

105<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# S. 753

To amend the Internal Revenue Code of 1986 to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

MAY 15, 1997

Mr. MACK (for himself, Mr. LIEBERMAN, and Mr. BROWNBACK) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia, and for other purposes.

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

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “District of Columbia  
5       Economic Recovery Act”.

1 **SEC. 2. SPECIAL RULES FOR TAXATION OF INDIVIDUALS**  
 2 **WHO ARE RESIDENTS OF OR INVESTORS IN**  
 3 **THE DISTRICT OF COLUMBIA.**

4 (a) **IN GENERAL.**—Subchapter A of chapter 1 of the  
 5 Internal Revenue Code of 1986 (relating to determination  
 6 of tax liability) is amended by adding at the end the fol-  
 7 lowing new part:

8 **“PART VIII—SPECIAL RULES FOR TAXATION OF**  
 9 **INDIVIDUALS WHO ARE RESIDENTS OF OR**  
 10 **INVESTORS IN THE DISTRICT OF COLUMBIA**

“Sec. 59B. Limitation on tax imposed on residents of the Dis-  
 trict of Columbia.

“Sec. 59C. Taxation of capital gains sourced in the District of  
 Columbia.

11 **“SEC. 59B. LIMITATION ON TAX IMPOSED ON RESIDENTS OF**  
 12 **THE DISTRICT OF COLUMBIA.**

13 “(a) **GENERAL RULE.**—If a taxpayer elects the appli-  
 14 cation of this section, the net income tax of an individual  
 15 who is a resident of the District of Columbia for the tax-  
 16 able year shall not exceed the limitation determined under  
 17 subsection (b) for such year.

18 “(b) **LIMITATION.**—

19 “(1) **IN GENERAL.**—The limitation determined  
 20 under this subsection is the sum of the following  
 21 amounts:

1           “(A) 15-PERCENT RATE.—15 percent of so  
2 much of District-sourced income as exceeds the  
3 exemption amount.

4           “(B) AVERAGE RATE.—An amount equal  
5 to the average rate of the non-District-sourced  
6 adjusted gross income.

7           “(2) DISTRICT-SOURCED CAPITAL GAINS.—

**“For exclusion from tax of capital gains, see section 59C.**

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

9           “(1) RESIDENT OF DISTRICT OF COLUMBIA.—

10          An individual is a resident of the District of Colum-  
11          bia for the taxable year if—

12           “(A) such individual used a residence in  
13          the District of Columbia as a place of abode  
14          (and was physically present at such place) for  
15          at least 183 days of such taxable year, and

16           “(B) such individual is subject to the Dis-  
17          trict of Columbia income tax for such taxable  
18          year.

19           “(2) NET INCOME TAX.—The term ‘net income  
20          tax’ means—

21           “(A) the sum of regular tax liability and  
22          the tax imposed by section 55 (determined with-  
23          out regard to this section), reduced by

1           “(B) the aggregate credits allowable under  
2           part IV (other than section 31).

3           “(3) EXEMPTION AMOUNT.—The term ‘exemp-  
4           tion amount’ means—

5                   “(A) \$30,000 in the case of a joint return  
6                   or a surviving spouse,

7                   “(B) \$15,000 in the case of—

8                           “(i) an individual who is not a mar-  
9                           ried individual and is not a surviving  
10                          spouse, and

11                           “(ii) a married individual filing a sep-  
12                          arate return, and

13                   “(C) \$25,000 in the case of a head of a  
14                   household.

15           “(4) AVERAGE RATE.—The term ‘average rate’  
16           means the percentage determined by dividing—

17                   “(A) the sum (determined without regard  
18                   to this section) of the taxpayer’s regular tax li-  
19                   ability and the tax imposed by section 55, by

20                   “(B) the taxpayer’s taxable income.

21           If the percentage determined under the preceding  
22           sentence is not a whole number of percentage points,  
23           such percentage shall be rounded to the nearest  
24           whole number of percentage points.

1           “(5) REGULAR TAX LIABILITY.—The term ‘reg-  
2           ular tax liability’ has the meaning given to such  
3           term by section 26(b).

4           “(d) DISTRICT-SOURCED INCOME.—For purposes of  
5           this section, the term ‘District-sourced income’ means ad-  
6           justed gross income reduced by the sum of—

7           “(1) non-District-sourced adjusted gross in-  
8           come,

9           “(2) the deduction allowed by section 170, and

10           “(3) the deduction allowed by section 163 to  
11           the extent attributable to qualified residence interest  
12           (as defined in section 163(h)).

13           “(e) NON-DISTRICT-SOURCED ADJUSTED GROSS IN-  
14           COME.—For purposes of this section, the term ‘non-Dis-  
15           trict-sourced adjusted gross income’ means gross income  
16           of the taxpayer from sources outside the District of Co-  
17           lumbia reduced (but not below zero) by the deductions  
18           taken into account in determining adjusted gross income  
19           which are allocable to such income.

20           “(f) SOURCES OF INCOME.—For purposes of this sec-  
21           tion—

22           “(1) RETIREMENT INCOME AND OTHER INCOME  
23           NOT SOURCED UNDER SUBSECTION.—The source of  
24           any income not specifically provided for in this sub-

1 section shall be treated as from sources within the  
2 District of Columbia.

3 “(2) PERSONAL SERVICES.—

4 “(A) IN GENERAL.—Compensation (other  
5 than retirement income) for services performed  
6 by the taxpayer as an employee, and net earn-  
7 ings from self-employment (as defined in sec-  
8 tion 1402)), shall be sourced at the place such  
9 services are performed.

10 “(B) SERVICES PERFORMED IN WASHING-  
11 TON-BALTIMORE AREA TREATED AS PER-  
12 FORMED IN THE DISTRICT OF COLUMBIA.—  
13 Services performed in the Washington-Balti-  
14 more area shall be treated as performed in the  
15 District of Columbia.

16 “(C) INDIVIDUALS PERFORMING 80 PER-  
17 CENT OF SERVICES WITHIN WASHINGTON-BAL-  
18 TIMORE AREA.—If, during any taxable year, at  
19 least 80 percent of the hours of service per-  
20 formed by an individual are performed within  
21 the Washington-Baltimore area, all such service  
22 shall be treated for purposes of this paragraph  
23 as performed within the District of Columbia.

24 “(D) WASHINGTON-BALTIMORE AREA.—  
25 For purposes of this paragraph, the term

1           ‘Washington-Baltimore area’ means the area  
2           consisting of—

3                   “(i) the Washington/Baltimore Con-  
4                   solidated Metropolitan Statistical Area (as  
5                   designated by the Office of Management  
6                   and Budget), and

7                   “(ii) St. Mary’s County, Maryland.

8           “(3) INTEREST.—

9                   “(A) IN GENERAL.—Interest received or  
10                  accrued during the taxable year shall be treated  
11                  as from sources outside the District of Colum-  
12                  bia.

13                  “(B) EXCEPTION FOR SMALL AMOUNTS OF  
14                  NON-DISTRICT-SOURCED INTEREST.—Interest  
15                  which would (but for this subparagraph) be  
16                  treated as from sources outside the District of  
17                  Columbia shall be treated as from sources in  
18                  the District of Columbia to the extent the  
19                  amount of such interest does not exceed \$400.

20                  “(C) EXCEPTION FOR INTEREST PAID BY  
21                  DISTRICT OF COLUMBIA BUSINESSES AND RESI-  
22                  DENTS.—

23                   “(i) BUSINESSES.—In the case of in-  
24                  terest paid during a calendar year by a  
25                  debtor which was required to file (and

1 filed) a franchise tax return with the Dis-  
2 trict of Columbia for the debtor's taxable  
3 year ending with or within the prior cal-  
4 endar year, an amount equal to the D.C.  
5 percentage (as shown on such return) of  
6 such interest shall be treated as from  
7 sources within the District of Columbia.  
8 The preceding sentence shall apply only if  
9 such percentage is furnished to the tax-  
10 payer in writing on or before January 31  
11 of the year following the calendar year in  
12 which such interest is paid.

13 “(ii) OTHERS.—Interest shall be  
14 treated as from sources within the District  
15 of Columbia if the interest is paid during  
16 a calendar year by a debtor—

17 “(I) which was required to file  
18 (and filed) an income tax return with  
19 the District of Columbia for the debt-  
20 or's taxable year ending with or with-  
21 in the prior calendar year, and

22 “(II) which is not required to file  
23 a franchise tax return with the Dis-  
24 trict of Columbia for such taxable  
25 year.

1           “(D) SPECIAL RULE FOR DETERMINATION  
2 OF D.C. PERCENTAGE FOR NEW BUSINESSES.—  
3 Interest shall be treated as from sources within  
4 the District of Columbia if the interest is paid  
5 during a calendar year by a debtor which was  
6 required to file (and filed) a franchise tax re-  
7 turn with the District of Columbia for such  
8 debtor’s taxable year ending with or within such  
9 calendar year, but which was not required to  
10 file such a return for such debtor’s prior tax-  
11 able year.

12           “(4) DIVIDENDS.—

13           “(A) IN GENERAL.—Dividends received or  
14 accrued during the taxable year shall be treated  
15 as from sources outside the District of Colum-  
16 bia.

17           “(B) EXCEPTION FOR SMALL AMOUNTS OF  
18 NON-DISTRICT-SOURCED DIVIDENDS.—Divi-  
19 dends which would (but for this subparagraph)  
20 be treated as from sources outside the District  
21 of Columbia shall be treated as from sources in  
22 the District of Columbia to the extent the  
23 amount of such dividends do not exceed \$400.

24           “(C) EXCEPTION FOR DIVIDENDS PAID BY  
25 CORPORATION ENGAGED IN BUSINESS IN THE

1 DISTRICT OF COLUMBIA.—In the case of divi-  
2 dends paid during a calendar year by a corpora-  
3 tion which was required to file (and filed) a  
4 franchise tax return with the District of Colum-  
5 bia for the corporation’s taxable year ending  
6 with or within the prior calendar year, an  
7 amount equal to the D.C. percentage (as shown  
8 on such return) of such dividends shall be treat-  
9 ed as from sources within the District of Co-  
10 lumbia. The preceding sentence shall apply only  
11 if such percentage is furnished to the taxpayer  
12 in writing on or before January 31 of the year  
13 following the calendar year in which such divi-  
14 dends are paid.

15 “(D) SPECIAL RULE FOR DETERMINATION  
16 OF D.C. PERCENTAGE FOR NEW BUSINESSES.—  
17 Dividends shall be treated as from sources with-  
18 in the District of Columbia if the dividends are  
19 paid during a calendar year by a corporation  
20 which was required to file (and filed) a fran-  
21 chise tax return with the District of Columbia  
22 for such corporation’s taxable year ending with  
23 or within such calendar year, but which was not  
24 required to file such a return for such corpora-  
25 tion’s prior taxable year.

1           “(5) DISPOSITION OF TANGIBLE PROPERTY.—  
2           Income, gain, or loss from the disposition of tangible  
3           property shall be sourced to the place such property  
4           is located at the time of the disposition.

5           “(6) DISPOSITION OF INTANGIBLE PROP-  
6           PERTY.—

7                   “(A) IN GENERAL.—Income, gain, or loss  
8                   from the disposition of intangible property shall  
9                   be treated as from sources outside the District  
10                  of Columbia.

11                   “(B) EXCEPTION.— If any portion of the  
12                   most recent income received or accrued by the  
13                   taxpayer before such disposition which was at-  
14                   tributable to such property was from sources  
15                   within the District of Columbia, a like portion  
16                   of the income, gain, or loss from such disposi-  
17                   tion shall be treated as from sources within the  
18                   District of Columbia.

19           “(7) RENTALS.—Rents from property shall be  
20           sourced at the place where such property is located.

21           “(8) ROYALTIES.—Royalties shall be treated as  
22           from sources outside the District of Columbia.

23           “(9) INCOME FROM PROPRIETORSHIP.—

24                   “(A) IN GENERAL.—In the case of a trade  
25                   or business carried on by the taxpayer as a pro-

1 proprietorship, income from such trade or business  
2 (other than income which is included in net  
3 earnings from self-employment by the taxpayer)  
4 shall be treated as from sources outside the  
5 District of Columbia.

6 “(B) EXCEPTION FOR DISTRICT OF CO-  
7 LUMBIA BUSINESSES.—If the taxpayer is re-  
8 quired to file (and files) a franchise tax return  
9 with the District of Columbia for the taxable  
10 year, subparagraph (A) shall not apply to an  
11 amount equal to the D.C. percentage of such  
12 income.

13 “(10) INCOME FROM PARTNERSHIP.—

14 “(A) IN GENERAL.—In the case of a tax-  
15 payer who is a partner in a partnership, income  
16 from such partnership (other than income  
17 which is included in net earnings from self-em-  
18 ployment by any partner) shall be treated as  
19 from sources outside the District of Columbia.

20 “(B) EXCEPTIONS.—Subparagraph (A)  
21 shall not apply to a partnership—

22 “(i) which was required to file (and  
23 filed) a franchise tax return with the Dis-  
24 trict of Columbia for the partnership’s tax-  
25 able year ending with or within the tax-

1 payer's taxable year to the extent of the  
 2 D.C. percentage of the taxpayer's distribu-  
 3 tive share of the partnership income, or

4 “(ii) which was not required to file a  
 5 franchise tax return with the District of  
 6 Columbia for the partnership's taxable  
 7 year ending with or within the taxpayer's  
 8 taxable year to the extent of the taxpayer's  
 9 distributive share of partnership income  
 10 which is not (as determined under this  
 11 subsection) from sources outside the Dis-  
 12 trict of Columbia.

13 “(11) INCOME IN RESPECT OF A DECEDENT;  
 14 INCOME FROM AN ESTATE.—Income in respect of a  
 15 decedent, and income from an estate, shall be  
 16 sourced at the place where the decedent was domi-  
 17 ciled at the time of his death.

18 “(12) INCOME FROM A TRUST.—Income (other  
 19 than retirement income) from a trust shall be treat-  
 20 ed as from the same sources as the income of the  
 21 trust to which it is attributable.

22 “(g) DEFINITIONS RELATING TO SUBSECTION (f).—  
 23 For purposes of subsection (f)—

24 “(1) RETIREMENT INCOME.—The term ‘retire-  
 25 ment income’ has the meaning given such term by

1 section 114(b)(1) of title 4, United States Code (de-  
2 termined without regard to subparagraph (I) there-  
3 of).

4 “(2) D.C. PERCENTAGE.—The term ‘D.C. per-  
5 centage’ means the percentage determined by divid-  
6 ing—

7 “(A) the net income taxable in the District  
8 of Columbia (as shown on the original return  
9 for the taxable year), by

10 “(B) total net income from all sources (as  
11 shown on such return).

12 The preceding sentence shall be applied based on  
13 amounts shown on the original applicable District of  
14 Columbia franchise or income tax return.

15 “(h) SECTION NOT TO APPLY TO ESTATES AND  
16 TRUSTS.—This section shall not apply to an estate or  
17 trust.

18 “(i) ELECTION.—The election provided in subsection  
19 (a) shall be made at such time and in such manner as  
20 the Secretary may by regulations prescribe. Any such elec-  
21 tion shall apply to the first taxable year for which such  
22 election was made and for each taxable year thereafter  
23 until such election is revoked by the taxpayer.

1 “(j) REGULATIONS.—The Secretary shall prescribe  
2 such regulations as may be necessary or appropriate to  
3 carry out the purposes of this section.

4 **“SEC. 59C. EXCLUSION OF CAPITAL GAINS SOURCED IN THE**  
5 **DISTRICT OF COLUMBIA.**

6 “(a) EXCLUSION.—

7 “(1) GENERAL RULE.—Except as provided in  
8 paragraph (2), in the case of a taxpayer who is an  
9 individual, gross income shall not include any quali-  
10 fied capital gain recognized on the sale or exchange  
11 of a District asset held for more than 3 years.

12 “(2) EXCEPTION FOR CERTAIN GAIN OF NON-  
13 RESIDENTS.—In the case of a taxpayer who is not  
14 a resident of the District of Columbia for any tax-  
15 able year, gross income shall not include 50 percent  
16 of the qualified capital gain recognized on the sale  
17 or exchange of residential rental property (within the  
18 meaning of section 168(e)(2)(A)) which is a District  
19 asset held for more than 3 years and which is not  
20 taken into account under section 1202.

21 “(b) DISTRICT ASSET.—For purposes of this sec-  
22 tion—

23 “(1) IN GENERAL.—The term ‘District asset’  
24 means—

25 “(A) any District stock,

1           “(B) any District business property,

2           “(C) any District partnership interest, and

3           “(D) any principal residence (within the  
4 meaning of section 1034).

5           “(2) DISTRICT STOCK.—

6           “(A) IN GENERAL.—The term ‘District  
7 stock’ means any stock in a domestic corpora-  
8 tion if—

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

12                   “(ii) as of the time such stock was is-  
13 sued, such corporation was a District busi-  
14 ness (or, in the case of a new corporation,  
15 such corporation was being organized for  
16 purposes of being a District business), and

17                   “(iii) during substantially all of the  
18 taxpayer’s holding period for such stock,  
19 such corporation qualified as a District  
20 business.

21           “(B) REDEMPTIONS.—The term ‘District  
22 stock’ shall not include any stock acquired from  
23 a corporation which made a substantial stock  
24 redemption or distribution (without a bona fide

1 business purpose therefor) in an attempt to  
2 avoid the purposes of this section.

3 “(3) DISTRICT BUSINESS PROPERTY.—

4 “(A) IN GENERAL.—The term ‘District  
5 business property’ means tangible property if—

6 “(i) such property was acquired by  
7 the taxpayer by purchase (as defined in  
8 section 179(d)(2)),

9 “(ii) the original use of such property  
10 in the District of Columbia commences  
11 with the taxpayer, and

12 “(iii) during substantially all of the  
13 taxpayer’s holding period for such prop-  
14 erty, substantially all of the use of such  
15 property was in a District business of the  
16 taxpayer.

17 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-  
18 PROVEMENTS.—

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

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

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

3                   “(ii) SUBSTANTIAL IMPROVEMENT.—  
4                   For purposes of clause (i), property shall  
5                   be treated as substantially improved by the  
6                   taxpayer if, during any 24-month period  
7                   beginning after the date of the enactment  
8                   of this section, additions to basis with re-  
9                   spect to such property in the hands of the  
10                  taxpayer exceed the greater of—

11                  “(I) an amount equal to the ad-  
12                  justed basis at the beginning of such  
13                  24-month period in the hands of the  
14                  taxpayer, or

15                  “(II) \$5,000.

16                  “(C) LIMITATION ON LAND.—The term  
17                  ‘District business property’ shall not include  
18                  land which is not an integral part of a District  
19                  business.

20                  “(4) DISTRICT PARTNERSHIP INTEREST.—The  
21                  term ‘District partnership interest’ means any inter-  
22                  est in a partnership if—

23                  “(A) such interest is acquired by the tax-  
24                  payer from the partnership solely in exchange  
25                  for cash,

1           “(B) as of the time such interest was ac-  
2           quired, such partnership was a District business  
3           (or, in the case of a new partnership, such part-  
4           nership was being organized for purposes of  
5           being a District business), and

6           “(C) during substantially all of the tax-  
7           payer’s holding period for such interest, such  
8           partnership qualified as a District business.

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

11          “(5) TREATMENT OF SUBSEQUENT PUR-  
12          CHASERS.—The term ‘District asset’ includes any  
13          property which would be a District asset but for  
14          paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in the  
15          hands of the taxpayer if such property was a Dis-  
16          trict asset in the hands of all prior holders.

17          “(6) 10-YEAR SAFE HARBOR.—If any property  
18          ceases to be a District asset by reason of paragraph  
19          (2)(A)(iii), (3)(A)(iii), or (4)(C) after the 10-year  
20          period beginning on the date the taxpayer acquired  
21          such property, such property shall continue to be  
22          treated as meeting the requirements of such para-  
23          graph; except that the amount of gain to which sub-  
24          section (a) applies on any sale or exchange of such  
25          property shall not exceed the amount which would be

1 qualified capital gain had such property been sold on  
2 the date of such cessation.

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

4 For purposes of this section—

5 “(1) QUALIFIED CAPITAL GAIN.—Except as  
6 otherwise provided in this subsection, the term  
7 ‘qualified capital gain’ means any long-term capital  
8 gain recognized on the sale or exchange of a District  
9 asset held for more than 3 years.

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) DISTRICT BUSINESS.—The term ‘District  
17 business’ means, with respect to any taxable year,  
18 any individual, partnership, or corporation if for  
19 such year either—

20 “(A)(i) at least 50 percent of the total  
21 gross income of such individual, partnership, or  
22 corporation is derived from the active conduct  
23 of a trade or business in the District of Colum-  
24 bia,

1           “(ii) substantially all of the use of the tan-  
2           gible property of such individual, partnership,  
3           or corporation (whether owned or leased) is  
4           within the District of Columbia, and

5           “(iii) at least 35 percent of the employees  
6           of such individual, partnership, or corporation  
7           are located in the District of Columbia, or

8           “(B) at least 50 percent of the employees  
9           of such individual, partnership, or corporation  
10          are located in the District of Columbia.

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

12           “(1) SALES AND EXCHANGES.—Gain on the  
13           sale or exchange of an interest in a pass-thru entity  
14           held by the taxpayer (other than an interest in an  
15           entity which was a District business during substan-  
16           tially all of the period the taxpayer held such inter-  
17           est) for more than 3 years shall be treated as gain  
18           described in subsection (a) to the extent such gain  
19           is attributable to amounts which would be qualified  
20           capital gain on District assets (determined as if such  
21           assets had been sold on the date of the sale or ex-  
22           change) held by such entity for more than 3 years  
23           and throughout the period the taxpayer held such in-  
24           terest. A rule similar to the rule of paragraph (2)(B)  
25           shall apply for purposes of the preceding sentence.

1           “(2) INCOME INCLUSIONS.—

2                   “(A) IN GENERAL.—Any amount included  
3 in income by reason of holding an interest in a  
4 pass-thru entity (other than an entity which  
5 was a District business during substantially all  
6 of the period the taxpayer held the interest to  
7 which such inclusion relates) shall be treated as  
8 gain described in subsection (a) if such amount  
9 meets the requirements of subparagraph (B).

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

12                           “(i) such amount is attributable to  
13 qualified capital gain recognized on the  
14 sale or exchange by the pass-thru entity of  
15 property which is a District asset in the  
16 hands of such entity and which was held  
17 by such entity for the period required  
18 under subsection (a), and

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

1           fore the disposition of such asset by such  
2           pass-thru entity.

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

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

14                  “(A) any partnership,

15                  “(B) any S corporation,

16                  “(C) any regulated investment company,

17                  and

18                  “(D) any common trust fund.

19          “(e) SALES AND EXCHANGES OF INTERESTS IN  
20          PARTNERSHIPS AND S CORPORATIONS WHICH ARE DIS-  
21          TRICT BUSINESSES.—In the case of the sale or exchange  
22          of an interest in a partnership, or of stock in an S corpora-  
23          tion, which was a District business during substantially  
24          all of the period the taxpayer held such interest or stock,  
25          the amount of qualified capital gain shall be determined

1 without regard to any intangible, and any land, which is  
2 not an integral part of the District business.

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 District asset to which this subsection applies, the  
7 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 District asset with respect to which  
21 the requirements of subsection (d)(2) are met  
22 at the time of the transfer (without regard to  
23 the 3-year holding requirement).



1 which is paid or incurred by the taxpayer as an expense  
2 which is not chargeable to capital account. Any expendi-  
3 ture which is so treated shall be allowed as a deduction  
4 for the taxable year in which it is paid or incurred.

5 “(b) QUALIFIED ENVIRONMENTAL REMEDIATION  
6 EXPENDITURE.—For purposes of this section—

7 “(1) IN GENERAL.—The term ‘qualified envi-  
8 ronmental remediation expenditure’ means any ex-  
9 penditure—

10 “(A) which is otherwise chargeable to cap-  
11 ital account, and

12 “(B) which is paid or incurred in connec-  
13 tion with the abatement or control of hazardous  
14 substances at a qualified contaminated site.

15 “(2) SPECIAL RULE FOR EXPENDITURES FOR  
16 DEPRECIABLE PROPERTY.—Such term shall not in-  
17 clude any expenditure for the acquisition of property  
18 of a character subject to the allowance for deprecia-  
19 tion which is used in connection with the abatement  
20 or control of hazardous substances at a qualified  
21 contaminated site; except that the portion of the al-  
22 lowance under section 167 for such property which  
23 is otherwise allocated to such site shall be treated as  
24 a qualified environmental remediation expenditure.

1       “(c) QUALIFIED CONTAMINATED SITE.—For pur-  
2 poses of this section—

3           “(1) IN GENERAL.—The term ‘qualified con-  
4 taminated site’ means any area within the District  
5 of Columbia—

6           “(A) which is held by the taxpayer for use  
7 in a trade or business or for the production of  
8 income, or which is property described in sec-  
9 tion 1221(1) in the hands of the taxpayer, and

10           “(B) which contains (or potentially con-  
11 tains) any hazardous substance.

12           “(2) TAXPAYER MUST RECEIVE STATEMENT  
13 FROM ENVIRONMENTAL AGENCY.—An area shall be  
14 treated as a qualified contaminated site with respect  
15 to expenditures paid or incurred during any taxable  
16 year only if the taxpayer receives a statement from  
17 the appropriate agency of the District of Columbia  
18 in which such area is located that such area meets  
19 the requirements of paragraph (1)(B).

20           “(3) APPROPRIATE AGENCY.— For purposes of  
21 paragraph (2), the appropriate agency of the Dis-  
22 trict of Columbia is the agency designated by the  
23 Administrator of the Environmental Protection  
24 Agency for purposes of this section. If no agency is  
25 designated under the preceding sentence, the appro-

1        appropriate agency shall be the Environmental Protection  
2        Agency.

3        “(d) HAZARDOUS SUBSTANCE.—For purposes of this  
4        section—

5                “(1) IN GENERAL.—The term ‘hazardous sub-  
6        stance’ means—

7                        “(A) any substance which is a hazardous  
8                        substance as defined in section 101(14) of the  
9                        Comprehensive Environmental Response, Com-  
10                      pensation, and Liability Act of 1980, and

11                      “(B) any substance which is designated as  
12                      a hazardous substance under section 102 of  
13                      such Act.

14                “(2) EXCEPTION.—Such term shall not include  
15                any substance with respect to which a removal or re-  
16                medial action is not permitted under section 104 of  
17                such Act by reason of subsection (a)(3) thereof.

18        “(e) DEDUCTION RECAPTURED AS ORDINARY IN-  
19        COME ON SALE, ETC.—Solely for purposes of section  
20        1245, in the case of property to which a qualified environ-  
21        mental remediation expenditure would have been capital-  
22        ized but for this section—

23                “(1) the deduction allowed by this section for  
24                such expenditure shall be treated as a deduction for  
25                depreciation, and



1 amended by inserting after section 23 the following new  
2 section:

3 **“SEC. 24. FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT**  
4 **OF COLUMBIA.**

5 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
6 dividual who is a first-time homebuyer of a principal resi-  
7 dence in the District of Columbia during any taxable year,  
8 there shall be allowed as a credit against the tax imposed  
9 by this chapter for the taxable year an amount equal to  
10 so much of the purchase price of the residence as does  
11 not exceed \$5,000.

12 “(b) FIRST-TIME HOMEBUYER.—For purposes of  
13 this section—

14 “(1) IN GENERAL.—The term ‘first-time home-  
15 buyer’ means any individual if—

16 “(A) such individual (and if married, such  
17 individual’s spouse) had no present ownership  
18 interest in a principal residence in the District  
19 of Columbia during the 1-year period ending on  
20 the date of acquisition of the principal residence  
21 to which this section applies, and

22 “(B) subsection (h) or (k) of section 1034  
23 did not, on the day before the close of such 1-  
24 year period, suspend the running of any period  
25 of time specified in section 1034 for such indi-

1           vidual with respect to gain on a principal resi-  
2           dence in the District of Columbia.

3           “(2) ONE-TIME ONLY.—If an individual is  
4           treated as a first-time homebuyer with respect to  
5           any principal residence, such individual may not be  
6           treated as a first-time homebuyer with respect to  
7           any other principal residence.

8           “(3) PRINCIPAL RESIDENCE.—The term ‘prin-  
9           cipal residence’ has the meaning given such term by  
10          section 1034.

11          “(4) DATE OF ACQUISITION.—The term ‘date  
12          of acquisition’ means the date—

13                 “(A) on which a binding contract to ac-  
14                 quire the principal residence to which this sec-  
15                 tion applies to is entered into, or

16                 “(B) on which construction or reconstruc-  
17                 tion of such principal residence is commenced.

18          “(c) CARRYOVER OF CREDIT.—If the credit allowable  
19          under subsection (a) exceeds the limitation imposed by  
20          section 26(a) for such taxable year reduced by the sum  
21          of the credits allowable under this subpart (other than this  
22          section and section 25), such excess shall be carried to  
23          the succeeding taxable year and added to the credit allow-  
24          able under subsection (a) for such taxable year.

1       “(d) SPECIAL RULES.—For purposes of this sec-  
2 tion—

3               “(1) ALLOCATION OF DOLLAR LIMITATION.—

4                       “(A) MARRIED INDIVIDUALS FILING  
5 JOINTLY.—In the case of a husband and wife  
6 who file a joint return under section 6013, the  
7 \$5,000 limitation under subsection (a) shall  
8 apply to the joint return.

9                       “(B) MARRIED INDIVIDUALS FILING SEPA-  
10 RATELY.—In the case of a married individual  
11 filing a separate return, subsection (a) shall be  
12 applied by substituting ‘\$2,500’ for ‘\$5,000’.

13                      “(C) OTHER TAXPAYERS.—If 2 or more  
14 individuals who are not married purchase a  
15 principal residence, the amount of the credit al-  
16 lowed under subsection (a) shall be allocated  
17 among such individuals in such manner as the  
18 Secretary may prescribe, except that the total  
19 amount of the credits allowed to all such indi-  
20 viduals shall not exceed \$5,000.

21               “(2) PURCHASE.—The term ‘purchase’ means  
22 any acquisition, but only if—

23                       “(A) the property is not acquired from a  
24 person whose relationship to the person acquir-  
25 ing it would result in the disallowance of losses

1 under section 267 or 707(b) (but, in applying  
 2 section 267 (b) and (c) for purposes of this sec-  
 3 tion, paragraph (4) of section 267(c) shall be  
 4 treated as providing that the family of an indi-  
 5 vidual shall include only his spouse, ancestors,  
 6 and lineal descendants), and

7 “(B) the basis of the property in the hands  
 8 of the person acquiring it is not determined—

9 “(i) in whole or in part by reference  
 10 to the adjusted basis of such property in  
 11 the hands of the person from whom ac-  
 12 quired, or

13 “(ii) under section 1014(a) (relating  
 14 to property acquired from a decedent).

15 “(3) PURCHASE PRICE.—The term ‘purchase  
 16 price’ means the adjusted basis of the principal resi-  
 17 dence on the date of acquisition.”

18 (b) CONFORMING AMENDMENT.—The table of sec-  
 19 tions for subpart A of part IV of subchapter A of chapter  
 20 1 of the Internal Revenue Code of 1986 is amended by  
 21 inserting after the item relating to section 23 the following  
 22 new item:

“Sec. 24. First-time homebuyer credit for District of Columbia.”

23 (c) EFFECTIVE DATE.—The amendments made by  
 24 this section shall apply to purchases after the date of the

1 enactment of this Act, in taxable years ending after such  
2 date.

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