

103D CONGRESS  
1ST SESSION

# S. 102

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 SENATE OF THE UNITED STATES

JANUARY 21 (legislative day, JANUARY 5), 1993

Mr. MACK (for himself, Mr. BOND, Mr. BURNS, Mr. COATS, Mr. D'AMATO, Mr. GRAMM, Mr. CRAIG, Mr. GRASSLEY, Mr. HELMS, Mr. MURKOWSKI, Mr. NICKLES, Mr. SMITH, Mr. THURMOND, Mr. GORTON, Mr. BROWN, Mr. WALLOP, Mr. KEMPTHORNE, Mr. BENNETT, Mr. LOTT, Mr. DOLE, and Mr. COVERDELL) introduced the following bill; which was read twice and referred to the Committee on Finance

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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,*

### 3       **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 SENATE

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 Senate from the House of Representatives shall be consid-  
19 ered in the Senate pursuant to this section.

20 “(b) FLOOR CONSIDERATION IN THE SENATE.—

21 “(1) Debate in the Senate on any rescission dis-  
22 approval bill and debatable motions and appeals in  
23 connection therewith, shall be limited to not more  
24 than 10 hours, with the time equally divided be-  
25 tween, and controlled by, the majority leader and the  
26 minority leader or their designees.

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

9           “(B) Such leaders, or either of them, may, from  
10 the time under their control on the passage of the  
11 bill, allot additional time to any Senator during the  
12 consideration of any debatable motion or appeal.

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

19           “(c) POINT OF ORDER.—(1) It shall not be in order  
20 in the Senate or the House of Representatives to consider  
21 any rescission disapproval bill that relates to any matter  
22 other than the rescission of budget authority transmitted  
23 by the President under section 1101.

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

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

## 7 TITLE II—CAPITAL GAINS

8 SEC. 201. DEDUCTION FOR CAPITAL GAINS ON CERTAIN  
9 SMALL BUSINESS STOCK.

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

“Sec. 1301. Deduction for gain on certain small business stock.  
“Sec. 1302. Definitions and special rules.

16 "SEC. 1301. DEDUCTION FOR GAIN ON CERTAIN SMALL  
17 BUSINESS STOCK.

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

22                   “(1) 50 percent of the excess (if any) of—

23                         “(A) qualified small business net capital  
24                         gain, over

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

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

6                   “(1) the net capital gain for the taxable year,  
 7                   or

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

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

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

20                   “(2) COMPUTATION OF AMOUNT.—The seed  
 21 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
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—

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

1                         “(i) the seed capital gain, or

2                         “(ii) the seed capital gain determined

3                         by taking into account under paragraph

4                         (3)(B) only gain or loss from qualified

5                         small business stock with a holding period

6                         of more than 10 years at the time of the

7                         sale or exchange.

8                         “(B) OTHER GAIN.—The terms ‘5-, 6-, 7-

9                         , 8-, and 9-year gain’ mean, with respect to

10                         any category, the lesser of—

11                         “(i) the excess (if any) of—

12                         “(I) seed capital gain, over

13                         “(II) the amount determined

14                         under this paragraph for categories

15                         with a longer holding period, or

16                         “(ii) seed capital gain determined by

17                         taking into account under paragraph

18                         (3)(B) only gain or loss from qualified

19                         small business stock with a holding period

20                         of more than 5, 6, 7, 8, or 9 years but not

21                         more than 6, 7, 8, 9, or 10 years, respec-

22                         tively.

23                         “(d) ESTATES AND TRUSTS.—In the case of an es-

24                         tate or trust, the deduction under subsection (a) shall be

25                         computed by excluding the portion (if any) of the gains

1 for the taxable year from sales or exchanges of qualified  
2 small business stock which, under section 652 and 662  
3 (relating to inclusions of amounts in gross income of bene-  
4 ficiaries of trusts), is includible by the income beneficiaries  
5 as gains derived from the sale or exchange of capital as-  
6 sets.

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

8       “(a) **QUALIFIED SMALL BUSINESS STOCK.**—For pur-  
9 poses of this part—

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

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

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

20           “(i) in exchange for money or other  
21 property (not including stock), or

22           “(ii) as compensation for services  
23 (other than services performed as an un-  
24 derwriter of such stock).

1           “(2) 5-YEAR ACTIVE BUSINESS REQUIRE-  
2        MENT.—Stock in a corporation shall not be treated  
3        as qualified small business stock unless, during the  
4        testing period, such corporation meets the active  
5        business requirements of subsection (c).

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

11           “(i) it is issued directly or indirectly in re-  
12        demption of, or otherwise in exchange for, stock  
13        which is not qualified small business stock, or

14           “(ii) it is issued in an exchange described  
15        in section 351 in exchange for property other  
16        than qualified small business stock, if imme-  
17        diately after the exchange, both the issuer and  
18        transferee of the stock are members of the  
19        same controlled group of corporations (as de-  
20        fined in section 1563).

21           “(b) QUALIFIED SMALL BUSINESS.—For purposes of  
22        this part—

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

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

5                   “(B) the accumulated earnings and profits  
6 of the corporation,

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

11                  “(2) AMOUNT TAKEN INTO ACCOUNT WITH RE-  
12 SPECT TO PROPERTY AND SERVICES.—For purposes  
13 of paragraph (1)—

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

24                  “(B) COMPENSATION FOR SERVICES.—The  
25 amount taken into account with respect to stock

1 issued for services shall be the value of such  
2 services.

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

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

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

10 “(B) substantially all of the assets of such  
11 corporation are used in the active conduct of a  
12 trade or business.

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

17 “(A) start-up activities described in section  
18 195(c)(1)(A),

19 “(B) activities resulting in the payment or  
20 incurring of expenditures which may be treated  
21 as research and experimental expenditures  
22 under section 174, or

23 “(C) activities with respect to in-house re-  
24 search expenses described in section 41(b)(4),

1       such corporation shall be treated with respect to  
2       such activities as engaged in (and assets used in  
3       such activities shall be treated as used in) the active  
4       conduct of a trade or business. Any determination  
5       under this paragraph shall be made without regard  
6       to whether a corporation has any gross income from  
7       such activities at the time of the determination.

8       “(3) STOCK IN OTHER CORPORATIONS.—

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

16       “(B) PORTFOLIO STOCK.—A corporation  
17       shall be treated as failing to meet the require-  
18       ments of paragraph (1) if, at any time during  
19       the testing period, more than 10 percent of the  
20       value of its assets (in excess of liabilities) con-  
21       sist of stock in other corporations which are not  
22       subsidiaries of such corporation.

23       “(C) SUBSIDIARY.—For purposes of this  
24       paragraph, a corporation shall be considered a  
25       subsidiary if the parent owns at least 50 per-

1           cent of the combined voting power of all classes  
2           of stock entitled to vote, or at least 50 percent  
3           in value of all outstanding stock of such cor-  
4           poration.

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

7               “(A) are held for investment, and  
8               “(B) are to be used to finance future re-  
9               search and experimentation or working capital  
10              needs of the corporation,

11           shall be treated as used in the active conduct of a  
12           trade or business.

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

23           “(6) SMALL BUSINESS INVESTMENT COMPANIES.—Paragraph (1) shall not apply to any small

1 business investment company operating under the  
2 Small Business Investment Act of 1958.

3 “(7) COMPUTER SOFTWARE ROYALTIES.—For  
4 purposes of paragraph (1), rights to computer soft-  
5 ware which produces income described in section  
6 543(d) shall be treated as an asset used in the active  
7 conduct of a trade or business.

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

13 “(d) SPECIAL RULES FOR OPTIONS, WARRANTS, AND  
14 CERTAIN CONVERTIBLE INVESTMENTS.— For purposes  
15 of this part—

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

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

24 “(B) such stock shall be treated as having  
25 been held during the period such option, war-

1                   rant, or debt was held, or such security was  
2                   outstanding.

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

10                   “(A) the principal amount of the debt or  
11                   security as of the time of the conversion or ex-  
12                   change, and

13                   “(B) accrued but unpaid interest on such  
14                   loan or security.

15                   “(3) APPLICABLE OPTION OR WARRANT.—For  
16                   purposes of this subsection, the term ‘applicable op-  
17                   tion or warrant’ means an option or warrant  
18                   which—

19                   “(A) was issued in exchange for the per-  
20                   formance of services for the corporation issuing  
21                   it, and

22                   “(B) is nontransferrable.

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

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

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

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

10          “(2) TRANSFERS TO WHICH SUBSECTION AP-  
11 PLIES.—This subsection shall apply to any trans-  
12 fer—

13           “(A) by gift,

14           “(B) at death,

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

20           “(D) of qualified small business stock for  
21 other qualified small business stock in a trans-  
22 action described in section 351 or a reorganiza-  
23 tion described in section 368.

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

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

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

17                 “(C) SUCCESSIVE APPLICATION.—For pur-  
18                 poses of this paragraph, stock treated as qual-  
19                 ified small business stock under subparagraph  
20                 (A) shall be so treated for subsequent trans-  
21                 actions or reorganizations, except that the limi-  
22                 tation of subparagraph (B) shall be applied as  
23                 of the time of the first transfer to which sub-  
24                 paragraph (A) applied.

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

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

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

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

19                 “(g) PASS-THRU ENTITIES.—For purposes of this  
20          part, any gain or loss of a pass-thru entity which is treated  
21          for purposes of this subtitle as a gain or loss of any person  
22          holding an interest in such entity shall retain its character  
23          as qualified small business or seed capital gain or loss in  
24          the hands of such person.

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

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

11       (b) MAXIMUM 14 PERCENT TAX RATE.—

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

15       “(h) MAXIMUM CAPITAL GAINS RATE.—

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

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

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

24                   “(ii) the amount of taxable income  
25 taxed at a rate below 28 percent, plus

1               “(B) a tax of 28 percent of the amount of  
2               taxable income in excess of the amount deter-  
3               mined under subparagraph (A).

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

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

12              “(i) the amount determined under  
13              paragraph (1), or

14              “(ii) the sum of—

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

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

24              “(B) DEFINITIONS.—For purposes of this  
25              paragraph, the terms ‘qualified small business

1           net capital gain' and 'seed capital gain' have  
2           the meanings given such terms by section 1301  
3           (b) and (c), respectively.'.

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

7                   (A) by inserting "or the corporation has a  
8                   qualified small business net capital gain or seed  
9                   capital gain" before "then", and

10                   (B) by striking paragraph (2) and insert-  
11                   ing:

12                   "(2) a tax equal to the sum of—

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

16                        "(B) 17 percent of the qualified small  
17                        business net capital gain and seed capital  
18                        gain.".

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

24                   "(8) CAPITAL GAINS ON SALE OF CERTAIN  
25                   SMALL BUSINESS STOCK.—An amount equal to the

1 deduction for the taxable year determined under sec-  
2 tion 1301(a)(1).”.

3 (d) LOSSES ON SMALL BUSINESS STOCK.—Section  
4 1244(c)(3)(A) of such Code (defining small business cor-  
5 poration) is amended by striking “\$1,000,000” and insert-  
6 ing “\$5,000,000 (adjusted at the same time and manner  
7 as under section 1302(g))”.

8 (e) CONFORMING AMENDMENTS.—

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

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

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

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

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

23 “(A) the amount deductible on account of  
24 losses from sales or exchanges of capital assets  
25 shall not exceed the amount includible on ac-

1           count of gains from sales or exchanges of cap-  
2           ital assets; and

3           “(B) the deduction for long-term capital  
4           gains provided by section 1301 shall not be al-  
5           lowed.”.

6           (4) Subparagraph (B) of section 172(d)(4) of  
7           such Code is amended by inserting “, (2)(B),” after  
8           “paragraph (1)”.

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

11          **“SEC. 220. CROSS REFERENCES.**

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

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

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

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

23          “(4) ADJUSTMENTS.—To the extent that the  
24          amount otherwise allowable as a deduction under  
25          this subsection consists of gain from the sale or ex-

1 change of qualified small business stock held for  
2 more than 5 years, proper adjustment shall be made  
3 for any deduction allowable to the estate or trust  
4 under section 1301 (relating to deduction for excess  
5 of capital gains over capital losses). In the case of  
6 a trust, the deduction allowed by this subsection  
7 shall be subject to section 681 (relating to unrelated  
8 business income).”.

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

15 (8) Paragraph (4) of section 691(c) of such  
16 Code is amended by striking out “1(h), 1201, and  
17 1211” and inserting in lieu thereof “1(h), 1201,  
18 1211, and 1301, and for purposes of section  
19 57(a)(8)”.

20 (9) Clause (iii) of section 852(b)(3)(D) of such  
21 Code is amended by striking out “66 percent” and  
22 inserting “the rate differential portion (within the  
23 meaning of section 904(b)(3)(E))”.

24 (10) The second sentence of paragraph (2) of  
25 section 871(a) of such Code is amended by inserting

1       “such gains and losses shall be determined without  
2       regard to section 1301 (relating to deduction for  
3       qualified small business net capital gains) and” after  
4       “except that”.

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

7           “(1) IN GENERAL.—In determining the net  
8       earnings from self-employment of any options dealer  
9       or commodities dealer—

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

16           “(B) the deduction provided by section  
17       1301 shall not apply.”.

18           (12) Section 1445(e)(1) of such Code is amend-  
19       ed by striking out “34 percent (or, to the extent pro-  
20       vided in regulations, 28 percent)” and inserting “34  
21       percent (or, to the extent provided in regulations,  
22       the alternative tax rate determined under section  
23       904(b)(3)(E)(iii))”.

24           (f) EFFECTIVE DATE.—

6 (A) IN GENERAL.—If—

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

15 (ii) the value of such stock on such  
16 date exceeds its adjusted basis.

17 the taxpayer may elect to treat such stock as  
18 having been sold on such date for an amount  
19 equal to its value on such date (and as having  
20 been reacquired on such date for an amount  
21 equal to such value). The gain from such sale  
22 shall be treated as received or accrued (and the  
23 holding period of the reacquired stock shall be  
24 treated as beginning) on such date. For pur-  
25 poses of applying section 1301 of such Code,

1           such stock shall be treated after such reacquisi-  
2           tion as acquired in the same manner and at the  
3           same time as the original acquisition and the  
4           requirement of section 1302(a)(1) that the  
5           stock must have been issued after December  
6           31, 1993, shall not apply.

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

## 12           **TITLE III—SOCIAL SECURITY** 13                           **EARNINGS TEST**

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

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

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

23           “(i) \$925 for each month of any taxable year  
24           ending after 1992 and before 1994,

1               “(ii) \$1,020 for each month of any taxable year  
2               ending after 1993 and before 1995,

3               “(iii) \$1,130 for each month of any taxable  
4               year ending after 1994 and before 1996,

5               “(iv) \$1,450 for each month of any taxable year  
6               ending after 1995 and before 1997,

7               “(v) \$1,750 for each month of any taxable year  
8               ending after 1996 and before 1998,

9               “(vi) \$2,250 for each month of any taxable year  
10               ending after 1997 and before 1999,

11               “(vii) \$2,670 for each month of any taxable  
12               year ending after 1998 and before 2000,

13               “(viii) \$3,500 for each month of any taxable  
14               year ending after 1999 and before 2001, and

15               “(ix) \$4,250 for each month of any taxable year  
16               ending after 2000 and before 2002.”.

17               (b)           CONFORMING           AMENDMENT.—Section  
18 203(f)(8)(B)(ii)(II)    of    such    Act    (42    U.S.C.  
19 403(f)(8)(B)(ii)(II))    is    amended    by    striking    “for    the    cal-  
20 endar    year    before    the    most    recent    calendar    year    in    which  
21    an    increase    in    the    exempt    amount    was    enacted    or    a    deter-  
22    mination    resulting    in    such    an    increase    was    made    under  
23    subparagraph    (A)”    and    inserting    “for    the    second    calendar  
24    year    before    the    calendar    year    in    which    the    determination  
25    under    subparagraph    (A)    is    made”.

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

4 **SEC. 302. REDUCTION FACTOR WITH RESPECT TO CERTAIN**  
5                   **EARNINGS LOWERED TO 25 PERCENT.**

6       (a) IN GENERAL.—Section 203(f)(3) of the Social  
7 Security Act (42 U.S.C. 403(f)(3)) is amended by striking  
8 “33½ percent” and all that follows through “paragraph  
9 (8)” and inserting “equal to the sum of (A) 25 percent  
10 of so much of his earnings for such year in excess of the  
11 product of the applicable exempt amount as determined  
12 under paragraph (8) as does not exceed \$5,000, and (B)  
13 33½ percent of so much of such earnings in excess of  
14 such product as exceeds \$5,000.”.

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

18 **TITLE IV—URBAN TAX ENTER-  
19                   PRISE ZONES AND RURAL DE-  
20                   VELOPMENT       INVESTMENT  
21                   ZONES**

22 **SEC. 401. STATEMENT OF PURPOSE.**

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

5 (2) to promote meaningful employment for tax  
6 enterprise zone residents, and

## **Subtitle A—Designation and Tax Incentives**

11 SEC. 411. DESIGNATION AND TREATMENT OF URBAN TAX  
12 ENTERPRISE ZONES AND RURAL DEVELOP-  
13 MENT INVESTMENT ZONES.

14 (a) IN GENERAL.—Chapter 1 of the Internal Reve-  
15 nue Code of 1986 (relating to normal taxes and surtaxes)  
16 is amended by inserting after subchapter T the following  
17 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.

1   **“SEC. 1391. DESIGNATION PROCEDURE.**

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

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

8           “(2) designated by—

9               “(A) the Secretary of Housing and Urban  
10   Development in the case of an urban tax enter-  
11   prise zone, or

12               “(B) the Secretary of Agriculture, in con-  
13   sultation with the Secretary of Commerce, in  
14   the case of a rural development investment  
15   zone.

16       “(b) NUMBER OF DESIGNATIONS.—

17           “(1) AGGREGATE LIMIT.—The appropriate Sec-  
18   retaries may designate in the aggregate 50 nomi-  
19   nated areas as tax enterprise zones under this sec-  
20   tion, subject to the availability of eligible nominated  
21   areas. Not more than 25 urban tax enterprise zones  
22   may be designated and not more than 25 rural de-  
23   velopment investment zones may be designated.  
24   Such designations may be made only during cal-  
25   endar years after 1992 and before 1998.

26           “(2) ANNUAL LIMITS.—

1                   “(A) URBAN TAX ENTERPRISE ZONES.—

2                   The number of urban tax enterprise zones des-  
3                   gnated under paragraph (1)—

4                   “(i) before 1995 shall not exceed 8,

5                   “(ii) before 1996 shall not exceed 15,  
6                   and

7                   “(iii) before 1997 shall not exceed 21.

8                   “(B) RURAL DEVELOPMENT INVESTMENT  
9                   ZONES.—The number of rural development in-  
10                   vestment zones designated under paragraph  
11                   (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                   “(3) ADVANCE DESIGNATIONS PERMITTED.—  
17                   For purposes of this subchapter, a designation dur-  
18                   ing any calendar year shall be treated as made on  
19                   January 1 of the following calendar year if the ap-  
20                   propriate Secretary, in making such designation,  
21                   specifies that such designation is effective as of such  
22                   January 1.

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

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

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

6               “(B) to provide assurances satisfactory to  
7 the appropriate Secretary that the commit-  
8 ments under section 1392(c) will be fulfilled,

9               “(2) a nomination of the area is submitted  
10 within a reasonable time before the calendar year for  
11 which designation as a tax enterprise zone is sought  
12 (or, if later, a reasonable time after the date of the  
13 enactment of this subchapter),

14               “(3) the appropriate Secretary determines that  
15 any information furnished is reasonably accurate,  
16 and

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

21               “(d) PERIOD FOR WHICH DESIGNATION IS IN EF-  
22 FECT.—

23               “(1) IN GENERAL.—Any designation of an area  
24 as a tax enterprise zone shall remain in effect during

1 the period beginning on the date of the designation  
2 and ending on the earliest of—

3 “(A) December 31 of the 15th calendar  
4 year following the calendar year in which such  
5 date occurs,

6 “(B) the termination date designated by  
7 the State and local governments as provided for  
8 in their nomination, or

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

11 “(2) REVOCATION OF DESIGNATION.—

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

17 “(i) has modified the boundaries of  
18 the area, or

19 “(ii) is not complying substantially  
20 with the State and local commitments pur-  
21 suant to section 1392(c).

22 “(B) APPLICABLE PROCEDURES.—A des-  
23 ignation may be revoked by the appropriate  
24 Secretary under subparagraph (A) only after a

1           hearing on the record involving officials of the  
2           State or local government involved.

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

4        “(a) IN GENERAL.—The appropriate Secretary may  
5   make a designation of any nominated area under section  
6   1391 only on the basis of the eligibility and selection cri-  
7   teria set forth in this section.

8        “(b) ELIGIBILITY CRITERIA.—

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

13           “(A) POPULATION.—The nominated area  
14   has a population (as determined by the most re-  
15   cent census data available) of not less than  
16   4,000.

17           “(B) DISTRESS.—The nominated area is  
18   one of pervasive poverty, unemployment, and  
19   general distress.

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

21            “(i) does not exceed 20 square miles,

22            “(ii) has a boundary which is continu-  
23   ous, or consists of not more than 3 non-  
24   contiguous parcels within the same metro-  
25   politan area,

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

3                   “(iv) does not include any portion of  
4                   a central business district (as such term is  
5                   used for purposes of the most recent Cen-  
6                   sus of Retail Trade).

7                   “(D) UNEMPLOYMENT RATE.—The unem-  
8                   ployment rate (as determined by the appro-  
9                   priate available data) is not less than 1.5 times  
10                   the national unemployment rate.

11                   “(E) POVERTY RATE.—The poverty rate  
12                   (as determined by the most recent census data  
13                   available) for not less than 90 percent of the  
14                   population census tracts (or where not tracted,  
15                   the equivalent county divisions as defined by  
16                   the Bureau of the Census for the purposes of  
17                   defining poverty areas) within the nominated  
18                   area is not less than 20 percent.

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

23                   “(2) RURAL DEVELOPMENT INVESTMENT  
24                   ZONES.—A nominated area which is a rural area

1 shall be eligible for designation under section 1391  
2 only if it meets the following criteria:

3                 “(A) POPULATION.—The nominated area  
4                 has a population (as determined by the most re-  
5                 cent census data available) of not less than  
6                 1,000.

7                 “(B) DISTRESS.—The nominated area is  
8                 one of general distress.

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

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

12                 “(ii) consists of areas within not more  
13                 than 4 contiguous counties,

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

17                 “(iv) is located entirely within 1  
18                 State.

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

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

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

1                     “(iii) JOB LOSS.—The amount of  
2                     wages attributable to employment in the  
3                     area, and subject to tax under section  
4                     3301 during the preceding calendar year,  
5                     is not more than 95 percent of such wages  
6                     during the 5th preceding calendar year.

7                     “(iv) OUT-MIGRATION.—The popu-  
8                     lation of the area decreased (as determined  
9                     by the most recent census data available)  
10                    by 10 percent or more between 1980 and  
11                    1990.

12                    “(E) COURSE OF ACTION.—There has been  
13                    adopted for the nominated area a course of ac-  
14                    tion which meets the requirements of subsection  
15                    (c).

16                    “(3) AREAS WITHIN INDIAN RESERVATIONS IN-  
17                    ELIGIBLE.—A nominated area shall not be eligible  
18                    for designation under section 1391 if any portion of  
19                    such area is within an Indian reservation.

20                    “(c) REQUIRED STATE AND LOCAL COURSE OF AC-  
21                    TION.—

22                    “(1) IN GENERAL.—No nominated area may be  
23                    designated as a tax enterprise zone unless the local  
24                    government and the State in which it is located  
25                    agree in writing that, during any period during

1       which the area is a tax enterprise zone, the govern-  
2       ments will follow a specified course of action de-  
3       signed to reduce the various burdens borne by em-  
4       ployers or employees in the area.

5           “(2) COURSE OF ACTION.—The course of action  
6       under paragraph (1) may be implemented by both  
7       governments and private nongovernmental entities,  
8       may not be funded from proceeds of any Federal  
9       program (other than discretionary proceeds), and  
10       may include—

11           “(A) a certification by the State insurance  
12       commissioner (or similar State official) that  
13       basic commercial property insurance of a type  
14       comparable to that insurance generally in force  
15       in urban or rural areas, whichever is applicable,  
16       throughout the State is available to businesses  
17       within the tax enterprise zone,

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

20           “(C) an increase in the level, or efficiency  
21       of delivery, of local public services within the  
22       tax enterprise zone,

23           “(D) actions to reduce, remove, simplify,  
24       or streamline government paperwork require-  
25       ments applicable within the tax enterprise zone,

1                   “(E) the involvement in the program by  
2                   public authorities or private entities, organiza-  
3                   tions, neighborhood associations, and commu-  
4                   nity groups, particularly those within the nomi-  
5                   nated area, including a written commitment to  
6                   provide jobs and job training for, and technical,  
7                   financial, or other assistance to, employers, em-  
8                   ployees, and residents of the nominated area,

9                   “(F) the giving of special preference to  
10                  contractors owned and operated by members of  
11                  any socially and economically disadvantaged  
12                  group (within the meaning of section 8(a) of  
13                  the Small Business Act (15 U.S.C. 637(a))),

14                  “(G) the gift (or sale at below fair market  
15                  value) of surplus land in the tax enterprise zone  
16                  to neighborhood organizations agreeing to oper-  
17                  ate a business on the land,

18                  “(H) the establishment of a program  
19                  under which employers within the tax enterprise  
20                  zone may purchase health insurance for their  
21                  employees on a pooled basis,

22                  “(I) the establishment of a program to en-  
23                  courage local financial institutions to satisfy  
24                  their obligations under the Community Rein-  
25                  vestment Act of 1977 (12 U.S.C. 2901 et seq.)

1 by making loans to enterprise zone businesses,  
2 with emphasis on startup and other small-busi-  
3 ness concerns (as defined in section 3(a) of the  
4 Small Business Act (15 U.S.C. 632(a))),

5 “(J) the giving of special preference to  
6 qualified low-income housing projects located in  
7 tax enterprise zones, in the allocation of the  
8 State housing credit ceiling applicable under  
9 section 42, and

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

14 “(3) RECOGNITION OF PAST EFFORTS.—In  
15 evaluating courses of action agreed to by any State  
16 or local government, the appropriate Secretary shall  
17 take into account the past efforts of the State or  
18 local government in reducing the various burdens  
19 borne by employers and employees in the area in-  
20 volved.

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

23 “(A) IN GENERAL.—The course of action  
24 implemented under paragraph (1) may not in-

1       clude any action to assist any establishment in  
2       relocating from one area to another area.

3           “(B) EXCEPTION.—The limitation estab-  
4       lished in subparagraph (A) shall not be con-  
5       strued to prohibit assistance for the expansion  
6       of an existing business entity through the estab-  
7       lishment of a new branch, affiliate, or subsidi-  
8       ary if—

9               “(i) the establishment of the new  
10      branch, affiliate, or subsidiary will not re-  
11      sult in an increase in unemployment in the  
12      area of original location or in any other  
13      area where the existing business entity  
14      conducts business operations, and

15               “(ii) there is no reason to believe that  
16      the new branch, affiliate, or subsidiary is  
17      being established with the intention of clos-  
18      ing down the operations of the existing  
19      business entity in the area of its original  
20      location or in any other area where the ex-  
21      isting business entity conducts business op-  
22      erations.

23           “(d) SELECTION CRITERIA.—From among the nomi-  
24      nated areas eligible for designation under subsection (b)  
25      by the appropriate Secretary, such appropriate Secretary

1 shall make designations of tax enterprise zones on the  
2 basis of the following factors (each of which is to be given  
3 equal weight):

4           “(1) STATE AND LOCAL COMMITMENTS.—The  
5           strength and quality of the commitments which have  
6           been promised as part of the course of action rel-  
7           ative to the fiscal ability of the nominating State  
8           and local governments.

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

18           “(3) PRIVATE COMMITMENTS.—The level of  
19          commitments by private entities of additional re-  
20          sources and contributions to the economy of the  
21          nominated area, including the creation of new or ex-  
22          panded business activities.

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

1                   “(A) the criteria set forth in subparagraphs (D) and (E) of subsection (b)(1), in the  
2                   case of an area which is not a rural area, or  
3

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

7                   “(5) REVITALIZATION POTENTIAL.—The potential  
8                   for the revitalization of the nominated area as  
9                   a result of zone designation, taking into account  
10                   particularly the number of jobs to be created and re-  
11                   tained.

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

13                   For purposes of this subchapter—

14                   “(1) URBAN TAX ENTERPRISE ZONE.—The  
15                   term ‘urban tax enterprise zone’ means a tax enter-  
16                   prise zone which meets the requirements of section  
17                   1392(b)(1).

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

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

1           “(4) LOCAL GOVERNMENT.—The term ‘local  
2        government’ means—

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

6               “(B) any combination of political subdivi-  
7        sions described in subparagraph (A) recognized  
8        by the appropriate Secretary.

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

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

16               “(A) outside of a metropolitan statistical  
17       area (within the meaning of section  
18       143(k)(2)(B)), or

19               “(B) determined by the Secretary of Agri-  
20       culture, after consultation with the Secretary of  
21       Commerce, to be a rural area.

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

1               “(A) the Secretary of Housing and Urban  
2               Development in the case of urban tax enterprise  
3               zones, and

4               “(B) the Secretary of Agriculture in the  
5               case of rural development investment zones.

6               “(8) STATE-CHARTERED DEVELOPMENT COR-  
7               PORATIONS.—An area shall be treated as nominated  
8               by a State and a local government if it is nominated  
9               by an economic development corporation chartered  
10               by the State.

11               **“PART II—INCENTIVES FOR TAX ENTERPRISE**

12               **ZONES**

“SUBPART A. Enterprise zone employment credit.

“SUBPART B. Investment incentives.

“SUBPART C. Regulations.

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

“Sec. 1394. Enterprise zone employment credit.

“Sec. 1395. Other definitions and special rules.

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

15               “(a) AMOUNT OF CREDIT.—For purposes of section  
16 38, the amount of the enterprise zone employment credit  
17 determined under this section with respect to any em-  
18 ployer for any taxable year is 15 percent of the qualified  
19 zone wages paid or incurred during such taxable year.

20               “(b) QUALIFIED ZONE WAGES.—

21               “(1) IN GENERAL.—For purposes of this sec-  
22 tion, the term ‘qualified zone wages’ means any

1       wages paid or incurred by an employer for services  
2       performed by an employee while such employee is a  
3       qualified zone employee.

4       “(2) ONLY FIRST \$20,000 OF WAGES PER YEAR  
5       TAKEN INTO ACCOUNT.—With respect to each quali-  
6       fied zone employee, the amount of qualified zone  
7       wages which may be taken into account for the tax-  
8       able year shall not exceed \$20,000.

9       “(3) COORDINATION WITH TARGETED JOBS  
10      CREDIT.—The term ‘qualified zone wages’ shall not  
11      include wages attributable to service rendered during  
12      the 1-year period beginning with the day the individ-  
13      ual begins work for the employer if any portion of  
14      such wages is taken into account in determining the  
15      credit under section 51.

16      “(c) QUALIFIED ZONE EMPLOYEE.—For purposes of  
17      this section—

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

22           “(A) substantially all of the services per-  
23           formed during such period by such employee for  
24           such employer are performed within a tax en-

6           “(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—

7       The term 'qualified zone employee' shall not in-  
8       clude—

9                   “(A) any individual described in subparagraph-  
10                   graph (A), (B), or (C) of section 51(i)(1),

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

13                             “(C) any individual employed by the em-  
14                             ployer at any facility described in section  
15                             144(c)(6)(B), and

16                   “(D) any individual employed by the em-  
17                   ployer in a trade or business the principal activ-  
18                   ity of which is farming (within the meaning of  
19                   subparagraphs (A) or (B) of section  
20                   2032A(e)(5)), but only if, as of the close of the  
21                   taxable year, the sum of—

1                         “(ii) the aggregate value of assets  
2                         leased by the employer which are used in  
3                         such a trade or business (as determined  
4                         under regulations prescribed by the Sec-  
5                         retary),  
6                         exceeds \$500,000.

7             “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-  
8             PLOYER.—

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

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

17             “(B) the tax under this chapter for the  
18            taxable year in which such employment is ter-  
19            minated shall be increased by the aggregate  
20            credits (if any) allowed under section 38(a) for  
21            prior taxable years by reason of wages 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       **“SEC. 1395. OTHER DEFINITIONS AND SPECIAL RULES.**

21               “(a) WAGES.—For purposes of this subpart, the term  
22       ‘wages’ has the same meaning as when used in section  
23       51.

24               “(b) CONTROLLED GROUPS.—For purposes of this  
25       subpart—

1           “(1) all employers treated as a single employer  
2       under subsection (a) or (b) of section 52 shall be  
3       treated as a single employer for purposes of this  
4       subpart, and

5           “(2) the credit (if any) determined under sec-  
6       tion 1394 with respect to each such employer shall  
7       be its proportionate share of the wages giving rise  
8       to such credit.

9           “(c) CERTAIN OTHER RULES MADE APPLICABLE.—  
10   For purposes of this subpart, rules similar to the rules  
11   of section 51(k) and subsections (c), (d), and (e) of section  
12   52 shall apply.

13           “(d) NOTICE OF AVAILABILITY OF ADVANCE PAY-  
14   MENT OF EARNED INCOME CREDIT.—Each employer  
15   shall take reasonable steps to notify all qualified zone em-  
16   ployees of the availability to eligible individuals of receiv-  
17   ing advanced payments of the credit under section 32 (re-  
18   lating to the earned income credit).

19           **“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.

1   **“SEC. 1396. DEDUCTION FOR PURCHASE OF ENTERPRISE**2                   **ZONE STOCK.**

3               “(a) GENERAL RULE.—In the case of an individual,  
4 there shall be allowed as a deduction an amount equal to  
5 50 percent of the aggregate amount paid in cash by the  
6 taxpayer during the taxable year for the purchase of enter-  
7 prise zone stock.

## 8               “(b) LIMITATION.—

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

13               “(A) \$25,000, or

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

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

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

23               “(B) the deduction allowed for any taxable  
24 year shall be allocated proportionately among  
25 the enterprise zone stock purchased by such

1           person on the basis of the respective purchase  
2           prices per share.

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

12           “(c) ENTERPRISE ZONE STOCK.—For purposes of  
13           this section—

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

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

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

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

22           “(A) IN GENERAL.—Such term shall in-  
23           clude such stock only to the extent that the pro-  
24           ceeds of such issuance are used by such issuer  
25           during the 12-month period beginning on the

1 date of issuance to purchase (as defined in sec-  
2 tion 179(d)(2)) qualified enterprise zone prop-  
3 erty.

13                 “(3) REDEMPTIONS.—The term ‘enterprise  
14 zone stock’ shall not include any stock acquired from  
15 a corporation which made a substantial stock re-  
16 demption or distribution (without a bona fide busi-  
17 ness purpose therefor) in an attempt to avoid the  
18 purposes of this section.

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

22               “(1) such corporation is an enterprise zone  
23 business or, in the case of a new corporation, such  
24 corporation is being organized for purposes of being  
25 an enterprise zone business,

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

3           “(3) the sum—

4            “(A) the money,

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

7            “(C) the value of property leased to the  
8        corporation (as determined under regulations  
9        prescribed by the Secretary),

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

11      “(4) more than 20 percent of the total voting  
12     power, and 20 percent of the total value, of the  
13     stock of such corporation is owned directly by indi-  
14     viduals or estates or indirectly by individuals  
15     through partnerships or trusts.

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

19      “(e) DISPOSITIONS OF STOCK.—

20      “(1) BASIS REDUCTION.—For purposes of this  
21     title, the basis of any enterprise zone stock shall be  
22     reduced by the amount of the deduction allowed  
23     under this section with respect to such stock.

24      “(2) DEDUCTION RECAPTURED AS ORDINARY  
25     INCOME.—For purposes of section 1245—

1               “(A) any stock the basis of which is re-  
2       duced under paragraph (1) (and any other  
3       property the basis of which is determined in  
4       whole or in part by reference to the adjusted  
5       basis of such stock) shall be treated as section  
6       1245 property, and

7               “(B) any reduction under paragraph (1)  
8       shall be treated as a deduction allowed for de-  
9       preciation.

10      If an exchange of any stock described in paragraph  
11       (1) qualifies under section 354(a), 355(a), or  
12       356(a), the amount of gain recognized under section  
13       1245 by reason of this paragraph shall not exceed  
14       the amount of gain recognized in the exchange (de-  
15       termined without regard to this paragraph).

16               “(3) CERTAIN EVENTS TREATED AS DISPOSI-  
17       TIONS.—For purposes of determining the amount  
18       treated as ordinary income under section 1245 by  
19       reason of paragraph (2), paragraph (3) of section  
20       1245(b) (relating to certain tax-free transactions)  
21       shall not apply.

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

24               “(A) IN GENERAL.—If—

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

10                    “(ii) section 1245(a) applies to such  
11                    disposition by reason of paragraph (2),  
12                    then the tax imposed by this chapter for the  
13                    taxable year in which such disposition occurs  
14                    shall be increased by the amount determined  
15                    under subparagraph (B).

16                    “(B) ADDITIONAL AMOUNT.—For purposes  
17                    of subparagraph (A), the additional amount  
18                    shall be equal to the amount of interest (deter-  
19                    mined at the rate applicable under section  
20                    6621(a)(2)) that would accrue—

21                    “(i) during the period beginning on  
22                    the date the stock was purchased by the  
23                    taxpayer and ending on the date of such  
24                    disposition by the taxpayer,

1                         “(ii) on an amount equal to the aggregate decrease in tax of the taxpayer resulting from the deduction allowed under this  
2                         subsection (a) with respect to such stock.

3  
4  
5                         “(C) SPECIAL RULE.—Any increase in tax under subparagraph (A) shall not be treated as a tax imposed by this chapter for purposes of—

6  
7  
8                         “(i) determining the amount of any credit allowable under this chapter, and

9  
10                         “(ii) determining the amount of the tax imposed by section 55.

11  
12                         “(f) DISQUALIFICATION.—

13                         “(1) ISSUER CEASES TO QUALIFY.—If, during the 10-year period beginning on the date enterprise zone stock was purchased by the taxpayer, the issuer of such stock ceases to be a qualified enterprise zone issuer (determined without regard to subsection (d)(3)), then notwithstanding any provision of this subtitle other than paragraph (2), the taxpayer shall be treated for purposes of subsection (e) as disposing of such stock (and any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such stock) during the taxable year during which such cessation occurs

1 at its fair market value as of the 1st day of such  
2 taxable year.

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

9 “(g) OTHER SPECIAL RULES.—

10 “(1) APPLICATION OF LIMITS TO PARTNER-  
11 SHIPS AND S CORPORATIONS.—In the case of a part-  
12 nership or an S corporation, the limitations under  
13 subsection (b) shall apply at the partner and share-  
14 holder level and shall not apply at the partnership  
15 or corporation level.

16 “(2) DEDUCTION NOT ALLOWED TO ESTATES  
17 AND TRUSTS.—Estates and trusts shall not be treat-  
18 ed as individuals for purposes of this section.

19 **“SEC. 1397. 50 PERCENT EXCLUSION FOR GAIN FROM NEW  
20 ZONE INVESTMENTS.**

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

1       “(b) QUALIFIED ZONE ASSET.—For purposes of this  
2 section—

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

5              “(A) any qualified zone stock,

6              “(B) any qualified zone business property,  
7 and

8              “(C) any qualified zone partnership inter-  
9 est.

10       “(2) QUALIFIED ZONE STOCK.—

11           “(A) IN GENERAL.—Except as provided in  
12 subparagraph (B), the term ‘qualified zone  
13 stock’ means any stock in a domestic corpora-  
14 tion if—

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

18              “(ii) as of the time such stock was is-  
19 sued, such corporation was an enterprise  
20 zone business (or, in the case of a new cor-  
21 poration, such corporation was being orga-  
22 nized for purposes of being an enterprise  
23 zone business), and

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

1                   such corporation qualified as an enterprise  
2                   zone business.

3                   “(B) EXCLUSION OF STOCK FOR WHICH  
4                   DEDUCTION UNDER SECTION 1396 ALLOWED.—  
5                   The term ‘qualified zone stock’ shall not include  
6                   any stock the basis of which is reduced under  
7                   section 1396(e)(1).

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

14                  “(3) QUALIFIED ZONE BUSINESS PROPERTY.—

15                  “(A) IN GENERAL.—The term ‘qualified  
16                  zone business property’ means tangible property  
17                  if—

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

23                  “(ii) the original use of such property  
24                  in a tax enterprise zone commences with  
25                  the taxpayer, and

1                     “(iii) during substantially all of the  
2                     taxpayer’s holding period for such prop-  
3                     erty, substantially all of the use of such  
4                     property was in a tax enterprise zone and  
5                     in an enterprise zone business of the tax-  
6                     payer.

7                     “(B) SPECIAL RULE FOR SUBSTANTIAL IM-  
8                     PROVEMENTS.—The requirements of clauses (i)  
9                     and (ii) of subparagraph (A) shall be treated as  
10                    satisfied with respect to—

11                    “(i) property which is substantially  
12                    improved by the taxpayer, and

13                    “(ii) any land on which such property  
14                    is located.

15                    For purposes of the preceding sentence, prop-  
16                    erty shall be treated as substantially improved  
17                    by the taxpayer if, during any 24-month period  
18                    beginning after the date on which the designa-  
19                    tion of the tax enterprise zone took effect, addi-  
20                    tions to basis with respect to such property in  
21                    the hands of the taxpayer exceed the greater of  
22                    (i) an amount equal to the adjusted basis at the  
23                    beginning of such 24-month period in the hands  
24                    of the taxpayer, or (ii) \$5,000.

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

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

9                     “(A) such interest is acquired by the tax-  
10                 payer from the partnership solely in exchange  
11                 for cash,

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

17                     “(C) during substantially all of the tax-  
18                 payer’s holding period for such interest, such  
19                 partnership qualified as an enterprise zone  
20                 business.

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

23                 “(5) TREATMENT OF SUBSEQUENT PUR-  
24                 CHASERS.—The term ‘qualified zone asset’ includes  
25                 any property which would be a qualified zone asset

1 but for paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in  
2 the hands of the taxpayer if such property was a  
3 qualified zone asset in the hands of any prior holder.

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

15 “(7) TREATMENT OF ZONE TERMINATIONS.—  
16 The termination of any designation of an area as a  
17 tax enterprise zone shall be disregarded for purposes  
18 of determining whether any property is a qualified  
19 zone asset.

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

21 For purposes of this section—

22 “(1) QUALIFIED CAPITAL GAIN.—Except as  
23 otherwise provided in this subsection, the term  
24 ‘qualified capital gain’ means any long-term capital  
25 gain.

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

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

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

14           “(1) SALES AND EXCHANGES.—Gain on the  
15        sale or exchange of an interest in a pass-thru entity  
16        held by the taxpayer (other than an interest in an  
17        entity which was an enterprise zone business during  
18        substantially all of the period the taxpayer held such  
19        interest) for more than 5 years shall be treated as  
20        gain described in subsection (a) to the extent such  
21        gain is attributable to amounts which would be  
22        qualified capital gain on qualified zone assets (deter-  
23        mined as if such assets had been sold on the date  
24        of the sale or exchange) held by such entity for more  
25        than 5 years and throughout the period the taxpayer

1 held such interest. A rule similar to the rule of para-  
2 graph (2)(C) shall apply for purposes of the preced-  
3 ing sentence.

4       “(2) INCOME INCLUSIONS.—

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

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

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

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

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

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

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

19                           “(C) any regulated investment company,  
20                           and

21                             “(D) any common trust fund.

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

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

5           “(1) any intangible, and any land, which is not  
6           an integral part of any qualified business (as defined  
7           in section 1397C(b)), and

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

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

11 For purposes of this section—

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

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

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

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

24           “(A) by gift,

25           “(B) at death, or

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

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

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

19        "(a) GENERAL RULE.—At the election of an individ-  
20 ual, qualified capital gain (within the meaning of section  
21 1397) from the sale or exchange of a qualified zone asset  
22 shall be recognized only to the extent that—

23                   “(1) the amount realized from such sale or ex-  
24                   change, exceeds

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

5           “(b) QUALIFIED ZONE ASSET.—For purposes of this  
6       section—

7           “(1) IN GENERAL.—The term ‘qualified zone  
8       asset’ has the meaning given such term by section  
9       1397.

10          “(2) TIME FOR TESTING.—

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

15           “(B) PURCHASES.—In the case of a pur-  
16       chase of property, the determination of whether  
17       such property is a qualified zone asset shall be  
18       made as of the time of such purchase.

19          “(c) OTHER DEFINITIONS.—For purposes of this  
20       section—

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

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

3           “(d) BUSINESS OR PROPERTY CEASES TO QUAL-  
4        IFY.—

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

14           “(2) LIMITATION ON GAIN RECOGNIZED.—The  
15      amount of gain recognized pursuant to paragraph  
16      (1) with respect to any asset shall not exceed the  
17      lesser of—

18           “(A) the amount of gain which was not  
19        recognized under subsection (a) by the reason  
20        of the purchase of such asset, or

21           “(B) the excess of the fair market value  
22        referred to in paragraph (1) over the adjusted  
23        basis of such asset.

24           “(3) CESSATION OF ENTERPRISE ZONE STATUS  
25        NOT TO CAUSE RECAPTURE.—An asset shall not fail

1 to be treated as a qualified zone asset for purposes  
2 of paragraph (1) solely by reason of the termination  
3 of a tax enterprise zone designation.

4 “(4) QUALIFIED ZONE REPLACEMENT ASSET.—  
5 For purposes of paragraph (1), the term ‘qualified  
6 zone replacement asset’ means any qualified zone  
7 asset the purchase of which resulted in the non-  
8 recognition of gain under subsection (a) with respect  
9 to any other property.

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

16 “(f) COORDINATION WITH INSTALLMENT METHOD  
17 REPORTING.—This section shall not apply to any gain  
18 from any installment sale (as defined in section 453(b))  
19 if section 453(a) applies to such sale.

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

23 “(1) the statutory period for the assessment of  
24 any deficiency with respect to such gain shall not ex-  
25 pire before the expiration of 3 years from the date

1 the Secretary is notified by the taxpayer (in such  
2 manner as the Secretary may by regulations pre-  
3 scribe) of—

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

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

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

11 “(2) such deficiency may be assessed before the  
12 expiration of such 3-year period notwithstanding the  
13 provisions of any law or rule of law which would oth-  
14 erwise prevent such assessment.

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

16 “(a) INCREASE IN EXPENSING UNDER SECTION  
17 179.—In the case of an enterprise zone business, section  
18 179(b)(1) shall be applied by substituting ‘\$20,000’ for  
19 ‘\$10,000’.

20 “(b) ORDINARY LOSS TREATMENT FOR CERTAIN  
21 PROPERTY.—

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

1           “(2) REAL PROPERTY.—For purposes of para-  
2       graph (1), the term ‘real property’ means any prop-  
3       erty which is section 1250 property (as defined in  
4       section 1250(c)).

5           “(3) SPECIAL RULES.—

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

9           “(i) Paragraphs (1), (2), and (3) of  
10       section 1244(d).

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

13           “(B) COORDINATION WITH SECTION  
14       1231.—Losses treated as ordinary losses by rea-  
15       son of this subsection shall not be taken into  
16       account in applying section 1231.

17       **“SEC. 1397C. ENTERPRISE ZONE BUSINESS DEFINED.**

18           “(a) IN GENERAL.—For purposes of this subpart, the  
19       term ‘enterprise zone business’ means—

20           “(1) any qualified business entity, and

21           “(2) any qualified proprietorship.

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

1           “(1)(A) every trade or business of such entity  
2        is the active conduct of a qualified business within  
3        a tax enterprise zone, and

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

7           “(2) substantially all of the use of the tangible  
8        property of such entity (whether owned or leased) is  
9        within a tax enterprise zone,

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

13          “(4) substantially all of the services performed  
14        for such entity by its employees are performed in a  
15        tax enterprise zone,

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

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

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

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

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

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

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

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

18       “(4) substantially all of the services performed  
19 for such individual in such business by employees of  
20 such business are performed in a tax enterprise  
21 zone,

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

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

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

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

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

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

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

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

21 “(A) in the case of real property which is  
22 not residential rental property (as defined in  
23 section 168(e)(2)), the lessee is an enterprise  
24 zone business, or

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

3                   “(i) such property was originally  
4                   placed in service after the date the tax en-  
5                   terprise zone was designated, or

6                   “(ii) such property is rehabilitated  
7                   after such date in a rehabilitation which  
8                   meets requirements based on the principles  
9                   of section 42(e)(3).

10                  “(3) RENTAL OF TANGIBLE PERSONAL PROP-  
11                  ERTY.—The rental to others of tangible personal  
12                  property shall be treated as a qualified business if  
13                  and only if substantially all of the rental of such  
14                  property is by enterprise zone businesses or by resi-  
15                  dents of a tax enterprise zone.

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

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

23                   “(A) any trade or business consisting of  
24                   the operation of any facility described in section  
25                   144(c)(6)(B), and

1                   “(B) any trade or business the principal  
2                   activity of which is farming (within the meaning  
3                   of subparagraphs (A) or (B) of section  
4                   2032A(e)(5)), but only if, as of the close of the  
5                   preceding taxable year, the sum of—

6                   “(i) the aggregate unadjusted bases  
7                   (or, if greater, the fair market value) of  
8                   the assets owned by the taxpayer which are  
9                   used in such a trade or business, and

10                   “(ii) the aggregate value of assets  
11                   leased by the taxpayer which are used in  
12                   such a trade or business,

13                   exceeds \$500,000.

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

16                   “(e) NONQUALIFIED FINANCIAL PROPERTY.—For  
17                   purposes of this section, the term ‘nonqualified financial  
18                   property’ means debt, stock, partnership interests, op-  
19                   tions, futures contracts, forward contracts, warrants, no-  
20                   tional principal contracts, annuities, and other similar  
21                   property specified in regulations; except that such term  
22                   shall not include—

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

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

3           **“Subpart C—Regulations**

“Sec. 1397C. Regulations.

4           **“SEC. 1397C. REGULATIONS.**

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

8           “(1) regulations limiting the benefit of this part  
9        in circumstances where such benefits, in combination  
10       with benefits provided under other Federal pro-  
11       grams, would result in an activity being 100 percent  
12       or more subsidized by the Federal Government,

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

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

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

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

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

22           (a) ENTERPRISE ZONE EMPLOYMENT CREDIT PART  
23        OF GENERAL BUSINESS CREDIT.—

7               “(8) the enterprise zone employment credit de-  
8               terminated under section 1394(a).”.

12                     “(3) NO CARRYBACK OF SECTION 1394 CREDIT  
13                     BEFORE ENACTMENT.—No portion of the unused  
14                     business credit for any taxable year which is attrib-  
15                     utable to the enterprise zone employment credit de-  
16                     termined under section 1394 may be carried to a  
17                     taxable year ending before the date of the enactment  
18                     of section 1394.”.

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

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

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

3               (1) Subsection (a) of section 280C of such Code  
4   (relating to rule for targeted jobs credit) is amend-  
5   ed—

6                       (A) by striking “the amount of the credit  
7   determined for the taxable year under section  
8   51(a)” and inserting “the sum of the credits  
9   determined for the taxable year under sections  
10   51(a) and 1394(a)”, and

11                       (B) by striking “TARGETED JOBS CRED-  
12   IT” in the subsection heading and inserting  
13   “EMPLOYMENT CREDITS”.

14               (2) Subsection (c) of section 196 of such Code  
15   (relating to deduction for certain unused business  
16   credits) is amended by striking “and” at the end of  
17   paragraph (4), by striking the period at the end of  
18   paragraph (5) and inserting “, and”, and by adding  
19   at the end the following new paragraph:

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

22               (d) OTHER AMENDMENTS.—

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

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

4               “(A) the amount deductible on account of  
5 losses from sales or exchanges of capital assets  
6 shall not exceed the amount includable on ac-  
7 count of gains from sales or exchanges of cap-  
8 ital assets; and

9               “(B) the exclusion provided by section  
10 1397 shall not be allowed.”.

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

14               (2) Subsection (c) of section 381 of such Code  
15 (relating to carryovers in certain corporate acquisi-  
16 tions) is amended by adding at the end the following  
17 new paragraph:

18               “(26) ENTERPRISE ZONE PROVISIONS.—The  
19 acquiring corporation shall take into account (to the  
20 extent proper to carry out the purposes of this sec-  
21 tion and subchapter U, and under such regulations  
22 as may be prescribed by the Secretary) the items re-  
23 quired to be taken into account for purposes of sub-  
24 chapter U in respect of the distributor or transferor  
25 corporation.”.

3       “(4) ADJUSTMENTS.—To the extent that the  
4       amount otherwise allowable as a deduction under  
5       this subsection consists of gain described in section  
6       1397(a), proper adjustment shall be made for any  
7       exclusion allowable to the estate or trust under sec-  
8       tion 1397. In the case of a trust, the deduction al-  
9       lowed by this subsection shall be subject to section  
10       681 (relating to unrelated business income).”.

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

22 (7) Paragraph (1) of section 1371(d) of such  
23 Code (relating to coordination with investment credit  
24 recapture) is amended by inserting before the period

1 at the end the following “and for purposes of section  
2 1394(d)(3)”.  
3

4 (8) Subsection (a) of section 1016 of such Code  
5 (relating to adjustments to basis) is amended by  
6 striking “and” at the end of paragraph (23), by  
7 striking the period at the end of paragraph (24) and  
8 inserting a semicolon, and by adding at the end  
thereof the following new paragraphs:

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

12 “(26) in the case of property the acquisition of  
13 which resulted under section 1397A in the non-  
14 recognition of any part of the gain realized on the  
15 sale or exchange of other property, to the extent pro-  
16 vided in section 1397A(e).”.

17 (9) Section 1223 of such Code (relating to hold-  
18 ing period of property) is amended by redesignating  
19 paragraph (15) as paragraph (16) and by inserting  
20 after paragraph (14) the following new paragraph:

21 “(15) In determining the period for which the  
22 taxpayer has held property the acquisition of which  
23 resulted under section 1397A in the nonrecognition  
24 of any part of the gain realized on the sale or ex-  
25 change of any qualified zone asset (as defined in sec-

1       tion 1397A(b)), there shall be included the period  
2       for which such asset had been held as of the date  
3       of such sale or exchange.”.

4 **SEC. 413. EFFECTIVE DATE.**

5       (a) GENERAL RULE.—The amendments made by this  
6 subtitle shall take effect on the date of the enactment of  
7 this Act.

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

11               (1) establishing the procedures for nominating  
12 areas for designation as tax enterprise zones,

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

16               (3) establishing recordkeeping requirements  
17 necessary or appropriate to assist the studies re-  
18 quired by subtitle E, and

19               (4) providing that State and local governments  
20 shall have at least 30 days after such rules are pub-  
21 lished to file applications for nominated areas before  
22 such applications are evaluated and compared and  
23 any area designated as a tax enterprise zone.

1       **Subtitle B—Redevelopment Bonds**  
2                   **for Tax Enterprise Zones**

3       **SEC. 421. SPECIAL RULES FOR REDEVELOPMENT BONDS**

4                   **PROVIDING FINANCING FOR TAX ENTER-  
5                   PRISE ZONES.**

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

10               “(9) SPECIAL RULES FOR TAX ENTERPRISE  
11    ZONES.—For purposes of this subsection, in the case  
12    of bonds issued during the 60-month period begin-  
13    ning on the date a tax enterprise zone is des-  
14    ignated—

15               “(A) TREATMENT AS DESIGNATED  
16    BLIGHTED AREA.—Such tax enterprise zone  
17    shall be treated as a designated blighted area  
18    during such 60-month period (or, if shorter, the  
19    period such designation is in effect). Any area  
20    designated by reason of the preceding sentence  
21    shall not be taken into account in applying  
22    paragraph (4)(C).

23               “(B) SECURITY FOR BONDS.—The require-  
24    ments of paragraph (2)(B) shall be treated as  
25    met with respect to a financed area that is

1       within a tax enterprise zone if the general pur-  
2       pose governmental unit guarantees the payment  
3       of principal and interest on the issue either di-  
4       rectly or through insurance, a letter of credit,  
5       or a similar agreement but only if the cost  
6       thereof is financed other than with proceeds of  
7       any tax-exempt private activity bond or earn-  
8       ings on such proceeds.

9               “(C) EXPANSION OF REDEVELOPMENT  
10          PURPOSES.—

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

15               “(I) the acquisition of land with-  
16          in the tax enterprise zone for use in  
17          such business, or

18               “(II) the acquisition, construc-  
19          tion, reconstruction, or improvement  
20          by such business of land, or property  
21          of a character subject to the allowance  
22          for depreciation, for use in such busi-  
23          ness.

24               “(ii) \$2,500,000 LIMITATION.—Clause  
25          (i) shall apply to loans made to any enter-



1           In determining the effective rate of interest  
2           for purposes of subclause (III), there shall  
3           be taken into account all fees, charges, and  
4           other amounts (other than amounts for  
5           any credit report) borne by the borrower  
6           which are attributable to the loan or the  
7           bond issue.

8           “(iv) HOUSING LOANS EXCLUDED.—  
9           Clause (i) shall not apply to any loan to be  
10           used directly or indirectly to provide resi-  
11           dential real property.

12           “(v) COORDINATION WITH RESTRI-  
13           TIONS ON USE OF PROCEEDS.—Paragraphs  
14           (6) and (8) shall apply notwithstanding  
15           clause (i); except that in applying para-  
16           graph (6), subsection (a)(8) shall be treat-  
17           ed as not including a reference to a facility  
18           the primary purpose of which is retail food  
19           services.

20           “(D) ISSUER TO DESIGNATE AMOUNT OF  
21           ISSUE TO BE USED FOR LOANS.—Subparagraph  
22           (C) shall not apply with respect to any issue  
23           unless the issuer designates before the date of  
24           issuance the amount of the proceeds of such  
25           issue which is to be used for loans to which

1           subparagraph (C)(i) applies. If such amount ex-  
2           ceeds the principal amount of loans to which  
3           subparagraph (C)(i) applies, an amount of pro-  
4           ceeds equal to such excess shall be used not  
5           later than the close of the 1st semiannual pe-  
6           riod beginning after the close of the 18-month  
7           period referred to in subparagraph (C)(iii) to  
8           redeem bonds which are part of such issue.

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

16           “(F) PENALTY.—

17           “(i) IN GENERAL.—In the case of  
18           property with respect to which financing  
19           was provided under this paragraph, if at  
20           any time during the 10-period beginning  
21           on the date such financing was provided—

22           “(I) such property ceases to be in  
23           use in an enterprise zone business (as  
24           defined in section 1397B), or

1                             “(II) substantially all of the use  
2                             of such property ceases to be in a tax  
3                             enterprise zone,

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

12                             “(ii) NO PENALTY BY REASON OF  
13                             ZONE TERMINATION.—No penalty shall be  
14                             imposed under clause (i) solely by reason  
15                             of the termination or revocation of a tax  
16                             enterprise zone designation.

17                             “(iii) EXCEPTION FOR BANK-  
18                             RUPTCY.—Clause (i) shall not apply to any  
19                             cessation resulting from bankruptcy.”.

20                             (b) VOLUME CAP ONLY CHARGED WITH 50 PER-  
21                             CENT OF TAX ENTERPRISE ZONE REDEVELOPMENT  
22                             BONDS.—Subsection (g) of section 146 of such Code is  
23                             amended by striking “and” at the end of paragraph (3),  
24                             by striking the period at the end of paragraph (4) and

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

3                 “(5) 50 percent of any qualified redevelopment  
4                 bond issued—

5                 “(A) as part of an issue 95 percent or  
6                 more of the net proceeds of which are to be  
7                 used for 1 or more redevelopment purposes (as  
8                 defined in section 144(c)) in a tax enterprise  
9                 zone, and

10                 “(B) during the 60-month period begin-  
11                 ning on the date of the designation of such  
12                 zone.”.

13                 (c) PENALTIES FOR LOANS MADE TO BUSINESSES  
14                 THAT CEASE TO BE ENTERPRISE ZONE BUSINESSES,  
15                 ETC.—Subsection (b) of section 150 of such Code is  
16                 amended by adding at the end thereof the following new  
17                 paragraph:

18                 “(6) ENTERPRISE ZONE REDEVELOPMENT  
19                 BONDS.—In the case of any financing provided by  
20                 an issue the interest on which is exempt from tax by  
21                 reason of section 144(c)(9)—

22                 “(A) IN GENERAL.—No deduction shall be  
23                 allowed under this chapter for interest on such  
24                 financing which accrues during the period be-

1                   ginning on the first day of the calendar year  
2                   which includes the date on which—

3                        “(i) the trade or business to which the  
4                        financing was provided ceases to be an en-  
5                        terprise zone business (as defined in sec-  
6                        tion 1397B), or

7                        “(ii) substantially all of the use of the  
8                        property (determined in accordance with  
9                        subchapter U) with respect to which the fi-  
10                        nancing was provided ceases to be in a tax  
11                        enterprise zone.

12                   The preceding sentence shall not apply solely by  
13                   reason of the termination or revocation of a tax  
14                   enterprise zone designation.

15                        “(B) EXCEPTION FOR BANKRUPTCY.—This  
16                        paragraph shall not apply to any cessation re-  
17                        sulting from bankruptcy.”.

18 **Subtitle C—Credit for Contribu-**  
19 **tions to Certain Community De-**  
20 **velopment Corporations**

21 **SEC. 431. CREDIT FOR CONTRIBUTIONS TO CERTAIN COM-**  
22 **MUNITY DEVELOPMENT CORPORATIONS.**

23                   (a) IN GENERAL.—For purposes of section 38 of the  
24                   Internal Revenue Code of 1986, the current year business

1 credit shall include the credit determined under this sec-  
2 tion.

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

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

12 (d) QUALIFIED CDC CONTRIBUTION.—For purposes  
13 of this section—

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

16 (A) which is made to a selected community  
17 development corporation during the 5-year pe-  
18 riod beginning on the date such corporation was  
19 selected for purposes of this section,

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

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

3 (2) LIMITATIONS ON AMOUNT DESIGNATED.—

4 The aggregate amount of contributions to a selected  
5 community development corporation which may be  
6 designated by such corporation shall not exceed  
7 \$2,000,000.

8 (e) SELECTED COMMUNITY DEVELOPMENT COR-  
9 PORATIONS.—

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

16 (B) the principal purposes of which include  
17 promoting employment of, and business oppor-  
18 tunities for, low-income individuals who are  
19 residents of the operational area, and

20 (C) which is selected by the Secretary of  
21 Housing and Urban Development for purposes  
22 of this section.

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

21 (A) The area meets the size requirements  
22 under paragraph (1)(C) or (2)(C) of section  
23 1391(b) which would apply if such area were to  
24 be designated as a tax enterprise zone.

1 (B) The unemployment rate (as deter-  
2 mined by the appropriate available data) is not  
3 less than the national unemployment rate.

4 (C) The median family income of residents  
5 of such area does not exceed 80 percent of the  
6 median gross income of residents of the juris-  
7 diction of the local government which includes  
8 such area.

12 (1) which is designed to provide employment of,  
13 and business opportunities for, low-income individ-  
14 uals who are residents of the operational area of the  
15 community development corporation, and

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

## **Subtitle D—Indian Employment and Investment**

20 **SEC. 441. INVESTMENT TAX CREDIT FOR PROPERTY ON IN-**  
21 **DIAN RESERVATIONS.**

22 (a) ALLOWANCE OF INDIAN RESERVATION CRED-  
23 IT.—Section 46 of the Internal Revenue Code of 1986 (re-  
24 lating to investment credits) is amended by striking “and”  
25 at the end of paragraph (2), by striking the period at the

1 end of paragraph (3) and inserting “, and”, and by adding

2 after paragraph (3) the following new paragraph:

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

4 (b) AMOUNT OF INDIAN RESERVATION CREDIT.—

5 (1) IN GENERAL.—Section 48 of such Code (re-  
6 lating to the energy credit and the reforestation  
7 credit) is amended by adding after subsection (b)  
8 the following new subsection:

9 “(c) INDIAN RESERVATION CREDIT.—

10 “(1) IN GENERAL.—For purposes of section 46,  
11 the Indian reservation credit for any taxable year is  
12 the Indian reservation percentage of the qualified in-  
13 vestment in qualified Indian reservation property  
14 placed in service during such taxable year, deter-  
15 mined in accordance with the following table:

**“In the case of qualified**

<b>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.

16 “(2) QUALIFIED INVESTMENT IN QUALIFIED  
17 INDIAN RESERVATION PROPERTY DEFINED.—For  
18 purposes of this subpart—

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

21 “(i) which is—

1                             “(I) reservation personal prop-  
2                             erty,

3                             “(II) new reservation construc-  
4                             tion property, or

5                             “(III) reservation infrastructure  
6                             investment, and

7                             “(ii) not acquired (directly or indi-  
8                             rectly) by the taxpayer from a person who  
9                             is related to the taxpayer (within the  
10                             meaning of section 465(b)(3)(C)).

11                             The term ‘qualified Indian reservation property’  
12                             does not include any property (or any portion  
13                             thereof) placed in service for purposes of con-  
14                             ducting or housing class I, II, or III gaming (as  
15                             defined in section 4 of the Indian Regulatory  
16                             Act (25 U.S.C. 2703)).

17                             “(B) QUALIFIED INVESTMENT.—The term  
18                             ‘qualified investment’ means—

19                             “(i) in the case of reservation infra-  
20                             structure investment, the amount expended  
21                             by the taxpayer for the acquisition or con-  
22                             struction of the reservation infrastructure  
23                             investment; and

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

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

13                             “(D) QUALIFIED PERSONAL PROPERTY.—  
14                             The term ‘qualified personal property’ means  
15                             property—

16                             “(i) for which depreciation is allow-  
17                             able under section 168,

18                             “(ii) which is not—

19                             “(I) nonresidential real property,

20                             “(II) residential rental property,

21                             or

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

1 For purposes of this subparagraph, the terms  
 2 ‘nonresidential real property’, ‘residential rental  
 3 property’, and ‘class life’ have the respective  
 4 meanings given such terms by section 168.

5 “(E) NEW RESERVATION CONSTRUCTION  
 6 PROPERTY.—The term ‘new reservation con-  
 7 struction property’ means qualified real prop-  
 8 erty—

9 “(i) which is located in an Indian res-  
 10 ervation,

11 “(ii) which is used by the taxpayer  
 12 predominantly in the active conduct of a  
 13 trade or business within an Indian reserva-  
 14 tion, and

15 “(iii) which is originally placed in  
 16 service by the taxpayer.

17 “(F) QUALIFIED REAL PROPERTY.—The  
 18 term ‘qualified real property’ means property  
 19 for which depreciation is allowable under sec-  
 20 tion 168 and which is described in clause (I),  
 21 (II), or (III) of subparagraph (D)(ii).

22 “(G) RESERVATION INFRASTRUCTURE IN-  
 23 VESTMENT.—

24 “(i) IN GENERAL.—The term ‘reserva-  
 25 tion infrastructure investment’ means

1 qualified personal property or qualified real  
2 property which—

22                   “(H) COORDINATION WITH OTHER CRED-  
23                   ITS.—The term ‘qualified Indian reservation  
24                   property’ shall not include any property with re-

1                   spect to which the energy credit or the rehabili-  
2                   tation credit is allowed.

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

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

15                "(5) LIMITATION BASED ON UNEMPLOY-  
16                MENT.—

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

or during the immediately preceding 2 calendar years, 100 percent of such credit,

“(ii) if such Indian unemployment rate exceeds 150 percent but not 300 percent, 50 percent of such credit, and

“(iii) if such Indian unemployment rate does not exceed 150 percent, 0 percent of such credit.

“(B) SPECIAL RULE FOR LARGE PROJECTS.—In the case of a qualified Indian reservation property which has (or is a component of a project which has) a projected construction period of more than 2 years or a cost of more than \$1,000,000, subparagraph (A) shall apply by substituting ‘during the earlier of the calendar year in which the taxpayer enters into a binding agreement to make a qualified investment or the first calendar year in which the taxpayer has expended at least 10 percent of the taxpayer’s qualified investment, or the preceding calendar year’ for ‘during the calendar year in which the property is placed in service or during the immediately preceding 2 calendar years’.

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

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

13                 (2) LODGING TO QUALIFY.—Paragraph (2) of  
14                 section 50(b) of such Code (relating to property used  
15                 for lodging) is amended—

16                 (A) by striking “and” at the end of sub-  
17                 paragraph (C),

18                 (B) by striking the period at the end of  
19                 subparagraph (D) and inserting “; and” and

20                 (C) by adding at the end thereof the fol-  
21                 lowing subparagraph:

22                 “(E) new reservation construction prop-  
23                 erty.”.

24                 (c) RECAPTURE.—Subsection (a) of section 50 of  
25                 such Code (relating to recapture in case of dispositions,

1 etc.), is amended by adding at the end thereof the follow-  
2 ing new paragraph:

3                 “(6) SPECIAL RULES FOR INDIAN RESERVATION  
4 PROPERTY.—

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

8                     “(i) is disposed of, or

9                     “(ii) in the case of reservation per-  
10 sonal property—

11                     “(I) otherwise ceases to be in-  
12 vestment credit property with respect  
13 to the taxpayer, or

14                     “(II) is removed from the Indian  
15 reservation, converted or otherwise  
16 ceases to be Indian reservation prop-  
17 erty,

18                 the tax under this chapter for such taxable year  
19                 shall be increased by the amount described in  
20 subparagraph (B).

21                 “(B) AMOUNT OF INCREASE.—The in-  
22 crease in tax under subparagraph (A) shall  
23 equal the aggregate decrease in the credits al-  
24 lowed under section 38 by reason of section  
25 48(c) for all prior taxable years which would

1       have resulted had the qualified investment  
2       taken into account with respect to the property  
3       been limited to an amount which bears the  
4       same ratio to the qualified investment with re-  
5       spect to such property as the period such prop-  
6       erty was held by the taxpayer bears to the ap-  
7       plicable recovery period under section 168(g).

8               “(C) COORDINATION WITH OTHER RECAP-  
9       TURE PROVISIONS.—In the case of property to  
10       which this paragraph applies, paragraph (1)  
11       shall not apply and the rules of paragraphs (3),  
12       (4), and (5) shall apply.”.

13       (d) BASIS ADJUSTMENT To REFLECT INVESTMENT  
14 CREDIT.—Paragraph (3) of section 50(c) of such Code  
15 (relating to basis adjustment to investment credit prop-  
16 erty) is amended by striking “energy credit or reforest-  
17 ation credit” and inserting “energy credit, reforestation  
18 credit or Indian reservation credit other than with respect  
19 to any expenditure for new reservation construction prop-  
20 erty”.

21       (e) CERTAIN GOVERNMENTAL USE PROPERTY To  
22 QUALIFY.—Paragraph (4) of section 50(b) of such Code  
23 (relating to property used by governmental units or for-  
24 eign persons or entities) is amended by redesignating sub-  
25 paragraphs (D) and (E) as subparagraphs (E) and (F),

1 respectively, and inserting after subparagraph (C) the fol-  
2 lowing new subparagraph:

3                     “(D) EXCEPTION FOR RESERVATION IN-  
4 FRASTRUCTURE INVESTMENT.—This paragraph  
5 shall not apply for purposes of determining the  
6 Indian reservation credit with respect to res-  
7 ervation infrastructure investment.”.

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

13                     “(iv) the qualified investment in qualifi-  
14 fied Indian reservation property.”.

15                     (g) CLERICAL AMENDMENTS.—

16                     (1) The caption of section 48 of such Code is  
17 amended by deleting the period at the end thereof  
18 and adding “; indian reservation credit.”

19                     (2) The table of sections for subpart E of part  
20 IV of subchapter A of chapter 1 of such Code is  
21 amended by striking out the item relating to section  
22 48 and inserting the following:

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

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

4 **SEC. 442. INDIAN EMPLOYMENT CREDIT.**

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

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

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

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

19           “(a) AMOUNT OF CREDIT.—

20           “(1) IN GENERAL.—For purposes of section 38,  
21 the amount of the Indian employment credit deter-  
22 mined under this section with respect to any em-  
23 ployer for any taxable year is 10 percent (30 percent  
24 in the case of an employer with at least 85 percent

1 Indian employees throughout the taxable year) of  
2 the sum of—

3 “(A) the qualified wages paid or incurred  
4 during such taxable year, plus

5 “(B) qualified employee health insurance  
6 costs paid or incurred during such taxable year.

7 In no event shall the amount of the Indian employ-  
8 ment credit for any taxable year exceed the credit  
9 limitation amount determined under subsection (e)  
10 for such taxable year.

11 “(2) INDIAN EMPLOYEE.—For purposes of  
12 paragraph (1), the term ‘Indian employee’ means an  
13 employee who is an enrolled member of an Indian  
14 tribe or the spouse of such a member.

15 “(b) QUALIFIED WAGES; QUALIFIED EMPLOYEE  
16 HEALTH INSURANCE COSTS.—For purposes of this sec-  
17 tion—

18 “(1) QUALIFIED WAGES.—

19 “(A) IN GENERAL.—The term ‘qualified  
20 wages’ means any wages paid or incurred by an  
21 employer for services performed by an employee  
22 while such employee is a qualified employee.

23 “(B) COORDINATION WITH TARGETED  
24 JOBS CREDIT.—The term ‘qualified wages’ shall  
25 not include wages attributable to service ren-

1                   dered during the 1-year period beginning with  
2                   the day the individual begins work for the em-  
3                   ployer if any portion of such wages is taken  
4                   into account in determining the credit under  
5                   section 51.

6                 “(2) QUALIFIED EMPLOYEE HEALTH INSUR-  
7                 ANCE COSTS.—

8                 “(A) IN GENERAL.—The term ‘qualified  
9                 employee health insurance costs’ means any  
10                amount paid or incurred by an employer for  
11                health insurance to the extent such amount is  
12                attributable to coverage provided to any em-  
13                ployee while such employee is a qualified em-  
14                ployee.

15                “(B) EXCEPTION FOR AMOUNTS PAID  
16                UNDER SALARY REDUCTION ARRANGEMENTS.—  
17                No amount paid or incurred for health insur-  
18                ance pursuant to a salary reduction arrange-  
19                ment shall be taken into account under sub-  
20                paragraph (A).

21                “(c) QUALIFIED EMPLOYEE.—For purposes of this  
22                section—

23                “(1) IN GENERAL.—Except as otherwise pro-  
24                vided in this subsection, the term ‘qualified em-

1       ployee' means, with respect to any period, any em-  
2       ployee of an employer if—

3               “(A) substantially all of the services per-  
4       formed during such period by such employee for  
5       such employer are performed within an Indian  
6       reservation,

7               “(B) the principal place of abode of such  
8       employee while performing such services is on  
9       or near the reservation in which the services are  
10      performed, and

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

13               “(2) CREDIT ALLOWED ONLY FOR FIRST 7  
14      YEARS.—An employee shall not be treated as a  
15      qualified employee for any period after the date 7  
16      years after the day on which such employee first  
17      began work for the employer.

18               “(3) INDIVIDUALS RECEIVING WAGES IN EX-  
19      CESS OF \$30,000 NOT ELIGIBLE.—An employee shall  
20      not be treated as a qualified employee for any tax-  
21      able year of the employer if the total amount of the  
22      wages paid or incurred by such employer to such  
23      employee during such taxable year (whether or not  
24      for services within an Indian reservation) exceeds  
25      the amount determined at an annual rate of

1       \$30,000. The Secretary shall adjust the \$30,000  
2       amount contained in the preceding sentence for  
3       years beginning after 1993 at the same time and in  
4       the same manner as under section 415(d).

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

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

18            “(A) any individual described in subpara-  
19       graph (A), (B), or (C) of section 51(i)(1),  
20            “(B) any 5-percent owner (as defined in  
21       section 416(i)(1)(B)),  
22            “(C) any individual who is neither an en-  
23       rolled member of an Indian tribe nor the spouse  
24       of an enrolled member of an Indian tribe, and

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

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

18                 “(7) INDIAN RESERVATION DEFINED.—The  
19                 term ‘Indian reservation’ means a reservation, as de-  
20                 fined in—

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

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

1       “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-  
2 PLOYER.—

3           “(1) IN GENERAL.—If the employment of any  
4 employee is terminated by the taxpayer before the  
5 day 1 year after the day on which such employee  
6 began work for the employer—

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

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

19           “(2) CARRYBACKS AND CARRYOVERS AD-  
20 JUSTED.—In the case of any termination of employ-  
21 ment to which paragraph (1) applies, the carrybacks  
22 and carryovers under section 39 shall be properly  
23 adjusted.

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

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

3                       “(i) a termination of employment of  
4               an employee who voluntarily leaves the em-  
5               ployment of the taxpayer,

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

14                       “(iii) a termination of employment of  
15               an individual if it is determined under the  
16               applicable State unemployment compensa-  
17               tion law that the termination was due to  
18               the misconduct of such individual.

19               “(B) CHANGES IN FORM OF BUSINESS.—  
20               For purposes of paragraph (1), the employment  
21               relationship between the taxpayer and an em-  
22               ployee shall not be treated as terminated—

23                       “(i) by a transaction to which section  
24               381(a) applies if the employee continues to

1                   be employed by the acquiring corporation,

2                   or

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

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

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

14                  “(B) determining the amount of the tax  
15                  imposed by section 55.

16                  “(e) CREDIT LIMITATION AMOUNT.—For purposes of  
17                  this section—

18                  “(1) CREDIT LIMITATION AMOUNT.—The credit  
19                  limitation amount for a taxable year shall be an  
20                  amount equal to the credit rate (10 or 30 percent  
21                  as determined under subsection (a)) multiplied by  
22                  the increased credit base.

23                  “(2) INCREASED CREDIT BASE.—The increased  
24                  credit base for a taxable year shall be the excess  
25                  of—

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

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

16               “(3) SPECIAL RULE FOR SHORT TAXABLE  
17               YEARS.—For any taxable year having less than 12  
18               months—

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

22               “(B) the credit limitation amount shall be  
23               multiplied by a fraction, the numerator of which  
24               is the number of days in the taxable year and  
25               the denominator of which is 365.

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

2 For purposes of this section—

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

5           “(2) CONTROLLED GROUPS.—

6           “(A) All employers treated as a single em-  
7 ployer under section (a) or (b) of section 52  
8 shall be treated as a single employer for pur-  
9 poses of this section.

10           “(B) The credit (if any) determined under  
11 this section with respect to each such employer  
12 shall be its proportionate share of the wages  
13 and qualified employee health insurance costs  
14 giving rise to such credit.

15           “(3) CERTAIN OTHER RULES MADE APPLICA-  
16 BLE.—Rules similar to the rules of section 51(k)  
17 and subsections (c), (d), and (e) of section 52 shall  
18 apply.

19           “(4) COORDINATION WITH NONREVENUE  
20 LAWS.—Any reference in this section to a provision  
21 not contained in this title shall be treated for pur-  
22 poses of this section as a reference to such provision  
23 as in effect on the date of the enactment of this  
24 paragraph.”.

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

3               (1) Subsection (a) of section 280C of such Code  
4 (relating to rule for targeted jobs credit) is amended  
5 by striking “51(a)” and inserting “45(a), 51(a),  
6 and”.

7               (2) Subsection (c) of section 196 of such Code  
8 (relating to deduction for certain unused business  
9 credits) is amended by striking “and” at the end of  
10 paragraph (5), by striking the period at the end of  
11 paragraph (6) and inserting “, and”, and by adding  
12 at the end the following new paragraph:

13               “(7) the Indian employment credit determined  
14 under section 45(a).”.

15       (d) DENIAL OF CARRYBACKS TO PREENACTMENT  
16 YEARS.—Subsection (d) of section 39 of such Code is  
17 amended by adding at the end thereof the following new  
18 paragraph:

19               “(4) NO CARRYBACK OF SECTION 45 CREDIT  
20 BEFORE ENACTMENT.—No portion of the unused  
21 business credit for any taxable year which is attrib-  
22 utable to the Indian employment credit determined  
23 under section 45 may be carried to a taxable year  
24 ending before the date of the enactment of section  
25 45.”.

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

“Sec. 45. Indian employment credit.”.

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

## 8                   **Subtitle E—Study**

### 9                   **SEC. 451. STUDY OF EFFECTIVENESS OF TAX ENTERPRISE**

#### 10                  **ZONE INCENTIVES.**

11       (a) IN GENERAL.—The Secretary of the Treasury, in  
12 consultation with the appropriate Secretary (as defined in  
13 section 1393(7) of the Internal Revenue Code of 1986,  
14 as added by this title), shall contract within 3 months of  
15 the date of the enactment of this Act, with the National  
16 Academy of Sciences (hereafter in this section referred to  
17 as the “Academy”) to conduct a study of the relative effec-  
18 tiveness of the incentives provided by this title in achieving  
19 the purposes of such title in tax enterprise zones.

20       (b) CONDUCT OF STUDY.—If the Academy contracts  
21 for the conduct of the study described in subsection (a),  
22 the Academy shall develop a study methodology and shall  
23 oversee and manage the conduct of such study.

24       (c) REPORTS.—The Academy shall submit to the  
25 Committee on Ways and Means of the House of Rep-

1 representatives and the Committee on Finance of the Sen-  
2 ate—

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

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

## 8 **TITLE V—WORKFARE**

### 9 **SEC. 501. DEVELOPMENT OF A COMPREHENSIVE LEGISLA-** 10 **TIVE PROPOSAL REQUIRING ADULTS RECEIV-** 11 **ING AFDC TO ENTER THE WORKFORCE.**

12 (a) IN GENERAL.—The Secretary of Labor (herein-  
13 after referred to as the “Secretary”), in consultation with  
14 the Secretary of Health and Human Services shall develop  
15 a comprehensive legislative proposal which would require  
16 adults receiving aid to families with dependent children  
17 under title IV of the Social Security Act (hereinafter re-  
18 ferred to as “AFDC”) to enter the workforce within two  
19 years of receiving such aid.

20 (b) SPECIFIC MATTERS TO BE INCLUDED.—The  
21 proposal developed pursuant to subsection (a) shall include  
22 plans—

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

6 (c) REPORT.—No later than one hundred days after  
7 January 20, 1993, the Secretary shall submit the proposal  
8 developed pursuant to subsection (a) to the Congress.

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