

106TH CONGRESS
1ST SESSION

S. 463

To amend the Internal Revenue Code of 1986 to provide for the designation of renewal communities, to provide tax incentives relating to such communities, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 24, 1999

Mr. ABRAHAM (for himself, Mr. COVERDELL, Mr. LIEBERMAN, and Mr. SANTORUM) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide for the designation of renewal communities, to provide tax incentives relating to such 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,*

3 **SECTION 1. SHORT TITLE; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “American Community Renewal Act of 1999”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; etc.

TITLE I—DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL
 COMMUNITIES

Sec. 101. Designation of and tax incentives for renewal communities.

Sec. 102. Extension of expensing of environmental remediation costs to renewal
 communities.

Sec. 103. Extension of work opportunity tax credit for renewal communities.

Sec. 104. Conforming and clerical amendments.

Sec. 105. Evaluation and reporting requirements.

Sec. 106. Exclusion of effects of this Act from Paygo scorecard.

TITLE II—ADDITIONAL PROVISIONS

Sec. 201. Transfer of unoccupied and substandard HUD-held housing in re-
 newal communities to local governments.

Sec. 202. Prevention and treatment of substance abuse; services provided
 through religious organizations.

Sec. 203. CRA credit for investments in community development organizations
 located in renewal communities.

5 **TITLE I—DESIGNATION OF AND**
 6 **TAX INCENTIVES FOR RE-**
 7 **NEWAL COMMUNITIES**

8 **SEC. 101. DESIGNATION OF AND TAX INCENTIVES FOR RE-**
 9 **NEWAL COMMUNITIES.**

10 (a) IN GENERAL.—Chapter 1 is amended by adding
 11 at the end the following new subchapter:

12 **“Subchapter X—Renewal Communities**

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community
 business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

“PART I—DESIGNATION

“Sec. 1400E. Designation of renewal communities.

2 “SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

3 “(a) DESIGNATION.—

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

6 “(A) which is nominated by one or more
7 local governments and the State or States in
8 which it is located for designation as a renewal
9 community (hereinafter in this section referred
10 to as a ‘nominated area’); and

11 “(B) which the Secretary of Housing and
12 Urban Development designates as a renewal
13 community, after consultation with—

14 “(i) the Secretaries of Agriculture,
15 Commerce, Labor, and the Treasury; the
16 Director of the Office of Management and
17 Budget; and the Administrator of the
18 Small Business Administration; and

19 “(ii) in the case of an area on an In-
20 dian reservation, the Secretary of the Inte-
21 rior.

22 “(2) NUMBER OF DESIGNATIONS.—

23 “(A) IN GENERAL.—The Secretary of
24 Housing and Urban Development may des-

1 ignate not more than 100 nominated areas as
2 renewal communities.

3 “(B) MINIMUM DESIGNATION IN RURAL
4 AREAS.—Of the areas designated under para-
5 graph (1), at least 20 percent must be areas—

6 “(i) which are within a local govern-
7 ment jurisdiction or jurisdictions with a
8 population of less than 50,000,

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

12 “(iii) which are determined by the
13 Secretary of Housing and Urban Develop-
14 ment, after consultation with the Secretary
15 of Commerce, to be rural areas.

16 “(3) AREAS DESIGNATED BASED ON DEGREE
17 OF POVERTY, ETC.—

18 “(A) IN GENERAL.—Except as otherwise
19 provided in this section, the nominated areas
20 designated as renewal communities under this
21 subsection shall be those nominated areas with
22 the highest average ranking with respect to the
23 criteria described in subparagraphs (B), (C),
24 and (D) of subsection (c)(3). For purposes of
25 the preceding sentence, an area shall be ranked

1 within each such criterion on the basis of the
 2 amount by which the area exceeds such cri-
 3 terion, with the area which exceeds such cri-
 4 terion by the greatest amount given the highest
 5 ranking.

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

13 “(C) PRIORITY FOR EMPOWERMENT ZONES
 14 AND ENTERPRISE COMMUNITIES WITH RESPECT
 15 TO FIRST HALF OF DESIGNATIONS.—With re-
 16 spect to the first 50 percent of the designations
 17 made under this section—

18 “(i) half shall be chosen from nomi-
 19 nated areas which are empowerment zones
 20 or enterprise communities (and are other-
 21 wise eligible for designation under this sec-
 22 tion); and

23 “(ii) 20 percent shall be areas de-
 24 scribed in paragraph (2)(B).

25 “(4) LIMITATION ON DESIGNATIONS.—

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

7 “(i) the procedures for nominating an
 8 area under paragraph (1)(A);

9 “(ii) the parameters relating to the
 10 size and population characteristics of a re-
 11 newal community; and

12 “(iii) the manner in which nominated
 13 areas will be evaluated based on the cri-
 14 teria specified in subsection (d).

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

22 “(C) PROCEDURAL RULES.—The Secretary
 23 of Housing and Urban Development shall not
 24 make any designation of a nominated area as a

1 renewal community under paragraph (2)
2 unless—

3 “(i) the local governments and the
4 States in which the nominated area is lo-
5 cated have the authority—

6 “(I) to nominate such area for
7 designation as a renewal community;

8 “(II) to make the State and local
9 commitments described in subsection
10 (d); and

11 “(III) to provide assurances sat-
12 isfactory to the Secretary of Housing
13 and Urban Development that such
14 commitments will be fulfilled,

15 “(ii) a nomination regarding such
16 area is submitted in such a manner and in
17 such form, and contains such information,
18 as the Secretary of Housing and Urban
19 Development shall by regulation prescribe;
20 and

21 “(iii) the Secretary of Housing and
22 Urban Development determines that any
23 information furnished is reasonably accu-
24 rate.

1 “(5) NOMINATION PROCESS FOR INDIAN RES-
 2 ERVATIONS.—For purposes of this subchapter, in
 3 the case of a nominated area on an Indian reserva-
 4 tion, the reservation governing body (as determined
 5 by the Secretary of the Interior) shall be treated as
 6 being both the State and local governments with re-
 7 spect to such area.

8 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
 9 FECT.—

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

14 “(A) December 31, 2007,

15 “(B) the termination date designated by
 16 the State and local governments in their nomi-
 17 nation, or

18 “(C) the date the Secretary of Housing
 19 and Urban Development revokes such designa-
 20 tion.

21 “(2) REVOCATION OF DESIGNATION.—The Sec-
 22 retary of Housing and Urban Development may re-
 23 voke the designation under this section of an area if
 24 such Secretary determines that the local government
 25 or the State in which the area is located—

1 “(A) has modified the boundaries of the
2 area, or

3 “(B) is not complying substantially with,
4 or fails to make progress in achieving, the State
5 or local commitments, respectively, described in
6 subsection (d).

7 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

8 “(1) IN GENERAL.—The Secretary of Housing
9 and Urban Development may designate a nominated
10 area as a renewal community under subsection (a)
11 only if the area meets the requirements of para-
12 graphs (2) and (3) of this subsection.

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

15 “(A) the area is within the jurisdiction of
16 one or more local governments;

17 “(B) the boundary of the area is continu-
18 ous; and

19 “(C) the area—

20 “(i) has a population, of at least—

21 “(I) 4,000 if any portion of such
22 area (other than a rural area de-
23 scribed in subsection (a)(2)(B)(i)) is
24 located within a metropolitan statis-
25 tical area (within the meaning of sec-

1 tion 143(k)(2)(B)) which has a popu-
2 lation of 50,000 or greater; or

3 “(II) 1,000 in any other case; or

4 “(ii) is entirely within an Indian res-
5 ervation (as determined by the Secretary of
6 the Interior).

7 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
8 nated area meets the requirements of this paragraph
9 if the State and the local governments in which it
10 is located certify (and the Secretary of Housing and
11 Urban Development, after such review of supporting
12 data as he deems appropriate, accepts such certifi-
13 cation) that—

14 “(A) the area is one of pervasive poverty,
15 unemployment, and general distress;

16 “(B) the unemployment rate in the area,
17 as determined by the most recent available
18 data, was at least 1½ times the national unem-
19 ployment rate for the period to which such data
20 relate;

21 “(C) the poverty rate for each population
22 census tract within the nominated area is at
23 least 20 percent; and

24 “(D) in the case of an urban area, at least
25 70 percent of the households living in the area

1 have incomes below 80 percent of the median
 2 income of households within the jurisdiction of
 3 the local government (determined in the same
 4 manner as under section 119(b)(2) of the
 5 Housing and Community Development Act of
 6 1974).

7 “(4) CONSIDERATION OF HIGH INCIDENCE OF
 8 CRIME.—The Secretary of Housing and Urban De-
 9 velopment shall take into account, in selecting nomi-
 10 nated areas for designation as renewal communities
 11 under this section, the extent to which such areas
 12 have a high incidence of crime.

13 “(5) CONSIDERATION OF COMMUNITIES IDENTI-
 14 FIED IN GAO STUDY.—The Secretary of Housing
 15 and Urban Development shall take into account, in
 16 selecting nominated areas for designation as renewal
 17 communities under this section, if the area has cen-
 18 sus tracts identified in the May 12, 1998, report of
 19 the Government Accounting Office regarding the
 20 identification of economically distressed areas.

21 “(d) REQUIRED STATE AND LOCAL COMMIT-
 22 MENTS.—

23 “(1) IN GENERAL.—The Secretary of Housing
 24 and Urban Development may designate any nomi-

1 nated area as a renewal community under subsection
 2 (a) only if—

3 “(A) the local government and the State in
 4 which the area is located agree in writing that,
 5 during any period during which the area is a
 6 renewal community, such governments will fol-
 7 low a specified course of action which meets the
 8 requirements of paragraph (2) and is designed
 9 to reduce the various burdens borne by employ-
 10 ers or employees in such area; and

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

13 “(2) COURSE OF ACTION.—

14 “(A) IN GENERAL.—A course of action
 15 meets the requirements of this paragraph if
 16 such course of action is a written document,
 17 signed by a State (or local government) and
 18 neighborhood organizations, which evidences a
 19 partnership between such State or government
 20 and community-based organizations and which
 21 commits each signatory to specific and measur-
 22 able goals, actions, and timetables. Such course
 23 of action shall include at least five of the follow-
 24 ing:

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

3 “(ii) An increase in the level of effi-
4 ciency of local services within the renewal
5 community.

6 “(iii) Crime reduction strategies, such
7 as crime prevention (including the provi-
8 sion of such services by nongovernmental
9 entities).

10 “(iv) Actions to reduce, remove, sim-
11 plify, or streamline governmental require-
12 ments applying within the renewal commu-
13 nity.

14 “(v) Involvement in the program by
15 private entities, organizations, neighbor-
16 hood organizations, and community
17 groups, particularly those in the renewal
18 community, including a commitment from
19 such private entities to provide jobs and
20 job training for, and technical, financial, or
21 other assistance to, employers, employees,
22 and residents from the renewal community.

23 “(vi) State or local income tax bene-
24 fits for fees paid for services performed by

1 a nongovernmental entity which were for-
 2 merly performed by a governmental entity.

3 “(vii) The gift (or sale at below fair
 4 market value) of surplus real property
 5 (such as land, homes, and commercial or
 6 industrial structures) in the renewal com-
 7 munity to neighborhood organizations,
 8 community development corporations, or
 9 private companies.

10 “(B) RECOGNITION OF PAST EFFORTS.—

11 For purposes of this section, in evaluating the
 12 course of action agreed to by any State or local
 13 government, the Secretary of Housing and
 14 Urban Development shall take into account the
 15 past efforts of such State or local government
 16 in reducing the various burdens borne by em-
 17 ployers and employees in the area involved.

18 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-
 19 MENTS.—The economic growth promotion require-
 20 ments of this paragraph are met with respect to a
 21 nominated area if the local government and the
 22 State in which such area is located certify in writing
 23 that such government and State, respectively, have
 24 repealed or otherwise will not enforce within the

1 area, if such area is designated as a renewal
2 community—

3 “(A) licensing requirements for occupa-
4 tions that do not ordinarily require a profes-
5 sional degree;

6 “(B) zoning restrictions on home-based
7 businesses which do not create a public nui-
8 sance;

9 “(C) permit requirements for street ven-
10 dors who do not create a public nuisance;

11 “(D) zoning or other restrictions that im-
12 pede the formation of schools or child care cen-
13 ters; and

14 “(E) franchises or other restrictions on
15 competition for businesses providing public
16 services, including but not limited to taxicabs,
17 jitneys, cable television, or trash hauling,

18 except to the extent that such regulation of busi-
19 nesses and occupations is necessary for and well-tai-
20 lored to the protection of health and safety.

21 “(e) COORDINATION WITH TREATMENT OF EM-
22 POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—
23 For purposes of this title, if there are in effect with respect
24 to the same area both—

25 “(1) a designation as a renewal community; and

1 “(2) a designation as an empowerment zone or
 2 enterprise community,
 3 both of such designations shall be given full effect with
 4 respect to such area.

5 “(f) DEFINITIONS AND SPECIAL RULES.—For pur-
 6 poses of this subchapter—

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

11 “(2) STATE.—The term ‘State’ includes Puerto
 12 Rico, the Virgin Islands of the United States, Guam,
 13 American Samoa, the Northern Mariana Islands,
 14 and any other possession of the United States.

15 “(3) LOCAL GOVERNMENT.—The term ‘local
 16 government’ means—

17 “(A) any county, city, town, township, par-
 18 ish, village, or other general purpose political
 19 subdivision of a State;

20 “(B) any combination of political subdivi-
 21 sions described in subparagraph (A) recognized
 22 by the Secretary of Housing and Urban Devel-
 23 opment; and

24 “(C) the District of Columbia.

1 “(4) APPLICATION OF RULES RELATING TO
 2 CENSUS TRACTS AND CENSUS DATA.—The rules of
 3 sections 1392(b)(4) and 1393(a)(9) shall apply.

4 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;**
 5 **RENEWAL COMMUNITY BUSINESS**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

6 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

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

11 “(b) QUALIFIED COMMUNITY ASSET.—For purposes
 12 of this section—

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

15 “(A) any qualified community stock;

16 “(B) any qualified community partnership
 17 interest; and

18 “(C) any qualified community business
 19 property.

20 “(2) QUALIFIED COMMUNITY STOCK.—

21 “(A) IN GENERAL.—Except as provided in
 22 subparagraph (B), the term ‘qualified commu-
 23 nity stock’ means any stock in a domestic cor-
 24 poration if—

1 “(i) such stock is acquired by the tax-
 2 payer after December 31, 2000, and before
 3 January 1, 2008, at its original issue (di-
 4 rectly or through an underwriter) from the
 5 corporation solely in exchange for cash;

6 “(ii) as of the time such stock was
 7 issued, such corporation was a renewal
 8 community business (or, in the case of a
 9 new corporation, such corporation was
 10 being organized for purposes of being a re-
 11 newal community business); and

12 “(iii) during substantially all of the
 13 taxpayer’s holding period for such stock,
 14 such corporation qualified as a renewal
 15 community business.

16 “(B) REDEMPTIONS.—A rule similar to
 17 the rule of section 1202(c)(3) shall apply for
 18 purposes of this paragraph.

19 “(3) QUALIFIED COMMUNITY PARTNERSHIP IN-
 20 TEREST.—The term ‘qualified community partner-
 21 ship interest’ means any interest in a partnership
 22 if—

23 “(A) such interest is acquired by the tax-
 24 payer after December 31, 2000, and before
 25 January 1, 2008;

“(B) as of the time such interest was acquired, such partnership was a renewal community business (or, in the case of a new partnership, such partnership was being organized for purposes of being a renewal community business); and

“(C) during substantially all of the taxpayer’s holding period for such interest, such partnership qualified as a renewal community business.

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

“(4) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

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

“(i) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 2000, and before January 1, 2008;

“(ii) the original use of such property in the renewal community commences with the taxpayer; and

1 “(iii) during substantially all of the
 2 taxpayer’s holding period for such prop-
 3 erty, substantially all of the use of such
 4 property was in a renewal community busi-
 5 ness of the taxpayer.

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

10 “(i) property which is substantially
 11 improved (within the meaning of section
 12 1400B(b)(4)(B)(ii)) by the taxpayer before
 13 January 1, 2008; and

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

16 “(c) CERTAIN RULES TO APPLY.—Rules similar to
 17 the rules of paragraphs (5), (6), and (7) of subsection (b),
 18 and subsections (e), (f), and (g), of section 1400B shall
 19 apply for purposes of this section.

20 **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

21 “For purposes of this part, the term ‘renewal commu-
 22 nity business’ means any entity or proprietorship which
 23 would be a qualified business entity or qualified propri-
 24 etorship under section 1397B if—

1 “(1) references to renewal communities were
 2 substituted for references to empowerment zones in
 3 such section; and

4 “(2) ‘80 percent’ were substituted for ‘50 per-
 5 cent’ in subsections (b)(2) and (c)(1) of such sec-
 6 tion.

7 **“PART III—FAMILY DEVELOPMENT ACCOUNTS**

“Sec. 1400H. Family development accounts for renewal commu-
 nity EITC recipients.

“Sec. 1400I. Demonstration program to provide matching con-
 tributions to family development accounts in certain
 renewal communities.

“Sec. 1400J. Designation of earned income tax credit payments
 for deposit to family development account.

8 **“SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RE-**
 9 **NEWAL COMMUNITY EITC RECIPIENTS.**

10 “(a) ALLOWANCE OF DEDUCTION.—

11 “(1) IN GENERAL.—There shall be allowed as a
 12 deduction—

13 “(A) in the case of a qualified individual,
 14 the amount paid in cash for the taxable year by
 15 such individual to any family development ac-
 16 count for such individual’s benefit; and

17 “(B) in the case of any person other than
 18 a qualified individual, the amount paid in cash
 19 for the taxable year by such person to any fam-
 20 ily development account for the benefit of a
 21 qualified individual but only if the amount so

1 paid is designated for purposes of this section
2 by such individual.

3 No deduction shall be allowed under this paragraph
4 for any amount deposited in a family development
5 account under section 1400I (relating to demonstra-
6 tion program to provide matching amounts in re-
7 newal communities).

8 “(2) LIMITATION.—

9 “(A) IN GENERAL.—The amount allowable
10 as a deduction to any individual for any taxable
11 year by reason of paragraph (1)(A) shall not
12 exceed the lesser of—

13 “(i) \$2,000, or

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

17 “(B) PERSONS DONATING TO FAMILY DE-
18 VELOPMENT ACCOUNTS OF OTHERS.—The
19 amount which may be designated under para-
20 graph (1)(B) by any qualified individual for any
21 taxable year of such individual shall not exceed
22 \$1,000.

23 “(3) SPECIAL RULES FOR CERTAIN MARRIED
24 INDIVIDUALS.—Rules similar to rules of section

1 219(c) shall apply to the limitation in paragraph
2 (2)(A).

3 “(4) COORDINATION WITH IRA’S.—No deduc-
4 tion shall be allowed under this section to any per-
5 son by reason of a payment to an account for the
6 benefit of a qualified individual if any amount is
7 paid into an individual retirement account (including
8 a Roth IRA) for the benefit of such individual.

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

12 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

13 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
14 COME.—Except as otherwise provided in this sub-
15 section, any amount paid or distributed out of a
16 family development account shall be included in
17 gross income by the payee or distributee, as the case
18 may be.

19 “(2) EXCLUSION OF QUALIFIED FAMILY DEVEL-
20 OPMENT DISTRIBUTIONS.—Paragraph (1) shall not
21 apply to any qualified family development distribu-
22 tion.

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

1 “(1) IN GENERAL.—The term ‘qualified family
2 development distribution’ means any amount paid or
3 distributed out of a family development account
4 which would otherwise be includible in gross income,
5 to the extent that such payment or distribution is
6 used exclusively to pay qualified family development
7 expenses for the holder of the account or the spouse
8 or dependent (as defined in section 152) of such
9 holder.

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

13 “(A) Qualified higher education expenses.

14 “(B) Qualified first-time homebuyer costs.

15 “(C) Qualified business capitalization
16 costs.

17 “(D) Qualified medical expenses.

18 “(E) Qualified rollovers.

19 “(3) QUALIFIED HIGHER EDUCATION EX-
20 PENSES.—

21 “(A) IN GENERAL.—The term ‘qualified
22 higher education expenses’ has the meaning
23 given such term by section 72(t)(7), determined
24 by treating postsecondary vocational edu-

1 cational schools as eligible educational institu-
2 tions.

3 “(B) POSTSECONDARY VOCATIONAL EDU-
4 CATION SCHOOL.—The term ‘postsecondary vo-
5 cational educational school’ means an area vo-
6 cational education school (as defined in sub-
7 paragraph (C) or (D) of section 521(4) of the
8 Carl D. Perkins Vocational and Applied Tech-
9 nology Education Act (20 U.S.C. 2471(4)))
10 which is in any State (as defined in section
11 521(33) of such Act), as such sections are in
12 effect on the date of the enactment of this sec-
13 tion.

14 “(C) COORDINATION WITH OTHER BENE-
15 FITS.—The amount of qualified higher edu-
16 cation expenses for any taxable year shall be re-
17 duced as provided in section 25A(g)(2).

18 “(4) QUALIFIED FIRST-TIME HOMEBUYER
19 COSTS.—The term ‘qualified first-time homebuyer
20 costs’ means qualified acquisition costs (as defined
21 in section 72(t)(8) without regard to subparagraph
22 (B) thereof) with respect to a principal residence
23 (within the meaning of section 121) for a qualified
24 first-time homebuyer (as defined in such section).

1 “(5) QUALIFIED BUSINESS CAPITALIZATION
2 COSTS.—

3 “(A) IN GENERAL.—The term ‘qualified
4 business capitalization costs’ means qualified
5 expenditures for the capitalization of a qualified
6 business pursuant to a qualified plan.

7 “(B) QUALIFIED EXPENDITURES.—The
8 term ‘qualified expenditures’ means expendi-
9 tures included in a qualified plan, including
10 capital, plant, equipment, working capital, and
11 inventory expenses.

12 “(C) QUALIFIED BUSINESS.—The term
13 ‘qualified business’ means any business that
14 does not contravene any law.

15 “(D) QUALIFIED PLAN.—The term ‘quali-
16 fied plan’ means a business plan which meets
17 such requirements as the Secretary may specify.

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

24 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
25 fied rollover’ means any amount paid from a family

1 development account of a taxpayer into another such
 2 account established for the benefit of—

3 “(A) such taxpayer, or

4 “(B) any qualified individual who is—

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

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

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

10 “(d) TAX TREATMENT OF ACCOUNTS.—

11 “(1) IN GENERAL.—Any family development ac-
 12 count is exempt from taxation under this subtitle
 13 unless such account has ceased to be a family devel-
 14 opment account by reason of paragraph (2). Not-
 15 withstanding the preceding sentence, any such ac-
 16 count is subject to the taxes imposed by section 511
 17 (relating to imposition of tax on unrelated business
 18 income of charitable, etc., organizations). Notwith-
 19 standing any other provision of this title (including
 20 chapters 11 and 12), the basis of any person in such
 21 an account is zero.

22 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
 23 ITED TRANSACTIONS.—For purposes of this section,
 24 rules similar to the rules of section 408(e) shall
 25 apply.

1 “(3) OTHER RULES TO APPLY.—Rules similar
2 to the rules of paragraphs (4), (5), and (6) of sec-
3 tion 408(d) shall apply for purposes of this section.

4 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
5 poses of this title, the term ‘family development account’
6 means a trust created or organized in the United States
7 for the exclusive benefit of a qualified individual or his
8 beneficiaries, but only if the written governing instrument
9 creating the trust meets the following requirements:

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

12 “(A) no contribution will be accepted un-
13 less it is in cash; and

14 “(B) contributions will not be accepted for
15 the taxable year in excess of \$3,000 (deter-
16 mined without regard to any contribution made
17 under section 1400I (relating to demonstration
18 program to provide matching amounts in re-
19 newal communities)).

20 “(2) The requirements of paragraphs (2)
21 through (6) of section 408(a) are met.

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

1 “(1) who is a bona fide resident of a renewal
2 community throughout the taxable year; and

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

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

6 “(1) COMPENSATION.—The term ‘compensa-
7 tion’ has the meaning given such term by section
8 219(f)(1).

9 “(2) MARRIED INDIVIDUALS.—The maximum
10 deduction under subsection (a) shall be computed
11 separately for each individual, and this section shall
12 be applied without regard to any community prop-
13 erty laws.

14 “(3) TIME WHEN CONTRIBUTIONS DEEMED
15 MADE.—For purposes of this section, a taxpayer
16 shall be deemed to have made a contribution to a
17 family development account on the last day of the
18 preceding taxable year if the contribution is made on
19 account of such taxable year and is made not later
20 than the time prescribed by law for filing the return
21 for such taxable year (not including extensions
22 thereof).

23 “(4) EMPLOYER PAYMENTS; CUSTODIAL AC-
24 COUNTS.—Rules similar to the rules of sections

1 219(f)(5) and 408(h) shall apply for purposes of this
2 section.

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

11 “(A) shall be filed at such time and in
12 such manner as the Secretary prescribes in
13 such regulations; and

14 “(B) shall be furnished to individuals—

15 “(i) not later than January 31 of the
16 calendar year following the calendar year
17 to which such reports relate; and

18 “(ii) in such manner as the Secretary
19 prescribes in such regulations.

20 “(6) INVESTMENT IN COLLECTIBLES TREATED
21 AS DISTRIBUTIONS.—Rules similar to the rules of
22 section 408(m) shall apply for purposes of this sec-
23 tion.

24 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
25 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

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

9 “(A) 100 percent of the portion of such
 10 amount which is includible in gross income and
 11 is attributable to amounts contributed under
 12 section 1400I (relating to demonstration pro-
 13 gram to provide matching amounts in renewal
 14 communities); and

15 “(B) 10 percent of the portion of such
 16 amount which is includible in gross income and
 17 is not described in subparagraph (A).

18 For purposes of this subsection, distributions which
 19 are includible in gross income shall be treated as at-
 20 tributable to amounts contributed under section
 21 1400I to the extent thereof. For purposes of the pre-
 22 ceding sentence, all family development accounts of
 23 an individual shall be treated as one account.

1 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distributions which are—

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

6 “(B) made to a beneficiary (or the estate
7 of the account holder) on or after the death of
8 the account holder, or

9 “(C) attributable to the account holder’s
10 being disabled within the meaning of section
11 72(m)(7).

12 “(i) TERMINATION.—No deduction shall be allowed
13 under this section for any amount paid to a family devel-
14 opment account for any taxable year beginning after De-
15 cember 31, 2007.

16 **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**
17 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
18 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
19 **NEWAL COMMUNITIES.**

20 “(a) DESIGNATION.—

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

24 “(A) which is nominated under this section
25 by each of the local governments and States

1 which nominated such community for designa-
 2 tion as a renewal community under section
 3 1400E(a)(1)(A); and

4 “(B) which the Secretary of Housing and
 5 Urban Development designates as an FDA
 6 matching demonstration area after consultation
 7 with—

8 “(i) the Secretaries of Agriculture,
 9 Commerce, Labor, and the Treasury, the
 10 Director of the Office of Management and
 11 Budget, and the Administrator of the
 12 Small Business Administration; and

13 “(ii) in the case of a community on an
 14 Indian reservation, the Secretary of the In-
 15 terior.

16 “(2) NUMBER OF DESIGNATIONS.—

17 “(A) IN GENERAL.—The Secretary of
 18 Housing and Urban Development may des-
 19 ignate not more than 5 communities as FDA
 20 matching demonstration areas.

21 “(B) MINIMUM DESIGNATION IN RURAL
 22 AREAS.—Of the areas designated under sub-
 23 paragraph (A), at least 2 must be areas de-
 24 scribed in section 1400E(a)(2)(B).

25 “(3) LIMITATIONS ON DESIGNATIONS.—

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

7 “(i) the procedures for nominating a
 8 renewal community under paragraph
 9 (1)(A) (including procedures for coordinat-
 10 ing such nomination with the nomination
 11 of an area for designation as a renewal
 12 community under section 1400E); and

13 “(ii) the manner in which nominated
 14 renewal communities will be evaluated for
 15 purposes of this section.

16 “(B) TIME LIMITATIONS.—The Secretary
 17 of Housing and Urban Development may des-
 18 ignate renewal communities as FDA matching
 19 demonstration areas only during the 24-month
 20 period beginning on the first day of the first
 21 month following the month in which the regula-
 22 tions described in subparagraph (A) are pre-
 23 scribed.

24 “(4) DESIGNATION BASED ON DEGREE OF POV-
 25 ERTY, ETC.—The rules of section 1400E(a)(3) shall

1 apply for purposes of designations of FDA matching
2 demonstration areas under this section.

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

9 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
10 OPMENT ACCOUNTS.—

11 “(1) IN GENERAL.—Not less than once each
12 taxable year, the Secretary shall deposit (to the ex-
13 tent provided in appropriation Acts) into a family
14 development account of each qualified individual (as
15 defined in section 1400H(f))—

16 “(A) who is a resident throughout the tax-
17 able year of an FDA matching demonstration
18 area; and

19 “(B) who requests (in such form and man-
20 ner as the Secretary prescribes) such deposit
21 for the taxable year,

22 an amount equal to the sum of the amounts depos-
23 ited into all of the family development accounts of
24 such individual during such taxable year (determined

1 without regard to any amount contributed under this
2 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 for all
11 taxable years.

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

16 “(d) NOTICE OF PROGRAM.—The Secretary shall
17 provide appropriate notice to residents of FDA matching
18 demonstration areas of the availability of the benefits
19 under this section.

20 “(e) TERMINATION.—No amount may be deposited
21 under this section for any taxable year beginning after De-
22 cember 31, 2007.

1 **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-**
 2 **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**
 3 **VELOPMENT ACCOUNT.**

4 “(a) IN GENERAL.—With respect to the return of any
 5 qualified individual (as defined in section 1400H(f)) for
 6 the taxable year of the tax imposed by this chapter, such
 7 individual may designate that a specified portion (not less
 8 than \$1) of any overpayment of tax for such taxable year
 9 which is attributable to the earned income tax credit shall
 10 be deposited by the Secretary into a family development
 11 account of such individual. The Secretary shall so deposit
 12 such portion designated under this subsection.

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

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

18 “(2) at any other time (after the time of filing
 19 the return of the tax imposed by this chapter for
 20 such taxable year) specified in regulations prescribed
 21 by the Secretary.

22 Such designation shall be made in such manner as the
 23 Secretary prescribes by regulations.

24 “(c) PORTION ATTRIBUTABLE TO EARNED INCOME
 25 TAX CREDIT.—For purposes of subsection (a), an over-
 26 payment for any taxable year shall be treated as attrib-

1 utable to the earned income tax credit to the extent that
 2 such overpayment does not exceed the credit allowed to
 3 the taxpayer under section 32 for such taxable year.

4 “(d) OVERPAYMENTS TREATED AS REFUNDED.—
 5 For purposes of this title, any portion of an overpayment
 6 of tax designated under subsection (a) shall be treated as
 7 being refunded to the taxpayer as of the last date pre-
 8 scribed for filing the return of tax imposed by this chapter
 9 (determined without regard to extensions) or, if later, the
 10 date the return is filed.

11 “(e) TERMINATION.—This section shall not apply to
 12 any taxable year beginning after December 31, 2007.

13 **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization credit.

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

14 **“SEC. 1400K. COMMERCIAL REVITALIZATION CREDIT.**

15 “(a) GENERAL RULE.—For purposes of section 46,
 16 except as provided in subsection (e), the commercial revi-
 17 talization credit for any taxable year is an amount equal
 18 to the applicable percentage of the qualified revitalization
 19 expenditures with respect to any qualified revitalization
 20 building.

21 “(b) APPLICABLE PERCENTAGE.—For purposes of
 22 this section—

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

1 “(A) 20 percent for the taxable year in
2 which a qualified revitalization building is
3 placed in service, or

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

6 The election under subparagraph (B), once made,
7 shall be irrevocable.

8 “(2) CREDIT PERIOD.—

9 “(A) IN GENERAL.—The term ‘credit pe-
10 riod’ means, with respect to any building, the
11 period of 10 taxable years beginning with the
12 taxable year in which the building is placed in
13 service.

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

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

19 “(1) QUALIFIED REVITALIZATION BUILDING.—
20 The term ‘qualified revitalization building’ means
21 any building (and its structural components) if—

22 “(A) such building is located in a renewal
23 community and is placed in service after De-
24 cember 31, 2000;

1 “(B) a commercial revitalization credit
2 amount is allocated to the building under sub-
3 section (e); and

4 “(C) depreciation (or amortization in lieu
5 of depreciation) is allowable with respect to the
6 building.

7 “(2) QUALIFIED REVITALIZATION EXPENDI-
8 TURE.—

9 “(A) IN GENERAL.—The term ‘qualified
10 revitalization expenditure’ means any amount
11 properly chargeable to capital account—

12 “(i) for property for which deprecia-
13 tion is allowable under section 168 and
14 which is—

15 “(I) nonresidential real property;
16 or

17 “(II) an addition or improvement
18 to property described in subclause (I);
19 and

20 “(ii) in connection with the construc-
21 tion of any qualified revitalization building
22 which was not previously placed in service
23 or in connection with the substantial reha-
24 bilitation (within the meaning of section
25 47(c)(1)(C)) of a building which was

1 placed in service before the beginning of
2 such rehabilitation.

3 “(B) DOLLAR LIMITATION.—The aggre-
4 gate amount which may be treated as qualified
5 revitalization expenditures with respect to any
6 qualified revitalization building for any taxable
7 year shall not exceed the excess of—

8 “(i) \$10,000,000, reduced by

9 “(ii) any such expenditures with re-
10 spect to the building taken into account by
11 the taxpayer or any predecessor in deter-
12 mining the amount of the credit under this
13 section for all preceding taxable years.

14 “(C) CERTAIN EXPENDITURES NOT IN-
15 CLUDED.—The term ‘qualified revitalization ex-
16 penditure’ does not include—

17 “(i) STRAIGHT LINE DEPRECIATION
18 MUST BE USED.—Any expenditure (other
19 than with respect to land acquisitions) with
20 respect to which the taxpayer does not use
21 the straight line method over a recovery
22 period determined under subsection (c) or
23 (g) of section 168. The preceding sentence
24 shall not apply to any expenditure to the
25 extent the alternative depreciation system

1 of section 168(g) applies to such expendi-
 2 ture by reason of subparagraph (B) or (C)
 3 of section 168(g)(1).

4 “(ii) ACQUISITION COSTS.—The costs
 5 of acquiring any building or interest there-
 6 in and any land in connection with such
 7 building to the extent that such costs ex-
 8 ceed 30 percent of the qualified revitaliza-
 9 tion expenditures determined without re-
 10 gard to this clause.

11 “(iii) OTHER CREDITS.—Any expendi-
 12 ture which the taxpayer may take into ac-
 13 count in computing any other credit allow-
 14 able under this title unless the taxpayer
 15 elects to take the expenditure into account
 16 only for purposes of this section.

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

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

8 “(i) for each calendar year after 2000
 9 and before 2008 is \$2,000,000 for each re-
 10 newal community in the State; and

11 “(ii) zero for each calendar year
 12 thereafter.

13 “(C) COMMERCIAL REVITALIZATION CRED-
 14 IT AGENCY.—For purposes of this section, the
 15 term ‘commercial revitalization credit agency’
 16 means any agency authorized by a State to
 17 carry out this section.

18 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
 19 IZATION CREDIT AGENCIES.—

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

24 “(A) such amount was allocated pursuant
 25 to a qualified allocation plan of the commercial

1 revitalization credit agency which is approved
 2 (in accordance with rules similar to the rules of
 3 section 147(f)(2) (other than subparagraph
 4 (B)(ii) thereof)) by the governmental unit of
 5 which such agency is a part; and

6 “(B) such agency notifies the chief execu-
 7 tive officer (or its equivalent) of the local juris-
 8 diction within which the building is located of
 9 such allocation and provides such individual a
 10 reasonable opportunity to comment on the allo-
 11 cation.

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

15 “(A) which sets forth selection criteria to
 16 be used to determine priorities of the commer-
 17 cial revitalization credit agency which are ap-
 18 propriate to local conditions;

19 “(B) which considers—

20 “(i) the degree to which a project con-
 21 tributes to the implementation of a strate-
 22 gic plan that is devised for a renewal com-
 23 munity through a citizen participation
 24 process;

1 “(ii) the amount of any increase in
 2 permanent, full-time employment by reason
 3 of any project; and

4 “(iii) the active involvement of resi-
 5 dents and nonprofit groups within the re-
 6 newal community; and

7 “(C) which provides a procedure that the
 8 agency (or its agent) will follow in monitoring
 9 compliance with this section.

10 “(g) TERMINATION.—This section shall not apply to
 11 any building placed in service after December 31, 2007.

12 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

13 “(a) GENERAL RULE.—In the case of a renewal com-
 14 munity business (as defined in section 1400G), for pur-
 15 poses of section 179—

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

18 “(A) \$35,000; or

19 “(B) the cost of section 179 property
 20 which is qualified renewal property placed in
 21 service during the taxable year; and

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

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

5 “(c) QUALIFIED RENEWAL PROPERTY.—For pur-
 6 poses of this section—

7 “(1) IN GENERAL.—The term ‘qualified renewal
 8 property’ means any property to which section 168
 9 applies (or would apply but for section 179) if—

10 “(A) such property was acquired by the
 11 taxpayer by purchase (as defined in section
 12 179(d)(2)) after December 31, 2000, and be-
 13 fore January 1, 2008; and

14 “(B) such property would be qualified zone
 15 property (as defined in section 1397C) if ref-
 16 erences to renewal communities were sub-
 17 stituted for references to empowerment zones in
 18 section 1397C.

19 “(2) CERTAIN RULES TO APPLY.—The rules of
 20 subsections (a)(2) and (b) of section 1397C shall
 21 apply for purposes of this section.”.

1 **SEC. 102. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
 2 **REMEDATION COSTS TO RENEWAL COMMU-**
 3 **NITIES.**

4 (a) EXTENSION.—Paragraph (2) of section 198(c)
 5 (defining targeted area) is amended by redesignating sub-
 6 paragraph (C) as subparagraph (D) and by inserting after
 7 subparagraph (B) the following new subparagraph:

8 “(C) RENEWAL COMMUNITIES IN-
 9 CLUDED.—Except as provided in subparagraph
 10 (B), such term shall include a renewal commu-
 11 nity (as defined in section 1400E).”.

12 (b) EXTENSION OF TERMINATION DATE FOR RE-
 13 NEWAL COMMUNITIES.—Subsection (h) of section 198 is
 14 amended by inserting before the period “(December 31,
 15 2007, in the case of a renewal community, as defined in
 16 section 1400E).”.

17 **SEC. 103. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
 18 **FOR RENEWAL COMMUNITIES**

19 (a) EXTENSION.—Subsection (c) of section 51 (relat-
 20 ing to termination) is amended by adding at the end the
 21 following new paragraph:

22 “(5) EXTENSION OF CREDIT FOR RENEWAL
 23 COMMUNITIES.—

24 “(A) IN GENERAL.—In the case of an indi-
 25 vidual who begins work for the employer after

the date contained in paragraph (4)(B), for purposes of section 38—

“(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

“(I) 15 percent of the qualified first-year wages for such year; and

“(II) 30 percent of the qualified second-year wages for such year;

“(ii) subsection (b)(3) shall be applied by substituting ‘\$10,000’ for ‘\$6,000’;

“(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect; and

“(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

“(B) QUALIFIED FIRST- AND SECOND-YEAR WAGES.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—The term ‘qualified wages’ means, with respect to each 1-

year period referred to in clause (ii) or (iii), as the case may be, the wages paid or incurred by the employer during the taxable year to any individual but only if—

“(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period;

“(II) the principal place of abode of such individual is in such renewal community throughout such 1-year period; and

“(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

“(ii) **QUALIFIED FIRST-YEAR WAGES.**—The term ‘qualified first-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

“(iii) **QUALIFIED SECOND-YEAR WAGES.**—The term ‘qualified second-year

1 wages’ means, with respect to any individ-
 2 ual, qualified wages attributable to service
 3 rendered during the 1-year period begin-
 4 ning on the day after the last day of the
 5 1-year period with respect to such individ-
 6 ual determined under clause (ii).”.

7 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
 8 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
 9 YOUTH RESIDENCE REQUIREMENTS.—

10 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
 11 and (B) of section 51(d)(5) are each amended by
 12 striking “empowerment zone or enterprise commu-
 13 nity” and inserting “empowerment zone, enterprise
 14 community, or renewal community”.

15 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—
 16 Clause (iv) of section 51(d)(7)(A) is amended by
 17 striking “empowerment zone or enterprise commu-
 18 nity” and inserting “empowerment zone, enterprise
 19 community, or renewal community”.

20 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)
 21 of section 51(d) are each amended by inserting “OR
 22 COMMUNITY” in the heading after “ZONE”.

23 **SEC. 104. CONFORMING AND CLERICAL AMENDMENTS.**

24 (a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
 25 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR

1 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
 2 (relating to adjusted gross income defined) is amended by
 3 inserting after paragraph (17) the following new para-
 4 graph:

5 “(18) FAMILY DEVELOPMENT ACCOUNTS.—The
 6 deduction allowed by section 1400H(a)(1)(A).”.

7 (b) TAX ON EXCESS CONTRIBUTIONS.—

8 (1) TAX IMPOSED.—Subsection (a) of section
 9 4973 is amended by striking “or” at the end of
 10 paragraph (3), adding “or” at the end of paragraph
 11 (4), and inserting after paragraph (4) the following
 12 new paragraph:

13 “(5) a family development account (within the
 14 meaning of section 1400H(e)),”.

15 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
 16 amended by adding at the end the following new
 17 subsection:

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

22 “(1) the excess (if any) of—

23 “(A) the amount contributed for the tax-
 24 able year to the account (other than a qualified

1 rollover, as defined in section 1400H(c)(7), or
 2 a contribution under section 1400I), over

3 “(B) the amount allowable as a deduction
 4 under section 1400H for such contributions;
 5 and

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

9 “(A) the distributions out of the account
 10 for the taxable year which were included in the
 11 gross income of the payee under section
 12 1400H(b)(1);

13 “(B) the distributions out of the account
 14 for the taxable year to which rules similar to
 15 the rules of section 408(d)(5) apply by reason
 16 of section 1400H(d)(3); and

17 “(C) the excess (if any) of the maximum
 18 amount allowable as a deduction under section
 19 1400H for the taxable year over the amount
 20 contributed to the account for the taxable year
 21 (other than a contribution under section
 22 1400I).

23 For purposes of this subsection, any contribution which
 24 is distributed from the family development account in a
 25 distribution to which rules similar to the rules of section

1 408(d)(4) apply by reason of section 1400H(d)(3) shall
 2 be treated as an amount not contributed.”.

3 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
 4 4975 is amended—

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

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

18 (2) in subsection (e)(1), by striking “or” at the
 19 end of subparagraph (E), by redesignating subpara-
 20 graph (F) as subparagraph (G), and by inserting
 21 after subparagraph (E) the following new subpara-
 22 graph:

23 “(F) a family development account de-
 24 scribed in section 1400H(e), or”.

1 (d) INFORMATION RELATING TO CERTAIN TRUSTS
 2 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
 3 amended—

4 (1) by inserting “or section 1400H” after “sec-
 5 tion 219”; and

6 (2) by inserting “, of any family development
 7 account described in section 1400H(e),” after “sec-
 8 tion 408(a)”.

9 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
 10 TION.—Clause (i) of section 6104(a)(1)(B) is amended by
 11 inserting “a family development account described in sec-
 12 tion 1400H(e),” after “section 408(a),”.

13 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
 14 VELOPMENT ACCOUNTS.—Paragraph (2) of section
 15 6693(a) is amended by striking “and” at the end of sub-
 16 paragraph (C), by striking the period and inserting “,
 17 and” at the end of subparagraph (D), and by adding at
 18 the end the following new subparagraph:

19 “(E) section 1400H(g)(6) (relating to fam-
 20 ily development accounts).”.

21 (g) CONFORMING AMENDMENTS REGARDING COM-
 22 MERCIAL REVITALIZATION CREDIT.—

23 (1) Section 46 (relating to investment credit) is
 24 amended by striking “and” at the end of paragraph
 25 (2), by striking the period at the end of paragraph

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

3 “(4) the commercial revitalization credit pro-
 4 vided under section 1400K.”.

5 (2) Section 39(d) is amended by adding at the
 6 end the following new paragraph:

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

14 (3) Subparagraph (B) of section 48(a)(2) is
 15 amended by inserting “or commercial revitalization”
 16 after “rehabilitation” each place it appears in the
 17 text and heading.

18 (4) Subparagraph (C) of section 49(a)(1) is
 19 amended by striking “and” at the end of clause (ii),
 20 by striking the period at the end of clause (iii) and
 21 inserting “, and”, and by adding at the end the fol-
 22 lowing new clause:

23 “(iv) the portion of the basis of any
 24 qualified revitalization building attributable
 25 to qualified revitalization expenditures.”.

1 (5) Paragraph (2) of section 50(a) is amended
2 by inserting “or 1400K(d)(2)” after “section 47(d)”
3 each place it appears.

4 (6) Subparagraph (A) of section 50(a)(2) is
5 amended by inserting “or qualified revitalization
6 building (respectively)” after “qualified rehabilitated
7 building”.

8 (7) Subparagraph (B) of section 50(a)(2) is
9 amended by adding at the end the following new
10 sentence: “A similar rule shall apply for purposes of
11 section 1400K.”.

12 (8) Paragraph (2) of section 50(b) is amended
13 by striking “and” at the end of subparagraph (C),
14 by striking the period at the end of subparagraph
15 (D) and inserting “; and”, and by adding at the end
16 the following new subparagraph:

17 “(E) a qualified revitalization building (as
18 defined in section 1400K) to the extent of the
19 portion of the basis which is attributable to
20 qualified revitalization expenditures (as defined
21 in section 1400K).”.

22 (9) The last sentence of section 50(b)(3) is
23 amended to read as follows: “If any qualified reha-
24 bilitated building or qualified revitalization building
25 is used by the tax-exempt organization pursuant to

1 a lease, this paragraph shall not apply for purposes
 2 of determining the amount of the rehabilitation cred-
 3 it or the commercial revitalization credit.”.

4 (10) Subparagraph (C) of section 50(b)(4) is
 5 amended—

6 (A) by inserting “or commercial revitaliza-
 7 tion” after “rehabilitated” in the text and head-
 8 ing; and

9 (B) by inserting “or commercial revitaliza-
 10 tion” after “rehabilitation”.

11 (11) Subparagraph (C) of section 469(i)(3) is
 12 amended—

13 (A) by inserting “or section 1400K” after
 14 “section 42”; and

15 (B) by striking “CREDIT” in the heading
 16 and inserting “AND COMMERCIAL REVITALIZA-
 17 TION CREDITS”.

18 (h) CLERICAL AMENDMENTS.—The table of sub-
 19 chapters for chapter 1 is amended by adding at the end
 20 the following new item:

“Subchapter X. Renewal Communities.”.

21 **SEC. 105. EVALUATION AND REPORTING REQUIREMENTS.**

22 Not later than the close of the fourth calendar year
 23 after the year in which the Secretary of Housing and
 24 Urban Development first designates an area as a renewal
 25 community under section 1400E of the Internal Revenue

1 Code of 1986, and at the close of each fourth calendar
 2 year thereafter, such Secretary shall prepare and submit
 3 to the Congress a report on the effects of such designa-
 4 tions in stimulating the creation of new jobs, particularly
 5 for disadvantaged workers and long-term unemployed in-
 6 dividuals, and promoting the revitalization of economically
 7 distressed areas.

8 **SEC. 106. EXCLUSION OF EFFECTS OF THIS ACT FROM**
 9 **PAYGO SCORECARD.**

10 Upon the enactment of this Act, the Director of the
 11 Office of Management and Budget shall not make any es-
 12 timates of changes in receipts under section 252(d) of the
 13 Balanced Budget and Emergency Deficit Control Act of
 14 1985 resulting from the enactment of this Act.

15 **TITLE II—ADDITIONAL**
 16 **PROVISIONS**

17 **SEC. 201. TRANSFER OF UNOCCUPIED AND SUBSTANDARD**
 18 **HUD-HELD HOUSING IN RENEWAL COMMU-**
 19 **NITIES TO LOCAL GOVERNMENTS.**

20 (a) **TRANSFER REQUIREMENT.**—Pursuant to the au-
 21 thority under section 204 of the Departments of Veterans
 22 Affairs and Housing and Urban Development, and Inde-
 23 pendent Agencies Appropriations Act, 1997, the Secretary
 24 shall transfer ownership of any qualified HUD property
 25 to the unit of general local government having jurisdiction

1 for the area in which the property is located in accordance
 2 with this section, but only if the unit of general local gov-
 3 ernment enters into an agreement with the Secretary
 4 meeting the requirements of subsection (d).

5 (b) QUALIFIED HUD PROPERTIES.—For purposes of
 6 this section, the term “qualified HUD property” means
 7 any unoccupied multifamily housing, project, substandard
 8 multifamily housing project, or unoccupied single family
 9 property, that is—

10 (1) owned by the Secretary; and

11 (2) located within a renewal community.

12 (c) TIMING OF TRANSFER.—Any transfer of owner-
 13 ship required under subsection (a) shall be completed—

14 (1) with respect to any multifamily housing
 15 project or single family property that is acquired by
 16 the Secretary before the date on which the area in
 17 which property is located is designated as a renewal
 18 community and that is substandard or unoccupied
 19 (as applicable) upon such date, not later than 1 year
 20 after such date; and

21 (2) with respect to any multifamily housing
 22 project or single family property that is acquired by
 23 the Secretary on or after the date on which the area
 24 in which the property is located is designated as a
 25 renewal community, not later than 1 year after—

1 (A) the date on which the project is deter-
 2 mined to be substandard or unoccupied (as ap-
 3 plicable), in the case of a property that is not
 4 unoccupied or substandard upon acquisition by
 5 the Secretary; or

6 (B) the date on which the project is ac-
 7 quired by the Secretary, in the case of a prop-
 8 erty that is substandard or unoccupied (as ap-
 9 plicable) upon such acquisition.

10 (d) AGREEMENTS TO SELL PROPERTY TO COMMU-
 11 NITY DEVELOPMENT CORPORATIONS.—An agreement de-
 12 scribed in this subsection is an agreement that requires
 13 a unit of general local government to dispose of the quali-
 14 fied HUD property acquired by the unit of general local
 15 government in accordance with the following require-
 16 ments:

17 (1) NOTIFICATION TO COMMUNITY DEVELOP-
 18 MENT CORPORATIONS.—Not later than 30 days after
 19 the date on which the unit of general local govern-
 20 ment acquires title to the property under subsection
 21 (a), the unit of general local government shall notify
 22 each community development corporation located in
 23 the State in which the property is located—

24 (A) of such acquisition of title; and

1 (B) that, during the 6-month period begin-
2 ning on the date on which such notification is
3 made, such community development corpora-
4 tions shall have the exclusive right under this
5 subsection to make bona fide offers to purchase
6 the property on a cost recovery basis.

7 (2) RIGHT OF FIRST REFUSAL.—During the 6-
8 month period described in paragraph (1)(B)—

9 (A) the unit of general local government
10 may not sell or offer to sell the qualified HUD
11 property other than to a party notified under
12 paragraph (1), unless each community develop-
13 ment corporation required to be so notified has
14 notified the unit of general local government
15 that the corporation will not make an offer to
16 purchase the property; and

17 (B) the unit of general local government
18 shall accept a bona fide offer to purchase the
19 property made during such period if the offer is
20 acceptable to the unit of general local govern-
21 ment, except that a unit of general local govern-
22 ment may not sell a property to a community
23 development corporation during that 6-month
24 period other than on a cost recovery basis.

1 (3) OTHER DISPOSITION.—During the 6-month
 2 period beginning on the expiration of the 6-month
 3 period described in paragraph (1)(B), the unit of
 4 general local government shall dispose of the prop-
 5 erty on a negotiated, competitive bid, or other basis,
 6 on such terms as the unit of general local govern-
 7 ment deems appropriate.

8 (e) SATISFACTION OF INDEBTEDNESS.—Before
 9 transferring ownership of any qualified HUD property
 10 pursuant to subsection (a), the Secretary shall satisfy any
 11 indebtedness incurred in connection with the property to
 12 be transferred, by—

13 (1) canceling the indebtedness; or

14 (2) reimbursing the unit of general local gov-
 15 ernment to which the property is transferred for the
 16 amount of the indebtedness.

17 (f) DETERMINATION OF STATUS OF PROPERTIES.—
 18 To ensure compliance with the requirements of subsection
 19 (c), the Secretary shall take the following actions:

20 (1) UPON DESIGNATION OF RENEWAL COMMU-
 21 NITIES.—Upon the designation of any renewal com-
 22 munity, the Secretary shall promptly assess each
 23 residential property owned by the Secretary that is
 24 located within such renewal community to determine
 25 whether such property is a qualified HUD property.

1 (2) UPON ACQUISITION.—Upon acquiring any
 2 residential property that is located with a renewal
 3 community, the Secretary shall promptly determine
 4 whether the property is a qualified HUD property.

5 (3) UPDATES.—The Secretary shall periodically
 6 reassess the residential properties owned by the Sec-
 7 retary to determine whether any such properties
 8 have become qualified HUD properties.

9 (g) TENANT LEASES.—This section shall not affect
 10 the terms or the enforceability of any contract or lease
 11 entered into with respect to any residential property before
 12 the date that such property becomes a qualified HUD
 13 property.

14 (h) PROCEDURES.—Not later than the expiration of
 15 the 6-month period beginning on the date of the enact-
 16 ment of this Act, the Secretary shall establish, by rule,
 17 regulation, or order, such procedures as may be necessary
 18 to carry out this section.

19 (i) DEFINITIONS.—For purposes of this section, the
 20 following definitions shall apply:

21 (1) COMMUNITY DEVELOPMENT CORPORA-
 22 TION.—The term “community development corpora-
 23 tion” means a nonprofit organization whose primary
 24 purpose is to promote community development by

1 providing housing opportunities for low-income fami-
2 lies.

3 (2) COST RECOVERY BASIS.—The term “cost
4 recovery basis” means, with respect to any sale of a
5 residential property by a unit of general local gov-
6 ernment to a community development corporation
7 under subsection (d)(2), that the purchase price paid
8 by the community development corporation is less
9 than or equal to the costs incurred by the unit of
10 general local government in connection with such
11 property during the period beginning on the date on
12 which the unit of general local government acquires
13 title to the property under subsection (a) and ending
14 on the date on which the sale is consummated.

15 (3) LOW-INCOME FAMILIES.—The term “low-in-
16 come families” has the meaning given the term in
17 section 3(b) of the United States Housing Act of
18 1937.

19 (4) MULTIFAMILY HOUSING PROJECT.—The
20 term “multifamily housing project” has the meaning
21 given the term in section 203 of the Housing and
22 Community Development Amendments of 1978.

23 (5) RENEWAL COMMUNITY.—The term “re-
24 newal community” means an area designated (under

1 subchapter X of chapter 1 of the Internal Revenue
2 Code of 1986) as a renewal community.

3 (6) RESIDENTIAL PROPERTY.—The term “resi-
4 dential property” means a property that is a multi-
5 family housing project or a single family property.

6 (7) SECRETARY.—The term “Secretary” means
7 the Secretary of Housing and Urban Development.

8 (8) SEVERE PHYSICAL PROBLEMS.—The term
9 “severe physical problems” means, with respect to a
10 dwelling unit, that the unit—

11 (A) lacks hot or cold piped water, a flush
12 toilet, or both a bathtub and a shower in the
13 unit, for the exclusive use of that unit;

14 (B) on not less than 3 separate occasions
15 during the preceding winter months, was un-
16 comfortably cold for a period of more than 6
17 consecutive hours due to a malfunction of the
18 heating system for the unit;

19 (C) has no functioning electrical service,
20 exposed wiring, any room in which there is not
21 a functioning electrical outlet, or has experi-
22 enced 3 or more blown fuses or tripped circuit
23 breakers during the preceding 90-day period;

24 (D) is accessible through a public hallway
25 in which there are no working light fixtures,

1 loose or missing steps or railings, and no eleva-
 2 tor; or

3 (E) has severe maintenance problems, in-
 4 cluding water leaks involving the roof, windows,
 5 doors, basement, or pipes or plumbing fixtures,
 6 holes or open cracks in walls or ceilings, severe
 7 paint peeling or broken plaster, and signs of ro-
 8 dent infestation.

9 (9) SINGLE FAMILY PROPERTY.—The term
 10 “single family property” means a 1- to 4-family resi-
 11 dence.

12 (10) SUBSTANDARD.—The term “substandard”
 13 means, with respect to a multifamily housing
 14 project, that 25 percent or more of the dwelling
 15 units in the project have severe physical problems.

16 (11) UNIT OF GENERAL LOCAL GOVERN-
 17 MENT.—The term “unit of general local govern-
 18 ment” has the meaning given the term in section
 19 102(a) of the Housing and Community Development
 20 Act of 1974.

21 (12) UNOCCUPIED.—The term “unoccupied”
 22 means, with respect to a residential property, that
 23 the unit of general local government having jurisdic-
 24 tion over the area in which the project is located has

1 certified in writing that the property is not inhab-
 2 ited.

3 **SEC. 202. PREVENTION AND TREATMENT OF SUBSTANCE**
 4 **ABUSE; SERVICES PROVIDED THROUGH RELI-**
 5 **GIOUS ORGANIZATIONS.**

6 Title V of the Public Health Service Act (42 U.S.C.
 7 290aa et seq.) is amended by adding at the end the follow-
 8 ing part:

9 “PART G—SERVICES PROVIDED THROUGH RELIGIOUS
 10 ORGANIZATIONS

11 **“SEC. 581. APPLICABILITY TO DESIGNATED PROGRAMS.**

12 “(a) DESIGNATED PROGRAMS.—Subject to sub-
 13 section (b), this part applies to each program under this
 14 Act that makes awards of Federal financial assistance to
 15 public or private entities for the purpose of carrying out
 16 activities to prevent or treat substance abuse (in this part
 17 referred to as a ‘designated program’). Designated pro-
 18 grams include the program under subpart II of part B
 19 of title XIX (relating to formula grants to the States).

20 “(b) LIMITATION.—This part does not apply to any
 21 award of Federal financial assistance under a designated
 22 program for a purpose other than the purpose specified
 23 in subsection (a).

24 “(c) DEFINITIONS.—For purposes of this part (and
 25 subject to subsection (b)):

1 “(1) The term ‘designated award recipient’
2 means a public or private entity that has received an
3 award under a designated program (whether the
4 award is a designated direct award or a designated
5 subaward).

6 “(2) The term ‘designated direct award’ means
7 an award under a designated program that is re-
8 ceived directly from the Federal Government.

9 “(3) The term ‘designated subaward’ means an
10 award of financial assistance made by a non-Federal
11 entity, which award consists in whole or in part of
12 Federal financial assistance provided through an
13 award under a designated program.

14 “(4) The term ‘designated program’ has the
15 meaning given such term in subsection (a).

16 “(5) The term ‘financial assistance’ means a
17 grant, cooperative agreement, contract, or
18 voucherized assistance.

19 “(6) The term ‘program beneficiary’ means an
20 individual who receives program services.

21 “(7) The term ‘program participant’ has the
22 meaning given such term in section 582(a)(2).

23 “(8) The term ‘program services’ means treat-
24 ment for substance abuse, or preventive services re-

1 garding such abuse, provided pursuant to an award
2 under a designated program.

3 “(9) The term ‘religious organization’ means a
4 nonprofit religious organization.

5 “(10) The term ‘voucherized assistance’
6 means—

7 “(A) a system of selecting and reimbursing
8 program services in which—

9 “(i) the beneficiary is given a docu-
10 ment or other authorization that may be
11 used to pay for program services;

12 “(ii) the beneficiary chooses the orga-
13 nization that will provide services to him or
14 her according to rules specified by the des-
15 ignated award recipient; and

16 “(iii) the organization selected by the
17 beneficiary is reimbursed by the designated
18 award recipient for program services pro-
19 vided; or

20 “(B) any other mode of financial assist-
21 ance to pay for program services in which the
22 program beneficiary determines the allocation
23 of program funds through his or her selection
24 of one service provider from among alternatives.

1 **“SEC. 582. RELIGIOUS ORGANIZATIONS AS PROGRAM PAR-**
2 **TICIPANTS.**

3 “(a) IN GENERAL.—

4 “(1) SCOPE OF AUTHORITY.—Notwithstanding
5 any other provision of law, a religious
6 organization—

7 “(A) may be a designated award recipient;

8 “(B) may make designated subawards to
9 other public or nonprofit private entities (in-
10 cluding other religious organizations);

11 “(C) may provide for the provision of pro-
12 gram services to program beneficiaries through
13 the use of voucherized assistance; and

14 “(D) may be a provider of services under
15 a designated program, including a provider that
16 accepts voucherized assistance.

17 “(2) DEFINITION OF PROGRAM PARTICIPANT.—

18 For purposes of this part, the term ‘program partici-
19 pant’ means a public or private entity that has re-
20 ceived a designated direct award, or a designated
21 subaward, regardless of whether the entity provides
22 program services. Such term includes an entity
23 whose only participation in a designated program is
24 to provide program services pursuant to the accept-
25 ance of voucherized assistance.

1 “(b) RELIGIOUS ORGANIZATIONS.—The purpose of
 2 this section is to allow religious organizations to be pro-
 3 gram participants on the same basis as any other non-
 4 profit private provider without impairing the religious
 5 character of such organizations, and without diminishing
 6 the religious freedom of program beneficiaries.

7 “(c) NONDISCRIMINATION AGAINST RELIGIOUS OR-
 8 GANIZATIONS.—

9 “(1) FINDINGS.—The Congress finds that the
 10 establishment clause of the first amendment to the
 11 Constitution of the United States does not require
 12 that—

13 “(A) social-welfare programs discriminate
 14 against faith-based providers of services; or

15 “(B) faith-based providers of services, as a
 16 prerequisite to participation in Federal pro-
 17 grams, abandon their religious character and
 18 censor their religious expression.

19 “(2) NONDISCRIMINATION.—Religious organiza-
 20 tions are eligible to be program participants on the
 21 same basis as any other nonprofit private organiza-
 22 tion. Neither the Federal Government nor a State
 23 receiving funds under such programs shall discrimi-
 24 nate against an organization that is or applies to be

1 a program participant on the basis that the organi-
 2 zation has a religious character.

3 “(d) RELIGIOUS CHARACTER AND FREEDOM.—

4 “(1) RELIGIOUS ORGANIZATIONS.—Except as
 5 provided in this section, any religious organization
 6 that is a program participant shall retain its inde-
 7 pendence from Federal, State, and local government,
 8 including such organization’s control over the defini-
 9 tion, development, practice, and expression of its re-
 10 ligious beliefs.

11 “(2) ADDITIONAL SAFEGUARDS.—Neither the
 12 Federal Government nor a State shall require a reli-
 13 gious organization to—

14 “(A) alter its form of internal governance;

15 or

16 “(B) remove religious art, icons, scripture,
 17 or other symbols;

18 in order to be a program participant.

19 “(e) NONDISCRIMINATION IN EMPLOYMENT.—

20 “(1) IN GENERAL.—Except as provided in para-
 21 graph (2), nothing in this section shall be construed
 22 to modify or affect the provisions of any other Fed-
 23 eral or State law or regulation that relates to dis-
 24 crimination in employment on the basis of religion.

1 “(2) EXCEPTION.—A religious organization
2 that is a program participant may require that an
3 employee rendering program services adhere to—

4 “(A) the religious beliefs and practices of
5 such organization; and

6 “(B) any rules of the organization regard-
7 ing the use of drugs or alcohol.

8 “(f) RIGHTS OF PROGRAM BENEFICIARIES.—

9 (1) OBJECTIONS REGARDING RELIGIOUS ORGA-
10 NIZATIONS.—With respect to an individual who is a
11 program beneficiary or a prospective program bene-
12 ficiary, if the individual objects to a program partici-
13 pant on the basis that the participant is a religious
14 organization, the following applies:

15 “(A) If the organization received a des-
16 ignated direct award, the organization shall ar-
17 range for the individual to receive program
18 services through an alternative entity.

19 “(B) If the organization received a des-
20 ignated subaward, the non-Federal entity that
21 made the subaward shall arrange for the indi-
22 vidual to receive the program services through
23 an alternative program participant.

24 “(C) If the organization is providing serv-
25 ices pursuant to voucherized assistance, the

1 designated award recipient that operates the
 2 voucherized assistance program shall arrange
 3 for the individual to receive the program serv-
 4 ices through an alternative provider.

5 “(D) Arrangements under any of para-
 6 graphs (A) through (C) with an alternative en-
 7 tity shall provide for program services the mon-
 8 etary value of which is not less than the mone-
 9 tary value of the program services that the indi-
 10 vidual would have received from the religious
 11 organization involved.

12 “(2) NONDISCRIMINATION.—

13 “(A) IN GENERAL.—Except as provided in
 14 subparagraph (B) or as otherwise provided in
 15 law, a religious organization that is a program
 16 participant shall not in providing program serv-
 17 ices discriminate against a program beneficiary
 18 on the basis of religion or religious belief.

19 “(B) LIMITATION.—A religious organiza-
 20 tion that is a program participant may require
 21 a program beneficiary who has elected in ac-
 22 cordance with paragraph (1) to receive program
 23 services from such organization—

24 “(i) to actively participate in religious
 25 practice, worship, and instruction; and

1 “(ii) to follow rules of behavior de-
 2 vised by the organizations that are reli-
 3 gious in content or origin.

4 “(g) FISCAL ACCOUNTABILITY.—

5 “(1) IN GENERAL.—Except as provided in para-
 6 graph (2), any religious organization that is a pro-
 7 gram participant shall be subject to the same regula-
 8 tions as other recipients of awards of Federal finan-
 9 cial assistance to account, in accordance with gen-
 10 erally accepted auditing principles, for the use of the
 11 funds provided under such awards.

12 “(2) LIMITED AUDIT.—With respect to the
 13 award involved, if a religious organization that is a
 14 program participant maintains the Federal funds in
 15 a separate account from non-Federal funds, then
 16 only the Federal funds shall be subject to audit.

17 “(h) COMPLIANCE.—With respect to compliance with
 18 this section by an agency, a religious organization may
 19 obtain judicial review of agency action in accordance with
 20 chapter 7 of title 5, United States Code.

21 **“SEC. 583. LIMITATIONS ON USE OF FUNDS FOR CERTAIN**
 22 **PURPOSES.**

23 “(a) IN GENERAL.—Except as provided in subsection
 24 (b), no funds provided directly to an entity under a des-

1 ignated program shall be expended for sectarian worship
2 or instruction.

3 “(b) EXCEPTION.—Subsection (a) shall not apply to
4 assistance provided to or on behalf of a program bene-
5 ficiary if the beneficiary may choose where such assistance
6 is redeemed or allocated.

7 **“SEC. 584. ADMINISTRATION OF PROGRAM AND TREAT-**
8 **MENT OF FUNDS.**

9 “(a) FUNDS NOT AID TO INSTITUTIONS.—Financial
10 assistance under a designated program provided to or on
11 behalf of program beneficiaries is aid to the beneficiary,
12 not to the organization providing program services. The
13 receipt by a program beneficiary of program services at
14 the facilities of the organization shall not constitute Fed-
15 eral financial assistance to the organization involved.

16 “(b) PROHIBITION ON STATE DISCRIMINATION IN
17 USE OF FUNDS.—No provision in any State constitution
18 or State law shall be construed to prohibit the expenditure
19 of Federal funds under a designated program in a reli-
20 gious facility or by a religious organization that is a pro-
21 gram participant. If a State law or constitution would pre-
22 vent the expenditure of State or local public funds in such
23 a facility or by such an organization, then the State or
24 local government shall segregate the Federal funds from

1 State or other public funds for purposes of carrying out
 2 the designated program.

3 **“SEC. 585. EDUCATIONAL REQUIREMENTS FOR PERSONNEL**
 4 **IN DRUG TREATMENT PROGRAMS.**

5 “(a) FINDINGS.—The Congress finds that—

6 “(1) establishing formal educational qualifica-
 7 tion for counselors and other personnel in drug
 8 treatment programs may undermine the effective-
 9 ness of such programs; and

10 “(2) such formal educational requirements for
 11 counselors and other personnel may hinder or pre-
 12 vent the provision of needed drug treatment services.

13 “(b) LIMITATION ON EDUCATIONAL REQUIREMENTS
 14 OF PERSONNEL.—

15 “(1) TREATMENT OF RELIGIOUS EDUCATION.—

16 If any State or local government that is a program
 17 participant imposes formal educational qualifications
 18 on providers of program services, including religious
 19 organizations, such State or local government shall
 20 treat religious education and training of personnel
 21 as having a critical and positive role in the delivery
 22 of program services. In applying educational quali-
 23 fications for personnel in religious organizations,
 24 such State or local government shall give credit for
 25 religious education and training equivalent to credit

1 given for secular course work in drug treatment or
2 any other secular subject that is of similar grade
3 level and duration.

4 “(2) RESTRICTION OF DISCRIMINATION RE-
5 QUIREMENTS.—

6 “(A) IN GENERAL.—Subject to paragraph
7 (1), a State or local government that is a pro-
8 gram participant may establish formal edu-
9 cational qualifications for personnel in organiza-
10 tions providing program services that contribute
11 to success in reducing drug use among program
12 beneficiaries.

13 “(B) EXCEPTION.—The Secretary shall
14 waive the application of any educational quali-
15 fication imposed under subparagraph (A) for an
16 individual religious organization, if the Sec-
17 retary determines that—

18 “(i) the religious organization has a
19 record of prior successful drug treatment
20 for at least the preceding three years;

21 “(ii) the educational qualifications
22 have effectively barred such religious orga-
23 nization from becoming a program pro-
24 vider;

1 “(iii) the organization has applied to
 2 the Secretary to waive the qualifications;
 3 and

4 “(iv) the State or local government
 5 has failed to demonstrate empirically that
 6 the educational qualifications in question
 7 are necessary to the successful operation of
 8 a drug treatment program.”.

9 **SEC. 203. CRA CREDIT FOR INVESTMENTS IN COMMUNITY**
 10 **DEVELOPMENT ORGANIZATIONS LOCATED IN**
 11 **RENEWAL COMMUNITIES.**

12 Section 804 of the Community Reinvestment Act of
 13 1977 (12 U.S.C. 2903) is amended by adding at the end
 14 the following new subsection:

15 “(c) INVESTMENTS IN CERTAIN COMMUNITY DEVEL-
 16 OPMENT ORGANIZATIONS.—In assessing and taking into
 17 account, under subsection (a), the record of a regulated
 18 financial institution, the appropriate Federal financial su-
 19 pervisory agency may consider, as a factor, investments
 20 of the institution in, and capital investment, loan partici-
 21 pation, and other ventures undertaken by the institution
 22 in cooperation with, any community development organi-
 23 zation (as defined in section 234 of the Bank Enterprise
 24 Act of 1991) which is located in a renewal community (as

- 1 designated under section 1400E of the Internal Revenue
- 2 Code of 1986).”.

