

on the part of the House have until midnight tonight to file conference reports on H.R. 4060, which is the Energy and Water Development Appropriations Act, 1999, and H.R. 6, the Higher Education Amendments of 1998.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

There was no objection.

MAKING IN ORDER ON MONDAY, SEPTEMBER 28, 1998, OR ANY DAY THEREAFTER, CONSIDERATION OF CONFERENCE REPORTS ON H.R. 4103, DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 1999, H.R. 4060, ENERGY AND WATER DEVELOPMENT APPROPRIATIONS ACT, 1999, AND H.R. 6, HIGHER EDUCATION AMENDMENTS OF 1998

Mr. SOLOMON. Mr. Speaker, I ask unanimous consent that it be in order on Monday, September 28, 1998, or any day thereafter to consider the conference reports on the following bills; that all points of order be waived against each conference report and its consideration, and that each be considered as read when called up for consideration.

Those conference reports are H.R. 4103, Department of Defense Appropriations Act, 1999; H.R. 4060, Energy and Water Development Appropriations Act, 1999; and H.R. 6, Higher Education Amendments of 1998. We could then come to the floor without a rule, but under the same process.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

Mr. OBEY. Reserving the right to object, Mr. Speaker, I would like to make certain that there is an understanding that on Monday there will be no votes before 5 p.m.

Mr. SOLOMON. Mr. Speaker, will the gentleman yield?

Mr. OBEY. Further reserving the right to object, I yield to the gentleman from New York.

Mr. SOLOMON. Mr. Speaker, that is my understanding. That is the agreement that the two leaders have made.

Mr. OBEY. Mr. Speaker, I withdraw my reservation of objection.

Mr. SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

There was no objection.

#### REMOVAL OF NAME OF MEMBER AS COSPONSOR OF H.R. 4567

Mr. STENHOLM. Mr. Speaker, I ask unanimous consent that my name be removed as a cosponsor from H.R. 4567.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

#### REMOVAL OF NAME OF MEMBER AS COSPONSOR OF H.R. 4567

Mr. THOMAS. Mr. Speaker, I ask unanimous consent that the gentleman

from Georgia (Mr. NORWOOD) be removed as a cosponsor of H.R. 4567. He was inadvertently placed on that bill through clerical error.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from California?

There was no objection.

#### REMOVAL OF NAME OF MEMBER AS COSPONSOR OF H.R. 1995

Mr. METCALF. Mr. Speaker, I ask unanimous consent to have my name removed as a cosponsor of H.R. 1995.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Washington?

There was no objection.

#### TAXPAYER RELIEF ACT OF 1998

Mr. ARCHER. Mr. Speaker, pursuant to House Resolution 552, I call up the bill (H.R. 4579) to provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, and for other purposes, and ask for its immediate consideration in the House.

The Clerk read the title of the bill.

The SPEAKER pro tempore. Pursuant to House Resolution 552, the bill is considered as having been read for amendment.

The text of H.R. 4579 is as follows:

H.R. 4579

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Taxpayer Relief Act of 1998".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

#### (c) TABLE OF CONTENTS.—

Sec. 1. Short title, etc.

#### TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND FAMILIES

##### Subtitle A—General Provisions

Sec. 101. Elimination of marriage penalty in standard deduction.

Sec. 102. Exemption of certain interest and dividend income from tax.

Sec. 103. Nonrefundable personal credits allowed against alternative minimum tax.

Sec. 104. 100 percent deduction for health insurance costs of self-employed individuals.

Sec. 105. Special rule for members of uniformed services and Foreign Service in determining exclusion of gain from sale of principal residence.

Sec. 106. \$1,000,000 exemption from estate and gift taxes.

##### Subtitle B—Provisions Relating to Education

Sec. 111. Eligible educational institutions permitted to maintain qualified tuition programs.

Sec. 112. Modification of arbitrage rebate rules applicable to public school construction bonds.

##### Subtitle C—Provisions Relating to Social Security

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

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

#### TITLE II—PROVISIONS PRIMARILY AFFECTING FARMING AND OTHER BUSI- NESSES

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

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

##### Subtitle B—Provisions Relating to Farmers

Sec. 211. Income averaging for farmers made permanent.

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

Sec. 213. Production flexibility contract payments.

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

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

#### TITLE III—EXTENSION AND MODIFICA- TION OF CERTAIN EXPIRING PROVI- SIONS

##### Subtitle A—Tax Provisions

Sec. 301. Research credit.

Sec. 302. Work opportunity credit.

Sec. 303. Welfare-to-work credit.

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

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

##### Subtitle B—Generalized System of Preferences

Sec. 311. Extension of Generalized System of Preferences.

#### TITLE IV—REVENUE OFFSET

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

#### TITLE V—TECHNICAL CORRECTIONS

Sec. 501. Definitions; coordination with other titles.

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

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

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

Sec. 505. Other amendments.

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

Sec. 601. Short title.

Sec. 602. Findings and purpose.

##### Subtitle A—Designation and Evaluation of Renewal Communities

Sec. 611. Short title.

Sec. 612. Statement of purpose.

Sec. 613. Designation of renewal communities.

Sec. 614. Evaluation and reporting requirements.

Sec. 615. Interaction with other Federal programs.

##### Subtitle B—Tax Incentives for Renewal Communities

Sec. 621. Tax treatment of renewal communities.

Sec. 622. Extension of work opportunity tax credit for renewal communities.

Sec. 623. Conforming and clerical amendments.

**TITLE I—PROVISIONS PRIMARILY  
AFFECTING INDIVIDUALS AND FAMILIES**  
**Subtitle A—General Provisions**

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

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

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

(2) by adding “or” at the end of subparagraph (B);

(3) by striking “in the case of” and all that follows in subparagraph (C) and inserting “in any other case.”; and

(4) by striking subparagraph (D).

(b) ADDITIONAL STANDARD DEDUCTION FOR AGED AND BLIND TO BE THE SAME FOR MARRIED AND UNMARRIED INDIVIDUALS.—

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

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

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

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

**SEC. 102. EXEMPTION OF CERTAIN INTEREST  
AND DIVIDEND INCOME FROM TAX.**

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to amounts specifically excluded from gross income) is amended by inserting after section 115 the following new section:

**“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS  
AND INTEREST RECEIVED BY INDIVIDUALS.**

“(a) EXCLUSION FROM GROSS INCOME.—Gross income does not include dividends and interest received during the taxable year by an individual.

“(b) LIMITATIONS.—

“(1) MAXIMUM AMOUNT.—The aggregate amount excluded under subsection (a) for any taxable year shall not exceed \$200 (\$400 in the case of a joint return).

“(2) CERTAIN DIVIDENDS EXCLUDED.—Subsection (a) shall not apply to any dividend from a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organization) or section 521 (relating to farmers’ cooperative associations).

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

“(1) DISTRIBUTIONS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—Subsection (a) shall apply with respect to distributions by—

“(A) regulated investment companies subject to the limitations provided in section 854(b), and

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

“(2) DISTRIBUTIONS BY A TRUST.—For purposes of subsection (a), the amount of dividends and interest properly allocable to a beneficiary under section 652 or 662 shall be deemed to have been received by the beneficiary ratably on the same date that the dividends and interest were received by the estate or trust.

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

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

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

“(4) DIVIDENDS FROM EMPLOYEE STOCK OWNERSHIP PLANS.—Subsection (a) shall not apply to any dividend described in section 404(k).”

(b) CONFORMING AMENDMENTS.—

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

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

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

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

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

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

**“SEC. 854. LIMITATIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANY.**

“(a) CAPITAL GAIN DIVIDEND.—For purposes of section 116 (relating to partial exclusion of dividends and interest received by individuals) and section 243 (relating to deductions for dividends received by corporations), a capital gain dividend (as defined in section 852(b)(3)) received from a regulated investment company shall not be considered as a dividend.

“(b) OTHER DIVIDENDS.—

“(1) AMOUNT TREATED AS DIVIDEND.—

“(A) DEDUCTION UNDER SECTION 243.—In any case in which—

“(i) a dividend is received from a regulated investment company (other than a dividend to which subsection (a) applies), and

“(ii) such investment company meets the requirements of section 852(a) for the taxable year during which it paid such dividend,

then, in computing any deduction under section 243, there shall be taken into account only that portion of such dividend designated under this subparagraph by the regulated investment company and such dividend shall be treated as received from a corporation which is not a 20-percent owned corporation.

“(B) EXCLUSION UNDER SECTION 116.—If the aggregate dividends and interest received by a regulated investment company during any taxable year are less than 95 percent of its gross income, then in computing the exclusion under section 116, rules similar to the rules of subparagraph (A) shall apply.

“(C) LIMITATIONS.—

“(i) SECTION 243.—The aggregate amount which may be designated as dividends under subparagraph (A) shall not exceed the aggregate dividends received by the company for the taxable year.

“(ii) SECTION 116.—The aggregate amount which may be designated as dividends under subparagraph (B) shall not exceed the sum of the aggregate dividends and aggregate interest received by the company for the taxable year.

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

“(3) DEFINITIONS.—For purposes of this subsection—

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

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

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

“(B) AGGREGATE DIVIDENDS.—

“(i) IN GENERAL.—The term ‘aggregate dividends’ does not include dividends described in section 116(b)(2) (relating to dividends excluded from income).

“(ii) DISTRIBUTIONS FROM REAL ESTATE INVESTMENT TRUSTS AND OTHER REGULATED INVESTMENT COMPANIES.—In determining the amount of any dividend for purposes of this subparagraph, the rules of section 116(c)(1) shall apply; except that, for purposes of applying subparagraph (C)(i) of paragraph (1), aggregate dividends shall not include a distribution from a real estate investment trust which, for the taxable year of the trust in which the dividend is paid, qualifies under part II of subchapter M (section 856 and following).

“(C) AGGREGATE INTEREST.—The term ‘aggregate interest’ means only interest includable in gross income. Gross income and aggregate interest received shall each be reduced by so much of the deduction allowable by section 163 for the taxable year as does not exceed aggregate interest received for the taxable year.

“(4) SPECIAL RULE FOR COMPUTING DEDUCTION UNDER SECTION 243.—For purposes of subparagraph (A) of paragraph (1), an amount shall be treated as a dividend for the purpose of paragraph (1) only if a deduction would have been allowable under section 243 to the regulated investment company determined—

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

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

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

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

“(c) LIMITATIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

“(1) CAPITAL GAIN DIVIDEND.—For purposes of section 116 (relating to partial exclusion of dividends and interest received by individuals), a capital gain dividend (as defined in subsection (b)(3)(C)) received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.

“(2) ONLY PORTION OF DIVIDEND EXCLUDABLE UNDER SECTION 116 IN CERTAIN CASES.—

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

“(i) a dividend is received from a real estate investment trust (other than a capital gain dividend, as defined in subsection (b)(3)(C)),

“(ii) such trust meets the requirements of this part for the taxable year during which it paid such dividend, and

“(iii) the aggregate interest received by such trust during the taxable year is less than 95 percent of its gross income,

then, in computing any exclusion under section 116, there shall be taken into account

only that portion of such dividend designated under this subparagraph as interest by the real estate investment trust.

“(B) LIMITATION.—The aggregate amount which may be designated as interest under subparagraph (A) shall not exceed the aggregate interest received by the trust for the taxable year.

“(3) ADJUSTMENTS TO GROSS INCOME AND AGGREGATE INTEREST RECEIVED.—For purposes of this subsection—

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

“(B) gross income and aggregate interest received shall each be reduced by so much of the deduction allowable by section 163 for the taxable year (other than for interest on mortgages on real property owned by the real estate investment trust) as does not exceed aggregate interest received for the taxable year, and

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

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

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

“(6) CROSS REFERENCE.—

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

(6) The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 115 the following new item:

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

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

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

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

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

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

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

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 24 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) Section 32 is amended by striking subsection (h).

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

#### **SEC. 104. 100 PERCENT DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.**

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

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

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

#### **SEC. 105. SPECIAL RULE FOR MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE IN DETERMINING EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.**

(a) IN GENERAL.—Subsection (d) of section 121 (relating to exclusion of gain from sale of principal residence) is amended by adding at the end the following new paragraph:

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

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

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

“(i) IN GENERAL.—For purposes of this paragraph, the term ‘qualified official extended duty’ means any period of extended duty as a member of the uniformed services or a member of the Foreign Service during which the member serves at a duty station which is at least 50 miles from such property or is under Government orders to reside in Government quarters.

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

“(iii) FOREIGN SERVICE OF THE UNITED STATES.—For purposes of clause (i), the term ‘member of the Foreign Service’ has the meaning given the term ‘member of the Service’ by paragraph (1), (2), (3), (4), or (5) of section 103 of the Foreign Service Act of 1980, as in effect on the date of the enactment of this paragraph.

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

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

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

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

“(c) APPLICABLE CREDIT AMOUNT.—

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

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

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

#### **Subtitle B—Provisions Relating to Education** **SEC. 111. ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.**

(a) IN GENERAL.—Paragraph (1) of section 529(b) (defining qualified State tuition program) is amended by inserting “or by 1 or more eligible educational institutions” after “maintained by a State or agency or instrumentality thereof”.

(b) TECHNICAL AMENDMENTS.—

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

(2) The paragraph heading for paragraph (9) of section 72(e) and the subparagraph heading for subparagraph (B) of section 530(b)(2) are each amended by striking “QUALIFIED STATE TUITION PROGRAMS” and inserting “QUALIFIED TUITION PROGRAMS”.

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

(4) Sections 529(c)(3)(D)(i) and 6693(a)(2)(C) are each amended by striking “qualified State tuition programs” and inserting “qualified tuition programs”.

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

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

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

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

#### **SEC. 112. MODIFICATION OF ARBITRAGE REBATE RULES APPLICABLE TO PUBLIC SCHOOL CONSTRUCTION BONDS.**

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

“(xviii) 4-YEAR SPENDING REQUIREMENT FOR PUBLIC SCHOOL CONSTRUCTION ISSUE.—

“(I) IN GENERAL.—In the case of a public school construction issue, the spending requirements of clause (ii) shall be treated as met if at least 10 percent of the available construction proceeds of the construction issue are spent for the governmental purposes of the issue within the 1-year period beginning on the date the bonds are issued, 30 percent of such proceeds are spent for such purposes within the 2-year period beginning on such date, 50 percent of such proceeds are spent for such purposes within the 3-year period beginning on such date, and 100 percent of such proceeds are spent for such purposes within the 4-year period beginning on such date.

“(II) PUBLIC SCHOOL CONSTRUCTION ISSUE.—For purposes of this clause, the term ‘public school construction issue’ means any construction issue if no bond which is part of such issue is a private activity bond and all of the available construction proceeds of such issue are to be used for the construction (as defined in clause (iv)) of public school facilities to provide education or training below the postsecondary level or for the acquisition of land that is functionally related and subordinate to such facilities.

“(III) OTHER RULES TO APPLY.—Rules similar to the rules of the preceding provisions of this subparagraph which apply to clause (ii) also apply to this clause.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to obligations issued after December 31, 1998.

#### **Subtitle C—Provisions Relating to Social Security**

#### **SEC. 121. INCREASES IN THE SOCIAL SECURITY EARNINGS LIMIT FOR INDIVIDUALS WHO HAVE ATTAINED RETIREMENT AGE.**

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

“(iv) for each month of any taxable year ending after 1998 and before 2000, \$1,416.66%,”

“(v) for each month of any taxable year ending after 1999 and before 2001, \$1,541.66%,”

“(vi) for each month of any taxable year ending after 2000 and before 2002, \$2,166.66%, and

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

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

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

#### **SEC. 122. RECOMPUTATION OF BENEFITS AFTER NORMAL RETIREMENT AGE.**

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

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

“(I) the second year following the year with respect to which the recomputation is made, in any such case in which the individual is entitled to old-age insurance benefits, the individual has attained retirement age (as defined in section 216(l)) as of the end of the year preceding the year with respect to which the recomputation is made, and the year with respect to which the recomputation is made would not be substituted in recomputation under this subsection for a benefit computation year in which no wages or self-employment income have been credited previously to such individual, or

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

(b) CONFORMING AMENDMENTS.—

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

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

(A) by striking “in the case of an individual who did not die” and all that follows and inserting “in the case of an individual who did not die in the year with respect to which the recomputation is made, for monthly benefits beginning with benefits for January of—”; and

(B) by adding at the end the following:

“(i) the second year following the year with respect to which the recomputation is made, in any such case in which the individual is entitled to old-age insurance benefits, the individual has attained age 65 as of the end of the year preceding the year with respect to which the recomputation is made, and the year with respect to which the recomputation is made would not be substituted in recomputation under this subsection for a benefit computation year in which no wages or self-employment income have been credited previously to such individual, or

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

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

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

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

#### **SEC. 201. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.**

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

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

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

##### **Subtitle B—Provisions Relating to Farmers**

#### **SEC. 211. INCOME AVERAGING FOR FARMERS MADE PERMANENT.**

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

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

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

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

(b) FARMING LOSS.—Section 172 is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) IN GENERAL.—Subsection (d) of section 146 (relating to volume cap) is amended by striking paragraph (2), by redesignating

paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and by striking paragraph (1) and inserting the following new paragraph:

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

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

“(B) \$225,000,000.

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

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

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

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

##### **Subtitle A—Tax Provisions**

#### **SEC. 301. RESEARCH CREDIT.**

(a) TEMPORARY EXTENSION.—

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

(A) by striking “June 30, 1998” and inserting “February 29, 2000”;

(B) by striking “24-month” and inserting “44-month”; and

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

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

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts paid or incurred after June 30, 1998.

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

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

(A) by striking “1.65 percent” and inserting “2.65 percent”;

(B) by striking “2.2 percent” and inserting “3.2 percent”; and

(C) by striking “2.75 percent” and inserting “3.75 percent”.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after June 30, 1998.

#### **SEC. 302. WORK OPPORTUNITY CREDIT.**

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

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

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

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

#### **SEC. 304. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDATIONS; EXPANDED PUBLIC INSPECTION OF PRIVATE FOUNDATIONS’ ANNUAL RETURNS.**

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

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

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

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

(1) IN GENERAL.—Section 6104 (relating to publicity of information required from certain exempt organizations and certain trusts) is amended by striking subsections (d) and (e) and inserting after subsection (c) the following new subsection:

“(d) PUBLIC INSPECTION OF CERTAIN ANNUAL RETURNS AND APPLICATIONS FOR EXEMPTION.—

“(1) IN GENERAL.—In the case of an organization described in subsection (c) or (d) of section 501 and exempt from taxation under section 501(a)—

“(A) a copy of—

“(i) the annual return filed under section 6033 (relating to returns by exempt organizations) by such organization, and

“(ii) if the organization filed an application for recognition of exemption under section 501, the exempt status application materials of such organization,

shall be made available by such organization for inspection during regular business hours by any individual at the principal office of such organization and, if such organization regularly maintains 1 or more regional or district offices having 3 or more employees, at each such regional or district office, and

“(B) upon request of an individual made at such principal office or such a regional or district office, a copy of such annual return and exempt status application materials shall be provided to such individual without charge other than a reasonable fee for any reproduction and mailing costs.

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

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

“(3) EXCEPTIONS FROM DISCLOSURE REQUIREMENT.—

“(A) NONDISCLOSURE OF CONTRIBUTORS.—Paragraph (1) shall not require the disclosure of the name or address of any contributor to the organization.

“(B) NONDISCLOSURE OF CERTAIN OTHER INFORMATION.—Paragraph (1) shall not require the disclosure of any information if the Secretary withheld such information from public inspection under subsection (a)(1)(D).

“(4) LIMITATION ON PROVIDING COPIES.—Paragraph (1)(B) shall not apply to any request if, in accordance with regulations promulgated by the Secretary, the organization has made the requested documents widely available, or the Secretary determines, upon application by an organization, that such request is part of a harassment campaign and that compliance with such request is not in the public interest.

“(5) EXEMPT STATUS APPLICATION MATERIALS.—For purposes of paragraph (1), the term ‘exempt status applicable materials’ means the application for recognition of exemption under section 501 and any papers submitted in support of such application and any letter or other document issued by the Internal Revenue Service with respect to such application.”

(2) CONFORMING AMENDMENTS.—

(A) Subsection (c) of section 6033 is amended by adding “and” at the end of paragraph (1), by striking paragraph (2), and by redesignating paragraph (3) as paragraph (2).

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

(C) Subparagraph (D) of section 6652(c)(1) is amended by striking “section 6104(e)(2) (relating to public inspection of applications for exemption)” and inserting “section 6104(d) with respect to any exempt status ap-

plication materials (as defined in such section)”.

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

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

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years ending after December 31, 1998.

#### SEC. 305. SUBPART F EXEMPTION FOR ACTIVE FINANCING INCOME.

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

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

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

“(2) ELIGIBLE CONTROLLED FOREIGN CORPORATION.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘eligible controlled foreign corporation’ means a controlled foreign corporation which—

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

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

“(B) PREDOMINANTLY ENGAGED.—A controlled foreign corporation shall be treated as predominantly engaged in the active conduct of a banking, financing, or similar business if—

“(i) more than 70 percent of the gross income of the controlled foreign corporation is derived directly from the active and regular conduct of a lending or finance business from transactions with customers which are not related persons, or

“(ii) it is engaged in the active conduct of a banking business and is an institution licensed to do business as a bank in the United States (or is any other corporation not so licensed which is specified by the Secretary in regulations).

“(3) QUALIFIED BANKING OR FINANCING INCOME.—For purposes of this subsection—

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

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

“(I) such eligible controlled foreign corporation, or

“(II) a qualified business unit of such eligible controlled foreign corporation,

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

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

“(II) substantially all of the activities in connection with which are conducted directly by the corporation or unit in its home country, and

“(iii) is treated as earned by such corporation or unit in its home country for purposes of such country’s tax laws.

“(B) LIMITATION ON NONBANKING BUSINESSES.—No income of an eligible controlled foreign corporation not described in paragraph (2)(B)(ii) (or of a qualified business unit of such corporation) shall be treated as qualified banking or financing income unless more than 30 percent of such corporation’s or unit’s gross income is derived directly from the active and regular conduct of a lending or finance business from transactions with customers which are not related persons and which are located within such corporation’s or unit’s home country.

“(C) SUBSTANTIAL ACTIVITY REQUIREMENT FOR CROSS BORDER INCOME.—The term ‘qualified banking or financing income’ shall not include income derived from 1 or more transactions with customers located in a country other than the home country of the eligible controlled foreign corporation or a qualified business unit of such corporation unless such corporation or unit conducts substantial activity with respect to a banking, financing, or similar business in its home country.

“(D) DETERMINATIONS MADE SEPARATELY.—For purposes of this subsection, the qualified banking or financing income of an eligible controlled foreign corporation and each qualified business unit of such corporation shall be determined separately for such corporation and each such unit by taking into account—

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

“(ii) in the case of a qualified business unit, only items of income, deduction, gain, or loss and activities properly allocable or attributable to such unit.

“(4) LENDING OR FINANCE BUSINESS.—For purposes of this subsection, the term ‘lending or finance business’ means the business of—

“(A) making loans,

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

“(C) engaging in leasing (including entering into leases and purchasing, servicing, and disposing of leases and leased assets),

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

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

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

“(i) the corporation (or qualified business unit) rendering services or making facilities available, or

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

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

“(A) CUSTOMER.—The term ‘customer’ means, with respect to any controlled foreign corporation or qualified business unit, any person which has a customer relationship with such corporation or unit and which is acting in its capacity as such.

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

“(i) CONTROLLED FOREIGN CORPORATION.—The term ‘home country’ means, with respect to any controlled foreign corporation, the country under the laws of which the corporation was created or organized.

“(ii) QUALIFIED BUSINESS UNIT.—The term ‘home country’ means, with respect to any qualified business unit, the country in which such unit maintains its principal office.

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

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

“(E) RELATED PERSON.—The term ‘related person’ has the meaning given such term by subsection (d)(3).

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

“(A) there shall be disregarded any item of income, gain, loss, or deduction with respect

to any transaction or series of transactions one of the principal purposes of which is qualifying income or gain for the exclusion under this section, including any transaction or series of transactions a principal purpose of which is the acceleration or deferral of any item in order to claim the benefits of such exclusion through the application of this subsection.

“(B) there shall be disregarded any item of income, gain, loss, or deduction with respect to any transaction or series of transactions utilizing, or doing business with—

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

“(ii) to the extent provided in regulations—

“(I) one or more entities in order to satisfy any home country requirement under this subsection, or

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

“(C) a related person, an officer, a director, or an employee with respect to any controlled foreign corporation (or qualified business unit) which would otherwise be treated as a customer of such corporation or unit with respect to any transaction shall not be so treated if a principal purpose of such transaction is to satisfy any requirement of this subsection.

“(7) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, subsection (c)(1)(B)(i), subsection (c)(2)(C)(ii), and the last sentence of subsection (e)(2).

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

(b) INCOME DERIVED FROM INSURANCE BUSINESS.—

(1) INCOME ATTRIBUTABLE TO ISSUANCE OR REINSURANCE.—

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

“(a) INSURANCE INCOME.—

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

“(A) is attributable to the issuing (or reinsuring) of an insurance or annuity contract, and

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

“(2) EXCEPTION.—Such term shall not include any exempt insurance income (as defined in subsection (e)).”

(B) EXEMPT INSURANCE INCOME.—Section 953 (relating to insurance income) is amended by adding at the end the following new subsection:

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

“(1) EXEMPT INSURANCE INCOME DEFINED.—

“(A) IN GENERAL.—The term ‘exempt insurance income’ means income derived by a qualifying insurance company which—

“(i) is attributable to the issuing (or reinsuring) of an exempt contract by such company or a qualifying insurance company branch of such company, and

“(ii) is treated as earned by such company or branch in its home country for purposes of such country’s tax laws.

“(B) EXCEPTION FOR CERTAIN ARRANGEMENTS.—Such term shall not include income attributable to the issuing (or reinsuring) of an exempt contract as the result of any arrangement whereby another corporation receives a substantially equal amount of premiums or other consideration in respect of issuing (or reinsuring) a contract which is not an exempt contract.

“(C) DETERMINATIONS MADE SEPARATELY.—For purposes of this subsection and section 954(i), the exempt insurance income and exempt contracts of a qualifying insurance company or any qualifying insurance company branch of such company shall be determined separately for such company and each such branch by taking into account—

“(i) in the case of the qualifying insurance company, only net premiums, items of income, deduction, gain, or loss, and activities of such company not properly allocable or attributable to any qualifying insurance company branch of such company, and

“(ii) in the case of a qualifying insurance company branch, only net premiums, items of income, deduction, gain, or loss and activities properly allocable or attributable to such unit.

“(2) EXEMPT CONTRACT.—

“(A) IN GENERAL.—The term ‘exempt contract’ means an insurance or annuity contract issued or reinsured by a qualifying insurance company or qualifying insurance company branch in connection with property in, liability arising out of activity in, or the lives or health of residents of, a country other than the United States.

“(B) MINIMUM HOME COUNTRY INCOME REQUIRED.—

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

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

“(II) with respect to which no policyholder, insured, annuitant, or beneficiary is a related person (as defined in section 954(d)(3)).

“(ii) APPLICABLE HOME COUNTRY RISKS.—The term ‘applicable home country risks’ means risks in connection with property in, liability arising out of activity in, or the lives or health of residents of, the home country of the qualifying insurance company or qualifying insurance company branch, as the case may be, issuing or reinsuring the contract covering the risks.

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

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

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

“(3) QUALIFYING INSURANCE COMPANY.—The term ‘qualifying insurance company’ means any controlled foreign corporation which—

“(A) is subject to regulation as an insurance (or reinsurance) company by its home country, and is licensed, authorized, or regulated by the applicable insurance regulatory body for its home country to sell insurance, reinsurance, or annuity contracts to persons other than related persons (within the mean-

ing of section 954(d)(3)) in such home country.

“(B) derives more than 50 percent of its aggregate net written premiums from the issuance or reinsurance by such controlled foreign corporation and each of its qualifying insurance company branches of contracts—

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

“(ii) with respect to which no policyholder, insured, annuitant, or beneficiary is a related person (as defined in section 954(d)(3)),

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

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

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

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

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

(5) LIFE INSURANCE OR ANNUITY CONTRACT.—For purposes of this section and section 954, the determination of whether a contract issued by a controlled foreign corporation is a life insurance contract or an annuity contract shall be made without regard to sections 72(s), 101(f), 817(h), and 7702 if—

“(A) such contract is regulated as a life insurance or annuity contract by the corporation’s home country, and

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

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

“(A) CONTROLLED FOREIGN CORPORATION.—The term ‘home country’ means, with respect to a controlled foreign corporation, the country in which such corporation is created or organized.

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

(7) ANTI-ABUSE RULES.—For purposes of applying this subsection and section 954(i)—

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

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

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

“(i) any policyholder, insured, annuitant, or beneficiary is a resident of the United

States and such contract was marketed to such resident and was written to cover a risk outside the United States, or

“(ii) the contract covers risks located within and without the United States and the qualifying insurance company or qualifying insurance company branch does not maintain such contemporaneous records, and file such reports, with respect to such contract as the Secretary may require,

“(D) the Secretary may prescribe rules for the allocation of contracts (and income from contracts) among 2 or more qualifying insurance company branches of a qualifying insurance company in order to clearly reflect the income of such branches, and

“(E) premiums from a contract shall not be taken into account for purposes of paragraph (2)(B) or (3) if such contract reinsures a contract issued or reinsured by a related person (as defined in section 954(d)(3)).

For purposes of subparagraph (C), the determination of where risks are located shall be made under the principles of section 953.

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

“(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection and section 954(i).

“(10) APPLICATION.—This subsection and section 954(i) shall apply only to the first taxable year of a foreign corporation beginning after December 31, 1998, and before January 1, 2000, and to taxable years of United States shareholders with or within which such taxable year of such foreign corporation ends.

“(11) CROSS REFERENCE.—

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

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

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

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

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

“(A) received from a person other than a related person (within the meaning of subsection (d)(3)) and derived from the investments made by a qualifying insurance company or a qualifying insurance company branch of its reserves allocable to exempt contracts or of 80 percent of its unearned premiums from exempt contracts (as both are determined in the manner prescribed under paragraph (4)), or

“(B) received from a person other than a related person (within the meaning of subsection (d)(3)) and derived from investments made by a qualifying insurance company or a qualifying insurance company branch of an amount of its assets allocable to exempt contracts equal to—

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

“(ii) in the case of life insurance or annuity contracts, 10 percent of the reserves described in subparagraph (A) for such contracts.

“(3) PRINCIPLES FOR DETERMINING INSURANCE INCOME.—Except as provided by the

Secretary, for purposes of subparagraphs (A) and (B) of paragraph (2)—

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

“(B) income not allocable under subparagraph (A) shall be allocated ratably among contracts not described in subparagraph (A).

“(4) METHODS FOR DETERMINING UNEARNED PREMIUMS AND RESERVES.—For purposes of paragraph (2)(A)—

“(A) PROPERTY AND CASUALTY CONTRACTS.—The unearned premiums and reserves of a qualifying insurance company or a qualifying insurance company branch with respect to property, casualty, or health insurance contracts shall be determined using the same methods and interest rates which would be used if such company or branch were subject to tax under subchapter L, except that—

“(i) the interest rate determined for the functional currency of the company's or branch's home country, and which, except as provided by the Secretary, is calculated in the same manner as the Federal mid-term rate under section 1274(d), shall be substituted for the applicable Federal interest rate, and

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

“(B) LIFE INSURANCE AND ANNUITY CONTRACTS.—The amount of the reserve of a qualifying insurance company or qualifying insurance company branch for any life insurance or annuity contract shall be equal to the greater of—

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

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

“(C) LIMITATION ON RESERVES.—In no event shall the reserve determined under this paragraph for any contract as of any time exceed the amount which would be taken into account with respect to such contract as of such time in determining foreign statement reserves (less any catastrophe, deficiency, equalization, or similar reserves).

“(5) AMOUNT OF RESERVE.—The amount of the reserve determined under this paragraph with respect to any contract shall be determined in the same manner as it would be determined if the qualifying insurance company or qualifying insurance company branch were subject to tax under subchapter L, except that in applying such subchapter—

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

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

“(C) tables for mortality and morbidity which reasonably reflect the current mortality and morbidity risks in the company's or branch's home country shall be substituted for the mortality and morbidity tables otherwise used for such subchapter.

The Secretary may provide that the interest rate and mortality and morbidity tables of a qualifying insurance company may be used for 1 or more of its qualifying insurance company branches when appropriate.

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

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

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

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

“(C) EXCEPTION FOR DEALERS.—Except as provided by regulations, in the case of a regular dealer in property which is property described in paragraph (1)(B), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding company income—

“(i) any item of income, gain, deduction, or loss (other than any item described in subparagraph (A), (E), or (G) of paragraph (1)) from any transaction (including hedging transactions) entered into in the ordinary course of such dealer's trade or business as such a dealer, and

“(ii) if such dealer is a dealer in securities (within the meaning of section 475), any interest or dividend or equivalent amount described in subparagraph (E) or (G) of paragraph (1) from any transaction (including any hedging transaction or transaction described in section 956(c)(2)(J)) entered into in the ordinary course of such dealer's trade or business as such a dealer in securities, but only if the income from the transaction is attributable to activities of the dealer in the country under the laws of which the dealer is created or organized (or in the case of a qualified business unit described in section 989(a), is attributable to activities of the unit in the country in which the unit both maintains its principal office and conducts substantial business activity).”

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

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

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

#### Subtitle B—Generalized System of Preferences

#### SEC. 311. EXTENSION OF GENERALIZED SYSTEM OF PREFERENCES.

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

(b) RETROACTIVE APPLICATION FOR CERTAIN LIQUIDATIONS AND RELIQUIDATIONS.—

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

(A) of an article to which duty-free treatment under title V of the Trade Act of 1974 would have applied if such title had been in effect during the period beginning on July 1, 1998, and ending on the day before the date of the enactment of this Act, and



(B) that was made after June 30, 1998, and before the date of the enactment of this Act, shall be liquidated or reliquidated as free of duty, and the Secretary of the Treasury shall refund any duty paid with respect to such entry. As used in this subsection, the term "entry" includes a withdrawal from warehouse for consumption.

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

(A) to locate the entry; or

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

#### TITLE IV—REVENUE OFFSET

##### SEC. 401. TREATMENT OF CERTAIN DEDUCTIBLE LIQUIDATING DISTRIBUTIONS OF REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.

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

"(c) DEDUCTIBLE LIQUIDATING DISTRIBUTIONS OF REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—If a corporation receives a distribution from a regulated investment company or a real estate investment trust which is considered under subsection (b) as being in complete liquidation of such company or trust, then, notwithstanding any other provision of this chapter, such corporation shall recognize and treat as a dividend from such company or trust an amount equal to the deduction for dividends paid allowable to such company or trust by reason of such distribution."

(b) CONFORMING AMENDMENTS.—

(1) The material preceding paragraph (1) of section 332(b) is amended by striking "subsection (a)" and inserting "this section".

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

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

#### TITLE V—TECHNICAL CORRECTIONS

##### SEC. 501. DEFINITIONS; COORDINATION WITH OTHER TITLES.

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

(1) 1986 CODE.—The term "1986 Code" means the Internal Revenue Code of 1986.

(2) 1998 ACT.—The term "1998 Act" means the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206).

(3) 1997 ACT.—The term "1997 Act" means the Taxpayer Relief Act of 1997 (Public Law 105-34).

(b) COORDINATION WITH OTHER TITLES.—For purposes of applying the amendments made by any title of this Act other than this title, the provisions of this title shall be treated as having been enacted immediately before the provisions of such other titles.

##### SEC. 502. AMENDMENTS RELATED TO INTERNAL REVENUE SERVICE RESTRUCTURING AND REFORM ACT OF 1998.

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

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

"Subparagraph (C) shall not apply to any qualified revocable trust (as defined in section 645(b)(1)) with respect to liability for tax

for any taxable year ending after the date of the decedent's death and before the applicable date (as defined in section 645(b)(2))."

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

(1) Section 7421(a) of the 1986 Code is amended by striking "6015(d)" and inserting "6015(e)".

(2) Subparagraph (A) of section 6015(e)(3) is amended by striking "of this section" and inserting "of subsection (b) or (f)".

(d) AMENDMENT RELATED TO SECTION 3301 OF 1998 ACT.—Paragraph (2) of section 3301(c) of the 1998 Act is amended by striking "The amendments" and inserting "Subject to any applicable statute of limitation not having expired with regard to either a tax underpayment or a tax overpayment, the amendments".

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

(1) in paragraph (1), by striking "7443(b)" and inserting "7443A(b)"; and

(2) in paragraph (2), by striking "7443(c)" and inserting "7443A(c)".

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

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

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

(1) Paragraph (B) of section 1(h)(13) of the 1986 Code is amended by striking "paragraph (7)(A)" and inserting "paragraph (7)(A)(i)".

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

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

(ii) amounts properly taken into account by such company or trust by reason of holding (directly or indirectly) an interest in another such company or trust to the extent that such subparagraphs did not apply to such other company or trust with respect to such amounts.

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

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

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

##### SEC. 503. AMENDMENTS RELATED TO TAXPAYER RELIEF ACT OF 1997.

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

"(F) any interest allowable as a deduction under section 221 (relating to interest on educational loans)."

(b) PROVISION RELATED TO SECTION 311 OF 1997 ACT.—In the case of any capital gain distribution made after 1997 by a trust to which section 664 of the 1986 Code applies with respect to amounts properly taken into account by such trust during 1997, paragraphs (5)(A)(i)(I), (5)(A)(ii)(I), and (13)(A) of section

1(h) of the 1986 Code (as in effect for taxable years ending on December 31, 1997) shall not apply.

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

(1) Section 2001(f)(2) of the 1986 Code is amended by adding at the end the following: "For purposes of subparagraph (A), the value of an item shall be treated as shown on a return if the item is disclosed in the return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such item."

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

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

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

"(1) IN GENERAL.—Amounts in the Vaccine Injury Compensation Trust Fund shall be available, as provided in appropriation Acts, only for—

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

"(i) which is administered after September 30, 1988, and

"(ii) which is a taxable vaccine (as defined in section 4132(a)(1)) at the time compensation is paid under such subtitle 2, or

"(B) the payment of all expenses of administration (but not in excess of \$6,000,000 for any fiscal year) incurred by the Federal Government in administering such subtitle."

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

"(3) LIMITATION ON TRANSFERS TO VACCINE INJURY COMPENSATION TRUST FUND.—No amount may be appropriated to the Vaccine Injury Compensation Trust Fund on and after the date of any expenditure from the Trust Fund which is not permitted by this section. The determination of whether an expenditure is so permitted shall be made without regard to—

"(A) any provision of law which is not contained or referenced in this title or in a revenue Act, and

"(B) whether such provision of law is a subsequently enacted provision or directly or indirectly seeks to waive the application of this paragraph."

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

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

(A) in subsection (b), by inserting "or 1998" after "1997", and

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

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

(2) Paragraph (2) of section 6404(h) of the 1986 Code is amended by inserting "Robert T. Stafford" before "Disaster".

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

(1) Paragraph (2) of section 351(c) of the 1986 Code, as amended by section 6010(c) of the 1998 Act, is amended by inserting ", or the fact that the corporation whose stock was distributed issues additional stock," after "dispose of part or all of the distributed stock".

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



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

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

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

“If the amount described in subparagraph (A) with respect to any policy or contract does not reasonably approximate its actual value, the amount taken into account under subparagraph (A) shall be the greater of the amount of the insurance company liability or the insurance company reserve with respect to such policy or contract (as determined for purposes of the annual statement approved by the National Association of Insurance Commissioners) or shall be such other amount as is determined by the Secretary.”

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

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

#### SEC. 504. AMENDMENTS RELATED TO TAX REFORM ACT OF 1984.

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

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

(b) CONFORMING AMENDMENTS.—

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

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

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

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

(c) EFFECTIVE DATES.—

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

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

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

#### SEC. 505. OTHER AMENDMENTS.

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

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

“(5) DEPARTMENT OF AGRICULTURE.—Upon request in writing by the Secretary of Agriculture, the Secretary shall furnish such re-

turns, or return information reflected thereon, as the Secretary may prescribe by regulation to officers and employees of the Department of Agriculture whose official duties require access to such returns or information for the purpose of, but only to the extent necessary in, structuring, preparing, and conducting the census of agriculture pursuant to the Census of Agriculture Act of 1997 (Public Law 105-113).”.

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

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

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

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

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

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

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

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

#### SEC. 601. SHORT TITLE.

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

#### SEC. 602. FINDINGS AND PURPOSE.

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

(1) Many of the Nation’s urban centers are places with high levels of poverty, high rates of welfare dependency, high crime rates, poor schools, and joblessness.

(2) Federal tax incentives and regulatory reforms can encourage economic growth, job creation, and small business formation in many urban centers.

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

(b) PURPOSE.—The purpose of this title is to increase job creation, small business expansion and formation, educational opportunities, and homeownership, and to foster moral renewal, in economically depressed areas by providing Federal tax incentives, regulatory reforms, school reform pilot projects, and homeownership incentives.

#### Subtitle A—Designation and Evaluation of Renewal Communities

#### SEC. 611. SHORT TITLE.

This subtitle may be cited as the “Renewing American Communities Act of 1998”.

#### SEC. 612. STATEMENT OF PURPOSE.

It is the purpose of this subtitle to provide for the establishment of renewal communities in order to stimulate the creation of new jobs, particularly for disadvantaged workers and long-term unemployed individuals, and to promote revitalization of economically distressed areas primarily by providing or encouraging—

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

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

(3) improved local services and an increase in the economic stake of renewal community residents in their own community and its development, particularly through the increased involvement of private, local, and neighborhood organizations.

#### SEC. 613. DESIGNATION OF RENEWAL COMMUNITIES.

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

#### “Subchapter X—Renewal Communities

“Part I. Designation.

#### “PART I—DESIGNATION

“Sec. 1400E. Designation of Renewal Communities.

#### “SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

“(a) DESIGNATION.—

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

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

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

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

“(ii) in the case of an area on an Indian reservation, the Secretary of the Interior, designates as a renewal community.

“(2) NUMBER OF DESIGNATIONS.—

“(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 20 nominated areas as renewal communities.

“(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 20 percent must be areas—

“(i) which are within a local government jurisdiction or jurisdictions with a population of less than 50,000 (as determined under the most recent census data available),

“(ii) which are outside of a metropolitan statistical area (within the meaning of section 143(k)(2)(B)), or

“(iii) which are determined by the Secretary of Housing and Urban Development, after consultation with the Secretary of Commerce, to be rural areas.

“(C) ADDITIONAL DESIGNATIONS TO REPLACE REVOKED DESIGNATIONS.—

“(i) IN GENERAL.—The Secretary of Housing and Urban Development may designate one additional area under subparagraph (A) to replace each area for which the designation is revoked under subsection (b)(2), but in no event may more than 20 areas designated under this subsection bear designations as renewal communities at any time.

“(ii) EXTENSION OF TIME LIMIT ON DESIGNATIONS.—In the case of any designation made under this subparagraph, paragraph (4)(B) shall be applied by substituting ‘36-month’ for ‘24-month’.

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

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

“(B) EXCEPTION WHERE INADEQUATE COURSE OF ACTION, ETC.—An area shall not be designated under subparagraph (A) if the Secretary of Housing and Urban Development

determines that the course of action described in subsection (d)(2) with respect to such area is inadequate.

“(C) PRIORITY FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES WITH RESPECT TO FIRST HALF OF DESIGNATIONS.—With respect to the first half of the 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.

“(D) SEPARATE APPLICATION TO RURAL AND OTHER AREAS.—Subparagraph (A) shall be applied separately with respect to areas described in paragraph (2)(B) and to other areas.

“(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 designate nominated areas as renewal communities only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

“(C) PROCEDURAL RULES.—The Secretary of Housing and Urban Development shall not make any designation of a nominated area as a renewal community under paragraph (2) unless—

“(i) the local governments and the State in which the nominated area is located have the authority—

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

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

“(III) to provide assurances satisfactory to the Secretary of Housing and Urban Development that such commitments will be fulfilled,

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

“(iii) the Secretary of Housing and Urban Development determines that any information furnished is reasonably accurate.

“(5) NOMINATION PROCESS FOR INDIAN RESERVATIONS.—For purposes of this subchapter, in the case of a nominated area on an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be treated as being both the State and local governments with respect to such area.

“(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

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

“(A) December 31, 2006,

“(B) the termination date designated by the State and local governments in their nomination pursuant to subsection (a)(4)(C)(ii), or

“(C) the date the Secretary of Housing and Urban Development revokes such designation under paragraph (2).

“(2) REVOCATION OF DESIGNATION.—The Secretary of Housing and Urban Development may, after a hearing on the record involving officials of the State or local government involved (or both, if applicable), revoke the designation of an area if the Secretary of Housing and Urban Development determines that the local government or State in which the area is located is not complying substantially with the State or local commitments, respectively, described in subsection (d).

“(c) AREA AND ELIGIBILITY REQUIREMENTS.—

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

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

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

“(B) the boundary of the area is continuous, and

“(C) the area—

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

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

“(II) 1,000 in any other case, or

“(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior).

“(3) ELIGIBILITY REQUIREMENTS.—A nominated area meets the requirements of this paragraph if the State and the local governments in which it is located certify (and the Secretary of Housing and Urban Development, after such review of supporting data as he deems appropriate, accepts such certification) that—

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

“(B) the unemployment rate in the area, as determined by the appropriate available data, was at least 1½ times the national unemployment rate for the period to which such data relate,

“(C) the poverty rate (as determined by the most recent census data available) for each population census tract (or where not tracted, the equivalent county division as defined by the Bureau of the Census for the purpose of defining poverty areas) within the area was at least 20 percent for the period to which such data relate, and

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

“(4) CONSIDERATION OF HIGH INCIDENCE OF CRIME.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, the extent to which such areas have a high incidence of crime.

“(5) CONSIDERATION OF COMMUNITIES IDENTIFIED IN GAO STUDY.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, if the area has census tracts identified in the May 12, 1998, report of the

Government Accounting Office regarding the identification of economically distressed areas.

“(d) REQUIRED STATE AND LOCAL COMMITMENTS.—

“(1) IN GENERAL.—The Secretary of Housing and Urban Development may designate any nominated area as a renewal community under subsection (a) only if—

“(A) the local government and the State in which the area is located agree in writing that, during any period during which the area is a renewal community, such governments will follow a specified course of action which meets the requirements of paragraph (2) and is designed to reduce the various burdens borne by employers or employees in such area, and

“(B) the economic growth promotion requirements of paragraph (3) are met.

“(2) COURSE OF ACTION.—

“(A) IN GENERAL.—A course of action meets the requirements of this paragraph if such course of action is a written document, signed by a State (or local government) and neighborhood organizations, which evidences a partnership between such State or government and community-based organizations and which commits each signatory to specific and measurable goals, actions, and timetables. Such course of action shall include at least five of the following:

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

“(ii) An increase in the level of efficiency of local services within the renewal community.

“(iii) Crime reduction strategies, such as crime prevention (including the provision of such services by nongovernmental entities).

“(iv) Actions to reduce, remove, simplify, or streamline governmental requirements applying within the renewal community.

“(v) Involvement in the program by private entities, organizations, neighborhood 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.

“(3) ECONOMIC GROWTH PROMOTION REQUIREMENTS.—The economic growth promotion requirements of this paragraph are met with respect to a nominated area if the local government and the State in which such area is located certify in writing that such government and State, respectively, have repealed or otherwise will not enforce within the area, if such area is designated as a renewal community—

“(A) licensing requirements for occupations that do not ordinarily require a professional degree,

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

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

“(D) zoning or other restrictions that impede the formation of schools or child care centers, and

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

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

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

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

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

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

“(f) DEFINITIONS.—For purposes of this subchapter—

“(1) GOVERNMENTS.—If more than one government seeks to nominate an area as a renewal community, any reference to, or requirement of, this section shall apply to all such governments.

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

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

“(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State,

“(B) any combination of political subdivisions described in subparagraph (A) recognized by the Secretary of Housing and Urban Development, and

“(C) the District of Columbia.”

#### SEC. 614. EVALUATION AND REPORTING REQUIREMENTS.

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

#### SEC. 615. INTERACTION WITH OTHER FEDERAL PROGRAMS.

(a) TAX REDUCTIONS.—Any reduction of taxes, with respect to any renewal community designated under section 1400E of the Internal Revenue Code of 1986 (as added by this subtitle), under any plan of action under section 1400E(d) of such Code shall be disregarded in determining the eligibility of a State or local government for, or the amount or extent of, any assistance or benefits under any law of the United States (other than subchapter X of chapter 1 of such Code).

(b) COORDINATION WITH RELOCATION ASSISTANCE.—The designation of a renewal community under section 1400E of such Code (as added by this subtitle) shall not—

(1) constitute approval of a Federal or Federally assisted program or project (within the meaning of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C. 4601 et seq.)), or

(2) entitle any person displaced from real property located in such community to any rights or any benefits under such Act.

(c) RENEWAL COMMUNITIES TREATED AS LABOR SURPLUS AREAS.—Any area which is

designated as a renewal community under section 1400E of such Code (as added by this subtitle) shall be treated for all purposes under Federal law as a labor surplus area.

(d) COORDINATION WITH JOB TRAINING PROGRAMS.—Renewal communities are encouraged to coordinate efforts with job training providers who are public, private not-for-profit, or private for-profit entities.

#### Subtitle B—Tax Incentives for Renewal Communities

#### SEC. 621. TAX TREATMENT OF RENEWAL COMMUNITIES.

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

##### “PART II—RENEWAL COMMUNITY CAPITAL GAIN

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

##### “SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.

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

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

“(1) IN GENERAL.—The term ‘qualified community asset’ means—

“(A) any qualified community stock,

“(B) any qualified community business property, and

“(C) any qualified community partnership interest.

“(2) QUALIFIED COMMUNITY STOCK.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘qualified community stock’ means any stock in a domestic corporation if—

“(i) such stock is acquired by the taxpayer after December 31, 1999, and before January 1, 2007, at its original issue (directly or through an underwriter) from the corporation solely in exchange for cash,

“(ii) as of the time such stock was issued, such corporation was a renewal community business (or, in the case of a new corporation, such corporation was being organized for purposes of being a renewal community business), and

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

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

“(3) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

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

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

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

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

“(B) SPECIAL RULE FOR SUBSTANTIAL IMPROVEMENTS.—

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

“(I) property which is substantially improved by the taxpayer before January 1, 2007, and

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

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

“(I) an amount equal to the adjusted basis at the beginning of such 24-month period in the hands of the taxpayer, or

“(II) \$5,000.

“(4) QUALIFIED COMMUNITY PARTNERSHIP INTEREST.—The term ‘qualified community partnership interest’ means any interest in a partnership if—

“(A) such interest is acquired by the taxpayer after December 31, 1999, and before January 1, 2007,

“(B) as of the time such interest was acquired, such partnership was a renewal community business (or, in the case of a new partnership, such partnership was being organized for purposes of being a renewal community business), and

“(C) during substantially all of the taxpayer’s holding period for such interest, such partnership qualified as a renewal community business.

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

“(5) TREATMENT OF SUBSEQUENT PURCHASERS.—The term ‘qualified community asset’ includes any property which would be a qualified community asset but for paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in the hands of the taxpayer if such property was a qualified community asset in the hands of all prior holders.

“(6) 10-YEAR SAFE HARBOR.—If any property ceases to be a qualified community asset by reason of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after the 10-year period beginning on the date the taxpayer acquired such property, such property shall continue to be treated as meeting the requirements of such paragraph; except that the amount of gain to which subsection (a) applies on any sale or exchange of such property shall not exceed the amount which would be qualified capital gain had such property been sold on the date of such cessation.

“(7) TREATMENT OF COMMUNITY DESIGNATION TERMINATIONS.—The termination of any designation of an area as a renewal community shall be disregarded for purposes of determining whether any property is a qualified community asset.

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

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

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

“(3) CERTAIN GAIN NOT QUALIFIED.—The term ‘qualified capital gain’ shall not include any gain which would be treated as ordinary income under section 1245 or under section 1250 if section 1250 applied to all depreciation rather than the additional depreciation.

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

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

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

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

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

"(2) gain attributable to periods before the designation of an area as a renewal community.

**"SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

"(a) IN GENERAL.—For purposes of this part, the term 'renewal community business' means—

"(1) any qualified business entity, and

"(2) any qualified proprietorship.

Such term shall include any trades or businesses which would qualify as a renewal community business if such trades or businesses were separately incorporated. Such term shall not include any trade or business of producing property of a character subject to the allowance for depletion under section 611.

"(b) QUALIFIED BUSINESS ENTITY.—For purposes of this section, the term 'qualified business entity' means, with respect to any taxable year, any corporation or partnership if for such year—

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

"(2) at least 80 percent of the total gross income of such entity is derived from the active conduct of such business,

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

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

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

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

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

"(8) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property.

"(c) QUALIFIED PROPRIETORSHIP.—For purposes of this section, the term 'qualified proprietorship' means, with respect to any taxable year, any qualified business carried on by an individual as a proprietorship if for such year—

"(1) at least 80 percent of the total gross income of such individual from such business is derived from the active conduct of such business in a renewal community,

"(2) substantially all of the use of the tangible property of such individual in such business (whether owned or leased) is within a renewal community,

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

"(4) substantially all of the services performed for such individual in such business by employees of such business are performed in a renewal community,

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

"(6) less than 5 percent of the average of the aggregate unadjusted bases of the property of such individual which is used in such business is attributable to collectibles (as defined in section 408(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business, and

"(7) less than 5 percent of the average of the aggregate unadjusted bases of the property of such individual which is used in such business is attributable to nonqualified financial property.

For purposes of this subsection, the term 'employee' includes the proprietor.

"(d) QUALIFIED BUSINESS.—For purposes of this section—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'qualified business' means any trade or business.

"(2) RENTAL OF REAL PROPERTY.—The rental to others of real property located in a renewal community shall be treated as a qualified business if and only if—

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

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

"(3) RENTAL OF TANGIBLE PERSONAL PROPERTY.—The rental to others of tangible personal property shall be treated as a qualified business if and only if substantially all of the rental of such property is by renewal community businesses or by residents of a renewal community.

"(4) TREATMENT OF BUSINESS HOLDING INTANGIBLES.—The term 'qualified business' shall not include any trade or business consisting predominantly of the development or holding of intangibles for sale or license.

"(5) CERTAIN BUSINESSES EXCLUDED.—The term 'qualified business' shall not include—

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

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

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

"(ii) the aggregate value of assets leased by the taxpayer which are used in such a trade or business,

exceeds \$500,000.

"(6) CONTROLLED GROUPS.—For purposes of paragraph (5)(B), all persons treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single taxpayer.

"(e) NONQUALIFIED FINANCIAL PROPERTY.—For purposes of this section, the term 'nonqualified financial property' means debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, annuities, and other similar property specified in regulations; except that such term shall not include—

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

"(2) debt instruments described in section 1221(4).

**"PART III—FAMILY DEVELOPMENT ACCOUNTS**

"Sec. 1400H. Family development accounts.

"Sec. 1400I. Demonstration program to provide matching contributions to family development accounts in certain renewal communities.

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

**"SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RENEWAL COMMUNITY ETC RECIPIENTS.**

"(a) ALLOWANCE OF DEDUCTION.—

"(1) IN GENERAL.—There shall be allowed as a deduction—

"(A) in the case of a qualified individual, the amount paid in cash for the taxable year by such individual to any family development account for such individual's benefit, and

"(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual.

No deduction shall be allowed under this paragraph for any amount deposited in a family development account under section 1400I (relating to demonstration program to provide matching amounts in renewal communities).

"(2) LIMITATION.—

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

"(i) \$2,000, or

"(ii) an amount equal to the compensation includible in the individual's gross income for such taxable year.

"(B) PERSONS DONATING TO FAMILY DEVELOPMENT ACCOUNTS OF OTHERS.—The amount allowable as a deduction to any person for any taxable year by reason of paragraph (1)(B) shall not exceed \$1,000 with respect to any qualified individual.

"(3) SPECIAL RULES FOR CERTAIN MARRIED INDIVIDUALS.—

"(A) IN GENERAL.—In the case of an individual to whom this subparagraph applies for the taxable year, the limitation of subparagraph (A) of paragraph (2) shall be equal to the lesser of—

"(i) the dollar amount in effect under paragraph (2)(A)(i) for the taxable year, or

"(ii) the sum of—

"(I) the compensation includible in such individual's gross income for the taxable year, plus—

"(II) the compensation includible in the gross income of such individual's spouse for the taxable year reduced by the amount allowed as a deduction under paragraph (1) to such spouse for such taxable year.

"(B) INDIVIDUALS TO WHOM SUBPARAGRAPH (A) APPLIES.—Subparagraph (A) shall apply to any individual if—

"(i) such individual files a joint return for the taxable year, and

"(ii) the amount of compensation (if any) includible in such individual's gross income for the taxable year is less than the compensation includible in the gross income of such individual's spouse for the taxable year.

"(4) ROLLOVERS.—No deduction shall be allowed under this section with respect to any rollover contribution.

"(b) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) INCLUSION OF AMOUNTS IN GROSS INCOME.—Except as otherwise provided in this

subsection, any amount paid or distributed out of a family development account shall be included in gross income by the payee or distributee, as the case may be.

"(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT DISTRIBUTIONS.—Paragraph (1) shall not apply to any qualified family development distribution.

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

"(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified family development distribution' means any amount paid or distributed out of a family development account which would otherwise be includible in gross income, to the extent that such payment or distribution is used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder.

"(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term 'qualified family development expenses' means any of the following:

"(A) Qualified postsecondary educational expenses.

"(B) First-home purchase costs.

"(C) Qualified business capitalization costs.

"(D) Qualified medical expenses.

"(E) Qualified rollovers.

"(3) QUALIFIED POSTSECONDARY EDUCATIONAL EXPENSES.—

"(A) IN GENERAL.—The term 'qualified postsecondary educational expenses' means postsecondary educational expenses paid to an eligible educational institution.

"(B) POSTSECONDARY EDUCATIONAL EXPENSES.—The term 'postsecondary educational expenses' means tuition, fees, room, board, books, supplies, and equipment required for the enrollment or attendance of a student at an eligible educational institution.

"(C) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' means the following:

"(i) INSTITUTION OF HIGHER EDUCATION.—An institution described in section 481(a)(1) or 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1088(a)(1), 1141(a)), as such sections are in effect on the date of the enactment of this section.

"(ii) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—An area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

"(D) COORDINATION WITH SAVINGS BOND PROVISIONS.—The amount of qualified postsecondary educational expenses for any taxable year shall be reduced by any amount excludable from gross income under section 135.

"(4) FIRST-HOME PURCHASE COSTS.—

"(A) IN GENERAL.—The term 'first-home purchase costs' means qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer.

"(B) QUALIFIED ACQUISITION COSTS.—The term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing 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 HOMEBUYER.—

"(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, construct, or reconstruct the principal residence to which this subsection applies is entered into.

"(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

"(A) IN GENERAL.—The term 'qualified business capitalization costs' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

"(B) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

"(C) QUALIFIED BUSINESS.—The term 'qualified business' means any business that does not contravene any law or public policy (as determined by the Secretary).

"(D) QUALIFIED PLAN.—The term 'qualified plan' means a business plan which—

"(i) is approved by a financial institution, or by a nonprofit loan fund having demonstrated fiduciary integrity,

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

"(iii) may require the eligible individual to obtain the assistance of an experienced entrepreneurial advisor.

"(6) QUALIFIED MEDICAL EXPENSES.—The term 'qualified medical expenses' means any amount paid during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in section 213(d)) of the taxpayer, his spouse, or his dependent (as defined in section 152).

"(7) QUALIFIED ROLLOVERS.—The term 'qualified rollover' means any amount paid from a family development account of a taxpayer into another such account established for the benefit of—

"(A) such taxpayer, or

"(B) any qualified individual who is—

"(i) the spouse of such taxpayer, or

"(ii) any dependent (as defined in section 152) of the taxpayer. Rules similar to the rules of section 408(d)(3) shall apply for purposes of this paragraph.

"(d) TAX TREATMENT OF ACCOUNTS.—

"(1) IN GENERAL.—Any family development account is exempt from taxation under this subtitle unless such account has ceased to be a family development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc., organizations).

"(2) LOSS OF EXEMPTION IN CASE OF PROHIBITED TRANSACTIONS.—For purposes of this section, rules similar to the rules of section 408(e) shall apply.

"(e) FAMILY DEVELOPMENT ACCOUNT.—For purposes of this title, the term 'family development account' means a trust created or organized in the United States for the exclusive benefit of a qualified individual or his beneficiaries, but only if the written governing instrument creating the trust meets the following requirements:

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

"(A) no contribution will be accepted unless it is in cash, and

"(B) contributions will not be accepted for the taxable year in excess of \$2,000 (determined without regard to any contribution made under section 1400I (relating to demonstration program to provide matching amounts in renewal communities)).

"(2) The trustee is a bank (as defined in section 408(n)) or such other person who demonstrates to the satisfaction of the Secretary that the manner in which such other person will administer the trust will be consistent with the requirements of this section.

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

"(4) The interest of an individual in the balance in his account is nonforfeitable.

"(5) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

"(6) Under regulations prescribed by the Secretary, rules similar to the rules of section 401(a)(9) and the incidental death benefit requirements of section 401(a) shall apply to the distribution of the entire interest of an individual for whose benefit the trust is maintained.

"(f) QUALIFIED INDIVIDUAL.—For purposes of this section, the term 'qualified individual' means, for any taxable year, an individual—

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

"(2) to whom a credit was allowed under section 32 for the preceding taxable year.

"(g) OTHER DEFINITIONS AND SPECIAL RULES.—

"(1) COMPENSATION.—The term 'compensation' has the meaning given such term by section 219(f)(1).

"(2) MARRIED INDIVIDUALS.—The maximum deduction under subsection (a) shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

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

"(4) EMPLOYER PAYMENTS.—For purposes of this title, any amount paid by an employer to a family development account shall be treated as payment of compensation to the employee (other than a self-employed individual who is an employee within the meaning of section 401(c)(1)) includible in his gross income in the taxable year for which the amount was contributed, whether or not a deduction for such payment is allowable under this section to the employee.

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

"(6) CUSTODIAL ACCOUNTS.—For purposes of this section, a custodial account shall be treated as a trust if the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which such person will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute a family development account described in this section. For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

“(7) REPORTS.—The trustee of a family development account shall make such reports regarding such account to the Secretary and to the individual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

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

“(B) shall be furnished to individuals—

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

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

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

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

“(I) IN GENERAL.—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by the sum of—

“(A) 100 percent of the portion of such amount which is includible in gross income and is attributable to amounts contributed under section 1400I (relating to demonstration program to provide matching amounts in renewal communities), and

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

For purposes of this subsection, the portion of a distributed amount which is attributable to amounts contributed under section 1400I is the amount which bears the same ratio to the distributed amount as the aggregate amount contributed under section 1400I to all family development accounts of the individual bears to the aggregate amount contributed to such accounts from all sources.

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

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

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

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

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

“(i) TERMINATION.—No deduction shall be allowed under this section for any amount paid to a family development account for any taxable year beginning after December 31, 2006.

**“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS IN CERTAIN RENEWAL COMMUNITIES.**

“(a) DESIGNATION.—

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

“(A) which is nominated under this section by each of the local governments and States which nominated such community for designation as a renewal community under section 1400E(a)(1)(A), and

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

“(i) the Secretaries of Agriculture, Commerce, Labor, and the Treasury, the Director

of the Office of Management and Budget, and the Administrator of the Small Business Administration, and

“(ii) in the case of a community on an Indian reservation, the Secretary of the Interior,

designates as an FDA matching demonstration area.

“(2) NUMBER OF DESIGNATIONS.—

“(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 25 percent of the renewal communities as FDA matching demonstration areas.

“(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 2 must be areas described in section 1400E(a)(2)(B).

“(3) LIMITATIONS 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 a renewal community under paragraph (1)(A) (including procedures for coordinating such nomination with the nomination of an area for designation as a renewal community under section 1400E), and

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

“(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate renewal communities as FDA matching demonstration areas only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

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

“(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—Any designation of a renewal community as an FDA matching demonstration area shall remain in effect during the period beginning on the date of such designation and ending on the date on which such area ceases to be a renewal community.

“(c) MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS.—

“(1) IN GENERAL.—Not less than once each taxable year, the Secretary shall deposit (to the extent provided in appropriation Acts) into a family development account of each qualified individual (as defined in section 1400H(f)) who is a resident throughout the taxable year of an FDA matching demonstration area an amount equal to the sum of the amounts deposited into all of the family development accounts of such individual during such taxable year (determined without regard to any amount contributed under this section).

“(2) LIMITATIONS.—

“(A) ANNUAL LIMIT.—The Secretary shall not deposit more than \$1000 under paragraph (1) with respect to any individual for any taxable year.

“(B) AGGREGATE LIMIT.—The Secretary shall not deposit more than \$2000 under paragraph (1) with respect to any individual.

“(3) EXCLUSION FROM INCOME.—Except as provided in section 1400H, gross income shall not include any amount deposited into a family development account under paragraph (1).

“(d) TERMINATION.—No amount may be deposited under this section for any taxable year beginning after December 31, 2006.

**“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.**

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

“(b) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year—

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

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

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

“(c) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of subsection (a), an overpayment for any taxable year shall be treated as attributable to the earned income tax credit to the extent that such overpayment does not exceed the credit allowed to the taxpayer under section 32 for such taxable year.

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

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

**“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization credit.

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

“Sec. 1400M. Expensing of renewal community environmental remediation costs.

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

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

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

“(1) IN GENERAL.—The term ‘applicable percentage’ means—

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

“(B) at the election of the taxpayer, 5 percent for each taxable year in the credit period.

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

“(2) CREDIT PERIOD.—

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

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

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

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

“(A) such building is located in a renewal community and is placed in service after the designation of such renewal community under section 1400E,

“(B) a commercial revitalization credit amount is allocated to the building under subsection (e), and

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

“(2) QUALIFIED REVITALIZATION EXPENDITURE.—

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

“(i) for property for which depreciation is allowable under section 168 and which is—

“(I) nonresidential real property, or

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

“(ii) in connection with the construction or substantial rehabilitation or reconstruction of a qualified revitalization building, or

“(iii) for the acquisition of land in connection with the qualified revitalization 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 expenditure by reason of subparagraph (B) or (C) of section 168(g)(1).

“(ii) ACQUISITION COSTS.—The costs of acquiring any building or interest therein and any land in connection with such building to the extent that such costs exceed 30 percent of the qualified revitalization expenditures determined without regard to this clause.

“(iii) OTHER CREDITS.—Any expenditure which the taxpayer may take into account in computing any other credit allowable under this title unless the taxpayer elects to take the expenditure into account only for purposes of this section.

“(5) SUBSTANTIAL REHABILITATION OR RECONSTRUCTION.—For purposes of this subsection, a rehabilitation or reconstruction shall be treated as a substantial rehabilitation or reconstruction only if the qualified revitalization expenditures in connection with the rehabilitation or reconstruction exceed 25 percent of the fair market value of the building (and its structural components) immediately before the rehabilitation or reconstruction.

“(d) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—

“(1) IN GENERAL.—Qualified revitalization expenditures with respect to any qualified revitalization building shall be taken into account for the taxable year in which the qualified revitalization building is placed in

service. For purposes of the preceding sentence, a substantial rehabilitation or reconstruction of a building shall be treated as a separate building.

“(2) PROGRESS EXPENDITURE PAYMENTS.—Rules similar to the rules of subsections (b)(2) and (d) of section 47 shall apply for purposes of this section.

“(e) LIMITATION ON AGGREGATE CREDITS ALLOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A STATE.—

“(1) IN GENERAL.—The amount of the credit determined under this section for any taxable year with respect to any building shall not exceed the commercial revitalization credit amount (in the case of an amount determined under subsection (b)(1)(B), the present value of such amount as determined under the rules of section 42(b)(2)(C)) allocated 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 to such community shall be an amount that bears the same ratio to \$2,000,000 as the population in the State bears to the population in all States in which such community is located.

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

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

“(f) RESPONSIBILITIES OF COMMERCIAL REVITALIZATION CREDIT AGENCIES.—

“(1) PLANS FOR ALLOCATION.—Notwithstanding any other provision of this section, the commercial revitalization credit amount with respect to any building shall be zero unless—

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

“(B) such agency notifies the chief executive officer (or its equivalent) of the local jurisdiction within which the building is located of such allocation and provides such individual a reasonable opportunity to comment on the allocation.

“(2) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term ‘qualified allocation plan’ means any plan—

“(A) which sets forth selection criteria to be used to determine priorities of the commercial revitalization credit agency which are appropriate to local conditions,

“(B) which considers—

“(i) the degree to which a project contributes to the implementation of a strategic

plan that is devised for a renewal community through a citizen participation process,

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

“(iii) the active involvement of residents and nonprofit groups within the renewal community, and

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

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

#### “SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.

“(a) GENERAL RULE.—In the case of a renewal community business (as defined in section 1400G), for purposes of section 179—

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

“(A) \$35,000, or

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

“(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified renewal property shall be 50 percent of the cost thereof.

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

“(c) QUALIFIED RENEWAL PROPERTY.—

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

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

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

“(ii) the original use of which in a renewal community commences with the taxpayer, and

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

“(B) SPECIAL RULE FOR SUBSTANTIAL RENOVATIONS.—In the case of any property which is substantially renovated by the taxpayer, the requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as satisfied. For purposes of the preceding sentence, property shall be treated as substantially renovated by the taxpayer only if, during any 24-month period beginning after the date on which the designation of the renewal community took effect, additions to basis with respect to such property in the hands of the taxpayer exceed the greater of (i) an amount equal to the adjusted basis at the beginning of such 24-month period in the hands of the taxpayer, or (ii) \$5,000.

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

#### “SEC. 1400M. EXPENSING OF RENEWAL COMMUNITY ENVIRONMENTAL REMEDIATION COSTS.

“(a) TREATMENT AS EXPENSE.—A taxpayer may elect to treat any renewal community environmental remediation cost as an expense which is not chargeable to capital account. Any cost so treated shall be allowable as a deduction for the taxable year in which the cost is paid or incurred.



“(b) RENEWAL COMMUNITY ENVIRONMENTAL REMEDIATION COST.—For purposes of this section—

“(1) IN GENERAL.—The term ‘renewal community environmental remediation cost’ means any cost which—

“(A) is chargeable to capital account (determined without regard to this section),

“(B) is paid or incurred in connection with the abatement or control of environmental contaminants at a site located within a renewal community, and

“(C) is certified by the applicable Federal or State authority as being required by, and in compliance with, applicable Federal and State laws governing abatement and control of environmental contaminants.

“(2) EXCEPTIONS.—Such term shall not include any amount paid or incurred—

“(A) for equipment which is used in the environmental remediation and which is of a character subject to an allowance for depreciation or amortization, or

“(B) in connection with a site which is on the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. 9605(a)(8)(B)).

No deduction shall be allowed under this section for any amount which is allowed as a deduction under any other provision of this subtitle.

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

“(1) LIMITATION BASED ON INCOME FROM TRADE OR BUSINESS.—The amount allowed as a deduction under subsection (a) for any taxable year shall not exceed the aggregate amount of taxable income of the taxpayer for such taxable year which is derived from the active conduct by the taxpayer of any trade or business during such taxable year. For purposes of this paragraph, rules similar to the rules of subparagraphs (B) and (C) of section 179(b)(3) shall apply. In the case of a partnership, S corporation, trust or other pass thru entity, this paragraph shall be applied at both the entity and owner levels.

“(2) RECAPTURE RULES.—

“(A) PROPERTY NOT USED IN TRADE OR BUSINESS.—The Secretary shall, by regulations, provide for recapturing the benefit of any deduction allowable under subsection (a) with respect to any property not used predominantly in a trade or business at any time.

“(B) TREATMENT OF GAIN AS ORDINARY INCOME.—For purposes of section 1245—

“(i) the deduction allowable under subsection (a) shall be treated as a deduction allowable to the taxpayer for depreciation or amortization; and

“(ii) property (other than section 1245 property) to which the deduction would otherwise have been chargeable shall be treated as section 1245 property solely for purposes of applying section 1245 to such deduction.

“(d) TERMINATION.—This section shall not apply to any cost paid or incurred after December 31, 2006.”

#### SEC. 622. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR RENEWAL COMMUNITIES

(a) EXTENSION.—Subsection (c) of section 51 (relating to termination) is amended by adding at the end the following new paragraph:

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

“(A) IN GENERAL.—In the case of an individual who begins work for the employer after the date contained in paragraph (4)(B), for purposes of section 38—

“(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

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

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

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

“(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect, and

“(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

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

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

“(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period,

“(II) the individual is a resident of such renewal community throughout such 1-year period, and

“(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

“(ii) QUALIFIED FIRST-YEAR WAGES.—The term ‘qualified first-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

“(iii) QUALIFIED SECOND-YEAR WAGES.—The term ‘qualified second-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under clause (ii).”

(b) CONGRUENT TREATMENT OF RENEWAL COMMUNITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH RESIDENCE REQUIREMENTS.—

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

(2) QUALIFIED SUMMER YOUTH EMPLOYEE.—Clause (iv) of section 51(d)(7)(A) is amended by striking “empowerment zone or enterprise community” and inserting “empowerment zone, enterprise community, or renewal community”.

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

#### SEC. 623. CONFORMING AND CLERICAL AMENDMENTS.

(a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62 (relating to adjusted gross income defined) is amended by inserting after paragraph (17) the following new paragraph:

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

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking “or” at the end of paragraph (3), adding “or” at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

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

(2) EXCESS CONTRIBUTIONS.—Section 4973 is amended by adding at the end the following new subsection:

“(g) FAMILY DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of a fam-

ily development account, the term ‘excess contributions’ means the sum of—

“(1) the excess (if any) of—

“(A) the amount contributed for the taxable year to the account (other than a qualified rollover, as defined in section 1400H(c)(7), or a contribution under section 1400I), over

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

“(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

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

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

“(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400H for the taxable year over the amount contributed to the account for the taxable year (other than a contribution under section 1400I).

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

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 is amended—

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

“(6) SPECIAL RULE FOR FAMILY DEVELOPMENT ACCOUNTS.—An individual for whose benefit a family development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a family development account by reason of the application of section 1400H(d)(2) to such account.”, and

(2) in subsection (e)(1), by striking “or” at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph:

“(F) a family development account described in section 1400H(e), or”.

(d) INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.—Subsection (c) of section 6047 is amended—

(1) by inserting “or section 1400H” after “section 219”, and

(2) by inserting “, of any family development account described in section 1400H(e).”, after “section 408(a)”.

(e) INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.—Clause (i) of section 6104(a)(1)(B) is amended by inserting “a family development account described in section 1400H(e).” after “section 408(a).”.

(f) FAILURE TO PROVIDE REPORTS ON FAMILY DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking “and” at the end of subparagraph (C), by striking the period and inserting “, and” at the end of subparagraph (D), and by adding at the end the following new subparagraph:

“(E) section 1400H(g)(7) (relating to family development accounts).”

(g) CONFORMING AMENDMENTS REGARDING COMMERCIAL REVITALIZATION CREDIT.—

(1) Section 46 (relating to investment credit) is amended by striking “and” at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting “,

and", and by adding at the end the following new paragraph:

"(4) the commercial revitalization credit provided under section 1400K."

(2) Section 39(d) is amended by adding at the end the following new paragraph:

"(9) NO CARRYBACK OF SECTION 1400K CREDIT BEFORE DATE OF ENACTMENT.—No portion of the unused business credit for any taxable year which is attributable to any commercial revitalization credit determined under section 1400K may be carried back to a taxable year ending before the date of the enactment of section 1400K."

(3) Subparagraph (B) of section 48(a)(2) is amended by inserting "or commercial revitalization" after "rehabilitation" each place it appears in the text and heading.

(4) Subparagraph (C) of section 49(a)(1) is amended by striking "and" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting ", and", and by adding at the end the following new clause: "(iv) the portion of the basis of any qualified revitalization building attributable to qualified revitalization expenditures."

(5) Paragraph (2) of section 50(a) is amended by inserting "or 1400K(d)(2)" after "section 47(d)" each place it appears.

(6) Subparagraph (A) of section 50(b)(2) is amended by inserting "or qualified revitalization building (respectively)" after "qualified rehabilitated building".

(7) Subparagraph (B) of section 50(a)(2) is amended by adding at the end the following new sentence: "A similar rule shall apply for purposes of section 1400K."

(8) Paragraph (2) of section 50(b) is amended by striking "and" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting "; and", and by adding at the end the following new subparagraph:

"(E) a qualified revitalization building (as defined in section 1400K) to the extent of the portion of the basis which is attributable to qualified revitalization expenditures (as defined in section 1400K)."

(9) Subparagraph (C) of section 50(b)(4) is amended—

(A) by inserting "or commercial revitalization" after "rehabilitated" in the text and heading, and

(B) by inserting "or commercial revitalization" after "rehabilitation".

(10) Subparagraph (C) of section 469(i)(3) is amended—

(A) by inserting "or section 1400K" after "section 42"; and

(B) by striking "CREDIT" in the heading and inserting "AND COMMERCIAL REVITALIZATION CREDITS".

(h) CLERICAL AMENDMENTS.—

(1) The table of subchapters for chapter 1 is amended by adding at the end the following new item:

"Subchapter X. Renewal Communities."

(2) The table of parts for subchapter X of chapter 1 (as added by subtitle A) is amended by adding at the end the following new items:

"Part II. Renewal community capital gain and stock.

"Part III. Family development accounts.

"Part IV. Additional Incentives."

The SPEAKER pro tempore. The amendment printed in the bill, modified by the amendment printed in House report 105-744, is adopted.

The text of H.R. 4579 as amended by the amendment printed in the bill and modified by the amendment printed in House Report 105-744 is as follows:

H.R. 4579

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

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

(a) *SHORT TITLE.*—This Act may be cited as the "Taxpayer Relief Act of 1998".

(b) *AMENDMENT OF 1986 CODE.*—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) *TABLE OF CONTENTS.*—

*Sec. 1. Short title, etc.*

**TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND FAMILIES**

*Subtitle A—General Provisions*

*Sec. 101. Elimination of marriage penalty in standard deduction.*

*Sec. 102. Exemption of certain interest and dividend income from tax.*

*Sec. 103. Nonrefundable personal credits allowed against alternative minimum tax.*

*Sec. 104. 100 percent deduction for health insurance costs of self-employed individuals.*

*Sec. 105. Special rule for members of uniformed services and Foreign Service in determining exclusion of gain from sale of principal residence.*

*Sec. 106. \$1,000,000 exemption from estate and gift taxes.*

*Subtitle B—Provisions Relating to Education*

*Sec. 111. Eligible educational institutions permitted to maintain qualified tuition programs.*

*Sec. 112. Modification of arbitrage rebate rules applicable to public school construction bonds.*

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

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

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

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

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

*Subtitle B—Provisions Relating to Farmers*

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

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

*Sec. 213. Production flexibility contract payments.*

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

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

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

*Subtitle A—Tax Provisions*

*Sec. 301. Research credit.*

*Sec. 302. Work opportunity credit.*

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

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

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

*Subtitle B—Generalized System of Preferences*

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

**TITLE IV—REVENUE OFFSET**

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

**TITLE V—TECHNICAL CORRECTIONS**

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

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

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

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

*Sec. 505. Other amendments.*

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

*Sec. 601. Short title.*

*Sec. 602. Designation of and tax incentives for renewal communities.*

*Sec. 603. Extension of expensing of environmental remediation costs to renewal communities.*

*Sec. 604. Extension of work opportunity tax credit for renewal communities.*

*Sec. 605. Conforming and clerical amendments.*

*Sec. 606. Evaluation and reporting requirements.*

**TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND FAMILIES**  
*Subtitle A—General Provisions*

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

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

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

(2) by adding "or" at the end of subparagraph (B),

(3) by striking "in the case of" and all that follows in subparagraph (C) and inserting "in any other case.", and

(4) by striking subparagraph (D).

(b) *ADDITIONAL STANDARD DEDUCTION FOR AGED AND BLIND TO BE THE SAME FOR MARRIED AND UNMARRIED INDIVIDUALS.*—

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

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

(c) *TECHNICAL AMENDMENTS.*—

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

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

"The preceding sentence shall not apply to the amount referred to in paragraph (2)(A)."

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

**SEC. 102. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND INCOME FROM TAX.**

(a) *IN GENERAL.*—Part III of subchapter B of chapter 1 (relating to amounts specifically excluded from gross income) is amended by inserting after section 115 the following new section:

**"SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTEREST RECEIVED BY INDIVIDUALS.**

"(a) *EXCLUSION FROM GROSS INCOME.*—Gross income does not include dividends and interest received during the taxable year by an individual.

"(b) *LIMITATIONS.*—

"(1) *MAXIMUM AMOUNT.*—The aggregate amount excluded under subsection (a) for any taxable year shall not exceed \$200 (\$400 in the case of a joint return).

“(2) CERTAIN DIVIDENDS EXCLUDED.—Subsection (a) shall not apply to any dividend from a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organization) or section 521 (relating to farmers' cooperative associations).

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

“(1) EXCLUSION NOT TO APPLY TO CAPITAL GAIN DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

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

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

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

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

“(3) DIVIDENDS FROM EMPLOYEE STOCK OWNERSHIP PLANS.—Subsection (a) shall not apply to any dividend described in section 404(k).”

(b) CONFORMING AMENDMENTS.—

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

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

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

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

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

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

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

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

(5) Section 854(a) is amended by inserting “section 116 (relating to partial exclusion of dividends and interest received by individuals) and” after “For purposes of”.

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

“(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

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

“(2) TREATMENT FOR SECTION 243.—For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.”

(7) The table of sections for part III of subchapter B of chapter 1 is amended by inserting

after the item relating to section 115 the following new item:

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

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

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

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

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

“(1) the taxpayer's regular tax liability for the taxable year, and

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

For purposes of applying the preceding sentence, paragraph (2) shall be treated as being zero for any taxable year beginning during 1998.”

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 24 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) Section 32 is amended by striking subsection (h).

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

#### **SEC. 104. 100 PERCENT DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.**

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

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

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

#### **SEC. 105. SPECIAL RULE FOR MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE IN DETERMINING EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.**

(a) IN GENERAL.—Subsection (d) of section 121 (relating to exclusion of gain from sale of principal residence) is amended by adding at the end the following new paragraph:

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

“(A) IN GENERAL.—The running of the 5-year period described in subsection (a) shall be suspended with respect to an individual during any time that such individual or such individual's spouse is serving on qualified official extended duty as a member of the uniformed services or of the Foreign Service.

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

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

“(ii) UNIFORMED SERVICES.—The term ‘uniformed services’ has the meaning given such term by section 101(a)(5) of title 10, United States Code, as in effect on the date of the enactment of the Taxpayer Relief Act of 1998.

“(iii) FOREIGN SERVICE OF THE UNITED STATES.—The term ‘member of the Foreign Service’ has the meaning given the term ‘member of the Service’ by paragraph (1), (2), (3), (4), or (5)

of section 103 of the Foreign Service Act of 1980, as in effect on the date of the enactment of the Taxpayer Relief Act of 1998.

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

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

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

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

“(c) APPLICABLE CREDIT AMOUNT.—

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

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

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

#### **Subtitle B—Provisions Relating to Education**

#### **SEC. 111. ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.**

(a) IN GENERAL.—Paragraph (1) of section 529(b) (defining qualified State tuition program) is amended by inserting “or by 1 or more eligible educational institutions” after “maintained by a State or agency or instrumentality thereof”.

(b) TECHNICAL AMENDMENTS.—

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

(2) The paragraph heading for paragraph (9) of section 72(e) and the subparagraph heading for subparagraph (B) of section 530(b)(2) are each amended by striking “STATE”.

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

(4) Sections 529(c)(3)(D)(i) and 6693(a)(2)(C) are each amended by striking “qualified State tuition programs” and inserting “qualified tuition programs”.

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

“SEC. 529. QUALIFIED TUITION PROGRAMS.”

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

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

#### **SEC. 112. MODIFICATION OF ARBITRAGE REBATE RULES APPLICABLE TO PUBLIC SCHOOL CONSTRUCTION BONDS.**

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

“(xviii) 4-YEAR SPENDING REQUIREMENT FOR PUBLIC SCHOOL CONSTRUCTION ISSUE.—

“(I) IN GENERAL.—In the case of a public school construction issue, the spending requirements of clause (ii) shall be treated as met if at least 10 percent of the available construction proceeds of the construction issue are spent for the governmental purposes of the issue within the 1-year period beginning on the date the bonds are issued, 30 percent of such proceeds are spent for such purposes within the 2-year period beginning on such date, 50 percent of such proceeds are spent for such purposes within the 3-year period beginning on such date, and 100 percent of such proceeds are spent for such purposes within the 4-year period beginning on such date.

“(II) PUBLIC SCHOOL CONSTRUCTION ISSUE.—For purposes of this clause, the term ‘public

school construction issue' means any construction issue if no bond which is part of such issue is a private activity bond and all of the available construction proceeds of such issue are to be used for the construction (as defined in clause (iv)) of public school facilities to provide education or training below the postsecondary level or for the acquisition of land that is functionally related and subordinate to such facilities.

"(III) OTHER RULES TO APPLY.—Rules similar to the rules of the preceding provisions of this subparagraph which apply to clause (ii) also apply to this clause."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to obligations issued after December 31, 1998.

#### **Subtitle C—Provisions Relating to Social Security**

#### **SEC. 121. INCREASES IN THE SOCIAL SECURITY EARNINGS LIMIT FOR INDIVIDUALS WHO HAVE ATTAINED RETIREMENT AGE.**

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

"(iv) for each month of any taxable year ending after 1998 and before 2000, \$1,416.66%,"

"(v) for each month of any taxable year ending after 1999 and before 2001, \$1,541.66%,"

"(vi) for each month of any taxable year ending after 2000 and before 2002, \$2,166.66%,"

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

"(viii) for each month of any taxable year ending after 2002 and before 2004, \$2,608.33%,"

"(ix) for each month of any taxable year ending after 2003 and before 2005, \$2,833.33%,"

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

"(xi) for each month of any taxable year ending after 2005 and before 2007, \$3,066.66%,"

"(xii) for each month of any taxable year ending after 2006 and before 2008, \$3,195.83%," and

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

(b) CONFORMING AMENDMENTS.—

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

(A) by striking "after 2001 and before 2003" and inserting "after 2007 and before 2009"; and

(B) in subclause (II), by striking "2000" and inserting "2006".

(2) The second sentence of section 223(d)(4)(A) of such Act (42 U.S.C. 423(d)(4)(A)) is amended by inserting "and section 121 of the Taxpayer Relief Act of 1998" after "1996".

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

#### **SEC. 122. RECOMPUTATION OF BENEFITS AFTER NORMAL RETIREMENT AGE.**

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

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

"(I) the second year following the year with respect to which the recomputation is made, in any such case in which the individual is entitled to old-age insurance benefits, the individual has attained retirement age (as defined in section 216(b)) as of the end of the year preceding the year with respect to which the recomputation is made, and the year with respect to which the recomputation is made would not be substituted in recomputation under this subsection for a benefit computation year in which no wages or self-employment income have been credited previously to such individual, or

"(II) the first year following the year with respect to which the recomputation is made, in any other such case; or"

(b) CONFORMING AMENDMENTS.—

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

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

(A) by striking "in the case of an individual who did not die" and all that follows and inserting "in the case of an individual who did not die in the year with respect to which the recomputation is made, for monthly benefits beginning with benefits for January of—"; and

(B) by adding at the end the following:

"(i) the second year following the year with respect to which the recomputation is made, in any such case in which the individual is entitled to old-age insurance benefits, the individual has attained age 65 as of the end of the year preceding the year with respect to which the recomputation is made, and the year with respect to which the recomputation is made would not be substituted in recomputation under this subsection for a benefit computation year in which no wages or self-employment income have been credited previously to such individual, or

"(ii) the first year following the year with respect to which the recomputation is made, in any other such case; or"

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

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

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

#### **SEC. 201. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.**

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

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

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

#### **Subtitle B—Provisions Relating to Farmers**

#### **SEC. 211. INCOME AVERAGING FOR FARMERS MADE PERMANENT.**

Subsection (c) of section 933 of the Taxpayer Relief Act of 1997 is amended by striking ", and before January 1, 2001".

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

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

"(G) FARMING LOSSES.—In the case of a taxpayer which has a farming loss (as defined in subsection (i)) for a taxable year, such farming loss shall be a net operating loss carryback to each of the 5 taxable years preceding the taxable year of such loss."

(b) FARMING LOSS.—Section 172 is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) RULES RELATING TO FARMING LOSSES.—For purposes of this section—

"(1) IN GENERAL.—The term 'farming loss' means the lesser of—

"(A) the amount which would be the net operating loss for the taxable year if only income and deductions attributable to farming businesses (as defined in section 263A(e)(4)) are taken into account, or

"(B) the amount of the net operating loss for such taxable year."

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

"(3) ELECTION.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(G) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(G). Such election shall be made in such manner as may be prescribed by the Secretary and shall be made by the due date (including extensions of time) for filing the taxpayer's return for the taxable year of the net operating loss. Such election, once made for any taxable year, shall be irrevocable for such taxable year."

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

"Such term shall not include any farming loss (as defined in subsection (i))."

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

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

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

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

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

(a) IN GENERAL.—Subsection (d) of section 146 (relating to volume cap) is amended by striking paragraph (2), by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and by striking paragraph (1) and inserting the following new paragraph:

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

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

"(B) \$225,000,000."

Subparagraph (B) shall not apply to any possession of the United States."

(b) CONFORMING AMENDMENT.—Sections 25(f)(3) and 42(h)(3)(E)(iii) are each amended by striking "section 146(d)(3)(C)" and inserting "section 146(d)(2)(C)".

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

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

#### **Subtitle A—Tax Provisions**

#### **SEC. 301. RESEARCH CREDIT.**

(a) TEMPORARY EXTENSION.—

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

(A) by striking "June 30, 1998" and inserting "February 29, 2000",

(B) by striking "24-month" and inserting "44-month", and

(C) by striking "24 months" and inserting "44 months".

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

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts paid or incurred after June 30, 1998.

(b) INCREASE IN PERCENTAGES UNDER ALTERATIVE INCREMENTAL CREDIT.—

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

(A) by striking “1.65 percent” and inserting “2.65 percent”;

(B) by striking “2.2 percent” and inserting “3.2 percent”;

(C) by striking “2.75 percent” and inserting “3.75 percent”.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after June 30, 1998.

#### SEC. 302. WORK OPPORTUNITY CREDIT.

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

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

#### SEC. 303. WELFARE-TO-WORK CREDIT.

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

#### SEC. 304. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDATIONS; EXPANDED PUBLIC INSPECTION OF PRIVATE FOUNDATIONS' ANNUAL RETURNS.

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

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

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

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

(1) IN GENERAL.—Section 6104 (relating to publicity of information required from certain exempt organizations and certain trusts) is amended by striking subsections (d) and (e) and inserting after subsection (c) the following new subsection:

“(d) PUBLIC INSPECTION OF CERTAIN ANNUAL RETURNS AND APPLICATIONS FOR EXEMPTION.—

“(1) IN GENERAL.—In the case of an organization described in subsection (c) or (d) of section 501 and exempt from taxation under section 501(a)—

“(A) a copy of—

“(i) the annual return filed under section 6033 (relating to returns by exempt organizations) by such organization, and

“(ii) if the organization filed an application for recognition of exemption under section 501, the exempt status application materials of such organization,

shall be made available by such organization for inspection during regular business hours by any individual at the principal office of such organization and, if such organization regularly maintains 1 or more regional or district offices having 3 or more employees, at each such regional or district office, and

“(B) upon request of an individual made at such principal office or such a regional or district office, a copy of such annual return and exempt status application materials shall be provided to such individual without charge other than a reasonable fee for any reproduction and mailing costs.

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

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

“(3) EXCEPTIONS FROM DISCLOSURE REQUIREMENT.—

“(A) NONDISCLOSURE OF CONTRIBUTORS, ETC.—Paragraph (1) shall not require the disclo-

sure of the name or address of any contributor to the organization. In the case of an organization described in section 501(d), subparagraph (A) shall not require the disclosure of the copies referred to in section 6031(b) with respect to such organization.

“(B) NONDISCLOSURE OF CERTAIN OTHER INFORMATION.—Paragraph (1) shall not require the disclosure of any information if the Secretary withheld such information from public inspection under subsection (a)(1)(D).

“(4) LIMITATION ON PROVIDING COPIES.—Paragraph (1)(B) shall not apply to any request if, in accordance with regulations promulgated by the Secretary, the organization has made the requested documents widely available, or the Secretary determines, upon application by an organization, that such request is part of a harassment campaign and that compliance with such request is not in the public interest.

“(5) EXEMPT STATUS APPLICATION MATERIALS.—For purposes of paragraph (1), the term ‘exempt status applicable materials’ means the application for recognition of exemption under section 501 and any papers submitted in support of such application and any letter or other document issued by the Internal Revenue Service with respect to such application.”

(2) CONFORMING AMENDMENTS.—

(A) Subsection (c) of section 6033 is amended by adding “and” at the end of paragraph (1), by striking paragraph (2), and by redesignating paragraph (3) as paragraph (2).

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

(C) Subparagraph (D) of section 6652(c)(1) is amended by striking “section 6104(e)(2) (relating to public inspection of applications for exemption)” and inserting “section 6104(d) with respect to any exempt status application materials (as defined in such section)”.

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

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

(3) EFFECTIVE DATE.—

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

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

#### SEC. 305. SUBPART F EXEMPTION FOR ACTIVE FINANCING INCOME.

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

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

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

“(2) ELIGIBLE CONTROLLED FOREIGN CORPORATION.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘eligible controlled foreign corporation’ means a controlled foreign corporation which—

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

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

“(B) PREDOMINANTLY ENGAGED.—A controlled foreign corporation shall be treated as predominantly engaged in the active conduct of a banking, financing, or similar business if—

“(i) more than 70 percent of the gross income of the controlled foreign corporation is derived directly from the active and regular conduct of a lending or finance business from transactions with customers which are not related persons,

“(ii) it is engaged in the active conduct of a banking business and is an institution licensed to do business as a bank in the United States (or is any other corporation not so licensed which is specified by the Secretary in regulations), or

“(iii) it is engaged in the active conduct of a securities business and is registered as a securities broker or dealer under section 15(a) of the Securities Exchange Act of 1934 or is registered as a Government securities broker or dealer under section 15C(a) of such Act (or is any other corporation not so registered which is specified by the Secretary in regulations).

“(3) QUALIFIED BANKING OR FINANCING INCOME.—For purposes of this subsection—

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

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

“(I) such eligible controlled foreign corporation, or

“(II) a qualified business unit of such eligible controlled foreign corporation,

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

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

“(II) substantially all of the activities in connection with which are conducted directly by the corporation or unit in its home country, and

“(iii) is treated as earned by such corporation or unit in its home country for purposes of such country's tax laws.

“(B) LIMITATION ON NONBANKING AND NON-SECURITIES BUSINESSES.—No income of an eligible controlled foreign corporation not described in clause (ii) or (iii) of paragraph (2)(B) (or of a qualified business unit of such corporation) shall be treated as qualified banking or financing income unless more than 30 percent of such corporation's or unit's gross income is derived directly from the active and regular conduct of a lending or finance business from transactions with customers which are not related persons and which are located within such corporation's or unit's home country.

“(C) SUBSTANTIAL ACTIVITY REQUIREMENT FOR CROSS BORDER INCOME.—The term ‘qualified banking or financing income’ shall not include income derived from 1 or more transactions with customers located in a country other than the home country of the eligible controlled foreign corporation or a qualified business unit of such corporation unless such corporation or unit conducts substantial activity with respect to a banking, financing, or similar business in its home country.

“(D) DETERMINATIONS MADE SEPARATELY.—For purposes of this paragraph, the qualified banking or financing income of an eligible controlled foreign corporation and each qualified business unit of such corporation shall be determined separately for such corporation and each such unit by taking into account—

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

“(ii) in the case of a qualified business unit, only items of income, deduction, gain, or loss and activities properly allocable or attributable to such unit.

“(4) LENDING OR FINANCE BUSINESS.—For purposes of this subsection, the term ‘lending or finance business’ means the business of—

“(A) making loans,

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

“(C) engaging in leasing (including entering into leases and purchasing, servicing, and disposing of leases and leased assets),

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

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

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

“(i) the corporation (or qualified business unit) rendering services or making facilities available, or

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

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

“(A) CUSTOMER.—The term ‘customer’ means, with respect to any controlled foreign corporation or qualified business unit, any person which has a customer relationship with such corporation or unit and which is acting in its capacity as such.

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

“(i) CONTROLLED FOREIGN CORPORATION.—The term ‘home country’ means, with respect to any controlled foreign corporation, the country under the laws of which the corporation was created or organized.

“(ii) QUALIFIED BUSINESS UNIT.—The term ‘home country’ means, with respect to any qualified business unit, the country in which such unit maintains its principal office.

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

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

“(E) RELATED PERSON.—The term ‘related person’ has the meaning given such term by subsection (d)(3).

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

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

“(A) there shall be disregarded any item of income, gain, loss, or deduction with respect to any transaction or series of transactions one of the principal purposes of which is qualifying income or gain for the exclusion under this section, including any transaction or series of transactions a principal purpose of which is the acceleration or deferral of any item in order to claim the benefits of such exclusion through the application of this subsection,

“(B) there shall be disregarded any item of income, gain, loss, or deduction of an entity which is not engaged in regular and continuous transactions with customers which are not related persons,

“(C) there shall be disregarded any item of income, gain, loss, or deduction with respect to any transaction or series of transactions utilizing, or doing business with—

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

“(ii) a special purpose entity or arrangement, including a securitization, financing, or similar entity or arrangement,

if one of the principal purposes of such transaction or series of transactions is qualifying income or gain for the exclusion under this subsection, and

“(D) a related person, an officer, a director, or an employee with respect to any controlled foreign corporation (or qualified business unit)

which would otherwise be treated as a customer of such corporation or unit with respect to any transaction shall not be so treated if a principal purpose of such transaction is to satisfy any requirement of this subsection.

“(8) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, subsection (c)(1)(B)(i), subsection (c)(2)(C)(ii), and the last sentence of subsection (e)(2).

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

(b) INCOME DERIVED FROM INSURANCE BUSINESS.—

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

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

“(a) INSURANCE INCOME.—

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

“(A) is attributable to the issuing (or reinsuring) of an insurance or annuity contract, and

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

“(2) EXCEPTION.—Such term shall not include any exempt insurance income (as defined in subsection (e)).”

(B) EXEMPT INSURANCE INCOME.—Section 953 (relating to insurance income) is amended by adding at the end the following new subsection:

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

“(1) EXEMPT INSURANCE INCOME DEFINED.—

“(A) IN GENERAL.—The term ‘exempt insurance income’ means income derived by a qualifying insurance company which—

“(i) is attributable to the issuing (or reinsuring) of an exempt contract by such company or a qualifying insurance company branch of such company, and

“(ii) is treated as earned by such company or branch in its home country for purposes of such country’s tax laws.

“(B) EXCEPTION FOR CERTAIN ARRANGEMENTS.—Such term shall not include income attributable to the issuing (or reinsuring) of an exempt contract as the result of any arrangement whereby another corporation receives a substantially equal amount of premiums or other consideration in respect of issuing (or reinsuring) a contract which is not an exempt contract.

“(C) DETERMINATIONS MADE SEPARATELY.—For purposes of this subsection and section 954(i), the exempt insurance income and exempt contracts of a qualifying insurance company or any qualifying insurance company branch of such company shall be determined separately for such company and each such branch by taking into account—

“(i) in the case of the qualifying insurance company, only items of income, deduction, gain, or loss, and activities of such company not properly allocable or attributable to any qualifying insurance company branch of such company, and

“(ii) in the case of a qualifying insurance company branch, only items of income, deduction, gain, or loss and activities properly allocable or attributable to such unit.

“(2) EXEMPT CONTRACT.—

“(A) IN GENERAL.—The term ‘exempt contract’ means an insurance or annuity contract issued or reinsured by a qualifying insurance company or qualifying insurance company branch in connection with property in, liability arising out of activity in, or the lives or health of residents of, a country other than the United States.

“(B) MINIMUM HOME COUNTRY INCOME REQUIRED.—

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

“(1) which cover applicable home country risks, and

“(II) with respect to which no policyholder, insured, annuitant, or beneficiary is a related person (as defined in section 954(d)(3)).

“(ii) APPLICABLE HOME COUNTRY RISKS.—The term ‘applicable home country risks’ means risks in connection with property in, liability arising out of activity in, or the lives or health of residents of, the home country of the qualifying insurance company or qualifying insurance company branch, as the case may be, issuing or reinsuring the contract covering the risks.

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

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

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

“(3) QUALIFYING INSURANCE COMPANY.—The term ‘qualifying insurance company’ means any controlled foreign corporation which—

“(A) is subject to regulation as an insurance (or reinsurance) company by its home country, and is licensed, authorized, or regulated by the applicable insurance regulatory body for its home country to sell insurance, reinsurance, or annuity contracts to persons other than related persons (within the meaning of section 954(d)(3)) in such home country,

“(B) derives more than 50 percent of its aggregate net written premiums from the issuance or reinsurance by such controlled foreign corporation and each of its qualifying insurance company branches of contracts—

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

“(ii) with respect to which no policyholder, insured, annuitant, or beneficiary is a related person (as defined in section 954(d)(3)), except that in the case of a branch, such premiums shall only be taken into account to the extent such premiums are treated as earned by such branch in its home country for purposes of such country’s tax laws, and

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

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

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

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

“(5) LIFE INSURANCE OR ANNUITY CONTRACT.—For purposes of this section and section 954, the determination of whether a contract issued by a controlled foreign corporation or a qualified business unit (within the meaning of section 989(a)) is a life insurance contract or an annuity contract shall be made without regard to sections 72(s), 101(f), 817(h), and 7702 if—



“(A) such contract is regulated as a life insurance or annuity contract by the corporation’s or unit’s home country, and

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

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

“(A) CONTROLLED FOREIGN CORPORATION.—The term ‘home country’ means, with respect to a controlled foreign corporation, the country in which such corporation is created or organized.

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

“(7) ANTI-ABUSE RULES.—For purposes of applying this subsection and section 954(i)—

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

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

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

“(D) a contract of insurance or reinsurance shall not be treated as an exempt contract (and premiums from such contract shall not be taken into account for purposes of paragraph (2)(B) or (3)) if—

“(i) any policyholder, insured, annuitant, or beneficiary is a resident of the United States and such contract was marketed to such resident and was written to cover a risk outside the United States, or

“(ii) the contract covers risks located within and without the United States and the qualifying insurance company or qualifying insurance company branch does not maintain such contemporaneous records, and file such reports, with respect to such contract as the Secretary may require.

“(E) the Secretary may prescribe rules for the allocation of contracts (and income from contracts) among 2 or more qualifying insurance company branches of a qualifying insurance company in order to clearly reflect the income of such branches, and

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

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

“(8) COORDINATION WITH SUBSECTION (c).—In determining insurance income for purposes of subsection (c), exempt insurance income shall not include income derived from exempt contracts which cover risks other than applicable home country risks.

“(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection and section 954(i).

“(10) APPLICATION.—This subsection and section 954(i) shall apply only to the first taxable year of a foreign corporation beginning after December 31, 1998, and before January 1, 2000, and to taxable years of United States shareholders with or within which such taxable year of such foreign corporation ends.

“(11) CROSS REFERENCE.—

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

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

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

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

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

“(A) received from a person other than a related person (within the meaning of subsection (d)(3)) and derived from the investments made by a qualifying insurance company or a qualifying insurance company branch of its reserves allocable to exempt contracts or of 80 percent of its unearned premiums from exempt contracts (as both are determined in the manner prescribed under paragraph (4)), or

“(B) received from a person other than a related person (within the meaning of subsection (d)(3)) and derived from investments made by a qualifying insurance company or a qualifying insurance company branch of an amount of its assets allocable to exempt contracts equal to—

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

“(ii) in the case of life insurance or annuity contracts, 10 percent of the reserves described in subparagraph (A) for such contracts.

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

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

“(B) income not allocable under subparagraph (A) shall be allocated ratably among contracts not described in subparagraph (A).

“(4) METHODS FOR DETERMINING UNEARNED PREMIUMS AND RESERVES.—For purposes of paragraph (2)(A)—

“(A) PROPERTY AND CASUALTY CONTRACTS.—The unearned premiums and reserves of a qualifying insurance company or a qualifying insurance company branch with respect to property, casualty, or health insurance contracts shall be determined using the same methods and interest rates which would be used if such company or branch were subject to tax under subchapter L, except that—

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

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

“(B) LIFE INSURANCE AND ANNUITY CONTRACTS.—The amount of the reserve of a qualifying insurance company or qualifying insurance company branch for any life insurance or annuity contract shall be equal to the greater of—

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

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

“(C) LIMITATION ON RESERVES.—In no event shall the reserve determined under this paragraph for any contract as of any time exceed the amount which would be taken into account with respect to such contract as of such time in determining foreign statement reserves (less any catastrophe, deficiency, equalization, or similar reserves).

“(5) AMOUNT OF RESERVE.—The amount of the reserve determined under this paragraph with respect to any contract shall be determined in the same manner as it would be determined if the qualifying insurance company or qualifying insurance company branch were subject to tax under subchapter L, except that in applying such subchapter—

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

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

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

The Secretary may provide that the interest rate and mortality and morbidity tables of a qualifying insurance company may be used for 1 or more of its qualifying insurance company branches when appropriate.

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

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

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

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

“(C) EXCEPTION FOR DEALERS.—Except as provided by regulations, in the case of a regular dealer in property which is property described in paragraph (1)(B), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding company income—

“(i) any item of income, gain, deduction, or loss (other than any item described in subparagraph (A), (E), or (G) of paragraph (1)) from any transaction (including hedging transactions) entered into in the ordinary course of such dealer’s trade or business as such a dealer, and

“(ii) if such dealer is a dealer in securities (within the meaning of section 475), any interest or dividend or equivalent amount described in subparagraph (E) or (G) of paragraph (1) from any transaction (including any hedging transaction or transaction described in section 956(c)(2)(J)) entered into in the ordinary course of such dealer’s trade or business as such a dealer in securities, but only if the income from the transaction is attributable to activities of the dealer in the country under the laws of which the dealer is created or organized (or in the case of a qualified business unit described in section 989(a), is attributable to activities of the unit in the country in which the unit both maintains its principal office and conducts substantial business activity).”

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

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



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

**Subtitle B—Generalized System of Preferences**  
**SEC. 311. EXTENSION OF GENERALIZED SYSTEM OF PREFERENCES.**

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

(b) RETROACTIVE APPLICATION FOR CERTAIN LIQUIDATIONS AND RELIQUIDATIONS.—

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

(A) of an article to which duty-free treatment under title V of the Trade Act of 1974 would have applied if such title had been in effect during the period beginning on July 1, 1998, and ending on the day before the date of the enactment of this Act, and

(B) that was made after June 30, 1998, and before the date of the enactment of this Act, shall be liquidated or reliquidated as free of duty, and the Secretary of the Treasury shall refund any duty paid with respect to such entry. As used in this subsection, the term “entry” includes a withdrawal from warehouse for consumption.

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

(A) to locate the entry; or

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

**TITLE IV—REVENUE OFFSET**

**SEC. 401. TREATMENT OF CERTAIN DEDUCTIBLE LIQUIDATING DISTRIBUTIONS OF REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.**

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

“(c) DEDUCTIBLE LIQUIDATING DISTRIBUTIONS OF REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—If a corporation receives a distribution from a regulated investment company or a real estate investment trust which is considered under subsection (b) as being in complete liquidation of such company or trust, then, notwithstanding any other provision of this chapter, such corporation shall recognize and treat as a dividend from such company or trust an amount equal to the deduction for dividends paid allowable to such company or trust by reason of such distribution.”.

(b) CONFORMING AMENDMENTS.—

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

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

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

**TITLE V—TECHNICAL CORRECTIONS**

**SEC. 501. DEFINITIONS; COORDINATION WITH OTHER TITLES.**

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

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

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

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

(b) COORDINATION WITH OTHER TITLES.—For purposes of applying the amendments made by any title of this Act other than this title, the provisions of this title shall be treated as having been enacted immediately before the provisions of such other titles.

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

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

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

“Subparagraph (C) shall not apply to any qualified revocable trust (as defined in section 645(b)(1)) with respect to liability for tax for any taxable year ending after the date of the decedent's death and before the applicable date (as defined in section 645(b)(2)).”.

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

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

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

(d) AMENDMENT RELATED TO SECTION 3301 OF 1998 ACT.—Paragraph (2) of section 3301(c) of the 1998 Act is amended by striking “The amendments” and inserting “Subject to any applicable statute of limitation not having expired with regard to either a tax underpayment or a tax overpayment, the amendments”.

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

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

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

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

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

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

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

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

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

(ii) amounts properly taken into account by such company or trust by reason of holding (directly or indirectly) an interest in another such company or trust to the extent that such subparagraphs did not apply to such other company or trust with respect to such amounts.

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

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

(D)(i) For purposes of subparagraph (A), in the case of a qualified partnership with respect to which a regulated investment company meets the holding requirement of clause (iii)—

(1) the subparagraphs referred to in subparagraph (A) shall not apply to gains and losses recognized directly by such partnership for pur-

poses of determining such company's distributive share of such gains and losses, and

(II) such company's distributive share of such gains and losses (as so determined) shall be treated as recognized directly by such company. The preceding sentence shall apply only if the qualified partnership provides the company with written documentation of such distributive share as so determined.

(ii) For purposes of clause (i), the term “qualified partnership” means, with respect to a regulated investment company, any partnership if—

(1) the partnership is an investment company registered under the Investment Company Act of 1940.

(II) the regulated investment company is permitted to invest in such partnership by reason of section 12(d)(1)(E) of such Act or an exemptive order of the Securities and Exchange Commission under such section, and

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

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

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

(II) the value of the interests of the regulated investment company in such partnership and all other qualified partnerships is 90 percent or more of the value of such company's total assets.

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

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

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

“(F) any interest allowable as a deduction under section 221 (relating to interest on educational loans).”

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

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

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

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

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

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

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

“(1) IN GENERAL.—Amounts in the Vaccine Injury Compensation Trust Fund shall be available, as provided in appropriation Acts, only for—

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

“(i) which is administered after September 30, 1988, and

“(ii) which is a taxable vaccine (as defined in section 4132(a)(1)) at the time compensation is paid under such subtitle 2, or

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

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

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

“(A) any provision of law which is not contained or referenced in this title or in a revenue Act, and

“(B) whether such provision of law is a subsequently enacted provision or directly or indirectly seeks to waive the application of this paragraph.”.

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

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

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

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

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

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

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

(1) Paragraph (2) of section 351(c) of the 1986 Code, as amended by section 6010(c) of the 1998 Act, is amended by inserting “, or the fact that the corporation whose stock was distributed issues additional stock,” after “dispose of part or all of the distributed stock”.

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

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

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

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

“If the amount described in subparagraph (A) with respect to any policy or contract does not reasonably approximate its actual value, the amount taken into account under subparagraph (A) shall be the greater of the amount of the insurance company liability or the insurance company reserve with respect to such policy or contract (as determined for purposes of the annual statement approved by the National Association of Insurance Commissioners) or shall be such other amount as is determined by the Secretary.”

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

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

#### SEC. 504. AMENDMENTS RELATED TO TAX REFORM ACT OF 1984.

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

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

(b) CONFORMING AMENDMENTS.—

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

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

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

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

(c) EFFECTIVE DATES.—

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

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

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

#### SEC. 505. OTHER AMENDMENTS.

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

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

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

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

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

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

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

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

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

(c) CLERICAL AMENDMENTS.—

(1) Clause (i) of section 51(d)(6)(B) of the 1986 Code is amended by striking “rehabilitation plan” and inserting “plan for employment”. The reference to plan for employment in such clause shall be treated as including a reference to the rehabilitation plans referred to in such clause as in effect before the amendment made by the preceding sentence.

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

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

##### SEC. 601. SHORT TITLE.

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

##### SEC. 602. DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES.

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

##### “Subchapter X—Renewal Communities

“Part I. Designation.

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

“Part III. Family development accounts.

“Part IV. Additional incentives.

##### “PART I—DESIGNATION

“Sec. 1400E. Designation of renewal communities.

##### “SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

“(a) DESIGNATION.—

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

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

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

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

“(ii) in the case of an area on an Indian reservation, the Secretary of the Interior.

“(2) NUMBER OF DESIGNATIONS.—

“(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 20 nominated areas as renewal communities.

“(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 4 must be areas—

“(i) which are within a local government jurisdiction or jurisdictions with a population of less than 50,000,

“(ii) which are outside of a metropolitan statistical area (within the meaning of section 143(k)(2)(B)), or

“(iii) which are determined by the Secretary of Housing and Urban Development, after consultation with the Secretary of Commerce, to be rural areas.

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

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

“(B) EXCEPTION WHERE INADEQUATE COURSE OF ACTION, ETC.—An area shall not be designated under subparagraph (A) if the Secretary of Housing and Urban Development determines that the course of action described in subsection (d)(2) with respect to such area is inadequate.

“(C) PRIORITY FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES WITH RESPECT TO FIRST HALF OF DESIGNATIONS.—With respect to the first 10 designations made under this section—

“(i) 10 shall be chosen from nominated areas which are empowerment zones or enterprise communities (and are otherwise eligible for designation under this section), and

“(ii) of such 10, 2 shall be areas described in paragraph (2)(B).

“(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 designate nominated areas as renewal communities only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

“(C) PROCEDURAL RULES.—The Secretary of Housing and Urban Development shall not make any designation of a nominated area as a renewal community under paragraph (2) unless—

“(i) the local governments and the States in which the nominated area is located have the authority—

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

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

“(III) to provide assurances satisfactory to the Secretary of Housing and Urban Development that such commitments will be fulfilled,

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

“(iii) the Secretary of Housing and Urban Development determines that any information furnished is reasonably accurate.

“(5) NOMINATION PROCESS FOR INDIAN RESERVATIONS.—For purposes of this subchapter, in the case of a nominated area on an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be treated as being both the State and local governments with respect to such area.

“(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

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

“(A) December 31, 2006,

“(B) the termination date designated by the State and local governments in their nomination, or

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

“(2) REVOCATION OF DESIGNATION.—The Secretary of Housing and Urban Development may revoke the designation under this section of an area if such Secretary determines that the local government or the State in which the area is located—

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

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

“(c) AREA AND ELIGIBILITY REQUIREMENTS.—

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

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

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

“(B) the boundary of the area is continuous, and

“(C) the area—

“(i) has a population, of at least—

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

“(II) 1,000 in any other case, or

“(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior).

“(3) ELIGIBILITY REQUIREMENTS.—A nominated area meets the requirements of this paragraph if the State and the local governments in which it is located certify (and the Secretary of Housing and Urban Development, after such review of supporting data as he deems appropriate, accepts such certification) that—

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

“(B) the unemployment rate in the area, as determined by the most recent available data, was at least 1½ times the national unemployment rate for the period to which such data relate,

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

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

“(4) CONSIDERATION OF HIGH INCIDENCE OF CRIME.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, the extent to which such areas have a high incidence of crime.

“(5) CONSIDERATION OF COMMUNITIES IDENTIFIED IN GAO STUDY.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, if the area has census tracts identified in the May 12, 1998, report of the Government Accounting Office regarding the identification of economically distressed areas.

“(d) REQUIRED STATE AND LOCAL COMMITMENTS.—

“(1) IN GENERAL.—The Secretary of Housing and Urban Development may designate any nominated area as a renewal community under subsection (a) only if—

“(A) the local government and the State in which the area is located agree in writing that, during any period during which the area is a renewal community, such governments will follow a specified course of action which meets the requirements of paragraph (2) and is designed to reduce the various burdens borne by employers or employees in such area, and

“(B) the economic growth promotion requirements of paragraph (3) are met.

“(2) COURSE OF ACTION.—

“(A) IN GENERAL.—A course of action meets the requirements of this paragraph if such course of action is a written document, signed by a State (or local government) and neighborhood organizations, which evidences a partnership between such State or government and community-based organizations and which commits each signatory to specific and measurable goals, actions, and timetables. Such course of action shall include at least five of the following:

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

“(ii) An increase in the level of efficiency of local services within the renewal community.

“(iii) Crime reduction strategies, such as crime prevention (including the provision of such services by nongovernmental entities).

“(iv) Actions to reduce, remove, simplify, or streamline governmental requirements applying within the renewal community.

“(v) Involvement in the program by private entities, organizations, neighborhood 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 real property (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.

“(3) ECONOMIC GROWTH PROMOTION REQUIREMENTS.—The economic growth promotion requirements of this paragraph are met with respect to a nominated area if the local government and the State in which such area is located certify in writing that such government and State, respectively, have repealed or otherwise will not enforce within the area, if such area is designated as a renewal community—

“(A) licensing requirements for occupations that do not ordinarily require a professional degree,

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

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

“(D) zoning or other restrictions that impede the formation of schools or child care centers, and

“(E) franchises or other restrictions on competition for businesses providing public services, including but not limited to taxicabs, jitneys, cable television, or trash hauling, except to the extent that such regulation of businesses and occupations is necessary for and well-tailored to the protection of health and safety.

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

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

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

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

“(f) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

“(1) GOVERNMENTS.—If more than one government seeks to nominate an area as a renewal community, any reference to, or requirement of, this section shall apply to all such governments.

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

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

“(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State,

“(B) any combination of political subdivisions described in subparagraph (A) recognized by the Secretary of Housing and Urban Development, and

“(C) the District of Columbia.

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

**"PART II—RENEWAL COMMUNITY CAPITAL GAIN; RENEWAL COMMUNITY BUSINESS"**

"Sec. 1400F. Renewal community capital gain.

"Sec. 1400G. Renewal community business defined.

**"SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN."**

"(a) GENERAL RULE.—Gross income does not include any qualified capital gain recognized on the sale or exchange of a qualified community asset held for more than 5 years.

"(b) QUALIFIED COMMUNITY ASSET.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified community asset' means—

"(A) any qualified community stock,

"(B) any qualified community partnership interest, and

"(C) any qualified community business property.

"(2) QUALIFIED COMMUNITY STOCK.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'qualified community stock' means any stock in a domestic corporation if—

"(i) such stock is acquired by the taxpayer after December 31, 1999, and before January 1, 2007, at its original issue (directly or through an underwriter) from the corporation solely in exchange for cash,

"(ii) as of the time such stock was issued, such corporation was a renewal community business (or, in the case of a new corporation, such corporation was being organized for purposes of being a renewal community business), and

"(iii) during substantially all of the taxpayer's holding period for such stock, such corporation qualified as a renewal community business.

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

"(3) QUALIFIED COMMUNITY PARTNERSHIP INTEREST.—The term 'qualified community partnership interest' means any interest in a partnership if—

"(A) such interest is acquired by the taxpayer after December 31, 1999, and before January 1, 2007,

"(B) as of the time such interest was acquired, such partnership was a renewal community business (or, in the case of a new partnership, such partnership was being organized for purposes of being a renewal community business), and

"(C) during substantially all of the taxpayer's holding period for such interest, such partnership qualified as a renewal community business. A rule similar to the rule of paragraph (2)(B) shall apply for purposes of this paragraph.

"(4) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

"(A) IN GENERAL.—The term 'qualified community business property' means tangible property if—

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

"(ii) the original use of such property in the renewal community commences with the taxpayer, and

"(iii) during substantially all of the taxpayer's holding period for such property, substantially all of the use of such property was in a renewal community business of the taxpayer.

"(B) SPECIAL RULE FOR SUBSTANTIAL IMPROVEMENTS.—The requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as satisfied with respect to—

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

"(ii) any land on which such property is located.

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

**"SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED."**

"For purposes of this part, the term 'renewal community business' means any entity or proprietorship which would be a qualified business entity or qualified proprietorship under section 1397B if—

"(1) references to renewal communities were substituted for references to empowerment zones in such section; and

"(2) '80 percent' were substituted for '50 percent' in subsections (b)(2) and (c)(1) of such section.

**"PART III—FAMILY DEVELOPMENT ACCOUNTS"**

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

"Sec. 1400I. Demonstration program to provide matching contributions to family development accounts in certain renewal communities.

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

**"SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RENEWAL COMMUNITY EITC RECIPIENTS."**

"(a) ALLOWANCE OF DEDUCTION.—

"(1) IN GENERAL.—There shall be allowed as a deduction—

"(A) in the case of a qualified individual, the amount paid in cash for the taxable year by such individual to any family development account for such individual's benefit, and

"(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual but only if the amount so paid is designated for purposes of this section by such individual.

No deduction shall be allowed under this paragraph for any amount deposited in a family development account under section 1400I (relating to demonstration program to provide matching amounts in renewal communities).

"(2) LIMITATION.—

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

"(i) \$2,000, or

"(ii) an amount equal to the compensation includible in the individual's gross income for such taxable year.

"(B) PERSONS DONATING TO FAMILY DEVELOPMENT ACCOUNTS OF OTHERS.—The amount which may be designated under paragraph (1)(B) by any qualified individual for any taxable year of such individual shall not exceed \$1,000.

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

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

"(5) ROLLOVERS.—No deduction shall be allowed under this section with respect to any rollover contribution.

"(b) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) INCLUSION OF AMOUNTS IN GROSS INCOME.—Except as otherwise provided in this subsection, any amount paid or distributed out of a family development account shall be included in gross income by the payee or distributee, as the case may be.

"(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT DISTRIBUTIONS.—Paragraph (1) shall not apply to any qualified family development distribution.

"(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified family development distribution' means any amount paid or distributed out of a family development account which would otherwise be includible in gross income, to the extent that such payment or distribution is used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder.

"(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term 'qualified family development expenses' means any of the following:

"(A) Qualified higher education expenses.

"(B) Qualified first-time homebuyer costs.

"(C) Qualified business capitalization costs.

"(D) Qualified medical expenses.

"(E) Qualified rollovers.

"(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

"(A) IN GENERAL.—The term 'qualified higher education expenses' has the meaning given such term by section 72(t)(7), determined by treating postsecondary vocational educational schools as eligible educational institutions.

"(B) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term 'postsecondary vocational educational school' means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

"(C) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2).

"(4) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term 'qualified first-time homebuyer costs' means qualified acquisition costs (as defined in section 72(t)(8) without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121) for a qualified first-time homebuyer (as defined in such section).

"(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

"(A) IN GENERAL.—The term 'qualified business capitalization costs' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

"(B) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

"(C) QUALIFIED BUSINESS.—The term 'qualified business' means any business that does not contravene any law.

"(D) QUALIFIED PLAN.—The term 'qualified plan' means a business plan which meets such requirements as the Secretary may specify.

"(6) QUALIFIED MEDICAL EXPENSES.—The term 'qualified medical expenses' means any amount paid during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in section 213(d)) of the taxpayer, his spouse, or his dependent (as defined in section 152).

"(7) QUALIFIED ROLLOVERS.—The term 'qualified rollover' means any amount paid from a family development account of a taxpayer into another such account established for the benefit of—

"(A) such taxpayer, or

"(B) any qualified individual who is—

"(i) the spouse of such taxpayer, or

"(ii) any dependent (as defined in section 152) of the taxpayer.

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

**“(d) TAX TREATMENT OF ACCOUNTS.—**

**“(1) IN GENERAL.**—Any family development account is exempt from taxation under this subtitle unless such account has ceased to be a family development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc., organizations). Notwithstanding any other provision of this title (including chapters 11 and 12), the basis of any person in such an account is zero.

**“(2) LOSS OF EXEMPTION IN CASE OF PROHIBITED TRANSACTIONS.**—For purposes of this section, rules similar to the rules of section 408(e) shall apply.

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

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

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

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

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

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

**“(f) QUALIFIED INDIVIDUAL.**—For purposes of this section, the term ‘qualified individual’ means, for any taxable year, an individual—

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

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

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

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

**“(2) MARRIED INDIVIDUALS.**—The maximum deduction under subsection (a) shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

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

**“(4) EMPLOYER PAYMENTS; CUSTODIAL ACCOUNTS.**—Rules similar to the rules of sections 219(f)(5) and 408(h) shall apply for purposes of this section.

**“(5) REPORTS.**—The trustee of a family development account shall make such reports regarding such account to the Secretary and to the individual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

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

**“(B) shall be furnished to individuals—**

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

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

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

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

**“(1) IN GENERAL.**—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by the sum of—

**“(A) 100 percent of the portion of such amount which is includible in gross income and is attributable to amounts contributed under section 1400I (relating to demonstration program to provide matching amounts in renewal communities), and**

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

For purposes of this subsection, distributions which are includible in gross income shall be treated as attributable to amounts contributed under section 1400I to the extent thereof. For purposes of the preceding sentence, all family development accounts of an individual shall be treated as one account.

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

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

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

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

**“(i) TERMINATION.**—No deduction shall be allowed under this section for any amount paid to a family development account for any taxable year beginning after December 31, 2006.

**“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS IN CERTAIN RENEWAL COMMUNITIES.**

**“(a) DESIGNATION.—**

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

**“(A) which is nominated under this section by each of the local governments and States which nominated such community for designation as a renewal community under section 1400E(a)(1)(A), and**

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

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

**“(ii) in the case of a community on an Indian reservation, the Secretary of the Interior.**

**“(2) NUMBER OF DESIGNATIONS.—**

**“(A) IN GENERAL.**—The Secretary of Housing and Urban Development may designate not more than 5 communities as FDA matching demonstration areas.

**“(B) MINIMUM DESIGNATION IN RURAL AREAS.**—Of the areas designated under subparagraph (A), at least 2 must be areas described in section 1400E(a)(2)(B).

**“(3) LIMITATIONS 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 a renewal community under paragraph (1)(A) (including**

**procedures for coordinating such nomination with the nomination of an area for designation as a renewal community under section 1400E), and**

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

**“(B) TIME LIMITATIONS.**—The Secretary of Housing and Urban Development may designate renewal communities as FDA matching demonstration areas only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

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

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

**“(c) MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS.—**

**“(1) IN GENERAL.**—Not less than once each taxable year, the Secretary shall deposit (to the extent provided in appropriation Acts) into a family development account of each qualified individual (as defined in section 1400H(f))—

**“(A) who is a resident throughout the taxable year of an FDA matching demonstration area, and**

**“(B) who requests (in such form and manner as the Secretary prescribes) such deposit for the taxable year,**

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

**“(2) LIMITATIONS.—**

**“(A) ANNUAL LIMIT.**—The Secretary shall not deposit more than \$1000 under paragraph (1) with respect to any individual for any taxable year.

**“(B) AGGREGATE LIMIT.**—The Secretary shall not deposit more than \$2000 under paragraph (1) with respect to any individual for all taxable years.

**“(3) EXCLUSION FROM INCOME.**—Except as provided in section 1400H, gross income shall not include any amount deposited into a family development account under paragraph (1).

**“(d) NOTICE OF PROGRAM.**—The Secretary shall provide appropriate notice to residents of FDA matching demonstration areas of the availability of the benefits under this section.

**“(e) TERMINATION.**—No amount may be deposited under this section for any taxable year beginning after December 31, 2006.

**“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.**

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

**“(b) MANNER AND TIME OF DESIGNATION.**—A designation under subsection (a) may be made with respect to any taxable year—

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

**“(2) at any other time (after the time of filing the return of the tax imposed by this chapter for**

such taxable year) specified in regulations prescribed by the Secretary.

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

“(c) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of subsection (a), an overpayment for any taxable year shall be treated as attributable to the earned income tax credit to the extent that such overpayment does not exceed the credit allowed to the taxpayer under section 32 for such taxable year.

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

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

#### “PART IV—ADDITIONAL INCENTIVES

“Sec. 1400K. Commercial revitalization credit.

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

#### “SEC. 1400K. COMMERCIAL REVITALIZATION CREDIT.

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

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

“(1) IN GENERAL.—The term ‘applicable percentage’ means—

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

“(B) at the election of the taxpayer, 5 percent for each taxable year in the credit period. The election under subparagraph (B), once made, shall be irrevocable.

“(2) CREDIT PERIOD.—

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

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

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

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

“(A) such building is located in a renewal community and is placed in service after December 31, 1999,

“(B) a commercial revitalization credit amount is allocated to the building under subsection (e), and

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

“(2) QUALIFIED REVITALIZATION EXPENDITURE.—

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

“(i) for property for which depreciation is allowable under section 168 and which is—

“(I) nonresidential real property, or

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

“(ii) in connection with the construction of any qualified revitalization building which was not previously placed in service or in connection with the substantial rehabilitation (within the meaning of section 47(c)(1)(C)) of a building which was placed in service before the beginning of such rehabilitation.

“(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 expenditure by reason of subparagraph (B) or (C) of section 168(g)(1).

“(ii) ACQUISITION COSTS.—The costs of acquiring any building or interest therein and any land in connection with such building to the extent that such costs exceed 30 percent of the qualified revitalization expenditures determined without regard to this clause.

“(iii) OTHER CREDITS.—Any expenditure which the taxpayer may take into account in computing any other credit allowable under this title unless the taxpayer elects to take the expenditure into account only for purposes of this section.

“(d) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—

“(1) IN GENERAL.—Qualified revitalization expenditures with respect to any qualified revitalization building shall be taken into account for the taxable year in which the qualified revitalization building is placed in service. For purposes of the preceding sentence, a substantial rehabilitation of a building shall be treated as a separate building.

“(2) PROGRESS EXPENDITURE PAYMENTS.—Rules similar to the rules of subsections (b)(2) and (d) of section 47 shall apply for purposes of this section.

“(e) LIMITATION ON AGGREGATE CREDITS ALLOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A STATE.—

“(1) IN GENERAL.—The amount of the credit determined under this section for any taxable year with respect to any building shall not exceed the commercial revitalization credit amount (in the case of an amount determined under subsection (b)(1)(B), the present value of such amount as determined under the rules of section 42(b)(2)(C)) allocated 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.—The State commercial revitalization credit ceiling applicable to any State—

“(i) for each calendar year after 1999 and before 2007 is \$2,000,000 for each renewal community in the State, and

“(ii) zero for each calendar year thereafter.

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

“(f) RESPONSIBILITIES OF COMMERCIAL REVITALIZATION CREDIT AGENCIES.—

“(1) PLANS FOR ALLOCATION.—Notwithstanding any other provision of this section, the com-

mercial revitalization credit amount with respect to any building shall be zero unless—

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

“(B) such agency notifies the chief executive officer (or its equivalent) of the local jurisdiction within which the building is located of such allocation and provides such individual a reasonable opportunity to comment on the allocation.

“(2) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term ‘qualified allocation plan’ means any plan—

“(A) which sets forth selection criteria to be used to determine priorities of the commercial revitalization credit agency which are appropriate to local conditions,

“(B) which considers—

“(i) the degree to which a project contributes to the implementation of a strategic plan that is devised for a renewal community through a citizen participation process,

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

“(iii) the active involvement of residents and nonprofit groups within the renewal community, and

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

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

#### “SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.

“(a) GENERAL RULE.—In the case of a renewal community business (as defined in section 1400G), for purposes of section 179—

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

“(A) \$35,000, or

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

“(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified renewal property shall be 50 percent of the cost thereof.

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

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

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

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

“(B) such property would be qualified zone property (as defined in section 1397C) if references to renewal communities were substituted for references to empowerment zones in section 1397C.

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

#### SEC. 603. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS TO RENEWAL COMMUNITIES.

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

“(C) RENEWAL COMMUNITIES INCLUDED.—Except as provided in subparagraph (B), such term shall include a renewal community (as defined in section 1400E).”



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

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

(a) **EXTENSION.**—Subsection (c) of section 51 (relating to termination) is amended by adding at the end the following new paragraph:

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

“(A) **IN GENERAL.**—In the case of an individual who begins work for the employer after the date contained in paragraph (4)(B), for purposes of section 38—

“(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

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

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

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

“(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect, and

“(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

(b) **QUALIFIED FIRST- AND SECOND-YEAR WAGES.**—For purposes of subparagraph (A)—

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

“(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period,

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

“(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

“(ii) **QUALIFIED FIRST-YEAR WAGES.**—The term ‘qualified first-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

“(iii) **QUALIFIED SECOND-YEAR WAGES.**—The term ‘qualified second-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under clause (ii).”

(b) **CONGRUENT TREATMENT OF RENEWAL COMMUNITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH RESIDENCE REQUIREMENTS.**—

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

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

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

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

(a) **DEDUCTION FOR CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT TAXPAYER ITEMIZES.**—Subsection (a) of section 62 (relating to adjusted gross income defined) is amended by inserting

after paragraph (17) the following new paragraph:

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

(b) **TAX ON EXCESS CONTRIBUTIONS.**—

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

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

(2) **EXCESS CONTRIBUTIONS.**—Section 4973 is amended by adding at the end the following new subsection:

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

“(1) the excess (if any) of—

“(A) the amount contributed for the taxable year to the account (other than a qualified rollover, as defined in section 1400H(c)(7), or a contribution under section 1400I), over

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

“(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

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

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

“(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400H for the taxable year over the amount contributed to the account for the taxable year (other than a contribution under section 1400I). For purposes of this subsection, any contribution which is distributed from the family development account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 1400H(d)(3) shall be treated as an amount not contributed.”

(c) **TAX ON PROHIBITED TRANSACTIONS.**—Section 4975 is amended—

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

“(6) **SPECIAL RULE FOR FAMILY DEVELOPMENT ACCOUNTS.**—An individual for whose benefit a family development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a family development account by reason of the application of section 1400H(d)(2) to such account.”, and

(2) in subsection (e)(1), by striking “or” at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph:

“(F) a family development account described in section 1400H(e), or”.

(d) **INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.**—Subsection (c) of section 6047 is amended—

(1) by inserting “or section 1400H” after “section 219”, and

(2) by inserting “, of any family development account described in section 1400H(e).”, after “section 408(a)”,

(e) **INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.**—Clause (i) of section 6104(a)(1)(B) is amended by inserting “a family development account described in section 1400H(e),” after “section 408(a).”,

(f) **FAILURE TO PROVIDE REPORTS ON FAMILY DEVELOPMENT ACCOUNTS.**—Paragraph (2) of section 6693(a) is amended by striking “and” at the end of subparagraph (C), by striking the period and inserting “, and” at the end of sub-

paragraph (D), and by adding at the end the following new subparagraph:

“(E) section 1400H(g)(6) (relating to family development accounts).”

(g) **CONFORMING AMENDMENTS REGARDING COMMERCIAL REVITALIZATION CREDIT.**—

(1) Section 46 (relating to investment credit) is amended by striking “and” at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting “, and”, and by adding at the end the following new paragraph:

“(4) the commercial revitalization credit provided under section 1400K.”

(2) Section 39(d) is amended by adding at the end the following new paragraph:

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

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

(4) Subparagraph (C) of section 49(a)(1) is amended by striking “and” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “, and”, and by adding at the end the following new clause:

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

(5) Paragraph (2) of section 50(a) is amended by inserting “or 1400K(d)(2)” after “section 47(d)” each place it appears.

(6) Subparagraph (A) of section 50(a)(2) is amended by inserting “or qualified revitalization building (respectively)” after “qualified rehabilitated building”.

(7) Subparagraph (B) of section 50(a)(2) is amended by adding at the end the following new sentence: “A similar rule shall apply for purposes of section 1400K.”

(8) Paragraph (2) of section 50(b) is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting “; and”, and by adding at the end the following new subparagraph:

“(E) a qualified revitalization building (as defined in section 1400K) to the extent of the portion of the basis which is attributable to qualified revitalization expenditures (as defined in section 1400K).”

(9) The last sentence of section 50(b)(3) is amended to read as follows: “If any qualified rehabilitated building or qualified revitalization building is used by the tax-exempt organization pursuant to a lease, this paragraph shall not apply for purposes of determining the amount of the rehabilitation credit or the commercial revitalization credit.”

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

(A) by inserting “or commercial revitalization” after “rehabilitated” in the text and heading, and

(B) by inserting “or commercial revitalization” after “rehabilitation”.

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

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

(B) by striking “CREDIT” in the heading and inserting “AND COMMERCIAL REVITALIZATION CREDITS”.

(h) **CLERICAL AMENDMENTS.**—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

“Subchapter X. Renewal Communities.”

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

Not later than the close of the fourth calendar year after the year in which the Secretary of



*Housing and Urban Development first designates an area as a renewal community under section 1400E of the Internal Revenue Code of 1986, and at the close of each fourth calendar year thereafter, such Secretary shall prepare and submit to the Congress a report on the effects of such designations in stimulating the creation of new jobs, particularly for disadvantaged workers and long-term unemployed individuals, and promoting the revitalization of economically distressed areas.*

**SEC. . EXCLUSION OF EFFECTS OF THIS ACT FROM PAYGO SCORECARD.**

*Upon the enactment of this Act, the Director of the Office of Management and Budget shall not make any estimates of changes in receipts under section 252(d) of the Balanced Budget and Emergency Deficit Control Act of 1985 resulting from the enactment of this Act.*

The SPEAKER pro tempore. After 1 hour of debate on the bill, as amended, it shall be in order to consider the further amendment printed in the CONGRESSIONAL RECORD numbered 1, which shall be considered as read and debatable for 1 hour, equally divided and controlled by the proponent and an opponent.

Pursuant to the order of the House today, the gentleman from Texas (Mr. ARCHER) and the gentleman from New York (Mr. RANGEL) each will control 15 minutes of debate on the bill.

The Chair recognizes the gentleman from Texas (Mr. ARCHER).

**GENERAL LEAVE**

Mr. ARCHER. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks on H.R. 4579 and include extraneous matter.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

Mr. ARCHER. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, the Federal Government is clearly too big, it spends too much, and taxes are too high; in fact, the highest in peacetime history.

Today we can do something about it. With this bill, we let the American people keep more of their hard-earned money, and when they do, there will be less money in Washington for the politicians to spend, downsizing Washington in power and upsidings the power of people.

Earlier today we set aside 90 percent of the surplus until social security can be saved. Today we can help overtaxed husbands and wives, farmers and ranchers, small businesses, and senior citizens. Our tax plan reduces the marriage penalty, makes health care more affordable for small business owners, reduces death taxes, and it fixes an unfair work penalty for senior citizens who decide that they would like to continue to work. Five hundred thousand senior citizens will be benefited by this provision.

It also eliminates all taxation on interest and dividends for 32 million people. Importantly, it provides badly needed help for farmers and ranchers, who have been hit particularly hard this year.

Finally, the plan simplifies the tax code for millions of Americans. Fewer forms will need to be filled out, making April 15 less of a burden on millions of taxpayers.

This plan protects social security and it cuts taxes, but Mr. Speaker, it also stops the politicians in Washington from wasting taxpayer money by taking it away from them before they have a chance to create new spending ideas.

Mr. Speaker, I reserve the balance of my time.

Mr. RANGEL. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I am not prepared to debate the distinguished chairman of the Committee on Ways and Means. I have been hearing for the last 3½ years that the Republicans had a tax plan that was going to pull up the IRS by the roots, so I have been studying that. I have been studying the value-added tax, the VAT. I have been studying the sales tax. Now they come up with a Democratic bill. It is really unfair to do this at election time. It catches us at a complete disadvantage.

The only problem we have, of course, is that we had thought that we had adopted rules in the budget which says that we do not spend what we have not got. Now they are changing the rules on that and they are saying, that is different if it is a tax cut, and it is especially different if it is just before the election.

What are we going to believe? Are we going to pull up the tax code by the roots and get rid of it with a simplified code that we can put on a postal card, or are we going to single out special people and give them tax cuts that we would want to give to them after we fix social security first?

I suspect that we will do all of these things maybe next year with a different Congress, but it surprises me how fluid we can be in terms of tax policy. So much for deep-sixing the tax code. So much for another attempt to raid the social security trust fund.

Mr. Speaker, I yield 2 minutes to my friend, the gentleman from Tennessee (Mr. CLEMENT).

Mr. CLEMENT. Mr. Speaker, I thank the gentleman for yielding time to me.

Mr. Speaker, I have serious reservations, just like the gentleman from New York (Mr. RANGEL) and many others concerning the timing of this particular bill, as well as the justification for it, because the fact is, we had a significant tax cut last year in 1997.

□ 1915

And it was so significant, it was very, very helpful to our society and we needed it. But why do we want to come back at this particular time? And the fact is, we are raiding the Social Security system. We are raiding it because that is a contract between the government and the people.

Like most Members, I support tax cuts. But the timing of this, even though the provisions are good, and how could we be against it? And I like

what has been proposed, but there is no surplus unless we count the Social Security surplus. The projected surplus may never materialize. We need to reserve all the budget surplus for Social Security reform and abandoning fiscal discipline is the wrong message to send to financial markets.

Over the next 5 years, the total budget surplus is \$520 billion, but if one excludes the part of the surplus that belongs to Social Security, there is, in fact, a deficit in the budget of \$137 billion. There is no significant budget surplus until 2006, 8 years from now.

Mr. Speaker, we did go through the numbers, and we know that this tax plan sounds good, but it also is not going to solve our problems when it comes to a solvent Social Security system.

We need the President working in concert with the U.S. House of Representatives and the United States Senate to come up with something that is workable and fair and to keep our contract with our senior citizens.

Mr. ARCHER. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, it is like a broken record on the other side. Perhaps the same speech writer writes the same speeches for every one of them, and if they say "raiding the Social Security trust fund" over and over again, perhaps people who do not know differently will believe it. But it is unsupportable. It is false. And they know it is false.

So, every time that that phrase is used, it has been preprogrammed to create an impression that is false. The administration representative from Social Security, appointed by President Clinton, testified in our committee that it was false.

I expect they will keep using it because they think they can convince people as to something that is insupportable. I expect it will not be last time, but hopefully this will be the last time that I have to speak to this, and that those who listen to these speeches will understand when the term "raiding the Social Security trust fund" is used that it is insupportable, it cannot be documented, and they know it.

Mr. Speaker, I yield 2½ minutes to the respected gentleman from Louisiana (Mr. MCCRERY) a member of the Committee on Ways and Means.

(Mr. MCCRERY asked and was given permission to revise and extend his remarks.)

Mr. MCCRERY. Mr. Speaker, I commend the gentleman from Texas (Chairman ARCHER) for the inclusion in this bill of the provision to modify and extend the present law treatment of active financial services income under subpart F of the Internal Revenue Code.

The provision permits United States-based insurance companies, banks, financial institutions, and securities dealers to be treated like other United States companies doing business abroad. It is critical to the global competitiveness of the United States financial services industry. And I might say,

in light of the just completed vote on fast track, perhaps a vital necessity.

In particular, I commend Chairman ARCHER and the staff for the resolution of the question relating to the interaction of this provision with the use of so-called hybrid arrangements. In January of this year, the Treasury Department issued Notice 98-11 attacking the use of hybrid arrangements by United States-owned foreign companies. Chairman ARCHER, along with a bipartisan majority of the Committee on Ways and Means, strongly and rightly opposed Treasury's actions.

In response to the overwhelming concern expressed by the committee, the Treasury Department issued Notice 98-35, which provided specific rules with respect to the use of hybrid arrangements and allowed Congress time to review the important policy issues involved.

Mr. Speaker, the United States financial services industry is a critical component to United States productiveness both here and abroad. We should not create or endorse policies that hamstringing their ability to compete in the global marketplace. This provision is intended to improve the capability of the United States financial services industry to compete with their foreign counterparts, and because of the importance of this issue, I am very pleased that it was included in this legislation.

At this time I would like to enter into a colloquy with the gentleman from Texas (Mr. ARCHER), chairman of the Committee on Ways and Means.

Mr. Speaker, earlier this year, in response to concerns raised by the gentleman from Texas and a bipartisan majority of our committee, the Treasury Department announced its intentions to withdraw Notice 98-11 and the related temporary regulations on so-called hybrid entities. Treasury agreed not to finalize future regulations in this area any earlier than January 1, 2000, in order to allow Congress the opportunity to fully consider the tax policy issues involved.

Mr. Speaker, I would ask the gentleman, am I correct that nothing in the proposal before us would alter the Treasury Department's agreement to allow Congress the opportunity to fully consider the tax policy issues involved before finalizing any regulations in this area?

Mr. ARCHER. Mr. Speaker, will the gentleman yield?

Mr. MCCRERY. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Speaker, the gentleman is correct. There is nothing in the proposal that would alter the agreement with the Treasury Department.

Mr. MCCRERY. Mr. Speaker, reclaiming my time, I thank the gentleman for that, and I would like to add that contrary to what we will probably hear over and over here, not one penny of the money for this tax cut will be taken from the Social Security

trust fund. Please, let us get off that and talk about the merits of this tax bill.

Mr. RANGEL. Mr. Speaker, I yield myself 30 seconds.

Mr. Speaker, we were able to go to C-SPAN and pick up the rest of Ms. Chesser's remarks where she indicated that this tax cut would have a negative impact in the future in bringing about the solvency of the Social Security system.

Since there is such a widespread belief that our senior citizens have no idea what we are doing, perhaps we can print up some educational material for the Members tomorrow so that they would know that we only are saying it over and over so that they will see that it is true.

Mr. Speaker, I yield 2 minutes to the gentleman from Pennsylvania (Mr. KLINK).

Mr. KLINK. Mr. Speaker, I thank the gentleman from New York (Mr. RANGEL), our ranking member, for yielding me this time.

Mr. Speaker, I think that we all know, or should all know, that if it was not for excess Social Security taxes from the hard-earned paychecks of Americans, there would be no surplus. We can play semantical games with the term "trust fund," but if it was not for those Social Security taxes that are coming into the Federal Government, there would be no surplus.

Let us not talk about the speeches that are emanating from this side of the aisle. Let us talk about some other speeches, like that from William Niskanen, the Chairman of the Cato Institute, who said though House Republicans portray the tax cuts as an economic booster, economists seem unimpressed with the package and not persuaded that it was needed. "It's entirely political. It's responsive to the narrow constituencies of the Republican party. It makes no sense either on a tax basis or a macro[economic] basis."

Let us talk about Allen Sinai, the chief global economist for Primark Decision Economics, who said that whatever small economic stimulus this tax cut might provide, it could be costly in other ways. "The economy does not need domestic macroeconomic stimulus at this time. The economy needs interest rate cuts that will help stabilize the world economy and world markets [which are] the biggest threat to this economy."

This is Republican hocus-pocus: We will give an election year tax cut with one hand, but hand voters higher interest rates, so all their payments, their house payments, their car payments, their credit card payments are all a lot higher.

Let us talk about what the Concord Coalition said. "Without dipping into funds earmarked for Social Security, there is no budget surplus to spend."

Let us talk about Ohio Republican Governor George Voinovich who called for segregating Social Security money

from the rest of the budget and said he agreed with President Clinton, and his Democrat opponent, Mary Boyle, that any tax cuts must wait until the retirement needs of baby boomers are guaranteed.

Let us talk about PETE DOMENICI, a Republican Senator in the other body, and PHIL GRAMM, who agree with us. Social Security must be saved first.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentlewoman from Connecticut (Mrs. JOHNSON), the chairman of the Subcommittee on Oversight of the Committee on Ways and Means.

Mrs. JOHNSON of Connecticut. Mr. Speaker, I say to the gentleman from Pennsylvania (Mr. KLINK) I will take it. If this bill directs benefits to the "narrow base of the Republican party," absolutely. You bet it does, because it directs itself to the interests of all the working people of America. The great middle-class that has made this economic boom possible.

Mr. Speaker, I rise in strong support of this important tax cut. I thank the gentleman from Texas (Mr. ARCHER) for his determined leadership to bring this bill to the floor that does provide middle-class tax relief and strengthens our economy.

Last year, remember, we balanced the budget, cut taxes, invested money in important programs such as children's health and health research. With the surplus predicted to be over \$1.6 trillion over the next 10 years, we can both protect Social Security and cut taxes for working class Americans.

Simplistic slogans like "every dollar of the surplus should go to Social Security" sound politically correct, but ring hollow in the face of facts. The President himself has supported spending billions of surplus dollars on other items, including maintaining a military presence to help the people of Bosnia. If we can use the surplus to help the people of Bosnia, then we can certainly help the American people by returning a small portion of the surplus to their pocketbooks.

This legislation is about fairness for hard-working middle-class families and protecting their economic future. It is sound, balanced and needed tax policy which will have a sweeping impact on taxpayers across the country.

It helps families by beginning the process of eliminating the marriage penalty. Small businesses will get help to buy equipment and create jobs. Communities that need to build new schools or repair existing ones will receive a boost. And people needing affordable housing will get help. Seniors too will be benefited by this strong bill. Members' support is recommended.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentlewoman from California (Ms. LEE).

Ms. LEE. Mr. Speaker, I thank the gentleman from New York (Mr. RANGEL) for yielding me some time today.

Mr. Speaker, I rise in strong opposition to the Republican tax cut bill. Taxes really are like powerful medicine, and yet we take our medicine as

we pay our taxes because we know it is key to survival.

I want tax cuts like everyone else. But when it comes to taxes, we are the doctors. The patient is a vital and viable Social Security system. And like any institution with longevity, the Social Security system needs constant checkups and tuning. We are in the process of tuning, of making adjustments so that Social Security can remain the rock that this Nation created.

The Republican tax bill threatens the health and the life of Social Security. The Republican tax cut is not only irresponsible, but the cut really is a killer. The Republicans plan to pay for these cuts with a budget surplus that really does not exist. The Congressional Budget Office says 98 percent of this surplus is from the Social Security trust fund. The tax cuts come from robbing Social Security.

Our social and physical health is really fundamental in this country and our parents and our grandparents work, our children and our grandchildren will work, and for those who have not had the opportunity to work we must support job training and job creation as a national commitment.

Most Americans believe in the work ethic, but 64 percent of Americans also believe in avoiding cuts in Medicare and education, and they believe that that is more important than cutting taxes.

Only 12 percent of Americans choose a tax cut before reforming the Social Security and Medicare systems and reducing the national debt. Americans care deeply about being leaders in inventiveness, in creativity, in commercial acumen, in productivity. We must also become leaders in caring for our seniors, our children, our families, and being responsible.

We must stabilize Social Security before we start spending money we do not have. Vote "no" on the Republican tax bill.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Illinois (Mr. WELLER), a respected member of the Committee on Ways and Means.

Mr. WELLER. Mr. Speaker, this is an exciting week, because this week we are actually doing the people's business, something the folks back home have asked us to do for a long time.

Today we have a great opportunity because not only have we passed legislation which sets aside \$1.4 trillion for the effort to save Social Security, twice what the President originally asked for, but we also address an issue which I have often raised. That is the issue of answering the question: Is it right, is it fair that millions of married working couples pay higher taxes just because they are married? That married working couples with two incomes are forced under our Tax Code to pay more just because they are married?

We have answered that issue by making an extra piece of the tax cut included in this package the elimination

of the marriage penalty for a majority of those who suffer it. In fact, by doubling the standard deduction, 28 million married working couples will see an extra \$243 during a year because we eliminate the marriage penalty for majority of those who suffer from it. Mr. Speaker, that is a car payment.

□ 1930

Our opponents on the other side of the aisle keep raising a funny statement. They keep saying somehow that we are eliminating the marriage tax penalty for a majority of those who have suffered somehow by taking money out of the Social Security trust fund. As Judith Chesser, deputy commissioner of the Social Security Administration said a week ago, this tax legislation has no impact on the Social Security trust fund at all. She gave a definitive simple answer, no, when asked that question.

The people of Illinois are big winners today because not only do we set aside \$1.4 trillion to save Social Security but we help married working couples in Illinois. We help family farmers in Illinois. We help small business in Illinois. We help schools in Illinois. We also help parents who want to send their kids to college in Illinois.

This is a big winner for the taxpayer. Let us do the right thing. Let us give bipartisan support to this effort to save Social Security, to eliminate the marriage tax penalty, to help families, to help small business, to help agriculture.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentlewoman from Connecticut (Ms. DELAURO).

Ms. DELAURO. Mr. Speaker, I rise in opposition to the Social Security raid. I believe in tax cuts but not at the expense of Social Security.

The tax bill before us would drain \$80 billion from the Social Security trust fund. This is money which Americans have invested for their retirement. It is money which Social Security needs for its long-term solvency when the baby boomers retire. But do not take my word for it. Take the word of economists and experts.

Henry Aaron, senior fellow at the Brookings Institution, believes that it would be imprudent to use the surplus for tax cuts. Chairman Alan Greenspan, when asked if he supports spending the Social Security surplus tax for cuts replied, I have always emphasized that we should be aiming for budgetary surpluses and using the proceeds to retire outstanding Federal debt.

Listen to our Republican colleagues, the gentleman from Wisconsin (Mr. NEUMANN) said it well when he stated on the floor of the House, there is no business in America that would go to their pension fund, take money out of the pension fund, and use it for pay raises. So why does Congress think it can use Social Security surpluses for tax cuts? This is a totally unreasonable proposal.

Unless, however, the Republican leadership does not truly believe in Social Security.

I believe that they do not. Listen to their words. In 1984, Majority Leader ARMEY said that Social Security was a bad retirement, a rotten trick on the American people. I think we are going to have to bite the bullet on Social Security and phase it out over a period of time.

Speaker of the House NEWT GINGRICH, on November 10, called for the program to be replaced over time by mandatory individual retirement accounts. This is in 1986.

Under his proposal the program's payroll tax, which he calls anti-savings and anti-jobs, would be abolished and replaced with a value-added tax. They do not believe in it.

However, the American public believes in it. And when questioned, 90 percent said that they did not want to spend Social Security surpluses for tax cuts. Social Security is too important, too important a part of our lives to be jeopardized for a short-term gain.

I urge my colleagues, oppose this tax bill which raids the Social Security trust fund.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Pennsylvania (Mr. ENGLISH), who does great work on the Committee on Ways and Means.

Mr. ENGLISH. Mr. Speaker, I rise in strong support of the Taxpayer Protection Act, which provides needed tax relief for working families and middle class taxpayers or, as my fellow member from Pennsylvania described it, the narrow base of the Republican Party.

H.R. 4579 contains a key provision that will enable students and their parents to save for college in tax exempt accounts. Recently a Republican Congress provided tax exempt status to state prepaid tuition programs. This legislation awards the same preferential tax treatment to private prepaid programs as well. These programs will allow families to buy college credits at today's prices and bank them for the future, avoiding tuition inflation and making a college education affordable for many students.

Both the contributions and earnings on distributions from qualified State and private tuition programs will now be tax free. By extending the same tax exempt status to private colleges and universities, we level the playing field and provide students additional choices and opportunities to save for a college education without harming the Social Security trust fund.

Mr. Speaker, I urge bipartisan support for this tax relief package to help more Americans achieve the American dream.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentlewoman from Florida (Mrs. MEEK).

Mrs. MEEK of Florida. Mr. Speaker, this tax cut sounds so very attractive, but it is really not as attractive as it seems in that what it is doing is taking

from Peter to pay Paul. And what I am concerned about, Paul is made up of seniors and people who will be seniors, those people who are young now will soon be old. They have been paying into this system. It is unfair to take some of their money and leave the rest of it for a tax break.

Despite the fact that what you want to do is good, but you just do not have the way to do it, so you are taking it out of Social Security trust fund.

Now, this bill sets aside 90 percent of the total Federal budget surplus for Social Security and permits the remaining 10 percent to be used for a tax cut. But I want to look at how this formula would work if it were the law today.

In the first 10 months of the current fiscal year, the total Federal budget surplus is \$43 billion. Under the Republican formula, only 90 percent or 39 billion would be saved for Social Security and the remaining 4 billion would pay for a tax cut. But this year Social Security is running a surplus of 167 billion. And the rest of the Federal Government is running on a deficit of 124 billion. So under this bill, I want Members to listen to me, we would be taking 4 billion of this year's Social Security surplus and using it for a tax cut. Just take that as an example to show my colleagues that we are using the wrong pot of money. We are using money that is going to undermine the Social Security surplus.

I want Members who think the people in this country are blind, they are not here, but they are not blind. They hear this. They know what you are doing, and they know who you are.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from South Dakota (Mr. THUNE).

Mr. THUNE. Mr. Speaker, let me just repeat one thing that I think the American people need to hear over and over and over again. The other side is going to continue to try and perpetuate this fraud that somehow we are raiding Social Security for this tax relief plan. The fact of the matter is that not one penny of this tax relief plan comes out of the Social Security taxes. It is coming from people, income taxes that people in this country, hard-working Americans have overpaid.

It is coming out of the income tax surplus that we have generated from the hard work of the American people, not from Social Security. The American people need to hear it over and over again because the other side continues to perpetuate this fraud.

I just wanted to thank the chairman, distinguished chairman of the House Committee on Ways and Means, the gentleman from Texas (Mr. ARCHER), for structuring a tax package that is so beneficial to the farmers and ranchers of South Dakota and across this country. There are so many good things in this tax bill that are going to help the economic crisis that we are facing in rural America, from death tax relief to deductibility for self-employed people

of health insurance premiums to a loss carry-back provision that allows you to offset this year's losses against profits in past years and gets tax money back from the IRS, to the income averaging provisions that are made permanent under this bill. This is a very positive tax relief package for agriculture. It will do a great deal to assist our farmers and ranchers who are trying to make a living out there right now.

I want to reiterate one point, because you are going to hear it over and over again, that they are raiding Social Security. I just want to ask the American people to think about who do you believe is going to save Social Security. The people who are committing 90 percent of this surplus or \$1.4 trillion, or those who for years have not put a dime into the Social Security trust fund?

We have a commitment to save Social Security. We have a commitment to bring tax relief to the hard-working people, the families of this country and to the farmers and ranchers in South Dakota and across America. I want to ask that Members on both sides of the aisle support this important tax relief bill.

Mr. RANGEL. Mr. Speaker, I yield 1½ minutes to the gentlewoman from Texas (Ms. JACKSON-LEE).

Ms. JACKSON-LEE of Texas. Mr. Speaker, it would certainly give me a greater sense of collaboration if I could come to the floor of the House and find some opportunity to support legislation that deals with the question of taxes.

I have supported tax cuts in the past. I do believe there is merit to providing relief in certain areas, particularly the marriage penalty. But I do think that although there are some who will refute our arguments, that you cannot get away from the truth. Social Security claims the hearts and minds of many Americans. In fact, Social Security is one that most Americans understand as a trust between them and this government.

In fact, let me share with the Speaker an excerpt from a letter sent out in 1936 as a mass mailing to people throughout the country. They were referring to the Social Security law.

Under this law the United States Government will send checks every month to retired workers, both men and women, after they have passed their 65th birthday. This means that if you work in some factory, shop, mine, mill, store, office or almost any other kind of business or factory, notice we are talking about working men and women, you will be earning benefits that will come to you later on. From the time you are 65 years old or more and stop working, you will get a government check every month of the year.

I would just simply say that the tax bill does not answer the question of the trust the American people have put in us. We need to vote against this tax bill because we must save Social Security.

Mr. ARCHER. Mr. Speaker, I yield the balance of my time for this evening to the gentleman from Michigan (Mr. SMITH).

The SPEAKER pro tempore (Mr. SNOWBARGER). The gentleman from Michigan (Mr. SMITH) is recognized for 2 minutes.

Mr. SMITH of Michigan. Mr. Speaker, I just want to express my emotions that it is so disconcerting to have Members stand up and say, gosh, let us save Social Security. Why do they not do something to save Social Security instead of just talking about it?

We have several bills introduced. The only Member on that side of the aisle, the only Democrat that has come up with a plan to save Social Security is the gentleman from Texas (Mr. STENHOLM). On this side of the aisle we have got several others. We have got the gentleman from Arizona (Mr. KOLBE), the gentleman from South Carolina (Mr. SANFORD), the gentleman from Illinois (Mr. PORTER).

If you do not like any of those bills, why in the world do you not bring over a bill from the Senate? Over in the Senate we have Senator MOYNIHAN, Senator KERREY, Senator GREGG, Senator BREAUX, Senator GRAMM, Senator DOMENICI. Have you looked at any of those bills that would save Social Security? Or do you just want to talk about it? Do you just want to say, hey, let us not have any tax cuts, let us save Social Security.

I just urge my colleagues in this House to look at some of this legislation. I introduced my first Social Security bill when I came here in 1993. Then I introduced another bill last session, and H.R. 3082, the last year of this session.

□ 1945

Social Security is a huge problem. It is an important program. And you say this, I hear everybody say it, but I see so few do anything about it.

If I would have one suggestion, it would be that everybody take this very seriously, that you start looking at the bills that are now proposed and you come up with improvements to that legislation so we can really do it and quit talking about it, because it is an important program that so many people depend on.

We developed a program in 1934 that was a pay-as-you-go program, that as you run out of people working, paying their taxes in to provide the benefits for existing retirees, it has developed a huge demographic problem, it needs to be dealt with. The longer we put off the solution, the more drastic that solution is going to have to be.

Mr. RANGEL. Mr. Speaker, I yield the balance of my time to the gentleman from Mississippi (Mr. TAYLOR).

The SPEAKER pro tempore (Mr. SNOWBARGER). The gentleman from Mississippi is recognized for 1½ minutes.

Mr. TAYLOR of Mississippi. Mr. Speaker, I want to thank the gentleman for yielding time. I also want to

thank the gentleman from Mobile, AL (Mr. Callahan). We have agreed to pair on this. Hurricane Georges will undoubtedly hit either his congressional district or mine. We have reached the decision that the best place for us to be tomorrow with is with our families and with our constituents. The gentleman from Alabama is going to vote for it. I am going to vote against it.

Our Nation is \$5.5 trillion in debt. We owe the Social Security trust fund \$800 million. As a Nation we squander \$365 billion a year, that is \$1 billion a day, on interest on the national debt. Yet because for the first time in 30 years we are not borrowing money to make ends meet, we are deciding to find all sorts of new ways to give it away. That is wrong. It totally ignores national defense.

This year's Republican Congress will spend \$30 billion less in real dollars, in 1998 dollars, than they did in 1995 on defense. We are sending kids out in 30-year-old warships, 30-year-old helicopters, 30-year-old warplanes. The consequences of that can be dead young Americans in some future war. If we have any money left over, we need to take care of that.

We owe the Social Security trust fund \$800 million. That is a pledge that has to be fulfilled. Above all, if you have seen Private Ryan, there is an entire generation of Americans who served this country in the military who were promised free health care for life if they fulfilled their end of the obligation and now when they are too old to do anything about it, we are not fulfilling it. The defense health care is underfunded by \$600 million next year. Yet we can find time to give big contributors a tax break but not keep the promises we have already made.

For those reasons, I want to be recorded as voting "no."

#### PARLIAMENTARY INQUIRY

Mr. TAYLOR of Mississippi. Parliamentary inquiry, Mr. Speaker.

The SPEAKER pro tempore. The gentleman will state his parliamentary inquiry.

Mr. TAYLOR of Mississippi. Mr. Speaker, the gentleman from Alabama (Mr. CALLAHAN) and myself have agreed to pair tomorrow on the vote on the tax package. I would like for my statement to be included in the RECORD at that time, but I will not be here tomorrow to do so. Therefore, I am asking if it would be in order to ask at this time that that statement be included in the RECORD.

The SPEAKER pro tempore. The gentleman may ask unanimous consent to do so.

Mr. TAYLOR of Mississippi. Mr. Speaker, I ask unanimous consent that my statement be included in the RECORD at the appropriate place tomorrow.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Mississippi?

There was no objection.

The SPEAKER pro tempore. Pursuant to the order of the House, the Chair

postpones further consideration of H.R. 4579 until tomorrow.

#### SPECIAL ORDERS

The SPEAKER pro tempore. Under the Speaker's announced policy of January 7, 1997, and under a previous order of the House, the following Members will be recognized for 5 minutes each.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Michigan (Mr. CONYERS) is recognized for 5 minutes.

(Mr. CONYERS addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New Jersey (Mr. PAPPAS) is recognized for 5 minutes.

(Mr. PAPPAS addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

#### SAVE SOCIAL SECURITY

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Florida (Ms. BROWN) is recognized for 5 minutes.

Ms. BROWN of Florida. Mr. Speaker, I rise today to speak out against another case of reverse Robin Hood. But this time it is stealing from our seniors to give out tax breaks in an election year. When we talk about Social Security, we are talking about one of the most important programs in the history of the United States. This program ensures that our seniors and our disabled will be taken care of. The Social Security program is the result of hard work by working families across this Nation. By dipping into the Social Security cookie jar, we jeopardize the security of seniors who count on these monthly checks during their retirement.

Let me close with a tribute today to the late Claude Pepper, one of the most important advocates for the elderly and for Social Security expansion in the United States Congress. Claude Pepper cared about seniors across this Nation and he fought to protect them so that they could enjoy their elderly years in life without being afraid of where their next check was coming from. As a Member of Congress from the State of Florida, Claude Pepper's legacy for fighting for the rights of seniors and the poor speaks for itself. He would not stand for election-year gimmicks that punished the working families who have contributed to the Social Security trust fund. In the name of decency and in the name of Claude Pepper, the leadership of this House should vote to save Social Security first. This is a mean-spirited attack on the needy. We have a responsibility to today's seniors and to tomorrow's seniors to protect this valuable program.

#### ENDING MARRIAGE TAX PENALTY

The SPEAKER pro tempore (Mr. BOEHLERT). Under a previous order of the House, the gentleman from Illinois (Mr. WELLER) is recognized for 5 minutes.

Mr. WELLER. Mr. Speaker, I appreciate the opportunity to air a few moments of thoughts regarding some issues important to this Congress and not just to the politicians that were elected to this House but to the folks back home in Illinois. I represent a very diverse district. I represent the south suburbs of Chicago and the south side of the city of Chicago, a lot of rural and bedroom communities. They often ask important questions. One of the most important questions we have this year is they know that Social Security long-term has financial problems and they know there is unfairness in the tax code. They say there is a question out there, can we save Social Security and can we eliminate the marriage tax penalty, for example, in the same effort?

We Republicans believe that you can, that you can save Social Security and you can bring greater fairness to our tax code by working to eliminate the marriage tax penalty, and we have a plan. When I think of Social Security, just like everyone, you always think of your own family and how issues affect your family. When I think of Social Security, I think of my mom and dad, Marilyn and LaVern Weller, a couple of farmers back home in Illinois who are retired and on Social Security. I also think of my Aunt Mary and my Aunt Eileen, my Uncle Jack and Uncle Bob who are also on Social Security. When I think of the marriage tax penalty, I think of my sister Pat and her husband Rich, a teacher and a farmer back in rural Sheldon, Illinois, and they like 28 million other married working couples with two incomes suffer the marriage tax penalty.

We have had a big victory today in the passage of legislation which will help save Social Security by setting aside \$1.4 trillion, twice what President Clinton suggested back in January we set aside, more than two times the \$600 billion, in fact \$1.4 trillion we are setting aside for the future efforts over the next couple of years to save Social Security. This is a big victory for people like my mom and dad and the senior citizens in Illinois.

I am often asked as well as we work to bring fairness to the tax code a pretty simple question, and, that is, is it fair, is it right that under our current tax code that almost 28 million married working couples, people like my sister Pat and her husband Rich who because they have two incomes under our tax code pay more in taxes just because they are married under our tax code? A lot of us think that is wrong. That is why addressing the marriage