) *HOME COUNTRY.*—Except as provided  
 12          in regulations—

13          “(i) *CONTROLLED FOREIGN CORPORA-*  
 14          *TION.*—The term ‘home country’ means,  
 15          with respect to any controlled foreign cor-  
 16          poration, the country under the laws of  
 17          which the corporation was created or orga-  
 18          nized.

19          “(ii) *QUALIFIED BUSINESS UNIT.*—The  
 20          term ‘home country’ means, with respect to  
 21          any qualified business unit, the country in  
 22          which such unit maintains its principal of-  
 23          fice.



1           “(C) *LOCATED*.—The determination of  
 2           where a customer is located shall be made under  
 3           rules prescribed by the Secretary.

4           “(D) *QUALIFIED BUSINESS UNIT*.—The  
 5           term ‘qualified business unit’ has the meaning  
 6           given such term by section 989(a).

7           “(E) *RELATED PERSON*.—The term ‘related  
 8           person’ has the meaning given such term by sub-  
 9           section (d)(3).

10          “(6) *COORDINATION WITH EXCEPTION FOR DEAL-*  
 11          *ERS*.—Paragraph (1) shall not apply to income de-  
 12          scribed in subsection (c)(2)(C)(ii) of a dealer in secu-  
 13          rities (within the meaning of section 475) which is an  
 14          eligible controlled foreign corporation described in  
 15          paragraph (2)(B)(iii).

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

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

1        *the benefits of such exclusion through the appli-*  
2        *cation of this subsection,*

3                *“(B) there shall be disregarded any item of*  
4        *income, gain, loss, or deduction of an entity*  
5        *which is not engaged in regular and continuous*  
6        *transactions with customers which are not relat-*  
7        *ed persons,*

8                *“(C) there shall be disregarded any item of*  
9        *income, gain, loss, or deduction with respect to*  
10       *any transaction or series of transactions utiliz-*  
11       *ing, or doing business with—*

12                *“(i) one or more entities in order to*  
13        *satisfy any home country requirement*  
14        *under this subsection, or*

15                *“(ii) a special purpose entity or ar-*  
16        *rangement, including a securitization, fi-*  
17        *nancing, or similar entity or arrangement,*  
18        *if one of the principal purposes of such trans-*  
19        *action or series of transactions is qualifying in-*  
20        *come or gain for the exclusion under this sub-*  
21        *section, and*

22                *“(D) a related person, an officer, a director,*  
23        *or an employee with respect to any controlled*  
24        *foreign corporation (or qualified business unit)*  
25        *which would otherwise be treated as a customer*

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

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

10           “(9) *APPLICATION.*—*This subsection, subsection*  
 11           *(c)(2)(C)(ii), and the last sentence of subsection (e)(2)*  
 12           *shall apply only to the first taxable year of a foreign*  
 13           *corporation beginning after December 31, 1998, and*  
 14           *before January 1, 2000, and to taxable years of*  
 15           *United States shareholders with or within which such*  
 16           *taxable year of such foreign corporation ends.”*

17           ***(b) INCOME DERIVED FROM INSURANCE BUSINESS.***—

18                 ***(1) INCOME ATTRIBUTABLE TO ISSUANCE OR RE-***  
 19                 ***INSURANCE.***—

20                         ***(A) IN GENERAL.***—*Section 953(a) (defining*  
 21                         *insurance income) is amended to read as follows:*

22                         ***“(a) INSURANCE INCOME.***—

23                                 ***“(1) IN GENERAL.***—*For purposes of section*  
 24                                 *952(a)(1), the term ‘insurance income’ means any in-*  
 25                                 *come which—*

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

3           “(B) would (subject to the modifications  
 4           provided by subsection (b)) be taxed under sub-  
 5           chapter L of this chapter if such income were the  
 6           income of a domestic insurance company.

7           “(2) *EXCEPTION*.—Such term shall not include  
 8           any exempt insurance income (as defined in sub-  
 9           section (e)).”

10           (B) *EXEMPT INSURANCE INCOME*.—Section  
 11           953 (relating to insurance income) is amended  
 12           by adding at the end the following new sub-  
 13           section:

14           “(e) *EXEMPT INSURANCE INCOME*.—For purposes of  
 15           this section—

16           “(1) *EXEMPT INSURANCE INCOME DEFINED*.—

17           “(A) *IN GENERAL*.—The term ‘exempt in-  
 18           surance income’ means income derived by a  
 19           qualifying insurance company which—

20           “(i) is attributable to the issuing (or  
 21           reinsuring) of an exempt contract by such  
 22           company or a qualifying insurance com-  
 23           pany branch of such company, and

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

4           “(B) *EXCEPTION FOR CERTAIN ARRANGE-*  
 5           *MENTS.*—Such term shall not include income at-  
 6           tributable to the issuing (or reinsuring) of an ex-  
 7           empt contract as the result of any arrangement  
 8           whereby another corporation receives a substan-  
 9           tially equal amount of premiums or other con-  
 10          sideration in respect of issuing (or reinsuring) a  
 11          contract which is not an exempt contract.

12          “(C) *DETERMINATIONS MADE SEPA-*  
 13          *RATELY.*—For purposes of this subsection and  
 14          section 954(i), the exempt insurance income and  
 15          exempt contracts of a qualifying insurance com-  
 16          pany or any qualifying insurance company  
 17          branch of such company shall be determined sep-  
 18          arately for such company and each such branch  
 19          by taking into account—

20               “(i) in the case of the qualifying insur-  
 21               ance company, only items of income, deduc-  
 22               tion, gain, or loss, and activities of such  
 23               company not properly allocable or attrib-  
 24               utable to any qualifying insurance com-  
 25               pany branch of such company, and

1                   “(ii) *in the case of a qualifying insur-*  
 2                   *ance company branch, only items of income,*  
 3                   *deduction, gain, or loss and activities prop-*  
 4                   *erly allocable or attributable to such unit.*

5                   “(2) *EXEMPT CONTRACT.—*

6                   “(A) *IN GENERAL.—The term ‘exempt con-*  
 7                   *tract’ means an insurance or annuity contract*  
 8                   *issued or reinsured by a qualifying insurance*  
 9                   *company or qualifying insurance company*  
 10                   *branch in connection with property in, liability*  
 11                   *arising out of activity in, or the lives or health*  
 12                   *of residents of, a country other than the United*  
 13                   *States.*

14                   “(B) *MINIMUM HOME COUNTRY INCOME RE-*  
 15                   *QUIRED.—*

16                   “(i) *IN GENERAL.—No contract of a*  
 17                   *qualifying insurance company or of a*  
 18                   *qualifying insurance company branch shall*  
 19                   *be treated as an exempt contract unless such*  
 20                   *company or branch derives more than 30*  
 21                   *percent of its net written premiums from*  
 22                   *exempt contracts (determined without re-*  
 23                   *gard to this subparagraph)—*

24                   “(I) *which cover applicable home*  
 25                   *country risks, and*

1                   “(II) *with respect to which no*  
 2                   *policyholder, insured, annuitant, or*  
 3                   *beneficiary is a related person (as de-*  
 4                   *fined in section 954(d)(3)).*

5                   “(ii) *APPLICABLE HOME COUNTRY*  
 6                   *RISKS.—The term ‘applicable home country*  
 7                   *risks’ means risks in connection with prop-*  
 8                   *erty in, liability arising out of activity in,*  
 9                   *or the lives or health of residents of, the*  
 10                   *home country of the qualifying insurance*  
 11                   *company or qualifying insurance company*  
 12                   *branch, as the case may be, issuing or rein-*  
 13                   *sureing the contract covering the risks.*

14                   “(C) *SUBSTANTIAL ACTIVITY REQUIRE-*  
 15                   *MENTS FOR CROSS BORDER RISKS.—A contract*  
 16                   *issued by a qualifying insurance company or*  
 17                   *qualifying insurance company branch which cov-*  
 18                   *ers risks other than applicable home country*  
 19                   *risks (as defined in subparagraph (B)(ii)) shall*  
 20                   *not be treated as an exempt contract unless such*  
 21                   *company or branch, as the case may be—*

22                   “(i) *conducts substantial activity with*  
 23                   *respect to an insurance business in its home*  
 24                   *country, and*

1                   “(ii) performs in its home country sub-  
2                   stantially all of the activities necessary to  
3                   give rise to the income generated by such  
4                   contract.

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

8                   “(A) is subject to regulation as an insur-  
9                   ance (or reinsurance) company by its home  
10                  country, and is licensed, authorized, or regulated  
11                  by the applicable insurance regulatory body for  
12                  its home country to sell insurance, reinsurance,  
13                  or annuity contracts to persons other than relat-  
14                  ed persons (within the meaning of section  
15                  954(d)(3)) in such home country,

16                  “(B) derives more than 50 percent of its ag-  
17                  gregate net written premiums from the issuance  
18                  or reinsurance by such controlled foreign cor-  
19                  poration and each of its qualifying insurance  
20                  company branches of contracts—

21                  “(i) covering applicable home country  
22                  risks (as defined in paragraph (2)) of such  
23                  corporation or branch, as the case may be,  
24                  and



1                   “(ii) with respect to which no policy-  
 2                   holder, insured, annuitant, or beneficiary is  
 3                   a related person (as defined in section  
 4                   954(d)(3)),  
 5                   except that in the case of a branch, such pre-  
 6                   miums shall only be taken into account to the ex-  
 7                   tent such premiums are treated as earned by  
 8                   such branch in its home country for purposes of  
 9                   such country’s tax laws, and

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

13                   “(4)    QUALIFYING       INSURANCE       COMPANY  
 14                   BRANCH.—The term ‘qualifying insurance company  
 15                   branch’ means a qualified business unit (within the  
 16                   meaning of section 989(a)) of a controlled foreign cor-  
 17                   poration if—

18                   “(A) such unit is licensed, authorized, or  
 19                   regulated by the applicable insurance regulatory  
 20                   body for its home country to sell insurance, rein-  
 21                   surance, or annuity contracts to persons other  
 22                   than related persons (within the meaning of sec-  
 23                   tion 954(d)(3)) in such home country, and

24                   “(B) such controlled foreign corporation is  
 25                   a qualifying insurance company, determined

1           under paragraph (3) as if such unit were a  
2           qualifying insurance company branch.

3           “(5) *LIFE INSURANCE OR ANNUITY CONTRACT.*—  
4           *For purposes of this section and section 954, the de-*  
5           *termination of whether a contract issued by a con-*  
6           *trolled foreign corporation or a qualified business*  
7           *unit (within the meaning of section 989(a)) is a life*  
8           *insurance contract or an annuity contract shall be*  
9           *made without regard to sections 72(s), 101(f), 817(h),*  
10          *and 7702 if—*

11                 “(A) *such contract is regulated as a life in-*  
12                 *surance or annuity contract by the corporation’s*  
13                 *or unit’s home country, and*

14                 “(B) *no policyholder, insured, annuitant, or*  
15                 *beneficiary with respect to the contract is a*  
16                 *United States person.*

17           “(6) *HOME COUNTRY.*—*For purposes of this sub-*  
18           *section, except as provided in regulations—*

19                 “(A) *CONTROLLED FOREIGN CORPORA-*  
20                 *TION.*—*The term ‘home country’ means, with re-*  
21                 *spect to a controlled foreign corporation, the*  
22                 *country in which such corporation is created or*  
23                 *organized.*

24                 “(B) *QUALIFIED BUSINESS UNIT.*—*The*  
25                 *term ‘home country’ means, with respect to a*

1        *qualified business unit (as defined in section*  
2        *989(a)), the country in which the principal office*  
3        *of such unit is located and in which such unit*  
4        *is licensed, authorized, or regulated by the appli-*  
5        *cable insurance regulatory body to sell insurance,*  
6        *reinsurance, or annuity contracts to persons*  
7        *other than related persons (as defined in section*  
8        *954(d)(3)) in such country.*

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

11                “(A) *the rules of section 954(h)(7) (other*  
12                *than subparagraph (B) thereof) shall apply,*

13                “(B) *there shall be disregarded any item of*  
14                *income, gain, loss, or deduction of, or derived*  
15                *from, an entity which is not engaged in regular*  
16                *and continuous transactions with persons which*  
17                *are not related persons,*

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

23                “(D) *a contract of insurance or reinsurance*  
24                *shall not be treated as an exempt contract (and*  
25                *premiums from such contract shall not be taken*

1           *into account for purposes of paragraph (2)(B) or*  
2           *(3)) if—*

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

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

15                   “(E) *the Secretary may prescribe rules for*  
16                   *the allocation of contracts (and income from con-*  
17                   *tracts) among 2 or more qualifying insurance*  
18                   *company branches of a qualifying insurance*  
19                   *company in order to clearly reflect the income of*  
20                   *such branches, and*

21                   “(F) *premiums from a contract shall not be*  
22                   *taken into account for purposes of paragraph*  
23                   *(2)(B) or (3) if such contract reinsures a con-*  
24                   *tract issued or reinsured by a related person (as*  
25                   *defined in section 954(d)(3)).*

1     *For purposes of subparagraph (D), the determination*  
 2     *of where risks are located shall be made under the*  
 3     *principles of section 953.*

4             “(8) *COORDINATION WITH SUBSECTION (c).*—*In*  
 5     *determining insurance income for purposes of sub-*  
 6     *section (c), exempt insurance income shall not include*  
 7     *income derived from exempt contracts which cover*  
 8     *risks other than applicable home country risks.*

9             “(9) *REGULATIONS.*—*The Secretary shall pre-*  
 10    *scribe such regulations as may be necessary or appro-*  
 11    *priate to carry out the purposes of this subsection and*  
 12    *section 954(i).*

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

20            “(11) *CROSS REFERENCE.*—

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

21            “(2) *EXEMPTION FROM FOREIGN PERSONAL HOLD-*  
 22    *ING COMPANY INCOME.*—*Section 954 (defining foreign*  
 23    *base company income) is amended by adding at the*  
 24    *end the following new subsection:*

1       “(i) *SPECIAL RULE FOR INCOME DERIVED IN THE AC-*  
 2 *TIVE CONDUCT OF INSURANCE BUSINESS.*—

3               “(1) *IN GENERAL.*—*For purposes of subsection*  
 4 *(c)(1), foreign personal holding company income shall*  
 5 *not include qualified insurance income of a qualify-*  
 6 *ing insurance company.*

7               “(2) *QUALIFIED INSURANCE INCOME.*—*The term*  
 8 *‘qualified insurance income’ means income of a quali-*  
 9 *fying insurance company which is—*

10               “(A) *received from a person other than a re-*  
 11 *lated person (within the meaning of subsection*  
 12 *(d)(3)) and derived from the investments made*  
 13 *by a qualifying insurance company or a qualify-*  
 14 *ing insurance company branch of its reserves al-*  
 15 *locable to exempt contracts or of 80 percent of its*  
 16 *unearned premiums from exempt contracts (as*  
 17 *both are determined in the manner prescribed*  
 18 *under paragraph (4)), or*

19               “(B) *received from a person other than a re-*  
 20 *lated person (within the meaning of subsection*  
 21 *(d)(3)) and derived from investments made by a*  
 22 *qualifying insurance company or a qualifying*  
 23 *insurance company branch of an amount of its*  
 24 *assets allocable to exempt contracts equal to—*

1                   “(i) in the case of property, casualty,  
 2                   or health insurance contracts, one-third of  
 3                   its premiums earned on such insurance con-  
 4                   tracts during the taxable year (as defined in  
 5                   section 832(b)(4)), and

6                   “(ii) in the case of life insurance or  
 7                   annuity contracts, 10 percent of the reserves  
 8                   described in subparagraph (A) for such con-  
 9                   tracts.

10                  “(3) *PRINCIPLES FOR DETERMINING INSURANCE*  
 11                  *INCOME.—Except as provided by the Secretary, for*  
 12                  *purposes of subparagraphs (A) and (B) of paragraph*  
 13                  *(2)—*

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

19                   “(B) income not allocable under subpara-  
 20                   graph (A) shall be allocated ratably among con-  
 21                   tracts not described in subparagraph (A).

22                  “(4) *METHODS FOR DETERMINING UNEARNED*  
 23                  *PREMIUMS AND RESERVES.—For purposes of para-*  
 24                  *graph (2)(A)—*

1           “(A) *PROPERTY AND CASUALTY CON-*  
 2           *TRACTS.—The unearned premiums and reserves*  
 3           *of a qualifying insurance company or a qualify-*  
 4           *ing insurance company branch with respect to*  
 5           *property, casualty, or health insurance contracts*  
 6           *shall be determined using the same methods and*  
 7           *interest rates which would be used if such com-*  
 8           *pany or branch were subject to tax under sub-*  
 9           *chapter L, except that—*

10                   “(i) *the interest rate determined for the*  
 11                   *functional currency of the company or*  
 12                   *branch, and which, except as provided by*  
 13                   *the Secretary, is calculated in the same*  
 14                   *manner as the Federal mid-term rate under*  
 15                   *section 1274(d), shall be substituted for the*  
 16                   *applicable Federal interest rate, and*

17                   “(ii) *such company or branch shall use*  
 18                   *the appropriate foreign loss payment pat-*  
 19                   *tern.*

20           “(B) *LIFE INSURANCE AND ANNUITY CON-*  
 21           *TRACTS.—The amount of the reserve of a qualify-*  
 22           *ing insurance company or qualifying insurance*  
 23           *company branch for any life insurance or annu-*  
 24           *ity contract shall be equal to the greater of—*



1                   “(i) the net surrender value of such  
2                   contract (as defined in section  
3                   807(e)(1)(A)), or

4                   “(ii) the reserve determined under  
5                   paragraph (5).

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

14                  “(5) *AMOUNT OF RESERVE.*—The amount of the  
15                  reserve determined under this paragraph with respect  
16                  to any contract shall be determined in the same man-  
17                  ner as it would be determined if the qualifying insur-  
18                  ance company or qualifying insurance company  
19                  branch were subject to tax under subchapter L, except  
20                  that in applying such subchapter—

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

1       *substituted for the applicable Federal interest*  
2       *rate,*

3               *“(B) the highest assumed interest rate per-*  
4       *mitted to be used in determining foreign state-*  
5       *ment reserves shall be substituted for the prevail-*  
6       *ing State assumed interest rate, and*

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

13       *The Secretary may provide that the interest rate and*  
14       *mortality and morbidity tables of a qualifying insur-*  
15       *ance company may be used for 1 or more of its quali-*  
16       *fying insurance company branches when appropriate.*

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

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

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(c)(2)(C) *is amended to read as follows:*

6                   “(C) *EXCEPTION FOR DEALERS.*—*Except as*  
 7                   *provided by regulations, in the case of a regular*  
 8                   *dealer in property which is property described in*  
 9                   *paragraph (1)(B), forward contracts, option con-*  
 10                   *tracts, or similar financial instruments (includ-*  
 11                   *ing notional principal contracts and all instru-*  
 12                   *ments referenced to commodities), there shall not*  
 13                   *be taken into account in computing foreign per-*  
 14                   *sonal 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 or-*  
 20                   *inary course of such dealer’s trade or busi-*  
 21                   *ness 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 created  
10                  or organized (or in the case of a qualified  
11                  business unit described in section 989(a), is  
12                  attributable to activities of the unit in the  
13                  country in which the unit both maintains  
14                  its principal office and conducts substantial  
15                  business activity).”

16           (d) *EXEMPTION FROM FOREIGN BASE COMPANY SERV-*  
17 *ICES INCOME.*—Paragraph (2) of section 954(e) is amended  
18 by inserting “or” at the end of subparagraph (A), by strik-  
19 ing “, or” at the end of subparagraph (B) and inserting  
20 a period, by striking subparagraph (C), and by adding at  
21 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 U.S.C.  
 15       2465) is amended by striking “June 30, 1998” and insert-  
 16       ing “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, and  
4           before the date of the enactment of this Act,  
5           shall be liquidated or reliquidated as free of duty, and  
6           the Secretary of the Treasury shall refund any duty  
7           paid with respect to such entry. As used in this sub-  
8           section, the term “entry” includes a withdrawal from  
9           warehouse for consumption.

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

16                   (A) to locate the entry; or

17                   (B) to reconstruct the entry if it cannot be  
18           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 INVEST-***  
5                   ***MENT 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 ESTATE*  
11   *INVESTMENT TRUSTS.*—If a corporation receives a distribu-  
12   tion from a regulated investment company or a real estate  
13   investment trust which is considered under subsection (b)  
14   as being in complete liquidation of such company or trust,  
15   then, notwithstanding any other provision of this chapter,  
16   such corporation shall recognize and treat as a dividend  
17   from such company or trust an amount equal to the deduc-  
18   tion for dividends paid allowable to such company or trust  
19   by reason of such distribution.”.

20          (b) *CONFORMING AMENDMENTS.*—

21               (1) *The material preceding paragraph (1) of sec-*  
22               *tion 332(b) is amended by striking “subsection (a)”*  
23               *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 this  
 5       section shall apply to distributions after May 21, 1998.

6                           **TITLE V—TECHNICAL**  
 7                           **CORRECTIONS**

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

10       (a) *DEFINITIONS.*—For purposes of this title—

11           (1) *1986 CODE.*—The term “1986 Code” means  
 12       the Internal Revenue Code of 1986.

13           (2) *1998 ACT.*—The term “1998 Act” means the  
 14       Internal Revenue Service Restructuring and Reform  
 15       Act of 1998 (Public Law 105–206).

16           (3) *1997 ACT.*—The term “1997 Act” means the  
 17       Taxpayer Relief Act of 1997 (Public Law 105–34).

18       (b) *COORDINATION WITH OTHER TITLES.*—For pur-  
 19       poses of applying the amendments made by any title of this  
 20       Act other than this title, the provisions of this title shall  
 21       be treated as having been enacted immediately before the  
 22       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 1998*  
 5 *ACT.*—Paragraph (5) of section 6103(h) of the 1986 Code,  
 6 as added by section 1101(b) of the 1998 Act, is redesignated  
 7 as paragraph (6).

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

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 ending  
 15 after the date of the decedent’s death and before the  
 16 applicable date (as defined in section 645(b)(2)).”.

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

19 (1) *Section 7421(a) of the 1986 Code is amended*  
 20 *by striking “6015(d)” and inserting “6015(e)”.*

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

24 (d) *AMENDMENT RELATED TO SECTION 3301 OF 1998*  
 25 *ACT.*—Paragraph (2) of section 3301(c) of the 1998 Act is  
 26 amended by striking “The amendments” and inserting

1 “Subject to any applicable statute of limitation not having  
 2 expired with regard to either a tax underpayment or a tax  
 3 overpayment, the amendments”.

4 (e) AMENDMENT RELATED TO SECTION 3401 OF 1998  
 5 ACT.—Section 3401(c) of the 1998 Act is amended—

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

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

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

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

16 (h) AMENDMENT RELATED TO SECTION 5001 OF 1998  
 17 ACT.—

18 (1) Subparagraph (B) of section 1(h)(13) of the  
 19 1986 Code is amended by striking “paragraph  
 20 (7)(A)” and inserting “paragraph (7)(A)(i)”.

21 (2)(A) Subparagraphs (A)(i)(II), (A)(ii)(II), and  
 22 (B)(ii) of section 1(h)(13) of the 1986 Code shall not  
 23 apply to any distribution after December 31, 1997, by  
 24 a regulated investment company or a real estate in-  
 25 vestment trust with respect to—

1           (i) gains and losses recognized directly by  
2           such company or trust, and

3           (ii) amounts properly taken into account by  
4           such company or trust by reason of holding (di-  
5           rectly or indirectly) an interest in another such  
6           company or trust to the extent that such sub-  
7           paragraphs did not apply to such other company  
8           or trust with respect to such amounts.

9           (B) Subparagraph (A) shall not apply to any  
10          distribution which is treated under section 852(b)(7)  
11          or 857(b)(8) of the 1986 Code as received on December  
12          31, 1997.

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

18          (D)(i) For purposes of subparagraph (A), in the  
19          case of a qualified partnership with respect to which  
20          a regulated investment company meets the holding re-  
21          quirement of clause (iii)—

22                 (I) the subparagraphs referred to in sub-  
23                 paragraph (A) shall not apply to gains and  
24                 losses recognized directly by such partnership for

1        *purposes of determining such company's dis-*  
2        *tributive share of such gains and losses, and*

3                *(II) such company's distributive share of*  
4        *such gains and losses (as so determined) shall be*  
5        *treated as recognized directly by such company.*

6        *The preceding sentence shall apply only if the quali-*  
7        *fied partnership provides the company with written*  
8        *documentation of such distributive share as so deter-*  
9        *mined.*

10              *(ii) For purposes of clause (i), the term "quali-*  
11        *fied partnership" means, with respect to a regulated*  
12        *investment company, any partnership if—*

13                      *(I) the partnership is an investment com-*  
14        *pany registered under the Investment Company*  
15        *Act of 1940,*

16                      *(II) the regulated investment company is*  
17        *permitted to invest in such partnership by rea-*  
18        *son of section 12(d)(1)(E) of such Act or an ex-*  
19        *emptive order of the Securities and Exchange*  
20        *Commission under such section, and*

21                      *(III) the regulated investment company and*  
22        *the partnership have the same taxable year.*

23                      *(iii) A regulated investment company meets the*  
24        *holding requirement of this clause with respect to a*  
25        *qualified partnership if (as of January 1, 1998)—*

1           (I) the value of the interests of the regulated  
 2           investment company in such partnership is 35  
 3           percent or more of the value of such company's  
 4           total assets, or

5           (II) the value of the interests of the regu-  
 6           lated investment company in such partnership  
 7           and all other qualified partnerships is 90 percent  
 8           or more of the value of such company's total as-  
 9           sets.

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

13       **SEC. 503. AMENDMENTS RELATED TO TAXPAYER RELIEF**  
 14               **ACT OF 1997.**

15       (a) *AMENDMENT RELATED TO SECTION 202 OF 1997*  
 16       *ACT.*—Paragraph (2) of section 163(h) of the 1986 Code  
 17       is amended by striking “and” at the end of subparagraph  
 18       (D), by striking the period at the end of subparagraph (E)  
 19       and inserting “, and”, and by adding at the end the follow-  
 20       ing new subparagraph:

21               “(F) any interest allowable as a deduction  
 22               under section 221 (relating to interest on edu-  
 23               cational loans).”

24       (b) *PROVISION RELATED TO SECTION 311 OF 1997*  
 25       *ACT.*—In the case of any capital gain distribution made

1 *after 1997 by a trust to which section 664 of the 1986 Code*  
 2 *applies with respect to amounts properly taken into account*  
 3 *by such trust during 1997, paragraphs (5)(A)(i)(I),*  
 4 *(5)(A)(ii)(I), and (13)(A) of section 1(h) of the 1986 Code*  
 5 *(as in effect for taxable years ending on December 31, 1997)*  
 6 *shall not apply.*

7 *(c) AMENDMENT RELATED TO SECTION 506 OF 1997*  
 8 *ACT.—*

9 *(1) Section 2001(f)(2) of the 1986 Code is*  
 10 *amended by adding at the end the following:*

11 *“For purposes of subparagraph (A), the value of an*  
 12 *item shall be treated as shown on a return if the item*  
 13 *is disclosed in the return, or in a statement attached*  
 14 *to the return, in a manner adequate to apprise the*  
 15 *Secretary of the nature of such item.”.*

16 *(2) Paragraph (9) of section 6501(c) of the 1986*  
 17 *Code is amended by striking the last sentence.*

18 *(d) AMENDMENTS RELATED TO SECTION 904 OF 1997*  
 19 *ACT.—*

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

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

1           “(A) the payment of compensation under  
2 subtitle 2 of title XXI of the Public Health Serv-  
3 ice Act (as in effect on August 5, 1997) for vac-  
4 cine-related injury or death with respect to any  
5 vaccine—

6                   “(i) which is administered after Sep-  
7 tember 30, 1988, and

8                   “(ii) which is a taxable vaccine (as de-  
9 fined in section 4132(a)(1)) at the time  
10 compensation is paid under such subtitle 2,  
11 or

12           “(B) the payment of all expenses of admin-  
13 istration (but not in excess of \$9,500,000 for any  
14 fiscal year) incurred by the Federal Government  
15 in administering such subtitle.”.

16           (2) Section 9510(b) of the 1986 Code is amended  
17 by adding at the end the following new paragraph:

18                   “(3) LIMITATION ON TRANSFERS TO VACCINE IN-  
19 JURY COMPENSATION TRUST FUND.—No amount may  
20 be appropriated to the Vaccine Injury Compensation  
21 Trust Fund on and after the date of any expenditure  
22 from the Trust Fund which is not permitted by this  
23 section. The determination of whether an expenditure  
24 is so permitted shall be made without regard to—

1                   “(A) *any provision of law which is not con-*  
 2                   *tained or referenced in this title or in a revenue*  
 3                   *Act, and*

4                   “(B) *whether such provision of law is a sub-*  
 5                   *sequently enacted provision or directly or indi-*  
 6                   *rectly seeks to waive the application of this para-*  
 7                   *graph.*”.

8           (e) *AMENDMENTS RELATED TO SECTION 915 OF 1997*  
 9 *ACT.*—

10           (1) *Section 915 of the Taxpayer Relief Act of*  
 11           *1997 is amended—*

12                   (A) *in subsection (b), by inserting “or*  
 13                   *1998” after “1997”, and*

14                   (B) *by amending subsection (d) to read as*  
 15                   *follows:*

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

18           (2) *Paragraph (2) of section 6404(h) of the 1986*  
 19           *Code is amended by inserting “Robert T. Stafford”*  
 20           *before “Disaster”.*

21           (f) *AMENDMENTS RELATED TO SECTION 1012 OF 1997*  
 22 *ACT.*—

23           (1) *Paragraph (2) of section 351(c) of the 1986*  
 24           *Code, as amended by section 6010(c) of the 1998 Act,*  
 25           *is amended by inserting “, or the fact that the cor-*



1        *poration whose stock was distributed issues additional*  
 2        *stock,” after “dispose of part or all of the distributed*  
 3        *stock”.*

4            *(2) Clause (ii) of section 368(a)(2)(H) of the*  
 5        *1986 Code, as amended by section 6010(c) of the 1998*  
 6        *Act, is amended by inserting “, or the fact that the*  
 7        *corporation whose stock was distributed issues addi-*  
 8        *tional stock,” after “dispose of part or all of the dis-*  
 9        *tributed stock”.*

10        *(g) AMENDMENT RELATED TO SECTION 1082 OF 1997*  
 11        *ACT.—Subparagraph (F) of section 172(b)(1) of the 1986*  
 12        *Code is amended by adding at the end the following new*  
 13        *clause:*

14                    *“(iv) COORDINATION WITH PARAGRAPH*  
 15                    *(2).—For purposes of applying paragraph*  
 16                    *(2), an eligible loss for any taxable year*  
 17                    *shall be treated in a manner similar to the*  
 18                    *manner in which a specified liability loss is*  
 19                    *treated.”*

20        *(h) AMENDMENT RELATED TO SECTION 1084 OF 1997*  
 21        *ACT.—Paragraph (3) of section 264(f) of the 1986 Code is*  
 22        *amended by adding at the end the following flush sentence:*  
 23            *“If the amount described in subparagraph (A) with*  
 24            *respect to any policy or contract does not reasonably*  
 25            *approximate its actual value, the amount taken into*

1       account under subparagraph (A) shall be the greater  
 2       of the amount of the insurance company liability or  
 3       the insurance company reserve with respect to such  
 4       policy or contract (as determined for purposes of the  
 5       annual statement approved by the National Associa-  
 6       tion of Insurance Commissioners) or shall be such  
 7       other amount as is determined by the Secretary.”

8       (i) *AMENDMENT RELATED TO SECTION 1205 OF 1997*  
 9 *ACT.*—Paragraph (2) of section 6311(d) of the 1986 Code  
 10 is amended by striking “under such contracts” in the last  
 11 sentence and inserting “under any such contract for the use  
 12 of credit or debit cards for the payment of taxes imposed  
 13 by subtitle A”.

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

17 **SEC. 504. AMENDMENTS RELATED TO TAX REFORM ACT OF**  
 18 **1984.**

19       (a) *IN GENERAL.*—Subparagraph (C) of section  
 20 172(d)(4) of the 1986 Code is amended to read as follows:

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

25       (b) *CONFORMING AMENDMENTS.*—

1           (1) Paragraph (3) of section 67(b) of the 1986  
2       Code is amended by striking “for losses described in  
3       subsection (c)(3) or (d) of section 165” and inserting  
4       “for casualty or theft losses described in paragraph  
5       (2) or (3) of section 165(c) or for losses described in  
6       section 165(d)”.

7           (2) Paragraph (3) of section 68(c) of the 1986  
8       Code is amended by striking “for losses described in  
9       subsection (c)(3) or (d) of section 165” and inserting  
10      “for casualty or theft losses described in paragraph  
11      (2) or (3) of section 165(c) or for losses described in  
12      section 165(d)”.

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

15          “(1) *LOSSES*.—The deduction allowed by section  
16      165 for casualty or theft losses described in paragraph  
17      (2) or (3) of section 165(c), but only if the loss is of  
18      property located within the United States.”

19      (c) *EFFECTIVE DATES*.—

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

23          (2) The amendment made by subsection (b)(1)  
24      shall apply to taxable years beginning after December  
25      31, 1986.

1           (3) *The amendment made by subsection (b)(2)*  
 2           *shall apply to taxable years beginning after December*  
 3           *31, 1990.*

4 **SEC. 505. OTHER AMENDMENTS.**

5           (a) *AMENDMENTS RELATED TO SECTION 6103 OF 1986*  
 6 *CODE.—*

7           (1) *Subsection (j) of section 6103 of the 1986*  
 8           *Code is amended by adding at the end the following*  
 9           *new paragraph:*

10           “(5) *DEPARTMENT OF AGRICULTURE.—Upon re-*  
 11           *quest in writing by the Secretary of Agriculture, the*  
 12           *Secretary shall furnish such returns, or return infor-*  
 13           *mation reflected thereon, as the Secretary may pre-*  
 14           *scribe by regulation to officers and employees of the*  
 15           *Department of Agriculture whose official duties re-*  
 16           *quire access to such returns or information for the*  
 17           *purpose of, but only to the extent necessary in, struc-*  
 18           *turing, preparing, and conducting the census of agri-*  
 19           *culture pursuant to the Census of Agriculture Act of*  
 20           *1997 (Public Law 105–113).”.*

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

1           (3) *The amendments made by this subsection*  
 2           *shall apply to requests made on or after the date of*  
 3           *the enactment of this Act.*

4           (b) *AMENDMENT RELATED TO SECTION 9004 OF*  
 5           *TRANSPORTATION EQUITY ACT FOR THE 21ST CENTURY.—*

6           (1) *Paragraph (2) of section 9503(f) of the 1986*  
 7           *Code is amended to read as follows:*

8           “*(2) notwithstanding section 9602(b), obligations*  
 9           *held by such Fund after September 30, 1998, shall be*  
 10           *obligations of the United States which are not inter-*  
 11           *est-bearing.*”

12           (2) *The amendment made by paragraph (1) shall*  
 13           *take effect on October 1, 1998.*

14           (c) *CLERICAL AMENDMENTS.—*

15           (1) *Clause (i) of section 51(d)(6)(B) of the 1986*  
 16           *Code is amended by striking “rehabilitation plan”*  
 17           *and inserting “plan for employment”. The reference*  
 18           *to plan for employment in such clause shall be treated*  
 19           *as including a reference to the rehabilitation plans re-*  
 20           *ferred to in such clause as in effect before the amend-*  
 21           *ment made by the preceding sentence.*

22           (2) *Subparagraphs (C) and (D) of section*  
 23           *6693(a)(2) of the 1986 Code are each amended by*  
 24           *striking “Section” and inserting “section”.*

1 **TITLE VI—AMERICAN COMMU-**  
 2 **NITY RENEWAL ACT OF 1998**

3 **SEC. 601. SHORT TITLE.**

4 *This title may be cited as the “American Community*  
 5 *Renewal Act of 1998”.*

6 **SEC. 602. DESIGNATION OF AND TAX INCENTIVES FOR RE-**  
 7 **NEWAL COMMUNITIES.**

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

10 **“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.*

11 **“PART I—DESIGNATION**

*“Sec. 1400E. Designation of renewal communities.*

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

13 *“(a) DESIGNATION.—*

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

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

1           “(B) which the Secretary of Housing and  
 2           Urban Development designates as a renewal  
 3           community, after consultation with—

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

9                   “(ii) in the case of an area on an In-  
 10                  dian reservation, the Secretary of the Inte-  
 11                  rior.

12           “(2) NUMBER OF DESIGNATIONS.—

13                   “(A) IN GENERAL.—The Secretary of Hous-  
 14                   ing and Urban Development may designate not  
 15                   more than 20 nominated areas as renewal com-  
 16                   munities.

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

20                           “(i) which are within a local govern-  
 21                           ment jurisdiction or jurisdictions with a  
 22                           population of less than 50,000,

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

1                   “(iii) which are determined by the Sec-  
 2                   retary of Housing and Urban Development,  
 3                   after consultation with the Secretary of  
 4                   Commerce, to be rural areas.

5                   “(3) AREAS DESIGNATED BASED ON DEGREE OF  
 6                   POVERTY, ETC.—

7                   “(A) IN GENERAL.—Except as otherwise  
 8                   provided in this section, the nominated areas  
 9                   designated as renewal communities under this  
 10                  subsection shall be those nominated areas with  
 11                  the highest average ranking with respect to the  
 12                  criteria described in subparagraphs (B), (C),  
 13                  and (D) of subsection (c)(3). For purposes of the  
 14                  preceding sentence, an area shall be ranked with-  
 15                  in each such criterion on the basis of the amount  
 16                  by which the area exceeds such criterion, with  
 17                  the area which exceeds such criterion by the  
 18                  greatest amount given the highest ranking.

19                  “(B) EXCEPTION WHERE INADEQUATE  
 20                  COURSE OF ACTION, ETC.—An area shall not be  
 21                  designated under subparagraph (A) if the Sec-  
 22                  retary of Housing and Urban Development de-  
 23                  termines that the course of action described in  
 24                  subsection (d)(2) with respect to such area is in-  
 25                  adequate.



1                   “(C) *PRIORITY FOR EMPOWERMENT ZONES*  
 2                   *AND ENTERPRISE COMMUNITIES WITH RESPECT*  
 3                   *TO FIRST HALF OF DESIGNATIONS.*—*With respect*  
 4                   *to the first 10 designations made under this sec-*  
 5                   *tion—*

6                   “(i) *10 shall be chosen from nominated*  
 7                   *areas which are empowerment zones or en-*  
 8                   *terprise communities (and are otherwise eli-*  
 9                   *gible for designation under this section),*  
 10                   *and*

11                   “(ii) *of such 10, 2 shall be areas de-*  
 12                   *scribed in paragraph (2)(B).*

13                   “(4) *LIMITATION ON DESIGNATIONS.*—

14                   “(A) *PUBLICATION OF REGULATIONS.*—*The*  
 15                   *Secretary of Housing and Urban Development*  
 16                   *shall prescribe by regulation no later than 4*  
 17                   *months after the date of the enactment of this*  
 18                   *section, after consultation with the officials de-*  
 19                   *scribed in paragraph (1)(B)—*

20                   “(i) *the procedures for nominating an*  
 21                   *area under paragraph (1)(A),*

22                   “(ii) *the parameters relating to the size*  
 23                   *and population characteristics of a renewal*  
 24                   *community, and*

1                   “(iii) the manner in which nominated  
2                   areas will be evaluated based on the criteria  
3                   specified in subsection (d).

4                   “(B) *TIME LIMITATIONS.*—The Secretary of  
5                   Housing and Urban Development may designate  
6                   nominated areas as renewal communities only  
7                   during the 24-month period beginning on the  
8                   first day of the first month following the month  
9                   in which the regulations described in subpara-  
10                  graph (A) are prescribed.

11                  “(C) *PROCEDURAL RULES.*—The Secretary  
12                  of Housing and Urban Development shall not  
13                  make any designation of a nominated area as a  
14                  renewal community under paragraph (2) un-  
15                  less—

16                       “(i) the local governments and the  
17                       States in which the nominated area is lo-  
18                       cated have the authority—

19                               “(I) to nominate such area for  
20                               designation as a renewal community,

21                               “(II) to make the State and local  
22                               commitments described in subsection  
23                               (d), and

24                               “(III) to provide assurances satis-  
25                               factory to the Secretary of Housing

1                   *and Urban Development that such*  
 2                   *commitments will be fulfilled,*

3                   “(ii) a nomination regarding such  
 4                   *area is submitted in such a manner and in*  
 5                   *such form, and contains such information,*  
 6                   *as the Secretary of Housing and Urban De-*  
 7                   *velopment shall by regulation prescribe, and*  
 8                   “(iii) the Secretary of Housing and  
 9                   *Urban Development determines that any in-*  
 10                   *formation furnished is reasonably accurate.*

11                   “(5) *NOMINATION PROCESS FOR INDIAN RES-*  
 12                   *ERVATIONS.—For purposes of this subchapter, in the*  
 13                   *case of a nominated area on an Indian reservation,*  
 14                   *the reservation governing body (as determined by the*  
 15                   *Secretary of the Interior) shall be treated as being*  
 16                   *both the State and local governments with respect to*  
 17                   *such area.*

18                   “(b) *PERIOD FOR WHICH DESIGNATION IS IN EF-*  
 19                   *FFECT.—*

20                   “(1) *IN GENERAL.—Any designation of an area*  
 21                   *as a renewal community shall remain in effect during*  
 22                   *the period beginning on the date of the designation*  
 23                   *and ending on the earliest of—*

24                   “(A) *December 31, 2006,*

1                   “(B) the termination date designated by the  
2                   State and local governments in their nomina-  
3                   tion, or

4                   “(C) the date the Secretary of Housing and  
5                   Urban Development revokes such designation.

6                   “(2) *REVOCATION OF DESIGNATION.*—The Sec-  
7                   retary of Housing and Urban Development may re-  
8                   voke the designation under this section of an area if  
9                   such Secretary determines that the local government  
10                  or the State in which the area is located—

11                  “(A) has modified the boundaries of the  
12                  area, or

13                  “(B) is not complying substantially with, or  
14                  fails to make progress in achieving, the State or  
15                  local commitments, respectively, described in  
16                  subsection (d).

17                  “(c) *AREA AND ELIGIBILITY REQUIREMENTS.*—

18                  “(1) *IN GENERAL.*—The Secretary of Housing  
19                  and Urban Development may designate a nominated  
20                  area as a renewal community under subsection (a)  
21                  only if the area meets the requirements of paragraphs  
22                  (2) and (3) of this subsection.

23                  “(2) *AREA REQUIREMENTS.*—A nominated area  
24                  meets the requirements of this paragraph if—

1                   “(A) the area is within the jurisdiction of  
2                   one or more local governments,

3                   “(B) the boundary of the area is continu-  
4                   ous, and

5                   “(C) the area—

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

7                   “(I) 4,000 if any portion of such  
8                   area (other than a rural area described  
9                   in subsection (a)(2)(B)(i)) is located  
10                  within a metropolitan statistical area  
11                  (within the meaning of section  
12                  143(k)(2)(B)) which has a population  
13                  of 50,000 or greater, or

14                  “(II) 1,000 in any other case, or

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

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

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

3           “(B) the unemployment rate in the area, as  
4           determined by the most recent available data,  
5           was at least 1½ times the national unemploy-  
6           ment rate for the period to which such data re-  
7           late,

8           “(C) the poverty rate for each population  
9           census tract within the nominated area is at  
10          least 20 percent, and

11          “(D) in the case of an urban area, at least  
12          70 percent of the households living in the area  
13          have incomes below 80 percent of the median in-  
14          come of households within the jurisdiction of the  
15          local government (determined in the same man-  
16          ner as under section 119(b)(2) of the Housing  
17          and Community Development Act of 1974).

18          “(4) CONSIDERATION OF HIGH INCIDENCE OF  
19          CRIME.—The Secretary of Housing and Urban Devel-  
20          opment shall take into account, in selecting nomi-  
21          nated areas for designation as renewal communities  
22          under this section, the extent to which such areas have  
23          a high incidence of crime.

24          “(5) CONSIDERATION OF COMMUNITIES IDENTI-  
25          FIED IN GAO STUDY.—The Secretary of Housing and

1     *Urban Development shall take into account, in select-*  
 2     *ing nominated areas for designation as renewal com-*  
 3     *munities under this section, if the area has census*  
 4     *tracts identified in the May 12, 1998, report of the*  
 5     *Government Accounting Office regarding the identi-*  
 6     *fication of economically distressed areas.*

7     “(d) *REQUIRED STATE AND LOCAL COMMITMENTS.*—

8         “(1) *IN GENERAL.*—*The Secretary of Housing*  
 9     *and Urban Development may designate any nomi-*  
 10    *nated area as a renewal community under subsection*  
 11    *(a) only if—*

12             “(A) *the local government and the State in*  
 13         *which the area is located agree in writing that,*  
 14         *during any period during which the area is a re-*  
 15         *newal community, such governments will follow*  
 16         *a specified course of action which meets the re-*  
 17         *quirements of paragraph (2) and is designed to*  
 18         *reduce the various burdens borne by employers or*  
 19         *employees in such area, and*

20             “(B) *the economic growth promotion re-*  
 21         *quirements of paragraph (3) are met.*

22     “(2) *COURSE OF ACTION.*—

23             “(A) *IN GENERAL.*—*A course of action*  
 24         *meets the requirements of this paragraph if such*  
 25         *course of action is a written document, signed by*

1       *a State (or local government) and neighborhood*  
2       *organizations, which evidences a partnership be-*  
3       *tween such State or government and community-*  
4       *based organizations and which commits each sig-*  
5       *natory to specific and measurable goals, actions,*  
6       *and timetables. Such course of action shall in-*  
7       *clude at least five of the following:*

8               “(i) *A reduction of tax rates or fees ap-*  
9               *plying within the renewal community.*

10              “(ii) *An increase in the level of effi-*  
11              *ciency of local services within the renewal*  
12              *community.*

13              “(iii) *Crime reduction strategies, such*  
14              *as crime prevention (including the provi-*  
15              *sion of such services by nongovernmental*  
16              *entities).*

17              “(iv) *Actions to reduce, remove, sim-*  
18              *plify, or streamline governmental require-*  
19              *ments applying within the renewal commu-*  
20              *nity.*

21              “(v) *Involvement in the program by*  
22              *private entities, organizations, neighborhood*  
23              *organizations, and community groups, par-*  
24              *ticularly those in the renewal community,*  
25              *including a commitment from such private*



1            *entities to provide jobs and job training for,*  
2            *and technical, financial, or other assistance*  
3            *to, employers, employees, and residents from*  
4            *the renewal community.*

5            *“(vi) State or local income tax benefits*  
6            *for fees paid for services performed by a*  
7            *nongovernmental entity which were for-*  
8            *merly performed by a governmental entity.*

9            *“(vii) The gift (or sale at below fair*  
10           *market value) of surplus real property (such*  
11           *as land, homes, and commercial or indus-*  
12           *trial structures) in the renewal community*  
13           *to neighborhood organizations, community*  
14           *development corporations, or private com-*  
15           *panies.*

16           *“(B) RECOGNITION OF PAST EFFORTS.—For*  
17           *purposes of this section, in evaluating the course*  
18           *of action agreed to by any State or local govern-*  
19           *ment, the Secretary of Housing and Urban De-*  
20           *velopment shall take into account the past efforts*  
21           *of such State or local government in reducing the*  
22           *various burdens borne by employers and employ-*  
23           *ees in the area involved.*

24           *“(3) ECONOMIC GROWTH PROMOTION REQUIRE-*  
25           *MENTS.—The economic growth promotion require-*

1        *ments of this paragraph are met with respect to a*  
 2        *nominated area if the local government and the State*  
 3        *in which such area is located certify in writing that*  
 4        *such government and State, respectively, have re-*  
 5        *pealed or otherwise will not enforce within the area,*  
 6        *if such area is designated as a renewal community—*

7                *“(A) licensing requirements for occupations*  
 8                *that do not ordinarily require a professional de-*  
 9                *gree,*

10               *“(B) zoning restrictions on home-based*  
 11               *businesses which do not create a public nuisance,*

12               *“(C) permit requirements for street vendors*  
 13               *who do not create a public nuisance,*

14               *“(D) zoning or other restrictions that im-*  
 15               *pede the formation of schools or child care cen-*  
 16               *ters, and*

17               *“(E) franchises or other restrictions on com-*  
 18               *petition for businesses providing public services,*  
 19               *including but not limited to taxicabs, jitneys,*  
 20               *cable television, or trash hauling,*

21        *except to the extent that such regulation of businesses*  
 22        *and occupations is necessary for and well-tailored to*  
 23        *the protection of health and safety.*

24        *“(e) COORDINATION WITH TREATMENT OF EMPOWER-*  
 25        *MENT ZONES AND ENTERPRISE COMMUNITIES.—For pur-*

1 *poses of this title, if there are in effect with respect to the*  
 2 *same area both—*

3           “(1) *a designation as a renewal community, and*

4           “(2) *a designation as an empowerment zone or*  
 5       *enterprise community,*

6 *both of such designations shall be given full effect with re-*  
 7 *spect to such area.*

8       “(f) *DEFINITIONS AND SPECIAL RULES.—For pur-*  
 9 *poses of this subchapter—*

10           “(1) *GOVERNMENTS.—If more than one govern-*  
 11 *ment seeks to nominate an area as a renewal commu-*  
 12 *nity, any reference to, or requirement of, this section*  
 13 *shall apply to all such governments.*

14           “(2) *STATE.—The term ‘State’ includes Puerto*  
 15 *Rico, the Virgin Islands of the United States, Guam,*  
 16 *American Samoa, the Northern Mariana Islands, and*  
 17 *any other possession of the United States.*

18           “(3) *LOCAL GOVERNMENT.—The term ‘local gov-*  
 19 *ernment’ means—*

20           “(A) *any county, city, town, township, par-*  
 21 *ish, village, or other general purpose political*  
 22 *subdivision of a State,*

23           “(B) *any combination of political subdivi-*  
 24 *sions described in subparagraph (A) recognized*

1           *by the Secretary of Housing and Urban Develop-*  
 2           *ment, and*

3           *“(C) the District of Columbia.*

4           *“(4) APPLICATION OF RULES RELATING TO CEN-*  
 5           *SUS TRACTS AND CENSUS DATA.—The rules of sections*  
 6           *1392(b)(4) and 1393(a)(9) shall apply.*

7           **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;**  
 8           **RENEWAL COMMUNITY BUSINESS**

*“Sec. 1400F. Renewal community capital gain.*

*“Sec. 1400G. Renewal community business defined.*

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

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

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

16                 *“(1) IN GENERAL.—The term ‘qualified commu-*  
 17                 *nity asset’ means—*

18                         *“(A) any qualified community stock,*

19                         *“(B) any qualified community partnership*  
 20                         *interest, and*

21                         *“(C) any qualified community business*  
 22                         *property.*

23                 *“(2) QUALIFIED COMMUNITY STOCK.—*

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

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

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

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

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

23           “(3) *QUALIFIED COMMUNITY PARTNERSHIP IN-*  
24           *TEREST.*—*The term ‘qualified community partner-*

1      *ship interest’ means any interest in a partnership*  
 2      *if—*

3                    *“(A) such interest is acquired by the tax-*  
 4                    *payer after December 31, 1999, and before Janu-*  
 5                    *ary 1, 2007,*

6                    *“(B) as of the time such interest was ac-*  
 7                    *quired, such partnership was a renewal commu-*  
 8                    *nity business (or, in the case of a new partner-*  
 9                    *ship, such partnership was being organized for*  
 10                   *purposes of being a renewal community busi-*  
 11                   *ness), and*

12                   *“(C) during substantially all of the tax-*  
 13                   *payer’s holding period for such interest, such*  
 14                   *partnership qualified as a renewal community*  
 15                   *business.*

16      *A rule similar to the rule of paragraph (2)(B) shall*  
 17      *apply for purposes of this paragraph.*

18                   *“(4) QUALIFIED COMMUNITY BUSINESS PROP-*  
 19                   *ERTY.—*

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

23                   *“(i) such property was acquired by the*  
 24                   *taxpayer by purchase (as defined in section*

1                   179(d)(2)) after December 31, 1999, and be-  
2                   fore January 1, 2007,

3                   “(ii) the original use of such property  
4                   in the renewal community commences with  
5                   the taxpayer, and

6                   “(iii) during substantially all of the  
7                   taxpayer’s holding period for such property,  
8                   substantially all of the use of such property  
9                   was in a renewal community business of the  
10                  taxpayer.

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

15               “(i) property which is substantially  
16               improved (within the meaning of section  
17               1400B(b)(4)(B)(ii)) by the taxpayer before  
18               January 1, 2007, and

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

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

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

2       *“For purposes of this part, the term ‘renewal commu-*  
 3 *nity business’ means any entity or proprietorship which*  
 4 *would be a qualified business entity or qualified proprietor-*  
 5 *ship under section 1397B if—*

6           *“(1) references to renewal communities were sub-*  
 7 *stituted for references to empowerment zones in such*  
 8 *section; and*

9           *“(2) ‘80 percent’ were substituted for ‘50 percent’*  
 10 *in subsections (b)(2) and (c)(1) of such section.*

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

*“Sec. 1400H. Family development accounts for renewal community  
EITC recipients.*

*“Sec. 1400I. Demonstration program to provide matching contribu-  
tions to family development accounts in certain re-  
newal communities.*

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

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

14       *“(a) ALLOWANCE OF DEDUCTION.—*

15           *“(1) IN GENERAL.—There shall be allowed as a*  
 16 *deduction—*

17           *“(A) in the case of a qualified individual,*  
 18 *the amount paid in cash for the taxable year by*  
 19 *such individual to any family development ac-*  
 20 *count for such individual’s benefit, and*

21           *“(B) in the case of any person other than*  
 22 *a qualified individual, the amount paid in cash*



1       *for the taxable year by such person to any fam-*  
 2       *ily development account for the benefit of a*  
 3       *qualified individual but only if the amount so*  
 4       *paid is designated for purposes of this section by*  
 5       *such individual.*

6       *No deduction shall be allowed under this paragraph*  
 7       *for any amount deposited in a family development*  
 8       *account under section 1400I (relating to demonstra-*  
 9       *tion program to provide matching amounts in re-*  
 10       *newal communities).*

11       “(2) *LIMITATION.—*

12               “(A) *IN GENERAL.—The amount allowable*  
 13       *as a deduction to any individual for any taxable*  
 14       *year by reason of paragraph (1)(A) shall not ex-*  
 15       *ceed the lesser of—*

16                       “(i) \$2,000, or

17                       “(ii) *an amount equal to the com-*  
 18       *pensation includible in the individual’s*  
 19       *gross income for such taxable year.*

20               “(B) *PERSONS DONATING TO FAMILY DE-*  
 21       *VELOPMENT ACCOUNTS OF OTHERS.—The*  
 22       *amount which may be designated under para-*  
 23       *graph (1)(B) by any qualified individual for*  
 24       *any taxable year of such individual shall not ex-*  
 25       *ceed \$1,000.*

1           “(3) *SPECIAL RULES FOR CERTAIN MARRIED IN-*  
 2           *DIVIDUALS.—Rules similar to rules of section 219(c)*  
 3           *shall apply to the limitation in paragraph (2)(A).*

4           “(4) *COORDINATION WITH IRA’S.—No deduction*  
 5           *shall be allowed under this section to any person by*  
 6           *reason of a payment to an account for the benefit of*  
 7           *a qualified individual if any amount is paid into an*  
 8           *individual retirement account (including a Roth*  
 9           *IRA) for the benefit of such individual.*

10          “(5) *ROLLOVERS.—No deduction shall be allowed*  
 11          *under this section with respect to any rollover con-*  
 12          *tribution.*

13          “(b) *TAX TREATMENT OF DISTRIBUTIONS.—*

14               “(1) *INCLUSION OF AMOUNTS IN GROSS IN-*  
 15               *COME.—Except as otherwise provided in this sub-*  
 16               *section, any amount paid or distributed out of a fam-*  
 17               *ily development account shall be included in gross in-*  
 18               *come by the payee or distributee, as the case may be.*

19               “(2) *EXCLUSION OF QUALIFIED FAMILY DEVEL-*  
 20               *OPMENT DISTRIBUTIONS.—Paragraph (1) shall not*  
 21               *apply to any qualified family development distribu-*  
 22               *tion.*

23          “(c) *QUALIFIED FAMILY DEVELOPMENT DISTRIBUTI-*  
 24          *ON.—For purposes of this section—*

1           “(1) *IN GENERAL.*—The term ‘qualified family  
2       *development distribution*’ means any amount paid or  
3       *distributed out of a family development account*  
4       *which would otherwise be includible in gross income,*  
5       *to the extent that such payment or distribution is*  
6       *used exclusively to pay qualified family development*  
7       *expenses for the holder of the account or the spouse or*  
8       *dependent (as defined in section 152) of such holder.*

9           “(2) *QUALIFIED FAMILY DEVELOPMENT EX-*  
10       *PENSES.*—The term ‘qualified family development ex-  
11       *penses*’ means any of the following:

12               “(A) *Qualified higher education expenses.*

13               “(B) *Qualified first-time homebuyer costs.*

14               “(C) *Qualified business capitalization costs.*

15               “(D) *Qualified medical expenses.*

16               “(E) *Qualified rollovers.*

17           “(3) *QUALIFIED HIGHER EDUCATION EX-*  
18       *PENSES.*—

19               “(A) *IN GENERAL.*—The term ‘qualified  
20       *higher education expenses*’ has the meaning given  
21       *such term by section 72(t)(7), determined by*  
22       *treating postsecondary vocational educational*  
23       *schools as eligible educational institutions.*

24               “(B) *POSTSECONDARY VOCATIONAL EDU-*  
25       *CATION SCHOOL.*—The term ‘postsecondary voca-

1        *tional educational school’ means an area voca-*  
 2        *tional education school (as defined in subpara-*  
 3        *graph (C) or (D) of section 521(4) of the Carl D.*  
 4        *Perkins Vocational and Applied Technology*  
 5        *Education Act (20 U.S.C. 2471(4))) which is in*  
 6        *any State (as defined in section 521(33) of such*  
 7        *Act), as such sections are in effect on the date of*  
 8        *the enactment of this section.*

9                “(C) COORDINATION WITH OTHER BENE-  
 10        *FITS.—The amount of qualified higher education*  
 11        *expenses for any taxable year shall be reduced as*  
 12        *provided in section 25A(g)(2).*

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

20                “(5) QUALIFIED BUSINESS CAPITALIZATION  
 21        *COSTS.—*

22                “(A) IN GENERAL.—The term ‘qualified  
 23        *business capitalization costs’ means qualified ex-*  
 24        *penditures for the capitalization of a qualified*  
 25        *business pursuant to a qualified plan.*

1           “(B) *QUALIFIED EXPENDITURES.*—*The*  
 2           *term ‘qualified expenditures’ means expenditures*  
 3           *included in a qualified plan, including capital,*  
 4           *plant, equipment, working capital, and inven-*  
 5           *tory expenses.*

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

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

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

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

22                 “(A) *such taxpayer, or*

23                 “(B) *any qualified individual who is—*

24                         “(i) *the spouse of such taxpayer, or*

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

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

5       “(d) *TAX TREATMENT OF ACCOUNTS.—*

6               “(1) *IN GENERAL.—Any family development ac-*  
7       *count is exempt from taxation under this subtitle un-*  
8       *less such account has ceased to be a family develop-*  
9       *ment account by reason of paragraph (2). Notwith-*  
10       *standing the preceding sentence, any such account is*  
11       *subject to the taxes imposed by section 511 (relating*  
12       *to imposition of tax on unrelated business income of*  
13       *charitable, etc., organizations). Notwithstanding any*  
14       *other provision of this title (including chapters 11*  
15       *and 12), the basis of any person in such an account*  
16       *is zero.*

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

20              “(3) *OTHER RULES TO APPLY.—Rules similar to*  
21       *the rules of paragraphs (4), (5), and (6) of section*  
22       *408(d) shall apply for purposes of this section.*

23              “(e) *FAMILY DEVELOPMENT ACCOUNT.—For purposes*  
24       *of this title, the term ‘family development account’ means*  
25       *a trust created or organized in the United States for the*

1 *exclusive benefit of a qualified individual or his bene-*  
 2 *ficiaries, but only if the written governing instrument cre-*  
 3 *ating the trust meets the following requirements:*

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

6                   “(A) *no contribution will be accepted unless*  
 7 *it is in cash, and*

8                   “(B) *contributions will not be accepted for*  
 9 *the taxable year in excess of \$3,000 (determined*  
 10 *without regard to any contribution made under*  
 11 *section 1400I (relating to demonstration pro-*  
 12 *gram to provide matching amounts in renewal*  
 13 *communities)).*

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

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

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

21                   “(2) *to whom a credit was allowed under section*  
 22 *32 for the preceding taxable year.*

23           “(g) *OTHER DEFINITIONS AND SPECIAL RULES.—*

24                   “(1) *COMPENSATION.—The term ‘compensation’*  
 25 *has the meaning given such term by section 219(f)(1).*

1           “(2) *MARRIED INDIVIDUALS.*—*The maximum de-*  
 2           *duction under subsection (a) shall be computed sepa-*  
 3           *rately for each individual, and this section shall be*  
 4           *applied without regard to any community property*  
 5           *laws.*

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

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

18          “(5) *REPORTS.*—*The trustee of a family develop-*  
 19          *ment account shall make such reports regarding such*  
 20          *account to the Secretary and to the individual for*  
 21          *whom the account is maintained with respect to con-*  
 22          *tributions (and the years to which they relate), dis-*  
 23          *tributions, and such other matters as the Secretary*  
 24          *may require under regulations. The reports required*  
 25          *by this paragraph—*



1                   “(A) shall be filed at such time and in such  
2                   manner as the Secretary prescribes in such regu-  
3                   lations, and

4                   “(B) shall be furnished to individuals—

5                   “(i) not later than January 31 of the  
6                   calendar year following the calendar year to  
7                   which such reports relate, and

8                   “(ii) in such manner as the Secretary  
9                   prescribes in such regulations.

10                  “(6) INVESTMENT IN COLLECTIBLES TREATED AS  
11                  DISTRIBUTIONS.—Rules similar to the rules of section  
12                  408(m) shall apply for purposes of this section.

13                  “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
14                  QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

15                  “(1) IN GENERAL.—If any amount is distributed  
16                  from a family development account and is not used  
17                  exclusively to pay qualified family development ex-  
18                  penses for the holder of the account or the spouse or  
19                  dependent (as defined in section 152) of such holder,  
20                  the tax imposed by this chapter for the taxable year  
21                  of such distribution shall be increased by the sum  
22                  of—

23                  “(A) 100 percent of the portion of such  
24                  amount which is includible in gross income and  
25                  is attributable to amounts contributed under sec-

1            *tion 1400I (relating to demonstration program*  
 2            *to provide matching amounts in renewal com-*  
 3            *munities), and*

4            *“(B) 10 percent of the portion of such*  
 5            *amount which is includible in gross income and*  
 6            *is not described in subparagraph (A).*

7            *For purposes of this subsection, distributions which*  
 8            *are includable in gross income shall be treated as at-*  
 9            *tributable to amounts contributed under section 1400I*  
 10           *to the extent thereof. For purposes of the preceding*  
 11           *sentence, all family development accounts of an indi-*  
 12           *vidual shall be treated as one account.*

13           *“(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—*  
 14           *Paragraph (1) shall not apply to distributions which*  
 15           *are—*

16           *“(A) made on or after the date on which the*  
 17           *account holder attains age 59½,*

18           *“(B) made to a beneficiary (or the estate of*  
 19           *the account holder) on or after the death of the*  
 20           *account holder, or*

21           *“(C) attributable to the account holder’s*  
 22           *being disabled within the meaning of section*  
 23           *72(m)(7).*

24           *“(i) TERMINATION.—No deduction shall be allowed*  
 25           *under this section for any amount paid to a family develop-*

1 *ment account for any taxable year beginning after Decem-*  
 2 *ber 31, 2006.*

3 **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**  
 4 **MATCHING CONTRIBUTIONS TO FAMILY DE-**  
 5 **VELOPMENT ACCOUNTS IN CERTAIN RE-**  
 6 **NEWAL COMMUNITIES.**

7 *“(a) DESIGNATION.—*

8 *“(1) DEFINITIONS.—For purposes of this section,*  
 9 *the term ‘FDA matching demonstration area’ means*  
 10 *any renewal community—*

11 *“(A) which is nominated under this section*  
 12 *by each of the local governments and States*  
 13 *which nominated such community for designa-*  
 14 *tion as a renewal community under section*  
 15 *1400E(a)(1)(A), and*

16 *“(B) which the Secretary of Housing and*  
 17 *Urban Development designates as an FDA*  
 18 *matching demonstration area after consultation*  
 19 *with—*

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

1                   “(ii) *in the case of a community on an*  
 2                   *Indian reservation, the Secretary of the In-*  
 3                   *terior.*

4                   “(2) *NUMBER OF DESIGNATIONS.—*

5                   “(A) *IN GENERAL.—The Secretary of Hous-*  
 6                   *ing and Urban Development may designate not*  
 7                   *more than 5 communities as FDA matching*  
 8                   *demonstration areas.*

9                   “(B) *MINIMUM DESIGNATION IN RURAL*  
 10                   *AREAS.—Of the areas designated under subpara-*  
 11                   *graph (A), at least 2 must be areas described in*  
 12                   *section 1400E(a)(2)(B).*

13                   “(3) *LIMITATIONS ON DESIGNATIONS.—*

14                   “(A) *PUBLICATION OF REGULATIONS.—The*  
 15                   *Secretary of Housing and Urban Development*  
 16                   *shall prescribe by regulation no later than 4*  
 17                   *months after the date of the enactment of this*  
 18                   *section, after consultation with the officials de-*  
 19                   *scribed in paragraph (1)(B)—*

20                   “(i) *the procedures for nominating a*  
 21                   *renewal community under paragraph*  
 22                   *(1)(A) (including procedures for coordinat-*  
 23                   *ing such nomination with the nomination*  
 24                   *of an area for designation as a renewal*  
 25                   *community under section 1400E), and*

1                   “(ii) the manner in which nominated  
2                   renewal communities will be evaluated for  
3                   purposes of this section.

4                   “(B) *TIME LIMITATIONS.*—The Secretary of  
5                   Housing and Urban Development may designate  
6                   renewal communities as FDA matching dem-  
7                   onstration areas only during the 24-month pe-  
8                   riod beginning on the first day of the first month  
9                   following the month in which the regulations de-  
10                  scribed in subparagraph (A) are prescribed.

11                  “(4) *DESIGNATION BASED ON DEGREE OF POV-*  
12                  *ERTY, ETC.*—The rules of section 1400E(a)(3) shall  
13                  apply for purposes of designations of FDA matching  
14                  demonstration areas under this section.

15                  “(b) *PERIOD FOR WHICH DESIGNATION IS IN EF-*  
16                  *TECT.*—Any designation of a renewal community as an  
17                  FDA matching demonstration area shall remain in effect  
18                  during the period beginning on the date of such designation  
19                  and ending on the date on which such area ceases to be  
20                  a renewal community.

21                  “(c) *MATCHING CONTRIBUTIONS TO FAMILY DEVELOP-*  
22                  *MENT ACCOUNTS.*—

23                  “(1) *IN GENERAL.*—Not less than once each tax-  
24                  able year, the Secretary shall deposit (to the extent  
25                  provided in appropriation Acts) into a family devel-

1        *opment account of each qualified individual (as de-*  
 2        *finied in section 1400H(f))—*

3                *“(A) who is a resident throughout the tax-*  
 4                *able year of an FDA matching demonstration*  
 5                *area, and*

6                *“(B) who requests (in such form and man-*  
 7                *ner as the Secretary prescribes) such deposit for*  
 8                *the taxable year,*

9        *an amount equal to the sum of the amounts deposited*  
 10        *into all of the family development accounts of such*  
 11        *individual during such taxable year (determined*  
 12        *without regard to any amount contributed under this*  
 13        *section).*

14                *“(2) LIMITATIONS.—*

15                *“(A) ANNUAL LIMIT.—The Secretary shall*  
 16                *not deposit more than \$1000 under paragraph*  
 17                *(1) with respect to any individual for any tax-*  
 18                *able year.*

19                *“(B) AGGREGATE LIMIT.—The Secretary*  
 20                *shall not deposit more than \$2000 under para-*  
 21                *graph (1) with respect to any individual for all*  
 22                *taxable years.*

23                *“(3) EXCLUSION FROM INCOME.—Except as pro-*  
 24                *vided in section 1400H, gross income shall not in-*

1        *clude any amount deposited into a family develop-*  
 2        *ment account under paragraph (1).*

3        “(d) *NOTICE OF PROGRAM.*—*The Secretary shall pro-*  
 4        *vide appropriate notice to residents of FDA matching dem-*  
 5        *onstration areas of the availability of the benefits under this*  
 6        *section.*

7        “(e) *TERMINATION.*—*No amount may be deposited*  
 8        *under this section for any taxable year beginning after De-*  
 9        *cember 31, 2006.*

10        **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-**  
 11                                **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**  
 12                                **VELOPMENT ACCOUNT.**

13        “(a) *IN GENERAL.*—*With respect to the return of any*  
 14        *qualified individual (as defined in section 1400H(f)) for the*  
 15        *taxable year of the tax imposed by this chapter, such indi-*  
 16        *vidual may designate that a specified portion (not less than*  
 17        *\$1) of any overpayment of tax for such taxable year which*  
 18        *is attributable to the earned income tax credit shall be de-*  
 19        *posited by the Secretary into a family development account*  
 20        *of such individual. The Secretary shall so deposit such por-*  
 21        *tion designated under this subsection.*

22        “(b) *MANNER AND TIME OF DESIGNATION.*—*A des-*  
 23        *ignation under subsection (a) may be made with respect*  
 24        *to any taxable year—*

1           “(1) at the time of filing the return of the tax  
2           imposed by this chapter for such taxable year, or

3           “(2) at any other time (after the time of filing  
4           the return of the tax imposed by this chapter for such  
5           taxable year) specified in regulations prescribed by  
6           the Secretary.

7           Such designation shall be made in such manner as the Sec-  
8           retary prescribes by regulations.

9           “(c) *PORTION ATTRIBUTABLE TO EARNED INCOME*  
10          *TAX CREDIT.*—For purposes of subsection (a), an overpay-  
11          ment for any taxable year shall be treated as attributable  
12          to the earned income tax credit to the extent that such over-  
13          payment does not exceed the credit allowed to the taxpayer  
14          under section 32 for such taxable year.

15          “(d) *OVERPAYMENTS TREATED AS REFUNDED.*—For  
16          purposes of this title, any portion of an overpayment of tax  
17          designated under subsection (a) shall be treated as being  
18          refunded to the taxpayer as of the last date prescribed for  
19          filing the return of tax imposed by this chapter (determined  
20          without regard to extensions) or, if later, the date the return  
21          is filed.

22          “(e) *TERMINATION.*—This section shall not apply to  
23          any taxable year beginning after December 31, 2006.

24                   **“PART IV—ADDITIONAL INCENTIVES**

                  “Sec. 1400K. Commercial revitalization credit.

                  “Sec. 1400L. Increase in expensing under section 179.



1 **“SEC. 1400K. COMMERCIAL REVITALIZATION CREDIT.**

2       “(a) *GENERAL RULE.*—For purposes of section 46, ex-  
3 cept as provided in subsection (e), the commercial revital-  
4 ization credit for any taxable year is an amount equal to  
5 the applicable percentage of the qualified revitalization ex-  
6 penditures with respect to any qualified revitalization  
7 building.

8       “(b) *APPLICABLE PERCENTAGE.*—For purposes of this  
9 section—

10           “(1) *IN GENERAL.*—The term ‘applicable per-  
11 centage’ means—

12                   “(A) 20 percent for the taxable year in  
13 which a qualified revitalization building is  
14 placed in service, or

15                   “(B) at the election of the taxpayer, 5 per-  
16 cent for each taxable year in the credit period.  
17 The election under subparagraph (B), once made,  
18 shall be irrevocable.

19           “(2) *CREDIT PERIOD.*—

20                   “(A) *IN GENERAL.*—The term ‘credit period’  
21 means, with respect to any building, the period  
22 of 10 taxable years beginning with the taxable  
23 year in which the building is placed in service.

24                   “(B) *APPLICABLE RULES.*—Rules similar to  
25 the rules under paragraphs (2) and (4) of section  
26 42(f) shall apply.

1       “(c) *QUALIFIED REVITALIZATION BUILDINGS AND EX-*  
 2 *PENDITURES.*—*For purposes of this section—*

3               “(1) *QUALIFIED REVITALIZATION BUILDING.*—  
 4       *The term ‘qualified revitalization building’ means*  
 5 *any building (and its structural components) if—*

6                       “(A) *such building is located in a renewal*  
 7 *community and is placed in service after Decem-*  
 8 *ber 31, 1999,*

9                       “(B) *a commercial revitalization credit*  
 10 *amount is allocated to the building under sub-*  
 11 *section (e), and*

12                      “(C) *depreciation (or amortization in lieu*  
 13 *of depreciation) is allowable with respect to the*  
 14 *building.*

15               “(2) *QUALIFIED REVITALIZATION EXPENDI-*  
 16 *TURE.*—

17                      “(A) *IN GENERAL.*—*The term ‘qualified re-*  
 18 *vitalization expenditure’ means any amount*  
 19 *properly chargeable to capital account—*

20                               “(i) *for property for which deprecia-*  
 21 *tion is allowable under section 168 and*  
 22 *which is—*

23                                       “(I) *nonresidential real property,*  
 24 *or*

1                   “(II) an addition or improvement  
2                   to property described in subclause (I),  
3                   and

4                   “(ii) in connection with the construc-  
5                   tion of any qualified revitalization building  
6                   which was not previously placed in service  
7                   or in connection with the substantial reha-  
8                   bilitation (within the meaning of section  
9                   47(c)(1)(C)) of a building which was placed  
10                  in service before the beginning of such reha-  
11                  bilitation.

12               “(B) DOLLAR LIMITATION.—The aggregate  
13               amount which may be treated as qualified re-  
14               talization expenditures with respect to any  
15               qualified revitalization building for any taxable  
16               year shall not exceed the excess of—

17                   “(i) \$10,000,000, reduced by

18                   “(ii) any such expenditures with re-  
19                   spect to the building taken into account by  
20                   the taxpayer or any predecessor in deter-  
21                   mining the amount of the credit under this  
22                   section for all preceding taxable years.

23               “(C) CERTAIN EXPENDITURES NOT IN-  
24               CLUDED.—The term ‘qualified revitalization ex-  
25               penditure’ does not include—

1           “(i) *STRAIGHT LINE DEPRECIATION*  
2           *MUST BE USED.*—Any expenditure (other  
3           than with respect to land acquisitions) with  
4           respect to which the taxpayer does not use  
5           the straight line method over a recovery pe-  
6           riod determined under subsection (c) or (g)  
7           of section 168. The preceding sentence shall  
8           not apply to any expenditure to the extent  
9           the alternative depreciation system of sec-  
10          tion 168(g) applies to such expenditure by  
11          reason of subparagraph (B) or (C) of sec-  
12          tion 168(g)(1).

13          “(ii) *ACQUISITION COSTS.*—The costs  
14          of acquiring any building or interest there-  
15          in and any land in connection with such  
16          building to the extent that such costs exceed  
17          30 percent of the qualified revitalization ex-  
18          penditures determined without regard to  
19          this clause.

20          “(iii) *OTHER CREDITS.*—Any expendi-  
21          ture which the taxpayer may take into ac-  
22          count in computing any other credit allow-  
23          able under this title unless the taxpayer  
24          elects to take the expenditure into account  
25          only for purposes of this section.

1       “(d) *WHEN EXPENDITURES TAKEN INTO ACCOUNT.*—

2               “(1) *IN GENERAL.*—Qualified revitalization ex-  
3       penditures with respect to any qualified revitalization  
4       building shall be taken into account for the taxable  
5       year in which the qualified revitalization building is  
6       placed in service. For purposes of the preceding sen-  
7       tence, a substantial rehabilitation of a building shall  
8       be treated as a separate building.

9               “(2) *PROGRESS EXPENDITURE PAYMENTS.*—

10       Rules similar to the rules of subsections (b)(2) and  
11       (d) of section 47 shall apply for purposes of this sec-  
12       tion.

13       “(e) *LIMITATION ON AGGREGATE CREDITS ALLOW-*  
14       *ABLE WITH RESPECT TO BUILDINGS LOCATED IN A*  
15       *STATE.*—

16               “(1) *IN GENERAL.*—The amount of the credit de-  
17       termined under this section for any taxable year with  
18       respect to any building shall not exceed the commer-  
19       cial revitalization credit amount (in the case of an  
20       amount determined under subsection (b)(1)(B), the  
21       present value of such amount as determined under the  
22       rules of section 42(b)(2)(C)) allocated to such building  
23       under this subsection by the commercial revitalization  
24       credit agency. Such allocation shall be made at the

1       *same time and in the same manner as under para-*  
 2       *graphs (1) and (7) of section 42(h).*

3               “(2) *COMMERCIAL REVITALIZATION CREDIT*  
 4       *AMOUNT FOR AGENCIES.—*

5               “(A) *IN GENERAL.—The aggregate commer-*  
 6       *cial revitalization credit amount which a com-*  
 7       *mercial revitalization credit agency may allocate*  
 8       *for any calendar year is the amount of the State*  
 9       *commercial revitalization credit ceiling deter-*  
 10       *mined under this paragraph for such calendar*  
 11       *year for such agency.*

12              “(B) *STATE COMMERCIAL REVITALIZATION*  
 13       *CREDIT CEILING.—The State commercial revital-*  
 14       *ization credit ceiling applicable to any State—*

15              “(i) *for each calendar year after 1999*  
 16       *and before 2007 is \$2,000,000 for each re-*  
 17       *newal community in the State, and*

18              “(ii) *zero for each calendar year there-*  
 19       *after.*

20              “(C) *COMMERCIAL REVITALIZATION CREDIT*  
 21       *AGENCY.—For purposes of this section, the term*  
 22       *‘commercial revitalization credit agency’ means*  
 23       *any agency authorized by a State to carry out*  
 24       *this section.*

1       “(f) *RESPONSIBILITIES OF COMMERCIAL REVITALIZA-*  
 2   *TION CREDIT AGENCIES.*—

3               “(1) *PLANS FOR ALLOCATION.*—*Notwithstanding*  
 4   *any other provision of this section, the commercial re-*  
 5   *vitalization credit amount with respect to any build-*  
 6   *ing shall be zero unless—*

7               “(A) *such amount was allocated pursuant*  
 8   *to a qualified allocation plan of the commercial*  
 9   *revitalization credit agency which is approved*  
 10   *(in accordance with rules similar to the rules of*  
 11   *section 147(f)(2) (other than subparagraph*  
 12   *(B)(ii) thereof)) by the governmental unit of*  
 13   *which such agency is a part, and*

14              “(B) *such agency notifies the chief executive*  
 15   *officer (or its equivalent) of the local jurisdiction*  
 16   *within which the building is located of such allo-*  
 17   *cation and provides such individual a reasonable*  
 18   *opportunity to comment on the allocation.*

19              “(2) *QUALIFIED ALLOCATION PLAN.*—*For pur-*  
 20   *poses of this subsection, the term ‘qualified allocation*  
 21   *plan’ means any plan—*

22              “(A) *which sets forth selection criteria to be*  
 23   *used to determine priorities of the commercial*  
 24   *revitalization credit agency which are appro-*  
 25   *priate to local conditions,*

1 “(B) which considers—

2 “(i) the degree to which a project con-  
3 tributes to the implementation of a strategic  
4 plan that is devised for a renewal commu-  
5 nity through a citizen participation process,

6 “(ii) the amount of any increase in  
7 permanent, full-time employment by reason  
8 of any project, and

9 “(iii) the active involvement of resi-  
10 dents and nonprofit groups within the re-  
11 newal community, and

12 “(C) which provides a procedure that the  
13 agency (or its agent) will follow in monitoring  
14 compliance with this section.

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

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

18 “(a) **GENERAL RULE.**—In the case of a renewal com-  
19 munity business (as defined in section 1400G), for purposes  
20 of section 179—

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

23 “(A) \$35,000, or



1           “(B) the cost of section 179 property which  
 2           is qualified renewal property placed in service  
 3           during the taxable year, and

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

8           “(b) RECAPTURE.—Rules similar to the rules under  
 9           section 179(d)(10) shall apply with respect to any qualified  
 10          renewal property which ceases to be used in a renewal com-  
 11          munity by a renewal community business.

12          “(c) QUALIFIED RENEWAL PROPERTY.—For purposes  
 13          of this section—

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

17                         “(A) such property was acquired by the tax-  
 18                         payer by purchase (as defined in section  
 19                         179(d)(2)) after December 31, 1999, and before  
 20                         January 1, 2007, and

21                         “(B) such property would be qualified zone  
 22                         property (as defined in section 1397C) if ref-  
 23                         erences to renewal communities were substituted  
 24                         for references to empowerment zones in section  
 25                         1397C.

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

4   **SEC. 603. EXTENSION OF EXPENSING OF ENVIRONMENTAL**  
 5                   **REMEDATION COSTS TO RENEWAL COMMU-**  
 6                   **NITIES.**

7           (a) *EXTENSION.*—*Paragraph (2) of section 198(c) (de-*  
 8           *fining targeted area) is amended by redesignating subpara-*  
 9           *graph (C) as subparagraph (D) and by inserting after sub-*  
 10          *paragraph (B) the following new subparagraph:*

11                   “(C) *RENEWAL COMMUNITIES INCLUDED.*—  
 12           *Except as provided in subparagraph (B), such*  
 13           *term shall include a renewal community (as de-*  
 14           *fining in section 1400E).*”

15          (b) *EXTENSION OF TERMINATION DATE FOR RENEWAL*  
 16          *COMMUNITIES.*—*Subsection (h) of section 198 is amended*  
 17          *by inserting before the period “(December 31, 2006, in the*  
 18          *case of a renewal community, as defined in section*  
 19          *1400E).*”

20   **SEC. 604. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**  
 21                   **FOR RENEWAL COMMUNITIES**

22          (a) *EXTENSION.*—*Subsection (c) of section 51 (relating*  
 23          *to termination) is amended by adding at the end the follow-*  
 24          *ing new paragraph:*

1           “(5) *EXTENSION OF CREDIT FOR RENEWAL COM-*  
2           *MUNITIES.*—

3           “(A) *IN GENERAL.*—*In the case of an indi-*  
4           *vidual who begins work for the employer after*  
5           *the date contained in paragraph (4)(B), for pur-*  
6           *poses of section 38—*

7           “(i) *in lieu of applying subsection (a),*  
8           *the amount of the work opportunity credit*  
9           *determined under this section for the tax-*  
10           *able year shall be equal to—*

11           “(I) *15 percent of the qualified*  
12           *first-year wages for such year, and*

13           “(II) *30 percent of the qualified*  
14           *second-year wages for such year,*

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

17           “(iii) *paragraph (4)(B) shall be ap-*  
18           *plied by substituting for the date contained*  
19           *therein the last day for which the designa-*  
20           *tion under section 1400E of the renewal*  
21           *community referred to in subparagraph*  
22           *(B)(i) is in effect, and*

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

1                   “(B) *QUALIFIED FIRST- AND SECOND-YEAR*  
2                   *WAGES.*—*For purposes of subparagraph (A)—*

3                   “(i) *IN GENERAL.*—*The term ‘qualified*  
4                   *wages’ means, with respect to each 1-year*  
5                   *period referred to in clause (ii) or (iii), as*  
6                   *the case may be, the wages paid or incurred*  
7                   *by the employer during the taxable year to*  
8                   *any individual but only if—*

9                   “(I) *the employer is engaged in a*  
10                   *trade or business in a renewal commu-*  
11                   *nity throughout such 1-year period,*

12                   “(II) *the principal place of abode*  
13                   *of such individual is in such renewal*  
14                   *community throughout such 1-year pe-*  
15                   *riod, and*

16                   “(III) *substantially all of the serv-*  
17                   *ices which such individual performs for*  
18                   *the employer during such 1-year period*  
19                   *are performed in such renewal commu-*  
20                   *nity.*

21                   “(ii) *QUALIFIED FIRST-YEAR WAGES.*—  
22                   *The term ‘qualified first-year wages’ means,*  
23                   *with respect to any individual, qualified*  
24                   *wages attributable to service rendered dur-*  
25                   *ing the 1-year period beginning with the*

1                   *day the individual begins work for the em-*  
 2                   *ployer.*

3                   “(iii)       *QUALIFIED       SECOND-YEAR*  
 4                   *WAGES.—The term ‘qualified second-year*  
 5                   *wages’ means, with respect to any individ-*  
 6                   *ual, qualified wages attributable to service*  
 7                   *rendered during the 1-year period beginning*  
 8                   *on the day after the last day of the 1-year*  
 9                   *period with respect to such individual deter-*  
 10                   *mined under clause (ii).”*

11       (b) *CONGRUENT TREATMENT OF RENEWAL COMMU-*  
 12       *NITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH*  
 13       *RESIDENCE REQUIREMENTS.—*

14               (1) *HIGH-RISK YOUTH.—Subparagraphs (A)(ii)*  
 15       *and (B) of section 51(d)(5) are each amended by*  
 16       *striking “empowerment zone or enterprise commu-*  
 17       *nity” and inserting “empowerment zone, enterprise*  
 18       *community, or renewal community”.*

19               (2) *QUALIFIED SUMMER YOUTH EMPLOYEE.—*  
 20       *Clause (iv) of section 51(d)(7)(A) is amended by*  
 21       *striking “empowerment zone or enterprise commu-*  
 22       *nity” and inserting “empowerment zone, enterprise*  
 23       *community, or renewal community”.*

1           (3) *HEADINGS.*—Paragraphs (5)(B) and (7)(C)  
 2       of section 51(d) are each amended by inserting “OR  
 3       COMMUNITY” in the heading after “ZONE”.

4   **SEC. 605. CONFORMING AND CLERICAL AMENDMENTS.**

5       (a) *DEDUCTION FOR CONTRIBUTIONS TO FAMILY DE-*  
 6       *VELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT*  
 7       *TAXPAYER ITEMIZES.*—Subsection (a) of section 62 (relat-  
 8       ing to adjusted gross income defined) is amended by insert-  
 9       ing after paragraph (17) the following new paragraph:

10           “(18) *FAMILY DEVELOPMENT ACCOUNTS.*—The  
 11       deduction allowed by section 1400H(a)(1)(A).”

12       (b) *TAX ON EXCESS CONTRIBUTIONS.*—

13           (1) *TAX IMPOSED.*—Subsection (a) of section  
 14       4973 is amended by striking “or” at the end of para-  
 15       graph (3), adding “or” at the end of paragraph (4),  
 16       and inserting after paragraph (4) the following new  
 17       paragraph:

18           “(5) a family development account (within the  
 19       meaning of section 1400H(e)),”.

20           (2) *EXCESS CONTRIBUTIONS.*—Section 4973 is  
 21       amended by adding at the end the following new sub-  
 22       section:

23           “(g) *FAMILY DEVELOPMENT ACCOUNTS.*—For pur-  
 24       poses of this section, in the case of a family development  
 25       account, the term ‘excess contributions’ means the sum of—

1           “(1) the excess (if any) of—

2                   “(A) the amount contributed for the taxable  
3           year to the account (other than a qualified roll-  
4           over, as defined in section 1400H(c)(7), or a con-  
5           tribution under section 1400I), over

6                   “(B) the amount allowable as a deduction  
7           under section 1400H for such contributions, and

8           “(2) the amount determined under this sub-  
9           section for the preceding taxable year reduced by the  
10          sum of—

11                   “(A) the distributions out of the account for  
12           the taxable year which were included in the gross  
13           income of the payee under section 1400H(b)(1),

14                   “(B) the distributions out of the account for  
15           the taxable year to which rules similar to the  
16           rules of section 408(d)(5) apply by reason of sec-  
17           tion 1400H(d)(3), and

18                   “(C) the excess (if any) of the maximum  
19           amount allowable as a deduction under section  
20           1400H for the taxable year over the amount con-  
21           tributed to the account for the taxable year (other  
22           than a contribution under section 1400I).

23   For purposes of this subsection, any contribution which is  
24   distributed from the family development account in a dis-  
25   tribution to which rules similar to the rules of section

1 408(d)(4) apply by reason of section 1400H(d)(3) shall be  
 2 treated as an amount not contributed.”

3 (c) TAX ON PROHIBITED TRANSACTIONS.—Section  
 4 4975 is amended—

5 (1) by adding at the end of subsection (c) the fol-  
 6 lowing new paragraph:

7 “(6) SPECIAL RULE FOR FAMILY DEVELOPMENT  
 8 ACCOUNTS.—An individual for whose benefit a family  
 9 development account is established and any contribu-  
 10 tor to such account shall be exempt from the tax im-  
 11 posed by this section with respect to any transaction  
 12 concerning such account (which would otherwise be  
 13 taxable under this section) if, with respect to such  
 14 transaction, the account ceases to be a family develop-  
 15 ment account by reason of the application of section  
 16 1400H(d)(2) to such account.”, and

17 (2) in subsection (e)(1), by striking “or” at the  
 18 end of subparagraph (E), by redesignating subpara-  
 19 graph (F) as subparagraph (G), and by inserting  
 20 after subparagraph (E) the following new subpara-  
 21 graph:

22 “(F) a family development account de-  
 23 scribed in section 1400H(e), or”.



1       (d) *INFORMATION RELATING TO CERTAIN TRUSTS AND*  
 2 *ANNUITY PLANS.*—Subsection (c) of section 6047 is amend-  
 3 *ed—*

4           (1) *by inserting “or section 1400H” after “sec-*  
 5 *tion 219”, and*

6           (2) *by inserting “, of any family development*  
 7 *account described in section 1400H(e),”, after “sec-*  
 8 *tion 408(a)”.*

9       (e) *INSPECTION OF APPLICATIONS FOR TAX EXEMP-*  
 10 *TION.*—Clause (i) of section 6104(a)(1)(B) is amended by  
 11 *inserting “a family development account described in sec-*  
 12 *tion 1400H(e),” after “section 408(a),”.*

13       (f) *FAILURE TO PROVIDE REPORTS ON FAMILY DE-*  
 14 *VELOPMENT ACCOUNTS.*—Paragraph (2) of section 6693(a)  
 15 *is amended by striking “and” at the end of subparagraph*  
 16 *(C), by striking the period and inserting “, and” at the*  
 17 *end of subparagraph (D), and by adding at the end the*  
 18 *following new subparagraph:*

19           “(E) *section 1400H(g)(6) (relating to fam-*  
 20 *ily development accounts).”*

21       (g) *CONFORMING AMENDMENTS REGARDING COMMER-*  
 22 *CIAL REVITALIZATION CREDIT.*—

23           (1) *Section 46 (relating to investment credit) is*  
 24 *amended by striking “and” at the end of paragraph*  
 25 *(2), by striking the period at the end of paragraph (3)*

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

3               “(4) the commercial revitalization credit pro-  
4       vided under section 1400K.”

5               (2) Section 39(d) is amended by adding at the  
6       end the following new paragraph:

7               “(9) NO CARRYBACK OF SECTION 1400K CREDIT  
8       BEFORE DATE OF ENACTMENT.—No portion of the un-  
9       used business credit for any taxable year which is at-  
10      tributable to any commercial revitalization credit de-  
11      termined under section 1400K may be carried back to  
12      a taxable year ending before the date of the enactment  
13      of section 1400K.”

14              (3) Subparagraph (B) of section 48(a)(2) is  
15      amended by inserting “or commercial revitalization”  
16      after “rehabilitation” each place it appears in the  
17      text and heading.

18              (4) Subparagraph (C) of section 49(a)(1) is  
19      amended by striking “and” at the end of clause (ii),  
20      by striking the period at the end of clause (iii) and  
21      inserting “, and”, and by adding at the end the fol-  
22      lowing new clause:

23                      “(iv) the portion of the basis of any  
24                      qualified revitalization building attributable  
25                      to qualified revitalization expenditures.”

1           (5) Paragraph (2) of section 50(a) is amended  
2       by inserting “or 1400K(d)(2)” after “section 47(d)”  
3       each place it appears.

4           (6) Subparagraph (A) of section 50(a)(2) is  
5       amended by inserting “or qualified revitalization  
6       building (respectively)” after “qualified rehabilitated  
7       building”.

8           (7) Subparagraph (B) of section 50(a)(2) is  
9       amended by adding at the end the following new sen-  
10      tence: “A similar rule shall apply for purposes of sec-  
11      tion 1400K.”

12          (8) Paragraph (2) of section 50(b) is amended by  
13      striking “and” at the end of subparagraph (C), by  
14      striking the period at the end of subparagraph (D)  
15      and inserting “; and”, and by adding at the end the  
16      following new subparagraph:

17               “(E) a qualified revitalization building (as  
18               defined in section 1400K) to the extent of the  
19               portion of the basis which is attributable to  
20               qualified revitalization expenditures (as defined  
21               in section 1400K).”

22          (9) The last sentence of section 50(b)(3) is  
23      amended to read as follows: “If any qualified reha-  
24      bilitated building or qualified revitalization building  
25      is used by the tax-exempt organization pursuant to a

1        *lease, this paragraph shall not apply for purposes of*  
 2        *determining the amount of the rehabilitation credit or*  
 3        *the commercial revitalization credit.”*

4            (10) *Subparagraph (C) of section 50(b)(4) is*  
 5        *amended—*

6            (A) *by inserting “or commercial revitaliza-*  
 7        *tion” after “rehabilitated” in the text and head-*  
 8        *ing, and*

9            (B) *by inserting “or commercial revitaliza-*  
 10       *tion” after “rehabilitation”.*

11          (11) *Subparagraph (C) of section 469(i)(3) is*  
 12       *amended—*

13          (A) *by inserting “or section 1400K” after*  
 14       *“section 42”; and*

15          (B) *by striking “CREDIT” in the heading*  
 16       *and inserting “AND COMMERCIAL REVITALIZA-*  
 17       *TION CREDITS”.*

18          (h) *CLERICAL AMENDMENTS.—The table of sub-*  
 19       *chapters for chapter 1 is amended by adding at the end*  
 20       *the following new item:*

*“Subchapter X. Renewal Communities.”*

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

22        *Not later than the close of the fourth calendar year*  
 23        *after the year in which the Secretary of Housing and Urban*  
 24        *Development first designates an area as a renewal commu-*  
 25        *nity under section 1400E of the Internal Revenue Code of*

1 1986, and at the close of each fourth calendar year there-  
2 after, such Secretary shall prepare and submit to the Con-  
3 gress a report on the effects of such designations in stimulat-  
4 ing the creation of new jobs, particularly for disadvantaged  
5 workers and long-term unemployed individuals, and pro-  
6 moting the revitalization of economically distressed areas.