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103D CONGRESS
1ST SESSION

H. R. 1216

To amend the Internal Revenue Code of 1986 and the Housing and Community Development Act of 1987 to provide tax incentives for investments in enterprise zone businesses and domestic businesses.

IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 1993

Mr. ANDREWS of New Jersey introduced the following bill; which was referred jointly to the Committees on Ways and Means and Banking, Finance and Urban Affairs

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A BILL

To amend the Internal Revenue Code of 1986 and the Housing and Community Development Act of 1987 to provide tax incentives for investments in enterprise zone businesses and domestic businesses.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Domestic Investment Economic Growth Act''.

SEC. 2. EXCLUSION FOR GAIN ON INVESTMENTS IN ENTERPRISE ZONE BUSINESSES AND DOMESTIC BUSINESSES.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to items specifically excluded from gross income) is amended by redesignating section 136 as section 137 and by inserting after section 135 the following new section:

"SEC. 136. GAIN ON INVESTMENTS IN ENTERPRISE ZONE BUSINESSES AND DOMESTIC BUSINESSES.

''(a) GENERAL RULE.—Gross income does not include any qualified investment gain.

''(b) QUALIFIED INVESTMENT GAIN.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified investment gain' means the eligible percentage of any long-term capital gain properly attributable to any sale or exchange of a qualified investment, other than a sale or exchange to a related person (within the meaning of section 267(b)).

''(2) ELIGIBLE PERCENTAGE.—The term 'eligible percentage' means—

''(A) 100 percent, in the case of a qualified investment with respect to an enterprise zone business or urban enterprise zone, and

''(B) 50 percent, in the case of any qualified investment not described in subparagraph (A).

''(c) QUALIFIED INVESTMENTS.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified investment' means any eligible investment, if the holding period of the taxpayer with respect to such investment is not less than 1 year.

''(2) ELIGIBLE INVESTMENT.—The term 'eligible investment' means the following:

''(A) Any stock, partnership interest, or other ownership interest in an enterprise zone business or domestic business.

''(B) Any real property located entirely within an urban enterprise zone.

''(C) Any fund of a regulated investment company, if all of the investments held by such fund in each year are qualified investments.

''(3) ENTERPRISE ZONE BUSINESS.—The term 'enterprise zone business' means any corporation or partnership incorporated or formed in the United States if substantially all of the activities of the corporation or partnership involve the active conduct of

1 or more trades or businesses in an urban enterprise zone.

''(4) DOMESTIC BUSINESS.—The term 'domestic business' means any corporation or partnership (other than an enterprise zone business) incorporated or formed in the United States if—

''(A) not less than 80 percent of the employees of the corporation or partnership are United States citizens employed within the United States, and

''(B) either—

''(i) the corporation devotes more then 25 percent of its annual expenses to payroll, or

''(ii) substantially all of the activities of the corporation or partnership involve the active conduct of 1 or more trades or businesses in the United States.

''(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) URBAN ENTERPRISE ZONE.—The term 'urban enterprise zone' means any area which is designated after the date of the enactment of this section as an enterprise zone under section 701 of the Housing and Community Development Act of 1987

(42 U.S.C. 11501), other than an area described in subsection (a)(2)(B) of such section.

''(2) TREATMENT OF NEW BUSINESSES.—A new corporation or partnership shall be treated as an enterprise zone business or domestic business if such corporation or partnership certifies an intent to comply with the requirements set forth in subsection (c)(3) or (c)(4), as the case may be.

''(e) COORDINATION WITH INVESTMENT SAVINGS ACCOUNT PROVISIONS.—Subsection (a) shall not apply to any amount distributed out of an investment savings account (within the meaning of section 220(c)).''

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 136 and inserting the following:

''Sec. 136. Gain on investments in enterprise zone businesses and domestic businesses.
''Sec. 137. Cross references to other Acts.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply taxable years beginning after the date of the enactment of this Act.

SEC. 3. DEDUCTION FOR CONTRIBUTIONS TO INVESTMENT SAVINGS ACCOUNTS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended

by redesignating section 220 as section 221 and by inserting after section 219 the following new section:

"SEC. 220. CONTRIBUTIONS TO INVESTMENT SAVINGS ACCOUNTS.

''(a) DEDUCTION ALLOWED.—

''(1) IN GENERAL.—In the case of an individual, there shall be allowed as a deduction for the taxable year an amount equal to the sum of—

''(A) 50 percent of the qualified contributions of the individual to an investment savings account for the taxable year, and

''(B) if the individual is not less than 59½ years of age at the end of the taxable year, an amount equal to the sum of—

''(i) 50 percent of the qualified contributions of the individual to an investment savings account for the 10th preceding taxable year, to the extent such contributions remain in the account, and

''(ii) 50 percent of the qualified contributions of the individual to an investment savings account for the 20th preceding taxable year, to the extent such contributions remain in the account.

"(2) MAXIMUM ANNUAL AMOUNT.—The amount allowable as a deduction under paragraph (1) to any individual for a taxable year shall not exceed $100,000.

"(b) QUALIFIED CONTRIBUTIONS.—For purposes of this section—

"(1) IN GENERAL.—The qualified contributions of an individual for any taxable year shall be the amount equal to the lesser of—

"(A) the individual's qualified savings increase amount for the taxable year, or

"(B) the contributions made by the individual to the investment savings account during the taxable year.

"(2) QUALIFIED SAVINGS INCREASE AMOUNT.—The term 'qualified savings increase amount' means the amount (if any) by which—

"(A) the individual's qualified net worth increase amount, exceeds

"(B) the applicable threshold amount.

"(3) QUALIFIED NET WORTH INCREASE AMOUNT.—

"(A) IN GENERAL.—The term 'qualified net worth increase amount' means the amount (if any) by which—

''(i) qualified net worth on December 31 of the taxable year, exceeds

''(ii) qualified net worth on January 1 of such taxable year.

''(B) QUALIFIED NET WORTH.—The term 'qualified net worth' means net worth, determined without regard to any portion of the value of property which is in excess of the adjusted basis.

''(4) APPLICABLE THRESHOLD AMOUNT.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'applicable threshold amount' means the national average qualified net worth increase amount determined by the Secretary for the taxable year for the tax rate category of the taxpayer.

''(B) 1ST YEAR.—For taxable years beginning in 1993, the term 'applicable threshold amount' means the applicable percentage of the taxpayer's adjusted gross income, determined in accordance with the following table:

"If adjusted gross income is:	Applicable Percentage:
Not over $13,000	0
Over $13,000 but not over $24,000	0
Over $24,000 but not over $36,000	0
Over $36,000 but not over $55,000	5
Over $55,000 but not over $70,000	7
Over $70,000 but not over $100,000	9
Over $100,000 but not over $140,000	15

"If adjusted gross income is:	Applicable Percentage:
Over $140,000 but not over $200,000	18
Over $200,000 but not over $500,000	20
Over $500,000 but not over $1,000,000	25
Over $1,000,000	30.

"(5) TIME WHEN CONTRIBUTIONS DEEMED MADE.—A taxpayer shall be deemed to have made a contribution to an investment savings account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

"(c) INVESTMENT SAVINGS ACCOUNT.—For purposes of this section, the term 'investment savings account' means a trust created or organized in the United States for the exclusive benefit of an individual and the individual's beneficiaries, but only if the written governing instrument creating the trust meets the following requirements:

"(1) No contribution will be accepted unless it is in cash.

"(2) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which that person will administer the trust will be consistent with the requirements of this section.

''(3) The trust assets will be invested only in—

''(A) eligible investments (as defined by section 136(c)(2)),

''(B) bonds issued by enterprise zone business and domestic business, and

''(C) loans to enterprise zone businesses and domestic businesses.

''(4) The interest of the individual in the balance of the individual's account is nonforfeitable.

''(5) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

''(d) TAX TREATMENT OF DISTRIBUTIONS.—

''(1) IN GENERAL.—Except as otherwise provided in this subsection, any amount distributed out of an investment savings account shall be included in the gross income of the distributee for the taxable year in which the distribution is received.

''(2) AMOUNTS HELD IN ACCOUNT FOR 10 YEARS.—Paragraph (1) shall not apply to any distribution from an investment savings account to the extent attributable to amounts held in the account for at least a 10-year period.

''(3) EXCESS CONTRIBUTIONS RETURNED BEFORE DUE DATE OF RETURN.—Paragraph (1) shall

not apply to the distribution of any contribution paid during a taxable year to an investment savings account to the extent that such contribution exceeds the amount allowable as a deduction under subsection (a) if—

''(A) such distribution is received on or before the day prescribed by law (including extensions of time) for filing such individual's return for such taxable year,

''(B) no deduction is allowed under subsection (a) with respect to such excess contribution, and

''(C) such distribution is accompanied by the amount of net income attributable to such excess contribution.

Any net income described in subparagraph (C) shall be included in the gross income of the individual for the taxable year in which such excess contribution was made.

''(e) TAX TREATMENT OF ACCOUNTS.—

''(1) EXEMPTION FROM TAX.—An investment savings account is exempt from taxation under this subtitle unless such account has ceased to be an investment savings account by reason of paragraph (2). Notwithstanding the preceding sentence, any

such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).

''(2) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION.—

''(A) IN GENERAL.—If the individual for whose benefit an investment savings account is established or any individual who contributes to such account engages in any transaction prohibited by section 4975 with respect to the account, the account shall cease to be an investment savings account as of the first day of the taxable year (of the individual so engaging in such transaction) during which such transaction occurs.

''(B) ACCOUNT TREATED AS DISTRIBUTING ALL ITS ASSETS.—In any case in which any account ceases to be an investment savings account by reason of subparagraph (A) as of the first day of any taxable year, paragraph (1) of subsection (d) shall apply as if there was a distribution on such first day in an amount equal to the fair market value (on such first day) of all assets in the account (on such first day).

"(3) EFFECT OF PLEDGING ACCOUNT AS SECURITY.—If, during any taxable year, the individual for whose benefit an investment savings account is established, or any individual who contributes to such account, uses the account or any portion thereof as security for a loan, the portion so used shall be treated as distributed to the individual so using such portion.

"(f) ADDITIONAL TAX ON CERTAIN AMOUNTS INCLUDED IN GROSS INCOME.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, in the case of any distribution from an investment savings account, the tax liability of each distributee under this chapter for the taxable year in which the distribution is received shall be increased by an amount equal to 10 percent of the amount of the distribution which is includible in the gross income of such distributee for such taxable year.

"(2) QUALIFIED DISTRIBUTIONS FROM AMOUNTS HELD IN ACCOUNT FOR 5 YEARS.—

"(A) IN GENERAL.—Paragraph (1) shall not apply to any qualified distribution from an investment savings account, to the extent at-

tributable to amounts held in the account for at least a 5-year period.

''(B) QUALIFIED DISTRIBUTION.—For purposes of subparagraph (A), the term 'qualified distribution' means any distribution received from an investment savings account, to the extent used within a reasonable period to pay any of the following expenses:

''(i) HOME PURCHASE EXPENSES.—Expenses relating to the acquisition of a principal residence (within the meaning of section 1034) for the individual for whose benefit the account is established.

''(ii) AUTOMOBILE PURCHASE EXPENSES.—Expenses relating to the acquisition of an automobile for the individual for whose benefit the account is established.

''(iii) EDUCATION EXPENSES.—Qualified higher education expenses (within the meaning of section 135(c)(2)).

''(iv) MEDICAL EXPENSES.—Medical expenses (within the meaning of section 72(t)(2)(B)).

''(3) ADDITIONAL EXCEPTIONS.—Paragraph (1) shall not apply if the distribution is made after the

individual for whose benefit the investment savings account is established—

"(A) attains 59½ years of age, or

"(B) becomes disabled within the meaning of section 72(m)(7) or dies.

"(4) DISQUALIFICATION CASES.—If an amount is includible in the gross income of an individual for a taxable year because such amount is required to be treated as a distribution under paragraph (2) or (3) of subsection (e), such individual's tax liability under this chapter for such taxable year shall be increased by an amount equal to 10 percent of such amount required to be treated as a distribution and included in the gross income of such individual.

"(g) COMMUNITY PROPERTY LAWS.—This section shall be applied without regard to any community property laws.

"(h) SPECIAL RULES.—For purposes of this section—

"(1) ORDERING RULE.—Distributions from an investment savings account shall be treated as having been made—

"(A) first from the earliest contribution remaining in the account at the time of the distribution,

''(B) second from other contributions in the order in which made, and

''(C) third from earnings.

''(2) CUSTODIAL ACCOUNTS.—A custodial account shall be treated as a trust if the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which he will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an investment savings account described in subsection (c). For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

''(i) REPORTS.—

''(1) IN GENERAL.—The trustee of an investment savings account shall make such reports regarding such account to the Secretary and to the individual for whose benefit the account is maintained with respect to contributions, distributions, and such other matters as the Secretary may require under regulations. Except as provided in paragraph (2),

the reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required by those regulations.

''(2) FIRST REPORT.—The trustee of an investment savings account shall make the first report required under paragraph (1) not later than the expiration of the 3-month period beginning on the date on which the account is established.''

(b) ALLOWANCE OF DEDUCTION IN COMPUTING ADJUSTED GROSS INCOME.—Subsection (a) of section 62 of such Code (defining adjusted gross income) is amended by adding at the end the following new paragraph:

''(14) CONTRIBUTIONS TO INVESTMENT SAVINGS ACCOUNTS.—The deduction allowed by section 220(a).''

(c) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—Section 2503 of such Code (relating to taxable gifts) is amended by adding at the end the following new subsection:

''(h) INVESTMENT SAVINGS ACCOUNTS.—Any contribution made by an individual to an investment savings account described in section 220(c) which is allowable as a deduction under section 220 shall not be treated as a transfer of property by gift for purposes of this chapter.''

(d) TAX ON EXCESS CONTRIBUTIONS.—Section 4973 of such Code (relating to tax on excess contributions to individual retirement accounts, certain section 403(b) contracts, and certain individual retirement annuities) is amended—

(1) in subsection (a), by striking ''or'' at the end of paragraph (1), by redesignating paragraph (2) as paragraph (3), and by inserting after paragraph (1) the following new paragraph:

''(2) an investment savings account (within the meaning of section 220(c)), or'', and

(2) by adding at the end the following new subsection:

''(d) EXCESS CONTRIBUTIONS TO INVESTMENT SAVINGS ACCOUNTS.—For purposes of this section, in the case of an investment savings account, the term 'excess contributions' means the amount by which the amount contributed for the taxable year to the account exceeds the amount allowable as a deduction under section 220 for such taxable year. For purposes of this subsection, any contribution which is distributed out of the investment savings account in a distribution to which section 220(d)(3) applies shall be treated as an amount not contributed.''

(e) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 of such Code (relating to prohibited transactions) is amended—

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

''(4) SPECIAL RULE FOR INVESTMENT SAVINGS ACCOUNTS.—An individual for whose benefit an investment savings account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be an investment savings account by reason of the application of section 220(e)(2)(A) to such account.'', and

(2) in subsection (e)(1), by inserting '', an investment savings account described in section 220(c),'' after ''described in section 408(a)''.

(f) FAILURE TO PROVIDE REPORTS ON INVESTMENT SAVINGS ACCOUNTS.—Subsection (a) of section 6693 of such Code (relating to failure to provide reports on individual retirement accounts or annuities) is amended by adding at the end the following new sentence: ''The person required by section 220(i) to file a report regarding an

investment savings account at the time and in the manner required by such section shall pay a penalty of $50 for each failure, unless it is shown that such failure is due to reasonable cause.''

(g) ADDITIONAL PENALTIES.—Part I of subchapter B of chapter 68 of such Code (relating to assessable penalties) is amended by adding at the end the following new section:

''SEC. 6714. PROMOTION OF NONQUALIFIED INVESTMENT AS ELIGIBLE FOR DOMESTIC INVESTMENT ECONOMIC GROWTH EXCLUSION OR DEDUCTION.

''(a) IMPOSITION OF PENALTY.—If any person—

''(1) makes a statement that an investment or account is eligible for an exclusion under section 136 or deduction under section 220, and

''(2) at the time such statement is made, there was no reasonable basis for such statement,

such person shall pay a penalty equal to twice the aggregate amount of exclusions and deductions taken by other persons under such sections in reliance on such statement.

''(b) PENALTY IN ADDITION TO OTHER PENALTIES.—The penalty imposed by subsection (a) shall be in addition to any other penalty provided by law.''

(h) CLERICAL AMENDMENTS.—

(1) The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 220 and inserting the following new items:

''Sec. 220. Contributions to investment savings accounts.
''Sec. 221. Cross reference.''

(2)(A) The section heading for section 4973 of such Code is amended to read as follows:

''SEC. 4973. TAX ON EXCESS CONTRIBUTIONS TO INDIVIDUAL RETIREMENT ACCOUNTS, INVESTMENT SAVINGS ACCOUNTS, CERTAIN 403(b) CONTRACTS, AND CERTAIN INDIVIDUAL RETIREMENT ANNUITIES.''

(B) The table of sections for chapter 43 of such Code is amended by striking the item relating to section 4973 and inserting the following new item:

''Sec. 4973. Tax on excess contributions to individual retirement accounts, investment savings accounts, certain 403(b) contracts, and certain individual retirement annuities.''

(3)(A) The section heading for section 6693 of such Code is amended to read as follows:

"SEC. 6693. FAILURE TO PROVIDE REPORTS ON INDIVIDUAL RETIREMENT ACCOUNTS OR ANNUITIES OR ON INVESTMENT SAVINGS ACCOUNTS; PENALTIES RELATING TO DESIGNATED NONDEDUCTIBLE CONTRIBUTIONS."

(B) The table of sections for subchapter B of chapter 68 of such Code is amended by striking the item relating to section 6693 and inserting the following new item:

> ''Sec. 6693. Failure to provide reports on individual retirement accounts or annuities or on investment savings accounts; penalties relating to designated nondeductible contributions.''

(4) The table of sections for part I of subchapter B of chapter 68 of such Code is amended by adding at the end the following new item:

> ''Sec. 6714. Promotion of nonqualified investment as eligible for domestic investment economic growth exclusion or deduction.''

(i) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 4. DESIGNATION OF ENTERPRISE ZONES.

Section 701(a)(4)(B) of the Housing and Community Development Act of 1987 (42 U.S.C. 11501(a)(4)(B)) is amended to read as follows:

''(B) TIME LIMITATIONS.—The Secretary shall designate nominated areas as enterprise zones only during the 24-month period begin-

ning on the date of the enactment of the Domestic Investment Economic Growth Act.''

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