

105TH CONGRESS
1ST SESSION

H. R. 1031

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

IN THE HOUSE OF REPRESENTATIVES

MARCH 12, 1997

Mr. WATTS of Oklahoma (for himself, Mr. FLAKE, and Mr. TALENT) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Education and the Workforce, Banking and Financial Services, and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

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

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

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “American Community Renewal Act of 1997”.

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

Sec. 1. Short title and table of contents.

Sec. 2. Findings and purpose.

TITLE I—DESIGNATION AND EVALUATION OF RENEWAL
COMMUNITIES

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

TITLE II—TAX PROVISIONS

Subtitle A—Tax Incentives for Renewal Communities

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

Subtitle B—Charitable Contribution Credit

- Sec. 211. Credit for certain charitable contributions.

TITLE III—LOW-INCOME EDUCATIONAL OPPORTUNITY
SCHOLARSHIP PROGRAM

- Sec. 301. Short title.
- Sec. 302. Findings; precedents.
- Sec. 303. Purposes.
- Sec. 304. Plan submission; requirements.
- Sec. 305. Uses of funds.
- Sec. 306. Scholarship program.
- Sec. 307. Allocation of funds among renewal communities.
- Sec. 308. Parental right of choice in education.
- Sec. 309. Eligible schools.
- Sec. 310. Administration of program and treatment of funds.
- Sec. 311. Contributions to scholarship program from other sources.
- Sec. 312. Use of excess funds for additional educational purposes.
- Sec. 313. Evaluation.
- Sec. 314. Effect on other programs.
- Sec. 315. Judicial review.
- Sec. 316. Definitions.
- Sec. 317. Authorization of appropriations.

TITLE IV—ADDITIONAL PROVISIONS

- Sec. 401. Transfer of unoccupied and substandard HUD-held housing in renewal communities to local governments.
- Sec. 402. Prevention and treatment of substance abuse; services provided through religious organizations.
- Sec. 403. CRA credit for investments in community development organizations located in renewal communities.

1 SEC. 2. FINDINGS AND PURPOSE.

- 2 (a) FINDINGS.—**The Congress makes the following
- 3 findings:**

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

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

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

13 (b) PURPOSE.—The purpose of this Act is to increase
14 job creation, small business expansion and formation, edu-
15 cational opportunities, and homeownership, and to foster
16 moral renewal, in economically depressed areas by provid-
17 ing Federal tax incentives, regulatory reforms, school re-
18 form pilot projects, and homeownership incentives.

19 **TITLE I—DESIGNATION AND**
20 **EVALUATION OF RENEWAL**
21 **COMMUNITIES**

22 **SEC. 101. SHORT TITLE.**

23 This title may be cited as the “Renewing American
24 Communities Act of 1997”.

1 **SEC. 102. STATEMENT OF PURPOSE.**

2 It is the purpose of this title to provide for the estab-
 3 lishment of renewal communities in order to stimulate the
 4 creation of new jobs, particularly for disadvantaged work-
 5 ers and long-term unemployed individuals, and to promote
 6 revitalization of economically distressed areas primarily by
 7 providing or encouraging—

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

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

12 (3) improved local services and an increase in
 13 the economic stake of renewal community residents
 14 in their own community and its development, par-
 15 ticularly through the increased involvement of pri-
 16 vate, local, and neighborhood organizations.

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

18 (a) IN GENERAL.—Chapter 1 of the Internal Reve-
 19 nue Code of 1986 is amended by adding at the end the
 20 following new subchapter:

21 **“Subchapter W—Renewal Communities**

“Part I. Designation.”

22 **“PART I—DESIGNATION**

“Sec. 1400. Designation of Renewal Communities.

23 **“SEC. 1400. DESIGNATION OF RENEWAL COMMUNITIES.**

24 **“(a) DESIGNATION.—**

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

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

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

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

15 “(ii) in the case of an area on an In-
16 dian reservation, the Secretary of the Inte-
17 rior,

18 designates as a renewal community.

19 “(2) NUMBER OF DESIGNATIONS.—

20 “(A) IN GENERAL.—The Secretary of
21 Housing and Urban Development may des-
22 ignate not more than 100 nominated areas as
23 renewal communities.

1 “(B) MINIMUM DESIGNATION IN RURAL
2 AREAS.—Of the areas designated under para-
3 graph (1), at least 25 percent must be areas—

4 “(i) which are within a local govern-
5 ment jurisdiction or jurisdictions with a
6 population of less than 50,000 (as deter-
7 mined under the most recent census data
8 available),

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

12 “(iii) which are determined by the
13 Secretary of Housing and Urban Develop-
14 ment, after consultation with the Secretary
15 of Commerce, to be rural areas.

16 “(C) ADDITIONAL DESIGNATIONS TO RE-
17 PLACE REVOKED DESIGNATIONS.—

18 “(i) IN GENERAL.—The Secretary of
19 Housing and Urban Development may des-
20 ignate one additional area under subpara-
21 graph (A) to replace each area for which
22 the designation is revoked under subsection
23 (b)(2), but in no event may more than 100
24 areas designated under this subsection

1 bear designations as renewal communities
2 at any time.

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

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

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

23 “(B) EXCEPTION WHERE INADEQUATE
24 COURSE OF ACTION, ETC.—An area shall not be
25 designated under subparagraph (A) if the Sec-

1 retary of Housing and Urban Development de-
2 termines that the course of action described in
3 subsection (d)(2) with respect to such area is
4 inadequate.

5 “(C) PRIORITY FOR EMPOWERMENT ZONES
6 AND ENTERPRISE COMMUNITIES WITH RESPECT
7 TO FIRST HALF OF DESIGNATIONS.—With re-
8 spect to the first 50 designations made under
9 this section, the nominated areas designated as
10 renewal communities shall be chosen first from
11 nominated areas which are enterprise zones or
12 empowerment communities (and are otherwise
13 eligible for designation under this section), and
14 then from other nominated areas which are so
15 eligible.

16 “(D) SEPARATE APPLICATION TO RURAL
17 AND OTHER AREAS.—Subparagraph (A) shall
18 be applied separately with respect to areas de-
19 scribed in paragraph (2)(B) and to other areas.

20 “(4) LIMITATION ON DESIGNATIONS.—

21 “(A) PUBLICATION OF REGULATIONS.—
22 The Secretary of Housing and Urban Develop-
23 ment shall prescribe by regulation no later than
24 4 months after the date of the enactment of

1 this section, after consultation with the officials
2 described in paragraph (1)(B)—

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

5 “(ii) the parameters relating to the
6 size and population characteristics of a re-
7 newal community, and

8 “(iii) the manner in which nominated
9 areas will be evaluated based on the cri-
10 teria specified in subsection (d).

11 “(B) TIME LIMITATIONS.—The Secretary
12 of Housing and Urban Development may des-
13 ignate nominated areas as renewal communities
14 only during the 24-month period beginning on
15 the first day of the first month following the
16 month in which the regulations described in
17 subparagraph (A) are prescribed.

18 “(C) PROCEDURAL RULES.—The Secretary
19 of Housing and Urban Development shall not
20 make any designation of a nominated area as a
21 renewal community under paragraph (2) un-
22 less—

23 “(i) the local governments and the
24 State in which the nominated area is lo-
25 cated have the authority—

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

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

6 “(III) to provide assurances sat-
7 isfactory to the Secretary of Housing
8 and Urban Development that such
9 commitments will be fulfilled,

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

16 “(iii) the Secretary of Housing and
17 Urban Development determines that any
18 information furnished is reasonably accu-
19 rate.

20 “(5) NOMINATION PROCESS FOR INDIAN RES-
21 ERVATIONS.—For purposes of this subchapter, in
22 the case of a nominated area on an Indian reserva-
23 tion, the reservation governing body (as determined
24 by the Secretary of the Interior) shall be treated as

1 being both the State and local governments with re-
2 spect to such area.

3 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
4 FECT.—

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

9 “(A) December 31 of the 7th calendar year
10 following the calendar year in which such date
11 occurs,

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

15 “(C) the date the Secretary of Housing
16 and Urban Development revokes such designa-
17 tion under paragraph (2).

18 “(2) REVOCATION OF DESIGNATION.—The Sec-
19 retary of Housing and Urban Development may,
20 after—

21 “(A) consultation with the officials de-
22 scribed in subsection (a)(1)(B) (and the Sec-
23 retary of Education if notification required
24 under section 304 of the Low-Income Edu-

1 ational Opportunity Scholarship Act of 1997 is
2 received), and

3 “(B) a hearing on the record involving offi-
4 cials of the State or local government involved
5 (or both, if applicable),

6 revoke the designation of an area if the Secretary of
7 Housing and Urban Development determines that
8 the local government or State in which the area is
9 located is not complying substantially with the State
10 or local commitments, respectively, described in sub-
11 section (d).

12 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

13 “(1) IN GENERAL.—The Secretary of Housing
14 and Urban Development may designate any nomi-
15 nated area as a renewal community under subsection
16 (a) only if the area meets the requirements of para-
17 graphs (2) and (3) of this subsection.

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

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

22 “(B) the boundary of the area is continu-
23 ous, and

24 “(C) the area—

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

4 “(I) 4,000 if any portion of such
5 area (other than a rural area de-
6 scribed in subsection (a)(2)(B)(i)) is
7 located within a metropolitan statis-
8 tical area (within the meaning of sec-
9 tion 143(k)(2)(B)) which has a popu-
10 lation of 50,000 or greater, or

11 “(II) 1,000 in any other case, or
12 “(ii) is entirely within an Indian res-
13 ervation (as determined by the Secretary of
14 the Interior).

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

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

24 “(B) the unemployment rate in the area,
25 as determined by the appropriate available

1 data, was at least 1½ times the national unem-
2 ployment rate for the period to which such data
3 relate,

4 “(C) the poverty rate (as determined by
5 the most recent census data available) for each
6 population census tract (or where not tracted,
7 the equivalent county division as defined by the
8 Bureau of the Census for the purpose of defin-
9 ing poverty areas) within the area was at least
10 20 percent for the period to which such data re-
11 late, and

12 “(D) at least 70 percent of the households
13 living in the area have incomes below 80 per-
14 cent of the median income of households within
15 the jurisdiction of the local government (deter-
16 mined in the same manner as under section
17 119(b)(2) of the Housing and Community De-
18 velopment Act of 1974).

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

1 “(d) REQUIRED STATE AND LOCAL COMMIT-
2 MENTS.—

3 “(1) IN GENERAL.—The Secretary of Housing
4 and Urban Development may designate any nomi-
5 nated area as a renewal community under subsection
6 (a) only if—

7 “(A) the local government and the State in
8 which the area is located agree in writing that,
9 during any period during which the area is a
10 renewal community, such governments will—

11 “(i) follow a specified course of action
12 which meets the requirements of para-
13 graph (2) and is designed to reduce the
14 various burdens borne by employers or em-
15 ployees in such area, and

16 “(ii) comply with the requirements of
17 the Low-Income Educational Opportunity
18 Scholarship Act of 1997, and

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

21 “(2) COURSE OF ACTION.—

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

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

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

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

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

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

21 “(v) Involvement in the program by
22 private entities, organizations, neighbor-
23 hood organizations, and community
24 groups, particularly those in the renewal
25 community, including a commitment from

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

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

9 “(vii) The gift (or sale at below fair
10 market value) of surplus realty (such as
11 land, homes, and commercial or industrial
12 structures) in the renewal community to
13 neighborhood organizations, community de-
14 velopment corporations, or private compa-
15 nies.

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

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

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

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

11 “(B) zoning restrictions on home-based
12 businesses which do not create a public nei-
13 sance,

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

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

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

23 except to the extent that such regulation of busi-
24 nesses and occupations is necessary for and well-tai-
25 lored to the protection of health and safety.

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

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

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

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

10 “(f) DEFINITIONS.—For purposes of this sub-
11 chapter—

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

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

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

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

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

5 “(C) the District of Columbia.”

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

7 Not later than the close of the fourth calendar year
8 after the year in which the Secretary of Housing and
9 Urban Development first designates an area as a renewal
10 community under section 1400 of the Internal Revenue
11 Code of 1986, and at the close of each fourth calendar
12 year thereafter, such Secretary shall prepare and submit
13 to the Congress a report on the effects of such designa-
14 tions in accomplishing the purposes of this Act.

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

16 (a) **TAX REDUCTIONS.**—Any reduction of taxes, with
17 respect to any renewal community designated under sec-
18 tion 1400 of the Internal Revenue Code of 1986 (as added
19 by this title), under any plan of action under section
20 1400(d) of such Code shall be disregarded in determining
21 the eligibility of a State or local government for, or the
22 amount or extent of, any assistance or benefits under any
23 law of the United States (other than subchapter W of
24 chapter 1 of such Code).

1 (b) COORDINATION WITH RELOCATION ASSIST-
 2 ANCE.—The designation of a renewal community under
 3 section 1400 of such Code (as added by this title) shall
 4 not—

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

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

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

18 **TITLE II—TAX PROVISIONS**
 19 **Subtitle A—Tax Incentives for**
 20 **Renewal Communities**

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

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

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

“Sec. 1400A. Renewal community capital gain.

“Sec. 1400B. Renewal community business defined.

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

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

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

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

11 “(A) any qualified community stock,

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

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

16 “(2) QUALIFIED COMMUNITY STOCK.—

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

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

1 “(ii) as of the time such stock was is-
2 sued, such corporation was a renewal com-
3 munity business (or, in the case of a new
4 corporation, such corporation was being or-
5 ganized for purposes of being a renewal
6 community business), and

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

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

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

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

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

1 the designation of the renewal community
2 took effect,

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

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

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

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

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

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

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

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

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

9 “(II) \$5,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 “(2) INCOME INCLUSIONS.—

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

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

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

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

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

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

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

17 “(A) any partnership,

18 “(B) any S corporation,

19 “(C) any regulated investment company,

20 and

21 “(D) any common trust fund.

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

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

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

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

10 “(f) CERTAIN TAX-FREE AND OTHER TRANSFERS.—

11 For purposes of this section—

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

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

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

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

24 “(A) by gift,

25 “(B) at death, or

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

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

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

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

12 “(1) any qualified business entity, and

13 “(2) any qualified proprietorship.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

 “Sec. 1400C. Family development accounts.

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

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

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

3 “(a) ALLOWANCE OF DEDUCTION.—

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

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

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

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

20 “(2) LIMITATION.—

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

25 “(i) \$2,000, or

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

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

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

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

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

20 “(ii) the sum of—

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

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

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

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

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

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

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

19 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

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

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

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

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

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

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

22 “(A) Qualified postsecondary educational
23 expenses.

24 “(B) First-home purchase costs.

1 “(C) Qualified business capitalization
2 costs.

3 “(D) Qualified medical expenses.

4 “(E) Qualified rollovers.

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

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

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

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

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

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

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

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

18 “(4) FIRST-HOME PURCHASE COSTS.—

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

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

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

4 “(C) QUALIFIED PRINCIPAL RESIDENCE.—

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

12 “(D) QUALIFIED FIRST-TIME HOME-

13 BUYER.—

14 “(i) IN GENERAL.—The term ‘quali-
15 fied first-time homebuyer’ means an indi-
16 vidual if such individual (and, in the case
17 of a married individual, the individual’s
18 spouse) has no present ownership interest
19 in a principal residence during the 3-year
20 period ending on the date of acquisition of
21 the principal residence to which this sub-
22 section applies.

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

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

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

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

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

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

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

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

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

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

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

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

17 “(A) such taxpayer, or

18 “(B) any qualified individual who is—

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

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

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

24 “(d) TAX TREATMENT OF ACCOUNTS.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 “(B) shall be furnished to individuals—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11 **“SEC. 1400D. DEMONSTRATION PROGRAM TO PROVIDE**
12 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
13 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
14 **NEWAL COMMUNITIES.**

15 “(a) DESIGNATION.—

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

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

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

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

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

11 designates as an FDA matching demonstration
12 area.

13 “(2) NUMBER OF DESIGNATIONS.—

14 “(A) IN GENERAL.—The Secretary of
15 Housing and Urban Development may des-
16 ignate not more than 25 renewal communities
17 as FDA matching demonstration areas.

18 “(B) MINIMUM DESIGNATION IN RURAL
19 AREAS.—Of the areas designated under para-
20 graph (1), at least 2 must be areas described in
21 section 1400(a)(2)(B).

22 “(3) LIMITATIONS ON DESIGNATIONS.—

23 “(A) PUBLICATION OF REGULATIONS.—
24 The Secretary of Housing and Urban Develop-
25 ment shall prescribe by regulation no later than

1 4 months after the date of the enactment of
2 this section, after consultation with the officials
3 described in paragraph (1)(B)—

4 “(i) the procedures for nominating a
5 renewal community under paragraph
6 (1)(A) (including procedures for coordinat-
7 ing such nomination with the nomination
8 of an area for designation as a renewal
9 community under section 1400), and

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

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

21 “(4) DESIGNATION BASED ON DEGREE OF POV-
22 ERTY, ETC.—The rules of section 1400(a)(3) shall
23 apply for purposes of designations of FDA matching
24 demonstration areas under this section.

1 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
2 FECT.—Any designation of a renewal community as an
3 FDA matching demonstration area shall remain in effect
4 during the period beginning on the date of such designa-
5 tion and ending on the date on which such area ceases
6 to be a renewal community.

7 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
8 OPMENT ACCOUNTS.—

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

20 “(2) LIMITATIONS.—

21 “(A) ANNUAL LIMIT.—The Secretary shall
22 not deposit more than \$1000 under paragraph
23 (1) with respect to any individual for any tax-
24 able year.

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

4 “(3) EXCLUSION FROM INCOME.—Except as
5 provided in section 1400C, gross income shall not in-
6 clude any amount deposited into a family develop-
7 ment account under paragraph (1).

8 **“SEC. 1400E. DESIGNATION OF EARNED INCOME TAX CRED-**
9 **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**
10 **VELOPMENT ACCOUNT.**

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

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

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

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

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

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

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

20 **“PART IV—ADDITIONAL INCENTIVES**

 “Sec. 1400F. Commercial revitalization credit.

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

 “Sec. 1400H. Expensing of renewal community environmental re-
 mediation costs.

21 **“SEC. 1400F. COMMERCIAL REVITALIZATION TAX CREDIT.**

22 “(a) GENERAL RULE.—For purposes of section 46,
23 except as provided in subsection (e), the commercial revi-

1 talization credit for any taxable year is an amount equal
2 to the applicable percentage of the qualified revitalization
3 expenditures with respect to any qualified revitalization
4 building.

5 “(b) APPLICABLE PERCENTAGE.—For purposes of
6 this section—

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

9 “(A) 20 percent for the taxable year in
10 which a qualified revitalization building is
11 placed in service, or

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

14 The election under subparagraph (B), once made,
15 shall be irrevocable.

16 “(2) CREDIT PERIOD.—

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

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

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

3 “(1) QUALIFIED REVITALIZATION BUILDING.—

4 The term ‘qualified revitalization building’ means
5 any building (and its structural components) if—

6 “(A) such building is located in a renewal
7 community and is placed in service after the
8 designation of such renewal community under
9 section 1400,

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

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

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

18 “(A) IN GENERAL.—The term ‘qualified
19 revitalization expenditure’ means any amount
20 properly chargeable to capital account—

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

24 “(I) nonresidential real property,
25 or

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

3 “(ii) in connection with the construc-
4 tion or substantial rehabilitation or recon-
5 struction of a qualified revitalization build-
6 ing, or

7 “(iii) for the acquisition of land in
8 connection with the qualified revitalization
9 building.

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

15 “(i) \$10,000,000, reduced by

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

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

24 “(i) STRAIGHT LINE DEPRECIATION
25 MUST BE USED.—Any expenditure (other

1 than with respect to land acquisitions) with
2 respect to which the taxpayer does not use
3 the straight line method over a recovery
4 period determined under subsection (c) or
5 (g) of section 168. The preceding sentence
6 shall not apply to any expenditure to the
7 extent the alternative depreciation system
8 of section 168(g) applies to such expendi-
9 ture by reason of subparagraph (B) or (C)
10 of section 168(g)(1).

11 “(ii) ACQUISITION COSTS.—The costs
12 of acquiring any building or interest there-
13 in and any land in connection with such
14 building to the extent that such costs ex-
15 ceed 30 percent of the qualified revitaliza-
16 tion expenditures determined without re-
17 gard to this clause.

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

24 “(5) SUBSTANTIAL REHABILITATION OR RE-
25 CONSTRUCTION.—For purposes of this subsection, a

1 rehabilitation or reconstruction shall be treated as a
2 substantial rehabilitation or reconstruction only if
3 the qualified revitalization expenditures in connec-
4 tion with the rehabilitation or reconstruction exceed
5 25 percent of the fair market value of the building
6 (and its structural components) immediately before
7 the rehabilitation or reconstruction.

8 “(d) WHEN EXPENDITURES TAKEN INTO AC-
9 COUNT.—

10 “(1) IN GENERAL.—Qualified revitalization ex-
11 penditures with respect to any qualified revitaliza-
12 tion building shall be taken into account for the tax-
13 able year in which the qualified revitalization build-
14 ing is placed in service. For purposes of the preced-
15 ing sentence, a substantial rehabilitation or recon-
16 struction of a building shall be treated as a separate
17 building.

18 “(2) PROGRESS EXPENDITURE PAYMENTS.—
19 Rules similar to the rules of subsections (b)(2) and
20 (d) of section 47 shall apply for purposes of this sec-
21 tion.

22 “(e) LIMITATION ON AGGREGATE CREDITS ALLOW-
23 ABLE WITH RESPECT TO BUILDINGS LOCATED IN A
24 STATE.—

1 “(1) IN GENERAL.—The amount of the credit
2 determined under this section for any taxable year
3 with respect to any building shall not exceed the
4 commercial revitalization credit amount (in the case
5 of an amount determined under subsection
6 (b)(1)(B), the present value of such amount as de-
7 termined under the rules of section 42(b)(2)(C)) al-
8 located to such building under this subsection by the
9 commercial revitalization credit agency. Such alloca-
10 tion shall be made at the same time and in the same
11 manner as under paragraphs (1) and (7) of section
12 42(h).

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

15 “(A) IN GENERAL.—The aggregate com-
16 mercial revitalization credit amount which a
17 commercial revitalization credit agency may al-
18 locate for any calendar year is the amount of
19 the State commercial revitalization credit ceil-
20 ing determined under this paragraph for such
21 calendar year for such agency.

22 “(B) STATE COMMERCIAL REVITALIZATION
23 CREDIT CEILING.—

24 “(i) IN GENERAL.—The State com-
25 mercial revitalization credit ceiling applica-

1 ble to any State for any calendar year is
2 \$2,000,000 for each renewal community in
3 the State.

4 “(ii) SPECIAL RULE WHERE COMMU-
5 NITY LOCATED IN MORE THAN 1 STATE.—
6 If a renewal community is located in more
7 than 1 State, a State’s share of the
8 amount specified in clause (i) with respect
9 to such community shall be an amount
10 that bears the same ratio to \$2,000,000 as
11 the population in the State bears to the
12 population in all States in which such com-
13 munity is located.

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

18 “(C) COMMERCIAL REVITALIZATION CRED-
19 IT AGENCY.—For purposes of this section, the
20 term ‘commercial revitalization credit agency’
21 means any agency authorized by a State to
22 carry out this section.

23 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
24 IZATION CREDIT AGENCIES.—

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

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

12 “(B) such agency notifies the chief execu-
13 tive officer (or its equivalent) of the local jurisdic-
14 tion within which the building is located of
15 such allocation and provides such individual a
16 reasonable opportunity to comment on the allo-
17 cation.

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

21 “(A) which sets forth selection criteria to
22 be used to determine priorities of the commer-
23 cial revitalization credit agency which are ap-
24 propriate to local conditions,

25 “(B) which considers—

1 “(i) the degree to which a project con-
2 tributes to the implementation of a strate-
3 gic plan that is devised for a renewal com-
4 munity through a citizen participation
5 process,

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

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

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

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

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

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

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

23 “(A) \$35,000, or

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

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

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

12 “(c) QUALIFIED RENEWAL PROPERTY.—

13 “(1) GENERAL RULE.—For purposes of this
14 section—

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

19 “(i) such property was acquired by
20 the taxpayer by purchase (as defined in
21 section 179(d)(2)) after the date on which
22 the designation of the renewal community
23 took effect,

1 “(ii) the original use of which in a re-
2 newal community commences with the tax-
3 payer, and

4 “(iii) substantially all of the use of
5 which is in a renewal community and is in
6 the active conduct of a qualified business
7 (as defined in section 1400B(d)) by the
8 taxpayer in such renewal community.

9 “(B) SPECIAL RULE FOR SUBSTANTIAL
10 RENOVATIONS.—In the case of any property
11 which is substantially renovated by the tax-
12 payer, the requirements of clauses (i) and (ii)
13 of subparagraph (A) shall be treated as satis-
14 fied. For purposes of the preceding sentence,
15 property shall be treated as substantially ren-
16 ovated by the taxpayer only if, during any 24-
17 month period beginning after the date on which
18 the designation of the renewal community took
19 effect, additions to basis with respect to such
20 property in the hands of the taxpayer exceed
21 the greater of (i) an amount equal to the ad-
22 justed basis at the beginning of such 24-month
23 period in the hands of the taxpayer, or (ii)
24 \$5,000.

1 “(2) SPECIAL RULES FOR SALE-LEASEBACKS.—
2 For purposes of paragraph (1)(A)(ii), if property is
3 sold and leased back by the taxpayer within 3
4 months after the date such property was originally
5 placed in service, such property shall be treated as
6 originally placed in service not earlier than the date
7 on which such property is used under the leaseback.

8 **“SEC. 1400H. EXPENSING OF RENEWAL COMMUNITY ENVI-**
9 **RONMENTAL REMEDIATION COSTS.**

10 “(a) TREATMENT AS EXPENSE.—A taxpayer may
11 elect to treat any renewal community environmental reme-
12 diation cost as an expense which is not chargeable to cap-
13 ital account. Any cost so treated shall be allowable as a
14 deduction for the taxable year in which the cost is paid
15 or incurred.

16 “(b) RENEWAL COMMUNITY ENVIRONMENTAL RE-
17 MEDIATION COST.—For purposes of this section—

18 “(1) IN GENERAL.—The term ‘renewal commu-
19 nity environmental remediation cost’ means any cost
20 which—

21 “(A) is chargeable to capital account (de-
22 termined without regard to this section),

23 “(B) is paid or incurred in connection with
24 the abatement or control of environmental con-

1 taminants at a site located within a renewal
2 community, and

3 “(C) is certified by the applicable Federal
4 or State authority as being required by, and in
5 compliance with, applicable Federal and State
6 laws governing abatement and control of envi-
7 ronmental contaminants.

8 “(2) EXCEPTIONS.—Such term shall not in-
9 clude any amount paid or incurred—

10 “(A) for equipment which is used in the
11 environmental remediation and which is of a
12 character subject to an allowance for deprecia-
13 tion or amortization, or

14 “(B) in connection with a site which is on
15 the national priorities list under section
16 105(a)(8)(B) of the Comprehensive Environ-
17 mental Response, Compensation, and Liability
18 Act of 1980 (42 U.S.C. 9605(a)(8)(B)).

19 “(c) SPECIAL RULES.—For purposes of this sec-
20 tion—

21 “(1) LIMITATION BASED ON INCOME FROM
22 TRADE OR BUSINESS.—The amount allowed as a de-
23 duction under subsection (a) for any taxable year
24 shall not exceed the aggregate amount of taxable in-
25 come of the taxpayer for such taxable year which is

1 derived from the active conduct by the taxpayer of
2 any trade or business during such taxable year. For
3 purposes of this paragraph, rules similar to the rules
4 of subparagraphs (B) and (C) of section 179(b)(3)
5 shall apply. In the case of a partnership, S corpora-
6 tion, trust or other pass thru entity, this paragraph
7 shall be applied at both the entity and owner levels.

8 “(2) RECAPTURE RULES.—

9 “(A) PROPERTY NOT USED IN TRADE OR
10 BUSINESS.—The Secretary shall, by regulations,
11 provide for recapturing the benefit of any de-
12 duction allowable under subsection (a) with re-
13 spect to any property not used predominantly in
14 a trade or business at any time.

15 “(B) TREATMENT OF GAIN AS ORDINARY
16 INCOME.—For purposes of section 1245—

17 “(i) the deduction allowable under
18 subsection (a) shall be treated as a deduc-
19 tion allowable to the taxpayer for deprecia-
20 tion or amortization; and

21 “(ii) property (other than section
22 1245 property) to which the deduction
23 would otherwise have been chargeable shall
24 be treated as section 1245 property solely

1 for purposes of applying section 1245 to
2 such deduction.”

3 (b) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
4 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR
5 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
6 of the Internal Revenue Code of 1986 (relating to adjusted
7 gross income defined) is amended by inserting after para-
8 graph (15) the following new paragraph:

9 “(16) FAMILY DEVELOPMENT ACCOUNTS.—The
10 deduction allowed by section 1400C(a)(1)(A).”

11 **SEC. 202. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
12 **FOR RENEWAL COMMUNITIES**

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

16 “(4) TERMINATION.—

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

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

23 “(ii) after September 30, 1997.

24 “(B) SPECIAL RULE FOR RENEWAL COM-
25 MUNITIES.—If—

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

5 “(ii) the individual who begins work
6 for the employer is a resident of such re-
7 newal community throughout such 1-year
8 period, and

9 “(iii) substantially all of the services
10 which such individual performs for the em-
11 ployer during such 1-year period are per-
12 formed in such renewal community,

13 then subparagraph (A)(ii) shall be applied by
14 substituting the last day for which the designa-
15 tion of such renewal community under section
16 1400 is in effect for ‘September 30, 1997.’”

17 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
18 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
19 YOUTH RESIDENCE REQUIREMENTS.—

20 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
21 and (B) of section 51(d)(5) of such Code are each
22 amended by striking “empowerment zone or enter-
23 prise community” and inserting “empowerment
24 zone, enterprise community, or renewal community”.

1 “(4) a family development account (within the
2 meaning of section 1400C(e)),”

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

6 “(e) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
7 poses of this section, in the case of a family development
8 account, the term ‘excess contributions’ means the sum
9 of—

10 “(1) the excess (if any) of—

11 “(A) the amount contributed for the tax-
12 able year to the account (other than a qualified
13 rollover, as defined in section 1400C(c)(7), or a
14 contribution under section 1400D), over

15 “(B) the amount allowable as a deduction
16 under section 1400C for such contributions,
17 and

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

21 “(A) the distributions out of the account
22 for the taxable year which were included in the
23 gross income of the payee under section
24 1400C(b)(1),

1 “(B) the distributions out of the account
2 for the taxable year to which rules similar to
3 the rules of section 408(d)(5) apply by reason
4 of section 1400C(b)(3), and

5 “(C) the excess (if any) of the maximum
6 amount allowable as a deduction under section
7 1400C for the taxable year over the amount
8 contributed to the account for the taxable year
9 (other than a contribution under section
10 1400D).

11 For purposes of this subsection, any contribution which
12 is distributed from the family development account in a
13 distribution to which rules similar to the rules of section
14 408(d)(4) apply by reason of section 1400C(b)(3) shall be
15 treated as an amount not contributed.”

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

19 (b) **TAX ON PROHIBITED TRANSACTIONS.**—Section
20 4975 of such Code is amended—

21 (1) by adding at the end of subsection (c) the
22 following new paragraph:

23 “(5) **SPECIAL RULE FOR FAMILY DEVELOP-**
24 **MENT ACCOUNTS.**—An individual for whose benefit a
25 family development account is established and any

1 contributor to such account shall be exempt from the
 2 tax imposed by this section with respect to any
 3 transaction concerning such account (which would
 4 otherwise be taxable under this section) if, with re-
 5 spect to such transaction, the account ceases to be
 6 a family development account by reason of the appli-
 7 cation of section 1400C(d)(2) to such account.”, and

8 (2) in subsection (e)(1), by striking “or” at the
 9 end of subparagraph (D), by redesignating subpara-
 10 graph (E) as subparagraph (F), and by inserting
 11 after subparagraph (D) the following new subpara-
 12 graph:

13 “(E) a family development account de-
 14 scribed in section 1400C(e), or”.

15 (c) INFORMATION RELATING TO CERTAIN TRUSTS
 16 AND ANNUITY PLANS.—Subsection (c) of section 6047 of
 17 such Code is amended—

18 (1) by inserting “or section 1400C” after “sec-
 19 tion 219”, and

20 (2) by inserting “, of any family development
 21 account described in section 1400C(e),”, after “sec-
 22 tion 408(a)”.

23 (d) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
 24 TION.—Clause (i) of section 6104(a)(1)(B) of such Code

1 is amended by inserting “a family development account
2 described in section 1400C(e),” after “section 408(a),”.

3 (e) **FAILURE TO PROVIDE REPORTS ON FAMILY DE-**
4 **VELOPMENT ACCOUNTS.**—Section 6693 of such Code is
5 amended—

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

9 (2) in subsection (a)(2), by striking “and” at
10 the end of subparagraph (A), by striking the period
11 and inserting “, and” in subparagraph (B), and by
12 adding at the end the following new subparagraph:

13 “(C) section 1400C(g)(7) (relating to fam-
14 ily development accounts).”

15 (f) **CONFORMING AMENDMENTS REGARDING COM-**
16 **MERCIAL REVITALIZATION CREDIT.**—

17 (1) Section 39(d) of such Code is amended by
18 adding at the end the following new paragraph:

19 “(8) **NO CARRYBACK OF SECTION 1400F CREDIT**
20 **BEFORE DATE OF ENACTMENT.**—No portion of the
21 unused business credit for any taxable year which is
22 attributable to any commercial revitalization credit
23 determined under section 1400F may be carried
24 back to a taxable year ending before the date of the
25 enactment of section 1400F.”

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

5 (3) Subparagraph (C) of section 49(a)(1) of
6 such Code is amended by striking “and” at the end
7 of clause (ii), by striking the period at the end of
8 clause (iii) and inserting “, and”, and by adding at
9 the end the following new clause:

10 “(iv) the portion of the basis of any
11 qualified revitalization building attributable
12 to qualified revitalization expenditures.”

13 (4) Paragraph (2) of section 50(a) of such Code
14 is amended by inserting “or 1400F(d)(2)” after
15 “section 47(d)” each place it appears.

16 (5) Subparagraph (A) of section 50(b)(2) of
17 such Code is amended by inserting “or qualified re-
18 vivalization building (respectively)” after “qualified
19 rehabilitated building”.

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

24 (7) Paragraph (2) of section 50(b) of such Code
25 is amended by striking “and” at the end of subpara-

1 graph (C), by striking the period at the end of sub-
2 paragraph (D) and inserting “; and”, and by adding
3 at the end the following new subparagraph:

4 “(E) a qualified revitalization building (as
5 defined in section 1400F) to the extent of the
6 portion of the basis which is attributable to
7 qualified revitalization expenditures (as defined
8 in section 1400F).”

9 (8) Subparagraph (C) of section 50(b)(4) of
10 such Code is amended—

11 (A) by inserting “or commercial revitaliza-
12 tion” after “rehabilitated” in the text and head-
13 ing, and

14 (B) by inserting “or commercial revitaliza-
15 tion” after “rehabilitation”.

16 (9) Subparagraph (C) of section 469(i)(3) is
17 amended—

18 (A) by inserting “or section 1400F” after
19 “section 42”; and

20 (B) by striking “CREDIT” in the heading
21 and inserting “AND COMMERCIAL REVITALIZA-
22 TION CREDITS”.

23 (g) CLERICAL AMENDMENTS.—

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

“Subchapter W. Renewal Communities.”

4 (2) The table of parts for subchapter W of
5 chapter 1 of such Code (as added by title I) is
6 amended by adding at the end the following new
7 items:

“Part II. Renewal community capital gain and stock.

“Part III. Family development accounts.

“Part IV. Additional Incentives.”

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

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

11 (4) The table of sections for part I of sub-
12 chapter B of chapter 68 of such Code is amended
13 by striking the item relating to section 6693 and in-
14 serting the following new item:

“Sec. 6693. Failure to provide reports on individual retirement
accounts or annuities or on family development ac-
counts; penalties relating to designated nondeduct-
ible contributions.”

1 **Subtitle B—Charitable**
2 **Contributions Credit**

3 **SEC. 211. CREDIT FOR CERTAIN CHARITABLE CONTRIBU-**
4 **TIONS.**

5 (a) **IN GENERAL.**—Subpart A of part IV of sub-
6 chapter A of chapter 1 of the Internal Revenue Code of
7 1986 (relating to nonrefundable personal credits) is
8 amended by adding at the end the following new section:

9 **“SEC. 26A. CREDIT FOR CERTAIN CHARITABLE CONTRIBU-**
10 **TIONS.**

11 “(a) **IN GENERAL.**—In the case of an individual,
12 there shall be allowed as a credit against the tax imposed
13 by this chapter for the taxable year an amount equal to
14 75 percent of the qualified charitable contributions which
15 are paid by the taxpayer during the taxable year.

16 “(b) **LIMITATION.**—The amount of the qualified
17 charitable contributions paid by a taxpayer which are
18 taken into account under subsection (a) for any taxable
19 year shall not exceed \$100 (\$200 in the case of a joint
20 return).

21 “(c) **QUALIFIED CHARITABLE CONTRIBUTION.**—For
22 purposes of this section, the term ‘qualified charitable con-
23 tribution’ means any charitable contribution (as defined
24 in section 170(c)) made in cash to a qualified charity aid-
25 ing the poor.

1 “(d) QUALIFIED CHARITY AIDING THE POOR.—

2 “(1) IN GENERAL.—For purposes of this sec-
3 tion, the term ‘qualified charity aiding the poor’
4 means, for any taxable year, any organization de-
5 scribed in section 501(c)(3) and exempt from tax
6 under section 501(a)—

7 “(A) which is—

8 “(i) certified by the Secretary as
9 meeting the requirements of paragraphs
10 (2), (3), and (4),

11 “(ii) organized under the laws of the
12 United States or of any State in which the
13 organization is qualified to operate, and

14 “(iii) required, or elects to be treated
15 as being required, to file returns under sec-
16 tion 6033, and

17 “(B) for which the taxpayer has performed
18 10 or more hours of volunteer service during
19 the taxable year.

20 “(2) CHARITY MUST PRIMARILY ASSIST POOR
21 INDIVIDUALS.—

22 “(A) IN GENERAL.—An organization meets
23 the requirements of this paragraph only if the
24 predominant activity of such organization is the
25 provision of direct services to individuals whose

1 annual incomes generally do not exceed 185
2 percent of the official poverty line (as defined
3 by the Office of Management and Budget).

4 “(B) FOOD AID AND HOMELESS SHEL-
5 TERS.—Except as otherwise provided in regula-
6 tions, for purposes of subparagraph (A), serv-
7 ices to individuals in the form of—

8 “(i) temporary donations of food or
9 meals, or

10 “(ii) temporary shelter to homeless in-
11 dividuals,

12 shall be treated as provided to individuals de-
13 scribed in subparagraph (A) if the location and
14 operation of such services are such that the
15 service provider may reasonably conclude that
16 the beneficiaries of such services are predomi-
17 nantly individuals described in subparagraph
18 (A).

19 “(3) EXPENDITURES FOR CHARITABLE SERV-
20 ICES TO THE POOR.—

21 “(A) IN GENERAL.—An organization meets
22 the requirements of this paragraph only if for
23 the immediately preceding taxable year (and the
24 Secretary reasonably expects that for the cur-
25 rent taxable year), except as provided in sub-

1 paragraph (B), all annual expenditures of the
2 organization are used to provide the direct serv-
3 ices referred to in paragraph (2).

4 “(B) PERMISSIBLE EXPENDITURES FOR
5 ADMINISTRATION AND FUNDRAISING.—An orga-
6 nization shall not be treated as failing to meet
7 the requirements of subparagraph (A) with re-
8 spect to any taxable year by reason of the fact
9 that 25 percent or less of the annual aggregate
10 expenditures of the organization for such tax-
11 able year are—

12 “(i) administrative expenditures in
13 support of direct services referred to in
14 paragraph (2), and

15 “(ii) expenditures for purposes of
16 fundraising on behalf of the organization
17 providing direct services referred to in
18 paragraph (2).

19 “(4) LIMITATION ON POLITICAL ACTIVITY.—An
20 organization meets the requirements of this para-
21 graph only if for the immediately preceding taxable
22 year (and the Secretary reasonably expects that for
23 the current taxable year) the organization does not
24 engage in any of the following:

1 “(A) Activity for the purpose of influencing
2 legislation.

3 “(B) Litigation on behalf of any individual
4 referred to in paragraph (2).

5 “(C) Voter registration, political organiz-
6 ing, public policy advocaey, or public policy re-
7 search.

8 “(5) SPECIAL RULE FOR NEW ORGANIZA-
9 TIONS.—In the case of an organization which has no
10 preceding taxable year, paragraphs (3) and (4) shall
11 be applied without regard to the words ‘for the im-
12 mediately preceding taxable year’.

13 “(e) TIME WHEN CONTRIBUTIONS DEEMED
14 MADE.—For purposes of this section, at the election of
15 the taxpayer, a contribution which is made not later than
16 the time prescribed by law for filing the return for the
17 taxable year (not including extensions thereof) shall be
18 treated as made on the last day of such taxable year.

19 “(f) COORDINATION WITH DEDUCTION FOR CHARI-
20 TABLE CONTRIBUTIONS.—

21 “(1) CREDIT IN LIEU OF DEDUCTION.—The
22 credit provided by subsection (a) for any qualified
23 charitable contribution shall be in lieu of any deduc-
24 tion otherwise allowable under this chapter for such
25 contribution.

1 “(2) ELECTION TO HAVE SECTION NOT
2 APPLY.—A taxpayer may elect for any taxable year
3 to have this section not apply.

4 “(g) TERMINATION.—This section shall not apply to
5 contributions made after December 31, 1999.”

6 (b) PUBLIC INSPECTION OF ANNUAL RETURNS.—
7 Subsection (e) of section 6104 of such Code (relating to
8 public inspection of certain annual returns and applica-
9 tions for exemption) is amended by adding at the end the
10 following new paragraph:

11 “(4) CHARITIES RECEIVING CREDITABLE CON-
12 TRIBUTIONS REQUIRED TO PROVIDE COPIES OF AN-
13 NUAL RETURN.—

14 “(A) IN GENERAL.—Every qualified char-
15 ity aiding the poor (as defined in section
16 26A(d)) shall, upon request of an individual
17 made at an office where such organization’s an-
18 nual return filed under section 6033 is required
19 under paragraph (1) to be available for inspec-
20 tion, provide a copy of such return to such indi-
21 vidual without charge other than a reasonable
22 fee for any reproduction and mailing costs. If
23 the request is made in person, such copies shall
24 be provided immediately and, if made other

1 than in person, shall be provided within 30
2 days.

3 “(B) PERIOD OF AVAILABILITY.—Subpara-
4 graph (A) shall apply only during the 3-year pe-
5 riod beginning on the filing date (as defined in
6 paragraph (1)(D)) of the return requested.”

7 (c) CLERICAL AMENDMENT.—The table of sections
8 for subpart A of part IV of subchapter A of chapter 1
9 of such Code is amended by adding at the end the follow-
10 ing new item:

“Sec. 26A. Credit for certain charitable contributions.”

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to contributions made after the
13 date of the enactment of this Act.

14 **TITLE III—LOW-INCOME EDU-**
15 **CATIONAL OPPORTUNITY**
16 **SCHOLARSHIP PROGRAM**

17 **SEC. 301. SHORT TITLE.**

18 This title may be cited as the “Low-Income Edu-
19 cational Opportunity Act of 1997”.

20 **SEC. 302. FINDINGS; PRECEDENTS.**

21 (a) FINDINGS.—Congress makes the following find-
22 ings:

23 (1) Significant improvements in the education
24 of educationally deprived children can be accom-
25 plished by—

1 (A) increasing educational opportunities
2 for the children by expanding the range of edu-
3 cational choices that best meet the needs of the
4 children;

5 (B) fostering diversity and competition
6 among school programs for the children;

7 (C) providing the families of the children
8 more of the educational choices already avail-
9 able to affluent families; and

10 (D) enhancing the quality of American
11 education in general by increasing parental in-
12 volvement in the direction of the education of
13 the children.

14 (2) Costs are often much lower in private
15 schools than corresponding costs in public schools.

16 (3) Not all children are alike and therefore
17 there is no one school or program that fits the needs
18 of all children.

19 (4) The formation of sound values and moral
20 character is crucial to helping young people escape
21 from lives of poverty, family break-up, drug abuse,
22 crime, and school failure.

23 (5) In addition to offering knowledge and skills,
24 education should contribute positively to the forma-
25 tion of the internal norms and values which are vital

1 to a child's success in life and to the well-being of
2 society.

3 (6) Schools should help to provide young people
4 with a sound moral foundation which is consistent
5 with the values of their parents. To find such a
6 school, parents need a full range of choice to deter-
7 mine where their children can best be educated.

8 (b) PRECEDENTS.—The United States Supreme
9 Court has determined that programs giving parents choice
10 and increased input in their children's education, includ-
11 ing the choice of a religious education, do not violate the
12 Constitution. The Supreme Court has held that as long
13 as the beneficiary decides where education funds will be
14 spent on such individual's behalf, public funds can be used
15 for education in a religious institution because the public
16 entity has neither advanced nor hindered a particular reli-
17 gion and therefore has not violated the establishment
18 clause of the first amendment to the Constitution. Su-
19 preme Court precedents include—

20 (1) *Wisconsin v. Yoder*, 406 U.S. 205 (1972);
21 *Pierce v. Society of Sisters*, 268 U.S. 510 (1925);
22 and *Meyer v. Nebraska*, 262 U.S. 390 (1923) which
23 held that parents have the primary role in and are
24 the primary decision makers in all areas regarding
25 the education and upbringing of their children;

1 (2) *Mueller v. Allen*, 463 U.S. 388 (1983)
2 which declared a Minnesota tax deduction program
3 that provided State income tax benefits for edu-
4 cational expenditures by parents, including tuition in
5 religiously affiliated schools, does not violate the
6 Constitution;

7 (3) *Witters v. Department of Services for the*
8 *Blind*, 474 U.S. 481 (1986) in which the Supreme
9 Court ruled unanimously that public funds for the
10 vocational training of the blind could be used at a
11 Bible college for ministry training;

12 (4) *Zobrest v. Catalina Foothills School Dis-*
13 *trict*, 509 U.S. 1 (1993) which held that a deaf child
14 could receive an interpreter, paid for by the public,
15 in a private religiously affiliated school under the In-
16 dividuals with Disabilities Education Act (20 U.S.C.
17 1400 et seq.). The case held that providing an inter-
18 preter in a religiously affiliated school did not violate
19 the establishment clause of the first amendment of
20 the Constitution.

21 **SEC. 303. PURPOSES.**

22 The purposes of this title are as follows:

23 (1) To assist renewal communities—

24 (A) in giving children from low-income
25 families more choices in selecting elementary

1 schools and secondary schools that children
2 from wealthier families already have;

3 (B) in improving schools and other aca-
4 demic programs by financially enhancing the
5 consumer power of low-income families to
6 choose the schools and programs that the fami-
7 lies determine best fit the needs of their chil-
8 dren;

9 (C) in engaging low-income parents more
10 fully in their children's schooling;

11 (D) in providing low-income parents with a
12 wide range of choice in selecting a school for
13 their children, including public schools, private
14 schools, and private religious schools, without
15 promoting or discriminating against the choice
16 of a particular type of school; and

17 (E) in combating crime, drugs, and illegit-
18 imacy in low-income communities by encourag-
19 ing the restoration of moral character.

20 (2) To demonstrate the effects of State and
21 local programs that give low-income families more of
22 the choices in schools (public, private, or religious)
23 that wealthier families already have.

24 **SEC. 304. DEFINITIONS.**

25 In this title:

1 (1) ALTERNATIVE PUBLIC SCHOOL.—The term
2 “alternative public school” means a public elemen-
3 tary school or secondary school, other than the pub-
4 lic elementary school or secondary school to which
5 an eligible child normally would be assigned, that is
6 within a reasonable transportation distance from the
7 eligible child’s residence.

8 (2) ELIGIBLE ASSISTANCE.—The term “eligible
9 assistance” means tuition, fees, or transportation as-
10 sistance provided pursuant to section 306 to parents
11 of eligible children who participate in a scholarship
12 program.

13 (3) ELIGIBLE CHILD.—The term “eligible
14 child” means a child whose parents qualify to receive
15 eligible assistance under section 307.

16 (4) ELEMENTARY SCHOOL; LOCAL EDU-
17 CATIONAL AGENCY; PARENT; SECONDARY SCHOOL.—
18 The terms “elementary school”, “local educational
19 agency”, “parent”, and “secondary school” have the
20 meanings given the terms in section 14101 of the
21 Elementary and Secondary Education Act of 1965
22 (20 U.S.C. 8801).

23 (5) LOW-INCOME FAMILY.—The term “low-in-
24 come family” means a family with a total family in-

1 come that does not exceed 185 percent of the pov-
2 erty line.

3 (6) POVERTY LINE.—The term “poverty line”
4 means the poverty line (as defined by the Office of
5 Management and Budget, and revised annually in
6 accordance with section 673(2) of the Community
7 Services Block Grant Act (42 U.S.C. 9902(2))) ap-
8 plicable to a family of the size involved.

9 (7) RENEWAL COMMUNITY.—The term “re-
10 newal community” has the meaning given such term
11 in section 1400 of the Internal Revenue Code of
12 1986.

13 (8) SCHOLARSHIP.—The term “scholarship”
14 means a certificate for eligible assistance awarded to
15 a parent of an eligible child pursuant to section 307.

16 (9) SCHOLARSHIP PROGRAM.—The term “schol-
17 arship program” means a program within the re-
18 newal community that provides scholarships to eligi-
19 ble children in accordance with this title.

20 (10) SCHOLARSHIP SCHOOL.—The term “schol-
21 arship school” means a private elementary school or
22 secondary school that chooses to accept eligible as-
23 sistance.

24 (11) SECRETARY.—The term “Secretary”
25 means the Secretary of Education.

1 (12) STATE.—The term “State” means each of
2 the 50 States, the District of Columbia, and the
3 Commonwealth of Puerto Rico.

4 (13) TRANSPORTATION ASSISTANCE.—The term
5 “transportation assistance” means direct or indirect
6 subsidization of the costs of transporting eligible
7 children participating in the scholarship program to
8 scholarship schools or alternative public schools.

9 **SEC. 305. PLAN SUBMISSION; REQUIREMENTS.**

10 (a) PLAN.—A community designated as a renewal
11 community under section 1400 of the Internal Revenue
12 Code of 1986 shall submit a plan to carry out a scholar-
13 ship program to the Secretary not later than 60 days after
14 receiving such designation. Such plan shall include the fol-
15 lowing:

16 (1) DESIGNATION.—A designation of a public
17 or private office, agency, or organization that will be
18 responsible for the establishment and operation of
19 the scholarship program and for the distribution of
20 eligible assistance to parents.

21 (2) OPTIONS.—A description of the actions to
22 be taken by the State or renewal community to in-
23 crease educational options for low-income children,
24 including—

25 (A) public school choice programs;

1 (B) private school choice programs;

2 (C) quasi-public or charter school pro-
3 grams; and

4 (D) programs privatizing services such as
5 transportation, administration, or food prepara-
6 tion or distribution.

7 (3) OTHER FUNDING SOURCES.—A description
8 of State and local funds (including tax benefits) and
9 nongovernmental funds, if any, that will be available
10 to supplement eligible assistance provided under this
11 title.

12 (4) PROCEDURES.—A description of the proce-
13 dures the applicant will use, including timely and
14 meaningful consultation with private school officials,
15 to encourage public and private elementary schools
16 and secondary schools to participate in the scholar-
17 ship program and to ensure maximum educational
18 choices for the parents of eligible children and for
19 other children residing in the renewal community.

20 (5) INFORMING PARENTS.—A description of
21 how the applicant will inform parents and schools of
22 the scholarship program and of the choices available
23 to parents under the scholarship program.

1 (6) SELECTION.—A description of procedures
2 the applicant will use to determine which eligible
3 children will receive eligible assistance.

4 (7) RECORDS.—An assurance that the appli-
5 cant will maintain such records relating to the schol-
6 arship program as the Secretary may require and
7 will comply with the Secretary’s reasonable requests
8 for information about the scholarship program.

9 (b) REQUIREMENTS.—A community that is so des-
10 ignated as a renewal community shall establish and oper-
11 ate a scholarship program and distribute scholarships to
12 parents during the first school year beginning on or after
13 the 90th day following the day of such designation. Such
14 scholarship program shall meet the following require-
15 ments:

16 (1) CHOICE.—The scholarship program shall
17 provide a choice of schools to families with eligible
18 children who reside in the renewal community.

19 (2) ELIGIBLE ASSISTANCE.—The scholarship
20 program shall provide eligible assistance to parents
21 of eligible children to enable the eligible children to
22 attend public and private elementary schools and
23 secondary schools, including religious schools, that
24 serve the renewal community.

1 (3) PARTICIPATION.—The scholarship program
2 shall allow all or any lawfully operating public and
3 private elementary schools or secondary schools, in-
4 cluding religious schools, that serve the renewal com-
5 munity to participate in a scholarship program if the
6 school so chooses, subject to the qualifications speci-
7 fied in section 310.

8 (c) COMPLIANCE.—The Secretary shall notify the
9 Secretary of Housing and Urban Development if a renewal
10 community fails to comply with the requirements of sub-
11 section (a) or (b). Upon such notification, the Secretary
12 of Housing and Urban Development may begin a review
13 to determine whether to revoke the designation of the re-
14 newal community as a renewal community.

15 **SEC. 306. USES OF FUNDS.**

16 A community that receives renewal community des-
17 ignation under section 1400 of the Internal Revenue Code
18 of 1986 shall use funds received under this title—

19 (1) to provide scholarships to assist in the pay-
20 ment of tuition and fees at a scholarship school se-
21 lected by the parents of an eligible child, and to as-
22 sist in the payment of transportation assistance to
23 enable eligible children to attend scholarship schools
24 or alternative public schools selected by such par-
25 ents;

1 (2) to pay the cost of administering the edu-
2 cational opportunity scholarship program, except
3 that the costs may not exceed 10 percent of the
4 funds a renewal community receives under this title
5 for any fiscal year; and

6 (3) to pay for the education of children from
7 low-income families attending public schools in ac-
8 cordance with section 313.

9 **SEC. 307. SCHOLARSHIP PROGRAM.**

10 (a) ELIGIBLE CHILDREN.—From the amounts made
11 available under this title, each renewal community shall
12 provide, to the extent practicable, eligible assistance to a
13 parent who has applied for the eligible assistance and has
14 a child who—

15 (1) is a member of a low-income family;

16 (2) resides in the renewal community; and

17 (3)(A) seeks to attend a scholarship school that
18 participates in the scholarship program; or

19 (B) seeks to attend an alternative public school
20 that participates in the scholarship program.

21 (b) SELECTION AMONG ELIGIBLE CHILDREN.—

22 (1) IN GENERAL.—In the event that a renewal
23 community has insufficient funds to provide eligible
24 assistance to all eligible children whose parents have

1 applied for eligible assistance, the renewal commu-
2 nity may select students according to—

3 (A) random selection;

4 (B) the date of the parents' application for
5 the eligible assistance with preference given to
6 parents who applied earlier; or

7 (C) any other selection criteria developed
8 by the renewal community, subject to the limi-
9 tations provided in subsection (c).

10 (2) PRIORITY.—A renewal community shall give
11 priority to providing eligible assistance to a parent
12 for an eligible child who received eligible assistance
13 pursuant to this title during the preceding school
14 year.

15 (c) CRITERIA FOR SELECTION.—The renewal com-
16 munity may choose any criteria the renewal community
17 wishes in order to make the selection described in sub-
18 section (b), except that such criteria shall not—

19 (1) discriminate on the basis of race or religion;

20 (2) discriminate on the basis of the school or
21 type of school selected by the parent; or

22 (3) discriminate against an eligible child be-
23 cause the parent of the eligible child has chosen to
24 receive a scholarship to attend a scholarship school
25 under section 309(b)(2) rather than a scholarship to

1 attend an alternative public school under section
2 309(b)(3).

3 (d) AMOUNT OF EACH SCHOLARSHIP.—

4 (1) IN GENERAL.—The renewal community
5 shall determine the amount of scholarships provided
6 each semester within the renewal community, except
7 that the amount of a scholarship provided by a re-
8 newal community shall not be less than the mini-
9 mum amount specified in paragraph (2) and shall
10 not exceed the maximum amount specified in para-
11 graph (3).

12 (2) MINIMUM AMOUNT.—The minimum amount
13 of a scholarship for a semester shall be the lesser
14 of—

15 (A) 60 percent of the average per pupil ex-
16 penditure per semester in the local educational
17 agency serving the public elementary or second-
18 ary school in the renewal community to which
19 the child would normally be assigned for the
20 preceding school year; or

21 (B) the regular tuition and education fees
22 charged per semester by the scholarship school
23 chosen by the parent.

24 (3) MAXIMUM AMOUNT.—The maximum
25 amount of a scholarship for a semester shall be the

1 average per pupil expenditure per semester in the
2 local educational agency serving the public elemen-
3 tary or secondary school in the renewal community
4 to which the child would normally be assigned for
5 the preceding school year.

6 (4) **DISABILITY.**—If a child has a disability, the
7 average per pupil expenditure per semester in the
8 local educational agency serving the public elemen-
9 tary or secondary school in the renewal community
10 to which the child would normally be assigned for
11 the preceding school year shall be calculated using
12 the expenditures for such semester for children with
13 the same special needs or handicapped category as
14 the child.

15 (e) **REDEMPTION OF SCHOLARSHIP CERTIFICATE.**—
16 An eligible school that receives a scholarship certificate
17 from a parent pursuant to this title shall present such cer-
18 tificate to the renewal community for payment.

19 **SEC. 308. ALLOCATION OF FUNDS AMONG RENEWAL COM-**
20 **MUNITIES.**

21 (a) **IN GENERAL.**—The funds authorized to be appro-
22 priated under section 317 shall be allocated to each re-
23 newal community by the Secretary of the Treasury as fol-
24 lows:

1 (1) 80 percent shall be allocated among renewal
2 communities according to the formula provided in
3 subsection (b).

4 (2) 20 percent shall be allocated among renewal
5 communities according to the formula provided in
6 subsection (c).

7 (b) BASIC FUNDING ALLOCATION.—Except as pro-
8 vided in subsection (d), each renewal community shall re-
9 ceive a percentage of the funds provided under subsection
10 (a)(1) based on—

11 (1) the number of children from low-income
12 families who reside in a renewal community; com-
13 pared to

14 (2) the number of children from low-income
15 families who reside in all renewal communities.

16 (c) ADDITIONAL MATCHING FUNDS.—Each renewal
17 community shall receive a percentage of funds provided
18 under subsection (a)(2) based on—

19 (1) the total value of matching contributions for
20 scholarships provided from local governmental,
21 State, or private charitable sources within a renewal
22 community; compared to

23 (2) the total value of matching contributions for
24 scholarships provided from local governmental,

1 State, or private charitable sources in all renewal
2 communities.

3 (d) POSSIBLE EXCEPTION.—Notwithstanding sub-
4 section (b), if the Commonwealth of Puerto Rico or com-
5 munities in the Commonwealth of Puerto Rico are des-
6 ignated as renewal communities, such renewal commu-
7 nities, in aggregate, shall receive a percentage of the funds
8 made available under this title in a fiscal year that is not
9 more than the percentage of the funds made available
10 under title I of the Elementary and Secondary Education
11 Act of 1965 (20 U.S.C. 6301 et seq.) for fiscal year 1995
12 that the Commonwealth of Puerto Rico received under
13 such title for such year.

14 **SEC. 309. PARENTAL RIGHT OF CHOICE IN EDUCATION.**

15 (a) IN GENERAL.—Parents of each eligible child who
16 receive eligible assistance under this title shall be given
17 the maximum degree of choice with respect to enrolling
18 their eligible children in public and private elementary and
19 secondary schools, including religious schools, that serve
20 the renewal community.

21 (b) TYPES OF ELIGIBLE ASSISTANCE.—

22 (1) IN GENERAL.—The type of eligible assist-
23 ance provided to the parent of an eligible child se-
24 lected to participate in the scholarship program shall

1 be determined by the type of school that the parent
2 selects for the eligible child.

3 (2) SCHOLARSHIP SCHOOL.—If the parent
4 elects to have an eligible child attend a scholarship
5 school, the parent shall receive a scholarship for—

6 (A) tuition and fees at the scholarship
7 school; and

8 (B) transportation assistance.

9 (3) ALTERNATIVE PUBLIC SCHOOL.—If the par-
10 ent elects to have the eligible child attend an alter-
11 native public school, the parent shall receive a schol-
12 arship for transportation assistance.

13 (c) NO GUARANTEE OF ADMISSION.—Eligible chil-
14 dren whose parents have applied to receive a scholarship
15 under this title shall be subject to the admission criteria
16 of the scholarship school or alternative public school that
17 the parent selects, and nothing in this title shall be con-
18 strued to guarantee the right of an eligible child to attend
19 any scholarship school or alternative public school.

20 (d) LIMITATION ON NUMBER OF CHILDREN AS-
21 SISTED.—The number of eligible children receiving eligible
22 assistance from a renewal community shall be determined
23 by the funds available to such renewal community from—

24 (1) Federal funds provided under this title; and

1 (2) other funds provided by public and private
2 sources.

3 (e) PARENTAL NOTIFICATION.—

4 (1) IN GENERAL.—Each renewal community
5 shall provide timely notice of the scholarship pro-
6 gram to parents of eligible children residing in the
7 renewal community and to the schools in the renewal
8 community. At a minimum, such notice shall—

9 (A) describe the scholarship program;

10 (B) describe the eligibility requirements for
11 scholarships;

12 (C) describe the selection procedures to be
13 used if the number of eligible children seeking
14 to participate in the scholarship program ex-
15 ceeds the number that can be accommodated in
16 the scholarship program;

17 (D) provide information about scholarship
18 schools and alternative public schools, including
19 information about any admission requirements
20 or criteria for each school participating in the
21 scholarship program; and

22 (E) include the procedures and a schedule
23 for parents to apply for their eligible children to
24 participate in the scholarship program.

1 (2) NOTIFICATION METHODS.—Each renewal
2 community is encouraged to use a variety of means
3 to provide information to parents in the renewal
4 community, including direct distribution, mail, dis-
5 tribution of materials in publicly frequented places,
6 public advertisements, and cooperative efforts with
7 local community groups.

8 (f) INFORMATION.—Renewal communities, upon re-
9 quest by any and all schools eligible to become scholarship
10 schools, shall fully cooperate with such schools in a timely
11 and reasonable manner to provide to parents of eligible
12 children information prepared by the school regarding the
13 school’s participation in the scholarship program.

14 **SEC. 310. ELIGIBLE SCHOOLS.**

15 (a) STANDARDS.—Each scholarship school located in
16 the renewal community or within a reasonable transpor-
17 tation distance of the renewal community is eligible to re-
18 deem scholarships and to become a scholarship school if—

19 (1) the school complies with the antidiscrimina-
20 tion provisions of section 601 of title VI of the Civil
21 Rights Act of 1964 (42 U.S.C. 2000) and does not
22 discriminate on the basis of race;

23 (2) the school satisfies requirements established
24 by State and local governments, where applicable,
25 for curriculum and facilities that applied to scholar-

1 ship schools as of January 1, 1997 in the renewal
2 community in which the scholarship school is lo-
3 cated; and

4 (3) the school meets the health and safety
5 standards that applied to scholarship schools as of
6 January 1, 1997 in the renewal community in which
7 the school is located.

8 (b) LIMITS ON THE REGULATION OF SCHOOLS.—Any
9 Federal, State, or local laws applicable to a scholarship
10 school shall be subject to the following limitations:

11 (1) PROHIBITION OF ADDITIONAL REQUIRE-
12 MENTS OR REGULATIONS.—No additional require-
13 ments or regulations (including paperwork require-
14 ments) other than those requirements or regulations
15 in effect on the date of the enactment of this Act or
16 established pursuant to this title may be imposed
17 upon scholarship schools.

18 (2) ADMISSION PREFERENCE.—Students who
19 are enrolled in a scholarship school in the preceding
20 school year may be given an admissions preference
21 over new students who apply for such enrollment.

22 (3) RELIGIOUS INSTRUCTION OR EDUCATION.—
23 No requirements or regulations may prohibit or limit
24 the authority of scholarship schools to provide reli-
25 gious instruction or education.

1 (4) RELIGIOUS FREEDOM.—Scholarship schools
2 shall be protected by the rights granted in the Reli-
3 gious Freedom Restoration Act of 1993 (42 U.S.C.
4 2000bb et seq.).

5 (5) RELIGIOUS TENETS OR TEACHINGS.—Ex-
6 cept for the limitation concerning discrimination on
7 the basis of race expressed in subsection (a)(1), any
8 scholarship school operated by a religious organiza-
9 tion may require its employees to adhere to the reli-
10 gious tenets and teachings of such organization.

11 (6) GENDER.—No requirement or regulation
12 shall prohibit a scholarship school from—

13 (A) admitting students of a single gender;

14 (B) operating classes which are separated
15 on the basis of gender; or

16 (C) employing teaching personnel whose
17 gender the school deems appropriate in the edu-
18 cation of certain categories of students.

19 (c) INELIGIBLE SCHOOLS.—Notwithstanding any
20 other provision of this title, a school that advocates crimi-
21 nal behavior or which is operated by an organization which
22 advocates criminal behavior, is ineligible to participate in
23 the program authorized by this title.

1 **SEC. 311. ADMINISTRATION OF PROGRAM AND TREATMENT**
2 **OF FUNDS.**

3 (a) FUNDS NOT AID TO INSTITUTIONS.—Eligible as-
4 sistance provided under this title is an award of aid to
5 a family, not to a school. Use of eligible assistance shall
6 not constitute Federal financial aid or assistance to a
7 school, nor shall the use of the eligible assistance be con-
8 strued to invoke any regulation of an activity beyond the
9 regulations explicitly referred to or provided for in this
10 title.

11 (b) TREATMENT OF FUNDS.—A Federal, State, or
12 local agency may not take into account, in any year, Fed-
13 eral funds provided to a renewal community, a school, or
14 a parent of any eligible child under this title in determin-
15 ing whether to provide any other funds from Federal,
16 State, or local resources, or in determining the amount
17 of such funds.

18 (c) NO AUTHORIZATION OF FEDERAL REGULATION
19 OF EDUCATION.—Nothing in this Act shall be construed
20 to authorize the Secretary to exercise any direction, super-
21 vision, or control over the curriculum, program of instruc-
22 tion, administration, or personnel of any school participat-
23 ing in a program under this title.

24 (d) SECTARIAN INSTITUTIONS.—Nothing in this title
25 shall be construed to supersede or modify any provision
26 of a State constitution or State law that prohibits the ex-

1 penditure of public funds in or by sectarian schools, except
2 that no provision of a State constitution or State law shall
3 be construed to prohibit the expenditure in or by sectarian
4 schools of any Federal funds provided under this title.

5 (e) REGULATION OF SCHOOLS NOT RECEIVING
6 SCHOLARSHIPS.—A rule or requirement established for
7 scholarship schools shall not apply to a scholarship school
8 that chooses not to become a scholarship school.

9 (f) SCHOLARSHIPS NOT DEEMED INCOME.—Funds
10 used to provide scholarships for an eligible child shall not
11 be deemed income of the parents of the eligible child (or
12 of the eligible child) for Federal income tax purposes or
13 for determining eligibility for any other Federal programs.

14 **SEC. 312. CONTRIBUTIONS TO SCHOLARSHIP PROGRAM**
15 **FROM OTHER SOURCES.**

16 (a) IN GENERAL.—The renewal community is en-
17 couraged to seek or provide additional funds for tuition,
18 fees, and transportation assistance from other sources, in-
19 cluding—

- 20 (1) local government funds;
21 (2) State government funds;
22 (3) contributions from private businesses; and
23 (4) contributions from private charitable orga-
24 nizations.

1 (b) PARENTAL PAYMENTS NOT COUNTED AS
2 MATCHING CONTRIBUTIONS.—For purposes of section
3 308(c), payments of tuition and education fees by parents
4 of eligible children shall not be considered matching con-
5 tributions.

6 **SEC. 313. USE OF EXCESS FUNDS FOR ADDITIONAL EDU-**
7 **CATIONAL PURPOSES.**

8 (a) IN GENERAL.—If any funds provided under this
9 title remain available to a renewal community after the
10 renewal community has provided scholarships to all eligi-
11 ble children whose parents have applied for eligible assist-
12 ance in accordance with this title, the renewal community
13 may use such funds for the general education of children
14 from low-income families who attend public elementary
15 schools and secondary schools within the renewal commu-
16 nity, subject to the limitation in subsection (b).

17 (b) LIMITATION.—A renewal community may not use
18 the funds described in subsection (a) for the purposes de-
19 scribed in such subsection if the Secretary determines that
20 the renewal community—

21 (1) has failed to fully inform the parents of eli-
22 gible children of—

23 (A) the availability of eligible assistance;

24 and

1 (B) the full range of choices of schools
2 available under the scholarship program;

3 (2) has in any way discouraged or impeded par-
4 ents of eligible children from using eligible assist-
5 ance;

6 (3) has in any way discouraged or impeded
7 scholarship schools or alternative public schools from
8 participation in the scholarship program; or

9 (4) has unreasonably hindered the establish-
10 ment of new private elementary schools or secondary
11 schools within the renewal community.

12 (c) FORFEITURE OF SURPLUS FUNDS.—In the event
13 that the Secretary determines that a renewal community
14 has met one or more of the conditions described in sub-
15 section (b), the renewal community shall return the funds
16 described in subsection (a) to the Treasury of the United
17 States.

18 **SEC. 314. EVALUATION.**

19 (a) IN GENERAL.—The Secretary shall conduct a na-
20 tional evaluation of the scholarship programs authorized
21 by this title not later than 2 years after the date the first
22 scholarship program begins and shall conduct a second
23 such evaluation 4 years after such date. The evaluations
24 shall—

1 (1) assess the implementation of scholarship
2 programs and the effect of the scholarship programs
3 on participants, schools, and communities in the re-
4 newal communities, including parental involvement
5 in, and satisfaction with, the scholarship programs
6 and their children's education;

7 (2) compare the educational achievement of
8 children who participate in the scholarship programs
9 with the achievement of similar children who do not
10 participate in the scholarship programs, which
11 achievement shall be compared before, during, and
12 after the scholarship programs;

13 (3) compare the educational achievement of
14 children who use scholarships to attend schools other
15 than the schools to which the children would be as-
16 signed in the absence of the scholarship programs,
17 with the educational achievement of children who at-
18 tend the schools to which scholarship students would
19 be assigned in the absence of the scholarship pro-
20 grams; and

21 (4) compare graduation rates of children who
22 use scholarships to attend schools other than the
23 schools to which the children would be assigned in
24 the absence of the scholarship program, with grad-
25 uation rates of children who attend the schools to

1 which the scholarship students would be assigned in
2 the absence of the program.

3 (b) NO AUTHORIZATION OF SCHOOL REGULATION.—

4 The responsibility to evaluate shall not be construed to
5 authorize the State or local government to exercise any
6 direction, supervision, or control over the curriculum, pro-
7 gram of instruction, administration, or personnel of any
8 scholarship school participating in a scholarship program,
9 except that the school may be required to provide reason-
10 able information to assist in the evaluation of the scholar-
11 ship program, including the results of standardized tests
12 of student achievement, surveys of parental satisfaction
13 with their child's education, surveys of student satisfac-
14 tion, attendance rates, dropout rates, and data on stu-
15 dent's college enrollment.

16 **SEC. 315. EFFECT ON IDEA.**

17 Nothing in this Act shall be construed to affect the
18 applicability or requirements of part B of the Individuals
19 With Disabilities Education Act (20 U.S.C. 1400 et seq.).

20 **SEC. 316. JUDICIAL REVIEW.**

21 (a) PANEL.—In the event of an action challenging the
22 constitutionality of this title or a scholarship program im-
23 plemented under this title, such action shall be tried by
24 a three judge panel in the United States District Court
25 for the District of Columbia.

1 (b) APPEAL.—An appeal may be taken directly to the
 2 Supreme Court of the United States from any judgment,
 3 decree, or order issued by the United States District Court
 4 for the District of Columbia pursuant to subsection (a).

5 (c) REQUESTS TO EXPEDITE.—The United States
 6 District Court for the District of Columbia and the Su-
 7 preme Court of the United States are requested to expe-
 8 dite an action and appeal, respectively, requested pursuant
 9 to subsections (a) and (b), respectively.

10 **SEC. 317. AUTHORIZATION OF APPROPRIATIONS.**

11 There are authorized to be appropriated to carry out
 12 this title \$200,000,000 for fiscal year 1998, \$200,000,000
 13 for fiscal year 1999, \$200,000,000 for fiscal 2000,
 14 \$200,000,000 for fiscal year 2001, and \$200,000,000 for
 15 fiscal year 2002.

16 **TITLE IV—ADDITIONAL**
 17 **PROVISIONS**

18 **SEC. 401. TRANSFER OF UNOCCUPIED AND SUBSTANDARD**
 19 **HUD-HELD HOUSING IN RENEWAL COMMU-**
 20 **NITIES TO LOCAL GOVERNMENTS.**

21 (a) TRANSFER REQUIREMENT.—Pursuant to the au-
 22 thority under section 204 of the Departments of Veterans
 23 Affairs and Housing and Urban Development, and Inde-
 24 pendent Agencies Appropriations Act, 1997, the Secretary
 25 shall transfer ownership of any qualified HUD property

1 to the unit of general local government having jurisdiction
2 for the area in which the property is located in accordance
3 with this section, but only if the unit of general local gov-
4 ernment enters into an agreement with the Secretary
5 meeting the requirements of subsection (d).

6 (b) QUALIFIED HUD PROPERTIES.—For purposes of
7 this section, the term “qualified HUD property” means
8 any unoccupied multifamily housing, project, substandard
9 multifamily housing project, or unoccupied single family
10 property, that is—

11 (1) owned by the Secretary; and

12 (2) located within a renewal community.

13 (c) TIMING OF TRANSFER.—Any transfer of owner-
14 ship required under subsection (a) shall be completed—

15 (1) with respect to any multifamily housing
16 project or single family property that is acquired by
17 the Secretary before the date on which the area in
18 which property is located is designated as a renewal
19 community and that is substandard or unoccupied
20 (as applicable) upon such date, not later than 1 year
21 after such date; and

22 (2) with respect to any multifamily housing
23 project or single family property that is acquired by
24 the Secretary on or after the date on which the area

1 in which the property is located is designated as a
2 renewal community, not later than 1 year after—

3 (A) the date on which the project is deter-
4 mined to be substandard or unoccupied (as ap-
5 plicable), in the case of a property that is not
6 unoccupied or substandard upon acquisition by
7 the Secretary; or

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

12 (d) AGREEMENTS TO SELL PROPERTY TO COMMU-
13 NITY DEVELOPMENT CORPORATIONS.—An agreement de-
14 scribed in this subsection is an agreement that requires
15 a unit of general local government to dispose of the quali-
16 fied HUD property acquired by the unit of general local
17 government in accordance with the following require-
18 ments:

19 (1) NOTIFICATION TO COMMUNITY DEVELOP-
20 MENT CORPORATIONS.—Not later than 30 days after
21 the date on which the unit of general local govern-
22 ment acquires title to the property under subsection
23 (a), the unit of general local government shall notify
24 each community development corporation located in
25 the State in which the property is located—

1 (A) of such acquisition of title; and

2 (B) that, during the 6-month period begin-
3 ning on the date on which such notification is
4 made, such community development corpora-
5 tions shall have the exclusive right under this
6 subsection to make bona fide offers to purchase
7 the property on a cost recovery basis.

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

10 (A) the unit of general local government
11 may not sell or offer to sell the qualified HUD
12 property other than to a party notified under
13 paragraph (1), unless each community develop-
14 ment corporation required to be so notified has
15 notified the unit of general local government
16 that the corporation will not make an offer to
17 purchase the property; and

18 (B) the unit of general local government
19 shall accept a bona fide offer to purchase the
20 property made during such period if the offer is
21 acceptable to the unit of general local govern-
22 ment, except that a unit of general local govern-
23 ment may not sell a property to a community
24 development corporation during that 6-month
25 period other than on a cost recovery basis.

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

8 (e) SATISFACTION OF INDEBTEDNESS.—Before
9 transferring ownership of any qualified HUD property
10 pursuant to subsection (a), the Secretary shall satisfy any
11 indebtedness incurred in connection with the property to
12 be transferred, by—

13 (1) canceling the indebtedness; or

14 (2) reimbursing the unit of general local gov-
15 ernment to which the property is transferred for the
16 amount of the indebtedness.

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

20 (1) UPON DESIGNATION OF RENEWAL COMMU-
21 NITIES.—Upon the designation of any renewal com-
22 munity, the Secretary shall promptly assess each
23 residential property owned by the Secretary that is
24 located within such renewal community to determine
25 whether such property is a qualified HUD property.

1 (2) UPON ACQUISITION.—Upon acquiring any
2 residential property that is located with a renewal
3 community, the Secretary shall promptly determine
4 whether the property is a qualified HUD property.

5 (3) UPDATES.—The Secretary shall periodically
6 reassess the residential properties owned by the Sec-
7 retary to determine whether any such properties
8 have become qualified HUD properties.

9 (g) TENANT LEASES.—This section shall not affect
10 the terms or the enforceability of any contract or lease
11 entered into with respect to any residential property before
12 the date that such property becomes a qualified HUD
13 property.

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

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

21 (1) COMMUNITY DEVELOPMENT CORPORA-
22 TION.—The term “community development corpora-
23 tion” means a nonprofit organization whose primary
24 purpose is to promote community development by

1 providing housing opportunities for low-income fami-
2 lies.

3 (2) COST RECOVERY BASIS.—The term “cost
4 recovery basis” means, with respect to any sale of a
5 residential property by a unit of general local gov-
6 ernment to a community development corporation
7 under subsection (d)(2), that the purchase price paid
8 by the community development corporation is less
9 than or equal to the costs incurred by the unit of
10 general local government in connection with such
11 property during the period beginning on the date on
12 which the unit of general local government acquires
13 title to the property under subsection (a) and ending
14 on the date on which the sale is consummated.

15 (3) LOW-INCOME FAMILIES.—The term “low-in-
16 come families” has the meaning given the term in
17 section 3(b) of the United States Housing Act of
18 1937.

19 (4) MULTIFAMILY HOUSING PROJECT.—The
20 term “multifamily housing project” has the meaning
21 given the term in section 203 of the Housing and
22 Community Development Amendments of 1978.

23 (5) RENEWAL COMMUNITY.—The term “re-
24 newal community” means an area designated (under

1 subchapter W of chapter 1 of the Internal Revenue
2 Code of 1986) as a renewal community.

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

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

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

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

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

19 (C) has no functioning electrical service,
20 exposed wiring, any room in which there is not
21 a functioning electrical outlet, or has experi-
22 enced 3 or more blown fuses or tripped circuit
23 breakers during the preceding 90-day period;

24 (D) is accessible through a public hallway
25 in which there are no working light fixtures,

1 loose or missing steps or railings, and no eleva-
2 tor; or

3 (E) has severe maintenance problems, in-
4 cluding water leaks involving the roof, windows,
5 doors, basement, or pipes or plumbing fixtures,
6 holes or open cracks in walls or ceilings, severe
7 paint peeling or broken plaster, and signs of ro-
8 dent infestation.

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

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

16 (11) UNIT OF GENERAL LOCAL GOVERN-
17 MENT.—The term “unit of general local govern-
18 ment” has the meaning given the term in section
19 102(a) of the Housing and Community Development
20 Act of 1974.

21 (12) UNOCCUPIED.—The term “unoccupied”
22 means, with respect to a residential property, that
23 the unit of general local government having jurisdic-
24 tion over the area in which the project is located has

1 certified in writing that the property is not inhab-
2 ited.

3 **SEC. 402. PREVENTION AND TREATMENT OF SUBSTANCE**
4 **ABUSE; SERVICES PROVIDED THROUGH RELI-**
5 **GIOUS ORGANIZATIONS.**

6 Title V of the Public Health Service Act (42 U.S.C.
7 290aa et seq.) is amended by adding at the end the follow-
8 ing part:

9 “PART G—SERVICES PROVIDED THROUGH RELIGIOUS
10 ORGANIZATIONS

11 **“SEC. 581. APPLICABILITY TO DESIGNATED PROGRAMS.**

12 “(a) DESIGNATED PROGRAMS.—Subject to sub-
13 section (b), this part applies to each program under this
14 Act that makes awards of Federal financial assistance to
15 public or private entities for the purpose of carrying out
16 activities to prevent or treat substance abuse (in this part
17 referred to as a ‘designated program’). Designated pro-
18 grams include the program under subpart II of part B
19 of title XIX (relating to formula grants to the States).

20 “(b) LIMITATION.—This part does not apply to any
21 award of Federal financial assistance under a designated
22 program for a purpose other than the purpose specified
23 in subsection (a).

24 “(c) DEFINITIONS.—For purposes of this part (and
25 subject to subsection (b)):

1 “(1) The term ‘designated award recipient’
2 means a public or private entity that has received an
3 award under a designated program (whether the
4 award is a designated direct award or a designated
5 subaward).

6 “(2) The term ‘designated direct award’ means
7 an award under a designated program that is re-
8 ceived directly from the Federal Government.

9 “(3) The term ‘designated subaward’ means an
10 award of financial assistance made by a non-Federal
11 entity, which award consists in whole or in part of
12 Federal financial assistance provided through an
13 award under a designated program.

14 “(4) The term ‘designated program’ has the
15 meaning given such term in subsection (a).

16 “(5) The term ‘financial assistance’ means a
17 grant, cooperative agreement, contract, or
18 voucherized assistance.

19 “(6) The term ‘program beneficiary’ means an
20 individual who receives program services.

21 “(7) The term ‘program participant’ has the
22 meaning given such term in section 582(a)(2).

23 “(8) The term ‘program services’ means treat-
24 ment for substance abuse, or preventive services re-

1 garding such abuse, provided pursuant to an award
2 under a designated program.

3 “(9) The term ‘religious organization’ means a
4 nonprofit religious organization.

5 “(10) The term ‘voucherized assistance’
6 means—

7 “(A) a system of selecting and reimbursing
8 program services in which—

9 “(i) the beneficiary is given a docu-
10 ment or other authorization that may be
11 used to pay for program services;

12 “(ii) the beneficiary chooses the orga-
13 nization that will provide services to him or
14 her according to rules specified by the des-
15 ignated award recipient; and

16 “(iii) the organization selected by the
17 beneficiary is reimbursed by the designated
18 award recipient for program services pro-
19 vided; or

20 “(B) any other mode of financial assist-
21 ance to pay for program services in which the
22 program beneficiary determines the allocation
23 of program funds through his or her selection
24 of one service provider from among alternatives.

1 **“SEC. 582. RELIGIOUS ORGANIZATIONS AS PROGRAM PAR-**
2 **TICIPANTS.**

3 “(a) IN GENERAL.—

4 “(1) SCOPE OF AUTHORITY.—Notwithstanding
5 any other provision of law, a religious organiza-
6 tion—

7 “(A) may be a designated award recipient;

8 “(B) may make designated subawards to
9 other public or nonprofit private entities (in-
10 cluding other religious organizations);

11 “(C) may provide for the provision of pro-
12 gram services to program beneficiaries through
13 the use of voucherized assistance; and

14 “(D) may be a provider of services under
15 a designated program, including a provider that
16 accepts voucherized assistance.

17 “(2) DEFINITION OF PROGRAM PARTICIPANT.—

18 For purposes of this part, the term ‘program partici-
19 pant’ means a public or private entity that has re-
20 ceived a designated direct award, or a designated
21 subaward, regardless of whether the entity provides
22 program services. Such term includes an entity
23 whose only participation in a designated program is
24 to provide program services pursuant to the accept-
25 ance of voucherized assistance.

1 “(b) RELIGIOUS ORGANIZATIONS.—The purpose of
2 this section is to allow religious organizations to be pro-
3 gram participants on the same basis as any other non-
4 profit private provider without impairing the religious
5 character of such organizations, and without diminishing
6 the religious freedom of program beneficiaries.

7 “(c) NONDISCRIMINATION AGAINST RELIGIOUS OR-
8 GANIZATIONS.—

9 “(1) FINDINGS.—The Congress finds that the
10 establishment clause of the first amendment to the
11 Constitution of the United States does not require
12 that—

13 “(A) social-welfare programs discriminate
14 against faith-based providers of services; or

15 “(B) faith-based providers of services, as a
16 prerequisite to participation in Federal pro-
17 grams, abandon their religious character and
18 censor their religious expression.

19 “(2) NONDISCRIMINATION.—Religious organiza-
20 tions are eligible to be program participants on the
21 same basis as any other nonprofit private organiza-
22 tion. Neither the Federal Government nor a State
23 receiving funds under such programs shall discrimi-
24 nate against an organization that is or applies to be

1 a program participant on the basis that the organi-
2 zation has a religious character.

3 “(d) RELIGIOUS CHARACTER AND FREEDOM.—

4 “(1) RELIGIOUS ORGANIZATIONS.—Except as
5 provided in this section, any religious organization
6 that is a program participant shall retain its inde-
7 pendence from Federal, State, and local government,
8 including such organization’s control over the defini-
9 tion, development, practice, and expression of its re-
10 ligious beliefs.

11 “(2) ADDITIONAL SAFEGUARDS.—Neither the
12 Federal Government nor a State shall require a reli-
13 gious organization to—

14 “(A) alter its form of internal governance;

15 or

16 “(B) remove religious art, icons, scripture,
17 or other symbols;

18 in order to be a program participant.

19 “(e) NONDISCRIMINATION IN EMPLOYMENT.—

20 “(1) IN GENERAL.—Except as provided in para-
21 graph (2), nothing in this section shall be construed
22 to modify or affect the provisions of any other Fed-
23 eral or State law or regulation that relates to dis-
24 crimination in employment on the basis of religion.

1 “(2) EXCEPTION.—A religious organization
2 that is a program participant may require that an
3 employee rendering programs services adhere to—

4 “(A) the religious beliefs and practices of
5 such organization; and

6 “(B) any rules of the organization regard-
7 ing the use of drugs or alcohol.

8 “(f) RIGHTS OF PROGRAM BENEFICIARIES.—

9 “(1) OBJECTIONS REGARDING RELIGIOUS OR-
10 ORGANIZATIONS.—With respect to an individual who is
11 a program beneficiary or a prospective program ben-
12 efiary, if the individual objects to a program par-
13 ticipant on the basis that the participant is a reli-
14 gious organization, the following applies:

15 “(A) If the organization received a des-
16 igned direct award, the organization shall ar-
17 range for the individual to receive program
18 services through an alternative entity.

19 “(B) If the organization received a des-
20 igned subaward, the non-Federal entity that
21 made the subaward shall arrange for the indi-
22 vidual to receive the program services through
23 an alternative program participant.

24 “(C) If the organization is providing serv-
25 ices pursuant to voucherized assistance, the

1 designated award recipient that operates the
2 voucherized assistance program shall arrange
3 for the individual to receive the program serv-
4 ices through an alternative provider.

5 “(D) Arrangements under any of subpara-
6 graphs (A) through (C) with an alternative en-
7 tity shall provide for program services the mon-
8 etary value of which is not less than the mone-
9 tary value of the program services that the indi-
10 vidual would have received from the religious
11 organization involved.

12 “(2) NONDISCRIMINATION.—

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B) or as otherwise provided in
15 law, a religious organization that is a program
16 participant shall not in providing program serv-
17 ices discriminate against a program beneficiary
18 on the basis of religion or religious belief.

19 “(B) LIMITATION.—A religious organiza-
20 tion that is a program participant may require
21 a program beneficiary who has elected in ac-
22 cordance with paragraph (1) to receive program
23 services from such organization—

24 “(i) to actively participate in religious
25 practice, worship, and instruction; and

1 “(ii) to follow rules of behavior de-
2 vised by the organizations that are reli-
3 gious in content or origin.

4 “(g) FISCAL ACCOUNTABILITY.—

5 “(1) IN GENERAL.—Except as provided in para-
6 graph (2), any religious organization that is a pro-
7 gram participant shall be subject to the same regula-
8 tions as other recipients of awards of Federal finan-
9 cial assistance to account, in accordance with gen-
10 erally accepted auditing principles, for the use of the
11 funds provided under such awards.

12 “(2) LIMITED AUDIT.—With respect to the
13 award involved, if a religious organization that is a
14 program participant maintains the Federal funds in
15 a separate account from non-Federal funds, then
16 only the Federal funds shall be subject to audit.

17 “(h) COMPLIANCE.—With respect to compliance with
18 this section by an agency, a religious organization may
19 obtain judicial review of agency action in accordance with
20 chapter 7 of title 5, United States Code.

21 **“SEC. 583. LIMITATIONS ON USE OF FUNDS FOR CERTAIN**
22 **PURPOSES.**

23 “(a) IN GENERAL.—Except as provided in subsection
24 (b), no funds provided directly to an entity under a des-

1 designated program shall be expended for sectarian worship
2 or instruction.

3 “(b) EXCEPTION.—Subsection (a) shall not apply to
4 assistance provided to or on behalf of a program bene-
5 ficiary if the beneficiary may choose where such assistance
6 is redeemed or allocated.

7 **“SEC. 584. ADMINISTRATION OF PROGRAM AND TREAT-**
8 **MENT OF FUNDS.**

9 “(a) FUNDS NOT AID TO INSTITUTIONS.—Financial
10 assistance under a designated program provided to or on
11 behalf of program beneficiaries is aid to the beneficiary,
12 not to the organization providing program services. The
13 receipt by a program beneficiary of program services at
14 the facilities of the organization shall not constitute Fed-
15 eral financial assistance to the organization involved.

16 “(b) PROHIBITION ON STATE DISCRIMINATION IN
17 USE OF FUNDS.—No provision in any State constitution
18 or State law shall be construed to prohibit the expenditure
19 of Federal funds under a designated program in a reli-
20 gious facility or by a religious organization that is a pro-
21 gram participant. If a State law or constitution would pre-
22 vent the expenditure of State or local public funds in such
23 a facility or by such an organization, then the State or
24 local government shall segregate the Federal funds from

1 State or other public funds for purposes of carrying out
2 the designated program.

3 **“SEC. 585. EDUCATIONAL REQUIREMENTS FOR PERSONNEL**
4 **IN DRUG TREATMENT PROGRAMS.**

5 “(a) FINDINGS.—The Congress finds that—

6 “(1) establishing formal educational qualifica-
7 tion for counselors and other personnel in drug
8 treatment programs may undermine the effective-
9 ness of such programs; and

10 “(2) such formal educational requirements for
11 counselors and other personnel may hinder or pre-
12 vent the provision of needed drug treatment services.

13 “(b) LIMITATION ON EDUCATIONAL REQUIREMENTS
14 OF PERSONNEL.—

15 “(1) TREATMENT OF RELIGIOUS EDUCATION.—

16 If any State or local government that is a program
17 participant imposes formal educational qualifications
18 on providers of program services, including religious
19 organizations, such State or local government shall
20 treat religious education and training of personnel
21 as having a critical and positive role in the delivery
22 of program services. In applying educational quali-
23 fications for personnel in religious organizations,
24 such State or local government shall give credit for
25 religious education and training equivalent to credit

1 given for secular course work in drug treatment or
2 any other secular subject that is of similar grade
3 level and duration.

4 “(2) RESTRICTION OF DISCRIMINATION RE-
5 QUIREMENTS.—

6 “(A) IN GENERAL.—Subject to paragraph
7 (1), a State or local government that is a pro-
8 gram participant may establish formal edu-
9 cational qualifications for personnel in organiza-
10 tions providing program services that contribute
11 to success in reducing drug use among program
12 beneficiaries.

13 “(B) EXCEPTION.—The Secretary shall
14 waive the application of any educational quali-
15 fication imposed under subparagraph (A) for an
16 individual religious organization, if the Sec-
17 retary determines that—

18 “(i) the religious organization has a
19 record of prior successful drug treatment
20 for at least the preceding three years;

21 “(ii) the educational qualifications
22 have effectively barred such religious orga-
23 nization from becoming a program pro-
24 vider;

1 “(iii) the organization has applied to
2 the Secretary to waive the qualifications;
3 and

4 “(iv) the State or local government
5 has failed to demonstrate empirically that
6 the educational qualifications in question
7 are necessary to the successful operation of
8 a drug treatment program.”.

9 **SEC. 403. CRA CREDIT FOR INVESTMENTS IN COMMUNITY**
10 **DEVELOPMENT ORGANIZATIONS LOCATED IN**
11 **RENEWAL COMMUNITIES.**

12 Section 804 of the Community Reinvestment Act of
13 1977 (12 U.S.C. 2903) is amended by adding at the end
14 the following new subsection:

15 “(c) INVESTMENTS IN CERTAIN COMMUNITY DEVEL-
16 OPMENT ORGANIZATIONS.—In assessing and taking into
17 account, under subsection (a), the record of a regulated
18 financial institution, the appropriate Federal financial su-
19 pervisory agency may consider, as a factor, investments
20 of the institution in, and capital investment, loan partici-
21 pation, and other ventures undertaken by the institution
22 in cooperation with, any community development organi-
23 zation (as defined in section 234 of the Bank Enterprise
24 Act of 1991) which is located in a renewal community (as

- 1 designated under section 1400 of the Internal Revenue
- 2 Code of 1986).”.

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