

105TH CONGRESS  
1ST SESSION

# H. R. 201

To amend the Internal Revenue Code of 1986 to provide tax incentives for the economic recovery of areas affected by the loss of employment in the financial institution and real estate sectors.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 1997

Mrs. KENNELLY of Connecticut introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide tax incentives for the economic recovery of areas affected by the loss of employment in the financial institution and real estate sectors.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Financial Institution  
5 and Real Estate (FIRE) Relief Act of 1997”.

1 **SEC. 2. DESIGNATION AND TREATMENT OF ECONOMIC RE-**  
 2 **COVERY AREAS.**

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—Designation and**  
 7 **Treatment of Economic Recov-**  
 8 **ery Areas**

“Part I. Designation.

“Part II. Incentives.

9 **“PART I—DESIGNATION**

“Sec. 1399A. Designation procedure.

“Sec. 1399B. Eligibility criteria; definitions and special rules.

10 **“SEC. 1399A. DESIGNATION PROCEDURE.**

11 “(a) IN GENERAL.—From among the areas nomi-  
 12 nated for designation under this section, the Secretary  
 13 may designate 3 nominated areas as economic recovery  
 14 areas.

15 “(b) PERIOD DESIGNATIONS MAY BE MADE.—A des-  
 16 ignation may be made under this section only during the  
 17 1-year period beginning on the date of the enactment of  
 18 this subchapter.

19 “(c) PERIOD FOR WHICH DESIGNATION IS IN EF-  
 20 FECT.—

1           “(1) IN GENERAL.—Any designation under this  
 2           section shall remain in effect during the period be-  
 3           ginning on the date of the designation and ending  
 4           on the earliest of—

5                   “(A) the close of the 10th calendar year  
 6                   beginning on or after such date of designation,

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

10                  “(C) the date the Secretary revokes the  
 11                  designation.

12           “(2) REVOCATION OF DESIGNATION.—The Sec-  
 13           retary may revoke the designation under this section  
 14           of an area under rules similar to the rules of section  
 15           1391(d)(2).

16           “(d) OTHER RULES TO APPLY.—Rules similar to the  
 17           rules of subsections (e) and (f) of section 1391 shall apply  
 18           for purposes of the designation under this section.

19   **“SEC. 1399B. ELIGIBILITY CRITERIA; DEFINITIONS AND**  
 20                   **SPECIAL RULES.**

21           “(a) IN GENERAL.—A nominated area shall be eligi-  
 22           ble for designation under section 1399A only if it meets  
 23           the following criteria:

24                   “(1) ENTERPRISE ZONE CRITERIA.—The nomi-  
 25           nated area is an urban area which meets the criteria

1 under section 1392 for urban areas (determined  
2 without regard to section 1392(a)(3)(D) thereof).

3 “(2) EMPLOYMENT LOSSES IN FINANCIAL IN-  
4 STITUTION AND REAL ESTATE SECTORS.—With re-  
5 spect to the nominated area—

6 “(A) at least 12 percent of the wages at-  
7 tributable to private, nonagricultural employ-  
8 ment in the area during 1989, and subject to  
9 tax under section 3301 during such year, were  
10 in the financial institution and real estate sec-  
11 tors, and

12 “(B) the employment in such area in such  
13 sectors for the calendar year preceding the cal-  
14 endar year in which such area is nominated for  
15 designation is 10 percent (or, if lesser, 5,000  
16 full-time equivalent jobs) less than such employ-  
17 ment during 1989.

18 The requirement of subparagraph (B) shall not be  
19 met if substantially all of such decline in employ-  
20 ment is attributable to 1 employer. Data for the  
21 labor market area which includes the nominated  
22 area may be used for purposes of this paragraph if  
23 data is not separately available for the nominated  
24 area.

3                   “(1) ECONOMIC RECOVERY AREA.—The term  
4                   ‘economic recovery area’ means an area designated  
5                   as such under section 1399A.

6           “(2) FINANCIAL INSTITUTION.—The term ‘fi-  
7       nancial institution’ includes any bank, any insurance  
8       company, and any trade or business of performing  
9       brokerage services.

10 “(3) URBAN AREA.—The term ‘urban area’  
11 means an area which is not a rural area (as defined  
12 in section 1393(a)(2)).

“(4) OTHER DEFINITIONS AND SPECIAL  
RULES.—Rules similar to the rules of paragraphs  
(4) through (9) of section 1393(a) shall apply for  
purposes of this subchapter.

17 **“PART II—INCENTIVES**

“Sec. 1399E. Reduction in capital gains tax on equity investments in area businesses.

“Sec. 1399F. Other incentives.

18 "SEC. 1399D. ECONOMIC RECOVERY AREA EMPLOYMENT  
19 CREDIT.

20       “(a) AMOUNT OF CREDIT.—For purposes of section  
21   38, the amount of the economic recovery area employment  
22   credit determined under this section with respect to any

1 employer for any taxable year is 20 percent of the quali-  
2 fied area wages paid or incurred during the calendar year  
3 which ends with or within such taxable year.

4 “(b) QUALIFIED AREA WAGES.—

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

10 “(2) ONLY FIRST \$15,000 OF WAGES PER YEAR  
11 TAKEN INTO ACCOUNT.—With respect to each quali-  
12 fied area employee, the amount of qualified area  
13 wages which may be taken into account for a cal-  
14 endar year shall not exceed \$15,000.

15 “(3) COORDINATION WITH TARGETED JOBS  
16 CREDIT AND EMPOWERMENT ZONE EMPLOYMENT  
17 CREDIT.—

18 “(A) IN GENERAL.—The term ‘qualified  
19 area wages’ shall not include wages taken into  
20 account in determining the credit under section  
21 51 or 1396.

22 “(B) COORDINATION WITH PARAGRAPH  
23 (2).—The \$15,000 amount in paragraph (2)  
24 shall be reduced for any calendar year by the  
25 amount of wages paid or incurred during such

1           year which are taken into account in determin-  
2           ing the credit under section 51 or 1396.

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

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

9           “(A) substantially all of the services per-  
10          formed during such period by such employee for  
11          such employer are performed within an eco-  
12          nomic recovery area in a trade or business of  
13          the employer, and

14          “(B) the prior employment of such em-  
15          ployee was by an employer in such area from  
16          which—

17                 “(i) such employee was involuntarily  
18                 separated from service (other than in a  
19                 separation determined under the applicable  
20                 State unemployment compensation law to  
21                 be due to the misconduct of such em-  
22                 ployee), or

23                 “(ii) such employee retired.

24           “(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—  
25          Rules similar to the rules of paragraphs (2) and (3)

1 of section 1396(d) shall apply for purposes of para-  
 2 graph (1).

3 “(d) OTHER DEFINITIONS AND SPECIAL RULES.—

4 For purposes of this section—

5 “(1) WAGES.—The term ‘wages’ has the same  
 6 meaning as when used in section 51.

7 “(2) CONTROLLED GROUPS.—All employers  
 8 treated as a single employer under subsection (a) or  
 9 (b) of section 52 shall be treated as a single em-  
 10 ployer for purposes of this section, and the credit (if  
 11 any) determined under this section with respect to  
 12 each such employer shall be its proportionate share  
 13 of the wages giving rise to such credit.

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

18 **“SEC. 1399E. REDUCTION IN CAPITAL GAINS TAX ON EQ-**  
 19 **UITY INVESTMENTS IN AREA BUSINESSES.**

20 “(a) TAXPAYERS OTHER THAN CORPORATIONS.—

**“For 10 percent maximum rate of tax on qualified  
 area investments, see section 1(h).**

21 “(b) CORPORATIONS.—

**“For 17 percent maximum rate of tax on qualified  
 area investments, see section 1201.**

22 “(c) QUALIFIED AREA INVESTMENTS.—For purposes  
 23 of sections 1 and 1201—



1           “(1) IN GENERAL.—The term ‘qualified area  
2 investment’ means—

3                   “(A) any qualified area stock,

4                   “(B) any qualified area business property,

5                   and

6                   “(C) any qualified area partnership inter-  
7 est,

8 held for more than 5 years as of the date of the sale  
9 or exchange to which section 1 or 1201 applies.

10           “(2) QUALIFIED AREA STOCK.—

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

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

18                           “(ii) as of the time such stock was is-  
19 sued, such corporation was a qualified area  
20 business (or, in the case of a new corpora-  
21 tion, such corporation was being organized  
22 for purposes of being a qualified area busi-  
23 ness), and

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

1           such corporation qualified as a qualified  
2           area business.

3           “(B) REDEMPTIONS.—The term ‘qualified  
4           area stock’ shall not include any stock acquired  
5           from a corporation which made a substantial  
6           stock redemption or distribution (without a  
7           bona fide business purpose therefor) in an at-  
8           tempt to avoid the purposes of this section.

9           “(3) QUALIFIED AREA BUSINESS PROPERTY.—

10           “(A) IN GENERAL.—The term ‘qualified  
11           area business property’ means tangible property  
12           if—

13                   “(i) such property was acquired by  
14                   the taxpayer by purchase (as defined in  
15                   section 179(d)(2)) after the date on which  
16                   the designation of the economic recovery  
17                   area took effect,

18                   “(ii) the original use of such property  
19                   in such an area commences with the tax-  
20                   payer, and

21                   “(iii) during substantially all of the  
22                   taxpayer’s holding period for such prop-  
23                   erty, substantially all of the use of such  
24                   property was in an economic recovery area

1 and in a qualified area business of the tax-  
2 payer.

3 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-  
4 PROVEMENTS.—The requirements of clauses (i)  
5 and (ii) of subparagraph (A) shall be treated as  
6 satisfied with respect to—

7 “(i) property which is substantially  
8 improved by the taxpayer, and

9 “(ii) any land on which such property  
10 is located.

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

21 “(C) LIMITATION ON LAND.—The term  
22 ‘qualified area business property’ shall not in-  
23 clude land which is not an integral part of a  
24 qualified area business.

1           “(4) QUALIFIED AREA PARTNERSHIP INTER-  
2           EST.—The term ‘qualified area partnership interest’  
3           means any interest in a partnership if—

4                   “(A) such interest is acquired by the tax-  
5           payer from the partnership solely in exchange  
6           for cash,

7                   “(B) as of the time such interest was ac-  
8           quired, such partnership was a qualified area  
9           business (or, in the case of a new partnership,  
10          such partnership was being organized for pur-  
11          poses of being a qualified area business), and

12                   “(C) during substantially all of the tax-  
13          payer’s holding period for such interest, such  
14          partnership qualified as a qualified area busi-  
15          ness.

16          A rule similar to the rule of paragraph (2)(B) shall  
17          apply for purposes of this paragraph.

18           “(5) TREATMENT OF SUBSEQUENT PUR-  
19          CHASERS.—The term ‘qualified area investment’ in-  
20          cludes any property which would be a qualified area  
21          investment but for paragraph (2)(A)(i), (3)(A)(ii), or  
22          (4)(A) in the hands of the taxpayer if such property  
23          was a qualified area investment in the hands of any  
24          prior holder.

1           “(6) 10-YEAR SAFE HARBOR.—If any property  
2       ceases to be a qualified area investment by reason  
3       of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after  
4       the 10-year period beginning on the date the tax-  
5       payer acquired such property, such property shall  
6       continue to be treated as meeting the requirements  
7       of such paragraph; except that the amount of gain  
8       to which subsections (a) and (b) apply on any sale  
9       or exchange of such property shall not exceed the  
10      amount which would be long-term capital gain had  
11      such property been sold on the date of such ces-  
12      sation.

13           “(7) TREATMENT OF AREA TERMINATIONS.—  
14      The termination of any designation of an area as an  
15      economic recovery area shall be disregarded for pur-  
16      poses of determining whether any property is a  
17      qualified area investment.

18           “(d) OTHER DEFINITIONS AND SPECIAL RULES.—  
19      For purposes of this section—

20           “(1) QUALIFIED AREA BUSINESS.—The term  
21      ‘qualified area business’ means any business which  
22      would be an enterprise zone business as defined in  
23      section 1397B if ‘economic recovery area’ were sub-  
24      stituted for ‘empowerment zone’ each place it ap-  
25      pears.

1           “(2) QUALIFIED BUSINESS.—The term ‘quali-  
2       fied business’ has the meaning given such term by  
3       section 1397B(d), determined by substituting ‘eco-  
4       nomic recovery area’ for ‘empowerment zone’ each  
5       place it appears.

6           “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER  
7       TERMINATION OF AREA DESIGNATION NOT QUALI-  
8       FIED.—The amount of gain to which subsections (a)  
9       and (b) apply on any sale or exchange of property  
10      shall not include any gain attributable to periods  
11      after the termination of any designation of an area  
12      as an economic recovery area.

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

14               “(1) SALES AND EXCHANGES.—Gain on the  
15      sale or exchange of an interest in a pass-thru entity  
16      held by the taxpayer (other than an interest in an  
17      entity which was a qualified area business during  
18      substantially all of the period the taxpayer held such  
19      interest) for more than 5 years shall be treated as  
20      gain on a qualified area investment to the extent  
21      such gain is attributable to amounts which would be  
22      long-term capital gain on qualified area investments  
23      (determined as if such investments had been sold on  
24      the date of the sale or exchange) held by such entity  
25      for more than 5 years 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 qualified area business during substan-  
9 tially all of the period the taxpayer held the in-  
10 terest to which such inclusion relates) shall be  
11 treated as gain on a qualified area investment  
12 if 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 long-term capital gain recognized on the  
18 sale or exchange by the pass-thru entity of  
19 property which is a qualified area invest-  
20 ment asset in the hands of such entity and  
21 which was held by such entity for more  
22 than 5 years, 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 area asset was  
 14          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          “(f) SALES AND EXCHANGES OF INTERESTS IN  
 23          PARTNERSHIPS AND S CORPORATIONS WHICH ARE  
 24          QUALIFIED AREA BUSINESSES.—In the case of the sale  
 25          or exchange of an interest in a partnership, or of stock



1 in an S corporation, which was a qualified area business  
 2 during substantially all of the period the taxpayer held  
 3 such interest or stock, the amount of long-term 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, and

7 “(2) gain attributable to periods before the des-  
 8 ignation of an area as an economic recovery area.

9 “(g) CERTAIN TAX-FREE AND OTHER TRANS-  
 10 FERS.—For purposes of this section—

11 “(1) IN GENERAL.—In the case of a transfer of  
 12 a qualified area investment to which this subsection  
 13 applies, the transferee shall be treated as—

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

16 “(B) having held such investment during  
 17 any continuous period immediately preceding  
 18 the transfer during which it was held (or treat-  
 19 ed as held under this subsection) by the trans-  
 20 feror.

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 area investment with re-  
 3           spect to which the requirements of subsection  
 4           (e)(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. 1399F. OTHER INCENTIVES.**

10          “(a) EXPENSING OF EQUIPMENT AND LEASEHOLD  
 11          IMPROVEMENTS.—

12               “(1) IN GENERAL.—In the case of a qualified  
 13               area business (as defined in section 1399E(d)), for  
 14               purposes of section 179—

15                   “(A) the limitations of paragraphs (1) and  
 16                   (2) of section 179(b) shall not apply to section  
 17                   179 property which is qualified area property  
 18                   placed in service during the taxable year, and

19                   “(B) leasehold improvements placed in  
 20                   service by the lessor in an economic recovery  
 21                   area shall be treated as section 179 property  
 22                   for purposes of subparagraph (A) and section  
 23                   179.

24               “(2) RECAPTURE.—Rules similar to the rules  
 25               under section 179(d)(10) shall apply with respect to

1       any qualified area property which ceases to be used  
 2       in an economic recovery area by a qualified area  
 3       business.

4           “(3) QUALIFIED AREA PROPERTY.—For pur-  
 5       poses of this subsection, the term ‘qualified area  
 6       property’ means any property which would be quali-  
 7       fied zone property as defined in section 1397C, if  
 8       ‘economic recovery area’ were substituted for  
 9       ‘empowerment zone’ each place it appears.

10       “(b) PASSIVE LOSS RULES NOT TO APPLY TO REHA-  
 11       BILITATION OF HISTORIC STRUCTURES.—Section 469  
 12       shall not apply to so much of the rehabilitation credit de-  
 13       termined under section 47 as is attributable to certified  
 14       historic structures (as defined in section 47(c)(3)) located  
 15       in an economic recovery area.

16       “(c) DOUBLE DEDUCTION FOR SECURITY DE-  
 17       VICES.—The amount of any deduction otherwise allowable  
 18       under section 162 for any security expenses shall be in-  
 19       creased by 100 percent of such amount.”

20       (b) REDUCTION IN CAPITAL GAINS RATES.—

21           (1) TAXPAYERS OTHER THAN CORPORA-  
 22       TIONS.—Subsection (h) of section 1 of such Code  
 23       (relating to maximum capital gains rate) is amended  
 24       to read as follows:

25       “(h) MAXIMUM CAPITAL GAINS RATE.—

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

4                   “(A) a tax computed at the rates and in  
5           the same manner as if this subsection had not  
6           been enacted on the greater of—

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

9                           “(ii) the amount of taxable income  
10          taxed at a rate below 10 percent, plus

11          “(B) a tax of 10 percent on the lesser of—

12                           “(i) the net capital gain determined  
13          by only taking into account gain and loss  
14          attributable to qualified area investments  
15          (as defined in section 1399E(c)), or

16                           “(ii) the amount of taxable income in  
17          excess of the amount on which tax is deter-  
18          mined under subparagraph (A), plus

19          “(C) a tax of 28 percent of taxable income  
20          in excess of the sum of the amounts on which  
21          tax was determined under subparagraphs (A)  
22          and (B).

23           “(2) COORDINATION WITH INVESTMENT IN-  
24          COME ELECTION.—For purposes of paragraph (1),

1 the net capital gain for any taxable year shall be re-  
 2 duced (but not below zero) by the amount which the  
 3 taxpayer elects to take into account as investment  
 4 income for the taxable year under section  
 5 163(d)(4)(B)(iii).”

6 (2) CORPORATIONS.—Paragraph (2) of section  
 7 1201(a) of such Code is amended to read as follows:

8 “(2)(A) a tax of 17 percent of the lesser of—

9 “(i) the net capital gain determined by  
 10 only taking into account gain and loss attrib-  
 11 utable to qualified area investments (as defined  
 12 in section 1399E(c)), or

13 “(ii) the net capital gain, plus

14 “(B) a tax of 35 percent of the net capital gain  
 15 in excess of the amount on which tax was deter-  
 16 mined under subparagraph (A).”

17 (c) TECHNICAL AMENDMENTS.—

18 (1) EMPLOYMENT CREDIT PART OF GENERAL  
 19 BUSINESS CREDIT.—

20 (A) Subsection (b) of section 38 of such  
 21 Code (relating to current year business credit)  
 22 is amended by striking “plus” at the end of  
 23 paragraph (11), by striking the period at the  
 24 end of paragraph (12) and inserting “, plus”,

1 and by adding at the end the following new  
2 paragraph:

3 “(13) the economic recovery area employment  
4 credit determined under section 1399D(a).”

5 (B) Subsection (d) of section 39 of such  
6 Code is amended by adding at the end the fol-  
7 lowing new paragraph:

8 “(8) ECONOMIC RECOVERY AREA EMPLOYMENT  
9 CREDIT.—No portion of the unused business credit  
10 which is attributable to the credit determined under  
11 section 1399D (relating to economic recovery area  
12 employment credit) may be carried to any taxable  
13 year ending before January 1, 1997.”

14 (2) DENIAL OF DEDUCTION FOR PORTION OF  
15 WAGES EQUAL TO ECONOMIC RECOVERY AREA EM-  
16 PLOYMENT CREDIT.—

17 (A) Subsection (a) of section 280C of such  
18 Code (relating to rule for targeted jobs credit)  
19 is amended by striking “and 1396(a)” and in-  
20 serting “, 1396(a), and 1399D(a)”.

21 (B) Subsection (c) of section 196 of such  
22 Code (relating to deduction for certain unused  
23 business credits) is amended by striking “and”  
24 at the end of paragraph (6), by striking the pe-  
25 riod at the end of paragraph (7) and inserting

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

3 “(8) the economic recovery area employment  
 4 credit determined under section 1399D(a).”

5 (3) CARRYOVERS.—Subsection (c) of section  
 6 381 of such Code (relating to carryovers in certain  
 7 corporate acquisitions) is amended by adding at the  
 8 end the following new paragraph:

9 “(27) ECONOMIC RECOVERY AREA PROVI-  
 10 SIONS.—The acquiring corporation shall take into  
 11 account (to the extent proper to carry out the pur-  
 12 poses of this section and subchapter W, and under  
 13 such regulations as may be prescribed by the Sec-  
 14 retary) the items required to be taken into account  
 15 for purposes of subchapter W in respect of the dis-  
 16 tributor or transferor corporation.”

17 (4) The table of subchapters for chapter 1 of  
 18 such Code is amended by inserting after the item re-  
 19 lating to subchapter V the following new item:

“Subchapter W. Designation and treatment of economic recovery  
 areas.”

20 (d) EFFECTIVE DATE.—The amendments made by  
 21 this section shall take effect on the date of the enactment  
 22 of this Act.

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