

109TH CONGRESS  
2D SESSION

# H. R. 5186

To amend the Internal Revenue Code of 1986 to replace the expired tax benefits for the DC Zone, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 25, 2006

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 replace the expired tax benefits for the DC Zone, 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.**

4       This Act may be cited as the “District of Columbia  
5       Tax Incentives Improvement Act of 2006”.

1 **SEC. 2. ESTABLISHMENT OF DC TARGET AREAS TO RE-**  
 2 **PLACE EXPIRED DC ZONE.**

3 (a) IN GENERAL.—Section 1400 of the Internal Rev-  
 4 enue Code of 1986 (relating to establishment of DC Zone)  
 5 is amended to read as follows:

6 **“SEC. 1400. ESTABLISHMENT OF DC TARGET AREAS.**

7 “(a) ESTABLISHMENT OF DC DEVELOPMENT TAR-  
 8 GET AREA.—

9 “(1) IN GENERAL.—For purposes of this title—

10 “(A) the modified DC area is hereby des-  
 11 ignated as the DC Development Target Area,  
 12 and

13 “(B) except for purposes of sections 51  
 14 and 1396 and as otherwise provided in this sub-  
 15 chapter, the DC Development Target Area shall  
 16 be treated as an empowerment zone designated  
 17 under subchapter U.

18 “(2) MODIFIED DC AREA.—For purposes of this  
 19 section—

20 “(A) IN GENERAL.—The term ‘modified  
 21 DC area’ means the area consisting of—

22 “(i) the census tracts located in the  
 23 District of Columbia which are part of an  
 24 enterprise community designated under  
 25 subchapter U before August 5, 1997,

26 “(ii) all other census tracts—

1 “(I) which are located in the Dis-  
2 trict of Columbia, and

3 “(II) for which the poverty rate  
4 is not less than 20 percent as deter-  
5 mined on the basis of the 1990 cen-  
6 sus, and

7 “(iii) the 31 census tracts identified  
8 for commercial and industrial development  
9 (as of October 11, 2005) by the Deputy  
10 Mayor for Planning and Economic Devel-  
11 opment of the District of Columbia.

12 “(B) EXCLUSION OF RESIDENTIAL CENSUS  
13 TRACTS.—Such term shall not include any cen-  
14 sus tract described in clause (i) or (ii) of sub-  
15 paragraph (A) if no portion of such census  
16 tract is zoned by the District of Columbia for  
17 non-residential development as of June 30,  
18 2003.

19 “(C) EXCLUSION OF RESIDENTIAL  
20 BLOCKS.—Such term shall not include any resi-  
21 dential block (as determined by the Deputy  
22 Mayor for Planning and Economic Development  
23 of the District of Columbia).

24 “(3) SPECIAL RULE FOR APPLICATION OF EN-  
25 TERPRISE ZONE BUSINESS DEFINITION.—For pur-

poses of this subchapter and for purposes of applying subchapter U with respect to the DC Development Target Area, section 1397C shall be applied without regard to subsections (b)(6), (c)(5), and (d)(2)(B) thereof.

“(4) TIME FOR WHICH DESIGNATION APPLICABLE.—

“(A) IN GENERAL.—The designation made by paragraph (1) shall apply for the period beginning on January 1, 2006, and ending on December 31, 2009.

“(B) COORDINATION WITH DC ENTERPRISE COMMUNITY DESIGNATED UNDER SUBCHAPTER U.—With respect to the portions of the census tracts referred to in paragraph (2)(A)(i) which are in the modified DC area—

“(i) section 1400(f)(2) shall not apply, and

“(ii) the designation under subchapter U of such portions shall terminate on December 31, 2009.

“(b) ESTABLISHMENT OF DC EMPLOYMENT TARGET AREA.—

“(1) IN GENERAL.—For purposes of this title—

1           “(A) the DC high unemployment area is  
2           hereby designated as the DC Employment Tar-  
3           get Area, and

4           “(B) except as otherwise provided in this  
5           subchapter, the DC Employment Target Area  
6           shall be treated as an empowerment zone des-  
7           ignated under subchapter U for purposes of  
8           sections 51 and 1396 (and for purposes of ap-  
9           plying this subchapter and subchapter U with  
10          respect to such sections).

11          “(2) DC HIGH UNEMPLOYMENT AREA.—For  
12          purposes of this section, the term ‘DC high unem-  
13          ployment area’ means the census tracts—

14               “(A) which are located in the District of  
15               Columbia, and

16               “(B) for which the unemployment rate is  
17               not less than 10 percent as determined on the  
18               basis of the 2000 census.

19          “(3) SPECIAL RULE FOR APPLICATION OF EM-  
20          PLOYMENT CREDIT.—With respect to the DC Em-  
21          ployment Target Area, section 1396(d)(1)(A) (relat-  
22          ing to empowerment zone employment credit) shall  
23          be applied by substituting ‘the District of Columbia’  
24          for ‘an empowerment zone’.

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

3               “(1) DC DEVELOPMENT TARGET AREA.—The  
4 term ‘DC Development Target Area’ means the DC  
5 Development Target Area designated by subsection  
6 (a).

7               “(2) DC EMPLOYMENT TARGET AREA.—The  
8 term ‘DC Employment Target Area’ means the DC  
9 Employment Target Area designated by subsection  
10 (b).

11       “(d) TIME FOR WHICH DESIGNATIONS APPLICA-  
12 BLE.—

13               “(1) IN GENERAL.—The designations made by  
14 subsections (a) and (b) shall apply for the period be-  
15 ginning on January 1, 2006, and ending on Decem-  
16 ber 31, 2009.

17               “(2) COORDINATION WITH DC ENTERPRISE  
18 COMMUNITY DESIGNATED UNDER SUBCHAPTER U.—  
19 With respect to the portions of the census tracts re-  
20 ferred to in subsection (a)(2)(A)(i) which are in the  
21 modified DC area—

22                       “(A) section 1400(f)(2) shall not apply,  
23 and

1 “(B) the designation under subchapter U  
 2 of such portions shall terminate on December  
 3 31, 2009.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 1202(a)(2)(D) and section  
 6 1397B(b)(1) of such Code are each amended by  
 7 striking “The District of Columbia Enterprise Zone”  
 8 and inserting “The DC Development Target Area  
 9 (as defined in section 1400) and the DC Zone (as  
 10 defined in section 1400, as in effect on December  
 11 31, 2005)”.

12 (2) The heading of subchapter W of chapter 1  
 13 of such Code is amended by striking “**Enterprise**  
 14 **Zone**” and inserting “**Target Areas**”.

15 (3) The item relating to section 1400 in the  
 16 table of sections for subchapter W of chapter 1 of  
 17 such Code is amended to read as follows:

“Sec. 1400. Establishment of DC Target Areas.”.

18 (c) EFFECTIVE DATE.—The amendments made by  
 19 this section shall take effect on January 1, 2006.

20 **SEC. 3. REPEAL OF SPECIAL RULES RELATED TO TAX-EX-**  
 21 **EMPT ENTERPRISE ZONE FACILITY BONDS.**

22 (a) IN GENERAL.—Section 1400A of the Internal  
 23 Revenue Code of 1986 (relating to tax-exempt economic  
 24 development bonds) is hereby repealed.

25 (b) CONFORMING AMENDMENTS.—

1           (1) Subparagraph (B) of section 1394(f)(3) of  
 2           such Code is amended by striking “(other than the  
 3           District of Columbia Enterprise Zone)”.

4           (2) The table of sections for subchapter W of  
 5           chapter 1 of such Code is amended by striking the  
 6           item relating to section 1400A.

7           (c) EFFECTIVE DATE.—The amendments made by  
 8           this section shall apply to obligations issued after Decem-  
 9           ber 31, 2005.

10   **SEC. 4. ZERO PERCENT CAPITAL GAINS RATE ON CERTAIN**  
 11           **DC ASSETS.**

12           (a) IN GENERAL.—Section 1400B of the Internal  
 13           Revenue Code of 1986 (relating to zero percent capital  
 14           gains rate) is amended to read as follows:

15   **“SEC. 1400B. ZERO PERCENT CAPITAL GAINS RATE ON CER-**  
 16           **TAIN DC ASSETS.**

17           “(a) EXCLUSION.—Gross income shall not include  
 18           qualified capital gain from the sale or exchange of any  
 19           expanded DC Zone asset held for more than 5 years.

20           “(b) EXPANDED DC ZONE ASSET.— For purposes  
 21           of this section—

22                   “(1) IN GENERAL.—The term ‘expanded DC  
 23           Zone asset’ means—

24                           “(A) any expanded DC Zone business  
 25                           stock,



1           “(B) any expanded DC Zone partnership  
2 interest, and

3           “(C) any expanded DC Zone business  
4 property.

5           “(2) EXPANDED DC ZONE BUSINESS STOCK.—

6           “(A) IN GENERAL.—The term ‘expanded  
7 DC Zone business stock’ means any stock in a  
8 domestic corporation which is originally issued  
9 after December 31, 1997, if—

10           “(i) such stock is acquired by the tax-  
11 payer, before January 1, 2010, at its origi-  
12 nal issue (directly or through an under-  
13 writer) solely in exchange for cash,

14           “(ii) as of the time such stock was  
15 issued, such corporation was an expanded  
16 DC Zone business (or, in the case of a new  
17 corporation, such corporation was being or-  
18 ganized for purposes of being an expanded  
19 DC Zone business), and

20           “(iii) during substantially all of the  
21 taxpayer’s holding period for such stock,  
22 such corporation qualified as an expanded  
23 DC Zone business.

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

4           “(3) EXPANDED DC ZONE PARTNERSHIP INTER-  
5           EST.—The term ‘expanded DC Zone partnership in-  
6           terest’ means any capital or profits interest in a do-  
7           mestic partnership which is originally issued after  
8           December 31, 1997, if—

9           “(A) such interest is acquired by the tax-  
10          payer, before January 1, 2010, from the part-  
11          nership solely in exchange for cash,

12          “(B) as of the time such interest was ac-  
13          quired, such partnership was an expanded DC  
14          Zone business (or, in the case of a new partner-  
15          ship, such partnership was being organized for  
16          purposes of being an expanded DC Zone busi-  
17          ness), and

18          “(C) during substantially all of the tax-  
19          payer’s holding period for such interest, such  
20          partnership qualified as an expanded DC Zone  
21          business.

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

24          “(4) EXPANDED DC ZONE BUSINESS PROP-  
25          ERTY.—

1           “(A) IN GENERAL.—The term ‘expanded  
2           DC Zone business property’ means tangible  
3           property if—

4                   “(i) such property was acquired by  
5                   the taxpayer by purchase (as defined in  
6                   section 179(d)(2)) after December 31,  
7                   1997, and before January 1, 2010,

8                   “(ii) the original use of such property  
9                   in the expanded DC Zone commences with  
10                  the taxpayer, and

11                  “(iii) during substantially all of the  
12                  taxpayer’s holding period for such prop-  
13                  erty, substantially all of the use of such  
14                  property was in an expanded DC Zone  
15                  business of the taxpayer.

16           “(B) SPECIAL RULE FOR BUILDINGS  
17           WHICH ARE SUBSTANTIALLY IMPROVED.—

18                   “(i) IN GENERAL.—The requirements  
19                   of clauses (i) and (ii) of subparagraph (A)  
20                   shall be treated as met with respect to—

21                           “(I) property which is substan-  
22                           tially improved by the taxpayer before  
23                           January 1, 2010, and

24                           “(II) any land on which such  
25                           property is located.

1 “(ii) SUBSTANTIAL IMPROVEMENT.—

2 For purposes of clause (i), property shall  
3 be treated as substantially improved by the  
4 taxpayer only if, during any 24-month pe-  
5 riod beginning after December 31, 1997,  
6 additions to basis with respect to such  
7 property in the hands of the taxpayer ex-  
8 ceed the greater of—

9 “(I) an amount equal to the ad-  
10 justed basis of such property at the  
11 beginning of such 24-month period in  
12 the hands of the taxpayer, or

13 “(II) \$5,000.

14 “(5) TREATMENT OF DEVELOPMENT AREA TER-  
15 MINATIONS.—Except as provided in subsection (d),  
16 the termination of the designation of the DC Zone  
17 or the DC Development Target Area shall be dis-  
18 regarded for purposes of determining whether any  
19 property is an expanded DC Zone asset.

20 “(6) TREATMENT OF SUBSEQUENT PUR-  
21 CHASERS, ETC.—The term ‘expanded DC Zone  
22 asset’ includes any property which would be an ex-  
23 panded DC Zone asset but for paragraph (2)(A)(i),  
24 (3)(A), or (4)(A)(i) or (ii) in the hands of the tax-

1 payer if such property was an expanded DC Zone  
2 asset in the hands of a prior holder.

3 “(7) 5-YEAR SAFE HARBOR.—If any property  
4 ceases to be an expanded DC Zone asset by reason  
5 of paragraph (2)(A)(iii), (3)(C), or (4)(A)(iii) after  
6 the 5-year period beginning on the date the taxpayer  
7 acquired such property, such property shall continue  
8 to be treated as meeting the requirements of such  
9 paragraph; except that the amount of gain to which  
10 subsection (a) applies on any sale or exchange of  
11 such property shall not exceed the amount which  
12 would be qualified capital gain had such property  
13 been sold on the date of such cessation.

14 “(c) EXPANDED DC ZONE BUSINESS.—For purposes  
15 of this section, the term ‘expanded DC Zone business’  
16 means any enterprise zone business (as defined in section  
17 1397C), determined—

18 “(1) after the application of section 1400D(d),

19 “(2) by substituting ‘80 percent’ for ‘50 per-  
20 cent’ in subsections (b)(2) and (c)(1) of section  
21 1397C,

22 “(3) by treating no area other than the ex-  
23 panded DC Zone as an empowerment zone or enter-  
24 prise community, and

1 “(4) in the case of periods beginning after De-  
2 cember 31, 2005, without regard to subparagraph  
3 (B) of section 1397C(d)(2).

4 “(d) EXPANDED DC ZONE.—For purposes of this  
5 section—

6 “(1) IN GENERAL .—The term ‘expanded DC  
7 Zone’ means the DC Zone and DC Development  
8 Target Area.

9 “(2) DC ZONE.—The term ‘DC Zone’ means—  
10 “(A) the DC Zone (within the meaning of  
11 section 1400, as in effect on December 31,  
12 2005), and

13 “(B) all census tracts—

14 “(i) which are located in the District  
15 of Columbia, and

16 “(ii) for which the poverty rate is not  
17 less than 10 percent as determined on the  
18 basis of the 1990 census.

19 “(3) APPLICATION OF SECTION TO EXPIRED  
20 PORTION OF DC ZONE.—In the case of any expanded  
21 DC Zone asset (determined without regard to this  
22 paragraph) which would not be an expanded DC  
23 Zone asset if the expanded DC Zone did not include  
24 that portion of the DC Zone which is not part the

1 DC Development Target Area, this section shall be  
2 applied—

3 “(A) by substituting ‘January 1, 2006’ for  
4 ‘January 1, 2010’ each place it appears in sub-  
5 section (b),

6 “(B) by substituting ‘January 1, 2010’ for  
7 ‘January 1, 2014’ in subsections (e)(2) and  
8 (g)(2).

9 “(4) APPLICATION OF SECTION TO NEWLY DES-  
10 IGNATED PORTION OF EXPANDED DC ZONE.—In the  
11 case of any expanded DC Zone asset (determined  
12 without regard to this paragraph) which would not  
13 be an expanded DC Zone asset if the expanded DC  
14 Zone did not include that portion of the DC Devel-  
15 opment Target Area which is not part of the DC  
16 Zone, this section shall be applied—

17 “(A) by substituting ‘December 31, 2005’  
18 for ‘December 31, 1997’ each place it appears  
19 in subsection (b), and

20 “(B) by substituting ‘January 1, 2006’ for  
21 ‘January 1, 1998’ in subsections (e)(2) and  
22 (g)(2).

23 “(e) OTHER DEFINITIONS AND SPECIAL RULES.—  
24 For purposes of this section—

1           “(1) QUALIFIED CAPITAL GAIN.—Except as  
2 otherwise provided in this subsection, the term  
3 ‘qualified capital gain’ means any gain recognized on  
4 the sale or exchange of—

5                   “(A) a capital asset, or

6                   “(B) property used in the trade or busi-  
7 ness (as defined in section 1231(b).

8           “(2) GAIN BEFORE 1998 OR AFTER 2014 NOT  
9 QUALIFIED.— The term ‘qualified capital gain’ shall  
10 not include any gain attributable to periods before  
11 January 1, 1998, or after December 31, 2014.

12           “(3) CERTAIN GAIN NOT QUALIFIED.—The  
13 term ‘qualified capital gain’ shall not include any  
14 gain which would be treated as ordinary income  
15 under section 1245 or under section 1250 if section  
16 1250 applied to all depreciation rather than the ad-  
17 ditional depreciation.

18           “(4) INTANGIBLES AND LAND NOT INTEGRAL  
19 PART OF EXPANDED DC ZONE BUSINESS.—The term  
20 ‘qualified capital gain’ shall not include any gain  
21 which is attributable to real property, or an intan-  
22 gible asset, which is not an integral part of an ex-  
23 panded DC Zone business.

24           “(5) RELATED PARTY TRANSACTIONS.—The  
25 term ‘qualified capital gain’ shall not include any



1 gain attributable, directly or indirectly, in whole or  
 2 in part, to a transaction with a related person. For  
 3 purposes of this paragraph, persons are related to  
 4 each other if such persons are described in section  
 5 267(b) or 707(b)(1).

6 “(f) CERTAIN OTHER RULES TO APPLY.—Rules  
 7 similar to the rules of subsections (g), (h), (i)(2), and (j)  
 8 of section 1202 shall apply for purposes of this section.

9 “(g) SALES AND EXCHANGES OF INTERESTS IN  
 10 PARTNERSHIPS AND S CORPORATIONS WHICH ARE DC  
 11 DEVELOPMENT AREA BUSINESSES.—In the case of the  
 12 sale or exchange of an interest in a partnership, or of  
 13 stock in an S corporation, which was an expanded DC  
 14 Zone business during substantially all of the period the  
 15 taxpayer held such interest or stock, the amount of quali-  
 16 fied capital gain shall be determined without regard to—

17 “(1) any gain which is attributable to real prop-  
 18 erty, or an intangible asset, which is not an integral  
 19 part of an expanded DC Zone business, and

20 “(2) any gain attributable to periods before  
 21 January 1, 1998, or after December 31, 2014.”.

22 (b) CLERICAL AMENDMENT.—The item relating to  
 23 section 1400B in the table of sections for subchapter W  
 24 of chapter 1 of such Code is amended to read as follows:

“Sec. 1400B. Zero capital gains rate on certain DC assets”.

1 (c) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to sales or exchanges after Decem-  
 3 ber 31, 2005.

4 **SEC. 5. FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT OF**  
 5 **COLUMBIA.**

6 (a) EXTENSION OF CREDIT.—Subsection (i) of sec-  
 7 tion 1400C of such Code (relating to first-time homebuyer  
 8 credit for District of Columbia) is amended by striking  
 9 “January 1, 2006” and inserting “January 1, 2010”.

10 (b) INCREASE IN MAXIMUM CREDIT.—Subsection (a)  
 11 of section 1400C of such Code is amended by striking  
 12 “\$5,000” and inserting “\$10,000”.

13 (c) EFFECTIVE DATE.—The amendments made by  
 14 this section shall apply to property purchased after De-  
 15 cember 31, 2005, in taxable years ending after such date.

16 **SEC. 6. BONDS OF DISTRICT OF COLUMBIA EXEMPT FROM**  
 17 **STATE AND LOCAL TAXES.**

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

20 “TAX EXEMPTION

21 “SEC. 485.

22 Bonds and notes issued by the Council pursuant to this  
 23 title and the interest thereon shall be exempt from all tax-  
 24 ation (except estate, inheritance, and gift taxes) imposed  
 25 by the United States, any State or political subdivision

1 thereof, the District, or any possession of the United  
2 States.”.

3 (b) EFFECTIVE DATE.—The amendment made by  
4 this section shall apply to bonds and notes issued after  
5 the date of the enactment of this Act.

