

103^D CONGRESS
1ST SESSION

H. R. 3643

To amend the Internal Revenue Code of 1986 to provide tax incentives to encourage corporations to provide financing and management support services to enable welfare recipients to leave welfare and operate small business concerns.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 22, 1993

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

A BILL

To amend the Internal Revenue Code of 1986 to provide tax incentives to encourage corporations to provide financing and management support services to enable welfare recipients to leave welfare and operate small business concerns.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Welfare Opportunities
5 and Pay Back Act”.

1 **SEC. 2. TAX INCENTIVES FOR WELFARE OPPORTUNITY**
 2 **FINANCING SUBSIDIARIES.**

3 (a) GENERAL RULE.—Part VIII of subchapter B of
 4 chapter 1 of the Internal Revenue Code of 1986 (relating
 5 to special deductions for corporations) is amended by add-
 6 ing at the end thereof the following new subpart:

7 **“Subpart B—Tax Incentives for Welfare Financing**
 8 **Subsidiaries**

“Sec. 251. Deduction for equity contributions to welfare oppor-
 tunity financing subsidiaries.

“Sec. 252. Overall limitation on deductions.

“Sec. 253. Definitions and special rules.

9 **“SEC. 251. DEDUCTION FOR EQUITY CONTRIBUTIONS TO**
 10 **WELFARE OPPORTUNITY FINANCING SUB-**
 11 **SIDIARIES.**

12 “(a) GENERAL RULE.—In the case of a qualified con-
 13 tributing corporation, there shall be allowed as a deduction
 14 an amount equal to the equity contributions made by such
 15 corporation to a welfare opportunity financing subsidiary
 16 of such corporation. Such deduction shall be allowed for
 17 the taxable year of the contributing corporation in which
 18 the equity contribution is used by the subsidiary in making
 19 qualified business loans.

20 “(b) LIMITATION.—The amount allowed as a deduc-
 21 tion under subsection (a) to any qualified contributing cor-
 22 poration for any taxable year shall not exceed the lesser
 23 of—

1 “(1) \$10,000,000, or

2 “(2) the portion of the program limitation allo-
3 cated to such corporation under section 252 to the
4 extent the amount so allocated was not used in a
5 prior taxable year.

6 “(c) EQUITY CONTRIBUTION.—For purposes of this
7 section, the term ‘equity contribution’ means—

8 “(1) any amount paid in cash for stock in a
9 welfare opportunity financing subsidiary of the cor-
10 poration if such stock is acquired at its original issu-
11 ance, and

12 “(2) any contribution in cash to the capital of
13 a welfare opportunity financing subsidiary of the
14 corporation.

15 “(d) RECAPTURE PROVISIONS.—

16 “(1) BASIS ADJUSTMENT.—The adjusted basis
17 of any stock held by a corporation in a welfare op-
18 portunity financing subsidiary of such corporation
19 shall be reduced by the amount allowed as a deduc-
20 tion under subsection (a) in connection with the ac-
21 quisition of such stock. No increase in the basis of
22 any such stock shall be made on account of any con-
23 tribution to the capital of such subsidiary for which
24 a deduction is allowed under subsection (a).

1 “(2) ORDINARY INCOME RECAPTURE.—Any
2 gain recognized on the sale or other disposition by
3 a corporation of stock in a welfare opportunity fi-
4 nancing subsidiary of such corporation shall be
5 treated as ordinary income.

6 “(3) CERTAIN EVENTS TREATED AS DISPOSI-
7 TIONS.—If any welfare opportunity financing sub-
8 sidiary of a corporation ceases to qualify as a wel-
9 fare opportunity financing subsidiary with respect to
10 such corporation, such corporation shall recognize
11 gain as if it sold its stock in such subsidiary for an
12 amount equal to its fair market value immediately
13 before such cessation.

14 **“SEC. 252. OVERALL LIMITATION ON DEDUCTIONS.**

15 “(a) GENERAL RULE.—The Secretary of Health and
16 Human Services shall allocate the program limitation
17 among the qualified contributing corporations submitting
18 applications to such Secretary for allocations under this
19 section.

20 “(b) PROGRAM LIMITATION.—The program limita-
21 tion is \$250,000,000.

22 “(c) METHOD OF MAKING ALLOCATIONS.—The Sec-
23 retary of Health and Human Services shall prescribe regu-
24 lations setting forth the procedures for making allocations
25 under this section. Such procedures shall—

1 “(1) include the criteria used in selecting the
2 corporations to which the allocations are made, and

3 “(2) be designed to ensure a reasonable avail-
4 ability, on a geographical basis, of the benefits of
5 this subpart.

6 **“SEC. 253. DEFINITIONS AND SPECIAL RULES.**

7 “(a) QUALIFIED CONTRIBUTING CORPORATION.—

8 For purposes of this subpart, the term ‘qualified contrib-
9 uting corporation’ means any domestic corporation which
10 is not a small business concern; except that such term
11 shall not include any corporation predominantly engaged
12 in a banking, insurance, finance, or similar business.

13 “(b) WELFARE OPPORTUNITY FINANCING SUBSIDI-
14 ARY.—For purposes of this subpart, the term ‘welfare fi-
15 nancing subsidiary’ means any domestic corporation—

16 “(1) all the stock of which (exclusive of direc-
17 tors’ qualifying shares) is held directly by one quali-
18 fied contributing corporation, and

19 “(2) all the activities of which consist of—

20 “(A) making qualified business loans,

21 “(B) providing management, administra-
22 tive, consulting, and other support services to
23 qualified small business concerns to which such
24 corporation has made qualified business loans,
25 and

1 “(C) making temporary investments (for a
2 period not exceeding 6 months) of amounts
3 being held for purposes of making qualified
4 business loans.

5 “(c) QUALIFIED BUSINESS LOANS.—For purposes of
6 this subpart, the term ‘qualified business loan’ means any
7 loan made by a welfare opportunity financing subsidiary
8 if—

9 “(1) such loan is made to a qualified small
10 business concern and such concern is not related
11 (within the meaning of section 267(b) or 707(b)) to
12 such subsidiary or the qualified contributing cor-
13 poration holding such subsidiary,

14 “(2) the proceeds of such loan are used by such
15 qualified small business concern in the active con-
16 duct of a trade or business,

17 “(3) the welfare opportunity financing subsidi-
18 ary provides (without charge) substantial qualified
19 services to the qualified small business concern in
20 connection with such loan, except that such small
21 business concern may waive the requirements of this
22 paragraph, and

23 “(4) the interest on such loan does not ex-
24 ceed—

1 “(A) in the case of a secured loan, the
2 prime rate plus 3 percentage points, or

3 “(B) in the case of any other loan, the
4 prime rate plus 8 percentage points.

5 “(d) QUALIFIED SMALL BUSINESS CONCERN.—For
6 purposes of this subpart, the term ‘qualified small busi-
7 ness concern’ means any person if—

8 “(1) such person is a small business concern
9 within the meaning of section 3 of the Small Busi-
10 ness Act (15 U.S.C. 632), and

11 “(2) such person is wholly owned by 1 qualified
12 individual.

13 “(e) QUALIFIED INDIVIDUAL.—For purposes of this
14 subpart, the term ‘qualified individual’ means an individ-
15 ual who—

16 “(1) has become ineligible to receive aid to fam-
17 ilies with dependent children under a State plan ap-
18 proved under part A of title IV of the Social Secu-
19 rity Act, or supplemental security income benefits
20 under title XVI of such Act, by reason of the receipt
21 of a qualified business loan, and

22 “(2) as a condition of receiving the loan, has
23 agreed to repay (in accordance with section 6306) to
24 the Federal Government an amount equal to the
25 total amount of benefits described in paragraph (1)

1 received by the individual during the most recent 24
2 months (whether or not consecutive) during which
3 such benefits were so received.

4 “(f) OTHER DEFINITIONS AND SPECIAL RULES.—

5 “(1) SUBSTANTIAL QUALIFIED SERVICES.—For
6 purposes of this subpart, the term ‘substantial quali-
7 fied services’ means, with respect to any loan made
8 by a welfare opportunity financing subsidiary, any
9 management, administrative, consulting, or other
10 support services provided to the borrower under such
11 loan, but only if the amount of such services, to be
12 provided during the first year such loan is outstand-
13 ing involve at least 1,000 man-hours for each
14 \$100,000 principal amount of such loan.

15 “(2) PRIME RATE.—For purposes of this sub-
16 part—

17 “(A) IN GENERAL.—The term ‘prime rate’
18 means the average predominant prime rate
19 quoted by commercial banks to large busi-
20 nesses, as determined by the Board of Gov-
21 ernors of the Federal Reserve System.

22 “(B) WHEN DETERMINATION MADE.—

23 “(i) Except as provided in clause (ii),
24 the determination of the prime rate shall
25 be made as of the time the loan is made.

1 “(ii) If the loan is a variable rate
2 loan, the prime rate taken into account
3 with respect to any change in rate shall be
4 determined as of the time such change
5 takes effect.

6 “(3) TREATMENT OF CONTROLLED GROUPS.—
7 Any group of corporations treated as a single em-
8 ployer under section 51(a) or (b) shall be treated as
9 one corporation for purposes of this subpart.

10 “(g) EMPLOYEES OF BORROWER MAY BE TAKEN
11 INTO ACCOUNT FOR CERTAIN PURPOSES.—If—

12 “(1) a qualified contributing corporation has
13 provided financing through a welfare opportunity fi-
14 nancing subsidiary to any qualified small business
15 concern, and

16 “(2) such qualified small business concern des-
17 ignates such subsidiary as its primary lender,
18 such qualified contributing corporation may treat the em-
19 ployees of such qualified small business concern as its own
20 employees for purposes of determining which such quali-
21 fied contributing corporation is in compliance with the re-
22 quirements of any Federal law. A qualified small business
23 concern may designate only 1 welfare opportunity financ-
24 ing subsidiary is its primary lender for any period.”

1 (b) CLERICAL AMENDMENT.—Part VIII of sub-
 2 chapter B of chapter 1 of such Code is amended by insert-
 3 ing after the part heading the following:

“Subpart A. General provisions.

“Subpart B. Tax incentives for welfare opportunity financing sub-
 sidiaries.

4 **“Subpart A—General Provisions”.**

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall take effect on the date of the enactment
 7 of this Act.

8 **SEC. 3. INDIVIDUALS RECEIVING LOANS FROM WELFARE**
 9 **OPPORTUNITY FINANCING SUBSIDIARIES RE-**
 10 **QUIRED TO REPAY CERTAIN WELFARE BENE-**
 11 **FITS.**

12 (a) IN GENERAL.—Subchapter A of chapter 64 of the
 13 Internal Revenue Code of 1986 (relating to collection) is
 14 amended by adding at the end thereof the following
 15 new section:

16 **“SEC. 6306. COLLECTION OF CERTAIN WELFARE BENEFITS**
 17 **FROM INDIVIDUALS RECEIVING QUALIFIED**
 18 **BUSINESS LOANS.**

19 “(a) IN GENERAL.—Each borrower of a qualified
 20 business loan shall make the payments required under this
 21 section for each taxable year in the repayment period.

22 “(b) REQUIRED PAYMENT.—

23 “(1) IN GENERAL.—The amount required to be
 24 paid under this section by any borrower for any tax-

1 able year in the repayment period shall be the sum
2 of—

3 “(A) the amount determined by dividing
4 the repayable welfare benefits of such individual
5 which were not repaid under this section as of
6 the close of the preceding taxable year by the
7 number of taxable years remaining in the re-
8 payment period, plus

9 “(B) interest on such amount determined
10 at the repayment interest rate.

11 “(2) LIMITATION BASED ON ADJUSTED GROSS
12 INCOME.—The amount required to be paid under
13 this section for any taxable year shall not exceed 5
14 percent of the taxpayer’s adjusted gross income for
15 such taxable year (determined without regard to this
16 section).

17 “(c) DEFINITIONS.—For purposes of this section—

18 “(1) REPAYABLE WELFARE BENEFITS.—The
19 term ‘repayable welfare benefits’ means, with respect
20 to any qualified business loan giving rise to a pay-
21 ment obligation under this section, the aggregate
22 amount received by the borrower as aid to families
23 with dependent children under a State plan ap-
24 proved under part A of title IV of the Social Secu-
25 rity Act or as supplemental security income benefits

1 under title XVI of such Act during the most recent
 2 24 months (whether or not consecutive) during
 3 which such benefits were so received before the date
 4 such loan was made.

5 “(2) REPAYMENT PERIOD.—

6 “(A) IN GENERAL.—Except as provided in
 7 subparagraph (B), the term ‘repayment period’
 8 means the period determined in accordance with
 9 the following table:

“If the aggregate repayable welfare benefits is—		The repayment period is—
At least	But less than	
1	3,000	2 taxable years
3,001	7,500	5 taxable years
7,501	15,000	10 taxable years

10 “(B) EXTENSION OF REPAYMENT PERIOD
 11 IF ADJUSTED GROSS INCOME LIMITATION ON
 12 REPAYMENT AMOUNT APPLIES.—The number of
 13 taxable years in the repayment period shall be
 14 increased by 1 taxable year for each taxable
 15 year that the required payment under this sec-
 16 tion is limited under subsection (b)(2).

17 “(3) REPAYMENT INTEREST RATE.—The term
 18 ‘repayment interest rate’ means, with respect to any
 19 taxable year ending during a calendar year, the aver-
 20 age prime rate as of the close of each month during

1 the preceding calendar year plus 1.5 percentage
2 points.

3 “(4) OTHER DEFINITIONS.—The terms ‘quali-
4 fied business loan’ and ‘prime rate’ have the mean-
5 ings given such terms by section 253.

6 “(d) NOTICE TO BORROWER.—

7 “(1) IN GENERAL.—If the records of the Sec-
8 retary indicate that a borrower of a qualified busi-
9 ness loan is required to make a payment under this
10 section for a taxable year ending with or within a
11 calendar year, the Secretary shall, during January
12 of such calendar year, furnish to such borrower no-
13 tice as to—

14 “(A) the fact that the records of the Sec-
15 retary indicate that such borrower is required
16 to make a payment under this section for such
17 taxable year,

18 “(B) the minimum required payment
19 under this section for such taxable year, and

20 “(C) the total amount which, if paid by the
21 taxpayer on or before the last date described in
22 subsection (e)(1) for such taxable year, would
23 satisfy such taxpayer’s obligation to make fur-
24 ther payments of this section.

1 “(2) FORM, ETC.—The notice under paragraph
2 (1) shall be in such form as the Secretary may by
3 regulations prescribe and shall be sent by mail to the
4 individual’s last known address or shall be left at the
5 dwelling or usual place of business of such individ-
6 ual.

7 “(e) PAYMENT OF AMOUNT OWING.—Any amount to
8 be collected from an individual under this section shall be
9 paid—

10 “(1) not later than the last date (determined
11 without regard to extensions) prescribed for filing
12 his return of tax imposed by chapter 1 for the tax-
13 able year ending with or within the calendar year
14 during which the notice under subsection (d) is sent,
15 and

16 “(2)(A) if such return is filed not later than
17 such date, with such return, or

18 “(B) in any case not described in subparagraph
19 (A), in such manner as the Secretary may by regula-
20 tions prescribe.

21 “(f) FAILURE TO PAY AMOUNT OWING.—If an indi-
22 vidual fails to pay the full amount required to be paid on
23 or before the last date described in subsection (e)(1), the
24 Secretary shall assess and collect the unpaid amount in
25 the same manner, with the same powers, and subject to

1 the same limitations applicable to a tax imposed by sub-
2 title C the collection of which would be jeopardized by
3 delay.

4 “(g) DECEASED AND PERMANENTLY DISABLED
5 BORROWERS; DISCHARGE BY SECRETARY.—If an individ-
6 ual who is required to make payments under this section
7 dies or becomes permanently and totally disabled (as de-
8 termined in accordance with regulations of the Secretary),
9 then the Secretary shall discharge the borrower’s liability
10 for any payment under this section.

11 “(h) CREDITING OF COLLECTIONS; SPECIAL
12 RULES.—

13 “(1) CREDITING OF COLLECTIONS.—Amounts
14 collected under this section shall be credited to the
15 governments paying the repayable welfare benefits in
16 proportion to each such government’s share of the
17 aggregate welfare benefits required to be repaid
18 under this section.

19 “(2) FINALITY OF ASSESSMENT AND COLLEC-
20 TION.—The first sentence of subsection (b) of sec-
21 tion 6305 shall apply to assessments and collections
22 under subsection (f) of this section.”

23 (b) APPLICATION OF ESTIMATED TAX.—Subsection
24 (f) of section 6654 of such Code (relating to failure by
25 individual to pay estimated income tax) is amended by

1 striking “minus” at the end of paragraph (2) and insert-
2 ing “plus”, by redesignating paragraph (3) as paragraph
3 (4), and by inserting after paragraph (2) the following new
4 paragraph:

5 “(3) the amount required to be repaid under
6 section 6306 (relating to collection of certain welfare
7 benefits from individuals receiving qualified business
8 loans), minus.”

9 (c) CLERICAL AMENDMENT.—The table of sections
10 for subchapter A of chapter 64 of such Code is amended
11 by adding at the end thereof the following new item:

 “Sec. 6306. Collection of certain welfare benefits from individuals
 receiving qualified business loans.”

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