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2D SESSION

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To amend the Internal Revenue Code of 1986 to allow the designation of renewal communities, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 28, 1998

Mr. ABRAHAM (for himself, Mr. BROWNBACK, Mr. COATS, Mr. COVERDELL, Mr. HUTCHINSON, Mr. SANTORUM, and Mr. LIEBERMAN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to allow the designation of renewal communities, 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, TABLE OF CONTENTS, FINDINGS,**

4 **AND PURPOSE.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “REAL Life Economic Empowerment Act of 1998”.

7 (b) TABLE OF CONTENTS.—The table of contents for
8 this Act is as follows:

Section 1. Short title, table of contents, findings, and purpose.

TITLE I—DESIGNATION AND EVALUATION OF RENEWAL
COMMUNITIES

- Sec. 101. Short title.
 Sec. 102. Statement of purpose.
 Sec. 103. Designation of renewal communities.
 Sec. 104. Evaluation and reporting requirements.
 Sec. 105. Interaction with other Federal programs.

TITLE II—TAX INCENTIVES FOR RENEWAL COMMUNITIES

- Sec. 201. Tax treatment of renewal communities.
 Sec. 202. Extension of expensing of environmental remediation costs for renewal communities.
 Sec. 203. Extension of work opportunity tax credit for renewal communities.
 Sec. 204. Allowance of commercial revitalization credit.
 Sec. 205. Conforming and clerical amendments.

TITLE III—ADDITIONAL PROVISIONS

- Sec. 301. Transfer of unoccupied and substandard HUD-held housing in renewal communities to local governments.
 Sec. 302. CRA credit for investments in community development organizations located in renewal communities.

1 (c) FINDINGS.—The Congress makes the following
 2 findings:

3 (1) Many of the Nation's urban centers are
 4 places with high levels of poverty, high rates of wel-
 5 fare dependency, high crime rates, and joblessness.

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

9 (3) Encouraging private sector investment in
 10 America's economically distressed urban and rural
 11 areas is essential to breaking the cycle of poverty
 12 and the related ills of crime, drug abuse, illiteracy,
 13 welfare dependency, and unemployment.

14 (d) PURPOSE.—The purpose of this Act is to increase
 15 job creation, small business expansion and formation, and

1 homeownership, and to foster moral renewal, in economi-
 2 cally depressed areas by providing Federal tax incentives,
 3 regulatory reforms, and homeownership incentives.

4 **TITLE I—DESIGNATION AND** 5 **EVALUATION OF RENEWAL** 6 **COMMUNITIES**

7 **SEC. 101. SHORT TITLE.**

8 This title may be cited as the “Renewing American
 9 Communities Act of 1998”.

10 **SEC. 102. STATEMENT OF PURPOSE.**

11 It is the purpose of this title to provide for the estab-
 12 lishment of renewal communities in order to stimulate the
 13 creation of new jobs, particularly for disadvantaged work-
 14 ers and long-term unemployed individuals, and to promote
 15 revitalization of economically distressed areas primarily by
 16 providing or encouraging—

17 (1) tax relief at the Federal, State, and local
 18 levels;

19 (2) regulatory relief at the Federal, State, and
 20 local levels; and

21 (3) improved local services and an increase in
 22 the economic stake of renewal community residents
 23 in their own community and its development, par-
 24 ticularly through the increased involvement of pri-
 25 vate, local, and neighborhood organizations.

1 **SEC. 103. DESIGNATION OF RENEWAL COMMUNITIES.**

2 Chapter 1 of the Internal Revenue Code of 1986 is
3 amended by adding at the end the following new sub-
4 chapter:

5 **“Subchapter X—Renewal Communities**

“Part I. Designation.”

6 **“PART I—DESIGNATION**

“Sec. 1400D. Designation of Renewal Communities.

7 **“SEC. 1400D. DESIGNATION OF RENEWAL COMMUNITIES.**

8 “(a) DESIGNATION.—

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

11 “(A) which is nominated by one or more
12 local governments and the State or States in
13 which it is located for designation as a renewal
14 community (hereafter in this section referred to
15 as a ‘nominated area’), and

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

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

1 “(ii) in the case of an area on an In-
2 dian reservation, the Secretary of the Inte-
3 rior,

4 designates as a renewal community.

5 “(2) NUMBER OF DESIGNATIONS.—

6 “(A) IN GENERAL.—The Secretary of
7 Housing and Urban Development may des-
8 ignate not more than 50 nominated areas as re-
9 newal communities.

10 “(B) ADDITIONAL DESIGNATIONS TO RE-
11 PLACE REVOKED DESIGNATIONS.—

12 “(i) IN GENERAL.—The Secretary of
13 Housing and Urban Development may des-
14 ignate one additional area under subpara-
15 graph (A) to replace each area for which
16 the designation is revoked under subsection
17 (b)(2), but in no event may more than 50
18 areas designated under this subsection
19 bear designations as renewal communities
20 at any time.

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

1 “(3) AREAS DESIGNATED BASED ON DEGREE
2 OF POVERTY, ETC.—

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

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

23 “(C) PRIORITY FOR EMPOWERMENT ZONES
24 AND ENTERPRISE COMMUNITIES WITH RESPECT
25 TO FIRST HALF OF DESIGNATIONS.—With re-

spect to the first 25 designations made under this section, the nominated areas designated as renewal communities shall be chosen first from nominated areas which are enterprise zones or empowerment communities (and are otherwise eligible for designation under this section), and then from other nominated areas which are so eligible.

“(4) LIMITATION ON DESIGNATIONS.—

“(A) PUBLICATION OF REGULATIONS.—

The Secretary of Housing and Urban Development shall prescribe by regulation no later than 4 months after the date of the enactment of this section, after consultation with the officials described in paragraph (1)(B)—

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

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

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

“(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may des-

1 ignate nominated areas as renewal communities
 2 only during the 24-month period beginning on
 3 the first day of the first month following the
 4 month in which the regulations described in
 5 subparagraph (A) are prescribed.

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

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

14 “(I) to nominate such area for
 15 designation as a renewal community,

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

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

23 “(ii) a nomination regarding such
 24 area is submitted in such a manner and in
 25 such form, and contains such information,

1 as the Secretary of Housing and Urban
 2 Development shall by regulation prescribe,
 3 and

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

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

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

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

21 “(A) December 31 of the 7th calendar year
 22 following the calendar year in which such date
 23 occurs,

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

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

7 “(2) REVOCATION OF DESIGNATION.—The Sec-
 8 retary of Housing and Urban Development may,
 9 after—

10 “(A) consultation with the officials de-
 11 scribed in subsection (a)(1)(B), and

12 “(B) a hearing on the record involving offi-
 13 cials of the State or local government involved
 14 (or both, if applicable),

15 revoke the designation of an area if the Secretary of
 16 Housing and Urban Development determines that
 17 the local government or State in which the area is
 18 located is not complying substantially with the State
 19 or local commitments, respectively, described in sub-
 20 section (d).

21 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

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

1 (a) only if the area meets the requirements of para-
2 graphs (2) and (3) of this subsection.

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

5 “(A) the area is within the jurisdiction of
6 a local government,

7 “(B) the boundary of the area is continu-
8 ous, and

9 “(C) the area—

10 “(i) has a population, as determined
11 by the most recent census data available,
12 of at least—

13 “(I) 4,000 if any portion of such
14 area is located within a metropolitan
15 statistical area (within the meaning of
16 section 143(k)(2)(B)) which has a
17 population of 50,000 or greater, or

18 “(II) 1,000 in any other case, or

19 “(ii) is entirely within an Indian res-
20 ervation (as determined by the Secretary of
21 the Interior).

22 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
23 nated area meets the requirements of this paragraph
24 if the State and the local governments in which it
25 is located certify (and the Secretary of Housing and

1 Urban Development, after such review of supporting
2 data as he deems appropriate, accepts such certifi-
3 cation) that—

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

6 “(B) the unemployment rate in the area,
7 as determined by the appropriate available
8 data, was at least 1½ times the national unem-
9 ployment rate for the period to which such data
10 relate,

11 “(C) the poverty rate (as determined by
12 the most recent census data available) for each
13 population census tract (or where not tracted,
14 the equivalent county division as defined by the
15 Bureau of the Census for the purpose of defin-
16 ing poverty areas) within the area was at least
17 20 percent for the period to which such data re-
18 late, and

19 “(D) at least 70 percent of the households
20 living in the area have incomes below 80 per-
21 cent of the median income of households within
22 the jurisdiction of the local government (deter-
23 mined in the same manner as under section
24 119(b)(2) of the Housing and Community De-
25 velopment Act of 1974).

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

7 “(d) REQUIRED STATE AND LOCAL COMMIT-
8 MENTS.—

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

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

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

23 “(2) COURSE OF ACTION.—

24 “(A) IN GENERAL.—A course of action
25 meets the requirements of this paragraph if

1 such course of action is a written document,
2 signed by a State (or local government) and
3 neighborhood organizations, which evidences a
4 partnership between such State or government
5 and community-based organizations and which
6 commits each signatory to specific and measur-
7 able goals, actions, and timetables. Such course
8 of action shall include at least five of the follow-
9 ing:

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

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

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

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

23 “(v) Involvement in the program by
24 private entities, organizations, neighbor-
25 hood organizations, and community

groups, particularly those in the renewal community, including a commitment from such private entities to provide jobs and job training for, and technical, financial, or other assistance to, employers, employees, and residents from the renewal community.

“(vi) State or local income tax benefits for fees paid for services performed by a nongovernmental entity which were formerly performed by a governmental entity.

“(vii) The gift (or sale at below fair market value) of surplus realty (such as land, homes, and commercial or industrial structures) in the renewal community to neighborhood organizations, community development corporations, or private companies.

“(B) RECOGNITION OF PAST EFFORTS.—

For purposes of this section, in evaluating the course of action agreed to by any State or local government, the Secretary of Housing and Urban Development shall take into account the past efforts of such State or local government in reducing the various burdens borne by employers and employees in the area involved.

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

10 “(A) licensing requirements for occupa-
 11 tions that do not ordinarily require a profes-
 12 sional degree,

13 “(B) zoning restrictions on home-based
 14 businesses which do not create a public nui-
 15 sance,

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

18 “(D) zoning or other restrictions that im-
 19 pede the formation of schools or child care cen-
 20 ters, and

21 “(E) franchises or other restrictions on
 22 competition for businesses providing public
 23 services, including but not limited to taxicabs,
 24 jitneys, cable television, or trash hauling,

1 except to the extent that such regulation of busi-
 2 nesses and occupations is necessary for and well-tai-
 3 lored to the protection of health and safety.

4 “(e) COORDINATION WITH TREATMENT OF EM-
 5 POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—

6 For purposes of this title, if there are in effect with respect
 7 to the same area both—

8 “(1) a designation as a renewal community, and

9 “(2) a designation as an empowerment zone or
 10 enterprise community,

11 both of such designations shall be given full effect with
 12 respect to such area.

13 “(f) DEFINITIONS.—For purposes of this sub-
 14 chapter—

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

19 “(2) STATE.—The term ‘State’ includes Puerto
 20 Rico, the Virgin Islands of the United States, Guam,
 21 American Samoa, the Northern Mariana Islands,
 22 and any other possession of the United States.

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

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

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

8 “(C) the District of Columbia.”

9 **SEC. 104. EVALUATION AND REPORTING REQUIREMENTS.**

10 Not later than the close of the fourth calendar year
 11 after the year in which the Secretary of Housing and
 12 Urban Development first designates an area as a renewal
 13 community under section 1400D of the Internal Revenue
 14 Code of 1986 (as added by this title), and at the close
 15 of each fourth calendar year thereafter, such Secretary
 16 shall prepare and submit to the Congress a report on the
 17 effects of such designations in accomplishing the purposes
 18 of this title.

19 **SEC. 105. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

20 (a) **TAX REDUCTIONS.**—Any reduction of taxes, with
 21 respect to any renewal community designated under sec-
 22 tion 1400D of the Internal Revenue Code of 1986 (as so
 23 added), under any plan of action under section 1400D(d)
 24 of such Code shall be disregarded in determining the eligi-
 25 bility of a State or local government for, or the amount

1 or extent of, any assistance or benefits under any law of
 2 the United States (other than subchapter X of chapter 1
 3 of such Code).

4 (b) COORDINATION WITH RELOCATION ASSIST-
 5 ANCE.—The designation of a renewal community under
 6 section 1400D of such Code (as so added) shall not—

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

12 (2) entitle any person displaced from real prop-
 13 erty located in such community to any rights or any
 14 benefits under such Act.

15 (c) RENEWAL COMMUNITIES TREATED AS LABOR
 16 SURPLUS AREAS.—Any area which is designated as a re-
 17 newal community under section 1400D of such Code (as
 18 so added) shall be treated for all purposes under Federal
 19 law as a labor surplus area.

20 **TITLE II—TAX INCENTIVES FOR** 21 **RENEWAL COMMUNITIES**

22 **SEC. 201. TAX TREATMENT OF RENEWAL COMMUNITIES.**

23 (a) IN GENERAL.—Subchapter X of chapter I of the
 24 Internal Revenue Code of 1986 (as added by section 103)
 25 is amended by adding at the end the following new parts:

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

“Sec. 1400E. Renewal community capital gain.

“Sec. 1400F. Renewal community business defined.

2 **“SEC. 1400E. RENEWAL COMMUNITY CAPITAL GAIN.**

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

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

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

11 “(A) any qualified community stock,

12 “(B) any qualified community business
13 property, and

14 “(C) any qualified community partnership
15 interest.

16 “(2) QUALIFIED COMMUNITY STOCK.—

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

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

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

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

11 “(B) REDEMPTIONS.—The term ‘qualified
 12 community stock’ shall not include any stock
 13 acquired from a corporation which made a sub-
 14 stantial stock redemption or distribution (with-
 15 out a bona fide business purpose therefor) in an
 16 attempt to avoid the purposes of this section.

17 “(3) QUALIFIED COMMUNITY BUSINESS PROP-
 18 PERTY.—

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

22 “(i) such property was acquired by
 23 the taxpayer by purchase (as defined in
 24 section 179(d)(2)) after the date on which

1 the designation of the renewal community
2 took effect,

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 prop-
8 erty, substantially all of the use of such
9 property was in a renewal community busi-
10 ness of the taxpayer.

11 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
12 PROVEMENTS.—

13 “(i) IN GENERAL.—The requirements
14 of clauses (i) and (ii) of subparagraph (A)
15 shall be treated as satisfied with respect
16 to—

17 “(I) property which is substan-
18 tially improved by the taxpayer, and

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

21 “(ii) SUBSTANTIAL IMPROVEMENT.—
22 For purposes of clause (i), property shall
23 be treated as substantially improved by the
24 taxpayer only if, during any 24-month pe-
25 riod beginning after the date on which the

1 designation of the renewal community took
 2 effect, additions to basis with respect to
 3 such property in the hands of the taxpayer
 4 exceed the greater of—

5 “(I) an amount equal to the ad-
 6 justed basis at the beginning of such
 7 24-month period in the hands of the
 8 taxpayer, or

9 “(II) \$5,000.

10 “(C) LIMITATION ON LAND.—The term
 11 ‘qualified community business property’ shall
 12 not include land which is not an integral part
 13 of a renewal community business.

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

18 “(A) such interest is acquired by the tax-
 19 payer from the partnership solely in exchange
 20 for cash,

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

1 purposes of being a renewal community busi-
 2 ness), and

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

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

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

16 “(6) 10-YEAR SAFE HARBOR.—If any property
 17 ceases to be a qualified community asset by reason
 18 of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after
 19 the 10-year period beginning on the date the tax-
 20 payer acquired such property, such property shall
 21 continue to be treated as meeting the requirements
 22 of such paragraph; except that the amount of gain
 23 to which subsection (a) applies on any sale or ex-
 24 change of such property shall not exceed the amount

1 which would be qualified capital gain had such prop-
2 erty been sold on the date of such cessation.

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

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

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

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

23 “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER
24 TERMINATION OF COMMUNITY DESIGNATION NOT
25 QUALIFIED.—The term ‘qualified capital gain’ shall

1 not include any gain attributable to periods after the
 2 termination of any designation of an area as a re-
 3 newal community.

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

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

12 “(1) SALES AND EXCHANGES.—Gain on the
 13 sale or exchange of an interest in a pass-thru entity
 14 held by the taxpayer (other than an interest in an
 15 entity which was a renewal community business dur-
 16 ing substantially all of the period the taxpayer held
 17 such interest) for more than 5 years shall be treated
 18 as gain described in subsection (a) to the extent
 19 such gain is attributable to amounts which would be
 20 qualified capital gain on qualified community assets
 21 (determined as if such assets had been sold on the
 22 date of the sale or exchange) held by such entity for
 23 more than 5 years (determined without regard to
 24 any period before the date of the designation of the
 25 renewal community) and throughout the period the

1 taxpayer held such interest. A rule similar to the
 2 rule of paragraph (2)(C) shall apply for purposes of
 3 the preceding sentence.

4 “(2) INCOME INCLUSIONS.—

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

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

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

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

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

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

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

17 “(A) any partnership,

18 “(B) any S corporation,

19 “(C) any regulated investment company,

20 and

21 “(D) any common trust fund.

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

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

5 “(1) any intangible, and any land, which is not
 6 an integral part of any qualified business entity (as
 7 defined in section 1400F(b)), and

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

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

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

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

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

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

24 “(A) by gift,

25 “(B) at death, or

1 “(C) from a partnership to a partner
 2 thereof, of a qualified community asset with re-
 3 spect to which the requirements of subsection
 4 (d)(2) are met at the time of the transfer (with-
 5 out regard to the 5-year holding requirement).

6 “(3) CERTAIN RULES MADE APPLICABLE.—
 7 Rules similar to the rules of section 1244(d)(2) shall
 8 apply for purposes of this section.

9 **“SEC. 1400F. RENEWAL COMMUNITY BUSINESS DEFINED.**

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

12 “(1) any qualified business entity, and

13 “(2) any qualified proprietorship.

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

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

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

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

7 “(3) substantially all of the use of the tangible
8 property of such entity (whether owned or leased) is
9 within a renewal community,

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

13 “(5) substantially all of the services performed
14 for such entity by its employees are performed in a
15 renewal community,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
 2 PERTY.—The rental to others of tangible personal
 3 property shall be treated as a qualified business if
 4 and only if substantially all of the rental of such
 5 property is by renewal community businesses or by
 6 residents of a renewal community.

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

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

14 “(A) any trade or business consisting of
 15 the operation of any facility described in section
 16 144(c)(6)(B), and

17 “(B) any trade or business the principal
 18 activity of which is farming (within the meaning
 19 of subparagraph (A) or (B) of section
 20 2032A(e)(5)), but only if, as of the close of the
 21 preceding taxable year, the sum of—

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

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

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

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

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

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

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

“Sec. 1400G. Family development accounts.

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

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

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

3 “(a) ALLOWANCE OF DEDUCTION.—

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

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

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

15 No deduction shall be allowed under this paragraph
 16 for any amount deposited in a family development
 17 account under section 1400H (relating to dem-
 18 onstration program to provide matching amounts in
 19 renewal communities).

20 “(2) LIMITATION.—

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

25 “(i) \$2,000, or

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

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

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

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

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

20 “(ii) the sum of—

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

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

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

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

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

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

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

19 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

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

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

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

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

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

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

22 “(A) Qualified postsecondary educational
23 expenses.

24 “(B) First-home purchase costs.

1 “(C) Qualified business capitalization
2 costs.

3 “(D) Qualified medical expenses.

4 “(E) Qualified rollovers.

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

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

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

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

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

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

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

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

18 “(4) FIRST-HOME PURCHASE COSTS.—

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

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

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

“(C) QUALIFIED PRINCIPAL RESIDENCE.—

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

“(D) QUALIFIED FIRST-TIME HOME-BUYER.—

“(i) IN GENERAL.—The term ‘qualified first-time homebuyer’ means an individual if such individual (and, in the case of a married individual, the individual’s spouse) has no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this subsection applies.

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

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

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

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

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

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

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

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

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

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

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

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

17 “(A) such taxpayer, or

18 “(B) any qualified individual who is—

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

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

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

24 “(d) TAX TREATMENT OF ACCOUNTS.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 “(B) shall be furnished to individuals—

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

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

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

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

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

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

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

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

16 For purposes of this subsection, the portion of a dis-
17 tributed amount which is attributable to amounts
18 contributed under section 1400H is the amount
19 which bears the same ratio to the distributed
20 amount as the aggregate amount contributed under
21 section 1400H to all family development accounts of
22 the individual bears to the aggregate amount con-
23 tributed to such accounts from all sources.

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

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

6 “(B) made pursuant to subsection (e)(6),

7 “(C) made to a beneficiary (or the estate
8 of the account holder) on or after the death of
9 the account holder, or

10 “(D) attributable to the account holder’s
11 being disabled within the meaning of section
12 72(m)(7).

13 **“SEC. 1400H. DEMONSTRATION PROGRAM TO PROVIDE**
14 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
15 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
16 **NEWAL COMMUNITIES.**

17 “(a) DESIGNATION.—

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

21 “(A) which is nominated under this section
22 by each of the local governments and States
23 which nominated such community for designa-
24 tion as a renewal community under section
25 1400D(a)(1)(A), and

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

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

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

11 designates as an FDA matching demonstration
12 area.

13 “(2) NUMBER OF DESIGNATIONS.—The Sec-
14 retary of Housing and Urban Development may des-
15 ignate not more than 25 renewal communities as
16 FDA matching demonstration areas.

17 “(3) LIMITATIONS ON DESIGNATIONS.—

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

24 “(i) the procedures for nominating a
25 renewal community under paragraph

1 (1)(A) (including procedures for coordinat-
 2 ing such nomination with the nomination
 3 of an area for designation as a renewal
 4 community under section 1400D), and

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

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

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

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

1 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
2 OPMENT ACCOUNTS.—

3 “(1) IN GENERAL.—Not less than once each
4 taxable year, the Secretary shall deposit (to the ex-
5 tent provided in appropriation Acts) into a family
6 development account of each qualified individual (as
7 defined in section 1400G(f)) who is a resident
8 throughout the taxable year of an FDA matching
9 demonstration area an amount equal to the sum of
10 the amounts deposited into all of the family develop-
11 ment accounts of such individual during such tax-
12 able year (determined without regard to any amount
13 contributed under this 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.

22 “(3) EXCLUSION FROM INCOME.—Except as
23 provided in section 1400G, gross income shall not
24 include any amount deposited into a family develop-
25 ment account under paragraph (1).

1 **“SEC. 1400I. DESIGNATION OF EARNED INCOME TAX CRED-**
 2 **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**
 3 **VELOPMENT ACCOUNT.**

4 “(a) IN GENERAL.—With respect to the return of any
 5 qualified individual (as defined in section 1400G(f)) for
 6 the taxable year of the tax imposed by this chapter, such
 7 individual may designate that a specified portion (not less
 8 than \$1) of any overpayment of tax for such taxable year
 9 which is attributable to the earned income tax credit shall
 10 be deposited by the Secretary into a family development
 11 account of such individual. The Secretary shall so deposit
 12 such portion designated under this subsection.

13 “(b) MANNER AND TIME OF DESIGNATION.—A des-
 14 ignation under subsection (a) may be made with respect
 15 to any taxable year—

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

18 “(2) at any other time (after the time of filing
 19 the return of the tax imposed by this chapter for
 20 such taxable year) specified in regulations prescribed
 21 by the Secretary.

22 Such designation shall be made in such manner as the
 23 Secretary prescribes by regulations.

24 “(c) PORTION ATTRIBUTABLE TO EARNED INCOME
 25 TAX CREDIT.—For purposes of subsection (a), an over-
 26 payment for any taxable year shall be treated as attrib-

1 utable to the earned income tax credit to the extent that
 2 such overpayment does not exceed the credit allowed to
 3 the taxpayer under section 32 for such taxable year.

4 “(d) OVERPAYMENTS TREATED AS REFUNDED.—
 5 For purposes of this title, any portion of an overpayment
 6 of tax designated under subsection (a) shall be treated as
 7 being refunded to the taxpayer as of the last date pre-
 8 scribed for filing the return of tax imposed by this chapter
 9 (determined without regard to extensions) or, if later, the
 10 date the return is filed.

11 **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400J. Commercial revitalization credit.

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

12 **“SEC. 1400J. COMMERCIAL REVITALIZATION TAX CREDIT.**

13 “(a) GENERAL RULE.—For purposes of section 46,
 14 except as provided in subsection (e), the commercial revi-
 15 talization credit for any taxable year is an amount equal
 16 to the applicable percentage of the qualified revitalization
 17 expenditures with respect to any qualified revitalization
 18 building.

19 “(b) APPLICABLE PERCENTAGE.—For purposes of
 20 this section—

21 “(1) IN GENERAL.—The term ‘applicable per-
 22 centage’ means—

1 “(A) 20 percent for the taxable year in
2 which a qualified revitalization building is
3 placed in service, or

4 “(B) at the election of the taxpayer, 5 per-
5 cent for each taxable year in the credit period.

6 The election under subparagraph (B), once made,
7 shall be irrevocable.

8 “(2) CREDIT PERIOD.—

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

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

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

19 “(1) QUALIFIED REVITALIZATION BUILDING.—
20 The term ‘qualified revitalization building’ means
21 any building (and its structural components) if—

22 “(A) such building is located in a renewal
23 community and is placed in service after the
24 designation of such renewal community under
25 section 1400D,

1 “(B) a commercial revitalization credit
2 amount is allocated to the building under sub-
3 section (e), and

4 “(C) depreciation (or amortization in lieu
5 of depreciation) is allowable with respect to the
6 building.

7 “(2) QUALIFIED REVITALIZATION EXPENDI-
8 TURE.—

9 “(A) IN GENERAL.—The term ‘qualified
10 revitalization expenditure’ means any amount
11 properly chargeable to capital account—

12 “(i) for property for which deprecia-
13 tion is allowable under section 168 and
14 which is—

15 “(I) nonresidential real property,
16 or

17 “(II) an addition or improvement
18 to property described in subclause (I),

19 “(ii) in connection with the construc-
20 tion or substantial rehabilitation or recon-
21 struction of a qualified revitalization build-
22 ing, or

23 “(iii) for the acquisition of land in
24 connection with the qualified revitalization
25 building.

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

“(i) \$10,000,000, reduced by

“(ii) any such expenditures with respect to the building taken into account by the taxpayer or any predecessor in determining the amount of the credit under this section for all preceding taxable years.

“(C) CERTAIN EXPENDITURES NOT INCLUDED.—The term ‘qualified revitalization expenditure’ does not include—

“(i) STRAIGHT LINE DEPRECIATION MUST BE USED.—Any expenditure (other than with respect to land acquisitions) with respect to which the taxpayer does not use the straight line method over a recovery period determined under subsection (c) or (g) of section 168. The preceding sentence shall not apply to any expenditure to the extent the alternative depreciation system of section 168(g) applies to such expendi-

1 ture by reason of subparagraph (B) or (C)
2 of section 168(g)(1).

3 “(ii) ACQUISITION COSTS.—The costs
4 of acquiring any building or interest there-
5 in and any land in connection with such
6 building to the extent that such costs ex-
7 ceed 30 percent of the qualified revitaliza-
8 tion expenditures determined without re-
9 gard to this clause.

10 “(iii) OTHER CREDITS.—Any expendi-
11 ture which the taxpayer may take into ac-
12 count in computing any other credit allow-
13 able under this title unless the taxpayer
14 elects to take the expenditure into account
15 only for purposes of this section.

16 “(5) SUBSTANTIAL REHABILITATION OR RE-
17 CONSTRUCTION.—For purposes of this subsection, a
18 rehabilitation or reconstruction shall be treated as a
19 substantial rehabilitation or reconstruction only if
20 the qualified revitalization expenditures in connec-
21 tion with the rehabilitation or reconstruction exceed
22 25 percent of the fair market value of the building
23 (and its structural components) immediately before
24 the rehabilitation or reconstruction.

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

3 “(1) IN GENERAL.—Qualified revitalization ex-
4 penditures with respect to any qualified revitaliza-
5 tion building shall be taken into account for the tax-
6 able year in which the qualified revitalization build-
7 ing is placed in service. For purposes of the preced-
8 ing sentence, a substantial rehabilitation or recon-
9 struction of a building shall be treated as a separate
10 building.

11 “(2) PROGRESS EXPENDITURE PAYMENTS.—
12 Rules similar to the rules of subsections (b)(2) and
13 (d) of section 47 shall apply for purposes of this sec-
14 tion.

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

18 “(1) IN GENERAL.—The amount of the credit
19 determined under this section for any taxable year
20 with respect to any building shall not exceed the
21 commercial revitalization credit amount (in the case
22 of an amount determined under subsection
23 (b)(1)(B), the present value of such amount as de-
24 termined under the rules of section 42(b)(2)(C)) al-
25 located to such building under this subsection by the

commercial revitalization credit agency. Such allocation shall be made at the same time and in the same manner as under paragraphs (1) and (7) of section 42(h).

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

“(A) IN GENERAL.—The aggregate commercial revitalization credit amount which a commercial revitalization credit agency may allocate for any calendar year is the amount of the State commercial revitalization credit ceiling determined under this paragraph for such calendar year for such agency.

“(B) STATE COMMERCIAL REVITALIZATION CREDIT CEILING.—

“(i) IN GENERAL.—The State commercial revitalization credit ceiling applicable to any State for any calendar year is \$2,000,000 for each renewal community in the State.

“(ii) SPECIAL RULE WHERE COMMUNITY LOCATED IN MORE THAN 1 STATE.—
If a renewal community is located in more than 1 State, a State’s share of the amount specified in clause (i) with respect

1 to such community shall be an amount
 2 that bears the same ratio to \$2,000,000 as
 3 the population in the State bears to the
 4 population in all States in which such com-
 5 munity is located.

6 “(iii) OTHER SPECIAL RULES.—Rules
 7 similar to the rules of subparagraphs (D),
 8 (E), (F), and (G) of section 42(h)(3) shall
 9 apply for purposes of this subsection.

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

15 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
 16 IZATION CREDIT AGENCIES.—

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

21 “(A) such amount was allocated pursuant
 22 to a qualified allocation plan of the commercial
 23 revitalization credit agency which is approved
 24 (in accordance with rules similar to the rules of
 25 section 147(f)(2) (other than subparagraph

1 (B)(ii) thereof)) by the governmental unit of
 2 which such agency is a part, and

3 “(B) such agency notifies the chief execu-
 4 tive officer (or its equivalent) of the local juris-
 5 diction within which the building is located of
 6 such allocation and provides such individual a
 7 reasonable opportunity to comment on the allo-
 8 cation.

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

12 “(A) which sets forth selection criteria to
 13 be used to determine priorities of the commer-
 14 cial revitalization credit agency which are ap-
 15 propriate to local conditions,

16 “(B) which considers—

17 “(i) the degree to which a project con-
 18 tributes to the implementation of a strate-
 19 gic plan that is devised for a renewal com-
 20 munity through a citizen participation
 21 process,

22 “(ii) the amount of any increase in
 23 permanent, full-time employment by reason
 24 of any project, and

1 “(iii) the active involvement of resi-
 2 dents and nonprofit groups within the re-
 3 newal community, and

4 “(C) which provides a procedure that the
 5 agency (or its agent) will follow in monitoring
 6 compliance with this section.

7 “(g) TERMINATION.—This section shall not apply to
 8 any building placed in service after December 31, 2002.

9 **“SEC. 1400K. INCREASE IN EXPENSING UNDER SECTION 179.**

10 “(a) GENERAL RULE.—In the case of a renewal com-
 11 munity business (as defined in section 1400F), for pur-
 12 poses of section 179—

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

15 “(A) \$35,000, or

16 “(B) the cost of section 179 property
 17 which is qualified renewal property placed in
 18 service during the taxable year, and

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

23 “(b) RECAPTURE.—Rules similar to the rules under
 24 section 179(d)(10) shall apply with respect to any quali-

1 fied renewal property which ceases to be used in a renewal
 2 community by a renewal community business.

3 “(c) QUALIFIED RENEWAL PROPERTY.—

4 “(1) GENERAL RULE.—For purposes of this
 5 section—

6 “(A) IN GENERAL.—The term ‘qualified
 7 renewal property’ means any property to which
 8 section 168 applies (or would apply but for sec-
 9 tion 179) if—

10 “(i) such property was acquired by
 11 the taxpayer by purchase (as defined in
 12 section 179(d)(2)) after the date on which
 13 the designation of the renewal community
 14 took effect,

15 “(ii) the original use of which in a re-
 16 newal community commences with the tax-
 17 payer, and

18 “(iii) substantially all of the use of
 19 which is in a renewal community and is in
 20 the active conduct of a qualified business
 21 (as defined in section 1400F(d)) by the
 22 taxpayer in such renewal community.

23 “(B) SPECIAL RULE FOR SUBSTANTIAL
 24 RENOVATIONS.—In the case of any property
 25 which is substantially renovated by the tax-

1 payer, the requirements of clauses (i) and (ii)
 2 of subparagraph (A) shall be treated as satis-
 3 fied. For purposes of the preceding sentence,
 4 property shall be treated as substantially ren-
 5 ovated by the taxpayer only if, during any 24-
 6 month period beginning after the date on which
 7 the designation of the renewal community took
 8 effect, additions to basis with respect to such
 9 property in the hands of the taxpayer exceed
 10 the greater of (i) an amount equal to the ad-
 11 justed basis at the beginning of such 24-month
 12 period in the hands of the taxpayer, or (ii)
 13 \$5,000.

14 “(2) SPECIAL RULES FOR SALE-LEASEBACKS.—
 15 For purposes of paragraph (1)(A)(ii), if property is
 16 sold and leased back by the taxpayer within 3
 17 months after the date such property was originally
 18 placed in service, such property shall be treated as
 19 originally placed in service not earlier than the date
 20 on which such property is used under the lease-
 21 back.”

22 (b) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
 23 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR
 24 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
 25 of the Internal Revenue Code of 1986 (relating to adjusted

1 gross income defined) is amended by inserting after para-
 2 graph (17) the following new paragraph:

3 “(18) FAMILY DEVELOPMENT ACCOUNTS.—The
 4 deduction allowed by section 1400G(a)(1)(A).”

5 **SEC. 202. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
 6 **REMEDATION COSTS FOR RENEWAL COMMU-**
 7 **NITIES.**

8 Section 198(c)(2)(A) of the Internal Revenue Code
 9 of 1986 (defining targeted area) is amended by striking
 10 “and” at the end of clause (iii), by redesignating clause
 11 (iv) as clause (v), and by inserting after clause (iii) the
 12 following new clause:

13 “(iv) any renewal community des-
 14 ignated under section 1400D, and”.

15 **SEC. 203. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
 16 **FOR RENEWAL COMMUNITIES.**

17 (a) EXTENSION.—Paragraph (4) of section 51(c) of
 18 the Internal Revenue Code of 1986 (relating to termi-
 19 nation) is amended to read as follows:

20 “(4) TERMINATION.—

21 “(A) IN GENERAL.—The term ‘wages’
 22 shall not include any amount paid or incurred
 23 to an individual who begins work for the em-
 24 ployer—

1 “(i) after December 31, 1994, and be-
 2 fore October 1, 1996, or

3 “(ii) after June 30, 1998.

4 “(B) SPECIAL RULE FOR RENEWAL COM-
 5 MUNITIES.—If—

6 “(i) the employer is engaged in a
 7 trade or business in a renewal community
 8 throughout the 1-year period referred to in
 9 subsection (b)(2),

10 “(ii) the individual who begins work
 11 for the employer is a resident of such re-
 12 newal community throughout such 1-year
 13 period, and

14 “(iii) substantially all of the services
 15 which such individual performs for the em-
 16 ployer during such 1-year period are per-
 17 formed in such renewal community,

18 then subparagraph (A)(ii) shall be applied by
 19 substituting the last day for which the designa-
 20 tion of such renewal community under section
 21 1400D is in effect for ‘June 30, 1998.’”

22 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
 23 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
 24 YOUTH RESIDENCE REQUIREMENTS.—

1 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
 2 and (B) of section 51(d)(5) of the Internal Revenue
 3 Code of 1986 are each amended by striking “em-
 4 powerment zone or enterprise community” and in-
 5 serting “empowerment zone, enterprise community,
 6 or renewal community”.

7 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—
 8 Clause (iv) of section 51(d)(7)(A) of such Code is
 9 amended by striking “empowerment zone or enter-
 10 prise community” and inserting “empowerment
 11 zone, enterprise community, or renewal community”.

12 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)
 13 of section 51(d) of such Code are each amended by
 14 inserting “OR COMMUNITY” in the heading after
 15 “ZONE”.

16 **SEC. 204. ALLOWANCE OF COMMERCIAL REVITALIZATION**
 17 **CREDIT.**

18 Section 46 of the Internal Revenue Code of 1986 (re-
 19 lating to investment credit) is amended by striking “and”
 20 at the end of paragraph (2), by striking the period at the
 21 end of paragraph (3) and inserting “, and”, and by adding
 22 at the end the following new paragraph:

23 “(4) the commercial revitalization credit pro-
 24 vided under section 1400J.”

1 **SEC. 205. CONFORMING AND CLERICAL AMENDMENTS.**

2 (a) TAX ON EXCESS CONTRIBUTIONS.—

3 (1) TAX IMPOSED.—Subsection (a) of section
4 4973 of the Internal Revenue Code of 1986 is
5 amended by striking “or” at the end of paragraph
6 (2), adding “or” at the end of paragraph (3), and
7 inserting after paragraph (3) the following new
8 paragraph:

9 “(4) a family development account (within the
10 meaning of section 1400G(e)),”

11 (2) EXCESS CONTRIBUTIONS.—Section 4973 of
12 such Code is amended by adding at the end the fol-
13 lowing new subsection:

14 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
15 poses of this section, in the case of a family development
16 account, the term ‘excess contributions’ means the sum
17 of—

18 “(1) the excess (if any) of—

19 “(A) the amount contributed for the tax-
20 able year to the account (other than a qualified
21 rollover, as defined in section 1400G(c)(7), or a
22 contribution under section 1400H), over

23 “(B) the amount allowable as a deduction
24 under section 1400G for such contributions,
25 and

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

4 “(A) the distributions out of the account
 5 for the taxable year which were included in the
 6 gross income of the payee under section
 7 1400G(b)(1),

8 “(B) the distributions out of the account
 9 for the taxable year to which rules similar to
 10 the rules of section 408(d)(5) apply by reason
 11 of section 1400G(b)(3), and

12 “(C) the excess (if any) of the maximum
 13 amount allowable as a deduction under section
 14 1400G for the taxable year over the amount
 15 contributed to the account for the taxable year
 16 (other than a contribution under section
 17 1400H).

18 For purposes of this subsection, any contribution which
 19 is distributed from the family development account in a
 20 distribution to which rules similar to the rules of section
 21 408(d)(4) apply by reason of section 1400G(b)(3) shall
 22 be treated as an amount not contributed.”

23 (3) **HEADING.**—The heading of section 4973 of
 24 such Code is amended by inserting “**FAMILY DE-**
 25 **VELOPMENT ACCOUNTS,**” after “**CONTRACTS,**”.

1 (b) TAX ON PROHIBITED TRANSACTIONS.—Section
2 4975 of the Internal Revenue Code of 1986 is amended—

3 (1) by adding at the end of subsection (c) the
4 following new paragraph:

5 “(6) SPECIAL RULE FOR FAMILY DEVELOP-
6 MENT ACCOUNTS.—An individual for whose benefit a
7 family development account is established and any
8 contributor to such account shall be exempt from the
9 tax imposed by this section with respect to any
10 transaction concerning such account (which would
11 otherwise be taxable under this section) if, with re-
12 spect to such transaction, the account ceases to be
13 a family development account by reason of the appli-
14 cation of section 1400G(d)(2) to such account.”, and

15 (2) in subsection (e)(1), by striking “or” at the
16 end of subparagraph (E), by redesignating subpara-
17 graph (F) as subparagraph (G), and by inserting
18 after subparagraph (E) the following new subpara-
19 graph:

20 “(F) a family development account de-
21 scribed in section 1400G(e), or”.

22 (c) INFORMATION RELATING TO CERTAIN TRUSTS
23 AND ANNUITY PLANS.—Subsection (c) of section 6047 of
24 the Internal Revenue Code of 1986 is amended—

1 (1) by inserting “or section 1400G” after “sec-
 2 tion 219”, and

3 (2) by inserting “, of any family development
 4 account described in section 1400G(e),” after “sec-
 5 tion 408(a)”.

6 (d) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
 7 TION.—Clause (i) of section 6104(a)(1)(B) of the Internal
 8 Revenue Code of 1986 is amended by inserting “a family
 9 development account described in section 1400G(e),” after
 10 “section 408(a),”.

11 (e) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
 12 VELOPMENT ACCOUNTS.—Section 6693 of the Internal
 13 Revenue Code of 1986 is amended—

14 (1) by inserting “**OR ON FAMILY DEVELOP-**
 15 **MENT ACCOUNTS**” after “**ANNUITIES**” in the
 16 heading of such section, and

17 (2) in subsection (a)(2), by striking “and” at
 18 the end of subparagraph (C), by striking the period
 19 and inserting “, and” in subparagraph (D), and by
 20 adding at the end the following new subparagraph:

21 “(E) section 1400G(g)(7) (relating to fam-
 22 ily development accounts).”

23 (f) CONFORMING AMENDMENTS REGARDING COM-
 24 MERCIAL REVITALIZATION CREDIT.—

1 (1) Section 39(d) of the Internal Revenue Code
 2 of 1986 is amended by adding at the end the follow-
 3 ing new paragraph:

4 “(9) NO CARRYBACK OF SECTION 1400J CREDIT
 5 BEFORE DATE OF ENACTMENT.—No portion of the
 6 unused business credit for any taxable year which is
 7 attributable to any commercial revitalization credit
 8 determined under section 1400J may be carried
 9 back to a taxable year ending before the date of the
 10 enactment of section 1400J.”

11 (2) Subparagraph (B) of section 48(a)(2) of
 12 such Code is amended by inserting “or commercial
 13 revitalization” after “rehabilitation” each place it
 14 appears in the text and heading.

15 (3) Subparagraph (C) of section 49(a)(1) of
 16 such Code is amended by striking “and” at the end
 17 of clause (ii), by striking the period at the end of
 18 clause (iii) and inserting “, and”, and by adding at
 19 the end the following new clause:

20 “(iv) the portion of the basis of any
 21 qualified revitalization building attributable
 22 to qualified revitalization expenditures.”

23 (4) Paragraph (2) of section 50(a) of such Code
 24 is amended by inserting “or 1400J(d)(2)” after
 25 “section 47(d)” each place it appears.

1 (5) Subparagraph (A) of section 50(a)(2) of
 2 such Code is amended by inserting “or qualified re-
 3 vitalization building (respectively)” after “qualified
 4 rehabilitated building”.

5 (6) Subparagraph (B) of section 50(a)(2) of
 6 such Code is amended by adding at the end the fol-
 7 lowing new sentence: “A similar rule shall apply for
 8 purposes of section 1400J.”

9 (7) Paragraph (2) of section 50(b) of such Code
 10 is amended by striking “and” at the end of subpara-
 11 graph (C), by striking the period at the end of sub-
 12 paragraph (D) and inserting “; and”, and by adding
 13 at the end the following new subparagraph:

14 “(E) a qualified revitalization building (as
 15 defined in section 1400J) to the extent of the
 16 portion of the basis which is attributable to
 17 qualified revitalization expenditures (as defined
 18 in section 1400J).”

19 (8) Subparagraph (C) of section 50(b)(4) of
 20 such Code is amended—

21 (A) by inserting “or commercial revitaliza-
 22 tion” after “rehabilitated” in the text and head-
 23 ing, and

24 (B) by inserting “or commercial revitaliza-
 25 tion” after “rehabilitation”.

1 (9) Subparagraph (C) of section 469(i)(3) is
2 amended—

3 (A) by inserting “or section 1400J” after
4 “section 42”; and

5 (B) by striking “CREDIT” in the heading
6 and inserting “AND COMMERCIAL REVITALIZA-
7 TION CREDITS”.

8 (g) CLERICAL AMENDMENTS.—

9 (1) The table of subchapters for chapter 1 of
10 the Internal Revenue Code of 1986 is amended by
11 adding at the end the following new item:

“Subchapter X. Renewal Communities.”

12 (2) The table of parts for subchapter X of
13 chapter 1 of such Code (as added by section 103)
14 is amended by adding at the end the following new
15 items:

“Part II. Renewal community capital gain and stock.

“Part III. Family development accounts.

“Part IV. Additional Incentives.”

16 (3) The table of sections for chapter 43 of such
17 Code is amended by striking the item relating to sec-
18 tion 4973 and inserting the following new item:

“Sec. 4973. Tax on excess contributions to individual retirement
accounts, medical savings accounts, certain section
403(b) contracts, family development accounts, and
certain individual retirement annuities.”

19 (4) The table of sections for part I of sub-
20 chapter B of chapter 68 of such Code is amended

1 by striking the item relating to section 6693 and in-
 2 serting the following new item:

“Sec. 6693. Failure to provide reports on individual retirement accounts or annuities or on family development accounts; penalties relating to designated nondeductible contributions.”

3 **TITLE III—ADDITIONAL** 4 **PROVISIONS**

5 **SEC. 301. TRANSFER OF UNOCCUPIED AND SUBSTANDARD** 6 **HUD-HELD HOUSING IN RENEWAL COMMU-** 7 **NITIES TO LOCAL GOVERNMENTS.**

8 (a) TRANSFER REQUIREMENT.—Pursuant to the au-
 9 thority under section 204 of the Departments of Veterans
 10 Affairs and Housing and Urban Development, and Inde-
 11 pendent Agencies Appropriations Act, 1997, the Secretary
 12 shall transfer ownership of any qualified HUD property
 13 to the unit of general local government having jurisdiction
 14 for the area in which the property is located in accordance
 15 with this section, but only if the unit of general local gov-
 16 ernment enters into an agreement with the Secretary
 17 meeting the requirements of subsection (d).

18 (b) QUALIFIED HUD PROPERTIES.—For purposes of
 19 this section, the term “qualified HUD property” means
 20 any unoccupied multifamily housing, project, substandard
 21 multifamily housing project, or unoccupied single family
 22 property, that is—

23 (1) owned by the Secretary; and

1 (2) located within a renewal community.

2 (c) TIMING OF TRANSFER.—Any transfer of owner-
3 ship required under subsection (a) shall be completed—
4 (1) with respect to any multifamily housing
5 project or single family property that is acquired by
6 the Secretary before the date on which the area in
7 which property is located is designated as a renewal
8 community and that is substandard or unoccupied
9 (as applicable) upon such date, not later than 1 year
10 after such date; and

11 (2) with respect to any multifamily housing
12 project or single family property that is acquired by
13 the Secretary on or after the date on which the area
14 in which the property is located is designated as a
15 renewal community, not later than 1 year after—

16 (A) the date on which the project is deter-
17 mined to be substandard or unoccupied (as ap-
18 plicable), in the case of a property that is not
19 unoccupied or substandard upon acquisition by
20 the Secretary; or

21 (B) the date on which the project is ac-
22 quired by the Secretary, in the case of a prop-
23 erty that is substandard or unoccupied (as ap-
24 plicable) upon such acquisition.

1 (d) AGREEMENTS TO SELL PROPERTY TO COMMU-
2 NITY DEVELOPMENT CORPORATIONS.—An agreement de-
3 scribed in this subsection is an agreement that requires
4 a unit of general local government to dispose of the quali-
5 fied HUD property acquired by the unit of general local
6 government in accordance with the following require-
7 ments:

8 (1) NOTIFICATION TO COMMUNITY DEVELOP-
9 MENT CORPORATIONS.—Not later than 30 days after
10 the date on which the unit of general local govern-
11 ment acquires title to the property under subsection
12 (a), the unit of general local government shall notify
13 each community development corporation located in
14 the State in which the property is located—

15 (A) of such acquisition of title; and

16 (B) that, during the 6-month period begin-
17 ning on the date on which such notification is
18 made, such community development corpora-
19 tions shall have the exclusive right under this
20 subsection to make bona fide offers to purchase
21 the property on a cost recovery basis.

22 (2) RIGHT OF FIRST REFUSAL.—During the 6-
23 month period described in paragraph (1)(B)—

24 (A) the unit of general local government
25 may not sell or offer to sell the qualified HUD

1 property other than to a party notified under
2 paragraph (1), unless each community develop-
3 ment corporation required to be so notified has
4 notified the unit of general local government
5 that the corporation will not make an offer to
6 purchase the property; and

7 (B) the unit of general local government
8 shall accept a bona fide offer to purchase the
9 property made during such period if the offer is
10 acceptable to the unit of general local govern-
11 ment, except that a unit of general local govern-
12 ment may not sell a property to a community
13 development corporation during that 6-month
14 period other than on a cost recovery basis.

15 (3) OTHER DISPOSITION.—During the 6-month
16 period beginning on the expiration of the 6-month
17 period described in paragraph (1)(B), the unit of
18 general local government shall dispose of the prop-
19 erty on a negotiated, competitive bid, or other basis,
20 on such terms as the unit of general local govern-
21 ment deems appropriate.

22 (e) SATISFACTION OF INDEBTEDNESS.—Before
23 transferring ownership of any qualified HUD property
24 pursuant to subsection (a), the Secretary shall satisfy any

1 indebtedness incurred in connection with the property to
 2 be transferred, by—

3 (1) canceling the indebtedness; or

4 (2) reimbursing the unit of general local gov-
 5 ernment to which the property is transferred for the
 6 amount of the indebtedness.

7 (f) DETERMINATION OF STATUS OF PROPERTIES.—
 8 To ensure compliance with the requirements of subsection
 9 (c), the Secretary shall take the following actions:

10 (1) UPON DESIGNATION OF RENEWAL COMMU-
 11 NITIES.—Upon the designation of any renewal com-
 12 munity, the Secretary shall promptly assess each
 13 residential property owned by the Secretary that is
 14 located within such renewal community to determine
 15 whether such property is a qualified HUD property.

16 (2) UPON ACQUISITION.—Upon acquiring any
 17 residential property that is located within a renewal
 18 community, the Secretary shall promptly determine
 19 whether the property is a qualified HUD property.

20 (3) UPDATES.—The Secretary shall periodically
 21 reassess the residential properties owned by the Sec-
 22 retary to determine whether any such properties
 23 have become qualified HUD properties.

24 (g) TENANT LEASES.—This section shall not affect
 25 the terms or the enforceability of any contract or lease

1 entered into with respect to any residential property before
 2 the date that such property becomes a qualified HUD
 3 property.

4 (h) PROCEDURES.—Not later than the expiration of
 5 the 6-month period beginning on the date of the enact-
 6 ment of this Act, the Secretary shall establish, by rule,
 7 regulation, or order, such procedures as may be necessary
 8 to carry out this section.

9 (i) DEFINITIONS.—For purposes of this section, the
 10 following definitions shall apply:

11 (1) COMMUNITY DEVELOPMENT CORPORA-
 12 TION.—The term “community development corpora-
 13 tion” means a nonprofit organization whose primary
 14 purpose is to promote community development by
 15 providing housing opportunities for low-income fami-
 16 lies.

17 (2) COST RECOVERY BASIS.—The term “cost
 18 recovery basis” means, with respect to any sale of a
 19 residential property by a unit of general local gov-
 20 ernment to a community development corporation
 21 under subsection (d)(2), that the purchase price paid
 22 by the community development corporation is less
 23 than or equal to the costs incurred by the unit of
 24 general local government in connection with such
 25 property during the period beginning on the date on

1 which the unit of general local government acquires
 2 title to the property under subsection (a) and ending
 3 on the date on which the sale is consummated.

4 (3) LOW-INCOME FAMILIES.—The term “low-in-
 5 come families” has the meaning given the term in
 6 section 3(b) of the United States Housing Act of
 7 1937.

8 (4) MULTIFAMILY HOUSING PROJECT.—The
 9 term “multifamily housing project” has the meaning
 10 given the term in section 203 of the Housing and
 11 Community Development Amendments of 1978.

12 (5) RENEWAL COMMUNITY.—The term “re-
 13 newal community” means an area designated (under
 14 subchapter X of chapter 1 of the Internal Revenue
 15 Code of 1986) as a renewal community.

16 (6) RESIDENTIAL PROPERTY.—The term “resi-
 17 dential property” means a property that is a multi-
 18 family housing project or a single family property.

19 (7) SECRETARY.—The term “Secretary” means
 20 the Secretary of Housing and Urban Development.

21 (8) SEVERE PHYSICAL PROBLEMS.—The term
 22 “severe physical problems” means, with respect to a
 23 dwelling unit, that the unit—

1 (A) lacks hot or cold piped water, a flush
2 toilet, or both a bathtub and a shower in the
3 unit, for the exclusive use of that unit;

4 (B) on not less than 3 separate occasions
5 during the preceding winter months, was un-
6 comfortably cold for a period of more than 6
7 consecutive hours due to a malfunction of the
8 heating system for the unit;

9 (C) has no functioning electrical service,
10 exposed wiring, any room in which there is not
11 a functioning electrical outlet, or has experi-
12 enced 3 or more blown fuses or tripped circuit
13 breakers during the preceding 90-day period;

14 (D) is accessible through a public hallway
15 in which there are no working light fixtures,
16 loose or missing steps or railings, and no eleva-
17 tor; or

18 (E) has severe maintenance problems, in-
19 cluding water leaks involving the roof, windows,
20 doors, basement, or pipes or plumbing fixtures,
21 holes or open cracks in walls or ceilings, severe
22 paint peeling or broken plaster, and signs of ro-
23 dent infestation.

1 (9) SINGLE FAMILY PROPERTY.—The term
2 “single family property” means a 1- to 4-family resi-
3 dence.

4 (10) SUBSTANDARD.—The term “substandard”
5 means, with respect to a multifamily housing
6 project, that 25 percent or more of the dwelling
7 units in the project have severe physical problems.

8 (11) UNIT OF GENERAL LOCAL GOVERN-
9 MENT.—The term “unit of general local govern-
10 ment” has the meaning given the term in section
11 102(a) of the Housing and Community Development
12 Act of 1974.

13 (12) UNOCCUPIED.—The term “unoccupied”
14 means, with respect to a residential property, that
15 the unit of general local government having jurisdic-
16 tion over the area in which the project is located has
17 certified in writing that the property is not inhab-
18 ited.

19 **SEC. 302. CRA CREDIT FOR INVESTMENTS IN COMMUNITY**
20 **DEVELOPMENT ORGANIZATIONS LOCATED IN**
21 **RENEWAL COMMUNITIES.**

22 Section 804 of the Community Reinvestment Act of
23 1977 (12 U.S.C. 2903) is amended by adding at the end
24 the following new subsection:

1 “(c) INVESTMENTS IN CERTAIN COMMUNITY DEVEL-
2 OPMENT ORGANIZATIONS.—In assessing and taking into
3 account, under subsection (a), the record of a regulated
4 financial institution, the appropriate Federal financial su-
5 pervisory agency may consider, as a factor, investments
6 of the institution in, and capital investment, loan partici-
7 pation, and other ventures undertaken by the institution
8 in cooperation with, any community development organi-
9 zation (as defined in section 234 of the Bank Enterprise
10 Act of 1991) which is located in a renewal community (as
11 designated under section 1400D of the Internal Revenue
12 Code of 1986).”.

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