

GRAHAM, Mr. THOMPSON, Mr. KERREY, Mr. ROBB, and Mr. BRYAN):

S. 3152. A bill to amend the Internal Revenue Code of 1986 to provide tax incentives for distressed areas, and for other purposes; read the first time.

By Mr. DOMENICI:

S. 3153. A bill to authorize the Secretary of the Air Force to convey certain excess personal property of the Air Force to Roosevelt General Hospital, Portales, New Mexico; to the Committee on Armed Services.

By Mr. MOYNIHAN (for himself and Mr. SCHUMER):

S. 3154. A bill to establish the Erie Canalway National Heritage Corridor in the State of New York, and for other purposes; to the Committee on Energy and Natural Resources.

By Mr. LAUTENBERG:

S. 3155. A bill to authorize the President to award a gold medal on behalf of the Congress to Oskar Schindler and Varian Fry in recognition of their contributions to the Nation and humanity; to the Committee on Banking, Housing, and Urban Affairs.

By Mr. LAUTENBERG (for himself, Mrs. BOXER, Mr. KENNEDY, Mr. WELLSTONE, Mr. DODD, Mr. MOYNIHAN, Mr. SCHUMER, Mr. KERRY, Mr. TORRICELLI, Mr. LEAHY, and Mr. REID):

S. 3156. A bill to amend the Endangered Species Act of 1973 to ensure the recovery of the declining biological diversity of the United States, to reaffirm and strengthen the commitment of the United States to protect wildlife, to safeguard the economic and ecological future of children of the United States, and to provide certainty to local governments, communities, and individuals in their planning and economic development efforts; to the Committee on Environment and Public Works.

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SUBMISSION OF CONCURRENT AND SENATE RESOLUTIONS

The following concurrent resolutions and Senate resolutions were read, and referred (or acted upon), as indicated:

By Mr. HATCH (for himself, Mr. BENNETT, Mr. STEVENS, Ms. LANDRIEU, Mr. BROWNBACK, Mr. KERRY, Mr. HELMS, Mr. BINGAMAN, Mr. CRAIG, Mr. DURBIN, Mr. L. CHAFEE, Mr. BRYAN, Mr. KERREY, Mr. LOTT, Mrs. HUTCHISON, Mr. KENNEDY, Mr. LEVIN, Mrs. BOXER, Mr. WARNER, Mr. ABRAHAM, Ms. COLLINS, Mr. EDWARDS, Mr. GRASSLEY, Mr. DOMENICI, Mr. SESSIONS, Mr. LUGAR, Mr. COCHRAN, Ms. SNOWE, and Mr. THOMAS):

S. Res. 364. A resolution commending Sydney, New South Wales, Australia for its successful conduct of the 2000 Summer Olympic Games and congratulating the United States Olympic Team for its outstanding accomplishments at those Olympic Games; placed on the calendar.

By Mr. VOINOVICH (for himself, Mr. BIDEN, Mr. LUGAR, Mr. HAGEL, Mr. SMITH of Oregon, Mr. LAUTENBERG, and Ms. LANDRIEU):

S. Res. 365. A resolution expressing the sense of the Senate regarding recent elections in the Federal Republic of Yugoslavia, and for other purposes; to the Committee on Foreign Relations.

By Mr. MCCONNELL:

S. Con. Res. 141. A concurrent resolution to authorize the printing of copies of the publication entitled "The United States Capitol" as a Senate document; considered and agreed to.

STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. MURKOWSKI:

S. 3150. A bill to convey certain real property located in Tongass National Forest to Daniel J. Gross, Sr., and Douglas K. Gross, and for other purposes; to the Committee on Energy and Natural Resources.

THE HERITAGE LAND TRANSFER ACT OF 2000

Mr. MURKOWSKI. Mr. President, I rise today to introduce the Heritage Land Transfer Act of 2000. This legislation, while inconsequential when compared to many of the issues we deal with in the U.S. Congress, is extremely important to two of my oldest constituents, Douglas and Daniel Gross. These two brothers along with the other members of the Gross family are amongst Alaska's earliest pioneers. These two brothers have spent over 80 years drawing their existence out of the harsh Southeastern Alaskan environment. Through all these years, they managed to raise their families and contributed to building the great State that I have the privilege of representing. I would also point out that Douglas and Daniel Gross served our Nation during World War II at its time of greatest need—now these two veterans need our help to right a wrong that has been vested upon them through no fault of their own.

"The Heritage Land Transfer Act of 2000" directs the Forest Service to convey 160 acres to Daniel and Douglas Gross. This granting of clear title would fix a problem that has plagued the family for the past 20 years. The need for this action arises from the fact that no records remain to substantiate the family's claim that they homesteaded on Greens Point in the 1930's. Family homesteading records were destroyed when the Gross home burned to the ground in 1935-1936 and to make matters worse, the Forest Service is unable to locate any documentation to substantiate the Gross family claim. With neither title nor documentation, Doug and Dan Gross are unable to produce any legal record of ownership to the land their parents homesteaded. The paper records, however, are the only things missing. The Forest Service willingly acknowledges that a large body of evidence exists that clearly establishes the fact that the family built a home on Greens Point in the 1930's, that they grew and sold vegetables from this farmstead, and that they were good neighbors to many people caught out in our famous Alaskan storms. While the family and the Forest Service have searched in vain for written records, there is one piece of physical evidence to substantiate the family claim. On September 11, 1989, Alaska State Senator Robin Taylor traveled to the Gross property on the Stikine River for the purpose of locating a witness tree which would provide objective proof to the Gross family claim of homestead. In a letter Senator Taylor sent to Richard Kohrt, Wrangell

District Ranger, Tongass National Forest he wrote "I was present when Mr. Bungy, United States Forest Service specialist, sawed and chopped open the large spruce tree which the Gross Brothers had identified from memory as being a witness tree. Mr. Bungy verified that the large blaze uncovered was of the exact age that coincided with the Gross claim. By counting the annual growth rings it coincided with the many affidavits and statements of witness about the Gross claim of homestead."

There is no question that the family settled on the Green Point property on the Stikine River in the 1930's. They raised all of their children on their property and were good friends to all who lived and worked throughout the region. I have in my possession many affidavits, each one testifying to the settlement of the Gross family along the Stikine River. I offer the following quotations typical of these testaments: "In the early 1930's I spent a lot of time up the Stikine River at the Gross Ranch. They had a large two story home and a huge garden . . ." "I stayed with Mr. and Mrs. Bill Gross in the middle thirties. Bessie Gross took care of my brother Gilbert and I while my mother and father were out fishing, they had a house and garden on the river which everyone knows as the Gross place even to this day . . ." "I stayed with Bessie Gross and Family during the late 1930's in their place up the river . . ." And another from Mr. Harry Sundberg, a gillnet fisherman, used to fish in "what was known locally as the Gross homestead." Mr. Sundberg goes on to say "While most people during that period did not file on the land they occupied, I distinctly recall that our conversations included the fact that they had applied for their application to own property similar to Captain Lee, who owned the property directly south of them on the mainland."

The Homestead Act requires residency for a minimum of 3 years. These affidavits, and many others, verify the Gross families life on this property since the early 1930's. In a letter from the Department of Agriculture to Senator STEVENS they write "Even though it's clear the Gross family homesteaded on the property, there is no evidence or record that they completed the process to obtain title." Another letter from the Department of Agriculture states "the Forest Service does not and has not refuted your claim that you and/or your family resided at Greens Point in the 1930's." An Alaska Magazine article written in 1984 references the "Gross place" along the Stikine River.

The Homestead Act authorized the transfer of 160 acre parcels of federal land to private owners. The Gross Homestead is 160.8 acres. A tree, both Daniel and Douglas Gross remember being used as a survey marker when they were boys, was examined in 1989 and found to have a flat face blazed into the wood approximately 50 years

prior. This is not a coincidence. It is proof this land was surveyed when the family claims it was surveyed.

This family has lived on, and made use of this land for 70 years. It is time for them to be named the legal title holders, and to complete the already started process of shuffling paper.

By Mr. ROTH (for himself, Mr. MOYNIHAN, Mr. GRASSLEY, Mr. BAUCUS, Mr. HATCH, Mr. ROCKEFELLER, Mr. MURKOWSKI, Mr. BREAUX, Mr. JEFFORDS, Mr. CONRAD, Mr. MACK, Mr. GRAHAM, Mr. THOMPSON, Mr. KERREY, Mr. ROBB, and Mr. BRYAN):

S. 3152. A bill to amend the Internal Revenue Code of 1986 to provide tax incentives for distressed areas, and for other purposes; read the first time.

COMMUNITY RENEWAL AND NEW MARKETS ACT
OF 2000

Mr. ROTH. Mr. President, today I am, along with 14 cosponsors from the Finance Committee, introducing a Community Renewal tax reduction bill that will help all America benefit from today's economic boom.

As you know, the House bill embodies an agreement between the House and the Administration. Personally, I think that it would be wrong for the Senate to be silent in this process. It is important for this body to at least have a voice in crafting this legislation.

While I would have preferred that this legislation to have been reported from the Finance Committee, I believe my bill represents the Committee's will. It is largely composed of the Chairman's mark and amendments submitted by the Committee's members. Every Member of the Finance Committee had input into this bill. In the regular course of Finance Committee business, we would have reported this bill out of the Committee with an overwhelming vote in support. And the fact that 15 members on both sides of the aisle have joined me as original cosponsors, I believe, attests to the Finance Committee's approval of this legislation.

It goes without saying that America's communities are important. I believe that there are many ways in which we can extend help to them. I also feel that any time we can work together with the Administration to cut taxes we must try and see it to fruition.

While I listened to the concerns of every senator—both on and off the Finance committee—who approached me with a provision in which they were interested, I did not incorporate them all. I did not because I could not without the cost of the bill growing out of control. It is important that we not forget communities that may not have received as much as others from America's economic boom. However, it is also important that we consider the size of this bill in the context of other tax relief priorities that remain. These

other priorities are marriage tax relief, retirement security, education, estate tax relief, small business tax relief, and other items. Community renewal tax relief must fit within the overall framework of the tax relief agenda.

This Finance Committee bill is fair and it is in line with the revenue loss of the package, proposed by Senators SANTORUM, ABRAHAM, and LIEBERMAN, which was considered earlier this year in the Senate. In designing this bill, members of the Finance Committee decided not to turn this bill into a grab bag of special interest provisions.

This Finance Committee bill includes a variety of proposals that will further the bill's goals of community renewal—rationalizing and simplifying what was and, was proposed to be, a hodge-podge of often conflicting provisions. It includes an immediate—let me emphasize immediate—increase in the volume caps for low-income housing tax credits and private activity bonds. It also addresses many, many important problems left out of the House and Administration proposal. Among other things, this package contains an energy and conservation component, a farm relief component, an Individual Development Account proposal, an extension of the adoption credit and the enhanced deduction for computer donations, a program to develop high speed rail around the country, and a broadband Internet incentive that will make sure that no one gets left on the wrong side of the digital divide.

One provision that I particularly want to talk about is the tax credit for renovating historic homes. This was one of Senator John Chafee's signature items and I am pleased to include it in the Finance Committee bill, not only because I support it, but as a tribute to our good friend. We all know that if he were here, he would have fought hard for this tax incentive.

In fact, Senator LINCOLN CHAFEE came to see me earlier this year. LINCOLN told that in his dad's last speech, John talked about the importance of the tax credit and said that it was something he wanted to get done before he left the Senate. Unfortunately, he is not with us today, but hopefully we can complete this unfinished business for him.

This is a fair package and a generous package. I believe it is one that this Senate should feel comfortable embracing. I hope each of you who has not done so, will do so.

Mr. MOYNIHAN. Mr. President, last week the Finance Committee was scheduled to mark up the "Community Renewal and New Markets Act of 2000," but the legislation became burdened by extraneous matters, and the Committee was unable to complete the mark-up. I rise today to join my good friend and Chairman of the Finance Committee, Senator ROTH, in introducing the "Community Renewal and New Markets Act of 2000" as an original bill with 15 cosponsors from the Finance Committee.

Sir, we all should be grateful for Senator ROTH's leadership in this matter. Community renewal is an effort to rebuild American communities, which is based on an agreement reached between the President and the Speaker of the House that this is legislation we ought to have. The signals are clear: the legislation will be enacted this year with or without us. Today, Senator ROTH and I give a voice in this process to the Finance Committee and the Senate.

Mr. President, this bill represents the will of the Finance Committee. It incorporates the worthwhile ideas of its members, including the work of my good friend, Senator ROBB, who, along with Senator ROCKEFELLER, has worked tirelessly to provide meaningful incentives for investment in distressed communities.

I also take a moment of the Senate's time to echo Senator ROTH's tribute to Senator John Chafee. It is fitting that we should enact, in a bipartisan bill, the tax credit for renovating historic homes in honor of a great Senator.

Substantively, the Community Renewal legislation is significant in several respects. First, it provides a notable measure of tax simplification, even as it accomplishes a worthwhile goal—tax benefits for investment in poor communities. While the bill designates 30 new "Renewal Zones," it also conforms the tax incentives available to individuals and businesses investing in any of the zone designations, current or future. Our legislation smartly unifies these Empowerment and Renewal Zones and creates a common set of incentives. This is the right kind of legislation.

I also note, Mr. President, with some appreciation, two provisions that will make transportation and data transmission very quick indeed. The bill includes provisions to accelerate and expand access to high-technology infrastructure for all communities. First, it authorizes \$10 billion of tax credit bonds for Amtrak to develop high-speed railways. High-speed railways have the potential to connect the very communities targeted by this legislation and provide them with greater access to information.

Second, the bill includes a proposal that I first introduced on June 8, 2000. That proposal, which now has 52 Senate supporters, provides graduated tax credits for deployment of high-speed communications—called "broadband"—to residential and rural communities. Current market forces are driving deployment of broadband technology almost exclusively to urban businesses and wealthy households. The proposal in the bill will encourage broadband providers to act quickly to deploy broadband to Americans in all communities.

Mr. President, if you will allow me one further observation, as I am compelled to compliment the bill in one other respect. Consistent with the purpose of this legislation, it includes a

tax incentive for investment in labor in Puerto Rico. The provision does not accomplish all that I had hoped it would, but I believe it represents a positive step forward. It extends to Puerto Rico tax incentives for job creation similar to the ones in other areas of the bill, and it does so, quite simply, through an existing tax-code provision, the Puerto Rico economic activity credit.

Mr. President, I again applaud the leadership of our revered Chairman and proudly join him in introducing the Community Renewal and New Markets Act of 2000.

Mr. MACK. Mr. President, as a co-sponsor of the Community Renewal and New Markets Act of 2000, I want to commend Chairman ROTH for his usual fine work in assembling a bill that garners the support of such a large number of our Finance Committee colleagues. I am pleased that a number of items in this bill are provisions that are extremely important to me, and I would like to speak briefly concerning them.

But I also want to draw attention to some provisions in this bill that I do not favor. As this bill stands in the place of what would have been a bill reported out of the Committee on Finance, it reflects the compromises that are inherent in the committee process. Unlike typical bills, of which it is reasonable to assume that every provision is supported by every co-sponsor, probably every co-sponsor of this bill can find provisions contained in it that he does not support. Of many, there are two that I find most troubling: the "new markets tax credit," and the "individual development accounts."

These two provisions are appropriations masquerading as tax cuts. Under the new markets tax credit, the Secretary of the Treasury would annually pay dividends to investors in "community development entities," which must be certified by the Treasury Department and which must have as their primary mission investing in low-income people or communities. This proposal is premised on the belief that an entity that lacks a profit-motive, under federal bureaucratic supervision, will be an attractive investment for people if dividends are guaranteed. It is the sort of scheme that could only be dreamed up by people who have spent their entire careers in government. A simpler way to direct capital to investment-starved pockets is by eliminating the tax on capital gains—this is the decentralized, market-oriented approach.

The "individual development accounts" would launder government-matching funds for low income savers through financial institutions. This new entitlement cannot be justified. It is true that, by some measures, the savings rate in the United States appears low. Simple logic dictates that the savings rate have been lowered due to federal tax policies, which impose several layers of taxation upon income that is saved. It is one thing to address this problem at the source, by remov-

ing the extra taxation on savings—a we do to the extent that people can make deductible contributions to traditional IRAs and contributions to Roth IRAs. But to give people money to reward them for saving is pure income redistribution, a misuse of the taxpayers' money.

Despite my disagreement with some of the provisions of this bill, I am pleased that the bill contains several initiatives that I have proposed over the past few Congresses. The Low Income Housing Tax Credit is boosted to make up for over a decade's worth of inflation, and is indexed to prevent this problem from reoccurring. The First-Time Homebuyer Tax Credit for the District of Columbia is extended and the marriage penalty in the credit is eliminated. Section 1706 of the Tax Reform Act of 1986, which discriminates against high technology workers and the companies that hire them, is repealed. Not-for-hire disaster insurance funds, in my state of Florida and several others, are made tax-exempt entities.

I am most encouraged by the extension of my zero percent capital gains tax rate proposal to businesses in the entire District of Columbia, and to businesses in all empowerment and renewal zones. Although I am concerned that the lengthy, five-year holding period is unwise and undermines the power of the proposal, I am nevertheless pleased that the idea is spreading and people are coming to see capitalism as the only true cure for poverty.

Mr. ROTH. Mr. President, along with Senator MOYNIHAN and the other members of the committee I ask unanimous consent that S. 3152, the Community Renewal and New Markets Act of 2000 be printed in the RECORD. I also ask unanimous consent that a technical explanation of S. 3152, which has been prepared by the Joint Committee on Taxation, be printed in the RECORD, at a cost of \$4,290.00, immediately following the text of the bill.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

S. 3152

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the "Community Renewal and New Markets Act of 2000".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

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TITLE I—INCENTIVES FOR DISTRESSED COMMUNITIES

Subtitle A—Designation and Treatment of Renewal Zones

SEC. 101. DESIGNATION AND TREATMENT OF RENEWAL ZONES.

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

“Subchapter X—Designation and Treatment of Renewal Zones

“Sec. 1400E. Designation and treatment of renewal zones.

“SEC. 1400E. DESIGNATION AND TREATMENT OF RENEWAL ZONES.

“(a) TREATMENT OF DESIGNATION.—For purposes of this title, any area designated as a renewal zone under this section shall be treated as an empowerment zone.

“(b) DESIGNATION.—

“(1) RENEWAL ZONE DEFINED.—For purposes of this title, the term ‘renewal zone’ means any area—

“(A) which is nominated by one or more local governments and the State or States in which it is located for designation as a renewal zone (hereafter in this section referred to as a ‘nominated area’), and

“(B) which the appropriate Secretary designates as a renewal zone.

“(2) NUMBER OF DESIGNATIONS.—

“(A) IN GENERAL.—The appropriate Secretaries may designate not more than 30 nominated areas as renewal zones.

“(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under subparagraph (A), at least 6 must be areas—

“(i) which are within a local government jurisdiction or jurisdictions with a population of less than 50,000, or

“(ii) which satisfy the requirements of section 1393(a)(2).

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

“(A) IN GENERAL.—Except as otherwise provided in this section, the nominated areas designated as renewal zones under this subsection shall be those nominated areas with the highest average ranking with respect to the criteria described in subparagraphs (B), (C), and (D) of subsection (d)(3). For purposes of the preceding sentence, an area shall be ranked within each such criterion on the basis of the amount by which the area exceeds such criterion, with the area which exceeds such criterion by the greatest amount given the highest ranking.

“(B) EXCEPTION WHERE INADEQUATE COURSE OF ACTION, ETC.—An area shall not be designated under subparagraph (A) if the appropriate Secretary determines that the course of action described in subsection (e)(2) with respect to such area is inadequate.

“(C) PRIORITY FOR 1 NOMINATED AREA IN EACH STATE.—For purposes of this subchapter, 1 nominated area within each State without any area designated as an empowerment zone under section 1391 or 1400 shall be treated for purposes of this paragraph as having the highest average with respect to the criteria described in subparagraphs (B), (C), and (D) of subsection (d)(3).

“(4) LIMITATION ON DESIGNATIONS.—

“(A) PUBLICATION OF REGULATIONS.—The Secretary of Housing and Urban Development shall prescribe by regulation not later than 4 months after the date of the enactment of this section, after consultation with the Secretary of Agriculture—

“(i) the procedures for nominating an area under paragraph (1)(A),

“(ii) the parameters relating to the size and population characteristics of a renewal zone, and

“(iii) the manner in which nominated areas will be evaluated based on the criteria specified in subsection (e).

“(B) TIME LIMITATIONS.—The appropriate Secretaries may designate nominated areas as renewal zones only during the period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed and ending on December 31, 2001.

“(C) PROCEDURAL RULES.—The appropriate Secretary shall not make any designation of a nominated area as a renewal zone under paragraph (2) unless—

“(i) the local governments and the States in which the nominated area is located have the authority—

“(I) to nominate such area for designation as a renewal zone,

“(II) to make the State and local commitments described in subsection (e), and

“(III) to provide assurances satisfactory to the appropriate Secretary that such commitments will be fulfilled,

“(ii) a nomination regarding such area is submitted in such a manner and in such form, and contains such information, as the appropriate Secretary shall by regulation prescribe, and

“(iii) the appropriate Secretary determines that any information furnished is reasonably accurate.

“(5) NOMINATION PROCESS FOR INDIAN RESERVATIONS.—For purposes of this subchapter, in the case of a nominated area on an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be treated as being both the State and local governments with respect to such area.

“(c) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

“(1) IN GENERAL.—Any designation of an area as a renewal zone shall remain in effect during the period beginning on January 1, 2002, and ending on the earliest of—

“(A) December 31, 2009,

“(B) the termination date designated by the State and local governments in their nomination, or

“(C) the date the appropriate Secretary revokes such designation.

“(2) REVOCATION OF DESIGNATION.—The appropriate Secretary may revoke the designation under this section of an area if such Secretary determines that the local government or the State in which the area is located—

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

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

“(d) AREA AND ELIGIBILITY REQUIREMENTS.—

“(1) IN GENERAL.—The appropriate Secretary may designate a nominated area as a renewal zone under subsection (b) only if the area meets the requirements of paragraphs (2) and (3) of this subsection.

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

“(A) the area is within the jurisdiction of one or more local governments,

“(B) the boundary of the area is continuous, and

“(C) the area—

“(i) has a population of not more than 200,000 and at least—

“(I) 4,000 if any portion of such area (other than a rural area described in subsection (b)(2)(B)(i)) is located within a metropolitan statistical area (within the meaning of section 143(k)(2)(B)) which has a population of 50,000 or greater, or

“(II) 1,000 in any other case, or

“(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior).

“(3) ELIGIBILITY REQUIREMENTS.—A nominated area meets the requirements of this paragraph if the State and the local governments in which it is located certify in writing (and the appropriate Secretary, after such review of supporting data as such Secretary deems appropriate, accepts such certification) that—

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

“(B) the unemployment rate in the area, as determined by the most recent available data, was at least 1½ times the national unemployment rate for the period to which such data relate,

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

“(D) in the case of an urban area, at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households within the jurisdiction of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974).

“(4) CONSIDERATION OF OTHER FACTORS.—The appropriate Secretary, in selecting any nominated area for designation as a renewal zone under this section—

“(A) shall take into account—

“(i) the extent to which such area has a high incidence of crime,

“(ii) if such area has census tracts identified in the May 12, 1998, report of the General Accounting Office regarding the identification of economically distressed areas, or

“(iii) if such area (or portion thereof) has previously been designated as an enterprise community under section 1391, and

“(B) with respect to 1 of the areas to be designated under subsection (b)(2)(B), may, in lieu of any criteria described in paragraph

(3), take into account the existence of out-migration from the area.

“(e) REQUIRED STATE AND LOCAL COMMITMENTS.—

“(1) IN GENERAL.—The appropriate Secretary may designate any nominated area as a renewal zone under subsection (b) only if the local government and the State in which the area is located agree in writing that, during any period during which the area is a renewal zone, such governments will follow a specified course of action which meets the requirements of paragraph (2) and is designed to reduce the various burdens borne by employers or employees in such area.

“(2) COURSE OF ACTION.—

“(A) IN GENERAL.—A course of action meets the requirements of this paragraph if such course of action is a written document, signed by a State (or local government) and neighborhood organizations, which evidences a partnership between such State or government and community-based organizations and which commits each signatory to specific and measurable goals, actions, and timetables. Such course of action shall include at least 4 of the following:

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

“(ii) An increase in the level of efficiency of local services within the renewal zone.

“(iii) Crime reduction strategies, such as crime prevention (including the provision of crime prevention services by nongovernmental entities).

“(iv) Actions to reduce, remove, simplify, or streamline governmental requirements applying within the renewal zone.

“(v) Involvement in the program by private entities, organizations, neighborhood organizations, and community groups, particularly those in the renewal zone, including a commitment from such private entities to provide jobs and job training for, and technical, financial, or other assistance to, employers, employees, and residents from the renewal zone.

“(vi) The gift (or sale at below fair market value) of surplus real property (such as land, homes, and commercial or industrial structures) in the renewal zone to neighborhood organizations, community development corporations, or private companies.

“(B) RECOGNITION OF PAST EFFORTS.—For purposes of this section, in evaluating the course of action agreed to by any State or local government, the appropriate Secretary shall take into account the past efforts of such State or local government in reducing the various burdens borne by employers and employees in the area involved.

“(f) COORDINATION WITH TREATMENT OF ENTERPRISE COMMUNITIES.—For purposes of this title, the designation under section 1391 of any area as an enterprise community shall cease to be in effect as of the date that the designation of any portion of such area as a renewal zone takes effect.

“(g) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

“(1) APPROPRIATE SECRETARY.—The term ‘appropriate Secretary’ has the meaning given such term by section 1393(a)(1).

“(2) GOVERNMENTS.—If more than one government seeks to nominate an area as a renewal zone, any reference to, or requirement of, this section shall apply to all such governments.

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

“(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State, and

“(B) any combination of political subdivisions described in subparagraph (A) recognized by the appropriate Secretary.

“(4) APPLICATION OF RULES RELATING TO CENSUS TRACTS.—The rules of section 1392(b)(4) shall apply.

“(5) CENSUS DATA.—Population and poverty rate shall be determined by using 1990 census data.”

(b) AUDIT AND REPORT.—Not later than January 31 of 2004, 2007, and 2010, the Comptroller General of the United States shall, pursuant to an audit of the renewal zone program established under section 1400E of the Internal Revenue Code of 1986 (as added by subsection (a)), report to Congress on such program and its effect on poverty, unemployment, and economic growth within the designated renewal zones.

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

“Subchapter X. Designation and Treatment of Renewal Zones.”

Subtitle B—Modification of Incentives for Empowerment Zones

SEC. 111. EXTENSION OF EMPOWERMENT ZONE TREATMENT THROUGH 2009.

Subparagraph (A) of section 1391(d)(1) (relating to period for which designation is in effect) is amended to read as follows:

“(A)(i) in the case of an empowerment zone, December 31, 2009, or

“(ii) in the case of an enterprise community, the close of the 10th calendar year beginning on or after such date of designation.”

SEC. 112. 15 PERCENT EMPLOYMENT CREDIT FOR ALL EMPOWERMENT ZONES

(a) 15 PERCENT CREDIT.—Subsection (b) of section 1396 (relating to empowerment zone employment credit) is amended—

(1) by striking paragraph (1) and inserting the following new paragraph:

“(1) IN GENERAL.—Except as provided in paragraph (2), the applicable percentage is 15 percent.”

(2) by inserting “and thereafter” after “2005” in the table contained in paragraph (2), and

(3) by striking the items relating to calendar years 2006 and 2007 in such table.

(b) ALL EMPOWERMENT ZONES ELIGIBLE FOR CREDIT.—Section 1396 is amended by striking subsection (e).

(c) CONFORMING AMENDMENT.—Subsection (d) of section 1400 is amended to read as follows:

“(d) SPECIAL RULE FOR APPLICATION OF EMPLOYMENT CREDIT.—With respect to the DC Zone, section 1396(d)(1)(B) (relating to empowerment zone employment credit) shall be applied by substituting ‘the District of Columbia’ for ‘such empowerment zone’.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to wages paid or incurred after December 31, 2001.

SEC. 113. INCREASED EXPENSING UNDER SECTION 179.

(a) IN GENERAL.—Subparagraph (A) of section 1397A(a)(1) is amended by striking “\$20,000” and inserting “\$35,000”.

(b) EXPENSING FOR PROPERTY USED IN DEVELOPABLE SITES.—Section 1397A is amended by striking subsection (c).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 114. HIGHER LIMITS ON TAX-EXEMPT EMPOWERMENT ZONE FACILITY BONDS.

(a) IN GENERAL.—Paragraph (3) of section 1394(f) (relating to bonds for empowerment zones designated under section 1391(g)) is amended to read as follows:

“(3) EMPOWERMENT ZONE FACILITY BOND.—For purposes of this subsection, the term ‘empowerment zone facility bond’ means any bond which would be described in subsection (a) if—

“(A) in the case of obligations issued before January 1, 2002, only empowerment zones designated under section 1391(g) were taken into account under sections 1397C and 1397D, and

“(B) in the case of obligations issued after December 31, 2001, all empowerment zones (other than the District of Columbia) were taken into account under sections 1397C and 1397D.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after December 31, 2001.

SEC. 115. EMPOWERMENT ZONE CAPITAL GAIN.

(a) IN GENERAL.—Part III of subchapter U of chapter 1 is amended—

(1) by redesignating subpart C as subpart D;

(2) by redesignating sections 1397B and 1397C as sections 1397C and 1397D, respectively; and

(3) by inserting after subpart B the following new subpart:

“Subpart C—Empowerment Zone Capital Gain

“Sec. 1397B. Empowerment zone capital gain.
“SEC. 1397B. EMPOWERMENT ZONE CAPITAL GAIN.

“(a) GENERAL RULE.—Gross income shall not include qualified capital gain from the sale or exchange of any qualified empowerment zone asset held for more than 5 years.

“(b) PER TAXPAYER LIMITATION.—

“(1) IN GENERAL.—The amount of eligible gain which may be taken into account under subsection (a) for the taxable year with respect to any taxpayer shall not exceed \$25,000,000, reduced by the aggregate amount of eligible gain taken into account under subsection (a) for prior taxable years with respect to such taxpayer.

“(2) ELIGIBLE GAIN.—For purposes of this subsection, ‘eligible gain’ means any gain from the sale or exchange of a qualified empowerment zone asset held for more than 5 years.

“(3) TREATMENT OF MARRIED INDIVIDUALS.—

“(A) SEPARATE RETURNS.—In the case of a separate return by a married individual, paragraph (1) shall be applied by substituting ‘\$12,500,000’ for ‘\$25,000,000’.

“(B) ALLOCATION OF EXCLUSION.—In the case of a joint return, the amount of gain taken into account under subsection (a) shall be allocated equally between the spouses for purposes of applying this subsection to subsequent taxable years.

“(C) MARITAL STATUS.—For purposes of this subsection, marital status shall be determined under section 7703.

“(4) TREATMENT OF CORPORATE TAXPAYERS.—For purposes of this subsection—

“(A) all corporations which are members of the same controlled group of corporations (within the meaning of section 52(a)) shall be treated as 1 taxpayer, and

“(B) any gain excluded under subsection (a) by a predecessor of any C corporation shall be treated as having been excluded by such C corporation.

“(c) QUALIFIED EMPOWERMENT ZONE ASSET.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified empowerment zone asset’ means—

“(A) any qualified empowerment zone stock,

“(B) any qualified empowerment zone partnership interest, and

“(C) any qualified empowerment zone business property.

“(2) QUALIFIED EMPOWERMENT ZONE STOCK.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘qualified empowerment zone stock’ means any stock in a domestic corporation if—

“(i) such stock is acquired by the taxpayer after the date of the enactment of this sec-

tion (December 31, 2001, in the case of a renewal zone) and before January 1, 2010, at its original issue (directly or through an underwriter) from the corporation solely in exchange for cash,

“(ii) as of the time such stock was issued, such corporation was an enterprise zone business (or, in the case of a new corporation, such corporation was being organized for purposes of being an enterprise zone business), and

“(iii) during substantially all of the taxpayer’s holding period for such stock, such corporation qualified as an enterprise zone business.

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

“(3) QUALIFIED EMPOWERMENT ZONE PARTNERSHIP INTEREST.—The term ‘qualified empowerment zone partnership interest’ means any capital or profits interest in a domestic partnership if—

“(A) such interest is acquired by the taxpayer after the date of the enactment of this section (December 31, 2001, in the case of a renewal zone) and before January 1, 2010, from the partnership solely in exchange for cash,

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

“(C) during substantially all of the taxpayer’s holding period for such interest, such partnership qualified as an enterprise zone business.

A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

“(4) QUALIFIED EMPOWERMENT ZONE BUSINESS PROPERTY.—

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

“(i) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after the date of the enactment of this section (December 31, 2001, in the case of a renewal zone) and before January 1, 2010,

“(ii) the original use of such property in the empowerment zone commences with the taxpayer, and

“(iii) during substantially all of the taxpayer’s holding period for such property, substantially all of the use of such property was in an enterprise zone business of the taxpayer.

“(B) SPECIAL RULE FOR SUBSTANTIAL IMPROVEMENTS.—The requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as satisfied with respect to—

“(i) property which is substantially improved by the taxpayer before January 1, 2010, and

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

The determination of whether a property is substantially improved shall be made under clause (ii) of section 1400B(b)(4)(B), except that ‘the date of the enactment of this section’ shall be substituted for ‘December 31, 1997’ in such clause.

“(c) QUALIFIED CAPITAL GAIN.—For purposes of this section—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, the term ‘qualified capital gain’ means any gain recognized on the sale or exchange of—

“(A) a capital asset, or

“(B) property used in the trade or business (as defined in section 1231(b)).

“(2) GAIN BEFORE EFFECTIVE DATE OR AFTER 2014 NOT QUALIFIED.—The term ‘qualified capital gain’ shall not include any gain attributable to periods before the date of the en-

actment of this section (January 1, 2002, in the case of a renewal zone) or after December 31, 2014.

“(3) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (3), (4), and (5) of section 1400B(e) shall apply for purposes of this subsection.

“(d) CERTAIN RULES TO APPLY.—For purposes of this section, rules similar to the rules of paragraphs (5), (6), and (7) of subsection (b), and subsections (f) and (g), of section 1400B shall apply; except that for such purposes section 1400B(g)(2) shall be applied by substituting—

“(1) ‘the day after the date of the enactment of section 1397B’ for ‘January 1, 1998’, and

“(2) ‘December 31, 2014’ for ‘December 31, 2011’.

“(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this section, including regulations to prevent the avoidance of the purposes of this section.”.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 1394(b) is amended—

(A) by striking “section 1397C” and inserting “section 1397D”; and

(B) by striking “section 1397C(a)(2)” and inserting “section 1397D(a)(2)”.

(2) Paragraph (3) of section 1394(b) is amended—

(A) by striking “section 1397B” each place it appears and inserting “section 1397C”; and

(B) by striking “section 1397B(d)” and inserting “section 1397C(d)”.

(3) Sections 1400(e) and 1400B(c) are each amended by striking “section 1397B” each place it appears and inserting “section 1397C”.

(4) The table of subparts for part III of subchapter U of chapter 1 is amended by striking the last item and inserting the following new items:

“Subpart C. Empowerment zone capital gain.

“Subpart D. General provisions.”.

(5) The table of sections for subpart D of such part III is amended to read as follows:

“Sec. 1397C. Enterprise zone business defined.

“Sec. 1397D. Qualified zone property defined.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified empowerment zone assets acquired after the date of the enactment of this Act.

SEC. 116. FUNDING FOR ROUND II EMPOWERMENT ZONES.

(a) ENTITLEMENT.—Section 2007(a)(1) of the Social Security Act (42 U.S.C. 1397f(a)(1)) is amended—

(1) in subparagraph (A), by striking “in the State; and” and inserting “that is in the State and is designated pursuant to section 1391(b) of the Internal Revenue Code of 1986;” and

(2) by adding after subparagraph (B) the following new subparagraphs:

“(C)(i) 1 grant under this section for each qualified empowerment zone that is in an urban area in the State and is designated pursuant to section 1391(g) of such Code; and

“(ii) 1 grant under this section for each qualified empowerment zone that is in a rural area in the State and is designated pursuant to section 1391(g) of such Code; and

“(D) 1 grant under this section for each qualified enterprise community that is in the State, is designated pursuant to section 1391(b)(1) of such Code, and is in existence on the date of enactment of this subparagraph.”.

(b) AMOUNT OF GRANTS.—Section 2007(a)(2) of the Social Security Act (42 U.S.C. 1397f(a)(2)) is amended—

(1) in the heading of subparagraph (A), by inserting "ORIGINAL" before "EMPOWERMENT";

(2) in subparagraph (A), in the matter preceding clause (i), by inserting "referred to in paragraph (1)(A)" after "empowerment zone";

(3) by redesignating subparagraph (C) as subparagraph (F); and

(4) by inserting after subparagraph (B) the following new subparagraphs:

"(C) ADDITIONAL EMPOWERMENT GRANTS.—The amount of the grant to a State under this section for a qualified empowerment zone referred to in paragraph (1)(C) shall be—

"(i) if the zone is in an urban area, \$5,000,000 for fiscal year 2001; or

"(ii) if the zone is in a rural area, \$2,000,000 for fiscal year 2001.

"(D) ADDITIONAL ENTERPRISE COMMUNITY GRANTS.—The amount of the grant to a State under this section for a qualified enterprise community referred to in paragraph (1)(D) shall be \$250,000."

(c) TIMING OF GRANTS.—Section 2007(a)(3) of the Social Security Act (42 U.S.C. 1397f(a)(3)) is amended—

(1) in the heading of subparagraph (A), by inserting "ORIGINAL" before "QUALIFIED";

(2) in subparagraph (A), in the matter preceding clause (i), by inserting "referred to in paragraph (1)(A)" after "empowerment zone"; and

(3) by adding after subparagraph (B) the following new subparagraphs:

"(C) ADDITIONAL QUALIFIED EMPOWERMENT ZONES.—With respect to each qualified empowerment zone referred to in paragraph (1)(C), the Secretary shall make 1 grant under this section to the State in which the zone lies, on January 1, 2002.

"(D) ADDITIONAL QUALIFIED ENTERPRISE COMMUNITIES.—With respect to each qualified enterprise community referred to in paragraph (1)(D), the Secretary shall make 1 grant under this section to the State in which the community lies on January 1, 2002."

(d) FUNDING.—Section 2007(a)(4) of the Social Security Act (42 U.S.C. 1397f(a)(4)) is amended—

(1) by striking "(4) FUNDING.—\$1,000,000,000" and inserting the following:

"(4) FUNDING.—

"(A) ORIGINAL GRANTS.—\$1,000,000,000";

(2) by inserting "for empowerment zones and enterprise communities described in subparagraphs (A) and (B) of paragraph (1)" before the period; and

(3) by adding after and below the end the following new subparagraphs:

"(B) ADDITIONAL EMPOWERMENT ZONE GRANTS.—\$85,000,000 shall be made available to the Secretary for grants under this section for empowerment zones referred to in paragraph (1)(C).

"(C) ADDITIONAL ENTERPRISE COMMUNITY GRANTS.—\$22,000,000 shall be made available to the Secretary for grants under this section for enterprise communities referred to in paragraph (1)(D)."

(e) DIRECT FUNDING FOR INDIAN TRIBES.—

(1) IN GENERAL.—Section 2007(a) of the Social Security Act (42 U.S.C. 1397f(a)) is amended by adding at the end the following new paragraph:

"(5) DIRECT FUNDING FOR INDIAN TRIBES.—

"(A) IN GENERAL.—The Secretary may make a grant under this section directly to the governing body of an Indian tribe if—

"(i) the tribe is identified in the strategic plan of a qualified empowerment zone or qualified enterprise community as the entity that assumes sole or primary responsibility for carrying out activities and projects under the grant; and

"(ii) the grant is to be used for activities and projects that are—

"(I) included in the strategic plan of the qualified empowerment zone or qualified enterprise community, consistent with this section; and

"(II) approved by the Secretary of Agriculture, in the case of a qualified empowerment zone or qualified enterprise community in a rural area, or the Secretary of Housing and Urban Development, in the case of a qualified empowerment zone or qualified enterprise community in an urban area.

"(B) RULES OF INTERPRETATION.—

"(i) If grant under this section is made directly to the governing body of an Indian tribe under subparagraph (A), the tribe shall be considered a State for purposes of this section.

"(ii) This subparagraph shall not be construed as making applicable to this section the provisions of the Indian Self-Determination and Education Assistance Act."

(2) DEFINITIONS.—Section 2007(f) of such Act (42 U.S.C. 1397f(f)) is amended by adding at the end the following new paragraph:

"(7) INDIAN TRIBE.—The term 'Indian tribe' means any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act, which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians."

Subtitle C—Modification of Tax Incentives for DC Zone

SEC. 121. EXTENSION OF DC ZONE THROUGH 2006.

(a) IN GENERAL.—The following provisions are amended by striking "2002" each place it appears and inserting "2006":

(1) Section 1400(f).

(2) Section 1400A(b).

(b) ZERO CAPITAL GAINS RATE.—Section 1400B (relating to zero percent capital gains rate) is amended—

(1) by striking "2003" each place it appears and inserting "2007"; and

(2) by striking "2007" each place it appears and inserting "2011".

SEC. 122. EXTENSION OF DC ZERO PERCENT CAPITAL GAINS RATE.

(a) IN GENERAL.—Section 1400B (relating to zero percent capital gains rate) is amended by adding at the end the following new subsection:

"(h) EXTENSION TO ENTIRE DISTRICT OF COLUMBIA.—In applying this section to any stock or partnership interest which is originally issued after December 31, 2000, or any tangible property acquired by the taxpayer by purchase after December 31, 2000—

"(1) subsection (d) shall be applied without regard to paragraph (2) thereof, and

"(2) subsections (e)(2) and (g)(2) shall be applied by substituting 'January 1, 2001' for 'January 1, 1998'."

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 2001.

SEC. 123. GROSS INCOME TEST FOR DC ZONE BUSINESSES.

(a) IN GENERAL.—Section 1400B(c) (defining DC zone business) is amended by adding "and" at the end of paragraph (1), by striking paragraph (2), and by redesignating paragraph (3) as paragraph (2).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to stock and partnership interests originally issued after, and property originally acquired by the taxpayer after, December 31, 2000.

SEC. 124. EXPANSION OF DC HOMEBUYER TAX CREDIT.

(a) EXTENSION.—Section 1400C(i) (relating to application of section) is amended by striking "2002" and inserting "2004".

(b) EXPANSION OF INCOME LIMITATION.—Section 1400C(b)(1) (relating to limitation based

on modified adjusted gross income) is amended—

(1) by striking "\$110,000" in subparagraph (A)(i) and inserting "\$140,000"; and

(2) by inserting "\$40,000 in the case of a joint return" after "\$20,000" in subparagraph (B).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

Subtitle D—New Markets Tax Credit

SEC. 131. NEW MARKETS TAX CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits) is amended by adding at the end the following new section:

"SEC. 45D. NEW MARKETS TAX CREDIT.

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—For purposes of section 38, in the case of a taxpayer who holds a qualified equity investment on a credit allowance date of such investment which occurs during the taxable year, the new markets tax credit determined under this section for such taxable year is an amount equal to the applicable percentage of the amount paid to the qualified community development entity for such investment at its original issue.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage is—

"(A) 5 percent with respect to the first three credit allowance dates, and

"(B) 6 percent with respect to the remainder of the credit allowance dates.

"(3) CREDIT ALLOWANCE DATE.—For purposes of paragraph (1), the term 'credit allowance date' means, with respect to any qualified equity investment—

"(A) the date on which such investment is initially made, and

"(B) each of the six anniversary dates of such date thereafter.

"(b) QUALIFIED EQUITY INVESTMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified equity investment' means any equity investment in a qualified community development entity if—

"(A) such investment is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash,

"(B) substantially all of such cash is used by the qualified community development entity to make qualified low-income community investments, and

"(C) such investment is designated for purposes of this section by the qualified community development entity.

Such term shall not include any equity investment issued by a qualified community development entity more than 5 years after the date that such entity receives an allocation under subsection (f). Any allocation not used within such 5-year period may be reallocated by the Secretary under subsection (f).

"(2) LIMITATION.—The maximum amount of equity investments issued by a qualified community development entity which may be designated under paragraph (1)(C) by such entity shall not exceed the portion of the limitation amount allocated under subsection (f) to such entity.

"(3) SAFE HARBOR FOR DETERMINING USE OF CASH.—The requirement of paragraph (1)(B) shall be treated as met if at least 85 percent of the aggregate gross assets of the qualified community development entity are invested in qualified low-income community investments.

"(4) TREATMENT OF SUBSEQUENT PURCHASERS.—The term 'qualified equity investment' includes any equity investment which would (but for paragraph (1)(A)) be a qualified equity investment in the hands of the taxpayer if such investment was a qualified

equity investment in the hands of a prior holder.

“(5) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this subsection.

“(6) EQUITY INVESTMENT.—The term ‘equity investment’ means—

“(A) any stock (other than nonqualified preferred stock as defined in section 351(g)(2)) in an entity which is a corporation, and

“(B) any capital interest in an entity which is a partnership.

“(c) QUALIFIED COMMUNITY DEVELOPMENT ENTITY.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified community development entity’ means any domestic corporation or partnership if—

“(A) the primary mission of the entity is serving, or providing investment capital for, low-income communities or low-income persons,

“(B) the entity maintains accountability to residents of low-income communities through their representation on any governing board of the entity or on any advisory boards to the entity, and

“(C) the entity is certified by the Secretary for purposes of this section as being a qualified community development entity.

“(2) SPECIAL RULES FOR CERTAIN ORGANIZATIONS.—The requirements of paragraph (1) shall be treated as met by—

“(A) any specialized small business investment company (as defined in section 1044(c)(3)), and

“(B) any community development financial institution (as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702)).

“(d) QUALIFIED LOW-INCOME COMMUNITY INVESTMENTS.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified low-income community investment’ means—

“(A) any capital or equity investment in, or loan to, any qualified active low-income community business,

“(B) the purchase from another community development entity of any loan made by such entity which is a qualified low-income community investment,

“(C) financial counseling and other services specified in regulations prescribed by the Secretary to businesses located in, and residents of, low-income communities, and

“(D) any equity investment in, or loan to, any qualified community development entity.

“(2) QUALIFIED ACTIVE LOW-INCOME COMMUNITY BUSINESS.—

“(A) IN GENERAL.—For purposes of paragraph (1), the term ‘qualified active low-income community business’ means, with respect to any taxable year, any corporation (including a nonprofit corporation) or partnership if for such year—

“(i) at least 50 percent of the total gross income of such entity is derived from the active conduct of a qualified business within any low-income community,

“(ii) a substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any low-income community,

“(iii) a substantial portion of the services performed for such entity by its employees are performed in any low-income community,

“(iv) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in section 408(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business, and

“(v) less than 5 percent of the average of the aggregate unadjusted bases of the prop-

erty of such entity is attributable to non-qualified financial property (as defined in section 1397C(e)).

“(B) PROPRIETORSHIP.—Such term shall include any business carried on by an individual as a proprietor if such business would meet the requirements of subparagraph (A) were it incorporated.

“(C) PORTIONS OF BUSINESS MAY BE QUALIFIED ACTIVE LOW-INCOME COMMUNITY BUSINESS.—The term ‘qualified active low-income community business’ includes any trades or businesses which would qualify as a qualified active low-income community business if such trades or businesses were separately incorporated.

“(3) QUALIFIED BUSINESS.—For purposes of this subsection, the term ‘qualified business’ has the meaning given to such term by section 1397C(d); except that—

“(A) in lieu of applying paragraph (2)(B) thereof, the rental to others of real property located in any low-income community shall be treated as a qualified business if there are substantial improvements located on such property, and

“(B) paragraph (3) thereof shall not apply.

“(e) LOW-INCOME COMMUNITY.—For purposes of this section—

“(1) IN GENERAL.—The term ‘low-income community’ means any population census tract if—

“(A) the poverty rate for such tract is at least 20 percent, or

“(B)(i) in the case of a tract not located within a metropolitan area, the median family income for such tract does not exceed 80 percent of statewide median family income, or

“(ii) in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income.

“(2) TARGETED AREAS.—The Secretary may designate any area within any census tract as a low-income community if—

“(A) the boundary of such area is continuous,

“(B) the area would satisfy the requirements of paragraph (1) if it were a census tract, and

“(C) an inadequate access to investment capital exists in such area.

“(3) AREAS NOT WITHIN CENSUS TRACTS.—In the case of an area which is not tracted for population census tracts, the equivalent county divisions (as defined by the Bureau of the Census for purposes of defining poverty areas) shall be used for purposes of determining poverty rates and median family income.

“(f) NATIONAL LIMITATION ON AMOUNT OF INVESTMENTS DESIGNATED.—

“(1) IN GENERAL.—There is a new markets tax credit limitation for each calendar year. Such limitation is—

“(A) \$1,000,000,000 for 2002, and

“(B) \$1,500,000,000 for 2003, 2004, 2005, and 2006.

“(2) ALLOCATION OF LIMITATION.—The limitation under paragraph (1) shall be allocated by the Secretary among qualified community development entities selected by the Secretary. In making allocations under the preceding sentence, the Secretary shall give priority to any entity—

“(A) with a record of having successfully provided capital or technical assistance to disadvantaged businesses or communities, or

“(B) which intends to satisfy the requirement under subsection (b)(1)(B) by making qualified low-income community investments in 1 or more businesses in which persons unrelated to such entity (within the meaning of section 267(b) or 707(b)(1)) hold the majority equity interest.

“(3) CARRYOVER OF UNUSED LIMITATION.—If the new markets tax credit limitation for any calendar year exceeds the aggregate amount allocated under paragraph (2) for such year, such limitation for the succeeding calendar year shall be increased by the amount of such excess. No amount may be carried under the preceding sentence to any calendar year after 2013.

“(g) RECAPTURE OF CREDIT IN CERTAIN CASES.—

“(1) IN GENERAL.—If, at any time during the 7-year period beginning on the date of the original issue of a qualified equity investment in a qualified community development entity, there is a recapture event with respect to such investment, then the tax imposed by this chapter for the taxable year in which such event occurs shall be increased by the credit recapture amount.

“(2) CREDIT RECAPTURE AMOUNT.—For purposes of paragraph (1), the credit recapture amount is an amount equal to the sum of—

“(A) the aggregate decrease in the credits allowed to the taxpayer under section 38 for all prior taxable years which would have resulted if no credit had been determined under this section with respect to such investment, plus

“(B) interest at the underpayment rate established under section 6621 on the amount determined under subparagraph (A) for each prior taxable year for the period beginning on the due date for filing the return for the prior taxable year involved.

No deduction shall be allowed under this chapter for interest described in subparagraph (B).

“(3) RECAPTURE EVENT.—For purposes of paragraph (1), there is a recapture event with respect to an equity investment in a qualified community development entity if—

“(A) such entity ceases to be a qualified community development entity,

“(B) the proceeds of the investment cease to be used as required of subsection (b)(1)(B), or

“(C) such investment is redeemed by such entity.

“(4) SPECIAL RULES.—

“(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph (1) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

“(B) NO CREDITS AGAINST TAX.—Any increase in tax under this subsection shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under this chapter or for purposes of section 55.

“(h) BASIS REDUCTION.—The basis of any qualified equity investment shall be reduced by the amount of any credit determined under this section with respect to such investment. This subsection shall not apply for purposes of sections 1202, 1397B, and 1400B.

“(i) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations—

“(1) which limit the credit for investments which are directly or indirectly subsidized by other Federal tax benefits (including the credit under section 42 and the exclusion from gross income under section 103),

“(2) which prevent the abuse of the purposes of this section,

“(3) which provide rules for determining whether the requirement of subsection (b)(1)(B) is treated as met,

“(4) which impose appropriate reporting requirements, and

“(5) which apply the provisions of this section to newly formed entities.”.

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—

(1) IN GENERAL.—Subsection (b) of section 38 is amended by striking “plus” at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting “, plus”, and by adding at the end the following new paragraph:

“(13) the new markets tax credit determined under section 45D(a).”.

(2) LIMITATION ON CARRYBACK.—Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

“(9) NO CARRYBACK OF NEW MARKETS TAX CREDIT BEFORE JANUARY 1, 2002.—No portion of the unused business credit for any taxable year which is attributable to the credit under section 45D may be carried back to a taxable year ending before January 1, 2002.”.

(c) DEDUCTION FOR UNUSED CREDIT.—Subsection (c) of section 196 is amended by striking “and” at the end of paragraph (7), by striking the period at the end of paragraph (8) and inserting “, and”, and by adding at the end the following new paragraph:

“(9) the new markets tax credit determined under section 45D(a).”.

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Sec. 45D. New markets tax credit.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to investments made after December 31, 2001.

(f) REGULATIONS ON ALLOCATION OF NATIONAL LIMITATION.—Not later than 120 days after the date of the enactment of this Act, the Secretary of the Treasury or the Secretary's delegate shall prescribe regulations which specify—

(1) how entities shall apply for an allocation under section 45D(f)(2) of the Internal Revenue Code of 1986, as added by this section;

(2) the competitive procedure through which such allocations are made; and

(3) the actions that such Secretary or delegate shall take to ensure that such allocations are properly made to appropriate entities.

(g) AUDIT AND REPORT.—Not later than January 31 of 2004 and 2007, the Comptroller General of the United States shall, pursuant to an audit of the new markets tax credit program established under section 45D of the Internal Revenue Code of 1986 (as added by subsection (a)), report to Congress on such program, including all qualified community development entities that receive an allocation under the new markets credit under such section.

Subtitle E—Modification of Tax Incentives for Puerto Rico

SEC. 141. MODIFICATION OF PUERTO RICO ECONOMIC ACTIVITY TAX CREDIT.

(a) CORPORATIONS ELIGIBLE TO CLAIM CREDIT.—Section 30A(a)(2) (defining qualified domestic corporation) is amended to read as follows:

“(2) QUALIFIED DOMESTIC CORPORATION.—For purposes of paragraph (1)—

“(A) IN GENERAL.—A domestic corporation shall be treated as a qualified domestic corporation for a taxable year if it is actively conducting within Puerto Rico during the taxable year—

“(i) a line of business with respect to which the domestic corporation is an existing credit claimant under section 936(j)(9), or

“(ii) with respect to taxable years ending after December 31, 2000, an eligible line of business not described in clause (i) with respect to which the domestic corporation is an existing credit claimant under section 936(j)(9) (determined without regard to subparagraph (B) thereof).

“(B) LIMITATION TO LINES OF BUSINESS.—A domestic corporation shall be treated as a qualified domestic corporation under subparagraph (A) only with respect to the lines of business described in subparagraph (A) which it is actively conducting in Puerto Rico during the taxable year.

“(C) EXCEPTION FOR CORPORATIONS ELECTING REDUCED CREDIT.—A domestic corporation shall not be treated as a qualified domestic corporation if such corporation (or any predecessor) had an election in effect under section 936(a)(4)(B)(iii) for any taxable year beginning after December 31, 1996.”.

(b) APPLICATION ON SEPARATE LINE OF BUSINESS BASIS; ELIGIBLE LINE OF BUSINESS.—Section 30A is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

“(g) APPLICATION ON LINE OF BUSINESS BASIS; ELIGIBLE LINES OF BUSINESS.—For purposes of this section—

“(1) APPLICATION TO SEPARATE LINE OF BUSINESS.—

“(A) IN GENERAL.—In determining the amount of the credit under subsection (a), this section shall be applied separately with respect to each substantial line of business of the qualified domestic corporation described in subsection (a)(2)(A)(ii).

“(B) ALLOCATION.—The Secretary shall prescribe rules necessary to carry out the purposes of this paragraph, including rules—

“(i) for the allocation of items of income, gain, deduction, and loss for purposes of determining taxable income under subsection (a), and

“(ii) for the allocation of wages, fringe benefit expenses, and depreciation allowances for purposes of applying the limitations under subsection (d).

“(2) ELIGIBLE LINE OF BUSINESS.—The term ‘eligible line of business’ means a substantial line of business established by a qualified domestic corporation described in subsection (a)(2)(A)(ii) after December 31, 2000.”.

(c) MODIFICATION OF BASE PERIOD CAP FOR EXISTING CLAIMANTS.—The last sentence of section 30A(a)(1) (relating to allowance of credit) is amended—

(1) by striking “In” and inserting “With respect to any qualified domestic corporation described in paragraph (2)(A)(i), in”,

(2) by inserting “the greater of” after “exceed”, and

(3) by inserting “, or such income multiplied by the ratio of the average number of full-time employees of such taxpayers during the taxable year to the average number of such full-time employees in 1995 and 1996” after “section 936(j)”.

(d) CREDIT TAKEN OVER 5-YEAR PERIOD.—Section 30A, as amended by subsection (b), is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) CREDIT TAKEN OVER 5-YEAR PERIOD.—In the case of any qualified domestic corporation described in paragraph (2)(A)(ii), the aggregate amount of the credit otherwise determined under subsection (a) for any taxable year shall be allowed ratably over the 5-taxable year period beginning with such taxable year.”.

(e) CONFORMING AMENDMENTS.—

(1) Section 30A(a)(3) is amended by striking “an existing credit claimant” and inserting “a qualified domestic corporation”.

(2) Section 30A(b) is amended by striking “within a possession” each place it appears and inserting “within Puerto Rico”.

(3) Section 30A(d) is amended by striking “possession” each place it appears.

(4) Section 30A(f) is amended to read as follows:

“(f) DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED INCOME TAXES.—The qualified income taxes for any taxable year allocable to nonsheltered income shall be determined in the same manner as under section 936(i)(3).

“(2) QUALIFIED WAGES.—The qualified wages for any taxable year shall be determined in the same manner as under section 936(i)(1).

“(3) OTHER TERMS.—Any term used in this section which is also used in section 936 shall have the same meaning given such term by section 936.”.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 2000.

Subtitle F—Individual Development Accounts

SEC. 151. DEFINITIONS.

As used in this subtitle:

(1) ELIGIBLE INDIVIDUAL.—

(A) IN GENERAL.—The term “eligible individual” means an individual who—

(i) has attained the age of 18 years;

(ii) is a citizen or legal resident of the United States; and

(iii) is a member of a household—

(I) the gross income of which does not exceed 60 percent of the national median family income (as published by the Bureau of the Census), as adjusted for family size; and

(II) the net worth of which does not exceed \$10,000.

(B) HOUSEHOLD.—The term “household” means all individuals who share use of a dwelling unit as primary quarters for living and eating separate from other individuals.

(C) DETERMINATION OF NET WORTH.—

(i) IN GENERAL.—For purposes of subparagraph (A)(iii)(II), the net worth of a household is the amount equal to—

(I) the aggregate fair market value of all assets that are owned in whole or in part by any member of a household, minus

(II) the obligations or debts of any member of the household.

(ii) CERTAIN ASSETS DISREGARDED.—For purposes of determining the net worth of a household, a household's assets shall not be considered to include—

(I) the primary dwelling unit;

(II) 1 motor vehicle owned by the household; and

(III) the sum of all contributions by an eligible individual (including earnings thereon) to any Individual Development Account, plus the matching deposits made on behalf of such individual (including earnings thereon) in any parallel account.

(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term “Individual Development Account” means an account established for an eligible individual as part of a qualified individual development account program, but only if the written governing instrument creating the account meets the following requirements:

(A) The sole owner of the account is the eligible individual.

(B) No contribution will be accepted unless it is in cash, by check, by electronic fund transfer, or by electronic money order.

(C) The holder of the account is a qualified financial institution, a qualified nonprofit organization, or an Indian tribe.

(D) The assets of the account will not be commingled with other property except in a common trust fund or common investment fund.

(E) Except as provided in section 156(b), any amount in the account may be paid out only for the purpose of paying the qualified expenses of the eligible individual.

(3) PARALLEL ACCOUNT.—The term “parallel account” means a separate, parallel individual or pooled account for all matching funds and earnings dedicated to an eligible individual as part of a qualified individual

development account program, the sole owner of which is a qualified financial institution, a qualified nonprofit organization, or an Indian tribe.

(4) **QUALIFIED FINANCIAL INSTITUTION.**—

(A) **IN GENERAL.**—The term “qualified financial institution” means any person authorized to be a trustee of any individual retirement account under section 408(a)(2).

(B) **RULE OF CONSTRUCTION.**—Nothing in this paragraph shall be construed as preventing a person described in subparagraph (A) from collaborating with 1 or more contractual affiliates, qualified nonprofit organizations, or Indian tribes to carry out an individual development account program established under section 152.

(5) **QUALIFIED NONPROFIT ORGANIZATION.**—The term “qualified nonprofit organization” means—

(A) any organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code;

(B) any community development financial institution certified by the Community Development Financial Institution Fund; or

(C) any credit union chartered under Federal or State law and certified by the National Credit Union Administration,

that meets standards for financial management and fiduciary responsibility as defined by the Secretary or an organization designated by the Secretary.

(6) **INDIAN TRIBE.**—The term “Indian tribe” means any Indian tribe as defined in section 4(12) of the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4103(12)), and includes any tribal subsidiary, subdivision, or other wholly owned tribal entity.

(7) **QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM.**—The term “qualified individual development account program” means a program established under section 152 under which—

(A) Individual Development Accounts and parallel accounts are held by a qualified financial institution, a qualified nonprofit organization, or an Indian tribe; and

(B) additional activities determined by the Secretary, or an organization designated by the Secretary, as necessary to responsibly develop and administer accounts, including recruiting, providing financial education and other training to account holders, and regular program monitoring, are carried out by such qualified financial institution, qualified nonprofit organization, or Indian tribe.

(8) **QUALIFIED EXPENSE DISTRIBUTION.**—

(A) **IN GENERAL.**—The term “qualified expense distribution” means any amount paid (including through electronic payments) or distributed out of an Individual Development Account and a parallel account established for an eligible individual if such amount—

(i) is used exclusively to pay the qualified expenses of such individual or such individual's spouse or dependents;

(ii) is paid by the qualified financial institution, qualified nonprofit organization, or Indian tribe directly to the person to whom the amount is due or to another Individual Development Account; and

(iii) is paid after the holder of the Individual Development Account has completed a financial education course as required under section 153(b).

(B) **QUALIFIED EXPENSES.**—

(I) **IN GENERAL.**—The term “qualified expenses” means any of the following:

(I) Qualified higher education expenses.

(II) Qualified first-time homebuyer costs.

(III) Qualified business capitalization or expansion costs.

(IV) Qualified rollovers.

(ii) **QUALIFIED HIGHER EDUCATION EXPENSES.**—

(I) **IN GENERAL.**—The term “qualified higher education expenses” has the meaning given such term by section 72(t)(7) of the Internal Revenue Code of 1986, determined by treating postsecondary vocational educational schools as eligible educational institutions.

(II) **POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.**—The term “postsecondary vocational educational school” means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this Act.

(III) **COORDINATION WITH OTHER BENEFITS.**—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2) of such Code and by the amount of such expenses for which a credit or exclusion is allowed under chapter 1 of such Code for such taxable year.

(iii) **QUALIFIED FIRST-TIME HOMEBUYER COSTS.**—The term “qualified first-time homebuyer costs” means qualified acquisition costs (as defined in section 72(t)(8) of such Code without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121 of such Code) for a qualified first-time homebuyer (as defined in section 72(t)(8) of such Code).

(iv) **QUALIFIED BUSINESS CAPITALIZATION OR EXPANSION COSTS.**—

(I) **IN GENERAL.**—The term “qualified business capitalization or expansion costs” means qualified expenditures for the capitalization or expansion of a qualified business pursuant to a qualified business plan.

(II) **QUALIFIED EXPENDITURES.**—The term “qualified expenditures” means expenditures included in a qualified business plan, including capital, plant, equipment, working capital, inventory expenses, attorney and accounting fees, and other costs normally associated with starting or expanding a business.

(III) **QUALIFIED BUSINESS.**—The term “qualified business” means any business that does not contravene any law.

(IV) **QUALIFIED BUSINESS PLAN.**—The term “qualified business plan” means a business plan which meets such requirements as the Secretary or an organization designated by the Secretary may specify.

(v) **QUALIFIED ROLLOVERS.**—The term “qualified rollover” means, with respect to any distribution from an Individual Development Account, the payment, within 120 days of such distribution, of all or a portion of such distribution to such account or to another Individual Development Account established in another qualified financial institution, qualified nonprofit organization, or Indian tribe for the benefit of the eligible individual, or, if such individual is deceased, the spouse, any dependent, or other named beneficiary of the deceased. Rules similar to the rules of section 408(d)(3) of such Code (other than subparagraph (C) thereof) shall apply for purposes of this clause.

(9) **SECRETARY.**—The term “Secretary” means the Secretary of the Treasury.

SEC. 152. STRUCTURE AND ADMINISTRATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) **ESTABLISHMENT OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.**—Any qualified financial institution, qualified nonprofit organization, or Indian tribe may establish 1 or more qualified individual development account programs which meet the requirements of this subtitle.

(b) **BASIC PROGRAM STRUCTURE.**—

(I) **IN GENERAL.**—All qualified individual development account programs shall consist of the following 2 components:

(A) An Individual Development Account to which an eligible individual may contribute money in accordance with section 154.

(B) A parallel account to which all matching funds shall be deposited in accordance with section 155.

(2) **TAILORED IDA PROGRAMS.**—A qualified financial institution, qualified nonprofit organization, or Indian tribe may tailor its qualified individual development account program to allow matching funds to be spent on 1 or more of the categories of qualified expenses.

(c) **TAX TREATMENT OF ACCOUNTS.**—Any account described in subparagraph (B) of subsection (b)(1) is exempt from taxation under the Internal Revenue Code of 1986 unless such account has ceased to be such an account by reason of section 156(c) or the termination of the qualified individual development account program under section 157(b).

SEC. 153. PROCEDURES FOR OPENING AN INDIVIDUAL DEVELOPMENT ACCOUNT AND QUALIFYING FOR MATCHING FUNDS.

(a) **OPENING AN ACCOUNT.**—An eligible individual must open an Individual Development Account with a qualified financial institution, qualified nonprofit organization, or Indian tribe and contribute money in accordance with section 154 to qualify for matching funds in a parallel account.

(b) **REQUIRED COMPLETION OF FINANCIAL EDUCATION COURSE.**—

(I) **IN GENERAL.**—Before becoming eligible to withdraw matching funds to pay for qualified expenses, holders of Individual Development Accounts must complete a financial education course offered by a qualified financial institution, a qualified nonprofit organization, an Indian tribe, or a government entity.

(2) **STANDARD AND APPLICABILITY OF COURSE.**—The Secretary or an organization designated by the Secretary, in consultation with representatives of qualified individual development account programs and financial educators, shall establish minimum performance standards for financial education courses offered under paragraph (1) and a protocol to exempt eligible individuals from the requirement under paragraph (1) because of hardship or lack of need.

SEC. 154. CONTRIBUTIONS TO INDIVIDUAL DEVELOPMENT ACCOUNTS.

(a) **IN GENERAL.**—Except in the case of a qualified rollover, individual contributions to an Individual Development Account will not be accepted for the taxable year in excess of the lesser of—

(1) \$2,000; or

(2) an amount equal to the sum of—

(A) the compensation (as defined in section 219(f)(1) of the Internal Revenue Code of 1986) includable in the individual's gross income for such taxable year; and

(B) in the case of an eligible individual who has retired on disability (within the meaning of section 22 of the Internal Revenue Code of 1986) before the close of the taxable year, any amount received as a disability benefit and excluded from the individual's gross income for such taxable year.

(b) **PROOF OF COMPENSATION AND STATUS AS AN ELIGIBLE INDIVIDUAL.**—Federal W-2 forms and other forms specified by the Secretary proving the eligible individual's wages and other compensation (including amounts described in subsection (a)(2)(B)) and the status of the individual as an eligible individual shall be presented at the time of the establishment of the Individual Development Account and at least once annually thereafter.

(c) **DEEMED WITHDRAWALS OF EXCESS CONTRIBUTIONS.**—If the individual for whose benefit an Individual Development Account is established contributes an amount in excess of the amount allowed under subsection (a)

and fails to withdraw the excess contribution plus the amount of net income attributable to such excess contribution on or before the day prescribed by law (including extensions of time) for filing such individual's return of tax for the taxable year, such excess contribution and net income shall be deemed to have been withdrawn on such day by such individual for purposes other than to pay qualified expenses.

(d) CROSS REFERENCE.—

For designation of earned income tax credit payments for deposit to an Individual Development Account, see section 32(o) of the Internal Revenue Code of 1986.

SEC. 155. DEPOSITS BY QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) **PARALLEL ACCOUNTS.**—The qualified financial institution, qualified nonprofit organization, or Indian tribe shall deposit all matching funds for each Individual Development Account into a parallel account at a qualified financial institution, qualified nonprofit organization, or Indian tribe.

(b) **REGULAR DEPOSITS OF MATCHING FUNDS.**—

(1) **IN GENERAL.**—Subject to paragraph (2), the qualified financial institution, qualified nonprofit organization, or Indian tribe shall not less than annually (or upon a proper withdrawal request under section 156, if necessary) deposit into the parallel account with respect to each eligible individual the following:

(A) A dollar-for-dollar match for the first \$300 contributed by the eligible individual into an Individual Development Account with respect to any taxable year.

(B) Any matching funds provided by State, local, or private sources in accordance to the matching ratio set by those sources.

(2) CROSS REFERENCE.—

For allowance of tax credit for Individual Development Account subsidies, including matching funds, see section 30B of the Internal Revenue Code of 1986.

(c) **FORFEITURE OF MATCHING FUNDS.**—Matching funds that are forfeited under section 156(b) shall be used by the qualified financial institution, qualified nonprofit organization, or Indian tribe to pay matches for other Individual Development Account contributions by eligible individuals.

(d) **UNIFORM ACCOUNTING REGULATIONS.**—To ensure proper recordkeeping and determination of the tax credit under section 30C of the Internal Revenue Code of 1986, the Secretary shall prescribe regulations with respect to accounting for matching funds from all possible sources in the parallel accounts.

(e) **REGULAR REPORTING OF ACCOUNTS.**—Any qualified financial institution, qualified nonprofit organization, or Indian tribe shall report the balances in any Individual Development Account and parallel account of an eligible individual on not less than an annual basis.

SEC. 156. WITHDRAWAL PROCEDURES.

(a) **WITHDRAWALS FOR QUALIFIED EXPENSES.**—To withdraw money from an eligible individual's Individual Development Account to pay qualified expenses of such individual or such individual's spouse or dependents, the qualified financial institution, qualified nonprofit organization, or Indian tribe shall directly transfer such funds from the Individual Development Account, and, if applicable, from the parallel account electronically to the vendor or other Individual Development Account. If the vendor is not equipped to receive funds electronically, the qualified financial institution, qualified nonprofit organization, or Indian tribe may issue such funds by paper check to the vendor.

(b) **WITHDRAWALS FOR NONQUALIFIED EXPENSES.**—An Individual Development Ac-

count holder may unilaterally withdraw funds from the Individual Development Account for purposes other than to pay qualified expenses, but shall forfeit the corresponding matching funds and interest earned on the matching funds by doing so, unless such withdrawn funds are recontributed to such Account by September 30 following the withdrawal.

(c) **DEEMED WITHDRAWALS FROM ACCOUNTS OF NONELIGIBLE INDIVIDUALS.**—If the individual for whose benefit an Individual Development Account is established ceases to be an eligible individual, such account shall cease to be an Individual Development Account as of the first day of the taxable year of such individual and any balance in such account shall be deemed to have been withdrawn on such first day by such individual for purposes other than to pay qualified expenses.

(d) **TAX TREATMENT OF MATCHING FUNDS.**—Any amount withdrawn from a parallel account shall not be includible in an eligible individual's gross income.

SEC. 157. CERTIFICATION AND TERMINATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) **CERTIFICATION PROCEDURES.**—Upon establishing a qualified individual development account program under section 152, a qualified financial institution, qualified nonprofit organization, or Indian tribe shall certify to the Secretary, or an organization designated by the Secretary, on forms prescribed by the Secretary or such organization and accompanied by any documentation required by the Secretary or such organization, that—

(1) the accounts described in subparagraphs (A) and (B) of section 152(b)(1) are operating pursuant to all the provisions of this subtitle; and

(2) the qualified financial institution, qualified nonprofit organization, or Indian tribe agrees to implement an information system necessary to monitor the cost and outcomes of the qualified individual development account program.

(b) **AUTHORITY TO TERMINATE QUALIFIED IDA PROGRAM.**—If the Secretary, or an organization designated by the Secretary, determines that a qualified financial institution, qualified nonprofit organization, or Indian tribe under this subtitle is not operating a qualified individual development account program in accordance with the requirements of this subtitle (and has not implemented any corrective recommendations directed by the Secretary or such organization), the Secretary or such organization shall terminate such institution's, nonprofit organization's, or Indian tribe's authority to conduct the program. If the Secretary, or an organization designated by the Secretary, is unable to identify a qualified financial institution, qualified nonprofit organization, or Indian tribe to assume the authority to conduct such program, then any account established for the benefit of any eligible individual under such program shall cease to be an Individual Development Account as of the first day of such termination and any balance in such account shall be deemed to have been withdrawn on such first day by such individual for purposes other than to pay qualified expenses.

SEC. 158. REPORTING, MONITORING, AND EVALUATION.

(a) **RESPONSIBILITIES OF QUALIFIED FINANCIAL INSTITUTIONS, QUALIFIED NONPROFIT ORGANIZATIONS, AND INDIAN TRIBES.**—Each qualified financial institution, qualified nonprofit organization, or Indian tribe that establishes a qualified individual development account program under section 152 shall report annually to the Secretary, directly or through an organization designated by the

Secretary, within 90 days after the end of each calendar year on—

(1) the number of eligible individuals making contributions into Individual Development Accounts;

(2) the amounts contributed into Individual Development Accounts and deposited into parallel accounts for matching funds;

(3) the amounts withdrawn from Individual Development Accounts and parallel accounts, and the purposes for which such amounts were withdrawn;

(4) the balances remaining in Individual Development Accounts and parallel accounts; and

(5) such other information needed to help the Secretary, or an organization designated by the Secretary, monitor the cost and outcomes of the qualified individual development account program.

(b) **RESPONSIBILITIES OF THE SECRETARY OR DESIGNATED ORGANIZATION.**—

(1) **MONITORING PROTOCOL.**—Not later than 12 months after the date of the enactment of this Act, the Secretary, or an organization designated by the Secretary, shall develop and implement a protocol and process to monitor the cost and outcomes of the qualified individual development account programs established under section 152.

(2) **ANNUAL REPORTS.**—In each year after the date of the enactment of this Act, the Secretary, or an organization designated by the Secretary, shall submit a progress report to Congress on the status of such qualified individual development account programs. Such report shall include from a representative sample of qualified financial institutions, qualified nonprofit organizations, and Indian tribes a report on—

(A) the characteristics of participants, including age, gender, race or ethnicity, marital status, number of children, employment status, and monthly income;

(B) individual level data on deposits, withdrawals, balances, uses of Individual Development Accounts, and participant characteristics;

(C) the characteristics of qualified individual development account programs, including match rate, economic education requirements, permissible uses of accounts, staffing of programs in full time employees, and the total costs of programs; and

(D) process information on program implementation and administration, especially on problems encountered and how problems were solved.

SEC. 159. ACCOUNT FUNDS OF PROGRAM PARTICIPANTS DISREGARDED FOR PURPOSES OF CERTAIN MEANS-TESTED FEDERAL PROGRAMS.

Notwithstanding any other provision of Federal law that requires consideration of 1 or more financial circumstances of an individual, for the purposes of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such provision to be provided to or for the benefit of such individual, an amount equal to the sum of—

(1) all contributions by an eligible individual (including earnings thereon) to any Individual Development Account; plus

(2) the matching deposits made on behalf of such individual (including earnings thereon) in any parallel account, shall be disregarded for such purpose with respect to any period during which the individual participates in a qualified individual development account program established under section 152.

SEC. 160. MATCHING FUNDS FOR INDIVIDUAL DEVELOPMENT ACCOUNTS PROVIDED THROUGH A TAX CREDIT FOR QUALIFIED FINANCIAL INSTITUTIONS.

(a) **IN GENERAL.**—Subpart B of part IV of subchapter A of chapter 1 (relating to other

credits) is amended by inserting after section 30A the following new section:

“SEC. 30B. INDIVIDUAL DEVELOPMENT ACCOUNT INVESTMENT CREDIT FOR QUALIFIED FINANCIAL INSTITUTIONS.

“(a) DETERMINATION OF AMOUNT.—There shall be allowed as a credit against the applicable tax for the taxable year an amount equal to the individual development account investment provided by a qualified financial institution during the taxable year under an individual development account program established under section 152 of the Community Renewal and New Markets Act of 2000.

“(b) APPLICABLE TAX.—For the purposes of this section, the term ‘applicable tax’ means the excess (if any) of—

“(1) the tax imposed under this chapter (other than the taxes imposed under the provisions described in subparagraphs (C) through (Q) of section 26(b)(2)), over

“(2) the credits allowable under subpart B (other than this section) and subpart D of this part.

“(c) INDIVIDUAL DEVELOPMENT ACCOUNT INVESTMENT.—For purposes of this section, the term ‘individual development account investment’ means, with respect to an individual development account program of a qualified financial institution in any taxable year, an amount equal to the sum of—

“(1) 90 percent of the aggregate amount of dollar-for-dollar matches under such program by such institution under section 155(b)(1)(A) of the Community Renewal and New Markets Act of 2000 for such taxable year, plus

“(2) an amount equal to the sum of the costs incurred, directly or indirectly, with respect to each Individual Development Account opened after the date of the enactment of this section, not to exceed \$100 per Account.

“(d) OTHER DEFINITIONS.—For purposes of this section, the terms ‘Individual Development Account’ and ‘qualified financial institution’ have the meanings given such terms by section 151 of the Community Renewal and New Markets Act of 2000.

“(e) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a forfeiture under section 156(b) of the Community Renewal and New Markets Act of 2000 in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.

“(f) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2005.”

(b) CONFORMING AMENDMENT.—The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 30A the following new item:

“Sec. 30B. Individual development account investment credit for qualified financial institutions.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 161. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO INDIVIDUAL DEVELOPMENT ACCOUNTS.

(a) IN GENERAL.—Section 32 (relating to earned income credit) is amended by adding at the end the following new subsection:

“(o) DESIGNATION OF CREDIT FOR DEPOSIT TO INDIVIDUAL DEVELOPMENT ACCOUNT.—

“(1) IN GENERAL.—With respect to the return of any eligible individual (as defined in section 151(l) of the Community Renewal and New Markets Act of 2000) for the taxable

year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than \$1) of any overpayment of tax for such taxable year which is attributable to the credit allowed under this section shall be deposited by the Secretary into an Individual Development Account (as defined in section 151(2) of such Act) of such individual. The Secretary shall so deposit such portion designated under this paragraph.

“(2) MANNER AND TIME OF DESIGNATION.—A designation under paragraph (1) may be made with respect to any taxable year—

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

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

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

“(3) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of paragraph (1), an overpayment for any taxable year shall be treated as attributable to the credit allowed under this section for such taxable year to the extent that such overpayment does not exceed the credit so allowed.

“(4) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any portion of an overpayment of tax designated under paragraph (1) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by this chapter (determined without regard to extensions) or, if later, the date the return is filed.

“(5) TERMINATION.—This subsection shall not apply to any taxable year beginning after December 31, 2005.”

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

Subtitle G—Additional Incentives

SEC. 171. EXCLUSION OF CERTAIN AMOUNTS RECEIVED UNDER THE NATIONAL HEALTH SERVICE CORPS SCHOLARSHIP PROGRAM AND THE F. EDWARD HEBERT ARMED FORCES HEALTH PROFESSIONS SCHOLARSHIP AND FINANCIAL ASSISTANCE PROGRAM.

(a) IN GENERAL.—Section 117(c) (relating to the exclusion from gross income amounts received as a qualified scholarship) is amended—

(1) by striking “Subsections (a)” and inserting the following:

“(1) IN GENERAL.—Except as provided in paragraph (2), subsections (a)”, and

(2) by adding at the end the following new paragraph:

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to any amount received by an individual under—

“(A) the National Health Service Corps Scholarship Program under section 338A(g)(1)(A) of the Public Health Service Act, or

“(B) the Armed Forces Health Professions Scholarship and Financial Assistance program under subchapter I of chapter 105 of title 10, United States Code.”

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to amounts received in taxable years beginning after December 31, 1993.

SEC. 172. EXTENSION OF ENHANCED DEDUCTION FOR CORPORATE DONATIONS OF COMPUTER TECHNOLOGY.

(a) EXPANSION OF COMPUTER TECHNOLOGY DONATIONS TO PUBLIC LIBRARIES.—

(1) IN GENERAL.—Paragraph (6) of section 170(e) (relating to special rule for contributions of computer technology and equipment for elementary or secondary school purposes)

is amended by striking “qualified elementary or secondary educational contribution” each place it occurs in the headings and text and inserting “qualified computer contribution”.

(2) EXPANSION OF ELIGIBLE DONEES.—Clause (i) of section 170(e)(6)(B) (relating to qualified elementary or secondary educational contribution) is amended by striking “or” at the end of subclause (I), by adding “or” at the end of subclause (II), and by inserting after subclause (II) the following new subclause:

“(III) a public library (within the meaning of section 213(2)(A) of the Library Services and Technology Act (20 U.S.C. 9122(2)(A)), as in effect on the date of the enactment of the Community Renewal and New Markets Act of 2000, established and maintained by an entity described in subsection (c)(1).”

(b) CONFORMING AMENDMENTS.—

(1) Section 170(e)(6)(B)(iv) is amended by striking “in any grades of the K-12”.

(2) The heading of paragraph (6) of section 170(e) is amended by striking “ELEMENTARY OR SECONDARY SCHOOL PURPOSES” and inserting “EDUCATIONAL PURPOSES”.

(c) EXTENSION OF DEDUCTION.—Section 170(e)(6)(F) (relating to termination) is amended by striking “December 31, 2000” and inserting “December 31, 2003”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made on and after the date of the enactment of this Act.

SEC. 173. EXTENSION OF ADOPTION TAX CREDIT.

Section 23(d)(2)(B) (defining eligible child) is amended by striking “2001” and inserting “2003”.

SEC. 174. TAX TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.

(a) TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.—Subpart A of part 1 of subchapter J of chapter 1 (relating to general rules for taxation of trusts and estates) is amended by adding at the end the following new section:

“SEC. 646. TAX TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.

“(a) IN GENERAL.—Except as otherwise provided in this section, the provisions of this subchapter and section 1(e) shall apply to all Settlement Trusts.

“(b) TAXATION OF INCOME OF TRUST.—Except as provided in subsection (f)(1)(B)(ii)—

“(1) IN GENERAL.—The amount of tax imposed on an electing Settlement Trust under section 1(e) shall be determined using the rate of 15 percent.

“(2) CAPITAL GAIN.—In the case of an electing Settlement Trust with a net capital gain for the taxable year, a tax is imposed on such gain at the rate of tax which would apply to such gain if the taxpayer were subject to a tax on ordinary income at a rate of 15 percent.

“(c) ONE TIME ELECTION.—

“(1) IN GENERAL.—A Settlement Trust may elect to have the provisions of this section apply to the trust and its beneficiaries.

“(2) TIME AND METHOD OF ELECTION.—An election under paragraph (1) shall be made by the trustee of such trust—

“(A) on or before the due date (including extensions) for filing the Settlement Trust’s return of tax for the first taxable year of such trust ending after the date of the enactment of this section, and

“(B) by attaching to such return of tax a statement specifically providing for such election.

“(3) PERIOD ELECTION IN EFFECT.—Except as provided in subsection (f), an election under this subsection—

“(A) shall apply to the first taxable year described in paragraph (2)(A) and all subsequent taxable years, and

“(B) may not be revoked once it is made.

“(d) CONTRIBUTIONS TO TRUST.—

“(1) BENEFICIARIES OF ELECTING TRUST NOT TAXED ON CONTRIBUTIONS.—In the case of an electing Settlement Trust, no amount shall be includible in gross income of a beneficiary of such trust by reason of a contribution to such trust made during the taxable year.

“(2) EARNINGS AND PROFITS.—The earnings and profits of the sponsoring Native Corporation of a Settlement Trust shall not be reduced on account of any contribution to such Settlement Trust.

“(e) TAX TREATMENT OF DISTRIBUTIONS TO BENEFICIARIES.—Amounts distributed by an electing Settlement Trust during any taxable year shall be considered as having the following characteristics in the hands of the recipient beneficiary:

“(1) First, as amounts excludable from gross income for the taxable year to the extent of the taxable income of such trust for such taxable year (decreased by any income tax paid by the trust with respect to the income) plus any amount excluded from gross income of the trust under section 103.

“(2) Second, as amounts excludable from gross income to the extent of the amount described in paragraph (1) for all taxable years for which an election was in effect under subsection (c) with respect to the trust, and not previously taken into account under paragraph (1).

“(3) Third, for purposes of this title other than subsections (b) and (d) of section 301 and section 311(b), as amounts distributed by the sponsoring Native Corporation with respect to its stock (within the meaning of section 301(a)) during such taxable year and taxable to the recipient beneficiary as amounts described in section 301(c)(1), to the extent of current and accumulated earnings and profits of the sponsoring Native Corporation as of the close of such taxable year after proper adjustment is made for all distributions made by the sponsoring Native Corporation during such taxable year.

“(4) Fourth, as amounts distributed by the trust in excess of the distributable net income of such trust for such taxable year.

“(f) SPECIAL RULES WHERE TRANSFER RESTRICTIONS MODIFIED.—

“(1) TRANSFER OF BENEFICIAL INTERESTS.—If, at any time, a beneficial interest in an electing Settlement Trust may be disposed of to a person in a manner which would not be permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)) if the interest were Settlement Common Stock—

“(A) no election may be made under subsection (c) with respect to such trust, and

“(B) if such an election is in effect as of such time—

“(i) such election shall cease to apply as of the first day of the taxable year in which such disposition is first permitted,

“(ii) the provisions of this section shall not apply to such trust for such taxable year and all taxable years thereafter, and

“(iii) the distributable net income of such trust shall be increased by the current and accumulated earnings and profits of the sponsoring Native Corporation as of the close of such taxable year after proper adjustment is made for all distributions made by the sponsoring Native Corporation during such taxable year.

In no event shall the increase under clause (iii) exceed the fair market value of the trust's assets as of the date the beneficial interest of the trust first becomes disposable. The earnings and profits of the sponsoring Native Corporation shall be adjusted as of the last day of such taxable year by the amount of earnings and profits so included in the distributable net income of the trust.

“(2) STOCK IN CORPORATION.—If—

“(A) the Settlement Common Stock in the sponsoring Native Corporation may be disposed of to a person in any manner not permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)), and

“(B) at any time after such disposition of stock is first permitted, such corporation transfers assets to a Settlement Trust,

paragraph (1)(B) shall be applied to such trust on and after the date of the transfer in the same manner as if the trust permitted dispositions of beneficial interests in the trust in a manner not permitted by such section 7(h).

“(3) CERTAIN DISTRIBUTIONS.—For purposes of this section, the surrender of an interest in a Native Corporation or an electing Settlement Trust in order to accomplish the whole or partial redemption of the interest of a shareholder or beneficiary in such corporation or trust, or to accomplish the whole or partial liquidation of such corporation or trust, shall be deemed to be a disposition permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)).

“(g) TAXABLE INCOME.—For purposes of this title, the taxable income of an electing Settlement Trust shall be determined under section 641(b) without regard to any deduction under section 651 or 661.

“(h) DEFINITIONS.—For purposes of this section—

“(1) ELECTING SETTLEMENT TRUST.—The term ‘electing Settlement Trust’ means a Settlement Trust which has made the election, effective for the taxable year, described in subsection (c).

“(2) NATIVE CORPORATION.—The term ‘Native Corporation’ has the meaning given such term by section 3(m) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)).

“(3) SETTLEMENT COMMON STOCK.—The term ‘Settlement Common Stock’ has the meaning given such term by section 3(p) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(p)).

“(4) SETTLEMENT TRUST.—The term ‘Settlement Trust’ has the meaning given such term by section 3(t) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(t)).

“(5) SPONSORING NATIVE CORPORATION.—The term ‘sponsoring Native Corporation’ means the Native Corporation which transfers assets to an electing Settlement Trust.

“(i) CROSS REFERENCE.—

“For information required with respect to electing Settlement Trusts and sponsoring Native Corporations, see section 6039H.”

(b) REPORTING.—Subpart A of part III of subchapter A of chapter 61 of subtitle F (relating to information concerning persons subject to special provisions) is amended by inserting after section 6039G the following new section:

“SEC. 6039H. INFORMATION WITH RESPECT TO ALASKA NATIVE SETTLEMENT TRUSTS AND SPONSORING NATIVE CORPORATIONS.

“(a) REQUIREMENT.—The fiduciary of an electing Settlement Trust (as defined in section 646(h)(1)) shall include with the return of income of the trust a statement containing the information required under subsection (c).

“(b) APPLICATION WITH OTHER REQUIREMENTS.—The filing of any statement under this section shall be in lieu of the reporting requirement under section 6034A to furnish any statement to a beneficiary regarding amounts distributed to such beneficiary (and such other reporting requirements as the Secretary deems appropriate).

“(c) REQUIRED INFORMATION.—The information required under this subsection shall include—

“(1) the amount of distributions made during the taxable year to each beneficiary,

“(2) the treatment of such distribution under the applicable provision of section 646, including the amount that is excludable from the recipient beneficiary's gross income under section 646, and

“(3) the amount (if any) of any distribution during such year that is deemed to have been made by the sponsoring Native Corporation (as defined in section 646(h)(5)).

“(d) SPONSORING NATIVE CORPORATION.—

“(1) IN GENERAL.—The electing Settlement Trust shall, on or before the date on which the statement under subsection (a) is required to be filed, furnish such statement to the sponsoring Native Corporation (as so defined).

“(2) DISTRIBUTEES.—The sponsoring Native Corporation shall furnish each recipient of a distribution described in section 646(e)(3) a statement containing the amount deemed to have been distributed to such recipient by such corporation for the taxable year.”.

(c) CLERICAL AMENDMENT.—

(1) The table of sections for subpart A of part I of subchapter J of chapter 1 is amended by adding at the end the following new item:

“Sec. 646. Electing Alaska Native Settlement Trusts.”.

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 of subtitle F is amended by inserting after the item relating to section 6039G the following new item:

“Sec. 6039H. Information with respect to Alaska Native Settlement Trusts and sponsoring Native Corporations.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act and to contributions made to electing Settlement Trusts for such year or any subsequent year.

SEC. 175. TREATMENT OF INDIAN TRIBAL GOVERNMENTS UNDER FEDERAL UNEMPLOYMENT TAX ACT.

(a) IN GENERAL.—Section 3306(c)(7) (defining employment) is amended—

(1) by inserting “or in the employ of an Indian tribe,” after “service performed in the employ of a State, or any political subdivision thereof,”; and

(2) by inserting “or Indian tribes” after “wholly owned by one or more States or political subdivisions”.

(b) PAYMENTS IN LIEU OF CONTRIBUTIONS.—Section 3309 (relating to State law coverage of services performed for nonprofit organizations or governmental entities) is amended—

(1) in subsection (a)(2) by inserting “, including an Indian tribe,” after “the State law shall provide that a governmental entity”;

(2) in subsection (b)(3)(B) by inserting “, or of an Indian tribe” after “of a State or political subdivision thereof”;

(3) in subsection (b)(3)(E) by inserting “or tribal” after “the State”; and

(4) in subsection (b)(5) by inserting “or of an Indian tribe” after “an agency of a State or political subdivision thereof”.

(c) STATE LAW COVERAGE.—Section 3309 (relating to State law coverage of services performed for nonprofit organizations or governmental entities) is amended by adding at the end the following new subsection:

“(d) ELECTION BY INDIAN TRIBE.—The State law shall provide that an Indian tribe may make contributions for employment as if the employment is within the meaning of section

3306 or make payments in lieu of contributions under this section, and shall provide that an Indian tribe may make separate elections for itself and each subdivision, subsidiary, or business enterprise wholly owned by such Indian tribe. State law may require a tribe to post a payment bond or take other reasonable measures to assure the making of payments in lieu of contributions under this section. Notwithstanding the requirements of section 3306(a)(6), if, within 90 days of having received a notice of delinquency, a tribe fails to make contributions, payments in lieu of contributions, or payment of penalties or interest (at amounts or rates comparable to those applied to all other employers covered under the State law) assessed with respect to such failure, or if the tribe fails to post a required payment bond, then service for the tribe shall not be excepted from employment under section 3306(c)(7) until any such failure is corrected. This subsection shall apply to an Indian tribe within the meaning of section 4(e) of the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450b(e)).

(d) DEFINITIONS.—Section 3306 (relating to definitions) is amended by adding at the end the following new subsection:

“(u) INDIAN TRIBE.—For purposes of this chapter, the term ‘Indian tribe’ has the meaning given to such term by section 4(e) of the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450b(e)), and includes any subdivision, subsidiary, or business enterprise wholly owned by such an Indian tribe.”

(e) EFFECTIVE DATE; TRANSITION RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to service performed on or after the date of the enactment of this Act.

(2) TRANSITION RULE.—For purposes of the Federal Unemployment Tax Act, service performed in the employ of an Indian tribe (as defined in section 3306(u) of the Internal Revenue Code of 1986 (as added by this section)) shall not be treated as employment (within the meaning of section 3306 of such Code) if—

(A) it is service which is performed before the date of the enactment of this Act and with respect to which the tax imposed under the Federal Unemployment Tax Act has not been paid, and

(B) such Indian tribe reimburses a State unemployment fund for unemployment benefits paid for service attributable to such tribe for such period.

SEC. 176. INCREASE IN SOCIAL SERVICES BLOCK GRANT FOR FY 2001.

(a) IN GENERAL.—Section 2003(c) of the Social Security Act (42 U.S.C. 1397b(c)) is amended—

(1) in paragraph (10), by striking “and” at the end;

(2) in paragraph (11), by striking “2001” and inserting “2002”;

(3) by redesignating paragraph (11) (as so amended) as paragraph (12); and

(4) by inserting after paragraph (10), the following new paragraph:

“(11) \$2,400,000,000 for the fiscal year 2001; and”.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) take effect October 1, 2000.

TITLE II—TAX INCENTIVES FOR AFFORDABLE HOUSING

Subtitle A—Low-Income Housing Credit

SEC. 201. MODIFICATION OF STATE CEILING ON LOW-INCOME HOUSING CREDIT.

(a) IN GENERAL.—Clauses (i) and (ii) of section 42(h)(3)(C) (relating to State housing credit ceiling) are amended to read as follows:

“(i) the unused State housing credit ceiling (if any) of such State for the preceding calendar year,

“(ii) the greater of—

“(I) \$1.75 multiplied by the State population, or

“(II) \$2,000,000.”.

(b) ADJUSTMENT OF STATE CEILING FOR INCREASES IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies) is amended by adding at the end the following new subparagraph:

“(H) COST-OF-LIVING ADJUSTMENT.—In the case of a calendar year after 2001, each of the dollar amounts contained in subparagraph (C)(ii) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting ‘calendar year 2000’ for ‘calendar year 1992’ in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of 5 cents (\$5,000 in the case of the dollar amount in subparagraph (C)(ii)(II)), such increase shall be rounded to the nearest multiple thereof.”.

(c) CONFORMING AMENDMENTS.—

(1) Section 42(h)(3)(C), as amended by subsection (a), is amended—

(A) by striking “clause (ii)” in the matter following clause (iv) and inserting “clause (i)”, and

(B) by striking “clauses (i)” in the matter following clause (iv) and inserting “clauses (ii)”.

(2) Section 42(h)(3)(D)(ii) is amended—

(A) by striking “subparagraph (C)(ii)” and inserting “subparagraph (C)(i)”, and

(B) by striking “clauses (i)” in subclause (II) and inserting “clauses (ii)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 2000.

SEC. 202. MODIFICATION TO RULES RELATING TO BASIS OF BUILDING WHICH IS ELIGIBLE FOR CREDIT.

(a) CERTAIN NATIVE AMERICAN HOUSING ASSISTANCE DISREGARDED IN DETERMINING WHETHER BUILDING IS FEDERALLY SUBSIDIZED FOR PURPOSES OF THE LOW-INCOME HOUSING CREDIT.—Subparagraph (E) of section 42(i)(2) (relating to determination of whether building is federally subsidized) is amended—

(1) in clause (i), by inserting “or the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4101 et seq.) (as in effect on October 1, 1997)” after “this subparagraph”, and

(2) in the subparagraph heading, by inserting “OR NATIVE AMERICAN HOUSING ASSISTANCE” after “HOME ASSISTANCE”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) housing credit dollar amounts allocated after December 31, 2000, and

(2) buildings placed in service after such date to the extent paragraph (1) of section 42(h) of the Internal Revenue Code of 1986 does not apply to any building by reason of paragraph (4) thereof, but only with respect to bonds issued after such date.

Subtitle B—Historic Homes

SEC. 211. TAX CREDIT FOR RENOVATING HISTORIC HOMES.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to non-refundable personal credits) is amended by inserting after section 25A the following new section:

“SEC. 25B. HISTORIC HOMEOWNERSHIP REHABILITATION CREDIT.

“(a) GENERAL RULE.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the qualified rehabilitation expenditures made by the taxpayer with respect to a qualified historic home.

“(b) DOLLAR LIMITATION.—The credit allowed by subsection (a) with respect to any residence of a taxpayer shall not exceed \$20,000 (\$10,000 in the case of a married individual filing a separate return).

“(c) CARRYFORWARD OF CREDIT UNUSED BY REASON OF LIMITATION BASED ON TAX LIABILITY.—If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section), such excess shall be carried to the succeeding taxable year (but not for more than 10 taxable years succeeding the first taxable year in which the credit under this section is allowed to the taxpayer) and added to the credit allowable under subsection (a) for such succeeding taxable year.

“(d) QUALIFIED REHABILITATION EXPENDITURE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified rehabilitation expenditure’ means any amount properly chargeable to capital account—

“(A) in connection with the certified rehabilitation of a qualified historic home, and

“(B) for property for which depreciation would be allowable under section 168 if the qualified historic home were used in a trade or business.

“(2) CERTAIN EXPENDITURES NOT INCLUDED.—

“(A) EXTERIOR.—Such term shall not include any expenditure in connection with the rehabilitation of a building unless at least 5 percent of the total expenditures made in the rehabilitation process are allocable to the rehabilitation of the exterior of such building.

“(B) OTHER RULES TO APPLY.—Rules similar to the rules of clauses (ii) and (iii) of section 47(c)(2)(B) shall apply.

“(3) MIXED USE OR MULTIFAMILY BUILDING.—If only a portion of a building is used as the principal residence of the taxpayer, only qualified rehabilitation expenditures which are properly allocable to such portion shall be taken into account under this section.

“(e) CERTIFIED REHABILITATION.—For purposes of this section—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, the term ‘certified rehabilitation’ has the meaning given such term by section 47(c)(2)(C).

“(2) FACTORS TO BE CONSIDERED IN THE CASE OF TARGETED AREA RESIDENCES, ETC.—

“(A) IN GENERAL.—For purposes of applying section 47(c)(2)(C) under this section with respect to the rehabilitation of a building to which this paragraph applies, consideration shall be given to—

“(i) the feasibility of preserving existing architectural and design elements of the interior of such building,

“(ii) the risk of further deterioration or demolition of such building in the event that certification is denied because of the failure to preserve such interior elements, and

“(iii) the effects of such deterioration or demolition on neighboring historic properties.

“(B) BUILDINGS TO WHICH THIS PARAGRAPH APPLIES.—This paragraph shall apply with respect to any building—

“(i) any part of which is a targeted area residence within the meaning of section 143(j)(1), or

“(ii) which is located within an enterprise community or empowerment zone as designated under section 1391,

but shall not apply with respect to any building which is listed in the National Register.

“(3) APPROVED STATE PROGRAM.—The term ‘certified rehabilitation’ includes a certification made by—

"(A) a State Historic Preservation Officer who administers a State Historic Preservation Program approved by the Secretary of the Interior pursuant to section 101(b)(1) of the National Historic Preservation Act, as in effect on July 21, 1999, or

"(B) a local government, certified pursuant to section 101(c)(1) of the National Historic Preservation Act, as in effect on July 21, 1999, and authorized by a State Historic Preservation Officer, or the Secretary of the Interior where there is no approved State program),

subject to such terms and conditions as may be specified by the Secretary of the Interior for the rehabilitation of buildings within the jurisdiction of such officer (or local government) for purposes of this section.

"(f) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) QUALIFIED HISTORIC HOME.—The term 'qualified historic home' means a certified historic structure—

"(A) which has been substantially rehabilitated, and

"(B) which (or any portion of which)—

"(i) is owned by the taxpayer, and

"(ii) is used (or will, within a reasonable period, be used) by such taxpayer as his principal residence.

"(2) SUBSTANTIALLY REHABILITATED.—The term 'substantially rehabilitated' has the meaning given such term by section 47(c)(1)(C); except that, in the case of any building described in subsection (e)(2), clause (i)(I) thereof shall not apply.

"(3) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as when used in section 121.

"(4) CERTIFIED HISTORIC STRUCTURE.—

"(A) IN GENERAL.—The term 'certified historic structure' means any building (and its structural components) which—

"(i) is listed in the National Register, or

"(ii) is located in a registered historic district (as defined in section 47(c)(3)(B)) within which only qualified census tracts (or portions thereof) are located, and is certified by the Secretary of the Interior to the Secretary as being of historic significance to the district.

"(B) CERTAIN STRUCTURES INCLUDED.—Such term includes any building (and its structural components) which is designated as being of historic significance under a statute of a State or local government, if such statute is certified by the Secretary of the Interior to the Secretary as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance.

"(C) QUALIFIED CENSUS TRACTS.—For purposes of subparagraph (A)(ii)—

"(i) IN GENERAL.—The term 'qualified census tract' means a census tract in which the median family income is less than twice the statewide median family income.

"(ii) DATA USED.—The determination under clause (i) shall be made on the basis of the most recent decennial census for which data are available.

"(5) REHABILITATION NOT COMPLETE BEFORE CERTIFICATION.—A rehabilitation shall not be treated as complete before the date of the certification referred to in subsection (e).

"(6) LESSEES.—A taxpayer who leases his principal residence shall, for purposes of this section, be treated as the owner thereof if the remaining term of the lease (as of the date determined under regulations prescribed by the Secretary) is not less than such minimum period as the regulations require.

"(7) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—If the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing cor-

poration (as defined in such section), such stockholder shall be treated as owning the house or apartment which the taxpayer is entitled to occupy as such stockholder.

"(8) ALLOCATION OF EXPENDITURES RELATING TO EXTERIOR OF BUILDING CONTAINING COOPERATIVE OR CONDOMINIUM UNITS.—The percentage of the total expenditures made in the rehabilitation of a building containing cooperative or condominium residential units allocated to the rehabilitation of the exterior of the building shall be attributed proportionately to each cooperative or condominium residential unit in such building for which a credit under this section is claimed.

"(g) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—In the case of a building other than a building to which subsection (h) applies, qualified rehabilitation expenditures shall be treated for purposes of this section as made on the date the rehabilitation is completed.

"(h) ALLOWANCE OF CREDIT FOR PURCHASE OF REHABILITATED HISTORIC HOME.—

"(1) IN GENERAL.—In the case of a qualified purchased historic home, the taxpayer shall be treated as having made (on the date of purchase) the qualified rehabilitation expenditures made by the seller of such home. For purposes of the preceding sentence, expenditures made by the seller shall be deemed to be qualified rehabilitation expenditures if such expenditures, if made by the purchaser, would be qualified rehabilitation expenditures.

"(2) QUALIFIED PURCHASED HISTORIC HOME.—For purposes of this subsection, the term 'qualified purchased historic home' means any substantially rehabilitated certified historic structure purchased by the taxpayer if—

"(A) the taxpayer is the first purchaser of such structure after the date rehabilitation is completed, and the purchase occurs within 5 years after such date,

"(B) the structure (or a portion thereof) will, within a reasonable period, be the principal residence of the taxpayer,

"(C) no credit was allowed to the seller under this section or section 47 with respect to such rehabilitation, and

"(D) the taxpayer is furnished with such information as the Secretary determines is necessary to determine the credit under this subsection.

"(i) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE.—

"(1) IN GENERAL.—The taxpayer may elect, in lieu of the credit otherwise allowable under this section, to receive a historic rehabilitation mortgage credit certificate. An election under this paragraph shall be made—

"(A) in the case of a building to which subsection (h) applies, at the time of purchase, or

"(B) in any other case, at the time rehabilitation is completed.

"(2) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE.—For purposes of this subsection, the term 'historic rehabilitation mortgage credit certificate' means a certificate—

"(A) issued to the taxpayer, in accordance with procedures prescribed by the Secretary, with respect to a certified rehabilitation,

"(B) the face amount of which shall be equal to the credit which would (but for this subsection) be allowable under subsection (a) to the taxpayer with respect to such rehabilitation,

"(C) which may only be transferred by the taxpayer to a lending institution (including a non-depository institution) in connection with a loan—

"(i) that is secured by the building with respect to which the credit relates, and

"(ii) the proceeds of which may not be used for any purpose other than the acquisition or rehabilitation of such building, and

"(D) in exchange for which such lending institution provides the taxpayer—

"(i) a reduction in the rate of interest on the loan which results in interest payment reductions which are substantially equivalent on a present value basis to the face amount of such certificate, or

"(ii) if the taxpayer so elects with respect to a specified amount of the face amount of such a certificate relating to a building—

"(I) which is a targeted area residence within the meaning of section 143(j)(1), or

"(II) which is located in an enterprise community or empowerment zone as designated under section 1391,

a payment which is substantially equivalent to such specified amount to be used to reduce the taxpayer's cost of purchasing the building (and only the remainder of such face amount shall be taken into account under clause (i)).

"(3) METHOD OF DISCOUNTING.—The present value under paragraph (2)(D)(i) shall be determined—

"(A) for a period equal to the term of the loan referred to in subparagraph (D)(i),

"(B) by using the convention that any payment on such loan in any taxable year within such period is deemed to have been made on the last day of such taxable year,

"(C) by using a discount rate equal to 65 percent of the average of the annual Federal mid-term rate and the annual Federal long-term rate applicable under section 1274(d)(1) to the month in which the taxpayer makes an election under paragraph (1) and compounded annually, and

"(D) by assuming that the credit allowable under this section for any year is received on the last day of such year.

"(4) USE OF CERTIFICATE BY LENDER.—The amount of the credit specified in the certificate shall be allowed to the lender only to offset the regular tax (as defined in section 55(c)) of such lender. The lender may carry forward all unused amounts under this subsection until exhausted.

"(5) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE NOT TREATED AS TAXABLE INCOME.—Notwithstanding any other provision of law, no benefit accruing to the taxpayer through the use of an historic rehabilitation mortgage credit certificate shall be treated as taxable income for purposes of this title.

"(j) RECAPTURE.—

"(1) IN GENERAL.—If, before the end of the 5-year period beginning on the date on which the rehabilitation of the building is completed (or, if subsection (h) applies, the date of purchase of such building by the taxpayer, or, if subsection (i) applies, the date of the loan)—

"(A) the taxpayer disposes of such taxpayer's interest in such building, or

"(B) such building ceases to be used as the principal residence of the taxpayer, the taxpayer's tax imposed by this chapter for the taxable year in which such disposition or cessation occurs shall be increased by the recapture percentage of the credit allowed under this section for all prior taxable years with respect to such rehabilitation.

"(2) RECAPTURE PERCENTAGE.—For purposes of paragraph (1), the recapture percentage shall be determined in accordance with the following table:

"If the disposition or cessation occurs within—	The recapture percentage is—
(i) One full year after the taxpayer becomes entitled to the credit.	100
(ii) One full year after the close of the period described in clause (i).	80

"If the disposition or cessation occurs within—**The recapture percentage is—**

- | | |
|---|-----|
| (iii) One full year after the close of the period described in clause (ii). | 60 |
| (iv) One full year after the close of the period described in clause (iii). | 40 |
| (v) One full year after the close of the period described in clause (iv). | 20. |

"(k) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property (including any purchase under subsection (h) and any transfer under subsection (i)), the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

"(l) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any amount for which credit is allowed under section 47.

"(m) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this section, including regulations where less than all of a building is used as a principal residence and where more than 1 taxpayer use the same dwelling unit as their principal residence."

(b) CONFORMING AMENDMENTS.—

(1) Section 23(c) is amended by striking "section 1400C" and inserting "sections 25B and 1400C".

(2) Section 25(e)(1)(C) is amended by striking "23" and inserting "23, 25B".

(3) Section 1016(a) is amended by striking "and" at the end of paragraph (26), by striking the period at the end of paragraph (27) and inserting ", and", and by adding at the end the following new item:

"(28) to the extent provided in section 25B(k)."

(4) Section 1400C(d) is amended by inserting "and section 25B" after "this section".

(c) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25A the following new item:

"Sec. 25B. Historic homeownership rehabilitation credit."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2001.

Subtitle C—Forgiven Mortgage Obligations**SEC. 221. EXCLUSION FROM GROSS INCOME FOR CERTAIN FORGIVEN MORTGAGE OBLIGATIONS.**

(a) IN GENERAL.—Paragraph (1) of section 108(a) (relating to exclusion from gross income) is amended by striking "or" at the end of both subparagraphs (A) and (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by inserting after subparagraph (D) the following new subparagraph:

"(E) in the case of an individual, the indebtedness discharged is qualified residential indebtedness."

(b) QUALIFIED RESIDENTIAL INDEBTEDNESS SHORTFALL.—Section 108 (relating to discharge of indebtedness) is amended by adding at the end the following new subsection:

"(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

"(1) LIMITATIONS.—The amount excluded under subparagraph (E) of subsection (a)(1) with respect to any qualified residential indebtedness shall not exceed the excess (if any) of—

"(A) the outstanding principal amount of such indebtedness (immediately before the discharge), over

"(B) the sum of—

"(i) the amount realized from the sale of the real property securing such indebtedness reduced by the cost of such sale, and

"(ii) the outstanding principal amount of any other indebtedness secured by such property."

"(2) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

"(A) IN GENERAL.—The term 'qualified residential indebtedness' means indebtedness which—

"(i) was incurred or assumed by the taxpayer in connection with real property used as the principal residence of the taxpayer (within the meaning of section 121) and is secured by such real property,

"(ii) is incurred or assumed to acquire, construct, reconstruct, or substantially improve such real property, and

"(iii) with respect to which such taxpayer makes an election to have this paragraph apply."

"(B) REFINANCED INDEBTEDNESS.—Such term shall include indebtedness resulting from the refinancing of indebtedness under subparagraph (A)(ii), but only to the extent the refinanced indebtedness does not exceed the amount of the indebtedness being refinanced.

"(C) EXCEPTIONS.—Such term shall not include qualified farm indebtedness or qualified real property business indebtedness."

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 108(a) is amended—

(A) by striking "and (D)" in subparagraph (A) and inserting "(D), and (E)", and

(B) by amending subparagraph (B) to read as follows:

"(B) INSOLVENCY EXCLUSION TAKES PRECEDENCE OVER QUALIFIED FARM EXCLUSION; QUALIFIED REAL PROPERTY BUSINESS EXCLUSION; AND QUALIFIED RESIDENTIAL SHORTFALL EXCLUSION.—Subparagraphs (C), (D), and (E) of paragraph (1) shall not apply to a discharge to the extent the taxpayer is insolvent."

(2) Paragraph (1) of section 108(b) is amended by striking "or (C)" and inserting "(C), or (E)".

(3) Subsection (c) of section 121 is amended by adding at the end the following new paragraph:

"(3) SPECIAL RULE RELATING TO DISCHARGE OF INDEBTEDNESS.—The amount of gain which (but for this paragraph) would be excluded from gross income under subsection (a) with respect to a principal residence shall be reduced by the amount excluded from gross income under section 108(a)(1)(E) with respect to such residence."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to discharges after the date of the enactment of this Act.

Subtitle D—Mortgage Revenue Bonds**SEC. 231. INCREASE IN PURCHASE PRICE LIMITATION UNDER MORTGAGE SUBSIDY BOND RULES BASED ON MEDIAN FAMILY INCOME.**

(a) IN GENERAL.—Paragraph (1) of section 143(e) (relating to purchase price requirement) is amended to read as follows:

"(1) IN GENERAL.—An issue meets the requirements of this subsection only if the acquisition cost of each residence the owner-financing of which is provided under the issue does not exceed the greater of—

"(A) 90 percent of the average area purchase price applicable to the residence, or

"(B) 3.5 times the applicable median family income (as defined in subsection (f)(4))."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to obligations issued after the date of the enactment of this Act.

SEC. 232. MORTGAGE FINANCING FOR RESIDENCES LOCATED IN PRESIDENTIALLY DECLARED DISASTER AREAS.

(a) IN GENERAL.—Paragraph (11) of section 143(k) of the Internal Revenue Code of 1986 is amended to read as follows:

"(11) SPECIAL RULES FOR RESIDENCES LOCATED IN DISASTER AREAS.—

"(A) HOME IMPROVEMENT LOANS FOR REPAIRS.—In the case of financing provided by a qualified home improvement loan for the repair of damage to a residence located in a disaster area which was sustained as a result of the disaster—

"(i) the limitation under paragraph (4) shall be increased (but not above \$100,000) to the extent such loan is for the repair of such damage, and

"(ii) subsection (f) (relating to income requirement) shall be applied as if such residence were a targeted area residence."

"(B) PURCHASE OF REPLACEMENT HOME.—In the case of financing provided to acquire a residence located in a disaster area by mortgagors whose prior residence was in such area and was destroyed or otherwise rendered uninhabitable as a result of the disaster—

"(i) subsection (d) (relating to 3-year requirement) shall not apply, and

"(ii) subsections (e) and (f) (relating to purchase price requirement and income requirement) shall be applied as if such residence were a targeted area residence."

"(C) FINANCING MUST BE PROVIDED WITHIN 2 YEARS AFTER DISASTER DECLARATION.—This paragraph shall apply only to financing provided within 2 years after the date of the disaster declaration."

"(D) DISASTER AREA.—For purposes of this paragraph, the term 'disaster area' means an area determined by the President to warrant assistance from the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as in effect on the date of the enactment of the Taxpayer Relief Act of 1997) and with respect to which the Federal share of disaster payments exceeds 75 percent."

"(E) APPLICATION OF PARAGRAPH.—This paragraph shall apply only with respect to bonds issued after December 31, 2000."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to bonds issued after December 31, 2000.

Subtitle E—Property and Casualty Insurance
SEC. 241. EXEMPTION FROM INCOME TAX FOR STATE-CREATED ORGANIZATIONS PROVIDING PROPERTY AND CASUALTY INSURANCE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE.

(a) IN GENERAL.—Subsection (c) of section 501 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by adding at the end the following new paragraph:

"(28)(A) Any association created before January 1, 1999, by State law and organized and operated exclusively to provide property and casualty insurance coverage for property located within the State for which the State has determined that coverage in the authorized insurance market is limited or unavailable at reasonable rates, if—

"(i) no part of the net earnings of which inures to the benefit of any private shareholder or individual,

"(ii) except as provided in clause (v), no part of the assets of which may be used for, or diverted to, any purpose other than—

"(I) to satisfy, in whole or in part, the liability of the association for, or with respect to, claims made on policies written by the association,

"(II) to invest in investments authorized by applicable law,

“(III) to pay reasonable and necessary administration expenses in connection with the establishment and operation of the association and the processing of claims against the association, or

“(IV) to make remittances pursuant to State law to be used by the State to provide for the payment of claims on policies written by the association, purchase reinsurance covering losses under such policies, or to support governmental programs to prepare for or mitigate the effects of natural catastrophic events,

“(iii) the State law governing the association permits the association to levy assessments on insurance companies authorized to sell property and casualty insurance in the State, or on property and casualty insurance policyholders with insurable interests in property located in the State to fund deficits of the association, including the creation of reserves,

“(iv) the plan of operation of the association is subject to approval by the chief executive officer or other official of the State, by the State legislature, or both, and

“(v) the assets of the association revert upon dissolution to the State, the State's designee, or an entity designated by the State law governing the association, or State law does not permit the dissolution of the association.

“(B)(i) An entity described in clause (ii) shall be disregarded as a separate entity and treated as part of the association described in subparagraph (A) from which it receives remittances described in clause (ii) if an election is made within 30 days after the date that such association is determined to be exempt from tax.

“(ii) An entity is described in this clause if it is an entity or fund created before January 1, 1999, pursuant to State law and organized and operated exclusively to receive, hold, and invest remittances from an association described in subparagraph (A) and exempt from tax under subsection (a), to make disbursements to pay claims on insurance contracts issued by such association, and to make disbursements to support governmental programs to prepare for or mitigate the effects of natural catastrophic events.”.

(b) UNRELATED BUSINESS TAXABLE INCOME.—Subsection (a) of section 512 (relating to unrelated business taxable income) is amended by adding at the end the following new paragraph:

“(6) SPECIAL RULE APPLICABLE TO ORGANIZATIONS DESCRIBED IN SECTION 501(c)(28).—In the case of an organization described in section 501(c)(28), the term ‘unrelated business taxable income’ means taxable income for a taxable year computed without the application of section 501(c)(28) if at the end of the immediately preceding taxable year the organization's net equity exceeded 15 percent of the total coverage in force under insurance contracts issued by the organization and outstanding at the end of such preceding year.”.

(c) TRANSITIONAL RULE.—No income or gain shall be recognized by an association as a result of a change in status to that of an association described by section 501(c)(28) of the Internal Revenue Code of 1986, as amended by subsection (a).

(d) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2000.

TITLE III—TAX INCENTIVES FOR URBAN AND RURAL INFRASTRUCTURE

SEC. 301. INCREASE IN STATE CEILING ON PRIVATE ACTIVITY BONDS.

(a) IN GENERAL.—Paragraphs (1) and (2) of section 146(d) (relating to State ceiling) are amended to read as follows:

“(1) IN GENERAL.—The State ceiling applicable to any State for any calendar year shall be the greater of—

“(A) an amount equal to \$75 multiplied by the State population, or

“(B) \$225,000,000.

“(2) COST-OF-LIVING ADJUSTMENT.—In the case of a calendar year after 2001, each of the dollar amounts contained in paragraph (1) shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting ‘calendar year 2000’ for ‘calendar year 1992’ in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of \$5 (\$5,000 in the case of the dollar amount in paragraph (1)(B)), such increase shall be rounded to the nearest multiple thereof.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to calendar years after 2000.

SEC. 302. MODIFICATIONS TO EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

(a) EXPENSING NOT LIMITED TO SITES IN TARGETED AREAS.—Subsection (c) of section 198 is amended to read as follows:

“(c) QUALIFIED CONTAMINATED SITE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified contaminated site’ means any area—

“(A) which is held by the taxpayer for use in a trade or business or for the production of income, or which is property described in section 1221(a)(1) in the hands of the taxpayer, and

“(B) at or on which there has been a release (or threat of release) or disposal of any hazardous substance.

“(2) NATIONAL PRIORITIES LISTED SITES NOT INCLUDED.—Such term shall not include any site which is on, or proposed for, the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as in effect on the date of the enactment of this section).

“(3) TAXPAYER MUST RECEIVE STATEMENT FROM STATE ENVIRONMENTAL AGENCY.—An area shall be treated as a qualified contaminated site with respect to expenditures paid or incurred during any taxable year only if the taxpayer receives a statement from the appropriate agency of the State in which such area is located that such area meets the requirement of paragraph (1)(B).

“(4) APPROPRIATE STATE AGENCY.—For purposes of paragraph (3), the chief executive officer of each State may, in consultation with the Administrator of the Environmental Protection Agency, designate the appropriate State environmental agency within 60 days of the date of the enactment of this section. If the chief executive officer of a State has not designated an appropriate environmental agency within such 60-day period, the appropriate environmental agency for such State shall be designated by the Administrator of the Environmental Protection Agency.”.

(b) EXTENSION OF TERMINATION DATE.—Subsection (h) of section 198 is amended by striking “2001” and inserting “2003”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after the date of the enactment of this Act.

SEC. 303. BROADBAND INTERNET ACCESS TAX CREDIT.

(a) IN GENERAL.—Subpart E of part IV of chapter 1 (relating to rules for computing investment credit) is amended by inserting after section 48 the following new section:

“SEC. 48A. BROADBAND CREDIT.

“(a) GENERAL RULE.—For purposes of section 46, the broadband credit for any taxable year is the sum of—

“(1) the current generation broadband credit, plus

“(2) the next generation broadband credit.

“(b) CURRENT GENERATION BROADBAND CREDIT; NEXT GENERATION BROADBAND CREDIT.—For purposes of this section—

“(1) CURRENT GENERATION BROADBAND CREDIT.—The current generation broadband credit for any taxable year is equal to 10 percent of the qualified expenditures incurred with respect to qualified equipment offering current generation broadband services to rural subscribers or underserved subscribers and taken into account with respect to such taxable year.

“(2) NEXT GENERATION BROADBAND CREDIT.—The next generation broadband credit for any taxable year is equal to 20 percent of the qualified expenditures incurred with respect to qualified equipment offering next generation broadband services to all rural subscribers, all underserved subscribers, or any other residential subscribers and taken into account with respect to such taxable year.

“(c) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—For purposes of this section—

“(1) IN GENERAL.—Qualified expenditures with respect to qualified equipment shall be taken into account with respect to the first taxable year in which current generation broadband services or next generation broadband services are offered by the taxpayer through such equipment to subscribers.

“(2) OFFER OF SERVICES.—For purposes of paragraph (1), the offer of current generation broadband services or next generation broadband services through qualified equipment occurs when such class of service is purchased by and provided to at least 10 percent of the subscribers described in subsection (b) which such equipment is capable of serving through the legal or contractual area access rights or obligations of the taxpayer.

“(d) SPECIAL ALLOCATION RULES.—

“(1) CURRENT GENERATION BROADBAND SERVICES.—For purposes of determining the current generation broadband credit under subsection (a)(1), if the qualified equipment is capable of serving both the subscribers described under subsection (b)(1) and other subscribers, the qualified expenditures shall be multiplied by a fraction—

“(A) the numerator of which is the sum of the total potential subscriber populations within the rural areas and the underserved areas which the equipment is capable of serving, and

“(B) the denominator of which is the total potential subscriber population of the area which the equipment is capable of serving.

“(2) NEXT GENERATION BROADBAND SERVICES.—For purposes of determining the next generation broadband credit under subsection (a)(2), if the qualified equipment is capable of serving both the subscribers described under subsection (b)(2) and other subscribers, the qualified expenditures shall be multiplied by a fraction—

“(A) the numerator of which is the sum of—

“(i) the total potential subscriber populations within the rural areas and underserved areas, plus

“(ii) the total potential subscriber population of the area consisting only of residential subscribers not described in clause (i), which the equipment is capable of serving, and

“(B) the denominator of which is the total potential subscriber population of the area which the equipment is capable of serving.

“(e) DEFINITIONS.—For purposes of this section—

“(1) ANTENNA.—The term ‘antenna’ means any device used to transmit or receive signals through the electromagnetic spectrum, including satellite equipment.

“(2) CABLE OPERATOR.—The term ‘cable operator’ has the meaning given such term by section 602(5) of the Communications Act of 1934 (47 U.S.C. 522(5)).

“(3) COMMERCIAL MOBILE SERVICE CARRIER.—The term ‘commercial mobile service carrier’ means any person authorized to provide commercial mobile radio service as defined in section 20.3 of title 47, Code of Federal Regulations.

“(4) CURRENT GENERATION BROADBAND SERVICE.—The term ‘current generation broadband service’ means the transmission of signals at a rate of at least 1,500,000 bits per second to the subscriber and at least 200,000 bits per second from the subscriber.

“(5) NEXT GENERATION BROADBAND SERVICE.—The term ‘next generation broadband service’ means the transmission of signals at a rate of at least 22,000,000 bits per second to the subscriber and at least 10,000,000 bits per second from the subscriber.

“(6) NONRESIDENTIAL SUBSCRIBER.—The term ‘nonresidential subscriber’ means a person or entity who purchases broadband services which are delivered to the permanent place of business of such person or entity.

“(7) OPEN VIDEO SYSTEM OPERATOR.—The term ‘open video system operator’ means any person authorized to provide service under section 653 of the Communications Act of 1934 (47 U.S.C. 573).

“(8) OTHER WIRELESS CARRIER.—The term ‘other wireless carrier’ means any person (other than a telecommunications carrier, commercial mobile service carrier, cable operator, open video system operator, or satellite carrier) providing current generation broadband services or next generation broadband service to subscribers through the radio transmission of energy.

“(9) PACKET SWITCHING.—The term ‘packet switching’ means controlling or routing the path of a digitized transmission signal which is assembled into packets or cells.

“(10) QUALIFIED EQUIPMENT.—

“(A) IN GENERAL.—The term ‘qualified equipment’ means equipment capable of providing current generation broadband services or next generation broadband services at any time to each subscriber who is utilizing such services.

“(B) ONLY CERTAIN INVESTMENT TAKEN INTO ACCOUNT.—Except as provided in subparagraph (C), equipment shall be taken into account under subparagraph (A) only to the extent it—

“(i) extends from the last point of switching to the outside of the unit, building, dwelling, or office owned or leased by a subscriber in the case of a telecommunications carrier,

“(ii) extends from the customer side of the mobile telephone switching office to a transmission/receive antenna (including such antenna) owned or leased by a subscriber in the case of a commercial mobile service carrier,

“(iii) extends from the customer side of the headend to the outside of the unit, building, dwelling, or office owned or leased by a subscriber in the case of a cable operator or open video system operator, or

“(iv) extends from a transmission/receive antenna (including such antenna) which transmits and receives signals to or from multiple subscribers to a transmission/receive antenna (including such antenna) on the outside of the unit, building, dwelling, or office owned or leased by a subscriber in the case of a satellite carrier or other wireless carrier, unless such other wireless carrier is also a telecommunications carrier.

“(C) PACKET SWITCHING EQUIPMENT.—Packet switching equipment, regardless of loca-

tion, shall be taken into account under subparagraph (A) only if it is deployed in connection with equipment described in subparagraph (B) and it is uniquely designed to perform the function of packet switching for current generation broadband services or next generation broadband services, but only if such packet switching is the last in a series of such functions performed in the transmission of a signal to a subscriber or the first in a series of such functions performed in the transmission of a signal from a subscriber.

“(11) QUALIFIED EXPENDITURE.—

“(A) IN GENERAL.—The term ‘qualified expenditure’ means any amount—

“(i) chargeable to capital account with respect to the purchase and installation of qualified equipment (including any upgrades thereto) for which depreciation is allowable under section 168, and

“(ii) incurred—

“(I) with respect to the provision of current generation broadband service, after December 31, 2000, and before January 1, 2004, and

“(II) with respect to the provision of next generation broadband service, after December 31, 2001, and before January 1, 2005.

“(B) CERTAIN SATELLITE EXPENDITURES EXCLUDED.—Such term shall not include any expenditure with respect to the launching of any satellite equipment.

“(12) RESIDENTIAL SUBSCRIBER.—The term ‘residential subscriber’ means an individual who purchases broadband services which are delivered to such individual’s dwelling.

“(13) RURAL SUBSCRIBER.—

“(A) IN GENERAL.—The term ‘rural subscriber’ means a residential subscriber residing in a dwelling located in a rural area or nonresidential subscriber maintaining a permanent place of business located in a rural area.

“(B) RURAL AREA.—The term ‘rural area’ means any census tract which—

“(i) is not within 10 miles of any incorporated or census designated place containing more than 25,000 people, and

“(ii) is not within a county or county equivalent which has an overall population density of more than 500 people per square mile of land.

“(14) SATELLITE CARRIER.—The term ‘satellite carrier’ means any person using the facilities of a satellite or satellite service licensed by the Federal Communications Commission and operating in the Fixed-Satellite Service under part 25 of title 47 of the Code of Federal Regulations or the Direct Broadcast Satellite Service under part 100 of title 47 of such Code to establish and operate a channel of communications for point-to-multipoint distribution of signals, and owning or leasing a capacity or service on a satellite in order to provide such point-to-multipoint distribution.

“(15) SUBSCRIBER.—The term ‘subscriber’ means a person who purchases current generation broadband services or next generation broadband services.

“(16) TELECOMMUNICATIONS CARRIER.—The term ‘telecommunications carrier’ has the meaning given such term by section 3(44) of the Communications Act of 1934 (47 U.S.C. 153 (44)), but—

“(A) includes all members of an affiliated group of which a telecommunications carrier is a member, and

“(B) does not include a commercial mobile service carrier.

“(17) TOTAL POTENTIAL SUBSCRIBER POPULATION.—The term ‘total potential subscriber population’ means, with respect to any area and based on the most recent census data, the total number of potential residential subscribers residing in dwellings located in such area and potential nonresiden-

tial subscribers maintaining permanent places of business located in such area.

“(18) UNDERSERVED SUBSCRIBER.—

“(A) IN GENERAL.—The term ‘underserved subscriber’ means a residential subscriber residing in a dwelling located in an underserved area or nonresidential subscriber maintaining a permanent place of business located in an underserved area.

“(B) UNDERSERVED AREA.—The term ‘underserved area’ means any census tract—

“(i) the poverty level of which is at least 30 percent (based on the most recent census data),

“(ii) the median family income of which does not exceed—

“(I) in the case of a census tract located in a metropolitan statistical area, 70 percent of the greater of the metropolitan area median family income or the statewide median family income, and

“(II) in the case of a census tract located in a nonmetropolitan statistical area, 70 percent of the nonmetropolitan statewide median family income, or

“(iii) which is located in an empowerment zone or enterprise community designated under section 1391.

“(f) DESIGNATION OF CENSUS TRACTS.—The Secretary shall, not later than 90 days after the date of the enactment of this section, designate and publish those census tracts meeting the criteria described in paragraphs (13)(B) and (18)(B) of subsection (e), and such tracts shall remain so designated for the period ending with the applicable termination date described in subsection (e)(11)(A)(ii).”

(b) CREDIT TO BE PART OF INVESTMENT CREDIT.—Section 46 (relating to the amount of investment credit) is amended by striking “and” at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting “, and”, and by adding at the end the following new paragraph:

“(4) the broadband credit.”

(c) SPECIAL RULE FOR MUTUAL OR COOPERATIVE TELEPHONE COMPANIES.—Section 501(c)(12)(B) (relating to list of exempt organizations) is amended by striking “or” at the end of clause (iii), by striking the period at the end of clause (iv) and inserting “, or”, and by adding at the end the following new clause:

“(v) from sources not described in subparagraph (A), but only to the extent such income does not in any year exceed an amount equal to the credit for qualified expenditures which would be determined under section 48A for such year if the mutual or cooperative telephone company was not exempt from taxation.”

(d) CONFORMING AMENDMENT.—The table of sections for subpart E of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 48 the following new item:

“Sec. 48A. Broadband credit.”

(e) REGULATORY MATTERS.—No Federal or State agency or instrumentality shall adopt regulations or ratemaking procedures that would have the effect of confiscating any credit or portion thereof allowed under section 48A of the Internal Revenue Code of 1986 (as added by this section) or otherwise subverting the purpose of this section.

(f) STUDY AND REPORT.—

(1) SENSE OF CONGRESS.—It is the sense of Congress that in order to maintain competitive neutrality, the credit allowed under section 48A of the Internal Revenue Code of 1986 (as added by this section) should be administered in such a manner so as to ensure that each class of provider receives the same level of financial incentive to deploy current generation broadband services and next generation broadband services.

(2) STUDY AND REPORT.—The Secretary of the Treasury shall, within 180 days after the

effective date of this section, study the impact of the credit allowed under section 48A of the Internal Revenue Code of 1986 (as added by this section) on the relative competitiveness of potential classes of providers of current generation broadband services and next generation broadband services, and shall report to Congress the findings of such study, together with any legislative or regulatory proposals determined to be necessary to ensure that the purposes of such credit can be furthered without impacting competitive neutrality among such classes of providers.

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to expenditures incurred after December 31, 2000.

(2) SPECIAL RULE.—The amendments made by subsection (c) shall apply to amounts received after December 31, 2000.

SEC. 304. CREDIT TO HOLDERS OF QUALIFIED AMTRAK BONDS.

(a) IN GENERAL.—Part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end the following new subpart:

“Subpart H—Nonrefundable Credit for Holders of Qualified Amtrak Bonds

“Sec. 54. Credit to holders of qualified Amtrak bonds.

“SEC. 54. CREDIT TO HOLDERS OF QUALIFIED AMTRAK BONDS.

“(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified Amtrak bond on a credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to credit allowance dates during such year on which the taxpayer holds such bond.

“(b) AMOUNT OF CREDIT.—

“(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any credit allowance date for a qualified Amtrak bond is 25 percent of the annual credit determined with respect to such bond.

“(2) ANNUAL CREDIT.—The annual credit determined with respect to any qualified Amtrak bond is the product of—

“(A) the applicable credit rate, multiplied by

“(B) the outstanding face amount of the bond.

“(3) APPLICABLE CREDIT RATE.—For purposes of paragraph (2), the applicable credit rate with respect to an issue is the rate equal to an average market yield (as of the day before the date of issuance of the issue) on outstanding long-term corporate debt obligations (determined under regulations prescribed by the Secretary).

“(4) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed.

“(c) LIMITATION BASED ON AMOUNT OF TAX.—

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

“(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(B) the sum of the credits allowable under this part (other than this subpart and subpart C).

“(2) CARRYOVER OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by paragraph (1) for such taxable year, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year.

“(d) QUALIFIED AMTRAK BOND.—For purposes of this part—

“(1) IN GENERAL.—The term ‘qualified Amtrak bond’ means any bond issued as part of an issue if—

“(A) 95 percent or more of the proceeds of such issue are—

“(i) to be used for any qualified project, or

“(ii) to be pledged to secure payments and other obligations incurred by the National Railroad Passenger Corporation in connection with any qualified project.

“(B) the bond is issued by the National Railroad Passenger Corporation,

“(C) the issuer—

“(i) designates such bond for purposes of this section,

“(ii) certifies that it meets the State contribution requirement of paragraph (2) with respect to such project, and

“(iii) certifies that it has obtained the written approval of the Secretary of Transportation for such project,

“(D) the term of each bond which is part of such issue does not exceed 20 years, and

“(E) the payment of principal with respect to such bond is guaranteed by the National Railroad Passenger Corporation.

“(2) STATE CONTRIBUTION REQUIREMENT.—

“(A) IN GENERAL.—For purposes of paragraph (1)(C)(ii), the State contribution requirement of this paragraph is met with respect to any qualified project if the National Railroad Passenger Corporation has a written binding commitment from 1 or more States to make matching contributions not later than the date of issuance of the issue of not less than 20 percent of the cost of the qualified project.

“(B) USE OF STATE MATCHING CONTRIBUTIONS.—The matching contributions described in subparagraph (A) with respect to each qualified project shall be used—

“(i) in the case of an amount not to exceed 20 percent of the cost of such project, to redeem bonds which are a part of the issue with respect to such project, and

“(ii) in the case of any remaining amount, at the election of the National Railroad Passenger Corporation and the contributing State—

“(I) to fund the qualified project,

“(II) to redeem such bonds, or

“(III) for the purposes of subclauses (I) and (II).

“(C) STATE MATCHING CONTRIBUTIONS MAY NOT INCLUDE FEDERAL FUNDS.—For purposes of this paragraph, State matching contributions shall not be derived, directly or indirectly, from Federal funds, including any transfers from the Highway Trust Fund under section 9503.

“(D) NO STATE CONTRIBUTION REQUIREMENT FOR CERTAIN QUALIFIED PROJECT.—With respect to the qualified project described in subsection (e)(2)(B), the State contribution requirement of this paragraph is zero.

“(3) QUALIFIED PROJECT.—The term ‘qualified project’ means—

“(A) the acquisition, financing, or refinancing (as described in paragraph (1)(A)(ii)) of equipment, rolling stock, and other capital improvements for the northeast rail corridor between Washington, D.C. and Boston, Massachusetts (including the project described in subsection (e)(2)(B)),

“(B) the acquisition, financing, or refinancing (as so described) of equipment, rolling stock, and other capital improvements for the improvement of train speeds or safety (or both) on the high-speed rail corridors des-

ignated under section 104(d)(2) of title 23, United States Code, and

“(C) the acquisition, financing, or refinancing (as so described) of equipment, rolling stock, and other capital improvements for other intercity passenger rail corridors, including station rehabilitation or construction, track or signal improvements, or the elimination of grade crossings.

“(e) LIMITATIONS ON AMOUNT OF BONDS DESIGNATED.—

“(1) IN GENERAL.—There is a qualified Amtrak bond limitation for each fiscal year. Such limitation is—

“(A) \$1,000,000,000 for each of the fiscal years 2001 through 2010, and

“(B) except as provided in paragraph (5), zero after fiscal year 2010.

“(2) BONDS FOR RAIL CORRIDORS.—

“(A) IN GENERAL.—Not more than \$3,000,000,000 of the limitation under paragraph (1) may be designated for any 1 rail corridor described in subparagraph (A) or (B) of subsection (d)(3).

“(B) SPECIFIC QUALIFIED PROJECT ALLOCATION.—

Of the amount described in subparagraph (A), the Secretary of Transportation shall allocate \$92,000,000 for the acquisition and installation of platform facilities, performance of railroad force account work necessary to complete improvements below street grade, and any other necessary improvements related to construction at the railroad station at the James A. Farley Post Office Building in New York City, New York.

“(3) BONDS FOR OTHER PROJECTS.—Not more than 10 percent of the limitation under paragraph (1) for any fiscal year may be allocated to qualified projects described in subsection (d)(3)(C).

“(4) BONDS FOR ALASKA RAILROAD.—The Secretary of Transportation may allocate to the Alaska Railroad a portion of the qualified Amtrak limitation for any fiscal year in order to allow the Alaska Railroad to issue bonds which meet the requirements of this section for use in financing any project described in subsection (d)(3)(C). For purposes of this section, the Alaska Railroad shall be treated in the same manner as the National Passenger Railroad Corporation.

“(5) CARRYOVER OF UNUSED LIMITATION.—If for any fiscal year—

“(A) the limitation amount under paragraph (1), exceeds

“(B) the amount of bonds issued during such year which are designated under subsection (d)(1)(C)(i),

the limitation amount under paragraph (1) for the following fiscal year (through fiscal year 2014) shall be increased by the amount of such excess.

“(6) PREFERENCE FOR GREATER STATE PARTICIPATION.—In selecting qualified projects for allocation of the qualified Amtrak bond limitation under this subsection, the Secretary of Transportation shall give preference to any project with a State matching contribution rate exceeding 20 percent.

“(f) OTHER DEFINITIONS.—For purposes of this subpart—

“(1) BOND.—The term ‘bond’ includes any obligation.

“(2) CREDIT ALLOWANCE DATE.—The term ‘credit allowance date’ means—

“(A) March 15,

“(B) June 15,

“(C) September 15, and

“(D) December 15.

Such term includes the last day on which the bond is outstanding.

“(3) STATE.—The term ‘State’ includes the District of Columbia.

“(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this

section (determined without regard to subsection (c)) and the amount so included shall be treated as interest income.

“(h) SPECIAL RULES RELATING TO ARBITRAGE.—

“(1) IN GENERAL.—A bond shall not be treated as failing to meet the requirements of subsection (d)(1) solely by reason of the fact that proceeds of the issue of which such bond is a part are invested for a temporary period (but not more than 36 months) until such proceeds are needed for the purpose for which such issue was issued.

“(2) REASONABLE EXPECTATION AND BINDING COMMITMENT REQUIREMENTS.—Paragraph (1) shall apply to an issue only if, as of the date of issuance, the issuer reasonably expects—

“(A) that at least 95 percent of the proceeds of the issue will be spent for 1 or more qualified projects within the 3-year period beginning on such date,

“(B) to incur a binding commitment with a third party to spend at least 10 percent of the proceeds of the issue, or to commence preliminary engineering or construction, with respect to such projects within the 6-month period beginning on such date, and

“(C) that the remaining proceeds of the issue will be spent with due diligence with respect to such projects.

“(3) EARNINGS ON PROCEEDS.—Any earnings on proceeds during the temporary period shall be treated as proceeds of the issue for purposes of applying subsection (d)(1) and paragraph (1) of this subsection.

“(i) USE OF TRUST ACCOUNT.—

“(1) IN GENERAL.—The amount of any matching contribution with respect to a qualified project described in subsection (d)(2)(B)(i) or (d)(2)(B)(ii)(II) and the temporary period investment earnings on proceeds of the issue with respect to such project described in subsection (h)(1), and any earnings thereon, shall be held in a trust account by a trustee independent of the National Railroad Passenger Corporation to be used to redeem bonds which are part of such issue.

“(2) USE OF REMAINING FUNDS IN TRUST ACCOUNT.—Upon the repayment of the principal of all qualified Amtrak bonds issued under this section, any remaining funds in the trust account described in paragraph (1) shall be available to the trustee described in paragraph (1) to meet any remaining obligations under any guaranteed investment contract used to secure earnings sufficient to repay the principal of such bonds.

“(j) OTHER SPECIAL RULES.—

“(1) PARTNERSHIP; S CORPORATION; AND OTHER PASS-THRU ENTITIES.—Under regulations prescribed by the Secretary, in the case of a partnership, trust, S corporation, or other pass-thru entity, rules similar to the rules of section 41(g) shall apply with respect to the credit allowable under subsection (a).

“(2) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any qualified Amtrak bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.

“(3) CREDITS MAY BE STRIPPED.—Under regulations prescribed by the Secretary—

“(A) IN GENERAL.—There may be a separation (including at issuance) of the ownership of a qualified Amtrak bond and the entitlement to the credit under this section with respect to such bond. In case of any such separation, the credit under this section shall be allowed to the person who on the credit allowance date holds the instrument evidencing the entitlement to the credit and not to the holder of the bond.

“(B) CERTAIN RULES TO APPLY.—In the case of a separation described in subparagraph (A), the rules of section 1286 shall apply to

the qualified Amtrak bond as if it were a stripped bond and to the credit under this section as if it were a stripped coupon.

“(4) TREATMENT FOR ESTIMATED TAX PURPOSES.—Solely for purposes of sections 6654 and 6655, the credit allowed by this section to a taxpayer by reason of holding a qualified Amtrak bond on a credit allowance date shall be treated as if it were a payment of estimated tax made by the taxpayer on such date.

“(5) CREDIT MAY BE TRANSFERRED.—Nothing in any law or rule of law shall be construed to limit the transferability of the credit allowed by this section through sale and repurchase agreements.

“(6) REPORTING.—Issuers of qualified Amtrak bonds shall submit reports similar to the reports required under section 149(e).”

(b) REPORTING.—Subsection (d) of section 6049 (relating to returns regarding payments of interest) is amended by adding at the end the following new paragraph:

“(8) REPORTING OF CREDIT ON QUALIFIED AMTRAK BONDS.—

“(A) IN GENERAL.—For purposes of subsection (a), the term ‘interest’ includes amounts includible in gross income under section 54(g) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54(f)(2)).

“(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A) of this paragraph, subsection (b)(4) of this section shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i).

“(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.”

(c) CLERICAL AMENDMENTS.—

(1) The table of subparts for part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Subpart H. Nonrefundable Credit for Holders of Qualified Amtrak Bonds.”

(2) Section 6401(b)(1) is amended by striking “and G” and inserting “G, and H”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after September 30, 2000.

(e) MULTI-YEAR CAPITAL SPENDING PLAN AND OVERSIGHT.—

(1) AMTRAK CAPITAL SPENDING PLAN.—

(A) IN GENERAL.—The National Railroad Passenger Corporation shall annually submit to the President and Congress a multi-year capital spending plan, as approved by the Board of Directors of the Corporation.

(B) CONTENTS OF PLAN.—Such plan shall identify the capital investment needs of the Corporation over a period of not less than 5 years and the funding sources available to finance such needs and shall prioritize such needs according to corporate goals and strategies.

(C) INITIAL SUBMISSION DATE.—The first plan shall be submitted before the issuance of any qualified Amtrak bonds pursuant to section 54 of the Internal Revenue Code of 1986 (as added by this section).

(2) OVERSIGHT OF AMTRAK TRUST ACCOUNT AND QUALIFIED PROJECTS.—

(A) TRUST ACCOUNT OVERSIGHT.—The Secretary of the Treasury shall annually report to Congress as to whether the amount deposited in the trust account established by the National Passenger Railroad Corporation under section 54(i) of such Code (as so added) is sufficient to fully repay at maturity the principal of any outstanding qualified Am-

trak bonds issued pursuant to section 54 of such Code (as so added).

(B) PROJECT OVERSIGHT.—The National Railroad Passenger Corporation shall contract for an annual independent assessment of the costs and benefits of the qualified projects financed by such qualified Amtrak bonds, including an assessment of the investment evaluation process of the Corporation. The annual assessment shall be included in the plan submitted under paragraph (1).

(f) PROTECTION OF HIGHWAY TRUST FUND.—

(1) CERTIFICATION BY THE SECRETARY OF THE TREASURY.—The issuance of any qualified Amtrak bonds by the National Passenger Railroad Corporation pursuant to section 54 of the Internal Revenue Code of 1986 (as added by this section) is conditioned on certification by the Secretary of the Treasury, after consultation with the Secretary of Transportation, within 30 days of a request by the issuer, that with respect to funds of the Highway Trust Fund described under paragraph (2), the issuer either—

(A) has not received such funds during fiscal years commencing with fiscal year 2001 and ending before the fiscal year the bonds are issued, or

(B) has repaid to the Highway Trust Fund any such funds which were received during such fiscal years.

(2) APPLICABILITY.—This subsection shall apply to funds received directly or indirectly from the Highway Trust Fund established under section 9503 of the Internal Revenue Code of 1986, except for funds authorized to be expended under section 9503(c) of such Code, as in effect on the date of the enactment of this Act.

(3) NO RETROACTIVE EFFECT.—Nothing in this subsection shall adversely affect the entitlement of the holders of qualified Amtrak bonds to the tax credit allowed pursuant to section 54 of the Internal Revenue Code of 1986 (as so added) or to repayment of principal upon maturity.

SEC. 305. CLARIFICATION OF CONTRIBUTION IN AID OF CONSTRUCTION.

(a) IN GENERAL.—Subparagraph (A) of section 118(c)(3) (relating to definitions) is amended to read as follows:

“(A) CONTRIBUTION IN AID OF CONSTRUCTION.—The term ‘contribution in aid of construction’ shall be defined by regulations prescribed by the Secretary, except that such term—

“(i) shall include amounts paid as customer connection fees (including amounts paid to connect the customer’s line to or extend a main water or sewer line), and

“(ii) shall not include amounts paid as service charges for starting or stopping services.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts received after the date of the enactment of this Act.

SEC. 306. RECOVERY PERIOD FOR DEPRECIATION OF CERTAIN LEASEHOLD IMPROVEMENTS.

(a) 15-YEAR RECOVERY PERIOD.—Subparagraph (E) of section 168(e)(3) (relating to 15-year property) is amended by striking “and” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “, and”, and by adding at the end the following new clause:

“(iv) any qualified leasehold improvement property.”

(b) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—Subsection (e) of section 168 is amended by adding at the end the following new paragraph:

“(6) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—

“(A) IN GENERAL.—The term ‘qualified leasehold improvement property’ means any improvement to an interior portion of a

building which is nonresidential real property if—

“(i) such improvement is made under or pursuant to a lease (as defined in subsection (h)(7))—

“(I) by the lessee (or any sublessee) of such portion, or

“(II) by the lessor of such portion,

“(ii) the original use of such improvement begins with the lessee and after December 31, 2006,

“(iii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and

“(iv) such improvement is placed in service more than 3 years after the date the building was first placed in service.

“(B) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

“(i) the enlargement of the building,

“(ii) any elevator or escalator,

“(iii) any structural component benefiting a common area, and

“(iv) the internal structural framework of the building.

“(C) DEFINITIONS AND SPECIAL RULES.—For purposes of this paragraph—

“(i) COMMITMENT TO LEASE TREATED AS LEASE.—A commitment to enter into a lease shall be treated as a lease, and the parties to such commitment shall be treated as lessor and lessee, respectively, if the lease is in effect at the time the property is placed in service.

“(ii) RELATED PERSONS.—A lease between related persons shall not be considered a lease. For purposes of the preceding sentence, the term ‘related persons’ means—

“(I) members of an affiliated group (as defined in section 1504), and

“(II) persons having a relationship described in subsection (b) of section 267(b) or 707(b)(1); except that, for purposes of this clause, the phrase ‘80 percent or more’ shall be substituted for the phrase ‘more than 50 percent’ each place it appears in such subsections.”

(c) REQUIREMENT TO USE STRAIGHT LINE METHOD.—Paragraph (3) of section 168(b) is amended by adding at the end the following new subparagraph:

“(G) Qualified leasehold improvement property described in subsection (e)(6).”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified leasehold improvement property placed in service after December 31, 2006.

TITLE IV—TAX RELIEF FOR FARMERS

SEC. 401. FARM, FISHING, AND RANCH RISK MANAGEMENT ACCOUNTS.

(a) IN GENERAL.—Subpart C of part II of subchapter E of chapter 1 (relating to taxable year for which deductions taken) is amended by inserting after section 468B the following new section:

“SEC. 468C. FARM, FISHING, AND RANCH RISK MANAGEMENT ACCOUNTS.

“(a) DEDUCTION ALLOWED.—In the case of an individual engaged in an eligible farming business or commercial fishing, there shall be allowed as a deduction for any taxable year the amount paid in cash by the taxpayer during the taxable year to a Farm, Fishing, and Ranch Risk Management Account (hereinafter referred to as the ‘FFARRM Account’).

“(b) LIMITATION.—

“(i) CONTRIBUTIONS.—The amount which a taxpayer may pay into the FFARRM Account for any taxable year shall not exceed 20 percent of so much of the taxable income of the taxpayer (determined without regard to this section) which is attributable (determined in the manner applicable under section 1301) to any eligible farming business or commercial fishing.

“(2) DISTRIBUTIONS.—Distributions from a FFARRM Account may not be used to purchase, lease, or finance any new fishing vessel, add capacity to any fishery, or otherwise contribute to the overcapitalization of any fishery. The Secretary of Commerce shall implement regulations to enforce this paragraph.

“(c) ELIGIBLE BUSINESSES.—For purposes of this section—

“(1) ELIGIBLE FARMING BUSINESS.—The term ‘eligible farming business’ means any farming business (as defined in section 263A(e)(4)) which is not a passive activity (within the meaning of section 469(c)) of the taxpayer.

“(2) COMMERCIAL FISHING.—The term ‘commercial fishing’ has the meaning given such term by section (3) of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802) but only if such fishing is not a passive activity (within the meaning of section 469(c)) of the taxpayer.

“(d) FFARRM ACCOUNT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘FFARRM Account’ means a trust created or organized in the United States for the exclusive benefit of the taxpayer, but only if the written governing instrument creating the trust meets the following requirements:

“(A) No contribution will be accepted for any taxable year in excess of the amount allowed as a deduction under subsection (a) for such year.

“(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which such person will administer the trust will be consistent with the requirements of this section.

“(C) The assets of the trust consist entirely of cash or of obligations which have adequate stated interest (as defined in section 1274(c)(2)) and which pay such interest not less often than annually.

“(D) All income of the trust is distributed currently to the grantor.

“(E) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

“(2) ACCOUNT TAXED AS GRANTOR TRUST.—The grantor of a FFARRM Account shall be treated for purposes of this title as the owner of such Account and shall be subject to tax thereon in accordance with subpart E of part I of subchapter J of this chapter (relating to grantors and others treated as substantial owners).

“(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

“(1) IN GENERAL.—Except as provided in paragraph (2), there shall be includible in the gross income of the taxpayer for any taxable year—

“(A) any amount distributed from a FFARRM Account of the taxpayer during such taxable year, and

“(B) any deemed distribution under—

“(i) subsection (f)(1) (relating to deposits not distributed within 5 years),

“(ii) subsection (f)(2) (relating to cessation in eligible farming business), and

“(iii) subparagraph (B) or (C) of subsection (f)(3) (relating to prohibited transactions and pledging account as security).

“(2) EXCEPTIONS.—Paragraph (1)(A) shall not apply to—

“(A) any distribution to the extent attributable to income of the Account, and

“(B) the distribution of any contribution paid during a taxable year to a FFARRM Account to the extent that such contribution exceeds the limitation applicable under subsection (b) if requirements similar to the requirements of section 408(d)(4) are met.

For purposes of subparagraph (A), distributions shall be treated as first attributable to income and then to other amounts.

“(f) SPECIAL RULES.—

“(1) TAX ON DEPOSITS IN ACCOUNT WHICH ARE NOT DISTRIBUTED WITHIN 5 YEARS.—

“(A) IN GENERAL.—If, at the close of any taxable year, there is a nonqualified balance in any FFARRM Account—

“(i) there shall be deemed distributed from such Account during such taxable year an amount equal to such balance, and

“(ii) the taxpayer's tax imposed by this chapter for such taxable year shall be increased by 10 percent of such deemed distribution.

The preceding sentence shall not apply if an amount equal to such nonqualified balance is distributed from such Account to the taxpayer before the due date (including extensions) for filing the return of tax imposed by this chapter for such year (or, if earlier, the date the taxpayer files such return for such year).

“(B) NONQUALIFIED BALANCE.—For purposes of subparagraph (A), the term ‘nonqualified balance’ means any balance in the Account on the last day of the taxable year which is attributable to amounts deposited in such Account before the 4th preceding taxable year.

“(C) ORDERING RULE.—For purposes of this paragraph, distributions from a FFARRM Account (other than distributions of current income) shall be treated as made from deposits in the order in which such deposits were made, beginning with the earliest deposits.

“(2) CESSATION IN ELIGIBLE BUSINESS.—At the close of the first disqualification period after a period for which the taxpayer was engaged in an eligible farming business or commercial fishing, there shall be deemed distributed from the FFARRM Account of the taxpayer an amount equal to the balance in such Account (if any) at the close of such disqualification period. For purposes of the preceding sentence, the term ‘disqualification period’ means any period of 2 consecutive taxable years for which the taxpayer is not engaged in an eligible farming business or commercial fishing.

“(3) CERTAIN RULES TO APPLY.—Rules similar to the following rules shall apply for purposes of this section:

“(A) Section 220(f)(8) (relating to treatment on death).

“(B) Section 408(e)(2) (relating to loss of exemption of account where individual engages in prohibited transaction).

“(C) Section 408(e)(4) (relating to effect of pledging account as security).

“(D) Section 408(g) (relating to community property laws).

“(E) Section 408(h) (relating to custodial accounts).

“(4) TIME WHEN PAYMENTS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a payment to a FFARRM Account on the last day of a taxable year if such payment is made on account of such taxable year and is made on or before the due date (without regard to extensions) for filing the return of tax for such taxable year.

“(5) INDIVIDUAL.—For purposes of this section, the term ‘individual’ shall not include an estate or trust.

“(6) DEDUCTION NOT ALLOWED FOR SELF-EMPLOYMENT TAX.—The deduction allowable by reason of subsection (a) shall not be taken into account in determining an individual's net earnings from self-employment (within the meaning of section 1402(a)) for purposes of chapter 2.

“(g) REPORTS.—The trustee of a FFARRM Account shall make such reports regarding such Account to the Secretary and to the person for whose benefit the Account is maintained with respect to contributions, distributions, and such other matters as the

Secretary may require under regulations. The reports required by this subsection shall be filed at such time and in such manner and furnished to such persons at such time and in such manner as may be required by such regulations."

(b) **TAX ON EXCESS CONTRIBUTIONS.**—

(1) Subsection (a) of section 4973 (relating to tax on excess contributions to certain tax-favored accounts and annuities) is amended by striking "or" at the end of paragraph (3), by redesignating paragraph (4) as paragraph (5), and by inserting after paragraph (3) the following new paragraph:

"(4) a FFARRM Account (within the meaning of section 468C(d)), or".

(2) Section 4973 is amended by adding at the end the following new subsection:

"(g) **EXCESS CONTRIBUTIONS TO FFARRM ACCOUNTS.**—For purposes of this section, in the case of a FFARRM Account (within the meaning of section 468C(d)), the term 'excess contributions' means the amount by which the amount contributed for the taxable year to the Account exceeds the amount which may be contributed to the Account under section 468C(b) for such taxable year. For purposes of this subsection, any contribution which is distributed out of the FFARRM Account in a distribution to which section 468C(e)(2)(B) applies shall be treated as an amount not contributed."

(3) The section heading for section 4973 is amended to read as follows:

"SEC. 4973. EXCESS CONTRIBUTIONS TO CERTAIN ACCOUNTS, ANNUITIES, ETC."

(4) The table of sections for chapter 43 is amended by striking the item relating to section 4973 and inserting the following new item:

"Sec. 4973. Excess contributions to certain accounts, annuities, etc."

(c) **TAX ON PROHIBITED TRANSACTIONS.**—

(1) Subsection (c) of section 4975 (relating to tax on prohibited transactions) is amended by adding at the end the following new paragraph:

"(6) **SPECIAL RULE FOR FFARRM ACCOUNTS.**—A person for whose benefit a FFARRM Account (within the meaning of section 468C(d)) is established shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a FFARRM Account by reason of the application of section 468C(f)(3)(A) to such account."

(2) Paragraph (1) of section 4975(e) is amended by redesignating subparagraphs (E) and (F) as subparagraphs (F) and (G), respectively, and by inserting after subparagraph (D) the following new subparagraph:

"(E) a FFARRM Account described in section 468C(d),"

(d) **FAILURE TO PROVIDE REPORTS ON FFARRM ACCOUNTS.**—Paragraph (2) of section 6693(a) (relating to failure to provide reports on certain tax-favored accounts or annuities) is amended by redesignating subparagraphs (C) and (D) as subparagraphs (D) and (E), respectively, and by inserting after subparagraph (B) the following new subparagraph:

"(C) section 468C(g) (relating to FFARRM Accounts),"

(e) **CLERICAL AMENDMENT.**—The table of sections for part C of part II of subchapter E of chapter 1 is amended by inserting after the item relating to section 468B the following new item:

"Sec. 468C. Farm, Fishing and Ranch Risk Management Accounts."

(f) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 402. WRITTEN AGREEMENT RELATING TO EXCLUSION OF CERTAIN FARM RENTAL INCOME FROM NET EARNINGS FROM SELF-EMPLOYMENT.

(a) **INTERNAL REVENUE CODE.**—Section 1402(a)(1)(A) (relating to net earnings from self-employment) is amended by striking "an arrangement" and inserting "a lease agreement".

(b) **SOCIAL SECURITY ACT.**—Section 211(a)(1)(A) of the Social Security Act is amended by striking "an arrangement" and inserting "a lease agreement".

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 403. TREATMENT OF CONSERVATION RESERVE PROGRAM PAYMENTS AS RENTALS FROM REAL ESTATE.

(a) **IN GENERAL.**—Section 1402(a)(1) (defining net earnings from self-employment) is amended by inserting "and including payments under section 1233(2) of the Food Security Act of 1985 (16 U.S.C. 3833(2))" after "crop shares".

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to payments made after December 31, 2000.

SEC. 404. EXEMPTION OF AGRICULTURAL BONDS FROM STATE VOLUME CAP.

(a) **IN GENERAL.**—Section 146(g) (relating to exception for certain bonds) is amended by striking "and" at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting ", and", and by inserting after paragraph (4) the following new paragraph:

"(5) any qualified small issue bond described in section 144(a)(12)(B)(ii)."

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to bonds issued after December 31, 2000.

SEC. 405. MODIFICATIONS TO SECTION 512(b)(13).

(a) **IN GENERAL.**—Paragraph (13) of section 512(b) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new paragraph:

"(E) PARAGRAPH TO APPLY ONLY TO EXCESS PAYMENTS."

"(i) **IN GENERAL.**—Subparagraph (A) shall apply only to the portion of a specified payment received by the controlling organization that exceeds the amount which would have been paid if such payment met the requirements prescribed under section 482.

"(ii) **ADDITION TO TAX FOR VALUATION MISSTATEMENTS.**—The tax imposed by this chapter on the controlling organization shall be increased by an amount equal to 20 percent of such excess."

(b) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—The amendment made by this section shall apply to payments received or accrued after December 31, 2000.

(2) **PAYMENTS SUBJECT TO BINDING CONTRACT TRANSITION RULE.**—If the amendments made by section 1041 of the Taxpayer Relief Act of 1997 did not apply to any amount received or accrued in the first 2 taxable years beginning on or after the date of the enactment of this Act under any contract described in subsection (b)(2) of such section, such amendments also shall not apply to amounts received or accrued under such contract before January 1, 2001.

SEC. 406. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY.

(a) **IN GENERAL.**—Subsection (e) of section 170 (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following new paragraph:

"(7) **SPECIAL RULE FOR CONTRIBUTIONS OF FOOD INVENTORY.**—For purposes of this section—

"(A) **CONTRIBUTIONS BY NON-CORPORATE TAXPAYERS.**—In the case of a charitable con-

tribution of food by a taxpayer in a farming business (as defined in section 263A(e)(4)), paragraph (3)(A) shall be applied without regard to whether or not the contribution is made by a corporation.

"(B) **LIMIT ON REDUCTION.**—In the case of a charitable contribution of food which is a qualified contribution (within the meaning of paragraph (3)(A), as modified by subparagraph (A) of this paragraph)—

"(i) paragraph (3)(B) shall not apply, and

"(ii) the reduction under paragraph (1)(A) for such contribution shall be no greater than the amount (if any) by which the amount of such contribution exceeds twice the basis of such food.

"(C) **DETERMINATION OF BASIS.**—For purposes of this paragraph, if a taxpayer uses the cash method of accounting, the basis of any qualified contribution of such taxpayer shall be deemed to be 50 percent of the fair market value of such contribution.

"(D) **DETERMINATION OF FAIR MARKET VALUE.**—In the case of a charitable contribution of food which is a qualified contribution (within the meaning of paragraph (3), as modified by subparagraphs (A) and (B) of this paragraph) and which, solely by reason of internal standards of the taxpayer, lack of market, or similar circumstances, or which is produced by the taxpayer exclusively for the purposes of transferring the food to an organization described in paragraph (3)(A), cannot or will not be sold, the fair market value of such contribution shall be determined—

"(i) without regard to such internal standards, such lack of market, such circumstances, or such exclusive purpose, and

"(ii) if applicable, by taking into account the price at which the same or similar food items are sold by the taxpayer at the time of the contribution (or, if not so sold at such time, in the recent past).

"(E) **TERMINATION.**—This paragraph shall not apply to any contribution made during any taxable year beginning after December 31, 2003."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2000.

SEC. 407. INCOME AVERAGING FOR FARMERS AND FISHERMEN NOT TO INCREASE ALTERNATIVE MINIMUM TAX LIABILITY.

(a) **IN GENERAL.**—Section 55(c) (defining regular tax) is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

"(2) **COORDINATION WITH INCOME AVERAGING FOR FARMERS AND FISHERMEN.**—Solely for purposes of this section, section 1301 (relating to averaging of farm and fishing income) shall not apply in computing the regular tax."

(b) **ALLOWING INCOME AVERAGING FOR FISHERMEN.**—

(1) **IN GENERAL.**—Section 1301(a) is amended by striking "farming business" and inserting "farming business or fishing business".

(2) **DEFINITION OF ELECTED FARM INCOME.**—

(A) **IN GENERAL.**—Clause (i) of section 1301(b)(1)(A) is amended by inserting "or fishing business" before the semicolon.

(B) **CONFORMING AMENDMENT.**—Subparagraph (B) of section 1301(b)(1) is amended by inserting "or fishing business" after "farming business" both places it occurs.

(3) **DEFINITION OF FISHING BUSINESS.**—Section 1301(b) is amended by adding at the end the following new paragraph:

"(4) **FISHING BUSINESS.**—The term 'fishing business' means the conduct of commercial fishing as defined in section 3 of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802)."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 408. COOPERATIVE MARKETING INCLUDES VALUE-ADDED PROCESSING THROUGH ANIMALS.

(a) **IN GENERAL.**—Section 1388 (relating to definitions and special rules) is amended by adding at the end the following new subsection:

“(k) **COOPERATIVE MARKETING INCLUDES VALUE-ADDED PROCESSING THROUGH ANIMALS.**—For purposes of section 521 and this subchapter, the term ‘marketing the products of members or other producers’ includes feeding the products of members or other producers to cattle, hogs, fish, chickens, or other animals and selling the resulting animals or animal products.”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 409. DECLARATORY JUDGMENT RELIEF FOR SECTION 521 COOPERATIVES.

(a) **IN GENERAL.**—Section 7428(a)(1) (relating to declaratory judgments of tax exempt organizations) is amended by striking “or” at the end of subparagraph (B) and by adding at the end the following new subparagraph:

“(D) with respect to the initial qualification or continuing qualification of a cooperative as described in section 521(b) which is exempt from tax under section 521(a), or”.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply with respect to pleadings filed after the date of the enactment of this Act but only with respect to determinations (or requests for determinations) made after January 1, 2000.

SEC. 410. SMALL ETHANOL PRODUCER CREDIT.

(a) **ALLOCATION OF ALCOHOL FUELS CREDIT TO PATRONS OF A COOPERATIVE.**—Section 40(g) (relating to alcohol used as fuel) is amended by adding at the end the following new paragraph:

“(6) **ALLOCATION OF SMALL ETHANOL PRODUCER CREDIT TO PATRONS OF COOPERATIVE.**—

“(A) **ELECTION TO ALLOCATE.**—

“(i) **IN GENERAL.**—In the case of a cooperative organization described in section 1381(a), any portion of the credit determined under subsection (a)(3) for the taxable year may, at the election of the organization, be apportioned pro rata among patrons of the organization on the basis of the quantity or value of business done with or for such patrons for the taxable year.

“(ii) **FORM AND EFFECT OF ELECTION.**—An election under clause (i) for any taxable year shall be made on a timely filed return for such year. Such election, once made, shall be irrevocable for such taxable year.

“(B) **TREATMENT OF ORGANIZATIONS AND PATRONS.**—The amount of the credit apportioned to patrons under subparagraph (A)—

“(i) shall not be included in the amount determined under subsection (a) with respect to the organization for the taxable year,

“(ii) shall be included in the amount determined under subsection (a) for the taxable year of each patron for which the patronage dividends for the taxable year described in subparagraph (A) are included in gross income, and

“(iii) shall be included in gross income of such patrons for the taxable year in the manner and to the extent provided in section 87.

“(C) **SPECIAL RULES FOR DECREASE IN CREDITS FOR TAXABLE YEAR.**—If the amount of the credit of a cooperative organization determined under subsection (a)(3) for a taxable year is less than the amount of such credit shown on the return of the cooperative organization for such year, an amount equal to the excess of—

“(i) such reduction, over

“(ii) the amount not apportioned to such patrons under subparagraph (A) for the taxable year,

shall be treated as an increase in tax imposed by this chapter on the organization. Such increase shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit under this subpart or subpart A, B, E, or G.”.

(b) **IMPROVEMENTS TO SMALL ETHANOL PRODUCER CREDIT.**—

(1) **SMALL ETHANOL PRODUCER CREDIT NOT A PASSIVE ACTIVITY CREDIT.**—Clause (i) of section 469(d)(2)(A) is amended by striking “subpart D” and inserting “subpart D, other than section 40(a)(3).”.

(2) **ALLOWING CREDIT AGAINST MINIMUM TAX.**—

(A) **IN GENERAL.**—Subsection (c) of section 38 (relating to limitation based on amount of tax) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

“(3) **SPECIAL RULES FOR SMALL ETHANOL PRODUCER CREDIT.**—

“(A) **IN GENERAL.**—In the case of the small ethanol producer credit—

“(i) this section and section 39 shall be applied separately with respect to the credit, and

“(ii) in applying paragraph (1) to the credit—

“(I) subparagraphs (A) and (B) thereof shall not apply, and

“(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the small ethanol producer credit).

“(B) **SMALL ETHANOL PRODUCER CREDIT.**—For purposes of this subsection, the term ‘small ethanol producer credit’ means the credit allowable under subsection (a) by reason of section 40(a)(3).”.

(B) **CONFORMING AMENDMENT.**—Subclause (II) of section 38(c)(2)(A)(ii) is amended by striking “(other)” and all that follows through “credit)” and inserting “(other than the empowerment zone employment credit or the small ethanol producer credit)”.

(3) **SMALL ETHANOL PRODUCER CREDIT NOT ADDED BACK TO INCOME UNDER SECTION 87.**—Section 87 (relating to income inclusion of alcohol fuel credit) is amended to read as follows:

“SEC. 87. ALCOHOL FUEL CREDIT.

“Gross income includes an amount equal to the sum of—

“(1) the amount of the alcohol mixture credit determined with respect to the taxpayer for the taxable year under section 40(a)(1), and

“(2) the alcohol credit determined with respect to the taxpayer for the taxable year under section 40(a)(2).”.

(c) **CONFORMING AMENDMENT.**—Section 1388 (relating to definitions and special rules for cooperative organizations), as amended by section 408, is amended by adding at the end the following new subsection:

“(1) **CROSS REFERENCE.**—For provisions relating to the apportionment of the alcohol fuels credit between cooperative organizations and their patrons, see section 40(g)(6).”.

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

SEC. 411. PAYMENT OF DIVIDENDS ON STOCK OF COOPERATIVES WITHOUT REDUCING PATRONAGE DIVIDENDS.

(a) **IN GENERAL.**—Subsection (a) of section 1388 (relating to patronage dividend defined) is amended by adding at the end the following new sentence: “For purposes of paragraph (3), net earnings shall not be reduced

by amounts paid during the year as dividends on capital stock or other proprietary capital interests of the organization to the extent that the articles of incorporation or bylaws of such organization or other contract with patrons provide that such dividends are in addition to amounts otherwise payable to patrons which are derived from business done with or for patrons during the taxable year.”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to distributions in taxable years beginning after the date of the enactment of this Act.

TITLE V—ENERGY PROVISIONS

SEC. 501. ELECTION TO EXPENSE GEOLOGICAL AND GEOPHYSICAL EXPENDITURES.

(a) **IN GENERAL.**—Section 263 (relating to capital expenditures) is amended by adding at the end the following new subsection:

“(j) **GEOLOGICAL AND GEOPHYSICAL EXPENDITURES FOR DOMESTIC OIL AND GAS WELLS.**—Notwithstanding subsection (a), a taxpayer may elect to treat geological and geophysical expenses incurred in connection with the exploration for, or development of, oil or gas within the United States (as defined in section 638) as expenses which are not chargeable to capital account. Any expenses so treated shall be allowed as a deduction in the taxable year in which paid or incurred.”.

(b) **CONFORMING AMENDMENT.**—Section 263A(c)(3) is amended by inserting “263(j),” after “263(i).”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2001.

SEC. 502. ELECTION TO EXPENSE DELAY RENTAL PAYMENTS

(a) **IN GENERAL.**—Section 263 (relating to capital expenditures), as amended by section 501(a), is amended by adding at the end the following new subsection:

“(k) **DELAY RENTAL PAYMENTS FOR DOMESTIC OIL AND GAS WELLS.**—

“(1) **IN GENERAL.**—Notwithstanding subsection (a), a taxpayer may elect to treat delay rental payments incurred in connection with the development of oil or gas within the United States (as defined in section 638) as payments which are not chargeable to capital account. Any payments so treated shall be allowed as a deduction in the taxable year in which paid or incurred.

“(2) **DELAY RENTAL PAYMENTS.**—For purposes of paragraph (1), the term ‘delay rental payment’ means an amount paid for the privilege of deferring development of an oil or gas well.”.

(b) **CONFORMING AMENDMENT.**—Section 263A(c)(3), as amended by section 501(b), is amended by inserting “263(k),” after “263(j).”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to payments made or incurred in taxable years beginning after December 31, 2001.

SEC. 503. 5-YEAR NET OPERATING LOSS CARRYBACK FOR LOSSES ATTRIBUTABLE TO OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.

(a) **IN GENERAL.**—Paragraph (1) of section 172(b) (relating to years to which loss may be carried) is amended by adding at the end the following new subparagraph:

“(H) **LOSSES ON OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.**—In the case of a taxpayer—

“(i) which has an eligible oil and gas loss (as defined in subsection (j)) for a taxable year, and

“(ii) which is not an integrated oil company (as defined in section 291(b)(4)),

such eligible oil and gas loss shall be a net operating loss carryback to each of the 5 taxable years preceding the taxable year of such loss."

(b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

"(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of this section—

"(1) IN GENERAL.—The term 'eligible oil and gas loss' means the lesser of—

"(A) the amount which would be the net operating loss for the taxable year if only income and deductions attributable to operating mineral interests (as defined in section 614(d)) in oil and gas wells are taken into account, or

"(B) the amount of the net operating loss for such taxable year.

"(2) COORDINATION WITH SUBSECTION (b)(2).—For purposes of applying subsection (b)(2), an eligible oil and gas loss for any taxable year shall be treated in a manner similar to the manner in which a specified liability loss is treated.

"(3) ELECTION.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(H) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(H)."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after December 31, 2001.

SEC. 504. TEMPORARY SUSPENSION OF PERCENTAGE OF DEPLETION DEDUCTION LIMITATION BASED ON 65 PERCENT OF TAXABLE INCOME.

(a) IN GENERAL.—Section 613A(d)(1) (relating to limitation based on taxable income) is amended by adding at the end the following new sentence: "This paragraph shall not apply for taxable years beginning after December 31, 2000, and before January 1, 2004."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 505. TAX CREDIT FOR MARGINAL DOMESTIC OIL AND NATURAL GAS WELL PRODUCTION.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business credits), as amended by section 131(a), is amended by adding at the end the following new section:

"SEC. 45E. CREDIT FOR PRODUCING OIL AND GAS FROM MARGINAL WELLS.

"(a) GENERAL RULE.—For purposes of section 38, the marginal well production credit for any taxable year is an amount equal to the product of—

"(1) the credit amount, and

"(2) the qualified crude oil production and the qualified natural gas production which is attributable to the taxpayer.

"(b) CREDIT AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—The credit amount is—

"(A) \$3 per barrel of qualified crude oil production, and

"(B) 50 cents per 1,000 cubic feet of qualified natural gas production.

"(2) REDUCTION AS OIL AND GAS PRICES INCREASE.—

"(A) IN GENERAL.—The \$3 and 50 cents amounts under paragraph (1) shall each be reduced (but not below zero) by an amount which bears the same ratio to such amount (determined without regard to this paragraph) as—

"(i) the excess (if any) of the applicable reference price over \$14 (\$1.56 for qualified natural gas production), bears to

"(ii) \$3 (\$0.33 for qualified natural gas production).

The applicable reference price for a taxable year is the reference price for the calendar

year preceding the calendar year in which the taxable year begins.

"(B) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2001, each of the dollar amounts contained in subparagraph (A) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 43(b)(3)(B) by substituting '2000' for '1990').

"(C) REFERENCE PRICE.—For purposes of this paragraph, the term 'reference price' means, with respect to any calendar year—

"(i) in the case of qualified crude oil production, the reference price determined under section 29(d)(2)(C), and

"(ii) in the case of qualified natural gas production, the Secretary's estimate of the annual average wellhead price per 1,000 cubic feet for all domestic natural gas.

"(c) QUALIFIED CRUDE OIL AND NATURAL GAS PRODUCTION.—For purposes of this section—

"(1) IN GENERAL.—The terms 'qualified crude oil production' and 'qualified natural gas production' mean domestic crude oil or natural gas which is produced from a marginal well.

"(2) LIMITATION ON AMOUNT OF PRODUCTION WHICH MAY QUALIFY.—

"(A) IN GENERAL.—Crude oil or natural gas produced during any taxable year from any well shall not be treated as qualified crude oil production or qualified natural gas production to the extent production from the well during the taxable year exceeds 1,095 barrels or barrel equivalents.

"(B) PROPORTIONATE REDUCTIONS.—

"(i) SHORT TAXABLE YEARS.—In the case of a short taxable year, the limitations under this paragraph shall be proportionately reduced to reflect the ratio which the number of days in such taxable year bears to 365.

"(ii) WELLS NOT IN PRODUCTION ENTIRE YEAR.—In the case of a well which is not capable of production during each day of a taxable year, the limitations under this paragraph applicable to the well shall be proportionately reduced to reflect the ratio which the number of days of production bears to the total number of days in the taxable year.

"(3) DEFINITIONS.—

"(A) MARGINAL WELL.—The term 'marginal well' means a domestic well—

"(i) the production from which during the taxable year is treated as marginal production under section 613A(c)(6), or

"(ii) which, during the taxable year—

"(I) has average daily production of not more than 25 barrel equivalents, and

"(II) produces water at a rate not less than 95 percent of total well effluent.

"(B) CRUDE OIL, ETC.—The terms 'crude oil', 'natural gas', 'domestic', and 'barrel' have the meanings given such terms by section 613A(e).

"(C) BARREL EQUIVALENT.—The term 'barrel equivalent' means, with respect to natural gas, a conversion ratio of 6,000 cubic feet of natural gas to 1 barrel of crude oil.

"(d) OTHER RULES.—

"(1) PRODUCTION ATTRIBUTABLE TO THE TAXPAYER.—In the case of a marginal well in which there is more than one owner of operating interests in the well and the crude oil or natural gas production exceeds the limitation under subsection (c)(2), qualifying crude oil production or qualifying natural gas production attributable to the taxpayer shall be determined on the basis of the ratio which taxpayer's revenue interest in the production bears to the aggregate of the revenue interests of all operating interest owners in the production.

"(2) OPERATING INTEREST REQUIRED.—Any credit under this section may be claimed

only on production which is attributable to the holder of an operating interest.

"(3) PRODUCTION FROM NONCONVENTIONAL SOURCES EXCLUDED.—In the case of production from a marginal well which is eligible for the credit allowed under section 29 for the taxable year, no credit shall be allowable under this section unless the taxpayer elects not to claim credit under section 29 with respect to the well."

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 131(b)(1), is amended by striking "plus" at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting ", plus", and by adding at the end of the following new paragraph:

"(14) the marginal oil and gas well production credit determined under section 45E(a)."

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

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax), as amended by section 410(b)(2)(A), is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

"(4) SPECIAL RULES FOR MARGINAL OIL AND GAS WELL PRODUCTION CREDIT.—

"(A) IN GENERAL.—In the case of the marginal oil and gas well production credit—

"(i) this section and section 39 shall be applied separately with respect to the credit, and

"(ii) in applying paragraph (1) to the credit—

"(I) subparagraphs (A) and (B) thereof shall not apply, and

"(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the marginal oil and gas well production credit).

"(B) MARGINAL OIL AND GAS WELL PRODUCTION CREDIT.—For purposes of this subsection, the term 'marginal oil and gas well production credit' means the credit allowable under subsection (a) by reason of section 45E(a)."

(2) CONFORMING AMENDMENTS.—

(A) Subclause (II) of section 38(c)(2)(A)(ii), as amended by section 410(b)(2)(B), is amended by striking "or the small ethanol producer credit" and inserting ", the small ethanol producer credit, or the marginal oil and gas well production credit".

(B) Subclause (II) of section 38(c)(3)(A)(ii), as added by section 410(b)(2)(A), is amended by inserting "or the marginal oil and gas well production credit" after "the small ethanol producer credit".

(d) CARRYBACK.—Subsection (a) of section 39 (relating to carryback and carryforward of unused credits generally) is amended by adding at the end the following new paragraph—

"(3) 10-YEAR CARRYBACK FOR MARGINAL OIL AND GAS WELL PRODUCTION CREDIT.—In the case of the marginal oil and gas well production credit—

"(A) this section shall be applied separately from the business credit (other than the marginal oil and gas well production credit),

"(B) paragraph (1) shall be applied by substituting '10 taxable year' for '1 taxable year' in subparagraph (A) thereof, and

"(C) paragraph (2) shall be applied—

"(i) by substituting '31 taxable years' for '21 taxable years' in subparagraph (A) thereof, and

"(ii) by substituting '30 taxable years' for '20 taxable years' in subparagraph (B) thereof."

(e) COORDINATION WITH SECTION 29.—Section 29(a) is amended by striking "There" and inserting "At the election of the taxpayer, there".

(f) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 131(d), is amended by adding at the end the following item:

“Sec. 45E. Credit for producing oil and gas from marginal wells.”.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to production in taxable years beginning after December 31, 2000.

SEC. 506. NATURAL GAS GATHERING LINES TREATED AS 7-YEAR PROPERTY.

(a) IN GENERAL.—Subparagraph (C) of section 168(e)(3) (relating to classification of certain property) is amended by redesignating clause (ii) as clause (iii) and by inserting after clause (i) the following new clause:

“(ii) any natural gas gathering line, and”.

(b) NATURAL GAS GATHERING LINE.—Subsection (i) of section 168 is amended by adding at the end the following new paragraph:

“(15) NATURAL GAS GATHERING LINE.—The term ‘natural gas gathering line’ means—

“(A) the pipe, equipment, and appurtenances determined to be a gathering line by the Federal Energy Regulatory Commission, or

“(B) the pipe, equipment, and appurtenances used to deliver natural gas from the wellhead or a common point to the point at which such gas first reaches—

“(i) a gas processing plant,

“(ii) an interconnection with a transmission pipeline certificated by the Federal Energy Regulatory Commission as an interstate transmission pipeline,

“(iii) an interconnection with an intrastate transmission pipeline, or

“(iv) a direct interconnection with a local distribution company, a gas storage facility, or an industrial consumer.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service on or after the date of the enactment of this Act.

SEC. 507. CLARIFICATION OF TREATMENT OF PIPELINE TRANSPORTATION INCOME.

(a) IN GENERAL.—Section 954(g)(1) (defining foreign base company oil related income) is amended by striking “or” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “, or”, and by inserting after subparagraph (B) the following new subparagraph:

“(C) the pipeline transportation of oil or gas within such foreign country.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2001, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

TITLE VI—CONSERVATION PROVISIONS

SEC. 601. EXCLUSION OF 50 PERCENT OF GAIN ON SALES OF LAND OR INTERESTS IN LAND OR WATER TO ELIGIBLE ENTITIES FOR CONSERVATION PURPOSES.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by inserting after section 121 the following new section:

“SEC. 121A. 50-PERCENT EXCLUSION OF GAIN ON SALES OF LAND OR INTERESTS IN LAND OR WATER TO ELIGIBLE ENTITIES FOR CONSERVATION PURPOSES.

“(a) EXCLUSION.—Gross income shall not include 50 percent of any gain from the sale of land or an interest in land or water (determined without regard to any improvements) to an eligible entity if—

“(1) such land or interest in land or water was owned by the taxpayer or a member of the taxpayer’s family (as defined in section 2032A(e)(2)) at all times during the 3-year period ending on the date of the sale, and

“(2) such land or interest in land or water is being acquired by an eligible entity which provides the taxpayer, at the time of acquisition, a written letter of intent which shall include the following statement: ‘The purchaser’s intent is that this acquisition will serve 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A).’

“(b) ELIGIBLE ENTITY.—For purposes of this section, the term ‘eligible entity’ means—

“(1) any agency of the United States or of any State or local government, or

“(2) any other organization that—

“(A) is organized and at all times operated principally for 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A), and

“(B) is described in section 170(h)(3).

“(c) STOCK IN HOLDING CORPORATIONS.—For purposes of this section, the term ‘land or an interest in land or water’ shall include stock in any corporation, if the fair market value of the corporation’s land or interests in land or water equals or exceeds 90 percent of the fair market value of all of such corporation’s assets at all times during the 3-year period ending on the date of the sale.”.

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 121 the following new item:

“Sec. 121A. 50-percent exclusion of gain on sales of land or interests in land or water to eligible entities for conservation purposes.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales occurring on or after December 31, 2003.

SEC. 602. EXPANSION OF ESTATE TAX EXCLUSION FOR REAL PROPERTY SUBJECT TO QUALIFIED CONSERVATION EASEMENT.

(a) REPEAL OF CERTAIN RESTRICTIONS ON WHERE LAND IS LOCATED.—Clause (i) of section 2031(c)(8)(A) (defining land subject to a qualified conservation easement) is amended to read as follows:

“(i) which is located in the United States or any possession of the United States.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2001.

SEC. 603. TAX EXCLUSION FOR COST-SHARING PAYMENTS UNDER PARTNERS FOR WILDLIFE PROGRAM.

(a) IN GENERAL.—Section 126(a) (relating to certain cost-sharing payments) is amended by redesignating paragraph (10) as paragraph (11) and by inserting after paragraph (9) the following new paragraph:

“(10) The Partners for Fish and Wildlife Program authorized by the Fish and Wildlife Act of 1956 (16 U.S.C. 742a et seq.).”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after the date of the enactment of this Act.

SEC. 604. INCENTIVE FOR CERTAIN ENERGY EFFICIENT PROPERTY USED IN BUSINESS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by adding at the end the following new section:

“SEC. 199. ENERGY PROPERTY DEDUCTION.

“(a) DEDUCTION ALLOWED.—

“(1) IN GENERAL.—There shall be allowed as a deduction for the taxable year an amount equal to the amount of energy efficient commercial building expenditures made by the taxpayer for the taxable year

“(2) MAXIMUM AMOUNT OF DEDUCTION.—The amount of energy efficient commercial building property expenditures taken into account under paragraph (1) shall not exceed an amount equal to the product of—

“(A) \$2.25, and

“(B) the square footage of the building with respect to which the expenditures are made.

“(3) YEAR DEDUCTION ALLOWED.—The deduction under paragraph (1) shall be allowed in the taxable year in which the construction of the building is completed.

“(b) ENERGY EFFICIENT COMMERCIAL BUILDING PROPERTY EXPENDITURES.—For purposes of this section, the term ‘energy efficient commercial building property expenditures’ means an amount paid or incurred for energy efficient commercial building property installed on or in connection with new construction or reconstruction of property—

“(1) for which depreciation is allowable under section 167,

“(2) which is located in the United States, and

“(3) the construction or erection of which is completed by the taxpayer.

Such property includes all residential rental property, including low-rise multifamily structures and single family housing property which is not within the scope of Standard 90.1-1999 (as described in subsection (c)(1)). Such term includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property.

“(c) ENERGY EFFICIENT COMMERCIAL BUILDING PROPERTY.—For purposes of subsection (b)—

“(1) IN GENERAL.—The term ‘energy efficient commercial building property’ means any property which reduces total annual energy and power costs with respect to the lighting, heating, cooling, ventilation, and hot water supply systems of the building by 50 percent or more in comparison to a reference building which meets the requirements of Standard 90.1-1999 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America using methods of calculation under paragraph (2) and certified by qualified professionals as provided under subsection (f).

“(2) METHODS OF CALCULATION.—The Secretary, in consultation with the Secretary of Energy, shall promulgate regulations which describe in detail methods for calculating and verifying energy and power consumption and cost, taking into consideration the provisions of the 1998 California Nonresidential ACM Manual. These procedures shall meet the following requirements:

“(A) In calculating tradeoffs and energy performance, the regulations shall prescribe the costs per unit of energy and power, such as kilowatt hour, kilowatt, gallon of fuel oil, and cubic foot or Btu of natural gas, which may be dependent on time of usage.

“(B) The calculational methodology shall require that compliance be demonstrated for a whole building. If some systems of the building, such as lighting, are designed later than other systems of the building, the method shall provide that either—

“(i) the expenses taken into account under subsection (a) shall not occur until the date designs for all energy-using systems of the building are completed,

“(ii) the energy performance of all systems and components not yet designed shall be assumed to comply minimally with the requirements of such Standard 90.1-1999, or

“(iii) the expenses taken into account under subsection (a) shall be a fraction of such expenses based on the performance of less than all energy-using systems in accordance with subparagraph (C).

“(C) The expenditures in connection with the design of subsystems in the building, such as the envelope, the heating, ventilation, air conditioning and water heating system, and the lighting system shall be allocated to the appropriate building subsystem based on system-specific energy cost savings targets in regulations promulgated by the Secretary of Energy which are equivalent, using the calculation methodology, to the whole building requirement of 50 percent savings.

“(D) The calculational methods under this paragraph need not comply fully with section 11 of such Standard 90.1-1999.

“(E) The calculational methods shall be fuel neutral, such that the same energy efficiency features shall qualify a building for the deduction under this subsection regardless of whether the heating source is a gas or oil furnace or an electric heat pump.

“(F) The calculational methods shall provide appropriate calculated energy savings for design methods and technologies not otherwise credited in either such Standard 90.1-1999 or in the 1998 California Nonresidential ACM Manual, including the following:

“(i) Natural ventilation.

“(ii) Evaporative cooling.

“(iii) Automatic lighting controls such as occupancy sensors, photocells, and time-clocks.

“(iv) Daylighting.

“(v) Designs utilizing semi-conditioned spaces that maintain adequate comfort conditions without air conditioning or without heating.

“(vi) Improved fan system efficiency, including reductions in static pressure.

“(vii) Advanced unloading mechanisms for mechanical cooling, such as multiple or variable speed compressors.

“(viii) The calculational methods may take into account the extent of commissioning in the building, and allow the taxpayer to take into account measured performance that exceeds typical performance.

“(3) COMPUTER SOFTWARE.—

“(A) IN GENERAL.—Any calculation under this subsection shall be prepared by qualified computer software.

“(B) QUALIFIED COMPUTER SOFTWARE.—For purposes of this paragraph, the term ‘qualified computer software’ means software—

“(i) for which the software designer has certified that the software meets all procedures and detailed methods for calculating energy and power consumption and costs as required by the Secretary,

“(ii) which provides such forms as required to be filed by the Secretary in connection with energy efficiency of property and the deduction allowed under this section, and

“(iii) which provides a notice form which summarizes the energy efficiency features of the building and its projected annual energy costs.

“(d) ALLOCATION OF DEDUCTION FOR PUBLIC PROPERTY.—In the case of energy efficient commercial building property installed on or in public property, the Secretary shall promulgate regulations to allow the allocation of the deduction to the person primarily responsible for designing the property in lieu of the public entity which is the owner of such property. Such person shall be treated as the taxpayer for purposes of this section.

“(e) NOTICE TO OWNER.—The qualified individual shall provide an explanation to the owner of the building regarding the energy efficiency features of the building and its projected annual energy costs as provided in the notice under subsection (c)(3)(B)(iii).

“(f) CERTIFICATION.—

“(1) IN GENERAL.—Except as provided in this subsection, the Secretary, in consultation with the Secretary of Energy, shall establish requirements for certification and

compliance procedures after examining the requirements for energy consultants and home energy ratings providers specified by the Mortgage Industry National Accreditation Procedures for Home Energy Rating Systems.

“(2) QUALIFIED INDIVIDUALS.—Individuals qualified to determine compliance shall be only those individuals who are recognized by an organization certified by the Secretary for such purposes.

“(3) PROFICIENCY OF QUALIFIED INDIVIDUALS.—The Secretary shall consult with non-profit organizations and State agencies with expertise in energy efficiency calculations and inspections to develop proficiency tests and training programs to qualify individuals to determine compliance.

“(g) BASIS REDUCTION.—For purposes of this subtitle, if a deduction is allowed under this section with respect to any energy efficient commercial building property, the basis of such property shall be reduced by the amount of the deduction so allowed.

“(h) TERMINATION.—This section shall not apply with respect to any taxable year beginning after December 31, 2003.”

(b) CONFORMING AMENDMENT.—Section 1016(a), as amended by section 211(b), is amended by striking “and” at the end of paragraph (27), by striking the period at the end of paragraph (28) and inserting “, and”, and by inserting the following new paragraph:

“(29) for amounts allowed as a deduction under section 199(a).”

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by adding at the end the following new item:

“Sec. 199. Energy property deduction.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 605. EXTENSION AND MODIFICATION OF TAX CREDIT FOR ELECTRICITY PRODUCED FROM BIOMASS.

(a) EXTENSION AND MODIFICATION OF PLACED-IN-SERVICE RULES.—

(1) IN GENERAL.—Section 45(c)(3) is amended by adding at the end the following new subparagraphs:

“(D) BIOMASS FACILITY.—In the case of a facility using biomass (other than closed-loop biomass) to produce electricity, the term ‘qualified facility’ means any facility owned by the taxpayer which is originally placed in service before January 1, 2002.

“(E) LANDFILL GAS FACILITY.—

“(i) IN GENERAL.—In the case of a facility using landfill gas to produce electricity, the term ‘qualified facility’ means any facility of the taxpayer which is originally placed in service after December 31, 1999, and before January 1, 2002.

“(ii) SPECIAL RULE.—In the case of a facility using landfill gas, such term shall include equipment and housing (not including wells and related systems required to collect and transmit gas to the production facility) required to generate electricity which are owned by the taxpayer and so placed in service.

“(F) SPECIAL RULE.—In the case of a qualified facility described in subparagraph (D) or (E), the period referred to in subsection (a)(2)(A)(ii) shall be applied by substituting ‘3-year’ for ‘10-year’ and shall be treated as beginning no earlier than January 1, 2001.”

(2) CLOSED-LOOP BIOMASS FACILITY.—Section 45(c)(3)(B) (relating to closed-loop biomass facility) is amended by striking “owned by the taxpayer” and all that follows and inserting “owned by the taxpayer which is—”

“(i) originally placed in service after December 31, 1992, and before January 1, 2002, or

“(ii) originally placed in service before December 31, 1992, and modified to use closed-

loop biomass to co-fire with coal after such date and before January 1, 2002.”

(b) EXPANSION OF QUALIFIED ENERGY RESOURCES.—

(1) IN GENERAL.—Section 45(c)(1) (defining qualified energy resources) is amended by striking “and” at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting a comma, and by adding at the end the following new subparagraphs:

“(D) biomass (other than closed-loop biomass), and

“(E) landfill gas.”

(2) DEFINITIONS.—Section 45(c) is amended by adding at the end the following new paragraphs:

“(5) BIOMASS.—The term ‘biomass’ means any solid, nonhazardous, cellulosic waste material which is segregated from other waste materials and which is derived from—

“(A) any of the following forest-related resources: mill residues, precommercial thinnings, slash, and brush, but not including old-growth timber,

“(B) urban sources, including waste pallets, crates, and dunnage, manufacturing and construction wood wastes, and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste (garbage), paper that is commonly recycled, or pressure treated, chemically treated, or lead painted wood wastes, or

“(C) agriculture sources, including orchard tree crops, vineyard, grain, legumes, sugar, and other crop by-products or residues.

“(6) LANDFILL GAS.—The term ‘landfill gas’ means gas from the decomposition of any household solid waste, commercial solid waste, and industrial solid waste disposed of in a municipal solid waste landfill unit (as such terms are defined in regulations promulgated under subtitle D of the Solid Waste Disposal Act (42 U.S.C. 6941 et seq.)).”

(c) SPECIAL RULES.—Section 45(d) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

“(8) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section with respect to a facility for any taxable year if the credit under section 29 is allowed in such year or has been allowed in any preceding taxable year with respect to any fuel produced from such facility.”

(d) CONFORMING AMENDMENT.—Section 29(d) (relating to other definitions and special rules) is amended by adding at the end the following new paragraph:

“(9) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section with respect to any fuel produced from a facility for any taxable year if the credit under section 45 is allowed in such year or has been allowed in any preceding taxable year with respect to such facility.”

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

SEC. 606. TAX CREDIT FOR CERTAIN ENERGY EFFICIENT MOTOR VEHICLES.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1, as amended by section 160(a), is amended by adding at the end the following new section:

“SEC. 30C. CREDIT FOR HYBRID VEHICLES.

“(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of the credit amounts for each qualified hybrid vehicle placed in service during the taxable year.

“(b) CREDIT AMOUNT.—For purposes of this section—

“(1) IN GENERAL.—The credit amount for each qualified hybrid vehicle with a rechargeable energy storage system that provides the applicable percentage of the maximum available power shall be the amount specified in the following table:

Applicable percentage	Credit amount
Not less than 5 percent but less than 10 percent	\$500
Not less than 10 percent but less than 20 percent—	\$1,000
Not less than 20 percent but less than 30 percent—	\$1,500
Not less than 30 percent	\$2,000.

“(2) INCREASE IN CREDIT AMOUNT FOR REGENERATIVE BRAKING SYSTEM.—In the case of a qualified hybrid vehicle that actively employs a regenerative braking system which supplies to the rechargeable energy storage system the applicable percentage of the energy available from braking in a typical 60 miles per hour to 0 miles per hour braking event, the credit amount determined under this section shall be increased by the amount specified in the following table:

Applicable percentage	Credit amount
Not less than 20 percent but less than 40 percent	\$250
Not less than 40 percent but less than 60 percent	\$500
Not less than 60 percent	\$1,000.

“(c) DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED HYBRID VEHICLE.—The term ‘qualified hybrid vehicle’ means an automobile that meets all applicable regulatory requirements and that can draw propulsion energy from both of the following onboard sources of stored energy:

“(A) A consumable fuel.
“(B) A rechargeable energy storage system.

“(2) MAXIMUM AVAILABLE POWER.—The term ‘maximum available power’ means the maximum value of the sum of the heat engine and electric drive system power or other nonheat energy conversion devices available for a driver’s command for maximum acceleration at vehicle speeds under 75 miles per hour.

“(3) AUTOMOBILE.—The term ‘automobile’ has the meaning given such term by section 4064(b)(1) (without regard to subparagraphs (B) and (C) thereof). A vehicle shall not fail to be treated as an automobile solely by reason of weight if such vehicle is rated at 8,500 pounds gross vehicle weight rating or less.

“(d) APPLICATION WITH OTHER CREDITS.—The credit allowed by subsection (a) for any taxable year shall not exceed the excess (if any) of—

“(1) the regular tax for the taxable year reduced by the sum of the credits allowable under subpart A and the preceding sections of this subpart, over

“(2) the tentative minimum tax for the taxable year.

“(e) SPECIAL RULES.—

“(1) BASIS REDUCTION.—The basis of any property for which a credit is allowable under subsection (a) shall be reduced by the amount of such credit (determined without regard to subsection (d)).

“(2) RECAPTURE.—The Secretary shall, by regulations, provide for recapturing the benefit of any credit allowable under subsection (a) with respect to any property which ceases to be property eligible for such credit.

“(3) PROPERTY USED OUTSIDE UNITED STATES, ETC., NOT QUALIFIED.—No credit shall be allowed under this section with respect to—

“(A) any property for which a credit is allowed under section 30,

“(B) any property referred to in section 50(b), or

“(C) any property taken into account under section 179 or 179A.

“(4) ELECTION TO NOT TAKE CREDIT.—No credit shall be allowed under subsection (a) for any vehicle if the taxpayer elects to not have this section apply to such vehicle.

“(f) REGULATIONS.—

“(1) TREASURY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.

“(2) ENVIRONMENTAL PROTECTION AGENCY.—The Administrator of the Environmental Protection Agency, in coordination with the Secretary of Transportation and consistent with the laws administered by such agency for automobiles, shall timely prescribe such regulations as may be necessary or appropriate solely for the purpose of specifying the testing and calculation procedures to determine whether a vehicle meets the qualifications for a credit under this section.

“(g) APPLICATION OF SECTION.—This section shall apply to any qualified hybrid vehicles placed in service after December 31, 2003, and before January 1, 2005.”

(b) CONFORMING AMENDMENTS.—

(1) Section 53(d)(1)(B)(iii) is amended by inserting “or not allowed under section 30C solely by reason of the application of section 30C(d)(2)” after “section 30(b)(3)(B)”.

(2) Section 55(c)(2) is amended by inserting “30C(d),” after “30(b)(3).”

(3) Subsection (a) of section 1016, as amended by section 604(b), is amended by striking “and” at the end of paragraph (28), by striking the period at the end of paragraph (29) and inserting “, and”, and by adding at the end the following new paragraph:

“(30) to the extent provided in section 30C(e)(1).”

(4) The table of sections for subpart B of part IV of subchapter A of chapter 1, as amended by section 160(b), is amended by adding at the end the following new item:

“Sec. 30C. Credit for hybrid vehicles.”

TITLE VII—ADDITIONAL TAX PROVISIONS

SEC. 701. LIMITATION ON USE OF NONACCRUAL EXPERIENCE METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 448(d)(5) (relating to special rule for services) is amended—

(1) by inserting “in fields described in paragraph (2)(A)” after “services by such person”, and

(2) by inserting “CERTAIN PERSONAL” before “SERVICES” in the heading.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year ending after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account over a period (not greater than 4 taxable years) beginning with such first taxable year.

SEC. 702. REPEAL OF SECTION 530(d) OF THE REVENUE ACT OF 1978.

(a) IN GENERAL.—Section 530(d) of the Revenue Act of 1978 (as added by section 1706 of the Tax Reform Act of 1986) is repealed.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to periods ending after the date of the enactment of this Act.

SEC. 703. EXPANSION OF EXEMPTION FROM PERSONAL HOLDING COMPANY TAX FOR LENDING OR FINANCE COMPANIES.

(a) IN GENERAL.—Paragraph (6) of section 542(c) (defining personal holding company) is amended—

(1) by striking “rents,” in subparagraph (B), and

(2) by adding “and” at the end of subparagraph (B),

(3) by striking subparagraph (C), and

(4) by redesignating subparagraph (D) as subparagraph (C).

(b) EXCEPTION FOR LENDING OR FINANCE COMPANIES DETERMINED ON AFFILIATED GROUP BASIS.—Subsection (d) of section 542 is amended by striking paragraphs (1) and (2) and inserting the following new paragraphs:

“(1) LENDING OR FINANCE BUSINESS DEFINED.— For purposes of subsection (c)(6), the term ‘lending or finance business’ means a business of—

“(A) making loans,

“(B) purchasing or discounting accounts receivable, notes, or installment obligations,

“(C) engaging in leasing (including entering into leases and purchasing, servicing, and disposing of leases and leased assets),

“(D) rendering services or making facilities available in the ordinary course of a lending or finance business,

“(E) rendering services or making facilities available in connection with activities described in subparagraphs (A), (B), and (C) carried on by the corporation rendering services or making facilities available, or

“(F) rendering services or making facilities available to another corporation which is engaged in the lending or finance business (within the meaning of this paragraph), if such services or facilities are related to the lending or finance business (within such meaning) of such other corporation and such other corporation and the corporation rendering services or making facilities available are members of the same affiliated group (as defined in section 1504).

(2) EXCEPTION DETERMINED ON AN AFFILIATED GROUP BASIS.—In the case of a lending or finance company which is a member of an affiliated group (as defined in section 1504), such company shall be treated as meeting the requirements of subsection (c)(6) if such group (determined by taking into account only members of such group which are engaged in a lending or finance business) meets such requirements.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 704. CHARITABLE CONTRIBUTION DEDUCTION FOR CERTAIN EXPENSES INCURRED IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE WHALING.

(a) IN GENERAL.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

“(m) EXPENSES PAID BY CERTAIN WHALING CAPTAINS IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE WHALING.—

“(1) IN GENERAL.—In the case of an individual who is recognized by the Alaska Eskimo Whaling Commission as a whaling captain charged with the responsibility of maintaining and carrying out sanctioned whaling activities and who engages in such activities during the taxable year, the amount described in paragraph (2) (to the extent such amount does not exceed \$7,500 for the taxable year) shall be treated for purposes of this section as a charitable contribution.

“(2) AMOUNT DESCRIBED.—

“(A) IN GENERAL.—The amount described in this paragraph is the aggregate of the reasonable and necessary whaling expenses paid by the taxpayer during the taxable year in carrying out sanctioned whaling activities.

“(B) WHALING EXPENSES.—For purposes of subparagraph (A), the term ‘whaling expenses’ includes expenses for—

“(i) the acquisition and maintenance of whaling boats, weapons, and gear used in sanctioned whaling activities,

“(ii) the supplying of food for the crew and other provisions for carrying out such activities, and

“(iii) storage and distribution of the catch from such activities.

“(3) SANCTIONED WHALING ACTIVITIES.—For purposes of this subsection, the term ‘sanctioned whaling activities’ means subsistence bowhead whale hunting activities conducted pursuant to the management plan of the Alaska Eskimo Whaling Commission.”.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years ending after December 31, 2000.

SEC. 705. IMPOSITION OF EXCISE TAX ON PERSONS WHO ACQUIRE STRUCTURED SETTLEMENT PAYMENTS IN FACTORING TRANSACTIONS.

(a) IN GENERAL.—Subtitle E is amended by adding at the end the following new chapter:

“CHAPTER 55—STRUCTURED SETTLEMENT FACTORING TRANSACTIONS

“Sec. 5891. Structured settlement factoring transactions.

“SEC. 5891. STRUCTURED SETTLEMENT FACTORING TRANSACTIONS.

“(a) IMPOSITION OF TAX.—There is hereby imposed on any person who acquires directly or indirectly structured settlement payment rights in a structured settlement factoring transaction a tax equal to 40 percent of the factoring discount as determined under subsection (c)(4) with respect to such factoring transaction.

“(b) EXCEPTION FOR CERTAIN APPROVED TRANSACTIONS.—

“(1) IN GENERAL.—The tax under subsection (a) shall not apply in the case of a structured settlement factoring transaction in which the transfer of structured settlement payment rights is approved in advance in a qualified order.

“(2) QUALIFIED ORDER.—For purposes of this section, the term ‘qualified order’ means a final order, judgment, or decree which—

“(A) finds that the transfer described in paragraph (1)—

“(i) does not contravene any Federal or State statute or the order of any court or responsible administrative authority, and

“(ii) is in the best interest of the payee, taking into account the welfare and support of the payee’s dependents, and

“(B) is issued—

“(i) under the authority of an applicable State statute by an applicable State court, or

“(ii) by the responsible administrative authority (if any) which has exclusive jurisdiction over the underlying action or proceeding which was resolved by means of the structured settlement.

“(3) APPLICABLE STATE STATUTE.—For purposes of this section, the term ‘applicable State statute’ means a statute providing for the entry of an order, judgment, or decree described in paragraph (2)(A) which is enacted by—

“(A) the State in which the payee of the structured settlement is domiciled, or

“(B) if there is no statute described in subparagraph (A), the State in which either the party to the structured settlement (including an assignee under a qualified assignment under section 130) or the person issuing the funding asset for the structured settlement is domiciled or has its principal place of business.

“(4) APPLICABLE STATE COURT.—For purposes of this section—

“(A) IN GENERAL.—The term ‘applicable State court’ means, with respect to any ap-

plicable State statute, a court of the State which enacted such statute.

“(B) SPECIAL RULE.—In the case of an applicable State statute described in paragraph (3)(B), such term also includes a court of the State in which the payee of the structured settlement is domiciled.

“(5) QUALIFIED ORDER DISPOSITIVE.—A qualified order shall be treated as dispositive for purposes of the exception under this subsection.

“(c) DEFINITIONS.—For purposes of this section—

“(1) STRUCTURED SETTLEMENT.—The term ‘structured settlement’ means an arrangement—

“(A) which is established by—

“(i) suit or agreement for the periodic payment of damages excludable from the gross income of the recipient under section 104(a)(2), or

“(ii) agreement for the periodic payment of compensation under any workers’ compensation act excludable from the gross income of the recipient under section 104(a)(1), and

“(B) under which the periodic payments are—

“(i) of the character described in subparagraphs (A) and (B) of section 130(c)(2), and

“(ii) payable by a person who is a party to the suit or agreement or to the workers’ compensation claim or by a person who has assumed the liability for such periodic payments under a qualified assignment in accordance with section 130.

“(2) STRUCTURED SETTLEMENT PAYMENT RIGHTS.—The term ‘structured settlement payment rights’ means rights to receive payments under a structured settlement.

“(3) STRUCTURED SETTLEMENT FACTORING TRANSACTION.—

“(A) IN GENERAL.—The term ‘structured settlement factoring transaction’ means a transfer of structured settlement payment rights (including portions of structured settlement payments) made for consideration by means of sale, assignment, pledge, or other form of encumbrance or alienation for consideration.

“(B) EXCEPTION.—Such term shall not include—

“(i) the creation or perfection of a security interest in structured settlement payment rights under a blanket security agreement entered into with an insured depository institution in the absence of any action to redirect the structured settlement payments to such institution (or agent or successor thereof) or otherwise to enforce such blanket security interest as against the structured settlement payment rights, or

“(ii) a subsequent transfer of structured settlement payment rights acquired in a structured settlement factoring transaction.

“(4) FACTORING DISCOUNT.—The term ‘factoring discount’ means an amount equal to the excess of—

“(A) the aggregate undiscounted amount of structured settlement payments being acquired in the structured settlement factoring transaction, over

“(B) the total amount actually paid by the acquirer to the person from whom such structured settlement payments are acquired.

“(5) RESPONSIBLE ADMINISTRATIVE AUTHORITY.—The term ‘responsible administrative authority’ means the administrative authority which had jurisdiction over the underlying action or proceeding which was resolved by means of the structured settlement.

“(6) STATE.—The term ‘State’ includes any possession of the United States.

“(d) COORDINATION WITH OTHER PROVISIONS.—

“(1) IN GENERAL.—If the applicable requirements of sections 72, 104(a)(1) and (2), 130,

and 461(h) were satisfied at the time the structured settlement was entered into, the subsequent occurrence of a structured settlement factoring transaction shall not affect the application of the provisions of such sections to the parties to the structured settlement (including an assignee under a qualified assignment under section 130) in any taxable year.

“(2) NO WITHHOLDING OF TAX.—The provisions of section 3405 regarding withholding of tax shall not apply to the person making the payments in the event of a structured settlement factoring transaction.”.

(b) CLERICAL AMENDMENTS.—The table of chapters for subtitle E is amended by adding at the end the following new item:

“CHAPTER 55. Structured settlement factoring transactions.”.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section (other than the provisions of section 5891(d) of the Internal Revenue Code of 1986, as added by this section) shall apply to structured settlement factoring transactions (as defined in section 5891(c) of such Code as adopted by this section) entered into on or after the 30th day following the date of the enactment of this Act.

(2) CLARIFICATION OF EXISTING LAW.—Section 5891(d) of such Code (as so added) shall apply to transactions entered into before, on, or after such 30th day.

(3) TRANSITION RULE.—In the case of a structured settlement factoring transaction entered into during the period beginning on the 30th day following the date of the enactment of this Act and ending on July 1, 2002, no tax shall be imposed under section 5891(a) of such Code if—

(A) the structured settlement payee is domiciled in a State (or possession of the United States) which has not enacted a statute providing that the structured settlement factoring transaction is ineffective unless the transaction has been approved by an order, judgment, or decree of a court (or where applicable, a responsible administrative authority) which finds that such transaction—

(i) does not contravene any Federal or State statute or the order of any court (or responsible administrative authority), and

(ii) is in the best interest of the structured settlement payee or is appropriate in light of a hardship faced by the payee, and

(B) the person acquiring the structured settlement payment rights discloses to the structured settlement payee in advance of the structured settlement factoring transaction the amounts and due dates of the payments to be transferred, the aggregate amount to be transferred, the consideration to be received by the structured settlement payee for the transferred payments, the discounted present value of the transferred payments including the present value as determined in the manner described in section 7520 of such Code, and the expenses required under the terms of the structured settlement factoring transaction to be paid by the structured settlement payee or deducted from the proceeds of such transaction.

TECHNICAL EXPLANATION OF S. 3152, THE “COMMUNITY RENEWAL AND NEW MARKETS ACT OF 2000”

INTRODUCTION

This document prepared by the staff of the Joint Committee on Taxation provides a technical explanation of S. 3152, the “Community Renewal and New Markets Act of 2000.” The Community Renewal and New Markets Act of 2000 provides various tax incentives for distressed communities, affordable housing, urban and rural infrastructure, the production of energy, conservation, tax

relief for farmers, and several additional tax provisions.

I. INCENTIVES FOR DISTRESSED AREAS

A. TAX INCENTIVES FOR RENEWAL ZONES AND EMPOWERMENT ZONES (SECS. 101 AND 111-115 OF THE BILL AND SECS. 1391, 1394, 1396, 1397A-D, AND NEW SEC. 1400E OF THE CODE)

PRESENT LAW

In recent years, provisions have been added to the Internal Revenue Code that target specific geographic areas for special Federal income tax treatment. As described in greater detail below, empowerment zones and enterprise communities generally provide tax incentives for businesses that locate within certain geographic areas designated by the Secretaries of Housing and Urban Development ("HUD") and Agriculture.

Round I empowerment zones

The Omnibus Budget Reconciliation Act of 1993 ("OBRA 1993") authorized the designation of nine empowerment zones ("Round I empowerment zones") to provide tax incentives for businesses to locate within targeted areas designated by the Secretaries of HUD and Agriculture. The Taxpayer Relief Act of 1997 ("1997 Act") authorized the designation of two additional Round I urban empowerment zones.

Businesses in the 11 Round I empowerment zones qualify for the following tax incentives: (1) a 20-percent wage credit for the first \$15,000 of wages paid to a zone resident who works in the empowerment zone, (2) an additional \$20,000 of section 179 expensing for qualifying zone property, and (3) tax-exempt financing for certain qualifying zone facilities. The tax incentives with respect to the empowerment zones designated by OBRA 1993 generally are available during the 10-year period of 1995 through 2004. The tax incentives with respect to the two additional Round I empowerment zones generally are available during the 10-year period of 2000 through 2009.

Round II empowerment zones

The 1997 Act also authorized the designation of 20 additional empowerment zones ("Round II empowerment zones"), of which 15 are located in urban areas and five are located in rural areas. Businesses in the Round II empowerment zones are not eligible for the wage credit, but are eligible to receive up to \$20,000 of additional section 179 expensing. Businesses in the Round II empowerment zones also are eligible for more generous tax-exempt financing benefits than those available in the Round I empowerment zones. Specifically, the tax-exempt financing benefits for the Round II empowerment zones are not subject to the State private activity bond volume caps (but are subject to separate per-zone volume limitations), and the per-business size limitations that apply to the Round I empowerment zones and enterprise communities (i.e., \$3 million for each qualified enterprise zone business with a maximum of \$20 million for each principal user for all zones and communities) do not apply to qualifying bonds issued for Round II empowerment zones. The tax incentives with respect to the Round II empowerment zones generally are available during the 10-year period of 1999 through 2008.

EXPLANATION OF PROVISION

Overview

As described in detail below, the provision conforms the wage credit and tax-exempt bond incentives for the Round I and Round II empowerment zones and extends their designations through December 31, 2009. The provision also increases the incentives to existing empowerment zones by (1) increasing the additional section 179 deduction to \$35,000, and (2) providing a zero-percent cap-

ital gain rate for qualifying assets held for more than five years.

In addition, the provision authorizes the Secretaries of HUD and Agriculture to designate 30 new "renewal zones" that have the same tax incentives as empowerment zones. The designations of the new renewal zones will take effect on January 1, 2002, and terminate on December 31, 2009.

Thus, once the 30 new renewal zones have been designated there will exist a total of 61 zones providing similar tax incentives for distressed areas, all of whose designations will terminate on December 31, 2009. The renewal zones are treated as empowerment zones for all purposes of the Code. After taking into account existing empowerment zones (and the designation of the new renewal zones), each State shall have at least one zone.

Existing zones

Conforming and enhancing incentives for Round I and Round II empowerment zones.—

The provision extends the designation of empowerment zone status for Round I and II empowerment zones through December 31, 2009. In addition, a 15-percent wage credit is made available in all Round I and II empowerment zones, effective in 2002 (except in the case of the two additional Round I empowerment zones, for which the 15-percent wage credit takes effect in 2005 as scheduled under present law). For all the empowerment zones, the 15-percent wage credit expires on December 31, 2009.

In addition, \$35,000 (rather than \$20,000) of additional section 179 expensing is available for qualified zone property placed in service in taxable years beginning after December 31, 2001, by a qualified business in any of the empowerment zones.

Businesses located in Round I empowerment zones are eligible for the more generous tax-exempt bond rules that apply under present law to businesses in the Round II empowerment zones (sec. 1394(f)). The proposal applies to tax-exempt bonds issued after December 31, 2001. Bonds that have been issued by businesses in Round I zones before January 1, 2002, are not taken into account in applying the limitations on the amount of new empowerment zone facility bonds that can be issued under the provision.

Businesses located in any empowerment zone also qualify for a zero-percent capital gains rate for gain from the sale of a qualifying zone assets acquired after date of enactment and before January 1, 2010, and held for more than five years. Assets that would qualify for this incentive would be similar to the types of assets that qualify for the present-law zero percent capital gains rate for qualifying D.C. Zone assets. The zero-percent capital gains rate is limited to an aggregate amount not to exceed \$25 million of gain per taxpayer. Gain attributable to the period before the date of enactment or after December 31, 2014, is not eligible for the zero-percent rate.

Renewal zones

Designation of 30 renewal zones.—The Secretaries of HUD and Agriculture are authorized to designate up to 30 renewal zones from areas nominated by States and local governments. At least six of the designated renewal zones must be in rural areas. The Secretary of HUD is required to publish (within four months after enactment) regulations describing the nomination and selection process. Designations of renewal zones must be made before January 1, 2002, and the designations are effective for the period beginning on January 1, 2002 through December 31, 2009.

Eligibility criteria.—To be designated as a renewal zone, a nominated area must meet the following criteria: (1) each census tract must have a poverty rate of at least 20 per-

cent; (2) in the case of an urban area, at least 70 percent of the households have incomes below 80 percent of the median income of households within the local government jurisdiction; (3) the unemployment rate is at least 1.5 times the national unemployment rate; and (4) the area is one of pervasive poverty, unemployment, and general distress. In general, the areas with the highest average ranking of eligibility factors (1), (2) and (3), above will be designated as renewal zones. States without any empowerment zone would be given priority in the designation process. Moreover, the designations of renewal zones must result in (after taking into account existing empowerment zones) each State having at least one zone designation (empowerment or renewal zone).

There are no geographic size limitations placed on renewal zones. Instead, the boundary of a renewal zone must be continuous. In addition, a renewal zone must have a minimum population of 4,000 if the area is located within a metropolitan statistical area (at least 1,000 in all other cases), and a maximum population of not more than 200,000. The population limitations do not apply to any renewal zone that is entirely within an Indian reservation.

Required State and local commitments.—In order for an area to be designated as a renewal zone, State and local governments are required to submit a written course of action in which the State and local governments promise to take at least four of the following governmental actions: (1) a reduction of tax rates or fees; (2) an increase in the level of efficiency of local services; (3) crime reduction strategies; (4) actions to remove or streamline governmental requirements; (5) involvement by private entities and community groups, such as to provide jobs and job training and financial assistance; and (6) the gift (or sale at below fair market value) of surplus realty by the State or local government to community organizations or private companies.

Enterprise community seeking designation as renewal zones.—An enterprise community can apply for designation as a renewal zone. In selecting a nominated area as a renewal zone, the Secretary shall take into account the status of a nominated area as an enterprise community. If a renewal zone designation is granted, then an area's designation as an enterprise community ceases as of the date the area's designation as a renewal zone takes effect.

Tax incentives for renewal zones.—Businesses in renewal zones will have the same tax incentives as businesses in existing empowerment zones (as modified by this provision), which will be available during the period beginning January 1, 2002 and ending December 31, 2009 (i.e., a zero percent capital gains rate for qualifying assets; a 15-percent wage credit for qualifying wages; \$35,000 in additional 179 expensing for qualifying property; and the enhanced tax-exempt bond rules that currently apply to businesses in the Round II empowerment zones).

GAO report.—The General Accounting Office will audit and report to Congress every three years (beginning on January 31, 2004) on the renewal zone program and its effect on poverty, unemployment, and economic growth within the designated renewal zones.

EFFECTIVE DATE

The extension of the existing empowerment zone designations is effective after the date of enactment.

The additional section 179 expensing and the more generous tax-exempt bond rules for the existing empowerment zones is effective after December 31, 2001. The zero-percent capital gains rate applies to qualifying property purchased after the date of enactment

(after December 31, 2001 in the case of renewal zones).

The 15-percent wage credit generally is effective for qualifying wages paid after December 31, 2001. With respect to the two additional Round I empowerment zones, however, the wage credit is effective for qualifying wages paid after December 31, 2004.

The 30 new renewal zones must be designated by January 1, 2002, and the resulting tax benefits will be available for the period beginning January 1, 2002, and ending December 31, 2009.

B. FUNDING FOR ROUND II EMPOWERMENT ZONES (SEC. 116 OF THE BILL)

The provision provides a one-time grant in fiscal year 2001 of \$5,000,000 for each of the 15 urban empowerment zones designated pursuant to the Taxpayer Relief Act of 1997, and \$2,000,000 for each of the 5 rural empowerment zones designated pursuant to the Taxpayer Relief Act of 1997.

The provision also provides a one-time grant \$250,000 for each of the remaining Round I enterprise communities (i.e., those that have not become empowerment zones).

C. EXTENSION AND EXPANSION OF DISTRICT OF COLUMBIA ENTERPRISE ZONE ("D.C. ZONE")

1. Extension of D.C. Zone (Sec. 121 of the Bill and Secs. 1400 and 1400A of the Code)

PRESENT LAW

The 1997 Act designated certain economically depressed census tracts within the District of Columbia as the District of Columbia Enterprise Zone (the "D.C. Zone"), within which businesses and individual residents are eligible for special tax incentives. The D.C. Zone designation remains in effect for the period from January 1, 1998, through December 31, 2002. In addition to the tax incentives available with respect to a Round I empowerment zone (including a wage credit), the D.C. Zone also has a zero-percent capital gains rate that applies to gain from the sale of certain qualified D.C. Zone assets acquired after December 31, 1997 and held for more than five years.

With respect to the tax-exempt financing incentives, the D.C. Zone generally is treated like a Round I empowerment zone; therefore, the issuance of such bonds is subject to the District of Columbia's annual private activity bond volume limitation. However, the aggregate face amount of all outstanding qualified enterprise zone facility bonds per qualified D.C. Zone business may not exceed \$15 million (rather than \$3 million, as is the case for Round I empowerment zones).

EXPLANATION OF PROVISION

The provision extends the D.C. Zone designation through December 31, 2006. The provision also conforms the D.C. zone wage credit to the wage credit for existing empowerment zones, so that a 15-percent wage credit applies with respect to qualifying wages beginning in 2003 (and ending on December 31, 2006).

EFFECTIVE DATE

The provision extending the designation is effective after the date of enactment. For the D.C. Enterprise Zone, the 15-percent wage credit is effective for qualifying wages paid after December 31, 2002.

2. Extension of Zero-Percent Capital Gains Rate for D.C. Zone Assets (Sec. 122 of the Bill and Sec. 1400B of the Code)

PRESENT LAW

Present law provides a zero-percent capital gains rate for capital gains from the sale of certain qualified D.C. Zone assets held for more than five years. In general, a "D.C. Zone asset" means stock or partnership interests held in, or tangible assets held by, a D.C. Zone business. A D.C. Zone business

generally refers to certain enterprise zone businesses within the D.C. Zone. For purposes of the zero-percent capital gains rate, the D.C. Zone is defined to include all census tracts within the District of Columbia where the poverty rate is not less than 10 percent as determined on the basis of the 1990 Census (sec. 1400B(d)).

EXPLANATION OF PROVISION

The provision eliminates the 10-percent poverty rate limitation for purposes of the zero-percent capital gains rate. Thus, the zero-percent capital gains rate applies to capital gains from the sale of assets held more than five years attributable to certain qualifying businesses located in the District of Columbia.

EFFECTIVE DATE

The provision is effective for D.C. Zone business stock and partnership interests originally issued after, and D.C. Zone business property assets originally acquired by the taxpayer after, December 31, 2000.

3. Gross Income Test for D.C. Zone Businesses (Sec. 123 of the Bill and Sec. 1400B of the Code)

PRESENT LAW

A zero-percent capital gains rate applies to gain from the sale of certain qualified D.C. zone assets. In general, a D.C. Zone asset means stock or partnership interests held in, or tangible property held by, a D.C. Zone business. A D.C. Zone business generally refers to certain enterprise zone businesses within the D.C. Zone, except that 80 percent of the total gross income of the entity must be derived from the active conduct of the business (sec. 1400B(c)(2)).

EXPLANATION OF PROVISION

The provision reduces the level of gross income needed to qualify as a D.C. Zone business to 50 percent.

EFFECTIVE DATE

The provision is effective for D.C. Zone business stock and partnership interest originally issued after, and D.C. Zone business property originally acquired by the taxpayer after, December 31, 2000.

4. Expansion of District of Columbia Homebuyer Tax Credit (Sec. 124 of the Bill and Sec. 1400C of the Code)

PRESENT LAW

First-time homebuyers of a principal residence in the District of Columbia are eligible for a nonrefundable tax credit of up to \$5,000 of the amount of the purchase price. The \$5,000 maximum credit applies both to individuals and married couples. Married individuals filing separately can claim a maximum credit of \$2,500 each. The credit phases out for individual taxpayers with adjusted gross income between \$70,000 and \$90,000 (\$110,000-\$130,000 for joint filers). For purposes of eligibility, "first-time homebuyer" means any individual if such individual did not have a present ownership interest in a principal residence in the District of Columbia in the one year period ending on the date of the purchase of the residence to which the credit applies. The credit is scheduled to expire for residences purchased after December 31, 2001.

EXPLANATION OF PROVISION

The provision extends the first-time homebuyer credit for two years, through December 31, 2003. The provision also extends the phase-out range for married individuals filing a joint return so that it is twice that of individuals. Thus, under the provision, the District of Columbia homebuyer credit is phased out for joint filers with adjusted gross income between \$140,000 and \$180,000.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

D. NEW MARKETS TAX CREDIT (SECTION 131 OF THE BILL AND NEW SEC. 45D OF THE CODE)

PRESENT LAW

Some tax incentives are available to taxpayers making investments and loans in low-income communities. For example, tax incentives are available to taxpayers that invest in specialized small business investment companies licensed by the Small Business Administration to make loans to, or equity investments in, small businesses owned by persons who are socially or economically disadvantaged.

EXPLANATION OF PROVISION

The provision creates a new tax credit for qualified equity investments made to acquire stock in a selected community development entity ("CDE"). The maximum annual amount of qualifying equity investments is capped as follows:

Calendar year	Maximum qualifying equity investment
2002	\$1.0 billion
2003-2006	1.5 billion per year

The amount of the new tax credit to the investor (either the original purchaser or a subsequent holder) is (1) a five-percent credit for the year in which the equity interest is purchased from the CDE and the first two anniversary dates after the interest is purchased from the CDE, and (2) a six-percent credit on each anniversary date thereafter for the following four years. The taxpayer's basis in the investment is reduced by the amount of the credit (other than for purposes of calculating the zero-percent capital gains rules and section 1202). The credit is subject to the general business credit rules.

A CDE is any domestic corporation or partnership (1) whose primary mission is serving or providing investment capital for low-income communities or low-income persons, (2) that maintains accountability to residents of low-income communities through the representation of the residents on governing or advisory boards of the CDE, and (3) is certified by the Treasury Department as an eligible CDE. No later than 120 days after enactment, the Treasury Department will issue guidance that specifies objective criteria to be used by the Treasury to allocate the credits among eligible CDEs. In allocating the credits, the Treasury Department will give priority to entities with records of having successfully provided capital or technical assistance to disadvantaged businesses or communities, as well as to entities that intend to invest substantially all of the proceeds they receive from their investors in businesses in which persons unrelated to the CDE hold the majority equity interest.

If a CDE fails to sell equity interests to investors up to the amount authorized within five years of the authorization, then the remaining authorization is canceled. The Treasury Department can authorize another CDE to issue equity interests for the unused portion. No authorization can be made after 2013.

A "qualified equity investment" is defined as stock or a similar equity interest acquired directly from a CDE in exchange for cash. Substantially all of the investment proceeds must be used by the CDE to make "qualified low-income community investments." Qualified low-income community investments include: (1) capital or equity investments in, or loans to, qualified active businesses located in low-income communities, (2) certain financial counseling and other services specified in regulations to businesses and residents in low-income communities, (3) the purchase from another CDE of any loan made by such entity that is a qualified low

income community investment, or (4) an equity investment in, or loans to, another CDE. Treasury Department regulations will provide guidance with respect to the "substantially all" standard.

The stock or equity interest cannot be redeemed (or otherwise cashed out) by the CDE for at least seven years. If the entity ceases to be a qualified CDE during the seven-year period following the taxpayer's investment, or if the equity interest is redeemed by the issuing CDE during that seven-year period, then any credits claimed with respect to the equity interest are recaptured (with interest) and no further credits are allowed.

A "low-income community" is defined as census tracts with: (1) poverty rates of at least 20 percent (based on the most recent census data), or (2) median family income which does not exceed 80 percent of the greater of metropolitan area income or statewide median family income (for a non-metropolitan census tract, 80 percent of non-metropolitan statewide median family income). The Secretary also may designate any area within any census tract as a "low income community" provided that (1) the boundary of the area is continuous, (2) the area (if it were a census tract) would satisfy the poverty rate or median income requirements set forth above within the targeted area, and (3) an inadequate access to investment capital exists in the area.

A "qualified active business" is defined as a business which satisfies the following requirements: (1) at least 50 percent of the total gross income of the business is derived from the active conduct of trade or business activities in low-income communities; (2) a substantial portion of the use of the tangible property of such business is used within low-income communities; (3) a substantial portion of the services performed for such business by its employees is performed in low-income communities; and (4) less than 5 percent of the average aggregate of unadjusted bases of the property of such business is attributable to certain financial property or to collectibles (other than collectibles held for sale to customers). There is no requirement that employees of the business be residents of the low income community.

Rental of improved commercial real estate located in a low-income community is a qualified active business, regardless of the characteristics of the commercial tenants of the property. The purchase and holding of unimproved real estate is not a qualified active business. In addition, a qualified active business does not include (a) any business consisting predominantly of the development or holding of intangibles for sale or license; or (b) operation of any facility described in sec. 144(c)(6)(B). A qualified active business can include an organization that is organized on a non-profit basis.

The General Accounting Office will audit and report to Congress by January 31, 2004 (and again by January 31, 2007) on the new markets program, including on all qualified community development entities that receive an allocation under the new markets tax credit.

EFFECTIVE DATE

The provision is effective for qualified investments made after December 31, 2001.

E. MODIFICATION OF PUERTO RICO ECONOMIC ACTIVITY TAX CREDIT (SEC. 141 OF THE BILL AND SEC. 30A OF THE CODE)

PRESENT LAW

The Small Business Job Protection Act of 1996 generally repealed the Puerto Rico and possession tax credit. However, certain domestic corporations that had active business operations in Puerto Rico or another U.S. possession on October 13, 1995, may continue

to claim credits under section 936 or section 30A for a 10-year transition period. Such credits apply to possession business income, which is derived from the active conduct of a trade or business within a U.S. possession or from the sale or exchange of substantially all of the assets that were used in such a trade or business. In contrast to the foreign tax credit, the Puerto Rico and possession tax credit is granted whether or not the corporation pays income tax to the possession.

One of two alternative limitations is applicable to the amount of the credit attributable to possession business income. Under the economic activity limit, the amount of the credit with respect to such income cannot exceed the sum of a portion of the taxpayer's wage and fringe benefit expenses and depreciation allowances (plus, in certain cases, possession income taxes); beginning in 2002, the income eligible for the credit computed under this limit generally is subject to a cap based on the corporation's pre-1996 possession business income adjusted for inflation. Under the alternative limit, the amount of the credit is limited to the applicable percentage (40 percent for 1998 and thereafter) of the credit that would otherwise be allowable with respect to possession business income; beginning in 1998, the income eligible for the credit computed under this limit generally is subject to a cap based on the corporation's pre-1996 possession business income. Special rules apply in computing the credit with respect to operations in Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. The credit expires for taxable years beginning after December 31, 2005.

EXPLANATION OF PROVISION

The bill modifies the credit computed under the economic activity limit with respect to operations in Puerto Rico only. First, the proposal expands the lines of business eligible under the credit to include new lines of business established in Puerto Rico after December 31, 2000, and before January 1, 2005 by existing credit claimants. These "new opportunity credit" claimants are eligible to claim credits in taxable years beginning before January 1, 2006. In addition, income eligible for the credit computed under the economic activity limitation is subject to the present-law income limitation. Also, these "new opportunity credit" claimants are required to calculate their credit in each taxable year, but claim that amount of credit over a five-year period (on a pro-rata basis) beginning the year in which the credit is earned.

In addition, for existing credit claimants, the present-law limitation on income eligible for the credit for any taxable year is increased by the ratio of the average number of full-time employees of the taxpayer during the taxable year to the average number of full-time employees of the taxpayer in 1995 and 1996.

EFFECTIVE DATE

The provision applies to taxable years beginning after December 31, 2000.

F. CREATION OF INDIVIDUAL DEVELOPMENT ACCOUNTS (SECS. 731-741 OF THE BILL AND NEW SEC. 530A OF THE CODE)

PRESENT LAW

There are no tax benefits to encourage financial institutions to match savings of low-income individuals.

EXPLANATION OF PROVISION

In general

The bill creates individual development accounts ("IDAs") to which eligible individuals can contribute, annually, the lesser of: (1) \$2,000; or (2) the individual's taxable compensation for the year. An eligible individual

is an individual who is: (1) at least 18 years of age; (2) a citizen or legal resident of the United States; and (3) a member of a household with family gross income of 60 percent or less of national median gross income and a net worth of \$10,000 or less.

Contributions to an IDA by eligible individuals

Only eligible individuals are allowed to contribute to an IDA. Contributions to IDAs by individuals are not deductible, and earnings on such contributions are includible in income.

Matching contributions

The bill provides a maximum annual tax credit of \$270 (90 percent of \$300) to a financial institution that makes matching contributions to the IDAs of individuals. This credit is available in each year that a matching contribution is made. An additional \$100 tax credit would be allowed for each account opened. The credit is for the costs incurred to open and maintain the account, as well as to provide financial education. The credits could be claimed by the financial institution or its contractual affiliates. It is anticipated that a financial institution may collaborate with one or more contractual affiliates, non-profits, or Indian tribes to carry out the IDA program. Contractual affiliates who provide matching funds should be eligible to receive the matching tax credit.

Matching contributions (and earnings thereon) are not includible in the gross income of the eligible individual.

If an individual withdraws his or her own IDA contributions (or earnings thereon) for a purpose other than a qualified purpose, then the matching contribution attributable to such individual contribution is forfeited. Matching contributions can be withdrawn only for the following qualified purposes: (1) certain educational expenses; (2) first-time homebuyer expenses; (3) business start-up or expansion purposes; and (4) qualified rollovers.

Effect on means-tested programs

Any amounts in the IDA are not to be taken into account for certain Federal means-tested programs.

EFFECTIVE DATE

The tax credit provision is effective for contributions to IDAs and matching contributions made with respect to such IDAs after December 31, 2001, and before January 1, 2006.

G. ADDITIONAL INCENTIVES

1. Exclusion of certain amounts received under the National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program (sec. 171 of the bill and sec. 117 of the Code)

PRESENT LAW

The National Health Service Corps Scholarship Program (the "NHSC Scholarship Program") and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program (the "Armed Forces Scholarship Program") provide education awards to participants on condition that the participants provide certain services. In the case of the NHSC Scholarship Program, the recipient of the scholarship is obligated to provide medical services in a geographic area (or to an underserved population group or designated facility) identified by the Public Health Service as having a shortage of health-care professionals. In the case of the Armed Forces Scholarship Program, the recipient of the scholarship is obligated to serve a certain number of years in the military at an armed forces medical facility. Because the recipients are required to perform services in exchange for the education awards, the awards used to pay higher

education expenses are taxable income to the recipient.

Section 117 excludes from gross income amounts received as a qualified scholarship by an individual who is a candidate for a degree and used for tuition and fees required for the enrollment or attendance (or for fees, books, supplies, and equipment required for courses of instruction) at a primary, secondary, or post-secondary educational institution. The tax-free treatment provided by section 117 does not extend to scholarship amounts covering regular living expenses, such as room and board. In addition to the exclusion for qualified scholarships, section 117 provides an exclusion from gross income for qualified tuition reductions for certain education provided to employees (and their spouses and dependents) of certain educational organizations.

Section 117(c) specifically provides that the exclusion for qualified scholarships and qualified tuition reductions does not apply to any amount received by a student that represents payment for teaching, research, or other services by the student required as a condition for receiving the scholarship or tuition reduction.

Section 134 provides that any "qualified military benefit," which includes any allowance, is excluded from gross income if received by a member or former member of the uniformed services if such benefit was excludable from gross income on September 9, 1986.

EXPLANATION OF PROVISION

The provision provides that amounts received by an individual under the NHSC Scholarship Program or the Armed Forces Scholarship Program are eligible for tax-free treatment as qualified scholarships under section 117, without regard to any service obligation by the recipient.

EFFECTIVE DATE

The provision is effective for education awards received after December 31, 1993.

2. Extension and Modification of Enhanced Deduction for Corporate Donations of Computer Technology (Sec. 172 of the Bill and Sec. 170(e)(6) of the Code)

PRESENT LAW

The maximum charitable contribution deduction that may be claimed by a corporation for any one taxable year is limited to 10 percent of the corporation's taxable income for that year (disregarding charitable contributions and with certain other modifications) (sec. 170(b)(2)). Corporations also are subject to certain limitations based on the type of property contributed. In the case of a charitable contribution of short-term gain property, inventory, or other ordinary income property, the amount of the deduction generally is limited to the taxpayer's basis (generally, cost) in the property. However, special rules in the Code provide an augmented deduction for certain corporate contributions. Under these special rules, the amount of the augmented deduction is equal to the lesser of (1) the basis of the donated property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, or (2) twice the basis of the donated property.

Section 170(e)(6) allows corporate taxpayers an augmented deduction for qualified contributions of computer technology and equipment (i.e., computer software, computer or peripheral equipment, and fiber optic cable related to computer use) to be used within the United States for educational purposes in grades K-12. Eligible donees are: (1) any educational organization that normally maintains a regular faculty and curriculum and has a regularly enrolled body of pupils in attendance at the place

where its educational activities are regularly carried on; and (2) tax-exempt charitable organizations that are organized primarily for purposes of supporting elementary and secondary education. A private foundation also is an eligible donee, provided that, within 30 days after receipt of the contribution, the private foundation contributes the property to an eligible donee described above.

Qualified contributions are limited to gifts made no later than two years after the date the taxpayer acquired or substantially completed the construction of the donated property. In addition, the original use of the donated property must commence with the donor or the donee. Accordingly, qualified contributions generally are limited to property that is no more than two years old. Such donated property could be computer technology or equipment that is inventory or depreciable trade or business property in the hands of the donor.

Donee organizations are not permitted to transfer the donated property for money or services (e.g., a donee organization cannot sell the computers). However, a donee organization may transfer the donated property in furtherance of its exempt purposes and be reimbursed for shipping, installation, and transfer costs. For example, if a corporation contributes computers to a charity that subsequently distributes the computers to several elementary schools in a given area, the charity could be reimbursed by the elementary schools for shipping, transfer, and installation costs.

The special treatment applies only to donations made by C corporations. S corporations, personal holding companies, and service organizations are not eligible donors.

The provision is scheduled to expire for contributions made in taxable years beginning after December 31, 2000.

EXPLANATION OF PROVISION

The bill extends the current enhanced deduction for donations of computer technology and equipment through December 31, 2003. In addition, the enhanced deduction is expanded to include donations to public libraries.

EFFECTIVE DATE

The provision is effective upon the date of enactment.

3. Extension of the Adoption Tax Credit (Sec. 173 of the Bill and Sec. 23 of the Code)

PRESENT LAW

Taxpayers are entitled to a maximum non-refundable credit against income tax liability of \$5,000 per child for qualified adoption expenses paid or incurred by the taxpayer (sec. 23). In the case of a special needs adoption, the maximum credit amount is \$6,000 (\$5,000 in the case of a foreign special needs adoption). A special needs child is a child who the State has determined: (1) cannot or should not be returned to the home of the birth parents, and (2) has a specific factor or condition because of which the child cannot be placed with adoptive parents without adoption assistance. The adoption of a child who is not a citizen or a resident of the United States is a foreign adoption.

Qualified adoption expenses are reasonable and necessary adoption fees, court costs, attorneys' fees, and other expenses that are directly related to the legal adoption of an eligible child. All reasonable and necessary expenses required by a State as a condition of adoption are qualified adoption expenses. Otherwise qualified adoption expenses paid or incurred in one taxable year are not taken into account for purposes of the credit until the next taxable year unless the expenses are paid or incurred in the year the adoption becomes final.

An eligible child is an individual (1) who has not attained age 18 or (2) who is physically or mentally incapable of caring for himself or herself. After December 31, 2001, the credit will be available only for domestic special needs adoptions.

No credit is allowed for expenses incurred (1) in violation of State or Federal law, (2) in carrying out any surrogate parenting arrangement, (3) in connection with the adoption of a child of the taxpayer's spouse, (4) that are reimbursed under an employer adoption assistance program or otherwise, or (5) for a foreign adoption that is not finalized.

The credit is phased out ratably for taxpayers with modified AGI above \$75,000, and is fully phased out at \$115,000 of modified AGI. For these purposes modified AGI is computed by increasing the taxpayer's AGI by the amount otherwise excluded from gross income under Code sections 911, 931, or 933.

EXPLANATION OF PROVISION

The bill extends the adoption credit for the adoption of non-special needs children for two years through December 31, 2003.

EFFECTIVE DATE

The provision is effective on the date of enactment.

4. Tax treatment of Alaska Native Settlement Trusts (Sec. 174 of the Bill and New Secs. 646 and 6039H of the Code)

PRESENT LAW

An Alaska Native Settlement Corporation ("ANC") may establish a Settlement Trust ("Trust") under section 39 of the Alaska Native Claims Settlement Act ("ANCSA") and transfer money or other property to such Trust for the benefit of beneficiaries who constitute all or a class of the shareholders of the ANC, to promote the health, education and welfare of the beneficiaries and preserve the heritage and culture of Alaska Natives.

With certain exceptions, once an ANC has made a conveyance to a Trust, the assets conveyed shall not be subject to attachment, distraint, or sale or execution of judgment, except with respect to the lawful debts and obligations of the Trust.

The Internal Revenue Service has indicated that contributions to a Trust constitute distributions to the beneficiary-shareholders at the time of the contribution and are treated as dividends to the extent of earnings and profits as provided under section 301 of the Code. The Trust and its beneficiaries are taxed in accordance with trust rules.

EXPLANATION OF PROVISION

An Alaska Native Corporation may establish a Trust under section 39 of ANCSA and if the Trust makes an election for its first taxable year ending after the date of enactment of the proposal, no amount will be included in the gross income of a beneficiary of such Trust by reason of a contribution to the Trust. In addition, unless the electing Trust fails to meet the transferability requirements of the provision, income of the Trust, whether accumulated or distributed, will be taxed only to the Trust (and not to beneficiaries) at the lowest individual tax rates of 15 percent for ordinary income (and the capital gains rate applicable to individuals subject to such 15 percent rate), rather than at the higher rates generally applicable to trusts or to higher tax bracket beneficiaries.

The earnings and profits of the ANC will not be reduced by the amount of contributions to the electing Trust at the time of the contributions. However, the ANC earnings and profits will be reduced (up to the amount of the contributions) as distributions are thereafter made by the electing Trust that would exceed the Trusts' total undistributed net income (less taxes paid) plus tax-exempt income for all prior years during which

an election is in effect plus for the current year, computed under Subchapter J. In addition, such distributions that exceed such amounts are to be reported and taxed to beneficiaries as if distributed by the ANC in the year of the distribution by the electing Trust, and will be treated as dividends to beneficiaries to the extent the ANC then has current or accumulated earnings and profits.

The fiduciary of an electing Trust must report to the IRS, with the Trust tax return, the amount of distributions to each beneficiary, and the tax treatment to the beneficiary of such distributions under the provision (either as exempt from tax to the beneficiary, or as a distribution deemed made by the ANC). The electing Trust must also furnish such information to the ANC.

In the case of distributions that are treated as if made by the ANC, as described above, the ANC must then report such amounts to the beneficiaries and must indicate whether they are dividends or not, in accordance with the earnings and profits of the ANC. The reporting thus required by an electing Trust will be in lieu of, and will satisfy, the reporting requirements of section 6034A (and such other reporting requirements as the Secretary of the Treasury may deem appropriate).

If the beneficial interests in the electing Trust or the shares of the ANC may be sold or exchanged to a person in a manner that would not be permitted under ANCSA if the interests were Settlement Common Stock (generally, to a person other than an Alaska Native), then all assets of the Trust that had not been distributed as of the beginning of that taxable year of the Trust are taxed to the extent they would be if they were distributed at that time. Thereafter, the Trust and its beneficiaries are generally subject to the rules of subchapter J and to the generally applicable trust income tax rates.

EFFECTIVE DATE

The provision is effective for taxable years of Settlement Trusts, their beneficiaries, and sponsoring Alaska Native Corporations ending after the date of enactment, and to contributions made to electing Settlement Trusts during such year and thereafter.

5. Treatment of Indian Tribes as Non-Profit Organizations and State or Local Governments for Purposes of the Federal Unemployment Tax ("FUTA") (Sec. 175 of the Bill and Sec. 3306 of the Code)

PRESENT LAW

Present law imposes a net tax on employers equal to 0.8 percent of the first \$7,000 paid annually to each employee. The current gross FUTA tax is 6.2 percent, but employers in States meeting certain requirements and having no delinquent loans are eligible for a 5.4 percent credit making the net Federal tax rate 0.8 percent. Both non-profit organizations and State and local governments are not required to pay FUTA taxes. Instead they may elect to reimburse the unemployment compensation system for unemployment compensation benefits actually paid to their former employees. Generally, Indian tribes are not eligible for the reimbursement treatment allowable to non-profit organizations and State and local governments.

EXPLANATION OF PROVISION

The bill provides that an Indian tribe (including any subdivision, subsidiary, or business enterprise chartered and wholly owned by an Indian tribe) is treated like a non-profit organization or State or local government for FUTA purposes (i.e., given an election to choose the reimbursement treatment).

EFFECTIVE DATE

The provision generally is effective with respect to service performed beginning on or

after the date of enactment. Under a transition rule, service performed in the employ of an Indian tribe is not treated as employment for FUTA purposes if: (1) it is service which is performed before the date of enactment and with respect to which FUTA tax has not been paid; and (2) such Indian tribe reimburses a State unemployment fund for unemployment benefits paid for service attributable to such tribe for such period.

6. Additional Funding for the Social Services Block Grant (Sec. 176 of the Bill)

The provision amends Section 2003(c) of Title XX of the Social Security Act and provides an additional one-time amount of \$700,000,000 for fiscal year 2001.

II. TAX INCENTIVES FOR AFFORDABLE HOUSING

- A. INCREASE LOW-INCOME HOUSING TAX CREDIT PER CAPITA AMOUNT (SECS. 201 AND 202 OF THE BILL AND SEC. 42 OF THE CODE)

PRESENT LAW

In general, a maximum 70-percent present value tax credit, claimed over a 10-year period is allowed for the cost of rental housing occupied by tenants having incomes below specified levels. The credit percentage for newly constructed or substantially rehabilitated housing that is not Federally subsidized is adjusted monthly by the Internal Revenue Service so that the 10 annual installments have a present value of 70 percent of the total qualified expenditures. The credit percentage for new substantially rehabilitated housing that is Federally subsidized and for existing housing that is substantially rehabilitated is calculated to have a present value of 30 percent of total qualified expenditures.

To claim low-income housing credits, project owners must receive an allocation of credit from a State or local housing credit agency. However, no allocation is required for buildings at least 50 percent financed with the proceeds of tax-exempt bonds that received an allocation pursuant to the private activity bond volume limitation of Code section 146. Such projects must, however, satisfy the requirements for allocation under the State's qualified allocation plan and meet other requirements.

A building generally must be placed in service during the calendar year in which it receives a credit allocation. However, a housing credit agency can make a binding commitment, not later than the year in which the building is placed in service, to allocate a specified credit dollar amount to such building beginning in a specified later year. In addition, a project can receive a "carryover allocation" if the taxpayer's basis in the project as of the close of the calendar year the allocation is made is more than 10 percent of the taxpayer's reasonably expected basis in the project, and the building is placed in service not later than the close of the second calendar year following the calendar year in which the allocation is made. For purposes of the 10-percent test, basis means the taxpayer's adjusted basis in land and depreciable real property, whether or not these amounts are includible in eligible basis. Finally, an allocation of credit for increases in qualified basis may occur in years subsequent to the year the project is placed in service.

Authority to allocate credits remains at the State (as opposed to local) government level unless State law provides otherwise. Generally, credits may be allocated only from volume authority arising during the calendar year in which the building is placed in service, except in the case of: (1) credits claimed on additions to qualified basis; (2) credits allocated in a later year pursuant to an earlier binding commitment made no

later than the year in which the building is placed in service; and (3) carryover allocations.

Each State annually receives low-income housing credit authority equal to \$1.25 per State resident for allocation to qualified low-income projects. In addition to this \$1.25 per resident amount, each State's "housing credit ceiling" includes the following amounts: (1) the unused State housing credit ceiling (if any) of such State for the preceding calendar year; (2) the amount of the State housing credit ceiling (if any) returned in the calendar year; and (3) the amount of the national pool (if any) allocated to such State by the Treasury Department.

The national pool consists of States' unused housing credit carryovers. For each State, the unused housing credit carryover for a calendar year consists of the excess (if any) of the unused State housing credit ceiling for such year over the excess (if any) of the aggregate housing credit dollar amount allocated for such year over the sum of \$1.25 per resident and the credit returns for such year. The amounts in the national pool are allocated only to a State which, with respect to the previous calendar year allocated its entire housing credit ceiling for the preceding calendar year, and requested a share in the national pool not later than May 1, of the calendar year. The national pool allocation to qualified States is made on a pro rata basis equivalent to the fraction that a State's population enjoys relative to the total population of all qualified States for that year.

The present-law stacking rule provides that a State is treated as using its annual allocation of credit authority (\$1.25 per State resident) and any returns during the calendar year followed by any unused credits carried forward from the preceding year's credit ceiling and finally any applicable allocations from the National pool.

EXPLANATION OF PROVISION

The bill increases the annual State credit caps from \$1.25 to \$1.75 per resident beginning in 2001. Also beginning in 2001, the per capita cap is modified so that small population states are given a minimum of \$2 million of annual credit cap. The \$1.75 per capita credit cap and the \$2 million amount are indexed for inflation beginning in calendar year 2002.

The bill also makes two programmatic changes to the credit. First, the bill modifies the stacking rule so that each State is treated as using its allocation of the unused State housing credit ceiling (if any) from the preceding calendar before the current year's allocation of credit (including any credits returned to the State) and then finally any National pool allocations. Second, the bill provides that assistance received under the Native American Housing Assistance and Self-Determination Act of 1986 is not taken into account in determining whether a building is Federally subsidized for purposes of the credit.

EFFECTIVE DATE

The provision is effective for calendar years beginning after December 31, 2000 and buildings placed-in-service after such date in the case of projects that also receive financing with proceeds of tax-exempt bonds which are issued after such date subject to the private activity bond volume limit.

- B. TAX CREDIT FOR RENOVATING HISTORIC HOMES (SEC. 211 OF THE BILL AND NEW SEC. 25B OF THE CODE)

PRESENT LAW

Present law provides an income tax credit for certain expenditures incurred in rehabilitating certified historic structures and certain nonresidential buildings placed in service before 1936 (sec. 47). The amount of the

credit is determined by multiplying the applicable rehabilitation percentage by the basis of the property that is attributable to qualified rehabilitation expenditures. The applicable rehabilitation percentage is 20 percent for certified historic structures and 10 percent for qualified rehabilitated buildings (other than certified historic structures) that were originally placed in service before 1936.

A nonresidential building is eligible for the 10-percent credit only if the building is substantially rehabilitated and a specific portion of the existing structure of the building is retained in place upon completion of the rehabilitation. A residential or nonresidential building is eligible for the 20-percent credit that applies to certified historic structures only if the building is substantially rehabilitated (as determined under the eligibility rules for the 10-percent credit). In addition, the building must be listed in the National Register or the building must be located in a registered historic district and must be certified by the Secretary of the Interior as being of historical significance to the district.

EXPLANATION OF PROVISION

The bill permits a taxpayer to claim a 20-percent credit for qualified rehabilitation expenditures made with respect to a qualified historic home which the taxpayer subsequently occupies as his or her principal residence for at least five years. The total credit which can be claimed by the taxpayer is limited to \$20,000. Any eligible credit not claimed by the taxpayer in the year in which the qualified rehabilitation expenditures are made may be carried forward to each of the succeeding 10 years.

The bill applies to (1) structures listed in the National Register; (2) structures located in a registered national, State, or local historic district, and certified by the Secretary of the Interior as being of historic significance to the district, but only if the median income of the census tract within which the building is located is less than twice the State median income; (3) any structure designated as being of historic significance under a State or local statute, if such statute is certified by the Secretary of the Interior as achieving the purpose of preserving and rehabilitating buildings of historic significance.

A building generally is considered substantially rehabilitated if the qualified rehabilitation expenditures incurred during a 24-month measuring period exceed the greater of (1) the adjusted basis of the building as of the later of the first day of the 24-month period or the beginning of the taxpayer's holding period for the building, or (2) \$5,000. Only the \$5,000 expenditure requirement applies in the case of structures (1) in empowerment zones, (2) in enterprise communities, (3) in census tracts in which 70 percent of families have income which is 80 percent or less of the State median family income, and (4) in areas of chronic distress as designated by the State and approved by the Secretary of Housing and Urban Development. In addition, for all structures, at least five percent of the rehabilitation expenditures must be allocable to the exterior of the structure.

To qualify for the credit, the rehabilitation must be certified by a State or local government subject to conditions specified by the Secretary of the Interior.

A taxpayer who purchases a structure on which qualified rehabilitation expenditures have been made may claim credit for such expenditures if the taxpayer is the first purchaser of the structure within five years of the date the rehabilitation was completed and if no credit was allowed to the seller with respect to the qualified expenditures.

Alternatively, a taxpayer may elect to receive a historic rehabilitation mortgage credit certificate in lieu of the credit otherwise allowable. A historic rehabilitation mortgage credit certificate may be transferred to a lending institution in exchange for which the lending institution provides the taxpayer with a reduction in interest rate on a mortgage on a qualifying structure. The lending institution would then claim the allowable credits against its tax liability. In the case of a targeted area or enterprise community or empowerment zone, the taxpayer may elect to allocate all or a portion of the mortgage credit certificate to reduce the down payment required for purchase of the structure.

If a taxpayer ceases to maintain the structure as his or her personal residence within five years from the date of the rehabilitation, the credit would be recaptured on a pro rata basis.

EFFECTIVE DATE

The provision is effective for expenditures paid or incurred beginning after December 31, 2001.

C. EXCLUSION FROM GROSS INCOME FOR CERTAIN FORGIVEN MORTGAGE OBLIGATIONS (SEC. 221 OF THE BILL AND SEC. 108 OF THE CODE)

PRESENT LAW

Gross income includes all income from whatever source derived, including income from the discharge of indebtedness. However, gross income does not include discharge of indebtedness income if: (1) the discharge occurs in a Title 11 case; (2) the discharge occurs when the taxpayer is insolvent; (3) the indebtedness discharged is qualified farm indebtedness; or (4) except in the case of a C corporation, the indebtedness discharged is qualified real property business indebtedness. No exclusion is provided under present law for qualified residential indebtedness.

EXPLANATION OF PROVISION

In the case of an individual taxpayer, the bill provides an exclusion from discharge of indebtedness income to the extent such income is attributable to the sale of real property securing qualified residential indebtedness. Qualified residential indebtedness is defined as indebtedness incurred or assumed by the taxpayer for the acquisition, construction, reconstruction, or substantial improvement of the taxpayer's residence and which is secured by such residence. The taxpayer may elect to have this exclusion apply. The exclusion does not apply to qualified farm indebtedness or qualified real property business indebtedness.

EFFECTIVE DATE

The provision is effective for discharges of indebtedness after the date of enactment.

D. MORTGAGE REVENUE BONDS

1. Increase in Purchase Price Limitation Under Mortgage Subsidy Bond Rules Based on Median Family Income (Sec. 231 of the Bill and Sec. 143 of the Code)

PRESENT LAW

Qualified mortgage bonds (QMBs) are tax-exempt bonds, the proceeds of which generally must be used to make mortgage loans to first-time homebuyers. The recipients of QMB-financed loans must meet purchase price, income, and other restrictions. Generally, the purchase price of an assisted home may not exceed 90 percent (110 percent in targeted areas) of the average area purchase price.

EXPLANATION OF PROVISION

The bill modifies the purchase price rule for QMB financing. Specifically, QMB financing is allowable to qualified residences the purchase price of which does not exceed the

greater of (1) 90 percent of the average area purchase price; or (2) 3.5 times the applicable median family income. The applicable median family income is defined as under the present-law QMB income restriction.

EFFECTIVE DATE

The provision is effective for bonds issued after the date of enactment.

2. Mortgage Financing for Residences Located in Presidentially Declared Disaster Areas (Sec. 232 of the Bill and Sec. 143 of the Code)

PRESENT LAW

Qualified mortgage bonds are private activity tax-exempt bonds issued by States and local governments acting as conduits to provide mortgage loans to first-time home buyers who satisfy specified income limits and who purchase homes that cost less than statutory maximums. The income and purchase price limits are increased for homes purchased in economically distressed areas, and a portion of loans made in such areas is exempt from some requirements.

Present law waives the three buyer targeting requirements (the first-time homebuyer, purchase price, and income limit requirements) for a portion of the loans made with proceeds of a qualified mortgage bond issue if the loans are made to finance homes in statutorily prescribed economically distressed areas.

For bonds issued during 1997 and 1998, a special exception exempted loans made in Presidentially declared disaster areas within two years of the declaration from the first-time homebuyer limit. In addition, the more liberal income and purchase price rules applicable to economically distressed areas applied to such loans. There was no requirement that the specially treated loans be made to repair or replace housing damaged or destroyed by the disaster.

EXPLANATION OF PROVISION

The bill reinstates, with modifications, the prior-law exception for certain qualified mortgage bond financed loans in Presidentially declared disaster areas. First, the bill: (1) allows loans for replacement housing for housing destroyed in the disaster without regard to the first-time homebuyer requirement; and (2) increases the borrower income and house purchase price requirements to those that apply in targeted areas of economic distress. Second, the bill increases the per-borrower "home improvement loan" maximum from \$15,000 to \$100,000 and extends the more liberal borrower income limits for targeted areas to loans for repair of housing damaged by the disaster. In both cases, the exception applies only to loans made during the two-year period after the area was declared a qualified disaster area. A qualified disaster area is defined as an area determined by the President (1) to warrant assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and (2) with respect to which the Federal share of disaster payments exceeds 75 percent.

EFFECTIVE DATE

The provision is effective for bonds issued after December 31, 2000.

E. PROVIDE TAX EXEMPTION FOR ORGANIZATIONS CREATED BY A STATE TO PROVIDE PROPERTY AND CASUALTY INSURANCE COVERAGE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE (SEC. 241 OF THE BILL AND NEW SEC. 501(C)(28) OF THE CODE)

PRESENT LAW

In general

A life insurance company is subject to tax on its life insurance company taxable income, which is its life insurance income reduced by life insurance deductions (sec. 801).

Similarly, a property and casualty insurance company is subject to tax on its taxable income, which is determined as the sum of its underwriting income and investment income (as well as gains and other income items) (sec. 831). Present law provides that the term "corporation" includes an insurance company (sec. 7701(a)(3)).

In general, the Internal Revenue Service ("IRS") takes the position that organizations that provide insurance for their members or other individuals are not considered to be engaged in a tax-exempt activity. The IRS maintains that such insurance activity is either (1) a regular business of a kind ordinarily carried on for profit, or (2) an economy or convenience in the conduct of members' businesses because it relieves the members from obtaining insurance on an individual basis.

Certain insurance risk pools have qualified for tax exemption under Code section 501(c)(6). In general, these organizations (1) assign any insurance policies and administrative functions to their member organizations (although they may reimburse their members for amounts paid and expenses); (2) serve an important common business interest of their members; and (3) must be membership organizations financed, at least in part, by membership dues.

State insurance risk pools may also qualify for tax exempt status under section 501(c)(4) as a social welfare organization or under section 115 as serving an essential governmental function of a State. In seeking qualification under section 501(c)(4), insurance organizations generally are constrained by the restrictions on the provision of "commercial-type insurance" contained in section 501(m). Section 115 generally provides that gross income does not include income derived from the exercise of any essential governmental function or accruing to a State or any political subdivision thereof.

Certain specific provisions provide tax-exempt status to organizations meeting statutory requirements.

Health coverage for high-risk individuals

Section 501(c)(26) provides tax-exempt status to any membership organization that is established by a State exclusively to provide coverage for medical care on a nonprofit basis to certain high-risk individuals, provided certain criteria are satisfied. The organization may provide coverage for medical care either by issuing insurance itself or by entering into an arrangement with a health maintenance organization ("HMO").

High-risk individuals eligible to receive medical care coverage from the organization must be residents of the State who, due to a pre-existing medical condition, are unable to obtain health coverage for such condition through insurance or an HMO, or are able to acquire such coverage only at a rate that is substantially higher than the rate charged for such coverage by the organization. The State must determine the composition of membership in the organization. For example, a State could mandate that all organizations that are subject to insurance regulation by the State must be members of the organization.

The provision further requires the State or members of the organization to fund the liabilities of the organization to the extent that premiums charged to eligible individuals are insufficient to cover such liabilities. Finally, no part of the net earnings of the organization can inure to the benefit of any private shareholder or individual.

Workers' compensation reinsurance organizations

Section 501(c)(27)(A) provides tax-exempt status to any membership organization that is established by a State before June 1, 1996,

exclusively to reimburse its members for workers' compensation insurance losses, and that satisfies certain other conditions. A State must require that the membership of the organization consist of all persons who issue insurance covering workers' compensation losses in such State, and all persons and governmental entities who self-insure against such losses. In addition, the organization must operate as a nonprofit organization by returning surplus income to members or to workers' compensation policyholders on a periodic basis and by reducing initial premiums in anticipation of investment income.

State workmen's compensation act companies

Section 501(c)(27)(B) provides tax-exempt status for any organization that is created by State law, and organized and operated exclusively to provide workmen's compensation insurance and related coverage that is incidental to workmen's compensation insurance, and that meets certain additional requirements. The workmen's compensation insurance must be required by State law, or be insurance with respect to which State law provides significant disincentives if it is not purchased by an employer (such as loss of exclusive remedy or forfeiture of affirmative defenses such as contributory negligence). The organization must provide workmen's compensation to any employer in the State (for employees in the State or temporarily assigned out-of-State) seeking such insurance and meeting other reasonable requirements. The State must either extend its full faith and credit to the initial debt of the organization or provide the initial operating capital of such organization. For this purpose, the initial operating capital can be provided by providing the proceeds of bonds issued by a State authority; the bonds may be repaid through exercise of the State's taxing authority, for example. For periods after the date of enactment, either the assets of the organization must revert to the State upon dissolution, or State law must not permit the dissolution of the organization absent an act of the State legislature. Should dissolution of the organization become permissible under applicable State law, then the requirement that the assets of the organization revert to the State upon dissolution applies. Finally, the majority of the board of directors (or comparable oversight body) of the organization must be appointed by an official of the executive branch of the State or by the State legislature, or by both.

EXPLANATION OF PROVISION

The provision provides tax-exempt status for any association created before January 1, 1999, by State law and organized and operated exclusively to provide property and casualty insurance coverage for property located within the State for which the State has determined that coverage in the authorized insurance market is limited or unavailable at reasonable rates, provided certain requirements are met.

Under the provision, no part of the net earnings of the association may inure to the benefit of any private shareholder or individual. Except as provided in the case of dissolution, no part of the assets of the association may be used for, or diverted to, any purpose other than: (1) to satisfy, in whole or in part, the liability of the association for, or with respect to, claims made on policies written by the association; (2) to invest in investments authorized by applicable law; (3) to pay reasonable and necessary administrative expenses in connection with the establishment and operation of the association and the processing of claims against the association; or (4) to make remittances pursuant to State law to be used by the State to provide for the payment of claims on policies

written by the association, purchase reinsurance covering losses under such policies, or to support governmental programs to prepare for or mitigate the effects of natural catastrophic events. The provision requires that the State law governing the association permit the association to levy assessments on insurance companies authorized to sell property and casualty insurance in the State, or on property and casualty insurance policyholders with insurable interests in property located in the State to fund deficits of the association, including the creation of reserves. The provision requires that the plan of operation of the association be subject to approval by the chief executive officer or other official of the State, by the State legislature, or both. In addition, the provision requires that the assets of the association revert upon dissolution to the State, the State's designee, or an entity designated by the State law governing the association, or that State law not permit the dissolution of the association.

The provision provides a special rule in the case of any entity or fund created before January 1, 1999, pursuant to State law and organized and operated exclusively to receive, hold, and invest remittances from an association exempt from tax under the provision, to make disbursements to pay claims on insurance contracts issued by the association, and to make disbursements to support governmental programs to prepare for or mitigate the effects of natural catastrophic events. The special rule provides that the entity or fund may elect to be disregarded as a separate entity and be treated as part of the association exempt from tax under the provision, from which it receives such remittances. The election is required to be made no later than 30 days following the date on which the association is determined to be exempt from tax under the provision, and would be effective as of the effective date of that determination.

An organization described in the provision is treated as having unrelated business taxable income in the amount of its taxable income (computed as if the organization were not exempt from tax under the proposal), if at the end of the immediately preceding taxable year, the organization's net equity exceeded 15 percent of the total coverage in force under insurance contracts issued by the organization and outstanding at the end of that preceding year.

Under the provision, no income or gain is recognized solely as a result of the change in status to that of an association exempt from tax under the provision.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000. No inference is intended as to the tax status under present law of associations described in the provision.

III. TAX INCENTIVES FOR URBAN AND RURAL INFRASTRUCTURE

A. INCREASE STATE VOLUME LIMITS ON TAX-EXEMPT PRIVATE ACTIVITY BONDS (SEC. 301 OF THE BILL AND SEC. 146 OF THE CODE)

PRESENT LAW

Interest on bonds issued by States and local governments is excluded from income if the proceeds of the bonds are used to finance activities conducted and paid for by the governmental units (sec. 103). Interest on bonds issued by these governmental units to finance activities carried out and paid for by private persons ("private activity bonds") is taxable unless the activities are specified in the Internal Revenue Code. Private activity bonds on which interest may be tax-exempt include bonds for privately operated transportation facilities (airports, docks and

wharves, mass transit, and high speed rail facilities), privately owned and/or provided municipal services (water, sewer, solid waste disposal, and certain electric and heating facilities), economic development (small manufacturing facilities and redevelopment in economically depressed areas), and certain social programs (low-income rental housing, qualified mortgage bonds, student loan bonds, and exempt activities of charitable organizations described in sec. 501(c)(3)).

The volume of tax-exempt private activity bonds that States and local governments may issue for most of these purposes in each calendar year is limited by State-wide volume limits. The current annual volume limits are \$50 per resident of the State or \$150 million if greater. The volume limits do not apply to private activity bonds to finance airports, docks and wharves, certain governmentally owned, but privately operated solid waste disposal facilities, certain high speed rail facilities, and to certain types of private activity tax-exempt bonds that are subject to other limits on their volume (qualified veterans' mortgage bonds and certain "new" empowerment zone and enterprise community bonds).

The current annual volume limits that apply to private activity tax-exempt bonds increase to \$75 per resident of each State or \$225 million, if greater, beginning in calendar year 2007. The increase is, ratably phased in, beginning with \$55 per capita or \$165 million, if greater, in calendar year 2003.

EXPLANATION OF PROVISION

The bill increases the present-law annual State private activity bond volume limits to \$75 per resident of each State or \$225 million (if greater) beginning in calendar year 2001. In addition, the \$75 per resident and the \$225 million State limit will be indexed for inflation beginning in calendar year 2002.

EFFECTIVE DATE

The provisions are effective for calendar years after December 31, 2000.

B. EXTENSION AND MODIFICATION TO EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS
(SEC. 302 OF THE BILL AND SEC. 198 OF THE CODE)

PRESENT LAW

Taxpayers can elect to treat certain environmental remediation expenditures that would otherwise be chargeable to capital account as deductible in the year paid or incurred (sec. 198). The deduction applies for both regular and alternative minimum tax purposes. The expenditure must be incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site.

A "qualified contaminated site" generally is any property that (1) is held for use in a trade or business, for the production of income, or as inventory; (2) is certified by the appropriate State environmental agency to be located within a targeted area; and (3) contains (or potentially contains) a hazardous substance (so-called "brownfields"). Targeted areas are defined as: (1) empowerment zones and enterprise communities as designated under present law; (2) sites announced before February 1997, as being subject to one of the 76 Environmental Protection Agency ("EPA") Brownfields Pilots; (3) any population census tract with a poverty rate of 20 percent or more; and (4) certain industrial and commercial areas that are adjacent to tracts described in (3) above. However, sites that are identified on the national priorities list under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 cannot qualify as targeted areas.

Eligible expenditures are those paid or incurred before January 1, 2002.

EXPLANATION OF PROVISION

The bill extends the expiration date for eligible expenditures to include those paid or incurred before January 1, 2004.

In addition, the bill eliminates the targeted area requirement, thereby, expanding eligible sites to include any site containing (or potentially containing) a hazardous substance that is certified by the appropriate State environmental agency. However, expenditures undertaken at sites that are identified on the national priorities list under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 would continue to not qualify as eligible expenditures.

EFFECTIVE DATE

The provision to extend the expiration date is effective upon the date of enactment. The provision to expand the class of eligible sites is effective for expenditures paid or incurred after the date of enactment.

C. BROADBAND INTERNET ACCESS TAX CREDIT
(SEC. 303 OF THE BILL AND NEW SEC. 48A OF THE CODE)

PRESENT LAW

Present law does not provide a credit for investments in telecommunications infrastructure.

EXPLANATION OF PROVISION

The bill provides a 10 percent credit of the qualified expenditures incurred by the taxpayer with respect to qualified equipment with which the taxpayer offers "current generation" broadband services to subscribers in rural and underserved areas. In addition, the bill provides a 20 percent credit of the qualified expenditures incurred by the taxpayer with respect to qualified equipment with which the taxpayer offers "next generation" broadband services to subscribers in rural areas, underserved areas, and to residential subscribers. Current generation broadband services is defined as the transmission of signals at a rate of at least 1.5 million bits per second to the subscriber and at a rate of at least 200,000 bits per second from the subscriber. Next generation broadband services is defined as the transmission of signals at a rate of at least 22 million bits per second to the subscriber and at a rate of at least 10 million bits per second from the subscriber.

Qualified expenditures are those amounts otherwise chargeable to the capital account with respect to the purchase and installation of qualified equipment for which depreciation is allowable under section 168. In the case of current generation broadband services, qualified expenditures are those that are incurred by the taxpayer after December 31, 2000, and before January 1, 2004. In the case of next generation broadband services, qualified expenditures are those that are incurred by the taxpayer after December 31, 2001, and before January 1, 2005. The expenditures are taken into account for purposes of claiming the credit in the first taxable year in which the taxpayer provides broadband service to at least 10 percent of the potential subscribers. In the case of a taxpayer who incurs expenditures for equipment capable of serving both subscribers in qualifying areas and other areas, qualifying expenditures are determined by multiplying otherwise qualifying expenditures by the ratio of the number of potential qualifying subscribers to all potential subscribers the qualifying equipment would be capable of serving.

Qualifying equipment must be capable of providing broadband services at any time to each subscriber who is utilizing such services. In the case of a telecommunications carrier, qualifying equipment is only that equipment that extends from the last point of switching to the outside of the building in

which the subscriber is located. In the case of a commercial mobile service carrier, qualifying equipment is only that equipment that extends from the customer side of a mobile telephone switching office to a transmission/reception antenna (including the antenna) of the subscriber. In the case of a cable operator or open video system operator, qualifying equipment is only that equipment that extends from the customer side of the headend to the outside of the building in which the subscriber is located. In the case of a satellite carrier or other wireless carrier (other than a telecommunications carrier), qualifying equipment is only that equipment that extends from a transmission/reception antenna (including the antenna) to a transmission/reception antenna on the outside of the building used by the subscriber. In addition, any packet switching equipment deployed in connection with other qualifying equipment is qualifying equipment, regardless of location, provided that it is the last such equipment in a series as part of transmission of a signal to a subscriber or the first in a series in the transmission of a signal from a subscriber.

A rural area is any census tract which is not within 10 miles of any incorporated or census designated place with a population of more than 25,000 and which is not within a county with a population density of more than 500 people per square mile. An underserved area is any census tract which is located in an empowerment zone, enterprise community, renewal zone, or any census tract in which the poverty level is greater than or equal to 30 percent and in which the median family income is less than 70 percent of the greater of metropolitan area median family income or statewide median family income. A residential subscriber is any individual who purchases broadband service to be delivered to his or her dwelling.

EFFECTIVE DATE

The provision is effective for expenditures incurred after December 31, 2000.

D. TAX-CREDIT BONDS FOR THE NATIONAL RAILROAD PASSENGER CORPORATION ("AM-TRAK") AND THE ALASKA RAILROAD
(SEC. 304 OF THE BILL AND NEW SEC. 54 OF THE CODE)

PRESENT LAW

Present law does not authorize the issuance by any private, for-profit corporation of bonds the interest on which is tax-exempt or eligible for an income tax credit. Tax-exempt bonds may be issued by States or local governments to finance their governmental activities or to finance certain capital expenditures of private businesses or loans to individuals. Additionally, States or local governments may issue tax-credit bonds to finance the operation of "qualified zone academies."

Tax-exempt bonds

Interest on bonds issued by States or local governments to finance direct activities of those governmental units is excluded from tax (sec. 103). In addition, interest on certain bonds ("private activity bonds") issued by States or local governments acting as conduits to provide financing for private businesses or individuals is excluded from income if the purpose of the borrowing is specifically approved in the Code (sec. 141). Examples of approved private activities for which States or local governments may provide tax-exempt financing include transportation facilities (airports, ports, mass commuting facilities, and certain high speed intercity rail facilities); public works facilities such as water, sewer, and solid waste disposal; and certain social welfare programs such as low-income rental housing, student loans, and mortgage loans to certain first-time homebuyers. High speed intercity rail

facilities eligible for tax-exempt financing include land, rail, and stations (but not rolling stock) for fixed guideway rail transportation of passengers and their baggage using vehicles that are reasonably expected to operate at speeds in excess of 150 miles per hour between scheduled stops.

Issuance of most private activity bonds is subject to annual State volume limits of \$50 per resident (\$150 million if greater). These volume limits are scheduled to increase to \$75 per resident (\$225 million if greater) over the period 2003 through 2007.

Investment earnings on all tax-exempt bonds, including earnings on invested sinking funds associated with such bonds is restricted by the Code to prevent the issuance of bonds earlier or in a greater amount than necessary for the purpose of the borrowing. In general, all profits on investment of such proceeds must be rebated to the Federal Government. Interest on bonds associated with invested sinking funds is taxable.

Tax-credit bonds for qualified zone academies

As an alternative to traditional tax-exempt bonds, certain States or local governments are given authority to issue "qualified zone academy bonds." A total of \$400 million of qualified zone academy bonds is authorized to be issued in each year of 1998 through 2001. The \$400 million is allocated to States according to their respective populations of individuals below the poverty line.

Qualified zone academy bonds are taxable bonds with respect to which the investor receives an income tax credit equal to an assumed interest rate set by the Treasury Department to allow issuance of the bonds without discount and without interest cost to the issuer. The bonds may be used for renovating, providing equipment to, developing course materials for, or training teachers in eligible schools. Eligible schools are elementary and secondary schools with respect to which private entities make contributions equaling at least 10 percent of the bond proceeds.

Only financial institutions are eligible to claim the credits on qualified zone academy bonds. The amount of the credit is taken into income. The credit may be claimed against both regular income tax and AMT liability.

There are no arbitrage restrictions applicable to investment earnings on qualified zone academy bond proceeds.

EXPLANATION OF PROVISION

The provision authorizes the National Railroad Passenger Corporation ("Amtrak") and the Alaska Railroad to issue an aggregate amount of \$10 billion of tax-credit bonds to finance its capital projects. Annual issuance of the bonds may not exceed \$1 billion per year (plus any authorized amount that was not issued in previous years) during the ten Fiscal Year period, 2001–2010. Unused bond authority could be carried forward to succeeding years until used, subject to a limitation that no tax-credit bonds could be issued after fiscal year 2015.

Projects eligible for tax-credit bond financing are defined as the acquisition, construction of equipment, rolling stock, and other capital improvements for (1) the northeast rail corridor between Washington, D.C. and Boston, Massachusetts; (2) high-speed rail corridors designated under section 104(d)(2) of Title 23 of the United States Code; and (3) non-designated high-speed rail corridors, including station rehabilitation, track or signal improvements, or grade crossing elimination. The last purpose is limited to a maximum of 10 percent of the proceeds of any bond issue. At least 70 percent of the tax-credit bonds must be issued for projects described in (2) and (3).

As with qualified zone academy bonds, the interest rate on Amtrak/Alaska Railroad

tax-credit bonds will be set to allow issuance of the bonds at par, i.e., without any interest cost to Amtrak or the Alaska Railroad. In general, proceeds of Amtrak/Alaska Railroad tax-credit bonds would have to be spent within 36 months after the bonds are issued. As of the date the bonds were issued, Amtrak or the Alaska Railroad must certify that it reasonably expects—

(1) to incur a binding obligation with a third party to spend at least 10 percent of the bond proceeds within six months (or in the case of self-constructed property, to have commenced construction within six months);

(2) to spend the bond proceeds with due diligence; and

(3) to spend at least 95 percent of the proceeds for qualifying capital costs within three years.

Amtrak/Alaska Railroad tax credit bonds may only be issued for projects that are approved by the Department of Transportation and with respect to which the issuing railroad has binding commitments from one or more States to make matching contributions of at least 20 percent of the project cost. Projects having State matching contributions in excess of 20 percent are given a preference. The State matching contributions, along with earnings on investment of the tax-credit bond proceeds must be invested in a trust account (i.e., an sinking fund) and used along with earnings on the trust account for repayment of the principal amount of the bonds.

Amtrak/Alaska Railroad tax-credit bonds can be owned (and income tax credits claimed) by any taxpayer. The amount of the credit will be included in the bondholder's income. Additionally, provisions are included in the proposal to allow the credits to be stripped and sold to different investors than the investors in the bond principal.

The required State matching contribution may not be derived from Federal monies. Any Federal Highway Trust Fund monies transferred to the States are treated as Federal monies for this purpose. During the period when tax-credit bonds are authorized, Amtrak is not allowed to receive any Highway Trust Fund monies other than those authorized on the date of the provision's enactment.

Amtrak is required annually to submit a five-year capital plan to Congress, and to satisfy independent oversight requirements with respect to the management of tax-credit-bond-financed projects. Finally, the Treasury Department is required to certify annually that funds deposited in the escrow accounts for repayment of tax-credit bonds (with actual and projected earnings thereon) are sufficient to ensure full repayment of the bond principal.

EFFECTIVE DATE

The provision is effective for tax credit bonds issued by Amtrak or the Alaska Railroad after September 30, 2000.

E. CLARIFICATION OF CONTRIBUTION IN AID OF CONSTRUCTION (SEC. 305 OF THE BILL AND SEC. 118 OF THE CODE)

PRESENT LAW

Section 118(a) provides that gross income of a corporation does not include a contribution to its capital. In general, section 118(b) provides that a contribution to the capital of a corporation does not include any contribution in aid of construction or any other contribution by a customer or potential customer. However, for any amount of money or property received by a regulated public utility that provides water or sewerage disposal services such amount shall be considered a contribution to capital (excludible from gross income) so long as such amount: (1) is a contribution in aid of construction, and (2)

is not included in the taxpayer's rate base for rate-making purposes. If the contribution is in property other than water or sewerage disposal facilities, the amount is generally excludible from gross income only if the amount is expended to acquire or construct water or sewerage disposal facilities within a specified time period.

EXPLANATION OF PROVISION

The provision specifically defines contribution in aid of construction to include customer connection fees (including amounts paid to connect the customer's line to or extend a main water or sewer line). Thus, the provision permits customer connection fees received by a regulated public utility that provides water or sewerage disposal services to be treated as nontaxable contributions to capital (excludible from gross income). Amounts paid as a service charge for starting or stopping services to a customer continue to be includible in gross income of a taxpayer.

EFFECTIVE DATE

The provision is effective for amounts received after the date of enactment.

F. TREATMENT OF LEASEHOLD IMPROVEMENTS (SEC. 306 OF THE BILL AND SEC. 168 OF THE CODE)

PRESENT LAW

Depreciation of leasehold improvements

Depreciation allowances for property used in a trade or business generally are determined under the modified Accelerated Cost Recovery System ("MACRS") of section 168. Depreciation allowances for improvements made on leased property are determined under MACRS, even if the MACRS recovery period assigned to the property is longer than the term of the lease (sec. 168(i)(8)). This rule applies regardless whether the lessor or lessee places the leasehold improvements in service. If a leasehold improvement constitutes an addition or improvement to nonresidential real property already placed in service, the improvement is depreciated using the straight-line method over a 39-year recovery period, beginning in the month the addition or improvement was placed in service (secs. 168(b)(3), (c)(1), (d)(2), and (i)(6)).

Treatment of dispositions of leasehold improvements

A lessor of leased property that disposes of a leasehold improvement which was made by the lessor for the lessee of the property may take the adjusted basis of the improvement into account for purposes of determining gain or loss if the improvement is irrevocably disposed of or abandoned by the lessor at the termination of the lease. This rule conforms the treatment of lessors and lessees with respect to leasehold improvements disposed of at the end of a term of lease. For purposes of applying this rule, it is expected that a lessor must be able to separately account for the adjusted basis of the leasehold improvement that is irrevocably disposed of or abandoned. This rule does not apply to the extent section 280B applies to the demolition of a structure, a portion of which may include leasehold improvements.

EXPLANATION OF PROVISION

The provision provides that 15-year property for purposes of the depreciation rules of section 168 includes qualified leasehold improvement property. The straight line method is required to be used with respect to qualified leasehold improvement property.

Qualified leasehold improvement property is any improvement to an interior portion of a building that is nonresidential real property, provided certain requirements are met. The improvement must be made under or pursuant to a lease either by the lessee (or sublessee) of that portion of the building, or

by the lessor of that portion of the building. That portion of the building is to be occupied exclusively by the lessee (or any sublessee). The original use of the qualified leasehold improvement property must begin with the lessee, and must begin after December 31, 2006. The improvement must be placed in service more than three years after the date the building was first placed in service.

Qualified leasehold improvement property does not include any improvement for which the expenditure is attributable to the enlargement of the building, any elevator or escalator, any structural component benefitting a common area, or the internal structural framework of the building.

No special rule is specified for the class life of qualified leasehold improvement property. Therefore, the general rule that the class life for nonresidential real and residential rental property is 40 years applies.

For purposes of the provision, a commitment to enter into a lease is treated as a lease, and the parties to the commitment are treated as lessor and lessee, provided the lease is in effect at the time the qualified leasehold improvement property is placed in service. A lease between related persons is not considered a lease for this purpose.

EFFECTIVE DATE

The provision is effective for qualified leasehold improvement property placed in service after December 31, 2006.

IV. TAX RELIEF FOR FARMERS

A. FARM, FISH, AND RANCH RISK MANAGEMENT ACCOUNTS ("FFARRM ACCOUNTS") (SEC. 401 OF THE BILL AND NEW SEC. 468C OF THE CODE)

PRESENT LAW

There is no provision in present law allowing the elective deferral of farm or fishing income.

EXPLANATION OF PROVISION

The bill allows taxpayers engaged in an eligible business to establish FFARRM accounts. An eligible business is any trade or business of farming in which the taxpayer actively participates, including the operation of a nursery or sod farm or the raising or harvesting of crop-bearing or ornamental trees. An eligible business also is the trade or business of commercial fishing as that term is defined under section (3) of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802) and includes the trade or business of catching, taking or harvesting fish that are intended to enter commerce through sale, barter or trade.

Contributions to a FFARRM account are deductible and are limited to 20 percent of the taxable income that is attributable to the eligible business. The deduction is taken into account in determining adjusted gross income and reduces the income attributable to the eligible business for all income tax purposes other than the determination of the 20 percent of eligible income limitation on contributions to a FFARRM account. Contributions to a FFARRM account do not reduce earnings from self-employment. Accordingly, distributions are not included in self-employment income.

A FFARRM account is taxed as a grantor trust and any earnings are required to be distributed currently. Thus, any income earned in the FFARRM account is taxed currently to the farmer or fisherman who established the account. Amounts can remain on deposit in a FFARRM account for up to five years. Any amount that has not been distributed by the close of the fourth year following the year of deposit is deemed to be distributed and includible in the gross income of the account owner.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

B. EXCLUSION OF RENTAL INCOME FROM SECA TAX (SEC. 402 OF THE BILL AND SEC. 1402 OF THE CODE)

PRESENT LAW

Generally, SECA taxes are imposed on an individual's net earnings from self-employment. Net earnings from self-employment generally means gross income (including the individual's net distributive share of partnership income) derived by an individual from any trade or business carried on by the individual less applicable deductions. One exclusion from net earnings from self-employment involves certain real estate rentals. Under this rule, net earnings from self-employment do not include income from the rental of real estate and from personal property leased with the real estate unless the rental income is received under an arrangement between an owner or tenant of land and another individual that provides: (1) such other individual shall produce agricultural or horticultural commodities on such land; and (2) there shall be material participation by the owner or tenant with respect to any such agricultural or horticultural commodities. Other rules apply to rental payments received by an individual in the course of the individual's trade or business as a real estate dealer.

EXPLANATION OF PROVISION

The bill provides that net earnings from self-employment do not include income from the rental of real estate under a lease agreement (rather than an arrangement) between an owner or tenant of land and another individual which provides that: (1) such other individual shall produce agricultural or horticultural commodities on such land; and (2) there shall be material participation by the owner or tenant in the production or management of the production of such agricultural or horticultural commodities.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

C. EXCLUSION OF CONSERVATION RESERVE PROGRAM PAYMENTS FROM SECA TAX (SEC. 403 OF THE BILL AND SEC. 1402 OF THE CODE)

PRESENT LAW

Generally, SECA tax is imposed on an individual's self-employment income within the Social Security wage base. Net earnings from self-employment generally means gross income (including the individual's net distributive share of partnership income) derived by an individual from any trade or business carried on by the individual less applicable deductions. A recent court decision found that payments made under the conservation reserve program are includible in an individual's self-employment income for purposes of SECA tax.

EXPLANATION OF PROVISION

The bill provides that net earnings from self-employment do not include conservation reserve program payments for SECA.

EFFECTIVE DATE

The provision is effective for payments made after December 31, 2000.

D. EXEMPTION OF AGRICULTURAL BONDS FROM PRIVATE ACTIVITY BOND VOLUME CAP (SEC. 404 OF THE BILL AND SEC. 146 OF THE CODE)

PRESENT LAW

Interest on bonds issued by States and local governments is excluded from income if the proceeds of the bonds are used to finance activities conducted and paid for by the governmental units (sec. 103). Interest on bonds issued by these governmental units to finance activities carried out and paid for by private persons ("private activity bonds") is taxable unless the activities are specified in the Internal Revenue Code. Private activity

bonds on which interest may be tax-exempt include bonds issued to finance loans to first-time farmers for the acquisition of land and certain equipment ("aggie bonds").

The volume of tax-exempt private activity bonds that States and local governments may issue in each calendar year (including aggie bonds) is limited by State-wide volume limits. The current annual volume limits are the greater of: (1) \$50 per resident of the State; or (2) \$150 million. The volume limits do not apply to private activity bonds to finance airports, docks and wharves, certain governmentally owned, but privately operated solid waste disposal facilities, certain high speed rail facilities, and to certain types of private activity tax-exempt bonds that are subject to other limits on their volume (qualified veterans' mortgage bonds and certain "new" empowerment zone and enterprise community bonds).

EXPLANATION OF PROVISION

The bill exempts "aggie bonds" from the State volume limits.

EFFECTIVE DATE

The provision applies to bonds issued after December 31, 2000.

E. MODIFICATIONS TO SECTION 512(b)(13) (SEC. 405 OF THE BILL AND SEC. 512 OF THE CODE)

PRESENT LAW

In general, interest, rents, royalties and annuities are excluded from the unrelated business income ("UBI") of tax-exempt organizations. However, section 512(b)(13) treats otherwise excluded rent, royalty, annuity, and interest income as UBI if such income is received from a taxable or tax-exempt subsidiary that is 50 percent controlled by the parent tax-exempt organization. In the case of a stock subsidiary, "control" means ownership by vote or value of more than 50 percent of the stock. In the case of a partnership or other entity, control means ownership of more than 50 percent of the profits, capital or beneficial interests. In addition, present law applies the constructive ownership rules of section 318 for purposes of section 512(b)(13). Thus, a parent exempt organization is deemed to control any subsidiary in which it holds more than 50 percent of the voting power or value, directly (as in the case of a first-tier subsidiary) or indirectly (as in the case of a second-tier subsidiary).

Under present law, interest, rent, annuity, or royalty payments made by a controlled entity to a tax-exempt organization are includible in the latter organization's UBI and are subject to the unrelated business income tax to the extent the payment reduces the net unrelated income (or increases any net unrelated loss) of the controlled entity.

The Taxpayer Relief Act of 1997 (the "1997 Act") made several modifications, as described above, to the control requirement of section 512(b)(13). In order to provide transitional relief, the changes made by the 1997 Act do not apply to any payment received or accrued during the first two taxable years beginning on or after the date of enactment of the 1997 Act (August 5, 1997) if such payment is received or accrued pursuant to a binding written contract in effect on June 8, 1997, and at all times thereafter before such payment (but not pursuant to any contract provision that permits optional accelerated payments).

EXPLANATION OF PROVISION

The bill provides that interest, rent, annuity, or royalty payments made by a controlled subsidiary to a tax-exempt parent is not Unrelated Business Income except to the extent that such payments exceed arm's length values, as determined under sec. 482 principles.

EFFECTIVE DATE

The provision generally is effective for payments received or accrued after December 31, 2000. The binding written contract exception contained in the 1997 Act will apply to any payment received or accrued under such contract prior to January 1, 2001.

F. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY (SEC. 406 OF THE BILL AND SEC. 170 OF THE CODE)

PRESENT LAW

The maximum charitable contribution deduction that may be claimed by a corporation for any one taxable year is limited to 10 percent of the corporation's taxable income for that year (disregarding charitable contributions and with certain other modifications) (sec. 170(b)(2)). Corporations also are subject to certain limitations based on the type of property contributed. In the case of a charitable contribution of short-term gain property, inventory, or other ordinary income property, the amount of the deduction generally is limited to the taxpayer's basis (generally, cost) in the property. However, special rules in the Code provide an augmented deduction for certain corporate contributions. Under these special rules, the amount of the augmented deduction is equal to the lesser of (1) the basis of the donated property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, or (2) twice the basis of the donated property. To be eligible for the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis. The valuation of food inventory has been the subject of ongoing disputes between taxpayers and the IRS.

The special treatment applies only to donations made by C corporations. S corporations, personal holding companies, and service organizations are not eligible donors.

EXPLANATION OF PROVISION

The bill amends Code section 170 to expand the augmented deduction such that any taxpayer engaged in the trade or business of farming is eligible to claim an enhanced deduction for donations of food inventory under section 170(e)(3).

The value of the enhanced deduction can be no greater than twice the taxpayer's basis in the donated property. The bill provides that in the case of a cash method taxpayer, the taxpayer's basis in the donated food will equal half of the fair market value of the donated food.

The bill modifies and clarifies the determination of fair market value for the donation of food inventory. Under the bill, the fair market value of donated food which cannot or will not be sold solely due to internal standards of the taxpayer, lack of market, or similar circumstances is determined without regard to such factors and, if applicable, by taking into account the price at which the same or similar food items are sold by the taxpayer at the time of the contribution or in the recent past.

The bill does not apply for taxable years beginning after December 31, 2003.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

G. COORDINATE FARMERS AND FISHERMAN INCOME AVERAGING AND THE ALTERNATIVE MINIMUM TAX (SEC. 407 OF THE BILL AND SECS. 55 AND 1301 OF THE CODE)

PRESENT LAW

An individual taxpayer engaged in a farming business as defined by section 263A(e)(4) may elect to compute his or her current year tax liability by averaging, over the prior three-year period, all or portion of his or her

taxable income from the trade or business of farming. The averaging election is not coordinated with the alternative minimum tax. Thus, some farmers may become subject to the alternative minimum tax solely as a result of the averaging election.

EXPLANATION OF PROVISION

The bill extends to individuals engaged in the trade or business of fishing the election that is available to individual farmers to use income averaging.

The bill also coordinates farmers and fishermen income averaging with the alternative minimum tax. Under the bill, a farmer will owe alternative minimum tax only to the extent he or she will owe alternative minimum tax had averaging not been elected. This result is achieved by excluding the impact of the election to average farm income from the calculation of both regular tax and tentative minimum tax, solely for the purpose of determining alternative minimum tax.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

H. COOPERATIVE MARKETING TO INCLUDE VALUE ADDED PROCESSING THROUGH ANIMALS (SEC. 408 OF THE BILL AND SEC. 1388 OF THE CODE)

PRESENT LAW

Under present law, taxable cooperatives in essence are treated as pass-through entities in that the cooperative is not subject to corporate income tax to the extent the cooperative timely pays patronage dividends. Tax-exempt cooperatives (sec. 521) are cooperatives of farmers, fruit growers, and like organizations organized and operated on a cooperative basis for the purpose of marketing the products of members or other producers and turning back the proceeds of sales, less necessary marketing expenses on the basis of either the quantity or the value of products furnished by them.

The Internal Revenue Service takes the position that a cooperative is not marketing the products of members or other producers where the cooperative adds value through the use of animals (e.g., farmers sell corn to cooperative which is feed to chickens which produce eggs).

EXPLANATION OF PROVISION

The bill provides that marketing products of members or other producers includes feeding products of members or other producers to cattle, hogs, fish, chickens, or other animals and selling the resulting animals or animal products.

EFFECTIVE DATE

The provision is effective for taxable years beginning after the date of enactment.

I. EXTEND DECLARATORY JUDGMENT PROCEDURES TO FARMERS' COOPERATIVE ORGANIZATIONS (SEC. 409 OF THE BILL AND SEC. 7428 OF THE CODE)

PRESENT LAW

Cooperatives may deduct from their taxable income amounts distributed to patrons in the form of patronage dividends, and certain other amounts paid or allocated to patrons, to the extent the net earnings of the cooperative from business done with or for patrons, provided that there is a pre-existing obligation to distribute such amounts (sec. 1382). Cooperatives that qualify as farmers' cooperatives under section 521 may claim additional deductions for dividends on capital stock and patronage-based distributions of nonpatronage income.

Under present law, there is limited access to judicial review of disputes regarding the initial or continuing qualification of a farmer's cooperative described in section 521. The

only remedies available to such an organization are to file a petition in the U.S. Tax Court for relief following the issuance of a notice of deficiency or to pay tax and sue for a refund in a U.S. district court or the U.S. Court of Federal Claims.

In limited circumstances, declaratory judgment procedures are available, which generally permit a taxpayer to seek judicial review of an IRS determination prior to the issuance of a notice of deficiency and prior to payment of tax. Examples of declaratory judgment procedures which are available include disputes involving the status of a tax-exempt organization under section 501(c)(3), the qualification of retirement plans, the value of gifts, the status of certain governmental obligations, or eligibility of an estate to pay tax in installments under section 6166. In such cases, taxpayers may challenge adverse determinations by commencing a declaratory judgment action. For example, where the IRS denies an organization's application for recognition of exemption under section 501(c)(3) or fails to act on such application, or where the IRS informs a section 501(c)(3) organization that it is considering revoking or adversely modifying its tax-exempt status, present law authorizes the organization to seek a declaratory judgment regarding its tax-exempt status.

Declaratory judgment procedures are not available under present law to a cooperative with respect to an IRS determination regarding its status as a farmers' cooperative under section 521.

EXPLANATION OF PROVISION

The bill extends the declaratory judgment procedures to cooperatives. Such a case may be commenced in the U.S. Tax Court, a U.S. district court, or the U.S. Court of Federal Claims, and such court has jurisdiction to determine a cooperative's initial or continuing qualification of a farmers' cooperative described in sec. 521.

EFFECTIVE DATE

The provision is effective with respect to pleadings filed after the date of enactment, but only with respect to determinations (or requests for determinations) made after January 1, 2000.

J. SMALL ETHANOL PRODUCER CREDIT (SEC. 410 OF THE BILL AND SEC. 40 OF THE CODE)

PRESENT LAW

"Small ethanol producers" are allowed a 10-cents-per-gallon production income tax credit on up to 15 million gallons of production annually. This credit is in addition to the 54-cents-per-gallon benefit available for ethanol generally.

Under present law, cooperatives in essence are treated as pass-through entities in that the cooperative is not subject to corporate income tax to the extent the cooperative timely pays patronage dividends. Under present law, the only credits that may be flowed-through to cooperative patrons are the rehabilitation credit (sec. 47), the energy property credit (sec. 48(a)), and the reforestation credit (sec. 48(b)), but not the small ethanol producer credit.

EXPLANATION OF PROVISION

The bill: (1) provides that the small producer credit is not a "passive credit"; (2) allows the credit to be claimed against the alternative minimum tax; and (3) repeals the present rule that the amount of the credit is included in income.

The bill also allows cooperatives to elect to pass-through small ethanol producer credits to its patrons. The credit allowed to a patron is that proportion of the credit the cooperative elects to pass-through for that year as the amount of patronage of that patron for that year bears to total patronage of all patrons for that year.

EFFECTIVE DATE

The provision is effective for taxable years beginning after date of enactment.

K. PAYMENT OF DIVIDENDS ON STOCK OF CO-OPERATIVES WITHOUT REDUCING PATRONAGE DIVIDENDS (SEC. 411 OF THE BILL AND SEC. 1388 OF THE CODE)

PRESENT LAW

Cooperatives, including tax-exempt farmers' cooperatives, are treated like a conduit for Federal income tax purposes since a cooperative may deduct patronage dividends paid from its taxable income. In general, patronage dividends are amounts paid to patrons (1) on the basis of the quantity or value of business done with or for its patrons, (2) under a valid enforceable written obligation to the patron to pay such amount, which obligation existed before the cooperative received such amounts, and (3) which is determined by reference to the net earnings of the cooperative from business done with or for its patrons.

Treasury Regulations provide that net earnings are reduced by dividends paid on capital stock or other proprietary capital interests. The effect of this rule is to reduce the amount of earnings that the cooperative can treat as patronage earnings which reduces the amount that cooperative can deduct as patronage dividends.

EXPLANATION OF PROVISION

The bill allows cooperatives to pay dividends on capital stock without those dividends reducing excludable patronage-sourced income to the extent that the cooperative's organizational documents provide that the dividends do not reduce amounts owed to patrons.

EFFECTIVE DATE

The provision applies to distributions in taxable years beginning after the date of enactment.

V. TAX INCENTIVES FOR THE PRODUCTION OF ENERGY

A. ALLOW GEOLOGICAL AND GEOPHYSICAL COSTS TO BE DEDUCTED CURRENTLY (SEC. 501 OF THE BILL AND SEC. 263 OF THE CODE)

PRESENT LAW

In general

Under present law, current deductions are not allowed for any amount paid for new buildings or for permanent improvements or betterments made to increase the value of any property or estate (sec. 263(a)). Treasury Department regulations define capital amounts to include amounts paid or incurred (1) to add to the value, or substantially prolong the useful life, of property owned by the taxpayer or (2) to adapt property to a new or different use.

The proper income tax treatment of geological and geophysical costs ("G&G costs") associated with oil and gas production has been the subject of a number of court decisions and administrative rulings. G&G costs are incurred by the taxpayer for the purpose of obtaining and accumulating data that will serve as a basis for the acquisition and retention of oil or gas properties by taxpayers exploring for the minerals. Courts have ruled that such costs are capital in nature and are not deductible as ordinary and necessary business expenses. Accordingly, the costs attributable to such exploration are allocable to the cost of the property acquired or retained. The term "property" includes an economic interest in a tract or parcel of land notwithstanding that a mineral deposit has not been established or proven at the time the costs are incurred.

Revenue Ruling 77-188

In Revenue Ruling 77-188 (hereinafter referred to as the "1977 ruling"), the Internal

Revenue Service ("IRS") provided guidance regarding the proper tax treatment of G&G costs. The ruling describes a typical geological and geophysical exploration program as containing the following elements:

It is customary in the search for mineral producing properties for a taxpayer to conduct an exploration program in one or more identifiable project areas. Each project area encompasses a territory that the taxpayer determines can be explored advantageously in a single integrated operation. This determination is made after analyzing certain variables such as the size and topography of the project area to be explored, the existing information available with respect to the project area and nearby areas, and the quantity of equipment, the number of personnel, and the amount of money available to conduct a reasonable exploration program over the project area.

The taxpayer selects a specific project area from which geological and geophysical data are desired and conducts a reconnaissance-type survey utilizing various geological and geophysical exploration techniques that are designed to yield data that will afford a basis for identifying specific geological features with sufficient mineral potential to merit further exploration.

Each separable, noncontiguous portion of the original project area in which such a specific geological feature is identified is a separate "area of interest." The original project area is subdivided into as many small projects as there are areas of interest located and identified within the original project area. If the circumstances permit a detailed exploratory survey to be conducted without an initial reconnaissance-type survey, the project area and the area of interest will be coextensive.

The taxpayer seeks to further define the geological features identified by the prior reconnaissance-type surveys by additional, more detailed, exploratory surveys conducted with respect to each area of interest. For this purpose, the taxpayer engages in more intensive geological and geophysical exploration employing methods that are designed to yield sufficiently accurate sub-surface data to afford a basis for a decision to acquire or retain properties within or adjacent to a particular area of interest or to abandon the entire area of interest as unworthy of development by mine or well.

The 1977 ruling provides that if, on the basis of data obtained from the preliminary geological and geophysical exploration operations, only one area of interest is located and identified within the original project area, then the entire expenditure for those exploratory operations is to be allocated to that one area of interest and thus capitalized into the depletable basis of that area of interest. On the other hand, if two or more areas of interest are located and identified within the original project area, the entire expenditure for the exploratory operations is to be allocated equally among the various areas of interest.

The 1977 ruling further provides that if, on the basis of data obtained from a detailed survey that does not relate exclusively to any particular property within a particular area of interest, an oil or gas property is acquired or retained within or adjacent to that area of interest, the entire G&G exploration expenditures, including those incurred prior to the identification of the particular area of interest but allocated thereto, are to be allocated to the property as a capital cost under section 263(a).

If, however, from the data obtained by the exploratory operations no areas of interest are located and identified by the taxpayer within the original project area, then the 1977 ruling states that the entire amount of

the G&G costs related to the exploration is deductible as a loss under section 165 for the taxable year in which that particular project area is abandoned as a potential source of mineral production.

EXPLANATION OF PROVISION

The provision allows geological and geophysical costs incurred in connection with oil and gas exploration in the United States to be deducted currently.

EFFECTIVE DATE

The provision is effective for G&G costs incurred or paid in taxable years beginning after December 31, 2001.

B. ALLOW CERTAIN OIL AND GAS "DELAY RENTAL PAYMENTS" TO BE DEDUCTED CURRENTLY (SEC. 502 OF THE BILL AND SEC. 263 OF THE CODE)

PRESENT LAW

Present law generally requires costs associated with inventory and property held for resale to be capitalized rather than currently deducted as they are incurred. (sec. 2634). Oil and gas producers typically contract for mineral production in exchange for royalty payments. If mineral production is delayed, these contracts provide for "delay rental payments" as a condition of their extension. The Treasury Department has taken the position that the uniform capitalization rules of section 263A require delay rental payments to be capitalized.

EXPLANATION OF PROVISION

The provision allows delay rental payments to be deducted currently.

EFFECTIVE DATE

The provision applies to delay rental payments incurred in taxable years beginning after December 31, 2001.

No inference is intended from the proposal as to the proper treatment of pre-effective date delay rental payments.

C. ALLOW NET OPERATING LOSSES FROM OIL AND GAS PROPERTIES TO BE CARRIED BACK FOR UP TO FIVE YEARS (SEC. 503 OF THE BILL AND SEC. 172 OF THE CODE)

PRESENT LAW

A net operating loss ("NOL") generally is the amount by which business deductions of a taxpayer exceed business gross income. In general, an NOL may be carried back two years and carried forward 20 years to offset taxable income in such years. A carryback of an NOL results in the refund of Federal income tax for the carryback year. A carryforward of an NOL reduces Federal income tax for the carryforward year. Special NOL carryback rules apply to (1) casualty and theft losses of individual taxpayers, (2) Presidentially declared disasters for taxpayers engaged in a farming business or a small business, (3) real estate investment trusts, (4) specified liability losses, (5) excess interest losses, and (6) farm losses.

EXPLANATION OF PROVISION

The provision provides a special five-year carryback for certain eligible oil and gas losses of independent producers. The carryforward period remains 20 years. An "eligible oil and gas loss" is defined as the lesser of (1) the amount which would be the taxpayer's NOL for the taxable year if only income and deductions attributable to operating mineral interests in oil and gas wells were taken into account, or (2) the amount of such net operating loss for such taxable year. In calculating the amount of a taxpayer's NOL carrybacks, the portion of the NOL that is attributable to an eligible oil and gas loss is treated as a separate NOL and taken into account after the remaining portion of the NOL for the taxable year.

EFFECTIVE DATE

The proposal applies to NOLs arising in taxable years beginning after December 31, 2001.

D. TEMPORARY SUSPENSION OF PERCENTAGE OF DEPLETION DEDUCTION LIMITATION BASED ON 65 PERCENT OF TAXABLE INCOME (SEC. 504 OF THE BILL AND SEC. 613A OF THE CODE)

PRESENT LAW

Depletion, like depreciation, is a form of capital cost recovery. In both cases, the taxpayer is allowed a deduction in recognition of the fact that an asset—in the case of depletion for oil or gas interests, the mineral reserve itself—is being expended in order to produce income. Certain costs incurred prior to drilling an oil or gas property are recovered through the depletion deduction. These include costs of acquiring the lease or other interest in the property and geological and geophysical costs (in advance of actual drilling). Depletion is available to any person having an economic interest in a producing property.

Two methods of depletion currently are allowable under the Code: (1) the cost depletion method, and (2) the percentage depletion method (secs. 611–613). Under the cost depletion method, the taxpayer deducts that portion of the adjusted basis of the depletable property which is equal to the ratio of units sold from that property during the taxable year to the number of units remaining as of the end of taxable year plus the number of units sold during the taxable year. Thus, the amount recovered under cost depletion may never exceed the taxpayer's basis in the property.

Under the percentage depletion method, generally, 15 percent of the taxpayer's gross income from an oil- or gas-producing property is allowed as a deduction in each taxable year (sec. 613A(c)). The amount deducted generally may not exceed 100 percent of the net income from that property in any year (the "net-income limitation") (sec. 613(a)). Additionally, the percentage depletion deduction for all oil and gas properties may not exceed 65 percent of the taxpayer's overall taxable income (determined before such deduction and adjusted for certain loss carrybacks and trust distributions) (sec. 613A(d)(1)).

EXPLANATION OF PROVISION

The provision suspends the 65-percent-of-taxable-income limit for taxable years beginning after December 31, 2000 and before January 1, 2004.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

E. TAX CREDIT FOR OIL AND GAS PRODUCTION FROM MARGINAL WELLS (SEC. 505 OF THE BILL AND SEC. 54A OF THE CODE)

PRESENT LAW

There is no income tax credit for oil or gas production from marginal wells generally. Present law does, however, provide a tax credit for production requiring the use of certain tertiary recovery methods (the "enhanced oil recovery credit") (sec. 43).

EXPLANATION OF PROVISION

The provision provides an income tax credit equal to \$3 per barrel of qualified crude oil produced from a marginal well and 50 cents per 1,000 cubic feet of qualified natural gas production. Qualified production is defined as production up to 1,095 barrels per year (3 barrels per day).

The credit applies fully only when oil prices are below \$14. The credit phases-out ratably when the price of oil is between \$14 and \$17 per barrel for oil (and equivalent amounts for natural gas).

The credit can be claimed against both the regular income tax and the alternative minimum tax.

EFFECTIVE DATE

The proposal applies to production in taxable years beginning after December 31, 2000.

F. NATURAL GAS GATHERING LINES TREATED AS 7-YEAR PROPERTY (SEC. 506 OF THE BILL AND SEC. 168(e)(3) OF THE CODE)

PRESENT LAW

The applicable recovery period for assets placed in service under the Modified Accelerated Cost Recovery System is based on the "class life of the property." The class lives of assets placed in service after 1986 are set forth in Revenue Procedure 87-56. Revenue Procedure 87-56 includes two asset classes that could describe natural gas gathering lines owned by non-producers of natural gas. Asset class 13.2, describing assets used in the exploration for and production of petroleum and natural gas deposits, provides a class life of 14 years and a depreciation recovery period of seven years. Asset class 46.0, describing pipeline transportation, provides a class life of 22 years and a recovery period of 15 years. The uncertainty regarding the appropriate recovery period has resulted in litigation between taxpayers and the IRS. Recently, the 10th Circuit Court of Appeals held that natural gas gathering lines owned by non-producers fall within the scope of Asset class 13.2 (i.e., seven-year recovery period).

EXPLANATION OF PROVISION

The bill establishes a statutory seven-year recovery period for all natural gas gathering lines. A natural gas gathering line would be defined to include pipe, equipment, and appurtenances that are (1) determined to be a gathering line by the Federal Energy Regulatory Commission, or (2) used to deliver natural gas from the wellhead or a common point to the point at which such gas first reaches (a) a gas processing plant, (b) an interconnection with an interstate transmission line, (c) an interconnection with an intrastate transmission line, or (d) a direct interconnection with a local distribution company, a gas storage facility, or an industrial consumer.

EFFECTIVE DATE

The provision is effective for property placed in service on or after the date of enactment. No inference would be intended as to the proper treatment of such property placed in service before the date of enactment.

G. CLARIFICATION OF TREATMENT OF PIPELINE TRANSPORTATION INCOME (SEC. 507 OF THE BILL AND SEC. 954 OF THE CODE)

PRESENT LAW

Under the subpart F rules, U.S. 10-percent shareholders of a controlled foreign corporation ("CFC") are subject to U.S. tax currently on their shares of certain income earned by the foreign corporation, whether or not such income is distributed to the shareholders (referred to as "subpart F income"). Subpart F income includes foreign base company income, which in turn includes five categories of income: foreign personal holding company income, foreign base company sales income, foreign base company services income, foreign base company shipping income, and foreign base company oil related income (sec. 954(a)).

Foreign base company oil related income is income derived outside the United States from the processing of minerals extracted from oil or gas wells into their primary products; the transportation, distribution, or sale of such minerals or primary products; the disposition of assets used by the taxpayer in a trade or business involving the foregoing; or the performance of any related services. However, foreign base company oil related income does not include income derived from a source within a foreign country in connection with: (1) oil or gas which was extracted from a well located in such foreign country

or, (2), oil, gas, or a primary product of oil or gas which is sold by the CFC or a related person for use or consumption within such foreign country or is loaded in such country as fuel on a vessel or aircraft. An exclusion also is provided for income of a CFC that is a small producer (i.e., a corporation whose average daily oil and natural gas production, including production by related corporations, is less than 1,000 barrels).

EXPLANATION OF PROVISION

The bill provides an additional exception to the definition of foreign base company oil related income. Under the bill, foreign base company oil related income does not include income derived from a source within a foreign country in connection with the pipeline transportation of oil or gas within such foreign country. Thus, the exception applies whether or not the CFC that owns the pipeline also owns any interest in the oil or gas transported. In addition, the exception applies to income earned from the transportation of oil or gas by pipeline in a country in which the oil or gas was neither extracted nor consumed within such foreign country.

EFFECTIVE DATE

The provision is effective for taxable years of CFCs beginning after December 31, 2001, and taxable years of U.S. shareholders with or within which such taxable years of CFCs end.

TITLE VI. TAX INCENTIVES FOR CONSERVATION

A. EXCLUSION OF 50 PERCENT OF GAIN ON SALES OF LAND OR INTERESTS IN LAND OR WATER TO ELIGIBLE ENTITIES FOR CONSERVATION PURPOSES (SEC. 601 OF THE BILL AND NEW SEC. 121A OF THE CODE)

PRESENT LAW

Gain from the sale or exchange of land held more than one year generally is treated as long-term capital gain.

Generally the net capital gain of an individual (i.e., long-term capital gain less short-term capital loss) is subject to a maximum rate of 20 percent.

EXPLANATION OF PROVISION

The bill provides a 50-percent exclusion from a taxpayer's gross income for gain realized on the qualifying sale of land, or an interest in land or water, provided the land, or interest in land or water, has been held by the taxpayer or the taxpayer's family for at least three years prior to the date of sale. A qualifying sale is a sale to any agency of the Federal Government, a State government, or a local government, or a sale to 501(c)(3) organization that is organized and operated primarily to meet a qualified conservation purpose. In addition, to be a qualifying sale, the entity acquiring the land, or interest in land or water, must provide the taxpayer with a letter detailing that the intent of the purchase is to further a qualified conservation purpose. A qualified conservation purpose is (1) the preservation of land areas for outdoor recreation by, or the education of, the general public, (2) the protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem, or (3) the preservation of open space (including farmland and forest land) where the preservation is for the scenic enjoyment of the general public or pursuant to a clearly delineated Federal, State or local governmental conservation policy that will yield a significant public benefit.

EFFECTIVE DATE

The provision is effective for sales after December 31, 2003.

B. EXPAND THE ESTATE TAX RULE FOR CONSERVATION EASEMENTS (SEC. 602 OF THE BILL AND SEC. 2031 OF THE CODE)

PRESENT LAW

An executor may elect to exclude from the taxable estate 40 percent of the value of any land subject to a qualified conservation easement, up to a maximum exclusion of \$100,000 in 1998, \$200,000 in 1999, \$300,000 in 2000, \$400,000 in 2001, and \$500,000 in 2002 and thereafter (sec. 2031(c)). The exclusion percentage is reduced by 2 percentage points for each percentage point (or fraction thereof) by which the value of the qualified conservation easement is less than 30 percent of the value of the land (determined without regard to the value of such easement and reduced by the value of any retained development right).

A qualified conservation easement is one that meets the following requirements: (1) the land is located within 25 miles of a metropolitan area (as defined by the Office of Management and Budget) or a national park or wilderness area, or within 10 miles of an Urban National Forest (as designated by the Forest Service of the U.S. Department of Agriculture); (2) the land has been owned by the decedent or a member of the decedent's family at all times during the three-year period ending on the date of the decedent's death; and (3) a qualified conservation contribution (within the meaning of sec. 170(h)) of a qualified real property interest (as generally defined in sec. 170(h)(2)(C)) was granted by the decedent or a member of his or her family. For purposes of the provision, preservation of a historically important land area or a certified historic structure does not qualify as a conservation purpose.

In order to qualify for the exclusion, a qualifying easement must have been granted by the decedent, a member of the decedent's family, the executor of the decedent's estate, or the trustee of a trust holding the land, no later than the date of the election. To the extent that the value of such land is excluded from the taxable estate, the basis of such land acquired at death is a carryover basis (i.e., the basis is not stepped-up to its fair market value at death). Property financed with acquisition indebtedness is eligible for this provision only to the extent of the net equity in the property. The exclusion from estate taxes does not extend to the value of any development rights retained by the decedent or donor.

EXPLANATION OF PROVISION

The bill expands the availability of qualified conservation easements by eliminating the geographical boundary restrictions. Under the bill, the land qualifies without regard to the distance from which the land is situated from a metropolitan area, national park, wilderness area, or Urban National Forest.

EFFECTIVE DATE

The provision is effective for estates of decedents dying after December 31, 2001.

C. COST-SHARING PAYMENTS UNDER THE PARTNERS FOR WILDLIFE PROGRAM (SEC. 603 OF THE BILL AND SEC. 126 OF THE CODE)

PRESENT LAW

Under present law, gross income does not include the excludable portion of payments made to taxpayers by federal and state governments for a share of the cost of improvements to property under certain conservation programs. These programs include payments received under (1) the rural clean water program authorized by section 208(j) of the Federal Water Pollution Control Act, (2) the rural abandoned mine program authorized by section 406 of the Surface Mining Control and Reclamation Act of 1977, (3) the

water bank program authorized by the Water Bank Act, (4) the emergency conservation measures program authorized by title IV of the Agricultural Credit Act of 1978, (5) the agriculture conservation program authorized by the Soil Conservation and Domestic Allotment Act, (6) the great plains conservation program authorized by section 16 of the Soil Conservation and Domestic Policy Act, (7) the resource conservation and development program authorized by the Bankhead-Jones Farm Tenant Act and by the Soil Conservation and Domestic Allotment Act, (8) the forestry incentives program authorized by section 4 of the Cooperative Forestry Assistance Act of 1978, (9) any small watershed program administered by the Secretary of Agriculture which is determined by the Secretary of the Treasury or his delegate to be substantially similar to the type of programs described in items (1) through (8), and (10) any program of a State, possession of the United States, a political subdivision of any of the foregoing, or the District of Columbia under which payments are made to individuals primarily for the purpose of conserving soil, protecting or restoring the environment, improving forests, or providing a habitat for wildlife.

EXPLANATION OF PROVISION

The provision expands the types of qualified cost-sharing payments to include payments under the Partners for Wildlife Program.

EFFECTIVE DATE

The provision applies to payments received after the date of enactment.

D. INCENTIVE FOR CERTAIN ENERGY EFFICIENT PROPERTY USED IN BUSINESS (SEC. 604 OF THE BILL AND NEW SEC. 199 OF THE CODE)

PRESENT LAW

No special deduction is currently provided for expenses incurred for energy efficient building property.

EXPLANATION OF PROVISION

The provision allows a deduction from income for expenses incurred for energy efficient commercial building property. Energy-efficient commercial building property is defined as property that reduces annual energy and power costs with respect to lighting, cooling, heating, ventilation, and hot water supply by 50 percent or more in comparison to a reference building. A reference building is defined as one which meets the requirements of Standard 90.1-1999 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America. The maximum deduction would be \$2.25 per square foot. For all property eligible for the deduction, the depreciable basis of the property is reduced by the amount of the deduction. For public property, such as schools, the Secretary shall issue regulations to allow the deduction to be allocated to the person primarily responsible for designing the property in lieu of the public entity owner.

EFFECTIVE DATE

The deduction is effective for taxable years beginning after December 31, 2000, and before January 1, 2004.

E. EXTENSION AND MODIFICATION OF TAX CREDIT FOR ELECTRICITY PRODUCED FROM BIOMASS (SEC. 605 OF THE BILL AND SEC. 45 OF THE CODE)

PRESENT LAW

Section 45

An income tax credit is allowed for the production of electricity from either qualified wind energy facilities, qualified "closed-loop" biomass facilities, or qualified poultry waste facilities (sec. 45). The current value of

the credit is 1.7 cents/kilowatt hour of electricity produced and the value of the credit is indexed for inflation. The credit applies to electricity produced by a qualified wind energy facility placed in service after December 31, 1993, and before January 1, 2002, to electricity produced by a qualified closed-loop biomass facility placed in service after December 31, 1992, and before January 1, 2002, and to a qualified poultry waste facility placed in service after December 31, 1999, and before January 1, 2002. The credit is allowable for production during the 10-year period after a facility is originally placed in service.

Closed-loop biomass is the use of plant matter, where the plants are grown for the sole purpose of being used to generate electricity. It does not include the use of waste materials (including, but not limited to, scrap wood, manure, and municipal or agricultural waste). The credit also is not available to taxpayers who use standing timber to produce electricity. In order to claim the credit, a taxpayer must own the facility and sell the electricity produced by the facility to an unrelated party.

Section 29

Certain fuels produced from "nonconventional sources" and sold to unrelated parties are eligible for an income tax credit equal to \$3 (generally adjusted for inflation) per barrel or BTU oil barrel equivalent (sec. 29) (referred to as the "section 29 credit"). Qualified fuels must be produced within the United States. Qualified fuels include:

- (1) oil produced from shale and tar sands;
- (2) gas produced from geopressured brine, Devonian shale, coal seams, tight formations ("tight sands"), or biomass; and
- (3) liquid, gaseous, or solid synthetic fuels produced from coal (including lignite).

In general, the credit is available only with respect to fuels produced from wells drilled or facilities placed in service after December 31, 1979, and before January 1, 1993. An exception extends the January 1, 1993 expiration date for facilities producing gas from biomass and synthetic fuel from coal if the facility producing the fuel is placed in service before July 1, 1998, pursuant to a binding contract entered into before January 1, 1997.

The credit may be claimed for qualified fuels produced and sold before January 1, 2003 (in the case of nonconventional sources subject to the January 1, 1993 expiration date) or January 1, 2008 (in the case of biomass gas and synthetic fuel facilities eligible for the extension period).

EXPLANATION OF PROVISION

The bill provides that the present-law tax credit for electricity produced by wind, closed-loop biomass, and poultry waste facilities is expanded to include electricity produced from certain other biomass (in addition to closed-loop biomass and poultry waste) and electricity produced from landfill gas. Taxpayers producing electricity from other biomass or landfill gas may claim credit for production of electricity for three years commencing on the later of January 1, 2001, or the date the facility is placed in service.

"Other biomass" is defined as solid non-hazardous, cellulose waste material which is segregated from other waste materials and which is derived from forest resources, but not including old growth timber. The term includes urban sources such as waste pallets, crates, manufacturing and construction wood waste, and tree trimmings, or agricultural sources (including orchard tree crops, grain, vineyard, legumes, sugar, and other crop by-products or residues). However, the term does not include unsegregated municipal solid waste, paper that is commonly recycled, or certain chemically treated wood

wastes. Qualifying other biomass and landfill gas facilities are limited to facilities owned by the taxpayer.

A special rule modifies present-law definition of qualified closed-loop biomass facilities to include facilities in which electricity is produced from closed-loop biomass fuels co-fired with coal.

In the case of other biomass facilities, the credit applies to electricity produced after December 31, 2000 from facilities that are placed in service before January 1, 2002 (including facilities placed in service before the date of enactment of this provision). In the case of landfill gas facilities, the credit applies to electricity produced after December 31, 2000, from facilities placed in service after December 31, 1999, and before January 1, 2002. In the case of closed-loop biomass facilities in which closed-loop biomass fuel is co-fired with coal, the credit applies to electricity produced after December 31, 2000, from facilities that are placed in service before January 1, 2002 (including facilities placed in service before the date of enactment of this provision).

EFFECTIVE DATE

The provision is effective upon the date of enactment.

F. CREDIT FOR CERTAIN ENERGY EFFICIENT MOTOR VEHICLES (SEC. 606 OF THE BILL AND NEW SEC. 30B OF THE CODE)

PRESENT LAW

Present law does not provide a credit for the purchase of hybrid vehicles. However, taxpayers may claim a credit of 10 percent of the cost of an electric vehicle up to a maximum credit of \$4,000 (sec. 30). A qualified electric vehicle is a vehicle powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electrical current. The credit does not apply to property placed in service after December 31, 2004 and is reduced ratably between 2002 and 2004.

Taxpayers may claim an immediate deduction (expensing) for up to \$2,000 of the cost of a qualified clean-fuel vehicle which is a car and up to \$50,000 in the case of certain trucks or vans (sec. 179A). For the purpose of the deduction, gasoline and diesel fuel are not clean-burning fuels. The deduction expires after December 31, 2004, and is phased out ratably between 2002 and 2004.

EXPLANATION OF PROVISION

The bill provides a temporary tax credit for qualified hybrid vehicles, with a rechargeable energy system used in business and for personal use. For vehicles with a rechargeable energy system that provides five percent to less than 10 percent of the maximum available power, the credit amount is \$500; for a system that provides 10 percent to less than 20 percent of maximum available power the credit is \$1,000; for a system that provides 20 percent to less than 30 percent of maximum available power, the credit is \$1,500; and for a system that provides 30 percent or greater of maximum available power, the credit is \$2,000. The credit amount is increased for qualified hybrid vehicles that also actively employ a regenerative braking system that supplies energy to the rechargeable energy storage system. For a hybrid vehicle with a regenerative braking system that provides 20 percent to less than 40 percent of the energy available from braking in a typical 60 miles per hour to zero miles per hour braking event, the additional credit amount is \$250, for 40 percent to less than 60 percent, the additional credit would be \$500, and for 60 percent or greater, the additional credit is \$1,000.

In addition, the sponsors note that this proposal is one portion of a package of proposals in the Alternative Fuels Incentives

Act. The proposals in that legislation include a tax credit for alternative fuel vehicles, a tax credit for retail sales of alternative motor vehicle fuels, and an extension of the deduction for certain refueling property. The sponsors note the Committee has explored these incentives in a hearing and will continue to seek to address these proposals in appropriate legislation.

EFFECTIVE DATE

The credit is available for a hybrid vehicle placed in service after December 31, 2003, and before January 1, 2005.

VII. ADDITIONAL TAX PROVISIONS

A. LIMITATION ON USE OF NON-ACCRUAL EXPERIENCE METHOD OF ACCOUNTING (SEC. 701 OF THE BILL AND SEC. 448 OF THE CODE)

PRESENT LAW

An accrual method taxpayer generally must recognize income when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy. An accrual method taxpayer may deduct the amount of any receivable that was previously included in income that becomes worthless during the year.

Accrual method taxpayers are not required to include in income amounts to be received for the performance of services which, on the basis of experience, will not be collected (the "non-accrual experience method"). The availability of this method is conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount charged.

A cash method taxpayer is not required to include an amount in income until it is received. A taxpayer generally may not use the cash method if purchase, production, or sale of merchandise is an income producing factor. Such taxpayers generally are required to keep inventories and use an accrual method of accounting. In addition, corporations (and partnerships with corporate partners) generally may not use the cash method of accounting if their average annual gross receipts exceed \$5 million. An exception to this \$5 million rule is provided for qualified personal service corporations. A qualified personal service corporation is a corporation (1) substantially all of whose activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting and (2) substantially all of the stock of which is owned by current or former employees performing such services, their estates or heirs. Qualified personal service corporations are allowed to use the cash method without regard to whether their average annual gross receipts exceed \$5 million.

EXPLANATION OF PROVISION

The provision provides that the non-accrual experience method of accounting will be available only for amounts to be received for the performance of qualified personal services. Amounts to be received for all other services will be subject to the general rule regarding inclusion in income. Qualified personal services are personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting. As under present law, the availability of this method is conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount charged.

It is believed that the formula contained in Temp. Reg. Section 1.448-2T does not clearly reflect the amount of income that, based on experience, will not be collected for many qualified personal services providers, especially for those where significant time elapses between the rendering of the service

and a final determination that the account will not be collected. Providers of qualified personal services should not be subject to a formula that requires the payment of taxes on receivables that will not be collected. It is intended that the Secretary of the Treasury be directed to amend the temporary regulations to provide a more accurate determination for such qualified personal service providers of amounts to be excluded from income that, based on the taxpayer's experience, will not be collected. In amending such regulations, the Secretary of the Treasury should consider providing flexibility with respect to any formula used to compute the amount of the exclusion, to address the different factual situations of taxpayers.

EFFECTIVE DATE

The provision is effective for taxable years ending after date of enactment. Any change in the taxpayer's method of accounting necessitated as a result of the provision are treated as a voluntary change initiated by the taxpayer with the consent of the Secretary of the Treasury. Any required section 481(a) adjustment is to be taken into account over a period not to exceed four years under principles consistent with those in Rev. Proc. 98-60.

B. REPEAL OF SECTION 1706 OF THE TAX REFORM ACT OF 1986 (SEC. 702 OF THE BILL)

PRESENT LAW

Under present law, determination of whether a worker is an employee or independent contractor is generally made under a common-law test. Section 530 of the Revenue Act of 1978 provides safe harbors under which a service recipient may treat a worker as an independent contractor for employment tax purposes (regardless of their status under the common-law test) if certain requirements are satisfied. One of the requirements of safe-harbor relief under section 530 is that the taxpayer (or a predecessor) must not have treated any worker holding a substantially similar position as an employee for purposes of employment taxes for any period after 1977. In determining whether workers hold substantially similar positions, one of the factors that is to be taken into account is the relationship of the parties, including the degree of supervision and control of the worker by the taxpayer.

Under section 1706 of the Tax Reform Act of 1986, section 530 safe-harbor relief does not apply to certain technical services personnel.

EXPLANATION OF PROVISION

The bill repeals section 1706 of the Tax Reform Act of 1986. Thus, section 530 safe-harbor relief is available with respect to workers covered by section 1706, if the requirements of the safe harbor are otherwise satisfied. The bill does not repeal the consistency requirement with respect to workers covered by section 1706.

EFFECTIVE DATE

The bill is effective for periods beginning after the date of enactment.

C. EXPANSION OF EXEMPTION FROM PERSONAL HOLDING COMPANY TAX FOR LENDING OR FINANCE BUSINESS COMPANIES (SEC. 703 OF THE BILL AND SECTION 542 OF THE CODE)

PRESENT LAW

Personal holding companies ("PHC") are subject to a 39.6 percent tax on undistributed PHC income. This tax can be avoided by distributing the income to shareholders, who then pay shareholder level tax. PHCs are closely held companies with at least 60 percent "personal holding company income" ("PHCI"). This is generally passive income, including interest, dividends, and rents. Certain rent is excluded from the definition, if rent is at least 50 percent of the adjusted ordinary gross income of the company and

other undistributed PHCI does not exceed 10 percent of the adjusted ordinary gross income.

In the case of a group of corporations filing a consolidated return, with certain exceptions, the application of the PHC tax to the group and any member thereof is generally determined on the basis of consolidated income and consolidated PHCI. If any member of the group is excluded from the definition of a PHC under certain provisions (including one for certain lending or finance businesses), then each other member of the group is tested separately for PHC status.

A special rule of present law excludes a lending or finance business from the definition of a PHC if certain requirements are met. At least 60 percent of its income must come from the active conduct of a lending or finance business, and no more than 20 percent of its adjusted gross income may be from certain other PHCI. A lending or finance business does not include a business of making loans longer than 144 months (12 years). Also, the deductions attributable to this active lending or finance business (but not including interest expense) must be at least 5 percent of income over \$500,000 (plus 15 percent of income under that amount).

EXPLANATION OF PROVISION

The provision modifies the personal holding company exclusion for lending or finance companies to provide that, in determining whether a member of an affiliated group (as defined in section 1504(a)(1)) filing a consolidated return is a lending or finance company, only corporations engaged in a lending or finance business are taken into account, and all such companies are aggregated for purposes of this determination. The effect of this rule is to treat a corporation as a lending or finance company if all companies engaged in a lending or finance business in the affiliated group, in the aggregate, satisfy the requirements of the exclusion.

The provision also repeals the business expense requirement and the limitation on the maturity of loans made by a lending or finance business.

The provision also broadens the definition of a lending or finance business to include providing financial or investment advisory services, as well as engaging in leasing, including entering into leases and/or purchasing, servicing, and/or disposing of leases and leased assets.

Rents that are not derived from the active and regular conduct of a lending or finance business would continue to be treated under the present law personal holding company income rules.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2000.

D. CHARITABLE CONTRIBUTION DEDUCTION FOR CERTAIN EXPENSES INCURRED IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE WHALING (SEC. 704 OF THE BILL AND SEC. 170 OF THE CODE)

PRESENT LAW

In computing taxable income, individuals who do not elect the standard deduction may claim itemized deductions, including a deduction (subject to certain limitations) for charitable contributions or gifts made during the taxable year to a qualified charitable organization or governmental entity (sec. 170). Individuals who elect the standard deduction may not claim a deduction for charitable contributions made during the taxable year.

No charitable contribution deduction is allowed for a contribution of services. However, unreimbursed expenditures made incident to the rendition of services to an organization, contributions to which are deduct-

ible, may constitute a deductible contribution (Treas. Reg. sec. 1.170A-1(g)). Specifically, section 170(j) provides that no charitable contribution deduction is allowed for traveling expenses (including amounts expended for meals and lodging) while away from home, whether paid directly or by reimbursement, unless there is no significant element of personal pleasure, recreation, or vacation in such travel.

EXPLANATION OF PROVISION

The bill allows individuals to claim a deduction under section 170 not exceeding \$7,500 per taxable year for certain expenses incurred in carrying out sanctioned whaling activities. The deduction is available only to an individual who is recognized by the Alaska Eskimo Whaling Commission as a whaling captain charged with the responsibility of maintaining and carrying out sanctioned whaling activities. The deduction is available for reasonable and necessary expenses paid by the taxpayer during the taxable year for (1) the acquisition and maintenance of whaling boats, weapons, and gear used in sanctioned whaling activities, (2) the supplying of food for the crew and other provisions for carrying out such activities, and (3) storage and distribution of the catch from such activities.

For purposes of the provision, the term "sanctioned whaling activities" means subsistence bowhead whale hunting activities conducted pursuant to the management plan of the Alaska Eskimo Whaling Commission.

EFFECTIVE DATE

The provision is effective for taxable years ending after December 31, 2000.

E. TREATMENT OF PURCHASE OF STRUCTURED SETTLEMENTS (SEC. 705 OF THE BILL AND NEW SEC. 5891 OF THE CODE)

PRESENT LAW

Present law provides tax-favored treatment for structured settlement arrangements for the payment of damages on account of personal injury or sickness.

Under present law, an exclusion from gross income is provided for amounts received for agreeing to a qualified assignment to the extent that the amount received does not exceed the aggregate cost of any qualified funding asset (sec. 130). A qualified assignment means any assignment of a liability to make periodic payments as damages (whether by suit or agreement) on account of a personal injury or sickness (in a case involving physical injury or physical sickness), provided the liability is assumed from a person who is a party to the suit or agreement, and the terms of the assignment satisfy certain requirements. Generally, these requirements are that (1) the periodic payments are fixed as to amount and time; (2) the payments cannot be accelerated, deferred, increased, or decreased by the recipient; (3) the assignee's obligation is no greater than that of the assignor; and (4) the payments are excludable by the recipient under section 104(a)(2) as damages on account of personal injuries or sickness.

A qualified funding asset means an annuity contract issued by an insurance company licensed in the U.S., or any obligation of the United States, provided the annuity contract or obligation meets statutory requirements. An annuity that is a qualified funding asset is not subject to the rule requiring current inclusion of the income on the contract which generally applies to annuity contract holders that are not natural persons (e.g., corporations) (sec. 72(u)(3)(C)). In addition, when the payments on the annuity are received by the structured settlement company and included in income, the company generally may deduct the corresponding payments to the injured person, who, in turn,

excludes the payments from his or her income (sec. 104). Thus, neither the amount received for agreeing to the qualified assignment of the liability to pay damages, nor the income on the annuity that funds the liability to pay damages, generally is subject to tax.

The exclusion for recipients of the periodic payments received under a structured settlement arrangement as damages for personal physical injuries or physical sickness can be contrasted with the treatment of investment earnings that are not paid as damages. If a recipient of damages chooses to receive a lump sum payment (excludable from income under sec. 104), and then to invest it himself, generally the earnings on the investment are includable in income. For example, if the recipient uses the lump sum to purchase an annuity contract providing for periodic payments, then a portion of each payment under the annuity contract is includable in income, and the balance is excludable under present-law rules based on the ratio of the individual's investment in the contract to the expected return on the contract (sec. 72(b)).

Present law provides that the payments to the injured person under the qualified assignment cannot be accelerated, deferred, increased, or decreased by the recipient. Consistent with these requirements, it is understood that contracts under structured settlement arrangements generally contain anti-assignment clauses. It is understood, however, that injured persons may nonetheless be willing to accept discounted lump sum payments from certain "factoring" companies in exchange for their payment streams. The tax effect on the parties of these transactions may not be completely clear under present law.

EXPLANATION OF PROVISION

The provision generally imposes an excise tax on any person acquiring a payment stream under a structured settlement arrangement. The amount of the excise tax is 40 percent of the excess of (1) the undiscounted amount of the payment stream acquired, over (2) the total amount actually paid.

The 40 percent excise tax does not apply, however, if the transfer is approved in advance in a final court order (or order of the responsible administrative authority) that finds: (1) that the transaction does not contravene any Federal or State statute or the order of any court or responsible administrative authority; and (2) is in the best interest of the payee, taking into account the welfare and support of the payee's dependents. Rules are provided for determining the applicable State statute.

The provision also provides that the acquisition transaction does not affect the application of certain present-law rules, if those rules were satisfied at the time the structured settlement was entered into. The rules are section 130 (relating to an exclusion from gross income for personal injury liability assignments), section 72 (relating to annuities), sections 104(a)(1) and (2) (relating to an exclusion for amounts received under workers' compensation acts and for damages on account of personal physical injuries or physical sickness), and section 461(h) (relating to the time of economic performance in determining the taxable year of a deduction).

EFFECTIVE DATE

The provision generally is effective for acquisition transactions entered into on or after 30 days following enactment. A transition rule applies during the period from that date to July 1, 2002. If no applicable State law (relating to the best interest of the payee) applies to a transfer during that period, then the exception from the 40 percent

excise tax is available without the otherwise required court (or administrative) order, provided certain disclosure requirements are met. Under the transition rule, the person acquiring the structured settlement payments is required to disclose in advance to the payee: (1) the amounts and due dates of the payments to be transferred; (2) the aggregate amount to be transferred; (3) the consideration to be received by the payee; (4) the discounted present value of the transferred payments; and (5) the expenses to be paid by the payee or deducted from the payee's proceeds.

The provision providing that the acquisition transaction does not affect the application of certain present-law rules is effective for transactions entered into before, on, or after the 30th day following enactment.

By Mr. DOMENICI:

S. 3153. A bill to authorize the Secretary of the Air force to convey certain excess personal property of the Air force to Roosevelt General Hospital, Portales, New Mexico; to the Committee on Armed Services.

CONVEYANCE OF AIR FORCE PROPERTY TO ROOSEVELT GENERAL HOSPITAL, PORTALES, NEW MEXICO

Mr. DOMENICI. Mr. President, I rise today to introduce legislation of importance to military members serving at Cannon Air Force Base and the community serving that Air Force Base. This bill would allow the Secretary of the Air Force to convey hospital equipment from a closed hospital facility at Cannon to a new public hospital in Portales, New Mexico.

This is another win-win possibility for the local Air Force personnel and the surrounding community. The hospital at Cannon Air Force Base was closed several years ago. However, the equipment remains at that facility and has been collecting dust since the facility's closure.

A new, state-of-the-art hospital is now being built to serve Roosevelt County citizens. While the County has taken tremendous strides towards establishing a first-rate hospital, excess equipment from the Air Force Base would help ameliorate immediate costs of fully equipping the new hospital. In addition, service members and their families who reside in Portales will certainly make use of the new hospital facility in their area.

The Wing Commander and Medical Commander at Cannon Air Force Base agree that this is a beneficial arrangement. They have met with local community leaders and civilian hospital administrators to carefully review what equipment from the closed Air Force facility should be transferred to the new community hospital. Everyone agrees that this is a positive action to strengthen relations and provide better medical care for both civilian and military community members.

Mr. President, the Air Force is striving to explore novel, beneficial arrangements with local civilian communities to provide medical care for its personnel. This bill, which is entirely discretionary, but would expedite the process, is an easy, common sense ap-

proach to achieving that goal. I ask unanimous consent that a copy of the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 3153

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CONVEYANCE OF AIR FORCE PROPERTY TO ROOSEVELT GENERAL HOSPITAL, PORTALES, NEW MEXICO.

(a) AUTHORITY.—The Secretary of the Air Force is authorized to convey to the Roosevelt General Hospital, Portales, New Mexico, without consideration, and without regard to title II of the Federal Property and Administrative Services Act of 1949, all right, title, and interest of the United States in any personal property of the Air Force that the Secretary determines—

(1) is appropriate for use by the Roosevelt General Hospital in the operation of that hospital; and

(2) is excess to the needs of the Air Force.

(b) ADDITIONAL TERMS AND CONDITIONS.—The Secretary may require any additional terms and conditions in connection with any conveyance under subsection (a) that the Secretary considers appropriate to protect the interests of the United States.

Mr. MOYNIHAN (for himself and Mr. SCHUMER):

S. 3154. A bill to establish the Erie Canalway National Heritage Corridor in the State of New York, and for other purposes; to the Committee on Energy and Natural Resources.

ERIE CANAL NATIONAL HERITAGE CORRIDOR

Mr. MOYNIHAN. Mr. President, in April, 1808, Secretary of the Treasury Albert Gallatin proposed to the Senate a national system of roads and canals, an idea feasible because payment of the National debt was within reach. It was a time for thinking big. A canal between the Hudson River and Lake Erie was one of his recommendations. As assemblyman from Onondaga County, Joshua Forman, traveled to Washington to tell President Jefferson that New York was ready to proceed with a canal 350 miles through the wilderness. Jefferson said “. . . it is little short of madness to think of it at this day,” and later wrote that New York had anticipated by a full century the means to build such a waterway.

New York proceeded on its own. Seventeen years and \$7,143,789 later we had our canal, the Erie Canal. Towns sprang up along the way, often at the locks, and prospered. Lockport, Spencerport, Fairport, Macedon, Utica, Canajoharie, Scotia. Then the railroads came, and some could not maintain that prosperity. The canal was rebuilt and enlarged between 1835 and 1862 to accommodate larger vessels. At the turn of the 20th century much of the original channel was abandoned and a new one was created by greatly altering natural waterways. This canal system continued to support considerable freight traffic until the opening of the St. Lawrence Seaway in 1959.

Today many segments and fragments of the original canal still exist across

the state, as do examples of the first expansion in the 1830s. Together they show us one of the first great public works projects in this country, the means by which many thousands of settlers moved west and many tons of food and raw materials moved east. The Erie Canal created the first effective means of interstate commerce in the nation and realigned the relationship among regions. In conjunction with the Hudson River it fueled the growth of New York City. Put simple, New York would not have become the Empire State without it.

The canal today is primarily a recreational resource. Thanks to the Great Lakes Water Quality Agreement of 1972, the water flowing out of Lake Erie is much cleaner than it once was, making boating and recreation along the canal much more enjoyable. Today my colleague Senator SCHUMER and I are introducing a bill that would establish the Erie Canalway National Heritage Corridor. The National Park Service conducted a special resource study and found that the canal system “contains resources and represents themes that are of national significance.” Moreover, “no single unit (of the Park Service) now exists that can offer as complete a portrait of the development of the United States from the last part of the 18th through the early 20th centuries.”

This designation would provide Park Service resources and some funding that would help improve education, historic preservation, open space protection, and trail development along the canal corridor. I believe it would be a great benefit for those cities, towns, and residents along the canal system. I also believe no other corridor deserves this designation as much. I ask my colleagues for their support, and I ask that the text of the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 3154

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; DEFINITIONS.

(a) SHORT TITLE.—This Act may be cited as the “Erie Canalway National Heritage Corridor Act of 2000”.

(b) DEFINITIONS.—For the purposes of this Act, the following definitions shall apply:

(1) ERIE CANALWAY.—The term “Erie Canalway” shall mean the 524 miles of navigable canal that comprise the New York State Canal System, including the Erie, Cayuga and Seneca, Oswego and Champlain canals, as well as, the historic alignments of these canals including the cities of Albany and Buffalo.

(2) CANALWAY PLAN.—The term “Canalway Plan” shall mean the comprehensive preservation and management plan for the Corridor required under section 6.

(3) COMMISSION.—The term “Commission” shall mean the Erie Canalway National Heritage Corridor Commission established under section 4.

(4) CORRIDOR.—The term “Corridor” shall mean the Erie Canalway National Heritage Corridor established under section 3.

(5) GOVERNOR.—The term "Governor" shall mean the Governor of the State of New York.

(6) SECRETARY.—The term "Secretary" shall mean the Secretary of the Interior.

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that—

(1) the year 2000 marks the 175th Anniversary of New York State's creation and stewardship of the Erie Canalway for commerce, transportation and recreational purposes, establishing the network which made New York the "Empire State" and the Nation's premier commercial and financial center;

(2) the canals and adjacent areas that comprise the Erie Canalway are a nationally significant resource of historic and recreational value, which merit Federal recognition and assistance;

(3) the Erie Canalway was instrumental in the establishment of strong political and cultural ties between New England, upstate New York and the old Northwest and facilitated the movement of ideas and people ensuring that social reforms like the abolition of slavery and the women's rights movement spread across upstate New York to the rest of the country;

(4) the construction of the Erie Canalway was considered a supreme engineering feat, and most American canals were modeled after New York State's canal;

(5) at the time of construction, the Erie Canalway was the largest public works project ever undertaken by a state, resulting in the creation of critical transportation and commercial routes to transport passengers and goods;

(6) the Erie Canalway played a key role in turning New York City into a major port and New York State into the preeminent center for commerce, industry, and finance in North America and provided a permanent commercial link between the Port of New York and the cities of eastern Canada, a cornerstone of the peaceful relationship between the two countries;

(7) the Erie Canalway proved the depth and force of American ingenuity, solidified a national identity, and found an enduring place in American legend, song, and art;

(8) there is national interest in the preservation and interpretation of the Erie Canalway's important historical, natural, cultural, and scenic resources; and

(9) partnerships among Federal, State, and local governments and their regional entities, nonprofit organizations, and the private sector offer the most effective opportunities for the preservation and interpretation of the Erie Canalway.

(b) PURPOSES.—The purposes of this Act are—

(1) to designate the Erie Canalway National Heritage Corridor;

(2) to provide for and assist in the identification, preservation, promotion, maintenance and interpretation of the historical, natural, cultural, scenic, and recreational resources of the Erie Canalway in ways that reflect its national significance for the benefit of current and future generations;

(3) to promote and provide access to the Erie Canalway's historical, natural, cultural, scenic and recreational resources;

(4) to provide a framework to assist the State of New York, its units of local government, and the communities within the Erie Canalway in the development of integrated cultural, historical, recreational, economic, and community development programs in order to enhance and interpret the unique and nationally significant resources of the Erie Canalway; and

(5) to authorize Federal financial and technical assistance to the Commission to serve these purposes for the benefit of the people of the State of New York and the nation.

SEC. 3. THE ERIE CANALWAY NATIONAL HERITAGE CORRIDOR.

(a) ESTABLISHMENT.—To carry out the purposes of this act there is established the Erie Canalway National Heritage Corridor in the State of New York.

(b) BOUNDARIES.—The boundaries of the Corridor shall include those lands generally depicted on a map entitled "Boundaries of Canalway Communities" numbered ERCA _____ and dated _____. This map shall be on file and available for public inspection in the appropriate office of the National Park Service, the office of the Commission, and the office of the New York State Canal Corporation in Albany, New York.

(c) BOUNDARY REVISIONS.—The boundaries of the Corridor may be revised by an amendment to this Act pursuant to the request of the Secretary upon approval of the Commission.

(d) OWNERSHIP AND OPERATION OF THE NEW YORK STATE CANAL SYSTEM.—Nothing in this Act shall be construed to alter the ownership, operation, or management of the New York State Canal System.

SEC. 4. THE ERIE CANALWAY NATIONAL HERITAGE CORRIDOR COMMISSION.

(a) ESTABLISHMENT.—There is established the Erie Canalway National Heritage Corridor Commission. The purpose of the Commission shall be—

(1) to work with Federal, State and local authorities to develop and implement the Canalway Plan; and

(2) to foster the integration of canal-related historical, cultural, recreational, scenic, economic and community development initiatives within the Corridor.

(b) MEMBERSHIP.—The Commission shall be composed of 27 members as follows:

(1) The Secretary of the Interior, ex-officio or his/her designee.

(2) Seven members, each of whom represents 1 of the following agencies or those agencies' successors: The New York State Secretary of State, the Commissioners of the New York State Department of Environmental Conservation, the New York State Office of Parks, Recreation and Historic Preservation, the New York State Department of Agriculture and Markets, the New York State Department of Transportation, and the Chairpersons of the New York State Canal Corporation, and the Empire State Development Corporation; or their respective designees.

(3) The remaining 19 members who reside within the Corridor and are geographically dispersed throughout the Corridor shall be from local governments and the private sector with knowledge of tourism, economic and community development, regional planning, historic preservation, cultural or natural resource management, conservation, recreation, and education or museum services. These members will be appointed by the Governor no later than 6 months after the date of enactment of this Act as follows:

(A) Ten members based on a recommendation from each member of the United States House of Representatives whose district shall encompass the Corridor. Each shall be a resident of the district from which they shall be recommended.

(B) Two members based on a recommendation from each United States Senator from New York State.

(C) Seven members who shall be residents of any county constituting the Corridor. One such member shall be a member of the Canal Recreationway Commission other than an ex-officio member.

(c) APPOINTMENTS AND VACANCIES.—Members of the Commission other than ex-officio members shall be appointed for terms of 3 years. Of the original appointments, six shall be for a term of one year, six shall be for a

term of two years and seven shall be for a term of three years. Any member of the Commission appointed for a definite term may serve after expiration of the term until the successor of the member is appointed. Any member appointed to fill a vacancy shall serve for the remainder of the term for which the predecessor was appointed. Any vacancy on the Commission shall be filled in the same manner in which the original appointment was made.

(d) COMPENSATION.—Members of the Commission shall receive no compensation for their service on the Commission. Members of the Commission, other than employees of the State and Canal Corporation, while away from their homes or regular places of business to perform services for the Commission, shall be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in government service are allowed under section 5703 of title 5, United States Code.

(e) ELECTION OF OFFICES.—The Commission shall elect the chairperson and the vice chairperson on an annual basis. The vice chairperson shall serve as the chairperson in the absence of the chairperson.

(f) QUORUM AND VOTING.—Fourteen members of the Commission shall constitute a quorum but a lesser number may hold hearings. Any member of the Commission may vote by means of a signed proxy exercised by another member of the Commission, however, any member voting by proxy shall not be considered present for purposes of establishing a quorum. For the transaction of any business or the exercise of any power of the Commission, the Commission shall have the power to act by a majority vote of the members present at any meeting at which a quorum is in attendance.

(g) MEETINGS.—The Commission shall meet at least quarterly at the call of the chairperson or 14 of its members. Notice of Commission meetings and agendas for the meetings shall be published in local newspapers throughout the Corridor. Meetings of the Commission shall be subject to section 552b of title 5, United States Code (relating to open meetings).

(h) POWERS OF THE COMMISSION.—To the extent that Federal funds are appropriated, the Commission is authorized—

(1) to procure temporary and intermittent services and administrative facilities at rates determined to be reasonable by the Commission to carry out the responsibilities of the Commission;

(2) to request and accept the services of personnel detailed from the State of New York or any political subdivision, and to reimburse the State or political subdivision for such services;

(3) to request and accept the services of any Federal agency personnel, and to reimburse the Federal agency for such services;

(4) to appoint and fix the compensation of staff to carry out its duties;

(5) to enter into cooperative agreements with the State of New York, with any political subdivision of the State, or any person for the purposes of carrying out the duties of the Commission;

(6) to make grants to assist in the preparation and implementation of the Canalway Plan;

(7) to seek, accept, and dispose of gifts, bequests, grants, or donations of money, personal property, or services, received from any source; [For purposes of section 170(c) of the Internal Revenue Code of 1986, any gift to the Commission shall be deemed to be a gift to the United States.]

(8) to assist others in developing educational, informational, and interpretive programs and facilities, and other such activities that may promote the implementation of the Canalway Plan;

(9) to hold hearings, sit and act at such times and places, take such testimony, and receive such evidence, as the Commission may consider appropriate; [The Commission may not issue subpoenas or exercise any subpoena authority.]

(10) to use the United States mails in the same manner as other departments or agencies of the United States;

(11) to request and receive from the Administrator of General Services, on a reimbursable basis, such administrative support services as the Commission may request; and

(12) to establish such advisory groups as the Commission deems necessary.

(i) ACQUISITION OF PROPERTY.—Except as provided for leasing administrative facilities under subsection (h)(1), the Commission may not acquire any real property or interest in real property.

(j) TERMINATION.—The Commission and this Act shall terminate on the day occurring 10 years after the date of the enactment of this Act.

SEC. 5. DUTIES OF THE COMMISSION.

(a) PREPARATION OF CANALWAY PLAN.—Not later than 3 years after the Commission receives Federal funding for this purpose, the Commission shall prepare and submit a comprehensive preservation and management Canalway Plan for the Corridor to the Secretary and the Governor for review and approval. In addition to the requirements outlined for the Canalway Plan in section 6, the Canalway Plan shall incorporate and integrate existing Federal, State, and local plans to the extent appropriate regarding historic preservation, conservation, education and interpretation, community development, and tourism-related economic development for the Corridor that are consistent with the purposes of this Act. The Commission shall solicit public comment on the development of the Canalway Plan.

(b) IMPLEMENTATION OF CANALWAY PLAN.—After the Commission receives Federal funding for this purpose, and after review and upon approval of the Canalway Plan by the Secretary and the Governor, the Commission shall—

(1) undertake actions to implement the Canalway Plan so as to assist the people of the State of New York in enhancing and interpreting the historical, cultural, educational, natural, scenic, and recreational potential of the Corridor identified in the Canalway Plan; and

(2) support public and private efforts in conservation and preservation of the Canalway's cultural and natural resources and economic revitalization consistent with the goals of the Canalway Plan.

(c) PRIORITY ACTIONS.—Priority actions which may be carried out by the Commission under subsection (b) may include—

(1) assisting in the appropriate preservation treatment of the remaining elements of the original Erie Canal;

(2) assisting the National Park Service, the State, and local governments, and nonprofit organizations in designing, establishing and maintaining visitor centers, museums, and other interpretive exhibits in the Corridor;

(3) assisting in the public awareness and appreciation for the historic, cultural, natural, scenic, and recreational resources and sites in the Corridor;

(4) assisting the State of New York, local governments, and nonprofit organizations in the preservation and restoration of any historic building, site, or district in the Corridor;

(5) encouraging, by appropriate means, enhanced economic development in the Corridor consistent with the goals of the Canalway Plan and the purposes of this Act; and

(6) ensuring that clear, consistent signs identifying access points and sites of interest are put in place in the Corridor.

(c) ANNUAL REPORTS AND AUDITS.—For any year in which Federal funds have been received under this Act, the Commission shall submit an annual report and shall make available an audit of all relevant records to the Governor and the Secretary identifying its expenses and any income, the entities to which any grants or technical assistance were made during the year for which the report was made, and contributions by other parties toward achieving Corridor purposes.

SEC. 6. CANALWAY PLAN.

(a) CANALWAY PLAN REQUIREMENTS.—The Canalway Plan shall—

(1) include a review of existing plans for the Corridor, including the Canal Recreationway Plan and Canal Revitalization Program, and incorporate them to the extent feasible to ensure consistency with local, regional and state planning efforts;

(2) provide a strategy for the thematic inventory, survey, and evaluation of historic properties that should be conserved, restored, developed, or maintained because of their natural, cultural, or historic significance within the Corridor in accordance with the regulations for the National Register of Historic Places;

(3) identify public and private-sector preservation goals and strategies for the Corridor;

(4) include a comprehensive interpretive plan that identifies, develops, supports, and enhances interpretation and education programs within the Corridor that may include—

(A) research related to the construction and history of the canals and the cultural heritage of the canal workers, their families, those that traveled along the canals, the associated farming activities, the landscape, and the communities;

(B) documentation of and methods to support the perpetuation of music, art, poetry, literature and folkways associated with the canals; and

(C) educational and interpretative programs related to the Erie Canalway developed in cooperation with State and local governments, educational institutions, and non-profit institutions;

(5) include a strategy to further the recreational development of the Corridor that will enable users to uniquely experience the canal system;

(6) propose programs to protect, interpret and promote the Corridor's historical, cultural, recreational, educational, scenic and natural resources;

(7) include a plan to inventory canal related natural, cultural and historic sites and resources located in the Area;

(8) recommend Federal, State, and local strategies and policies to support economic development, especially tourism-related development and recreation, consistent with the purposes of the Corridor;

(9) develop criteria and priorities for financial preservation assistance;

(10) identify and foster strong cooperative relationships between the National Park Service, the New York State Canal Corporation, other Federal and State agencies, and non-governmental organizations;

(11) recommend specific areas to the National Park Service for development of interpretive, educational, and technical assistance centers associated with the Corridor; and

(12) contain a program for implementation of the Canalway Plan by all necessary parties.

(b) APPROVAL OF THE CANALWAY PLAN.—The Secretary and the Governor shall ap-

prove or disapprove the Canalway Plan not later than 90 days after receiving the Canalway Plan.

(c) DISAPPROVAL OF CANALWAY PLAN.—If the Secretary or the Governor do not approve the Canalway Plan, the Secretary or the Governor shall advise the Commission in writing within 90 days the reasons therefor and shall indicate any recommendations for revisions. Following completion of any necessary revisions of the Canalway Plan, the Secretary and the Governor shall have 90 days to either approve or disapprove of the revised Canalway Plan.

(d) AMENDMENTS TO CANALWAY PLAN.—The Secretary and the Governor shall review substantial amendments to the Canalway Plan. Funds appropriated pursuant to this Act may not be expended to implement the changes made by such amendments until the Secretary and the Governor approves the amendments.

SEC. 7. DUTIES OF THE SECRETARY.

(a) IN GENERAL.—The Secretary is authorized to assist the Commission in the preparation of the Canalway Plan with a focus on the comprehensive interpretive plan as required under section 6(a)(4).

(b) TECHNICAL ASSISTANCE.—Pursuant to an approved Canalway Plan, the Secretary is authorized to enter into cooperative agreements with, provide technical assistance to and award grants to the Commission to provide for the preservation and interpretation of the natural, cultural, historical, recreational, and scenic resources of the Corridor.

(c) EARLY ACTIONS.—After the date of the enactment of this Act, but prior to approval of the Canalway Plan, with the approval of the Commission, the Secretary may provide technical and financial assistance for early actions that are important to the purposes of this Act and that protect and preserve resources and to undertake an educational and interpretive program of the story and history of the Erie Canalway.

(d) CANALWAY PLAN IMPLEMENTATION.—Upon approval of the Canalway Plan, the Secretary is authorized to implement those activities that the Canalway Plan has identified that are the responsibility of the Secretary or agent of the Secretary to undertake in the implementation of the Canalway Plan.

(e) DETAIL.—Each fiscal year during the existence of the Commission and upon the request of the Commission, the Secretary shall detail to the Commission, on a nonreimbursable basis, 2 employees of the Department of the Interior to enable the Commission to carry out the Commission's duties with regard to the preparation and approval of the Canalway Plan. Such detail shall be without interruption or loss of civil service status, benefits, or privileges.

(f) REPORT.—Not later than 2 years after the approval of the Canalway Plan, the Secretary shall submit to Congress a report recommending whether the educational/interpretive sites identified by the Commission meet the criteria for designation as a unit of the National Park System as required by Public Law 105-391 (112 Stat. 3501; 16 U.S.C.1a-5 note).

SEC. 9. DUTIES OF OTHER FEDERAL ENTITIES.

Any Federal entity conducting or supporting any activity directly affecting the Corridor, and any unit of government acting pursuant to a grant of Federal funds or a Federal permit or agreement conducting or supporting such activities, may—

(1) consult with the Secretary and the Commission with respect to such activities;

(2) cooperate with the Secretary and the Commission in carrying out their duties under this Act and coordinate such activities with the carrying out of such duties; and

(3) conduct or support such activities in a manner consistent with the Canalway Plan unless the Federal entity, after consultation with the Secretary and the Commission, determines there is no practicable alternative.

SEC. 10. SAVINGS PROVISIONS.

(a) **AUTHORITY OF GOVERNMENTS.**—Nothing in this Act shall be construed to modify, enlarge, or diminish any authority of the Federal, State, or local governments to regulate any use of land as provided for by law or regulation.

(b) **ZONING OR LAND.**—Nothing in this Act shall be construed to grant powers of zoning or land use to the Commission.

(c) **LOCAL AUTHORITY AND PRIVATE PROPERTY.**—Nothing in this Act shall be construed to affect or to authorize the Commission to interfere with—

(1) the rights of any person with respect to private property;

(2) any local zoning ordinance or land use plan of the State of New York or political subdivision thereof; or

(3) any State or local canal related development plans including but not limited to the Canal Recreationway Plan and the Canal Revitalization Program.

(d) **FISH AND WILDLIFE.**—The designation of the Corridor shall not diminish the authority of the State of New York to manage fish and wildlife, including the regulation of fishing and hunting within the Corridor.

SEC. 11. AUTHORIZATION OF APPROPRIATIONS.

(a) **IN GENERAL.**—

(1) **CORRIDOR.**—There is authorized to be appropriated for the Corridor not more than \$1,000,000 for any fiscal year, to remain available until expended. Not more than a total of \$10,000,000 may be appropriated for the Corridor under this Act.

(2) **COMMISSION.**—Additionally, there is authorized to be appropriated to the Commission not more than \$250,000 annually to carry out the duties of the Commission.

(b) **OTHER FUNDING.**—In addition to the sums authorized in subsection (a), there are authorized to be appropriated to the Secretary of the Interior such sums as are necessary for the Secretary to undertake interim actions the Secretary is authorized to undertake and that are necessary for the Secretary of the Interior to implement the responsibilities of the Department of the Interior outlined in the Canalway Plan.

By Mr. LAUTENBERG:

S. 3155. A bill to authorize the President to award a gold medal on behalf of the Congress to Oskar Schindler and Varian Fry in recognition of their contributions to the Nation and humanity; to the Committee on Banking, Housing, and Urban Affairs.

HONORING OSKAR SCHINDLER AND VARIAN FRY
WITH CONGRESSIONAL GOLD MEDALS

Mr. LAUTENBERG. Mr. President, I am pleased to submit a resolution honoring Oskar Schindler and Varian Fry, two individuals to whom approximately 3,200 individuals owe their lives and the world owes a tremendous debt of gratitude.

The tragedy of the Holocaust, which claimed the lives of more than 13 million people, will forever stand as a painful reminder of the frailty and value of human life. During this dark hour of history, two remarkable individuals among many other heroes, Oskar Schindler and Varian Fry, overcame difficult and dangerous circumstances and risked their lives to save their fellow human beings.

The deeds of Oskar Schindler, a German factory owner immortalized by such authors as Thomas Keneally and film maker Steven Spielberg, have inspired millions of people around the world. During the Nazi occupation of Poland, Mr. Schindler put his life on the line and demonstrated that one person truly can make a world of difference. Mr. Schindler acquired an enamelware factory in Zablocie, on the outskirts of Krakow. The factory, which produced mess kits and field kitchenware for the Nazi army, was staffed by Jews drawn from the Krakow ghetto. When the Jews of Krakow were transferred to the Plaszow concentration camp, Schindler arranged for his workers to be housed at the factory. After the factory was disbanded and the workers sent to the camp, Schindler used his connections and personal fortune to secure their release and transfer.

Through his cunning and perseverance in the face of adversity, Oskar Schindler succeeded in saving the lives of over 1,200 Jews. One of the individuals whom Schindler saved was Abraham Zuckerman, a constituent of mine and a great American in his own right. Mr. Zuckerman knows perhaps better than anyone else what a heroic individual Oskar Schindler was. As a builder, Mr. Zuckerman, along with other Schindler survivors, have honored Oskar Schindler with over 20 Schindler Courts, Terraces and Plazas throughout New Jersey.

Oskar Schindler was named a "Righteous Gentile" by Yad Vashem, the Israeli Holocaust Remembrance Authority, on April 28, 1962. Today, over 6,000 descendants of the Jews saved by Schindler live in the United States and Europe. I think it is high time that the United States government officially recognize Oskar Schindler's incredible contribution to humanity. Awarding him the Congressional Gold Medal is a fitting way to pay tribute to a man who touched the lives of so many people from all over the world.

Another remarkable individual who overcame adversity and acted with extraordinary courage is Varian Fry, an American editor from New York. During World War II, Mr. Fry volunteered to travel to Nazi-occupied Marseilles, France, where he helped form the Emergency Rescue Committee. Working with a small group of associates, Mr. Fry offered assistance to Jews and antifascist refugees threatened with extradition to Nazi Germany under the "Surrender on Demand" clause of the Franco-German Armistice.

Varian Fry was instrumental in the rescue of approximately 2,000 individuals, including artists Marc Chagall, Andre Breton and Max Ernst. Mr. Fry was the first American to be awarded the "Certificate of Honor" and the "Righteous among Nations" medal by Yad Vashem in 1996. The United States Holocaust Memorial Council honored Mr. Fry with its highest honor, the Eisenhower Liberation Medal in 1991. He

has also been awarded France's top civilian honor, the "Croix de Chevalier de la Legion d'Honneur." Yet sadly, Varian Fry's heroism and bravery have yet to be officially recognized by the American government.

Mr. President, the Talmud states that, "Whoever saves a single life saves the world entire." As we are left to wonder and mourn what the world has lost in the lives of those who perished during the Holocaust, we rejoice in the company and contributions of their survivors. We are enriched not only by the presence of the survivors, but by the example that Oskar Schindler and Varian Fry set for all of Humanity. Their actions are a testament to the ability of all people to act righteously and courageously even under the worst of circumstances.

The heroic deeds of Oskar Schindler and Varian Fry are sterling examples of heroism and humanitarianism. It is time the United States government recognize and pay tribute to these men and the noble deeds they performed. Oskar Schindler and Varian Fry are highly deserving of the Congressional Gold Medal. I sincerely hope that the 106th Congress will take up and pass this resolution.

Mr. President, I ask unanimous consent that the text of the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 3155

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. FINDINGS.

The Congress makes the following findings:

(1) More than 13,000,000 people were killed during the Holocaust, including Jews, Gypsies, Slavs (Poles, Ukrainians, and Belorussians), homosexuals, and the disabled—each exterminated because Adolf Hitler viewed them as "subhuman" to the Aryan race.

(2) Nazi persecution, arrests, and deportations were directed against all Jewish families, as well as many others, without concern for age. Innocent men, women, and children faced starvation, illness, brutal labor, and other indignities until they were consigned to the gas chambers.

(3) When Germany invaded Poland in 1939, destruction began immediately and in a merciless fashion. Jews were herded into crowded ghettos, randomly beaten, humiliated, and capriciously murdered. Jewish property and businesses were summarily destroyed, or appropriated by the SS, and sold to Nazi "investors", one of whom was Oskar Schindler.

(4) Oskar Schindler set up a business in an old enamel works factory in Poland. His workforce consisted of enslaved Jews from the Krakow Ghetto. Schindler learned of the horrible atrocities committed by Hitler's regime as he got to know some of the forced workers there. In response, he managed to convince the Nazis that his factory, and more importantly, its trained workers, were vital to the German war effort, thus preventing their deportation to death camps.

(5) Oskar Schindler used all of the means at his disposal to ensure the safety of those who worked in his factory. Even his wife Emilie's jewels were sold, to buy food, clothes, and medicine for the workers. A secret sanatorium was set up in the factory

with medical equipment purchased on the black market. There, Emilie Schindler looked after the sick and wounded.

(6) Even though Oskar Schindler had a large mansion placed at his disposal close to the factory, he spent every night in his office so that he could intervene should the Gestapo pay a visit. He was detained by the Gestapo twice, but used his connections to get released.

(7) With his own life at stake, Schindler employed all his powers of persuasion. He bribed, fought, and begged to save Jewish men, women, and children from the gas chambers.

(8) Oskar Schindler saved the lives of 1,200 Jews from deportation to Nazi death camps.

(9) On April 28, 1962, Oskar Schindler was named a "Righteous Gentile" by Yad Vashem.

(10) Varian Fry, together with a small group of unlikely associates, succeeded in assisting nearly 2,000 artists, musicians, writers, scholars, politicians, labor leaders, and their families to leave hostile territories in France, either legally or illegally. This effort came to be called the "Emergency Rescue Committee".

(11) Varian Fry offered aid and advice to Jews and antifascist refugees who found themselves threatened with extradition to Nazi Germany under Article 19 of the Franco-German Armistice—the "Surrender on Demand clause".

(12) Though risking his personal security in the face of both Gestapo and Vichy officials, Fry did what was necessary to save as many of the refugees as possible.

(13) Varian Fry aided in the rescue of nearly 2,000 individuals, including artists Marc Chagall, Andre Breton, and Max Ernst.

(14) The United States Holocaust Memorial Council awarded Varian Fry its highest honor, the Eisenhower Liberation Medal in 1991.

(15) In 1996, Yad Vashem posthumously honored Fry as the first American "Righteous Among the Nations", and the French government awarded him the Croix de Chevalier de la Legion d'Honneur.

(16) The actions of Oskar Schindler and Varian Fry serve as testimony to all people that even under the worst of circumstances, the most ordinary of us can act courageously.

(17) Oskar Schindler and Varian Fry are true heroes and humanitarians, deserving of honor by the United States Government.

SEC. 2. CONGRESSIONAL GOLD MEDAL.

(a) PRESENTATION AUTHORIZED.—The President is authorized—

(1) to award to Oskar Schindler, posthumously, on behalf of Congress, a gold medal of appropriate design honoring Oskar Schindler in recognition of his contributions to the Nation; and

(2) to award to Varian Fry, posthumously, on behalf of Congress, a gold medal of appropriate design honoring Varian Fry in recognition of his contributions to the Nation.

(b) DESIGN AND STRIKING.—For purposes of the awards referred to in subsection (a), the Secretary of the Treasury (hereafter in this Act referred to as the "Secretary") shall strike gold medals with suitable emblems, devices, and inscriptions, to be determined by the Secretary.

SEC. 3. DUPLICATE MEDALS.

The Secretary may strike and sell duplicates in bronze, of the gold medals struck pursuant to section 2, under such regulations as the Secretary may prescribe, and at a price sufficient to cover the costs thereof, including labor, materials, dies, use of machinery, overhead expenses, and the cost of the gold medals.

SEC. 4. STATUS AS NATIONAL MEDALS.

The medals struck pursuant to this Act are national medals for purposes of chapter 51 of title 31, United States Code.

SEC. 5. FUNDING.

(a) AUTHORITY TO USE FUND AMOUNTS.—There is authorized to be charged against the United States Mint Public Enterprise Fund an amount not to exceed \$30,000 to pay for the cost of the medals authorized by this Act.

(b) PROCEEDS OF SALE.—Amounts received from the sale of duplicate bronze medals under section 3 shall be deposited in the United States Mint Public Enterprise Fund.

Mr. LAUTENBERG (for himself, Mrs. BOXER, Mr. KENNEDY, Mr. WELLSTONE, Mr. DODD, Mr. MOYNIHAN, Mr. SCHUMER, Mr. KERRY, Mr. TORRICELLI, Mr. LEAHY, and Mr. REID):

S. 3156. A bill to amend the Endangered Species Act of 1973 to ensure the recovery of the declining biological diversity of the United States, to reaffirm and strengthen the commitment of the United States to protect wildlife, to safeguard the economic and ecological future of children of the United States, and to provide certainty to local governments, communities, and individuals in their planning and economic development efforts; to the Committee on Environment and Public Works.

ENDANGERED SPECIES RECOVERY ACT

Mr. LAUTENBERG. Mr. President, I rise to introduce the Endangered Species Recovery Act. The bill will update the original Endangered Species Act, provide tax and other incentives for landowners, and help increase the number of species that are recovered and taken off the protected list. The bill has been endorsed by the 380 conservation, religious, and scientific organizations that belong to the Endangered Species Coalition.

Public support for strong endangered species protection is high. Also, a majority of the nation's biologists are convinced that a mass extinction of plants and animals is underway. Some believe this loss of biological diversity will pose a major threat to humans in the coming century. At least one in 8 known plant species (which provide medical, commercial, and agricultural benefits) is threatened with extinction.

The bill I introduce today includes provisions that will help both landowners and the species themselves.

The bill incorporates tax proposals endorsed by both property-rights and conservation organizations. The bill establishes a tax exclusion for cost-sharing payments under the Partners for Fish and Wildlife Program, an enhanced deduction for the donation of a conservation easement, an exclusion from the estate tax for property subject to an Endangered Species Conservation Agreement, and an expansion of the estate tax exclusion for property subject to a conservation easement.

The bill significantly revises the Administration's current "No Surprises" policy, which allows private land-

owners to alter or destroy endangered species habitat under a long-term unmodifiable permit. The bill requires the best available science, invites more public participation, and requires adaptive management for development permit. The developer files a performance bond to cover the costs of all reasonably foreseeable circumstances (such as wildfires, plant diseases, and other natural events that can have devastating impacts on weakened populations of wildlife). Then a Habitat Conservation Plan Trust Fund is established to cover all other unforeseeable costs—a safety net for landowners and species—while allowing changes to the permit when needed to protect species.

The bill also encourages ecosystem planning on a regional basis, through multi-species, multi-landowner plans, which is essential since ecosystems do not run along political boundaries. The bill encourages cooperation between various levels of government and different jurisdictions, by allowing groups of private landowners to pool resources, and allowing local governments to administer habitat plans. The bill streamlines the permit process and establishes an Office of Technical Assistance. The bill also allows small landowners that have a minimal impact on endangered species to benefit from a quick and easy permit process and to receive planning assurances.

The bill clarifies the standards for approving federal actions that may impact endangered or threatened species. Under the existing law, pesticide application, river damming, forest clearcutting, and other habitat destruction are judged by their impact on the survival of imperiled wildlife. The bill requires that taxpayer-funded activities must not reduce the likelihood of recovery. In addition, the bill improves the chances for recovery by identifying specific management actions and biological criteria in recovery plans, placing deadlines on final recovery plans, and encouraging federal agencies to take preventative measures before a species becomes endangered.

The bill implements recommendations from the National Academy of Sciences on improving the scientific basis of important endangered species decisions. For unprotected species that means providing protection before population numbers are too low to recover. For listed species that means using independent scientists to peer review large-scale, multi-species habitat conservation plans. It also means asking biologists to set benchmarks and science-based conservation goals to better tell us what it will take to recover and eventually delist an imperiled species.

While federal actions already undergo review to ensure minimal impacts on endangered species, the bill requires that federal agencies also make efforts towards further recovery or to consider the cumulative impacts of their actions. The bill requires federal agencies to help plan for species recovery and

then implement those plans within their jurisdictions. The bill also requires agencies to consider the impacts of their actions on imperiled species in other nations.

The bill expands public participation by requiring public notification when a federal activity may impact wildlife in a community. The bill also requires public participation in large-scale regional habitat planning. Local citizens may participate in the first steps of regional habitat planning, review relevant science, and work with developers to achieve the best possible plans. If those plans are not met, the bill allows citizens to require the government to take action.

The Endangered Species Recovery Act will protect the species and landowners alike. I urge my colleagues to support it.

Mr. President, I ask unanimous consent that the text of the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 3156

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS; REFERENCES TO ENDANGERED SPECIES ACT OF 1973.

(a) **SHORT TITLE.**—This Act may be cited as the “Endangered Species Recovery Act of 2000”.

(b) **TABLE OF CONTENTS.**—The table of contents of this Act is as follows:

Sec. 1. Short title; table of contents; references to Endangered Species Act of 1973.

Sec. 2. Findings.

TITLE I—ENDANGERED SPECIES RECOVERY

Sec. 101. Definitions.

Sec. 102. Designation of interim and critical habitat.

Sec. 103. Schedule for listing determinations.

Sec. 104. Contents of listing petitions.

Sec. 105. Recovery planning.

Sec. 106. Endangered species conservation agreements.

Sec. 107. Interagency cooperation.

Sec. 108. Permits and conservation plans.

Sec. 109. Citizen suits.

Sec. 110. Natural resource damage liability.

Sec. 111. Authorization of appropriations.

TITLE II—SPECIES CONSERVATION TAX INCENTIVES

Sec. 201. Tax exclusion for cost-sharing payments under Partners for Fish and Wildlife Program.

Sec. 202. Enhanced deduction for the donation of a conservation easement.

Sec. 203. Exclusion from estate tax for real property subject to endangered species conservation agreement.

Sec. 204. Expansion of estate tax exclusion for real property subject to qualified conservation easement.

(c) **REFERENCES TO ENDANGERED SPECIES ACT OF 1973.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be con-

sidered to be made to a section or other provision of the Endangered Species Act of 1973 (16 U.S.C. 1531 et seq.).

SEC. 2. FINDINGS.

Congress finds that—

(1) the American public recognizes the importance of protecting the natural environmental legacy of the United States;

(2) it is only through the protection of all species of plants and animals and the ecosystems on which the species depend that the people of the United States will conserve a world for our children with the spiritual, medicinal, agricultural, and economic benefits that plants and animals offer;

(3) we have a moral responsibility not to drive other species to extinction;

(4) we are rapidly proceeding in a manner that will deny to future generations a world of abundant, varied species;

(5) although the Endangered Species Act of 1973 (16 U.S.C. 1531 et seq.) has prevented the extinction of many animal, plant, and fish species, many of those species have not fully recovered and that Act must ensure their long-term survival and recovery;

(6) Federal agencies and other persons should act to protect declining species before they need the full application of the Endangered Species Act of 1973;

(7) all members of the public have a right to be involved in the decisions made to protect biodiversity;

(8) to avoid extinction in the wild, habitats must be conserved by using the best available science;

(9) only by taking actions that implement the recovery goals of the Endangered Species Act of 1973 can we ensure that species will eventually be removed from the lists of endangered species and threatened species; and

(10) we can provide certainty for communities, local governments, and private landowners that will enable them to move forward with planning and economic development efforts while still protecting species.

TITLE I—ENDANGERED SPECIES RECOVERY

SEC. 101. DEFINITIONS.

Section 3 (16 U.S.C. 1532) is amended—

(1) by redesignating paragraphs (2) through (5), (6) through (9), (10), (12) through (14), and (15) through (21) as paragraphs (3) through (6), (9) through (12), (14), (20) through (22), and (24) through (30), respectively;

(2) by inserting after paragraph (1) the following:

“(2) **CANDIDATE SPECIES.**—The term ‘candidate species’ means any species—

“(A) that is not the subject of a proposed regulation under section 4(a)(1);

“(B) that the Secretary is considering for listing as an endangered species or threatened species; and

“(C) for which the Secretary has—

“(i) sufficient information to support a proposed regulation for that listing; or

“(ii) information indicating that proposing that listing may be appropriate, but for which further information is required to support such a proposed regulation.”;

(3) by striking paragraph (6) (as so redesignated) and inserting the following:

“(6) **CRITICAL HABITAT.**—The term ‘critical habitat’ for an endangered species or threatened species or includes—

“(A) the specific areas within the geographic area occupied by the species, at the time the species is listed in accordance with section 4, on which are found physical or biological features that—

“(i) are essential to the conservation of the species; and

“(ii) may require special management considerations or protections; and

“(B) specific areas outside the geographical area occupied by the species, at

the time the species is listed in accordance with section 4, on a determination by the Secretary that the areas are essential for the conservation of the species.”;

(4) by inserting after paragraph (6) (as so redesignated) the following:

“(7) **CUMULATIVE IMPACTS.**—The term ‘cumulative impacts’ means the direct impacts and indirect impacts on a species or its habitat that result from the incremental impact of a proposed action when added to other past, present, and reasonably foreseeable future actions, regardless of which person undertakes such other actions.

“(8) **DIRECT IMPACTS.**—The term ‘direct impacts’ means impacts that are caused by a proposed action and that occur at the same time and place as the proposed action.”;

(5) by inserting after paragraph (12) (as so redesignated) the following:

“(13) **IMPACTS.**—The term ‘impacts’ includes—

“(A) loss of individual members of a species;

“(B) diminishment of the habitat of the species, both qualitatively and quantitatively;

“(C) disruption of normal behavioral patterns, such as breeding, feeding, and sheltering; and

“(D) impairment of the ability of the species to withstand random fluctuations in environmental conditions.”;

(6) by inserting after paragraph (14) (as so redesignated) the following:

“(15) **INDIRECT IMPACTS.**—The term ‘indirect impacts’ means impacts that are caused by a proposed action and that occur later in time than, or farther removed in distance from, the proposed action, but that are still reasonably foreseeable.

“(16) **INTERIM HABITAT.**—The term ‘interim habitat’ includes the habitat necessary to support current populations of a species or populations that are necessary to ensure survival, whichever is larger.

“(17) **JEOPARDIZE THE CONTINUED EXISTENCE OF.**—The term ‘jeopardize the continued existence of’ means to engage in an action that reasonably would be expected, directly, indirectly, or cumulatively, to reduce appreciably the likelihood of recovery in the wild of any foreign or domestic species included in a list published under section 4(c).

“(18) **MINIMIZE.**—The term ‘minimize’ means—

“(A) subject to subparagraph (B), to avoid to the extent possible, in designing and engaging in an activity, adverse impacts to an endangered species or threatened species or in the course of the activity; and

“(B) in the case of an activity for which it is determined, after consideration of a reasonable range of alternatives, that avoidance of adverse impacts to the species is impossible, to design and implement the activity in a manner that results in the lowest possible individual and cumulative adverse impacts on the species.

“(19) **MITIGATE.**—The term ‘mitigate’ means to redress adverse impacts to an endangered species or threatened species in connection with an action, by replacing the number of plants and animals in the wild, and the value to the species of the habitat, that were lost as a result of the adverse impacts.”;

(7) by inserting after paragraph (22) (as so redesignated) the following:

“(23) **RECOVERY.**—The term ‘recovery’ means a condition in which—

“(A) the threats to a species, as determined under section 4(a), have been eliminated;

“(B) the species has achieved long-term viability; and

“(C) the protective measures under this Act are no longer needed.”;

(8) by striking paragraph (25) (as so redesignated) and inserting the following:

“(25) SPECIES.—The term ‘species’ includes—

“(A) any subspecies of fish or wildlife or plant;

“(B) any distinct population segment of any species of vertebrate fish or wildlife that interbreeds when mature; and

“(C) the last remaining distinct population segment in the United States of any plant or invertebrate species.”; and

(9) in paragraph (26) (as so redesignated), by striking “and the Trust Territory of the Pacific Islands” and inserting “the Freely Associated States, and (for the purposes of subsections (c) and (d) of section 6), any Indian tribe”.

SEC. 102. DESIGNATION OF INTERIM AND CRITICAL HABITAT.

(a) IN GENERAL.—Section 4(a) (16 U.S.C. 1533(a)) is amended by striking paragraph (3) and inserting the following:

“(3) INTERIM AND CRITICAL HABITAT.—The Secretary, by regulation promulgated in accordance with subsection (b), shall—

“(A) subject to subparagraph (C), concurrently with making a determination under paragraph (1) that a species is an endangered species or threatened species, designate interim habitat of the species;

“(B) subject to subparagraph (C), concurrently with adoption of the final recovery plan for a species under subsection (f), designate critical habitat of the species;

“(C) in the case of a highly migratory marine species, designate interim habitat and critical habitat for the species to the maximum extent biologically determinable; and

“(D) from time to time thereafter as appropriate, revise a designation under this paragraph, if the Secretary determines that the revision would expedite or assist the recovery of the species.”.

(b) BASIS FOR DETERMINATIONS.—Section 4(b) (16 U.S.C. 1533(b)) is amended by striking paragraph (2) and inserting the following:

“(2) INTERIM AND CRITICAL HABITAT.—

“(A) CRITICAL HABITAT.—The Secretary shall designate critical habitat, and make revisions to the designations, under subsection (a)(3)—

“(i) on the basis of the best scientific data available; and

“(ii) after taking into consideration the economic impact, and any other relevant impact, of specifying any particular area as critical habitat.

“(B) INTERIM HABITAT.—In the case of interim habitat designated at the time of listing, the Secretary shall revise and finalize the habitat as critical habitat concurrently with the adoption of the final recovery plan.

“(C) EXCLUSION OF AREAS FROM CRITICAL HABITAT.—The Secretary may exclude any area from critical habitat on the basis that the benefits of the exclusion outweigh the benefits of specifying the area as part of the critical habitat, if the Secretary determines, based on the best scientific and commercial data available, that the failure to designate the area as critical habitat will not impair the recovery of the species.

“(D) DESIGNATION OF INTERIM HABITAT BASED ON BIOLOGICAL FACTORS.—The Secretary shall designate interim habitat of a species based only on biological factors, giving special consideration to habitat that is, at the time of the designation, occupied by the species.”.

SEC. 103. SCHEDULE FOR LISTING DETERMINATIONS.

Section 4(b)(3)(C) (16 U.S.C. 1533(b)(3)(C)) is amended by adding at the end the following:

“(iv) SPECIES WITH EXISTING FINDING OF WARRANTED ACTION.—Not later than 1 year after the date of enactment of this clause,

for each species for which a finding under subparagraph (B)(iii) was made before the date of enactment of this clause, the Secretary shall publish in the Federal Register—

“(I) a proposal to list the species as an endangered species or threatened species; or

“(II) a finding that the petitioned action is not warranted under subparagraph (B)(i).”.

“(v) SPECIES WITH NEW FINDING OF WARRANTED ACTION.—Not later than 4 years after the date on which a finding under subparagraph (B)(iii) is published for a species for which a finding under subparagraph (B)(iii) was made on or after the date of enactment of this clause, or a date on which such a species is otherwise designated by the Secretary as a candidate species, the Secretary shall publish in the Federal Register—

“(I) a proposal to list the species as an endangered species or threatened species; or

“(II) a finding that the petitioned action is not warranted under subparagraph (B)(i).”.

SEC. 104. CONTENTS OF LISTING PETITIONS.

Section 4(b)(3) (16 U.S.C. 1533(b)(3)) is amended by adding at the end the following:

“(E) CONTENTS OF LISTING PETITIONS.—A petition referred to in subparagraph (A) shall, to the maximum extent practicable, contain—

“(i) a description of the current known and historic ranges of the species;

“(ii) a description of the most recent population estimates and trends, if available;

“(iii) a statement of the reason that the petitioned action is warranted, including a description of known or perceived threats to the species;

“(iv) a bibliography of scientific literature on the species, if any, in support of the petition; and

“(v) any other information that the petitioner determines is appropriate.”.

SEC. 105. RECOVERY PLANNING.

Section 4(f) (16 U.S.C. 1533(f)) is amended—

(1) in paragraph (1)—

(A) in the first sentence—

(i) by striking “develop and implement plans” and inserting “, not later than 18 months after the date on which a species is added to a list under subsection (c), develop a draft plan and, not later than 30 months after that date, develop and begin implementation of a final plan”;

(ii) by inserting “each” before “endangered”; and

(iii) by striking “, unless he finds that such a plan will not promote the conservation of the species”; and

(B) in the second sentence, by striking subparagraph (B) and inserting the following:

“(B) include in each plan specific provisions, including provisions required under subparagraph (C), that provide for the conservation in the recovery plan area of all species listed as endangered species or threatened species, candidate species, and species proposed for listing;

“(C) incorporate in each recovery plan for a species—

“(i) a description of such site-specific management actions, including identification of actions of the highest priority and greatest recovery potential, as may be necessary to achieve the goals of the plan for the recovery of the species;

“(ii) objective, measurable criteria, including habitat needs and population levels, that, when met, would result in a determination, in accordance with this section, that the species be removed from the list;

“(iii) estimates of the time required and the cost to carry out those measures needed to achieve the goals of the plan and to achieve intermediate steps toward each goal;

“(iv) a general description of the types of actions likely to violate the taking prohibi-

tion of section 9 or the jeopardy prohibition of section 7; and

“(v) a list of Federal agencies, States, tribes, and local government entities, significantly affected by the goals or management actions specified in the recovery plan, that should complete a recovery implementation plan pursuant to paragraph (5)(A); and

“(D) for the purposes of determining the criteria under subparagraph (C)(ii), select, in consultation with the National Academy of Sciences, independent scientists who—

“(i) through publication of peer-reviewed scientific literature, have demonstrated relevant scientific expertise in that species or a similar species; and

“(ii) do not have, nor represent anyone with, a significant economic interest in the recovery plan.”; and

(2) by striking paragraph (5) and inserting the following:

“(5) RECOVERY IMPLEMENTATION PLANS.—

“(A) IN GENERAL.—Each Federal agency significantly affected by the goals or management actions specified in a final recovery plan shall develop and implement a plan (referred to in this paragraph as a ‘recovery implementation plan’), after providing public notice and an opportunity for public review and comment on the recovery implementation plan.

“(B) CONTENTS.—Each recovery implementation plan shall—

“(i) identify the affirmative conservation duties and management responsibilities of the agency that will contribute to the achievement of recovery goals identified in the final recovery plan;

“(ii) specify specific agency actions, time-tables, and funding required to achieve and monitor progress toward meeting recovery goals or management responsibilities;

“(iii) identify any land or water under the jurisdiction or ownership of the agency that provide or may provide suitable habitat for the species;

“(iv) identify any actions needed to acquire additional suitable habitat under section 5(a); and

“(v) describe management actions that the agency will take on land or water under the jurisdiction or ownership of the agency to contribute toward recovery of the species.

“(C) STATE COOPERATION.—Consistent with section 6, the Secretary shall cooperate, to the maximum extent practicable, with States, tribes, and local government entities, that are significantly affected by a final recovery plan, to develop State cooperative plans to achieve the goals and implement the management actions identified in the recovery plan.”.

SEC. 106. ENDANGERED SPECIES CONSERVATION AGREEMENTS.

Section 5 (16 U.S.C. 1534) is amended by adding at the end the following:

“(c) ENDANGERED SPECIES CONSERVATION AGREEMENTS.—

“(1) IN GENERAL.—The Secretary may enter into an agreement in accordance with this subsection, to be known as an ‘endangered species conservation agreement’, with any person that is an owner or lessee of real property on which will be carried out conservation measures for any species described in paragraph (3) in accordance with the endangered species conservation agreement.

“(2) REQUIRED TERMS.—The Secretary shall include in an endangered species conservation agreement with a person under this subsection provisions that—

“(A) require the person—

“(i) to carry out on real property owned or leased by the person activities not otherwise required by law that contribute to the conservation of a species described in paragraph (3); or

"(ii) to refrain from carrying out on real property owned or leased by the person otherwise lawful activities that would inhibit the conservation of a species described in paragraph (3);

"(B) describe the real property referred to in clauses (i) and (ii) of subparagraph (A);

"(C) specify species conservation goals for the activities by the person, and measures for attaining the conservation goals of this subsection;

"(D) require the person to make measurable progress each year in achieving the goals;

"(E) specify actions to be taken by the Secretary or the person, or both, to monitor the effectiveness of the endangered species conservation agreement in attaining the goals;

"(F) require the person to notify the Secretary if—

"(i) any right or obligation of the person under the endangered species conservation agreement is assigned to any other person; or

"(ii) any term of the endangered species conservation agreement is breached by the person or any other person to whom is assigned a right or obligation of the person under the endangered species conservation agreement;

"(G) specify the date on which the endangered species conservation agreement takes effect; and

"(H) provide that the endangered species conservation agreement shall not be in effect on and after any date on which the Secretary publishes a certification under paragraph (5) that the person has not complied with the endangered species conservation agreement.

"(3) COVERED SPECIES.—A species referred to in clauses (i) and (ii) of paragraph (2)(A) is any species that is—

"(A) listed as an endangered species or threatened species under section 4;

"(B) proposed for such listing under section 4; or

"(C) identified by the Secretary as a candidate for such listing under section 4.

"(4) REVIEW AND APPROVAL OF PROPOSED ENDANGERED SPECIES CONSERVATION AGREEMENTS BY SECRETARY.—On submission by any person of a proposed endangered species conservation agreement under this subsection, the Secretary shall—

"(A) review the proposed endangered species conservation agreement and determine whether the endangered species conservation agreement complies with the requirements of this subsection; and

"(B) if the Secretary determines that the endangered species conservation agreement complies with the requirements of this subsection—

"(i) approve the endangered species conservation agreement and enter into the endangered species conservation agreement with the person; and

"(ii) promptly notify the Secretary of the Treasury that the endangered species conservation agreement has been entered into and specify the date on which the endangered species conservation agreement takes effect.

"(5) MONITORING IMPLEMENTATION OF ENDANGERED SPECIES CONSERVATION AGREEMENTS.—The Secretary shall—

"(A) periodically monitor the implementation of each endangered species conservation agreement entered into under this subsection; and

"(B) based on the information obtained from the monitoring, annually certify to the Secretary of the Treasury whether or not each person that has entered into an endangered species conservation agreement under this subsection has complied with the endangered species conservation agreement.

"(6) STATE COOPERATION.—The Secretary shall establish a technical assistance program in cooperation with the States to assist landowners in the development and implementation of endangered species conservation agreements."

SEC. 107. INTERAGENCY COOPERATION.

(a) FEDERAL AGENCY ACTIONS AND CONSULTATIONS.—Section 7(a) (16 U.S.C. 1536(a)) is amended—

(1) in the second sentence of paragraph (1)—

(A) by striking "All other Federal agencies" and inserting "Each other Federal agency";

(B) by striking "their" and inserting "its"; and

(C) by inserting before the period the following: "including recovery actions identified in recovery implementation plans of the agency";

(2) in the first sentence of paragraph (2), by inserting after "to be critical," the following: "in such a way as to diminish the value of that habitat for the recovery of the species,"; and

(3) by adding at the end the following:

"(5) CONSULTATION WITH SECRETARY CONCERNING CANDIDATE SPECIES.—

"(A) IN GENERAL.—Any Federal agency may consult with the Secretary regarding any action that may affect any candidate species or species proposed for listing under section 4(c).

"(B) ADDITIONAL CONSULTATION.—If consultation under this paragraph is completed before the listing of the species—

"(i) no additional consultation is required solely as a consequence of the subsequent listing of the species, if the Secretary determines that there have been no significant changes in the agency proposal and that there is no significant new information that was not considered in the original consultation; and

"(ii) the Secretary shall reinstate consultation under paragraph (2), if the Secretary determines that there has been a significant change in the agency proposal or that there is significant new information that was not considered in the original consultation.

"(C) NOTIFICATION OF CHANGE OR NEW INFORMATION.—A Federal agency shall notify the Secretary of any significant change in, or significant new information regarding, any action regarding which the agency consulted with the Secretary under this paragraph.

"(6) MONITORING.—The head of each Federal agency shall monitor the status and trends of endangered species, threatened species, and candidate species that occur on land or in water under the jurisdiction or ownership of the agency."

(b) OPINION OF SECRETARY.—Section 7(b) (16 U.S.C. 1536(b)) is amended—

(1) by striking paragraph (3) and inserting the following:

"(3) STATEMENT OF OPINION OF SECRETARY.—

"(A) IN GENERAL.—Promptly after conclusion of consultation under paragraph (2), (3), or (5) of subsection (a), the Secretary shall provide to the Federal agency and the applicant, if any, a written statement setting forth the Secretary's opinion, and a summary of the information on which the opinion is based, detailing how the agency action affects the species or its critical habitat, including a description of the quantity of habitat and the number of members of the species that will be taken, and conservation actions to minimize and mitigate the impacts of any incidental taking that may result from the action.

"(B) ALTERNATIVES.—If jeopardy or adverse modification is found, the Secretary shall

suggest those reasonable and prudent alternatives that the Secretary believes would not violate subsection (a)(2) and that can be taken by the Federal agency or applicant in implementing the agency action."

(2) in paragraph (4)—

(A) in subparagraphs (A) and (B), by striking "violate such subsection" each place it appears and inserting "interfere with the timely achievement of recovery goals";

(B) in clause (ii), by inserting "and mitigate" after "minimize";

(C) in clause (iii), by striking "and" after the comma at the end;

(D) in clause (iv), by striking the period at the end and inserting "and"; and

(E) by adding at the end the following:

"(v) directs the Federal agency to assess and report to the Secretary not later than 2 years after the date of issuance of the written statement and every 2 years thereafter for as long as any incidental taking continues, the quantity of the incidental taking that has occurred as a direct impact, indirect impact, or cumulative impact.

If an assessment under clause (v) indicates that the quantity of incidental taking authorized under the written statement has been exceeded, the Federal agency shall immediately reinstate consultation with the Secretary pursuant to subsection (a)(2)."; and

(3) by adding at the end the following:

"(5) NOTICE OF CONSULTATION AND ACTION.—

"(A) IN GENERAL.—On receipt of a request to initiate consultation under paragraph (2), (3), or (5) of subsection (a), the Secretary shall promptly publish a notice in the Federal Register announcing that the consultation has been initiated and briefly describing the proposed agency action.

"(B) AVAILABILITY OF INFORMATION.—The Secretary shall make available on request any information in the possession or control of the Secretary concerning the consultation or the opinion prepared pursuant to this subsection with respect to the consultation.

"(6) INDEPENDENT SCIENTISTS.—In preparing an opinion pursuant to this subsection, the Secretary shall invite independent scientists described in section 4(f)(1)(D) with expertise on species that may be affected by the proposed agency action to provide input into the consultation or opinion.

"(7) PUBLICATION OF FINDINGS AND REASONS.—Not later than 30 days after the date on which the Secretary provides a written statement under paragraph (3) to the Federal agency and the applicant for a permit, if any, the Secretary shall publish in the Federal Register a description of the findings and reasons of the Secretary for making any determination under this subsection."

(c) BIOLOGICAL ASSESSMENT.—Section 7(c)(1) (16 U.S.C. 1536(c)(1)) is amended in the last sentence by striking "Such assessment may be undertaken" and inserting "The assessment shall be made available to the public and may be undertaken".

(d) FOREIGN SPECIES.—Section 7 (16 U.S.C. 1536) is amended by adding at the end the following:

"(q) FOREIGN SPECIES.—This section shall apply to any agency action with respect to any endangered species, threatened species, species proposed to be added to a list under section 4(c), or candidate species carried out in whole or in part, in the United States, in a foreign country, or on the high seas."

(e) STREAMLINING AND CONSOLIDATING INTERAGENCY COOPERATION.—Section 7 (16 U.S.C. 1536) (as amended by subsection (d)) is amended by adding at the end the following:

"(r) REGULATIONS TO ENSURE TIMELY CONCLUSION OF CONSULTATIONS.—

"(1) DEFINITION OF ECOSYSTEM.—In this subsection, the term 'ecosystem' means a dynamic complex of organisms and biological

communities, and their associated nonliving environment, interacting together as an ecological unit.

"(2) REQUIREMENT.—Not later than 1 year after the date of enactment of this subsection, the Secretary, in cooperation with the States, shall promulgate regulations to ensure timely conclusion of consultations under this section.

"(3) CONTENT.—Regulations under this subsection shall provide that—

"(A) consultations and conferences under this section between the Secretary and a Federal agency shall, to the maximum extent practicable and if approved by the Secretary, encompass a number of similar or related agency actions to be undertaken within a particular geographical range or ecosystem; and

"(B) the Secretary shall, to the maximum extent practicable, consolidate requests for consultations or conferences from various Federal agencies whose proposed actions may affect endangered species, threatened species, or candidate species that are dependent on the same ecosystem."

SEC. 108. PERMITS AND CONSERVATION PLANS.

Section 10 (16 U.S.C. 1539) is amended by striking subsection (a) and inserting the following:

"(a) PERMITS.—

"(1) IN GENERAL.—The Secretary may permit, under the terms and conditions provided for in this section—

"(A) any act otherwise prohibited by section 9 for scientific purposes or to enhance the propagation or survival of the affected species, or the conservation of the species in the wild, such as acts necessary for the conservation, establishment, and maintenance of experimental populations pursuant to subsection (j); or

"(B) any taking otherwise prohibited by section 9(a)(1) if the taking is incidental to, and not the purpose of, the carrying out of an otherwise lawful activity.

"(2) DURATION.—The Secretary shall limit the duration of a permit under paragraph (1) as necessary to ensure that changes in circumstances that could occur in the period covered by the permit and that would jeopardize the continued existence of the species are reasonably foreseeable.

"(3) CONSERVATION PLAN.—

"(A) IN GENERAL.—No permit may be issued by the Secretary authorizing any taking referred to in paragraph (1)(B) unless the applicant for the permit submits to the Secretary a conservation plan in accordance with this paragraph that is based on the best scientific and commercial information available.

"(B) CONTENTS.—A conservation plan under this paragraph shall provide a description and analysis of—

"(i) the specific activities sought to be authorized by the permit;

"(ii) a reasonable range of alternative actions to the taking of each species covered by the plan;

"(iii) the individual and cumulative impacts that may reasonably be anticipated to result from the permitted activities covered by the plan, including the impacts of modification or destruction of habitat of species authorized under the permit;

"(iv) objective, measurable biological goals to be achieved for each species covered by the plan;

"(v) the conservation measures that the applicant will implement to minimize and mitigate the impacts described in clause (iii), including—

"(I) the specific conservation measures for achieving the biological goals of the plan; and

"(II) any additional requirements or restrictions or other adaptive management

provisions that are necessary to respond to all reasonably foreseeable changes in circumstances that would jeopardize the continued existence of any species covered by the plan, including new scientific information and changing environmental conditions, including natural disasters;

"(vi) the reasonably anticipated costs of the measures described in clause (v);

"(vii) the actions that the applicant will take to monitor—

"(I) the effectiveness of the plan's conservation measures in achieving the plan's biological goals; and

"(II) impacts on the recovery of each species;

"(viii) funding that will be available to the applicant, throughout the term of the plan, to implement the plan and the conservation measures specified in the plan; and

"(ix) such other matters as the Secretary determines are necessary or appropriate for the purposes of carrying out the plan.

"(C) FINDINGS.—The Secretary shall not issue a permit under paragraph (1)(B) for the taking of any species unless the Secretary finds, after opportunity for public comment with respect to a permit application and the related conservation plan, that—

"(i) the conservation plan submitted for the permit meets all of the requirements of this paragraph;

"(ii) the taking will be incidental;

"(iii) the applicant will minimize and mitigate the individual impacts and cumulative impacts of the taking;

"(iv) the activities authorized by the permit and conservation plan are consistent with the recovery of the species and will result in no net loss of the value to the species of the habitat occupied by the species;

"(v) the applicant has, in accordance with paragraph (9), filed a performance bond or other evidence of financial security to ensure adequate funding for each element of the conservation plan; and

"(vi) the permit contains—

"(I) such terms and conditions as are necessary or appropriate to carry out this paragraph and ensure implementation of the conservation plan by the applicant; and

"(II) such reporting and monitoring requirements as are necessary for determining whether the terms and conditions are being complied with.

"(D) REPORTS ON BIOLOGICAL STATUS AND GOALS.—

"(i) IN GENERAL.—Each permit shall require the permittee to provide to the Secretary, not later than 1 year after the date of issuance of the permit and at least once each year thereafter during the term of the permit, a complete report on—

"(I) the biological status of the species in the affected area;

"(II) the impacts of the habitat conservation plan and the permitted action on the species; and

"(III) whether the biological goals of the plan are being met.

"(ii) AVAILABILITY TO PUBLIC.—The Secretary shall make reports required under this subparagraph available to the public.

"(E) ADDITIONAL CONSERVATION MEASURES.—

"(i) IN GENERAL.—If necessary to ensure that the permitted action does not jeopardize the continued existence of any species affected by the permitted action, the Secretary shall require a permittee to implement conservation measures in addition to the conservation measures specified in the plan.

"(ii) COST SHARING.—The Secretary shall pay the costs of any additional conservation measures required under this subparagraph that are in excess of the reasonably anticipated costs specified in the plan.

"(4) REVIEW BY SECRETARY.—

"(A) IN GENERAL.—Every 3 years after the date of approval of a permit application and conservation plan under this section, the Secretary shall review and report on the progress toward implementation of the terms and conditions of the permit and plan and make recommendations on actions necessary to ensure that—

"(i) the terms and conditions do not jeopardize the continued existence of any species;

"(ii) progress is being made toward achieving the biological goals of the plan; and

"(iii) the requirements, goals, and purposes of this Act are being met.

"(B) AVAILABILITY TO PUBLIC.—The Secretary shall annually—

"(i) prepare and make publicly available a report on the status of all permits reviewed pursuant to this paragraph since the date of the last report; and

"(ii) publish in the Federal Register a notice of the availability of the most recent report.

"(5) PERMIT REVOCATION.—The Secretary shall revoke a permit issued under this section and issue an order suspending activities allowed under the permit that may be reasonably expected to cause a taking of any species covered by the permit, if—

"(A) the permittee is not in compliance with the terms and conditions of the permit, the requirements of this Act, and the regulations issued under this Act, including any failure by a permittee to substantially comply with the conservation plan required for a permit issued under paragraph (1)(B); or

"(B) the level of the taking authorized by the permit has been exceeded.

"(6) ACTIONS BY SECRETARY ON FAILURE BY PERMITTEE.—

"(A) IN GENERAL.—If a permittee defaults on any obligation of the permittee under a permit issued under paragraph (1)(B) or a conservation plan required for the permit, the Secretary shall undertake actions to conserve each species covered by the plan and permit.

"(B) FUNDING.—To carry out actions required under subparagraph (A) with respect to a default by a permittee, the Secretary may use—

"(i) the proceeds of the performance bond or other financial security under paragraph (9) provided by the permittee; and

"(ii) amounts in the Habitat Conservation Plan Fund established by paragraph (10).

"(7) LOW EFFECT, SMALL SCALE PLANS.—

"(A) IN GENERAL.—The Secretary shall develop and implement a streamlined application and approval procedure for a permit issued under paragraph (1)(B) and related conservation plan that the Secretary determines to be a low effect, small scale plan.

"(B) PREREQUISITES.—A permit and related conservation plan may be treated as a low effect, small scale permit and plan if—

"(i) the permitted action is expected to be of less than 5 years in duration;

"(ii) the conservation plan is applicable to an area of less than 5 acres;

"(iii) the affected acreage is not adjacent to other land that has been the subject of a permit issued under this section within the preceding 5 years to the same person, or as part of the same project;

"(iv) the permitted action is not part of a single larger project that will have additional impacts on the endangered species or threatened species;

"(v) the Secretary determines that the plan will have a negligible cumulative impact and individual impact on the recovery of the endangered species or threatened species; and

"(vi) the permitted action is not related to other actions that will have additional impacts on the endangered species or threatened species.

"(C) RELATED ACTIONS.—For the purposes of subparagraph (B)(vi), actions shall be considered related if they—

"(i) automatically trigger other actions that may affect endangered species or threatened species;

"(ii) cannot or will not proceed unless other actions are taken previously or simultaneously; or

"(iii) are interdependent on parts of a larger action and depend on the larger action for their justification.

"(D) MONITORING.—

"(i) IN GENERAL.—The Secretary shall monitor the implementation and results of low effect, small scale permits and conservation plans to ensure that the permits and plans do not jeopardize the continued existence of any endangered species or threatened species.

"(ii) ADDITIONAL REQUIREMENTS OR RESTRICTIONS.—If the Secretary determines that additional requirements or restrictions are required to ensure that actions authorized by a low effect, small scale conservation plan do not jeopardize the continued existence of any species determined to be an endangered species or threatened species after the plan was approved, the Secretary shall require appropriate modifications to the plan to implement those requirements or restrictions.

"(iii) COST SHARING.—The Secretary shall pay all costs of implementing additional requirements or restrictions required under clause (ii).

"(E) FINANCIAL SECURITY.—The permittee for which a low effect, small scale permit and conservation plan is approved under this paragraph shall not be required to provide a performance bond or other financial security under paragraph (9).

"(8) MONITORING.—The Secretary shall monitor the implementation and results of all conservation plans approved under this subsection to ensure that the plans do not jeopardize the continued existence of any endangered species or threatened species.

"(9) PERFORMANCE BONDS.—

"(A) IN GENERAL.—After the approval of an incidental taking permit under paragraph (1)(B) and associated conservation plan in accordance with this subsection, but before the permit is issued, the applicant shall—

"(i) file with the Secretary a performance bond payable to the United States, and conditional on faithful performance of all the requirements of the permit; or

"(ii) deposit another form of financial security, payable to the United States, in a form and manner approved by the Secretary, and conditional on such faithful performance, having a cash or market value, as applicable, equal to or greater than the amount of a performance bond otherwise required under clause (i).

"(B) AMOUNT.—The amount of the bond or deposit of other financial security required for each permit shall be—

"(i) determined by the Secretary;

"(ii) based on the mitigation requirements needed to meet the biological goals of the conservation plan; and

"(iii) sufficient to ensure the completion of all conservation measures to be implemented by the permittee under the conservation plan that are specified in the plan.

"(C) PHASED OR ADJUSTED BONDS OR DEPOSITS.—In the case of a bond or deposit of other financial security required for a large-scale conservation plan (as defined in paragraph (12)(A)), or a conservation plan for which the reasonably foreseeable costs may be prohibitive, the Secretary may authorize the use of—

"(i) phased bonds or deposits, by which the permittee may divide the area or actions covered by the conservation plan into discrete sections and execute a separate bond or deposit for each section before undertaking any action on that section; or

"(ii) adjusted bonds or deposits, through which the amount of the bond or deposits required and the terms of acceptance of a bond or deposits shall be adjusted by the Secretary from time to time as the extent of actions that affect endangered species or threatened species increases or decreases.

"(D) EXECUTION.—The bond or deposits shall be executed by the permittee and a corporate surety or depository, respectively.

"(E) RELEASE OF BOND OR DEPOSIT.—

"(i) IN GENERAL.—The permittee may file a request with the Secretary for the release of all or any part of a performance bond or deposit of any other financial security required under this paragraph.

"(ii) NOTICE AND COMMENT.—Not later than 30 days after any request for release has been filed with the Secretary, the Secretary shall—

"(I) file notice of the request in the Federal Register; and

"(II) provide opportunity for public comment before making a decision under clause (iii).

"(iii) REVIEW.—Not later than 30 days after receipt of the request, the Secretary shall conduct a review of the implementation of the conservation plan to determine whether—

"(I) the requirements of the plan have been fully implemented;

"(II) the plan has achieved its biological goals; and

"(III) no further action is needed to ensure that the permitted action is not jeopardizing the existence of the species covered by the plan.

"(iv) NOTICE OF DECISION.—Not later than 90 days after receipt of the request, the Secretary shall notify the permittee in writing of the decision of the Secretary to release or not to release all or part of the bond or deposit.

"(v) NOTICE OF REASONS FOR NO RELEASE.—If the Secretary does not release any portion of the bond or deposit, the Secretary shall notify the permittee in writing of the reasons that the portion was not released and recommended corrective actions necessary to secure that release.

"(10) HABITAT CONSERVATION PLAN FUND.—

"(A) ESTABLISHMENT.—There is established in the Treasury a separate account to be known as the 'Habitat Conservation Plan Fund' (referred to in this paragraph as the 'Fund').

"(B) CONTENTS.—The Fund shall consist of—

"(i) donations to the Fund;

"(ii) appropriations to the Fund;

"(iii) amounts received by the United States as fees charged for permits under this section;

"(iv) amounts received by the United States as natural resource damages under section 11(i); and

"(v) the proceeds of performance bonds and other deposits of financial security under paragraph (9).

"(C) USE.—Amounts in the Fund shall be available to the Secretary until expended, without further appropriation, to pay the cost of—

"(i) additional conservation measures required under paragraph (3)(E) and additional requirements and restrictions required under paragraph (7)(C)(iii) for recovery of a species;

"(ii) actions by the Secretary to conserve species under paragraph (6);

"(iii) permitting with respect to which fees are deposited in the Fund under subparagraph (B)(iii); and

"(iv) restoration or replacement of natural resources with respect to which natural resource damages are deposited in the Fund under subparagraph (B)(iv).

"(11) MULTIPLE LANDOWNER, MULTISPECIES PLANNING.—

"(A) IN GENERAL.—The Secretary shall encourage the development of multiple landowner, multispecies conservation plans, that—

"(i) make a significant contribution to the recovery of an endangered species or threatened species;

"(ii) rely on the best available scientific information;

"(iii) rely, to the maximum extent practicable, on ecosystem planning; and

"(iv) maintain the well-being of other species located within the planning area.

"(B) STREAMLINING OF PERMITTING PROCESSES ACROSS JURISDICTIONS.—

"(i) IN GENERAL.—To encourage the development of the plans, the Secretary shall cooperate, to the maximum extent practicable, with States and local governments to streamline permitting processes across jurisdictions.

"(ii) LARGE-SCALE CONSERVATION PLANS.—The cooperation shall include issuing permits under paragraph (1)(B) to a State, local government, or group of local governments for large-scale conservation plans that involve more than 1 landowner.

"(C) INCIDENTAL TAKING CERTIFICATES.—A permit under subparagraph (B)(ii) may authorize the State, local government, or group of local governments to issue incidental taking certificates to landowners that authorize takings under the authority of the permit within the jurisdiction of the State, local government, or group of local governments, if—

"(i) the State, local government, or group of local governments meets the performance bond or other financial security requirements under paragraph (9) with respect to all such certificates, or each certificate is effective only after the landowner to whom the certificate is issued has met those requirements with respect to the certificate;

"(ii) the State, local government, or group of local governments ensures that all incidental taking certificates issued under the permit are consistent with the permit and approved habitat conservation plan;

"(iii) the State, local government, or group of local governments provides adequate public notice and opportunity to comment on decisions to issue incidental taking certificates; and

"(iv) the Secretary and the State, local government, or group of local governments have adequate authority to enforce the terms and conditions of the incidental taking certificates.

"(D) ENCOURAGEMENT OF PLANS.—The Secretary shall—

"(i) ensure the participation of a broad range of public and private interests in the development of the plan;

"(ii) provide technical assistance to the maximum extent practicable; and

"(iii) give the plans priority consideration for funding under section 6.

"(E) POOLED BONDS OR DEPOSITS.—The Secretary may approve the use of pooled bonds or deposits in order to meet the requirements of paragraph (9) for plans approved under this paragraph that—

"(i) do not meet the requirements of subparagraph (C); and

"(ii) involve more than 1 landowner.

"(12) CITIZEN PARTICIPATION; INDEPENDENT SCIENTISTS.—

"(A) DEFINITIONS.—In this paragraph:

"(i) AGENCY INVOLVEMENT.—The term 'agency involvement' means any role played by the Secretary in the development of a conservation plan under paragraph (3).

"(ii) INDEPENDENT SCIENTIST.—The term 'independent scientist' means a scientist that meets the criteria specified in section 4(f)(1)(D).

"(iii) LARGE-SCALE CONSERVATION PLAN.—The term 'large-scale conservation plan' means a conservation plan that covers a significant portion of the range of an endangered species, threatened species, candidate species, or species proposed for listing under section 4.

"(B) NOTICE AND COMMENT.—The Secretary may issue a permit under this section only after—

"(i) notice of the receipt of an application for the permit has been published in the Federal Register;

"(ii) at least a 60-day public comment period has been provided; and

"(iii) a notice of permit approval has been published in the Federal Register with agency responses to public comments.

"(C) AGENCY INVOLVEMENT.—

"(i) IN GENERAL.—On receipt of request for involvement by an agency in the development of a large-scale conservation plan pursuant to paragraphs (3)(A) and (11), the Secretary shall promptly publish a notice in the Federal Register announcing the agency's involvement and briefly describing the activities that would be permitted under the plan.

"(ii) AVAILABILITY OF INFORMATION.—The Secretary shall make available, on request, any information in the Secretary's possession or control concerning the planning efforts.

"(D) PUBLIC PARTICIPATION.—

"(i) IN GENERAL.—The Secretary shall invite members of the public to participate in the development of large-scale conservation plans and multiple landowner, multispecies plans.

"(ii) BALANCED DEVELOPMENT PROCESS.—The Secretary shall promulgate regulations establishing a development process under this paragraph that ensures an equitable balance of participation between—

"(I) citizens with a primary interest in carrying out economic development activities that may affect species conservation; and

"(II) citizens whose primary interest is in species conservation.

"(iii) MEETINGS.—A meeting of participants under this subparagraph shall not be subject to the Federal Advisory Committee Act (5 U.S.C. App.), but shall be open to the public.

"(E) INDEPENDENT SCIENTISTS.—On receipt of a request for involvement by an agency in the development of a large-scale conservation plan, the Secretary shall invite independent scientists with expertise on species that may be affected by the plan to provide input.

"(13) COMMUNITY ASSISTANCE PROGRAM.—

"(A) ESTABLISHMENT.—The Secretary shall establish a community assistance program to provide timely and accurate information to local governments and property owners in accordance with subparagraph (B).

"(B) FIELD OFFICE EMPLOYEES.—Under the community assistance program, the Secretary shall assign to each field office of the United States Fish and Wildlife Service employees whose duties include—

"(i) providing accurate, timely information on local impacts of determinations that species are endangered species or threatened species, recovery planning efforts, and other actions under this Act;

"(ii) providing assistance on obtaining permits under this section and otherwise complying with this Act;

"(iii) serving as a focal point for questions, requests, complaints, and suggestions from property owners and local governments concerning the policies and activities of the United States Fish and Wildlife Service or other Federal agencies in the implementation of this Act; and

"(iv) training Federal personnel on public outreach efforts under this Act."

SEC. 109. CITIZEN SUITS.

Section 11(g) (16 U.S.C. 1540(g)) is amended—

(1) in paragraph (1)(A), by striking "in violation" and all that follows through the end of the subparagraph and inserting "in violation of this Act, any regulation or permit issued under this Act, any statement provided by the Secretary under section 7(b)(3), or any agreement concluded under this Act"; and

(2) in paragraph (2)—

(A) in subparagraph (A)(i), by inserting before the semicolon at the end the following: ", except that notwithstanding this clause such an action may be brought immediately after the notice in the case of an action against any person regarding an emergency posing a significant risk to any species of fish, wildlife, or plant included in a list under section 4(c) or proposed for inclusion in such a list"; and

(B) in subparagraph (B)(i), by inserting before the semicolon at the end the following: ", except that notwithstanding this clause such an action may be brought immediately after such notice in the case of an action under this section against any person regarding an emergency posing a significant risk to any species of fish, wildlife, or plant included in a list under section 4(c)".

SEC. 110. NATURAL RESOURCE DAMAGE LIABILITY.

Section 11 (16 U.S.C. 1540) is amended by adding at the end the following:

"(i) NATURAL RESOURCE DAMAGE LIABILITY.—

"(1) IN GENERAL.—Any person that, in violation of this Act, negligently damages any member or habitat of a species included in a list under section 4(c) shall be liable to—

"(A) the United States for the costs incurred by the United States in restoring or replacing the member or habitat, including reasonable costs of assessing the damage; and

"(B) a State for the costs incurred by the State in restoring or replacing the member or habitat under a management agreement with the Secretary under section 6(a) or a cooperative agreement with the Secretary under section 6(c), including reasonable costs of assessing the damage.

"(2) DEPOSIT.—Amounts received by the United States under this subsection—

"(A) shall be deposited in the Habitat Conservation Plan Fund established by section 10(a)(10); and

"(B) may be obligated only for the acquisition or rehabilitation of damaged habitat or populations.

"(3) CIVIL ACTIONS BY SECRETARY.—The Secretary may commence a civil action on behalf of the United States under this subsection.

"(4) NOTICE.—No action may be commenced under this subsection by the Secretary or a State before the end of the 60-day period beginning on the date on which the Secretary or the State, respectively, provides written notice of the action to the person against whom the action is commenced."

SEC. 111. AUTHORIZATION OF APPROPRIATIONS.

Section 15 (16 U.S.C. 1542) is amended to read as follows:

"SEC. 15. AUTHORIZATION OF APPROPRIATIONS.

"(a) IN GENERAL.—There are authorized to be appropriated—

"(1) to the Secretary of the Interior for carrying out this Act—

"(A) \$135,000,000 for fiscal year 2001;

"(B) \$140,000,000 for fiscal year 2002;

"(C) \$145,000,000 for fiscal year 2003;

"(D) \$150,000,000 for fiscal year 2004; and

"(E) \$155,000,000 for fiscal year 2005; and

"(2) to the Secretary of Commerce for carrying out this Act—

"(A) \$35,000,000 for fiscal year 2001;

"(B) \$40,000,000 for fiscal year 2002;

"(C) \$45,000,000 for fiscal year 2003;

"(D) \$50,000,000 for fiscal year 2004; and

"(E) \$55,000,000 for fiscal year 2005.

"(b) CONVENTION IMPLEMENTATION.—In addition to other amounts authorized by this section, there are authorized to be appropriated to the Secretary of the Interior for carrying out functions under section 8 relating to implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora—

"(1) \$3,000,000 for fiscal year 2001; and

"(2) \$4,000,000 for each of fiscal years 2002 and 2003.

"(c) HABITAT CONSERVATION PLAN FUND.—In addition to other amounts authorized by this section, there is authorized to be appropriated to the Habitat Conservation Plan Fund established by section 10(a)(10) \$20,000,000 for each of fiscal years 2001, 2002, and 2003.

"(d) COOPERATIVE AGREEMENT FUNDS.—In addition to other amounts authorized by this section, there are authorized to be appropriated—

"(1) to the Secretary of the Interior for entering into cooperative agreements under section 6 with States and Indian tribes, \$20,000,000 for each of fiscal years 2001, 2002, and 2003; and

"(2) to the Secretary of Commerce for entering into cooperative agreements under section 6 with States and Indian tribes, \$5,000,000 for each of fiscal years 2001, 2002, and 2003."

TITLE II—SPECIES CONSERVATION TAX INCENTIVES

SEC. 201. TAX EXCLUSION FOR COST-SHARING PAYMENTS UNDER PARTNERS FOR FISH AND WILDLIFE PROGRAM.

(a) IN GENERAL.—Section 126(a) of the Internal Revenue Code of 1986 (relating to certain cost-sharing payments) is amended by redesignating paragraph (10) as paragraph (11) and by inserting after paragraph (9) the following:

"(10) The Partners for Fish and Wildlife Program authorized by the Fish and Wildlife Act of 1956 (16 U.S.C. 742a et seq.)."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after the date of the enactment of this Act.

SEC. 202. ENHANCED DEDUCTION FOR THE DONATION OF A CONSERVATION EASEMENT.

(a) IN GENERAL.—Subparagraph (A) of section 170(h)(4) of the Internal Revenue Code of 1986 (defining conservation purpose) is amended by striking "or" at the end of clause (iii), by striking the period at the end of clause (iv) and inserting ", or", and by adding at the end the following:

"(v) the conservation of a species designated by the Secretary of the Interior or the Secretary of Commerce under the Endangered Species Act of 1973 (16 U.S.C. 1531 et seq) as endangered or threatened, proposed by such Secretary for designation as endangered or threatened, or identified by such Secretary as a candidate for such designation, provided the property is not required, as of the date of contribution, to be used for such purpose other than by reason of the terms of contribution."

(b) ENHANCED DEDUCTIONS.—Subsection (e) of section 170 of the Internal Revenue Code

of 1986 (defining qualified conservation contribution) is amended by adding at the end the following:

“(7) SPECIAL RULES FOR CONTRIBUTIONS RELATED TO CONSERVATION OF SPECIES.—In the case of a qualified conservation contribution by an individual for the conservation of endangered or threatened species, proposed species, or candidate species under subsection (h)(4)(v):

“(A) 50 PERCENT LIMITATION TO APPLY.—Such a contribution shall be treated for the purposes of this section as described in subsection (b)(1)(A).

“(B) 20-YEAR CARRY FORWARD.—Subsection (d)(1) shall be applied by substituting ‘20 years’ for ‘5 years’ each place it appears and with appropriate adjustments in the application of subparagraph (A)(ii) thereof.

“(C) UNUSED DEDUCTION CARRYOVER ALLOWED ON TAXPAYER’S LAST RETURN.—If the taxpayer dies before the close of the last taxable year for which a deduction could have been allowed under subsection (d)(1), any portion of the deduction for such contribution which has not been allowed shall be allowed as a deduction under subsection (a) (without regard to subsection (b)) for the taxable year in which such death occurs or such portion may be used as a deduction against the gross estate of the taxpayer.”.

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

SEC. 203. EXCLUSION FROM ESTATE TAX FOR REAL PROPERTY SUBJECT TO ENDANGERED SPECIES CONSERVATION AGREEMENT.

(a) IN GENERAL.—Part IV of subchapter A of chapter 11 of the Internal Revenue Code of 1986 (relating to taxable estate) is amended by adding at the end the following new section:

“SEC. 2058. CERTAIN REAL PROPERTY SUBJECT TO ENDANGERED SPECIES CONSERVATION AGREEMENT.

“(a) GENERAL RULE.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate an amount equal to lesser of—

“(1) the adjusted value of real property included in the gross estate which is subject to an endangered species conservation agreement, or

“(2) \$10,000,000.

“(b) PROPERTY SUBJECT TO AN ENDANGERED SPECIES CONSERVATION AGREEMENT.—For purposes of this section—

“(1) IN GENERAL.—Real property shall be treated as subject to an endangered species conservation agreement if—

“(A) such property was owned by the decedent or a member of the decedent’s family at all times during the 3-year period ending on the date of the decedent’s death,

“(B) each person who has an interest in such property (whether or not in possession) has entered into—

“(i) an endangered species conservation agreement with respect to such property, and

“(ii) a written agreement with the Secretary consenting to the application of subsection (d), and

“(C) the executor of the decedent’s estate—

“(i) elects the application of this section, and

“(ii) files with the Secretary such endangered species conservation agreement.

“(2) ADJUSTED VALUE.—

“(A) IN GENERAL.—The adjusted value of any real property shall be its value for purposes of this chapter, reduced by—

“(i) any amount deductible under section 2055(f) with respect to the property, and

“(ii) any acquisition indebtedness with respect to the property.

“(B) ACQUISITION INDEBTEDNESS.—For purposes of this paragraph, the term ‘acquisition indebtedness’ means, with respect to any real property, the unpaid amount of—

“(i) the indebtedness incurred by the donor in acquiring such property,

“(ii) the indebtedness incurred before the acquisition of such property if such indebtedness would not have been incurred but for such acquisition,

“(iii) the indebtedness incurred after the acquisition of such property if such indebtedness would not have been incurred but for such acquisition and the incurrence of such indebtedness was reasonably foreseeable at the time of such acquisition, and

“(iv) the extension, renewal, or refinancing of an acquisition indebtedness.

“(c) ENDANGERED SPECIES CONSERVATION AGREEMENT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘endangered species conservation agreement’ means a written agreement entered into with the Secretary of the Interior or the Secretary of Commerce—

“(A) which commits each person who signed such agreement to carry out on the real property activities or practices not otherwise required by law or to refrain from carrying out on such property activities or practices that could otherwise be lawfully carried out and includes—

“(i) objective and measurable species of concern conservation goals,

“(ii) site-specific and other management measures necessary to achieve those goals, and

“(iii) objective and measurable criteria to monitor progress toward those goals,

“(B) which is certified by such Secretary as providing a major contribution to the conservation of a species of concern, and

“(C) which is for a term that such Secretary determines is sufficient to achieve the purposes of the agreement, but not less than 10 years beginning on the date of the decedent’s death.

“(2) SPECIES OF CONCERN.—The term ‘species of concern’ means any species designated by the Secretary of the Interior or the Secretary of Commerce under the Endangered Species Act of 1973 (16 U.S.C. 1531 et seq) as endangered or threatened, proposed by such Secretary for designation as endangered or threatened, or identified by such Secretary as a candidate for such designation.

“(3) ANNUAL CERTIFICATION TO THE SECRETARY BY THE SECRETARY OF THE INTERIOR OR THE SECRETARY OF COMMERCE OF THE STATUS OF ENDANGERED SPECIES CONSERVATION AGREEMENTS.—If the executor elects the application of this section, the executor shall promptly give written notice of such election to the Secretary of the Interior or the Secretary of Commerce. The Secretary of the Interior or the Secretary of Commerce shall thereafter annually certify to the Secretary that the endangered species conservation agreement applicable to any property for which such election has been made remains in effect and is being satisfactorily complied with.

“(d) RECAPTURE OF TAX BENEFIT IN CERTAIN CASES.—

“(1) DISPOSITION OF INTEREST OR MATERIAL BREACH.—

“(A) IN GENERAL.—An additional tax in the amount determined under subparagraph (B) shall be imposed on any person on the earlier of—

“(i) the disposition by such person of any interest in property subject to an endangered species conservation agreement (other than a disposition described in subparagraph (C)),

“(ii) a material breach by such person of the endangered species conservation agreement, or

“(iii) the termination of the endangered species conservation agreement.

“(B) AMOUNT OF ADDITIONAL TAX.—

“(i) IN GENERAL.—The amount of the additional tax imposed by subparagraph (A) with respect to any interest shall be an amount equal to the applicable percentage of the lesser of—

“(1) the adjusted tax difference attributable to such interest (within the meaning of section 2032A(c)(2)(B)), or

“(II) the excess of the amount realized with respect to the interest (or, in any case other than a sale or exchange at arm’s length, the fair market value of the interest) over the value of the interest determined under subsection (a).

“(ii) APPLICABLE PERCENTAGE.—For purposes of clause (i), the applicable percentage is determined in accordance with the following table:

The applicable percentage is—	
If, with respect to the date of the agreement, the date of the event described in subparagraph (A) occurs—	
Before 10 years	100
After 9 years and before 20 years	75
After 19 years and before 30 years	50
After 29 years and before 40 years ...	25
After 39	0.

“(C) EXCEPTION IF CERTAIN HEIRS ASSUME OBLIGATIONS UPON THE DEATH OF A PERSON EXECUTING THE AGREEMENT.—Subparagraph (A)(i) shall not apply if—

“(i) upon the death of a person described in subsection (b)(1)(B) during the term of such agreement, the property subject to such agreement passes to a member of the person’s family, and

“(ii) the member agrees—

“(1) to assume the obligations imposed on such person under the endangered species conservation agreement,

“(II) to assume personal liability for any tax imposed under subparagraph (A) with respect to any future event described in subparagraph (A), and

“(III) to notify the Secretary of the Treasury and the Secretary of the Interior or the Secretary of Commerce that the member has assumed such obligations and liability.

If a member of the person’s family enters into an agreement described in subclauses (I), (II), and (III), such member shall be treated as signatory to the endangered species conservation agreement the person entered into.

“(2) DUE DATE OF ADDITIONAL TAX.—The additional tax imposed by paragraph (1) shall become due and payable on the day that is 6 months after the date of the disposition referred to in paragraph (1)(A)(i) or, in the case of an event described in clause (ii) or (iii) of paragraph (1)(A), on April 15 of the calendar year following any year in which the Secretary of the Interior or the Secretary of Commerce fails to provide the certification required under subsection (c)(3).

“(e) STATUTE OF LIMITATIONS.—If a taxpayer incurs a tax liability pursuant to subsection (d)(1)(A), then—

“(1) the statutory period for the assessment of any additional tax imposed by subsection (d)(1)(A) shall not expire before the expiration of 3 years from the date the Secretary is notified (in such manner as the Secretary may by regulation prescribe) of the incurring of such tax liability, and

“(2) such additional tax may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law that would otherwise prevent such assessment.

“(f) ELECTION AND FILING OF AGREEMENT.—The election under this section shall be made

on the return of the tax imposed by section 2001. Such election, and the filing under subsection (b) of an endangered species conservation agreement, shall be made in such manner as the Secretary shall by regulation provide.

“(g) APPLICATION OF THIS SECTION TO INTERESTS IN PARTNERSHIPS, CORPORATIONS, AND TRUSTS.—This section shall apply to an interest in a partnership, corporation, or trust if at least 30 percent of the entity is owned (directly or indirectly) by the decedent, as determined under the rules described in section 2057(e)(3).

“(h) MEMBER OF FAMILY.—For purposes of this section, the term ‘member of the family’ means any member of the family (as defined in section 2032A(e)(2)) of the decedent.”.

(b) CARRYOVER BASIS.—Section 1014(a)(4) of the Internal Revenue Code of 1986 (relating to basis of property acquired from a decedent) is amended by inserting “or 2058” after “section 2031(c)”.

(c) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter A of chapter 11 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

“Sec. 2058. Certain real property subject to endangered species conservation agreement.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 204. EXPANSION OF ESTATE TAX EXCLUSION FOR REAL PROPERTY SUBJECT TO QUALIFIED CONSERVATION EASEMENT.

(a) REPEAL OF CERTAIN RESTRICTIONS ON WHERE LAND IS LOCATED.—Clause (i) of section 2031(c)(8)(A) of the Internal Revenue Code of 1986 (defining land subject to a qualified conservation easement) is amended to read as follows:

“(i) which is located in the United States or any possession of the United States.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

ADDITIONAL COSPONSORS

S. 482

At the request of Mr. ABRAHAM, the name of the Senator from Texas (Mrs. HUTCHISON) was added as a cosponsor of S. 482, a bill to amend the Internal Revenue Code of 1986 to repeal the increase in the tax on the social security benefits.

S. 1536

At the request of Mr. DEWINE, the names of the Senator from Arkansas (Mr. HUTCHINSON), the Senator from Delaware (Mr. BIDEN), the Senator from Connecticut (Mr. LIEBERMAN), the Senator from Arkansas (Mrs. LINCOLN), the Senator from Hawaii (Mr. AKAKA), and the Senator from West Virginia (Mr. BYRD) were added as cosponsors of S. 1536, a bill to amend the Older Americans Act of 1965 to extend authorizations of appropriations for programs under the Act, to modernize programs and services for older individuals, and for other purposes.

S. 1768

At the request of Mr. ABRAHAM, the name of the Senator from Indiana (Mr. LUGAR) was added as a cosponsor of S.

1768, a bill to amend the Congressional Budget Act of 1974 to protect Social Security surpluses through strengthened budgetary enforcement mechanisms.

S. 1902

At the request of Mrs. FEINSTEIN, the name of the Senator from Illinois (Mr. DURBIN) was added as a cosponsor of S. 1902, a bill to require disclosure under the Freedom of Information Act regarding certain persons and records of the Japanese Imperial Army in a manner that does not impair any investigation or prosecution conducted by the Department of Justice or certain intelligence matters, and for other purposes.

S. 1941

At the request of Mr. DODD, the name of the Senator from Georgia (Mr. CLELAND) was added as a cosponsor of S. 1941, a bill to amend the Federal Fire Prevention and Control Act of 1974 to authorize the Director of the Federal Emergency Management Agency to provide assistance to fire departments and fire prevention organizations for the purpose of protecting the public and firefighting personnel against fire and fire-related hazards.

S. 1957

At the request of Mr. SCHUMER, the name of the Senator from South Carolina (Mr. HOLLINGS) was added as a cosponsor of S. 1957, a bill to provide for the payment of compensation to the families of the Federal employees who were killed in the crash of a United States Air Force CT-43A aircraft on April 3, 1996, near Dubrovnik, Croatia, carrying Secretary of Commerce Ronald H. Brown and 34 others.

S. 2003

At the request of Mr. JOHNSON, the name of the Senator from Georgia (Mr. MILLER) was added as a cosponsor of S. 2003, a bill to restore health care coverage to retired members of the uniformed services.

S. 2225

At the request of Mr. GRASSLEY, the names of the Senator from Michigan (Mr. ABRAHAM) and the Senator from New Hampshire (Mr. SMITH) were added as cosponsors of S. 2225, a bill to amend the Internal Revenue Code of 1986 to allow individuals a deduction for qualified long-term care insurance premiums, use of such insurance under cafeteria plans and flexible spending arrangements, and a credit for individuals with long-term care needs.

S. 2330

At the request of Mr. ROTH, the names of the Senator from Texas (Mrs. HUTCHISON) and the Senator from Montana (Mr. BAUCUS) were added as cosponsors of S. 2330, a bill to amend the Internal Revenue Code of 1986 to repeal the excise tax on telephone and other communication services.

S. 2337

At the request of Mr. SANTORUM, the name of the Senator from New Hampshire (Mr. SMITH) was added as a cosponsor of S. 2337, a bill to amend the

Internal Revenue Code of 1986 to allow individuals a refundable credit against income tax for the purchase of private health insurance, and to establish State health insurance safety-net programs.

S. 2505

At the request of Mr. JEFFORDS, the name of the Senator from North Dakota (Mr. DORGAN) was added as a cosponsor of S. 2505, a bill to amend title XVIII of the Social Security Act to provide increased access to health care for medical beneficiaries through telemedicine.

S. 2690

At the request of Mr. LEAHY, the name of the Senator from New Jersey (Mr. TORRICELLI) was added as a cosponsor of S. 2690, a bill to reduce the risk that innocent persons may be executed, and for other purposes.

S. 2703

At the request of Mr. AKAKA, the name of the Senator from West Virginia (Mr. ROCKEFELLER) was added as a cosponsor of S. 2703, a bill to amend the provisions of title 39, United States Code, relating to the manner in which pay policies and schedules and fringe benefit programs for postmasters are established.

S. 2725

At the request of Mr. SMITH of New Hampshire, the name of the Senator from Wisconsin (Mr. KOHL) was added as a cosponsor of S. 2725, a bill to provide for a system of sanctuaries for chimpanzees that have been designated as being no longer needed in research conducted or supported by the Public Health Service, and for other purposes.

S. 2903

At the request of Mr. ABRAHAM, the name of the Senator from Texas (Mrs. HUTCHISON) was added as a cosponsor of S. 2903, a bill to amend the Internal Revenue Code of 1986 to expand the child tax credit.

S. 2967

At the request of Mr. MURKOWSKI, the name of the Senator from North Carolina (Mr. HELMS) was added as a cosponsor of S. 2967, a bill to amend the Internal Revenue Code of 1986 to facilitate competition in the electric power industry.

S. 3018

At the request of Mr. TORRICELLI, the name of the Senator from Wisconsin (Mr. FEINGOLD) was added as a cosponsor of S. 3018, a bill to amend the Federal Deposit Insurance Act with respect to municipal deposits.

S. 3020

At the request of Mr. GRAMS, the name of the Senator from Alabama (Mr. SHELBY) was added as a cosponsor of S. 3020, a bill to require the Federal Communications Commission to revise its regulations authorizing the operation of new, low-power FM radio stations.

S. 3060

At the request of Mr. WELLSTONE, the names of the Senator from Minnesota