

108TH CONGRESS
1ST SESSION

H. R. 7

To amend the Internal Revenue Code of 1986 to provide incentives for charitable contributions by individuals and businesses, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 7, 2003

Mr. BLUNT (for himself, Mr. FORD, Mr. HULSHOF, Mr. WYNN, Mr. HASTERT, Mr. GORDON, Mr. DELAY, Ms. NORTON, Ms. PRYCE of Ohio, Mr. MEEKS of New York, Mr. CANTOR, Mr. CRANE, Mr. RAMSTAD, Mr. ENGLISH, Mr. FOLEY, Mr. SHAYS, Mr. SMITH of Texas, Mr. UPTON, Mr. WOLF, Mr. GILLMOR, Mr. STEARNS, Mr. CAMP, Mr. KINGSTON, Mr. MCHUGH, Mr. BACHUS, Mr. BARTLETT of Maryland, Mr. BARTON of Texas, Mrs. MYRICK, Mr. NORWOOD, Mr. SOUDER, Mr. TIAHRT, Mr. WAMP, Mr. WICKER, Mr. DOOLITTLE, Mrs. NORTHUP, Mr. PETERSON of Pennsylvania, Mr. PICKERING, Mr. PITTS, Mr. REYNOLDS, Mr. SESSIONS, Mr. SHIMKUS, Mr. GREEN of Wisconsin, Mr. HAYES, Mr. ISAKSON, Mr. TERRY, Mr. AKIN, Mr. BOOZMAN, Mr. FORBES, Mr. GRAVES, Ms. HART, Mr. KELLER, Mr. PENCE, Mr. SCHROCK, Mr. SIMMONS, Mr. BARRETT of South Carolina, Mrs. BLACKBURN, Ms. GINNY BROWN-WAITE of Florida, Mr. BURGESS, Mr. CHOCOLA, Mr. GARRETT of New Jersey, Ms. HARRIS, Mr. JANKLOW, Mrs. MUSGRAVE, Mr. RENZI, and Mr. FOSSELLA) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to provide incentives for charitable contributions by individuals and businesses, and for other purposes.

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

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

4 (a) SHORT TITLE.—This Act may be cited as the
 5 “Charitable Giving Act of 2003”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
 7 wise expressly provided, whenever in this Act an amend-
 8 ment or repeal is expressed in terms of an amendment
 9 to, or repeal of, a section or other provision, the reference
 10 shall be considered to be made to a section or other provi-
 11 sion of the Internal Revenue Code of 1986.

12 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; etc.

TITLE I—CHARITABLE GIVING INCENTIVES

Sec. 101. Deduction for portion of charitable contributions to be allowed to in-
 dividuals who do not itemize deductions.

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Sec. 104. Charitable deduction for contributions of food inventory.

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1 **TITLE I—CHARITABLE GIVING**
 2 **INCENTIVES**

3 **SEC. 101. DEDUCTION FOR PORTION OF CHARITABLE CON-**
 4 **TRIBUTIONS TO BE ALLOWED TO INDIVID-**
 5 **UALS WHO DO NOT ITEMIZE DEDUCTIONS.**

6 (a) IN GENERAL.—Section 170 (relating to chari-
 7 table, etc., contributions and gifts) is amended by redesi-
 8 gnating subsection (m) as subsection (n) and by inserting
 9 after subsection (l) the following new subsection:

10 “(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING
 11 DEDUCTIONS.—

12 “(1) IN GENERAL.—In the case of an individual
 13 who does not itemize deductions for any taxable
 14 year, there shall be taken into account as a direct
 15 charitable deduction under section 63 an amount
 16 equal to the amount allowable under subsection (a)
 17 for the taxable year for cash contributions (deter-
 18 mined without regard to any carryover), to the ex-
 19 tent that such contributions exceed \$250 (\$500 in
 20 the case of a joint return) but do not exceed \$500
 21 (\$1,000 in the case of a joint return).

1 “(2) TERMINATION.—This subsection shall not
2 apply to any taxable year beginning after December
3 31, 2005.”.

4 (b) DIRECT CHARITABLE DEDUCTION.—

5 (1) IN GENERAL.—Subsection (b) of section 63
6 (defining taxable income) is amended by striking
7 “and” at the end of paragraph (1), by striking the
8 period at the end of paragraph (2) and inserting “,
9 and”, and by adding at the end the following new
10 paragraph:

11 “(3) the direct charitable deduction.”.

12 (2) DEFINITION.—Section 63 is amended by re-
13 designating subsection (g) as subsection (h) and by
14 inserting after subsection (f) the following new sub-
15 section:

16 “(g) DIRECT CHARITABLE DEDUCTION.—For pur-
17 poses of this section, the term ‘direct charitable deduction’
18 means that portion of the amount allowable under section
19 170(a) which is taken as a direct charitable deduction for
20 the taxable year under section 170(m).”.

21 (3) CONFORMING AMENDMENT.—Subsection (d)
22 of section 63 is amended by striking “and” at the
23 end of paragraph (1), by striking the period at the
24 end of paragraph (2) and inserting “, and”, and by
25 adding at the end the following new paragraph:

1 “(3) the direct charitable deduction.”.

2 (c) STUDY.—

3 (1) IN GENERAL.—The Secretary of the Treas-
4 ury shall study the effect of the amendments made
5 by this section on increased charitable giving and
6 taxpayer compliance, including a comparison of tax-
7 payer compliance between taxpayers who itemize
8 their charitable contributions and taxpayers who
9 claim a direct charitable deduction.

10 (2) REPORT.—By not later than December 31,
11 2005, the Secretary of the Treasury shall report on
12 the study required under paragraph (1) to the Com-
13 mittee on Finance of the Senate and the Committee
14 on Ways and Means of the House of Representa-
15 tives.

16 (d) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2003.

19 **SEC. 102. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
20 **TIREMENT PLANS FOR CHARITABLE PUR-**
21 **POSES.**

22 (a) IN GENERAL.—Subsection (d) of section 408 (re-
23 lating to individual retirement accounts) is amended by
24 adding at the end the following new paragraph:

1 “(8) DISTRIBUTIONS FOR CHARITABLE PUR-
2 POSES.—

3 “(A) IN GENERAL.—No amount shall be
4 includible in gross income by reason of a quali-
5 fied charitable distribution.

6 “(B) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the
7 term ‘qualified charitable distribution’ means
8 any distribution from an individual retirement
9 plan—
10 plan—

11 “(i) which is made on or after the
12 date that the individual for whose benefit
13 the plan is maintained has attained age 70
14 ½, and

15 “(ii) which is made directly by the
16 trustee—

17 “(I) to an organization described
18 in section 170(c), or

19 “(II) to a split-interest entity.

20 A distribution shall be treated as a qualified
21 charitable distribution only to the extent that
22 the distribution would be includible in gross in-
23 come without regard to subparagraph (A) and,
24 in the case of a distribution to a split-interest
25 entity, only if no person holds an income inter-

1 est in the amounts in the split-interest entity
2 attributable to such distribution other than one
3 or more of the following: the individual for
4 whose benefit such plan is maintained, the
5 spouse of such individual, or any organization
6 described in section 170(c).

7 “(C) CONTRIBUTIONS MUST BE OTHER-
8 WISE DEDUCTIBLE.—For purposes of this para-
9 graph—

10 “(i) DIRECT CONTRIBUTIONS.—A dis-
11 tribution to an organization described in
12 section 170(c) shall be treated as a quali-
13 fied charitable distribution only if a deduc-
14 tion for the entire distribution would be al-
15 lowable under section 170 (determined
16 without regard to subsection (b) thereof
17 and this paragraph).

18 “(ii) SPLIT-INTEREST GIFTS.—A dis-
19 tribution to a split-interest entity shall be
20 treated as a qualified charitable distribu-
21 tion only if a deduction for the entire value
22 of the interest in the distribution for the
23 use of an organization described in section
24 170(c) would be allowable under section

1 170 (determined without regard to sub-
2 section (b) thereof and this paragraph).

3 “(D) APPLICATION OF SECTION 72.—Not-
4 withstanding section 72, in determining the ex-
5 tent to which a distribution is a qualified chari-
6 table distribution, the entire amount of the dis-
7 tribution shall be treated as includible in gross
8 income without regard to subparagraph (A) to
9 the extent that such amount does not exceed
10 the aggregate amount which would have been so
11 includible if all amounts were distributed from
12 all individual retirement plans treated as 1 con-
13 tract under paragraph (2)(A) for purposes of
14 determining the inclusion on such distribution
15 under section 72. Proper adjustments shall be
16 made in applying section 72 to other distribu-
17 tions in such taxable year and subsequent tax-
18 able years.

19 “(E) SPECIAL RULES FOR SPLIT-INTEREST
20 ENTITIES.—

21 “(i) CHARITABLE REMAINDER
22 TRUSTS.—Notwithstanding section 664(b),
23 distributions made from a trust described
24 in subparagraph (G)(i) shall be treated as
25 ordinary income in the hands of the bene-

1 beneficiary to whom is paid the annuity de-
2 scribed in section 664(d)(1)(A) or the pay-
3 ment described in section 664(d)(2)(A).

4 “(ii) POOLED INCOME FUNDS.—No
5 amount shall be includible in the gross in-
6 come of a pooled income fund (as defined
7 in subparagraph (G)(ii)) by reason of a
8 qualified charitable distribution to such
9 fund, and all distributions from the fund
10 which are attributable to qualified chari-
11 table distributions shall be treated as ordi-
12 nary income to the beneficiary.

13 “(iii) CHARITABLE GIFT ANNU-
14 ITIES.—Qualified charitable distributions
15 made for a charitable gift annuity shall not
16 be treated as an investment in the con-
17 tract.

18 “(F) DENIAL OF DEDUCTION.—Qualified
19 charitable distributions shall not be taken into
20 account in determining the deduction under sec-
21 tion 170.

22 “(G) SPLIT-INTEREST ENTITY DEFINED.—
23 For purposes of this paragraph, the term ‘split-
24 interest entity’ means—

1 “(i) a charitable remainder annuity
2 trust or a charitable remainder unitrust
3 (as such terms are defined in section
4 664(d)) which must be funded exclusively
5 by qualified charitable distributions,

6 “(ii) a pooled income fund (as defined
7 in section 642(c)(5)), but only if the fund
8 accounts separately for amounts attrib-
9 utable to qualified charitable distributions,
10 and

11 “(iii) a charitable gift annuity (as de-
12 fined in section 501(m)(5)).”.

13 (b) MODIFICATIONS RELATING TO INFORMATION RE-
14 TURNS BY CERTAIN TRUSTS.—

15 (1) RETURNS.—Section 6034 (relating to re-
16 turns by trusts described in section 4947(a)(2) or
17 claiming charitable deductions under section 642(e))
18 is amended to read as follows:

19 **“SEC. 6034. RETURNS BY TRUSTS DESCRIBED IN SECTION**
20 **4947(a)(2) OR CLAIMING CHARITABLE DEDUC-**
21 **TIONS UNDER SECTION 642(c).**

22 “(a) TRUSTS DESCRIBED IN SECTION 4947(a)(2).—
23 Every trust described in section 4947(a)(2) shall furnish
24 such information with respect to the taxable year as the
25 Secretary may by forms or regulations require.

1 “(b) TRUSTS CLAIMING A CHARITABLE DEDUCTION
2 UNDER SECTION 642(c).—

3 “(1) IN GENERAL.—Every trust not required to
4 file a return under subsection (a) but claiming a de-
5 duction under section 642(c) for the taxable year
6 shall furnish such information with respect to such
7 taxable year as the Secretary may by forms or regu-
8 lations prescribe, including—

9 “(A) the amount of the deduction taken
10 under section 642(c) within such year,

11 “(B) the amount paid out within such year
12 which represents amounts for which deductions
13 under section 642(c) have been taken in prior
14 years,

15 “(C) the amount for which such deductions
16 have been taken in prior years but which has
17 not been paid out at the beginning of such year,

18 “(D) the amount paid out of principal in
19 the current and prior years for the purposes de-
20 scribed in section 642(c),

21 “(E) the total income of the trust within
22 such year and the expenses attributable thereto,
23 and

1 “(F) a balance sheet showing the assets, li-
2 abilities, and net worth of the trust as of the
3 beginning of such year.

4 “(2) EXCEPTIONS.—Paragraph (1) shall not
5 apply to a trust for any taxable year if—

6 “(A) all the net income for such year, de-
7 termined under the applicable principles of the
8 law of trusts, is required to be distributed cur-
9 rently to the beneficiaries, or

10 “(B) the trust is described in section
11 4947(a)(1).”.

12 (2) INCREASE IN PENALTY RELATING TO FIL-
13 ING OF INFORMATION RETURN BY SPLIT-INTEREST
14 TRUSTS.—Paragraph (2) of section 6652(c) (relating
15 to returns by exempt organizations and by certain
16 trusts) is amended by adding at the end the fol-
17 lowing new subparagraph:

18 “(C) SPLIT-INTEREST TRUSTS.—In the
19 case of a trust which is required to file a return
20 under section 6034(a), subparagraphs (A) and
21 (B) of this paragraph shall not apply and para-
22 graph (1) shall apply in the same manner as if
23 such return were required under section 6033,
24 except that—

1 “(i) the 5 percent limitation in the
2 second sentence of paragraph (1)(A) shall
3 not apply,

4 “(ii) in the case of any trust with
5 gross income in excess of \$250,000, the
6 first sentence of paragraph (1)(A) shall be
7 applied by substituting ‘\$100’ for ‘\$20’,
8 and the second sentence thereof shall be
9 applied by substituting ‘\$50,000’ for
10 ‘\$10,000’, and

11 “(iii) the third sentence of paragraph
12 (1)(A) shall be disregarded.

13 In addition to any penalty imposed on the trust
14 pursuant to this subparagraph, if the person re-
15 quired to file such return knowingly fails to file
16 the return, such penalty shall also be imposed
17 on such person who shall be personally liable
18 for such penalty.”.

19 (3) CONFIDENTIALITY OF NONCHARITABLE
20 BENEFICIARIES.—Subsection (b) of section 6104
21 (relating to inspection of annual information re-
22 turns) is amended by adding at the end the fol-
23 lowing new sentence: “In the case of a trust which
24 is required to file a return under section 6034(a),
25 this subsection shall not apply to information re-

1 (c) CONFORMING AMENDMENTS.—

2 (1) Sections 512(b)(10) and 805(b)(2)(A) are
3 each amended by striking “10 percent” each place
4 it occurs and inserting “the applicable percentage
5 (determined under section 170(b)(3))”.

6 (2) Sections 545(b)(2) and 556(b)(2) are each
7 amended by striking “10-percent limitation” and in-
8 serting “applicable percentage limitation”.

9 (d) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 2003.

12 **SEC. 104. CHARITABLE DEDUCTION FOR CONTRIBUTIONS**
13 **OF FOOD INVENTORY.**

14 (a) IN GENERAL.—Paragraph (3) of section 170(e)
15 (relating to special rule for certain contributions of inven-
16 tory and other property) is amended by redesignating sub-
17 paragraph (C) as subparagraph (D) and by inserting after
18 subparagraph (B) the following new subparagraph:

19 “(C) SPECIAL RULE FOR CONTRIBUTIONS
20 OF FOOD INVENTORY.—

21 “(i) GENERAL RULE.—In the case of
22 a charitable contribution of food, this para-
23 graph shall be applied—

1 “(I) without regard to whether
2 the contribution is made by a C cor-
3 poration, and

4 “(II) only for food that is appar-
5 ently wholesome food.

6 “(ii) LIMITATION.—In the case of tax-
7 payer other than a C corporation, clause
8 (i) shall not apply to any contribution of
9 apparently wholesome food from a trade or
10 business of the taxpayer to the extent that
11 such contribution exceeds the applicable
12 percentage (within the meaning of sub-
13 section (b)(3)) of the amount of net in-
14 come of the taxpayer from the trade or
15 business with respect to which such food is
16 inventory. For purposes of the preceding
17 sentence, the amount of net income of the
18 taxpayer from a trade or business is the
19 excess of—

20 “(I) the aggregate amount of
21 gross income from such trade or busi-
22 ness received or accrued by the tax-
23 payer during the taxable year, over

24 “(II) the aggregate amount of
25 any deductions allocable to such trade

1 or business allowed to the taxpayer
2 under this chapter for the taxable
3 year.

4 “(iii) DETERMINATION OF FAIR MAR-
5 KET VALUE.—In the case of a qualified
6 contribution of apparently wholesome food
7 to which this paragraph applies and which,
8 solely by reason of internal standards of
9 the taxpayer or lack of market, cannot or
10 will not be sold, the fair market value of
11 such food shall be determined by taking
12 into account the price at which the same
13 or substantially the same food items (as to
14 both type and quality) are sold by the tax-
15 payer at the time of the contribution (or,
16 if not so sold at such time, in the recent
17 past).

18 “(iv) APPARENTLY WHOLESOME
19 FOOD.—For purposes of this subpara-
20 graph, the term ‘apparently wholesome
21 food’ shall have the meaning given to such
22 term by section 22(b)(2) of the Bill Emer-
23 son Good Samaritan Food Donation Act
24 (42 U.S.C. 1791(b)(2)), as in effect on the

1 date of the enactment of this subpara-
2 graph.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 section shall apply to taxable years beginning after De-
5 cember 31, 2003.

6 **SEC. 105. REFORM OF CERTAIN EXCISE TAXES RELATED TO**
7 **PRIVATE FOUNDATIONS.**

8 (a) REDUCTION OF TAX ON NET INVESTMENT IN-
9 COME.—Subsection (a) of section 4940 (relating to excise
10 tax based on investment income) is amended by striking
11 “2 percent” and inserting “1 percent”.

12 (b) REPEAL OF REDUCTION IN TAX WHERE PRI-
13 VATE FOUNDATION MEETS CERTAIN DISTRIBUTION RE-
14 QUIREMENTS.—Section 4940 is amended by striking sub-
15 section (e).

16 (c) MODIFICATION OF EXCISE TAX ON FAILURE TO
17 DISTRIBUTE INCOME.—

18 (1) ADMINISTRATIVE EXPENSES NOT TREATED
19 AS DISTRIBUTIONS.—Subparagraph (A) of section
20 4942(g)(1) is amended by striking “including that
21 portion of reasonable and necessary administrative
22 expenses” and inserting “excluding administrative
23 expenses”.

1 (2) EXCLUSION NOT TO APPLY TO CERTAIN
2 PRIVATE FOUNDATIONS.—Paragraph (3) of section
3 4942(j) is amended—

4 (A) by striking “(within the meaning of
5 paragraph (1) or (2) of subsection (g))” each
6 place it appears, and

7 (B) by inserting at the end the following:
8 “For purposes of this paragraph, the term
9 ‘qualifying distributions’ means qualifying dis-
10 tributions within the meaning of paragraph (1)
11 or (2) of subsection (g), except that ‘including
12 that portion of reasonable and necessary admin-
13 istrative expenses’ shall be substituted for ‘ex-
14 cluding administrative expenses’ in subsection
15 (g)(1)(A).”.

16 (3) CONFORMING AMENDMENT.—Subsection (g)
17 of section 4942 is amended by striking paragraph
18 (4).

19 (d) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2003.

1 **SEC. 106. EXCISE TAX ON UNRELATED BUSINESS TAXABLE**
2 **INCOME OF CHARITABLE REMAINDER**
3 **TRUSTS.**

4 (a) IN GENERAL.—Subsection (c) of section 664 (re-
5 lating to exemption from income taxes) is amended to read
6 as follows:

7 “(c) TAXATION OF TRUSTS.—

8 “(1) INCOME TAX.—A charitable remainder an-
9 nuity trust and a charitable remainder unitrust
10 shall, for any taxable year, not be subject to any tax
11 imposed by this subtitle.

12 “(2) EXCISE TAX.—

13 “(A) IN GENERAL.—In the case of a chari-
14 table remainder annuity trust or a charitable
15 remainder unitrust that has unrelated business
16 taxable income (within the meaning of section
17 512, determined as if part III of subchapter F
18 applied to such trust) for a taxable year, there
19 is hereby imposed on such trust or unitrust an
20 excise tax equal to the amount of such unre-
21 lated business taxable income.

22 “(B) CERTAIN RULES TO APPLY.—The tax
23 imposed by subparagraph (A) shall be treated
24 as imposed by chapter 42 for purposes of this
25 title other than subchapter E of chapter 42.

1 “(C) CHARACTER OF DISTRIBUTIONS AND
2 COORDINATION WITH DISTRIBUTION REQUIRE-
3 MENTS.—The amounts taken into account in
4 determining unrelated business taxable income
5 (as defined in subparagraph (A)) shall not be
6 taken into account for purposes of—

7 “(i) subsection (b),

8 “(ii) determining the value of trust
9 assets under subsection (d)(2), and

10 “(iii) determining income under sub-
11 section (d)(3).

12 “(D) TAX COURT PROCEEDINGS.—For
13 purposes of this paragraph, the references in
14 section 6212(c)(1) to section 4940 shall be
15 deemed to include references to this para-
16 graph.”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to taxable years beginning after
19 December 31, 2003.

20 **SEC. 107. EXPANSION OF CHARITABLE CONTRIBUTION AL-**
21 **LOWED FOR SCIENTIFIC PROPERTY USED**
22 **FOR RESEARCH AND FOR COMPUTER TECH-**
23 **NOLOGY AND EQUIPMENT USED FOR EDU-**
24 **CATIONAL PURPOSES.**

25 (a) SCIENTIFIC PROPERTY USED FOR RESEARCH.—

1 (1) IN GENERAL.—Clause (ii) of section
2 170(e)(4)(B) (defining qualified research contribu-
3 tions) is amended by inserting “or assembled” after
4 “constructed”.

5 (2) CONFORMING AMENDMENT.—Clause (iii) of
6 section 170(e)(4)(B) is amended by inserting “or as-
7 sembling” after “construction”.

8 (b) COMPUTER TECHNOLOGY AND EQUIPMENT FOR
9 EDUCATIONAL PURPOSES.—

10 (1) IN GENERAL.—Clause (ii) of section
11 170(e)(6)(B) is amended by inserting “or assem-
12 bled” after “constructed” and “or assembling” after
13 “construction”.

14 (2) SPECIAL RULE EXTENDED.—Section
15 170(e)(6)(G) is amended by striking “2003” and in-
16 serting “2005”.

17 (3) CONFORMING AMENDMENTS.—Subpara-
18 graph (D) of section 170(e)(6) is amended by insert-
19 ing “or assembled” after “constructed” and “or as-
20 sembling” after “construction”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2003.

1 **SEC. 108. ADJUSTMENT TO BASIS OF S CORPORATION**
 2 **STOCK FOR CERTAIN CHARITABLE CON-**
 3 **TRIBUTIONS.**

4 (a) IN GENERAL.—Paragraph (2) of section 1367(a)
 5 (relating to adjustments to basis of stock of shareholders,
 6 etc.) is amended by adding at the end the following new
 7 flush sentence:

8 “The decrease under subparagraph (B) by reason of
 9 a charitable contribution (as defined in section
 10 170(c)) of property shall be the amount equal to the
 11 shareholder’s pro rata share of the adjusted basis of
 12 such property.”.

13 (b) EFFECTIVE DATE.—The amendment made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 2003.

16 **TITLE II—TAX REFORM AND IM-**
 17 **PROVEMENTS RELATING TO**
 18 **CHARITABLE ORGANIZA-**
 19 **TIONS AND PROGRAMS**

20 **SEC. 201. SUSPENSION OF TAX-EXEMPT STATUS OF TER-**
 21 **RORIST ORGANIZATIONS.**

22 (a) IN GENERAL.—Section 501 (relating to exemp-
 23 tion from tax on corporations, certain trusts, etc.) is
 24 amended by redesignating subsection (p) as subsection (q)
 25 and by inserting after subsection (o) the following new
 26 subsection:

1 “(p) SUSPENSION OF TAX-EXEMPT STATUS OF TER-
2 RORIST ORGANIZATIONS.—

3 “(1) IN GENERAL.—The exemption from tax
4 under subsection (a) with respect to any organiza-
5 tion described in paragraph (2), and the eligibility of
6 any organization described in paragraph (2) to apply
7 for recognition of exemption under subsection (a),
8 shall be suspended during the period described in
9 paragraph (3).

10 “(2) TERRORIST ORGANIZATIONS.—An organi-
11 zation is described in this paragraph if such organi-
12 zation is designated or otherwise individually identi-
13 fied—

14 “(A) under section 212(a)(3)(B)(vi)(II) or
15 219 of the Immigration and Nationality Act as
16 a terrorist organization or foreign terrorist or-
17 ganization,

18 “(B) in or pursuant to an Executive order
19 which is related to terrorism and issued under
20 the authority of the International Emergency
21 Economic Powers Act or section 5 of the
22 United Nations Participation Act of 1945 for
23 the purpose of imposing on such organization
24 an economic or other sanction, or

1 “(C) in or pursuant to an Executive order
2 issued under the authority of any Federal law
3 if—

4 “(i) the organization is designated or
5 otherwise individually identified in or pur-
6 suant to such Executive order as sup-
7 porting or engaging in terrorist activity (as
8 defined in section 212(a)(3)(B) of the Im-
9 migration and Nationality Act) or sup-
10 porting terrorism (as defined in section
11 140(d)(2) of the Foreign Relations Author-
12 ization Act, Fiscal Years 1988 and 1989);
13 and

14 “(ii) such Executive order refers to
15 this subsection.

16 “(3) PERIOD OF SUSPENSION.—With respect to
17 any organization described in paragraph (2), the pe-
18 riod of suspension—

19 “(A) begins on the later of—

20 “(i) the date of the first publication of
21 a designation or identification described in
22 paragraph (2) with respect to such organi-
23 zation, or

24 “(ii) the date of the enactment of this
25 subsection, and

1 “(B) ends on the first date that all des-
2 ignations and identifications described in para-
3 graph (2) with respect to such organization are
4 rescinded pursuant to the law or Executive
5 order under which such designation or identi-
6 fication was made.

7 “(4) DENIAL OF DEDUCTION.—No deduction
8 shall be allowed under section 170, 545(b)(2),
9 556(b)(2), 642(e), 2055, 2106(a)(2), or 2522 for
10 any contribution to an organization described in
11 paragraph (2) during the period described in para-
12 graph (3).

13 “(5) DENIAL OF ADMINISTRATIVE OR JUDICIAL
14 CHALLENGE OF SUSPENSION OR DENIAL OF DEDUC-
15 TION.—Notwithstanding section 7428 or any other
16 provision of law, no organization or other person
17 may challenge a suspension under paragraph (1), a
18 designation or identification described in paragraph
19 (2), the period of suspension described in paragraph
20 (3), or a denial of a deduction under paragraph (4)
21 in any administrative or judicial proceeding relating
22 to the Federal tax liability of such organization or
23 other person.

24 “(6) ERRONEOUS DESIGNATION.—

25 “(A) IN GENERAL.—If—

1 “(i) the tax exemption of any organi-
2 zation described in paragraph (2) is sus-
3 pended under paragraph (1),

4 “(ii) each designation and identifica-
5 tion described in paragraph (2) which has
6 been made with respect to such organiza-
7 tion is determined to be erroneous pursu-
8 ant to the law or Executive order under
9 which such designation or identification
10 was made, and

11 “(iii) the erroneous designations and
12 identifications result in an overpayment of
13 income tax for any taxable year by such
14 organization,

15 credit or refund (with interest) with respect to
16 such overpayment shall be made.

17 “(B) WAIVER OF LIMITATIONS.—If the
18 credit or refund of any overpayment of tax de-
19 scribed in subparagraph (A)(iii) is prevented at
20 any time by the operation of any law or rule of
21 law (including res judicata), such credit or re-
22 fund may nevertheless be allowed or made if the
23 claim therefor is filed before the close of the 1-
24 year period beginning on the date of the last

1 **SEC. 203. EXPANSION OF DECLARATORY JUDGMENT REM-**
2 **EDY TO TAX-EXEMPT ORGANIZATIONS.**

3 (a) IN GENERAL.—Paragraph (1) of section 7428(a)
4 (relating to creation of remedy) is amended—

5 (1) in subparagraph (B) by inserting after
6 “509(a)” the following: “or as a private operating
7 foundation (as defined in section 4942(j)(3))”; and

8 (2) by amending subparagraph (C) to read as
9 follows:

10 “(C) with respect to the initial qualifica-
11 tion or continuing qualification of an organiza-
12 tion as an organization described in subsection
13 (c) (other than paragraph (3)) or (d) of section
14 501 which is exempt from tax under section
15 501(a), or”.

16 (b) COURT JURISDICTION.—Subsection (a) of section
17 7428 is amended in the material following paragraph (2)
18 by striking “United States Tax Court, the United States
19 Claims Court, or the district court of the United States
20 for the District of Columbia” and inserting the following:
21 “United States Tax Court (in the case of any such deter-
22 mination or failure) or the United States Claims Court
23 or the district court of the United States for the District
24 of Columbia (in the case of a determination or failure with
25 respect to an issue referred to in subparagraph (A) or (B)
26 of paragraph (1)),”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to pleadings filed with respect to
3 determinations (or requests for determinations) made
4 after the date of the enactment of this Act.

5 **SEC. 204. LANDOWNER INCENTIVES PROGRAMS.**

6 (a) IN GENERAL.—Subsection (a) of section 126 is
7 amended by redesignating paragraph (10) as paragraph
8 (11) and by inserting after paragraph (9) the following
9 new paragraph:

10 “(10) Landowner initiatives programs to con-
11 serve threatened, endangered, or imperiled species,
12 or protect or restore habitat carried out under—

13 “(A) the Fish and Wildlife Coordination
14 Act (16 U.S.C. 661 et seq.),

15 “(B) the Fish and Wildlife Act of 1956
16 (16 U.S.C. 742f), or

17 “(C) section 6 of the Endangered Species
18 Act (16 U.S.C. 11531 et seq.).”.

19 (b) EXCLUDABLE PORTION.—Subparagraph (A) of
20 section 126(b)(1) is amended by inserting after “Secretary
21 of Agriculture” the following: “(the Secretary of the Inte-
22 rior, in the case of the landowner incentives programs de-
23 scribed in subsection (a)(10) and the programs described
24 in subsection (a)(11) that are implemented by the Depart-
25 ment of the Interior)”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to amounts received after the date
3 of the enactment of this Act, in taxable years ending after
4 such date.

5 **SEC. 205. MODIFICATIONS TO SECTION 512(b)(13).**

6 (a) IN GENERAL.—Paragraph (13) of section 512(b)
7 (relating to special rules for certain amounts received from
8 controlled entities) is amended by redesignating subpara-
9 graph (E) as subparagraph (F) and by inserting after sub-
10 paragraph (D) the following new subparagraph:

11 “(E) PARAGRAPH TO APPLY ONLY TO EX-
12 CESS PAYMENTS.—

13 “(i) IN GENERAL.—Subparagraph (A)
14 shall apply only to the portion of a speci-
15 fied payment received or accrued by the
16 controlling organization that exceeds the
17 amount which would have been paid or ac-
18 crued if such payment met the require-
19 ments prescribed under section 482.

20 “(ii) ADDITION TO TAX FOR VALU-
21 ATION MISSTATEMENTS.—The tax imposed
22 by this chapter on the controlling organiza-
23 tion shall be increased by an amount equal
24 to 20 percent of the larger of—

1 “(I) such excess determined with-
2 out regard to any amendment or sup-
3 plement to a return of tax, or

4 “(II) such excess determined
5 with regard to all such amendments
6 and supplements.”.

7 (b) EFFECTIVE DATE.—

8 (1) IN GENERAL.—The amendment made by
9 this section shall apply to payments received or ac-
10 crued after December 31, 2003.

11 (2) PAYMENTS SUBJECT TO BINDING CONTRACT
12 TRANSITION RULE.—If the amendments made by
13 section 1041 of the Taxpayer Relief Act of 1997 did
14 not apply to any amount received or accrued in the
15 first 2 taxable years beginning on or after the date
16 of the enactment of the Taxpayer Relief Act of 1997
17 under any contract described in subsection (b)(2) of
18 such section, such amendments also shall not apply
19 to amounts received or accrued under such contract
20 before January 1, 2001.

21 **SEC. 206. SIMPLIFICATION OF LOBBYING EXPENDITURE**
22 **LIMITATION.**

23 (a) REPEAL OF GRASSROOTS EXPENDITURE
24 LIMIT.—Paragraph (1) of section 501(h) (relating to ex-

1 penditures by public charities to influence legislation) is
2 amended to read as follows:

3 “(1) GENERAL RULE.—In the case of an orga-
4 nization to which this subsection applies, exemption
5 from taxation under subsection (a) shall be denied
6 because a substantial part of the activities of such
7 organization consists of carrying on propaganda, or
8 otherwise attempting, to influence legislation, but
9 only if such organization normally makes lobbying
10 expenditures in excess of the lobbying ceiling amount
11 for such organization for each taxable year.”.

12 (b) EXCESS LOBBYING EXPENDITURES.—Section
13 4911(b) is amended to read as follows:

14 “(b) EXCESS LOBBYING EXPENDITURES.—For pur-
15 poses of this section, the term ‘excess lobbying expendi-
16 tures’ means, for a taxable year, the amount by which the
17 lobbying expenditures made by the organization during the
18 taxable year exceed the lobbying nontaxable amount for
19 such organization for such taxable year.”.

20 (c) CONFORMING AMENDMENTS.—

21 (1) Section 501(h)(2) is amended by striking
22 subparagraphs (C) and (D).

23 (2) Section 4911(c) is amended by striking
24 paragraphs (3) and (4).

1 amended by adding at the end the following new subpara-
2 graphs:

3 “(D) PERMITTED HOLDINGS WHERE COR-
4 PORATION IS PUBLICLY-TRADED AND PUBLICLY
5 CONTROLLED.—A private foundation shall not
6 be treated as having excess business holdings in
7 any corporation in any calendar year in which
8 it (together with all other private foundations
9 which are described in section 4946(a)(1)(H))
10 owns not more than 5 percent of the voting
11 stock and not more than 5 percent in value of
12 all outstanding shares of all classes of stock
13 if—

14 “(i) the common stock of the corpora-
15 tion, and any other class of stock of which
16 shares are held by the private foundation,
17 are regularly traded on an established se-
18 curities market (within the meaning of sec-
19 tion 897(c)(3)),

20 “(ii) more than 50 percent of—

21 “(I) the total combined voting
22 power of all classes of stock of such
23 corporation entitled to vote, and

24 “(II) the total value of the stock
25 of such corporation,

1 is owned directly or indirectly by persons
2 other than the private foundation and per-
3 sons who are disqualified persons with re-
4 spect to the private foundation,

5 “(iii) the Board of Directors of such
6 corporation consists of a majority of per-
7 sons who are not disqualified persons with
8 respect to the private foundation, and

9 “(iv) any undistributed income (within
10 the meaning of section 4942(c)) of the pri-
11 vate foundation for such year (determined
12 after substituting ‘6 percent’ for ‘5 per-
13 cent’ in section 4942(e)(1)) shall have been
14 distributed within the required period
15 under section 4942(a) so as to avoid appli-
16 cation of the initial tax on such undistrib-
17 uted income.

18 “(E) EXCEPTION TO PERMITTED HOLD-
19 INGS WHERE CORPORATION IS PUBLICLY-TRAD-
20 ED AND PUBLICLY CONTROLLED.—No stock of
21 a corporation held by the private foundation
22 shall be considered permitted holdings pursuant
23 to subparagraph (D) to the extent such stock
24 was acquired by the private foundation by pur-
25 chase in a taxable transaction or was acquired

1 from a disqualified person who acquired such
2 stock by purchase in a taxable transaction with-
3 in the 5 years immediately preceding the trans-
4 fer of such stock to the private foundation.
5 Solely for purposes of applying the preceding
6 sentence—

7 “(i) any such stock acquired by pur-
8 chase in a taxable transaction by such dis-
9 qualified person within such 5 year period
10 shall be treated as included in such trans-
11 fer to the extent of such transfer,

12 “(ii) all stock acquired by such dis-
13 qualified person by purchase in a taxable
14 transaction during the 24 month period be-
15 ginning on the date of the transfer to the
16 private foundation shall be treated as held
17 by such disqualified person on the date of
18 such transfer and included in such trans-
19 fer, and

20 “(iii) the private foundation may spe-
21 cifically designate any shares of stock not
22 considered permitted holdings for purposes
23 of allowing such private foundation to dis-
24 pose of such stock.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2003.

4 **TITLE III—OTHER PROVISIONS**

5 **SEC. 301. COMPASSION CAPITAL FUND.**

6 Title IV of the Social Security Act (42 U.S.C. 601–
7 679b) is amended by adding at the end the following:

8 **“PART F—COMPASSION CAPITAL FUND**

9 **“SEC. 481. SECRETARY’S FUND TO SUPPORT AND REP-** 10 **LICATE PROMISING SOCIAL SERVICE PRO-** 11 **GRAMS.**

12 “(a) GRANT AUTHORITY.—

13 “(1) IN GENERAL.—The Secretary may make
14 grants to support any private entity that operates a
15 promising social services program.

16 “(2) APPLICATIONS.—An entity desiring to re-
17 ceive a grant under paragraph (1) shall submit to
18 the Secretary an application for the grant, which
19 shall contain such information as the Secretary may
20 require.

21 “(b) CONTRACT AUTHORITY, ETC.—The Secretary
22 may enter into a grant, contract, or cooperative agreement
23 with any entity under which the entity would provide tech-
24 nical assistance to another entity to operate a social serv-

1 ice program that assists persons and families in need, in-
2 cluding by—

3 “(1) providing the other entity with—

4 “(A) technical assistance and information,
5 including legal assistance and other business as-
6 sistance;

7 “(B) information on capacity-building;

8 “(C) information and assistance in identi-
9 fying and using best practices for serving per-
10 sons and families in need; or

11 “(D) assistance in replicating programs
12 with demonstrated effectiveness in assisting
13 persons and families in need; or

14 “(2) supporting research on the best practices
15 of social service organizations.

16 “(c) GUIDANCE AND TECHNICAL ASSISTANCE.—The
17 Secretary may use not more than 25 percent of the
18 amount appropriated under this section for a fiscal year
19 to provide guidance and technical assistance to States and
20 political subdivisions of States with respect to the imple-
21 mentation of any social service program.

22 “(d) SOCIAL SERVICES PROGRAM DEFINED.—In this
23 section, the term ‘social services program’ means a pro-
24 gram that provides benefits or services of any kind to per-
25 sons and families in need.

1 for backing away from its historic and rightful com-
2 mitment to help those who are disadvantaged and in
3 need, such organizations can and should be seen as
4 a valuable partner with government in meeting soci-
5 etal challenges.

6 (4) Every day faith-based organizations in the
7 United States help people recover from drug and al-
8 cohol addiction, provide food and shelter for the
9 homeless, rehabilitate prison inmates so that they
10 can break free from the cycle of recidivism, and
11 teach people job skills that will allow them to move
12 from poverty to productivity.

13 (5) Faith-based organizations are often more
14 successful in dealing with difficult societal problems
15 than government and non-sectarian organizations.

16 (6) As President Bush has stated, “It is not
17 sufficient to praise charities and community groups;
18 we must support them. And this is both a public ob-
19 ligation and a personal responsibility.”.

20 (7) Corporate foundations contribute billions of
21 dollars each year to a variety of philanthropic
22 causes.

23 (8) According to a study produced by the Cap-
24 ital Research Center, the 10 largest corporate foun-

1 dations in the United States contributed
2 \$1,900,000,000 to such causes.

3 (9) According to the same study, faith-based or-
4 ganizations only receive a small fraction of the con-
5 tributions made by corporations in the United
6 States, and 6 of the 10 corporations that give the
7 most to philanthropic causes explicitly ban or re-
8 strict contributions to faith-based organizations.

9 (b) CORPORATIONS ENCOURAGED TO CONTRIBUTE
10 TO FAITH-BASED ORGANIZATIONS.—The Congress calls
11 on corporations in the United States, in the words of the
12 President, “to give more and to give better” by making
13 greater contributions to faith-based organizations that are
14 on the front lines battling some of the great societal chal-
15 lenges of our day.

16 (c) SENSE OF THE CONGRESS.—It is the sense of
17 Congress that—

18 (1) corporations in the United States are im-
19 portant partners with government in efforts to over-
20 come difficult societal problems; and

21 (2) no corporation in the United States should
22 adopt policies that prohibit the corporation from
23 contributing to an organization that is successfully
24 advancing a philanthropic cause merely because such
25 organization is faith based.

1 **SEC. 304. MATERNITY GROUP HOMES.**

2 (a) PERMISSIBLE USE OF FUNDS.—Section 322 of
3 the Runaway and Homeless Youth Act (42 U.S.C. 5714–
4 2) is amended—

5 (1) in subsection (a)(1), by inserting “(includ-
6 ing maternity group homes)” after “group homes”;
7 and

8 (2) by adding at the end the following:

9 “(c) MATERNITY GROUP HOME.—In this part, the
10 term ‘maternity group home’ means a community-based,
11 adult-supervised group home that provides—

12 “(1) young mothers and their children with a
13 supportive and supervised living arrangement in
14 which such mothers are required to learn parenting
15 skills, including child development, family budgeting,
16 health and nutrition, and other skills to promote
17 their long-term economic independence and the well-
18 being of their children; and

19 “(2) pregnant women with—

20 “(A) information regarding the option of
21 placing children for adoption through licensed
22 adoption service providers;

23 “(B) assistance with prenatal care and
24 child birthing; and

25 “(C) pre- and post-placement adoption
26 counseling.”.

1 (b) CONTRACT FOR EVALUATION.—Part B of the
2 Runaway and Homeless Youth Act (42 U.S.C. 5701 et
3 seq.) is amended by adding at the end the following:

4 **“SEC. 323. CONTRACT FOR EVALUATION.**

5 “(a) IN GENERAL.—The Secretary shall enter into
6 a contract with a public or private entity for an evaluation
7 of the maternity group homes that are supported by grant
8 funds under this Act.

9 “(b) INFORMATION.—The evaluation described in
10 subsection (a) shall include the collection of information
11 about the relevant characteristics of individuals who ben-
12 efit from maternity group homes such as those that are
13 supported by grant funds under this Act and what services
14 provided by those maternity group homes are most bene-
15 ficial to such individuals.

16 “(c) REPORT.—Not later than 2 years after the date
17 on which the Secretary enters into a contract for an eval-
18 uation under subsection (a), and biennially thereafter, the
19 entity conducting the evaluation under this section shall
20 submit to Congress a report on the status, activities, and
21 accomplishments of maternity group homes that are sup-
22 ported by grant funds under this Act.”.

23 (c) AUTHORIZATION OF APPROPRIATIONS.—Section
24 388 of the Runaway and Homeless Youth Act (42 U.S.C.
25 5751) is amended—

1 (1) in subsection (a)(1)—

2 (A) by striking “There” and inserting the
3 following:

4 “(A) IN GENERAL.—There”;

5 (B) in subparagraph (A), as redesignated,
6 by inserting “and the purpose described in sub-
7 paragraph (B)” after “other than part E”; and

8 (C) by adding at the end the following:

9 “(B) MATERNITY GROUP HOMES.—There
10 is authorized to be appropriated, for maternity
11 group homes eligible for assistance under sec-
12 tion 322(a)(1)—

13 “(i) \$33,000,000 for fiscal year 2003;

14 and

15 “(ii) such sums as may be necessary
16 for fiscal year 2004.”; and

17 (2) in subsection (a)(2)(A), by striking “para-
18 graph (1)” and inserting “paragraph (1)(A)”.

○