

103D CONGRESS  
1ST SESSION

# H. R. 1636

To provide for line item veto; capital gains tax reduction; enterprise zones; raising the social security earnings limit workfare.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 1993

Mr. STEARNS introduced the following bill; which was referred jointly to the Committees on Government Operations, Rules, and Ways and Means

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## A BILL

To provide for line item veto; capital gains tax reduction; enterprise zones; raising the social security earnings limit workfare.

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

### **TITLE I—LINE-ITEM VETO**

4       **SEC. 101. ENHANCEMENT OF SPENDING CONTROL BY THE  
5       PRESIDENT.**

6       The Impoundment Control Act of 1974 is amended  
7       by adding at the end thereof the following new title:

1       “TITLE XI—LEGISLATIVE LINE ITEM VETO  
2                   RESCISSION AUTHORITY

3       “PART A—LEGISLATIVE LINE ITEM VETO RESCISSION  
4                   AUTHORITY

5       “GRANT OF AUTHORITY AND CONDITIONS

6       “SEC. 1101. (a) IN GENERAL.—(1) Notwithstanding  
7   part B of title X and subject to part B of this title, the  
8   President may rescind all or part of any budget authority,  
9   if the President—

10       “(A) determines that—

11               “(i) such rescission would help balance the  
12   Federal budget, reduce the Federal budget defi-  
13   cit, or reduce the public debt;

14               “(ii) such rescission will not impair any es-  
15   sential Government functions; and

16               “(iii) such rescission will not harm the na-  
17   tional interest; and

18       “(B)(i) notifies the Congress of such rescission  
19   by a special message not later than 20 calendar days  
20   (not including Saturdays, Sundays, or holidays)  
21   after the date of enactment of a regular or supple-  
22   mental appropriations Act or a joint resolution mak-  
23   ing continuing appropriations providing such budget  
24   authority; or

1               “(ii) notifies the Congress of such rescission by  
2               special message accompanying the submission of the  
3               President’s budget to Congress and such rescissions  
4               have not been proposed previously for that fiscal  
5               year.

6               “(2) The President shall submit a separate rescission  
7               message for each appropriations bill under paragraph  
8               (1)(B)(ii).

9               “(b) RESCISSION EFFECTIVE UNLESS DIS-  
10 APPROVED.—(1)(A) Any amount of budget authority re-  
11 scinded under this title as set forth in a special message  
12 by the President shall be deemed canceled unless, during  
13 the period described in subparagraph (B), a rescission dis-  
14 approval bill making available all of the amount rescinded  
15 is enacted into law.

16               “(B) The period referred to in subparagraph (A) is—  
17               “(i) a Congressional review period of 20 cal-  
18               endar days of session under part B, during which  
19               Congress must complete action on the rescission dis-  
20               approval bill and present such bill to the President  
21               for approval or disapproval;

22               “(ii) after the period provided in clause (i), an  
23               additional 10 days (not including Sundays) during  
24               which the President may exercise his authority to  
25               sign or veto the rescission disapproval bill; and

1           “(iii) if the President vetoes the rescission dis-  
2        approval bill during the period described in clause  
3        (ii), an additional 5 calendar days of session after  
4        the date of the veto.

5           “(2) If a special message is transmitted by the Presi-  
6        dent under this section during any Congress and the last  
7        session of such Congress adjourns sine die before the expi-  
8        ration of the period described in paragraph (1)(B)—

9           “(A) the rescission shall not take effect;  
10           “(B) the message shall be deemed to have been  
11        retransmitted on the first day of the succeeding  
12        Congress; and

13           “(C) the review period described in paragraph  
14        (1)(B) (with respect to such message) shall run be-  
15        ginning after such first day.

16           “DEFINITIONS

17           “SEC. 1102. For the purposes of this title, the term  
18        ‘rescission disapproval bill’ means a bill or joint resolution  
19        which only disapproves a rescission of budget authority,  
20        in whole, rescinded in a special message transmitted by  
21        the President under section 1101.

22           “PART B—CONGRESSIONAL CONSIDERATION OF  
23        LEGISLATIVE LINE ITEM VETO RESCISSIONS

24           “PRESIDENTIAL SPECIAL MESSAGE

25           “SEC. 1111. When the President rescinds any budget  
26        authority as provided in section 1101, the President shall

1 transmit to the House of Representatives and to the Sen-  
2 ate a special message specifying—

3               “(1) the amount of budget authority rescinded;  
4               “(2) any account, department, or establishment  
5               of the Government to which such budget authority  
6               is available for obligation, and the specific project or  
7               governmental functions involved;

8               “(3) the reasons and justifications for the de-  
9               termination to rescind budget authority pursuant to  
10               section 1101(a)(1);

11               “(4) to the maximum extent practicable, the es-  
12               timated fiscal, economic, and budgetary effect of the  
13               rescission; and

14               “(5) all facts, circumstances, and considerations  
15               relating to or bearing upon the rescission and the  
16               decision to effect the rescission, and to the maxi-  
17               mum extent practicable, the estimated effect of the  
18               rescission upon the objects, purposes, and programs  
19               for which the budget authority is provided.

20               “TRANSMISSION OF MESSAGES; PUBLICATION

21               “SEC. 1112. (a) DELIVERY TO HOUSE AND SEN-  
22               ATE.—(1) Each special message transmitted under sec-  
23               tions 1101 and 1111 shall be transmitted to the House  
24               of Representatives and the Senate on the same day, and  
25               shall be delivered to the Clerk of the House of Representa-  
26               tives if the House of Representatives is not in session and

1 to the Secretary of the Senate if the Senate is not in ses-  
2 sion.

3 “(2) Each special message transmitted pursuant to  
4 paragraph (1) shall be referred to the appropriate commit-  
5 tees of the House of Representatives and the Senate and  
6 shall be printed as a document of each House.

7 “(b) PRINTING IN FEDERAL REGISTER.—A special  
8 message transmitted under sections 1101 and 1111 shall  
9 be printed in the first issue of the Federal Register pub-  
10 lished after such transmittal.

11 “PROCEDURE IN THE HOUSE OF REPRESENTATIVES  
12 “SEC. 1113. (a) REFERRAL.—(1) Any rescission dis-  
13 approval bill introduced with respect to a special message  
14 shall be referred to the appropriate committees of the  
15 House of Representatives or the Senate, as the case may  
16 be.

17 “(2) Any rescission disapproval bill received in the  
18 House of Representatives from the Senate shall be consid-  
19 ered in the House of Representatives pursuant to this sec-  
20 tion.

21 “(b) FLOOR CONSIDERATION IN THE HOUSE.—

22 “(1) Debate in the House on any rescission dis-  
23 approval bill and debatable motions and appeals in  
24 connection therewith, shall be limited to not more  
25 than 10 hours, with the time equally divided be-

1 tween, and controlled by, the majority leader and the  
2 minority leader or their designees.

3 “(2)(A) Debate in the House on any debatable  
4 motion or appeal in connection with such a bill shall  
5 be limited to 1 hour equally divided between, and  
6 controlled by, the mover and the manager of the bill,  
7 except that if the manager of the bill is in favor of  
8 any such motion or appeal, the time in opposition  
9 thereto shall be controlled by the minority leader or  
10 the minority leader’s designee.

11 “(B) Such leaders, or either of them, may, from  
12 the time under their control on the passage of the  
13 bill, allot additional time to any Representative dur-  
14 ing the consideration of any debatable motion or ap-  
15 peal.

16 “(3) A motion to further limit debate shall not  
17 be debatable, and a motion to recommit (except a  
18 motion to recommit with instructions to report back  
19 within a specified number of days, not to exceed 1,  
20 not counting any day on which the Senate is not in  
21 session) shall not be in order.

22 “(c) POINT OF ORDER.—(1) It shall not be in order  
23 in the Senate or the House of Representatives to consider  
24 any rescission disapproval bill that relates to any matter

1 other than the rescission of budget authority transmitted  
2 by the President under section 1101.

3 “(2) It shall not be in order in the Senate or the  
4 House of Representatives to consider any amendment to  
5 a rescission disapproval bill.

6 “(3) Paragraphs (1) and (2) may be waived or sus-  
7 pended in the House only by a vote of three-fifths of the  
8 members duly chosen and sworn.”.

## 9 **TITLE II—CAPITAL GAINS**

### 10 **SEC. 201. DEDUCTION FOR CAPITAL GAINS ON CERTAIN 11 SMALL BUSINESS STOCK.**

12 (a) IN GENERAL.—Subchapter P of chapter 1 of the  
13 Internal Revenue Code of 1986 (relating to capital gains  
14 and losses) is amended by adding at the end thereof the  
15 following new part:

### 16 **“PART VII—ENTERPRISE CAPITAL INVESTMENT 17 INCENTIVES**

“Sec. 1301. Deduction for gain on certain small business stock.

“Sec. 1302. Definitions and special rules.

### 18 **“SEC. 1301. DEDUCTION FOR GAIN ON CERTAIN SMALL 19 BUSINESS STOCK.**

20 (a) GENERAL RULE.—If a taxpayer has a qualified  
21 small business net capital gain for any taxable year, there  
22 shall be allowed as a deduction from gross income an  
23 amount equal to the sum of—

24 (1) 50 percent of the excess (if any) of—

1                   “(A) qualified small business net capital  
 2                   gain, over

3                   “(B) the amount of seed capital gain, plus  
 4                   “(2) the seed capital gain deduction.

5                   “(b) QUALIFIED SMALL BUSINESS NET CAPITAL  
 6 GAIN.—For purposes of this section, the term ‘qualified  
 7 small business net capital gain’ means the lesser of—

8                   “(1) the net capital gain for the taxable year,  
 9                   or

10                   “(2) the net capital gain for the taxable year  
 11                   determined by taking into account only gain or loss  
 12                   from sales or exchanges of qualified small business  
 13                   stock with a holding period of more than 5 years at  
 14                   the time of sale or exchange.

15                   “(c) SEED CAPITAL GAIN DEDUCTION.—For pur-  
 16 poses of this section—

17                   “(1) IN GENERAL.—The term ‘seed capital gain  
 18                   deduction’ means an amount equal to the sum of the  
 19                   amounts determined by applying the applicable per-  
 20                   centages to the appropriate categories of seed capital  
 21                   gain under the table contained in paragraph (2).

22                   “(2) COMPUTATION OF AMOUNT.—The seed  
 23                   capital gain deduction shall be computed as follows:

<b>“In the case of:</b>	<b>The applicable percentage is:</b>
5-year gain .....	50
6-year gain .....	60
7-year gain .....	70

<b>"In the case of:</b>	<b>The applicable percentage is:</b>
8-year gain .....	80
9-year gain .....	90
10-year gain .....	100.

1           “(3) SEED CAPITAL GAIN.—For purposes of  
 2        this subsection, the term ‘seed capital gain’ means  
 3        the lesser of—

4           “(A) the excess (if any) of—

5               “(i) the net capital gain for the tax-  
 6        able year, over

7               “(ii) the qualified small business net  
 8        capital gain for the taxable year deter-  
 9        mined without regard to gain or loss de-  
 10        scribed in subparagraph (B), or

11           “(B) the net capital gain for the taxable  
 12        year determined by taking into account only  
 13        gain or loss from sales or exchanges of stock—

14               “(i) which is qualified small business  
 15        stock in a corporation which is a qualified  
 16        small business (determined by substituting  
 17        ‘\$5,000,000’ for ‘\$100,000,000’ in section  
 18        1302(b)(1)), and

19               “(ii) with a holding period of more  
 20        than 5 years at the time of the sale or ex-  
 21        change.

22           “(4) CATEGORIES OF GAIN.—For purposes of  
 23        this subsection—

1           “(A) 10-YEAR GAIN.—The term ‘10-year  
2        gain’ means the lesser of—

3               “(i) the seed capital gain, or  
4               “(ii) the seed capital gain determined  
5        by taking into account under paragraph  
6        (3)(B) only gain or loss from qualified  
7        small business stock with a holding period  
8        of more than 10 years at the time of the  
9        sale or exchange.

10          “(B) OTHER GAIN.—The terms ‘5-, 6-,  
11        7-, 8-, and 9-year gain’ mean, with respect to  
12        any category, the lesser of—

13               “(i) the excess (if any) of—  
14                   “(I) seed capital gain, over  
15                   “(II) the amount determined  
16        under this paragraph for categories  
17        with a longer holding period, or  
18               “(ii) seed capital gain determined by  
19        taking into account under paragraph  
20        (3)(B) only gain or loss from qualified  
21        small business stock with a holding period  
22        of more than 5, 6, 7, 8, or 9 years but not  
23        more than 6, 7, 8, 9, or 10 years, respec-  
24        tively.

1       “(d) ESTATES AND TRUSTS.—In the case of an es-  
2 tate or trust, the deduction under subsection (a) shall be  
3 computed by excluding the portion (if any) of the gains  
4 for the taxable year from sales or exchanges of qualified  
5 small business stock which, under section 652 and 662  
6 (relating to inclusions of amounts in gross income of bene-  
7 ficiaries of trusts), is includible by the income beneficiaries  
8 as gains derived from the sale or exchange of capital as-  
9 sets.

10 **“SEC. 1302. DEFINITIONS AND SPECIAL RULES.**

11       “(a) QUALIFIED SMALL BUSINESS STOCK.—For pur-  
12 poses of this part—

13           “(1) IN GENERAL.—The term ‘qualified small  
14 business stock’ means any stock in a corporation  
15 which is originally issued after December 31, 1991,  
16 if—

17           “(A) as of the date of issuance, such cor-  
18 poration is a qualified small business, and

19           “(B) except as provided in subsections (d)  
20 and (e), such stock is acquired by the taxpayer  
21 at its original issue (directly or through an un-  
22 derwriter)—

23           “(i) in exchange for money or other  
24 property (not including stock), or

1                         “(ii) as compensation for services  
2                         (other than services performed as an un-  
3                         derwriter of such stock).

4                         “(2) 5-YEAR ACTIVE BUSINESS REQUIRE-  
5                         MENT.—Stock in a corporation shall not be treated  
6                         as qualified small business stock unless, during the  
7                         testing period, such corporation meets the active  
8                         business requirements of subsection (c).

9                         “(3) CERTAIN REDEMPTIONS, EXCHANGES,  
10                         ETC. DISQUALIFIED.—For purposes of paragraph  
11                         (1)(B), and except as provided in subsections (d)  
12                         and (e), stock shall not be treated as acquired by the  
13                         taxpayer at its original issue if—

14                         “(i) it is issued directly or indirectly in re-  
15                         demption of, or otherwise in exchange for, stock  
16                         which is not qualified small business stock, or  
17                         “(ii) it is issued in an exchange described  
18                         in section 351 in exchange for property other  
19                         than qualified small business stock, if imme-  
20                         diately after the exchange, both the issuer and  
21                         transferee of the stock are members of the  
22                         same controlled group of corporations (as de-  
23                         fined in section 1563).

24                         “(b) QUALIFIED SMALL BUSINESS.—For purposes of  
25                         this part—

1           “(1) IN GENERAL.—The term ‘qualified small  
2        business’ means any domestic corporation with re-  
3        spect to which the sum of—

4           “(A) the aggregate amount of money,  
5        other property, and services received by the cor-  
6        poration for stock, as a contribution to capital,  
7        and as paid-in surplus, plus

8           “(B) the accumulated earnings and profits  
9        of the corporation,

10        does not exceed \$100,000,000. The determination  
11        under the preceding sentence shall be made as of the  
12        time of such issuance but shall include amounts re-  
13        ceived in such issuance and all prior issuances.

14           “(2) AMOUNT TAKEN INTO ACCOUNT WITH RE-  
15        SPECT TO PROPERTY AND SERVICES.—For purposes  
16        of paragraph (1)—

17           “(A) PROPERTY.—The amount taken into  
18        account with respect to any property other than  
19        money shall be an amount equal to the adjusted  
20        basis of such property for determining gain, re-  
21        duced (but not below zero) by any liability to  
22        which the property was subject or which was  
23        assumed by the corporation. The determination  
24        under the preceding sentence shall be made as

1           of the time the property was received by the  
2           corporation.

3           “(B) COMPENSATION FOR SERVICES.—The  
4           amount taken into account with respect to stock  
5           issued for services shall be the value of such  
6           services.

7           “(c) ACTIVE BUSINESS REQUIREMENT.—For pur-  
8           poses of this part—

9           “(1) IN GENERAL.—For purposes of subsection  
10           (a)(2), the requirements of this subsection are met  
11           if, during the testing period—

12           “(A) the corporation is engaged in the ac-  
13           tive conduct of a trade or business, and

14           “(B) substantially all of the assets of such  
15           corporation are used in the active conduct of a  
16           trade or business.

17           “(2) SPECIAL RULE FOR CERTAIN ACTIVI-  
18           TIES.—For purposes of paragraph (1), if, in connec-  
19           tion with any future trade or business, a corporation  
20           is engaged in—

21           “(A) start-up activities described in section  
22           195(c)(1)(A),

23           “(B) activities resulting in the payment or  
24           incurring of expenditures which may be treated

1           as research and experimental expenditures  
2           under section 174, or

3           “(C) activities with respect to in-house re-  
4           search expenses described in section 41(b)(4),  
5           such corporation shall be treated with respect to  
6           such activities as engaged in (and assets used in  
7           such activities shall be treated as used in) the active  
8           conduct of a trade or business. Any determination  
9           under this paragraph shall be made without regard  
10          to whether a corporation has any gross income from  
11          such activities at the time of the determination.

12          “(3) STOCK IN OTHER CORPORATIONS.—

13           “(A) LOOK-THRU IN CASE OF SUBSIDI-  
14           ARIES.—For purposes of this subsection, stock  
15           and debt in any subsidiary corporation shall be  
16           disregarded and the parent corporation shall be  
17           deemed to own its ratable share of the subsidi-  
18           ary’s assets, and to conduct its ratable share of  
19           the subsidiary’s activities.

20           “(B) PORTFOLIO STOCK.—A corporation  
21           shall be treated as failing to meet the require-  
22           ments of paragraph (1) if, at any time during  
23           the testing period, more than 10 percent of the  
24           value of its assets (in excess of liabilities) con-

1 consist of stock in other corporations which are not  
2 subsidiaries of such corporation.

3                             “(C) SUBSIDIARY.—For purposes of this  
4 paragraph, a corporation shall be considered a  
5 subsidiary if the parent owns at least 50 per-  
6 cent of the combined voting power of all classes  
7 of stock entitled to vote, or at least 50 percent  
8 in value of all outstanding stock of such cor-  
9 poration.

10           “(4) WORKING CAPITAL.—For purposes of  
11        paragraph (1)(B), any assets which—

12                   “(A) are held for investment, and

13                             “(B) are to be used to finance future re-  
14                             search and experimentation or working capital  
15                             needs of the corporation,

16 shall be treated as used in the active conduct of a  
17 trade or business.

18                             “(5) MAXIMUM REAL ESTATE HOLDINGS.—A  
19 corporation shall not be treated as meeting the re-  
20 quirements of paragraph (1) if, at any time during  
21 the testing period, more than 10 percent of the total  
22 value of its assets is real property which is not used  
23 in the active conduct of a trade or business. For  
24 purposes of the preceding sentence, the ownership  
25 of, dealing in, or renting of real property shall not

1       be treated as the active conduct of a trade or busi-  
2       ness.

3           “(6) SMALL BUSINESS INVESTMENT COMPAN-  
4       IES.—Paragraph (1) shall not apply to any small  
5       business investment company operating under the  
6       Small Business Investment Act of 1958.

7           “(7) COMPUTER SOFTWARE ROYALTIES.—For  
8       purposes of paragraph (1), rights to computer soft-  
9       ware which produces income described in section  
10      543(d) shall be treated as an asset used in the active  
11      conduct of a trade or business.

12           “(8) TESTING PERIOD.—For purposes of this  
13       section, the term ‘testing period’ means, with respect  
14       to any stock held by a taxpayer, the 5-year period  
15       beginning with the first day of the taxpayer’s hold-  
16       ing period for such stock.

17           “(d) SPECIAL RULES FOR OPTIONS, WARRANTS, AND  
18       CERTAIN CONVERTIBLE INVESTMENTS.— For purposes  
19       of this part—

20           “(1) IN GENERAL.—In the case of stock which  
21       is acquired by the taxpayer through the exercise of  
22       an applicable option or warrant, through the conver-  
23       sion of convertible debt, or in exchange for securities  
24       of the corporation in a transaction described in sec-  
25       tion 368—

1               “(A) such stock shall be treated as ac-  
2        quired by the taxpayer at original issue, and

3               “(B) such stock shall be treated as having  
4        been held during the period such option, war-  
5        rant, or debt was held, or such security was  
6        outstanding.

7               “(2) ISSUE PRICE FOR CONVERTIBLE DEBT OR  
8        SECURITY.—For purposes of section 1302(b)(1) and  
9        notwithstanding section 1302(b)(2), in the case of a  
10      debt instrument converted to stock, or stock issued  
11      in exchange for securities in a transaction described  
12      in section 368, such stock shall be treated as issued  
13      for an amount equal to the sum of—

14               “(A) the principal amount of the debt or  
15        security as of the time of the conversion or ex-  
16        change, and

17               “(B) accrued but unpaid interest on such  
18        loan or security.

19               “(3) APPLICABLE OPTION OR WARRANT.—For  
20        purposes of this subsection, the term ‘applicable op-  
21        tion or warrant’ means an option or warrant  
22        which—

23               “(A) was issued in exchange for the per-  
24        formance of services for the corporation issuing  
25        it, and

1               “(B) is nontransferrable.

2       “(e) CERTAIN TAX-FREE AND OTHER TRANS-  
3 FERS.—For purposes of this part—

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

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

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

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

16               “(A) by gift,

17               “(B) at death,

18               “(C) to the extent that the basis of the  
19 property in the hands of the transferee is deter-  
20 mined by reference to the basis of the property  
21 in the hands of the transferor by reason of sec-  
22 tion 334(b), 723, or 732, or

23               “(D) of qualified small business stock for  
24 other qualified small business stock in a trans-

1 action described in section 351 or a reorganiza-  
2 tion described in section 368.

3                   “(3) INCORPORATIONS AND REORGANIZATIONS  
4                   INVOLVING NONQUALIFIED STOCK.—

5                             “(A) IN GENERAL.—In the case of a trans-  
6                             action described in section 351 or a reorganiza-  
7                             tion described in section 368, if a qualified  
8                             small business stock is transferred for other  
9                             stock which is not qualified small business  
10                            stock, such transfer shall be treated as a trans-  
11                            fer to which this subsection applies solely with  
12                            respect to the person receiving such other stock.

13                     “(B) LIMITATION.—This part shall apply  
14                     to the sale or exchange of stock treated as  
15                     qualified small business stock by reason of sub-  
16                     paragraph (A) only to the extent of the gain (if  
17                     any) which would have been recognized at the  
18                     time of the transfer described in subparagraph  
19                     (A) if section 351 or 368 had not applied at  
20                     such time.

21                             “(C) SUCCESSIVE APPLICATION.—For pur-  
22                             poses of this paragraph, stock treated as qual-  
23                             fied small business stock under subparagraph  
24                             (A) shall be so treated for subsequent trans-  
25                             actions or reorganizations, except that the limi-

1 tation of subparagraph (B) shall be applied as  
2 of the time of the first transfer to which sub-  
3 paragraph (A) applied.

4 “(D) CONTROL TEST.—Except in the case  
5 of a transaction described in section 368, this  
6 paragraph shall apply only if, immediately after  
7 the transaction, the corporation issuing the  
8 stock owns directly or indirectly stock rep-  
9 resenting control (within the meaning of section  
10 368(c)) of the corporation whose stock was  
11 transferred.

12 “(f) STOCK EXCHANGED FOR PROPERTY.—For pur-  
13 poses of this part, in the case where the taxpayer transfers  
14 property (other than money or stock) to a corporation in  
15 exchange for stock in such corporation—

16 “(1) such stock shall be treated as having been  
17 acquired by the taxpayer on the date of such ex-  
18 change, and

19 “(2) the basis of such stock in the hands of the  
20 taxpayer shall be treated as equal to the fair market  
21 value of the property exchanged.

22 “(g) PASS-THRU ENTITIES.—For purposes of this  
23 part, any gain or loss of a pass-thru entity which is treated  
24 for purposes of this subtitle as a gain or loss of any person  
25 holding an interest in such entity shall retain its character

1 as qualified small business or seed capital gain or loss in  
2 the hands of such person.

3       “(h) INDEXING.—In the case of any stock issued in  
4 a calendar year after 1992, the \$5,000,000 and  
5 \$100,000,000 amounts in section 1301(c)(3)(B)(i) and  
6 subsection (b)(1) of this section shall be increased by an  
7 amount equal to—

8           “(1) such dollar amount, multiplied by  
9           “(2) the cost-of-living adjustment determined  
10          under section 1(f)(3) for such calendar year by sub-  
11          stituting ‘1991’ for ‘1987’ in subparagraph (B)  
12          thereof.”.

13       (b) MAXIMUM 14 PERCENT TAX RATE.—

14           (1) INDIVIDUALS.—Section 1(h) of such Code  
15          (relating to maximum capital gains rate) is amended  
16          to read as follows:

17       “(h) MAXIMUM CAPITAL GAINS RATE.—

18           “(1) IN GENERAL.—If a taxpayer has a net  
19          capital gain for any taxable year, then the tax im-  
20          posed by this section shall not exceed the sum of—

21           “(A) a tax computed at the rate and in the  
22          same manner as if this subsection had not been  
23          enacted on the greater of—

24           “(i) taxable income reduced by the  
25          amount of the net capital gain, or

1                             “(ii) the amount of taxable income  
2                             taxed at a rate below 28 percent, plus  
3                             “(B) a tax of 28 percent of the amount of  
4                             taxable income in excess of the amount deter-  
5                             mined under subparagraph (A).

6                             “(2) SPECIAL RULE WHERE TAXPAYER HAS  
7                             QUALIFIED SMALL BUSINESS NET CAPITAL OR SEED  
8                             CAPITAL GAIN.—

9                             “(A) IN GENERAL.—If a taxpayer has  
10                             qualified small business net capital gain or seed  
11                             capital gain for any taxable year, then the tax  
12                             imposed by this section shall not exceed the  
13                             lesser of—

14                             “(i) the amount determined under  
15                             paragraph (1), or

16                             “(ii) the sum of—

17                             “(I) the amount determined  
18                             under paragraph (1) without taking  
19                             into account qualified small business  
20                             net capital gain and seed capital gain  
21                             for purposes of subparagraphs (A)  
22                             and (B) thereof, plus

23                             “(II) 14 percent of the qualified  
24                             small business net capital gain and  
25                             seed capital gain.

1                     “(B) DEFINITIONS.—For purposes of this  
2                     paragraph, the terms ‘qualified small business  
3                     net capital gain’ and ‘seed capital gain’ have  
4                     the meanings given such terms by section 1301  
5                     (b) and (c), respectively.”.

6                     (2) CORPORATIONS.—Section 1201(a) of such  
7                     Code (relating to alternative tax for corporations) is  
8                     amended—

9                     (A) by inserting “or the corporation has a  
10                     qualified small business net capital gain or seed  
11                     capital gain” before “, then”, and

12                     (B) by striking paragraph (2) and insert-  
13                     ing:

14                     “(2) a tax equal to the sum of—

15                     “(A) 34 percent of the sum of the net cap-  
16                     ital gain, reduced by qualified small business  
17                     net capital gain and seed capital gain, plus

18                     “(B) 17 percent of the qualified small  
19                     business net capital gain and seed capital  
20                     gain.”.

21                     (c) TREATMENT AS PREFERENCE ITEM FOR MINI-  
22                     MUM TAX.—Section 57(a) of such Code (relating to items  
23                     of tax preference under the alternative minimum tax) is  
24                     amended by adding at the end thereof the following new  
25                     paragraph:

1           “(8) CAPITAL GAINS ON SALE OF CERTAIN  
2        SMALL BUSINESS STOCK.—An amount equal to the  
3        deduction for the taxable year determined under sec-  
4        tion 1301(a)(1).”.

5           (d) LOSSES ON SMALL BUSINESS STOCK.—Section  
6 1244(c)(3)(A) of such Code (defining small business cor-  
7 poration) is amended by striking “\$1,000,000” and insert-  
8 ing “\$5,000,000 (adjusted at the same time and manner  
9 as under section 1302(g))”.

10          (e) CONFORMING AMENDMENTS.—

11           (1) Section 62(a) of such Code is amended by  
12        adding after paragraph (13) the following new para-  
13        graph:

14           “(14) LONG-TERM CAPITAL GAINS.—The de-  
15        duction allowed by section 1301.”.

16           (2) Subparagraph (B) of section 170(e)(1) of  
17        such Code is amended by inserting “(or, in the case  
18        of qualified small business stock under section 1301,  
19        50 percent of the amount)” after “the amount”.

20           (3) Section 172(d)(2) of such Code is amended  
21        to read as follows:

22           “(2) CAPITAL GAINS AND LOSSES OF TAX-  
23        PAYERS OTHER THAN CORPORATIONS.—In the case  
24        of a taxpayer other than a corporation—

1               “(A) the amount deductible on account of  
2               losses from sales or exchanges of capital assets  
3               shall not exceed the amount includible on ac-  
4               count of gains from sales or exchanges of cap-  
5               ital assets; and

6               “(B) the deduction for long-term capital  
7               gains provided by section 1301 shall not be al-  
8               lowed.”.

9               (4) Subparagraph (B) of section 172(d)(4) of  
10               such Code is amended by inserting “, (2)(B),” after  
11               “paragraph (1)”.

12               (5)(A) Section 220 of such Code is amended to  
13               read as follows:

14               **“SEC. 220. CROSS REFERENCES.**

15               “(1) For deduction for long-term capital gains  
16               in the case of sale of qualified small business stock,  
17               see section 1301.

18               “(2) For deductions in respect of a decedent,  
19               see section 691.”.

20               (B) The table of sections for part VII of sub-  
21               chapter B of chapter 1 of such Code is amended by  
22               striking out “reference” in the item relating to sec-  
23               tion 220 and inserting “references”.

24               (6) Paragraph (4) of section 642(c) of such  
25               Code is amended to read as follows:

1                 “(4) ADJUSTMENTS.—To the extent that the  
2                 amount otherwise allowable as a deduction under  
3                 this subsection consists of gain from the sale or ex-  
4                 change of qualified small business stock held for  
5                 more than 5 years, proper adjustment shall be made  
6                 for any deduction allowable to the estate or trust  
7                 under section 1301 (relating to deduction for excess  
8                 of capital gains over capital losses). In the case of  
9                 a trust, the deduction allowed by this subsection  
10                 shall be subject to section 681 (relating to unrelated  
11                 business income).”.

12                 (7) Paragraph (3) of section 643(a) of such  
13                 Code is amended by adding at the end thereof the  
14                 following new sentence: “The deduction under sec-  
15                 tion 1301 (relating to deduction for gain on qual-  
16                 ified small business stock) shall not be taken into ac-  
17                 count.”.

18                 (8) Paragraph (4) of section 691(c) of such  
19                 Code is amended by striking out “1(h), 1201, and  
20                 1211” and inserting in lieu thereof “1(h), 1201,  
21                 1211, and 1301, and for purposes of section  
22                 57(a)(8)”.

23                 (9) Clause (iii) of section 852(b)(3)(D) of such  
24                 Code is amended by striking out “66 percent” and

1       inserting “the rate differential portion (within the  
2       meaning of section 904(b)(3)(E))”.

3               (10) The second sentence of paragraph (2) of  
4       section 871(a) of such Code is amended by inserting  
5       “such gains and losses shall be determined without  
6       regard to section 1301 (relating to deduction for  
7       qualified small business net capital gains) and” after  
8       “except that”.

9               (11) Section 1402(i)(1) of such Code is amend-  
10       ed to read as follows:

11               “(1) IN GENERAL.—In determining the net  
12       earnings from self-employment of any options dealer  
13       or commodities dealer—

14               “(A) notwithstanding subsection (a)(3)(A),  
15       there shall not be excluded any gain or loss (in  
16       the normal course of the taxpayer’s activity of  
17       dealing in or trading section 1256 contracts)  
18       from section 1256 contracts or property related  
19       to such contracts, and

20               “(B) the deduction provided by section  
21       1301 shall not apply.”.

22               (12) Section 1445(e)(1) of such Code is amend-  
23       ed by striking out “34 percent (or, to the extent pro-  
24       vided in regulations, 28 percent)” and inserting “34  
25       percent (or, to the extent provided in regulations,

1 the alternative tax rate determined under section  
2 904(b)(3)(E)(iii))".

3 (f) EFFECTIVE DATE.—

4 (1) IN GENERAL.—The amendments made by  
5 this section shall apply to stock issued after Decem-  
6 ber 31, 1993.

7 (2) APPLICATION OF TAX INCENTIVE TO CUR-  
8 RENT STOCK HOLDINGS OF INVESTORS.—

9 (A) IN GENERAL.—If—

10 (i) a taxpayer holds any stock on any  
11 date on or after the date determined under  
12 paragraph (1) which, at the time it was is-  
13 sued, would be treated as qualified small  
14 business stock (as defined in section  
15 1302(a) of the Internal Revenue Code of  
16 1986) without regard to the time it was is-  
17 sued, and

18 (ii) the value of such stock on such  
19 date exceeds its adjusted basis,

20 the taxpayer may elect to treat such stock as  
21 having been sold on such date for an amount  
22 equal to its value on such date (and as having  
23 been reacquired on such date for an amount  
24 equal to such value). The gain from such sale  
25 shall be treated as received or accrued (and the

1 holding period of the reacquired stock shall be  
2 treated as beginning) on such date. For pur-  
3 poses of applying section 1301 of such Code,  
4 such stock shall be treated after such reacquisi-  
5 tion as acquired in the same manner and at the  
6 same time as the original acquisition and the  
7 requirement of section 1302(a)(1) that the  
8 stock must have been issued after December  
9 31, 1993, shall not apply.

10 (B) ELECTION.—An election under sub-  
11 paragraph (A) with respect to any stock shall  
12 be made in such manner as the Secretary may  
13 prescribe. Such an election, once made with re-  
14 spect to any stock, shall be irrevocable.

## 15 **TITLE III—SOCIAL SECURITY**

### 16 **EARNINGS TEST**

#### 17 **SEC. 301. RETIREMENT TEST EXEMPT AMOUNT INCREASED.**

18 (a) IN GENERAL.—Section 203(f)(8)(D) of the Social  
19 Security Act (42 U.S.C. 403(f)(8)(D)) is amended to read  
20 as follows:

21 “(D) Notwithstanding any other provision of this  
22 subsection, the exempt amount which is applicable to an  
23 individual who has attained retirement age (as defined in  
24 section 216(l)) before the close of the taxable year involved  
25 shall be—

1               “(i) \$925 for each month of any taxable year  
2       ending after 1992 and before 1994,  
3               “(ii) \$1,020 for each month of any taxable year  
4       ending after 1993 and before 1995,  
5               “(iii) \$1,130 for each month of any taxable  
6       year ending after 1994 and before 1996,  
7               “(iv) \$1,450 for each month of any taxable year  
8       ending after 1995 and before 1997,  
9               “(v) \$1,750 for each month of any taxable year  
10      ending after 1996 and before 1998,  
11               “(vi) \$2,250 for each month of any taxable year  
12      ending after 1997 and before 1999,  
13               “(vii) \$2,670 for each month of any taxable  
14      year ending after 1998 and before 2000,  
15               “(viii) \$3,500 for each month of any taxable  
16      year ending after 1999 and before 2001, and  
17               “(ix) \$4,250 for each month of any taxable year  
18      ending after 2000 and before 2002.”.

19       (b)       CONFORMING       AMENDMENT.—Section  
20 203(f)(8)(B)(ii)(II)    of    such    Act    (42    U.S.C.  
21 403(f)(8)(B)(ii)(II))    is    amended    by    striking    “for    the    cal-  
22 endar    year    before    the    most    recent    calendar    year    in    which  
23    an    increase    in    the    exempt    amount    was    enacted    or    a    deter-  
24 mination    resulting    in    such    an    increase    was    made    under  
25    subparagraph    (A)”    and    inserting    “for    the    second    calendar

1 year before the calendar year in which the determination  
2 under subparagraph (A) is made".

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years ending after De-  
5 cember 31, 1992.

6 **SEC. 302. REDUCTION FACTOR WITH RESPECT TO CERTAIN**

7 **EARNINGS LOWERED TO 25 PERCENT.**

8 (a) IN GENERAL.—Section 203(f)(3) of the Social  
9 Security Act (42 U.S.C. 403(f)(3)) is amended by striking  
10 "33 $\frac{1}{3}$  percent" and all that follows through "paragraph  
11 (8)" and inserting "equal to the sum of (A) 25 percent  
12 of so much of his earnings for such year in excess of the  
13 product of the applicable exempt amount as determined  
14 under paragraph (8) as does not exceed \$5,000, and (B)  
15 33 $\frac{1}{3}$  percent of so much of such earnings in excess of  
16 such product as exceeds \$5,000,".

17 (b) EFFECTIVE DATE.—The amendment made by  
18 subsection (a) shall apply to taxable years beginning after  
19 December 31, 1997.

1 **TITLE IV—URBAN TAX ENTER-**  
2 **PRISE ZONES AND RURAL DE-**  
3 **VELOPMENT INVESTMENT**  
4 **ZONES**

5 **SEC. 401. STATEMENT OF PURPOSE.**

6       It is the purpose of this title to establish a demonstra-  
7    tion program of providing incentives for the creation of  
8    tax enterprise zones in order—

9               (1) to revitalize economically and physically dis-  
10      tressed areas, primarily by encouraging the forma-  
11      tion of new businesses and the retention and expan-  
12      sion of existing businesses,

13               (2) to promote meaningful employment for tax  
14      enterprise zone residents, and

15               (3) to encourage individuals to reside in the tax  
16      enterprise zones in which they are employed.

17 **Subtitle A—Designation and Tax**  
18 **Incentives**

19 **SEC. 411. DESIGNATION AND TREATMENT OF URBAN TAX**  
20 **ENTERPRISE ZONES AND RURAL DEVELOP-**  
21 **MENT INVESTMENT ZONES.**

22       (a) IN GENERAL.—Chapter 1 of the Internal Reve-  
23      nue Code of 1986 (relating to normal taxes and surtaxes)  
24      is amended by inserting after subchapter T the following  
25      new subchapter:

## “Part I. Designation of tax enterprise zones.

## “Part II. Incentives for tax enterprise zones.

“Sec. 1391. Designation procedure.

### “Sec. 1392. Eligibility and selection criteria.

“Sec. 1393. Definitions and special rules.

## 5 "SEC. 1391. DESIGNATION PROCEDURE.

6       “(a) IN GENERAL.—For purposes of this title, the  
7 term ‘tax enterprise zone’ means any area which is, under  
8 this part—

9               “(1) nominated by 1 or more local governments  
10              and the State in which it is located for designation  
11              as a tax enterprise zone, and

12                   “(2) designated by—

13                   “(A) the Secretary of Housing and Urban  
14                   Development in the case of an urban tax enter-  
15                   prise zone, or

16                   “(B) the Secretary of Agriculture, in con-  
17                   sultation with the Secretary of Commerce, in  
18                   the case of a rural development investment  
19                   zone.

20        "(b) NUMBER OF DESIGNATIONS.—

21               “(1) AGGREGATE LIMIT.—The appropriate Sec-  
22               retaries may designate in the aggregate 50 nomi-

1 nated areas as tax enterprise zones under this sec-  
2 tion, subject to the availability of eligible nominated  
3 areas. Not more than 25 urban tax enterprise zones  
4 may be designated and not more than 25 rural de-  
5 velopment investment zones may be designated.  
6 Such designations may be made only during cal-  
7 endar years after 1992 and before 1998.

8 “(2) ANNUAL LIMITS.—

9 “(A) URBAN TAX ENTERPRISE ZONES.—  
10 The number of urban tax enterprise zones des-  
11 ignated under paragraph (1)—

12 “(i) before 1995 shall not exceed 8,  
13 “(ii) before 1996 shall not exceed 15,  
14 and  
15 “(iii) before 1997 shall not exceed 21.

16 “(B) RURAL DEVELOPMENT INVESTMENT  
17 ZONES.—The number of rural development in-  
18 vestment zones designated under paragraph  
19 (1)—

20 “(i) before 1995 shall not exceed 8,  
21 “(ii) before 1996 shall not exceed 15,  
22 and  
23 “(iii) before 1997 shall not exceed 21.

24 “(3) ADVANCE DESIGNATIONS PERMITTED.—  
25 For purposes of this subchapter, a designation dur-

1       ing any calendar year shall be treated as made on  
2       January 1 of the following calendar year if the ap-  
3       propriate Secretary, in making such designation,  
4       specifies that such designation is effective as of such  
5       January 1.

6       “(c) LIMITATIONS ON DESIGNATIONS.—The appro-  
7       priate Secretary may not make any designation under sub-  
8       section (a) unless—

9           “(1) the local governments and the State in  
10       which the nominated area is located have the au-  
11       thority—

12           “(A) to nominate the area for designation  
13       as a tax enterprise zone, and

14           “(B) to provide assurances satisfactory to  
15       the appropriate Secretary that the commit-  
16       ments under section 1392(c) will be fulfilled,

17           “(2) a nomination of the area is submitted  
18       within a reasonable time before the calendar year for  
19       which designation as a tax enterprise zone is sought  
20       (or, if later, a reasonable time after the date of the  
21       enactment of this subchapter),

22           “(3) the appropriate Secretary determines that  
23       any information furnished is reasonably accurate,  
24       and

1           “(4) the State and local governments certify  
2           that no portion of the area nominated is already in-  
3           cluded in a tax enterprise zone or in an area other-  
4           wise nominated to be a tax enterprise zone.

5           “(d) PERIOD FOR WHICH DESIGNATION IS IN EF-  
6           FECT.—

7           “(1) IN GENERAL.—Any designation of an area  
8           as a tax enterprise zone shall remain in effect during  
9           the period beginning on the date of the designation  
10           and ending on the earliest of—

11           “(A) December 31 of the 15th calendar  
12           year following the calendar year in which such  
13           date occurs,

14           “(B) the termination date designated by  
15           the State and local governments as provided for  
16           in their nomination, or

17           “(C) the date the appropriate Secretary re-  
18           vokes the designation under paragraph (2).

19           “(2) REVOCATION OF DESIGNATION.—

20           “(A) IN GENERAL.—The appropriate Sec-  
21           retary shall revoke the designation of an area  
22           as a tax enterprise zone if such Secretary deter-  
23           mines that the local government or the State in  
24           which it is located—

1                         “(i) has modified the boundaries of  
2                         the area, or

3                         “(ii) is not complying substantially  
4                         with the State and local commitments pur-  
5                         suant to section 1392(c).

6                         “(B) APPLICABLE PROCEDURES.—A des-  
7                         ignation may be revoked by the appropriate  
8                         Secretary under subparagraph (A) only after a  
9                         hearing on the record involving officials of the  
10                         State or local government involved.

11 **“SEC. 1392. ELIGIBILITY AND SELECTION CRITERIA.**

12                         “(a) IN GENERAL.—The appropriate Secretary may  
13                         make a designation of any nominated area under section  
14                         1391 only on the basis of the eligibility and selection cri-  
15                         teria set forth in this section.

16                         “(b) ELIGIBILITY CRITERIA.—

17                         “(1) URBAN TAX ENTERPRISE ZONES.—A nom-  
18                         inated area which is not a rural area shall be eligible  
19                         for designation under section 1391 only if it meets  
20                         the following criteria:

21                         “(A) POPULATION.—The nominated area  
22                         has a population (as determined by the most re-  
23                         cent census data available) of not less than  
24                         4,000.

1               “(B) DISTRESS.—The nominated area is  
2               one of pervasive poverty, unemployment, and  
3               general distress.

4               “(C) SIZE.—The nominated area—

5               “(i) does not exceed 20 square miles,  
6               “(ii) has a boundary which is continu-  
7               ous, or consists of not more than 3 non-  
8               contiguous parcels within the same metro-  
9               politan area,

10               “(iii) is located entirely within 1  
11               State, and

12               “(iv) does not include any portion of  
13               a central business district (as such term is  
14               used for purposes of the most recent Cen-  
15               sus of Retail Trade).

16               “(D) UNEMPLOYMENT RATE.—The unem-  
17               ployment rate (as determined by the appro-  
18               priate available data) is not less than 1.5 times  
19               the national unemployment rate.

20               “(E) POVERTY RATE.—The poverty rate  
21               (as determined by the most recent census data  
22               available) for not less than 90 percent of the  
23               population census tracts (or where not tracted,  
24               the equivalent county divisions as defined by  
25               the Bureau of the Census for the purposes of

1 defining poverty areas) within the nominated  
2 area is not less than 20 percent.

3 “(F) COURSE OF ACTION.—There has been  
4 adopted for the nominated area a course of ac-  
5 tion which meets the requirements of subsection  
6 (c).

7 “(2) RURAL DEVELOPMENT INVESTMENT  
8 ZONES.—A nominated area which is a rural area  
9 shall be eligible for designation under section 1391  
10 only if it meets the following criteria:

11 “(A) POPULATION.—The nominated area  
12 has a population (as determined by the most re-  
13 cent census data available) of not less than  
14 1,000.

15 “(B) DISTRESS.—The nominated area is  
16 one of general distress.

17 “(C) SIZE.—The nominated area—

18 “(i) does not exceed 10,000 square  
19 miles,

20 “(ii) consists of areas within not more  
21 than 4 contiguous counties,

22 “(iii) has a boundary which is contin-  
23 uous, or consists of not more than 3 non-  
24 contiguous parcels, and

1                   “(iv) is located entirely within 1  
2                   State.

3                   “(D) ADDITIONAL CRITERIA.—Not less  
4                   than 2 of the following criteria:

5                   “(i) UNEMPLOYMENT RATE.—The cri-  
6                   terion set forth in paragraph (1)(D).

7                   “(ii) POVERTY RATE.—The criterion  
8                   set forth in paragraph (1)(E).

9                   “(iii) JOB LOSS.—The amount of  
10                  wages attributable to employment in the  
11                  area, and subject to tax under section  
12                  3301 during the preceding calendar year,  
13                  is not more than 95 percent of such wages  
14                  during the 5th preceding calendar year.

15                  “(iv) OUT-MIGRATION.—The popu-  
16                  lation of the area decreased (as determined  
17                  by the most recent census data available)  
18                  by 10 percent or more between 1980 and  
19                  1990.

20                  “(E) COURSE OF ACTION.—There has been  
21                  adopted for the nominated area a course of ac-  
22                  tion which meets the requirements of subsection  
23                  (c).

24                  “(3) AREAS WITHIN INDIAN RESERVATIONS IN-  
25                  ELIGIBLE.—A nominated area shall not be eligible

1 for designation under section 1391 if any portion of  
2 such area is within an Indian reservation.

3 “(c) REQUIRED STATE AND LOCAL COURSE OF AC-  
4 TION.—

5 “(1) IN GENERAL.—No nominated area may be  
6 designated as a tax enterprise zone unless the local  
7 government and the State in which it is located  
8 agree in writing that, during any period during  
9 which the area is a tax enterprise zone, the govern-  
10 ments will follow a specified course of action de-  
11 signed to reduce the various burdens borne by em-  
12 ployers or employees in the area.

13 “(2) COURSE OF ACTION.—The course of action  
14 under paragraph (1) may be implemented by both  
15 governments and private nongovernmental entities,  
16 may not be funded from proceeds of any Federal  
17 program (other than discretionary proceeds), and  
18 may include—

19 “(A) a certification by the State insurance  
20 commissioner (or similar State official) that  
21 basic commercial property insurance of a type  
22 comparable to that insurance generally in force  
23 in urban or rural areas, whichever is applicable,  
24 throughout the State is available to businesses  
25 within the tax enterprise zone,

1               “(B) a reduction of tax rates or fees apply-  
2               ing within the tax enterprise zone,

3               “(C) an increase in the level, or efficiency  
4               of delivery, of local public services within the  
5               tax enterprise zone,

6               “(D) actions to reduce, remove, simplify,  
7               or streamline government paperwork require-  
8               ments applicable within the tax enterprise zone,

9               “(E) the involvement in the program by  
10               public authorities or private entities, organiza-  
11               tions, neighborhood associations, and commu-  
12               nity groups, particularly those within the nomi-  
13               nated area, including a written commitment to  
14               provide jobs and job training for, and technical,  
15               financial, or other assistance to, employers, em-  
16               ployees, and residents of the nominated area,

17               “(F) the giving of special preference to  
18               contractors owned and operated by members of  
19               any socially and economically disadvantaged  
20               group (within the meaning of section 8(a) of  
21               the Small Business Act (15 U.S.C. 637(a))),

22               “(G) the gift (or sale at below fair market  
23               value) of surplus land in the tax enterprise zone  
24               to neighborhood organizations agreeing to oper-  
25               ate a business on the land,

1               “(H) the establishment of a program  
2               under which employers within the tax enterprise  
3               zone may purchase health insurance for their  
4               employees on a pooled basis,

5               “(I) the establishment of a program to en-  
6               courage local financial institutions to satisfy  
7               their obligations under the Community Rein-  
8               vestment Act of 1977 (12 U.S.C. 2901 et seq.)  
9               by making loans to enterprise zone businesses,  
10               with emphasis on startup and other small-busi-  
11               ness concerns (as defined in section 3(a) of the  
12               Small Business Act (15 U.S.C. 632(a))),

13               “(J) the giving of special preference to  
14               qualified low-income housing projects located in  
15               tax enterprise zones, in the allocation of the  
16               State housing credit ceiling applicable under  
17               section 42, and

18               “(K) the giving of special preference to fa-  
19               cilities located in tax enterprise zones, in the al-  
20               location of the State ceiling on private activity  
21               bonds applicable under section 146.

22               “(3) RECOGNITION OF PAST EFFORTS.—In  
23               evaluating courses of action agreed to by any State  
24               or local government, the appropriate Secretary shall  
25               take into account the past efforts of the State or

1 local government in reducing the various burdens  
2 borne by employers and employees in the area in-  
3 volved.

4 “(4) PROHIBITION OF ASSISTANCE FOR BUSI-  
5 NESS RELOCATIONS.—

6 “(A) IN GENERAL.—The course of action  
7 implemented under paragraph (1) may not in-  
8 clude any action to assist any establishment in  
9 relocating from one area to another area.

10 “(B) EXCEPTION.—The limitation estab-  
11 lished in subparagraph (A) shall not be con-  
12 strued to prohibit assistance for the expansion  
13 of an existing business entity through the estab-  
14 lishment of a new branch, affiliate, or subsidi-  
15 ary if—

16 “(i) the establishment of the new  
17 branch, affiliate, or subsidiary will not re-  
18 sult in an increase in unemployment in the  
19 area of original location or in any other  
20 area where the existing business entity  
21 conducts business operations, and

22 “(ii) there is no reason to believe that  
23 the new branch, affiliate, or subsidiary is  
24 being established with the intention of clos-  
25 ing down the operations of the existing

1                   business entity in the area of its original  
2                   location or in any other area where the ex-  
3                   isting business entity conducts business op-  
4                   erations.

5                “(d) SELECTION CRITERIA.—From among the nomi-  
6                nated areas eligible for designation under subsection (b)  
7                by the appropriate Secretary, such appropriate Secretary  
8                shall make designations of tax enterprise zones on the  
9                basis of the following factors (each of which is to be given  
10                equal weight):

11               “(1) STATE AND LOCAL COMMITMENTS.—The  
12                strength and quality of the commitments which have  
13                been promised as part of the course of action rel-  
14                ative to the fiscal ability of the nominating State  
15                and local governments.

16               “(2) IMPLEMENTATION OF COURSE OF AC-  
17                TION.—The effectiveness and enforceability of the  
18                guarantees that the course of action will actually be  
19                carried out, including the specificity with which the  
20                commitments under paragraph (1) are described in  
21                order that the applicable Secretary will be better  
22                able to determine annually under section  
23                1391(d)(2)(A)(ii) whether the commitments are  
24                being carried out.

1           “(3) PRIVATE COMMITMENTS.—The level of  
2        commitments by private entities of additional re-  
3        sources and contributions to the economy of the  
4        ominated area, including the creation of new or ex-  
5        panded business activities.

6           “(4) AVERAGE RANKINGS.—The average rank-  
7        ing with respect to—

8           “(A) the criteria set forth in subpara-  
9        graphs (D) and (E) of subsection (b)(1), in the  
10       case of an area which is not a rural area, or

11           “(B) the 2 criteria set forth in subsection  
12        (b)(2)(D) that give the area a higher average  
13        ranking, in the case of a rural area.

14           “(5) REVITALIZATION POTENTIAL.—The poten-  
15        tial for the revitalization of the nominated area as  
16        a result of zone designation, taking into account  
17        particularly the number of jobs to be created and re-  
18        tained.

19        **“SEC. 1393. DEFINITIONS AND SPECIAL RULES.**

20        For purposes of this subchapter—

21           “(1) URBAN TAX ENTERPRISE ZONE.—The  
22        term ‘urban tax enterprise zone’ means a tax enter-  
23        prise zone which meets the requirements of section  
24        1392(b)(1).

1               “(2) RURAL DEVELOPMENT INVESTMENT  
2       ZONE.—The term ‘rural development investment  
3       zone’ means a tax enterprise zone which meets the  
4       requirements of section 1392(b)(2).

5               “(3) GOVERNMENTS.—If more than 1 local gov-  
6       ernment seeks to nominate an area as a tax enter-  
7       prise zone, any reference to, or requirement of, this  
8       subchapter shall apply to all such governments.

9               “(4) LOCAL GOVERNMENT.—The term ‘local  
10      government’ means—

11               “(A) any county, city, town, township, par-  
12       ish, village, or other general purpose political  
13       subdivision of a State, and

14               “(B) any combination of political subdivi-  
15       sions described in subparagraph (A) recognized  
16       by the appropriate Secretary.

17               “(5) NOMINATED AREA.—The term ‘nominated  
18       area’ means an area which is nominated by 1 or  
19       more local governments and the State in which it is  
20       located for designation as a tax enterprise zone  
21       under this subchapter.

22               “(6) RURAL AREA.—The term ‘rural area’  
23       means any area which is—

1                   “(A) outside of a metropolitan statistical  
2                   area (within the meaning of section  
3                   143(k)(2)(B)), or

4                   “(B) determined by the Secretary of Agri-  
5                   culture, after consultation with the Secretary of  
6                   Commerce, to be a rural area.

7                   “(7) APPROPRIATE SECRETARY.—The term ‘ap-  
8                   propriate Secretary’ means—

9                   “(A) the Secretary of Housing and Urban  
10                   Development in the case of urban tax enterprise  
11                   zones, and

12                   “(B) the Secretary of Agriculture in the  
13                   case of rural development investment zones.

14                   “(8) STATE-CHARTERED DEVELOPMENT COR-  
15                   PORATIONS.—An area shall be treated as nominated  
16                   by a State and a local government if it is nominated  
17                   by an economic development corporation chartered  
18                   by the State.

19                   **“PART II—INCENTIVES FOR TAX ENTERPRISE**  
20                   **ZONES**

“SUBPART A. Enterprise zone employment credit.

“SUBPART B. Investment incentives.

“SUBPART C. Regulations.

21                   **“Subpart A—Enterprise Zone Employment Credit**

“Sec. 1394. Enterprise zone employment credit.

“Sec. 1395. Other definitions and special rules.

1   **“SEC. 1394. ENTERPRISE ZONE EMPLOYMENT CREDIT.**

2       “(a) AMOUNT OF CREDIT.—For purposes of section  
3   38, the amount of the enterprise zone employment credit  
4   determined under this section with respect to any em-  
5   ployer for any taxable year is 15 percent of the qualified  
6   zone wages paid or incurred during such taxable year.

7       “(b) QUALIFIED ZONE WAGES.—

8           “(1) IN GENERAL.—For purposes of this sec-  
9   tion, the term ‘qualified zone wages’ means any  
10   wages paid or incurred by an employer for services  
11   performed by an employee while such employee is a  
12   qualified zone employee.

13           “(2) ONLY FIRST \$20,000 OF WAGES PER YEAR  
14   TAKEN INTO ACCOUNT.—With respect to each qual-  
15   ified zone employee, the amount of qualified zone  
16   wages which may be taken into account for the tax-  
17   able year shall not exceed \$20,000.

18           “(3) COORDINATION WITH TARGETED JOBS  
19   CREDIT.—The term ‘qualified zone wages’ shall not  
20   include wages attributable to service rendered during  
21   the 1-year period beginning with the day the individ-  
22   ual begins work for the employer if any portion of  
23   such wages is taken into account in determining the  
24   credit under section 51.

25       “(c) QUALIFIED ZONE EMPLOYEE.—For purposes of  
26   this section—

1           “(1) IN GENERAL.—Except as otherwise pro-  
2        vided in this subsection, the term ‘qualified zone em-  
3        ployee’ means, with respect to any period, any em-  
4        ployee of an employer if—

5           “(A) substantially all of the services per-  
6        formed during such period by such employee for  
7        such employer are performed within a tax en-  
8        terprise zone in a trade or business of the em-  
9        ployer, and

10           “(B) the principal place of abode of such  
11        employee while performing such services is  
12        within such tax enterprise zone.

13           “(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—  
14        The term ‘qualified zone employee’ shall not in-  
15        clude—

16           “(A) any individual described in subpara-  
17        graph (A), (B), or (C) of section 51(i)(1),

18           “(B) any 5-percent owner (as defined in  
19        section 416(i)(1)(B)),

20           “(C) any individual employed by the em-  
21        ployer at any facility described in section  
22        144(c)(6)(B), and

23           “(D) any individual employed by the em-  
24        ployer in a trade or business the principal activ-  
25        ity of which is farming (within the meaning of

1           subparagraphs (A) or (B) of section  
2        2032A(e)(5)), but only if, as of the close of the  
3        taxable year, the sum of—

4               “(i) the aggregate unadjusted bases  
5        (or, if greater, the fair market value) of  
6        the assets owned by the employer which  
7        are used in such a trade or business, and  
8               “(ii) the aggregate value of assets  
9        leased by the employer which are used in  
10       such a trade or business (as determined  
11       under regulations prescribed by the Sec-  
12       retary),

13        exceeds \$500,000.

14        “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-  
15        PLOYER.—

16               “(1) IN GENERAL.—If the employment of any  
17        employee is terminated by the taxpayer before the  
18        day 1 year after the day on which such employee  
19        began work for the employer—

20               “(A) no wages with respect to such em-  
21        ployee shall be taken into account under sub-  
22        section (a) for the taxable year in which such  
23        employment is terminated, and

24               “(B) the tax under this chapter for the  
25        taxable year in which such employment is ter-

minated shall be increased by the aggregate credits (if any) allowed under section 38(a) for prior taxable years by reason of wages taken into account with respect to such employee.

5                   “(2) CARRYBACKS AND CARRYOVERS AD-  
6 JUSTED.—In the case of any termination of employ-  
7 ment to which paragraph (1) applies, the carrybacks  
8 and carryovers under section 39 shall be properly  
9 adjusted.

10           “(3) SUBSECTION NOT TO APPLY IN CERTAIN  
11           CASES.—

12                           “(A) IN GENERAL.—Paragraph (1) shall  
13                           not apply to—

1                   “(iii) a termination of employment of  
2                   an individual if it is determined under the  
3                   applicable State unemployment compensa-  
4                   tion law that the termination was due to  
5                   the misconduct of such individual.

6                   “(B) CHANGES IN FORM OF BUSINESS.—

7                   For purposes of paragraph (1), the employment  
8                   relationship between the taxpayer and an em-  
9                   ployee shall not be treated as terminated—

10                   “(i) by a transaction to which section  
11                   381(a) applies if the employee continues to  
12                   be employed by the acquiring corporation,  
13                   or

14                   “(ii) by reason of a mere change in  
15                   the form of conducting the trade or busi-  
16                   ness of the taxpayer if the employee con-  
17                   tinues to be employed in such trade or  
18                   business and the taxpayer retains a sub-  
19                   stantial interest in such trade or business.

20                   “(4) SPECIAL RULE.—Any increase in tax  
21                   under paragraph (1) shall not be treated as a tax  
22                   imposed by this chapter for purposes of—

23                   “(A) determining the amount of any credit  
24                   allowable under this chapter, and

1                   “(B) determining the amount of the tax  
2                   imposed by section 55.

3 **“SEC. 1395. OTHER DEFINITIONS AND SPECIAL RULES.**

4                   “(a) WAGES.—For purposes of this subpart, the term  
5 ‘wages’ has the same meaning as when used in section  
6 51.

7                   “(b) CONTROLLED GROUPS.—For purposes of this  
8 subpart—

9                   “(1) all employers treated as a single employer  
10                   under subsection (a) or (b) of section 52 shall be  
11                   treated as a single employer for purposes of this  
12                   subpart, and

13                   “(2) the credit (if any) determined under sec-  
14                   tion 1394 with respect to each such employer shall  
15                   be its proportionate share of the wages giving rise  
16                   to such credit.

17                   “(c) CERTAIN OTHER RULES MADE APPLICABLE.—  
18 For purposes of this subpart, rules similar to the rules  
19 of section 51(k) and subsections (c), (d), and (e) of section  
20 52 shall apply.

21                   “(d) NOTICE OF AVAILABILITY OF ADVANCE PAY-  
22 MENT OF EARNED INCOME CREDIT.—Each employer  
23 shall take reasonable steps to notify all qualified zone em-  
24 ployees of the availability to eligible individuals of receiv-

1 ing advanced payments of the credit under section 32 (re-  
 2 lating to the earned income credit).

3           **“Subpart B—Investment Incentives**

“Sec. 1396. Deduction for purchase of enterprise zone stock.

“Sec. 1397. 50 percent exclusion for gain from new zone invest-  
 ments.

“Sec. 1397A. Nonrecognition of gain from new zone investments.

“Sec. 1397B. Other incentives.

“Sec. 1397C. Enterprise zone business defined.

4           **“SEC. 1396. DEDUCTION FOR PURCHASE OF ENTERPRISE**

5           **ZONE STOCK.**

6           “(a) GENERAL RULE.—In the case of an individual,  
 7 there shall be allowed as a deduction an amount equal to  
 8 50 percent of the aggregate amount paid in cash by the  
 9 taxpayer during the taxable year for the purchase of enter-  
 10 prise zone stock.

11           “(b) LIMITATION.—

12           “(1) IN GENERAL.—The maximum amount al-  
 13 lowed as a deduction under subsection (a) to a tax-  
 14 payer for the taxable year shall not exceed the lesser  
 15 of—

16           “(A) \$25,000, or

17           “(B) the excess of \$250,000 over the  
 18 amount allowed as a deduction under this sec-  
 19 tion to the taxpayer for all prior taxable years.

20           “(2) EXCESS AMOUNTS.—If the amount other-  
 21 wise deductible by any person under subsection (a)  
 22 exceeds the limitation under paragraph (1)(A)—

1               “(A) the amount of such excess shall be  
2               treated as an amount paid to which subsection  
3               (a) applies during the next taxable year, and

4               “(B) the deduction allowed for any taxable  
5               year shall be allocated proportionately among  
6               the enterprise zone stock purchased by such  
7               person on the basis of the respective purchase  
8               prices per share.

9               “(3) AGGREGATION WITH FAMILY MEMBERS.—  
10          The taxpayer and members of the taxpayer’s family  
11          shall be treated as one person for purposes of para-  
12          graph (1), and the limitations contained in such  
13          paragraph shall be allocated among the taxpayer and  
14          such members in accordance with their respective  
15          purchases of enterprise zone stock. For purposes of  
16          this paragraph, an individual’s family includes only  
17          such individual’s spouse and minor children.

18          “(c) ENTERPRISE ZONE STOCK.—For purposes of  
19          this section—

20               “(1) IN GENERAL.—The term ‘enterprise zone  
21          stock’ means stock of a corporation if—

22               “(A) such stock is acquired on original  
23          issue from the corporation, and

24               “(B) such corporation is, at the time of  
25          issue, a qualified enterprise zone issuer.

1           “(2) PROCEEDS MUST BE INVESTED IN QUALI-  
2        FIED ENTERPRISE ZONE PROPERTY.—

3           “(A) IN GENERAL.—Such term shall in-  
4        clude such stock only to the extent that the pro-  
5        ceeds of such issuance are used by such issuer  
6        during the 12-month period beginning on the  
7        date of issuance to purchase (as defined in sec-  
8        tion 179(d)(2)) qualified enterprise zone prop-  
9        erty.

10          “(B) QUALIFIED ENTERPRISE ZONE PROP-  
11        ERTY.—For purposes of this section, the term  
12        ‘qualified enterprise zone property’ means prop-  
13        erty to which section 168 applies—

14           “(i) the original use of which in a tax  
15        enterprise zone commences with the issuer,  
16        and

17           “(ii) substantially all of the use of  
18        which is in a tax enterprise zone.

19          “(3) REDEMPTIONS.—The term ‘enterprise  
20        zone stock’ shall not include any stock acquired from  
21        a corporation which made a substantial stock re-  
22        demption or distribution (without a bona fide busi-  
23        ness purpose therefor) in an attempt to avoid the  
24        purposes of this section.

1       “(d) QUALIFIED ENTERPRISE ZONE ISSUER.—For  
2 purposes of this section, the term ‘qualified enterprise  
3 zone issuer’ means any domestic C corporation if—

4           “(1) such corporation is an enterprise zone  
5 business or, in the case of a new corporation, such  
6 corporation is being organized for purposes of being  
7 an enterprise zone business,

8           “(2) such corporation does not have more than  
9 one class of stock,

10          “(3) the sum of—

11           “(A) the money,

12           “(B) the aggregate unadjusted bases of  
13 property owned by such corporation, and

14           “(C) the value of property leased to the  
15 corporation (as determined under regulations  
16 prescribed by the Secretary),

17 does not exceed \$5,000,000, and

18           “(4) more than 20 percent of the total voting  
19 power, and 20 percent of the total value, of the  
20 stock of such corporation is owned directly by indi-  
21 viduals or estates or indirectly by individuals  
22 through partnerships or trusts.

23 The determination under paragraph (3) shall be made as  
24 of the time of issuance of the stock in question but shall  
25 include amounts received for such stock.

## 1       “(e) DISPOSITIONS OF STOCK.—

2           “(1) BASIS REDUCTION.—For purposes of this  
3 title, the basis of any enterprise zone stock shall be  
4 reduced by the amount of the deduction allowed  
5 under this section with respect to such stock.6           “(2) DEDUCTION RECAPTURED AS ORDINARY  
7 INCOME.—For purposes of section 1245—8           “(A) any stock the basis of which is re-  
9 duced under paragraph (1) (and any other  
10 property the basis of which is determined in  
11 whole or in part by reference to the adjusted  
12 basis of such stock) shall be treated as section  
13 1245 property, and14           “(B) any reduction under paragraph (1)  
15 shall be treated as a deduction allowed for de-  
16 preciation.17       If an exchange of any stock described in paragraph  
18 (1) qualifies under section 354(a), 355(a), or  
19 356(a), the amount of gain recognized under section  
20 1245 by reason of this paragraph shall not exceed  
21 the amount of gain recognized in the exchange (de-  
22 termined without regard to this paragraph).23           “(3) CERTAIN EVENTS TREATED AS DISPOSI-  
24 TIONS.—For purposes of determining the amount  
25 treated as ordinary income under section 1245 by

1 reason of paragraph (2), paragraph (3) of section  
2 1245(b) (relating to certain tax-free transactions)  
3 shall not apply.

4 “(4) INTEREST CHARGED IF DISPOSITION  
5 WITHIN 5 YEARS OF PURCHASE.—

6 “(A) IN GENERAL.—If—

7 “(i) a taxpayer disposes of any enter-  
8 prise zone stock with respect to which a  
9 deduction was allowed under subsection (a)  
10 (or any other property the basis of which  
11 is determined in whole or in part by ref-  
12 erence to the adjusted basis of such stock)  
13 before the end of the 5-year period begin-  
14 ning on the date such stock was purchased  
15 by the taxpayer, and

16 “(ii) section 1245(a) applies to such  
17 disposition by reason of paragraph (2),  
18 then the tax imposed by this chapter for the  
19 taxable year in which such disposition occurs  
20 shall be increased by the amount determined  
21 under subparagraph (B).

22 “(B) ADDITIONAL AMOUNT.—For purposes  
23 of subparagraph (A), the additional amount  
24 shall be equal to the amount of interest (deter-

11                   “(C) SPECIAL RULE.—Any increase in tax  
12                   under subparagraph (A) shall not be treated as  
13                   a tax imposed by this chapter for purposes of—

18        “(f) DISQUALIFICATION.—

19                   “(1) ISSUER CEASES TO QUALIFY.—If, during  
20 the 10-year period beginning on the date enterprise  
21 zone stock was purchased by the taxpayer, the issuer  
22 of such stock ceases to be a qualified enterprise zone  
23 issuer (determined without regard to subsection  
24 (d)(3)), then notwithstanding any provision of this  
25 subtitle other than paragraph (2), the taxpayer shall

1       be treated for purposes of subsection (e) as disposing  
2       of such stock (and any other property the basis  
3       of which is determined in whole or in part by reference  
4       to the adjusted basis of such stock) during  
5       the taxable year during which such cessation occurs  
6       at its fair market value as of the 1st day of such  
7       taxable year.

8               “(2) CESSATION OF ENTERPRISE ZONE STATUS  
9       NOT TO CAUSE RECAPTURE.—A corporation shall  
10      not fail to be treated as a qualified enterprise zone  
11      issuer for purposes of paragraph (1) solely by reason  
12      of the termination or revocation of a tax enterprise  
13      zone designation.

14               “(g) OTHER SPECIAL RULES.—

15               “(1) APPLICATION OF LIMITS TO PARTNERSHIPS  
16      AND S CORPORATIONS.—In the case of a partnership  
17      or an S corporation, the limitations under  
18      subsection (b) shall apply at the partner and shareholder  
19      level and shall not apply at the partnership  
20      or corporation level.

21               “(2) DEDUCTION NOT ALLOWED TO ESTATES  
22      AND TRUSTS.—Estates and trusts shall not be treated  
23      as individuals for purposes of this section.

1   **“SEC. 1397. 50 PERCENT EXCLUSION FOR GAIN FROM NEW**2           **ZONE INVESTMENTS.**

3           “(a) GENERAL RULE.—In the case of an individual,  
4   gross income shall not include 50 percent of any qualified  
5   capital gain recognized on the sale or exchange of a quali-  
6   fied zone asset held for more than 5 years.

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

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

11           “(A) any qualified zone stock,

12           “(B) any qualified zone business property,

13           and

14           “(C) any qualified zone partnership inter-  
15   est.

16           “(2) QUALIFIED ZONE STOCK.—

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

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

24           “(ii) as of the time such stock was is-  
25   sued, such corporation was an enterprise  
26   zone business (or, in the case of a new cor-

1 poration, such corporation was being orga-  
2 nized for purposes of being an enterprise  
3 zone business), and

4 “(iii) during substantially all of the  
5 taxpayer’s holding period for such stock,  
6 such corporation qualified as an enterprise  
7 zone business.

8 “(B) EXCLUSION OF STOCK FOR WHICH  
9 DEDUCTION UNDER SECTION 1396 ALLOWED.—  
10 The term ‘qualified zone stock’ shall not include  
11 any stock the basis of which is reduced under  
12 section 1396(e)(1).

13 “(C) REDEMPTIONS.—The term ‘qualified  
14 zone stock’ shall not include any stock acquired  
15 from a corporation which made a substantial  
16 stock redemption or distribution (without a  
17 bona fide business purpose therefor) in an at-  
18 tempt to avoid the purposes of this section.

19 “(3) QUALIFIED ZONE BUSINESS PROPERTY.—  
20 “(A) IN GENERAL.—The term ‘qualified  
21 zone business property’ means tangible property  
22 if—

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

1 the designation of the tax enterprise zone  
2 took effect,

12                   “(B) SPECIAL RULE FOR SUBSTANTIAL IM-  
13                   PROVEMENTS.—The requirements of clauses (i)  
14                   and (ii) of subparagraph (A) shall be treated as  
15                   satisfied with respect to—

For purposes of the preceding sentence, property shall be treated as substantially improved by the taxpayer if, during any 24-month period beginning after the date on which the designation of the tax enterprise zone took effect, additions to basis with respect to such property in

1 the hands of the taxpayer exceed the greater of  
2 (i) an amount equal to the adjusted basis at the  
3 beginning of such 24-month period in the hands  
4 of the taxpayer, or (ii) \$5,000.

5 “(C) LIMITATION ON LAND.—The term  
6 ‘qualified zone business property’ shall not in-  
7 clude land which is not an integral part of a  
8 qualified business (as defined in section  
9 1397C(c)).

10 “(4) QUALIFIED ZONE PARTNERSHIP INTER-  
11 EST.—The term ‘qualified zone partnership interest’  
12 means any interest in a partnership if—

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

16 “(B) as of the time such interest was ac-  
17 quired, such partnership was an enterprise zone  
18 business (or, in the case of a new partnership,  
19 such partnership was being organized for pur-  
20 poses of being an enterprise zone business), and

21 “(C) during substantially all of the tax-  
22 payer’s holding period for such interest, such  
23 partnership qualified as an enterprise zone  
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 zone asset’ includes  
5       any property which would be a qualified zone asset  
6       but for paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in  
7       the hands of the taxpayer if such property was a  
8       qualified zone asset in the hands of any prior holder.

9           “(6) 10-YEAR SAFE HARBOR.—If any property  
10      ceases to be a qualified zone asset by reason of para-  
11      graph (2)(A)(iii), (3)(A)(iii), or (4)(C) after the 10-  
12      year period beginning on the date the taxpayer ac-  
13      quired such property, such property shall continue to  
14      be treated as meeting the requirements of such  
15      paragraph; except that the amount of gain to which  
16      subsection (a) applies on any sale or exchange of  
17      such property shall not exceed the amount which  
18      would be qualified capital gain had such property  
19      been sold on the date of such cessation.

20           “(7) TREATMENT OF ZONE TERMINATIONS.—  
21      The termination of any designation of an area as a  
22      tax enterprise zone shall be disregarded for purposes  
23      of determining whether any property is a qualified  
24      zone 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.

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

13       “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER  
14 TERMINATION OF ZONE DESIGNATION NOT QUALI-  
15 FIED.—The term ‘qualified capital gain’ shall not in-  
16 clude any gain attributable to periods after the ter-  
17 mination of any designation of an area as a tax en-  
18 terprise zone.

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

20       “(1) SALES AND EXCHANGES.—Gain on the  
21 sale or exchange of an interest in a pass-thru entity  
22 held by the taxpayer (other than an interest in an  
23 entity which was an enterprise zone business during  
24 substantially all of the period the taxpayer held such  
25 interest) for more than 5 years shall be treated as

1 gain described in subsection (a) to the extent such  
2 gain is attributable to amounts which would be  
3 qualified capital gain on qualified zone assets (deter-  
4 mined as if such assets had been sold on the date  
5 of the sale or exchange) held by such entity for more  
6 than 5 years and throughout the period the taxpayer  
7 held such interest. A rule similar to the rule of para-  
8 graph (2)(C) shall apply for purposes of the preced-  
9 ing sentence.

10       “(2) INCOME INCLUSIONS.—

11           “(A) IN GENERAL.—Any amount included  
12 in income by reason of holding an interest in a  
13 pass-thru entity (other than an entity which  
14 was an enterprise zone business during substan-  
15 tially all of the period the taxpayer held the in-  
16 terest to which such inclusion relates) shall be  
17 treated as gain described in subsection (a) if  
18 such amount meets the requirements of sub-  
19 paragraph (B).

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

22               “(i) such amount is attributable to  
23 qualified capital gain recognized on the  
24 sale or exchange by the pass-thru entity of  
25 property which is a qualified zone asset in

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

1                   “(C) any regulated investment company,

2                   and

3                   “(D) any common trust fund.

4                   “(e) SALES AND EXCHANGES OF INTERESTS IN

5 PARTNERSHIPS AND S CORPORATIONS WHICH ARE

6 QUALIFIED ZONE BUSINESSES.—In the case of the sale

7 or exchange of an interest in a partnership, or of stock

8 in an S corporation, which was an enterprise zone business

9 during substantially all of the period the taxpayer held

10 such interest or stock, the amount of qualified capital gain

11 shall be determined without regard to—

12                   “(1) any intangible, and any land, which is not

13                   an integral part of any qualified business (as defined

14                   in section 1397C(b)), and

15                   “(2) gain attributable to periods before the des-

16                   ignation of an area as a tax enterprise zone.

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

18 For purposes of this section—

19                   “(1) IN GENERAL.—In the case of a transfer of

20                   a qualified zone asset to which this subsection ap-

21                   plies, the transferee shall be treated as—

22                   “(A) having acquired such asset in the

23                   same manner as the transferor, and

24                   “(B) having held such asset during any

25                   continuous period immediately preceding the

1 transfer during which it was held (or treated as  
2 held under this subsection) by the transferor.

3 “(2) TRANSFERS TO WHICH SUBSECTION AP-  
4 PLIES.—This subsection shall apply to any trans-  
5 fer—

6 “(A) by gift,

7 “(B) at death, or

8 “(C) from a partnership to a partner  
9 thereof of a qualified zone asset with respect to  
10 which the requirements of subsection (d)(2) are  
11 met at the time of the transfer (without regard  
12 to the 5-year holding requirement).

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

16 “(g) CERTAIN BUSINESSES TREATED AS NOT  
17 QUALIFIED BUSINESSES.—For purposes of this section  
18 and section 1397A, the term ‘enterprise zone business’ has  
19 the meaning given such term by section 1397C except  
20 that, in applying section 1397C for such purposes, the  
21 term ‘qualified business’ shall not include any trade or  
22 business of producing property of a character subject to  
23 the allowance for depletion under section 611.

1   **“SEC. 1397A. NONRECOGNITION OF GAIN FROM NEW ZONE**2                   **INVESTMENTS.**

3               “(a) GENERAL RULE.—At the election of an individual, qualified capital gain (within the meaning of section 4 1397) from the sale or exchange of a qualified zone asset 5 shall be recognized only to the extent that—

7               “(1) the amount realized from such sale or exchange, exceeds

9               “(2) the cost (not heretofore taken into account 10 under this subsection) of any qualified zone asset 11 purchased directly by the taxpayer during the rein- 12 vestment period.

13               “(b) QUALIFIED ZONE ASSET.—For purposes of this 14 section—

15               “(1) IN GENERAL.—The term ‘qualified zone 16 asset’ has the meaning given such term by section 17 1397.

18               “(2) TIME FOR TESTING.—

19               “(A) SALES.—In the case of a sale or ex- 20 change of property, the determination of whether 21 such property is a qualified zone asset shall 22 be made as of the time of the sale or exchange.

23               “(B) PURCHASES.—In the case of a pur- 24 chase of property, the determination of whether 25 such property is a qualified zone asset shall be 26 made as of the time of such purchase.

1       “(c) OTHER DEFINITIONS.—For purposes of this  
2 section—

3           “(1) REINVESTMENT PERIOD.—The term ‘rein-  
4 vestment period’ means, with respect to any sale or  
5 exchange, the 6-month period beginning on the date  
6 of such sale or exchange.

7           “(2) PURCHASE.—The term ‘purchase’ has the  
8 meaning given to such term by section 179(d)(2).

9           “(d) BUSINESS OR PROPERTY CEASES To QUAL-  
10 IFY.—

11           “(1) IN GENERAL.—If, during the 10-year pe-  
12 riod beginning on the date any qualified zone re-  
13 placement asset was purchased by the taxpayer,  
14 such asset ceases to be a qualified zone asset, not-  
15 withstanding any provision of this subtitle other  
16 than paragraph (3), the taxpayer shall be treated as  
17 disposing of such asset during the taxable year dur-  
18 ing which such cessation occurs at its fair market  
19 value as of the 1st day of such taxable year.

20           “(2) LIMITATION ON GAIN RECOGNIZED.—The  
21 amount of gain recognized pursuant to paragraph  
22 (1) with respect to any asset shall not exceed the  
23 lesser of—

1               “(A) the amount of gain which was not  
2               recognized under subsection (a) by the reason  
3               of the purchase of such asset, or

4               “(B) the excess of the fair market value  
5               referred to in paragraph (1) over the adjusted  
6               basis of such asset.

7               “(3) CESSATION OF ENTERPRISE ZONE STATUS  
8               NOT TO CAUSE RECAPTURE.—An asset shall not fail  
9               to be treated as a qualified zone asset for purposes  
10               of paragraph (1) solely by reason of the termination  
11               of a tax enterprise zone designation.

12               “(4) QUALIFIED ZONE REPLACEMENT ASSET.—  
13               For purposes of paragraph (1), the term ‘qualified  
14               zone replacement asset’ means any qualified zone  
15               asset the purchase of which resulted in the non-  
16               recognition of gain under subsection (a) with respect  
17               to any other property.

18               “(e) BASIS OF QUALIFIED ZONE REPLACEMENT  
19               ASSET.—If gain from the sale or exchange of any property  
20               is not recognized by reason of subsection (a), such gain  
21               shall be applied to reduce (in the order acquired) the basis  
22               of any qualified zone replacement asset (as defined in sub-  
23               section (d)(4)) purchased during the reinvestment period.

24               “(f) COORDINATION WITH INSTALLMENT METHOD  
25               REPORTING.—This section shall not apply to any gain

1 from any installment sale (as defined in section 453(b))  
2 if section 453(a) applies to such sale.

3       “(g) STATUTE OF LIMITATIONS.—If any gain is real-  
4 ized by the taxpayer on any sale or exchange to which  
5 an election under this section applies, then—

6           “(1) the statutory period for the assessment of  
7 any deficiency with respect to such gain shall not ex-  
8 pire before the expiration of 3 years from the date  
9 the Secretary is notified by the taxpayer (in such  
10 manner as the Secretary may by regulations pre-  
11 scribe) of—

12           “(A) the taxpayer’s cost of purchasing any  
13 qualified zone replacement asset,

14           “(B) the taxpayer’s intention not to pur-  
15 chase a qualified zone replacement asset within  
16 the reinvestment period, or

17           “(C) a failure to make such purchase with-  
18 in the reinvestment period, and

19           “(2) such deficiency may be assessed before the  
20 expiration of such 3-year period notwithstanding the  
21 provisions of any law or rule of law which would oth-  
22 erwise prevent such assessment.

23 **“SEC. 1397B. ADDITIONAL INCENTIVES.**

24       “(a) INCREASE IN EXPENSING UNDER SECTION  
25 179.—In the case of an enterprise zone business, section

1 179(b)(1) shall be applied by substituting '\$20,000' for  
2 '\$10,000'.

3       “(b) ORDINARY LOSS TREATMENT FOR CERTAIN  
4 PROPERTY.—

5       “(1) IN GENERAL.—Loss on any qualified zone  
6 asset (as defined in section 1397(b)) held for more  
7 than 2 years (5 years in the case of real property)  
8 shall be treated as an ordinary loss.

9       “(2) REAL PROPERTY.—For purposes of para-  
10 graph (1), the term 'real property' means any prop-  
11 erty which is section 1250 property (as defined in  
12 section 1250(c)).

13       “(3) SPECIAL RULES.—

14       “(A) CERTAIN RULES MADE APPLICA-  
15 BLE.—For purposes of this subsection, rules  
16 similar to the following rules shall apply:

17       “(i) Paragraphs (1), (2), and (3) of  
18 section 1244(d).

19       “(ii) Subsections (b)(6), (c)(3), (d),  
20 (e), and (f) of section 1397.

21       “(B) COORDINATION WITH SECTION  
22 1231.—Losses treated as ordinary losses by rea-  
23 son of this subsection shall not be taken into  
24 account in applying section 1231.

1   **“SEC. 1397C. ENTERPRISE ZONE BUSINESS DEFINED.**2       “(a) IN GENERAL.—For purposes of this subpart, the  
3    term ‘enterprise zone business’ means—4           “(1) any qualified business entity, and  
5           “(2) any qualified proprietorship.6       “(b) QUALIFIED BUSINESS ENTITY.—For purposes  
7    of this section, the term ‘qualified business entity’ means,  
8    with respect to any taxable year, any corporation or part-  
9    nership if for such year—10           “(1)(A) every trade or business of such entity  
11    is the active conduct of a qualified business within  
12    a tax enterprise zone, and13           “(B) at least 80 percent of the total gross in-  
14    come of such entity is derived from the active con-  
15    duct of such business,16           “(2) substantially all of the use of the tangible  
17    property of such entity (whether owned or leased) is  
18    within a tax enterprise zone,19           “(3) substantially all of the intangible property  
20    of such entity is used in, and exclusively related to,  
21    the active conduct of any such business,22           “(4) substantially all of the services performed  
23    for such entity by its employees are performed in a  
24    tax enterprise zone,25           “(5) at least  $\frac{1}{3}$  of its employees are residents  
26    of a tax enterprise zone,

1           “(6) less than 5 percent of the average of the  
2 aggregate unadjusted bases of the property of such  
3 entity is attributable to collectibles (as defined in  
4 section 408(m)(2)) other than collectibles that are  
5 held primarily for sale to customers in the ordinary  
6 course of such business, and

7           “(7) less than 5 percent of the average of the  
8 aggregate unadjusted bases of the property of such  
9 entity is attributable to nonqualified financial prop-  
10 erty.

11          “(c) QUALIFIED PROPRIETORSHIP.—For purposes of  
12 this section, the term ‘qualified proprietorship’ means,  
13 with respect to any taxable year, any qualified business  
14 carried on by an individual as a proprietorship if for such  
15 year—

16           “(1) at least 80 percent of the total gross in-  
17 come of such individual from such business is de-  
18 rived from the active conduct of such business in a  
19 tax enterprise zone,

20           “(2) substantially all of the use of the tangible  
21 property of such individual in such business (wheth-  
22 er owned or leased) is within a tax enterprise zone,

23           “(3) substantially all of the intangible property  
24 of such business is used in, and exclusively related  
25 to, the active conduct of such business,

1           “(4) substantially all of the services performed  
2        for such individual in such business by employees of  
3        such business are performed in a tax enterprise  
4        zone,

5           “(5) at least  $\frac{1}{3}$  of such employees are residents  
6        of a tax enterprise zone,

7           “(6) less than 5 percent of the average of the  
8        aggregate unadjusted bases of the property of such  
9        individual which is used in such business is attrib-  
10       utable to collectibles (as defined in section  
11       408(m)(2)) other than collectibles that are held pri-  
12       marily for sale to customers in the ordinary course  
13       of such business, and

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

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

20           “(d) QUALIFIED BUSINESS.—For purposes of this  
21        section—

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

1           “(2) RENTAL OF REAL PROPERTY.—The rental  
2        to others of real property located in a tax enterprise  
3        zone shall be treated as a qualified business if and  
4        only if—

5           “(A) in the case of real property which is  
6        not residential rental property (as defined in  
7        section 168(e)(2)), the lessee is an enterprise  
8        zone business, or

9           “(B) in the case of residential rental prop-  
10        erty (as so defined)—

11           “(i) such property was originally  
12        placed in service after the date the tax en-  
13        terprise zone was designated, or

14           “(ii) such property is rehabilitated  
15        after such date in a rehabilitation which  
16        meets requirements based on the principles  
17        of section 42(e)(3).

18           “(3) RENTAL OF TANGIBLE PERSONAL PROP-  
19        PERTY.—The rental to others of tangible personal  
20        property shall be treated as a qualified business if  
21        and only if substantially all of the rental of such  
22        property is by enterprise zone businesses or by resi-  
23        dents of a tax enterprise zone.

24           “(4) TREATMENT OF BUSINESS HOLDING IN-  
25        TANGIBLES.—The term ‘qualified business’ shall not

1 include any trade or business consisting predominantly  
2 of the development or holding of intangibles  
3 for sale or license.

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

6 “(A) any trade or business consisting of  
7 the operation of any facility described in section  
8 144(c)(6)(B), and

9 “(B) any trade or business the principal  
10 activity of which is farming (within the meaning  
11 of subparagraphs (A) or (B) of section  
12 2032A(e)(5)), but only if, as of the close of the  
13 preceding taxable year, the sum of—

14 “(i) the aggregate unadjusted bases  
15 (or, if greater, the fair market value) of  
16 the assets owned by the taxpayer which are  
17 used in such a trade or business, and

18 “(ii) the aggregate value of assets  
19 leased by the taxpayer which are used in  
20 such a trade or business,

21 exceeds \$500,000.

22 For purposes of subparagraph (B), rules similar to  
23 the rules of section 1395(b) shall apply.

24 “(e) NONQUALIFIED FINANCIAL PROPERTY.—For  
25 purposes of this section, the term ‘nonqualified financial

1 property' means debt, stock, partnership interests, op-  
2 tions, futures contracts, forward contracts, warrants, no-  
3 tional principal contracts, annuities, and other similar  
4 property specified in regulations; except that such term  
5 shall not include—

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

9           “(2) debt instruments described in section  
10           1221(4).

11           **“Subpart C—Regulations**

“Sec. 1397C. Regulations.

12           **“SEC. 1397C. REGULATIONS.**

13           “The Secretary shall prescribe such regulations as  
14 may be necessary or appropriate to carry out the purposes  
15 of this part, including—

16           “(1) regulations limiting the benefit of this part  
17           in circumstances where such benefits, in combination  
18           with benefits provided under other Federal pro-  
19           grams, would result in an activity being 100 percent  
20           or more subsidized by the Federal Government,

21           “(2) regulations preventing abuse of the provi-  
22           sions of this part, and

23           “(3) regulations dealing with inadvertent fail-  
24           ures of entities to be qualified zone businesses.”.

1       (b) CLERICAL AMENDMENT.—The table of sub-  
2 chapters for chapter 1 of such Code is amended by insert-  
3 ing after the item relating to subchapter T the following  
4 new item:

“Subchapter U. Designation and treatment of tax enterprise  
zones.”.

5 **SEC. 412. TECHNICAL AND CONFORMING AMENDMENTS.**

6       (a) ENTERPRISE ZONE EMPLOYMENT CREDIT PART  
7 OF GENERAL BUSINESS CREDIT.—

8           (1) Subsection (b) of section 38 of the Internal  
9 Revenue Code of 1986 (relating to current year  
10 business credit) is amended by striking “plus” at the  
11 end of paragraph (6), by striking the period at the  
12 end of paragraph (7) and inserting “, plus”, and by  
13 adding at the end the following new paragraph:

14           “(8) the enterprise zone employment credit de-  
15 termined under section 1394(a).”.

16           (2) Subsection (d) of section 39 of such Code  
17 is amended by adding at the end thereof the follow-  
18 ing new paragraph:

19           “(3) NO CARRYBACK OF SECTION 1394 CREDIT  
20 BEFORE ENACTMENT.—No portion of the unused  
21 business credit for any taxable year which is attrib-  
22 utable to the enterprise zone employment credit de-  
23 termined under section 1394 may be carried to a

1 taxable year ending before the date of the enactment  
2 of section 1394.”.

3 (b) NONITEMIZERS ALLOWED DEDUCTION FOR EN-  
4 TERPRISE ZONE STOCK.—Subsection (a) of section 62 of  
5 such Code is amended by adding at the end thereof the  
6 following new paragraph:

7 “(14) ENTERPRISE ZONE STOCK.—The deduc-  
8 tion allowed by section 1396.”.

9 (c) DENIAL OF DEDUCTION FOR PORTION OF WAGES  
10 EQUAL TO ENTERPRISE ZONE EMPLOYMENT CREDIT.—

11 (1) Subsection (a) of section 280C of such Code  
12 (relating to rule for targeted jobs credit) is amend-  
13 ed—

14 (A) by striking “the amount of the credit  
15 determined for the taxable year under section  
16 51(a)” and inserting “the sum of the credits  
17 determined for the taxable year under sections  
18 51(a) and 1394(a)”, and

19 (B) by striking “TARGETED JOBS CRED-  
20 IT” in the subsection heading and inserting  
21 “EMPLOYMENT CREDITS”.

22 (2) Subsection (c) of section 196 of such Code  
23 (relating to deduction for certain unused business  
24 credits) is amended by striking “and” at the end of  
25 paragraph (4), by striking the period at the end of

1       paragraph (5) and inserting “, and”, and by adding  
2       at the end the following new paragraph:

3               “(6) the enterprise zone employment credit de-  
4       termined under section 1394(a).”.

5       (d) OTHER AMENDMENTS.—

6               (1)(A) Section 172(d)(2) of such Code (relating  
7       to modifications with respect to net operating loss  
8       deduction) is amended to read as follows:

9               “(2) CAPITAL GAINS AND LOSSES OF TAX-  
10      PAYERS OTHER THAN CORPORATIONS.—In the case  
11      of a taxpayer other than a corporation—

12               “(A) the amount deductible on account of  
13       losses from sales or exchanges of capital assets  
14       shall not exceed the amount includable on ac-  
15       count of gains from sales or exchanges of cap-  
16       ital assets; and

17               “(B) the exclusion provided by section  
18       1397 shall not be allowed.”.

19       (B) Subparagraph (B) of section 172(d)(4) of  
20      such Code is amended by inserting “, (2)(B),” after  
21      “paragraph (1)”.

22       (2) Subsection (c) of section 381 of such Code  
23       (relating to carryovers in certain corporate acquisi-  
24       tions) is amended by adding at the end the following  
25       new paragraph:

1                 “(26) ENTERPRISE ZONE PROVISIONS.—The  
2     acquiring corporation shall take into account (to the  
3     extent proper to carry out the purposes of this sec-  
4     tion and subchapter U, and under such regulations  
5     as may be prescribed by the Secretary) the items re-  
6     quired to be taken into account for purposes of sub-  
7     chapter U in respect of the distributor or transferor  
8     corporation.”.

9                 (3) Paragraph (4) of section 642(c) of such  
10    Code is amended to read as follows:

11                 “(4) ADJUSTMENTS.—To the extent that the  
12     amount otherwise allowable as a deduction under  
13     this subsection consists of gain described in section  
14     1397(a), proper adjustment shall be made for any  
15     exclusion allowable to the estate or trust under sec-  
16     tion 1397. In the case of a trust, the deduction al-  
17     lowed by this subsection shall be subject to section  
18     681 (relating to unrelated business income).”.

19                 (4) Paragraph (3) of section 643(a) of such  
20    Code is amended by adding at the end thereof the  
21     following new sentence: “The exclusion under section  
22     1397 shall not be taken into account.”.

23                 (5) Paragraph (4) of section 691(c) of such  
24    Code is amended by striking “1201, and 1211” and  
25     inserting “1201, 1397, and 1211”.

16           “(25) in the case of stock with respect to which  
17        a deduction was allowed under section 1396(a), to  
18        the extent provided in section 1396(e); and

19               “(26) in the case of property the acquisition of  
20               which resulted under section 1397A in the non-  
21               recognition of any part of the gain realized on the  
22               sale or exchange of other property, to the extent pro-  
23               vided in section 1397A(e).”.

24 (9) Section 1223 of such Code (relating to hold-  
25 ing period of property) is amended by redesignating

1       paragraph (15) as paragraph (16) and by inserting  
2       after paragraph (14) the following new paragraph:

3           “(15) In determining the period for which the  
4       taxpayer has held property the acquisition of which  
5       resulted under section 1397A in the nonrecognition  
6       of any part of the gain realized on the sale or ex-  
7       change of any qualified zone asset (as defined in sec-  
8       tion 1397A(b)), there shall be included the period  
9       for which such asset had been held as of the date  
10       of such sale or exchange.”.

11 **SEC. 413. EFFECTIVE DATE.**

12       (a) GENERAL RULE.—The amendments made by this  
13       subtitle shall take effect on the date of the enactment of  
14       this Act.

15       (b) REQUIREMENT FOR RULES.—Not later than the  
16       date 4 months after the date of the enactment of this Act,  
17       the appropriate Secretaries shall issue rules—

18           (1) establishing the procedures for nominating  
19       areas for designation as tax enterprise zones,

20           (2) establishing a method for comparing the  
21       factors listed in section 1392(d) of the Internal Rev-  
22       enue Code of 1986 (as added by this part),

23           (3) establishing recordkeeping requirements  
24       necessary or appropriate to assist the studies re-  
25       quired by subtitle E, and

## **6 Subtitle B—Redevelopment Bonds**

### **7 for Tax Enterprise Zones**

8 SEC. 421. SPECIAL RULES FOR REDEVELOPMENT BONDS  
9 PROVIDING FINANCING FOR TAX ENTER-  
10

11 (a) IN GENERAL.—Subsection (c) of section 144 of  
12 the Internal Revenue Code of 1986 (relating to qualified  
13 redevelopment bonds) is amended by adding at the end  
14 thereof the following new paragraph:

15                   “(9) SPECIAL RULES FOR TAX ENTERPRISE  
16                   ZONES.—For purposes of this subsection, in the case  
17                   of bonds issued during the 60-month period begin-  
18                   ning on the date a tax enterprise zone is des-  
19                   ignated—

20                         “(A)     TREATMENT     AS     DESIGNATED  
21                         BLIGHTED    AREA.—Such    tax    enterprise    zone  
22                         shall    be    treated    as    a    designated    blighted    area  
23                         during    such    60-month    period    (or,    if    shorter,    the  
24                         period    such    designation    is    in    effect).    Any    area  
25                         designated    by    reason    of    the    preceding    sentence

1 shall not be taken into account in applying  
2 paragraph (4)(C).

3 “(B) SECURITY FOR BONDS.—The require-  
4 ments of paragraph (2)(B) shall be treated as  
5 met with respect to a financed area that is  
6 within a tax enterprise zone if the general pur-  
7 pose governmental unit guarantees the payment  
8 of principal and interest on the issue either di-  
9 rectly or through insurance, a letter of credit,  
10 or a similar agreement but only if the cost  
11 thereof is financed other than with proceeds of  
12 any tax-exempt private activity bond or earn-  
13 ings on such proceeds.

14 “(C) EXPANSION OF REDEVELOPMENT  
15 PURPOSES.—

16 “(i) IN GENERAL.—The term ‘redevel-  
17 opment purposes’ includes the making of  
18 loans to any enterprise zone business (as  
19 defined in section 1397B) for—

20 “(I) the acquisition of land with-  
21 in the tax enterprise zone for use in  
22 such business, or

23 “(II) the acquisition, construc-  
24 tion, reconstruction, or improvement  
25 by such business of land, or property

1 of a character subject to the allowance  
2 for depreciation, for use in such busi-  
3 ness.

1                   is received to redeem bonds which are  
2                   part of such issue, and

3                   “(III) the effective rate of inter-  
4                   est on which does not exceed the yield  
5                   on the issue by more than 0.125 per-  
6                   centage points.

7                   In determining the effective rate of interest  
8                   for purposes of subclause (III), there shall  
9                   be taken into account all fees, charges, and  
10                   other amounts (other than amounts for  
11                   any credit report) borne by the borrower  
12                   which are attributable to the loan or the  
13                   bond issue.

14                   “(iv) HOUSING LOANS EXCLUDED.—  
15                   Clause (i) shall not apply to any loan to be  
16                   used directly or indirectly to provide resi-  
17                   dential real property.

18                   “(v) COORDINATION WITH RESTRI-  
19                   CTIONS ON USE OF PROCEEDS.—Paragraphs  
20                   (6) and (8) shall apply notwithstanding  
21                   clause (i); except that in applying para-  
22                   graph (6), subsection (a)(8) shall be treat-  
23                   ed as not including a reference to a facility  
24                   the primary purpose of which is retail food  
25                   services.

1                 “(D) ISSUER TO DESIGNATE AMOUNT OF  
2 ISSUE TO BE USED FOR LOANS.—Subparagraph  
3 (C) shall not apply with respect to any issue  
4 unless the issuer designates before the date of  
5 issuance the amount of the proceeds of such  
6 issue which is to be used for loans to which  
7 subparagraph (C)(i) applies. If such amount ex-  
8 ceeds the principal amount of loans to which  
9 subparagraph (C)(i) applies, an amount of pro-  
10 ceeds equal to such excess shall be used not  
11 later than the close of the 1st semiannual pe-  
12 riod beginning after the close of the 18-month  
13 period referred to in subparagraph (C)(iii) to  
14 redeem bonds which are part of such issue.

15                 “(E) DE MINIMIS REDEMPTIONS NOT RE-  
16 QUIRED.—Subparagraphs (C)(iii) and (D) shall  
17 not be construed to require amounts of less  
18 than \$250,000 to be used to redeem bonds. The  
19 Secretary may by regulation treat related issues  
20 as 1 issue for purposes of the preceding sen-  
21 tence.

22                 “(F) PENALTY.—

23                 “(i) IN GENERAL.—In the case of  
24 property with respect to which financing  
25 was provided under this paragraph, if at

any time during the 10-period beginning  
on the date such financing was provided—

9 there is hereby imposed on the trade or  
10 business to which such financing was pro-  
11 vided a penalty equal to 1.25 percent of so  
12 much of the face amount of all financing  
13 provided (whether or not from the same  
14 issue and whether or not such issue is out-  
15 standing) before such cessation to the  
16 trade or business using such property.

1       (b) VOLUME CAP ONLY CHARGED WITH 50 PER-  
2 CENT OF TAX ENTERPRISE ZONE REDEVELOPMENT  
3 BONDS.—Subsection (g) of section 146 of such Code is  
4 amended by striking “and” at the end of paragraph (3),  
5 by striking the period at the end of paragraph (4) and  
6 inserting “, and”, and by adding at the end thereof the  
7 following new paragraph:

8               “(5) 50 percent of any qualified redevelopment  
9 bond issued—

10               “(A) as part of an issue 95 percent or  
11 more of the net proceeds of which are to be  
12 used for 1 or more redevelopment purposes (as  
13 defined in section 144(c)) in a tax enterprise  
14 zone, and

15               “(B) during the 60-month period begin-  
16 ning on the date of the designation of such  
17 zone.”.

18       (c) PENALTIES FOR LOANS MADE TO BUSINESSES  
19 THAT CEASE TO BE ENTERPRISE ZONE BUSINESSES,  
20 ETC.—Subsection (b) of section 150 of such Code is  
21 amended by adding at the end thereof the following new  
22 paragraph:

23               “(6) ENTERPRISE ZONE REDEVELOPMENT  
24 BONDS.—In the case of any financing provided by

1       an issue the interest on which is exempt from tax by  
2       reason of section 144(c)(9)—

3               “(A) IN GENERAL.—No deduction shall be  
4       allowed under this chapter for interest on such  
5       financing which accrues during the period be-  
6       ginning on the first day of the calendar year  
7       which includes the date on which—

8                       “(i) the trade or business to which the  
9       financing was provided ceases to be an en-  
10       terprise zone business (as defined in sec-  
11       tion 1397B), or

12                       “(ii) substantially all of the use of the  
13       property (determined in accordance with  
14       subchapter U) with respect to which the fi-  
15       nancing was provided ceases to be in a tax  
16       enterprise zone.

17       The preceding sentence shall not apply solely by  
18       reason of the termination or revocation of a tax  
19       enterprise zone designation.

20               “(B) EXCEPTION FOR BANKRUPTCY.—This  
21       paragraph shall not apply to any cessation re-  
22       sulting from bankruptcy.”.

1 **1 Subtitle C—Credit for Contribu-**  
2 **tions to Certain Community De-**  
3 **velopment Corporations**

4 **4 SEC. 431. CREDIT FOR CONTRIBUTIONS TO CERTAIN COM-**  
5 **MUNITY DEVELOPMENT CORPORATIONS.**

6 (a) IN GENERAL.—For purposes of section 38 of the  
7 Internal Revenue Code of 1986, the current year business  
8 credit shall include the credit determined under this sec-  
9 tion.

10 (b) DETERMINATION OF CREDIT.—The credit deter-  
11 mined under this section for each taxable year in the credit  
12 period with respect to any qualified CDC contribution  
13 made by the taxpayer is an amount equal to 5 percent  
14 of such contribution.

15 (c) CREDIT PERIOD.—For purposes of this section,  
16 the credit period with respect to any qualified CDC con-  
17 tribution is the period of 10 taxable years beginning with  
18 the taxable year during which such contribution was made.

19 (d) QUALIFIED CDC CONTRIBUTION.—For purposes  
20 of this section—

21 (1) IN GENERAL.—The term “qualified CDC  
22 contribution” means any transfer of cash—

23 (A) which is made to a selected community  
24 development corporation during the 5-year pe-

1           riod beginning on the date such corporation was  
2           selected for purposes of this section,

3                   (B) the amount of which is available for  
4           use by such corporation for at least 10 years,

5                   (C) which is to be used by such corpora-  
6           tion for qualified low-income assistance within  
7           its operational area, and

8                   (D) which is designated by such corpora-  
9           tion for purposes of this section.

10               (2) LIMITATIONS ON AMOUNT DESIGNATED.—

11               The aggregate amount of contributions to a selected  
12           community development corporation which may be  
13           designated by such corporation shall not exceed  
14           \$2,000,000.

15               (e) SELECTED COMMUNITY DEVELOPMENT COR-  
16           PORATIONS.—

17               (1) IN GENERAL.—For purposes of this section,  
18           the term “selected community development corpora-  
19           tion” means any corporation—

20                   (A) which is described in section 501(c)(3)  
21           of such Code and exempt from tax under sec-  
22           tion 501(a) of such Code,

23                   (B) the principal purposes of which include  
24           promoting employment of, and business oppor-

3 (C) which is selected by the Secretary of  
4 Housing and Urban Development for purposes  
5 of this section.

8 (A) IN GENERAL.—The Secretary of Hous-  
9 ing and Urban Development may select 10 cor-  
10 porations for purposes of this section, subject to  
11 the availability of eligible corporations. Such se-  
12 lections may be made only before January 1,  
13 1995. At least 4 of the operational areas of the  
14 corporations selected must be rural areas (as  
15 defined by section 1393(6) of such Code).

16 (B) PRIORITY OF DESIGNATIONS.—In se-  
17 lecting corporations for purposes of this section,  
18 such Secretary shall give priority to corpora-  
19 tions with a demonstrated record of perform-  
20 ance in administering community development  
21 programs which target at least 75 percent of  
22 the jobs emanating from their investment funds  
23 to low income or unemployed individuals.

24 (3) OPERATIONAL AREAS MUST HAVE CERTAIN  
25 CHARACTERISTICS.—A corporation may be selected

1 for purposes of this section only if its operational  
2 area meets the following criteria:

3 (A) The area meets the size requirements  
4 under paragraph (1)(C) or (2)(C) of section  
5 1391(b) which would apply if such area were to  
6 be designated as a tax enterprise zone.

7 (B) The unemployment rate (as deter-  
8 mined by the appropriate available data) is not  
9 less than the national unemployment rate.

10 (C) The median family income of residents  
11 of such area does not exceed 80 percent of the  
12 median gross income of residents of the juris-  
13 diction of the local government which includes  
14 such area.

15 (f) QUALIFIED LOW-INCOME ASSISTANCE.—For pur-  
16 poses of this section, the term “qualified low-income as-  
17 sistance” means assistance—

18 (1) which is designed to provide employment of,  
19 and business opportunities for, low-income individ-  
20 uals who are residents of the operational area of the  
21 community development corporation, and

22 (2) which is approved by the Secretary of Hous-  
23 ing and Urban Development.

1      **Subtitle D—Indian Employment**  
 2      **and Investment**

3      **SEC. 441. INVESTMENT TAX CREDIT FOR PROPERTY ON IN-**

4      **DIAN RESERVATIONS.**

5      (a) ALLOWANCE OF INDIAN RESERVATION CRED-  
 6 IT.—Section 46 of the Internal Revenue Code of 1986 (re-  
 7 lating to investment credits) is amended by striking “and”  
 8 at the end of paragraph (2), by striking the period at the  
 9 end of paragraph (3) and inserting “, and”, and by adding  
 10 after paragraph (3) the following new paragraph:

11      “(4) the Indian reservation credit.”.

12      (b) AMOUNT OF INDIAN RESERVATION CREDIT.—

13      (1) IN GENERAL.—Section 48 of such Code (re-  
 14 lating to the energy credit and the reforestation  
 15 credit) is amended by adding after subsection (b)  
 16 the following new subsection:

17      “(c) INDIAN RESERVATION CREDIT.—

18      “(1) IN GENERAL.—For purposes of section 46,  
 19 the Indian reservation credit for any taxable year is  
 20 the Indian reservation percentage of the qualified in-  
 21 vestment in qualified Indian reservation property  
 22 placed in service during such taxable year, deter-  
 23 mined in accordance with the following table:

<b>“In the case of qualified Indian reservation property which is:</b>	<b>The Indian reservation percentage is:</b>
Reservation personal property .....	10
New reservation construction property .....	15

Reservation infrastructure investment ..... 15.

1       “(2) QUALIFIED INVESTMENT IN QUALIFIED  
2       INDIAN RESERVATION PROPERTY DEFINED.—For  
3       purposes of this subpart—

4           “(A) IN GENERAL.—The term ‘qualified  
5       Indian reservation property’ means property—

6           “(i) which is—

7           “(I) reservation personal prop-  
8       erty,

9           “(II) new reservation construc-  
10       tion property, or

11           “(III) reservation infrastructure  
12       investment, and

13           “(ii) not acquired (directly or indi-  
14       rectly) by the taxpayer from a person who  
15       is related to the taxpayer (within the  
16       meaning of section 465(b)(3)(C)).

17       The term ‘qualified Indian reservation property’  
18       does not include any property (or any portion  
19       thereof) placed in service for purposes of con-  
20       ducting or housing class I, II, or III gaming (as  
21       defined in section 4 of the Indian Regulatory  
22       Act (25 U.S.C. 2703)).

23           “(B) QUALIFIED INVESTMENT.—The term  
24       ‘qualified investment’ means—

1                     “(i) in the case of reservation infra-  
2                     structure investment, the amount expended  
3                     by the taxpayer for the acquisition or con-  
4                     struction of the reservation infrastructure  
5                     investment; and

6                     “(ii) in the case of all other qualified  
7                     Indian reservation property, the tax-  
8                     payer’s basis for such property.

9                     “(C) RESERVATION PERSONAL PROP-  
10                     ERTY.—The term ‘reservation personal prop-  
11                     erty’ means qualified personal property which is  
12                     used by the taxpayer predominantly in the ac-  
13                     tive conduct of a trade or business within an  
14                     Indian reservation. Property shall not be treat-  
15                     ed as ‘reservation personal property’ if it is  
16                     used or located outside the Indian reservation  
17                     on a regular basis.

18                     “(D) QUALIFIED PERSONAL PROPERTY.—  
19                     The term ‘qualified personal property’ means  
20                     property—

21                     “(i) for which depreciation is allow-  
22                     able under section 168,

23                     “(ii) which is not—

24                     “(I) nonresidential real property,

1                         “(II) residential rental property,

2                         or

3                         “(III) real property which is not  
4                         described in (I) or (II) and which has  
5                         a class life of more than 12.5 years.

6                         For purposes of this subparagraph, the terms  
7                         ‘nonresidential real property’, ‘residential rental  
8                         property’, and ‘class life’ have the respective  
9                         meanings given such terms by section 168.

10                         “(E) NEW RESERVATION CONSTRUCTION  
11                         PROPERTY.—The term ‘new reservation con-  
12                         struction property’ means qualified real prop-  
13                         erty—

14                         “(i) which is located in an Indian res-  
15                         ervation,

16                         “(ii) which is used by the taxpayer  
17                         predominantly in the active conduct of a  
18                         trade or business within an Indian reserva-  
19                         tion, and

20                         “(iii) which is originally placed in  
21                         service by the taxpayer.

22                         “(F) QUALIFIED REAL PROPERTY.—The  
23                         term ‘qualified real property’ means property  
24                         for which depreciation is allowable under sec-



1 railroad spurs, and communications facil-  
2 ties.

3 “(H) COORDINATION WITH OTHER CRED-  
4 ITS.—The term ‘qualified Indian reservation  
5 property’ shall not include any property with re-  
6 spect to which the energy credit or the rehabili-  
7 tation credit is allowed.

8 “(3) REAL ESTATE RENTALS.—For purposes of  
9 this section, the rental to others of real property lo-  
10 cated within an Indian reservation shall be treated  
11 as the active conduct of a trade or business in an  
12 Indian reservation.

13 “(4) INDIAN RESERVATION DEFINED.—For  
14 purposes of this subpart, the term ‘Indian reserva-  
15 tion’ means a reservation, as defined in—

16 “(A) section 3(d) of the Indian Financing  
17 Act of 1974 (25 U.S.C. 1452(d)), or

18 “(B) section 4(10) of the Indian Child  
19 Welfare Act of 1978 (25 U.S.C. 1903(10)).

20 “(5) LIMITATION BASED ON UNEMPLOY-  
21 MENT.—

22 “(A) GENERAL RULE.—The Indian res-  
23 ervation credit allowed under section 46 for any  
24 taxable year shall equal—

1                     “(i) if the Indian unemployment rate  
2                     on the applicable Indian reservation for  
3                     which the credit is sought exceeds 300 per-  
4                     cent of the national average unemployment  
5                     rate at any time during the calendar year  
6                     in which the property is placed in service  
7                     or during the immediately preceding 2 cal-  
8                     endar years, 100 percent of such credit,

9                     “(ii) if such Indian unemployment  
10                    rate exceeds 150 percent but not 300 per-  
11                    cent, 50 percent of such credit, and

12                    “(iii) if such Indian unemployment  
13                    rate does not exceed 150 percent, 0 per-  
14                    cent of such credit.

15                     “(B) SPECIAL RULE FOR LARGE  
16                     PROJECTS.—In the case of a qualified Indian  
17                     reservation property which has (or is a compo-  
18                     nent of a project which has) a projected con-  
19                     struction period of more than 2 years or a cost  
20                     of more than \$1,000,000, subparagraph (A)  
21                     shall apply by substituting ‘during the earlier of  
22                     the calendar year in which the taxpayer enters  
23                     into a binding agreement to make a qualified  
24                     investment or the first calendar year in which  
25                     the taxpayer has expended at least 10 percent

1           of the taxpayer's qualified investment, or the  
2           preceding calendar year' for 'during the cal-  
3           endar year in which the property is placed in  
4           service or during the immediately preceding 2  
5           calendar years'.

6           “(C) DETERMINATION OF INDIAN UNEM-  
7           PLOYMENT.—For purposes of this paragraph,  
8           with respect to any Indian reservation, the In-  
9           dian unemployment rate shall be based upon  
10           Indians unemployed and able to work, and shall  
11           be certified by the Secretary of the Interior.

12           “(6) COORDINATION WITH NONREVENUE  
13           LAWS.—Any reference in this subsection to a provi-  
14           sion not contained in this title shall be treated for  
15           purposes of this subsection as a reference to such  
16           provision as in effect on the date of the enactment  
17           of this paragraph.”.

18           (2) LODGING TO QUALIFY.—Paragraph (2) of  
19           section 50(b) of such Code (relating to property used  
20           for lodging) is amended—

21           (A) by striking “and” at the end of sub-  
22           paragraph (C),  
23           (B) by striking the period at the end of  
24           subparagraph (D) and inserting “; and” and

1 (C) by adding at the end thereof the fol-  
2 lowing subparagraph:

3                           “(E) new reservation construction prop-  
4                           erty.”.

5 (c) RECAPTURE.—Subsection (a) of section 50 of  
6 such Code (relating to recapture in case of dispositions,  
7 etc.), is amended by adding at the end thereof the follow-  
8 ing new paragraph:

9                   “(6) SPECIAL RULES FOR INDIAN RESERVATION  
10                   PROPERTY.—

11                   “(A) IN GENERAL.—If, during any taxable  
12                   year, property with respect to which the tax-  
13                   payer claimed an Indian reservation credit—

14 “(i) is disposed of, or

1           the tax under this chapter for such taxable year  
2           shall be increased by the amount described in  
3           subparagraph (B).

4           “(B) AMOUNT OF INCREASE.—The in-  
5           crease in tax under subparagraph (A) shall  
6           equal the aggregate decrease in the credits al-  
7           lowed under section 38 by reason of section  
8           48(c) for all prior taxable years which would  
9           have resulted had the qualified investment  
10           taken into account with respect to the property  
11           been limited to an amount which bears the  
12           same ratio to the qualified investment with re-  
13           spect to such property as the period such prop-  
14           erty was held by the taxpayer bears to the ap-  
15           plicable recovery period under section 168(g).

16           “(C) COORDINATION WITH OTHER RECAP-  
17           TURE PROVISIONS.—In the case of property to  
18           which this paragraph applies, paragraph (1)  
19           shall not apply and the rules of paragraphs (3),  
20           (4), and (5) shall apply.”.

21           (d) BASIS ADJUSTMENT TO REFLECT INVESTMENT  
22           CREDIT.—Paragraph (3) of section 50(c) of such Code  
23           (relating to basis adjustment to investment credit prop-  
24           erty) is amended by striking “energy credit or reforest-  
25           ation credit” and inserting “energy credit, reforestation

1 credit or Indian reservation credit other than with respect  
2 to any expenditure for new reservation construction prop-  
3 erty”.

4 (e) CERTAIN GOVERNMENTAL USE PROPERTY To  
5 QUALIFY.—Paragraph (4) of section 50(b) of such Code  
6 (relating to property used by governmental units or for-  
7 eign persons or entities) is amended by redesignating sub-  
8 paragraphs (D) and (E) as subparagraphs (E) and (F),  
9 respectively, and inserting after subparagraph (C) the fol-  
10 lowing new subparagraph:

11 “(D) EXCEPTION FOR RESERVATION IN-  
12 FRASTRUCTURE INVESTMENT.—This paragraph  
13 shall not apply for purposes of determining the  
14 Indian reservation credit with respect to res-  
15 ervation infrastructure investment.”.

16 (f) APPLICATION OF AT-RISK RULES.—Subpara-  
17 graph (C) of section 49(a)(1) of such Code is amended  
18 by striking “and” at the end of clause (ii), by striking  
19 the period at the end of clause (iii) and inserting “, and”,  
20 and by adding at the end the following new clause:

21 “(iv) the qualified investment in qual-  
22 fied Indian reservation property.”.

23 (g) CLERICAL AMENDMENTS.—

“Sec. 48. Energy credit; reforestation credit; Indian reservation credit.”.

8           (h) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to property placed in service after  
10 December 31, 1993.

## 11 SEC. 442. INDIAN EMPLOYMENT CREDIT.

12 (a) ALLOWANCE OF INDIAN EMPLOYMENT CRED-  
13 IT.—Section 38(b) of the Internal Revenue Code of 1986  
14 (relating to general business credits), as amended by sec-  
15 tion 412, is amended by striking “plus” at the end of  
16 paragraph (7), by striking the period at the end of para-  
17 graph (8) and inserting “, plus”, and by adding after  
18 paragraph (8) the following new paragraph:

19                   “(9) the Indian employment credit as deter-  
20                   mined under section 45(a).”.

21 (b) AMOUNT OF INDIAN EMPLOYMENT CREDIT.—  
22 Subpart D of Part IV of subchapter A of chapter 1 of  
23 such Code (relating to business related credits) is amended  
24 by adding at the end thereof the following new section:

1   **“SEC. 45. INDIAN EMPLOYMENT CREDIT.**

2       “(a) AMOUNT OF CREDIT.—

3           “(1) IN GENERAL.—For purposes of section 38,  
4           the amount of the Indian employment credit deter-  
5           mined under this section with respect to any em-  
6           ployer for any taxable year is 10 percent (30 percent  
7           in the case of an employer with at least 85 percent  
8           Indian employees throughout the taxable year) of  
9           the sum of—10           “(A) the qualified wages paid or incurred  
11           during such taxable year, plus12           “(B) qualified employee health insurance  
13           costs paid or incurred during such taxable year.14           In no event shall the amount of the Indian employ-  
15           ment credit for any taxable year exceed the credit  
16           limitation amount determined under subsection (e)  
17           for such taxable year.18           “(2) INDIAN EMPLOYEE.—For purposes of  
19           paragraph (1), the term ‘Indian employee’ means an  
20           employee who is an enrolled member of an Indian  
21           tribe or the spouse of such a member.22           “(b) QUALIFIED WAGES; QUALIFIED EMPLOYEE  
23           HEALTH INSURANCE COSTS.—For purposes of this sec-  
24           tion—

25           “(1) QUALIFIED WAGES.—

1                 “(A) IN GENERAL.—The term ‘qualified  
2                 wages’ means any wages paid or incurred by an  
3                 employer for services performed by an employee  
4                 while such employee is a qualified employee.

5                 “(B) COORDINATION WITH TARGETED  
6                 JOBS CREDIT.—The term ‘qualified wages’ shall  
7                 not include wages attributable to service ren-  
8                 dered during the 1-year period beginning with  
9                 the day the individual begins work for the em-  
10                 ployer if any portion of such wages is taken  
11                 into account in determining the credit under  
12                 section 51.

13                 “(2) QUALIFIED EMPLOYEE HEALTH INSUR-  
14                 ANCE COSTS.—

15                 “(A) IN GENERAL.—The term ‘qualified  
16                 employee health insurance costs’ means any  
17                 amount paid or incurred by an employer for  
18                 health insurance to the extent such amount is  
19                 attributable to coverage provided to any em-  
20                 ployee while such employee is a qualified em-  
21                 ployee.

22                 “(B) EXCEPTION FOR AMOUNTS PAID  
23                 UNDER SALARY REDUCTION ARRANGEMENTS.—  
24                 No amount paid or incurred for health insur-  
25                 ance pursuant to a salary reduction arrange-

1           ment shall be taken into account under sub-  
2           paragraph (A).

3           “(c) QUALIFIED EMPLOYEE.—For purposes of this  
4 section—

5           “(1) IN GENERAL.—Except as otherwise pro-  
6           vided in this subsection, the term ‘qualified em-  
7           ployee’ means, with respect to any period, any em-  
8           ployee of an employer if—

9               “(A) substantially all of the services per-  
10           formed during such period by such employee for  
11           such employer are performed within an Indian  
12           reservation,

13               “(B) the principal place of abode of such  
14           employee while performing such services is on  
15           or near the reservation in which the services are  
16           performed, and

17               “(C) the employee began work for such  
18           employer on or after January 1, 1993.

19           “(2) CREDIT ALLOWED ONLY FOR FIRST 7  
20           YEARS.—An employee shall not be treated as a  
21           qualified employee for any period after the date 7  
22           years after the day on which such employee first  
23           began work for the employer.

24           “(3) INDIVIDUALS RECEIVING WAGES IN EX-  
25           CESS OF \$30,000 NOT ELIGIBLE.—An employee shall

1 not be treated as a qualified employee for any tax-  
2 able year of the employer if the total amount of the  
3 wages paid or incurred by such employer to such  
4 employee during such taxable year (whether or not  
5 for services within an Indian reservation) exceeds  
6 the amount determined at an annual rate of  
7 \$30,000. The Secretary shall adjust the \$30,000  
8 amount contained in the preceding sentence for  
9 years beginning after 1993 at the same time and in  
10 the same manner as under section 415(d).

11 “(4) EMPLOYMENT MUST BE TRADE OR BUSI-  
12 NESS EMPLOYMENT.—An employee shall be treated  
13 as a qualified employee for any taxable year of the  
14 employer only if more than 50 percent of the wages  
15 paid or incurred by the employer to such employee  
16 during such taxable year are for services performed  
17 in a trade or business of the employer. Any deter-  
18 mination as to whether the preceding sentence ap-  
19 plies with respect to any employee for any taxable  
20 year shall be made without regard to subsection  
21 (f)(2).

22 “(5) CERTAIN EMPLOYEES NOT ELIGIBLE.—  
23 The term ‘qualified employee’ shall not include—

24 “(A) any individual described in subpara-  
25 graph (A), (B), or (C) of section 51(i)(1),

1                   “(B) any 5-percent owner (as defined in  
2                   section 416(i)(1)(B)),

3                   “(C) any individual who is neither an en-  
4                   rolled member of an Indian tribe nor the spouse  
5                   of an enrolled member of an Indian tribe, and

6                   “(D) any individual if the services per-  
7                   formed by such individual for the employer in-  
8                   volve the conduct of class I, II, or III gaming  
9                   as defined in section 4 of the Indian Gaming  
10                   Regulatory Act (25 U.S.C. 2703), or are per-  
11                   formed in a building housing such gaming ac-  
12                   tivity.

13                   “(6) INDIAN TRIBE DEFINED.—The term ‘In-  
14                   dian tribe’ means any Indian tribe, band, nation,  
15                   pueblo, or other organized group or community, in-  
16                   cluding any Alaska Native village, or regional or vil-  
17                   lage corporation, as defined in, or established pursu-  
18                   ant to, the Alaska Native Claims Settlement Act (43  
19                   U.S.C. 1601 et seq.) which is recognized as eligible  
20                   for the special programs and services provided by  
21                   the United States to Indians because of their status  
22                   as Indians.

23                   “(7) INDIAN RESERVATION DEFINED.—The  
24                   term ‘Indian reservation’ means a reservation, as de-  
25                   fined in—

1               “(A) section 3(d) of the Indian Financing  
2               Act of 1974 (25 U.S.C. 1452(d)), or  
3               “(B) section 4(10) of the Indian Child  
4               Welfare Act of 1978 (25 U.S.C. 1903 (10)).

5               “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-  
6               PLOYER.—

7               “(1) IN GENERAL.—If the employment of any  
8               employee is terminated by the taxpayer before the  
9               day 1 year after the day on which such employee  
10               began work for the employer—

11               “(A) no wages (or qualified employee  
12               health insurance costs) with respect to such em-  
13               ployee shall be taken into account under sub-  
14               section (a) for the taxable year in which such  
15               employment is terminated, and

16               “(B) the tax under this chapter for the  
17               taxable year in which such employment is ter-  
18               minated shall be increased by the aggregate  
19               credits (if any) allowed under section 38(a) for  
20               prior taxable years by reason of wages (or  
21               qualified employee health insurance costs) taken  
22               into account with respect to such employee.

23               “(2) CARRYBACKS AND CARRYOVERS AD-  
24               JUSTED.—In the case of any termination of employ-  
25               ment to which paragraph (1) applies, the carrybacks

1 and carryovers under section 39 shall be properly  
2 adjusted.

3 “(3) SUBSECTION NOT TO APPLY IN CERTAIN  
4 CASES.—

5 “(A) IN GENERAL.—Paragraph (1) shall  
6 not apply to—

7 “(i) a termination of employment of  
8 an employee who voluntarily leaves the em-  
9 ployment of the taxpayer,

10 “(ii) a termination of employment of  
11 an individual who before the close of the  
12 period referred to in paragraph (1) be-  
13 comes disabled to perform the services of  
14 such employment unless such disability is  
15 removed before the close of such period  
16 and the taxpayer fails to offer reemploy-  
17 ment to such individual, or

18 “(iii) a termination of employment of  
19 an individual if it is determined under the  
20 applicable State unemployment compensa-  
21 tion law that the termination was due to  
22 the misconduct of such individual.

23 “(B) CHANGES IN FORM OF BUSINESS.—

24 For purposes of paragraph (1), the employment

1       relationship between the taxpayer and an em-  
2       ployee shall not be treated as terminated—

3               “(i) by a transaction to which section  
4               381(a) applies if the employee continues to  
5               be employed by the acquiring corporation,  
6               or

7               “(ii) by reason of a mere change in  
8               the form of conducting the trade or busi-  
9               ness of the taxpayer if the employee con-  
10               tinues to be employed in such trade or  
11               business and the taxpayer retains a sub-  
12               stantial interest in such trade or business.

13               “(4) SPECIAL RULE.—Any increase in tax  
14               under paragraph (1) shall not be treated as a tax  
15               imposed by this chapter for purposes of—

16               “(A) determining the amount of any credit  
17               allowable under this chapter, and

18               “(B) determining the amount of the tax  
19               imposed by section 55.

20               “(e) CREDIT LIMITATION AMOUNT.—For purposes of  
21               this section—

22               “(1) CREDIT LIMITATION AMOUNT.—The credit  
23               limitation amount for a taxable year shall be an  
24               amount equal to the credit rate (10 or 30 percent

1 as determined under subsection (a)) multiplied by  
2 the increased credit base.

3       “(2) INCREASED CREDIT BASE.—The increased  
4 credit base for a taxable year shall be the excess  
5 of—

6           “(A) the sum of any qualified wages and  
7 qualified employee health insurance costs paid  
8 or incurred by the employer during the taxable  
9 year with respect to employees whose wages  
10 (paid or incurred by the employer) during the  
11 taxable year do not exceed the amount deter-  
12 mined under paragraph (3) of subsection (c),  
13 over

14           “(B) the sum of any qualified wages and  
15 qualified employee health insurance costs paid  
16 or incurred by the employer (or any prede-  
17 cessor) during calendar year 1993 with respect  
18 to employees whose wages (paid or incurred by  
19 the employer or any predecessor) during 1993  
20 did not exceed \$30,000.

21       “(3) SPECIAL RULE FOR SHORT TAXABLE  
22 YEARS.—For any taxable year having less than 12  
23 months—

1               “(A) the amounts paid or incurred by the  
2               employer shall be annualized for purposes of de-  
3               termining the increased credit base, and

4               “(B) the credit limitation amount shall be  
5               multiplied by a fraction, the numerator of which  
6               is the number of days in the taxable year and  
7               the denominator of which is 365.

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

9               For purposes of this section—

10               “(1) WAGES.—The term ‘wages’ has the same  
11               meaning given to such term in section 51.

12               “(2) CONTROLLED GROUPS.—

13               “(A) All employers treated as a single em-  
14               ployer under section (a) or (b) of section 52  
15               shall be treated as a single employer for pur-  
16               poses of this section.

17               “(B) The credit (if any) determined under  
18               this section with respect to each such employer  
19               shall be its proportionate share of the wages  
20               and qualified employee health insurance costs  
21               giving rise to such credit.

22               “(3) CERTAIN OTHER RULES MADE APPLICA-  
23               BLE.—Rules similar to the rules of section 51(k)  
24               and subsections (c), (d), and (e) of section 52 shall  
25               apply.

1           “(4) COORDINATION WITH NONREVENUE  
2 LAWS.—Any reference in this section to a provision  
3 not contained in this title shall be treated for pur-  
4 poses of this section as a reference to such provision  
5 as in effect on the date of the enactment of this  
6 paragraph.”.

7           (c) DENIAL OF DEDUCTION FOR PORTION OF WAGES  
8 EQUAL TO INDIAN EMPLOYMENT CREDIT.—

9           (1) Subsection (a) of section 280C of such Code  
10 (relating to rule for targeted jobs credit) is amended  
11 by striking “51(a)” and inserting “45(a), 51(a),  
12 and”.

13           (2) Subsection (c) of section 196 of such Code  
14 (relating to deduction for certain unused business  
15 credits) is amended by striking “and” at the end of  
16 paragraph (5), by striking the period at the end of  
17 paragraph (6) and inserting “, and”, and by adding  
18 at the end the following new paragraph:

19           “(7) the Indian employment credit determined  
20 under section 45(a).”.

21           (d) DENIAL OF CARRYBACKS TO PREENACTMENT  
22 YEARS.—Subsection (d) of section 39 of such Code is  
23 amended by adding at the end thereof the following new  
24 paragraph:

1               “(4) NO CARRYBACK OF SECTION 45 CREDIT  
2       BEFORE ENACTMENT.—No portion of the unused  
3       business credit for any taxable year which is attrib-  
4       utable to the Indian employment credit determined  
5       under section 45 may be carried to a taxable year  
6       ending before the date of the enactment of section  
7       45.”.

8               (e) CLERICAL AMENDMENT.—The table of sections  
9       for subpart D of part IV of subchapter A of chapter 1  
10      of such Code is amended by adding at the end thereof  
11      the following:

“Sec. 45. Indian employment credit.”.

12               (f) EFFECTIVE DATE.—The amendments made by  
13      this section shall apply to wages paid or incurred after  
14      December 31, 1993.

## 15               **Subtitle E—Study**

### 16   **SEC. 451. STUDY OF EFFECTIVENESS OF TAX ENTERPRISE** 17               **ZONE INCENTIVES.**

18               (a) IN GENERAL.—The Secretary of the Treasury, in  
19      consultation with the appropriate Secretary (as defined in  
20      section 1393(7) of the Internal Revenue Code of 1986,  
21      as added by this title), shall contract within 3 months of  
22      the date of the enactment of this Act, with the National  
23      Academy of Sciences (hereafter in this section referred to  
24      as the “Academy”) to conduct a study of the relative effec-

1 tiveness of the incentives provided by this title in achieving  
2 the purposes of such title in tax enterprise zones.

3 (b) CONDUCT OF STUDY.—If the Academy contracts  
4 for the conduct of the study described in subsection (a),  
5 the Academy shall develop a study methodology and shall  
6 oversee and manage the conduct of such study.

7 (c) REPORTS.—The Academy shall submit to the  
8 Committee on Ways and Means of the House of Rep-  
9 resentatives and the Committee on Finance of the Sen-  
10 ate—

11 (1) not later than July 1, 1997, an interim re-  
12 port setting forth the findings as a result of such  
13 study, and

14 (2) not later than July 1, 2002, a final report  
15 setting forth the findings as a result of such study.

## 16 **TITLE V—WORKFARE**

### 17 **SEC. 501. DEVELOPMENT OF A COMPREHENSIVE LEGISLA-** 18 **TIVE PROPOSAL REQUIRING ADULTS RECEIV-** 19 **ING AFDC TO ENTER THE WORKFORCE.**

20 (a) IN GENERAL.—The Secretary of Labor (herein-  
21 after referred to as the “Secretary”), in consultation with  
22 the Secretary of Health and Human Services shall develop  
23 a comprehensive legislative proposal which would require  
24 adults receiving aid to families with dependent children  
25 under title IV of the Social Security Act (hereinafter re-

1 ferred to as "AFDC") to enter the workforce within two  
2 years of receiving such aid.

3 (b) SPECIFIC MATTERS TO BE INCLUDED.—The  
4 proposal developed pursuant to subsection (a) shall include  
5 plans—

6 (1) for education, training, and child care which  
7 would permit adults receiving AFDC to gain the  
8 skills necessary to become financially independent;

9 (2) to assist adults receiving AFDC in finding  
10 employment in the private sector; and

11 (3) providing for placement in meaningful com-  
12 munity service jobs for those adults receiving AFDC  
13 who cannot find employment in the private sector.

14 (c) REPORT.—No later then one hundred days after  
15 January 20, 1994, the Secretary shall submit the proposal  
16 developed pursuant to subsection (a) to the Congress.

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