

107TH CONGRESS  
2D SESSION

# H. R. 4725

To amend the Internal Revenue Code of 1986 to promote the economic recovery of the District of Columbia.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 14, 2002

Ms. NORTON introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on the Judiciary and Government Reform, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To amend the Internal Revenue Code of 1986 to promote the economic recovery of the District of Columbia.

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 “District of Columbia  
5       Tax Incentives Improvement Act of 2002”.

1 **SEC. 2. MODIFICATIONS TO ENTERPRISE ZONE BENEFITS**  
2 **AVAILABLE WITH RESPECT TO THE DISTRICT**  
3 **OF COLUMBIA.**

4 (a) ENTIRE DISTRICT OF COLUMBIA TREATED AS  
5 EMPOWERMENT ZONE.—

6 (1) IN GENERAL.—Subsection (a) of section  
7 1400 of the Internal Revenue Code of 1986 (relating  
8 to establishment of DC Zone) is amended to read as  
9 follows:

10 “(a) DESIGNATION.—For purposes of this title—

11 “(1) the District of Columbia—

12 “(A) is hereby designated as the District  
13 of Columbia Enterprise Zone, and

14 “(B) shall be treated as an empowerment  
15 zone designated under subchapter U, and

16 “(2) the terms ‘District of Columbia Enterprise  
17 Zone’ and ‘DC Zone’ mean the District of Colum-  
18 bia.”

19 (2) CONFORMING AMENDMENTS.—

20 (A) Section 1400 of such Code is amended  
21 by striking subsections (b) and (c) and by re-  
22 designating subsections (d), (e), and (f) as sub-  
23 sections (b), (c), and (d), respectively.

24 (B) Subsection (b) of section 1400 of such  
25 Code, as redesignated by subparagraph (A), is  
26 amended to read as follows:

1       “(b) SPECIAL RULE FOR APPLICATION OF EMPLOY-  
 2       MENT CREDIT.—In the case of the DC Zone, section 1396  
 3       (relating to empowerment zone employment credit) shall  
 4       be applied by substituting ‘20’ for ‘15’ in the table con-  
 5       tained in section 1396(b). The preceding sentence shall  
 6       apply only with respect to qualified zone employees, as de-  
 7       fined in section 1396(d), determined by treating no area  
 8       other than the DC Zone as an empowerment zone or en-  
 9       terprise community.”

10               (C) Paragraph (2) of section 1400(d) of  
 11               such Code, as redesignated by subparagraph  
 12               (A), is amended by striking “the census tracts  
 13               referred to in subsection (b)(1) as an enterprise  
 14               community” and inserting “the enterprise com-  
 15               munity in the District of Columbia”.

16               (D) Section 1400B of such Code is amend-  
 17               ed by striking subsection (d) and by redesign-  
 18               ating subsections (e), (f), and (g) as sub-  
 19               sections (d), (e), and (f), respectively.

20               (E) Paragraph (1) of section 1400B(e) of  
 21               such Code is amended by striking “section  
 22               1400(e)” and inserting “section 1400(c)”.

23       (b) CAPITAL GAINS EXCLUSION AVAILABLE FOR AS-  
 24       SETS HELD MORE THAN 2 YEARS.—

1           (1) IN GENERAL.—Subsection (a) of section  
 2           1400B of such Code is amended by striking “5  
 3           years” and inserting “2 years”.

4           (2) CONFORMING AMENDMENT.—Paragraph (7)  
 5           of section 1400B(b) of such Code is amended—

6                   (A) by striking “5-YEAR” in the heading  
 7                   and inserting “2-YEAR”, and

8                   (B) by striking “5-year” in the text and  
 9                   inserting “2-year”.

10          (c) MODIFICATIONS TO DEFINITION OF DC ZONE  
 11          BUSINESS.—Subsection (c) of section 1400B of such Code  
 12          is amended to read as follows:

13          “(c) DC ZONE BUSINESS.—For purposes of this  
 14          section—

15                   “(1) IN GENERAL.—The term ‘DC Zone busi-  
 16                   ness’ means any entity which is an enterprise zone  
 17                   business (as defined in section 1397B),  
 18                   determined—

19                           “(A) after the application of section  
 20                           1400(c),

21                           “(B) without regard to subsections (b)(1)  
 22                           and (d)(2)(B) of section 1397B, and

23                           “(C) by treating no area other than the  
 24                           District of Columbia as an empowerment zone  
 25                           or enterprise community.

1           “(2) SPECIAL RULE FOR BUSINESSES HOLDING  
 2           INTANGIBLES.—Paragraph (4) of section 1397B(d)  
 3           shall not apply in determining whether a business is  
 4           a DC Zone business if—

5                   “(A) at least 30 percent of the employees  
 6                   of such business are residents of the District of  
 7                   Columbia, and

8                   “(B) at least 50 percent of the wages (as  
 9                   defined by section 3401(a)) paid by such busi-  
 10                  ness are paid to residents of the District of Co-  
 11                  lumbia.”

12          (d) EFFECTIVE DATE.—The amendments made by  
 13          this section shall take effect as if included in the amend-  
 14          ments made by section 701 of the Taxpayer Relief Act  
 15          of 1997.

16   **SEC. 3. EXTENSION OF ENTERPRISE ZONE TREATMENT.**

17          (a) EFFECTIVE PERIOD OF DESIGNATION.—Sub-  
 18          section (f) of section 1400 of the Internal Revenue Code  
 19          of 1986 is amended by striking “December 31, 2003”  
 20          each place it appears and inserting “December 31, 2009”.

21          (b) ECONOMIC DEVELOPMENT BONDS.—Subsection  
 22          (b) of section 1400A of such Code is amended by striking  
 23          “December 31, 2003” and inserting “December 31,  
 24          2009”.

25          (c) ZERO PERCENT CAPITAL GAINS RATE.—

1           (1) Paragraphs (2)(A)(i), (3)(A), (4)(A)(i), and  
 2           (4)(B)(i)(I) of section 1400B(b) of such Code are  
 3           each amended by striking “January 1, 2004” and  
 4           inserting “January 1, 2010”.

5           (2) Subsections (e)(2) and (g) of section 1400B  
 6           of such Code are each amended by striking “2008”  
 7           each place it appears and inserting “2014”.

8   **SEC. 4. FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT OF**  
 9                           **COLUMBIA MADE PERMANENT; OTHER MODI-**  
 10                          **FICATIONS.**

11          (a) CREDIT MADE PERMANENT.—Subsection (i) of  
 12          section 1400C of the Internal Revenue Code of 1986 (re-  
 13          lating to first-time homebuyer credit for District of Co-  
 14          lumbia) is amended by striking “, and before January 1,  
 15          2004”.

16          (b) TREATMENT OF PURCHASES IN CONNECTION  
 17          WITH DIVORCE.—

18               (1) IN GENERAL.—Subsection (c) of section  
 19          1400C of such Code is amended by adding at the  
 20          end the following new paragraph:

21               “(4) PURCHASES IN CONNECTION WITH DI-  
 22          VORCE.—Notwithstanding paragraphs (1) and (2),  
 23          an individual shall be treated as a first-time home-  
 24          buyer with respect to the purchase of any residence  
 25          if—

1           “(A) the sale of the residence is pursuant  
2           to a divorce or separation instrument (as de-  
3           fined in section 71(b)(2)) relating to such indi-  
4           vidual and such individual’s spouse or former  
5           spouse, and

6           “(B) such residence was the principal resi-  
7           dence of such individual at the time of such sale  
8           or for any period ending not more than a rea-  
9           sonable period before such sale.

10          The Secretary shall prescribe such regulations as  
11          may be necessary to prevent the abuse of the pur-  
12          poses of this paragraph.”

13          (2) EFFECTIVE DATE.—The amendment made  
14          by paragraph (1) shall apply to purchases after the  
15          date of the enactment of this Act.

16          (c) CREDIT ALLOWED AGAINST REGULAR TAX AND  
17          ALTERNATIVE MINIMUM TAX.—

18          (1) IN GENERAL.—Subsection (d) of section  
19          1400C of such Code is amended to read as follows:

20          “(d) LIMITATION BASED ON AMOUNT OF TAX.—

21          “(1) IN GENERAL.—The credit allowed under  
22          subsection (a) for the taxable year shall not exceed  
23          the excess of—

1           “(A) the sum of the regular tax liability  
 2           (as defined in section 26(b)) plus the tax im-  
 3           posed by section 55, over

4           “(B) the sum of the credits allowable  
 5           under subpart A of part IV of subchapter A  
 6           and section 27 for the taxable year.

7           “(2) CARRYOVER OF CREDIT.—If the credit al-  
 8           lowable under subsection (a) exceeds the limitation  
 9           imposed by paragraph (1) for such taxable year,  
 10          such excess shall be carried to the succeeding tax-  
 11          able year and added to the credit allowable under  
 12          subsection (a) for such taxable year.”

13          (2) CONFORMING AMENDMENT.—Section  
 14          1400C of such Code is amended by striking sub-  
 15          section (g) and by redesignating subsections (h) and  
 16          (i) as subsections (g) and (h), respectively.

17          (3) EFFECTIVE DATE.—The amendment made  
 18          by paragraph (1) shall apply to taxable years begin-  
 19          ning after the date of the enactment of this Act.

20 **SEC. 5. EXPANSION OF TAX-EXEMPT ECONOMIC DEVELOP-**  
 21 **MENT BONDS.**

22          (a) IN GENERAL.—Section 1400A of the Internal  
 23          Revenue Code of 1986, as amended by section 3, is  
 24          amended to read as follows:

1 **“SEC. 1400A. TAX-EXEMPT ECONOMIC DEVELOPMENT**  
 2 **BONDS.**

3 “(a) IN GENERAL.—In the case of the District of Co-  
 4 lumbia Enterprise Zone—

5 “(1) section 1394(c)(1)(A) (relating to limita-  
 6 tion on amount of bonds) shall not apply,

7 “(2) section 1394(b)(3)(A) shall be applied  
 8 without regard to section 1397C(d)(4) (relating to  
 9 treatment of businesses holding intangibles), and

10 “(3) section 1394(b)(3)(B)(iii) shall be applied  
 11 without regard to the employee residency require-  
 12 ment.

13 “(b) EXEMPTION FROM VOLUME CAP.—Bonds which  
 14 are exempt facility bonds by reason of this section shall  
 15 be treated as not being private activity bonds for purposes  
 16 of section 146.

17 “(c) PERIOD OF APPLICABILITY.—This section shall  
 18 apply to bonds issued during the period beginning on Jan-  
 19 uary 1, 1998, and ending on December 31, 2009.”

20 (b) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to bonds issued after the date of  
 22 the enactment of this Act.

23 **SEC. 6. BONDS OF DISTRICT OF COLUMBIA EXEMPT FROM**  
 24 **STATE AND LOCAL TAXES.**

25 (a) IN GENERAL.—Section 485 of the District of Co-  
 26 lumbia Home Rule Act is amended to read as follows:

1       “SEC. 485. Bonds and notes issued by the Council  
2 pursuant to this title and the interest thereon shall be ex-  
3 empt from all taxation (except estate, inheritance, and gift  
4 taxes) by the United States, any State or political subdivi-  
5 sion thereof, the District, or any possession of the United  
6 States.”

7       (b) EFFECTIVE DATE.—The amendment made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2001.

10 **SEC. 7. ZERO PERCENT WITHHOLDING RATE ON PAYMENTS**

11                   **MADE WITH RESPECT TO DC ZONE INSUR-**  
12                   **ANCE POLICIES.**

13       (a) IN GENERAL.—Subchapter W of chapter 1 of the  
14 Internal Revenue Code of 1986 is amended by adding at  
15 the end the following new section:

16 **“SEC. 1400D. ZERO PERCENT WITHHOLDING RATE ON PAY-**  
17                   **MENTS MADE WITH RESPECT TO DC ZONE IN-**  
18                   **SURANCE POLICIES.**

19       “(a) IN GENERAL.—The tax and withholding rates  
20 under sections 871, 881, 1441, and 1442 shall be zero  
21 for any payments made by an exempt insurance company  
22 with respect to a DC Zone insurance policy issued by such  
23 company.

1       “(b) EXEMPT INSURANCE COMPANY.—For purposes  
2 of this section, the term ‘exempt insurance company’  
3 means any insurance company—

4               “(1) which is subject to tax under subchapter  
5 L, and

6               “(2) which is a DC Zone business (as defined  
7 in section 1400B(c)) or would be such a business if  
8 subsection (b) of section 1397B were applied with-  
9 out regard to paragraphs (2), (6), and (8) thereof.

10       “(c) DC ZONE INSURANCE POLICY.—The term ‘DC  
11 Zone insurance policy’ means an insurance or annuity con-  
12 tract, including a contract for amounts held at interest,  
13 issued by (but not reinsured by) an exempt insurance com-  
14 pany in connection with property in, liability arising out  
15 of an activity in, or the lives or health of residents of,  
16 a country other than the United States. For purposes of  
17 this section, the determination of whether a contract is  
18 a life insurance contract or an annuity contract shall be  
19 made without regard to sections 72(s), 101(f), 871(h), and  
20 7702 if—

21               “(1) such contract is regulated as a life insur-  
22 ance contract or an annuity contract by the Depart-  
23 ment of Insurance and Securities Regulation of the  
24 District of Columbia, and

1           “(2) no policyholder, insured, annuitant, or  
2       beneficiary with respect to such policy is a United  
3       States person.

4       “(d) EXCLUSION FROM REPORTING.—No reporting  
5       shall be required under this title from an exempt insurance  
6       company with respect to amounts paid by such company  
7       under a DC Zone insurance policy to a person who is not  
8       a United States person in connection with risks located  
9       outside the United States.”

10       (b) CLERICAL AMENDMENT.—The table of sections  
11       for such subchapter W is amended by adding at the end  
12       the following new item:

                  “Sec. 1400D. Zero percent withholding rate on payments made  
  with respect to DC Zone insurance policies.”.

13       (c) EFFECTIVE DATE.—The amendments made by  
14       this section shall apply to amounts paid after the date of  
15       the enactment of this Act.

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