

104TH CONGRESS  
2D SESSION

# H. R. 3467

To amend the Internal Revenue Code of 1986 to allow the designation of renewal communities, and for other purposes.

---

## IN THE HOUSE OF REPRESENTATIVES

MAY 16, 1996

Mr. WATTS of Oklahoma (for himself, Mr. TALENT, Mrs. MYRICK, Mr. ENGLISH of Pennsylvania, Mr. WELDON of Florida, Mr. KNOLLENBERG, Mr. KOLBE, Mr. RIGGS, Mr. CHABOT, Mr. CHAMBLISS, Mr. COBURN, Mr. FLANAGAN, Mr. GUTKNECHT, Mr. LARGENT, Mr. LATOURETTE, Mr. NORWOOD, Mrs. SEASTRAND, Mr. SOUDER, Mr. STOCKMAN, Mr. THORNBERRY, Mr. WELLER, Mr. WICKER, Mr. BAKER of Louisiana, Mr. BALLENGER, Mr. BARTLETT of Maryland, Mr. BARTON of Texas, Mr. BLUTE, Mr. BURTON of Indiana, Mr. CALVERT, Mr. DOOLITTLE, Mr. DORNAN, Mr. EMERSON, Mr. HASTERT, Mr. HAYES, Mr. HOEKSTRA, Mr. HOKE, Mr. HUTCHINSON, Mr. KING, Mr. KINGSTON, Mr. LEWIS of Kentucky, Mr. LINDER, Mr. MCCRERY, Mr. SHAYS, Mr. WAMP, Mr. MCINTOSH, Mr. DELAY, and Mr. TAYLOR of North Carolina) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Economic and Educational Opportunities, Banking and Financial Services, and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

---

## A BILL

To amend the Internal Revenue Code of 1986 to allow the designation of renewal communities, and for other purposes.

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

1 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

2 (a) **SHORT TITLE.**—This Act may be cited as “Sav-  
3 ing Our Children: The American Community Renewal Act  
4 of 1996”.

5 (b) **TABLE OF CONTENTS.**—The table of contents for  
6 this Act is as follows:

- Sec. 1. Short title and table of contents.
- Sec. 2. Findings and purpose.

TITLE I—DESIGNATION AND TREATMENT OF RENEWAL  
COMMUNITIES

- Sec. 101. Short title.
- Sec. 102. Statement of purpose.
- Sec. 103. Designation and treatment of renewal communities.
- Sec. 104. Evaluation and reporting requirements.
- Sec. 105. Interaction with other Federal programs.
- Sec. 106. Deduction for contributions to family development accounts allowable  
whether or not taxpayer itemizes.
- Sec. 107. Allowance of commercial revitalization credit.
- Sec. 108. Conforming and clerical amendments.

TITLE II—ADDITIONAL TAX PROVISIONS

- Sec. 201. Work opportunity tax credit.
- Sec. 202. Credit for certain charitable contributions.
- Sec. 203. Deduction for charitable contributions to be allowed to individuals  
who do not itemize deductions.

TITLE III—PREVENTION AND TREATMENT OF SUBSTANCE  
ABUSE

- Sec. 301. Prevention and treatment of substance abuse; services provided  
through religious organizations.

TITLE IV—LOW-INCOME EDUCATIONAL OPPORTUNITY  
SCHOLARSHIP PROGRAM

- Sec. 401. Short title.
- Sec. 402. Findings; precedents.
- Sec. 403. Purposes.
- Sec. 404. Plan submission; requirements.
- Sec. 405. Uses of funds.
- Sec. 406. Scholarship program.
- Sec. 407. Allocation of funds among renewal communities.
- Sec. 408. Parental right of choice in education.
- Sec. 409. Eligible schools.
- Sec. 410. Administration of program and treatment of funds.
- Sec. 411. Contributions to scholarship program from other sources.
- Sec. 412. Use of excess funds for additional educational purposes.

- Sec. 413. Evaluation.  
 Sec. 414. Effect on other programs.  
 Sec. 415. Judicial review.  
 Sec. 416. Definitions.  
 Sec. 417. Authorization of appropriations.

TITLE V—ADDITIONAL INCENTIVES FOR RENEWAL  
 COMMUNITIES

- Sec. 501. CRA credit for investments in community development organizations located in renewal communities.  
 Sec. 502. FDA user fee amendment.

1 **SEC. 2. FINDINGS AND PURPOSE.**

2 (a) FINDINGS.—The Congress makes the following  
 3 findings:

4 (1) Many of the Nation's urban centers are  
 5 places with high levels of poverty, high rates of wel-  
 6 fare dependency, high crime rates, poor schools, and  
 7 joblessness.

8 (2) Federal tax incentives and regulatory re-  
 9 forms can encourage economic growth, job creation,  
 10 and small business formation in many urban centers.

11 (3) Encouraging private sector investment in  
 12 America's economically distressed urban and rural  
 13 areas is essential to breaking the cycle of poverty  
 14 and the related ills of crime, drug abuse, illiteracy,  
 15 welfare dependency, and unemployment.

16 (b) PURPOSE.—The purpose of this Act is to increase  
 17 job creation, small business expansion and formation, edu-  
 18 cational opportunities, and homeownership, and to foster  
 19 moral renewal, in economically depressed areas by provid-

1 ing Federal tax incentives, regulatory reforms, school re-  
2 form pilot projects, and homeownership incentives.

3 **TITLE I—DESIGNATION AND**  
4 **TREATMENT OF RENEWAL**  
5 **COMMUNITIES**

6 **SEC. 101. SHORT TITLE.**

7 This title may be cited as the “Renewing American  
8 Communities Act of 1996”.

9 **SEC. 102. STATEMENT OF PURPOSE.**

10 It is the purpose of this title to provide for the estab-  
11 lishment of renewal communities in order to stimulate the  
12 creation of new jobs, particularly for disadvantaged work-  
13 ers and long-term unemployed individuals, and to promote  
14 revitalization of economically distressed areas primarily by  
15 providing or encouraging—

16 (1) tax relief at the Federal, State, and local  
17 levels;

18 (2) regulatory relief at the Federal, State, and  
19 local levels; and

20 (3) improved local services and an increase in  
21 the economic stake of renewal community residents  
22 in their own community and its development, par-  
23 ticularly through the increased involvement of pri-  
24 vate, local, and neighborhood organizations.

1 **SEC. 103. DESIGNATION AND TREATMENT OF RENEWAL**  
 2 **COMMUNITIES.**

3 (a) IN GENERAL.—Chapter 1 of the Internal Reve-  
 4 nue Code of 1986 is amended by adding at the end the  
 5 following new subchapter:

6 **“Subchapter W—Renewal Communities**

“Part I. Designation.

“Part II. Renewal community capital gain and stock.

“Part III. Family development accounts.

“Part IV. Additional Incentives.

7 **“PART I—DESIGNATION**

“Sec. 1400. Designation of Renewal Communities.

8 **“SEC. 1400. DESIGNATION OF RENEWAL COMMUNITIES.**

9 “(a) DESIGNATION.—

10 “(1) DEFINITIONS.—For purposes of this title,  
 11 the term ‘renewal community’ means any area—

12 “(A) which is nominated by one or more  
 13 local governments and the State or States in  
 14 which it is located for designation as a renewal  
 15 community (hereinafter in this section referred  
 16 to as a ‘nominated area’), and

17 “(B) which the Secretary of Housing and  
 18 Urban Development, after consultation with—

19 “(i) the Secretaries of Agriculture,  
 20 Commerce, Labor, and the Treasury; the  
 21 Director of the Office of Management and

1 Budget; and the Administrator of the  
2 Small Business Administration, and

3 “(ii) in the case of an area on an In-  
4 dian reservation, the Secretary of the Inte-  
5 rior,

6 designates as a renewal community.

7 “(2) NUMBER OF DESIGNATIONS.—

8 “(A) IN GENERAL.—The Secretary of  
9 Housing and Urban Development may des-  
10 ignate not more than 100 nominated areas as  
11 renewal communities.

12 “(B) MINIMUM DESIGNATION IN RURAL  
13 AREAS.—Of the areas designated under para-  
14 graph (1), at least 10 percent must be areas—

15 “(i) which are within a local govern-  
16 ment jurisdiction or jurisdictions with a  
17 population of less than 50,000 (as deter-  
18 mined under the most recent census data  
19 available),

20 “(ii) which are outside of a metropoli-  
21 tan statistical area (within the meaning of  
22 section 143(k)(2)(B)), or

23 “(iii) which are determined by the  
24 Secretary of Housing and Urban Develop-

1                   ment, after consultation with the Secretary  
2                   of Commerce, to be rural areas.

3                   “(C) ADDITIONAL DESIGNATIONS TO RE-  
4                   PLACE REVOKED DESIGNATIONS.—

5                   “(i) IN GENERAL.—The Secretary of  
6                   Housing and Urban Development may des-  
7                   ignate one additional area under subpara-  
8                   graph (A) to replace each area for which  
9                   the designation is revoked under subsection  
10                  (b)(2), but in no event may more than 100  
11                  areas designated under this subsection  
12                  bear designations as renewal communities  
13                  at any time.

14                  “(ii) EXTENSION OF TIME LIMIT ON  
15                  DESIGNATIONS.—In the case of any des-  
16                  ignation made under this subparagraph,  
17                  paragraph (4)(B) shall be applied by sub-  
18                  stituting ‘36-month’ for ‘24-month’.

19                  “(3) AREAS DESIGNATED BASED SOLELY ON  
20                  DEGREE OF POVERTY, ETC.—

21                  “(A) IN GENERAL.—Except as otherwise  
22                  provided in this section, the nominated areas  
23                  designated as renewal communities under this  
24                  subsection shall be those nominated areas with  
25                  the highest average ranking with respect to the

1 criteria described in subparagraphs (C), (D),  
2 and (E) of subsection (c)(3). For purposes of  
3 the preceding sentence, an area shall be ranked  
4 within each such criterion on the basis of the  
5 amount by which the area exceeds such cri-  
6 terion, with the area which exceeds such cri-  
7 terion by the greatest amount given the highest  
8 ranking.

9 “(B) EXCEPTION WHERE INADEQUATE  
10 COURSE OF ACTION, ETC.—An area shall not be  
11 designated under subparagraph (A) if the Sec-  
12 retary of Housing and Urban Development de-  
13 termines that the course of action described in  
14 subsection (d)(2) with respect to such area is  
15 inadequate.

16 “(C) SEPARATE APPLICATION TO RURAL  
17 AND OTHER AREAS.—Subparagraph (A) shall  
18 be applied separately with respect to areas de-  
19 scribed in paragraph (2)(B) and to other areas.

20 “(4) LIMITATION ON DESIGNATIONS.—

21 “(A) PUBLICATION OF REGULATIONS.—  
22 The Secretary of Housing and Urban Develop-  
23 ment shall prescribe by regulation no later than  
24 4 months after the date of the enactment of

1 this section, after consultation with the officials  
2 described in paragraph (1)(B)—

3 “(i) the procedures for nominating an  
4 area under paragraph (1)(A),

5 “(ii) the parameters relating to the  
6 size and population characteristics of a re-  
7 newal community, and

8 “(iii) the manner in which nominated  
9 areas will be evaluated based on the cri-  
10 teria specified in subsection (d).

11 “(B) TIME LIMITATIONS.—The Secretary  
12 of Housing and Urban Development may des-  
13 ignate nominated areas as renewal communities  
14 only during the 24-month period beginning on  
15 the first day of the first month following the  
16 month in which the regulations described in  
17 subparagraph (A) are prescribed.

18 “(C) PROCEDURAL RULES.—The Secretary  
19 of Housing and Urban Development shall not  
20 make any designation of a nominated area as a  
21 renewal community under paragraph (2) un-  
22 less—

23 “(i) the local governments and the  
24 State in which the nominated area is lo-  
25 cated have the authority—

1                   “(I) to nominate such area for  
2 designation as a renewal community,

3                   “(II) to make the State and local  
4 commitments described in subsection  
5 (d), and

6                   “(III) to provide assurances sat-  
7 isfactory to the Secretary of Housing  
8 and Urban Development that such  
9 commitments will be fulfilled,

10                   “(ii) a nomination regarding such  
11 area is submitted in such a manner and in  
12 such form, and contains such information,  
13 as the Secretary of Housing and Urban  
14 Development shall by regulation prescribe,  
15 and

16                   “(iii) the Secretary of Housing and  
17 Urban Development determines that any  
18 information furnished is reasonably accu-  
19 rate.

20                   “(5) NOMINATION PROCESS FOR INDIAN RES-  
21 ERVATIONS.—For purposes of this subchapter, in  
22 the case of a nominated area on an Indian reserva-  
23 tion, the reservation governing body (as determined  
24 by the Secretary of the Interior) shall be treated as

1 being both the State and local governments with re-  
2 spect to such area.

3 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-  
4 FECT.—

5 “(1) IN GENERAL.—Any designation of an area  
6 as a renewal community shall remain in effect dur-  
7 ing the period beginning on the date of the designa-  
8 tion and ending on the earliest of—

9 “(A) December 31 of the 7th calendar year  
10 following the calendar year in which such date  
11 occurs,

12 “(B) the termination date designated by  
13 the State and local governments in their nomi-  
14 nation pursuant to subsection (a)(4)(C)(ii), or

15 “(C) the date the Secretary of Housing  
16 and Urban Development revokes such designa-  
17 tion under paragraph (2).

18 “(2) REVOCATION OF DESIGNATION.—The Sec-  
19 retary of Housing and Urban Development may,  
20 after—

21 “(A) consultation with the officials de-  
22 scribed in subsection (a)(1)(B) (and the Sec-  
23 retary of Education if notification required  
24 under section 404 of the Low-Income Edu-

1            educational Opportunity Scholarship Act of 1996 is  
2            received), and

3            “(B) a hearing on the record involving offi-  
4            cials of the State or local government involved  
5            (or both, if applicable),

6            revoke the designation of an area if the Secretary of  
7            Housing and Urban Development determines that  
8            the local government or State in which the area is  
9            located is not complying substantially with the State  
10           or local commitments, respectively, described in sub-  
11           section (d).

12           “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

13           “(1) IN GENERAL.—The Secretary of Housing  
14           and Urban Development may designate any nomi-  
15           nated area as a renewal community under subsection  
16           (a) only if the area meets the requirements of para-  
17           graphs (2) and (3) of this subsection.

18           “(2) AREA REQUIREMENTS.—A nominated area  
19           meets the requirements of this paragraph if—

20           “(A) the area is within the jurisdiction of  
21           a local government,

22           “(B) the boundary of the area is continu-  
23           ous, and

24           “(C) the area—

1 (i) has a population, as determined by  
2 the most recent census data available, of at  
3 least—

4 “(I) 4,000 if any portion of such  
5 area (other than a rural area de-  
6 scribed in subsection (a)(2)(B)(i)) is  
7 located within a metropolitan statis-  
8 tical area (within the meaning of sec-  
9 tion 143(k)(2)(B)) which has a popu-  
10 lation of 50,000 or greater, or

11 “(II) 1,000 in any other case, or  
12 “(ii) is entirely within an Indian res-  
13 ervation (as determined by the Secretary of  
14 the Interior).

15 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-  
16 nated area meets the requirements of this paragraph  
17 if the State and the local governments in which it  
18 is located certify (and the Secretary of Housing and  
19 Urban Development, after such review of supporting  
20 data as he deems appropriate, accepts such certifi-  
21 cation) that—

22 “(A) the area is one of pervasive poverty,  
23 unemployment, and general distress,

24 “(B) the area is located wholly within the  
25 jurisdiction of a local government which is eligi-

1 ble for Federal assistance under section 119 of  
2 the Housing and Community Development Act  
3 of 1974, as in effect on the date of the enact-  
4 ment of this section,

5 “(C) the unemployment rate in the area,  
6 as determined by the appropriate available  
7 data, was at least 1½ times the national unem-  
8 ployment rate for the period to which such data  
9 relate,

10 “(D) the poverty rate (as determined by  
11 the most recent census data available) for each  
12 population census tract (or where not tracted,  
13 the equivalent county division as defined by the  
14 Bureau of the Census for the purpose of defin-  
15 ing poverty areas) within the area was at least  
16 20 percent for the period to which such data re-  
17 late, and

18 “(E) at least 70 percent of the households  
19 living in the area have incomes below 80 per-  
20 cent of the median income of households within  
21 the jurisdiction of the local government (deter-  
22 mined in the same manner as under section  
23 119(b)(2) of the Housing and Community De-  
24 velopment Act of 1974).

1       “(d) REQUIRED STATE AND LOCAL COMMIT-  
2 MENTS.—

3           “(1) IN GENERAL.—The Secretary of Housing  
4 and Urban Development may designate any nomi-  
5 nated area as a renewal community under subsection  
6 (a) only if—

7           “(A) the local government and the State in  
8 which the area is located agree in writing that,  
9 during any period during which the area is a  
10 renewal community, such governments will—

11           “(i) follow a specified course of action  
12 which meets the requirements of para-  
13 graph (2) and is designed to reduce the  
14 various burdens borne by employers or em-  
15 ployees in such area, and

16           “(ii) comply with the requirements of  
17 the Low-Income Educational Opportunity  
18 Scholarship Act of 1996, and

19           “(B) the economic growth promotion re-  
20 quirements of paragraph (3) are met.

21       “(2) COURSE OF ACTION.—

22           “(A) IN GENERAL.—A course of action  
23 meets the requirements of this paragraph if  
24 such course of action is a written document,  
25 signed by a State (or local government) and

1 neighborhood organizations, which evidences a  
2 partnership between such State or government  
3 and community-based organizations and which  
4 commits each signatory to specific and measur-  
5 able goals, actions, and timetables. Such course  
6 of action shall include at least five of the follow-  
7 ing:

8 “(i) A reduction of tax rates or fees  
9 applying within the renewal community.

10 “(ii) An increase in the level of effi-  
11 ciency of local services within the renewal  
12 community.

13 “(iii) Crime reduction strategies, such  
14 as crime prevention (including the provi-  
15 sion of such services by nongovernmental  
16 entities).

17 “(iv) Actions to reduce, remove, sim-  
18 plify, or streamline governmental require-  
19 ments applying within the renewal commu-  
20 nity.

21 “(v) Involvement in the program by  
22 private entities, organizations, neighbor-  
23 hood organizations, and community  
24 groups, particularly those in the renewal  
25 community, including a commitment from

1           such private entities to provide jobs and  
2           job training for, and technical, financial, or  
3           other assistance to, employers, employees,  
4           and residents from the renewal community.

5           “(vi) State or local income tax bene-  
6           fits for fees paid for services performed by  
7           a nongovernmental entity which were for-  
8           merly performed by a governmental entity.

9           “(vii) The gift (or sale at below fair  
10          market value) of surplus realty (such as  
11          land, homes, and commercial or industrial  
12          structures) in the renewal community to  
13          neighborhood organizations, community de-  
14          velopment corporations, or private compa-  
15          nies.

16          “(B) RECOGNITION OF PAST EFFORTS.—

17          For purposes of this section, in evaluating the  
18          course of action agreed to by any State or local  
19          government, the Secretary of Housing and  
20          Urban Development shall take into account the  
21          past efforts of such State or local government  
22          in reducing the various burdens borne by em-  
23          ployers and employees in the area involved.

24          “(3) ECONOMIC GROWTH PROMOTION REQUIRE-  
25          MENTS.—The economic growth promotion require-

1       ments of this paragraph are met with respect to a  
2       nominated area if the local government and the  
3       State in which such area is located certify in writing  
4       that such government and State, respectively, have  
5       repealed or otherwise will not enforce within the  
6       area, if such area is designated as a renewal commu-  
7       nity—

8               (A) licensing requirements for occupations  
9               that do not ordinarily require a professional de-  
10              gree,

11              (B) zoning restrictions on home-based  
12              businesses which do not create a public nei-  
13              sance,

14              (C) permit requirements for street vendors  
15              who do not create a public nuisance,

16              (D) zoning or other restrictions that im-  
17              pede the formation of schools or child care cen-  
18              ters, and

19              (E) franchises or other restrictions on  
20              competition for businesses providing public  
21              services, including but not limited to taxicabs,  
22              jitneys, cable television, or trash hauling,

23       except to the extent that such regulation of busi-  
24       nesses and occupations is necessary for and well-tai-  
25       lored to the protection of health and safety.

1       “(e) SPECIAL RULES FOR EMPOWERMENT ZONES  
2 AND ENTERPRISE COMMUNITIES DESIGNATED AS RE-  
3 NEWAL COMMUNITIES.—

4               “(1) IN GENERAL.—Any empowerment zone or  
5 enterprise community which is designated as a re-  
6 newal community under this section shall be treated  
7 as if its designation as an empowerment zone or en-  
8 terprise community ended (except as provided in  
9 paragraph (2)) on the date of such designation as a  
10 renewal community.

11               “(2) ENTERPRISE ZONE FACILITY BONDS.—In  
12 the case of an empowerment zone or enterprise com-  
13 munity described in paragraph (1), designation as  
14 an empowerment zone or enterprise community shall  
15 be treated as ended, for purposes of applying section  
16 1394, with respect to obligations issued after the  
17 date of designation as a renewal community, except  
18 that designation as an empowerment zone or enter-  
19 prise community shall not be treated as ended with  
20 respect to any obligation (or series of obligations) is-  
21 sued to refund an obligation issued before such date,  
22 if the refunding obligation meets the requirements of  
23 subclauses (I), (II), and (III) of section  
24 144(a)(12)(A)(ii).

1       “(f) DEFINITIONS.—For purposes of this sub-  
2 chapter—

3               “(1) GOVERNMENTS.—If more than one govern-  
4 ment seeks to nominate an area as a renewal com-  
5 munity, any reference to, or requirement of, this sec-  
6 tion shall apply to all such governments.

7               “(2) STATE.—The term ‘State’ includes Puerto  
8 Rico, the Virgin Islands of the United States, Guam,  
9 American Samoa, the Northern Mariana Islands,  
10 and any other possession of the United States.

11              “(3) LOCAL GOVERNMENT.—The term ‘local  
12 government’ means—

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

16                   “(B) any combination of political subdivi-  
17 sions described in subparagraph (A) recognized  
18 by the Secretary of Housing and Urban Devel-  
19 opment, and

20                   “(C) the District of Columbia.

21       **“PART II—RENEWAL COMMUNITY CAPITAL GAIN**

22                                   **AND STOCK**

“Sec. 1400A. Renewal community capital gain.

“Sec. 1400B. Renewal community stock.

“Sec. 1400C. Renewal community business defined.

1 **“SEC. 1400A. RENEWAL COMMUNITY CAPITAL GAIN.**

2       “(a) GENERAL RULE.—Gross income does not in-  
3 clude any qualified capital gain recognized on the sale or  
4 exchange of a qualified community asset held for more  
5 than 5 years.

6       “(b) QUALIFIED COMMUNITY ASSET.—For purposes  
7 of this section—

8           “(1) IN GENERAL.—The term ‘qualified com-  
9 munity asset’ means—

10                   “(A) any qualified community stock,

11                   “(B) any qualified community business  
12 property, and

13                   “(C) any qualified community partnership  
14 interest.

15       “(2) QUALIFIED COMMUNITY STOCK.—

16           “(A) IN GENERAL.—Except as provided in  
17 subparagraph (B), the term ‘qualified commu-  
18 nity stock’ means any stock in a domestic cor-  
19 poration if—

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

23                   “(ii) as of the time such stock was is-  
24 sued, such corporation was a renewal com-  
25 munity business (or, in the case of a new  
26 corporation, such corporation was being or-

1 organized for purposes of being a renewal  
2 community business), and

3 “(iii) during substantially all of the  
4 taxpayer’s holding period for such stock,  
5 such corporation qualified as a renewal  
6 community business.

7 “(B) EXCLUSION OF STOCK FOR WHICH  
8 DEDUCTION UNDER SECTION 1400B AL-  
9 LOWED.—The term ‘qualified community stock’  
10 shall not include any stock the basis of which  
11 is reduced under section 1400B.

12 “(C) REDEMPTIONS.—The term ‘qualified  
13 community stock’ shall not include any stock  
14 acquired from a corporation which made a sub-  
15 stantial stock redemption or distribution (with-  
16 out a bona fide business purpose therefor) in an  
17 attempt to avoid the purposes of this section.

18 “(3) QUALIFIED COMMUNITY BUSINESS PROP-  
19 erty.—

20 “(A) IN GENERAL.—The term ‘qualified  
21 community business property’ means tangible  
22 property if—

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

1 the designation of the renewal community  
2 took effect,

3 “(ii) the original use of such property  
4 in the renewal community commences with  
5 the taxpayer, and

6 “(iii) during substantially all of the  
7 taxpayer’s holding period for such prop-  
8 erty, substantially all of the use of such  
9 property was in a renewal community busi-  
10 ness of the taxpayer.

11 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-  
12 PROVEMENTS.—

13 “(i) IN GENERAL.—The requirements  
14 of clauses (i) and (ii) of subparagraph (A)  
15 shall be treated as satisfied with respect  
16 to—

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

19 “(II) any land on which such  
20 property is located.

21 “(ii) SUBSTANTIAL IMPROVEMENT.—  
22 For purposes of clause (i), property shall  
23 be treated as substantially improved by the  
24 taxpayer only if, during any 24-month pe-  
25 riod beginning after the date on which the

1 designation of the renewal community took  
2 effect, additions to basis with respect to  
3 such property in the hands of the taxpayer  
4 exceed the greater of—

5 “(I) an amount equal to the ad-  
6 justed basis at the beginning of such  
7 24-month period in the hands of the  
8 taxpayer, or

9 “(II) \$5,000.

10 “(C) LIMITATION ON LAND.—The term  
11 ‘qualified community business property’ shall  
12 not include land which is not an integral part  
13 of a renewal community business.

14 “(4) QUALIFIED COMMUNITY PARTNERSHIP IN-  
15 TEREST.—The term ‘qualified community partner-  
16 ship interest’ means any interest in a partnership  
17 if—

18 “(A) such interest is acquired by the tax-  
19 payer from the partnership solely in exchange  
20 for cash,

21 “(B) as of the time such interest was ac-  
22 quired, such partnership was a renewal commu-  
23 nity business (or, in the case of a new partner-  
24 ship, such partnership was being organized for

1 purposes of being a renewal community busi-  
2 ness), and

3 “(C) during substantially all of the tax-  
4 payer’s holding period for such interest, such  
5 partnership qualified as a renewal community  
6 business.

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

9 “(5) TREATMENT OF SUBSEQUENT PUR-  
10 CHASERS.—The term ‘qualified community asset’ in-  
11 cludes any property which would be a qualified com-  
12 munity asset but for paragraph (2)(A)(i), (3)(A)(ii),  
13 or (4)(A) in the hands of the taxpayer if such prop-  
14 erty was a qualified community asset in the hands  
15 of all prior holders.

16 “(6) 10-YEAR SAFE HARBOR.—If any property  
17 ceases to be a qualified community asset by reason  
18 of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after  
19 the 10-year period beginning on the date the tax-  
20 payer acquired such property, such property shall  
21 continue to be treated as meeting the requirements  
22 of such paragraph; except that the amount of gain  
23 to which subsection (a) applies on any sale or ex-  
24 change of such property shall not exceed the amount

1 which would be qualified capital gain had such prop-  
2 erty been sold on the date of such cessation.

3 “(7) TREATMENT OF COMMUNITY DESIGNATION  
4 TERMINATIONS.—The termination of any designa-  
5 tion of an area as a renewal community shall be dis-  
6 regarded for purposes of determining whether any  
7 property is a qualified community asset.

8 “(c) OTHER DEFINITIONS AND SPECIAL RULES.—  
9 For purposes of this section—

10 “(1) QUALIFIED CAPITAL GAIN.—Except as  
11 otherwise provided in this subsection, the term  
12 ‘qualified capital gain’ means any long-term capital  
13 gain recognized on the sale or exchange of a quali-  
14 fied community asset held for more than 5 years  
15 (determined without regard to any period before the  
16 designation of the renewal community).

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

23 “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER  
24 TERMINATION OF COMMUNITY DESIGNATION NOT  
25 QUALIFIED.—The term ‘qualified capital gain’ shall

1 not include any gain attributable to periods after the  
2 termination of any designation of an area as a re-  
3 newal community.

4 “(4) RELATED PARTY TRANSACTIONS.—The  
5 term ‘qualified capital gain’ shall not include any  
6 gain attributable, directly or indirectly, in whole or  
7 in part, to a transaction with a related person. For  
8 purposes of this paragraph, persons are related to  
9 each other if such persons are described in section  
10 267(b) or 707(b)(1).

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

12 “(1) SALES AND EXCHANGES.—Gain on the  
13 sale or exchange of an interest in a pass-thru entity  
14 held by the taxpayer (other than an interest in an  
15 entity which was a renewal community business dur-  
16 ing substantially all of the period the taxpayer held  
17 such interest) for more than 5 years shall be treated  
18 as gain described in subsection (a) to the extent  
19 such gain is attributable to amounts which would be  
20 qualified capital gain on qualified community assets  
21 (determined as if such assets had been sold on the  
22 date of the sale or exchange) held by such entity for  
23 more than 5 years (determined without regard to  
24 any period before the date of the designation of the  
25 renewal community) and throughout the period the

1 taxpayer held such interest. A rule similar to the  
2 rule of paragraph (2)(C) shall apply for purposes of  
3 the preceding 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 a renewal community business during sub-  
9 stantially all of the period the taxpayer held the  
10 interest 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 community  
20 asset in the hands of such entity and  
21 which was held by such entity for the pe-  
22 riod required 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 community  
14          asset was acquired.

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

17                  “(A) any partnership,

18                  “(B) any S corporation,

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 COMMUNITY BUSINESSES.—In the case of the  
25          sale or exchange of an interest in a partnership, or of

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

5 “(1) any intangible, and any land, which is not  
6 an integral part of any qualified business entity (as  
7 defined in section 1400C(b)), and

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

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 community asset to which this subsection  
14 applies, 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 community asset with re-  
3           spect to which the requirements of subsection  
4           (d)(2) are met at the time of the transfer (with-  
5           out regard 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           **“SEC. 1400B. RENEWAL COMMUNITY STOCK.**

10          “(a) GENERAL RULE.—At the election of any individ-  
11          ual, the aggregate amount paid by such taxpayer during  
12          the taxable year for the purchase of renewal community  
13          stock shall be allowed as a deduction.

14          “(b) LIMITATIONS.—

15                  “(1) CEILING.—

16                          “(A) IN GENERAL.—The maximum  
17                          amount allowed as a deduction under subsection  
18                          (a) to a taxpayer shall not exceed—

19                                  “(i) \$100,000 for any taxable year,  
20                                  and

21                                  “(ii) when added to the aggregate  
22                                  amount allowed as a deduction under this  
23                                  section in all prior years, \$500,000.

1           “(B) EXCESS AMOUNTS.—If the amount  
2 otherwise deductible by any person under sub-  
3 section (a) exceeds the limitation under—

4           “(i) subparagraph (A)(i), the amount  
5 of such excess shall be treated as an  
6 amount paid in the next taxable year, and

7           “(ii) subparagraph (A), the deduction  
8 allowed for any taxable year shall be allo-  
9 cated proportionately among the renewal  
10 community stock purchased by such person  
11 on the basis of the respective purchase  
12 prices per share.

13           “(2) RELATED PERSONS.—The taxpayer and  
14 members of the taxpayer’s family shall be treated as  
15 one person for purposes of paragraph (1) and the  
16 limitations contained in such paragraph shall be al-  
17 located among the taxpayer and such members in  
18 accordance with their respective purchases of re-  
19 newal community stock. For purposes of this para-  
20 graph, an individual’s family includes only such indi-  
21 vidual’s spouse and minor children.

22           “(3) PARTIAL TAXABLE YEAR.—If designation  
23 of an area as a renewal community occurs, expires,  
24 or is revoked pursuant to section 1400 on a date  
25 other than the first or last day of the taxable year

1 of the taxpayer, or in the case of a short taxable  
2 year, the limitations specified in paragraph (1) shall  
3 be adjusted on a pro rata basis (based upon the  
4 number of days).

5 “(c) RENEWAL COMMUNITY STOCK.—For purposes  
6 of this section—

7 “(1) IN GENERAL.—The term ‘renewal commu-  
8 nity stock’ means stock of a corporation if—

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

11 “(B) such corporation is, at the time of  
12 such issuance, a qualified renewal community  
13 issuer.

14 “(2) PROCEEDS MUST BE INVESTED IN QUALI-  
15 FIED RENEWAL COMMUNITY PROPERTY.—

16 “(A) IN GENERAL.—Such term shall in-  
17 clude such stock only to the extent that the pro-  
18 ceeds of such issuance are used by such issuer  
19 during the 12-month period beginning on the  
20 date of issuance to purchase (as defined in sec-  
21 tion 179(d)(2)) qualified renewal community  
22 property.

23 “(B) QUALIFIED RENEWAL COMMUNITY  
24 PROPERTY.—For purposes of this section, the  
25 term ‘qualified renewal community property’

1 means property to which section 168 applies (or  
2 would apply but for section 179)—

3 “(i) the original use of which com-  
4 mences in a renewal community with the  
5 issuer, and

6 “(ii) substantially all of the use of  
7 which is in such renewal community.

8 “(3) REDEMPTIONS.—The term ‘renewal com-  
9 munity stock’ shall not include any stock acquired  
10 from a corporation which made a substantial stock  
11 redemption or distribution (without a bona fide busi-  
12 ness purpose therefor) in an attempt to avoid the  
13 purposes of this section.

14 “(d) QUALIFIED RENEWAL COMMUNITY ISSUER.—  
15 For purposes of this section, the term ‘qualified renewal  
16 community issuer’ means any domestic C corporation if—

17 “(1) such corporation is a corporation described  
18 in section 1400C(b) or, in the case of a new corpora-  
19 tion, such corporation is being organized for pur-  
20 poses of being such a corporation,

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

23 “(3) the sum of—

24 “(A) the money,

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

3           “(C) the value of property leased to the  
4           corporation (as determined under regulations  
5           prescribed by the Secretary),  
6           does not exceed \$50,000,000, and

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

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

15          “(e) DISPOSITIONS OF STOCK.—

16                 “(1) BASIS REDUCTION.—For purposes of this  
17                 title, the basis of any renewal community stock shall  
18                 be reduced by the amount of the deduction allowed  
19                 under this section with respect to such stock.

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

22                         “(A) any stock the basis of which is re-  
23                         duced under paragraph (1) (and any other  
24                         property the basis of which is determined in  
25                         whole or in part by reference to the adjusted

1 basis of such stock) shall be treated as section  
2 1245 property, and

3 “(B) any reduction under paragraph (1)  
4 shall be treated as a deduction allowed for de-  
5 preciation.

6 If an exchange of any stock described in paragraph  
7 (1) qualifies under section 354(a), 355(a), or  
8 356(a), the amount of gain recognized under section  
9 1245 by reason of this paragraph shall not exceed  
10 the amount of gain recognized in the exchange (de-  
11 termined without regard to this paragraph).

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

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

20 “(A) IN GENERAL.—If—

21 “(i) a taxpayer disposes of any re-  
22 newal community stock with respect to  
23 which a deduction was allowed under sub-  
24 section (a) (or any other property the basis  
25 of which is determined in whole or in part

1 by reference to the adjusted basis of such  
2 stock) before the end of the 5-year period  
3 beginning on the date such stock was pur-  
4 chased by the taxpayer, and

5 “(ii) section 1245(a) applies to such  
6 disposition by reason of paragraph (2),  
7 then the tax imposed by this chapter for the  
8 taxable year in which such disposition occurs  
9 shall be increased by the amount determined  
10 under subparagraph (B).

11 “(B) INCREASE AMOUNT.—For purposes  
12 of subparagraph (A), the amount of the in-  
13 crease shall be equal to the amount of interest  
14 (determined at the rate applicable under section  
15 6621(a)(2)) that would accrue—

16 “(i) during the period beginning on  
17 the date the stock was purchased by the  
18 taxpayer and ending on the date of such  
19 disposition by the taxpayer, and

20 “(ii) on an amount equal to the aggre-  
21 gate decrease in tax of the taxpayer result-  
22 ing from the deduction allowed under sub-  
23 section (a) of this section with respect to  
24 such stock.

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

4                   “(i) determining the amount of any  
5                   credit allowable under this chapter, and

6                   “(ii) determining the amount of the  
7                   tax imposed by section 55.

8           “(f) DISQUALIFICATION.—

9                   “(1) ISSUER CEASES TO QUALIFY.—If, during  
10           the 10-year period beginning on the date renewal  
11           community stock was purchased by the taxpayer, the  
12           issuer of such stock ceases to be a qualified renewal  
13           community issuer (determined without regard to  
14           subsection (d)(3)), then notwithstanding any provi-  
15           sion of this subtitle other than paragraph (2), the  
16           taxpayer shall be treated for purposes of subsection  
17           (e) as disposing of such stock (and any other prop-  
18           erty the basis of which is determined in whole or in  
19           part by reference to the adjusted basis of such  
20           stock) during the taxable year during which such  
21           cessation occurs at its fair market value as of the  
22           1st day of such taxable year.

23                   “(2) CESSATION OF RENEWAL COMMUNITY STA-  
24           TUS NOT TO CAUSE RECAPTURE.—A corporation  
25           shall not fail to be treated as a qualified renewal

1 community issuer for purposes of paragraph (1)  
2 solely by reason of the termination or revocation of  
3 a designation as a renewal community, as the case  
4 may be.

5 “(g) OTHER SPECIAL RULES.—

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

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

15 **“SEC. 1400C. RENEWAL COMMUNITY BUSINESS DEFINED.**

16 “(a) IN GENERAL.—For purposes of this part, the  
17 term ‘renewal community business’ means—

18 “(1) any qualified business entity, and

19 “(2) any qualified proprietorship.

20 Such term shall include any trades or businesses which  
21 would qualify as a renewal community business if such  
22 trades or businesses were separately incorporated. Such  
23 term shall not include any trade or business of producing  
24 property of a character subject to the allowance for deple-  
25 tion under section 611.

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

5           “(1) every trade or business of such entity is  
6 the active conduct of a qualified business within a  
7 renewal community,

8           “(2) at least 80 percent of the total gross in-  
9 come of such entity is derived from the active con-  
10 duct of such business,

11           “(3) substantially all of the use of the tangible  
12 property of such entity (whether owned or leased) is  
13 within a renewal community,

14           “(4) substantially all of the intangible property  
15 of such entity is used in, and exclusively related to,  
16 the active conduct of any such business,

17           “(5) substantially all of the services performed  
18 for such entity by its employees are performed in a  
19 renewal community,

20           “(6) at least 35 percent of its employees are  
21 residents of a renewal community,

22           “(7) less than 5 percent of the average of the  
23 aggregate unadjusted bases of the property of such  
24 entity is attributable to collectibles (as defined in  
25 section 408(m)(2)) other than collectibles that are

1 held primarily for sale to customers in the ordinary  
2 course of such business, and

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

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

12 “(1) at least 80 percent of the total gross in-  
13 come of such individual from such business is de-  
14 rived from the active conduct of such business in a  
15 renewal community,

16 “(2) substantially all of the use of the tangible  
17 property of such individual in such business (wheth-  
18 er owned or leased) is within a renewal community,

19 “(3) substantially all of the intangible property  
20 of such business is used in, and exclusively related  
21 to, the active conduct of such business,

22 “(4) substantially all of the services performed  
23 for such individual in such business by employees of  
24 such business are performed in a renewal commu-  
25 nity,

1           “(5) at least 35 percent of such employees are  
2 residents of a renewal community,

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

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

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

16           “(d) QUALIFIED BUSINESS.—For purposes of this  
17 section—

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

21           “(2) RENTAL OF REAL PROPERTY.—The rental  
22 to others of real property located in a renewal com-  
23 munity shall be treated as a qualified business if and  
24 only if—

1           “(A) the property is not residential rental  
2           property (as defined in section 168(e)(2)), and

3           “(B) at least 50 percent of the gross rental  
4           income from the real property is from renewal  
5           community businesses.

6           “(3) RENTAL OF TANGIBLE PERSONAL PROP-  
7           PERTY.—The rental to others of tangible personal  
8           property shall be treated as a qualified business if  
9           and only if substantially all of the rental of such  
10          property is by renewal community businesses or by  
11          residents of a renewal community.

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

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

19                 “(A) any trade or business consisting of  
20                 the operation of any facility described in section  
21                 144(c)(6)(B), and

22                 “(B) any trade or business the principal  
23                 activity of which is farming (within the meaning  
24                 of subparagraphs (A) or (B) of section

1           2032A(e)(5)), but only if, as of the close of the  
2           preceding taxable year, the sum of—

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

7                   “(ii) the aggregate value of assets  
8                   leased by the taxpayer which are used in  
9                   such a trade or business,

10           exceeds \$500,000.

11           “(6) CONTROLLED GROUPS.—For purposes of  
12           paragraph (5)(B), all persons treated as a single em-  
13           ployer under subsection (a) or (b) of section 52 shall  
14           be treated as a single taxpayer.

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

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



1 “(2) LIMITATION.—

2 “(A) IN GENERAL.—The amount allowable  
3 as a deduction to any individual for any taxable  
4 year by reason of paragraph (1)(A) shall not  
5 exceed the lesser of—

6 “(i) \$2,000, or

7 “(ii) an amount equal to the com-  
8 pensation includible in the individual’s  
9 gross income for such taxable year.

10 “(B) PERSONS DONATING TO FAMILY DE-  
11 VELOPMENT ACCOUNTS OF OTHERS.—The  
12 amount allowable as a deduction to any person  
13 for any taxable year by reason of paragraph  
14 (1)(B) shall not exceed \$1,000 with respect to  
15 any qualified individual.

16 “(3) SPECIAL RULES FOR CERTAIN MARRIED  
17 INDIVIDUALS.—

18 “(A) IN GENERAL.—In the case of any in-  
19 dividual with respect to whom a deduction is  
20 otherwise allowable under paragraph (1)(A)—

21 “(i) who files a joint return for a tax-  
22 able year, and

23 “(ii) whose spouse is a qualified indi-  
24 vidual and—

1                   “(I) has no compensation (deter-  
2                   mined without regard to section 911)  
3                   for the taxable year, or

4                   “(II) elects to be treated for pur-  
5                   poses of paragraph (2)(A)(ii) as hav-  
6                   ing no compensation for the taxable  
7                   year,

8                   there shall be allowed as a deduction any  
9                   amount paid in cash for the taxable year by the  
10                  individual to a family development account es-  
11                  tablished for the benefit of the spouse of the in-  
12                  dividual.

13                  “(B) LIMITATION.—The amount allowable  
14                  as a deduction under subparagraph (A) shall  
15                  not exceed the excess of—

16                         “(i) the lesser of—

17                                 “(I) \$2,250, or

18                                 “(II) an amount equal to the  
19                                 compensation includible in the individ-  
20                                 ual’s gross income for the taxable  
21                                 year, over

22                                 “(ii) the amount allowable as a deduc-  
23                                 tion under paragraph (1) for the taxable  
24                                 year.

1           In no event shall the amount allowable as a de-  
2           duction under subparagraph (A) exceed \$2,000.

3           “(4) ROLLOVERS.—No deduction shall be al-  
4           lowed under this section with respect to any rollover  
5           contribution.

6           “(b) TAX TREATMENT OF DISTRIBUTIONS.—

7           “(1) INCLUSION OF AMOUNTS IN GROSS IN-  
8           COME.—Except as otherwise provided in this sub-  
9           section, any amount paid or distributed out of a  
10          family development account shall be included in  
11          gross income by the payee or distributee, as the case  
12          may be.

13          “(2) EXCLUSION OF QUALIFIED FAMILY DEVEL-  
14          OPMENT DISTRIBUTIONS.—Paragraph (1) shall not  
15          apply to any qualified family development distribu-  
16          tion.

17          “(3) SPECIAL RULES.—Rules similar to the  
18          rules of paragraphs (4) and (5) of section 408(d)  
19          shall apply for purposes of this section.

20          “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBU-  
21          TION.—For purposes of this section—

22          “(1) IN GENERAL.—The term ‘qualified family  
23          development distribution’ means any amount paid or  
24          distributed out of a family development account  
25          which would otherwise be includible in gross income,

1 to the extent that such payment or distribution is  
2 used exclusively to pay qualified family development  
3 expenses for the holder of the account or the spouse  
4 or dependent (as defined in section 152) of such  
5 holder.

6 “(2) QUALIFIED FAMILY DEVELOPMENT EX-  
7 PENSES.—The term ‘qualified family development  
8 expenses’ means any of the following:

9 “(A) Qualified postsecondary educational  
10 expenses.

11 “(B) First-home purchase costs.

12 “(C) Qualified business capitalization  
13 costs.

14 “(D) Qualified medical expenses.

15 “(E) Qualified rollovers.

16 “(3) QUALIFIED POSTSECONDARY EDU-  
17 CATIONAL EXPENSES.—

18 “(A) IN GENERAL.—The term ‘qualified  
19 postsecondary educational expenses’ means  
20 postsecondary educational expenses paid to an  
21 eligible educational institution.

22 “(B) POST-SECONDARY EDUCATIONAL EX-  
23 PENSES.—The term ‘post-secondary educational  
24 expenses’ means tuition, fees, room, board,  
25 books, supplies, and equipment required for the

1 enrollment or attendance of a student at an eli-  
2 gible educational institution.

3 “(C) ELIGIBLE EDUCATIONAL INSTITU-  
4 TION.—The term ‘eligible educational institu-  
5 tion’ means the following:

6 “(i) INSTITUTION OF HIGHER EDU-  
7 CATION.—An institution described in sec-  
8 tion 481(a)(1) or 1201(a) of the Higher  
9 Education Act of 1965 (20 U.S.C.  
10 1088(a)(1), 1141(a)), as such sections are  
11 in effect on the date of the enactment of  
12 this section.

13 “(ii) POSTSECONDARY VOCATIONAL  
14 EDUCATION SCHOOL.—An area vocational  
15 education school (as defined in subpara-  
16 graph (C) or (D) of section 521(4) of the  
17 Carl D. Perkins Vocational and Applied  
18 Technology Education Act (20 U.S.C.  
19 2471(4))) which is in any State (as defined  
20 in section 521(33) of such Act), as such  
21 sections are in effect on the date of the en-  
22 actment of this section.

23 “(D) COORDINATION WITH SAVINGS BOND  
24 PROVISIONS.—The amount of qualified post-  
25 secondary educational expenses for any taxable

1 year shall be reduced by any amount excludable  
2 from gross income under section 135.

3 “(4) FIRST-HOME PURCHASE COSTS.—

4 “(A) IN GENERAL.—The term ‘first-home  
5 purchase costs’ means qualified acquisition  
6 costs with respect to a qualified principal resi-  
7 dence for a qualified first-time homebuyer.

8 “(B) QUALIFIED ACQUISITION COSTS.—  
9 The term ‘qualified acquisition costs’ means the  
10 costs of acquiring, constructing, or reconstruct-  
11 ing a residence. Such term includes any usual  
12 or reasonable settlement, financing, or other  
13 closing costs.

14 “(C) QUALIFIED PRINCIPAL RESIDENCE.—  
15 The term ‘qualified principal residence’ means a  
16 principal residence (within the meaning of sec-  
17 tion 1034), the qualified acquisition costs of  
18 which do not exceed 100 percent of the average  
19 area purchase price applicable to such residence  
20 (determined in accordance with paragraphs (2)  
21 and (3) of section 143(e)).

22 “(D) QUALIFIED FIRST-TIME HOME-  
23 BUYER.—

24 “(i) IN GENERAL.—The term ‘quali-  
25 fied first-time homebuyer’ means an indi-

1           vidual if such individual (and, in the case  
2           of a married individual, the individual’s  
3           spouse) has no present ownership interest  
4           in a principal residence during the 3-year  
5           period ending on the date of acquisition of  
6           the principal residence to which this sub-  
7           section applies.

8           “(ii) DATE OF ACQUISITION.—The  
9           term ‘date of acquisition’ means the date  
10          on which a binding contract to acquire,  
11          construct, or reconstruct the principal resi-  
12          dence to which this subsection applies is  
13          entered into.

14          “(5) QUALIFIED BUSINESS CAPITALIZATION  
15          COSTS.—

16               “(A) IN GENERAL.—The term ‘qualified  
17               business capitalization costs’ means qualified  
18               expenditures for the capitalization of a qualified  
19               business pursuant to a qualified plan.

20               “(B) QUALIFIED EXPENDITURES.—The  
21               term ‘qualified expenditures’ means expendi-  
22               tures included in a qualified plan, including  
23               capital, plant, equipment, working capital, and  
24               inventory expenses.

1           “(C) QUALIFIED BUSINESS.—The term  
2           ‘qualified business’ means any business that  
3           does not contravene any law or public policy (as  
4           determined by the Secretary).

5           “(D) QUALIFIED PLAN.—The term ‘quali-  
6           fied plan’ means a business plan which—

7                   “(i) is approved by a financial institu-  
8                   tion, or by a nonprofit loan fund having  
9                   demonstrated fiduciary integrity,

10                   “(ii) includes a description of services  
11                   or goods to be sold, a marketing plan, and  
12                   projected financial statements, and

13                   “(iii) may require the eligible individ-  
14                   ual to obtain the assistance of an experi-  
15                   enced entrepreneurial advisor.

16           “(6) QUALIFIED MEDICAL EXPENSES.—The  
17           term ‘qualified medical expenses’ means any amount  
18           paid during the taxable year, not compensated for by  
19           insurance or otherwise, for medical care (as defined  
20           in section 213(d)) of the taxpayer, his spouse, or his  
21           dependent (as defined in section 152).

22           “(7) QUALIFIED ROLLOVERS.—The term ‘quali-  
23           fied rollover’ means any amount paid from a family  
24           development account of a taxpayer into another such  
25           account established for the benefit of—

1 “(A) such taxpayer, or

2 “(B) any qualified individual who is—

3 “(i) the spouse of such taxpayer, or

4 “(ii) any dependent (as defined in sec-  
5 tion 152) of the taxpayer.

6 Rules similar to the rules of section 408(d)(3) shall  
7 apply for purposes of this paragraph.

8 “(d) TAX TREATMENT OF ACCOUNTS.—

9 “(1) IN GENERAL.—Any family development ac-  
10 count is exempt from taxation under this subtitle  
11 unless such account has ceased to be a family devel-  
12 opment account by reason of paragraph (2). Not-  
13 withstanding the preceding sentence, any such ac-  
14 count is subject to the taxes imposed by section 511  
15 (relating to imposition of tax on unrelated business  
16 income of charitable, etc., organizations).

17 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-  
18 ITED TRANSACTIONS.—For purposes of this section,  
19 rules similar to the rules of section 408(e) shall  
20 apply.

21 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-  
22 poses of this title, the term ‘family development account’  
23 means a trust created or organized in the United States  
24 for the exclusive benefit of a qualified individual or his

1 beneficiaries, but only if the written governing instrument  
2 creating the trust meets the following requirements:

3           “(1) Except in the case of a qualified rollover  
4           (as defined in subsection (c)(7))—

5                   “(A) no contribution will be accepted un-  
6                   less it is in cash, and

7                   “(B) contributions will not be accepted for  
8                   the taxable year in excess of \$2,000 (deter-  
9                   mined without regard to any contribution made  
10                  under section 1400E (relating to demonstration  
11                  program to provide matching amounts in re-  
12                  newal communities)).

13           “(2) The trustee is a bank (as defined in sec-  
14           tion 408(n)) or such other person who demonstrates  
15           to the satisfaction of the Secretary that the manner  
16           in which such other person will administer the trust  
17           will be consistent with the requirements of this sec-  
18           tion.

19           “(3) No part of the trust funds will be invested  
20           in life insurance contracts.

21           “(4) The interest of an individual in the bal-  
22           ance in his account is nonforfeitable.

23           “(5) The assets of the trust will not be commin-  
24           gled with other property except in a common trust  
25           fund or common investment fund.

1           “(6) Under regulations prescribed by the Sec-  
2           retary, rules similar to the rules of section 401(a)(9)  
3           and the incidental death benefit requirements of sec-  
4           tion 401(a) shall apply to the distribution of the en-  
5           tire interest of an individual for whose benefit the  
6           trust is maintained.

7           “(f) QUALIFIED INDIVIDUAL.—For purposes of this  
8           section, the term ‘qualified individual’ means, for any tax-  
9           able year, an individual—

10           “(1) who is a bona fide resident of a renewal  
11           community throughout the taxable year, and

12           “(2) to whom a credit was allowed under sec-  
13           tion 32 for the preceding taxable year.

14           “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

15           “(1) COMPENSATION.—The term ‘compensa-  
16           tion’ has the meaning given such term by section  
17           219(f)(1).

18           “(2) MARRIED INDIVIDUALS.—The maximum  
19           deduction under subsection (a) shall be computed  
20           separately for each individual, and this section shall  
21           be applied without regard to any community prop-  
22           erty laws.

23           “(3) TIME WHEN CONTRIBUTIONS DEEMED  
24           MADE.—For purposes of this section, a taxpayer  
25           shall be deemed to have made a contribution to a

1 family development account on the last day of the  
2 preceding taxable year if the contribution is made  
3 on account of such taxable year and is made not  
4 later than the time prescribed by law for filing the  
5 return for such taxable year (not including exten-  
6 sions thereof).

7 “(4) EMPLOYER PAYMENTS.—For purposes of  
8 this title, any amount paid by an employer to a fam-  
9 ily development account shall be treated as payment  
10 of compensation to the employee (other than a self-  
11 employed individual who is an employee within the  
12 meaning of section 401(c)(1)) includible in his gross  
13 income in the taxable year for which the amount was  
14 contributed, whether or not a deduction for such  
15 payment is allowable under this section to the em-  
16 ployee.

17 “(5) ZERO BASIS.—The basis of an individual  
18 in any family development account of such individual  
19 shall be zero.

20 “(6) CUSTODIAL ACCOUNTS.—For purposes of  
21 this section, a custodial account shall be treated as  
22 a trust if the assets of such account are held by a  
23 bank (as defined in section 408(n)) or another per-  
24 son who demonstrates, to the satisfaction of the Sec-  
25 retary, that the manner in which such person will

1 administer the account will be consistent with the re-  
2 quirements of this section, and if the custodial ac-  
3 count would, except for the fact that it is not a  
4 trust, constitute a family development account de-  
5 scribed in this section. For purposes of this title, in  
6 the case of a custodial account treated as a trust by  
7 reason of the preceding sentence, the custodian of  
8 such account shall be treated as the trustee thereof.

9 “(7) REPORTS.—The trustee of a family devel-  
10 opment account shall make such reports regarding  
11 such account to the Secretary and to the individual  
12 for whom the account is maintained with respect to  
13 contributions (and the years to which they relate),  
14 distributions, and such other matters as the Sec-  
15 retary may require under regulations. The reports  
16 required by this paragraph—

17 “(A) shall be filed at such time and in  
18 such manner as the Secretary prescribes in  
19 such regulations, and

20 “(B) shall be furnished to individuals—

21 “(i) not later than January 31 of the  
22 calendar year following the calendar year  
23 to which such reports relate, and

24 “(ii) in such manner as the Secretary  
25 prescribes in such regulations.

1           “(8) INVESTMENT IN COLLECTIBLES TREATED  
2 AS DISTRIBUTIONS.—Rules similar to the rules of  
3 section 408(m) shall apply for purposes of this sec-  
4 tion.

5           “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
6 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

7           “(1) IN GENERAL.—If any amount is distrib-  
8 uted from a family development account and is not  
9 used exclusively to pay qualified family development  
10 expenses for the holder of the account or the spouse  
11 or dependent (as defined in section 152) of such  
12 holder, the tax imposed by this chapter for the tax-  
13 able year of such distribution shall be increased by  
14 the sum of—

15           “(A) 100 percent of the portion of such  
16 amount which is includible in gross income and  
17 is attributable to amounts contributed under  
18 section 1400E (relating to demonstration pro-  
19 gram to provide matching amounts in renewal  
20 communities), and

21           “(B) 10 percent of the portion of such  
22 amount which is includible in gross income and  
23 is not described in paragraph (1).

24 For purposes of this subsection, the portion of a dis-  
25 tributed amount which is attributable to amounts

1 contributed under section 1400E is the amount  
2 which bears the same ratio to the distributed  
3 amount as the aggregate amount contributed under  
4 section 1400E to all family development accounts of  
5 the individual bears to the aggregate amount con-  
6 tributed to such accounts from all sources.

7 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distribu-  
8 tions which are—  
9

10 “(A) made on or after the date on which  
11 the account holder attains age 59½,

12 “(B) made pursuant to subsection (e)(6),

13 “(C) made to a beneficiary (or the estate  
14 of the account holder) on or after the death of  
15 the account holder, or

16 “(D) attributable to the account holder’s  
17 being disabled within the meaning of section  
18 72(m)(7).

19 **“SEC. 1400E. DEMONSTRATION PROGRAM TO PROVIDE**  
20 **MATCHING CONTRIBUTIONS TO FAMILY DE-**  
21 **VELOPMENT ACCOUNTS IN CERTAIN RE-**  
22 **NEWAL COMMUNITIES.**

23 “(a) DESIGNATION.—

1           “(1) DEFINITIONS.—For purposes of this sec-  
2           tion, the term ‘FDA matching demonstration area’  
3           means any renewal community—

4                   “(A) which is nominated under this section  
5                   by each of the local governments and States  
6                   which nominated such community for designa-  
7                   tion as a renewal community under section  
8                   1400(a)(1)(A), and

9                   “(B) which the Secretary of Housing and  
10                  Urban Development, after consultation with—

11                           “(i) the Secretaries of Agriculture,  
12                           Commerce, Labor, and the Treasury, the  
13                           Director of the Office of Management and  
14                           Budget, and the Administrator of the  
15                           Small Business Administration, and

16                           “(ii) in the case of a community on an  
17                           Indian reservation, the Secretary of the In-  
18                           terior,

19                  designates as an FDA matching demonstration  
20                  area.

21           “(2) NUMBER OF DESIGNATIONS.—

22                   “(A) IN GENERAL.—The Secretary of  
23                   Housing and Urban Development may des-  
24                   ignate not more than 25 renewal communities  
25                   as FDA matching demonstration areas.

1           “(B) MINIMUM DESIGNATION IN RURAL  
2 AREAS.—Of the areas designated under para-  
3 graph (1), at least 2 must be areas described in  
4 section 1400(a)(2)(B).

5           “(3) LIMITATIONS ON DESIGNATIONS.—

6           “(A) PUBLICATION OF REGULATIONS.—  
7 The Secretary of Housing and Urban Develop-  
8 ment shall prescribe by regulation no later than  
9 4 months after the date of the enactment of  
10 this section, after consultation with the officials  
11 described in paragraph (1)(B)—

12           “(i) the procedures for nominating a  
13 renewal community under paragraph  
14 (1)(A) (including procedures for coordinat-  
15 ing such nomination with the nomination  
16 of an area for designation as a renewal  
17 community under section 1400), and

18           “(ii) the manner in which nominated  
19 renewal communities will be evaluated for  
20 purposes of this section.

21           “(B) TIME LIMITATIONS.—The Secretary  
22 of Housing and Urban Development may des-  
23 ignate renewal communities as FDA matching  
24 demonstration areas only during the 24-month  
25 period beginning on the first day of the first

1 month following the month in which the regula-  
2 tions described in subparagraph (A) are pre-  
3 scribed.

4 (4) DESIGNATION BASED ON DEGREE OF POV-  
5 ERTY, ETC.—The rules of section 1400(a)(3) shall  
6 apply for purposes of designations of FDA matching  
7 demonstration areas under this section.

8 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-  
9 FECT.—Any designation of a renewal community as an  
10 FDA matching demonstration area shall remain in effect  
11 during the period beginning on the date of such designa-  
12 tion and ending on the date on which such area ceases  
13 to be a renewal community.

14 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-  
15 OPMENT ACCOUNTS.—

16 “(1) IN GENERAL.—Not less than once each  
17 taxable year, the Secretary shall deposit (to the ex-  
18 tent provided in appropriation Acts) into a family  
19 development account of each qualified individual (as  
20 defined in section 1400D(f)) who is a resident  
21 throughout the taxable year of an FDA matching  
22 demonstration area an amount equal to the sum of  
23 the amounts deposited into all of the family develop-  
24 ment accounts of such individual during such tax-

1       able year (determined without regard to any amount  
2       contributed under this section).

3               “(2) LIMITATIONS.—

4                       “(A) ANNUAL LIMIT.—The Secretary shall  
5       not deposit more than \$1000 under paragraph  
6       (1) with respect to any individual for any tax-  
7       able year.

8                       “(B) AGGREGATE LIMIT.—The Secretary  
9       shall not deposit more than \$2000 under para-  
10      graph (1) with respect to any individual.

11               “(3) EXCLUSION FROM INCOME.—Except as  
12      provided in section 1400D, gross income shall not  
13      include any amount deposited into a family develop-  
14      ment account under paragraph (1).

15   **“SEC. 1400F. DESIGNATION OF EARNED INCOME TAX CRED-**  
16                       **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**  
17                       **VELOPMENT ACCOUNT.**

18               “(a) IN GENERAL.—With respect to the return of any  
19      qualified individual (as defined in section 1400D(f)) for  
20      the taxable year of the tax imposed by this chapter, such  
21      individual may designate that a specified portion (not less  
22      than \$1) of any overpayment of tax for such taxable year  
23      which is attributable to the earned income tax credit shall  
24      be deposited by the Secretary into a family development

1 account of such individual. The Secretary shall so deposit  
2 such portion designated under this subsection.

3 “(b) MANNER AND TIME OF DESIGNATION.—A des-  
4 ignation under subsection (a) may be made with respect  
5 to any taxable year—

6 “(1) at the time of filing the return of the tax  
7 imposed by this chapter for such taxable year, or

8 “(2) at any other time (after the time of filing  
9 the return of the tax imposed by this chapter for  
10 such taxable year) specified in regulations prescribed  
11 by the Secretary.

12 Such designation shall be made in such manner as the  
13 Secretary prescribes by regulations.

14 “(c) PORTION ATTRIBUTABLE TO EARNED INCOME  
15 TAX CREDIT.—For purposes of subsection (a), an over-  
16 payment for any taxable year shall be treated as attrib-  
17 utable to the earned income tax credit to the extent that  
18 such overpayment does not exceed the credit allowed to  
19 the taxpayer under section 32 for such taxable year.

20 “(d) OVERPAYMENTS TREATED AS REFUNDED.—  
21 For purposes of this title, any portion of an overpayment  
22 of tax designated under subsection (a) shall be treated as  
23 being refunded to the taxpayer as of the last date pre-  
24 scribed for filing the return of tax imposed by this chapter

1 (determined without regard to extensions) or, if later, the  
2 date the return is filed.

3 **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400G. Commercial revitalization credit.

“Sec. 1400H. Increase in expensing under section 179.

4 **“SEC. 1400G. COMMERCIAL REVITALIZATION TAX CREDIT.**

5 “(a) GENERAL RULE.—For purposes of section 46,  
6 except as provided in subsection (e), the commercial re-  
7 vitalization credit for any taxable year is an amount equal  
8 to the applicable percentage of the qualified revitalization  
9 expenditures with respect to any qualified revitalization  
10 building.

11 “(b) APPLICABLE PERCENTAGE.—For purposes of  
12 this section—

13 “(1) IN GENERAL.—The term ‘applicable per-  
14 centage’ means—

15 “(A) 20 percent for the taxable year in  
16 which a qualified revitalization building is  
17 placed in service, or

18 “(B) at the election of the taxpayer, 5 per-  
19 cent for each taxable year in the credit period.

20 The election under subparagraph (B), once made,  
21 shall be irrevocable.

22 “(2) CREDIT PERIOD.—

23 “(A) IN GENERAL.—The term ‘credit pe-  
24 riod’ means, with respect to any building, the

1 period of 10 taxable years beginning with the  
2 taxable year in which the building is placed in  
3 service.

4 “(B) APPLICABLE RULES.—Rules similar  
5 to the rules under paragraphs (2) and (4) of  
6 section 42(f) shall apply.

7 “(c) QUALIFIED REVITALIZATION BUILDINGS AND  
8 EXPENDITURES.—For purposes of this section—

9 “(1) QUALIFIED REVITALIZATION BUILDING.—  
10 The term ‘qualified revitalization building’ means  
11 any building (and its structural components) if—

12 “(A) such building is located in a renewal  
13 community and is placed in service after the  
14 designation of such renewal community under  
15 section 1400,

16 “(B) a commercial revitalization credit  
17 amount is allocated to the building under sub-  
18 section (e), and

19 “(C) depreciation (or amortization in lieu  
20 of depreciation) is allowable with respect to the  
21 building.

22 “(2) QUALIFIED REVITALIZATION EXPENDI-  
23 TURE.—

1           “(A) IN GENERAL.—The term ‘qualified  
2 revitalization expenditure’ means any amount  
3 properly chargeable to capital account—

4           “(i) for property for which deprecia-  
5 tion is allowable under section 168 and  
6 which is—

7           “(I) nonresidential real property,

8           or

9           “(II) an addition or improvement  
10 to property described in subclause (I),

11           “(ii) in connection with the construc-  
12 tion or substantial rehabilitation or recon-  
13 struction of a qualified revitalization build-  
14 ing, or

15           “(iii) for the acquisition of land in  
16 connection with the qualified revitalization  
17 building.

18           “(B) DOLLAR LIMITATION.—The aggre-  
19 gate amount which may be treated as qualified  
20 revitalization expenditures with respect to any  
21 qualified revitalization building for any taxable  
22 year shall not exceed the excess of—

23           “(i) \$10,000,000, reduced by

24           “(ii) any such expenditures with re-  
25 spect to the building taken into account by

1 the taxpayer or any predecessor in deter-  
2 mining the amount of the credit under this  
3 section for all preceding taxable years.

4 “(C) CERTAIN EXPENDITURES NOT IN-  
5 CLUDED.—The term ‘qualified revitalization ex-  
6 penditure’ does not include—

7 “(i) STRAIGHT LINE DEPRECIATION  
8 MUST BE USED.—Any expenditure (other  
9 than with respect to land acquisitions) with  
10 respect to which the taxpayer does not use  
11 the straight line method over a recovery  
12 period determined under subsection (c) or  
13 (g) of section 168. The preceding sentence  
14 shall not apply to any expenditure to the  
15 extent the alternative depreciation system  
16 of section 168(g) applies to such expendi-  
17 ture by reason of subparagraph (B) or (C)  
18 of section 168(g)(1).

19 “(ii) ACQUISITION COSTS.—The costs  
20 of acquiring any building or interest there-  
21 in and any land in connection with such  
22 building to the extent that such costs ex-  
23 ceed 30 percent of the qualified revitaliza-  
24 tion expenditures determined without re-  
25 gard to this clause.

1                   “(iii) OTHER CREDITS.—Any expendi-  
2                   ture which the taxpayer may take into ac-  
3                   count in computing any other credit allow-  
4                   able under this title unless the taxpayer  
5                   elects to take the expenditure into account  
6                   only for purposes of this section.

7                   “(5) SUBSTANTIAL REHABILITATION OR RE-  
8                   CONSTRUCTION.—For purposes of this subsection, a  
9                   rehabilitation or reconstruction shall be treated as a  
10                  substantial rehabilitation or reconstruction only if  
11                  the qualified revitalization expenditures in connec-  
12                  tion with the rehabilitation or reconstruction exceed  
13                  25 percent of the fair market value of the building  
14                  (and its structural components) immediately before  
15                  the rehabilitation or reconstruction.

16                  “(d) WHEN EXPENDITURES TAKEN INTO AC-  
17                  COUNT.—

18                  “(1) IN GENERAL.—Qualified revitalization ex-  
19                  penditures with respect to any qualified revitaliza-  
20                  tion building shall be taken into account for the tax-  
21                  able year in which the qualified revitalization build-  
22                  ing is placed in service. For purposes of the preced-  
23                  ing sentence, a substantial rehabilitation or recon-  
24                  struction of a building shall be treated as a separate  
25                  building.

1           “(2) PROGRESS EXPENDITURE PAYMENTS.—  
2           Rules similar to the rules of subsections (b)(2) and  
3           (d) of section 47 shall apply for purposes of this sec-  
4           tion.

5           “(e) LIMITATION ON AGGREGATE CREDITS ALLOW-  
6           ABLE WITH RESPECT TO BUILDINGS LOCATED IN A  
7           STATE.—

8           “(1) IN GENERAL.—The amount of the credit  
9           determined under this section for any taxable year  
10          with respect to any building shall not exceed the  
11          commercial revitalization credit amount (in the case  
12          of an amount determined under subsection  
13          (b)(1)(B), the present value of such amount as de-  
14          termined under the rules of section 42(b)(2)(C)) al-  
15          located to such building under this subsection by the  
16          commercial revitalization credit agency. Such alloca-  
17          tion shall be made at the same time and in the same  
18          manner as under paragraphs (1) and (7) of section  
19          42(h).

20          “(2) COMMERCIAL REVITALIZATION CREDIT  
21          AMOUNT FOR AGENCIES.—

22          “(A) IN GENERAL.—The aggregate com-  
23          mercial revitalization credit amount which a  
24          commercial revitalization credit agency may al-  
25          locate for any calendar year is the amount of

1 the State commercial revitalization credit ceil-  
2 ing determined under this paragraph for such  
3 calendar year for such agency.

4 “(B) STATE COMMERCIAL REVITALIZATION  
5 CREDIT CEILING.—

6 “(i) IN GENERAL.—The State com-  
7 mercial revitalization credit ceiling applica-  
8 ble to any State for any calendar year is  
9 \$2,000,000 for each renewal community in  
10 the State.

11 “(ii) SPECIAL RULE WHERE COMMU-  
12 NITY LOCATED IN MORE THAN 1 STATE.—  
13 If a renewal community is located in more  
14 than 1 State, a State’s share of the  
15 amount specified in clause (i) with respect  
16 to such community shall be an amount  
17 that bears the same ratio to \$2,000,000 as  
18 the population in the State bears to the  
19 population in all States in which such com-  
20 munity is located.

21 “(iii) OTHER SPECIAL RULES.—Rules  
22 similar to the rules of subparagraphs (D),  
23 (E), (F), and (G) of section 42(h)(3) shall  
24 apply for purposes of this subsection.

1           “(C) COMMERCIAL REVITALIZATION CRED-  
2           IT AGENCY.—For purposes of this section, the  
3           term ‘commercial revitalization credit agency’  
4           means any agency authorized by a State to  
5           carry out this section.

6           “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-  
7           IZATION CREDIT AGENCIES.—

8           “(1) PLANS FOR ALLOCATION.—Notwithstand-  
9           ing any other provision of this section, the commer-  
10          cial revitalization credit amount with respect to any  
11          building shall be zero unless—

12                 “(A) such amount was allocated pursuant  
13                 to a qualified allocation plan of the commercial  
14                 revitalization credit agency which is approved  
15                 (in accordance with rules similar to the rules of  
16                 section 147(f)(2) (other than subparagraph  
17                 (B)(ii) thereof)) by the governmental unit of  
18                 which such agency is a part, and

19                 “(B) such agency notifies the chief execu-  
20                 tive officer (or its equivalent) of the local juris-  
21                 diction within which the building is located of  
22                 such allocation and provides such individual a  
23                 reasonable opportunity to comment on the allo-  
24                 cation.

1           “(2) QUALIFIED ALLOCATION PLAN.—For pur-  
2           poses of this subsection, the term ‘qualified alloca-  
3           tion plan’ means any plan—

4                   “(A) which sets forth selection criteria to  
5                   be used to determine priorities of the commer-  
6                   cial revitalization credit agency which are ap-  
7                   propriate to local conditions,

8                   “(B) which considers—

9                           “(i) the degree to which a project con-  
10                           tributes to the implementation of a strate-  
11                           gic plan that is devised for a renewal com-  
12                           munity through a citizen participation  
13                           process,

14                           “(ii) the amount of any increase in  
15                           permanent, full-time employment by reason  
16                           of any project, and

17                           “(iii) the active involvement of resi-  
18                           dents and nonprofit groups within the re-  
19                           newal community, and

20                   “(C) which provides a procedure that the  
21                   agency (or its agent) will follow in monitoring  
22                   compliance with this section.

23           “(g) TERMINATION.—This section shall not apply to  
24           any building placed in service after December 31, 2002.

1 **“SEC. 1400H. INCREASE IN EXPENSING UNDER SECTION 179.**

2 “(a) GENERAL RULE.—In the case of a renewal com-  
3 munity business (as defined in section 1400C), for pur-  
4 poses of section 179—

5 “(1) the limitation under section 179(b)(1)  
6 shall be increased by the lesser of—

7 “(A) \$35,000, or

8 “(B) the cost of section 179 property  
9 which is qualified renewal property placed in  
10 service during the taxable year, and

11 “(2) the amount taken into account under sec-  
12 tion 179(b)(2) with respect to any section 179 prop-  
13 erty which is qualified renewal property shall be 50  
14 percent of the cost thereof.

15 “(b) RECAPTURE.—Rules similar to the rules under  
16 section 179(d)(10) shall apply with respect to any quali-  
17 fied renewal property which ceases to be used in a renewal  
18 community by an renewal community business.

19 “(c) QUALIFIED RENEWAL PROPERTY.—

20 “(1) GENERAL RULE.—For purposes of this  
21 section—

22 “(A) IN GENERAL.—The term ‘qualified  
23 renewal property’ means any property to which  
24 section 168 applies (or would apply but for sec-  
25 tion 179) if—

1           “(i) such property was acquired by  
2           the taxpayer by purchase (as defined in  
3           section 179(d)(2)) after the date on which  
4           the designation of the renewal community  
5           took effect,

6           “(ii) the original use of which in a re-  
7           newal community commences with the tax-  
8           payer, and

9           “(iii) substantially all of the use of  
10          which is in a renewal community and is in  
11          the active conduct of a qualified business  
12          (as defined in section 1400C(d)) by the  
13          taxpayer in such renewal community.

14          “(B) SPECIAL RULE FOR SUBSTANTIAL  
15          RENOVATIONS.—In the case of any property  
16          which is substantially renovated by the tax-  
17          payer, the requirements of clauses (i) and (ii)  
18          of subparagraph (A) shall be treated as satis-  
19          fied. For purposes of the preceding sentence,  
20          property shall be treated as substantially ren-  
21          ovated by the taxpayer only if, during any 24-  
22          month period beginning after the date on which  
23          the designation of the renewal community took  
24          effect, additions to basis with respect to such  
25          property in the hands of the taxpayer exceed

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

5           “(2) SPECIAL RULES FOR SALE-LEASEBACKS.—  
6           For purposes of paragraph (1)(A)(ii), if property is  
7           sold and leased back by the taxpayer within 3  
8           months after the date such property was originally  
9           placed in service, such property shall be treated as  
10          originally placed in service not earlier than the date  
11          on which such property is used under the lease-  
12          back.”

13 **SEC. 104. EVALUATION AND REPORTING REQUIREMENTS.**

14          Not later than the close of the fourth calendar year  
15          after the year in which the Secretary of Housing and  
16          Urban Development first designates an area as a renewal  
17          community under section 1400 of the Internal Revenue  
18          Code of 1986, and at the close of each fourth calendar  
19          year thereafter, such Secretary shall prepare and submit  
20          to the Congress a report on the effects of such designa-  
21          tions in accomplishing the purposes of this Act.

22 **SEC. 105. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

23          (a) TAX REDUCTIONS.—Any reduction of taxes, with  
24          respect to any renewal community designated under sec-  
25          tion 1400 of the Internal Revenue Code of 1986 (as added

1 by this title), under any plan of action under section  
2 1400(d) of such Code shall be disregarded in determining  
3 the eligibility of a State or local government for, or the  
4 amount or extent of, any assistance or benefits under any  
5 law of the United States (other than subchapter W of  
6 chapter 1 of such Code).

7 (b) COORDINATION WITH RELOCATION ASSIST-  
8 ANCE.—The designation of a renewal community under  
9 section 1400 of such Code (as added by this title) shall  
10 not—

11 (1) constitute approval of a Federal or Feder-  
12 ally assisted program or project (within the meaning  
13 of the Uniform Relocation Assistance and Real  
14 Property Acquisition Policies Act of 1970 (42  
15 U.S.C. 4601 et seq.)), or

16 (2) entitle any person displaced from real prop-  
17 erty located in such community to any rights or any  
18 benefits under such Act.

19 (c) RENEWAL COMMUNITIES TREATED AS LABOR  
20 SURPLUS AREAS.—Any area which is designated as a re-  
21 newal community under section 1400 of such Code (as  
22 added by this title) shall be treated for all purposes under  
23 Federal law as a labor surplus area.

1 **SEC. 106. DEDUCTION FOR CONTRIBUTIONS TO FAMILY DE-**  
2 **VELOPMENT ACCOUNTS ALLOWABLE WHETHER**  
3 **OR NOT TAXPAYER ITEMIZES.**

4 Subsection (a) of section 62 of the Internal Revenue  
5 Code of 1986 (relating to adjusted gross income defined)  
6 is amended by inserting after paragraph (15) the following  
7 new paragraph:

8 “(16) FAMILY DEVELOPMENT ACCOUNTS.—The  
9 deduction allowed by section 1400D.”

10 **SEC. 107. ALLOWANCE OF COMMERCIAL REVITALIZATION**  
11 **CREDIT.**

12 Section 46 of the Internal Revenue Code of 1986 (re-  
13 lating to investment credit) is amended by striking “and”  
14 at the end of paragraph (2), by striking the period at the  
15 end of paragraph (3) and inserting “, and”, and by adding  
16 at the end the following new paragraph:

17 “(4) the commercial revitalization credit pro-  
18 vided under section 1400G.”

19 **SEC. 108. CONFORMING AND CLERICAL AMENDMENTS.**

20 (a) BASIS ADJUSTMENT FOR CERTAIN STOCK.—Sub-  
21 section (a) of section 1016 of the Internal Revenue Code  
22 of 1986 (relating to adjustments to basis) is amended by  
23 striking “and” at the end of paragraph (24), by striking  
24 the period at the end of paragraph (25) and inserting “,  
25 and”; and by adding at the end the following new para-  
26 graph:

1           “(26) to the extent provided in section  
2           1400B(e), in the case of stock with respect to which  
3           a deduction was allowed or allowable under section  
4           1400B(a).”

5           (b) TAX ON EXCESS CONTRIBUTIONS.—

6           (1) TAX IMPOSED.—Subsection (a) of section  
7           4973 of such Code is amended by striking “or” at  
8           the end of paragraph (1), adding “or” at the end of  
9           paragraph (2), and inserting after paragraph (2) the  
10          following new paragraph:

11          “(3) a family development account (within the  
12          meaning of section 1400D(e)),”

13          (2) EXCESS CONTRIBUTIONS.—Section 4973 of  
14          such Code is amended by adding at the end the fol-  
15          lowing new subsection:

16          “(d) FAMILY DEVELOPMENT ACCOUNTS.—For pur-  
17          poses of this section, in the case of a family development  
18          account, the term ‘excess contributions’ means the sum  
19          of—

20          “(1) the excess (if any) of—

21                  “(A) the amount contributed for the tax-  
22                  able year to the account (other than a qualified  
23                  rollover, as defined in section 1400D(c)(7), or  
24                  a contribution under section 1400E), over

1           “(B) the amount allowable as a deduction  
2           under section 1400D for such contributions,  
3           and

4           “(2) the amount determined under this sub-  
5           section for the preceding taxable year reduced by the  
6           sum of—

7           “(A) the distributions out of the account  
8           for the taxable year which were included in the  
9           gross income of the payee under section  
10          1400D(b)(1),

11          “(B) the distributions out of the account  
12          for the taxable year to which rules similar to  
13          the rules of section 408(d)(5) apply by reason  
14          of section 1400D(b)(3), and

15          “(C) the excess (if any) of the maximum  
16          amount allowable as a deduction under section  
17          1400D for the taxable year over the amount  
18          contributed to the account for the taxable year  
19          (other than a contribution under section  
20          1400E).

21 For purposes of this subsection, any contribution which  
22 is distributed from the family development account in a  
23 distribution to which rules similar to the rules of section  
24 408(d)(4) apply by reason of section 1400D(b)(3) shall  
25 be treated as an amount not contributed.”

1           (3) **HEADING.**—The heading of section 4973 of  
2 such Code is amended by inserting “**FAMILY DE-**  
3 **VELOPMENT ACCOUNTS,**” after “**CONTRACTS,**”.

4           (c) **TAX ON PROHIBITED TRANSACTIONS.**—Section  
5 4975 of such Code is amended—

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

8           “(4) **SPECIAL RULE FOR FAMILY DEVELOP-**  
9 **MENT ACCOUNTS.**—An individual for whose benefit a  
10 family development account is established and any  
11 contributor to such account shall be exempt from the  
12 tax imposed by this section with respect to any  
13 transaction concerning such account (which would  
14 otherwise be taxable under this section) if, with re-  
15 spect to such transaction, the account ceases to be  
16 a family development account by reason of the appli-  
17 cation of section 1400D(d)(2) to such account.”,  
18 and

19           (2) by inserting “, a family development ac-  
20 count described in section 1400D(e),” in subsection  
21 (e)(1) after “described in section 408(a)”.

22           (d) **INFORMATION RELATING TO CERTAIN TRUSTS**  
23 **AND ANNUITY PLANS.**—Subsection (c) of section 6047 of  
24 such Code is amended—

1           (1) by inserting “or section 1400D” after “sec-  
2           tion 219”, and

3           (2) by inserting “, of any family development  
4           account described in section 1400D(e),”, after “sec-  
5           tion 408(a)”.

6           (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-  
7           TION.—Clause (i) of section 6104(a)(1)(B) of such Code  
8           is amended by inserting “a family development account  
9           described in section 1400D(e),” after “section 408(a),”.

10          (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-  
11          VELOPMENT ACCOUNTS.—Section 6693 of such Code is  
12          amended—

13                 (1) by inserting “**OR ON FAMILY DEVELOP-**  
14                 **MENT ACCOUNTS**” after “**ANNUITIES**” in the  
15                 heading of such section, and

16                 (2) by adding at the end of subsection (a) the  
17                 following new sentence: “The person required by sec-  
18                 tion 1400D(g)(7) to file a report regarding a family  
19                 development account at the time and in the manner  
20                 required by such section shall pay a penalty of \$50  
21                 for each failure unless it is shown that such failure  
22                 is due to reasonable cause.”

23          (g) CONFORMING AMENDMENTS REGARDING COM-  
24          MERCIAL REVITALIZATION CREDIT.—

1           (1) Section 39(d) of such Code is amended by  
2 adding at the end the following new paragraph:

3           “(7) NO CARRYBACK OF SECTION 1400G CREDIT  
4 BEFORE DATE OF ENACTMENT.—No portion of the  
5 unused business credit for any taxable year which is  
6 attributable to any commercial revitalization credit  
7 determined under section 1400G may be carried  
8 back to a taxable year ending before the date of the  
9 enactment of section 1400G.”

10           (2) Subparagraph (B) of section 48(a)(2) of  
11 such Code is amended by inserting “or commercial  
12 revitalization” after “rehabilitation” each place it  
13 appears in the text and heading.

14           (3) Subparagraph (C) of section 49(a)(1) of  
15 such Code is amended by striking “and” at the end  
16 of clause (ii), by striking the period at the end of  
17 clause (iii) and inserting “, and”, and by adding at  
18 the end the following new clause:

19                           “(iv) the portion of the basis of any  
20                           qualified revitalization building attributable  
21                           to qualified revitalization expenditures.”

22           (4) Paragraph (2) of section 50(a) of such Code  
23 is amended by inserting “or 1400G(d)(2)” after  
24 “section 47(d)” each place it appears.

1           (5) Subparagraph (A) of section 50(b)(2) of  
2 such Code is amended by inserting “or qualified re-  
3 vitalization building (respectively)” after “qualified  
4 rehabilitated building”.

5           (6) Subparagraph (B) of section 50(a)(2) of  
6 such Code is amended by adding at the end the fol-  
7 lowing new sentence: “A similar rule shall apply for  
8 purposes of section 1400G.”

9           (7) Paragraph (2) of section 50(b) of such Code  
10 is amended by striking “and” at the end of subpara-  
11 graph (C), by striking the period at the end of sub-  
12 paragraph (D) and inserting “; and”, and by adding  
13 at the end the following new subparagraph:

14                   “(E) a qualified revitalization building (as  
15 defined in section 1400G) to the extent of the  
16 portion of the basis which is attributable to  
17 qualified revitalization expenditures (as defined  
18 in section 1400G).”

19           (8) Subparagraph (C) of section 50(b)(4) of  
20 such Code is amended—

21                   (A) by inserting “or commercial revitaliza-  
22 tion” after “rehabilitated” in the text and head-  
23 ing, and

24                   (B) by inserting “or commercial revitaliza-  
25 tion” after “rehabilitation”.

1           (9) Subparagraph (C) of section 469(i)(3) is  
2 amended—

3           (A) by inserting “or section 1400G” after  
4 “section 42”; and

5           (B) by striking “CREDIT” in the heading  
6 and inserting “AND COMMERCIAL REVITALIZA-  
7 TION CREDITS”.

8 (h) CLERICAL AMENDMENTS.—

9           (1) The table of subchapters for chapter 1 of  
10 the Internal Revenue Code of 1986 is amended by  
11 adding at the end the following new item:

“Subchapter W. Renewal Communities.”

12           (2) The table of sections for chapter 43 of such  
13 Code is amended by striking the item relating to sec-  
14 tion 4973 and inserting the following new item:

“Sec. 4973. Tax on excess contributions to individual retirement  
accounts, certain section 403(b) contracts, family  
development accounts, and certain individual retire-  
ment annuities.”

15           (3) The table of sections for part I of sub-  
16 chapter B of chapter 68 of such Code is amended  
17 by striking the item relating to section 6693 and in-  
18 serting the following new item:

“Sec. 6693. Failure to provide reports on individual retirement  
accounts or annuities or on family development ac-  
counts; overstatement of designated nondeductible  
contributions.”

1           **TITLE II—ADDITIONAL TAX**  
2                           **PROVISIONS**

3   **SEC. 201. WORK OPPORTUNITY TAX CREDIT.**

4           (a) AMOUNT OF CREDIT.—Subsection (a) of section  
5 51 (relating to amount of credit) is amended by striking  
6 “40 percent” and inserting “35 percent”.

7           (b) MEMBERS OF TARGETED GROUPS.—Subsection  
8 (d) of section 51 is amended to read as follows:

9           “(d) MEMBERS OF TARGETED GROUPS.—For pur-  
10 poses of this subpart—

11                   “(1) IN GENERAL.—An individual is a member  
12 of a targeted group if such individual is—

13                           “(A) a qualified IV–A recipient,

14                           “(B) a qualified veteran,

15                           “(C) a qualified ex-felon,

16                           “(D) a high-risk youth,

17                           “(E) a vocational rehabilitation referral,

18                           “(F) a qualified summer youth employee,

19                   or

20                           “(G) a qualified food stamp recipient.

21           “(2) QUALIFIED IV–A RECIPIENT.—

22                   “(A) IN GENERAL.—The term ‘qualified  
23 IV–A recipient’ means any individual who is  
24 certified by the designated local agency as being  
25 a member of a family receiving assistance under

1 an IV–A program for at least a 9-month period  
2 ending during the 9-month period ending on the  
3 hiring date.

4 “(B) IV–A PROGRAM.—For purposes of  
5 this paragraph, the term ‘IV–A program’ means  
6 any program providing assistance under a State  
7 plan approved under part A of title IV of the  
8 Social Security Act (relating to assistance for  
9 needy families with minor children) and any  
10 successor of such program.

11 “(3) QUALIFIED VETERAN.—

12 “(A) IN GENERAL.—The term ‘qualified  
13 veteran’ means any veteran who is certified by  
14 the designated local agency as being—

15 “(i) a member of a family receiving  
16 assistance under an IV–A program (as de-  
17 fined in paragraph (2)(B)) for at least a 9-  
18 month period ending during the 12-month  
19 period ending on the hiring date, or

20 “(ii) a member of a family receiving  
21 assistance under a food stamp program  
22 under the Food Stamp Act of 1977 for at  
23 least a 3-month period ending during the  
24 12-month period ending on the hiring date.

1           “(B) VETERAN.—For purposes of subpara-  
2 graph (A), the term ‘veteran’ means any indi-  
3 vidual who is certified by the designated local  
4 agency as—

5           “(i)(I) having served on active duty  
6 (other than active duty for training) in the  
7 Armed Forces of the United States for a  
8 period of more than 180 days, or

9           “(II) having been discharged or re-  
10 leased from active duty in the Armed  
11 Forces of the United States for a service-  
12 connected disability, and

13           “(ii) not having any day during the  
14 60-day period ending on the hiring date  
15 which was a day of extended active duty in  
16 the Armed Forces of the United States.

17           For purposes of clause (ii), the term ‘extended  
18 active duty’ means a period of more than 90  
19 days during which the individual was on active  
20 duty (other than active duty for training).

21           “(4) QUALIFIED EX-FELON.—The term ‘quali-  
22 fied ex-felon’ means any individual who is certified  
23 by the designated local agency—

1           “(A) as having been convicted of a felony  
2           under any statute of the United States or any  
3           State,

4           “(B) as having a hiring date which is not  
5           more than 1 year after the last date on which  
6           such individual was so convicted or was released  
7           from prison, and

8           “(C) as being a member of a family which  
9           had an income during the 6 months imme-  
10          diately preceding the earlier of the month in  
11          which such income determination occurs or the  
12          month in which the hiring date occurs, which,  
13          on an annual basis, would be 70 percent or less  
14          of the Bureau of Labor Statistics lower living  
15          standard.

16          Any determination under subparagraph (C) shall be  
17          valid for the 45-day period beginning on the date  
18          such determination is made.

19          “(5) HIGH-RISK YOUTH.—

20                 “(A) IN GENERAL.—The term ‘high-risk  
21                 youth’ means any individual who is certified by  
22                 the designated local agency—

23                         “(i) as having attained age 18 but not  
24                         age 25 on the hiring date, and

1                   “(ii) as having his principal place of  
2                   abode within a renewal community.

3                   “(B) YOUTH MUST CONTINUE TO RESIDE  
4                   IN RENEWAL COMMUNITY.—In the case of a  
5                   high-risk youth, the term ‘qualified wages’ shall  
6                   not include wages paid or incurred for services  
7                   performed while such youth’s principal place of  
8                   abode is outside a renewal community.

9                   “(6) VOCATIONAL REHABILITATION REFER-  
10                  RAL.—The term ‘vocational rehabilitation referral’  
11                  means any individual who is certified by the des-  
12                  ignated local agency as—

13                   “(A) having a physical or mental disability  
14                   which, for such individual, constitutes or results  
15                   in a substantial handicap to employment, and

16                   “(B) having been referred to the employer  
17                   upon completion of (or while receiving) rehabili-  
18                   tative services pursuant to—

19                   “(i) an individualized written rehabili-  
20                   tation plan under a State plan for voca-  
21                   tional rehabilitation services approved  
22                   under the Rehabilitation Act of 1973, or

23                   “(ii) a program of vocational rehabili-  
24                   tation carried out under chapter 31 of title  
25                   38, United States Code.

1 “(7) QUALIFIED SUMMER YOUTH EMPLOYEE.—

2 “(A) IN GENERAL.—The term ‘qualified  
3 summer youth employee’ means any individ-  
4 ual—

5 “(i) who performs services for the em-  
6 ployer between May 1 and September 15,

7 “(ii) who is certified by the designated  
8 local agency as having attained age 16 but  
9 not 18 on the hiring date (or if later, on  
10 May 1 of the calendar year involved),

11 “(iii) who has not been an employee  
12 of the employer during any period prior to  
13 the 90-day period described in subpara-  
14 graph (B)(i), and

15 “(iv) who is certified by the des-  
16 ignated local agency as having his principal  
17 place of abode within a renewal commu-  
18 nity.

19 “(B) SPECIAL RULES FOR DETERMINING  
20 AMOUNT OF CREDIT.—For purposes of applying  
21 this subpart to wages paid or incurred to any  
22 qualified summer youth employee—

23 “(i) subsection (b)(2) shall be applied  
24 by substituting ‘any 90-day period between  
25 May 1 and September 15’ for ‘the 1-year

1 period beginning with the day the individ-  
2 ual begins work for the employer’, and

3 “(ii) subsection (b)(3) shall be applied  
4 by substituting ‘\$3,000’ for ‘\$6,000’.

5 The preceding sentence shall not apply to an in-  
6 dividual who, with respect to the same em-  
7 ployer, is certified as a member of another tar-  
8 geted group after such individual has been a  
9 qualified summer youth employee.

10 “(C) YOUTH MUST CONTINUE TO RESIDE  
11 IN RENEWAL COMMUNITY.—Paragraph (5)(B)  
12 shall apply for purposes of this paragraph.

13 “(8) QUALIFIED FOOD STAMP RECIPIENT.—The  
14 term ‘qualified food stamp recipient’ means any indi-  
15 vidual who is certified by the designated local agen-  
16 cy—

17 “(A) as having attained age 18 but not age  
18 25 on the hiring date, and

19 “(B) as being a member of a family receiv-  
20 ing assistance under a food stamp program  
21 under the Food Stamp Act of 1977 for at least  
22 a 3-month period ending during the 12-month  
23 period ending on the hiring date.

1           “(9) HIRING DATE.—The term ‘hiring date’  
2 means the day the individual is hired by the em-  
3 ployer.

4           “(10) DESIGNATED LOCAL AGENCY.—The term  
5 ‘designated local agency’ means a State employment  
6 security agency established in accordance with the  
7 Act of June 6, 1933, as amended (29 U.S.C.  
8 4949n).

9           “(11) SPECIAL RULES FOR CERTIFICATIONS.—

10           “(A) IN GENERAL.—An individual shall  
11 not be treated as a member of a targeted group  
12 unless—

13           “(i) on or before the day on which  
14 such individual begins work for the em-  
15 ployer, the employer has received a certifi-  
16 cation from a designated local agency that  
17 such individual is a member of a targeted  
18 group, or

19           “(ii)(I) on or before the day the indi-  
20 vidual is offered employment with the em-  
21 ployer, a pre-screening notice is completed  
22 by the employer with respect to such indi-  
23 vidual, and

24           “(II) not later than the 14th day after  
25 the individual begins work for the em-

1           ployer, the employer submits such notice,  
2           signed by the employer and the individual  
3           under penalties of perjury, to the des-  
4           ignated local agency as part of a written  
5           request for such a certification from such  
6           agency.

7           For purposes of this paragraph, the term ‘pre-  
8           screening notice’ means a document (in such  
9           form as the Secretary shall prescribe) which  
10          contains information provided by the individual  
11          on the basis of which the employer believes that  
12          the individual is a member of a targeted group.

13           “(B) INCORRECT CERTIFICATIONS.—If—

14                   “(i) an individual has been certified  
15                   by a designated local agency as a member  
16                   of a targeted group, and

17                   “(ii) such certification is incorrect be-  
18                   cause it was based on false information  
19                   provided by such individual,

20          the certification shall be revoked and wages  
21          paid by the employer after the date on which  
22          notice of revocation is received by the employer  
23          shall not be treated as qualified wages.

24           “(C) EXPLANATION OF DENIAL OF RE-  
25          QUEST.—If a designated local agency denies a

1 request for certification of membership in a tar-  
2 geted group, such agency shall provide to the  
3 person making such request a written expla-  
4 nation of the reasons for such denial.”

5 (c) MINIMUM EMPLOYMENT PERIOD.—Paragraph  
6 (3) of section 51(i) (relating to certain individuals ineli-  
7 gible) is amended to read as follows:

8 “(3) INDIVIDUALS NOT MEETING MINIMUM EM-  
9 PLOYMENT PERIOD.—No wages shall be taken into  
10 account under subsection (a) with respect to any in-  
11 dividual unless such individual either—

12 “(A) is employed by the employer at least  
13 180 days (20 days in the case of a qualified  
14 summer youth employee), or

15 “(B) has completed at least 250 hours  
16 (120 hours in the case of a qualified summer  
17 youth employee) of services performed for the  
18 employer.”

19 (d) TERMINATION PERIOD.—Paragraph (4) of sec-  
20 tion 51(c) (relating to wages defined) is amended to read  
21 as follows:

22 “(4) TERMINATION PERIOD.—The term ‘wages’  
23 shall not include any amount paid or incurred to an  
24 individual who begins work for the employer after  
25 December 31, 1994, and before January 1, 1996.”

1 (e) REDESIGNATION OF CREDIT.—

2 (1) Sections 38(b)(2) and 51(a) are each  
3 amended by striking “targeted jobs credit” and in-  
4 serting “work opportunity credit”.

5 (2) The subpart heading for subpart F of part  
6 IV of subchapter A of chapter 1 is amended by  
7 striking “**Targeted Jobs Credit**” and inserting  
8 “**Work Opportunity Credit**”.

9 (3) The table of subparts for such part IV is  
10 amended by striking “targeted jobs credit” and in-  
11 serting “work opportunity credit”.

12 (4) The heading for paragraph (3) of section  
13 1396(e) is amended by striking “TARGETED JOBS  
14 CREDIT” and inserting “WORK OPPORTUNITY CRED-  
15 IT”.

16 (f) TECHNICAL AMENDMENT.—Paragraph (1) of sec-  
17 tion 51(e) is amended by striking “, subsection  
18 (d)(8)(D),”.

19 (g) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to individuals who begin work for  
21 the employer after December 31, 1995.

22 **SEC. 202. CREDIT FOR CERTAIN CHARITABLE CONTRIBU-**  
23 **TIONS.**

24 (a) IN GENERAL.—Subpart A of part IV of sub-  
25 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 (relating to nonrefundable personal credits) is  
2 amended by adding at the end the following new section:

3 **“SEC. 26A. CREDIT FOR CERTAIN CHARITABLE CONTRIBU-**  
4 **TIONS.**

5 “(a) IN GENERAL.—In the case of an individual,  
6 there shall be allowed as a credit against the tax imposed  
7 by this chapter for the taxable year an amount equal to  
8 75 percent of the qualified charitable contributions which  
9 are paid by the taxpayer during the taxable year.

10 “(b) LIMITATION.—The credit allowed by subsection  
11 (a) for the taxable year shall not exceed \$200 (\$400 in  
12 the case of a joint return).

13 “(c) QUALIFIED CHARITABLE CONTRIBUTION.—For  
14 purposes of this section, the term ‘qualified charitable con-  
15 tribution’ means any charitable contribution (as defined  
16 in section 170(c)) made in cash to a qualified charity aid-  
17 ing the poor.

18 “(d) QUALIFIED CHARITY AIDING THE POOR.—

19 “(1) IN GENERAL.—For purposes of this sec-  
20 tion, the term ‘qualified charity aiding the poor’  
21 means, for any taxable year, any organization de-  
22 scribed in section 501(c)(3) and exempt from tax  
23 under section 501(a)—

1           “(A) which is certified by the Secretary as  
2 meeting the requirements of paragraphs (2),  
3 (3), and (4),

4           “(B) which is organized under the laws of  
5 the United States or of any State in which the  
6 organization is qualified to operate, and

7           “(C) which is required, or elects to be  
8 treated as being required, to file returns under  
9 section 6033.

10           “(2) CHARITY MUST PRIMARILY ASSIST POOR  
11 INDIVIDUALS.—

12           “(A) IN GENERAL.—An organization meets  
13 the requirements of this paragraph only if the  
14 predominant activity of such organization is the  
15 provision of direct services to individuals whose  
16 annual incomes generally do not exceed 185  
17 percent of the official poverty line (as defined  
18 by the Office of Management and Budget).

19           “(B) FOOD AID AND HOMELESS SHEL-  
20 TERS.—Except as otherwise provided in regula-  
21 tions, for purposes of subparagraph (A), serv-  
22 ices to individuals in the form of—

23                   “(i) temporary donations of food or  
24 meals, or

1                   “(ii) temporary shelter to homeless in-  
2                   dividuals,  
3                   shall be treated as provided to individuals de-  
4                   scribed in subparagraph (A) if the location and  
5                   operation of such services are such that the  
6                   service provider may reasonably conclude that  
7                   the beneficiaries of such services are predomi-  
8                   nantly individuals described in subparagraph  
9                   (A).

10                  “(3) EXPENDITURES FOR CHARITABLE SERV-  
11                  ICES TO THE POOR.—

12                         “(A) IN GENERAL.—An organization meets  
13                         the requirements of this paragraph only if for  
14                         the immediately preceding taxable year (and the  
15                         Secretary reasonably expects that for the cur-  
16                         rent taxable year), except as provided in sub-  
17                         paragraph (B), all annual expenditures of the  
18                         organization are used to provide the direct serv-  
19                         ices referred to in paragraph (2).

20                         “(B) PERMISSIBLE EXPENDITURES FOR  
21                         ADMINISTRATION AND FUNDRAISING.—An orga-  
22                         nization shall not be treated as failing to meet  
23                         the requirements of subparagraph (A) with re-  
24                         spect to any taxable year by reason of the fact  
25                         that 25 percent or less of the annual aggregate

1 expenditures of the organization for such tax-  
2 able year are—

3 “(i) administrative expenditures in  
4 support of direct services referred to in  
5 paragraph (2), and

6 “(ii) expenditures for purposes of  
7 fundraising on behalf of the organization  
8 providing direct services referred to in  
9 paragraph (2).

10 “(4) LIMITATION ON POLITICAL ACTIVITY.—An  
11 organization meets the requirements of this para-  
12 graph only if for the immediately preceding taxable  
13 year (and the Secretary reasonably expects that for  
14 the current taxable year) the organization does not  
15 engage in any of the following:

16 “(A) Activity for the purpose of influencing  
17 legislation.

18 “(B) Litigation on behalf of any individual  
19 referred to in paragraph (2).

20 “(C) Voter registration, political organiz-  
21 ing, public policy advocaey, or public policy re-  
22 search.

23 “(5) SPECIAL RULE FOR NEW ORGANIZA-  
24 TIONS.—In the case of an organization which has no  
25 preceding taxable year, paragraphs (3) and (4) shall

1 be applied without regard to the words ‘for the im-  
2 mediately preceding taxable year’.

3 “(e) TIME WHEN CONTRIBUTIONS DEEMED  
4 MADE.—For purposes of this section, at the election of  
5 the taxpayer, a contribution which is made not later than  
6 the time prescribed by law for filing the return for the  
7 taxable year (not including extensions thereof) shall be  
8 treated as made on the last day of such taxable year.

9 “(f) COORDINATION WITH DEDUCTION FOR CHARI-  
10 TABLE CONTRIBUTIONS.—

11 “(1) CREDIT IN LIEU OF DEDUCTION.—The  
12 credit provided by subsection (a) for any qualified  
13 charitable contribution shall be in lieu of any deduc-  
14 tion otherwise allowable under this chapter for such  
15 contribution.

16 “(2) ELECTION TO HAVE SECTION NOT  
17 APPLY.—A taxpayer may elect for any taxable year  
18 to have this section not apply.”

19 (b) PUBLIC INSPECTION OF ANNUAL RETURNS.—  
20 Subsection (e) of section 6104 of such Code (relating to  
21 public inspection of certain annual returns and applica-  
22 tions for exemption) is amended by adding at the end the  
23 following new paragraph:

1           “(3) CHARITIES RECEIVING CREDITABLE CON-  
2           TRIBUTIONS REQUIRED TO PROVIDE COPIES OF AN-  
3           NUAL RETURN.—

4                   “(A) IN GENERAL.—Every qualified char-  
5           ity aiding the poor (as defined in section  
6           26A(d)) shall, upon request of an individual  
7           made at an office where such organization’s an-  
8           nual return filed under section 6033 is required  
9           under paragraph (1) to be available for inspec-  
10          tion, provide a copy of such return to such indi-  
11          vidual without charge other than a reasonable  
12          fee for any reproduction and mailing costs. If  
13          the request is made in person, such copies shall  
14          be provided immediately and, if made other  
15          than in person, shall be provided within 30  
16          days.

17                   “(B) PERIOD OF AVAILABILITY.—Subpara-  
18          graph (A) shall apply only during the 3-year pe-  
19          riod beginning on the filing date (as defined in  
20          paragraph (1)(D)) of the return requested.”

21          (c) CLERICAL AMENDMENT.—The table of sections  
22          for subpart A of part IV of subchapter A of chapter 1  
23          of such Code is amended by adding at the end the follow-  
24          ing new item:

                  “Sec. 26A. Credit for certain charitable contributions.”

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to contributions made after the  
3 date of the enactment of this Act.

4 **SEC. 203. DEDUCTION FOR CHARITABLE CONTRIBUTIONS**  
5 **TO BE ALLOWED TO INDIVIDUALS WHO DO**  
6 **NOT ITEMIZE DEDUCTIONS.**

7 (a) IN GENERAL.—Section 170 of the Internal Reve-  
8 nue Code of 1986 (relating to charitable, etc., contribu-  
9 tions and gifts) is amended by redesignating subsection  
10 (m) as subsection (n) and by inserting after subsection  
11 (l) the following new subsection:

12 “(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING  
13 DEDUCTIONS.—In the case of an individual who does not  
14 itemize deductions for the taxable year, the amount allow-  
15 able under subsection (a) for the taxable year shall be  
16 taken into account as a direct charitable deduction under  
17 section 63.”

18 (b) DIRECT CHARITABLE DEDUCTION.—

19 (1) IN GENERAL.—Subsection (b) of section 63  
20 of such Code is amended by striking “and” at the  
21 end of paragraph (1), by striking the period at the  
22 end of paragraph (2) and inserting “, and”, and by  
23 adding at the end the following new paragraph:

24 “(3) the deduction for charitable contributions  
25 under section 170(m).”

1           (2) CONFORMING AMENDMENT.—Subsection (d)  
2 of section 63 of such Code is amended by striking  
3 “and” at the end of paragraph (1), by striking the  
4 period at the end of paragraph (2) and inserting “,  
5 and”, and by adding at the end the following new  
6 paragraph:

7           “(3) the deduction for charitable contributions  
8 under section 170(m).”

9           (c) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to taxable years beginning after  
11 December 31, 1995.

12 **TITLE IV—LOW-INCOME EDU-**  
13 **CATIONAL OPPORTUNITY**  
14 **SCHOLARSHIP PROGRAM**

15 **SEC. 401. SHORT TITLE.**

16           This title may be cited as the “Low-Income Edu-  
17 cational Opportunity Act of 1996”.

18 **SEC. 402. FINDINGS; PRECEDENTS.**

19           (a) FINDINGS.—The Congress finds the following:

20           (1) Significant improvements in the education  
21 of educationally deprived children can be accom-  
22 plished by—

23           (A) increasing educational opportunities  
24 for these children by expanding the range of  
25 educational choices that best meet their needs;

1 (B) fostering diversity and competition  
2 among school programs for these children;

3 (C) providing the families of these children  
4 more of the educational choices already avail-  
5 able to affluent families; and

6 (D) enhancing the quality of American  
7 education in general by increasing parental in-  
8 volvement in the program and the direction of  
9 the education of these children.

10 (2) Costs are often much lower in private  
11 schools than corresponding costs in schools operated  
12 solely by the Government.

13 (3) Not all children are alike and therefore  
14 there is no one school or program that fits the needs  
15 of all children.

16 (4) The formation of sound values and moral  
17 character is crucial to helping young people escape  
18 from lives of poverty, family break-up, drug abuse,  
19 crime, and school failure.

20 (5) In addition to offering knowledge and skills,  
21 education should positively contribute to the forma-  
22 tion of the internal norms and values which are vital  
23 to a child's success in life and to the well being of  
24 society.

1           (6) Schools should help to provide young people  
2           with a sound moral foundation which is consistent  
3           with the values of their parents. To find such a  
4           school, parents need a full range of choice to deter-  
5           mine where their children can best be educated.

6           (b) PRECEDENTS.—The United States Supreme  
7           Court has determined that programs giving parents choice  
8           and increased input in their children’s education, includ-  
9           ing the choice of a religious education, do not violate the  
10          constitution. The Court has held that as long as the bene-  
11          ficiary, not the Government, decides where education  
12          funds will be spent on such individual’s behalf, Govern-  
13          ment funds can be used for education in a religious insti-  
14          tution because the Government has neither advanced nor  
15          hindered a particular religion and therefore has not vio-  
16          lated the establishment clause of the first amendment. Su-  
17          preme Court precedents include—

18                 (1) *Wisconsin v. Yoder*, 406 U.S. 205; *Pierce v.*  
19                 *Society of Sisters*, 268 U.S. 510; *Meyer v. Ne-*  
20                 *braska*, 262 U.S. 390 which held that parents have  
21                 the primary role in and are the primary decision  
22                 makers in all areas regarding the education and up-  
23                 bringing of their children;

24                 (2) *Mueller v. Allen*, 463 U.S. 388 which de-  
25                 clared a Minnesota tax deduction program that pro-

1 vided State income tax benefits for educational ex-  
2 penditures by parents, including tuition in religiously  
3 affiliated schools, constitutional;

4 (3) *Witters v. Department of Services for the*  
5 *Blind*, 474 U.S. 481 in which the Court ruled unani-  
6 mously that public funds for the vocational training  
7 of the blind could be used at a Bible college for min-  
8 istry training;

9 (4) *Zobrest v. Catalina Foothills School District*  
10 (113 S. Ct. 2462) which held that a deaf child could  
11 receive an interpreter, paid for by the Government,  
12 in a private religiously affiliated school under the In-  
13 dividuals With Disabilities Education Act. The case  
14 held that providing an interpreter in a religiously af-  
15 filiated school did not violate the establishment  
16 clause.

17 **SEC. 403. PURPOSES.**

18 The purposes of this title are the following:

19 (1) To assist renewal communities—

20 (A) in giving children from low-income  
21 families more choices in selecting elementary  
22 and secondary schools that children from  
23 wealthier families already have;

24 (B) in improving schools and other aca-  
25 demic programs by financially enhancing the

1 consumer power of low-income families to  
2 choose the schools and programs that they de-  
3 termine best fit the needs of their children;

4 (C) in engaging low-income parents more  
5 fully in their children's schooling;

6 (D) in providing low income parents with  
7 a wide range of choice in selecting a school for  
8 their children, including public schools, private  
9 schools, and private religious schools, without  
10 promoting or discriminating against the choice  
11 of a particular type of school; and

12 (E) in combating crime, drugs, and illegit-  
13 imacy in low-income communities by encourag-  
14 ing the restoration of moral character.

15 (2) To demonstrate the effects of State and  
16 local programs that give low-income families more of  
17 the choices in schools (public, private, or religious)  
18 that wealthier families already have.

19 **SEC. 404. PLAN SUBMISSION; REQUIREMENTS.**

20 (a) IN GENERAL.—A community designated as a re-  
21 newal community under section 1400 of the Internal Reve-  
22 nue Code of 1986 shall submit a plan to the Secretary  
23 not later than 60 days after receiving such designation.  
24 Such plan shall include the following:

1           (1) A designation of a public or private office,  
2           agency, or organization that will be responsible for  
3           the establishment and operation of the scholarship  
4           program and for the distribution of assistance to  
5           parents.

6           (2) A description of the actions to be taken by  
7           the State or renewal community to increase edu-  
8           cational options for low-income children, including—

9                   (A) public school choice programs;  
10                   (B) private school choice programs;  
11                   (C) quasi-public or charter school pro-  
12                   grams; and

13                   (D) programs privatizing services such as  
14                   transportation, administration, or food prepara-  
15                   tion or distribution.

16           (3) A description of State and local funds (in-  
17           cluding tax benefits) and non-governmental funds, if  
18           any, that will be available to supplement scholarship  
19           funds provided under this title.

20           (4) A description of the procedures the appli-  
21           cant will use, including timely and meaningful con-  
22           sultation with private school officials, to encourage  
23           public and private elementary and secondary schools  
24           to participate in the program and to ensure maxi-  
25           mum educational choices for the parents of eligible

1 children and for other children residing in the re-  
2 newal community.

3 (5) A description of how the applicant will in-  
4 form parents and schools of the scholarship program  
5 and of the choices available to parents under such  
6 program.

7 (6) A description of procedures the applicant  
8 will use to determine which eligible children will re-  
9 ceive assistance.

10 (7) An assurance that the applicant will main-  
11 tain such records relating to the scholarship pro-  
12 gram as the Secretary may require and will comply  
13 with the Secretary's reasonable requests for informa-  
14 tion about the program.

15 (b) REQUIREMENTS.—In addition to the require-  
16 ments described in subsection (a), a community that is  
17 designated as a renewal community shall establish and op-  
18 erate a Low-Income Educational Opportunity Scholarship  
19 program (referred to in this title as “scholarship pro-  
20 gram”) and distribute scholarships to parents during the  
21 first school year beginning on or after the 90th day follow-  
22 ing the day of such designation. Such program shall meet  
23 the following requirements:

24 (1) To provide a choice of schools to families  
25 with children who reside in the renewal community.

1           (2) To provide assistance to parents of eligible  
2 children to attend public and private elementary and  
3 secondary schools, including religious schools that  
4 serve the designated renewal community.

5           (3) To allow all or any lawfully operating public  
6 and private elementary or secondary schools, includ-  
7 ing religious schools that serve the renewal commu-  
8 nity to participate in a scholarship program under  
9 this title if such a school so chooses, subject to the  
10 qualifications specified in section 409.

11       (c) COMPLIANCE.—The Secretary shall notify the  
12 Secretary of Housing and Urban Development if a renewal  
13 community fails to comply with the requirements of sub-  
14 sections (a) or (b). Upon such notification, the Secretary  
15 of Housing and Urban Development may begin a review  
16 for possible revocation of renewal community designation.

17 **SEC. 405. USES OF FUNDS.**

18       A community that receives renewal community des-  
19 ignation under section 1400 of the Internal Revenue Code  
20 of 1986 shall use funds received under this title—

21           (1) to provide for scholarships to assist in the  
22 payment of tuition and fees at a scholarship school  
23 selected by the parents of an eligible child, and to  
24 pay the reasonable costs of transportation of eligible  
25 children to scholarship or alternative public schools;

1           (2) not to exceed 10 percent, to pay the cost of  
2           administering the educational opportunity scholar-  
3           ship program; or

4           (3) in accordance with section 412, if an excess  
5           amount of funds are available, to pay for the edu-  
6           cation of children from low-income families attend-  
7           ing public schools.

8   **SEC. 406. SCHOLARSHIP PROGRAM.**

9           (a) **ELIGIBLE CHILDREN.**—From the amounts made  
10          available under this title, each renewal community shall  
11          provide, to the extent practicable, assistance to a parent  
12          who has applied for assistance and has a child who—

13               (1) is a member of a family that has a total  
14               family income that does not exceed 185 percent of  
15               the poverty line;

16               (2) resides in the renewal community; and

17               (3)(A) seeks to attend an alternative public ele-  
18               mentary or secondary school that participates in the  
19               scholarship program; or

20               (B) seeks to attend a private or religious ele-  
21               mentary or secondary school that participates in the  
22               scholarship program.

23          (b) **SELECTION AMONG ELIGIBLE CHILDREN.**—

24               (1) **IN GENERAL.**—In the event that a renewal  
25          community has insufficient funds to provide assist-

1       ance to all eligible children whose parents have ap-  
2       plied for assistance, the renewal community may se-  
3       lect students according to—

4               (A) random selection;

5               (B) the date of the parents' application for  
6       assistance with preference given to parents who  
7       applied earlier; or

8               (C) any other selection criteria developed  
9       by the renewal community, subject to the limi-  
10      tations provided in subsection (c).

11       (2) PRIORITY.—A renewal community shall give  
12      priority to a parent for a student who received as-  
13      sistance pursuant to this title during the preceding  
14      school year.

15       (c) CRITERIA FOR SELECTION.—The renewal com-  
16      munity may choose any criteria it wishes in order to make  
17      the selection described in subsection (b), except that such  
18      criteria shall not—

19              (1) discriminate on the basis of race or religion;

20              (2) discriminate on the basis of the school or  
21      type of school selected by the parent; or

22              (3) discriminate against an eligible child be-  
23      cause the parent of the child has chosen to receive  
24      a scholarship to attend an eligible private school  
25      under section 408(b)(1) of this title rather than

1 transportation assistance to attend an alternative  
2 public school under section 408(b)(2).

3 (d) VALUE OF EACH SCHOLARSHIP.—The renewal  
4 community shall determine the value of scholarships pro-  
5 vided each semester within the renewal community, except  
6 that the value of a scholarship provided by a renewal com-  
7 munity shall not be less than the minimum value specified  
8 in paragraph (1) and shall not exceed the maximum value  
9 specified in paragraph (2).

10 (1) MINIMUM VALUE.—The minimum value of  
11 a scholarship for a semester shall be the lesser of—

12 (A) 60 percent of the average per pupil  
13 cost per semester in the public school system or  
14 systems in the renewal community in the pre-  
15 ceding school year; or

16 (B) the regular tuition and education fees  
17 charged per semester by the scholarship school  
18 chosen by the parent.

19 (2) MAXIMUM VALUE.—The maximum value of  
20 a scholarship for a semester shall be the average per  
21 pupil cost per semester in the public school system  
22 or systems in the renewal community in the preced-  
23 ing school year.

24 (3) DISABILITY.—If a student has a disability,  
25 the average per pupil cost per semester in the public

1 school system or systems in the renewal community  
2 in the preceding year shall be calculated using the  
3 same cost for students with the same special needs  
4 or handicapped category for such period of time.

5 (e) USE OF SCHOLARSHIPS, TRANSPORTATION AS-  
6 SISTANCE.—Funds used to provide assistance to a parent  
7 may be used by a parent only to pay for tuition and fees  
8 or transportation costs at participating schools.

9 **SEC. 407. ALLOCATION OF FUNDS AMONG RENEWAL COM-**  
10 **MUNITIES.**

11 (a) IN GENERAL.—The funds authorized under sec-  
12 tion 417 shall be allocated to each renewal community by  
13 the Secretary of the Treasury as follows:

14 (1) 80 percent shall be allocated among renewal  
15 communities according to the formula provided in  
16 subsection (b).

17 (2) 20 percent shall be allocated among renewal  
18 communities according to the formula provided in  
19 subsection (c).

20 (b) BASIC FUNDING ALLOCATION.—Each renewal  
21 community, except as provided in subsection (d), shall re-  
22 ceive a percentage of the funds provided under subsection  
23 (a)(1) based on—

1           (1) the number of children from low-income  
2 families who reside in an individual renewal commu-  
3 nity; divided by

4           (2) the total number of children from low-in-  
5 come families who reside in renewal communities na-  
6 tionwide.

7       (c) ADDITIONAL MATCHING FUNDS.—Each renewal  
8 community shall receive a percentage of funds under sub-  
9 section (a)(2) based on—

10           (1) the total value of matching contributions for  
11 scholarships provided from local governmental,  
12 State, or private charitable sources within a renewal  
13 community; divided by

14           (2) the total value of matching contributions for  
15 scholarships provided from local governmental,  
16 State, or private charitable sources in all renewal  
17 communities nationwide.

18       (d) POSSIBLE EXCEPTION.—Notwithstanding sub-  
19 section (b), if Puerto Rico or communities in Puerto Rico  
20 are designated as renewal communities, such renewal com-  
21 munities, in aggregate, shall receive not more than the  
22 percentage of funds that Puerto Rico received under title  
23 I of the Elementary and Secondary Education Act of 1965  
24 during fiscal year 1995.

1 **SEC. 408. PARENTAL RIGHT OF CHOICE IN EDUCATION.**

2 (a) IN GENERAL.—Parents of each child who receives  
3 assistance under this title shall be given a range of choice  
4 of public and private elementary and secondary schools,  
5 including religious schools that serve such community.

6 (b) TYPES OF ASSISTANCE.—The type of assistance  
7 provided to the parent of a child selected to participate  
8 in the scholarship program shall be determined by the type  
9 of school to which the parent selects to send the child.

10 (1) SCHOLARSHIP SCHOOL.—If the parent  
11 elects to have a child attend a private scholarship  
12 school, described in section 409, the parent—

13 (A) shall receive a scholarship to be used  
14 to pay tuition and other fees at the school; and

15 (B) shall receive direct or indirect trans-  
16 portation assistance.

17 (2) ALTERNATIVE PUBLIC SCHOOL.—If the par-  
18 ent elects to have the child attend an alternative  
19 public school, the parent shall receive direct or indi-  
20 rect transportation assistance.

21 (c) NO GUARANTEE OF ADMISSION.—Eligible chil-  
22 dren whose parents have applied to receive a scholarship  
23 under this title shall be subject to the admission criteria  
24 of each scholarship school or alternative public school and  
25 nothing in this title shall be construed to guarantee the

1 right of an eligible child to attend any scholarship school  
2 or alternative public school.

3 (d) LIMITATION ON NUMBER OF CHILDREN AS-  
4 SISTED.—The number of eligible children to receive assist-  
5 ance from a renewal community shall be determined by  
6 the funds available to such renewal community from—

7 (1) the Federal funds provided under this title;

8 and

9 (2) other funds provided by public and private  
10 sources.

11 (e) PARENTAL NOTIFICATION.—

12 (1) IN GENERAL.—Each renewal community  
13 shall provide timely notice of the scholarship pro-  
14 gram to parents of eligible children residing in the  
15 area and to the schools. At a minimum, such notice  
16 shall—

17 (A) describe the educational opportunity  
18 scholarship program;

19 (B) describe the eligibility requirements for  
20 scholarships;

21 (C) describe the selection procedures to be  
22 used if the number of eligible children seeking  
23 to participate in the program exceeds the num-  
24 ber that can be accommodated in the program;

1 (D) provide information about alternative  
2 public schools and scholarship schools, including  
3 information about any admission requirements  
4 or criteria for each school participating in the  
5 scholarship program; and

6 (E) include the procedures and a schedule  
7 for parents to apply for their eligible children to  
8 participate in the program.

9 (2) NOTIFICATION METHODS.—Each renewal  
10 community is encouraged to use a variety of means  
11 to provide information to parents in the community,  
12 including direct distribution, mail, distribution of  
13 materials in publicly frequented places, public adver-  
14 tisements, and cooperative efforts with local commu-  
15 nity groups.

16 (f) INFORMATION.—Renewal communities, upon re-  
17 quest by any and all schools eligible to become scholarship  
18 schools, shall fully cooperate with such schools in a timely  
19 and reasonable manner to provide information prepared  
20 by the school regarding school choice to parents of eligible  
21 children. Such information shall include, at a minimum,  
22 materials prepared by the school regarding the scholarship  
23 program, selection of schools, and the school itself.

1 **SEC. 409. ELIGIBLE SCHOOLS.**

2 (a) STANDARDS.—Each private school located in the  
3 renewal community or within a reasonable transportation  
4 distance of such community is eligible to redeem scholar-  
5 ships and to become a scholarship school if—

6 (1) the school complies with the antidiscrimina-  
7 tion provisions of section 601 of title VI of the Civil  
8 Rights Act of 1964 (42 U.S.C. 2000) and does not  
9 discriminate on the basis of race;

10 (2) the school satisfies requirements established  
11 by State and local governments, where applicable,  
12 for curriculum and facilities which applied to private  
13 schools for the area in which the school is located as  
14 of January 1, 1996; and

15 (3) the school meets the health and safety  
16 standards which applied to private schools as of Jan-  
17 uary 1, 1996, for the community in which the school  
18 is located.

19 (b) LIMITS ON THE REGULATION OF SCHOOLS.—Any  
20 regulation of a scholarship school shall be subject to the  
21 following limitations:

22 (1) No additional requirements, regulations, or  
23 burdensome paperwork other than those in effect on  
24 the date of the enactment of this Act or as set forth  
25 or referenced in this title may be imposed upon  
26 scholarship schools.

1           (2) Students who have been enrolled in a schol-  
2 arship school in the preceding school year may be  
3 given an admissions preference over new students  
4 who apply.

5           (3) No requirements or regulations may pro-  
6 hibit or limit the authority of scholarship schools to  
7 provide religious instruction or education.

8           (4) Scholarship schools shall be protected by  
9 the rights granted in the Religious Freedom Res-  
10 toration Act of 1993.

11           (5) Except for the limitation concerning dis-  
12 crimination on the basis of race expressed in sub-  
13 section (a)(1), any school operated by a religious or-  
14 ganization may require its employees to—

15                 (A) adhere to the religious tenets and  
16 teachings of such organization; and

17                 (B) follow any rules of behavior devised by  
18 the organization.

19           (6) No requirement and regulation shall pro-  
20 hibit a scholarship school from—

21                 (A) admitting students of a single gender;

22                 (B) operating classes which are separated  
23 on the basis of gender; or



1           (c) NO AUTHORIZATION OF FEDERAL REGULATION  
2 OF EDUCATION.—Nothing in this Act shall be construed  
3 to authorize the Secretary to exercise any direction, super-  
4 vision, or control over the curriculum, program of instruc-  
5 tion, administration, or personnel of any educational insti-  
6 tution or school participating in a program under this  
7 title.

8           (d) PROHIBITION ON STATE DISCRIMINATION IN USE  
9 OF FUNDS.—A State constitution or State law shall not  
10 be construed to prohibit the expenditure of any Federal  
11 funds provided under this title in or by a religious institu-  
12 tion. If a State law or constitution does not allow the ex-  
13 penditure of State or local public funds in or by religious  
14 organizations, the renewal community shall segregate Fed-  
15 eral funds from State or other public funds for purposes  
16 of providing assistance administering the educational op-  
17 portunity scholarship program.

18           (e) REGULATION OF SCHOOLS NOT RECEIVING  
19 SCHOLARSHIPS.—A rule or requirement established for  
20 scholarship schools shall not apply to a private school that  
21 chooses not to become a scholarship school.

22           (f) SCHOLARSHIPS NOT DEEMED INCOME.—Funds  
23 used to provide scholarships shall not be deemed income  
24 of the parents for Federal income tax purposes or for de-  
25 termining eligibility for any other Federal programs.

1 **SEC. 411. CONTRIBUTIONS TO SCHOLARSHIP PROGRAM**  
2 **FROM OTHER SOURCES.**

3 (a) IN GENERAL.—The renewal community is en-  
4 couraged to seek or provide additional funds for scholar-  
5 ships and transportation assistance from other sources, in-  
6 cluding—

- 7 (1) local government funds;  
8 (2) State government funds;  
9 (3) contributions from private businesses; and  
10 (4) contributions from private charitable orga-  
11 nizations.

12 (b) PARENTAL PAYMENTS NOT COUNTED AS MATCH-  
13 ING CONTRIBUTIONS.—For purposes of section 407(c),  
14 payments of tuition and education fees by parents of eligi-  
15 ble children shall not be considered matching contribu-  
16 tions.

17 **SEC. 412. USE OF EXCESS FUNDS FOR ADDITIONAL EDU-**  
18 **CATIONAL PURPOSES.**

19 (a) IN GENERAL.—If any funds remain after a re-  
20 newal community has provided scholarships to all eligible  
21 children whose parents have applied for assistance in ac-  
22 cordance with this title, the community may use such ex-  
23 cess funds for the general education of children from low-  
24 income families who attend public schools within the re-  
25 newal community, subject to the limitation in subsection  
26 (b).

1 (b) LIMITATION.—A renewal community may not use  
2 excess funds for the purposes described in subsection (a)  
3 if the Secretary determines that the community—

4 (1) has failed to fully inform the parents or  
5 guardians of eligible children of—

6 (A) the availability of scholarships; and

7 (B) the full range of choices of schools  
8 available;

9 (2) has in any way discouraged or impeded par-  
10 ents of eligible children from using scholarships;

11 (3) has in any way discouraged or impeded eli-  
12 gible schools from receiving scholarships; or

13 (4) has unreasonably hindered the establish-  
14 ment of new private schools within the renewal com-  
15 munity.

16 (c) FORFEITURE OF SURPLUS FUNDS.—In the event  
17 that the Secretary determines that a renewal community  
18 has met one or more of the conditions described in sub-  
19 section (b), the renewal community shall return any excess  
20 funds described in subsection (a) to the Treasury.

21 **SEC. 413. EVALUATION.**

22 (a) IN GENERAL.—The Secretary shall conduct a na-  
23 tional evaluation of the program authorized by this title  
24 not later than 2 years after such program begins and a  
25 second evaluation after 4 years. Such evaluations shall—

1           (1) assess the implementation of assisted pro-  
2           grams and the effect on participants, schools, and  
3           communities in the renewal community, including  
4           parental involvement in, and satisfaction with, the  
5           program and their children's education;

6           (2) compare the educational achievement of  
7           children who participate in the scholarship program  
8           with the achievement of similar children who do not  
9           participate in the scholarship program before, dur-  
10          ing, and after the program;

11          (3) compare educational achievement of chil-  
12          dren who use scholarships to attend schools other  
13          than the ones they would attend in the absence of  
14          the program with educational achievement of chil-  
15          dren who attend the schools scholarship students  
16          would attend in the absence of the program; and

17          (4) compare graduation rates of children who  
18          use scholarships to attend schools other than the  
19          schools they would attend in the absence of the pro-  
20          gram with graduation rates of children who attend  
21          the schools the scholarship students would attend in  
22          the absence of the program.

23          (b) NO AUTHORIZATION OF SCHOOL REGULATION.—  
24          The responsibility to evaluate shall not be construed to  
25          authorize the State or local government to exercise any

1 direction, supervision, or control over the curriculum, pro-  
2 gram of instruction, administration, or personnel of any  
3 educational private institution or school participating in  
4 a low-income educational opportunity scholarship program  
5 under this title, except that the school may be required  
6 to provide reasonable information to assist in the evalua-  
7 tion of the program, including standardized tests of stu-  
8 dent achievement, surveys of parental satisfaction with  
9 their child's education, surveys of student satisfaction, at-  
10 tendance rates, dropout rates, and data on student's col-  
11 lege enrollment.

12 **SEC. 414. EFFECT ON OTHER PROGRAMS.**

13       Nothing in this Act shall be read to affect the applica-  
14 bility or requirements of part B of the Individuals with  
15 Disabilities Education Act.

16 **SEC. 415. JUDICIAL REVIEW.**

17       (a) PANEL.—In the event of a constitutional chal-  
18 lenge to the program authorized under this title, such  
19 challenge shall be tried immediately by a three judge panel  
20 in the United States District Court of the District of Co-  
21 lumbia and immediate appeal, as of right, may be had in  
22 the Supreme Court of the United States.

23       (b) REQUEST TO EXPEDITE.—The Supreme Court of  
24 the United States is requested to expedite an appeal re-  
25 quested pursuant to subsection (a).

1 **SEC. 416. DEFINITIONS.**

2 Except as otherwise provided, for purposes of this  
3 title—

4 (1) the term “alternative public school” means  
5 a public school other than the public school in which  
6 the child normally would attend and which is within  
7 reasonable transportation distance from the child’s  
8 residence;

9 (2) the term “assistance” means either a schol-  
10 arship, transportation assistance, or a scholarship  
11 and transportation assistance provided to parents of  
12 eligible children who participate in the scholarship  
13 program pursuant to this title.

14 (3) the term “elementary school” means an in-  
15 stitutional day or residential school that provides el-  
16 ementary education, as determined under State law;

17 (4) the term “eligible child” means a child  
18 whose parents qualify to receive assistance under  
19 section 406;

20 (5) the term “lawfully operated elementary  
21 school” means an institutional day or residential  
22 school that provides elementary education, as deter-  
23 mined under State law;

24 (6) the term “lawfully operated secondary  
25 school” means an institutional day or residential  
26 school that provides secondary education, as deter-

1 mined under State law, except that such term does  
2 not include any education beyond grade 12;

3 (7) the terms “Low-Income Educational Oppor-  
4 tunity Scholarship” and “scholarship” mean a cer-  
5 tificate awarded to a parent of an eligible child  
6 under section 406 to be redeemed at a scholarship  
7 school;

8 (8) the terms “local educational agency”, “par-  
9 ent”, and “State educational agency” have the  
10 meanings given such terms in section 14101 of the  
11 Elementary and Secondary Education Act of 1965;

12 (9) the term “poverty level” means the total in-  
13 come of a family that is at or below the Federal pov-  
14 erty guidelines updated annually in the Federal Reg-  
15 ister by the Department of Health and Human Serv-  
16 ices under authority of section 673(2) of the Omni-  
17 bus Budget Reconciliation Act of 1981 as amended;

18 (10) the term “renewal community” has the  
19 meaning given such term in section 1400 of the In-  
20 ternal Revenue Code of 1986;

21 (11) the term “scholarship program means a  
22 program within the renewal community that provides  
23 scholarships and transportation aid to eligible chil-  
24 dren in accordance with this title.

1           (12) the term “scholarship school” means a pri-  
2       vate school that chooses to accept educational oppor-  
3       tunity scholarships;

4           (13) the term “secondary school” means an in-  
5       stitutional day or residential school that provides  
6       secondary education, as determined under State law,  
7       except that such term does not include any edu-  
8       cation beyond grade 12;

9           (14) the term “Secretary” means the Secretary  
10      of Education;

11          (15) the term “State” means each of the 50  
12      States, the District of Columbia, and the Common-  
13      wealth of Puerto Rico; and

14          (16) the term “transportation assistance”  
15      means direct or indirect subsidization of the costs of  
16      transporting children participating in the program to  
17      scholarship schools or alternative public schools.

18 **SEC. 417. AUTHORIZATION OF APPROPRIATIONS.**

19      There are authorized to be appropriated the following  
20      sums: \$200,000,000 for fiscal year 1996, \$200,000,000  
21      for fiscal year 1997, \$200,000,000 for fiscal year 1998,  
22      \$400,000,000 for fiscal year 1999, \$500,000,000 for fis-  
23      cal 2000, \$1,000,000,000 for fiscal year 2001, and  
24      \$2,500,000,000 for fiscal year 2002.

1 **TITLE III—PREVENTION AND**  
2 **TREATMENT OF SUBSTANCE**  
3 **ABUSE**

4 **SEC. 301. PREVENTION AND TREATMENT OF SUBSTANCE**  
5 **ABUSE; SERVICES PROVIDED THROUGH RELI-**  
6 **GIOUS ORGANIZATIONS.**

7 Title V of the Public Health Service Act (42 U.S.C.  
8 290aa et seq.) is amended by adding at the end the follow-  
9 ing part:

10 “PART G—SERVICES PROVIDED THROUGH RELIGIOUS  
11 ORGANIZATIONS

12 “**SEC. 581. APPLICABILITY TO DESIGNATED PROGRAMS.**

13 “(a) DESIGNATED PROGRAMS.—Subject to sub-  
14 section (b), this part applies to each program under this  
15 Act that makes awards of Federal financial assistance to  
16 public or private entities for the purpose of carrying out  
17 activities to prevent or treat substance abuse (in this part  
18 referred to as a ‘designated program’). Designated pro-  
19 grams include the program under subpart II of part B  
20 of title XIX (relating to formula grants to the States).

21 “(b) LIMITATION.—This part does not apply to any  
22 award of Federal financial assistance under a designated  
23 program for a purpose other than the purpose specified  
24 in subsection (a).

1       “(c) DEFINITIONS.—For purposes of this part (and  
2 subject to subsection (b)):

3           “(1) The term ‘designated award recipient’  
4 means a public or private entity that has received an  
5 award under a designated program (whether the  
6 award is a designated direct award or a designated  
7 subaward).

8           “(2) The term ‘designated direct award’ means  
9 an award under a designated program that is re-  
10 ceived directly from the Federal Government.

11          “(3) The term ‘designated subaward’ means an  
12 award of financial assistance made by a non-Federal  
13 entity, which award consists in whole or in part of  
14 Federal financial assistance provided through an  
15 award under a designated program.

16          “(4) The term ‘designated program’ has the  
17 meaning given such term in subsection (a).

18          “(5) The term ‘financial assistance’ means a  
19 grant, cooperative agreement, contract, or  
20 voucherized assistance.

21          “(6) The term ‘program beneficiary’ means an  
22 individual who receives program services.

23          “(7) The term ‘program participant’ has the  
24 meaning given such term in section 582(a)(2).

1           “(8) The term ‘program services’ means treat-  
2           ment for substance abuse, or preventive services re-  
3           garding such abuse, provided pursuant to an award  
4           under a designated program.

5           “(9) The term ‘religious organization’ means a  
6           nonprofit religious organization.

7           “(10) The term ‘voucherized assistance’  
8           means—

9                   “(A) a system of selecting and reimbursing  
10                  program services in which—

11                           “(i) the beneficiary is given a docu-  
12                           ment or other authorization that may be  
13                           used to pay for program services;

14                           “(ii) the beneficiary chooses the orga-  
15                           nization that will provide services to him or  
16                           her according to rules specified by the des-  
17                           ignated award recipient; and

18                           “(iii) the organization selected by the  
19                           beneficiary is reimbursed by the designated  
20                           award recipient for program services pro-  
21                           vided; or

22                   “(B) any other mode of financial assist-  
23                   ance to pay for program services in which the  
24                   program beneficiary determines the allocation

1 of program funds through his or her selection  
2 of one service provider from among alternatives.

3 **“SEC. 582. RELIGIOUS ORGANIZATIONS AS PROGRAM PAR-**  
4 **TICIPANTS.**

5 “(a) IN GENERAL.—

6 “(1) SCOPE OF AUTHORITY.—Notwithstanding  
7 any other provision of law, a religious organiza-  
8 tion—

9 “(A) may be a designated award recipient;

10 “(B) may make designated subawards to  
11 other public or nonprofit private entities (in-  
12 cluding other religious organizations);

13 “(C) may provide for the provision of pro-  
14 gram services to program beneficiaries through  
15 the use of voucherized assistance; and

16 “(D) may be a provider of services under  
17 a designated program, including a provider that  
18 accepts voucherized assistance.

19 “(2) DEFINITION OF PROGRAM PARTICIPANT.—

20 For purposes of this part, the term ‘program partici-  
21 pant’ means a public or private entity that has re-  
22 ceived a designated direct award, or a designated  
23 subaward, regardless of whether the entity provides  
24 program services. Such term includes an entity  
25 whose only participation in a designated program is

1 to provide program services pursuant to the accept-  
2 ance of voucherized assistance.

3 “(b) RELIGIOUS ORGANIZATIONS.—The purpose of  
4 this section is to allow religious organizations to be pro-  
5 gram participants on the same basis as any other non-  
6 profit private provider without impairing the religious  
7 character of such organizations, and without diminishing  
8 the religious freedom of program beneficiaries.

9 “(c) NONDISCRIMINATION AGAINST RELIGIOUS OR-  
10 GANIZATIONS.—Religious organizations are eligible to be  
11 program participants on the same basis as any other non-  
12 profit private organization so long as activities under the  
13 designated programs are implemented consistent with the  
14 establishment clause of the first amendment to the Con-  
15 stitution of the United States. Neither the Federal Gov-  
16 ernment nor a State receiving funds under such programs  
17 shall discriminate against an organization that is or ap-  
18 plies to be a program participant on the basis that the  
19 organization has a religious character.

20 “(d) RELIGIOUS CHARACTER AND FREEDOM.—

21 “(1) RELIGIOUS ORGANIZATIONS.—Notwith-  
22 standing any other provision of law, any religious or-  
23 ganization that is a program participant shall retain  
24 its independence from Federal, State, and local gov-  
25 ernment, including such organization’s control over

1 the definition, development, practice, and expression  
2 of its religious beliefs.

3 “(2) ADDITIONAL SAFEGUARDS.—Neither the  
4 Federal Government nor a State shall require a reli-  
5 gious organization to—

6 “(A) alter its form of internal governance;

7 or

8 “(B) remove religious art, icons, scripture,  
9 or other symbols;

10 in order to be a program participant.

11 “(e) RIGHTS OF PROGRAM BENEFICIARIES.—With  
12 respect to an individual who is a program beneficiary or  
13 a prospective program beneficiary, if the individual objects  
14 to a program participant on the basis that the participant  
15 is a religious organization, the following applies:

16 “(1) If the organization received a designated  
17 direct award, the organization shall arrange for the  
18 individual to receive program services through an al-  
19 ternative entity.

20 “(2) If the organization received a designated  
21 subaward, the non-Federal entity that made the  
22 subaward shall arrange for the individual to receive  
23 the program services through an alternative program  
24 participant.

1           “(3) If the organization is providing services  
2 pursuant to voucherized assistance, the designated  
3 award recipient that operates the voucherized assist-  
4 ance program shall arrange for the individual to re-  
5 ceive the program services through an alternative  
6 provider.

7           “(4) Arrangements under any of paragraphs  
8 (1) through (3) with an alternative entity shall pro-  
9 vide for program services the monetary value of  
10 which is not less than the monetary value of the pro-  
11 gram services that the individual would have re-  
12 ceived from the religious organization involved.

13           “(f) NONDISCRIMINATION IN EMPLOYMENT.—

14           “(1) IN GENERAL.—Except as provided in para-  
15 graph (2), nothing in this section shall be construed  
16 to modify or affect the provisions of any other Fed-  
17 eral or State law or regulation that relates to dis-  
18 crimination in employment on the basis of religion.

19           “(2) EXCEPTION.—A religious organization  
20 that is a program participant may require that an  
21 employee rendering programs services adhere to—

22           “(A) the religious tenets and teachings of  
23 such organization; and

24           “(B) any rules of the organization regard-  
25 ing the use of drugs or alcohol.

1       “(g)   NONDISCRIMINATION   AGAINST   BENE-  
2   FICIARIES.—

3           “(1) IN GENERAL.—Except as provided in para-  
4       graph (2) or as otherwise provided in law, a religious  
5       organization that is a program participant shall not  
6       in providing program services discriminate against a  
7       program beneficiary on the basis of religion or reli-  
8       gious belief.

9           “(2) LIMITATION.—A religious organization  
10       that is a program participant may require a pro-  
11       gram beneficiary who has elected in accordance with  
12       subsection (e) to receive program services from such  
13       organization—

14           “(A) to actively participate in religious  
15       practice, worship, and instruction; and

16           “(B) to follow rules of behavior devised by  
17       the organizations that are religious in content  
18       or origin.

19       “(h) FISCAL ACCOUNTABILITY.—

20           “(1) IN GENERAL.—Except as provided in para-  
21       graph (2), any religious organization that is a pro-  
22       gram participant shall be subject to the same regula-  
23       tions as other recipients of awards of Federal finan-  
24       cial assistance to account, in accordance with gen-

1 erally accepting auditing principles, for the use of  
2 the funds provided under such awards.

3 “(2) LIMITED AUDIT.—With respect to the  
4 award involved, if a religious organization that is a  
5 program participant maintains the Federal funds in  
6 a separate account from non-Federal funds, then  
7 only the Federal funds shall be subject to audit.

8 **“SEC. 583. LIMITATIONS ON USE OF FUNDS FOR CERTAIN**  
9 **PURPOSES.**

10 “(a) IN GENERAL.—Except as provided in subsection  
11 (b), no funds provided directly to an entity under a des-  
12 ignated program shall be expended for sectarian worship  
13 or instruction.

14 “(b) EXCEPTION.—Subsection (a) shall not apply to  
15 assistance provided to or on behalf of a program bene-  
16 ficiary if the beneficiary may choose where such assistance  
17 is redeemed or allocated.

18 **“SEC. 584. ADMINISTRATION OF PROGRAM AND TREAT-**  
19 **MENT OF FUNDS.**

20 “(a) FUNDS NOT AID TO INSTITUTIONS.—Financial  
21 assistance under a designated program provided to or on  
22 behalf of program beneficiaries is aid to the beneficiary,  
23 not to the organization providing program services. The  
24 receipt by a program beneficiary of program services at

1 the facilities of the organization shall not constitute Fed-  
2 eral financial assistance to the organization involved.

3 “(b) PROHIBITION ON STATE DISCRIMINATION IN  
4 USE OF FUNDS.—No provision in any State constitution  
5 or State law shall be construed to prohibit the expenditure  
6 of Federal funds under a designated program in a reli-  
7 gious facility or by a religious organization that is a pro-  
8 gram participant. If a State law or constitution would pre-  
9 vent the expenditure of State or local public funds in such  
10 a facility or by such a State or local government, then  
11 the organization shall segregate the Federal funds from  
12 State or other public funds for purposes of carrying out  
13 the designated program.

14 **“SEC. 585. EDUCATIONAL REQUIREMENTS FOR PERSONNEL**  
15 **IN DRUG TREATMENT PROGRAMS.**

16 “(a) FINDINGS.—The Congress finds that—

17 “(1) establishing formal educational qualifica-  
18 tion for counselors and other personnel in drug  
19 treatment programs may undermine the effective-  
20 ness of such programs; and

21 “(2) such formal educational requirements for  
22 counselors and other personnel may hinder or pre-  
23 vent the provision of needed drug treatment services.

24 “(b) LIMITATION ON EDUCATIONAL REQUIREMENTS  
25 OF PERSONNEL.—

1           “(1) TREATMENT OF RELIGIOUS EDUCATION.—  
2           If any State or local government that is a program  
3           participant imposes formal educational qualifications  
4           on providers of program services that are religious  
5           organizations, such State or local government shall  
6           treat religious education and training of personnel  
7           as having a critical and positive role in the delivery  
8           of program services. In applying educational quali-  
9           fications for personnel in religious organizations,  
10          such State or local government shall give credit for  
11          religious education and training equivalent to credit  
12          given for secular course work in drug treatment or  
13          any other secular subject that is of similar grade  
14          level and duration.

15           “(2) RESTRICTION OF DISCRIMINATION RE-  
16          QUIREMENTS.—

17           “(A) IN GENERAL.—Subject to paragraph  
18          (1), a State or local government that is a pro-  
19          gram participant may establish formal edu-  
20          cational qualifications for personnel in organiza-  
21          tions providing program services that contribute  
22          to success in reducing drug use among program  
23          beneficiaries.

24           “(B) EXCEPTION.—The Secretary shall  
25          waive the application of any educational quali-

1           fication imposed under subparagraph (A) for an  
2           individual religious organization, if the Sec-  
3           retary determines that—

4                   “(i) the religious organization has a  
5                   record of prior successful drug treatment  
6                   for at least the preceding three years;

7                   “(ii) the educational qualifications  
8                   have effectively barred such religious orga-  
9                   nization from becoming a program pro-  
10                  vider;

11                  “(iii) the organization has applied to  
12                  the Secretary to waive the qualifications;  
13                  and

14                  “(iv) the State or local government  
15                  has failed to demonstrate empirically that  
16                  the educational qualifications in question  
17                  are necessary to the successful operation of  
18                  a drug treatment program.”.

1 **TITLE V—CRA CREDIT FOR IN-**  
2 **VESTMENTS IN COMMUNITY**  
3 **DEVELOPMENT ORGANIZA-**  
4 **TIONS LOCATED IN RENEWAL**  
5 **COMMUNITIES**

6 **SEC. 501. CRA CREDIT FOR INVESTMENTS IN COMMUNITY**  
7 **DEVELOPMENT ORGANIZATIONS LOCATED IN**  
8 **RENEWAL COMMUNITIES.**

9 Section 804 of the Community Reinvestment Act of  
10 1977 (12 U.S.C. 2903) is amended by adding at the end  
11 the following new subsection:

12 “(c) INVESTMENTS IN CERTAIN COMMUNITY DEVEL-  
13 OPMENT ORGANIZATIONS.—In assessing and taking into  
14 account, under subsection (a), the record of a regulated  
15 financial institution, the appropriate Federal financial su-  
16 pervisory agency may consider, as a factor, investments  
17 of the institution in, and capital investment, loan partici-  
18 pation, and other ventures undertaken by the institution  
19 in cooperation with, any community development organi-  
20 zation (as defined in section 234 of the Bank Enterprise  
21 Act of 1991) which is located in a renewal community (as  
22 designated under section 1400 of the Internal Revenue  
23 Code of 1986).”.

1 **SEC. 502. FDA USER FEE AMENDMENT.**

2 Section 736(b) of the Federal Food, Drug, and Cos-  
3 metic Act (21 U.S.C. 379h(b)) is amended by adding at  
4 the end the following:

5 “(3) RENEWAL COMMUNITY EXCEPTION.—

6 Any—

7 “(A) business which qualifies as a renewal  
8 community business under section 1400C of the  
9 Internal Revenue Code of 1986, or

10 “(B) any nonprofit organization,

11 which is manufacturing a drug for which a fee is re-  
12 quired under subsection (a)(2)(A) and which was de-  
13 veloped in a renewal community designated under  
14 section 1400 of such Code or has pending an appli-  
15 cation or supplement for a drug for which a fee is  
16 required under subsection (a)(2)(B) and which was  
17 developed in a renewal community designated under  
18 section 1400 of such Code shall not be required to  
19 pay any portion of such fee. Any business or non-  
20 profit organization shall not be required to pay any  
21 portion of the fee required under subsection  
22 (a)(1)(A) for a human drug application for a drug  
23 that was developed in a renewal community.”.

○