

106<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# S. 3217

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

OCTOBER 18 (legislative day, SEPTEMBER 22), 2000

Mr. MACK (for himself 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 Renaissance Act of 2000”.

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

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

22 “(A) **15-PERCENT RATE.**—15 percent of so  
 23 much of District-sourced income as exceeds the  
 24 exemption amount.

1           “(B) AVERAGE RATE.—An amount equal  
2           to the average rate of the non-District-sourced  
3           adjusted gross income.

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

**“For exclusion from tax of capital gains, see section 1400B.**

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

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

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

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

13           “(B) such individual is subject to the Dis-  
14           trict of Columbia income tax for such taxable  
15           year.

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

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

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

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

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

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

4                   “(i) an individual who is not a mar-  
5                   ried individual and is not a surviving  
6                   spouse, and

7                   “(ii) a married individual filing a sep-  
8                   arate return, and

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

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

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

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

17           If the percentage determined under the preceding  
18           sentence is not a whole number of percentage points,  
19           such percentage shall be rounded to the nearest  
20           whole number of percentage points.

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

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

4           “(1) non-District-sourced adjusted gross in-  
5 come,

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

7           “(3) the deduction allowed by section 163 to  
8 the extent attributable to qualified residence interest  
9 (as defined in section 163(h)).

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

17       “(f) SOURCES OF INCOME.—For purposes of this  
18 section—

19           “(1) RETIREMENT INCOME AND OTHER INCOME  
20 NOT SOURCED UNDER SUBSECTION.—The source of  
21 any income not specifically provided for in this sub-  
22 section shall be treated as from sources within the  
23 District of Columbia.

24           “(2) PERSONAL SERVICES.—

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

7           “(B) SERVICES PERFORMED IN WASH-  
8 INGTON-BALTIMORE AREA TREATED AS PER-  
9 FORMED IN THE DISTRICT OF COLUMBIA.—  
10 Services performed in the Washington-Balti-  
11 more area shall be treated as performed in the  
12 District of Columbia.

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

21           “(D) WASHINGTON-BALTIMORE AREA.—  
22 For purposes of this paragraph, the term  
23 ‘Washington-Baltimore area’ means the area  
24 consisting of—

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

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

6           “(3) INTEREST.—

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

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

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

21          “(i) BUSINESSES.—In the case of in-  
22          terest paid during a calendar year by a  
23          debtor which was required to file (and  
24          filed) a franchise tax return with the Dis-  
25          trict of Columbia for the debtor’s taxable

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

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

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

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

24 “(D) SPECIAL RULE FOR DETERMINATION  
25 OF D.C. PERCENTAGE FOR NEW BUSINESSES.—

1 Interest shall be treated as from sources within  
2 the District of Columbia if the interest is paid  
3 during a calendar year by a debtor which was  
4 required to file (and filed) a franchise tax re-  
5 turn with the District of Columbia for such  
6 debtor's taxable year ending with or within such  
7 calendar year, but which was not required to  
8 file such a return for such debtor's prior tax-  
9 able year.

10 “(4) DIVIDENDS.—

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

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

22 “(C) EXCEPTION FOR DIVIDENDS PAID BY  
23 CORPORATION ENGAGED IN BUSINESS IN THE  
24 DISTRICT OF COLUMBIA.—In the case of divi-  
25 dends paid during a calendar year by a corpora-

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

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

24                 “(5) DISPOSITION OF TANGIBLE PROPERTY.—  
25                 Income, gain, or loss from the disposition of tangible

1 property shall be sourced to the place such property  
2 is located at the time of the disposition.

3 “(6) DISPOSITION OF INTANGIBLE PROP-  
4 ERTY.—

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

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

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

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

21 “(9) INCOME FROM PROPRIETORSHIP.—

22 “(A) IN GENERAL.—In the case of a trade  
23 or business carried on by the taxpayer as a pro-  
24 prietorship, income from such trade or business  
25 (other than income which is included in net

1 earnings from self-employment by the taxpayer)  
2 shall be treated as from sources outside the  
3 District of Columbia.

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

11 “(10) INCOME FROM PARTNERSHIP.—

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

18 “(B) EXCEPTIONS.—Subparagraph (A)  
19 shall not apply to a partnership—

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

1 D.C. percentage of the taxpayer’s distribu-  
2 tive share of the partnership income, or

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

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

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

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

23 “(1) RETIREMENT INCOME.—The term ‘retire-  
24 ment income’ has the meaning given such term by  
25 section 114(b)(1) of title 4, United States Code (de-

1       terminated without regard to subparagraph (I) there-  
2       of).

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

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

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

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

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

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

23       “(j) REGULATIONS.—The Secretary shall prescribe  
24       such regulations as may be necessary or appropriate to  
25       carry out the purposes of this section.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 55(c)(1) of the Internal Revenue  
3 Code of 1986 is amended by adding at the end the  
4 following: “Such regular tax shall be determined  
5 without regard to section 59B.”

6 (2) The table of parts for subchapter A of chap-  
7 ter 1 of such Code is amended by adding at the end  
8 the following new item:

“Part VIII. Special rules for taxation of individuals who are resi-  
dents of the District of Columbia.”

9 (c) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to taxable years beginning after  
11 December 31, 2000.

12 **SEC. 3. MODIFICATION OF ZERO PERCENT CAPITAL GAINS**  
13 **RATE.**

14 (a) INCLUSION OF ALL CENSUS TRACTS IN DC.—  
15 Section 1400B(d) of the Internal Revenue Code of 1986  
16 (relating to treatment of Zone as including census tracts  
17 with 10 percent poverty rate) is amended to read as fol-  
18 lows:

19 “(d) TREATMENT OF ZONE AS INCLUDING ALL CEN-  
20 SUS TRACTS REGARDLESS OF POVERTY RATE.—For pur-  
21 poses of applying this section (and for purposes of apply-  
22 ing this subchapter and subchapter U with respect to this  
23 section), the DC Zone shall be treated as including all cen-  
24 sus tracts which are located in the District of Columbia.”.

1 (b) EXCLUSION MADE PERMANENT.—Section 1400B  
2 of the Internal Revenue Code of 1986 (relating to zero  
3 percent capital gains rate) is amended—

4 (1) in subsection (b)—

5 (A) by striking “, before January 1,  
6 2003,” in each of paragraphs (2)(A)(i) and  
7 (3)(A),

8 (B) by striking “and before January 1,  
9 2003,” in paragraph (4)(A)(i), and

10 (C) by striking “before January 1, 2003”  
11 in paragraph (4)(B)(i)(I),

12 (2) by striking “, or after December 31, 2007”  
13 in each of subsections (e)(2) and (g)(2), and

14 (3) by striking “OR AFTER 2007” in the head-  
15 ing of subsection (e)(2).

16 (c) 2-YEAR HOLDING PERIOD FOR ASSETS.—

17 (1) IN GENERAL.—Section 1400B(a) of the In-  
18 ternal Revenue Code of 1986 (relating to exclusion)  
19 is amended by striking “5” and inserting “2”.

20 (2) CONFORMING AMENDMENTS.—Section  
21 1400B(b)(7) of such Code is amended—

22 (A) by striking “5-YEAR” in the heading  
23 and inserting “2-YEAR”, and

24 (B) by striking “5-year” and inserting “2-  
25 year”.

1 (d) MODIFICATIONS TO DEFINITION OF DC ZONE  
2 BUSINESS.—Section 1400B(c) of the Internal Revenue  
3 Code of 1986 is amended to read as follows:

4 “(c) DC ZONE BUSINESS.—For purposes of this  
5 section—

6 “(1) IN GENERAL.—The term ‘DC Zone busi-  
7 ness’ means any entity which is an enterprise zone  
8 business (as defined in section 1397B),  
9 determined—

10 “(A) after the application of section  
11 1400(e), and

12 “(B) by treating no area other than the  
13 District of Columbia as an empowerment zone  
14 or enterprise community.

15 “(2) SPECIAL RULE FOR BUSINESSES HOLDING  
16 INTANGIBLES.—Paragraph (4) of section 1397B(d)  
17 shall not apply in determining whether a business is  
18 a DC Zone business if—

19 “(A) at least 80 percent of the employees  
20 of such business are residents of the District of  
21 Columbia, and

22 “(B) at least 50 percent of the wages (as  
23 defined by section 3401(a)) paid by such busi-  
24 ness are paid to residents of the District of Co-  
25 lumbia.”

1 (e) EFFECTIVE DATE.—The amendments made by  
 2 subsections (a), (c), and (d) shall apply to property placed  
 3 in service in taxable years beginning after December 31,  
 4 2000.

5 **SEC. 4. MODIFICATION OF FIRST-TIME HOMEBUYER CRED-**  
 6 **IT.**

7 (a) CREDIT MADE PERMANENT.—Section 1400C(i)  
 8 of the Internal Revenue Code of 1986 (relating to applica-  
 9 tion of section) is amended by striking “, and before Janu-  
 10 ary 1, 2002”.

11 (b) CREDIT ALLOWABLE AGAINST AMT.—

12 (1) IN GENERAL.—Section 1400C(g) of the In-  
 13 ternal Revenue Code of 1986 (relating to credit  
 14 treated as nonrefundable personal credit) is  
 15 amended—

16 (A) by striking “For purposes of this” and  
 17 inserting the following:

18 “(1) IN GENERAL.—Except as provided in para-  
 19 graph (2), for purposes of this”, and

20 (B) by adding at the end the following new  
 21 paragraph:

22 “(2) LIMITATION BASED ON AMOUNT OF  
 23 TAX.—The credit allowable under subsection (a) for  
 24 any taxable year shall not exceed the sum of—

1           “(A) the taxpayer’s regular tax liability (as  
2           defined in section 26(b)) for the taxable year,  
3           reduced by the sum of the credits allowable  
4           under subpart A of part IV of subchapter A  
5           (other than this section) and the foreign tax  
6           credit allowable under section 27(a), and

7           “(B) the tax imposed by section 55(a) for  
8           the taxable year.”.

9           (2) CONFORMING AMENDMENT.—Section  
10          1400C(d) of the Internal Revenue Code of 1986 (re-  
11          lating to carryover of credit) is amended by striking  
12          “section 26(a)” and all that follows through “this  
13          section)” and inserting “subsection (f)(2)”.

14          (c) REPEAL OF LIMITATION BASED ON MODIFIED  
15          GROSS INCOME.—

16               (1) IN GENERAL.—Section 1400C of the Inter-  
17          nal Revenue Code of 1986 is amended by striking  
18          subsection (b).

19               (2) CONFORMING AMENDMENTS.—

20                       (A) Section 1400C of such Code is amend-  
21          ed by redesignating subsections (c), (d), (e), (f),  
22          (g), (h), and (i), as subsections (b), (c), (d), (e),  
23          (f), (g), and (h), respectively.

1 (B) Section 1016(a)(27) of such Code is  
2 amended by striking “1400C(h)” and inserting  
3 “1400C(g)”.

4 (d) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2000.

7 **SEC. 5. CERTAIN DC SOURCE INCOME EXCLUDED FOR PUR-**  
8 **POSES OF ALTERNATIVE MINIMUM TAX.**

9 (a) INDIVIDUAL DC SOURCE INCOME.—Section  
10 56(b) of the Internal Revenue Code of 1986 (relating to  
11 adjustments applicable to individuals) is amended by add-  
12 ing at the end the following new paragraph:

13 “(4) TREATMENT OF DC SOURCE INCOME.—In  
14 the case of a resident of the District of Columbia (as  
15 defined in section 59B(c)(1)), no income treated as  
16 income from sources within the District of Columbia  
17 under section 59B(f) shall be included in gross in-  
18 come for purposes of determining alternative min-  
19 imum taxable income.”.

20 (b) CORPORATE DC SOURCE INCOME.—Section 56(c)  
21 of the Internal Revenue Code of 1986 (relating to adjust-  
22 ments applicable to corporations) is amended by adding  
23 at the end the following new paragraph:

24 “(4) TREATMENT OF DC SOURCE INCOME.—

1           “(A) IN GENERAL.—In the case of a DC  
2           Zone business (as defined in section 1400B(d)),  
3           no DC source income shall be included in gross  
4           income for purposes of determining alternative  
5           minimum taxable income.

6           “(B) DC SOURCE INCOME.—For purposes  
7           of subparagraph (A), the term ‘DC source in-  
8           come’ means gross income derived from the ac-  
9           tive conduct of such business within the DC  
10          Zone, including income derived from property  
11          located in such Zone and from services per-  
12          formed in such Zone.”.

13          (c) EFFECTIVE DATE.—The amendments made by  
14          this section shall apply to income received or accrued in  
15          taxable years beginning after December 31, 2000.

○