

105TH CONGRESS
1ST SESSION

H. R. 391

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

IN THE HOUSE OF REPRESENTATIVES

JANUARY 9, 1997

Mr. ANDREWS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

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

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 “Domestic Investment
5 Economic Growth Act”.

6 **SEC. 2. EXCLUSION FOR GAIN ON INVESTMENTS IN ENTER-**
7 **PRISE ZONE BUSINESSES AND DOMESTIC**
8 **BUSINESSES.**

9 (a) IN GENERAL.—Part III of subchapter B of chap-
10 ter 1 of the Internal Revenue Code of 1986 (relating to

1 items specifically excluded from gross income) is amended
 2 by redesignating section 138 as section 139 and by insert-
 3 ing after section 137 the following new section:

4 **“SEC. 138. GAIN ON INVESTMENTS IN ENTERPRISE ZONE**
 5 **BUSINESSES AND DOMESTIC BUSINESSES.**

6 “(a) GENERAL RULE.—Gross income does not in-
 7 clude any qualified investment gain.

8 “(b) QUALIFIED INVESTMENT GAIN.—For purposes
 9 of this section—

10 “(1) IN GENERAL.—The term ‘qualified invest-
 11 ment gain’ means the eligible percentage of any
 12 long-term capital gain properly attributable to any
 13 sale or exchange of a qualified investment, other
 14 than a sale or exchange to a related person (within
 15 the meaning of section 267(b)).

16 “(2) ELIGIBLE PERCENTAGE.—The term ‘eligi-
 17 ble percentage’ means—

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

21 “(B) 50 percent, in the case of any quali-
 22 fied investment not described in subparagraph
 23 (A).

24 “(c) QUALIFIED INVESTMENTS.—For purposes of
 25 this section—

1 “(1) IN GENERAL.—The term ‘qualified invest-
2 ment’ means any eligible investment, if the holding
3 period of the taxpayer with respect to such invest-
4 ment is not less than 1 year.

5 “(2) ELIGIBLE INVESTMENT.—The term ‘eligi-
6 ble investment’ means the following:

7 “(A) Any stock, partnership interest, or
8 other ownership interest in an enterprise zone
9 business or domestic business.

10 “(B) Any real property located entirely
11 within an urban enterprise zone.

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

15 “(3) ENTERPRISE ZONE BUSINESS.—The term
16 ‘enterprise zone business’ has the meaning given to
17 such term by section 1397B.

18 “(4) DOMESTIC BUSINESS.—The term ‘domes-
19 tic business’ means any corporation or partnership
20 (other than an enterprise zone business) incor-
21 porated or formed in the United States if—

22 “(A) not less than 80 percent of the em-
23 ployees of the corporation or partnership are
24 United States citizens employed within the
25 United States, and

1 “(B) either—

2 “(i) the corporation devotes more than
3 25 percent of its annual expenses to pay-
4 roll, or

5 “(ii) substantially all of the activities
6 of the corporation or partnership involve
7 the active conduct of 1 or more trades or
8 businesses in the United States.

9 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
10 poses of this section—

11 “(1) URBAN ENTERPRISE ZONE.—The term
12 ‘urban enterprise zone’ means any empowerment
13 zone, or enterprise community, which is located
14 within an urban area (as defined in section 1393).

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

21 “(e) COORDINATION WITH INVESTMENT SAVINGS
22 ACCOUNT PROVISIONS.—Subsection (a) shall not apply to
23 any amount distributed out of an investment savings ac-
24 count (within the meaning of section 221(c)).”

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 138 and inserting the following:

“Sec. 138. Gain on investments in enterprise zone businesses and domestic businesses.

“Sec. 139. Cross references to other Acts.”

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

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

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended by redesignating section 221 as section 222 and by inserting after section 220 the following new section:

“SEC. 221. CONTRIBUTIONS TO INVESTMENT SAVINGS ACCOUNTS.

“(a) DEDUCTION ALLOWED.—

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

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

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

4 “(i) 50 percent of the qualified con-
 5 tributions of the individual to an invest-
 6 ment savings account for the 10th preced-
 7 ing taxable year, to the extent such con-
 8 tributions remain in the account, and

9 “(ii) 50 percent of the qualified con-
 10 tributions of the individual to an invest-
 11 ment savings account for the 20th preced-
 12 ing taxable year, to the extent such con-
 13 tributions remain in the account.

14 “(2) MAXIMUM ANNUAL AMOUNT.—The
 15 amount allowable as a deduction under paragraph
 16 (1) to any individual for a taxable year shall not ex-
 17 ceed \$100,000.

18 “(b) QUALIFIED CONTRIBUTIONS.—For purposes of
 19 this section—

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

23 “(A) the individual’s qualified savings in-
 24 crease amount for the taxable year, or

1 “(B) the contributions made by the indi-
2 vidual to the investment savings account during
3 the taxable year.

4 “(2) QUALIFIED SAVINGS INCREASE AMOUNT.—
5 The term ‘qualified savings increase amount’ means
6 the amount (if any) by which—

7 “(A) the individual’s qualified net worth
8 increase amount, exceeds

9 “(B) the applicable threshold amount.

10 “(3) QUALIFIED NET WORTH INCREASE
11 AMOUNT.—

12 “(A) IN GENERAL.—The term ‘qualified
13 net worth increase amount’ means the amount
14 (if any) by which—

15 “(i) qualified net worth on December
16 31 of the taxable year, exceeds

17 “(ii) qualified net worth on January 1
18 of such taxable year.

19 “(B) QUALIFIED NET WORTH.—The term
20 ‘qualified net worth’ means net worth, deter-
21 mined without regard to any portion of the
22 value of property which is in excess of the ad-
23 justed basis.

24 “(4) APPLICABLE THRESHOLD AMOUNT.—

1 “(A) IN GENERAL.—Except as provided in
 2 subparagraph (B), the term ‘applicable thresh-
 3 old amount’ means the national average quali-
 4 fied net worth increase amount determined by
 5 the Secretary for the taxable year for the tax
 6 rate category of the taxpayer.

7 “(B) 1ST YEAR.—For taxable years begin-
 8 ning in 1997, the term ‘applicable threshold
 9 amount’ means the applicable percentage of the
 10 taxpayer’s adjusted gross income, determined in
 11 accordance with the following table:

“If adjusted gross income is:	Applicable Percentage:
Not over \$13,000	0
Over \$13,000 but not over \$24,000	0
Over \$24,000 but not over \$36,000	0
Over \$36,000 but not over \$55,000	5
Over \$55,000 but not over \$70,000	7
Over \$70,000 but not over \$100,000	9
Over \$100,000 but not over \$140,000	15
Over \$140,000 but not over \$200,000	18
Over \$200,000 but not over \$500,000	20
Over \$500,000 but not over \$1,000,000	25
Over \$1,000,000	30.

12 “(5) TIME WHEN CONTRIBUTIONS DEEMED
 13 MADE.—A taxpayer shall be deemed to have made a
 14 contribution to an investment savings account on the
 15 last day of the preceding taxable year if the con-
 16 tribution is made on account of such taxable year
 17 and is made not later than the time prescribed by
 18 law for filing the return for such taxable year (not
 19 including extensions thereof).

1 “(c) INVESTMENT SAVINGS ACCOUNT.—For pur-
2 poses of this section, the term ‘investment savings ac-
3 count’ means a trust created or organized in the United
4 States for the exclusive benefit of an individual and the
5 individual’s beneficiaries, but only if the written governing
6 instrument creating the trust meets the following require-
7 ments:

8 “(1) No contribution will be accepted unless it
9 is in cash.

10 “(2) The trustee is a bank (as defined in sec-
11 tion 408(n)) or another person who demonstrates to
12 the satisfaction of the Secretary that the manner in
13 which that person will administer the trust will be
14 consistent with the requirements of this section.

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

16 “(A) eligible investments (as defined by
17 section 138(c)(2)),

18 “(B) bonds issued by enterprise zone busi-
19 ness and domestic business, and

20 “(C) loans to enterprise zone businesses
21 and domestic businesses.

22 “(4) The interest of the individual in the bal-
23 ance of the individual’s account is nonforfeitable.

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

4 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

5 “(1) IN GENERAL.—Except as otherwise pro-
6 vided in this subsection, any amount distributed out
7 of an investment savings account shall be included
8 in the gross income of the distributee for the taxable
9 year in which the distribution is received.

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

15 “(3) EXCESS CONTRIBUTIONS RETURNED BE-
16 FORE DUE DATE OF RETURN.—Paragraph (1) shall
17 not apply to the distribution of any contribution paid
18 during a taxable year to an investment savings ac-
19 count to the extent that such contribution exceeds
20 the amount allowable as a deduction under sub-
21 section (a) if—

22 “(A) such distribution is received on or be-
23 fore the day prescribed by law (including exten-
24 sions of time) for filing such individual’s return
25 for such taxable year,

1 “(B) no deduction is allowed under sub-
2 section (a) with respect to such excess contribu-
3 tion, and

4 “(C) such distribution is accompanied by
5 the amount of net income attributable to such
6 excess contribution.

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

11 “(e) TAX TREATMENT OF ACCOUNTS.—

12 “(1) EXEMPTION FROM TAX.—An investment
13 savings account is exempt from taxation under this
14 subtitle unless such account has ceased to be an in-
15 vestment savings account by reason of paragraph
16 (2). Notwithstanding the preceding sentence, any
17 such account is subject to the taxes imposed by sec-
18 tion 511 (relating to imposition of tax on unrelated
19 business income of charitable, etc. organizations).

20 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
21 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-
22 ACTION.—

23 “(A) IN GENERAL.—If the individual for
24 whose benefit an investment savings account is
25 established or any individual who contributes to

1 such account engages in any transaction prohib-
2 ited by section 4975 with respect to the ac-
3 count, the account shall cease to be an invest-
4 ment savings account as of the first day of the
5 taxable year (of the individual so engaging in
6 such transaction) during which such transaction
7 occurs.

8 “(B) ACCOUNT TREATED AS DISTRIBUTING
9 ALL ITS ASSETS.—In any case in which any ac-
10 count ceases to be an investment savings ac-
11 count by reason of subparagraph (A) as of the
12 first day of any taxable year, paragraph (1) of
13 subsection (d) shall apply as if there was a dis-
14 tribution on such first day in an amount equal
15 to the fair market value (on such first day) of
16 all assets in the account (on such first day).

17 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-
18 RITY.—If, during any taxable year, the individual for
19 whose benefit an investment savings account is es-
20 tablished, or any individual who contributes to such
21 account, uses the account or any portion thereof as
22 security for a loan, the portion so used shall be
23 treated as distributed to the individual so using such
24 portion.

1 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-
2 CLUDED IN GROSS INCOME.—

3 “(1) IN GENERAL.—Except as otherwise pro-
4 vided in this subsection, in the case of any distribu-
5 tion from an investment savings account, the tax li-
6 ability of each distributee under this chapter for the
7 taxable year in which the distribution is received
8 shall be increased by an amount equal to 10 percent
9 of the amount of the distribution which is includible
10 in the gross income of such distributee for such tax-
11 able year.

12 “(2) QUALIFIED DISTRIBUTIONS FROM
13 AMOUNTS HELD IN ACCOUNT FOR 5 YEARS.—

14 “(A) IN GENERAL.—Paragraph (1) shall
15 not apply to any qualified distribution from an
16 investment savings account, to the extent at-
17 tributable to amounts held in the account for at
18 least a 5-year period.

19 “(B) QUALIFIED DISTRIBUTION.—For
20 purposes of subparagraph (A), the term ‘quali-
21 fied distribution’ means any distribution re-
22 ceived from an investment savings account, to
23 the extent used within a reasonable period to
24 pay any of the following expenses:

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

6 “(ii) AUTOMOBILE PURCHASE EX-
 7 PENSES.—Expenses relating to the acquisi-
 8 tion of an automobile for the individual for
 9 whose benefit the account is established.

10 “(iii) EDUCATION EXPENSES.—Quali-
 11 fied higher education expenses (within the
 12 meaning of section 135(c)(2)).

13 “(iv) MEDICAL EXPENSES.—Medical
 14 expenses (within the meaning of section
 15 72(t)(2)(B)).

16 “(3) ADDITIONAL EXCEPTIONS.—Paragraph (1)
 17 shall not apply if the distribution is made after the
 18 individual for whose benefit the investment savings
 19 account is established—

20 “(A) attains 59½ years of age, or

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

23 “(4) DISQUALIFICATION CASES.—If an amount
 24 is includible in the gross income of an individual for
 25 a taxable year because such amount is required to

1 be treated as a distribution under paragraph (2) or
2 (3) of subsection (e), such individual's tax liability
3 under this chapter for such taxable year shall be in-
4 creased by an amount equal to 10 percent of such
5 amount required to be treated as a distribution and
6 included in the gross income of such individual.

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

10 “(h) SPECIAL RULES.—For purposes of this sec-
11 tion—

12 “(1) ORDERING RULE.—Distributions from an
13 investment savings account shall be treated as hav-
14 ing been made—

15 “(A) first from the earliest contribution re-
16 maining in the account at the time of the dis-
17 tribution,

18 “(B) second from other contributions in
19 the order in which made, and

20 “(C) third from earnings.

21 “(2) CUSTODIAL ACCOUNTS.—A custodial ac-
22 count shall be treated as a trust if the assets of such
23 account are held by a bank (as defined in section
24 408(n)) or another person who demonstrates, to the
25 satisfaction of the Secretary, that the manner in

1 which he will administer the account will be consist-
2 ent with the requirements of this section, and if the
3 custodial account would, except for the fact that it
4 is not a trust, constitute an investment savings ac-
5 count described in subsection (c). For purposes of
6 this title, in the case of a custodial account treated
7 as a trust by reason of the preceding sentence, the
8 custodian of such account shall be treated as the
9 trustee thereof.

10 “(i) REPORTS.—

11 “(1) IN GENERAL.—The trustee of an invest-
12 ment savings account shall make such reports re-
13 garding such account to the Secretary and to the in-
14 dividual for whose benefit the account is maintained
15 with respect to contributions, distributions, and such
16 other matters as the Secretary may require under
17 regulations. Except as provided in paragraph (2),
18 the reports required by this subsection shall be filed
19 at such time and in such manner and furnished to
20 such individuals at such time and in such manner as
21 may be required by those regulations.

1 “(2) FIRST REPORT.—The trustee of an invest-
2 ment savings account shall make the first report re-
3 quired under paragraph (1) not later than the expi-
4 ration of the 3-month period beginning on the date
5 on which the account is established.”

6 (b) ALLOWANCE OF DEDUCTION IN COMPUTING AD-
7 JUSTED GROSS INCOME.—Subsection (a) of section 62 of
8 such Code (defining adjusted gross income) is amended
9 by inserting after paragraph (16) the following new para-
10 graph:

11 “(17) CONTRIBUTIONS TO INVESTMENT SAV-
12 INGS ACCOUNTS.—The deduction allowed by section
13 221(a).”

14 (c) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—
15 Section 2503 of such Code (relating to taxable gifts) is
16 amended by adding at the end the following new sub-
17 section:

18 “(h) INVESTMENT SAVINGS ACCOUNTS.—Any con-
19 tribution made by an individual to an investment savings
20 account described in section 221(c) which is allowable as
21 a deduction under section 221 shall not be treated as a
22 transfer of property by gift for purposes of this chapter.”

23 (d) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
24 of such Code (relating to tax on excess contributions to

1 individual retirement accounts, certain section 403(b) con-
2 tracts, and certain individual retirement annuities) is
3 amended—

4 (1) in subsection (a), by striking “or” at the
5 end of paragraph (2), by redesignating paragraph
6 (3) as paragraph (4), and by inserting after para-
7 graph (2) the following new paragraph:

8 “(3) an investment savings account (within the
9 meaning of section 221(c)), or”, and

10 (2) by adding at the end the following new sub-
11 section:

12 “(e) EXCESS CONTRIBUTIONS TO INVESTMENT SAV-
13 INGS ACCOUNTS.—For purposes of this section, in the
14 case of an investment savings account, the term ‘excess
15 contributions’ means the amount by which the amount
16 contributed for the taxable year to the account exceeds
17 the amount allowable as a deduction under section 221
18 for such taxable year. For purposes of this subsection, any
19 contribution which is distributed out of the investment
20 savings account in a distribution to which section
21 221(d)(3) applies shall be treated as an amount not con-
22 tributed.”

23 (e) TAX ON PROHIBITED TRANSACTIONS.—

24 (A) Section 4975 of such Code (relating to
25 prohibited transactions) is amended by adding

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

3 “(5) SPECIAL RULE FOR INVESTMENT SAVINGS
4 ACCOUNTS.—An individual for whose benefit an in-
5 vestment savings account is established and any con-
6 tributor to such account shall be exempt from the
7 tax imposed by this section with respect to any
8 transaction concerning such account (which would
9 otherwise be taxable under this section) if, with re-
10 spect to such transaction, the account ceases to be
11 an investment savings account by reason of the ap-
12 plication of section 221(e)(2)(A) to such account.”,
13 and

14 (B) Paragraph (1) of section 4975(e) of
15 such Code is amended by striking “or” at the
16 end of subparagraph (D), by redesignating sub-
17 paragraph (E) as subparagraph (F), and by in-
18 serting after subparagraph (D) the following
19 new subparagraph:

20 “(E) an investment savings account de-
21 scribed in section 221(c), or”.

22 (f) FAILURE TO PROVIDE REPORTS ON INVESTMENT
23 SAVINGS ACCOUNTS.—Paragraph (2) of section 6693(a)
24 of such Code (relating to failure to provide reports on indi-
25 vidual retirement accounts or annuities) is amended by

1 striking “and” at the end of subparagraph (A), by striking
 2 the period at the end of subparagraph (B) and inserting
 3 “, and”, and by adding at the end the following new sub-
 4 paragraph:

5 “(C) section 221(i) (relating to investment
 6 savings accounts).”

7 (g) ADDITIONAL PENALTIES.—Part I of subchapter
 8 B of chapter 68 of such Code (relating to assessable pen-
 9 alties) is amended by adding at the end the following new
 10 section:

11 **“SEC. 6716. PROMOTION OF NONQUALIFIED INVESTMENT**
 12 **AS ELIGIBLE FOR DOMESTIC INVESTMENT**
 13 **ECONOMIC GROWTH EXCLUSION OR DEDUC-**
 14 **TION.**

15 “(a) IMPOSITION OF PENALTY.—If any person—

16 “(1) makes a statement that an investment or
 17 account is eligible for an exclusion under section 138
 18 or deduction under section 221, and

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

21 such person shall pay a penalty equal to twice the aggre-
 22 gate amount of exclusions and deductions taken by other
 23 persons under such sections in reliance on such statement.

1 “(b) PENALTY IN ADDITION TO OTHER PEN-
 2 ALTIES.—The penalty imposed by subsection (a) shall be
 3 in addition to any other penalty provided by law.”

4 (h) CLERICAL AMENDMENTS.—

5 (1) The table of sections for part VII of sub-
 6 chapter B of chapter 1 of such Code is amended by
 7 striking the item relating to section 221 and insert-
 8 ing the following new items:

 “Sec. 221. Contributions to investment savings accounts.
 “Sec. 222. Cross reference.”

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

11 **“SEC. 4973. TAX ON EXCESS CONTRIBUTIONS TO INDIVID-**
 12 **UAL RETIREMENT ACCOUNTS, MEDICAL SAV-**
 13 **INGS ACCOUNTS, INVESTMENT SAVINGS AC-**
 14 **COUNTS, CERTAIN 403(b) CONTRACTS, AND**
 15 **CERTAIN INDIVIDUAL RETIREMENT ANNU-**
 16 **ITIES.”**

17 (B) The table of sections for chapter 43 of such
 18 Code is amended by striking the item relating to sec-
 19 tion 4973 and inserting the following new item:

 “Sec. 4973. Tax on excess contributions to individual retirement
 accounts, medical savings accounts, investment sav-
 ings accounts, certain 403(b) contracts, and certain
 individual retirement annuities.”

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

1 **“SEC. 6693. FAILURE TO PROVIDE REPORTS ON INDIVIDUAL**
 2 **RETIREMENT ACCOUNTS OR ANNUITIES OR**
 3 **ON INVESTMENT SAVINGS ACCOUNTS; PEN-**
 4 **ALTIES RELATING TO DESIGNATED NON-**
 5 **DEDUCTIBLE CONTRIBUTIONS.”**

6 (B) The table of sections for subchapter B of
 7 chapter 68 of such Code is amended by striking the
 8 item relating to section 6693 and inserting the fol-
 9 lowing new item:

“Sec. 6693. Failure to provide reports on individual retirement
 accounts or annuities or on investment savings ac-
 counts; penalties relating to designated nondeduct-
 ible contributions.”

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

“Sec. 6716. Promotion of nonqualified investment as eligible for
 domestic investment economic growth exclusion or
 deduction.”

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

○