

105TH CONGRESS
2D SESSION

H. R. 3865

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

IN THE HOUSE OF REPRESENTATIVES

MAY 14, 1998

Mr. WATTS of Oklahoma (for himself, Mr. DAVIS of Illinois, Mr. TALENT, Mr. DAVIS of Virginia, Mr. MCINTOSH, Mr. KNOLLENBERG, Mr. DEAL of Georgia, Mr. PITTS, Mr. ENSIGN, Ms. GRANGER, Mr. RIGGS, Mr. SESSIONS, Mr. THORNBERRY, Mr. GINGRICH, Mr. SENSENBRENNER, Mr. WAMP, Mr. DELAY, Mr. LARGENT, Mr. BONILLA, Ms. FURSE, Mrs. MYRICK, Mr. COBURN, Mr. CHABOT, Mrs. EMERSON, Mr. BURTON of Indiana, Mr. PETERSON of Pennsylvania, Mr. NORWOOD, Mr. GRAHAM, Mr. LEWIS of Kentucky, Mr. DOOLITTLE, Mr. RYUN, Mrs. NORTHUP, Mr. FROST, Mr. TOWNS, Mr. KING, Mr. ENGLISH of Pennsylvania, Mr. SOUDER, Mr. WATKINS, Mrs. KELLY, Mr. BOEHNER, Mr. DOOLEY of California, Mr. ARMEY, Mr. HINOJOSA, Mr. DREIER, Mr. CALVERT, and Ms. EDDIE BERNICE JOHNSON of Texas) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on 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,*

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

2 (a) SHORT TITLE.—This Act may be cited as the
3 “American Community Renewal Act of 1998”.

4 (b) TABLE OF CONTENTS.—The table of contents for
5 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 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.

TITLE III—ADDITIONAL PROVISIONS

Sec. 301. Transfer of unoccupied and substandard HUD-held housing in re-
newal communities to local governments.

Sec. 302. Prevention and treatment of substance abuse; services provided
through religious organizations.

Sec. 303. CRA credit for investments in community development organizations
located in renewal communities.

6 **SEC. 2. FINDINGS AND PURPOSE.**

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

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

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

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

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

15 **TITLE I—DESIGNATION AND**
16 **EVALUATION OF RENEWAL**
17 **COMMUNITIES**

18 **SEC. 101. SHORT TITLE.**

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

21 **SEC. 102. STATEMENT OF PURPOSE.**

22 It is the purpose of this title to provide for the estab-
23 lishment of renewal communities in order to stimulate the
24 creation of new jobs, particularly for disadvantaged work-
25 ers and long-term unemployed individuals, and to promote

1 revitalization of economically distressed areas primarily by
 2 providing or encouraging—

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

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

7 (3) improved local services and an increase in
 8 the economic stake of renewal community residents
 9 in their own community and its development, par-
 10 ticularly through the increased involvement of pri-
 11 vate, local, and neighborhood organizations.

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

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

16 **“Subchapter X—Renewal Communities**

“Part I. Designation.”

17 **“PART I—DESIGNATION**

“Sec. 1400E. Designation of Renewal Communities.

18 **“SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

19 **“(a) DESIGNATION.—**

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

22 **“(A)** which is nominated by one or more
 23 local governments and the State or States in

1 which it is located for designation as a renewal
2 community (hereinafter in this section referred
3 to as a ‘nominated area’), and

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

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

11 “(ii) in the case of an area on an In-
12 dian reservation, the Secretary of the Inte-
13 rior,

14 designates as a renewal community.

15 “(2) NUMBER OF DESIGNATIONS.—

16 “(A) IN GENERAL.—The Secretary of
17 Housing and Urban Development may des-
18 ignate not more than 100 nominated areas as
19 renewal communities.

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

23 “(i) which are within a local govern-
24 ment jurisdiction or jurisdictions with a
25 population of less than 50,000 (as deter-

1 mined under the most recent census data
2 available),

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

6 “(iii) which are determined by the
7 Secretary of Housing and Urban Develop-
8 ment, after consultation with the Secretary
9 of Commerce, to be rural areas.

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

12 “(i) IN GENERAL.—The Secretary of
13 Housing and Urban Development may des-
14 ignate one additional area under subpara-
15 graph (A) to replace each area for which
16 the designation is revoked under subsection
17 (b)(2), but in no event may more than 100
18 areas designated under this subsection
19 bear designations as renewal communities
20 at any time.

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

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

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

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

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

1 spect to the first half of the designations made
2 under this section, the nominated areas des-
3 igned as renewal communities shall be chosen
4 first from nominated areas which are enterprise
5 zones or empowerment communities (and are
6 otherwise eligible for designation under this sec-
7 tion), and then from other nominated areas
8 which are so eligible.

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

13 “(4) LIMITATION ON DESIGNATIONS.—

14 “(A) PUBLICATION OF REGULATIONS.—
15 The Secretary of Housing and Urban Develop-
16 ment shall prescribe by regulation no later than
17 4 months after the date of the enactment of
18 this section, after consultation with the officials
19 described in paragraph (1)(B)—

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

22 “(ii) the parameters relating to the
23 size and population characteristics of a re-
24 newal community, and

1 “(iii) the manner in which nominated
2 areas will be evaluated based on the cri-
3 teria specified in subsection (d).

4 “(B) TIME LIMITATIONS.—The Secretary
5 of Housing and Urban Development may des-
6 ignate nominated areas as renewal communities
7 only during the 24-month period beginning on
8 the first day of the first month following the
9 month in which the regulations described in
10 subparagraph (A) are prescribed.

11 “(C) PROCEDURAL RULES.—The Secretary
12 of Housing and Urban Development shall not
13 make any designation of a nominated area as a
14 renewal community under paragraph (2) un-
15 less—

16 “(i) the local governments and the
17 State in which the nominated area is lo-
18 cated have the authority—

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

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

24 “(III) to provide assurances sat-
25 isfactory to the Secretary of Housing

1 and Urban Development that such
2 commitments will be fulfilled,

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

9 “(iii) the Secretary of Housing and
10 Urban Development determines that any
11 information furnished is reasonably accu-
12 rate.

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

20 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
21 FECT.—

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

1 “(A) December 31 of the 7th calendar year
2 following the calendar year in which such date
3 occurs,

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

7 “(C) the date the Secretary of Housing
8 and Urban Development revokes such designa-
9 tion under paragraph (2).

10 “(2) REVOCATION OF DESIGNATION.—The Sec-
11 retary of Housing and Urban Development may,
12 after—

13 “(A) consultation with the officials de-
14 scribed in subsection (a)(1)(B) (and the Sec-
15 retary of Education if notification required
16 under section 304 of the Low-Income Edu-
17 cational Opportunity Scholarship Act of 1998 is
18 received), and

19 “(B) a hearing on the record involving offi-
20 cials of the State or local government involved
21 (or both, if applicable),

22 revoke the designation of an area if the Secretary of
23 Housing and Urban Development determines that
24 the local government or State in which the area is
25 located is not complying substantially with the State

1 or local commitments, respectively, described in sub-
2 section (d).

3 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

4 “(1) IN GENERAL.—The Secretary of Housing
5 and Urban Development may designate any nomi-
6 nated area as a renewal community under subsection
7 (a) only if the area meets the requirements of para-
8 graphs (2) and (3) of this subsection.

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

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

13 “(B) the boundary of the area is continu-
14 ous, and

15 “(C) the area—

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

19 “(I) 4,000 if any portion of such
20 area (other than a rural area de-
21 scribed in subsection (a)(2)(B)(i)) is
22 located within a metropolitan statis-
23 tical area (within the meaning of sec-
24 tion 143(k)(2)(B)) which has a popu-
25 lation of 50,000 or greater, or

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

5 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
6 nated area meets the requirements of this paragraph
7 if the State and the local governments in which it
8 is located certify (and the Secretary of Housing and
9 Urban Development, after such review of supporting
10 data as he deems appropriate, accepts such certifi-
11 cation) that—

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

14 “(B) the unemployment rate in the area,
15 as determined by the appropriate available
16 data, was at least 1½ times the national unem-
17 ployment rate for the period to which such data
18 relate,

19 “(C) the poverty rate (as determined by
20 the most recent census data available) for each
21 population census tract (or where not tracted,
22 the equivalent county division as defined by the
23 Bureau of the Census for the purpose of defin-
24 ing poverty areas) within the area was at least

1 20 percent for the period to which such data re-
2 late, and

3 “(D) in the case of an urban area, at least
4 70 percent of the households living in the area
5 have incomes below 80 percent of the median
6 income of households within the jurisdiction of
7 the local government (determined in the same
8 manner as under section 119(b)(2) of the
9 Housing and Community Development Act of
10 1974).

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

17 “(5) CONSIDERATION OF COMMUNITIES IDENTI-
18 FIED IN GAO STUDY.—The Secretary of Housing
19 and Urban Development shall take into account, in
20 selecting nominated areas for designation as renewal
21 communities under this section, if the area has cen-
22 sus tracts identified in the May 12, 1998, report of
23 the Government Accounting Office regarding the
24 identification of economically distressed areas.

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 fol-
11 low a specified course of action which meets the
12 requirements of paragraph (2) and is designed
13 to reduce the various burdens borne by employ-
14 ers or employees in such area, and

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

17 “(2) COURSE OF ACTION.—

18 “(A) IN GENERAL.—A course of action
19 meets the requirements of this paragraph if
20 such course of action is a written document,
21 signed by a State (or local government) and
22 neighborhood organizations, which evidences a
23 partnership between such State or government
24 and community-based organizations and which
25 commits each signatory to specific and measur-

1 able goals, actions, and timetables. Such course
2 of action shall include at least five of the follow-
3 ing:

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

6 “(ii) An increase in the level of effi-
7 ciency of local services within the renewal
8 community.

9 “(iii) Crime reduction strategies, such
10 as crime prevention (including the provi-
11 sion of such services by nongovernmental
12 entities).

13 “(iv) Actions to reduce, remove, sim-
14 plify, or streamline governmental require-
15 ments applying within the renewal commu-
16 nity.

17 “(v) Involvement in the program by
18 private entities, organizations, neighbor-
19 hood organizations, and community
20 groups, particularly those in the renewal
21 community, including a commitment from
22 such private entities to provide jobs and
23 job training for, and technical, financial, or
24 other assistance to, employers, employees,
25 and residents from the renewal community.

1 “(vi) State or local income tax bene-
2 fits for fees paid for services performed by
3 a nongovernmental entity which were for-
4 merly performed by a governmental entity.

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

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

20 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-
21 MENTS.—The economic growth promotion require-
22 ments of this paragraph are met with respect to a
23 nominated area if the local government and the
24 State in which such area is located certify in writing
25 that such government and State, respectively, have

1 repealed or otherwise will not enforce within the
2 area, if such area is designated as a renewal commu-
3 nity—

4 “(A) licensing requirements for occupa-
5 tions that do not ordinarily require a profes-
6 sional degree,

7 “(B) zoning restrictions on home-based
8 businesses which do not create a public nui-
9 sance,

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

12 “(D) zoning or other restrictions that im-
13 pede the formation of schools or child care cen-
14 ters, and

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

19 except to the extent that such regulation of busi-
20 nesses and occupations is necessary for and well-tai-
21 lored to the protection of health and safety.

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

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

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

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

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

6 “(f) DEFINITIONS.—For purposes of this sub-
7 chapter—

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

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

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

18 “(A) any county, city, town, township, par-
19 ish, village, or other general purpose political
20 subdivision of a State,

21 “(B) any combination of political subdivi-
22 sions described in subparagraph (A) recognized
23 by the Secretary of Housing and Urban Devel-
24 opment, and

25 “(C) the District of Columbia.”

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

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

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

11 (a) TAX REDUCTIONS.—Any reduction of taxes, with
12 respect to any renewal community designated under sec-
13 tion 1400E of the Internal Revenue Code of 1986 (as
14 added by this title), under any plan of action under section
15 1400E(d) of such Code shall be disregarded in determin-
16 ing the eligibility of a State or local government for, or
17 the amount or extent of, any assistance or benefits under
18 any law of the United States (other than subchapter X
19 of chapter 1 of such Code).

20 (b) COORDINATION WITH RELOCATION ASSIST-
21 ANCE.—The designation of a renewal community under
22 section 1400E of such Code (as added by this title) shall
23 not—

24 (1) constitute approval of a Federal or Feder-
25 ally assisted program or project (within the meaning
26 of the Uniform Relocation Assistance and Real

1 Property Acquisition Policies Act of 1970 (42
2 U.S.C. 4601 et seq.)), or

3 (2) entitle any person displaced from real prop-
4 erty located in such community to any rights or any
5 benefits under such Act.

6 (c) RENEWAL COMMUNITIES TREATED AS LABOR
7 SURPLUS AREAS.—Any area which is designated as a re-
8 newal community under section 1400E of such Code (as
9 added by this title) shall be treated for all purposes under
10 Federal law as a labor surplus area.

11 (d) COORDINATION WITH JOB TRAINING PRO-
12 GRAMS.—Renewal communities are encouraged to coordi-
13 nate efforts with job training providers who are public,
14 private not-for-profit, or private for-profit entities.

15 **TITLE II—TAX INCENTIVES FOR**
16 **RENEWAL COMMUNITIES**

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

18 (a) IN GENERAL.—Subchapter X of chapter I of the
19 Internal Revenue Code of 1986 (as added by title I) is
20 amended by adding at the end the following new parts:

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

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

22 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

23 “(a) GENERAL RULE.—Gross income does not in-
24 clude any qualified capital gain recognized on the sale or

1 exchange of a qualified community asset held for more
2 than 5 years.

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

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

7 “(A) any qualified community stock,

8 “(B) any qualified community business
9 property, and

10 “(C) any qualified community partnership
11 interest.

12 “(2) QUALIFIED COMMUNITY STOCK.—

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B), the term ‘qualified commu-
15 nity stock’ means any stock in a domestic cor-
16 poration if—

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

20 “(ii) as of the time such stock was
21 issued, such corporation was a renewal
22 community business (or, in the case of a
23 new corporation, such corporation was
24 being organized for purposes of being a re-
25 newal community business), and

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

5 “(B) REDEMPTIONS.—The term ‘qualified
6 community stock’ shall not include any stock
7 acquired from a corporation which made a sub-
8 stantial stock redemption or distribution (with-
9 out a bona fide business purpose therefor) in an
10 attempt to avoid the purposes of this section.

11 “(3) QUALIFIED COMMUNITY BUSINESS PROP-
12 erty.—

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

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

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

24 “(iii) during substantially all of the
25 taxpayer’s holding period for such prop-

1 erty, substantially all of the use of such
2 property was in a renewal community busi-
3 ness of the taxpayer.

4 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
5 PROVEMENTS.—

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

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

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

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

23 “(I) an amount equal to the ad-
24 justed basis at the beginning of such

1 24-month period in the hands of the
2 taxpayer, or

3 “(II) \$5,000.

4 “(C) LIMITATION ON LAND.—The term
5 ‘qualified community business property’ shall
6 not include land which is not an integral part
7 of a renewal community business.

8 “(4) QUALIFIED COMMUNITY PARTNERSHIP IN-
9 TEREST.—The term ‘qualified community partner-
10 ship interest’ means any interest in a partnership
11 if—

12 “(A) such interest is acquired by the tax-
13 payer from the partnership solely in exchange
14 for cash,

15 “(B) as of the time such interest was ac-
16 quired, such partnership was a renewal commu-
17 nity business (or, in the case of a new partner-
18 ship, such partnership was being organized for
19 purposes of being a renewal community busi-
20 ness), and

21 “(C) during substantially all of the tax-
22 payer’s holding period for such interest, such
23 partnership qualified as a renewal community
24 business.

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

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

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

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

1 “(c) OTHER DEFINITIONS AND SPECIAL RULES.—

2 For purposes of this section—

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

10 “(2) CERTAIN GAIN ON REAL PROPERTY NOT
11 QUALIFIED.—The term ‘qualified capital gain’ shall
12 not include any gain which would be treated as ordi-
13 nary income under section 1250 if section 1250 ap-
14 plied to all depreciation rather than the additional
15 depreciation.

16 “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER
17 TERMINATION OF COMMUNITY DESIGNATION NOT
18 QUALIFIED.—The term ‘qualified capital gain’ shall
19 not include any gain attributable to periods after the
20 termination of any designation of an area as a re-
21 newal community.

22 “(4) RELATED PARTY TRANSACTIONS.—The
23 term ‘qualified capital gain’ shall not include any
24 gain attributable, directly or indirectly, in whole or
25 in part, to a transaction with a related person. For

1 purposes of this paragraph, persons are related to
2 each other if such persons are described in section
3 267(b) or 707(b)(1).

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

5 “(1) SALES AND EXCHANGES.—Gain on the
6 sale or exchange of an interest in a pass-thru entity
7 held by the taxpayer (other than an interest in an
8 entity which was a renewal community business dur-
9 ing substantially all of the period the taxpayer held
10 such interest) for more than 5 years shall be treated
11 as gain described in subsection (a) to the extent
12 such gain is attributable to amounts which would be
13 qualified capital gain on qualified community assets
14 (determined as if such assets had been sold on the
15 date of the sale or exchange) held by such entity for
16 more than 5 years (determined without regard to
17 any period before the date of the designation of the
18 renewal community) and throughout the period the
19 taxpayer held such interest. A rule similar to the
20 rule of paragraph (2)(C) shall apply for purposes of
21 the preceding sentence.

22 “(2) INCOME INCLUSIONS.—

23 “(A) IN GENERAL.—Any amount included
24 in income by reason of holding an interest in a
25 pass-thru entity (other than an entity which

1 was a renewal community business during sub-
2 stantially all of the period the taxpayer held the
3 interest to which such inclusion relates) shall be
4 treated as gain described in subsection (a) if
5 such amount meets the requirements of sub-
6 paragraph (B).

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

9 “(i) such amount is attributable to
10 qualified capital gain recognized on the
11 sale or exchange by the pass-thru entity of
12 property which is a qualified community
13 asset in the hands of such entity and
14 which was held by such entity for the pe-
15 riod required under subsection (a), and

16 “(ii) such amount is includible in the
17 gross income of the taxpayer by reason of
18 the holding of an interest in such entity
19 which was held by the taxpayer on the date
20 on which such pass-thru entity acquired
21 such asset and at all times thereafter be-
22 fore the disposition of such asset by such
23 pass-thru entity.

24 “(C) LIMITATION BASED ON INTEREST
25 ORIGINALLY HELD BY TAXPAYER.—Subpara-

1 graph (A) shall not apply to any amount to the
2 extent such amount exceeds the amount to
3 which subparagraph (A) would have applied if
4 such amount were determined by reference to
5 the interest the taxpayer held in the pass-thru
6 entity on the date the qualified community
7 asset was acquired.

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

10 “(A) any partnership,

11 “(B) any S corporation,

12 “(C) any regulated investment company,

13 and

14 “(D) any common trust fund.

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

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

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

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

4 For purposes of this section—

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

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

10 “(B) having held such asset during any
11 continuous period immediately preceding the
12 transfer during which it was held (or treated as
13 held under this subsection) by the transferor.

14 “(2) TRANSFERS TO WHICH SUBSECTION AP-
15 PLIES.—This subsection shall apply to any trans-
16 fer—

17 “(A) by gift,

18 “(B) at death, or

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

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

4 **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

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

7 “(1) any qualified business entity, and

8 “(2) any qualified proprietorship.

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

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

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

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

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

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

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

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

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

18 “(8) less than 5 percent of the average of the
19 aggregate unadjusted bases of the property of such
20 entity is attributable to nonqualified financial prop-
21 erty.

22 “(c) QUALIFIED PROPRIETORSHIP.—For purposes of
23 this section, the term ‘qualified proprietorship’ means,
24 with respect to any taxable year, any qualified business

1 carried on by an individual as a proprietorship if for such
2 year—

3 “(1) at least 80 percent of the total gross in-
4 come of such individual from such business is de-
5 rived from the active conduct of such business in a
6 renewal community,

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

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

13 “(4) substantially all of the services performed
14 for such individual in such business by employees of
15 such business are performed in a renewal commu-
16 nity,

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

19 “(6) less than 5 percent of the average of the
20 aggregate unadjusted bases of the property of such
21 individual which is used in such business is attrib-
22 utable to collectibles (as defined in section
23 408(m)(2)) other than collectibles that are held pri-
24 marily for sale to customers in the ordinary course
25 of such business, and

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

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

7 “(d) QUALIFIED BUSINESS.—For purposes of this
8 section—

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

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

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

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

21 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
22 ERTY.—The rental to others of tangible personal
23 property shall be treated as a qualified business if
24 and only if substantially all of the rental of such

1 property is by renewal community businesses or by
2 residents of a renewal community.

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

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

10 “(A) any trade or business consisting of
11 the operation of any facility described in section
12 144(c)(6)(B), and

13 “(B) any trade or business the principal
14 activity of which is farming (within the meaning
15 of subparagraph (A) or (B) of section
16 2032A(e)(5)), but only if, as of the close of the
17 preceding taxable year, the sum of—

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

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

25 exceeds \$500,000.

1 “(A) in the case of a qualified individual,
2 the amount paid in cash for the taxable year by
3 such individual to any family development ac-
4 count for such individual’s benefit, and

5 “(B) in the case of any person other than
6 a qualified individual, the amount paid in cash
7 for the taxable year by such person to any fam-
8 ily development account for the benefit of a
9 qualified individual.

10 No deduction shall be allowed under this paragraph
11 for any amount deposited in a family development
12 account under section 1400I (relating to demonstra-
13 tion program to provide matching amounts in re-
14 newal communities).

15 “(2) LIMITATION.—

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

20 “(i) \$2,000, or

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

24 “(B) PERSONS DONATING TO FAMILY DE-
25 VELOPMENT ACCOUNTS OF OTHERS.—The

1 amount allowable as a deduction to any person
2 for any taxable year by reason of paragraph
3 (1)(B) shall not exceed \$1,000 with respect to
4 any qualified individual.

5 “(3) SPECIAL RULES FOR CERTAIN MARRIED
6 INDIVIDUALS.—

7 “(A) IN GENERAL.—In the case of an indi-
8 vidual to whom this subparagraph applies for
9 the taxable year, the limitation of subparagraph
10 (A) of paragraph (2) shall be equal to the lesser
11 of—

12 “(i) the dollar amount in effect under
13 paragraph (2)(A)(i) for the taxable year,
14 or

15 “(ii) the sum of—

16 “(I) the compensation includible
17 in such individual’s gross income for
18 the taxable year, plus—

19 “(II) the compensation includible
20 in the gross income of such individ-
21 ual’s spouse for the taxable year re-
22 duced by the amount allowed as a de-
23 duction under paragraph (1) to such
24 spouse for such taxable year.

1 “(B) INDIVIDUALS TO WHOM SUBPARA-
2 GRAPH (A) APPLIES.—Subparagraph (A) shall
3 apply to any individual if—

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

6 “(ii) the amount of compensation (if
7 any) includible in such individual’s gross
8 income for the taxable year is less than the
9 compensation includible in the gross in-
10 come of such individual’s spouse for the
11 taxable year.

12 “(4) ROLLOVERS.—No deduction shall be al-
13 lowed under this section with respect to any rollover
14 contribution.

15 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

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

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

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

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

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

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

18 “(A) Qualified postsecondary educational
19 expenses.

20 “(B) First-home purchase costs.

21 “(C) Qualified business capitalization
22 costs.

23 “(D) Qualified medical expenses.

24 “(E) Qualified rollovers.

1 “(3) QUALIFIED POSTSECONDARY EDU-
2 CATIONAL EXPENSES.—

3 “(A) IN GENERAL.—The term ‘qualified
4 postsecondary educational expenses’ means
5 postsecondary educational expenses paid to an
6 eligible educational institution.

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

13 “(C) ELIGIBLE EDUCATIONAL INSTITU-
14 TION.—The term ‘eligible educational institu-
15 tion’ means the following:

16 “(i) INSTITUTION OF HIGHER EDU-
17 CATION.—An institution described in sec-
18 tion 481(a)(1) or 1201(a) of the Higher
19 Education Act of 1965 (20 U.S.C.
20 1088(a)(1), 1141(a)), as such sections are
21 in effect on the date of the enactment of
22 this section.

23 “(ii) POSTSECONDARY VOCATIONAL
24 EDUCATION SCHOOL.—An area vocational
25 education school (as defined in subpara-

1 graph (C) or (D) of section 521(4) of the
2 Carl D. Perkins Vocational and Applied
3 Technology Education Act (20 U.S.C.
4 2471(4))) which is in any State (as defined
5 in section 521(33) of such Act), as such
6 sections are in effect on the date of the en-
7 actment of this section.

8 “(D) COORDINATION WITH SAVINGS BOND
9 PROVISIONS.—The amount of qualified post-
10 secondary educational expenses for any taxable
11 year shall be reduced by any amount excludable
12 from gross income under section 135.

13 “(4) FIRST-HOME PURCHASE COSTS.—

14 “(A) IN GENERAL.—The term ‘first-home
15 purchase costs’ means qualified acquisition
16 costs with respect to a qualified principal resi-
17 dence for a qualified first-time homebuyer.

18 “(B) QUALIFIED ACQUISITION COSTS.—
19 The term ‘qualified acquisition costs’ means the
20 costs of acquiring, constructing, or reconstruct-
21 ing a residence. Such term includes any usual
22 or reasonable settlement, financing, or other
23 closing costs.

24 “(C) QUALIFIED PRINCIPAL RESIDENCE.—
25 The term ‘qualified principal residence’ means a

1 principal residence (within the meaning of sec-
2 tion 1034), the qualified acquisition costs of
3 which do not exceed 100 percent of the average
4 area purchase price applicable to such residence
5 (determined in accordance with paragraphs (2)
6 and (3) of section 143(e)).

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

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

18 “(ii) DATE OF ACQUISITION.—The
19 term ‘date of acquisition’ means the date
20 on which a binding contract to acquire,
21 construct, or reconstruct the principal resi-
22 dence to which this subsection applies is
23 entered into.

24 “(5) QUALIFIED BUSINESS CAPITALIZATION
25 COSTS.—

1 “(A) IN GENERAL.—The term ‘qualified
2 business capitalization costs’ means qualified
3 expenditures for the capitalization of a qualified
4 business pursuant to a qualified plan.

5 “(B) QUALIFIED EXPENDITURES.—The
6 term ‘qualified expenditures’ means expendi-
7 tures included in a qualified plan, including
8 capital, plant, equipment, working capital, and
9 inventory expenses.

10 “(C) QUALIFIED BUSINESS.—The term
11 ‘qualified business’ means any business that
12 does not contravene any law or public policy (as
13 determined by the Secretary).

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

16 “(i) is approved by a financial institu-
17 tion, or by a nonprofit loan fund having
18 demonstrated fiduciary integrity,

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

22 “(iii) may require the eligible individ-
23 ual to obtain the assistance of an experi-
24 enced entrepreneurial advisor.

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

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

11 “(A) such taxpayer, or

12 “(B) any qualified individual who is—

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

14 “(ii) any dependent (as defined in sec-
15 tion 152) of the taxpayer. Rules similar to
16 the rules of section 408(d)(3) shall apply
17 for purposes of this paragraph.

18 “(d) TAX TREATMENT OF ACCOUNTS.—

19 “(1) IN GENERAL.—Any family development ac-
20 count is exempt from taxation under this subtitle
21 unless such account has ceased to be a family devel-
22 opment account by reason of paragraph (2). Not-
23 withstanding the preceding sentence, any such ac-
24 count is subject to the taxes imposed by section 511

1 (relating to imposition of tax on unrelated business
2 income of charitable, etc., organizations).

3 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
4 ITED TRANSACTIONS.—For purposes of this section,
5 rules similar to the rules of section 408(e) shall
6 apply.

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

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

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

17 “(B) contributions will not be accepted for
18 the taxable year in excess of \$2,000 (deter-
19 mined without regard to any contribution made
20 under section 1400I (relating to demonstration
21 program to provide matching amounts in re-
22 newal communities)).

23 “(2) The trustee is a bank (as defined in sec-
24 tion 408(n)) or such other person who demonstrates
25 to the satisfaction of the Secretary that the manner

1 in which such other person will administer the trust
2 will be consistent with the requirements of this sec-
3 tion.

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

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

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

11 “(6) Under regulations prescribed by the Sec-
12 retary, rules similar to the rules of section 401(a)(9)
13 and the incidental death benefit requirements of sec-
14 tion 401(a) shall apply to the distribution of the en-
15 tire interest of an individual for whose benefit the
16 trust is maintained.

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

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

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

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

1 “(1) COMPENSATION.—The term ‘compensa-
2 tion’ has the meaning given such term by section
3 219(f)(1).

4 “(2) MARRIED INDIVIDUALS.—The maximum
5 deduction under subsection (a) shall be computed
6 separately for each individual, and this section shall
7 be applied without regard to any community prop-
8 erty laws.

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

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

1 payment is allowable under this section to the em-
2 ployee.

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

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

20 “(7) REPORTS.—The trustee of a family devel-
21 opment account shall make such reports regarding
22 such account to the Secretary and to the individual
23 for whom the account is maintained with respect to
24 contributions (and the years to which they relate),
25 distributions, and such other matters as the Sec-

1 retary may require under regulations. The reports
2 required by this paragraph—

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

6 “(B) shall be furnished to individuals—

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

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

12 “(8) INVESTMENT IN COLLECTIBLES TREATED
13 AS DISTRIBUTIONS.—Rules similar to the rules of
14 section 408(m) shall apply for purposes of this sec-
15 tion.

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

18 “(1) IN GENERAL.—If any amount is distrib-
19 uted from a family development account and is not
20 used exclusively to pay qualified family development
21 expenses for the holder of the account or the spouse
22 or dependent (as defined in section 152) of such
23 holder, the tax imposed by this chapter for the tax-
24 able year of such distribution shall be increased by
25 the sum of—

1 “(A) 100 percent of the portion of such
2 amount which is includible in gross income and
3 is attributable to amounts contributed under
4 section 1400I (relating to demonstration pro-
5 gram to provide matching amounts in renewal
6 communities), and

7 “(B) 10 percent of the portion of such
8 amount which is includible in gross income and
9 is not described in paragraph (1).

10 For purposes of this subsection, the portion of a dis-
11 tributed amount which is attributable to amounts
12 contributed under section 1400I is the amount
13 which bears the same ratio to the distributed
14 amount as the aggregate amount contributed under
15 section 1400I to all family development accounts of
16 the individual bears to the aggregate amount con-
17 tributed to such accounts from all sources.

18 “(2) EXCEPTION FOR CERTAIN DISTRIBUTI-
19 TIONS.—Paragraph (1) shall not apply to distribu-
20 tions which are—

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

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

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

4 “(D) attributable to the account holder’s
5 being disabled within the meaning of section
6 72(m)(7).

7 **“SEC. 1400L. DEMONSTRATION PROGRAM TO PROVIDE**
8 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
9 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
10 **NEWAL COMMUNITIES.**

11 “(a) DESIGNATION.—

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

15 “(A) which is nominated under this section
16 by each of the local governments and States
17 which nominated such community for designa-
18 tion as a renewal community under section
19 1400E(a)(1)(A), and

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

22 “(i) the Secretaries of Agriculture,
23 Commerce, Labor, and the Treasury, the
24 Director of the Office of Management and

1 Budget, and the Administrator of the
2 Small Business Administration, and

3 “(ii) in the case of a community on an
4 Indian reservation, the Secretary of the In-
5 terior,

6 designates as an FDA matching demonstration
7 area.

8 “(2) NUMBER OF DESIGNATIONS.—

9 “(A) IN GENERAL.—The Secretary of
10 Housing and Urban Development may des-
11 ignate not more than 25 percent of the renewal
12 communities as FDA matching demonstration
13 areas.

14 “(B) MINIMUM DESIGNATION IN RURAL
15 AREAS.—Of the areas designated under para-
16 graph (1), at least 2 must be areas described in
17 section 1400E(a)(2)(B).

18 “(3) LIMITATIONS ON DESIGNATIONS.—

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

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

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

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

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

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

1 tion and ending on the date on which such area ceases
2 to be a renewal community.

3 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
4 OPMENT ACCOUNTS.—

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

16 “(2) LIMITATIONS.—

17 “(A) ANNUAL LIMIT.—The Secretary shall
18 not deposit more than \$1000 under paragraph
19 (1) with respect to any individual for any tax-
20 able year.

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

24 “(3) EXCLUSION FROM INCOME.—Except as
25 provided in section 1400H, gross income shall not

1 include any amount deposited into a family develop-
2 ment account under paragraph (1).

3 **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-
4 IT PAYMENTS FOR DEPOSIT TO FAMILY DE-
5 VELOPMENT ACCOUNT.**

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

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

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

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

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

1 “(c) **PORTION ATTRIBUTABLE TO EARNED INCOME**
 2 **TAX CREDIT.**—For purposes of subsection (a), an over-
 3 payment for any taxable year shall be treated as attrib-
 4 utable to the earned income tax credit to the extent that
 5 such overpayment does not exceed the credit allowed to
 6 the taxpayer under section 32 for such taxable year.

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

14 **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization credit.

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

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

15 **“SEC. 1400K. COMMERCIAL REVITALIZATION TAX CREDIT.**

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

22 “(b) **APPLICABLE PERCENTAGE.**—For purposes of
 23 this section—

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

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

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

8 The election under subparagraph (B), once made,
9 shall be irrevocable.

10 “(2) CREDIT PERIOD.—

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

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

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

21 “(1) QUALIFIED REVITALIZATION BUILDING.—

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

24 “(A) such building is located in a renewal
25 community and is placed in service after the

1 designation of such renewal community under
2 section 1400E,

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

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

9 “(2) QUALIFIED REVITALIZATION EXPENDI-
10 TURE.—

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

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

17 “(I) nonresidential real property,
18 or

19 “(II) an addition or improvement
20 to property described in subclause (I),

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

1 “(iii) for the acquisition of land in
2 connection with the qualified revitalization
3 building.

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

9 “(i) \$10,000,000, reduced by

10 “(ii) any such expenditures with re-
11 spect to the building taken into account by
12 the taxpayer or any predecessor in deter-
13 mining the amount of the credit under this
14 section for all preceding taxable years.

15 “(C) CERTAIN EXPENDITURES NOT IN-
16 CLUDED.—The term ‘qualified revitalization ex-
17 penditure’ does not include—

18 “(i) STRAIGHT LINE DEPRECIATION
19 MUST BE USED.—Any expenditure (other
20 than with respect to land acquisitions) with
21 respect to which the taxpayer does not use
22 the straight line method over a recovery
23 period determined under subsection (e) or
24 (g) of section 168. The preceding sentence
25 shall not apply to any expenditure to the

1 extent the alternative depreciation system
2 of section 168(g) applies to such expendi-
3 ture by reason of subparagraph (B) or (C)
4 of section 168(g)(1).

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

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

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

1 (and its structural components) immediately before
2 the rehabilitation or reconstruction.

3 “(d) WHEN EXPENDITURES TAKEN INTO AC-
4 COUNT.—

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

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

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

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

1 terminated under the rules of section 42(b)(2)(C)) al-
2 located to such building under this subsection by the
3 commercial revitalization credit agency. Such alloca-
4 tion shall be made at the same time and in the same
5 manner as under paragraphs (1) and (7) of section
6 42(h).

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

9 “(A) IN GENERAL.—The aggregate com-
10 mercial revitalization credit amount which a
11 commercial revitalization credit agency may al-
12 locate for any calendar year is the amount of
13 the State commercial revitalization credit ceil-
14 ing determined under this paragraph for such
15 calendar year for such agency.

16 “(B) STATE COMMERCIAL REVITALIZATION
17 CREDIT CEILING.—

18 “(i) IN GENERAL.—The State com-
19 mercial revitalization credit ceiling applica-
20 ble to any State for any calendar year is
21 \$2,000,000 for each renewal community in
22 the State.

23 “(ii) SPECIAL RULE WHERE COMMU-
24 NITY LOCATED IN MORE THAN 1 STATE.—

25 If a renewal community is located in more

1 than 1 State, a State's share of the
2 amount specified in clause (i) with respect
3 to such community shall be an amount
4 that bears the same ratio to \$2,000,000 as
5 the population in the State bears to the
6 population in all States in which such com-
7 munity is located.

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

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

17 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
18 IZATION CREDIT AGENCIES.—

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

23 “(A) such amount was allocated pursuant
24 to a qualified allocation plan of the commercial
25 revitalization credit agency which is approved

1 (in accordance with rules similar to the rules of
2 section 147(f)(2) (other than subparagraph
3 (B)(ii) thereof)) by the governmental unit of
4 which such agency is a part, and

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

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

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

18 “(B) which considers—

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

1 “(ii) the amount of any increase in
2 permanent, full-time employment by reason
3 of any project, and

4 “(iii) the active involvement of resi-
5 dents and nonprofit groups within the re-
6 newal community, and

7 “(C) which provides a procedure that the
8 agency (or its agent) will follow in monitoring
9 compliance with this section.

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

12 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

13 “(a) GENERAL RULE.—In the case of a renewal com-
14 munity business (as defined in section 1400G), for pur-
15 poses of section 179—

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

18 “(A) \$35,000, or

19 “(B) the cost of section 179 property
20 which is qualified renewal property placed in
21 service during the taxable year, and

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

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

5 “(c) QUALIFIED RENEWAL PROPERTY.—

6 “(1) GENERAL RULE.—For purposes of this
7 section—

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

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

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

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

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

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

1 **“SEC. 1400M. EXPENSING OF RENEWAL COMMUNITY ENVI-**
2 **RONMENTAL REMEDIATION COSTS.**

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

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

11 “(1) IN GENERAL.—The term ‘renewal commu-
12 nity environmental remediation cost’ means any cost
13 which—

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

16 “(B) is paid or incurred in connection with
17 the abatement or control of environmental con-
18 taminants at a site located within a renewal
19 community, and

20 “(C) is certified by the applicable Federal
21 or State authority as being required by, and in
22 compliance with, applicable Federal and State
23 laws governing abatement and control of envi-
24 ronmental contaminants.

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

1 “(A) for equipment which is used in the
2 environmental remediation and which is of a
3 character subject to an allowance for deprecia-
4 tion or amortization, or

5 “(B) in connection with a site which is on
6 the national priorities list under section
7 105(a)(8)(B) of the Comprehensive Environ-
8 mental Response, Compensation, and Liability
9 Act of 1980 (42 U.S.C. 9605(a)(8)(B)).

10 No deduction shall be allowed under this section for
11 any amount which is allowed as a deduction under
12 any other provision of this subtitle.

13 “(c) SPECIAL RULES.—For purposes of this sec-
14 tion—

15 “(1) LIMITATION BASED ON INCOME FROM
16 TRADE OR BUSINESS.—The amount allowed as a de-
17 duction under subsection (a) for any taxable year
18 shall not exceed the aggregate amount of taxable in-
19 come of the taxpayer for such taxable year which is
20 derived from the active conduct by the taxpayer of
21 any trade or business during such taxable year. For
22 purposes of this paragraph, rules similar to the rules
23 of subparagraphs (B) and (C) of section 179(b)(3)
24 shall apply. In the case of a partnership, S corpora-

1 tion, trust or other pass thru entity, this paragraph
2 shall be applied at both the entity and owner levels.

3 “(2) RECAPTURE RULES.—

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

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

12 “(i) the deduction allowable under
13 subsection (a) shall be treated as a deduc-
14 tion allowable to the taxpayer for deprecia-
15 tion or amortization; and

16 “(ii) property (other than section
17 1245 property) to which the deduction
18 would otherwise have been chargeable shall
19 be treated as section 1245 property solely
20 for purposes of applying section 1245 to
21 such deduction.”

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

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

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

5 **SEC. 202. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
 6 **FOR RENEWAL COMMUNITIES**

7 (a) EXTENSION.—Subsection (c) of section 51 of the
 8 Internal Revenue Code of 1986 (relating to termination)
 9 is amended by adding at the end the following new para-
 10 graph:

11 “(5) EXTENSION OF CREDIT FOR RENEWAL
 12 COMMUNITIES.—

13 “(A) IN GENERAL.—In the case of an indi-
 14 vidual who begins work for the employer after
 15 the date contained in paragraph (4)(B), for
 16 purposes of section 38—

17 “(i) in lieu of applying subsection (a),
 18 the amount of the work opportunity credit
 19 determined under this section for the tax-
 20 able year shall be equal to—

21 “(I) 15 percent of the qualified
 22 first-year wages for such year, and

23 “(II) 30 percent of the qualified
 24 second-year wages for such year,

1 “(ii) subsection (b)(3) shall be applied
2 by substituting ‘\$10,000’ for ‘\$6,000’,

3 “(iii) paragraph (4)(B) shall be ap-
4 plied by substituting for the date contained
5 therein the last day for which the designa-
6 tion under section 1400E of the renewal
7 community referred to in subparagraph
8 (B)(i) is in effect, and

9 “(iv) rules similar to the rules of sec-
10 tion 51A(b)(5)(C) shall apply.

11 “(B) QUALIFIED FIRST AND SECOND-YEAR
12 WAGES.—For purposes of subparagraph (A)—

13 “(i) IN GENERAL.—The term ‘quali-
14 fied wages’ means, with respect to each 1-
15 year period referred to in clause (ii) or
16 (iii), as the case may be, the wages paid or
17 incurred by the employer during the tax-
18 able year to any individual but only if—

19 “(I) the employer is engaged in a
20 trade or business in a renewal com-
21 munity throughout such 1-year period,

22 “(II) the individual is a resident
23 of such renewal community through-
24 out such 1-year period, and

1 “(III) substantially all of the
2 services which such individual per-
3 forms for the employer during such 1-
4 year period are performed in such re-
5 newal community.

6 “(ii) QUALIFIED FIRST-YEAR
7 WAGES.—The term ‘qualified first-year
8 wages’ means, with respect to any individ-
9 ual, qualified wages attributable to service
10 rendered during the 1-year period begin-
11 ning with the day the individual begins
12 work for the employer.

13 “(iii) QUALIFIED SECOND-YEAR
14 WAGES.—The term ‘qualified second-year
15 wages’ means, with respect to any individ-
16 ual, qualified wages attributable to service
17 rendered during the 1-year period begin-
18 ning on the day after the last day of the
19 1-year period with respect to such individ-
20 ual determined under clause (ii).”

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

24 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
25 and (B) of section 51(d)(5) of such Code are each

1 amended by striking “empowerment zone or enter-
2 prise community” and inserting “empowerment
3 zone, enterprise community, or renewal community”.

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

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

13 **SEC. 203. ALLOWANCE OF COMMERCIAL REVITALIZATION**
14 **CREDIT.**

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

20 “(4) the commercial revitalization credit pro-
21 vided under section 1400K.”

22 **SEC. 204. CONFORMING AND CLERICAL AMENDMENTS.**

23 (a) TAX ON EXCESS CONTRIBUTIONS.—

24 (1) TAX IMPOSED.—Subsection (a) of section
25 4973 of such Code is amended by striking “or” at

1 the end of paragraph (3), adding “or” at the end of
2 paragraph (4), and inserting after paragraph (4) the
3 following new paragraph:

4 “(5) a family development account (within the
5 meaning of section 1400H(e)),”.

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

9 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
10 poses of this section, in the case of a family development
11 account, the term ‘excess contributions’ means the sum
12 of—

13 “(1) the excess (if any) of—

14 “(A) the amount contributed for the tax-
15 able year to the account (other than a qualified
16 rollover, as defined in section 1400H(c)(7), or
17 a contribution under section 1400I), over

18 “(B) the amount allowable as a deduction
19 under section 1400H for such contributions,
20 and

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

24 “(A) the distributions out of the account
25 for the taxable year which were included in the

1 gross income of the payee under section
2 1400H(b)(1),

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

7 “(C) the excess (if any) of the maximum
8 amount allowable as a deduction under section
9 1400H for the taxable year over the amount
10 contributed to the account for the taxable year
11 (other than a contribution under section
12 1400I).

13 For purposes of this subsection, any contribution which
14 is distributed from the family development account in a
15 distribution to which rules similar to the rules of section
16 408(d)(4) apply by reason of section 1400H(b)(3) shall
17 be treated as an amount not contributed.”

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

21 (b) **TAX ON PROHIBITED TRANSACTIONS.**—Section
22 4975 of such Code is amended—

23 (1) by adding at the end of subsection (c) the
24 following new paragraph:

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

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

17 “(F) a family development account de-
18 scribed in section 1400H(e), or”.

19 (c) INFORMATION RELATING TO CERTAIN TRUSTS
20 AND ANNUITY PLANS.—Subsection (c) of section 6047 of
21 such Code is amended—

22 (1) by inserting “or section 1400H” after “sec-
23 tion 219”, and

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

4 (d) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
5 TION.—Clause (i) of section 6104(a)(1)(B) of such Code
6 is amended by inserting “a family development account
7 described in section 1400H(e),” after “section 408(a),”.

8 (e) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
9 VELOPMENT ACCOUNTS.—Paragraph (2) of section
10 6693(a) of such Code is amended by striking “and” at
11 the end of subparagraph (C), by striking the period and
12 inserting “, and” at the end of subparagraph (D), and
13 by adding at the end the following new subparagraph:

14 “(E) section 1400H(g)(7) (relating to fam-
15 ily development accounts).”

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

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

20 “(9) NO CARRYBACK OF SECTION 1400K CREDIT
21 BEFORE DATE OF ENACTMENT.—No portion of the
22 unused business credit for any taxable year which is
23 attributable to any commercial revitalization credit
24 determined under section 1400K may be carried

1 back to a taxable year ending before the date of the
2 enactment of section 1400K.”

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

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

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

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

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

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

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

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

11 (8) Subparagraph (C) of section 50(b)(4) of
12 such Code is amended—

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

16 (B) by inserting “or commercial revitaliza-
17 tion” after “rehabilitation”.

18 (9) Subparagraph (C) of section 469(i)(3) is
19 amended—

20 (A) by inserting “or section 1400K” after
21 “section 42”; and

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

25 (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 X. Renewal Communities.”

4 (2) The table of parts for subchapter X 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 **TITLE III—ADDITIONAL**
12 **PROVISIONS**

13 **SEC. 301. TRANSFER OF UNOCCUPIED AND SUBSTANDARD**
14 **HUD-HELD HOUSING IN RENEWAL COMMU-**
15 **NITIES TO LOCAL GOVERNMENTS.**

16 (a) **TRANSFER REQUIREMENT.**—Pursuant to the au-
17 thority under section 204 of the Departments of Veterans
18 Affairs and Housing and Urban Development, and Inde-
19 pendent Agencies Appropriations Act, 1997, the Secretary
20 shall transfer ownership of any qualified HUD property
21 to the unit of general local government having jurisdiction

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

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

10 (1) owned by the Secretary; and

11 (2) located within a renewal community.

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

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

21 (2) with respect to any multifamily housing
22 project or single family property that is acquired by
23 the Secretary on or after the date on which the area
24 in which the property is located is designated as a
25 renewal community, not later than 1 year after—

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

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

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

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

24 (A) of such acquisition of title; and

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

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

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

17 (B) the unit of general local government
18 shall accept a bona fide offer to purchase the
19 property made during such period if the offer is
20 acceptable to the unit of general local govern-
21 ment, except that a unit of general local govern-
22 ment may not sell a property to a community
23 development corporation during that 6-month
24 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 within 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 X 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. 302. 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 regarding 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.—With
9 respect to an individual who is a program beneficiary or
10 a prospective program beneficiary, if the individual objects
11 to a program participant on the basis that the participant
12 is a religious organization, the following applies:

13 “(1) If the organization received a designated
14 direct award, the organization shall arrange for the
15 individual to receive program services through an al-
16 ternative entity.

17 “(2) If the organization received a designated
18 subaward, the non-Federal entity that made the
19 subaward shall arrange for the individual to receive
20 the program services through an alternative program
21 participant.

22 “(3) If the organization is providing services
23 pursuant to voucherized assistance, the designated
24 award recipient that operates the voucherized assist-
25 ance program shall arrange for the individual to re-

1 ceive the program services through an alternative
2 provider.

3 “(4) Arrangements under any of paragraphs
4 (1) through (3) with an alternative entity shall pro-
5 vide for program services the monetary value of
6 which is not less than the monetary value of the pro-
7 gram services that the individual would have re-
8 ceived from the religious organization involved.

9 “(g) FISCAL ACCOUNTABILITY.—

10 “(1) IN GENERAL.—Except as provided in para-
11 graph (2), any religious organization that is a pro-
12 gram participant shall be subject to the same regula-
13 tions as other recipients of awards of Federal finan-
14 cial assistance to account, in accordance with gen-
15 erally accepted auditing principles, for the use of the
16 funds provided under such awards.

17 “(2) LIMITED AUDIT.—With respect to the
18 award involved, if a religious organization that is a
19 program participant maintains the Federal funds in
20 a separate account from non-Federal funds, then
21 only the Federal funds shall be subject to audit.

22 “(h) COMPLIANCE.—With respect to compliance with
23 this section by an agency, a religious organization may
24 obtain judicial review of agency action in accordance with
25 chapter 7 of title 5, United States Code.

1 **“SEC. 583. LIMITATIONS ON USE OF FUNDS FOR CERTAIN**
2 **PURPOSES.**

3 “(a) IN GENERAL.—Except as provided in subsection
4 (b), no funds provided directly to an entity under a des-
5 ignated program shall be expended for sectarian worship
6 or instruction.

7 “(b) EXCEPTION.—Subsection (a) shall not apply to
8 assistance provided to or on behalf of a program bene-
9 ficiary if the beneficiary may choose where such assistance
10 is redeemed or allocated.

11 **“SEC. 584. ADMINISTRATION OF PROGRAM AND TREAT-**
12 **MENT OF FUNDS.**

13 “(a) FUNDS NOT AID TO INSTITUTIONS.—Financial
14 assistance under a designated program provided to or on
15 behalf of program beneficiaries is aid to the beneficiary,
16 not to the organization providing program services. The
17 receipt by a program beneficiary of program services at
18 the facilities of the organization shall not constitute Fed-
19 eral financial assistance to the organization involved.

20 “(b) PROHIBITION ON STATE DISCRIMINATION IN
21 USE OF FUNDS.—No provision in any State constitution
22 or State law shall be construed to prohibit the expenditure
23 of Federal funds under a designated program in a reli-
24 gious facility or by a religious organization that is a pro-
25 gram participant. If a State law or constitution would pre-
26 vent the expenditure of State or local public funds in such

1 a facility or by such an organization, then the State or
2 local government shall segregate the Federal funds from
3 State or other public funds for purposes of carrying out
4 the designated program.

5 **“SEC. 585. EDUCATIONAL REQUIREMENTS FOR PERSONNEL**
6 **IN DRUG TREATMENT PROGRAMS.**

7 “(a) FINDINGS.—The Congress finds that—

8 “(1) establishing formal educational qualifica-
9 tion for counselors and other personnel in drug
10 treatment programs may undermine the effective-
11 ness of such programs; and

12 “(2) such formal educational requirements for
13 counselors and other personnel may hinder or pre-
14 vent the provision of needed drug treatment services.

15 “(b) LIMITATION ON EDUCATIONAL REQUIREMENTS
16 OF PERSONNEL.—

17 “(1) TREATMENT OF RELIGIOUS EDUCATION.—

18 If any State or local government that is a program
19 participant imposes formal educational qualifications
20 on providers of program services, including religious
21 organizations, such State or local government shall
22 treat religious education and training of personnel
23 as having a critical and positive role in the delivery
24 of program services. In applying educational quali-
25 fications for personnel in religious organizations,

1 such State or local government shall give credit for
2 religious education and training equivalent to credit
3 given for secular course work in drug treatment or
4 any other secular subject that is of similar grade
5 level and duration.

6 “(2) RESTRICTION OF DISCRIMINATION RE-
7 QUIREMENTS.—

8 “(A) IN GENERAL.—Subject to paragraph
9 (1), a State or local government that is a pro-
10 gram participant may establish formal edu-
11 cational qualifications for personnel in organiza-
12 tions providing program services that contribute
13 to success in reducing drug use among program
14 beneficiaries.

15 “(B) EXCEPTION.—The Secretary shall
16 waive the application of any educational quali-
17 fication imposed under subparagraph (A) for an
18 individual religious organization, if the Sec-
19 retary determines that—

20 “(i) the religious organization has a
21 record of prior successful drug treatment
22 for at least the preceding three years;

23 “(ii) the educational qualifications
24 have effectively barred such religious orga-

1 nization from becoming a program pro-
2 vider;

3 “(iii) the organization has applied to
4 the Secretary to waive the qualifications;
5 and

6 “(iv) the State or local government
7 has failed to demonstrate empirically that
8 the educational qualifications in question
9 are necessary to the successful operation of
10 a drug treatment program.”.

11 **SEC. 303. CRA CREDIT FOR INVESTMENTS IN COMMUNITY**
12 **DEVELOPMENT ORGANIZATIONS LOCATED IN**
13 **RENEWAL COMMUNITIES.**

14 Section 804 of the Community Reinvestment Act of
15 1977 (12 U.S.C. 2903) is amended by adding at the end
16 the following new subsection:

17 “(c) INVESTMENTS IN CERTAIN COMMUNITY DEVEL-
18 OPMENT ORGANIZATIONS.—In assessing and taking into
19 account, under subsection (a), the record of a regulated
20 financial institution, the appropriate Federal financial su-
21 pervisory agency may consider, as a factor, investments
22 of the institution in, and capital investment, loan partici-
23 pation, and other ventures undertaken by the institution
24 in cooperation with, any community development organi-
25 zation (as defined in section 234 of the Bank Enterprise

- 1 Act of 1991) which is located in a renewal community (as
- 2 designated under section 1400E of the Internal Revenue
- 3 Code of 1986).”.

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