

helps small charities learn how to access Federal grants to further their work.

Some might suggest America's problems are much bigger than what the CARE Act can handle, that they demand larger and grander solutions. But I respond that America's problems—problems like malnourishment, illiteracy, domestic violence, broken families, teen pregnancies—are problems that are too big for Government to fix. Some problems are so large that all the money in the world simply will not fix them. So many of these problems are rooted in the soul and Government cannot fix problems of the soul. But people can. And God can.

This bill empowers people, real people rooted in their communities, rooted in their churches, rooted in their synagogues, rooted in their mosques, to help, to reach out to their neighbors. And that kind of help is the type of help that changes hearts.

It is hard to feel loved when you are getting a handout from a government bureaucrat. But receiving a cold cup of water from a volunteer touches your heart, it changes you, and it changes the person giving that help, as well. For years I have had the wonderful opportunity, indeed the real privilege, of being able to travel to Africa to conduct and participate in medical missions. When I go to Africa, I don't go as a Senator. I go there as a physician, as a person of faith, as a neighbor, as a friend, as a person who cares about others throughout the world. Those trips have changed me as much, I promise, as they have changed any of the people I have helped.

My hope, today, is that we help invigorate what Edmund Burke called those "little platoons," those private associations that help us love our country, our fellow human beings. We need to strengthen the quiet but profound work of the little platoons of nonprofit agencies, of groups like the Neighborhood Learning Center, the Church of the Brethren Soup Kitchen, or the Room in the Inn. And when we strengthen them, we strengthen America.

Will the CARE Act cure all our problems? No. Sadly, no, of course not. But it will help us to help ourselves help others. Let's get this good bill moving to the President's desk. It will form a strong part of his faith-based initiative. I know the House is committed to moving quickly on a companion bill. I hope we can continue to work together across party lines to empower America's charities and to empower people throughout the country.

I yield the floor.

CARE ACT OF 2003

The PRESIDING OFFICER. Under the previous order, the Senate will now resume consideration of S. 476, which the clerk will report.

The legislative clerk read as follows:

The bill (S. 476) to provide incentives for charitable contributions by individuals and

businesses, to improve the public disclosure of activities of exempt organizations, and to enhance the ability of low-income Americans to gain financial security by building assets, and for other purposes.

Pending:

Grassley/Baucus Amendment No. 526, to provide a manager's amendment.

The PRESIDING OFFICER. Under the previous order there will now be 30 minutes equally divided for general debate.

Mr. GRASSLEY. Madam President, the amendment by Senator NICKLES is in order, is that right?

The PRESIDING OFFICER. The Senator is correct.

Mr. GRASSLEY. Senator NICKLES will offer his amendment in just a minute. He asked if I would do my speaking on that amendment at this point. I am very happy to do that.

I appreciate my friend's continued efforts to reform and reduce long term capital gain tax on real estate. And Senator NICKLES is correct—by excluding 25 percent of the capital gain on the sale of property we reduce the effective capital gain rate on sales for conservation purposes.

However, that is not the purpose of the provision. We intend to preserve precious, environmentally sensitive land from ever being developed. I need not remind my fellow Senators that they are not making any more land and if we do not preserve sensitive wetlands and open space from development it will be lost forever and all of our children and grandchildren will suffer from our lack of responsibility.

Senator NICKLES' amendment would literally make it easier to develop the very land we are attempting to preserve. That is certainly not the intent of this provision. I will be voting no and I strongly urge my fellow Senators to also vote no on Senator NICKLES' amendment.

I would like to take a few minutes to review the long history of this important provision. As you all know, the President's budget has included this proposal. In all of his budgets, in fact, the President actually continues to propose the exclusion of 50 percent of the capital gain for the sale of property for conservation purposes. So by comparison, this 25 percent proposal is modest, but still addresses the President's priorities.

In addition, the Senate Finance Committee has a long history of building support. In both the 106th and 107th Congresses, we held hearings specifically discussing this proposal. We had witnesses from the forests of Maine to the wetlands of Louisiana and the ranches of Arizona. Besides, this effort brings about bipartisan support for the issue.

Not only have we heard huge support for this provision from all the traditional conservation organizations, like the Nature Conservancy and the Land Trusts and Iowa's own Heritage Foundation, but I know both I and Senator BAUCUS continue to receive very vocal

support from the farmers and ranchers who populate our States. Both the Farm Bureau and the Cattleman's Association have let us know that this gives our citizens choices to stay on the land and yet preserve the open space.

The opportunity to give an easement, preserve our farm and ranch lifestyles and give up the right to ever develop the land is important public policy and I urge my fellow Senators to vote no on Senator NICKLES' amendment.

The PRESIDING OFFICER. The Senator from Montana.

Mr. BAUCUS. Madam President, I think it is important at the outset to know we are including in the CARE bill incentives to help provide charitable contributions for good voluntary purposes, and I think this bill should continue to honor that thrust. The amendment before us does not. The amendment before us essentially is a capital gains tax amendment and applies generally to all property that would be sold. I think this is not the place for that kind of amendment.

The underlying provisions of the bill provide that taxpayers who voluntarily sell land to a qualified conservation organization can exclude 25 percent of the gain on that sale from capital gains tax. The purpose, obviously, is to help people, most of whom are land rich and cash poor and do not have much income from their ranching or farm operations—to help by transferring the property to a conservation organization.

There are many organizations in this country—a lot in my State of Montana—such as the Nature Conservancy, lots of very good, solid organizations which take land and save it for conservation purposes. This is very important because our country is losing a lot of land to development each day, each year. In fact, in the United States about 2 acres of farmland per minute, or about 1 million per year, are lost to development; that is, shopping centers and new homes or what-not that are just taking away some of the natural land that we have in our country and converting it at a very rapid rate to shopping centers and developments.

That is part of America. We need to build shopping centers. We need to also build new homes, housing tracts, and so forth. But we also need to remember there are other values in our country, and those are protecting open space and protecting farms and ranches. A lot of our farms and ranches are under great stress. I know the Presiding Officer knows that is true in her home State as is the case in every State.

We are trying to figure out a balanced way to help those farmers and ranchers donate a portion of their land to a conservation organization. They cannot do that today because they have no income. Because they have no income, they can't take the usual charitable deduction. To help them, we are saying you don't have to worry about the charitable deduction; you can still

get a little bit of benefit because we will exclude 25 percent of the gain. It is extremely important.

I might point out, this is actually a little less generous than provisions suggested by the President. The President, in his budget, suggested an appreciably larger exclusion for this very purpose.

The amendment before us, though, is not geared at all toward conservation. Essentially, it provides the same benefit, a 25-percent exclusion that would be available to anyone who sells property for any purpose. It does not have to be conservation. It would be pretty expensive, I might add, too—about a \$1.4 billion additional cost to the Treasury.

I understand the concerns the Senator has, but this is just not the time or place for capital gains tax reform. This is, rather, a CARE bill, a bill that is encouraging conservation, encouraging charitable giving. I urge my colleagues to not accept the amendment because I do not think it is properly placed in this bill.

I reserve my time.

The PRESIDING OFFICER. The Senator from Oklahoma.

Mr. NICKLES. I compliment both my colleagues from Iowa and Montana for bringing up this bill.

AMENDMENT NO. 527

(Purpose: To exclude 25 percent of gain on sales or exchanges of land or water interests to any nonprofit entity for any charitable purpose)

Madam President, this bill has a lot of good provisions in it. It has two provisions of which I question the value. I decided to do one amendment.

One of the ones I question is, how much good does the above-line deduction do? If you are an individual, you have to donate \$500, and you get a \$250 deduction. So if you are in the 25-percent tax bracket, that means you get to save \$62. And we add a lot of complexity to the Tax Code in the process. So I question the value of that.

There are several other provisions in the bill that are good—donations from IRAs to charities. The purpose of the bill is to increase donations to charities. I compliment the thrust of that. I compliment the President for trying to enact it.

I am disappointed this bill does not do more for allowing charitable and/or religious groups to be eligible to participate in Federal programs. That is not in the bill. I am not faulting anybody. I compliment Senator SANTORUM because he worked tirelessly to get this bill forward. And I, as a legislator, am willing to take half a loaf.

I think the Senator from Pennsylvania has about half of his original bill. I compliment him. He has been tenacious. I also compliment my colleague, Senator LIEBERMAN, because he is a co-sponsor of the bill. I worked with him on other legislation, including the religious liberty, freedom bill that we co-sponsored some time ago.

One of the provisions I am trying to amend right now is a provision that

says you will have a 25-percent reduction in capital gains tax if you sell property for land conservation or sell to an organization that qualifies for land conservation. I question the wisdom of doing that. I say, if we are going to have a 25-percent reduction in capital gains tax for charitable purposes, make it for all charities.

I happen to be a big fan of Nature Conservancy. They have a big facility in my State, with a lot of land, a big buffalo farm or ranch. I helped create that. The Nature Conservancy gets support from lots of corporations all across the country and my State as well. I support that.

But what I question is, if we want to help charities, let's help all charities, so if people want to sell land to the Red Cross, they would get a 25-percent reduction as well, or if they want to sell land to a church—and the church may want to build a parking lot or build a bigger church on that land—let's give them the 25-percent reduction.

Why should we say: Well, you are going to get a lower tax rate only if you sell to the charity we choose. That is land conservation? I question the wisdom of that. I do not like trying to micromanage, in the Tax Code, how people are going to spend their money.

So I would encourage our colleagues, let's help all charities. I do not think you can defend saying: Well, I think it is fine to donate land to the Nature Conservancy or to the Sierra Club or to the Land Trust Alliance or a lot of little groups that are going to be created as a result of this—you don't donate the land; you sell the land—you can donate your land to anybody in the country—but if you want to sell your land, you can sell it to this group, and you are going to get a 25-percent reduction in your capital gains tax. So we would rather give you that if you sell it to the Nature Conservancy but not sell it to the First Baptist Church in rural Iowa. To me, that does not make sense. Or if you want to help the Red Cross—and the Red Cross has a nice facility in Oklahoma, thanks to the Presiding Officer—and they need land, and if a farmer wants to sell that land—they could not afford to donate it, but they wanted to sell it—why would we say: You can only sell it for land conservation, and we will give you a 25-percent reduction in your tax bill. But if you want to sell it to the Red Cross, or if you want to sell it to a church, or if you want to sell it to a children's hospital, no, we are sorry, you are out of luck. Congress decided that charity does not deserve the same tax benefits as land conservation.

I disagree. I say, if we are going to give a lower capital gains tax rate, and this would be 15 percent—frankly, I think we should do it for all Americans, but if we are going to do it for one charity or two or three charities, let's do it for all charities.

So that is the essence of my amendment. If we are going to have a lower capital gains tax rate on some char-

ities, let's make it available for all charities.

We have offsets in this amendment. It does not increase the deficit. I urge my colleagues to support the amendment.

I reserve the remainder of my time.

The PRESIDING OFFICER. Who yields time?

Mr. NICKLES. Madam President, is the amendment pending?

The PRESIDING OFFICER. No.

Mr. NICKLES. Madam President, I apologize. I send the amendment to the desk and thank my colleagues for their cooperation. I thought the amendment was pending. I apologize to my colleagues.

The PRESIDING OFFICER. The clerk will report the amendment.

The bill clerk read as follows:

The Senator from Oklahoma [Mr. NICKLES] proposes an amendment numbered 527.

Mr. NICKLES: Madam President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

(The amendment is printed in today's RECORD under "Text of Amendments.")

The PRESIDING OFFICER (Ms. MURKOWSKI). The Senator from Montana.

Mr. BAUCUS. Madam President, I believe the Senator from Connecticut would like the floor. I yield to him such time as he wishes to consume.

The PRESIDING OFFICER. The Senator from Connecticut.

Mr. LIEBERMAN. Madam President, I thank my friend from Montana.

I rise to speak in favor of the CARE Act, the Charity Aid, Recovery, and Empowerment Act. This began as an attempt to give support to faith-based groups to perform good works.

CONGRATULATING THE UCONN WOMEN HUSKIES

If I may use that as a segue for a seemingly unrelated comment, I want to express this morning the pride and exultation of the people of Connecticut whose faith in our UConn Women Huskies was vindicated last night as they achieved an extraordinary victory over a very tough and proud Tennessee team. The UConn Women won another national championship for the UConn Women Huskies, the fourth in the program's history.

My congratulations to Coach Geno Auriemma, Assistant Coach Chris Dailey, and the great UConn women who rebuilt a lot of young talent that came together and made us all proud. They set an extraordinary example for young women all over America who, like my 15-year-old daughter, love basketball, love to play it, and are inspired by the skill and grit and team spirit of the UConn Women Huskies.

So our faith was redeemed, and you give us faith, Lady Huskies, as we go on.

Returning to the CARE Act, I must say that I am proud and, in some senses, relieved to join my colleagues in supporting this act. This act is a compromise version of the initial faith-

based and community initiative. It comes to the Senate floor after a difficult path. But the important point is that we are here.

This is a different plan than the President originally proposed. It is different than the plan that Senator SANTORUM—who I have been so pleased to work with as lead cosponsor with him—and I negotiated with the White House to address concerns that were blocking its initial movement.

Perhaps most notably, it no longer contains any provisions targeted specifically at carving out a larger lawful space for faith-based groups in our social service programs. But despite this evolution, the heart of the proposal remains the same; and I guess, I would add, the soul of the proposal remains the same as well.

That is why the CARE Act enjoys overwhelming support from America's philanthropic community, with endorsements from more than 1,600 charities of all sizes and denominations, as well, as we can see, strong bipartisan support here in the Senate. And that is why I feel confident this measure will help transform the spirit of good will in America today into more good works at a time of growing hardship and make this country as good as its values are.

Any doubt about the vitality of America's spirit was firmly laid to rest on September 11, 2001, when so many Americans gave so much and all of us collectively embraced the values of compassion and community. But if we truly hope to keep moving America closer to our founding ideals, we have to extend that commitment to helping those who continue to live in a different type of need—children living in poverty and despair; drug addicts desperate for treatment and a better life; low income working families who are struggling for self-sufficiency.

Our Government, of course, runs many programs at the Federal, State, and local levels that aim to fill those needs as best they can by establishing a safety net. But all of us here, regardless of party or geography, recognize that Government can't do it all on its own, nor should it. We have long relied on a wide network of private charities and social service providers, community organizations and religious groups, what you might call the sinews of our civil society, to partner with the public sector, to fill in the gaps of the Government's reach and, in particular, to target aid to local priorities and problems. That is what this bill will do.

We start with a new focus on building and leveraging the capacity of the small faith-based and community organizations who are often in the best position to help people in need because they are closest to them. But in many cases, they don't have the technical wherewithal to find the public resources to do so. So to help those groups, the CARE Act creates a Compassion Capital Fund authorized at \$150 million a year that will underwrite a

wide range of technical assistance efforts. But the bill goes beyond just expanding the pool of applicants and enlarges the pie of resources that is available to America's charities and social services providers. That will be particularly critical at this difficult time in our Nation's economic history when charities are stretched.

I saw an article in the paper in the last 24 hours that said the United Way expects a significant drop in its fund-raising this year because of the economic problems America faces. I hope and believe this bill will create the incentives for more giving to the United Way and a host of other charities, national and local. It will do so by creating several well targeted tax incentives over the next years that total \$10.6 billion which, working from the general rule that most tax incentives are worth about 30 cents on the dollar to a taxpayer, should lead to new donations to charities, community-based, faith-based, of more than \$30 billion over the next 10 years. How much good will come from that is wonderful to contemplate.

Part of the CARE Act that may make as big a difference and of which I am particularly proud is the \$1.3 billion increase in Social Service Block Grant (SSBG) funding over the next 2 years. The CARE Act will finally make good on our commitment by restoring SSBG funding to its authorized level of \$2.8 billion over the next 2 years and in so doing would empower charities across the country to do good for so many people in need.

I want to mention one other provision in the bill which has been a labor of love for me and Senator SANTORUM. That provision would expand on the use of innovative savings accounts, known as Individual Development Accounts (IDAs), to help low-income working families build wealth and achieve financial self-sufficiency. There have been a number of IDA demonstration projects around America that have proven successful in making home ownership, college, and small business not just a dream but a reality for thousands of low-income people nationwide. The CARE Act aims to build on those successes and significantly increase the availability of IDAs by offering America's financial institutions new incentives to help low-income families who want to save for their future which represents a whole new strategy in fighting poverty. It is based on a growing body of research that shows the best path to the middle class comes not just from hard work but also through savings and asset accumulation.

In sum, this CARE Act represents a comprehensive response to a complicated problem. That is why it is broadly and enthusiastically embraced by charities all over America. This bill puts our shared values into action by elevating the priority we place on helping our most vulnerable citizens. For that I thank my colleagues for their support.

I particularly thank Senator SANTORUM with whom it has been a pleasure to work in this long-time effort. His dedication, his commitment, his faith, his persistence, and his willingness to accommodate and reach common ground is a good part of the reason why we are on the verge of this very significant accomplishment. I thank the leaders of the Finance Committee, Senator GRASSLEY and Senator BAUCUS, and I thank my leader, Senator DASCHLE, who worked with us as we negotiated this logjam-breaking compromise with the administration and then pushed hard among our ranks to have this bill considered on the Senate floor. Senator DASCHLE's staff, particularly Jennifer Duck and Andrea LaRue, has been indispensable to this mission.

Finally, I thank my own staff for the dedicated work they have done on this exceedingly challenging but important legislation. Specifically, I am grateful to Laurie Rubenstein, Debbie Forrest, Dan Gerstein, Chuck Ludlam, and Michelle McMurray. We could not have passed the bill without them.

I urge my colleagues to support the bill and yield the floor.

The PRESIDING OFFICER. Who yields time?

Mr. GRASSLEY. I yield such time as he might consume to the Senator from Pennsylvania.

The PRESIDING OFFICER. The Senator from Pennsylvania.

Mr. SANTORUM. I thank my colleague from Connecticut for his kind remarks and for his steadfast support. It was a struggle and took a lot of persistence. That is a virtue we have seen exhibited on this legislation. He has been persistently for it, has worked diligently to find the common ground. That is what this legislation is all about—finding common ground. We have seen very strong bipartisan support for the bill. It is nice to see that every now and then on the floor of the Senate. We will help people who are in need of help, people who are out there serving our fellow man. It is a good day in the Senate that we are doing something positive to help those in need in society. We are doing it in a bipartisan way, and we are doing it in a fiscally responsible way. It is a win-win-win across the board.

I thank my leader, Senator FRIST. He has been a steadfast supporter as well. He has fought for this priority of our conference. This is one of the high priority items we have fought for on our side of the aisle, and gratefully we have seen it also as a high priority on the other side of the aisle. That is a wonderful thing.

I thank Senator DASCHLE and Senator REID for their cooperation and willingness to continue to work this issue until we could arrive at a point where we are successful today.

I think we will be successful in a very overwhelming way. We have already seen that the House is going through the process of marking up—they have

not done it yet, but they have a template laid out for their version of the bill. We are optimistic that the House will promptly act to move a piece of legislation with which we can go to conference and get a bill to the President expeditiously to help many in our society who are out there working on the front lines trying to help people in need—particularly those people of faith.

One of the things I have heard is that the faith-based elements have been stripped. I counter that by saying if you look at the donations we are encouraging and some of these provisions that we have—for example, maternity group homes or food donation provisions—food donation in this country is overwhelmingly done by organizations of faith. They are the ones who collect the donations and distribute them. It is the same thing with maternity group homes. A large segment of those homes out there are faith based in nature, as well as a lot of the charitable giving provisions that will disproportionately have a positive impact on faith-based organizations. This will help faith-based organizations on the giving side, and, as I mentioned yesterday, the compassion capital fund in the bill provides technical assistance to small charities.

Again, the principal beneficiaries will be small, inner-city, faith-based organizations, these neighborhoods with many nondenominational churches which are already receiving technical assistance and instruction on how to apply for Federal funds through the charitable choice provisions of the 1996 Welfare Act. Already we are providing that assistance. This will increase that amount and will increase the grassroots, faith-based, inner-city entities, working in many cases in the most difficult neighborhoods, with the opportunity to access funds. Their base of funds isn't that great. They are some of the poorest neighborhoods in America.

So it is a great day for those who have been working hard and committing their lives in some of the most difficult neighborhoods of the country that will be getting the resources that are much needed to the grassroots organizations that, as the President has said, are driven by their faith commitment.

I yield the floor.

Mr. GRASSLEY. Madam President, I move to table the—

Mr. NICKLES. Will the Senator yield first? I am not sure we used all of our time.

The PRESIDING OFFICER. There is time remaining for debate.

Mr. NICKLES. I am happy to conclude shortly. Correct me if I am wrong, but I was thinking the vote was at 12:30, or are we trying to move it up?

Mr. GRASSLEY. I think we should wait until 12:30. I will wait. I yield the floor.

Mr. NICKLES. If the Senator wants to ask consent to move to table the

amendment and have the vote commence at 12:30, I am happy to do that. Usually, when you move to table, you conclude the debate.

Mr. GRASSLEY. Madam President, I move to table the amendment and I ask for the yeas and nays and then that the vote occur at 12:30.

The PRESIDING OFFICER. Is there a sufficient second?

There is a sufficient second.

The yeas and nays were ordered.

Mr. NICKLES. Madam President, parliamentary inquiry: How much time remains on the amendment?

The PRESIDING OFFICER. Six and a half minutes remain for the Senator from Oklahoma.

Mr. CRAIG. Will the Senator yield for a minute?

Mr. NICKLES. I am happy to yield.

Mr. CRAIG. I thank the Senator from Oklahoma for his amendment. I think it improves the legislation substantially in the context of what it is. This bill is not what it was. The CARE Act has all of the right reasons for passing the Congress—faith-based organizations gaining the benefit to serve people in a broader sense. We have gone beyond that now.

Now we are talking about providing an opportunity for charities and conservation groups to buy private land, or acquire private land, and, for the sale of that land, to gain a benefit. In public land States such as mine, where private land is, and it is the single tax base of counties and local entities of government, as we deplete that land, for whatever reason, we deplete the ability of counties to provide for themselves and their citizens. I am struggling with this bill in the final analysis because of that.

I do not oppose, obviously, the intent of CARE and the intent of rewarding and extending for faith-based organizations their ability to serve our country and its citizens. I thank my colleague for his amendment. I hope we will not table it. I think it clearly helps improve the legislation overall.

Mr. NICKLES. Madam President, I appreciate the comments of my colleague and friend from Idaho. He makes a very good point. Western States have a lot of public land and not a lot of private land. This amendment says if you are going to sell land to a charity that deals with conservation, you get a 25 percent lower capital gains tax than if you sell to any other charity.

My amendment would say if you sell to any charity, you will get a reduced capital gains tax. I mentioned the Nature Conservancy. They are big in my State. They bought one of the biggest ranches—a buffalo ranch—in Oklahoma. It is in the tall grass prairie. I love it. I helped make that happen. The Nature Conservancy is a big group. I don't know how great their assets are, but I guess it is in the millions of dollars—lots of land and lots of millions of dollars. If you sell to that group, you get a 25 percent reduction in your cap-

ital gains tax. I don't think they need it, compared to a church in Oklahoma, maybe in a rural area, which might want to build or expand. But if you want to sell to that church, you have to pay a 25 percent higher tax than if you sell it to a conservancy group, or the Sierra Club, that wants to build a conservancy or other groups that might want to say: Hey, you get a lower deal; sell it to us.

Let's encourage charitable contributions, but let's also encourage sales to charitable organizations. If we are going to do it for one charitable organization, let's do it for all charitable organizations. That is the essence of my amendment. We have paid for it. It is offset. I urge my colleagues to support it. If we are going to encourage charitable sales, let's do it for all of them, not just conservation groups. I urge my colleagues to vote against the motion to table.

I yield the remainder of my time.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. NICKLES. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

The PRESIDING OFFICER. The question is on agreeing to the motion to table amendment No. 527. The yeas and nays have been ordered. The clerk will call the roll.

The assistant legislative clerk called the roll.

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced—yeas 62, nays 38, as follows:

[Rollcall Vote No. 127 Leg.]

YEAS—62

Akaka	Dorgan	McCain
Alexander	Durbin	Mikulski
Baucus	Edwards	Miller
Bayh	Feingold	Murray
Biden	Feinstein	Nelson (FL)
Bingaman	Graham (FL)	Nelson (NE)
Boxer	Grassley	Pryor
Breaux	Gregg	Reed
Brownback	Harkin	Reid
Byrd	Hollings	Roberts
Cantwell	Inouye	Rockefeller
Carper	Jeffords	Sarbanes
Chafee	Kennedy	Schumer
Clinton	Kerry	Smith
Collins	Kohl	Snowe
Conrad	Landrieu	Stabenow
Corzine	Lautenberg	Stevens
Daschle	Leahy	Sununu
Dayton	Levin	Sununu
DeWine	Lieberman	Voinovich
Dodd	Lincoln	Wyden

NAYS—38

Allard	Craig	Hutchison
Allen	Crapo	Inhofe
Bennett	Dole	Johnson
Bond	Domenici	Kyl
Bunning	Ensign	Lott
Burns	Enzi	Lugar
Campbell	Fitzgerald	McConnell
Chambliss	Frist	Murkowski
Cochran	Graham (SC)	Nickles
Coleman	Hagel	Santorum
Corryn	Hatch	

Sessions Specter Thomas
Shelby Talent Warner

The motion was agreed to.

Mr. GRASSLEY. I move to reconsider the vote.

Mr. SANTORUM. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. GRASSLEY. Madam President, it is my intention to yield back all of my time except for 30 seconds.

WELFARE BENEFIT PLANS IN RELATION TO TITLE VII

Mr. SANTORUM. Madam President, I rise today to engage the distinguished chairman of the Finance Committee in a colloquy regarding welfare benefit plans in relation to title VII of S. 476.

Employee Welfare Benefit plans, regulated under ERISA, are employer-sponsored plans that provide security to employees at the time of an event that interrupts or impairs their earning power by providing benefits such as death benefits, medical insurance, long-term care and child care.

By way of introduction, sections 419 and 419A of the Internal Revenue Code set forth special rules for the deduction of contributions to a welfare benefit fund, including limitations on the amount of the deduction that would otherwise be deductible.

Moreover, 419A(f)(6) provides that the rules of sections 419 and 419A do not apply in the case of a welfare benefit fund that is part of a plan to which more than one employer contributes and to which no employer normally contributes more than 10 percent of the contributions of all employers under the plan. This exception for 10 or more employer plans, however, does not apply to any plan that maintains experience rating arrangements with respect to individual employers.

It is my understanding that there is ongoing review of sections 419 and 419A as the Department of Treasury seeks to establish further guidance relative to 10 or more employer plans. It is my understanding that such considerations have contributed to uncertainty in the tax treatment of these plans.

I inquire of Chairman GRASSLEY if he is aware of the concerns surrounding the uncertain tax treatment of 10 or more employer plans, and if so, if he would agree to continue discussions with Treasury in an effort to achieve clarity.

Mr. GRASSLEY. I am aware that the Treasury and Labor Departments are always examining the so-called welfare benefit plans because of aggressive uses of some arrangements. Taxpayers need certainty and clarity from the enforcement agencies that they can rely upon, so they do not run afoul of the rules and operate plans in accordance with the requirements of the law. It would be unwise to exclude a particular type of arrangement from the rules governing tax shelters, however, based upon some the abuses we have seen. But we can urge the Treasury Department to provide clearer guidance on

the many welfare benefit plan arrangements. I am willing to join you in writing the Treasury Department to ask them for clearer guidance as soon as practicable.

Mr. SANTORUM. I thank the chairman for agreeing to work with me on this important issue.

Mr. BROWNBACK. Mr. President, it gives me great pleasure to join with my colleagues today and support this magnificent bill, the Charity Aid, Recovery, and Empowerment Act of 2003. This was a long fought endeavor—one that is worthy of the effort—and an endeavor that will continue to promote the act of charity, but also serve as a catalyst for those who need help in gaining self-sufficiency.

As you may know, the motto of my State, Kansas, is, *Ad Astra Per Aspera* or "to the stars through difficulty." Indeed this is not only true of my State, but true of our Nation as well. The act of charity and benevolence is a hallmark of our great Nation and this bill will help to continue that legacy and provide a pathway for success for those in need.

During the aftermath of the September 11 attacks on our Nation, we saw the best of America in one of the darkest times of our Nation's history. Though as a Nation we were physically and emotionally battered, we were able to rise up and come together as one Nation united, determined to help those in need. Many organizations such as the Salvation Army, the Red Cross and countless other charities and nonprofit organizations stood together with the men and women who attended to the victims and their families. The strength and resolve of our Nation was truly remarkable through the benevolence shown to the families of those lost on that tragic day.

It is time now that we help these and many other charitable organizations continue to help those in need. This bill, the CARE Act, will do just that. This act provides charitable giving incentives in the form of tax deductions for individuals and couples who do not itemize their tax returns—\$250 for individuals and \$500 for couples. It allows IRA holders to make charitable contributions from their accounts, and provides an enhanced charitable deduction for donations of food and books to charitable organizations.

Additionally, it provides an expedited review process for organizations seeking a 501(c)(3) status designation, which makes it easier to qualify for Federal grants and contracts. Along those same lines, the bill requires the IRS to expedite the 501(c)(3) application for any group that needs that status to apply for a government grant or contract. To further help in this arena, the bill requires the IRS to waive the application fee for groups whose annual revenues do not exceed \$50,000.

I am also pleased that we are encouraging savings accounts for those in our society who are in the lower income brackets. The Individual Development

Accounts, IDA, section provides a tangible incentive for folks to save and become self-sufficient, which not only provides financial security but increases the participants self-esteem which is priceless. Participants are able to withdraw these matched funds for a first home purchase, higher education costs, or to start a new business.

Lives are dramatically changed by this program and I am pleased to see the Senate backing this important incentive.

Lastly, I would like to highlight an issue that I am passionate about, an issue of the value of human life. I am very pleased that this bill will provide additional funding—\$33 million to be exact—for helping teenage mothers achieve self-sufficiency by strengthening Federal support for locally run maternity group home programs. As we know, this was an important agenda item in the 1996 Welfare Reform bill. Under the 1996 law, minors are required to live at home under adult supervision or in a maternity group home in order to receive benefits. Teenagers who are provided the opportunity to live in these homes are more likely to continue their education or receive job training—this is paramount for not only economic stability but for the efficacy of the participant as well. These young women, who enter this program are less likely to have a second pregnancy, and more likely to find gainful employment that allows them to end a dependence upon Federal Government programs.

I am positive that this bill will continue to financially aid those organizations that reach out to those in need and will help them to build on the success they have already seen in their communities.

Indeed in my own State, I have, for several years, toured charitable organizations such as the Grace Center, which is a home for unwed mothers, and Bread of Life, which is an inner-city church that is leading community revitalization by partnering with schools and neighborhood organizations to provide scholastic, mentoring and bible study programs.

As a nation, we are strongest in our ability to provide assistance to those in need, and to provide individuals with the tools necessary to succeed. Dr. King once said, "The ultimate measure of a man is not where he stands in moments of comfort and confidence, but where he stands at times of challenge and controversy." These organizations embody the epitome of Dr. King's statement. I encourage all of my colleagues to support this legislation, support those organizations who have committed their lives to helping others and who are indeed helping individuals through difficulties reach for the stars.

Mr. HATCH. Madam President, I rise today to express my support for the CARE Act, which is currently before the Senate. This bill is dedicated to improving the incentives for individuals and corporations to donate to charitable entities.

Through their generosity, Americans have shown their true colors as a compassionate, caring people. Unfortunately, many charities have had a difficult time raising money since the tragedy of September 11, as the economy has remained weak. This bill, which is a priority for President Bush, will help America's charities to continue their invaluable work.

I applaud the leadership of Chairman GRASSLEY and Ranking Democrat BAUCUS in getting this bill through the Finance Committee and onto the Senate floor. I also applaud the perseverance of Senators SANTORUM and LIEBERMAN, who have championed this bill for many months and have kept at it despite the discouragement of not being able to get the unanimous consent needed to bring it to the floor until very recently.

The CARE Act includes several important incentives to encourage additional contributions to charity. One of the more important ones is the provision to allow individuals who do not itemize to take a deduction under certain circumstances. I am particularly pleased that the Finance Committee chose to craft this incentive as a targeted provision, rather than as a provision that would allow a deduction for the first dollar of contributions. Two-thirds of Americans do not itemize their deductions, but most of them do make contributions. Allowing a deduction for contributions that were already being made is not an incentive—it is a giveaway. The provision in the CARE Act encourages us to stretch and give more. It provides a much bigger incentive for Americans to donate that marginal dollar and it also lowers the cost of this provision to the Treasury.

I am also very pleased that the bill includes two other provision, which I have been promoting for some time. The first would simplify a complex area of the current law and eliminate significant roadblocks that now stand in the way of businesses with excess book inventory to donating those books to schools, libraries, and literacy programs, where they are much needed. Unfortunately, the current tax law benefits for donating such books to schools or libraries are often no greater than the tax benefits for donating such books to schools or libraries are often no greater than the tax benefits of sending the books to the landfill.

The provision in the CARE Act addresses the obstacles of donating excess book inventory by providing a simple and clear rule whereby any donation of book inventory to a qualified school, library, or literacy program is eligible for an enhanced deduction. This means that booksellers and publishers would receive a higher tax benefit for donating the books rather than throwing them away and would thus be encouraged to go to the extra trouble and expense of seeking out qualified donees and making the contributions.

The second provision deals with a problem that owners of S corporation

have in donating their stock to charitable entities. Under the current law, a donor of S corporation stock worth \$500 but having a tax basis of \$100 would receive a deduction for only the amount of the basis, or \$100. A holder of shares in a C corporation, however, is allowed to deduct the full \$500 value of the stock. There is no justification for this disparity in treatment between S corporation and C corporations, and a provision in the CARE Act corrects it.

I am also pleased that another provision, which Senator LINCOLN and I added as an amendment to the bill in the Finance Committee, is included in the CARE Act. Similar to the books provision I mentioned before, this provision provides a larger deduction, and therefore a stronger incentive, for businesses to donate their excess inventory to charitable entities, such as schools or churches.

The CARE Act includes many worthwhile incentives designed to increase charitable contributions. Its enactment should make a real difference in our Nation.

There is, however, one portion of the CARE Act in which I am disappointed. As an offset, the bill includes a package of measures designed to crack down on abusive corporate tax shelters. While I am certainly not in favor of abusive tax shelters, I am concerned that part of this package of antitax shelter provisions, known as the clarification of the economic substance doctrine, could also close down legitimate tax planning techniques and give the Internal Revenue Service an unprecedented degree of authority to recast the tax treatment of transactions it does not like, regardless of whether the transactions are otherwise allowed under the tax law. The provision would also override a significant body of case law, some of which reaches back almost to the inception of the income tax.

I hope that the codification of the economic substance doctrine can be deleted in the conference with the House.

All in all, however, the CARE Act is a very good bill, and it deserves the support of the Senate. I urge all of my colleagues to vote for this bill.

Mr. FEINGOLD. Madam President, I am delighted that the Finance Committee has included my volunteer mileage reimbursement legislation in the CARE Act, and I want to take this opportunity to thank the Chairman GRASSLEY and the ranking member BAUCUS for their efforts to include this needed provision. I am also pleased that some troubling provisions have been deleted from this legislation. In particular, I congratulate the sponsors for agreeing to drop title VIII before bringing the bill to the floor. Doing so strengthens this bill, and will greatly speed consideration of the measure.

Under current law, when volunteers use their cars for charitable purposes, the volunteers may be reimbursed up to 14 cents per mile for their donated services without triggering a tax con-

sequence for either the organization or the volunteers. If the charitable organization reimburses any more than that, the organization is required to file an information return with the IRS, and the volunteers must include the amount over 14 cents per mile in their taxable income. By contrast, the mileage reimbursement level currently permitted for businesses is 36 cents per mile.

At a time when Government is asking volunteers and volunteer organizations to bear a greater burden of delivering essential services, the 14 cents per mile limit is posing a very real hardship on charitable organizations and other nonprofit groups. I have heard from a number of people in Wisconsin on the need to increase this reimbursement limit.

At a listening session I held in Portage County, WI, representatives of the local Department on Aging explained just how important volunteer drivers are to their ability to provide services to seniors in that county. The Department on Aging reported that in 2001, 54 volunteer drivers delivered meals to homes and transported people to medical appointments, meal sites, and other essential services. The Department noted that their volunteer drivers provided 4,676 rides, and drove nearly 126,000 miles. They also delivered 9,385 home-delivered meals, and nearly two-thirds of the drivers logged more than 100 miles per month in providing these needed services. Together, volunteers donated over 5,200 hours last year, and as the Department notes, at the rate of minimum wage, that amounts to over \$27,000, not including other benefits.

As many of my colleagues know, the senior meals program is one of the most vital services provided under the Older Americans Act, and ensuring that meals can be delivered to seniors or that seniors can be taken to meal sites is an essential part of that program. Unfortunately, federal support for the senior nutrition programs has stagnated in recent years. This has increased pressure on local programs to leverage more volunteer services to make up for lagging federal support. The 14 cents per mile reimbursement limit, though, increasingly poses a barrier to obtaining those contributions. Portage County reports that many of their volunteers cannot afford to offer their services under such a restriction. And if volunteers cannot be found, their services will have to be replaced by contracting with a provider, greatly increasing costs to the department, costs that come directly out of the pot of funds available to pay for meals and other services.

By contrast, businesses do not face this restrictive mileage reimbursement limit. The comparable mileage rate for someone who works for a business is currently 36 cents per mile. This disparity means that a business hired to deliver the same meals delivered by volunteers for Portage County may reimburse their employees over double

the amount permitted the volunteer without a tax consequence.

This doesn't make sense. The 14 cents per mile volunteer reimbursement limit is badly outdated. According to the Congressional Research Service, Congress first set a reimbursement rate of 12 cents per mile as part of the Deficit Reduction Act of 1984, and did not increase it until 1997, when the level was raised slightly, to 14 cents per mile, as part of the Taxpayer Relief Act of 1997.

The provision included in the CARE Act addresses this problem by raising the limit on volunteer mileage reimbursement to the level permitted to businesses, currently 36 cents per mile.

Once again, I thank the chairman and ranking member of the Finance Committee for their help in including this provision in the CARE Act. This timely measure will help ensure that charitable organizations can continue to attract the volunteers who play such a critical role in helping to deliver services, and it will simplify the tax code both for nonprofit groups and the volunteers themselves.

As I noted earlier, I am also pleased that the sponsors of the CARE Act agreed to drop title VIII before bringing the bill to the floor. I had two serious concerns about title VIII. First, it threatened to undermine our Nation's long-standing public policy against discrimination in employment. Religious organizations currently enjoy an exemption from title VII of the Civil Rights Act of 1964, allowing them to discriminate against individuals on the basis of religion when making employment decisions about individuals involved in religious services. The bill as introduced was silent on this issue and therefore threatened to extend this exemption and allow religious groups that provide federally funded social services to discriminate on the basis of religion in hiring, firing, or promotion decisions.

Second, title VIII could have allowed religious organizations receiving Federal funds to proselytize during the provision of the federally funded social service. Faith-based organizations do a lot of good work in our society. But the Founders were right when they crafted the Constitution's separation of church and state provision. We need to protect each American's right to practice his or her religion as he or she chooses. I am troubled by the possibility that, regardless of good intentions, in practice, people who are in trouble would feel pressured to engage in religious activities that they are not comfortable with in order to get access to help, or otherwise be denied the services that they desperately need.

Again, I am pleased that title VIII, the problematic faith-based provision, has been dropped from the version of the bill that is before the Senate today. Congress, however, must continue to be vigilant to ensure that we do not enact legislation that allows taxpayer dollars to be used to promote employment dis-

crimination based on religion, or religious instruction, worship, or proselytization.

Mr. INOUE. Mr. President, I want to express my appreciation to Chairman GRASSLEY and Senator BAUCUS for the inclusion of the hospital support organization provision to the CARE Act. This provision is important to all teaching hospital support organizations, including those in Hawaii. The provision would treat borrowing by these support organizations as qualified exceptions under the unrelated business income rule for debt acquisition.

As a requirement for tax exemption status, nonprofit hospitals must provide significant charity services. They do this mainly by treating Medicaid and Medicare patients and by running an open emergency room that treats anyone without regard to payment. For example, Medicare and Medicaid admissions comprise nearly 60 percent of all admissions at the largest private, nonprofit hospital in my State. The demand for indigent or charitable hospital care will continue to grow especially in an economic down turn.

A number of charitable hospitals, such as the Queen's Medical Center in the State of Hawaii, also provide residency training as teaching hospitals for our future doctors. In addition, they must extend staff privileges to all qualified physicians in nearly all specialties. Accordingly, they cannot be selective as to their patients or to their staff physicians. To pay for these charitable services nonprofit hospitals must use their endowment income as well as fees from other patients.

For-profit enterprises can easily borrow or raise the capital to build the most up-to-date facilities to compete for the high-profit patients. In comparison, charitable hospitals face lower reimbursements for Medicaid and Medicare patients, while at the same time they struggle to cope with rising costs for wages, supplies and insurance. In order to meet the growing demand for indigent care, many charitable hospitals postpone updating their equipment and defer modernizing their facilities. As a result, there is a growing trend for charitable hospitals to sell off their facilities to for-profit operations because they can easily secure the required capital to update or expand the facilities.

In the past, Congress has allowed nonprofit schools, colleges, universities, and pension funds to invest in real estate with borrowed funds, and the income from real investments has allowed these institutions to meet their financial needs. Accordingly, with this provision, teaching hospitals' support organizations would also be allowed to borrow in order to repair and improve the real property held in the portfolio assets of their endowments, thereby increasing the value of the real property segment of their endowments. The resulting increase of income can then help cover the growing costs for more charitable services.

Again, I thank Chairman GRASSLEY and Senator BAUCUS for the support they have given me

Mr. LEAHY. Madam President, I rise today in support of the Charity Aid, Recovery, and Empowerment, CARE Act of 2003. The tax provisions in the CARE Act will encourage increased giving to charitable organizations across the country. In community after community, our charitable organizations have seen donations drop off significantly because of the sluggish economy.

The CARE Act would allow taxpayers who do not itemize tax deductions to write off a portion of their charitable donations for 2 years—nonitemizers would be limited to \$250 for individuals and \$500 for couples filing joint returns. The bill would also permit tax-free distributions from IRAs for charitable purposes and would provide enhanced deductions for contributions of food, books, computers and conservation easements. It is important to note that the \$13.1 billion in tax allowances in the CARE Act are fully offset by tax shelter legislation that would impose stiff penalties on those who try to hide assets from the IRS. I am also pleased that the bill reported by the Senate Finance Committee on February 5 contains none of the controversial "charitable choice" provisions that hindered its passage in the last Congress.

There are a number of bipartisan and noncontroversial tax incentive provisions in the CARE Act that I have supported as stand-alone bills, including the Artist-Museum Partnership Act, S. 287, that I coauthored with Senator BENNETT, and the Good Samaritan Hunger Relief Act, S. 85, that I coauthored with Senator LUGAR.

Senator BENNETT and I introduced the Artist-Museum Partnership Act to enable our country to keep cherished art works in the United States and to preserve them in our public institutions, while erasing an inequity in our Tax Code that now serves as a disincentive for artists to donate their works to museums and libraries. Under current law, artists who donate self-created works are only able to deduct the cost of supplies such as canvas, pen, paper and ink—a sum that does not come close to the works' true value. This is unfair to artists and it hurts museums and libraries large and small that are dedicated to preserving works for posterity. Our bill would allow artists, writers, and composers who donate works to museums and libraries to take a tax deduction equal to the fair-market value of the work.

In my State of Vermont, we are incredibly proud of the great works produced by hundreds of local artists who choose to live and work in the Green Mountain State. Displaying their creations in museums and libraries helps develop a sense of pride among Vermonters and strengthens a bond with Vermont, its landscape, its beauty, and its cultural heritage. Anyone

who has gained a greater understanding of both the artist and the subject by contemplating a painting in a museum or examining an original manuscript or composition knows the tremendous value of these works. I would like to see more of them, not fewer, preserved in Vermont and across the country.

I would like to thank Senators ALLEN, BINGAMAN, CANTWELL, CHAFEE, CLINTON, COCHRAN, DASCHLE, DODD, DURBIN, FEINSTEIN, GRAHAM of Florida, JEFFORDS, JOHNSON, KENNEDY, KERRY, LIEBERMAN, LINCOLN, MILLER, STEVENS, and WARNER for cosponsoring our bill.

The Good Samaritan Hunger Relief Act that Senator LUGAR and I introduced represents a great partnership between businesses and organizations working to alleviate hunger. The bill will increase donations to food banks, soup kitchens, and other hunger relief charities and therefore help local communities and organizations become the first line of defense against hunger in America.

Under current tax law, the deduction allowed for donated food does not cover expenses incurred by the business. In many cases, this means that it is cheaper for a business or farmer to throw away leftover food instead of donating it to the hungry. This legislation will make it easier for restaurants, food processors, and farmers to contribute food to food banks, pantries, and homeless shelters by allowing the deduction of the full market value of food donated.

Over the years, the legislation has received the endorsement of various hunger relief and food community organizations, including America's Second Harvest Food Banks, the American Farm Bureau Federation, the California Emergency Foodlink, the Council of Chain Restaurants, the Grocery Manufacturers of America, Lighthouse Ministries Inc., the National Restaurant Association and the Salvation Army. I would like to thank Senators AKAKA, ALLEN, BAYH, BOND, COCHRAN, DAYTON, DEWINE, DODD, DURBIN, ENSIGN, FITZGERALD, HARKIN, KERRY, LANDRIEU, MILLER, ROBERTS, SANTORUM, SCHUMER, and SMITH for also cosponsoring our bill.

I want to thank the chairman and ranking member of the Senate Finance Committee for including the Artist-Museum Partnership Act and the Good Samaritan Hunger Relief Act in the CARE Act. As we pass this important legislation today, I look forward to working with my colleagues to ensure that the bipartisan compromises contained in the Senate bill are preserved.

Mr. KERRY. Madam President, I rise today to offer my support for the CARE Act of 2003. Now that the objectionable "charitable choice" provisions of the bill have been removed, and the Republicans have agreed to pay for the tax provisions in the bill, the positives of the legislation clearly outweigh the negatives and the final result is worthy of support.

There are several aspects of the bill of which I want to make note. Let me briefly mention them.

First, several elements in the bill were included as amendments after several Senators, including myself, worked to add them in the Finance Committee. These include an enhanced tax deduction for contributions of food inventory, which will be very helpful for food banks assisting the poor; a new market-value deduction for art donated to nonprofit institutions by an artist during his or her lifetime; and some restoration of funding for the social service block grant program. These are all worthy provisions.

Second, I have argued that while we have the largest deficits in history and face pressing domestic needs and the long-term expense of rebuilding Iraq, we should not have any new tax cuts that are not paid for. That is why I have offered a stimulus package whose costs are offset in future years, so we can stimulate the economy today without passing the bill to our kids. I am pleased that the Finance Committee worked in a bipartisan way to pay for the provisions in the CARE Act, in order to eliminate any long-term cost. Moreover, I am especially pleased that the major pay-for provisions in the bill are clarification of the economic substance doctrine and other provisions related to tax shelters. I introduced legislation to reform these shelters during the 107th Congress and the Finance Committee took much of the language from my original bill when they needed a more comprehensive offset this year. Most notably, last year's offsets for the CARE Act did not include the economic substance provision; now it represents the single largest pay-for. At a time when we are learning how far companies will go to abuse the tax system, changes to these shelter provisions come at just the right time.

Finally, although the nonitemized deduction for charitable contributions is getting the most attention in this bill, the largest permanent provision of the CARE Act will allow tax-free IRA rollovers to charitable organizations. Under the bill, people will be able to make planned charitable gifts out of IRAs at age 59½, and direct gifts at age 70½, without any tax consequence. This is language that I worked on with Senator DORGAN, and I worked hard in the Finance Committee to have the Dorgan-Kerry language included in the CARE markup. The new language will be very beneficial to the many colleges, universities, and cultural institutions throughout my home State.

The new law will make a big difference, and it is important that people understand how it works. Under current law, one's itemized deductions are generally limited to one-half of one's income. In the case of a retired worker with \$30,000 of annual income, but \$150,000 accumulated in an IRA, this limitation would prevent the retiree from making a \$30,000 donation from

the IRA to the charity of his or her choice. The entire \$30,000 withdrawal from the IRA would be taxed as income, but only \$15,000—50 percent of annual income—would be allowed as a charitable deduction. Under this bill, however, the entire contribution would be free of any tax consequence: The withdrawal would not be taxed as income, and the contribution would not be counted as a deduction. The taxpayer can simply make the transfer to the charity completely tax-free.

If the objective of this bill is to increase charitable giving, this is the central provision that will drive that result. I thank the sponsors of the bill, Senators LIEBERMAN and SANTORUM, and the Finance Committee leadership, Senators GRASSLEY and BAUCUS, and I urge my colleagues to support the CARE Act.

Mr. LIEBERMAN. Madam President, I am disappointed that the administration has put out a statement today opposing the SSBG provisions in this bill, especially after we negotiated a bill with the Administration that included those provisions. The SSBG funding is critically important to this bill. It funds a number of essential social services that have been harmed by cuts to that program. I'd like to put in the record here the results of a survey done by the United Way of America.

In January 2000, UWA conducted an informal survey to assess the impact cuts to SSBG have had on local United Ways and their community partners. This study represents the impact of cuts from a funding level of \$2.8 billion to SSBG in fiscal year 1995, to \$1.9 billion in fiscal year 1999. Since conducting the survey, SSBG funding has been further reduced to \$1.7 billion.

Following summarizes "The Stories Behind the Social Services Block Grant: A Survey by United Way of America."

Effect of SSBG Cuts on Health and Human Service Agencies: One hundred thirty-eight agencies from 26 States responded.

Effect on budget: 38 percent received less SSBG money in 1999 than in the 1995; 42 percent have been level funded for the past 5 years.

Effect on services: 17 percent of the total respondents had to cut programs to compensate for SSBG cuts; 29 percent of the agencies that received less SSBG money in 1999 than in 1995 were forced to cut programs; 32 percent of the total respondents had to cut staff to compensate for SSBG cuts; 50 percent of the agencies that received less SSBG money in 1999 than in 1995 had to cut staff; 46 percent of the total respondents were forced to serve fewer clients; 73 percent of the agencies that received less SSBG money in 1999 than in 1995 were forced to serve fewer clients.

Respondents' median 1999 grant: \$70,472.00.

Median percent of respondents' budget that SSBG represents: 10 percent.

Median number of people served with respondents' SSBG funds: 180.

The survey found that further cuts to SSBG would greatly reduce the reach and impact programs that provide services for a full range of health and human services from child welfare and

child care to youth development, job training and other work supports for those transitioning off welfare, assistance for domestic violence victims, respite care, home care services and information and referral. The administration's backtracking on its assurances about funding this program will further damage these efforts.

Mr. BUNNING. Madam President, I would like to express my support for S. 476, the CARE Act. The bill before us today contains many important provisions that work toward a single goal of encouraging charitable giving in the United States. The bill does this by making it easier for individuals to deduct their charitable contributions from their incomes taxes, by allowing tax-free distributions from IRAs for charities and by encouraging donations of books, food inventory, and computers.

I particularly would like to thank the managers of this bill for including a provision in the Managers' amendment that I had discussed in the Finance Committee earlier this year. That provision which will be in effect for certain tax-exempt bonds issued 1 year after the date of enactment of this bill, is aimed at making it easier for non-profit nursing and elder-care facilities to gain access to tax-exempt bond markets which might not otherwise be available to it. The provision was crafted to address some of the affordable funding issues facing the non-profit agencies that are attempting to provide these important and much-needed elder-care facilities, particularly in underserved regions of our country.

As you well know, Madam President, with the aging of our population, the challenges facing the underserved community of the elderly will continue to grow. One way that we can contribute to the good work that these non-profit nursing homes are doing is by finding ways to help them gain access to affordable capital so that they can continue to serve this important segment of our population.

I thank Chairman GRASSLEY and Ranking Member BAUCUS of the Finance Committee and Mr. SANTORUM, the chief supporter of this bill, and their staffs for their assistance with this issue.

Mr. GRASSLEY. Madam President, I rise today to speak in support of a key provision in the CARE Act, the restoration of \$1.375 billion for the Social Services Block Grant Program or SSBG.

As my colleagues know, SSBG is an extremely flexible grant program that states use to pay for a wide variety of social services activities. States have broad discretion over the use of these funds. In recent years, the largest expenditures for services under the SSBG were for child protective services, children's foster care and prevention and intervention services.

Additionally, SSBG funds go to provide crucial services such as respite

care for the elderly, adult protective services, as well as adoption programs.

In 1996, during the debate over welfare reauthorization, the Congress and the States agreed to temporarily decrease SSBG from \$2.8 billion a year to \$2.38 billion a year, until welfare reform was firmly established. The agreement further stipulated that SSBG would be funded at \$2.38 billion per year until fiscal year 2003 when it would be restored to \$2.8 billion per year.

We have not lived up to our promise. Funding for SSBG has been reduced considerably. Currently this vital program is funded at \$1.7 billion a year.

This program is very important in my State of Iowa.

There were over 119,708 children and adults benefitting from SSBG-funded services in the state of Iowa in fiscal year 2000.

Iowa spent almost half of their \$29 million block grant—48 percent—on services to persons with disabilities covering both physically disabled and developmentally disabled persons. Services include adult residential care, adult day care, community-supervised living, sheltered workshops and work activities.

Iowa used \$982,078 in SSBG for the prevention of abuse and neglect to elderly and disabled persons compared to receiving only \$55,927 from the title VII Elder Abuse under the Older Americans Act.

I worked very hard to ensure that SSBG was included in the CARE Act. The reason why I felt so strongly that it be included in the bill is because I see an SSBG increase as one of the ways we can direct fiscal relief to the states.

States are currently suffering under the worst fiscal crisis since World War II. I am committed to finding ways to assist the states manage this fiscal crisis. I view the inclusion of the restoration of SSBG funds as a good first step towards assisting the States make it through this current crisis.

I appreciate my colleagues' hard work on this bill and look forward to its enactment into law.

Mr. BAUCUS. Madam President, the CARE Act is an important piece of legislation that will help those organizations that are always there to help us. On balance, I believe the bill will encourage more charitable giving. And this is particularly important now, when demand on these organizations is out-pacing resources.

This legislation would not have been possible without the contributions of many.

First, I would like to thank the Finance Committee staff for their expert counsel and hard work. They spent many long hours perfecting this legislation. They are role models for those in public service.

I appreciate the cooperation we received from the Republican staff members including Kolan Davis, Mark Prater, Dean Zerbe, Elizabeth Paris, Christy Mistr, and Ed McClellan.

I want to especially thank my staff, including Jeff Forbes, John Angell, Russ Sullivan, Patrick Heck, and Jonathan Selib. I also want to mention our hardworking interns, Shawn White and Tyler Garrett.

The Finance Committee staff worked closely with staff members from other Senate offices. They also were in touch with officials from the Administration, including Susan Brown and others from Treasury.

The Joint Committee on Taxation provided technical assistance. Lindy Paull, Mary Schmitt, Roger Colinvaux, Ron Schultz, Sam Olchyk, Ray Beeman, and Brian Meighan. And many others. We owe many thanks for the assistance they provided.

Second, I want to thank Senators LIEBERMAN and SANTORUM. The CARE Act has been a priority for them for a long time. They have worked tirelessly to get this bill before the Senate. We are grateful for their diligence, cooperation and input.

I also want to thank our leaders Senators FRIST and DASCHLE for their decision in moving the CARE Act forward.

I want to thank my good friend and colleague, Chairman GRASSLEY. As always, he has been instrumental in ensuring a truly bipartisan bill. And, it continues to be a pleasure to work with him.

Finally, I look forward to seeing this bill passed into law—and soon. It is my hope that the House will take up this legislation quickly.

The CARE Act is one of the President's top priorities. There is a lot in this bill that enjoys widespread, bipartisan support.

Together, we have been working on this bill for more than 2 years. There is no need for further delay.

I urge the House to act quickly on this legislation so that we can have the CARE Act on the President's desk by the Memorial Day recess.

This is a good bill. I urge my colleagues to vote for the CARE Act.

Madam President, the CARE Act takes bold steps to combat the devastating problem of hunger—an issue that affects far too many of my constituents in Montana.

Today, in the greatest and most prosperous nation in the world, hunger remains a real problem for our families.

According to the USDA, more than 1 in 8 households were food insecure in Montana between 1999 and 2001. This means that they do not consistently know where their next meal will come from.

And 4 percent of households in Montana—that is 32,000 people, 12,000 of whom are children—live in conditions so severe that they are classified as actually experiencing hunger.

These numbers are on the rise—Montana's hunger rate had the second highest jump of any state from an identical USDA study done just three years earlier.

Many of these are working poor families, making gut-wrenching decisions

between whether to spend their hard-earned money on housing, healthcare, child-care, or food.

So this is an issue that concerns me deeply.

The CARE Act will provide a valuable weapon in the war to end hunger. It will do so by making it easier for farmers and small businesses to donate surplus food to our struggling hunger relief charities.

Simply put, these difficult economic times mean that more people are showing up to food pantries and soup kitchens at a time when these organizations are struggling the most to meet demand.

These community groups—usually consisting solely of volunteers—are often “first-responders” in the battle against hunger.

The CARE Act will help food pantries and soup kitchens to keep food on the shelves for hungry families.

The CARE Act is also good for America’s struggling farmers and businesses. It helps them do the right thing by donating surplus food that would otherwise have been thrown away.

Here is what Peggy Grimes, of the Montana Food Bank Network has to say about the CARE Act:

It has come to my attention that these struggling farmers and small grocers do not receive any tax benefit for their increasing donations. They have been donating out of concern for their neighbors as they have been hearing reports of increased food insecurity throughout Montana. . . . For Montana, as an agricultural state, the Care Act will be of significant benefit to both those donating food and those in need of food.

Hunger in America is not a problem of lack of food. The USDA estimates that 96 billion pounds of food are thrown away each year.

This is simply shameful when working families are struggling to make ends meet. There is a problem when it is more profitable to throw away food than it is to donate it to those who need it.

The CARE Act helps solve this problem by providing incentives to farmers and small businesses, whose resources are also constrained in these economic times.

America’s Second Harvest, the nation’s largest anti-hunger charity, estimates that the CARE Act will result in enough donated food to provide roughly 765 million meals over the next 10 years.

These results are real, and I am proud to support this provision.

The CARE Act is a win-win-win situation. It is a win for anti-hunger charities that work hard to ensure that America’s families have food on the table.

It is a win for our farmers and businesses that want to help their neighbors in need. And most importantly, it is a win for America’s low-income families, who will see food on their tables.

I urge my colleagues to support the CARE Act.

Madam President, it is a sad fact that in a large number of homes—par-

ticularly in the homes of our poorest, most at-risk children—you cannot find a book. Sixty percent of kindergartners—in neighborhoods that performed poorly in school—did not own a single book.

The lack of access to books poses the greatest barrier to literacy. That is why we must change the status quo.

Unfortunately, the tax law functions as a disincentive to the charitable donation of books to schools, libraries, and literacy programs. Under the tax law, it is actually more economical to truck books to a dump than it is to give them to your local school or library.

Through the title I program, however, we have nearly 15 million youngsters nationwide enrolled. This allows us to reach at least a portion of the disadvantaged children in our country.

In my State of Montana, there are an estimated 35,000 poor children who qualify for the title I program. These children will also benefit from the provision in the CARE Act which encourages the donation of books. For a child who has never owned a book—their first book is a prized possession.

An increase in charitable book contributions would especially benefit the State of Montana. According to the Montana Library Association, the Montana State Library has fallen victim to a 26 percent budget cut in 2003. These reductions will mean less money for local libraries. And they will mean cuts in the State subsidies that currently fund book purchases, inter-library loans, and audio and other special books for the elderly, disabled, and sick.

According to the Montana Commissioner of Higher Education, Montana universities will also receive fewer books. In the wake of the latest budget cuts, the state legislature has cut university budgets 8.4 percent. That puts university funding below 1992 levels.

The University of Montana leads the list with a 10.9 percent cut in state money. Followed by Montana State University at a 9.8 percent cut. And MSU-Y-Billings at a 8.5 percent cut. The libraries at Montana universities will experience cuts of \$1.6 million for new materials.

These cuts will not only hurt universities—they will also hurt the programs in which university students participate. For example, the Montana Reads literacy program—started by University of Montana President Dennison in 1997.

This program is critical to the 60-plus University of Montana student volunteers who regularly tutor kindergarten through fifth grade Missoula students. I think it is simple common sense that a critical component of any successful literacy program is for the students to have books. These Montana tutors depend on book donations to help their students. The CARE Act helps them to help the elementary kids in Missoula.

Of course these donations will also greatly aid adult literacy. Campaigns

such as the Montana Adult Basic & Literacy Education, ABLE, program serve adults who lack sufficient mastery of basic skills to function in society, a high school diploma, or basic English skills. In Montana, 75,000 adults aged 25 and over do not have a high school diploma or a GED. Twenty-five thousand adults have less than a ninth grade education.

Every effort we make to improve reading in Montana will suffer if we do not include books in the equation. The Federal Government granted 36 Montana schools \$11 million over 3 years to find reading coaches, family literacy programs and tutors.

These grants are so important to Montana. But if we fail to supply books as part of the equation, then the grants are not put to use in the most efficient way. Allowing charitable donations for books ensures that we use taxpayer dollars more effectively. We cannot afford not to.

Madam President, earlier this year, Senator GRASSLEY and I reintroduced S. 701, the Rural Heritage Conservation Act. This bill will help the nation’s hard-working farmers and ranchers preserve their heritage and way-of-life. At the same time, it promotes conservation of valuable open space and wildlife habitat. This legislation is included as a provision in the CARE Act.

S. 701 provides targeted income tax relief to small farmers and ranchers who wish to make a charitable contribution of a qualified conservation easement.

The bill would allow eligible farmers and ranchers to increase the currently deductible amount for charitable contributions of qualified conservation easements. That means that farmers and ranchers can deduct amounts up to 100 percent of adjusted gross income.

The bill also extends the carryover period from 5 years to 15 years. In the case of all other landowners, the AGI limitation would be raised from 30 percent to 50 percent.

Senator GRASSLEY has worked closely with me to include the provisions of S. 701 in the CARE Act. I believe our bipartisan cooperation is the reason why we have come so far in moving this very important piece of legislation.

Passing the provisions in S. 701 will mean that farmers and ranchers facing the potential of having to sell their ranch will have another financially viable option. Under this proposal, they will be able to choose to take advantage of the conservation easement incentives, stay on their land, and invest in their farming or ranching business.

In practical terms, that means these farmers and ranchers do not have to sell the family farm or ranch. They can keep it in the family. This is so important to preserving the character and economic vitality of our rural communities.

Over the past 25 years, over 3 million acres of agricultural lands have been

lost to development in Montana alone. Many of those lands were lost when family farms—hit hard by tough times—were forced to give up their generations' old farming operations and sell to developers in order to pay the bills.

We have to find additional tools to help these folks keep their land in agricultural production and in open space. Our legislation provides one of those tools.

To illustrate why this legislation is so important, let me give you an example of the impact of current law on farmers and ranchers.

Jerry Townsend was born and raised on his family's ranch in Highwood, Montana. He has operated the ranch since purchasing it from his parents in 1974. On his ranch, called the Elk Run Ranch, he raises commercial beef cattle.

In 1995, Mr. TOWNSEND donated a conservation easement to the Montana Land Reliance. His "donation" was calculated at \$528,000. However, because his ranch is held as a C corporation, his tax deduction was limited to 10 percent of the ranch's net income. His tax deduction over the six years totaled a paltry \$1,998—less than one percent of the total value of his donation.

In contrast, a landowner with more in income would have a much greater incentive to enter into an easement agreement because he or she would be able to deduct more of the value of the donation from their taxes.

S. 701 would do nothing more than level the playing field for farmers and ranchers when it comes to the tax benefits of donating conservation easements. What should matter is the value of your land—not the amount of your income.

Our conservation easement bill, and as included in the CARE Act, have been endorsed by 210 land trusts representing 44 States. Other supporters include the Montana Stockgrowers, the American Farmland Trust, and the Colorado Cattlemen.

This is a win-win proposition. Farmers and ranchers will be able to preserve their important agricultural and ranching lands for future generations. They will be able to continue to operate their businesses. They will be able to stay on their land.

It is a purely voluntary, incentive-based way to promote conservation. And it will allow us to bring people together. Landowners. Conservationists. The Federal Government. And local communities. All working together to preserve our precious natural resources and agricultural heritage.

Madam President, I rise to talk about another important, but often overlooked, aspect of the CARE Act—additional funding for the Social Services Block Grant, or SSBG.

SSBG funds are very flexible. States can use these funds to assist abused children cope with their trauma; to help seniors live at home, instead of nursing homes; to provide day care for

children in low-income working families; so that we know those kids are in safe places while their parents work; to assist the disabled so that they can fully participate in our society; to help parents adopt children, so that every child has a loving parent.

In my State of Montana, we use SSBG to help children with developmental disabilities, like those with cerebral palsy.

SSBG is "glue money." Communities use it to fill holes in the safety net. It is up to States and localities to decide where it goes. We give them a long menu of options, and they use it the way they see fit, based on local needs. This bill provides over \$1 billion more in SSBG to fill those holes over 2 years.

The goal of the CARE Act is to increase compassionate activity in our country. We are a big-hearted country. We want to help each other. This bill will help turn more of that desire into action and will make sure Government is doing its part.

SSBG funds support the activities of faith-related charities. We give the money to the States and they often contract with faith-related organizations to do the hands-on work that they do so well. If you want to support Catholic Charities, then you should support SSBG. If you want to support Lutheran Social Services, then you should support SSBG. These organizations have told me that SSBG funds are crucially important to them.

The CARE Act is about increased individual giving. That is absolutely vital. But if the Government does less, then any increase in individual giving may only be filling that gap left by the withdrawal of the Government.

The additional SSBG funding in this bill is our way of saying that the Government will keep its part of the bargain and continue to play a role. It is a flexible source of funds, so it won't be bureaucrats in Washington dictating the money will be used. And much of the funding will go to faith-related charities—the very organizations we want to bolster.

We haven't talked much about the SSBG provision. That is a good sign. Around here, we tend to talk about the things we disagree about. I am glad we could find common ground on this provision so easily. I'm sure the faith-related charities will thank us for doing so.

I commend Senators LIEBERMAN and SANTORUM for their work on the CARE Act.

Madam President, on February 5, 2003, the Finance Committee passed tax shelter legislation to offset the cost of the CARE Act.

How appropriate it is for a bill to encourage more charitable giving to be paid for by those shirking their responsibility to pay their fair share of taxes.

The tax shelter legislation included in the CARE Act was developed by the Finance Committee over the past 4 years.

The committee has taken time to develop appropriately targeted legislation. Care has been taken to avoid encumbering legitimate business transactions. Nevertheless, we will all be burdened until we get this problem in check.

Without these changes, honest businesses will continue to be burdened to the extent they compete against companies avoiding taxes.

Tax shelters are carefully engineered tax transactions. Most have little or no economic substance. That means that they are designed to achieve unwarranted tax benefits rather than business profit. And, they place honest taxpayers at a considerable disadvantage.

As Michael Graetz, Professor of Law at Yale University, once said: "a tax shelter is a deal done by very smart people that, absent tax considerations, would be very stupid."

It is time to put a stop to the unsavory practice of mining the Tax Code for these abusive shelters.

These transactions are designed to take advantage of the complexity of the tax law to obtain benefits that Congress never intended.

They pose a real threat to the integrity of our self-assessment system by eroding the public's respect of the tax law.

Under tax shelter legislation produced by the Finance Committee, promoters, advisors, and taxpayers would be subject to stiff penalties for failing to acknowledge these transactions to the IRS.

Treasury believes that if a taxpayer feels comfortable entering into a transaction; if a promoter feels comfortable selling a transaction; and, an advisor feels comfortable recommending a transaction, they should all feel comfortable disclosing the transaction to the IRS.

We have worked closely with the Treasury Department in crafting this legislation. We have given Treasury authority to fine-tune the provisions so as to protect legitimate tax planning.

But make no mistake, I am committed to combating abusive tax transactions. The tax shelter package is the first installment. It will not be the last.

The tax shelter package reinforces steps already taken by Treasury by requiring more transparency.

Taxpayers will now be required to disclose certain reportable transactions on their tax returns or face stiff penalties. Promoters will have to provide information to IRS on their tax avoidance strategies or face stiff sanctions.

These provisions are designed to change the cost-benefit ratio of those contemplating engaging in egregious tax planning strategies.

The bill would also eliminate abusive tax shelters by denying tax benefits with little or no economic substance.

That means that taxpayers will have to enter into transactions for legitimate economic and business reasons and not purely for tax avoidance.

This was the key recommendation made by the Joint Committee on Taxation in response to the investigation of Enron's tax transactions.

Presently, there is lack of uniformity regarding the proper application of the economic substance doctrine. Some courts apply a conjunctive test that requires a taxpayer to establish the presence of both economic substance and a substantial nontax business purpose. Other courts have found the existence of one of these as sufficient to respect a transaction.

The provision will clarify the application of the doctrine. It does not tell the court when to apply it.

A tax shelter disallowed in New York should not be permitted elsewhere. The clarification ensures uniformity across the country.

The tax shelter legislation included in the CARE Act is only a down payment. It will go a long way toward curbing abusive transactions. But it is not the final answer.

Based on the Joint Committee's investigation of Enron's tax returns, additional steps are needed. The Joint Committee made several specific recommendations for additional changes. We are looking closely at these recommendations. Additional legislation will be forthcoming. I am confident we will make any additional changes with bipartisan support.

Enron kept the IRS in the dark and out-maneuvered. The lack of adequate disclosure rules and the lack of sufficient IRS enforcement resources clearly helped Enron and its executives walk away with millions maybe billions. Our legislation would bring more transparency to these Enron-type transactions. The Enron report clearly demonstrates the need for meaningful shelter legislation.

I urge my colleagues to support this measure.

Mr. DASCHLE. Madam President, this is an important day for Senate.

As American service men and women risk their lives to relieve the suffering of an oppressed people in Iraq, the Senate is setting aside ideological differences to energize American compassion to relieve suffering here at home.

Over the past few years, the country's economic troubles have carried a double sting for America's charities. While more Americans are in need, charitable donations have dropped as families feel the pinch of the economic downturn. As a result, many charities have had to cut back on the services they provide. That means fewer meals for the hungry, fewer beds for the homeless, fewer safe havens for battered wives and children.

This legislation, the CARE Act, expands our Nation's capacity to respond to the needs of its citizens who need help. With its passage, the Senate adds the resources of the Federal Government to the commitment of our charities and faith-based organizations.

This bill won't solve every problem in our cities and towns. But it will get

meaningful aid to organizations and institutions that are equipped to help those who need help the most. It also creates real incentives to encourage giving and makes it easier for Americans to come to the aid of their fellow citizens.

Our country has a history of pulling together to help the less fortunate, and the religious community and private charities are an integral part of these efforts.

I am pleased that the Senate is helping carry that spirit forward by reaffirming the relationship between the Federal Government and our community and faith-based groups.

I want to commend Senator LIEBERMAN and Senator SANTORUM for their leadership on this legislation.

Throughout their work, they have kept sight of two fundamental goals: First, increasing assistance to those organizations that lend a hand to those in need; and second crafting a bill that reflects the Senate's strong bipartisan support for America's charities.

Today all their hard work is being rewarded. And the result will be community and faith-based groups that are better equipped to tackle the challenges facing our families and neighborhoods today.

This legislation increases funding for social services block grants and maternity homes that help teen mothers get their lives back on the right track. It also creates new avenues for giving, by making it easier to transfer retirement savings into charitable gifts and by expanding the range of deductible donations.

While we are forgoing a stronger relationship between the Federal Government and the faith community, we have been able to accomplish this goal without undermining basic constitutional protections.

I was particularly pleased that Senators SANTORUM and LIEBERMAN were able to eliminate some of the more divisive elements of the version that passed the House of Representatives.

This compromise package will not privatize Federal social service programs, or pre-empt State and local civil rights laws. These are difficult and divisive issues. But American charities need help today. And by passing this legislation, the Senate sends a message that when our citizens are in need, we cannot hold aid hostage to endless ideological debate. Compassion is not a partisan issue.

All Americans, indeed, all human beings, are bound by a common commandment to pursue justice, love kindness, and seek mercy for the oppressed. It is a standard that should guide all our work.

Today, with the passage of this bill, we move a little closer to embodying the spirit of these words, and ever closer to fulfilling our obligation to one another.

Mr. GRASSLEY. Madam President, I yield back all of my time except for 30 seconds that I want to yield to the Sen-

ator from Pennsylvania, because of his hard work on this legislation.

The PRESIDING OFFICER. I ask those who are speaking to please take their conversations off the floor so we can hear the Senator from Pennsylvania.

Mr. SANTORUM. Madam President, I thank the chairman and ranking member of the Finance Committee for the tremendous bipartisan work it took to bring this bill to the floor, where I hope we will have a very strong vote on final passage. Particularly I thank the Senator from Connecticut, Mr. LIEBERMAN, for his outstanding cooperation and work to make sure this was done in a very strong, bipartisan way.

Finally, I thank Randy Brandt, from my staff, who has put his heart and soul into this legislation and just did an outstanding job. I thank him and yield the remainder of my time.

The PRESIDING OFFICER. All time having been yielded back, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading and was read the third time.

Mr. GRASSLEY. Madam President, have the yeas and nays been ordered?

The PRESIDING OFFICER. They have not.

Mr. GRASSLEY. I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The bill having been read the third time, the question is, Shall the bill pass?

The clerk will call the roll.

The legislative clerk called the roll.

The result was announced—yeas 95, nays 5, as follows:

[Rollcall Vote No. 128 Leg.]

YEAS—95

Akaka	Dole	Lincoln
Alexander	Domenici	Lott
Allard	Dorgan	Lugar
Allen	Durbin	McCain
Baucus	Edwards	McConnell
Bayh	Ensign	Mikulski
Bennett	Feingold	Miller
Biden	Feinstein	Murkowski
Bingaman	Fitzgerald	Murray
Bond	Frist	Nelson (FL)
Boxer	Graham (FL)	Nelson (NE)
Breaux	Graham (SC)	Pryor
Brownback	Grassley	Reed
Bunning	Gregg	Reid
Burns	Hagel	Roberts
Byrd	Harkin	Rockefeller
Campbell	Hatch	Santorum
Cantwell	Hollings	Sarbanes
Carper	Hutchison	Schumer
Chafee	Inhofe	Sessions
Chambliss	Inouye	Shelby
Clinton	Jeffords	Smith
Cochran	Johnson	Snowe
Coleman	Kennedy	Specter
Collins	Kerry	Stabenow
Conrad	Kohl	Stevens
Cornyn	Kyl	Sununu
Corzine	Landrieu	Talent
Daschle	Lautenberg	Voinovich
Dayton	Leahy	Warner
DeWine	Levin	Wyden
Dodd	Lieberman	

NAYS—5

Craig Enzi Thomas
Crapo Nickles

The bill (S. 476), as amended, was passed, as follows:

S. 476

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 “CARE Act of 2003”.

(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.

(c) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—CHARITABLE GIVING
INCENTIVES

- Sec. 101. Deduction for portion of charitable contributions to be allowed to individuals who do not itemize deductions.
- Sec. 102. Tax-free distributions from individual retirement accounts for charitable purposes.
- Sec. 103. Charitable deduction for contributions of food inventories.
- Sec. 104. Charitable deduction for contributions of book inventories.
- Sec. 105. Expansion of charitable contribution allowed for scientific property used for research and for computer technology and equipment used for educational purposes.
- Sec. 106. Modifications to encourage contributions of capital gain real property made for conservation purposes.
- Sec. 107. Exclusion of 25 percent of gain on sales or exchanges of land or water interests to eligible entities for conservation purposes.
- Sec. 108. Tax exclusion for cost-sharing payments under Partners for Fish and Wildlife Program.
- Sec. 109. Adjustment to basis of S corporation stock for certain charitable contributions.
- Sec. 110. Enhanced deduction for charitable contribution of literary, musical, artistic, and scholarly compositions.
- Sec. 111. Mileage reimbursements to charitable volunteers excluded from gross income.
- Sec. 112. Extension of enhanced deduction for inventory to include public schools.
- Sec. 113. 10-year divestiture period for certain excess business holdings of private foundations

TITLE II—PROPOSALS IMPROVING THE
OVERSIGHT OF TAX-EXEMPT ORGANIZATIONS

- Sec. 201. Disclosure of written determinations.
- Sec. 202. Disclosure of Internet web site and name under which organization does business.
- Sec. 203. Modification to reporting capital transactions.
- Sec. 204. Disclosure that Form 990 is publicly available.
- Sec. 205. Disclosure to State officials of proposed actions related to section 501(c) organizations.
- Sec. 206. Expansion of penalties to preparers of Form 990.

Sec. 207. Notification requirement for entities not currently required to file.

Sec. 208. Suspension of tax-exempt status of terrorist organizations.

TITLE III—OTHER CHARITABLE AND
EXEMPT ORGANIZATION PROVISIONS

- Sec. 301. Modification of excise tax on unrelated business taxable income of charitable remainder trusts.
- Sec. 302. Modifications to section 512(b)(13).
- Sec. 303. Simplification of lobbying expenditure limitation.
- Sec. 304. Expedited review process for certain tax-exemption applications.
- Sec. 305. Clarification of definition of church tax inquiry.
- Sec. 306. Expansion of declaratory judgment remedy to tax-exempt organizations.
- Sec. 307. Definition of convention or association of churches.
- Sec. 308. Payments by charitable organizations to victims of war on terrorism and families of astronauts killed in the line of duty.
- Sec. 309. Modification of scholarship foundation rules.
- Sec. 310. Treatment of certain hospital support organizations as qualified organizations for purposes of determining acquisition indebtedness.
- Sec. 311. Charitable contribution deduction for certain expenses incurred in support of Native Alaskan subsistence whaling.
- Sec. 312. Matching grants to low-income taxpayer clinics for return preparation.
- Sec. 313. Exemption of qualified 501(c)(3) bonds for nursing homes from Federal guarantee prohibitions.
- Sec. 314. Excise taxes exemption for blood collector organizations.
- Sec. 315. Pilot project for forest conservation activities.
- Sec. 316. Clarification of treatment of Johnny Micheal Spann Patriot Trusts.

TITLE IV—SOCIAL SERVICES BLOCK
GRANT

- Sec. 401. Restoration of funds for the Social Services Block Grant.
- Sec. 402. Restoration of authority to transfer up to 10 percent of TANF funds to the Social Services Block Grant.
- Sec. 403. Requirement to submit annual report on State activities.

TITLE V—INDIVIDUAL DEVELOPMENT
ACCOUNTS

- Sec. 501. Short title.
- Sec. 502. Purposes.
- Sec. 503. Definitions.
- Sec. 504. Structure and administration of qualified individual development account programs.
- Sec. 505. Procedures for opening and maintaining an individual development account and qualifying for matching funds.
- Sec. 506. Deposits by qualified individual development account programs.
- Sec. 507. Withdrawal procedures.
- Sec. 508. Certification and termination of qualified individual development account programs.
- Sec. 509. Reporting, monitoring, and evaluation.
- Sec. 510. Authorization of appropriations.
- Sec. 511. Matching funds for individual development accounts provided through a tax credit for qualified financial institutions.

Sec. 512. Account funds disregarded for purposes of certain means-tested Federal programs.

TITLE VI—MANAGEMENT OF EXEMPT
ORGANIZATIONS

Sec. 601. Authorization of appropriations.

TITLE VII—REVENUE PROVISIONS

- Subtitle A—Provisions Designed To Curtail
Tax Shelters
- Sec. 701. Clarification of economic substance doctrine.
- Sec. 702. Penalty for failing to disclose reportable transaction.
- Sec. 703. Accuracy-related penalty for listed transactions and other reportable transactions having a significant tax avoidance purpose.
- Sec. 704. Penalty for understatements attributable to transactions lacking economic substance, etc.
- Sec. 705. Modifications of substantial understatement penalty for non-reportable transactions.
- Sec. 706. Tax shelter exception to confidentiality privileges relating to taxpayer communications.
- Sec. 707. Disclosure of reportable transactions.
- Sec. 708. Modifications to penalty for failure to register tax shelters.
- Sec. 709. Modification of penalty for failure to maintain lists of investors.
- Sec. 710. Modification of actions to enjoin certain conduct related to tax shelters and reportable transactions.
- Sec. 711. Understatement of taxpayer's liability by income tax return preparer.
- Sec. 712. Penalty on failure to report interests in foreign financial accounts.
- Sec. 713. Frivolous tax submissions.
- Sec. 714. Regulation of individuals practicing before the Department of Treasury.
- Sec. 715. Penalty on promoters of tax shelters.
- Sec. 716. Statute of limitations for taxable years for which listed transactions not reported.
- Sec. 717. Denial of deduction for interest on underpayments attributable to nondisclosed reportable and noneconomic substance transactions.
- Sec. 718. Authorization of appropriations for tax law enforcement.
- Subtitle B—Other Provisions
- Sec. 721. Affirmation of consolidated return regulation authority.
- Sec. 722. Signing of corporate tax returns by chief executive officer.
- Sec. 723. Securities civil enforcement provisions.
- Sec. 724. Review of State agency blindness and disability determinations.
- TITLE VIII—COMPASSION CAPITAL FUND
- Sec. 801. Support for nonprofit community-based organizations; Department of Health and Human Services.
- Sec. 802. Support for nonprofit community-based organizations; Corporation for National and Community Service.
- Sec. 803. Support for nonprofit community-based organizations; Department of Justice.
- Sec. 804. Support for nonprofit community-based organizations; Department of Housing and Urban Development.
- Sec. 805. Coordination.
- TITLE IX—MATERNITY GROUP HOMES
- Sec. 901. Maternity group homes.

**TITLE I—CHARITABLE GIVING
INCENTIVES**

SEC. 101. DEDUCTION FOR PORTION OF CHARITABLE CONTRIBUTIONS TO BE ALLOWED TO INDIVIDUALS WHO DO NOT ITEMIZE DEDUCTIONS.

(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) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING DEDUCTIONS.—In the case of an individual who does not itemize deductions for any taxable year, there shall be taken into account as a direct charitable deduction under section 63 an amount equal to the amount allowable under subsection (a) for the taxable year for cash contributions, to the extent that such contributions exceed \$250 (\$500 in the case of a joint return) but do not exceed \$500 (\$1,000 in the case of a joint return).”

(b) DIRECT CHARITABLE DEDUCTION.—

(1) IN GENERAL.—Subsection (b) of section 63 (defining taxable income) is amended by striking “and” at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting “, and”, and by adding at the end the following new paragraph:

“(3) the direct charitable deduction.”

(2) DEFINITION.—Section 63 is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

“(g) DIRECT CHARITABLE DEDUCTION.—For purposes of this section, the term ‘direct charitable deduction’ means that portion of the amount allowable under section 170(a) which is taken as a direct charitable deduction for the taxable year under section 170(m).”

(3) CONFORMING AMENDMENT.—Subsection (d) of section 63 is amended by striking “and” at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting “, and”, and by adding at the end the following new paragraph:

“(3) the direct charitable deduction.”

(c) STUDY.—

(1) IN GENERAL.—The Secretary of the Treasury shall study the effect of the amendments made by this section on increased charitable giving and taxpayer compliance, including a comparison of taxpayer compliance between taxpayers who itemize their charitable contributions and taxpayers who claim a direct charitable deduction.

(2) REPORT.—By not later than December 31, 2004, the Secretary of the Treasury shall report on the study required under paragraph (1) to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002, and before January 1, 2005.

SEC. 102. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS FOR CHARITABLE PURPOSES.

(a) IN GENERAL.—Subsection (d) of section 408 (relating to individual retirement accounts) is amended by adding at the end the following new paragraph:

“(8) DISTRIBUTIONS FOR CHARITABLE PURPOSES.—

“(A) IN GENERAL.—No amount shall be includible in gross income by reason of a qualified charitable distribution.

“(B) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the term ‘qualified charitable distribution’ means any distribution from an individual retirement account—

“(i) which is made directly by the trustee—

“(I) to an organization described in section 170(c), or

“(II) to a split-interest entity, and

“(ii) which is made on or after—

“(I) in the case of any distribution described in clause (i)(I), the date that the individual for whose benefit the account is maintained has attained age 70½, and

“(II) in the case of any distribution described in clause (i)(II), the date that such individual has attained age 59½.

A distribution shall be treated as a qualified charitable distribution only to the extent that the distribution would be includible in gross income without regard to subparagraph (A) and, in the case of a distribution to a split-interest entity, only if no person holds an income interest in the amounts in the split-interest entity attributable to such distribution other than one or more of the following: the individual for whose benefit such account is maintained, the spouse of such individual, or any organization described in section 170(c).

“(C) CONTRIBUTIONS MUST BE OTHERWISE DEDUCTIBLE.—For purposes of this paragraph—

“(i) DIRECT CONTRIBUTIONS.—A distribution to an organization described in section 170(c) shall be treated as a qualified charitable distribution only if a deduction for the entire distribution would be allowable under section 170 (determined without regard to subsection (b) thereof and this paragraph).

“(ii) SPLIT-INTEREST GIFTS.—A distribution to a split-interest entity shall be treated as a qualified charitable distribution only if a deduction for the entire value of the interest in the distribution for the use of an organization described in section 170(c) would be allowable under section 170 (determined without regard to subsection (b) thereof and this paragraph).

“(D) APPLICATION OF SECTION 72.—Notwithstanding section 72, in determining the extent to which a distribution is a qualified charitable distribution, the entire amount of the distribution shall be treated as includible in gross income without regard to subparagraph (A) to the extent that such amount does not exceed the aggregate amount which would have been so includible if all amounts were distributed from all individual retirement accounts treated as 1 contract under paragraph (2)(A) for purposes of determining the inclusion on such distribution under section 72. Proper adjustments shall be made in applying section 72 to other distributions in such taxable year and subsequent taxable years.

“(E) SPECIAL RULES FOR SPLIT-INTEREST ENTITIES.—

“(i) CHARITABLE REMAINDER TRUSTS.—Notwithstanding section 664(b), distributions made from a trust described in subparagraph (G)(i) shall be treated as ordinary income in the hands of the beneficiary to whom is paid the annuity described in section 664(d)(1)(A) or the payment described in section 664(d)(2)(A).

“(ii) POOLED INCOME FUNDS.—No amount shall be includible in the gross income of a pooled income fund (as defined in subparagraph (G)(ii)) by reason of a qualified charitable distribution to such fund, and all distributions from the fund which are attributable to qualified charitable distributions shall be treated as ordinary income to the beneficiary.

“(iii) CHARITABLE GIFT ANNUITIES.—Qualified charitable distributions made for a charitable gift annuity shall not be treated as an investment in the contract.

“(F) DENIAL OF DEDUCTION.—Qualified charitable distributions shall not be taken into account in determining the deduction under section 170.

“(G) SPLIT-INTEREST ENTITY DEFINED.—For purposes of this paragraph, the term ‘split-interest entity’ means—

“(i) a charitable remainder annuity trust or a charitable remainder unitrust (as such terms are defined in section 664(d)) which must be funded exclusively by qualified charitable distributions,

“(ii) a pooled income fund (as defined in section 642(c)(5)), but only if the fund accounts separately for amounts attributable to qualified charitable distributions, and

“(iii) a charitable gift annuity (as defined in section 501(m)(5)).”

(b) MODIFICATIONS RELATING TO INFORMATION RETURNS BY CERTAIN TRUSTS.—

(1) RETURNS.—Section 6034 (relating to returns by trusts described in section 4947(a)(2) or claiming charitable deductions under section 642(c)) is amended to read as follows:

“SEC. 6034. RETURNS BY TRUSTS DESCRIBED IN SECTION 4947(a)(2) OR CLAIMING CHARITABLE DEDUCTIONS UNDER SECTION 642(c).

“(a) TRUSTS DESCRIBED IN SECTION 4947(a)(2).—Every trust described in section 4947(a)(2) shall furnish such information with respect to the taxable year as the Secretary may by forms or regulations require.

“(b) TRUSTS CLAIMING A CHARITABLE DEDUCTION UNDER SECTION 642(c).—

“(1) IN GENERAL.—Every trust not required to file a return under subsection (a) but claiming a deduction under section 642(c) for the taxable year shall furnish such information with respect to such taxable year as the Secretary may by forms or regulations prescribe, including—

“(A) the amount of the deduction taken under section 642(c) within such year,

“(B) the amount paid out within such year which represents amounts for which deductions under section 642(c) have been taken in prior years,

“(C) the amount for which such deductions have been taken in prior years but which has not been paid out at the beginning of such year,

“(D) the amount paid out of principal in the current and prior years for the purposes described in section 642(c),

“(E) the total income of the trust within such year and the expenses attributable thereto, and

“(F) a balance sheet showing the assets, liabilities, and net worth of the trust as of the beginning of such year.

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to a trust for any taxable year if—

“(A) all the net income for such year, determined under the applicable principles of the law of trusts, is required to be distributed currently to the beneficiaries, or

“(B) the trust is described in section 4947(a)(1).”

(2) INCREASE IN PENALTY RELATING TO FILING OF INFORMATION RETURN BY SPLIT-INTEREST TRUSTS.—Paragraph (2) of section 6652(c) (relating to returns by exempt organizations and by certain trusts) is amended by adding at the end the following new subparagraph:

“(C) SPLIT-INTEREST TRUSTS.—In the case of a trust which is required to file a return under section 6034(a), subparagraphs (A) and (B) of this paragraph shall not apply and paragraph (1) shall apply in the same manner as if such return were required under section 6033, except that—

“(i) the 5 percent limitation in the second sentence of paragraph (1)(A) shall not apply,

“(ii) in the case of any trust with gross income in excess of \$250,000, the first sentence of paragraph (1)(A) shall be applied by substituting ‘\$100’ for ‘\$20’, and the second sentence thereof shall be applied by substituting ‘\$50,000’ for ‘\$10,000’, and

“(iii) the third sentence of paragraph (1)(A) shall be disregarded.

In addition to any penalty imposed on the trust pursuant to this subparagraph, if the

person required to file such return knowingly fails to file the return, such penalty shall also be imposed on such person who shall be personally liable for such penalty.”.

(3) CONFIDENTIALITY OF NONCHARITABLE BENEFICIARIES.—Subsection (b) of section 6104 (relating to inspection of annual information returns) is amended by adding at the end the following new sentence: “In the case of a trust which is required to file a return under section 6034(a), this subsection shall not apply to information regarding beneficiaries which are not organizations described in section 170(c).”.

(c) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendment made by subsection (a) shall apply to distributions—

(A) described in section 408(d)(8)(B)(i)(I) of the Internal Revenue Code of 1986, as added by this section, made after the date of the enactment of this Act, and

(B) described in section 408(d)(8)(B)(i)(II) of such Code, as so added, made after December 31, 2003.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply to returns for taxable years beginning after December 31, 2003.

SEC. 103. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORIES.

(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) APPLICATION OF PARAGRAPH (3) TO CERTAIN CONTRIBUTIONS OF FOOD INVENTORY.—For purposes of this section—

“(A) EXTENSION TO INDIVIDUALS.—In the case of a charitable contribution of apparently wholesome food—

“(i) paragraph (3)(A) shall be applied without regard to whether the contribution is made by a C corporation, and

“(ii) in the case of a taxpayer other than a C corporation, the aggregate amount of such contributions from any trade or business (or interest therein) of the taxpayer for any taxable year which may be taken into account under this section shall not exceed 10 percent of the taxpayer’s net income from any such trade or business, computed without regard to this section, for such taxable year.

“(B) LIMITATION ON REDUCTION.—In the case of a charitable contribution of apparently wholesome food, notwithstanding paragraph (3)(B), the amount of the reduction determined under paragraph (1)(A) shall not exceed the amount by which the fair market value of such property exceeds twice the basis of such property.

“(C) DETERMINATION OF BASIS.—If a taxpayer—

“(i) does not account for inventories under section 471, and

“(ii) is not required to capitalize indirect costs under section 263A,

the taxpayer may elect, solely for purposes of paragraph (3)(B), to treat the basis of any apparently wholesome food as being equal to 25 percent of the fair market value of such food.

“(D) DETERMINATION OF FAIR MARKET VALUE.—In the case of a charitable contribution of apparently wholesome food which is a qualified contribution (within the meaning of paragraph (3), as modified by subparagraph (A) of this paragraph) and which, solely by reason of internal standards of the taxpayer or lack of market, cannot or will not be sold, the fair market value of such contribution shall be determined—

“(i) without regard to such internal standards or such lack of market and

“(ii) by taking into account the price at which the same or substantially the same

food items (as to both type and quality) are sold by the taxpayer at the time of the contribution (or, if not so sold at such time, in the recent past).

“(E) APPARENTLY WHOLESOME FOOD.—For purposes of this paragraph, the term ‘apparently wholesome food’ has the meaning given such term by section 22(b)(2) of the Bill Emerson Good Samaritan Food Donation Act (42 U.S.C. 1791(b)(2)), as in effect on the date of the enactment of this paragraph.”.

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

SEC. 104. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF BOOK INVENTORIES.

(a) IN GENERAL.—Section 170(e)(3) (relating to certain contributions of ordinary income and capital gain property) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) SPECIAL RULE FOR CONTRIBUTIONS OF BOOK INVENTORY FOR EDUCATIONAL PURPOSES.—

“(i) CONTRIBUTIONS OF BOOK INVENTORY.—In determining whether a qualified book contribution is a qualified contribution, subparagraph (A) shall be applied without regard to whether—

“(I) the donee is an organization described in the matter preceding clause (i) of subparagraph (A), and

“(II) the property is to be used by the donee solely for the care of the ill, the needy, or infants.

“(ii) AMOUNT OF REDUCTION.—Notwithstanding subparagraph (B), the amount of the reduction determined under paragraph (1)(A) shall not exceed the amount by which the fair market value of the contributed property (as determined by the taxpayer using a bona fide published market price for such book) exceeds twice the basis of such property.

“(iii) QUALIFIED BOOK CONTRIBUTION.—For purposes of this paragraph, the term ‘qualified book contribution’ means a charitable contribution of books, but only if the requirements of clauses (iv) and (v) are met.

“(iv) IDENTITY OF DONEE.—The requirement of this clause is met if the contribution is to an organization—

“(I) described in subclause (I) or (III) of paragraph (6)(B)(i), or

“(II) described in section 501(c)(3) and exempt from tax under section 501(a) (other than a private foundation, as defined in section 509(a), which is not an operating foundation, as defined in section 4942(j)(3)), which is organized primarily to make books available to the general public at no cost or to operate a literacy program.

“(v) CERTIFICATION BY DONEE.—The requirement of this clause is met if, in addition to the certifications required by subparagraph (A) (as modified by this subparagraph), the donee certifies in writing that—

“(I) the books are suitable, in terms of currency, content, and quantity, for use in the donee’s educational programs, and

“(II) the donee will use the books in its educational programs.

“(vi) BONA FIDE PUBLISHED MARKET PRICE.—For purposes of this subparagraph, the term ‘bona fide published market price’ means, with respect to any book, a price—

“(I) determined using the same printing and edition,

“(II) determined in the usual market in which such a book has been customarily sold by the taxpayer, and

“(III) for which the taxpayer can demonstrate to the satisfaction of the Secretary that the taxpayer customarily sold such books in arm’s length transactions within 7

years preceding the contribution of such a book.”.

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

SEC. 105. EXPANSION OF CHARITABLE CONTRIBUTION ALLOWED FOR SCIENTIFIC PROPERTY USED FOR RESEARCH AND FOR COMPUTER TECHNOLOGY AND EQUIPMENT USED FOR EDUCATIONAL PURPOSES.

(a) SCIENTIFIC PROPERTY USED FOR RESEARCH.—

(1) IN GENERAL.—Clause (ii) of section 170(e)(4)(B) (defining qualified research contributions) is amended by inserting “or assembled” after “constructed”.

(2) CONFORMING AMENDMENT.—Clause (iii) of section 170(e)(4)(B) is amended by inserting “or assembling” after “construction”.

(b) COMPUTER TECHNOLOGY AND EQUIPMENT FOR EDUCATIONAL PURPOSES.—

(1) IN GENERAL.—Clause (ii) of section 170(e)(6)(B) is amended by inserting “or assembled” after “constructed” and “or assembling” after “construction”.

(2) SPECIAL RULE EXTENDED.—Section 170(e)(6)(G) is amended by striking “2003” and inserting “2005”.

(3) CONFORMING AMENDMENTS.—Subparagraph (D) of section 170(e)(6) is amended by inserting “or assembled” after “constructed” and “or assembling” after “construction”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

SEC. 106. MODIFICATIONS TO ENCOURAGE CONTRIBUTIONS OF CAPITAL GAIN REAL PROPERTY MADE FOR CONSERVATION PURPOSES.

(a) IN GENERAL.—Section 170(h) (relating to qualified conservation contribution) is amended by adding at the end the following new paragraph:

“(7) ADDITIONAL INCENTIVES FOR QUALIFIED CONSERVATION CONTRIBUTIONS.—

“(A) IN GENERAL.—In the case of any qualified conservation contribution (as defined in paragraph (1)) made by an individual—

“(i) subparagraph (C) of subsection (b)(1) shall not apply,

“(ii) except as provided in subparagraph (B)(i), subsections (b)(1)(A) and (d)(1) shall be applied separately with respect to such contributions by treating references to 50 percent of the taxpayer’s contribution base as references to the amount of such base reduced by the amount of other contributions allowable under subsection (b)(1)(A), and

“(iii) subparagraph (A) of subsection (d)(1) shall be applied—

“(I) by substituting ‘15 succeeding taxable years’ for ‘5 succeeding taxable years’, and

“(II) by applying clause (ii) to each of the 15 succeeding taxable years.

“(B) SPECIAL RULES FOR ELIGIBLE FARMERS AND RANCHERS.—

“(i) IN GENERAL.—In the case of any such contributions by a taxpayer who is an eligible farmer or rancher for the taxable year in which such contributions are made—

“(I) if the taxpayer is an individual, subsections (b)(1)(A) and (d)(1) shall be applied separately with respect to such contributions by substituting ‘the taxpayer’s contribution base reduced by the amount of other contributions allowable under subsection (b)(1)(A)’ for ‘50 percent of the taxpayer’s contribution base’ each place it appears, and

“(II) if the taxpayer is a corporation, subsections (b)(2) and (d)(2) shall be applied separately with respect to such contributions, subsection (b)(2) shall be applied with respect to such contributions as if such subsection did not contain the words ‘10 percent

of' and as if subparagraph (A) thereof read 'the deduction under this section for qualified conservation contributions', and rules similar to the rules of subparagraph (A)(iii) shall apply for purposes of subsection (d)(2).

“(i) DEFINITION.—For purposes of clause (i), the term ‘eligible farmer or rancher’ means a taxpayer whose gross income from the trade or business of farming (within the meaning of section 2032A(e)(5)) is at least 51 percent of the taxpayer’s gross income for the taxable year, and, in the case of a C corporation, the stock of which is not publicly traded on a recognized exchange.”.

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

SEC. 107. EXCLUSION OF 25 PERCENT OF GAIN ON SALES OR EXCHANGES OF LAND OR WATER INTERESTS 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. 25-PERCENT EXCLUSION OF GAIN ON SALES OR EXCHANGES OF LAND OR WATER INTERESTS TO ELIGIBLE ENTITIES FOR CONSERVATION PURPOSES.

“(a) EXCLUSION.—Gross income shall not include 25 percent of the qualifying gain from a conservation sale of a long-held qualifying land or water interest.

“(b) QUALIFYING GAIN.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualifying gain’ means any gain which would be recognized as long-term capital gain, reduced by the amount of any long-term capital gain attributable to disqualified improvements.

“(2) DISQUALIFIED IMPROVEMENT.—For purposes of paragraph (1), the term ‘disqualified improvement’ means any building, structure, or other improvement, other than—

“(A) any improvement which is described in section 175(c)(1), determined—

“(i) without regard to the requirements that the taxpayer be engaged in farming, and

“(ii) without taking into account subparagraphs (A) and (B) thereof, or

“(B) any improvement which the Secretary determines directly furthers conservation purposes.

“(3) SPECIAL RULE FOR SALES OF STOCK.—If the long-held qualifying land or water interest is 1 or more shares of stock in a qualifying land or water corporation, the qualifying gain is equal to the lesser of—

“(A) the qualifying gain determined under paragraph (1), or

“(B) the product of—

“(i) the percentage of such corporation’s stock which is transferred by the taxpayer, times

“(ii) the amount which would have been the qualifying gain (determined under paragraph (1)) if there had been a conservation sale by such corporation of all of its interests in the land and water for a price equal to the product of the fair market value of such interests times the ratio of—

“(I) the proceeds of the conservation sale of the stock, to

“(II) the fair market value of the stock which was the subject of the conservation sale.

“(c) CONSERVATION SALE.—For purposes of this section, the term ‘conservation sale’ means a sale or exchange which meets the following requirements:

“(1) TRANSFEREE IS AN ELIGIBLE ENTITY.—The transferee of the long-held qualifying land or water interest is an eligible entity.

“(2) QUALIFYING LETTER OF INTENT REQUIRED.—At the time of the sale or exchange,

such transferee provides the taxpayer with a qualifying letter of intent.

“(3) NONAPPLICATION TO CERTAIN SALES.—The sale or exchange is not made pursuant to an order of condemnation or eminent domain.

“(4) CONTROLLING INTEREST IN STOCK SALE REQUIRED.—In the case of the sale or exchange of stock in a qualifying land or water corporation, at the end of the taxpayer’s taxable year in which such sale or exchange occurs, the transferee’s ownership of stock in such corporation meets the requirements of section 1504(a)(2) (determined by substituting ‘90 percent’ for ‘80 percent’ each place it appears).

“(d) LONG-HELD QUALIFYING LAND OR WATER INTEREST.—For purposes of this section—

“(1) IN GENERAL.—The term ‘long-held qualifying land or water interest’ means any qualifying land or water interest owned by the taxpayer or a member of the taxpayer’s family (as defined in section 2032A(e)(2)) at all times during the 5-year period ending on the date of the sale.

“(2) QUALIFYING LAND OR WATER INTEREST.—

“(A) IN GENERAL.—The term ‘qualifying land or water interest’ means a real property interest which constitutes—

“(i) a taxpayer’s entire interest in land,

“(ii) a taxpayer’s entire interest in water rights,

“(iii) a qualified real property interest (as defined in section 170(h)(2)), or

“(iv) stock in a qualifying land or water corporation.

“(B) ENTIRE INTEREST.—For purposes of clause (i) or (ii) of subparagraph (A)—

“(i) a partial interest in land or water is not a taxpayer’s entire interest if an interest in land or water was divided in order to create such partial interest in order to avoid the requirements of such clause or section 170(f)(3)(A), and

“(ii) a taxpayer’s entire interest in certain land does not fail to satisfy subparagraph (A)(i) solely because the taxpayer has retained an interest in other land, even if the other land is contiguous with such certain land and was acquired by the taxpayer along with such certain land in a single conveyance.

“(e) OTHER DEFINITIONS.—For purposes of this section—

“(1) ELIGIBLE ENTITY.—The term ‘eligible entity’ means—

“(A) a governmental unit referred to in section 170(c)(1), or an agency or department thereof operated primarily for 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A), or

“(B) an entity which is—

“(i) described in section 170(b)(1)(A)(vi) or section 170(h)(3)(B), and

“(ii) organized and at all times operated primarily for 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A).

“(2) QUALIFYING LETTER OF INTENT.—The term ‘qualifying letter of intent’ means a written letter of intent which includes the following statement: ‘The transferee’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) of the Internal Revenue Code of 1986, that the transferee’s use of the property so acquired will be consistent with section 170(h)(5) of such Code, and that the use of the property will continue to be consistent with such section, even if ownership or possession of such property is subsequently transferred to another person.’

“(3) QUALIFYING LAND OR WATER CORPORATION.—The term ‘qualifying land or water corporation’ means a C corporation (as de-

finied in section 1361(a)(2)) if, as of the date of the conservation sale—

“(A) the fair market value of the corporation’s interests in land or water held by the corporation at all times during the preceding 5 years equals or exceeds 90 percent of the fair market value of all of such corporation’s assets, and

“(B) not more than 50 percent of the total fair market value of such corporation’s assets consists of water rights or infrastructure related to the delivery of water, or both.

“(f) TAX ON SUBSEQUENT TRANSFERS OR REMOVALS OF CONSERVATION RESTRICTIONS.—

“(1) IN GENERAL.—A tax is hereby imposed on any subsequent—

“(A) transfer by an eligible entity of ownership or possession, whether by sale, exchange, or lease, of property acquired directly or indirectly in—

“(i) a conservation sale described in subsection (a), or

“(ii) a transfer described in clause (i), (ii), or (iii) of paragraph (4)(A), or

“(B) removal of a conservation restriction contained in an instrument of conveyance of such property.

“(2) AMOUNT OF TAX.—The amount of tax imposed by paragraph (1) on any transfer or removal shall be equal to the sum of—

“(A) either—

“(i) 20 percent of the fair market value (determined at the time of the transfer) of the property the ownership or possession of which is transferred, or

“(ii) 20 percent of the fair market value (determined at the time immediately after the removal) of the property upon which the conservation restriction was removed, plus

“(B) the product of—

“(i) the highest rate of tax specified in section 11, times

“(ii) any gain or income realized by the transferor or person removing such restriction as a result of the transfer or removal.

“(3) LIABILITY.—The tax imposed by paragraph (1) shall be paid—

“(A) on any transfer, by the transferor, and

“(B) on any removal of a conservation restriction contained in an instrument of conveyance, by the person removing such restriction.

“(4) RELIEF FROM LIABILITY.—The person (otherwise liable for any tax imposed by paragraph (1)) shall be relieved of liability for the tax imposed by paragraph (1)—

“(A) with respect to any transfer if—

“(i) the transferee is an eligible entity which provides such person, at the time of transfer, a qualifying letter of intent,

“(ii) in any case where the transferee is not an eligible entity, it is established to the satisfaction of the Secretary, that the transfer of ownership or possession, as the case may be, will be consistent with section 170(h)(5), and the transferee provides such person, at the time of transfer, a qualifying letter of intent, or

“(iii) tax has previously been paid under this subsection as a result of a prior transfer of ownership or possession of the same property, or

“(B) with respect to any removal of a conservation restriction contained in an instrument of conveyance, if it is established to the satisfaction of the Secretary that the retention of the restriction was impracticable or impossible and the proceeds continue to be used in a manner consistent with 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A).

“(5) ADMINISTRATIVE PROVISIONS.—For purposes of subtitle F, the taxes imposed by this subsection shall be treated as excise taxes with respect to which the deficiency procedures of such subtitle apply.

“(6) REPORTING.—The Secretary may require such reporting as may be necessary or appropriate to further the purpose under this section that any conservation use be in perpetuity.”.

(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. 25-percent exclusion of gain on sales or exchanges of land or water interests to eligible entities for conservation purposes.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales or exchanges occurring after the date of the enactment of this Act.

SEC. 108. TAX EXCLUSION FOR COST-SHARING PAYMENTS UNDER PARTNERS FOR FISH AND 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:

“(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. 109. ADJUSTMENT TO BASIS OF S CORPORATION STOCK FOR CERTAIN CHARITABLE CONTRIBUTIONS.

(a) IN GENERAL.—Paragraph (2) of section 1367(a) (relating to adjustments to basis of stock of shareholders, etc.) is amended by adding at the end the following new flush sentence:

“The decrease under subparagraph (B) by reason of a charitable contribution (as defined in section 170(c)) of property shall be the amount equal to the shareholder’s pro rata share of the adjusted basis of such property.”.

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

SEC. 110. ENHANCED DEDUCTION FOR CHARITABLE CONTRIBUTION OF LITERARY, MUSICAL, ARTISTIC, AND SCHOLARLY COMPOSITIONS.

(a) IN GENERAL.—Subsection (e) of section 170 (relating to certain contributions of ordinary income and capital gain property), as amended by this Act, is amended by adding at the end the following new paragraph:

“(8) SPECIAL RULE FOR CERTAIN CONTRIBUTIONS OF LITERARY, MUSICAL, ARTISTIC, OR SCHOLARLY COMPOSITIONS.—

“(A) IN GENERAL.—In the case of a qualified artistic charitable contribution—

“(i) the amount of such contribution taken into account under this section shall be the fair market value of the property contributed (determined at the time of such contribution), and

“(ii) no reduction in the amount of such contribution shall be made under paragraph (1).

“(B) QUALIFIED ARTISTIC CHARITABLE CONTRIBUTION.—For purposes of this paragraph, the term ‘qualified artistic charitable contribution’ means a charitable contribution of any literary, musical, artistic, or scholarly composition, or similar property, or the copyright thereon (or both), but only if—

“(i) such property was created by the personal efforts of the taxpayer making such contribution no less than 18 months prior to such contribution,

“(ii) the taxpayer—

“(I) has received a qualified appraisal of the fair market value of such property in ac-

cordance with the regulations under this section, and

“(II) attaches to the taxpayer’s income tax return for the taxable year in which such contribution was made a copy of such appraisal,

“(iii) the donee is an organization described in subsection (b)(1)(A),

“(iv) the use of such property by the donee is related to the purpose or function constituting the basis for the donee’s exemption under section 501 (or, in the case of a governmental unit, to any purpose or function described under section 501(c)),

“(v) the taxpayer receives from the donee a written statement representing that the donee’s use of the property will be in accordance with the provisions of clause (iv), and

“(vi) the written appraisal referred to in clause (ii) includes evidence of the extent (if any) to which property created by the personal efforts of the taxpayer and of the same type as the donated property is or has been—

“(I) owned, maintained, and displayed by organizations described in subsection (b)(1)(A), and

“(II) sold to or exchanged by persons other than the taxpayer, donee, or any related person (as defined in section 465(b)(3)(C)).

“(C) MAXIMUM DOLLAR LIMITATION; NO CARRYOVER OF INCREASED DEDUCTION.—The increase in the deduction under this section by reason of this paragraph for any taxable year—

“(i) shall not exceed the artistic adjusted gross income of the taxpayer for such taxable year, and

“(ii) shall not be taken into account in determining the amount which may be carried from such taxable year under subsection (d).

“(D) ARTISTIC ADJUSTED GROSS INCOME.—For purposes of this paragraph, the term ‘artistic adjusted gross income’ means that portion of the adjusted gross income of the taxpayer for the taxable year attributable to—

“(i) income from the sale or use of property created by the personal efforts of the taxpayer which is of the same type as the donated property, and

“(ii) income from teaching, lecturing, performing, or similar activity with respect to property described in clause (i).

“(E) PARAGRAPH NOT TO APPLY TO CERTAIN CONTRIBUTIONS.—Subparagraph (A) shall not apply to any charitable contribution of any letter, memorandum, or similar property which was written, prepared, or produced by or for an individual while the individual is an officer or employee of any person (including any government agency or instrumentality) unless such letter, memorandum, or similar property is entirely personal.

“(F) COPYRIGHT TREATED AS SEPARATE PROPERTY FOR PARTIAL INTEREST RULE.—In the case of a qualified artistic charitable contribution, the tangible literary, musical, artistic, or scholarly composition, or similar property and the copyright on such work shall be treated as separate properties for purposes of this paragraph and subsection (f)(3).”.

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

SEC. 111. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS EXCLUDED FROM GROSS INCOME.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting after section 139 the following new section:

“SEC. 139A. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS.

“(a) IN GENERAL.—Gross income of an individual does not include amounts received, from an organization described in section 170(c), as reimbursement of operating expenses with respect to use of a passenger

automobile for the benefit of such organization. The preceding sentence shall apply only to the extent that the expenses which are reimbursed would be deductible under this chapter if section 274(d) were applied—

“(1) by using the standard business mileage rate established under such section, and

“(2) as if the individual were an employee of an organization not described in section 170(c).

“(b) APPLICATION TO VOLUNTEER SERVICES ONLY.—Subsection (a) shall not apply with respect to any expenses relating to the performance of services for compensation.

“(c) NO DOUBLE BENEFIT.—A taxpayer may not claim a deduction or credit under any other provision of this title with respect to the expenses under subsection (a).

“(d) EXEMPTION FROM REPORTING REQUIREMENTS.—Section 6041 shall not apply with respect to reimbursements excluded from income under subsection (a).”.

(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 139 the following new item:

“Sec. 139A. Mileage reimbursements to charitable volunteers.”.

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

SEC. 112. EXTENSION OF ENHANCED DEDUCTION FOR INVENTORY TO INCLUDE PUBLIC SCHOOLS.

(a) IN GENERAL.—Subparagraph (A) of section 170(e)(3) (relating to special rule for certain contributions of inventory and other property) is amended by striking “to an organization which is described in” and all that follows through the end of clause (i) and inserting “to a qualified organization, but only if—

“(i) the property is to be used by the donee solely for the care of the ill, the needy, or infants and, in the case of—

“(I) an organization described in section 501(c)(3) (other than an organization described in subclause (II)), the use of the property by the donee is related to the purpose or function constituting the basis for its exemption under section 501, and

“(II) an organization described in subsection (b)(1)(A)(ii), the use of the property by the donee is related to educational purposes and such property is not computer technology or equipment (as defined in paragraph (6)(F)(i));”.

(b) QUALIFIED ORGANIZATION.—Paragraph (3) of section 170(e) of such Code is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) QUALIFIED ORGANIZATION.—For purposes of this paragraph, the term ‘qualified organization’ means—

“(i) an organization which is described in section 501(c)(3) and is exempt under section 501(a) (other than a private foundation, as defined in section 509(a), which is not an operating foundation, as defined in section 4942(j)(3)), and

“(ii) an educational organization described in subsection (b)(1)(A)(ii).”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made after December 31, 2003.

SEC. 113. 10-YEAR DIVESTITURE PERIOD FOR CERTAIN EXCESS BUSINESS HOLDINGS OF PRIVATE FOUNDATIONS.

(a) IN GENERAL.—Section 4943(c) (relating to excess business holdings) is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:

“(7) 10-YEAR PERIOD TO DISPOSE OF CERTAIN LARGE GIFTS AND BEQUESTS.—

“(A) IN GENERAL.—Paragraph (6) shall be applied by substituting ‘10-year period’ for ‘5-year period’ if—

“(i) upon the election of a private foundation, it is established to the satisfaction of the Secretary that—

“(I) the excess business holdings (or increase in excess business holdings) in a business enterprise by the private foundation in an amount which is not less than \$1,000,000,000 is the result of a gift or bequest the fair market value of which is not less than \$1,000,000,000, and

“(II) after such gift or bequest, the private foundation does not have effective control of such business enterprise to which such gift or bequest relates,

“(ii) subject to subparagraph (C), the private foundation submits to the Secretary with such election a reasonable plan for disposing of all of the excess business holdings related to such gift or bequest, and

“(iii) the private foundation certifies annually to the Secretary that the private foundation is complying with the plan submitted under this paragraph, the requirement under clause (i)(II), and the rules under subparagraph (D).

“(B) ELECTION.—Any election under subparagraph (A)(i) shall be made not later than 6 months after the date of such gift or bequest and shall—

“(i) establish the fair market value of such gift or bequest, and

“(ii) include a certification that the requirement of subparagraph (A)(i)(II) is met.

“(C) REASONABLENESS OF PLAN.—

“(i) IN GENERAL.—Any plan submitted under subparagraph (A)(ii) shall be presumed reasonable unless the Secretary notifies the private foundation to the contrary not later than 6 months after the submission of such plan.

“(ii) RESUBMISSION.—Upon notice by the Secretary under clause (i), the private foundation may resubmit a plan and shall have the burden of establishing the reasonableness of such plan to the Secretary.

“(D) SPECIAL RULES.—During any period in which an election under this paragraph is in effect—

“(i) section 4941(d)(2) (other than subparagraph (A) thereof) shall apply only with respect to any disqualified person described in section 4941(a)(1)(B),

“(ii) section 4942(a) shall be applied by substituting ‘third’ for ‘second’ both places it appears,

“(iii) section 4942(e)(1) shall be applied by substituting ‘12 percent’ for ‘5 percent’, and

“(iv) section 4942(g)(1)(A) shall be applied without regard to any portion of reasonable and necessary administrative expenses.

“(E) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2003, the \$1,000,000,000 amount under subparagraph (A)(i)(I) shall be increased by an amount equal to such dollar amount, multiplied by the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting ‘2002’ for ‘1992’ in subparagraph (B) thereof. If the \$1,000,000,000 amount as increased under this subparagraph is not a multiple of \$100,000,000, such amount shall be rounded to the next lowest multiple of \$100,000,000.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to gifts and bequests made after the date of the enactment of this Act.

TITLE II—PROPOSALS IMPROVING THE OVERSIGHT OF TAX-EXEMPT ORGANIZATIONS

SEC. 201. DISCLOSURE OF WRITTEN DETERMINATIONS.

(a) IN GENERAL.—Section 6110(l) (relating to section not to apply) is amended by striking all matter before subparagraph (A) of paragraph (2) and inserting the following:

“(1) SECTION NOT TO APPLY.—

“(1) IN GENERAL.—This section shall not apply to any matter to which section 6104 or 6105 applies, except that this section shall apply to any written determination and related background file document relating to an organization described under subsection (c) or (d) of section 501 (including any written determination denying an organization tax-exempt status under such subsection) or a political organization described in section 527 which is not required to be disclosed by section 6104(a)(1)(A).

“(2) ADDITIONAL MATTERS.—This section shall not apply to any—

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

SEC. 202. DISCLOSURE OF INTERNET WEB SITE AND NAME UNDER WHICH ORGANIZATION DOES BUSINESS.

(a) IN GENERAL.—Section 6033 (relating to returns by exempt organizations) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) DISCLOSURE OF NAME UNDER WHICH ORGANIZATION DOES BUSINESS AND ITS INTERNET WEB SITE.—Any organization which is subject to the requirements of subsection (a) shall include on the return required under subsection (a)—

“(1) any name under which such organization operates or does business, and

“(2) the Internet web site address (if any) of such organization.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns filed after December 31, 2003.

SEC. 203. MODIFICATION TO REPORTING CAPITAL TRANSACTIONS.

(a) REQUIREMENT OF SUMMARY REPORT.—Section 6033(c) (relating to additional provisions relating to private foundations) is amended by adding at the end the following new sentence: “Any information included in an annual return regarding the gain or loss from the sale or other disposition of stock or securities which are listed on an established securities market which is required to be furnished in order to calculate the tax on net investment income shall also be reported in summary form with a notice that detailed information is available upon request by the public.”

(b) DISCLOSURE REQUIREMENT.—Section 6104(b) (relating to inspection of annual information returns), as amended by this Act, is amended by adding at the end the following new sentence: “With respect to any private foundation (as defined in section 509(a)), any information regarding the gain or loss from the sale or other disposition of stock or securities which are listed on an established securities market which is required to be furnished in order to calculate the tax on net investment income but which is not in summary form is not required to be made available to the public under this subsection except upon the explicit request by a member of the public to the Secretary.”

(c) PUBLIC INSPECTION REQUIREMENT.—Section 6104(d) (relating to public inspection of certain annual returns, applications for exemptions, and notices of status) is amended by adding at the end the following new paragraph:

“(9) APPLICATION TO PRIVATE FOUNDATION CAPITAL TRANSACTION INFORMATION.—With respect to any private foundation (as defined in section 509(a)), any information regarding the gain or loss from the sale or other disposition of stock or securities which are listed on an established securities market which is required to be furnished in order to calculate the tax on net investment income but which is not in summary form is not required to be made available to the public under this subsection except upon the explicit request by a member of the public to the private foundation in the form and manner of a request described in paragraph (1)(B).”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to returns filed after December 31, 2003.

SEC. 204. DISCLOSURE THAT FORM 990 IS PUBLICLY AVAILABLE.

(a) IN GENERAL.—The Commissioner of the Internal Revenue shall notify the public in appropriate publications or other materials of the extent to which an exempt organization’s Form 990, Form 990-EZ, or Form 990-PF is publicly available.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to publications or other materials issued or revised after the date of the enactment of this Act.

SEC. 205. DISCLOSURE TO STATE OFFICIALS OF PROPOSED ACTIONS RELATED TO SECTION 501(c) ORGANIZATIONS.

(a) IN GENERAL.—Subsection (c) of section 6104 is amended by striking paragraph (2) and inserting the following new paragraphs:

“(2) DISCLOSURE OF PROPOSED ACTIONS RELATED TO CHARITABLE ORGANIZATIONS.—

“(A) SPECIFIC NOTIFICATIONS.—In the case of an organization to which paragraph (1) applies, the Secretary may disclose to the appropriate State officer—

“(i) a notice of proposed refusal to recognize such organization as an organization described in section 501(c)(3) or a notice of proposed revocation of such organization’s recognition as an organization exempt from taxation,

“(ii) the issuance of a letter of proposed deficiency of tax imposed under section 507 or chapter 41 or 42, and

“(iii) the names, addresses, and taxpayer identification numbers of organizations which have applied for recognition as organizations described in section 501(c)(3).

“(B) ADDITIONAL DISCLOSURES.—Returns and return information of organizations with respect to which information is disclosed under subparagraph (A) may be made available for inspection by or disclosed to an appropriate State officer.

“(C) PROCEDURES FOR DISCLOSURE.—Information may be inspected or disclosed under subparagraph (A) or (B) only—

“(i) upon written request by an appropriate State officer, and

“(ii) for the purpose of, and only to the extent necessary in, the administration of State laws regulating such organizations.

Such information may only be inspected by or disclosed to representatives of the appropriate State officer designated as the individuals who are to inspect or to receive the returns or return information under this paragraph on behalf of such officer. Such representatives shall not include any contractor or agent.

“(D) DISCLOSURES OTHER THAN BY REQUEST.—The Secretary may make available for inspection or disclose returns and return information of an organization to which paragraph (1) applies to an appropriate State officer of any State if the Secretary determines that such inspection or disclosure may facilitate the resolution of Federal or State issues relating to the tax-exempt status of such organization.

“(3) DISCLOSURE WITH RESPECT TO CERTAIN OTHER EXEMPT ORGANIZATIONS.—Upon written request by an appropriate State officer, the Secretary may make available for inspection or disclosure returns and return information of an organization described in paragraph (2), (4), (6), (7), (8), (10), or (13) of section 501(c) for the purpose of, and to the extent necessary in, the administration of State laws regulating the solicitation or administration of the charitable funds or charitable assets of such organizations. Such information may be inspected only by or disclosed only to representatives of the appropriate State officer designated as the individuals who are to inspect or to receive the returns or return information under this paragraph on behalf of such officer. Such representatives shall not include any contractor or agent.

“(4) USE IN CIVIL JUDICIAL AND ADMINISTRATIVE PROCEEDINGS.—Returns and return information disclosed pursuant to this subsection may be disclosed in civil administrative and civil judicial proceedings pertaining to the enforcement of State laws regulating such organizations in a manner prescribed by the Secretary similar to that for tax administration proceedings under section 6103(h)(4).

“(5) NO DISCLOSURE IF IMPAIRMENT.—Returns and return information shall not be disclosed under this subsection, or in any proceeding described in paragraph (4), to the extent that the Secretary determines that such disclosure would seriously impair Federal tax administration.

“(6) DEFINITIONS.—For purposes of this subsection—

“(A) RETURN AND RETURN INFORMATION.—The terms ‘return’ and ‘return information’ have the respective meanings given to such terms by section 6103(b).

“(B) APPROPRIATE STATE OFFICER.—The term ‘appropriate State officer’ means—

“(i) the State attorney general,
“(ii) in the case of an organization to which paragraph (1) applies, any other State official charged with overseeing organizations of the type described in section 501(c)(3), and

“(iii) in the case of an organization to which paragraph (3) applies, the head of an agency designated by the State attorney general as having primary responsibility for overseeing the solicitation of funds for charitable purposes.”

(b) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 6103 is amended—

(A) by inserting “or any appropriate State officer who has or had access to returns or return information under section 6104(c)” after “this section” in paragraph (2), and

(B) by striking “or subsection (n)” in paragraph (3) and inserting “subsection (n), or section 6104(c)”.

(2) Subparagraph (A) of section 6103(p)(3) is amended by inserting “and section 6104(c)” after “section” in the first sentence.

(3) Paragraph (4) of section 6103(p), as amended by section 202(b)(2)(B) of the Trade Act of 2002 (Public Law 107-210; 116 Stat. 961), is amended by striking “or (17)” after “any other person described in subsection (l)(16)” each place it appears and inserting “or (18) or any appropriate State officer (as defined in section 6104(c))”.

(4) The heading for paragraph (1) of section 6104(c) is amended by inserting “FOR CHARITABLE ORGANIZATIONS”.

(5) Paragraph (2) of section 7213(a) is amended by inserting “or under section 6104(c)” after “6103”.

(6) Paragraph (2) of section 7213A(a) is amended by inserting “or 6104(c)” after “6103”.

(7) Paragraph (2) of section 7431(a) is amended by inserting “(including any disclo-

sure in violation of section 6104(c))” after “6103”.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act but shall not apply to requests made before such date.

SEC. 206. EXPANSION OF PENALTIES TO PREPARERS OF FORM 990.

(a) IN GENERAL.—Section 6695 (relating to other assessable penalties with respect to the preparation of income tax returns for other persons) is amended by adding at the end the following new subsections:

“(h) CERTAIN OMISSIONS AND MISREPRESENTATIONS.—

“(1) IN GENERAL.—Any person who prepares for compensation any return under section 6033 who omits or misrepresents any information with respect to such return which was known or should have been known by such person shall pay a penalty of \$250 with respect to such return.

“(2) EXCEPTION FOR MINOR, INADVERTENT OMISSIONS.—Paragraph (1) shall not apply to minor, inadvertent omissions.

“(3) RULES FOR DETERMINING RETURN PREPARER.—For purposes of this subsection and subsection (i), any reference to a person who prepares for compensation a return under section 6033—

“(A) shall include any person who employs 1 or more persons to prepare for compensation a return under section 6033, and

“(B) shall not include any person who would be described in clause (i), (ii), (iii), or (iv) of section 7701(a)(36)(B) if such section referred to a return under section 6033.

“(i) WILLFUL OR RECKLESS CONDUCT.—

“(1) IN GENERAL.—Any person who prepares for compensation any return under section 6033 who recklessly or intentionally misrepresents any information or recklessly or intentionally disregards any rule or regulation with respect to such return shall pay a penalty of \$1,000 with respect to such return.

“(2) COORDINATION WITH OTHER PENALTIES.—With respect to any return, the amount of the penalty payable by any person by reason of paragraph (1) shall be reduced by the amount of the penalty paid by such person by reason of subsection (h) or section 6694.”

(b) CONFORMING AMENDMENTS.—

(1) The heading for section 6695 is amended by inserting “AND OTHER” after “INCOME TAX”.

(2) The item relating to section 6695 in the table of sections for part I of subchapter B of chapter 68 is amended by inserting “and other” after “income tax”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to documents prepared after the date of the enactment of this Act.

SEC. 207. NOTIFICATION REQUIREMENT FOR ENTITIES NOT CURRENTLY REQUIRED TO FILE.

(a) IN GENERAL.—Section 6033 (relating to returns by exempt organizations), as amended by this Act, is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

“(i) ADDITIONAL NOTIFICATION REQUIREMENTS.—Any organization the gross receipts of which in any taxable year result in such organization being referred to in subsection (a)(2)(A)(ii) or (a)(2)(B)—

“(1) shall furnish annually, at such time and in such manner as the Secretary may by forms or regulations prescribe, information setting forth—

“(A) the legal name of the organization,

“(B) any name under which such organization operates or does business,

“(C) the organization's mailing address and Internet web site address (if any),

“(D) the organization's taxpayer identification number,

“(E) the name and address of a principal officer, and

“(F) evidence of the continuing basis for the organization's exemption from the filing requirements under subsection (a)(1), and

“(2) upon the termination of the existence of the organization, shall furnish notice of such termination.”

(b) LOSS OF EXEMPT STATUS FOR FAILURE TO FILE RETURN OR NOTICE.—Section 6033 (relating to returns by exempt organizations), as amended by subsection (a), is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

“(j) LOSS OF EXEMPT STATUS FOR FAILURE TO FILE RETURN OR NOTICE.—

“(1) IN GENERAL.—If an organization described in subsection (a)(1) or (i) fails to file an annual return or notice required under either subsection for 3 consecutive years, such organization's status as an organization exempt from tax under section 501(a) shall be considered revoked on and after the date set by the Secretary for the filing of the third annual return or notice. The Secretary shall publish and maintain a list of any organization the status of which is so revoked.

“(2) APPLICATION NECESSARY FOR REINSTATEMENT.—Any organization the tax-exempt status of which is revoked under paragraph (1) must apply in order to obtain reinstatement of such status regardless of whether such organization was originally required to make such an application.

“(3) RETROACTIVE REINSTATEMENT IF REASONABLE CAUSE SHOWN FOR FAILURE.—If upon application for reinstatement of status as an organization exempt from tax under section 501(a), an organization described in paragraph (1) can show to the satisfaction of the Secretary evidence of reasonable cause for the failure described in such paragraph, the organization's exempt status may, in the discretion of the Secretary, be reinstated effective from the date of the revocation under such paragraph.”

(c) NO DECLARATORY JUDGMENT RELIEF.—Section 7428(b) (relating to limitations) is amended by adding at the end the following new paragraph:

“(4) NONAPPLICATION FOR CERTAIN REVOCATIONS.—No action may be brought under this section with respect to any revocation of status described in section 6033(j)(1).”

(d) NO INSPECTION REQUIREMENT.—Section 6104(b) (relating to inspection of annual information returns) is amended by inserting “(other than subsection (i) thereof)” after “6033”.

(e) NO DISCLOSURE REQUIREMENT.—Section 6104(d)(3) (relating to exceptions from disclosure requirements) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

“(B) NONDISCLOSURE OF ANNUAL NOTICES.—Paragraph (1) shall not require the disclosure of any notice required under section 6033(i).”

(f) NO MONETARY PENALTY FOR FAILURE TO NOTIFY.—Section 6652(c)(1) (relating to annual returns under section 6033 or 6012(a)(6)) is amended by adding at the end the following new subparagraph:

“(E) NO PENALTY FOR CERTAIN ANNUAL NOTICES.—This paragraph shall not apply with respect to any notice required under section 6033(i).”

(g) SECRETARIAL OUTREACH REQUIREMENTS.—

(1) NOTICE REQUIREMENT.—The Secretary of the Treasury shall notify in a timely manner every organization described in section 6033(i) of the Internal Revenue Code of 1986 (as added by this section) of the requirement under such section 6033(i) and of the penalty established under section 6033(j)—

(A) by mail, in the case of any organization the identity and address of which is included

in the list of exempt organizations maintained by the Secretary, and

(B) by Internet or other means of outreach, in the case of any other organization.

(2) LOSS OF STATUS PENALTY FOR FAILURE TO FILE RETURN.—The Secretary of the Treasury shall publicize in a timely manner in appropriate forms and instructions and through other appropriate means, the penalty established under section 6033(j) of such Code for the failure to file a return under section 6033(a)(1) of such Code.

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to notices and returns with respect to annual periods beginning after 2003.

SEC. 208. SUSPENSION OF TAX-EXEMPT STATUS OF TERRORIST ORGANIZATIONS.

(a) IN GENERAL.—Section 501 of the Internal Revenue Code of 1986 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

“(p) SUSPENSION OF TAX-EXEMPT STATUS OF TERRORIST ORGANIZATIONS.—

“(1) IN GENERAL.—The exemption from tax under subsection (a) with respect to any organization described in paragraph (2), and the eligibility of any organization described in paragraph (2) to apply for recognition of exemption under subsection (a), shall be suspended during the period described in paragraph (3).

“(2) TERRORIST ORGANIZATIONS.—An organization is described in this paragraph if such organization is designated or otherwise individually identified—

“(A) under section 212(a)(3)(B)(vi)(II) or 219 of the Immigration and Nationality Act as a terrorist organization or foreign terrorist organization,

“(B) in or pursuant to an Executive order which is related to terrorism and issued under the authority of the International Emergency Economic Powers Act or section 5 of the United Nations Participation Act of 1945 for the purpose of imposing on such organization an economic or other sanction, or

“(C) in or pursuant to an Executive order issued under the authority of any Federal law if—

“(i) the organization is designated or otherwise individually identified in or pursuant to such Executive order as supporting or engaging in terrorist activity (as defined in section 212(a)(3)(B) of the Immigration and Nationality Act) or supporting terrorism (as defined in section 140(d)(2) of the Foreign Relations Authorization Act, Fiscal Years 1988 and 1989); and

“(ii) such Executive order refers to this subsection.

“(3) PERIOD OF SUSPENSION.—With respect to any organization described in paragraph (2), the period of suspension—

“(A) begins on the later of—

“(i) the date of the first publication of a designation or identification described in paragraph (2) with respect to such organization, or

“(ii) the date of the enactment of this subsection, and

“(B) ends on the first date that all designations and identifications described in paragraph (2) with respect to such organization are rescinded pursuant to the law or Executive order under which such designation or identification was made.

“(4) DENIAL OF DEDUCTION.—No deduction shall be allowed under any provision of this title, including sections 170, 545(b)(2), 556(b)(2), 642(c), 2055, 2106(a)(2), and 2522, with respect to any contribution to an organization described in paragraph (2) during the period described in paragraph (3).

“(5) DENIAL OF ADMINISTRATIVE OR JUDICIAL CHALLENGE OF SUSPENSION OR DENIAL OF DEDUCTION.—Notwithstanding section 7428 or any other provision of law, no organization or other person may challenge a suspension under paragraph (1), a designation or identification described in paragraph (2), the period of suspension described in paragraph (3), or a denial of a deduction under paragraph (4) in any administrative or judicial proceeding relating to the Federal tax liability of such organization or other person.

“(6) ERRONEOUS DESIGNATION.—

“(A) IN GENERAL.—If—

“(i) the tax exemption of any organization described in paragraph (2) is suspended under paragraph (1),

“(ii) each designation and identification described in paragraph (2) which has been made with respect to such organization is determined to be erroneous pursuant to the law or Executive order under which such designation or identification was made, and

“(iii) the erroneous designations and identifications result in an overpayment of income tax for any taxable year by such organization,

credit or refund (with interest) with respect to such overpayment shall be made.

“(B) WAIVER OF LIMITATIONS.—If the credit or refund of any overpayment of tax described in subparagraph (A)(iii) is prevented at any time by the operation of any law or rule of law (including *res judicata*), such credit or refund may nevertheless be allowed or made if the claim therefor is filed before the close of the 1-year period beginning on the date of the last determination described in subparagraph (A)(ii).

“(7) NOTICE OF SUSPENSIONS.—If the tax exemption of any organization is suspended under this subsection, the Internal Revenue Service shall update the listings of tax-exempt organizations and shall publish appropriate notice to taxpayers of such suspension and of the fact that contributions to such organization are not deductible during the period of such suspension.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to designations made before, on, or after the date of the enactment of this Act.

TITLE III—OTHER CHARITABLE AND EXEMPT ORGANIZATION PROVISIONS

SEC. 301. MODIFICATION OF EXCISE TAX ON UNRELATED BUSINESS TAXABLE INCOME OF CHARITABLE REMAINDER TRUSTS.

(a) IN GENERAL.—Subsection (c) of section 664 (relating to exemption from income taxes) is amended to read as follows:

“(c) TAXATION OF TRUSTS.—

“(1) INCOME TAX.—A charitable remainder annuity trust and a charitable remainder unitrust shall, for any taxable year, not be subject to any tax imposed by this subtitle.

“(2) EXCISE TAX.—

“(A) IN GENERAL.—In the case of a charitable remainder annuity trust or a charitable remainder unitrust which has unrelated business taxable income (within the meaning of section 512, determined as if part III of subchapter F applied to such trust) for a taxable year, there is hereby imposed on such trust or unitrust an excise tax equal to the amount of such unrelated business taxable income.

“(B) CERTAIN RULES TO APPLY.—The tax imposed by subparagraph (A) shall be treated as imposed by chapter 42 for purposes of this title other than subchapter E of chapter 42.

“(C) TAX COURT PROCEEDINGS.—For purposes of this paragraph, the references in section 6212(c)(1) to section 4940 shall be deemed to include references to this paragraph.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2002.

SEC. 302. MODIFICATIONS TO SECTION 512(b)(13).

(a) IN GENERAL.—Paragraph (13) of section 512(b) (relating to special rules for certain amounts received from controlled entities) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new subparagraph:

“(E) PARAGRAPH TO APPLY ONLY TO EXCESS PAYMENTS.—

“(i) IN GENERAL.—Subparagraph (A) shall apply only to the portion of a specified payment received or accrued by the controlling organization that exceeds the amount which would have been paid or accrued 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 the larger of—

“(I) such excess determined without regard to any amendment or supplement to a return of tax, or

“(II) such excess determined with regard to all such amendments and supplements.”.

(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 the Taxpayer Relief Act of 1997 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. 303. SIMPLIFICATION OF LOBBYING EXPENDITURE LIMITATION.

(a) REPEAL OF GRASSROOTS EXPENDITURE LIMIT.—Paragraph (1) of section 501(h) (relating to expenditures by public charities to influence legislation) is amended to read as follows:

“(1) GENERAL RULE.—In the case of an organization to which this subsection applies, exemption from taxation under subsection (a) shall be denied because a substantial part of the activities of such organization consists of carrying on propaganda, or otherwise attempting, to influence legislation, but only if such organization normally makes lobbying expenditures in excess of the lobbying ceiling amount for such organization for each taxable year.”.

(b) EXCESS LOBBYING EXPENDITURES.—Section 4911(b) is amended to read as follows:

“(b) EXCESS LOBBYING EXPENDITURES.—For purposes of this section, the term ‘excess lobbying expenditures’ means, for a taxable year, the amount by which the lobbying expenditures made by the organization during the taxable year exceed the lobbying nontaxable amount for such organization for such taxable year.”.

(c) CONFORMING AMENDMENTS.—

(1) Section 501(h)(2) is amended by striking subparagraphs (C) and (D).

(2) Section 4911(c) is amended by striking paragraphs (3) and (4).

(3) Paragraph (1)(A) of section 4911(f) is amended by striking “limits of section 501(h)(1) have” and inserting “limit of section 501(h)(1) has”.

(4) Paragraph (1)(C) of section 4911(f) is amended by striking “limits of section 501(h)(1) are” and inserting “limit of section 501(h)(1) is”.

(5) Paragraphs (4)(A) and (4)(B) of section 4911(f) are each amended by striking “limits

of section 501(h)(1)" and inserting "limit of section 501(h)(1)".

(6) Paragraph (8) of section 6033(b) (relating to certain organizations described in section 501(c)(3)) is amended by inserting "and" at the end of subparagraph (A) and by striking subparagraphs (C) and (D).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

SEC. 304. EXPEDITED REVIEW PROCESS FOR CERTAIN TAX-EXEMPTION APPLICATIONS.

(a) IN GENERAL.—The Secretary of the Treasury or the Secretary's delegate (in this section, referred to as the "Secretary") shall adopt procedures to expedite the consideration of applications for exempt status under section 501(c)(3) of the Internal Revenue Code of 1986 filed after December 31, 2003, by any organization that—

(1) is organized and operated for the primary purpose of providing social services;

(2) is seeking a contract or grant under a Federal, State, or local program that provides funding for social services programs;

(3) establishes that, under the terms and conditions of the contract or grant program, an organization is required to obtain such exempt status before the organization is eligible to apply for a contract or grant;

(4) includes with its exemption application a copy of its completed Federal, State, or local contract or grant application; and

(5) meets such other criteria as the Secretary deems appropriate for expedited consideration.

The Secretary may prescribe other similar circumstances in which such organizations may be entitled to expedited consideration.

(b) WAIVER OF APPLICATION FEE FOR EXEMPT STATUS.—Any organization that meets the conditions described in subsection (a) (without regard to paragraph (3) of that subsection) is entitled to a waiver of any fee for an application for exempt status under section 501(c)(3) of the Internal Revenue Code of 1986 if the organization certifies that the organization has had (or expects to have) average annual gross receipts of not more than \$50,000 during the preceding 4 years (or, in the case of an organization not in existence throughout the preceding 4 years, during such organization's first 4 years).

(c) SOCIAL SERVICES DEFINED.—For purposes of this section—

(1) IN GENERAL.—The term "social services" means services directed at helping people in need, reducing poverty, improving outcomes of low-income children, revitalizing low-income communities, and empowering low-income families and low-income individuals to become self-sufficient, including—

(A) child care services, protective services for children and adults, services for children and adults in foster care, adoption services, services related to the management and maintenance of the home, day care services for adults, and services to meet the special needs of children, older individuals, and individuals with disabilities (including physical, mental, or emotional disabilities);

(B) transportation services;

(C) job training and related services, and employment services;

(D) information, referral, and counseling services;

(E) the preparation and delivery of meals, and services related to soup kitchens or food banks;

(F) health support services;

(G) literacy and mentoring programs;

(H) services for the prevention and treatment of juvenile delinquency and substance abuse, services for the prevention of crime and the provision of assistance to the victims and the families of criminal offenders,

and services related to the intervention in, and prevention of, domestic violence; and

(I) services related to the provision of assistance for housing under Federal law.

(2) EXCLUSIONS.—The term does not include a program having the purpose of delivering educational assistance under the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6301 et seq.) or under the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.).

SEC. 305. CLARIFICATION OF DEFINITION OF CHURCH TAX INQUIRY.

Subsection (i) of section 7611 (relating to section not to apply to criminal investigations, etc.) is amended by striking "or" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting " or", and by inserting after paragraph (5) the following:

"(6) information provided by the Secretary related to the standards for exemption from tax under this title and the requirements under this title relating to unrelated business taxable income."

SEC. 306. EXPANSION OF DECLARATORY JUDGMENT REMEDY TO TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Paragraph (1) of section 7428(a) (relating to creation of remedy) is amended—

(1) in subparagraph (B) by inserting after "509(a)" the following: "or as a private operating foundation (as defined in section 4942(j)(3))"; and

(2) by amending subparagraph (C) to read as follows:

"(C) with respect to the initial qualification or continuing qualification of an organization as an organization described in section 501(c) (other than paragraph (3)) or 501(d) which is exempt from tax under section 501(a), or"

(b) COURT JURISDICTION.—Subsection (a) of section 7428 is amended in the material following paragraph (2) by striking "United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia" and inserting the following: "United States Tax Court (in the case of any such determination or failure) or the United States Claims Court or the district court of the United States for the District of Columbia (in the case of a determination or failure with respect to an issue referred to in subparagraph (A) or (B) of paragraph (1))."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to pleadings filed with respect to determinations (or requests for determinations) made after December 31, 2002.

SEC. 307. DEFINITION OF CONVENTION OR ASSOCIATION OF CHURCHES.

Section 7701 (relating to definitions) is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) CONVENTION OR ASSOCIATION OF CHURCHES.—For purposes of this title, any organization which is otherwise a convention or association of churches shall not fail to so qualify merely because the membership of such organization includes individuals as well as churches or because individuals have voting rights in such organization."

SEC. 308. PAYMENTS BY CHARITABLE ORGANIZATIONS TO VICTIMS OF WAR ON TERRORISM AND FAMILIES OF ASTRONAUTS KILLED IN THE LINE OF DUTY.

(a) IN GENERAL.—For purposes of the Internal Revenue Code of 1986—

(1) any payment made by an organization described in section 501(c)(3) of such Code to—

(A) a member of the Armed Forces of the United States, or to an individual of such member's immediate family, by reason of

the death, injury, wounding, or illness of such member incurred as the result of the military response of the United States to the terrorist attacks against the United States on September 11, 2001, or

(B) an individual of an astronaut's immediate family by reason of the death of such astronaut occurring in the line of duty after December 31, 2002,

shall be treated as related to the purpose or function constituting the basis for such organization's exemption under section 501 of such Code if such payment is made using an objective formula which is consistently applied, and

(2) in the case of a private foundation (as defined in section 509 of such Code), any payment described in paragraph (1) shall not be treated as made to a disqualified person for purposes of section 4941 of such Code.

(b) EFFECTIVE DATES.—This section shall apply to—

(1) payments described in subsection (a)(1)(A) made after the date of the enactment of this Act and before September 11, 2004, and

(2) payments described in subsection (a)(1)(B) made after December 31, 2002.

SEC. 309. MODIFICATION OF SCHOLARSHIP FOUNDATION RULES.

In applying the limitations on the percentage of scholarship grants which may be awarded after the date of the enactment of this Act, to children of current or former employees under Revenue Procedure 76-47, such percentage shall be increased to 35 percent of the eligible applicants to be considered by the selection committee and to 20 percent of individuals eligible for the grants, but only if the foundation awarding the grants demonstrates that, in addition to meeting the other requirements of Revenue Procedure 76-47, it provides a comparable number and aggregate amount of grants during the same program year to individuals who are not such employees, children or dependents of such employees, or affiliated with the employer of such employees.

SEC. 310. TREATMENT OF CERTAIN HOSPITAL SUPPORT ORGANIZATIONS AS QUALIFIED ORGANIZATIONS FOR PURPOSES OF DETERMINING ACQUISITION INDEBTEDNESS.

(a) IN GENERAL.—Subparagraph (C) of section 514(c)(9) (relating to real property acquired by a qualified organization) is amended by striking "or" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting "; or", and by adding at the end the following new clause:

"(iv) a qualified hospital support organization (as defined in subparagraph (I))."

(b) QUALIFIED HOSPITAL SUPPORT ORGANIZATIONS.—Paragraph (9) of section 514(c) is amended by adding at the end the following new subparagraph:

"(I) QUALIFIED HOSPITAL SUPPORT ORGANIZATIONS.—For purposes of subparagraph (C)(iv), the term 'qualified hospital support organization' means, with respect to any eligible indebtedness (including any qualified refinancing of such eligible indebtedness), a support organization (as defined in section 509(a)(3)) which supports a hospital described in section 119(d)(4)(B) and with respect to which—

"(i) more than half of the organization's assets (by value) at any time since its organization—

"(I) were acquired, directly or indirectly, by testamentary gift or devise, and

"(II) consisted of real property, and

"(ii) the fair market value of the organization's real estate acquired, directly or indirectly, by gift or devise, exceeded 25 percent of the fair market value of all investment assets held by the organization immediately prior to the time that the eligible indebtedness was incurred.

For purposes of this subparagraph, the term 'eligible indebtedness' means indebtedness secured by real property acquired by the organization, directly or indirectly, by gift or devise, the proceeds of which are used exclusively to acquire any leasehold interest in such real property or for improvements on, or repairs to, such real property. A determination under clauses (i) and (ii) of this subparagraph shall be made each time such an eligible indebtedness (or the qualified refinancing of such an eligible indebtedness) is incurred. For purposes of this subparagraph, a refinancing of such an eligible indebtedness shall be considered qualified if such refinancing does not exceed the amount of the refinanced eligible indebtedness immediately before the refinancing."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to indebtedness incurred after December 31, 2003.

SEC. 311. CHARITABLE CONTRIBUTION DEDUCTION FOR CERTAIN EXPENSES INCURRED IN SUPPORT OF NATIVE ALASKAN SUSTAINMENT WHALING.

(a) IN GENERAL.—Section 170 (relating to charitable, etc., contributions and gifts), as amended by this Act, is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) EXPENSES PAID BY CERTAIN WHALING CAPTAINS IN SUPPORT OF NATIVE ALASKAN SUSTAINMENT 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 \$10,000 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 contributions made after December 31, 2003.

SEC. 312. MATCHING GRANTS TO LOW-INCOME TAXPAYER CLINICS FOR RETURN PREPARATION.

(a) IN GENERAL.—Chapter 77 (relating to miscellaneous provisions) is amended by inserting after section 7526 the following new section:

"SEC. 7526A. RETURN PREPARATION CLINICS FOR LOW-INCOME TAXPAYERS.

"(a) IN GENERAL.—The Secretary may, subject to the availability of appropriated funds, make grants to provide matching funds for the development, expansion, or continuation of qualified return preparation clinics.

"(b) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED RETURN PREPARATION CLINIC.—

"(A) IN GENERAL.—The term 'qualified return preparation clinic' means a clinic which—

"(i) does not charge more than a nominal fee for its services (except for reimbursement of actual costs incurred), and

"(ii) operates programs which assist low-income taxpayers in preparing and filing their Federal income tax returns, including schedules reporting sole proprietorship or farm income.

"(B) ASSISTANCE TO LOW-INCOME TAXPAYERS.—A clinic is treated as assisting low-income taxpayers under subparagraph (A)(ii) if at least 90 percent of the taxpayers assisted by the clinic have incomes which do not exceed 250 percent of the poverty level, as determined in accordance with criteria established by the Director of the Office of Management and Budget.

"(2) CLINIC.—The term 'clinic' includes—

"(A) a clinical program at an eligible educational institution (as defined in section 529(e)(5)) which satisfies the requirements of paragraph (1) through student assistance of taxpayers in return preparation and filing, and

"(B) an organization described in section 501(c) and exempt from tax under section 501(a) which satisfies the requirements of paragraph (1).

"(C) SPECIAL RULES AND LIMITATIONS.—

"(1) AGGREGATE LIMITATION.—Unless otherwise provided by specific appropriation, the Secretary shall not allocate more than \$10,000,000 per year (exclusive of costs of administering the program) to grants under this section.

"(2) OTHER APPLICABLE RULES.—Rules similar to the rules under paragraphs (2) through (5) of section 7526(c) shall apply with respect to the awarding of grants to qualified return preparation clinics."

(b) CLERICAL AMENDMENT.—The table of sections for chapter 77 is amended by inserting after the item relating to section 7526 the following new item:

"Sec. 7526A. Return preparation clinics for low-income taxpayers."

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

SEC. 313. EXEMPTION OF QUALIFIED 501(c)(3) BONDS FOR NURSING HOMES FROM FEDERAL GUARANTEE PROHIBITIONS.

(a) IN GENERAL.—Section 149(b)(3) (relating to exceptions) is amended by adding at the end the following new subparagraph:

"(E) EXCEPTION FOR QUALIFIED 501(c)(3) BONDS FOR NURSING HOMES.—

"(i) IN GENERAL.—Paragraph (1) shall not apply to any qualified 501(c)(3) bond issued before the date which is 1 year after the date of the enactment of this subparagraph for the benefit of an organization described in section 501(c)(3), if such bond is part of an issue the proceeds of which are used to finance 1 or more of the following facilities primarily for the benefit of the elderly:

"(I) Licensed nursing home facility.

"(II) Licensed or certified assisted living facility.

"(III) Licensed personal care facility.

"(IV) Continuing care retirement community.

"(ii) LIMITATION.—With respect to any calendar year, clause (i) shall not apply to any bond described in such clause if the aggregate authorized face amount of the issue of which such bond is a part when increased by the outstanding amount of such bonds issued by the issuer for such calendar year exceeds \$15,000,000.

"(iii) CONTINUING CARE RETIREMENT COMMUNITY.—For purposes of this subparagraph, the term 'continuing care retirement community' means a community which provides, on the same campus, a continuum of residential living options and support services to persons at least 60 years of age under a written agreement. For purposes of the preceding sentence, the residential living options shall include independent living units, nursing home beds, and either assisted living units or personal care beds."

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

SEC. 314. EXCISE TAXES EXEMPTION FOR BLOOD COLLECTOR ORGANIZATIONS.

(a) EXEMPTION FROM IMPOSITION OF SPECIAL FUELS TAX.—Section 4041(g) (relating to other exemptions) is amended by striking "and" at the end of paragraph (3), by striking the period in paragraph (4) and inserting "; and", and by inserting after paragraph (4) the following new paragraph:

"(5) with respect to the sale of any liquid to a qualified blood collector organization (as defined in section 7701(a)(48)) for such organization's exclusive use, or with respect to the use by a qualified blood collector organization of any liquid as a fuel."

(b) EXEMPTION FROM MANUFACTURERS EXCISE TAX.—

(1) IN GENERAL.—Section 4221(a) (relating to certain tax-free sales) is amended by striking "or" at the end of paragraph (4), by adding "or" at the end of paragraph (5), and by inserting after paragraph (5) the following new paragraph:

"(6) to a qualified blood collector organization (as defined in section 7701(a)(48)) for such organization's exclusive use."

(2) CONFORMING AMENDMENTS.—

(A) The second sentence of section 4221(a) is amended by striking "Paragraphs (4) and (5)" and inserting "Paragraphs (4), (5), and (6)".

(B) Section 6421(c) is amended by striking "or (5)" and inserting "(5), or (6)".

(c) EXEMPTION FROM COMMUNICATION EXCISE TAX.—

(1) IN GENERAL.—Section 4253 (relating to exemptions) is amended by redesignating subsection (k) as subsection (l) and inserting after subsection (j) the following new subsection:

"(k) EXEMPTION FOR QUALIFIED BLOOD COLLECTOR ORGANIZATIONS.—Under regulations provided by the Secretary, no tax shall be imposed under section 4251 on any amount paid by a qualified blood collector organization (as defined in section 7701(a)) for services or facilities furnished to such organization."

(2) CONFORMING AMENDMENT.—Section 4253(l), as redesignated by paragraph (1), is amended by striking "or (j)" and inserting "(j), or (k)".

(d) CREDIT FOR REFUND FOR CERTAIN TAXES ON SALES AND SERVICES.—

(1) DEEMED OVERPAYMENT.—

(A) IN GENERAL.—Section 6416(b)(2) 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) sold to a qualified blood collector organization's (as defined in section 7701(a)(48)) for such organization's exclusive use;"

(B) CONFORMING AMENDMENTS.—Section 6416(b)(2) is amended—

(i) by striking "Subparagraphs (C) and (D)" and inserting "Subparagraphs (C), (D), and (E)", and

(ii) by striking "(C), and (D)" and inserting "(C), (D), and (E)".

(2) SALES OF TIRES.—Clause (ii) of section 6416(b)(4)(B) is amended by inserting "sold to

a qualified blood collector organization (as defined in section 7701(a)(48)),” after “for its exclusive use.”

(e) DEFINITION OF QUALIFIED BLOOD COLLECTOR ORGANIZATION.—Section 7701(a) is amended by inserting at the end the following new paragraph:

“(48) QUALIFIED BLOOD COLLECTOR ORGANIZATION.—For purposes of this title, the term ‘qualified blood collector organization’ means an organization which is—

“(A) described in section 501(c)(3) and exempt from tax under section 501(a),

“(B) registered by the Food and Drug Administration to collect blood, and

“(C) primarily engaged in the activity of the collection of blood.”

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply with respect to excise taxes imposed on sales or uses occurring on or after October 1, 2003.

(2) REFUND OF GASOLINE TAX.—For purposes of section 6421(c) of the Internal Revenue Code of 1986 and any other provision that allows for a refund or a payment in respect of an excise tax payable at a level before the sale to a qualified blood collector organization, the amendments made by this section shall apply with respect to sales to a qualified collector organization on or after October 1, 2003.

SEC. 315. PILOT PROJECT FOR FOREST CONSERVATION ACTIVITIES.

(a) TAX-EXEMPT BOND FINANCING.—

(1) IN GENERAL.—For purposes of the Internal Revenue Code of 1986, any qualified forest conservation bond shall be treated as an exempt facility bond under section 142 of such Code.

(2) QUALIFIED FOREST CONSERVATION BOND.—For purposes of this section, the term “qualified forest conservation bond” means any bond issued as part of an issue if—

(A) 95 percent or more of the net proceeds (as defined in section 150(a)(3) of such Code) of such issue are to be used for qualified project costs,

(B) such bond is issued for a qualified organization, and

(C) such bond is issued before December 31, 2006.

(3) LIMITATION ON AGGREGATE AMOUNT ISSUED.—

(A) IN GENERAL.—The maximum aggregate face amount of bonds which may be issued under this subsection shall not exceed \$2,000,000,000 for all projects (excluding refunding bonds).

(B) ALLOCATION OF LIMITATION.—The limitation described in subparagraph (A) shall be allocated by the Secretary of the Treasury among qualified organizations based on criteria established by the Secretary not later than 180 days after the date of the enactment of this section, after consultation with the Chief of the Forest Service.

(4) QUALIFIED PROJECT COSTS.—For purposes of this subsection, the term “qualified project costs” means the sum of—

(A) the cost of acquisition by the qualified organization from an unrelated person of forests and forest land which at the time of acquisition or immediately thereafter are subject to a conservation restriction described in subsection (c)(2),

(B) capitalized interest on the qualified forest conservation bonds for the 3-year period beginning on the date of issuance of such bonds, and

(C) credit enhancement fees which constitute qualified guarantee fees (within the meaning of section 148 of such Code).

(5) SPECIAL RULES.—In applying the Internal Revenue Code of 1986 to any qualified forest conservation bond, the following modifications shall apply:

(A) Section 146 of such Code (relating to volume cap) shall not apply.

(B) For purposes of section 147(b) of such Code (relating to maturity may not exceed 120 percent of economic life), the land and standing timber acquired with proceeds of qualified forest conservation bonds shall have an economic life of 35 years.

(C) Subsections (c) and (d) of section 147 of such Code (relating to limitations on acquisition of land and existing property) shall not apply.

(D) Section 57(a)(5) of such Code (relating to tax-exempt interest) shall not apply to interest on qualified forest conservation bonds.

(6) TREATMENT OF CURRENT REFUNDING BONDS.—Paragraphs (2)(C) and (3) shall not apply to any bond (or series of bonds) issued to refund a qualified forest conservation bond issued before December 31, 2006, if—

(A) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue,

(B) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond, and

(C) the net proceeds of the refunding bond are used to redeem the refunded bond not later than 90 days after the date of the issuance of the refunding bond.

For purposes of subparagraph (A), average maturity shall be determined in accordance with section 147(b)(2)(A) of such Code.

(7) EFFECTIVE DATE.—This subsection shall apply to obligations issued on or after the date which is 180 days after the enactment of this Act.

(b) ITEMS FROM QUALIFIED HARVESTING ACTIVITIES NOT SUBJECT TO TAX OR TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Income, gains, deductions, losses, or credits from a qualified harvesting activity conducted by a qualified organization shall not be subject to tax or taken into account under subtitle A of the Internal Revenue Code of 1986.

(2) LIMITATION.—The amount of income excluded from gross income under paragraph (1) for any taxable year shall not exceed the amount used by the qualified organization to make debt service payments during such taxable year for qualified forest conservation bonds.

(3) QUALIFIED HARVESTING ACTIVITY.—For purposes of paragraph (1)—

(A) IN GENERAL.—The term “qualified harvesting activity” means the sale, lease, or harvesting, of standing timber—

(i) on land owned by a qualified organization which was acquired with proceeds of qualified forest conservation bonds,

(ii) with respect to which a written acknowledgement has been obtained by the qualified organization from the State or local governments with jurisdiction over such land that the acquisition lessens the burdens of such government with respect to such land, and

(iii) pursuant to a qualified conservation plan adopted by the qualified organization.

(B) EXCEPTIONS.—

(i) CESSATION AS QUALIFIED ORGANIZATION.—The term “qualified harvesting activity” shall not include any sale, lease, or harvesting for any period during which the organization ceases to qualify as a qualified organization.

(ii) EXCEEDING LIMITS ON HARVESTING.—The term “qualified harvesting activity” shall not include any sale, lease, or harvesting of standing timber on land acquired with proceeds of qualified forest conservation bonds to the extent that—

(I) the average annual area of timber harvested from such land exceeds 2.5 percent of the total area of such land or,

(II) the quantity of timber removed from such land exceeds the quantity which can be removed from such land annually in perpetuity on a sustained-yield basis with respect to such land.

The limitations under subclauses (I) and (II) shall not apply to post-fire restoration and rehabilitation or sanitation harvesting of timber stands which are substantially damaged by fire, windthrow, or other catastrophes, or which are in imminent danger from insect or disease attack.

(4) TERMINATION.—This subsection shall not apply to any qualified harvesting activity of a qualified organization occurring after the date on which there is no outstanding qualified forest conservation bond with respect to such qualified organization or any such bond ceases to be a tax-exempt bond.

(5) PARTIAL RECAPTURE OF BENEFITS IF HARVESTING LIMIT EXCEEDED.—If, as of the date that this subsection ceases to apply under paragraph (3), the average annual area of timber harvested from the land exceeds the requirement of paragraph (3)(B)(ii)(I), the tax imposed by chapter 1 of the Internal Revenue Code of 1986 shall be increased, under rules prescribed by the Secretary of the Treasury, by the sum of the tax benefits attributable to such excess and interest at the underpayment rate under section 6621 of such Code for the period of the underpayment.

(c) DEFINITIONS.—For purposes of this section—

(1) QUALIFIED CONSERVATION PLAN.—The term “qualified conservation plan” means a multiple land use program or plan which—

(A) is designed and administered primarily for the purposes of protecting and enhancing wildlife and fish, timber, scenic attributes, recreation, and soil and water quality of the forest and forest land,

(B) mandates that conservation of forest and forest land is the single-most significant use of the forest and forest land, and

(C) requires that timber harvesting be consistent with—

(i) restoring and maintaining reference conditions for the region’s ecotype,

(ii) restoring and maintaining a representative sample of young, mid, and late successional forest age classes,

(iii) maintaining or restoring the resources’ ecological health for purposes of preventing damage from fire, insect, or disease,

(iv) maintaining or enhancing wildlife or fish habitat, or

(v) enhancing research opportunities in sustainable renewable resource uses.

(2) CONSERVATION RESTRICTION.—The conservation restriction described in this paragraph is a restriction which—

(A) is granted in perpetuity to an unrelated person which is described in section 170(h)(3) of such Code and which, in the case of a nongovernmental unit, is organized and operated for conservation purposes,

(B) meets the requirements of clause (ii) or (iii)(II) of section 170(h)(4)(A) of such Code,

(C) obligates the qualified organization to pay the costs incurred by the holder of the conservation restriction in monitoring compliance with such restriction, and

(D) requires an increasing level of conservation benefits to be provided whenever circumstances allow it.

(3) QUALIFIED ORGANIZATION.—The term “qualified organization” means an organization—

(A) which is a nonprofit organization substantially all the activities of which are charitable, scientific, or educational, including acquiring, protecting, restoring, managing, and developing forest lands and other

renewable resources for the long-term charitable, educational, scientific and public benefit.

(B) more than half of the value of the property of which consists of forests and forest land acquired with the proceeds from qualified forest conservation bonds,

(C) which periodically conducts educational programs designed to inform the public of environmentally sensitive forestry management and conservation techniques,

(D) which has at all times a board of directors—

(i) at least 20 percent of the members of which represent the holders of the conservation restriction described in paragraph (2),

(ii) at least 20 percent of the members of which are public officials, and

(iii) not more than one-third of the members of which are individuals who are or were at any time within 5 years before the beginning of a term of membership on the board, an employee of, independent contractor with respect to, officer of, director of, or held a material financial interest in, a commercial forest products enterprise with which the qualified organization has a contractual or other financial arrangement.

(E) the bylaws of which require at least two-thirds of the members of the board of directors to vote affirmatively to approve the qualified conservation plan and any change thereto, and

(F) upon dissolution, is required to dedicate its assets to—

(i) an organization described in section 501(c)(3) of such Code which is organized and operated for conservation purposes, or

(ii) a governmental unit described in section 170(c)(1) of such Code.

(4) UNRELATED PERSON.—The term “unrelated person” means a person who is not a related person.

(5) RELATED PERSON.—A person shall be treated as related to another person if—

(A) such person bears a relationship to such other person described in section 267(b) (determined without regard to paragraph (9) thereof), or 707(b)(1), of such Code, determined by substituting “25 percent” for “50 percent” each place it appears therein, and

(B) in the case such other person is a non-profit organization, if such person controls directly or indirectly more than 25 percent of the governing body of such organization.

SEC. 316. CLARIFICATION OF TREATMENT OF JOHNNY MICHEAL SPANN PATRIOT TRUSTS.

(a) CLARIFICATION OF TAX-EXEMPT STATUS OF TRUSTS.—

(1) IN GENERAL.—Subsection (b) of section 601 of the Homeland Security Act of 2002 is amended to read as follows:

“(b) DESIGNATION OF JOHNNY MICHEAL SPANN PATRIOT TRUSTS.—Any charitable corporation, fund, foundation, or trust (or separate fund or account thereof) which is described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code and meets the requirements described in subsection (c) shall be eligible to designate itself as a ‘Johnny Micheal Spann Patriot trust’.”

(2) CONFORMING AMENDMENT.—Section 601(c)(3) of such Act is amended by striking “based” and all that follows through “Trust”.

(b) PUBLICLY AVAILABLE AUDITS.—Section 601(c)(7) of the Homeland Security Act of 2002 is amended by striking “shall be filed with the Internal Revenue Service, and shall be open to public inspection” and inserting “shall be open to public inspection consistent with section 6104(d)(1) of the Internal Revenue Code of 1986”.

(c) CLARIFICATION OF REQUIRED DISTRIBUTIONS TO PRIVATE FOUNDATION.—

(1) IN GENERAL.—Section 601(c)(8) of the Homeland Security Act of 2002 is amended by

striking “not placed” and all that follows and inserting “not so distributed shall be contributed to a private foundation which is described in section 509(a) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code and which is dedicated to such beneficiaries not later than 36 months after the end of the fiscal year in which such funds, donations, or earnings are received.”

(2) CONFORMING AMENDMENTS.—Section 601(c) of such Act is amended—

(A) by striking “(or, if placed in a private foundation, held in trust for)” in paragraph (1) and inserting “(or contributed to a private foundation described in paragraph (8) for the benefit of)”, and

(B) by striking “invested in a private foundation” in paragraph (2) and inserting “contributed to a private foundation described in paragraph (8)”.

(d) REQUIREMENTS FOR DISTRIBUTIONS FROM TRUSTS.—Section 601(c)(9)(A) of the Homeland Security Act of 2002 is amended by striking “should” and inserting “shall”.

(e) REGULATIONS REGARDING NOTIFICATION OF TRUST BENEFICIARIES.—Section 601(f) of the Homeland Security Act of 2002 is amended by striking “this section” and inserting “subsection (e)”.

(f) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the enactment of section 601 of the Homeland Security Act of 2002.

TITLE IV—SOCIAL SERVICES BLOCK GRANT

SEC. 401. RESTORATION OF FUNDS FOR THE SOCIAL SERVICES BLOCK GRANT.

(a) FINDINGS.—Congress makes the following findings:

(1) On August 22, 1996, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193; 110 Stat. 2105) was signed into law.

(2) In enacting that law, Congress authorized \$2,800,000,000 for fiscal year 2003 and each fiscal year thereafter to carry out the Social Services Block Grant program established under title XX of the Social Security Act (42 U.S.C. 1397 et seq.).

(b) RESTORATION OF FUNDS.—Section 2003(c)(11) of the Social Security Act (42 U.S.C. 1397b(c)(11)) is amended by inserting “, except that, with respect to fiscal year 2003, the amount shall be \$1,975,000,000, and with respect to fiscal year 2004, the amount shall be \$2,800,000,000” after “thereafter.”.

SEC. 402. RESTORATION OF AUTHORITY TO TRANSFER UP TO 10 PERCENT OF TANF FUNDS TO THE SOCIAL SERVICES BLOCK GRANT.

(a) IN GENERAL.—Section 404(d)(2) of the Social Security Act (42 U.S.C. 604(d)(2)) is amended to read as follows:

“(2) LIMITATION ON AMOUNT TRANSFERABLE TO TITLE XX PROGRAMS.—A State may use not more than 10 percent of the amount of any grant made to the State under section 403(a) for a fiscal year to carry out State programs pursuant to title XX.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to amounts made available for fiscal year 2003 and each fiscal year thereafter.

SEC. 403. REQUIREMENT TO SUBMIT ANNUAL REPORT ON STATE ACTIVITIES.

(a) IN GENERAL.—Section 2006(c) of the Social Security Act (42 U.S.C. 1397e(c)) is amended by adding at the end the following: “The Secretary shall compile the information submitted by the States and submit that information to Congress on an annual basis.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to information submitted by States under section 2006 of the Social Security Act (42 U.S.C. 1397e)

with respect to fiscal year 2002 and each fiscal year thereafter.

TITLE V—INDIVIDUAL DEVELOPMENT ACCOUNTS

SEC. 501. SHORT TITLE.

This title may be cited as the “Savings for Working Families Act of 2003”.

SEC. 502. PURPOSES.

The purposes of this title are to provide for the establishment of individual development account programs that will—

(1) provide individuals and families with limited means an opportunity to accumulate assets and to enter the financial mainstream,

(2) promote education, homeownership, and the development of small businesses,

(3) stabilize families and build communities, and

(4) support continued United States economic expansion.

SEC. 503. DEFINITIONS.

As used in this title:

(1) ELIGIBLE INDIVIDUAL.—

(A) IN GENERAL.—The term “eligible individual” means, with respect to any taxable year, an individual who—

(i) has attained the age of 18 but not the age of 61 as of the last day of such taxable year,

(ii) is a citizen or lawful permanent resident (within the meaning of section 7701(b)(6) of the Internal Revenue Code of 1986) of the United States as of the last day of such taxable year,

(iii) was not a student (as defined in section 151(c)(4) of such Code) for the immediately preceding taxable year,

(iv) is not an individual with respect to whom a deduction under section 151 of such Code is allowable to another taxpayer for a taxable year of the other taxpayer ending during the immediately preceding taxable year of the individual,

(v) is not a taxpayer described in subsection (c), (d), or (e) of section 6402 of such Code for the immediately preceding taxable year,

(vi) is not a taxpayer described in section 1(d) of such Code for the immediately preceding taxable year, and

(vii) is a taxpayer the modified adjusted gross income of whom for the immediately preceding taxable year does not exceed—

(I) \$18,000, in the case of a taxpayer described in section 1(c) of such Code,

(II) \$30,000, in the case of a taxpayer described in section 1(b) of such Code, and

(III) \$38,000, in the case of a taxpayer described in section 1(a) of such Code.

(B) INFLATION ADJUSTMENT.—

(i) IN GENERAL.—In the case of any taxable year beginning after 2004, each dollar amount referred to in subparagraph (A)(vii) 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) of the Internal Revenue Code of 1986 for the calendar year in which the taxable year begins, by substituting “2003” for “1992”.

(ii) ROUNDING.—If any amount as adjusted under clause (i) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50.

(C) MODIFIED ADJUSTED GROSS INCOME.—For purposes of subparagraph (A)(v), the term “modified adjusted gross income” means adjusted gross income—

(i) determined without regard to sections 86, 893, 911, 931, and 933 of the Internal Revenue Code of 1986, and

(ii) increased by the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.

(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 owner of the account is the individual for whom the account was established.

(B) No contribution will be accepted unless it is in cash, and, except in the case of any qualified rollover, contributions will not be accepted for the taxable year in excess of \$1,500 on behalf of any individual.

(C) The trustee of the account is a qualified financial institution.

(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 507(b), any amount in the account may be paid out only for the purpose of paying the qualified expenses of the account owner.

(3) **PARALLEL ACCOUNT.**—The term “parallel account” means a separate, parallel individual or pooled account for all matching funds and earnings dedicated to an Individual Development Account owner as part of a qualified individual development account program, the trustee of which is a qualified financial institution.

(4) **QUALIFIED FINANCIAL INSTITUTION.**—The term “qualified financial institution” means any person authorized to be a trustee of any individual retirement account under section 408(a)(2) of the Internal Revenue Code of 1986.

(5) **QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM.**—The term “qualified individual development account program” means a program established upon approval of the Secretary under section 504 after December 31, 2002, under which—

(A) Individual Development Accounts and parallel accounts are held in trust by a qualified financial institution, and

(B) additional activities determined by the Secretary, in consultation with the Secretary of Health and Human Services, as necessary to responsibly develop and administer accounts, including recruiting, providing financial education and other training to Account owners, and regular program monitoring, are carried out by the qualified financial institution.

(6) **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 or a parallel account established for an eligible individual if such amount—

(i) is used exclusively to pay the qualified expenses of the Individual Development Account owner or such owner’s spouse or dependents,

(ii) is paid by the qualified financial institution—

(I) except as otherwise provided in this clause, directly to the unrelated third party to whom the amount is due,

(II) in the case of any qualified rollover, directly to another Individual Development Account and parallel account, or

(III) in the case of a qualified final distribution, directly to the spouse, dependent, or other named beneficiary of the deceased Account owner, and

(iii) is paid after the Account owner has completed a financial education course if required under section 505(b).

(B) **QUALIFIED EXPENSES.**—

(i) **IN GENERAL.**—The term “qualified expenses” means any of the following expenses approved by the qualified financial institution:

- (I) Qualified higher education expenses.
- (II) Qualified first-time homebuyer costs.

(III) Qualified business capitalization or expansion costs.

(IV) Qualified rollovers.

(V) Qualified final distribution.

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

(I) **IN GENERAL.**—The term “qualified higher education expenses” has the meaning given such term by section 529(e)(3) of the Internal Revenue Code of 1986, determined by treating the Account owner, the owner’s spouse, or one or more of the owner’s dependents as a designated beneficiary, and reduced as provided in section 25A(g)(2) of such Code.

(II) **COORDINATION WITH OTHER BENEFITS.**—The amount of expenses which may be taken into account for purposes of section 135, 529, or 530 of such Code for any taxable year shall be reduced by the amount of any qualified higher education expenses taken into account as qualified expense distributions during 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)(C) of the Internal Revenue Code of 1986) 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)(D)(i) 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 normally associated with starting or expanding a business and included in a qualified business plan, including costs for capital, plant, and equipment, inventory expenses, and attorney and accounting fees.

(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 has been approved by the qualified financial institution and which meets such requirements as the Secretary may specify.

(v) **QUALIFIED ROLLOVERS.**—The term “qualified rollover” means the complete distribution of the amounts in an Individual Development Account and parallel account to another Individual Development Account and parallel account established in another qualified financial institution for the benefit of the Account owner.

(vi) **QUALIFIED FINAL DISTRIBUTION.**—The term “qualified final distribution” means, in the case of a deceased Account owner, the complete distribution of the amounts in the Individual Development Account and parallel account directly to the spouse, any dependent, or other named beneficiary of the deceased.

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

SEC. 504. STRUCTURE AND ADMINISTRATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) **ESTABLISHMENT OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.**—Any qualified financial institution may apply to the Secretary for approval to establish 1 or more qualified individual development account programs which meet the requirements of this title and for an allocation of the Individual Development Account limitation under section 45G(i)(3) of the Internal Revenue Code of 1986 with respect to such programs.

(b) **BASIC PROGRAM STRUCTURE.**—

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

(A) An Individual Development Account to which an eligible individual may contribute cash in accordance with section 505.

(B) A parallel account to which all matching funds shall be deposited in accordance with section 506.

(2) **TAILORED IDA PROGRAMS.**—A qualified financial institution 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.

(3) **NO FEES MAY BE CHARGED TO IDAS.**—A qualified financial institution may not charge any fees to any Individual Development Account or parallel account under a qualified individual development account program.

(c) **COORDINATION WITH PUBLIC HOUSING AGENCY INDIVIDUAL SAVINGS ACCOUNTS.**—Section 3(e)(2) of the United States Housing Act of 1937 (42 U.S.C. 1437a(e)(2)) is amended by inserting “or in any Individual Development Account established under the Savings for Working Families Act of 2003” after “subsection”.

(d) **TAX TREATMENT OF PARALLEL ACCOUNTS.**—

(1) **IN GENERAL.**—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

“SEC. 7528. TAX INCENTIVES FOR INDIVIDUAL DEVELOPMENT PARALLEL ACCOUNTS.

“For purposes of this title—

“(1) any account described in section 504(b)(1)(B) of the Savings for Working Families Act of 2003 shall be exempt from taxation,

“(2) except as provided in section 45G, no item of income, expense, basis, gain, or loss with respect to such an account may be taken into account, and

“(3) any amount withdrawn from such an account shall not be includible in gross income.”.

(2) **CONFORMING AMENDMENT.**—The table of sections for chapter 77 is amended by adding at the end the following new item:

“Sec. 7528. Tax incentives for individual development parallel accounts.”.

(e) **COORDINATION OF CERTAIN EXPENSES.**—Section 25A(g)(2) is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting “, and”, and by adding at the end the following new subparagraph:

“(D) a qualified expense distribution with respect to qualified higher education expenses from an Individual Development Account or a parallel account under section 507(a) of the Savings for Working Families Act of 2003.”.

SEC. 505. PROCEDURES FOR OPENING AND MAINTAINING AN INDIVIDUAL DEVELOPMENT ACCOUNT AND QUALIFYING FOR MATCHING FUNDS.

(a) **OPENING AN ACCOUNT.**—An eligible individual may open an Individual Development Account with a qualified financial institution upon certification that such individual has never maintained any other Individual Development Account (other than an Individual Development Account to be terminated by a qualified rollover).

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

(1) **IN GENERAL.**—Before becoming eligible to withdraw funds to pay for qualified expenses, owners of Individual Development Accounts must complete 1 or more financial education courses specified in the qualified individual development account program.

(2) **STANDARD AND APPLICABILITY OF COURSE.**—The Secretary, in consultation

with representatives of qualified individual development account programs and financial educators, shall not later than January 1, 2004, establish minimum quality standards for the contents of financial education courses and providers of such courses described in paragraph (1) and a protocol to exempt individuals from the requirement under paragraph (1) in the case of hardship, lack of need, the attainment of age 65, or a qualified final distribution.

(c) **PROOF OF STATUS AS AN ELIGIBLE INDIVIDUAL.**—Federal income tax forms for the immediately preceding taxable year and any other evidence of eligibility which may be required by a qualified financial institution shall be presented to such institution at the time of the establishment of the Individual Development Account and in any taxable year in which contributions are made to the Account to qualify for matching funds under section 506(b)(1)(A).

(d) **SPECIAL RULE IN THE CASE OF MARRIED INDIVIDUALS.**—For purposes of this title, if, with respect to any taxable year, 2 married individuals file a Federal joint income tax return, then not more than 1 of such individuals may be treated as an eligible individual with respect to the succeeding taxable year.

SEC. 506. DEPOSITS BY QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

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

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

(1) **IN GENERAL.**—Subject to paragraph (2), the qualified financial institution shall deposit into the parallel account with respect to each eligible individual the following amounts:

(A) A dollar-for-dollar match for the first \$500 contributed by the eligible individual into an Individual Development Account with respect to any taxable year of such individual.

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

(2) **TIMING OF DEPOSITS.**—A deposit of the amounts described in paragraph (1) shall be made into a parallel account—

(A) in the case of amounts described in paragraph (1)(A), not later than 30 days after the end of the calendar quarter during which the contribution described in such paragraph was made, and

(B) in the case of amounts described in paragraph (1)(B), not later than 2 business days after such amounts were provided.

(3) **CROSS REFERENCE.**—

For allowance of tax credit for Individual Development Account subsidies, including matching funds, see section 45G of the Internal Revenue Code of 1986.

(c) **DEPOSIT OF MATCHING FUNDS INTO INDIVIDUAL DEVELOPMENT ACCOUNT OF INDIVIDUAL WHO HAS ATTAINED AGE 65.**—In the case of an Individual Development Account owner who attains the age of 65, the qualified financial institution shall deposit the funds in the parallel account with respect to such individual into the Individual Development Account of such individual on the later of—

(1) the day which is the 1-year anniversary of the deposit of such funds in the parallel account, or

(2) the first business day of the taxable year of such individual following the taxable year in which such individual attained age 65.

(d) **UNIFORM ACCOUNTING REGULATIONS.**—To ensure proper recordkeeping and determination of the tax credit under section 45G of

the Internal Revenue Code of 1986, the Secretary shall prescribe regulations with respect to accounting for matching funds in the parallel accounts.

(e) **REGULAR REPORTING OF ACCOUNTS.**—Any qualified financial institution shall report the balances in any Individual Development Account and parallel account of an individual on not less than an annual basis to such individual.

SEC. 507. WITHDRAWAL PROCEDURES.

(a) **WITHDRAWALS FOR QUALIFIED EXPENSES.**—

(1) **IN GENERAL.**—An Individual Development Account owner may withdraw funds in order to pay qualified expense distributions from such individual's—

(A) Individual Development Account, but only from funds which have been on deposit in such Account for at least 1 year, and

(B) parallel account, but only—

(i) from matching funds which have been on deposit in such parallel account for at least 1 year,

(ii) from earnings in such parallel account, after all matching funds described in clause (i) have been withdrawn, and

(iii) to the extent such withdrawal does not result in a remaining balance in such parallel account which is less than the remaining balance in the Individual Development Account after such withdrawal.

(2) **PROCEDURE.**—Upon receipt of a withdrawal request which meets the requirements of paragraph (1), the qualified financial institution shall directly transfer the funds electronically to the distributees described in section 503(6)(A)(ii). If a distributee is not equipped to receive funds electronically, the qualified financial institution may issue such funds by paper check to the distributee.

(b) **WITHDRAWALS FOR NONQUALIFIED EXPENSES.**—An Individual Development Account owner may withdraw any amount of funds from the Individual Development Account for purposes other than to pay qualified expense distributions, but if, after such withdrawal, the amount in the parallel account of such owner (excluding earnings on matching funds) exceeds the amount remaining in such Individual Development Account, then such owner shall forfeit from the parallel account the lesser of such excess or the amount withdrawn.

(c) **WITHDRAWALS FROM ACCOUNTS OF NON-ELIGIBLE INDIVIDUALS.**—If the individual for whose benefit an Individual Development Account is established ceases to be an eligible individual, such account shall remain an Individual Development Account, but such individual shall not be eligible for any further matching funds under section 506(b)(1)(A) for contributions which are made to the Account during any taxable year when such individual is not an eligible individual.

(d) **EFFECT OF PLEDGING ACCOUNT AS SECURITY.**—If, during any taxable year of the individual for whose benefit an Individual Development Account is established, that individual uses the Account, the individual's parallel account, or any portion thereof as security for a loan, the portion so used shall be treated as a withdrawal of such portion from the Individual Development Account for purposes other than to pay qualified expenses.

SEC. 508. CERTIFICATION AND TERMINATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) **CERTIFICATION PROCEDURES.**—Upon establishing a qualified individual development account program under section 504, a qualified financial institution shall certify to the Secretary at such time and in such manner as may be prescribed by the Secretary and accompanied by any documentation required by the Secretary, that—

(1) the accounts described in subparagraphs (A) and (B) of section 504(b)(1) are operating pursuant to all the provisions of this title, and

(2) the qualified financial institution 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 determines that a qualified financial institution under this title is not operating a qualified individual development account program in accordance with the requirements of this title (and has not implemented any corrective recommendations directed by the Secretary), the Secretary shall terminate such institution's authority to conduct the program. If the Secretary is unable to identify a qualified financial institution to assume the authority to conduct such program, then any funds in a parallel account established for the benefit of any individual under such program shall be deposited into the Individual Development Account of such individual as of the first day of such termination.

SEC. 509. REPORTING, MONITORING, AND EVALUATION.

(a) **RESPONSIBILITIES OF QUALIFIED FINANCIAL INSTITUTIONS.**—

(1) **IN GENERAL.**—Each qualified financial institution that operates a qualified individual development account program under section 504 shall report annually to the Secretary within 90 days after the end of each calendar year on—

(A) the number of individuals making contributions into Individual Development Accounts and the amounts contributed,

(B) the amounts contributed into Individual Development Accounts by eligible individuals and the amounts deposited into parallel accounts for matching funds,

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

(D) the balances remaining in Individual Development Accounts and parallel accounts, and

(E) such other information needed to help the Secretary monitor the effectiveness of the qualified individual development account program (provided in a non-individually-identifiable manner).

(2) **ADDITIONAL REPORTING REQUIREMENTS.**—Each qualified financial institution that operates a qualified individual development account program under section 504 shall report at such time and in such manner as the Secretary may prescribe any additional information that the Secretary requires to be provided for purposes of administering and supervising the qualified individual development account program. This additional data may include, without limitation, identifying information about Individual Development Account owners, their Accounts, additions to the Accounts, and withdrawals from the Accounts.

(b) **RESPONSIBILITIES OF THE SECRETARY.**—

(1) **MONITORING PROTOCOL.**—Not later than 12 months after the date of the enactment of this Act, the Secretary, in consultation with the Secretary of Health and Human Services, shall develop and implement a protocol and process to monitor the cost and outcomes of the qualified individual development account programs established under section 504.

(2) **ANNUAL REPORTS.**—For each year after 2004, the Secretary shall submit a progress report to Congress on the status of such qualified individual development account programs. Such report shall, to the extent data are available, include from a representative sample of qualified individual development account programs information on—

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

(B) 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.

(3) REAUTHORIZATION REPORT ON COST AND OUTCOMES OF IDAS.—

(A) IN GENERAL.—Not later than July 1, 2008, the Secretary of the Treasury shall submit a report to Congress and the chairmen and ranking members of the Committee on Finance, the Committee on Banking, Housing, and Urban Affairs, and the Committee on Health, Education, Labor, and Pensions of the Senate and the Committee on Ways and Means, the Committee on Banking and Financial Services, and the Committee on Education and the Workforce of the House of Representatives, in which the Secretary shall—

(i) summarize the previously submitted annual reports required under paragraph (2),

(ii) from a representative sample of qualified individual development account programs, include an analysis of—

(I) the economic, social, and behavioral outcomes,

(II) the changes in savings rates, asset holdings, and household debt, and overall changes in economic stability,

(III) the changes in outlooks, attitudes, and behavior regarding savings strategies, investment, education, and family,

(IV) the integration into the financial mainstream, including decreased reliance on alternative financial services, and increase in acquisition of mainstream financial products, and

(V) the involvement in civic affairs, including neighborhood schools and associations, associated with participation in qualified individual development account programs,

(iii) from a representative sample of qualified individual development account programs, include a comparison of outcomes associated with such programs with outcomes associated with other Federal Government social and economic development programs, including asset building programs, and

(iv) make recommendations regarding the reauthorization of the qualified individual development account programs, including—

(I) recommendations regarding reforms that will improve the cost and outcomes of the such programs, including the ability to help low income families save and accumulate productive assets,

(II) recommendations regarding the appropriate levels of subsidies to provide effective incentives to financial institutions and Account owners under such programs, and

(III) recommendations regarding how such programs should be integrated into other Federal poverty reduction, asset building, and community development policies and programs.

(B) AUTHORIZATION.—There is authorized to be appropriated \$2,500,000, for carrying out the purposes of this paragraph.

(4) USE OF ACCOUNTS IN RURAL AREAS ENCOURAGED.—The Secretary shall develop methods to encourage the use of Individual Development Accounts in rural areas.

SEC. 510. AUTHORIZATION OF APPROPRIATIONS.

There is authorized to be appropriated to the Secretary \$1,000,000 for fiscal year 2004

and for each fiscal year through 2012, for the purposes of implementing this title, including the reporting, monitoring, and evaluation required under section 509, to remain available until expended.

SEC. 511. MATCHING FUNDS FOR INDIVIDUAL DEVELOPMENT ACCOUNTS PROVIDED THROUGH A TAX CREDIT FOR QUALIFIED FINANCIAL INSTITUTIONS.

(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. 45G. INDIVIDUAL DEVELOPMENT ACCOUNT INVESTMENT CREDIT.

“(a) DETERMINATION OF AMOUNT.—For purposes of section 38, the individual development account investment credit determined under this section with respect to any eligible entity for any taxable year is an amount equal to the individual development account investment provided by such eligible entity during the taxable year under an individual development account program established under section 504 of the Savings for Working Families Act of 2003.

“(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 in any taxable year, an amount equal to the sum of—

“(1) the aggregate amount of dollar-for-dollar matches under such program under section 506(b)(1)(A) of the Savings for Working Families Act of 2003 for such taxable year, plus

“(2) \$50 with respect to each Individual Development Account maintained—

“(A) as of the end of such taxable year, but only if such taxable year is within the 7-taxable-year period beginning with the taxable year in which such Account is opened, and

“(B) with a balance of not less than \$100 (other than the taxable year in which such Account is opened).

“(d) ELIGIBLE ENTITY.—For purposes of this section, except as provided in regulations, the term ‘eligible entity’ means a qualified financial institution.

“(e) OTHER DEFINITIONS.—For purposes of this section, any term used in this section and also in the Savings for Working Families Act of 2003 shall have the meaning given such term by such Act.

“(f) DENIAL OF DOUBLE BENEFIT.—

“(1) IN GENERAL.—No deduction or credit (other than under this section) shall be allowed under this chapter with respect to any expense which—

“(A) is taken into account under subsection (c)(1)(A) in determining the credit under this section, or

“(B) is attributable to the maintenance of an Individual Development Account.

“(2) DETERMINATION OF AMOUNT.—Solely for purposes of paragraph (1)(B), the amount attributable to the maintenance of an Individual Development Account shall be deemed to be the dollar amount of the credit allowed under subsection (c)(1)(B) for each taxable year such Individual Development Account is maintained.

“(g) CREDIT MAY BE TRANSFERRED.—

“(1) IN GENERAL.—An eligible entity may transfer any credit allowable to the eligible

entity under subsection (a) to any person other than to another eligible entity which is exempt from tax under this title. The determination as to whether a credit is allowable shall be made without regard to the tax-exempt status of the eligible entity.

“(2) CONSENT REQUIRED FOR REVOCATION.—Any transfer under paragraph (1) may be revoked only with the consent of the Secretary.

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

“(1) such regulations as necessary to insure that any credit described in subsection (g)(1) is claimed once and not retransferred by a transferee, and

“(2) regulations providing for a recapture of the credit allowed under this section (notwithstanding any termination date described in subsection (i)) in cases where there is a forfeiture under section 507(b) of the Savings for Working Families Act of 2003 in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.

“(i) APPLICATION OF SECTION.—

“(1) IN GENERAL.—This section shall apply to any expenditure made in any taxable year ending after December 31, 2004, and beginning on or before January 1, 2012, with respect to any Individual Development Account which—

“(A) is opened before January 1, 2012, and

“(B) as determined by the Secretary, when added to all of the previously opened Individual Development Accounts, does not exceed—

“(i) 100,000 Accounts if opened after December 31, 2004, and before January 1, 2007,

“(ii) an additional 100,000 Accounts if opened after December 31, 2006, and before January 1, 2009, but only if, except as provided in paragraph (4), the total number of Accounts described in clause (i) are opened and the Secretary determines that such Accounts are being reasonably and responsibly administered, and

“(iii) an additional 100,000 Accounts if opened after December 31, 2008, and before January 1, 2012, but only if the total number of Accounts described in clauses (i) and (ii) are opened and the Secretary makes a determination described in paragraph (2).

Notwithstanding the preceding sentence, this section shall apply to amounts which are described in subsection (c)(1)(A) and which are timely deposited into a parallel account during the 30-day period following the end of last taxable year beginning before January 1, 2012.

“(2) DETERMINATION WITH RESPECT TO THIRD GROUP OF ACCOUNTS.—A determination is described in this paragraph if the Secretary determines that—

“(A) substantially all of the previously opened Accounts have been reasonably and responsibly administered prior to the date of the determination,

“(B) the individual development account programs have increased net savings of participants in the programs,

“(C) participants in the individual development account programs have increased Federal income tax liability and decreased utilization of Federal assistance programs relative to similarly situated individuals that did not participate in the individual development account programs, and

“(D) the sum of the estimated increased Federal tax liability and reduction of Federal assistance program benefits to participants in the individual development account programs is greater than the cost of the individual development account programs to the Federal government.

“(3) DETERMINATION OF LIMITATION.—The limitation on the number of Individual Development Accounts under paragraph (1)(B) shall be allocated by the Secretary among qualified individual development account programs selected by the Secretary and, in the case of the limitation under clause (iii) of such paragraph, shall be equally divided among the States.

“(4) SPECIAL RULE IF SMALLER NUMBER OF ACCOUNTS ARE OPENED.—For purposes of paragraph (1)(B)(ii)—

“(i) IN GENERAL.—If less than 100,000 Accounts are opened before January 1, 2007, such paragraph shall be applied by substituting ‘applicable number of Accounts’ for ‘100,000 Accounts’.

“(ii) APPLICABLE NUMBER.—For purposes of clause (i), the applicable number equals the lesser of—

“(I) 75,000, or

“(II) 3 times the number of Accounts opened before January 1, 2007.”

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b) (relating to current year business credit) is amended by striking ‘plus’ at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting ‘, plus’, and by adding at the end the following new paragraph:

“(16) the individual development account investment credit determined under section 45G(a).”

(c) NO CARRYBACKS.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits) is amended by adding at the end the following:

“(11) NO CARRYBACK OF SECTION 45G CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the individual development account investment credit determined under section 45G may be carried back to a taxable year ending before January 1, 2004.”

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

“Sec. 45G. Individual development account investment credit.”

(e) REPORT REGARDING ACCOUNT MAINTENANCE FEES.—The Secretary of the Treasury shall study the adequacy of the amount specified in section 45G(c)(2) of the Internal Revenue Code of 1986 (as added by this section). Not later than December 31, 2009, the Secretary of the Treasury shall report the findings of the study described in the preceding sentence to Congress.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 2004.

SEC. 512. ACCOUNT FUNDS DISREGARDED FOR PURPOSES OF CERTAIN MEANS-TESTED FEDERAL PROGRAMS.

Notwithstanding any other provision of Federal law (other than the Internal Revenue Code of 1986) that requires consideration of 1 or more financial circumstances of an individual, for the purpose 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, any amount (including earnings thereon) in any Individual Development Account of such individual and any matching deposit 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 such individual maintains or makes contributions into such Individual Development Account.

TITLE VI—MANAGEMENT OF EXEMPT ORGANIZATIONS

SEC. 601. AUTHORIZATION OF APPROPRIATIONS.

(a) IN GENERAL.—There is authorized to be appropriated to the Secretary of the Treas-

ury \$80,000,000 for each fiscal year to carry out the administration of exempt organizations by the Internal Revenue Service.

(b) IMPLEMENTATION OF SECTION 527.—There is authorized to be appropriated to the Secretary of the Treasury \$3,000,000 to carry out the provisions of Public Laws 106-230 and 107-276 relating to section 527 of the Internal Revenue Code of 1986.

TITLE VII—REVENUE PROVISIONS

Subtitle A—Provisions Designed To Curtail Tax Shelters

SEC. 701. CLARIFICATION OF ECONOMIC SUBSTANCE DOCTRINE.

(a) IN GENERAL.—Section 7701, as amended by this Act, is amended by redesignating subsection (o) as subsection (p) and by inserting after subsection (n) the following new subsection:

“(o) CLARIFICATION OF ECONOMIC SUBSTANCE DOCTRINE; ETC.—

“(1) GENERAL RULES.—

“(A) IN GENERAL.—In applying the economic substance doctrine, the determination of whether a transaction has economic substance shall be made as provided in this paragraph.

“(B) DEFINITION OF ECONOMIC SUBSTANCE.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—A transaction has economic substance only if—

“(I) the transaction changes in a meaningful way (apart from Federal tax effects and, if there is any Federal tax effects, also apart from any foreign, State, or local tax effects) the taxpayer’s economic position, and

“(II) the taxpayer has a substantial nontax purpose for entering into such transaction and the transaction is a reasonable means of accomplishing such purpose.

“(ii) SPECIAL RULE WHERE TAXPAYER RELIES ON PROFIT POTENTIAL.—A transaction shall not be treated as having economic substance by reason of having a potential for profit unless—

“(I) the present value of the reasonably expected pre-tax profit from the transaction is substantial in relation to the present value of the expected net tax benefits that would be allowed if the transaction were respected, and

“(II) the reasonably expected pre-tax profit from the transaction exceeds a risk-free rate of return.

“(C) TREATMENT OF FEES AND FOREIGN TAXES.—Fees and other transaction expenses and foreign taxes shall be taken into account as expenses in determining pre-tax profit under subparagraph (B)(ii).

“(2) SPECIAL RULES FOR TRANSACTIONS WITH TAX-INDIFFERENT PARTIES.—

“(A) SPECIAL RULES FOR FINANCING TRANSACTIONS.—The form of a transaction which is in substance the borrowing of money or the acquisition of financial capital directly or indirectly from a tax-indifferent party shall not be respected if the present value of the deductions to be claimed with respect to the transaction is substantially in excess of the present value of the anticipated economic returns of the person lending the money or providing the financial capital. A public offering shall be treated as a borrowing, or an acquisition of financial capital, from a tax-indifferent party if it is reasonably expected that at least 50 percent of the offering will be placed with tax-indifferent parties.

“(B) ARTIFICIAL INCOME SHIFTING AND BASIS ADJUSTMENTS.—The form of a transaction with a tax-indifferent party shall not be respected if—

“(i) it results in an allocation of income or gain to the tax-indifferent party in excess of such party’s economic income or gain, or

“(ii) it results in a basis adjustment or shifting of basis on account of overstating the income or gain of the tax-indifferent party.

“(3) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

“(A) ECONOMIC SUBSTANCE DOCTRINE.—The term ‘economic substance doctrine’ means the common law doctrine under which tax benefits under subtitle A with respect to a transaction are not allowable if the transaction does not have economic substance or lacks a business purpose.

“(B) TAX-INDIFFERENT PARTY.—The term ‘tax-indifferent party’ means any person or entity not subject to tax imposed by subtitle A. A person shall be treated as a tax-indifferent party with respect to a transaction if the items taken into account with respect to the transaction have no substantial impact on such person’s liability under subtitle A.

“(C) EXCEPTION FOR PERSONAL TRANSACTIONS OF INDIVIDUALS.—In the case of an individual, this subsection shall apply only to transactions entered into in connection with a trade or business or an activity engaged in for the production of income.

“(D) TREATMENT OF LESSORS.—In applying subclause (I) of paragraph (1)(B)(ii) to the lessor of tangible property subject to a lease, the expected net tax benefits shall not include the benefits of depreciation, or any tax credit, with respect to the leased property and subclause (II) of paragraph (1)(B)(ii) shall be disregarded in determining whether any of such benefits are allowable.

“(4) OTHER COMMON LAW DOCTRINES NOT AFFECTED.—Except as specifically provided in this subsection, the provisions of this subsection shall not be construed as altering or supplanting any other rule of law, and the requirements of this subsection shall be construed as being in addition to any such other rule of law.

“(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection. Such regulations may include exemptions from the application of this subsection.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after February 15, 2004.

SEC. 702. PENALTY FOR FAILING TO DISCLOSE REPORTABLE TRANSACTION.

(a) IN GENERAL.—Part I of subchapter B of chapter 68 (relating to assessable penalties) is amended by inserting after section 6707 the following new section:

“SEC. 6707A. PENALTY FOR FAILURE TO INCLUDE REPORTABLE TRANSACTION INFORMATION WITH RETURN OR STATEMENT.

“(a) IMPOSITION OF PENALTY.—Any person who fails to include on any return or statement any information with respect to a reportable transaction which is required under section 6011 to be included with such return or statement shall pay a penalty in the amount determined under subsection (b).

“(b) AMOUNT OF PENALTY.—

“(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amount of the penalty under subsection (a) shall be \$50,000.

“(2) LISTED TRANSACTION.—The amount of the penalty under subsection (a) with respect to a listed transaction shall be \$100,000.

“(3) INCREASE IN PENALTY FOR LARGE ENTITIES AND HIGH NET WORTH INDIVIDUALS.—

“(A) IN GENERAL.—In the case of a failure under subsection (a) by—

“(i) a large entity, or

“(ii) a high net worth individual,

the penalty under paragraph (1) or (2) shall be twice the amount determined without regard to this paragraph.

“(B) LARGE ENTITY.—For purposes of subparagraph (A), the term ‘large entity’ means, with respect to any taxable year, a person (other than a natural person) with gross receipts in excess of \$10,000,000 for the taxable year in which the reportable transaction occurs or the preceding taxable year. Rules

similar to the rules of paragraph (2) and subparagraphs (B), (C), and (D) of paragraph (3) of section 448(c) shall apply for purposes of this subparagraph.

“(C) HIGH NET WORTH INDIVIDUAL.—The term ‘high net worth individual’ means, with respect to a transaction, a natural person whose net worth exceeds \$2,000,000 immediately before the transaction.

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

“(1) REPORTABLE TRANSACTION.—The term ‘reportable transaction’ means any transaction with respect to which information is required to be included with a return or statement because, as determined under regulations prescribed under section 6011, such transaction is of a type which the Secretary determines as having a potential for tax avoidance or evasion.

“(2) LISTED TRANSACTION.—Except as provided in regulations, the term ‘listed transaction’ means a reportable transaction which is the same as, or substantially similar to, a transaction specifically identified by the Secretary as a tax avoidance transaction for purposes of section 6011.

“(d) AUTHORITY TO RESCIND PENALTY.—

“(1) IN GENERAL.—The Commissioner of Internal Revenue may rescind all or any portion of any penalty imposed by this section with respect to any violation if—

“(A) the violation is with respect to a reportable transaction other than a listed transaction,

“(B) the person on whom the penalty is imposed has a history of complying with the requirements of this title,

“(C) it is shown that the violation is due to an unintentional mistake of fact;

“(D) imposing the penalty would be against equity and good conscience, and

“(E) rescinding the penalty would promote compliance with the requirements of this title and effective tax administration.

“(2) DISCRETION.—The exercise of authority under paragraph (1) shall be at the sole discretion of the Commissioner and may be delegated only to the head of the Office of Tax Shelter Analysis. The Commissioner, in the Commissioner’s sole discretion, may establish a procedure to determine if a penalty should be referred to the Commissioner or the head of such Office for a determination under paragraph (1).

“(3) NO APPEAL.—Notwithstanding any other provision of law, any determination under this subsection may not be reviewed in any administrative or judicial proceeding.

“(4) RECORDS.—If a penalty is rescinded under paragraph (1), the Commissioner shall place in the file in the Office of the Commissioner the opinion of the Commissioner or the head of the Office of Tax Shelter Analysis with respect to the determination, including—

“(A) the facts and circumstances of the transaction,

“(B) the reasons for the rescission, and

“(C) the amount of the penalty rescinded.

“(5) REPORT.—The Commissioner shall each year report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate—

“(A) a summary of the total number and aggregate amount of penalties imposed, and rescinded, under this section, and

“(B) a description of each penalty rescinded under this subsection and the reasons therefor.

“(e) PENALTY REPORTED TO SEC.—In the case of a person—

“(1) which is required to file periodic reports under section 13 or 15(d) of the Securities Exchange Act of 1934 or is required to be consolidated with another person for purposes of such reports, and

“(2) which—

“(A) is required to pay a penalty under this section with respect to a listed transaction,

“(B) is required to pay a penalty under section 6662A with respect to any reportable transaction at a rate prescribed under section 6662A(c), or

“(C) is required to pay a penalty under section 6662B with respect to any noneconomic substance transaction,

the requirement to pay such penalty shall be disclosed in such reports filed by such person for such periods as the Secretary shall specify. Failure to make a disclosure in accordance with the preceding sentence shall be treated as a failure to which the penalty under subsection (b)(2) applies.

“(f) COORDINATION WITH OTHER PENALTIES.—The penalty imposed by this section is in addition to any penalty imposed under this title.”

(b) CONFORMING AMENDMENT.—The table of sections for part I of subchapter B of chapter 68 is amended by inserting after the item relating to section 6707 the following:

“Sec. 6707A. Penalty for failure to include reportable transaction information with return or statement.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns and statements the due date for which is after the date of the enactment of this Act.

SEC. 703. ACCURACY-RELATED PENALTY FOR LISTED TRANSACTIONS AND OTHER REPORTABLE TRANSACTIONS HAVING A SIGNIFICANT TAX AVOIDANCE PURPOSE.

(a) IN GENERAL.—Subchapter A of chapter 68 is amended by inserting after section 6662 the following new section:

“SEC. 6662A. IMPOSITION OF ACCURACY-RELATED PENALTY ON UNDERSTATEMENTS WITH RESPECT TO REPORTABLE TRANSACTIONS.

“(a) IMPOSITION OF PENALTY.—If a taxpayer has a reportable transaction understatement for any taxable year, there shall be added to the tax an amount equal to 20 percent of the amount of such understatement.

“(b) REPORTABLE TRANSACTION UNDERSTATEMENT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘reportable transaction understatement’ means the sum of—

“(A) the product of—

“(i) the amount of the increase (if any) in taxable income which results from a difference between the proper tax treatment of an item to which this section applies and the taxpayer’s treatment of such item (as shown on the taxpayer’s return of tax), and

“(ii) the highest rate of tax imposed by section 1 (section 11 in the case of a taxpayer which is a corporation), and

“(B) the amount of the decrease (if any) in the aggregate amount of credits determined under subtitle A which results from a difference between the taxpayer’s treatment of an item to which this section applies (as shown on the taxpayer’s return of tax) and the proper tax treatment of such item.

For purposes of subparagraph (A), any reduction of the excess of deductions allowed for the taxable year over gross income for such year, and any reduction in the amount of capital losses which would (without regard to section 1211) be allowed for such year, shall be treated as an increase in taxable income.

“(2) ITEMS TO WHICH SECTION APPLIES.—This section shall apply to any item which is attributable to—

“(A) any listed transaction, and

“(B) any reportable transaction (other than a listed transaction) if a significant purpose of such transaction is the avoidance or evasion of Federal income tax.

“(c) HIGHER PENALTY FOR NONDISCLOSED LISTED AND OTHER AVOIDANCE TRANSACTIONS.—

“(1) IN GENERAL.—Subsection (a) shall be applied by substituting ‘30 percent’ for ‘20 percent’ with respect to the portion of any reportable transaction understatement with respect to which the requirement of section 6664(d)(2)(A) is not met.

“(2) RULES APPLICABLE TO COMPROMISE OF PENALTY.—

“(A) IN GENERAL.—If the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals has been sent with respect to a penalty to which paragraph (1) applies, only the Commissioner of Internal Revenue may compromise all or any portion of such penalty.

“(B) APPLICABLE RULES.—The rules of paragraphs (2), (3), (4), and (5) of section 6707A(d) shall apply for purposes of subparagraph (A).

“(d) DEFINITIONS OF REPORTABLE AND LISTED TRANSACTIONS.—For purposes of this section, the terms ‘reportable transaction’ and ‘listed transaction’ have the respective meanings given to such terms by section 6707A(c).

“(e) SPECIAL RULES.—

“(1) COORDINATION WITH PENALTIES, ETC., ON OTHER UNDERSTATEMENTS.—In the case of an understatement (as defined in section 6662(d)(2))—

“(A) the amount of such understatement (determined without regard to this paragraph) shall be increased by the aggregate amount of reportable transaction understatements and noneconomic substance transaction understatements for purposes of determining whether such understatement is a substantial understatement under section 6662(d)(1), and

“(B) the addition to tax under section 6662(a) shall apply only to the excess of the amount of the substantial understatement (if any) after the application of subparagraph (A) over the aggregate amount of reportable transaction understatements and noneconomic substance transaction understatements.

“(2) COORDINATION WITH OTHER PENALTIES.—

“(A) APPLICATION OF FRAUD PENALTY.—References to an underpayment in section 6663 shall be treated as including references to a reportable transaction understatement and a noneconomic substance transaction understatement.

“(B) NO DOUBLE PENALTY.—This section shall not apply to any portion of an understatement on which a penalty is imposed under section 6662B or 6663.

“(3) SPECIAL RULE FOR AMENDED RETURNS.—Except as provided in regulations, in no event shall any tax treatment included with an amendment or supplement to a return of tax be taken into account in determining the amount of any reportable transaction understatement or noneconomic substance transaction understatement if the amendment or supplement is filed after the earlier of the date the taxpayer is first contacted by the Secretary regarding the examination of the return or such other date as is specified by the Secretary.

“(4) NONECONOMIC SUBSTANCE TRANSACTION UNDERSTATEMENT.—For purposes of this subsection, the term ‘noneconomic substance transaction understatement’ has the meaning given such term by section 6662B(c).

“(5) CROSS REFERENCE.—

“For reporting of section 6662A(c) penalty to the Securities and Exchange Commission, see section 6707A(e).”

(b) DETERMINATION OF OTHER UNDERSTATEMENTS.—Subparagraph (A) of section 6662(d)(2) is amended by adding at the end the following flush sentence:

"The excess under the preceding sentence shall be determined without regard to items to which section 6662A applies and without regard to items with respect to which a penalty is imposed by section 6662B."

(C) REASONABLE CAUSE EXCEPTION.—

(1) IN GENERAL.—Section 6664 is amended by adding at the end the following new subsection:

"(d) REASONABLE CAUSE EXCEPTION FOR REPORTABLE TRANSACTION UNDERSTATEMENTS.—

"(1) IN GENERAL.—No penalty shall be imposed under section 6662A with respect to any portion of a reportable transaction understatement if it is shown that there was a reasonable cause for such portion and that the taxpayer acted in good faith with respect to such portion.

"(2) SPECIAL RULES.—Paragraph (1) shall not apply to any reportable transaction understatement unless—

"(A) the relevant facts affecting the tax treatment of the item are adequately disclosed in accordance with the regulations prescribed under section 6011,

"(B) there is or was substantial authority for such treatment, and

"(C) the taxpayer reasonably believed that such treatment was more likely than not the proper treatment.

A taxpayer failing to adequately disclose in accordance with section 6011 shall be treated as meeting the requirements of subparagraph (A) if the penalty for such failure was rescinded under section 6707A(d).

"(3) RULES RELATING TO REASONABLE BELIEF.—For purposes of paragraph (2)(C)—

"(A) IN GENERAL.—A taxpayer shall be treated as having a reasonable belief with respect to the tax treatment of an item only if such belief—

"(i) is based on the facts and law that exist at the time the return of tax which includes such tax treatment is filed, and

"(ii) relates solely to the taxpayer's chances of success on the merits of such treatment and does not take into account the possibility that a return will not be audited, such treatment will not be raised on audit, or such treatment will be resolved through settlement if it is raised.

"(B) CERTAIN OPINIONS MAY NOT BE RELIED UPON.—

"(i) IN GENERAL.—An opinion of a tax advisor may not be relied upon to establish the reasonable belief of a taxpayer if—

"(I) the tax advisor is described in clause (ii), or

"(II) the opinion is described in clause (iii).

"(ii) DISQUALIFIED TAX ADVISORS.—A tax advisor is described in this clause if the tax advisor—

"(I) is a material advisor (within the meaning of section 6111(b)(1)) who participates in the organization, management, promotion, or sale of the transaction or who is related (within the meaning of section 267(b) or 707(b)(1)) to any person who so participates,

"(II) is compensated directly or indirectly by a material advisor with respect to the transaction,

"(III) has a fee arrangement with respect to the transaction which is contingent on all or part of the intended tax benefits from the transaction being sustained, or

"(IV) as determined under regulations prescribed by the Secretary, has a continuing financial interest with respect to the transaction.

"(iii) DISQUALIFIED OPINIONS.—For purposes of clause (i), an opinion is disqualified if the opinion—

"(I) is based on unreasonable factual or legal assumptions (including assumptions as to future events),

"(II) unreasonably relies on representations, statements, findings, or agreements of the taxpayer or any other person,

"(III) does not identify and consider all relevant facts, or

"(IV) fails to meet any other requirement as the Secretary may prescribe."

(2) CONFORMING AMENDMENT.—The heading for subsection (c) of section 6664 is amended by inserting "FOR UNDERPAYMENTS" after "EXCEPTION".

(d) CONFORMING AMENDMENTS.—

(1) Subparagraph (C) of section 461(i)(3) is amended by striking "section 6662(d)(2)(C)(iii)" and inserting "section 1274(b)(3)(C)".

(2) Paragraph (3) of section 1274(b) is amended—

(A) by striking "(as defined in section 6662(d)(2)(C)(iii))" in subparagraph (B)(i), and

(B) by adding at the end the following new subparagraph:

"(C) TAX SHELTER.—For purposes of subparagraph (B), the term 'tax shelter' means—

"(i) a partnership or other entity,

"(ii) any investment plan or arrangement,

"(iii) any other plan or arrangement, if a significant purpose of such partnership, entity, plan, or arrangement is the avoidance or evasion of Federal income tax."

(3) Section 6662(d)(2) is amended by striking subparagraphs (C) and (D).

(4) Section 6664(c)(1) is amended by striking "this part" and inserting "section 6662 or 6663".

(5) Subsection (b) of section 7525 is amended by striking "section 6662(d)(2)(C)(iii)" and inserting "section 1274(b)(3)(C)".

(6)(A) The heading for section 6662 is amended to read as follows:

"SEC. 6662. IMPOSITION OF ACCURACY-RELATED PENALTY ON UNDERPAYMENTS."

(B) The table of sections for part II of subchapter A of chapter 68 is amended by striking the item relating to section 6662 and inserting the following new items:

"Sec. 6662. Imposition of accuracy-related penalty on underpayments.

"Sec. 6662A. Imposition of accuracy-related penalty on understatements with respect to reportable transactions."

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

SEC. 704. PENALTY FOR UNDERSTATEMENTS ATTRIBUTABLE TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE, ETC.

(a) IN GENERAL.—Subchapter A of chapter 68 is amended by inserting after section 6662A the following new section:

"SEC. 6662B. PENALTY FOR UNDERSTATEMENTS ATTRIBUTABLE TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE, ETC.

"(a) IMPOSITION OF PENALTY.—If a taxpayer has a noneconomic substance transaction understatement for any taxable year, there shall be added to the tax an amount equal to 40 percent of the amount of such understatement.

"(b) REDUCTION OF PENALTY FOR DISCLOSED TRANSACTIONS.—Subsection (a) shall be applied by substituting '20 percent' for '40 percent' with respect to the portion of any noneconomic substance transaction understatement with respect to which the relevant facts affecting the tax treatment of the item are adequately disclosed in the return or a statement attached to the return.

"(c) NONECONOMIC SUBSTANCE TRANSACTION UNDERSTATEMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'noneconomic substance transaction understatement' means any amount which would be an understatement under section 6662A(b)(1) if section

6662A were applied by taking into account items attributable to noneconomic substance transactions rather than items to which section 6662A applies.

"(2) NONECONOMIC SUBSTANCE TRANSACTION.—The term 'noneconomic substance transaction' means any transaction if—

"(A) there is a lack of economic substance (within the meaning of section 7701(o)(1)) for the transaction giving rise to the claimed benefit or the transaction was not respected under section 7701(o)(2), or

"(B) the transaction fails to meet the requirements of any similar rule of law.

"(d) RULES APPLICABLE TO COMPROMISE OF PENALTY.—

"(1) IN GENERAL.—If the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals has been sent with respect to a penalty to which this section applies, only the Commissioner of Internal Revenue may compromise all or any portion of such penalty.

"(2) APPLICABLE RULES.—The rules of paragraphs (2), (3), (4), and (5) of section 6707A(d) shall apply for purposes of paragraph (1).

"(e) COORDINATION WITH OTHER PENALTIES.—Except as otherwise provided in this part, the penalty imposed by this section shall be in addition to any other penalty imposed by this title.

"(f) CROSS REFERENCES.—

"(1) For coordination of penalty with understatements under section 6662 and other special rules, see section 6662A(e).

"(2) For reporting of penalty imposed under this section to the Securities and Exchange Commission, see section 6707A(e)."

(b) CLERICAL AMENDMENT.—The table of sections for part II of subchapter A of chapter 68 is amended by inserting after the item relating to section 6662A the following new item:

"Sec. 6662B. Penalty for understatements attributable to transactions lacking economic substance, etc."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after February 15, 2004.

SEC. 705. MODIFICATIONS OF SUBSTANTIAL UNDERSTATEMENT PENALTY FOR NON-REPORTABLE TRANSACTIONS.

(a) SUBSTANTIAL UNDERSTATEMENT OF CORPORATIONS.—Section 6662(d)(1)(B) (relating to special rule for corporations) is amended to read as follows:

"(B) SPECIAL RULE FOR CORPORATIONS.—In the case of a corporation other than an S corporation or a personal holding company (as defined in section 542), there is a substantial understatement of income tax for any taxable year if the amount of the understatement for the taxable year exceeds the lesser of—

"(i) 10 percent of the tax required to be shown on the return for the taxable year (or, if greater, \$10,000), or

"(ii) \$10,000,000."

(b) REDUCTION FOR UNDERSTATEMENT OF TAXPAYER DUE TO POSITION OF TAXPAYER OR DISCLOSED ITEM.—

(1) IN GENERAL.—Section 6662(d)(2)(B)(i) (relating to substantial authority) is amended to read as follows:

"(i) the tax treatment of any item by the taxpayer if the taxpayer had reasonable belief that the tax treatment was more likely than not the proper treatment, or"

(2) CONFORMING AMENDMENT.—Section 6662(d) is amended by adding at the end the following new paragraph:

"(3) SECRETARIAL LIST.—For purposes of this subsection, section 6664(d)(2), and section 6694(a)(1), the Secretary may prescribe a list of positions for which the Secretary believes there is not substantial authority or

there is no reasonable belief that the tax treatment is more likely than not the proper tax treatment. Such list (and any revisions thereof) shall be published in the Federal Register or the Internal Revenue Bulletin.”

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

SEC. 706. TAX SHELTER EXCEPTION TO CONFIDENTIALITY PRIVILEGES RELATING TO TAXPAYER COMMUNICATIONS.

(a) IN GENERAL.—Section 7525(b) (relating to section not to apply to communications regarding corporate tax shelters) is amended to read as follows:

“(b) SECTION NOT TO APPLY TO COMMUNICATIONS REGARDING TAX SHELTERS.—The privilege under subsection (a) shall not apply to any written communication which is—

“(1) between a federally authorized tax practitioner and—

“(A) any person,

“(B) any director, officer, employee, agent, or representative of the person, or

“(C) any other person holding a capital or profits interest in the person, and

“(2) in connection with the promotion of the direct or indirect participation of the person in any tax shelter (as defined in section 1274(b)(3)(C)).”

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

SEC. 707. DISCLOSURE OF REPORTABLE TRANSACTIONS.

(a) IN GENERAL.—Section 6111 (relating to registration of tax shelters) is amended to read as follows:

“SEC. 6111. DISCLOSURE OF REPORTABLE TRANSACTIONS.

“(a) IN GENERAL.—Each material advisor with respect to any reportable transaction shall make a return (in such form as the Secretary may prescribe) setting forth—

“(1) information identifying and describing the transaction,

“(2) information describing any potential tax benefits expected to result from the transaction, and

“(3) such other information as the Secretary may prescribe.

Such return shall be filed not later than the date specified by the Secretary.

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

“(1) MATERIAL ADVISOR.—

“(A) IN GENERAL.—The term ‘material advisor’ means any person—

“(i) who provides any material aid, assistance, or advice with respect to organizing, promoting, selling, implementing, or carrying out any reportable transaction, and

“(ii) who directly or indirectly derives gross income in excess of the threshold amount for such aid, assistance, or advice.

“(B) THRESHOLD AMOUNT.—For purposes of subparagraph (A), the threshold amount is—

“(i) \$50,000 in the case of a reportable transaction substantially all of the tax benefits from which are provided to natural persons, and

“(ii) \$250,000 in any other case.

“(2) REPORTABLE TRANSACTION.—The term ‘reportable transaction’ has the meaning given to such term by section 6707A(c).

“(c) REGULATIONS.—The Secretary may prescribe regulations which provide—

“(1) that only 1 person shall be required to meet the requirements of subsection (a) in cases in which 2 or more persons would otherwise be required to meet such requirements,

“(2) exemptions from the requirements of this section, and

“(3) such rules as may be necessary or appropriate to carry out the purposes of this section.”

(b) CONFORMING AMENDMENTS.—

(1) The item relating to section 6111 in the table of sections for subchapter B of chapter 61 is amended to read as follows:

“Sec. 6111. Disclosure of reportable transactions.”

(2)(A) So much of section 6112 as precedes subsection (c) thereof is amended to read as follows:

“SEC. 6112. MATERIAL ADVISORS OF REPORTABLE TRANSACTIONS MUST KEEP LISTS OF ADVISEES.

“(a) IN GENERAL.—Each material advisor (as defined in section 6111) with respect to any reportable transaction (as defined in section 6707A(c)) shall maintain, in such manner as the Secretary may by regulations prescribe, a list—

“(1) identifying each person with respect to whom such advisor acted as such a material advisor with respect to such transaction, and

“(2) containing such other information as the Secretary may by regulations require. This section shall apply without regard to whether a material advisor is required to file a return under section 6111 with respect to such transaction.”

(B) Section 6112 is amended by redesignating subsection (c) as subsection (b).

(C) Section 6112(b), as redesignated by subparagraph (B), is amended—

(i) by inserting “written” before “request” in paragraph (1)(A), and

(ii) by striking “shall prescribe” in paragraph (2) and inserting “may prescribe”.

(D) The item relating to section 6112 in the table of sections for subchapter B of chapter 61 is amended to read as follows:

“Sec. 6112. Material advisors of reportable transactions must keep lists of advisees.”

(3)(A) The heading for section 6708 is amended to read as follows:

“SEC. 6708. FAILURE TO MAINTAIN LISTS OF ADVISEES WITH RESPECT TO REPORTABLE TRANSACTIONS.”

(B) The item relating to section 6708 in the table of sections for part I of subchapter B of chapter 68 is amended to read as follows:

“Sec. 6708. Failure to maintain lists of advisees with respect to reportable transactions.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions with respect to which material aid, assistance, or advice referred to in section 6111(b)(1)(A)(i) of the Internal Revenue Code of 1986 (as added by this section) is provided after the date of the enactment of this Act.

SEC. 708. MODIFICATIONS TO PENALTY FOR FAILURE TO REGISTER TAX SHELTERS.

(a) IN GENERAL.—Section 6707 (relating to failure to furnish information regarding tax shelters) is amended to read as follows:

“SEC. 6707. FAILURE TO FURNISH INFORMATION REGARDING REPORTABLE TRANSACTIONS.

“(a) IN GENERAL.—If a person who is required to file a return under section 6111(a) with respect to any reportable transaction—

“(1) fails to file such return on or before the date prescribed therefor, or

“(2) files false or incomplete information with the Secretary with respect to such transaction,

such person shall pay a penalty with respect to such return in the amount determined under subsection (b).

“(b) AMOUNT OF PENALTY.—

“(1) IN GENERAL.—Except as provided in paragraph (2), the penalty imposed under subsection (a) with respect to any failure shall be \$50,000.

“(2) LISTED TRANSACTIONS.—The penalty imposed under subsection (a) with respect to any listed transaction shall be an amount equal to the greater of—

“(A) \$200,000, or

“(B) 50 percent of the gross income derived by such person with respect to aid, assistance, or advice which is provided with respect to the reportable transaction before the date the return including the transaction is filed under section 6111.

Subparagraph (B) shall be applied by substituting ‘75 percent’ for ‘50 percent’ in the case of an intentional failure or act described in subsection (a).

“(c) RESCISSION AUTHORITY.—The provisions of section 6707A(d) (relating to authority of Commissioner to rescind penalty) shall apply to any penalty imposed under this section.

“(d) REPORTABLE AND LISTED TRANSACTIONS.—The terms ‘reportable transaction’ and ‘listed transaction’ have the respective meanings given to such terms by section 6707A(c).”

(b) CLERICAL AMENDMENT.—The item relating to section 6707 in the table of sections for part I of subchapter B of chapter 68 is amended by striking “tax shelters” and inserting “reportable transactions”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns the due date for which is after the date of the enactment of this Act.

SEC. 709. MODIFICATION OF PENALTY FOR FAILURE TO MAINTAIN LISTS OF INVESTORS.

(a) IN GENERAL.—Subsection (a) of section 6708 is amended to read as follows:

“(a) IMPOSITION OF PENALTY.—

“(1) IN GENERAL.—If any person who is required to maintain a list under section 6112(a) fails to make such list available upon written request to the Secretary in accordance with section 6112(b)(1)(A) within 20 business days after the date of the Secretary’s request, such person shall pay a penalty of \$10,000 for each day of such failure after such 20th day.

“(2) REASONABLE CAUSE EXCEPTION.—No penalty shall be imposed by paragraph (1) with respect to the failure on any day if such failure is due to reasonable cause.”

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

SEC. 710. MODIFICATION OF ACTIONS TO ENJOIN CERTAIN CONDUCT RELATED TO TAX SHELTERS AND REPORTABLE TRANSACTIONS.

(a) IN GENERAL.—Section 7408 (relating to action to enjoin promoters of abusive tax shelters, etc.) is amended by redesignating subsection (c) as subsection (d) and by striking subsections (a) and (b) and inserting the following new subsections:

“(a) AUTHORITY TO SEEK INJUNCTION.—A civil action in the name of the United States to enjoin any person from further engaging in specified conduct may be commenced at the request of the Secretary. Any action under this section shall be brought in the district court of the United States for the district in which such person resides, has his principal place of business, or has engaged in specified conduct. The court may exercise its jurisdiction over such action (as provided in section 7402(a)) separate and apart from any other action brought by the United States against such person.

“(b) ADJUDICATION AND DECREE.—In any action under subsection (a), if the court finds—

“(1) that the person has engaged in any specified conduct, and

“(2) that injunctive relief is appropriate to prevent recurrence of such conduct,

the court may enjoin such person from engaging in such conduct or in any other activity subject to penalty under this title.

“(c) SPECIFIED CONDUCT.—For purposes of this section, the term ‘specified conduct’ means any action, or failure to take action, subject to penalty under section 6700, 6701, 6707, or 6708.”.

(b) CONFORMING AMENDMENTS.—

(1) The heading for section 7408 is amended to read as follows:

“**SEC. 7408. ACTIONS TO ENJOIN SPECIFIED CONDUCT RELATED TO TAX SHELTERS AND REPORTABLE TRANSACTIONS.**”.

(2) The table of sections for subchapter A of chapter 67 is amended by striking the item relating to section 7408 and inserting the following new item:

“Sec. 7408. Actions to enjoin specified conduct related to tax shelters and reportable transactions.”.

(c) EFFECTIVE DATE.—The amendment made by this section shall take effect on the day after the date of the enactment of this Act.

SEC. 711. UNDERSTATEMENT OF TAXPAYER'S LIABILITY BY INCOME TAX RETURN PREPARER.

(a) STANDARDS CONFORMED TO TAXPAYER STANDARDS.—Section 6694(a) (relating to understatements due to unrealistic positions) is amended—

(1) by striking “realistic possibility of being sustained on its merits” in paragraph (1) and inserting “reasonable belief that the tax treatment in such position was more likely than not the proper treatment”;

(2) by striking “or was frivolous” in paragraph (3) and inserting “or there was no reasonable basis for the tax treatment of such position”;

(3) by striking “UNREALISTIC” in the heading and inserting “IMPROPER”.

(b) AMOUNT OF PENALTY.—Section 6694 is amended—

(1) by striking “\$250” in subsection (a) and inserting “\$1,000”;

(2) by striking “\$1,000” in subsection (b) and inserting “\$5,000”.

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

SEC. 712. PENALTY ON FAILURE TO REPORT INTERESTS IN FOREIGN FINANCIAL ACCOUNTS.

(a) IN GENERAL.—Section 5321(a)(5) of title 31, United States Code, is amended to read as follows:

“(5) FOREIGN FINANCIAL AGENCY TRANSACTION VIOLATION.—

“(A) PENALTY AUTHORIZED.—The Secretary of the Treasury may impose a civil money penalty on any person who violates, or causes any violation of, any provision of section 5314.

“(B) AMOUNT OF PENALTY.—

“(i) IN GENERAL.—Except as provided in subparagraph (C), the amount of any civil penalty imposed under subparagraph (A) shall not exceed \$5,000.

“(ii) REASONABLE CAUSE EXCEPTION.—No penalty shall be imposed under subparagraph (A) with respect to any violation if—

“(I) such violation was due to reasonable cause, and

“(II) the amount of the transaction or the balance in the account at the time of the transaction was properly reported.

“(C) WILLFUL VIOLATIONS.—In the case of any person willfully violating, or willfully causing any violation of, any provision of section 5314—

“(i) the maximum penalty under subparagraph (B)(i) shall be increased to the greater of—

“(I) \$25,000, or

“(II) the amount (not exceeding \$100,000) determined under subparagraph (D), and

“(ii) subparagraph (B)(ii) shall not apply.

“(D) AMOUNT.—The amount determined under this subparagraph is—

“(i) in the case of a violation involving a transaction, the amount of the transaction, or

“(ii) in the case of a violation involving a failure to report the existence of an account or any identifying information required to be provided with respect to an account, the balance in the account at the time of the violation.”.

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

SEC. 713. FRIVOLOUS TAX SUBMISSIONS.

(a) CIVIL PENALTIES.—Section 6702 is amended to read as follows:

“**SEC. 6702. FRIVOLOUS TAX SUBMISSIONS.**

“(a) CIVIL PENALTY FOR FRIVOLOUS TAX RETURNS.—A person shall pay a penalty of \$5,000 if—

“(1) such person files what purports to be a return of a tax imposed by this title but which—

“(A) does not contain information on which the substantial correctness of the self-assessment may be judged, or

“(B) contains information that on its face indicates that the self-assessment is substantially incorrect; and

“(2) the conduct referred to in paragraph (1)—

“(A) is based on a position which the Secretary has identified as frivolous under subsection (c), or

“(B) reflects a desire to delay or impede the administration of Federal tax laws.

“(b) CIVIL PENALTY FOR SPECIFIED FRIVOLOUS SUBMISSIONS.—

“(1) IMPOSITION OF PENALTY.—Except as provided in paragraph (3), any person who submits a specified frivolous submission shall pay a penalty of \$5,000.

“(2) SPECIFIED FRIVOLOUS SUBMISSION.—For purposes of this section—

“(A) SPECIFIED FRIVOLOUS SUBMISSION.—The term ‘specified frivolous submission’ means a specified submission if any portion of such submission—

“(i) is based on a position which the Secretary has identified as frivolous under subsection (c), or

“(ii) reflects a desire to delay or impede the administration of Federal tax laws.

“(B) SPECIFIED SUBMISSION.—The term ‘specified submission’ means—

“(i) a request for a hearing under—

“(I) section 6320 (relating to notice and opportunity for hearing upon filing of notice of lien), or

“(II) section 6330 (relating to notice and opportunity for hearing before levy), and

“(ii) an application under—

“(I) section 6159 (relating to agreements for payment of tax liability in installments),

“(II) section 7122 (relating to compromises), or

“(III) section 7811 (relating to taxpayer assistance orders).

“(3) OPPORTUNITY TO WITHDRAW SUBMISSION.—If the Secretary provides a person with notice that a submission is a specified frivolous submission and such person withdraws such submission within 30 days after such notice, the penalty imposed under paragraph (1) shall not apply with respect to such submission.

“(c) LISTING OF FRIVOLOUS POSITIONS.—The Secretary shall prescribe (and periodically revise) a list of positions which the Secretary has identified as being frivolous for purposes of this subsection. The Secretary shall not include in such list any position

that the Secretary determines meets the requirement of section 6662(d)(2)(B)(ii)(I).

“(d) REDUCTION OF PENALTY.—The Secretary may reduce the amount of any penalty imposed under this section if the Secretary determines that such reduction would promote compliance with and administration of the Federal tax laws.

“(e) PENALTIES IN ADDITION TO OTHER PENALTIES.—The penalties imposed by this section shall be in addition to any other penalty provided by law.”.

(b) TREATMENT OF FRIVOLOUS REQUESTS FOR HEARINGS BEFORE LEVY.—

(1) FRIVOLOUS REQUESTS DISREGARDED.—Section 6330 (relating to notice and opportunity for hearing before levy) is amended by adding at the end the following new subsection:

“(g) FRIVOLOUS REQUESTS FOR HEARING, ETC.—Notwithstanding any other provision of this section, if the Secretary determines that any portion of a request for a hearing under this section or section 6320 meets the requirement of clause (i) or (ii) of section 6702(b)(2)(A), then the Secretary may treat such portion as if it were never submitted and such portion shall not be subject to any further administrative or judicial review.”.

(2) PRECLUSION FROM RAISING FRIVOLOUS ISSUES AT HEARING.—Section 6330(c)(4) is amended—

(A) by striking “(A)” and inserting “(A)(i)”;

(B) by striking “(B)” and inserting “(ii)”;

(C) by striking the period at the end of the first sentence and inserting “; or”;

(D) by inserting after subparagraph (A)(ii) (as so redesignated) the following:

“(B) the issue meets the requirement of clause (i) or (ii) of section 6702(b)(2)(A).”.

(3) STATEMENT OF GROUNDS.—Section 6330(b)(1) is amended by striking “under subsection (a)(3)(B)” and inserting “in writing under subsection (a)(3)(B) and states the grounds for the requested hearing”.

(c) TREATMENT OF FRIVOLOUS REQUESTS FOR HEARINGS UPON FILING OF NOTICE OF LIEN.—Section 6320 is amended—

(1) in subsection (b)(1), by striking “under subsection (a)(3)(B)” and inserting “in writing under subsection (a)(3)(B) and states the grounds for the requested hearing”;

(2) in subsection (c), by striking “and (e)” and inserting “(e), and (g)”.

(d) TREATMENT OF FRIVOLOUS APPLICATIONS FOR OFFERS-IN-COMPROMISE AND INSTALLMENT AGREEMENTS.—Section 7122 is amended by adding at the end the following new subsection:

“(e) FRIVOLOUS SUBMISSIONS, ETC.—Notwithstanding any other provision of this section, if the Secretary determines that any portion of an application for an offer-in-compromise or installment agreement submitted under this section or section 6159 meets the requirement of clause (i) or (ii) of section 6702(b)(2)(A), then the Secretary may treat such portion as if it were never submitted and such portion shall not be subject to any further administrative or judicial review.”.

(e) CLERICAL AMENDMENT.—The table of sections for part I of subchapter B of chapter 68 is amended by striking the item relating to section 6702 and inserting the following new item:

“Sec. 6702. Frivolous tax submissions.”.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to submissions made and issues raised after the date on which the Secretary first prescribes a list under section 6702(c) of the Internal Revenue Code of 1986, as amended by subsection (a).

SEC. 714. REGULATION OF INDIVIDUALS PRACTICING BEFORE THE DEPARTMENT OF TREASURY.

(a) CENSURE; IMPOSITION OF PENALTY.—

(1) IN GENERAL.—Section 330(b) of title 31, United States Code, is amended—

(A) by inserting “, or censure,” after “Department”, and

(B) by adding at the end the following new flush sentence:

“The Secretary may impose a monetary penalty on any representative described in the preceding sentence. If the representative was acting on behalf of an employer or any firm or other entity in connection with the conduct giving rise to such penalty, the Secretary may impose a monetary penalty on such employer, firm, or entity if it knew, or reasonably should have known, of such conduct. Such penalty shall not exceed the gross income derived (or to be derived) from the conduct giving rise to the penalty and may be in addition to, or in lieu of, any suspension, disbarment, or censure.”

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to actions taken after the date of the enactment of this Act.

(b) TAX SHELTER OPINIONS, ETC.—Section 330 of such title 31 is amended by adding at the end the following new subsection:

“(d) Nothing in this section or in any other provision of law shall be construed to limit the authority of the Secretary of the Treasury to impose standards applicable to the rendering of written advice with respect to any entity, transaction plan or arrangement, or other plan or arrangement, which is of a type which the Secretary determines as having a potential for tax avoidance or evasion.”

SEC. 715. PENALTY ON PROMOTERS OF TAX SHELTERS.

(a) PENALTY ON PROMOTING ABUSIVE TAX SHELTERS.—Section 6700(a) is amended by adding at the end the following new sentence: “Notwithstanding the first sentence, if an activity with respect to which a penalty imposed under this subsection involves a statement described in paragraph (2)(A), the amount of the penalty shall be equal to 50 percent of the gross income derived (or to be derived) from such activity by the person on which the penalty is imposed.”

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

SEC. 716. STATUTE OF LIMITATIONS FOR TAXABLE YEARS FOR WHICH LISTED TRANSACTIONS NOT REPORTED.

(a) IN GENERAL.—Section 6501(e)(1) (relating to substantial omission of items for income taxes) is amended by adding at the end the following new subparagraph:

“(C) LISTED TRANSACTIONS.—If a taxpayer fails to include on any return or statement for any taxable year any information with respect to a listed transaction (as defined in section 6707A(c)(2)) which is required under section 6011 to be included with such return or statement, the tax for such taxable year may be assessed, or a proceeding in court for collection of such tax may be begun without assessment, at any time within 6 years after the time the return is filed. This subparagraph shall not apply to any taxable year if the time for assessment or beginning the proceeding in court has expired before the time a transaction is treated as a listed transaction under section 6011.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to transactions in taxable years beginning after the date of the enactment of this Act.

SEC. 717. DENIAL OF DEDUCTION FOR INTEREST ON UNDERPAYMENTS ATTRIBUTABLE TO NONDISCLOSED REPORTABLE AND NONECONOMIC SUBSTANCE TRANSACTIONS.

(a) IN GENERAL.—Section 163 (relating to deduction for interest) is amended by redesignating subsection (m) as subsection (n) and

by inserting after subsection (l) the following new subsection:

“(m) INTEREST ON UNPAID TAXES ATTRIBUTABLE TO NONDISCLOSED REPORTABLE TRANSACTIONS AND NONECONOMIC SUBSTANCE TRANSACTIONS.—No deduction shall be allowed under this chapter for any interest paid or accrued under section 6601 on any underpayment of tax which is attributable to—

“(1) the portion of any reportable transaction understatement (as defined in section 6662A(b)) with respect to which the requirement of section 6664(d)(2)(A) is not met, or

“(2) any noneconomic substance transaction understatement (as defined in section 6662B(c)).”

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

SEC. 718. AUTHORIZATION OF APPROPRIATIONS FOR TAX LAW ENFORCEMENT.

There is authorized to be appropriated \$300,000,000 for each fiscal year beginning after September 30, 2002, for the purpose of carrying out tax law enforcement to combat tax avoidance transactions and other tax shelters, including the use of offshore financial accounts to conceal taxable income.

Subtitle B—Other Provisions

SEC. 721. AFFIRMATION OF CONSOLIDATED RETURN REGULATION AUTHORITY.

(a) IN GENERAL.—Section 1502 (relating to consolidated return regulations) is amended by adding at the end the following new sentence: “In prescribing such regulations, the Secretary may prescribe rules applicable to corporations filing consolidated returns under section 1501 that are different from other provisions of this title that would apply if such corporations filed separate returns.”

(b) RESULT NOT OVERTURNED.—Notwithstanding subsection (a), the Internal Revenue Code of 1986 shall be construed by treating Treasury regulation §1.1502-20(c)(1)(iii) (as in effect on January 1, 2001) as being inapplicable to the type of factual situation in 255 F.3d 1357 (Fed. Cir. 2001).

(c) EFFECTIVE DATE.—The provisions of this section shall apply to taxable years beginning before, on, or after the date of the enactment of this Act.

SEC. 722. SIGNING OF CORPORATE TAX RETURNS BY CHIEF EXECUTIVE OFFICER.

(a) IN GENERAL.—Section 6062 (relating to signing of corporation returns) is amended by striking the first sentence and inserting the following new sentence: “The return of a corporation with respect to income shall be signed by the chief executive officer of such corporation (or other such officer of the corporation as the Secretary may designate if the corporation does not have a chief executive officer). The preceding sentence shall not apply to any return of a regulated investment company (within the meaning of section 851).”

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

SEC. 723. SECURITIES CIVIL ENFORCEMENT PROVISIONS.

(a) AUTHORITY TO ASSESS CIVIL MONEY PENALTIES.—

(1) SECURITIES ACT OF 1933.—Section 8A of the Securities Act of 1933 (15 U.S.C. 77h-1) is amended by adding at the end the following new subsection:

“(g) AUTHORITY OF THE COMMISSION TO ASSESS MONEY PENALTY.—

“(1) IN GENERAL.—In any cease-and-desist proceeding under subsection (a), the Commission may impose a civil monetary penalty if it finds, on the record after notice and opportunity for hearing, that a person is vio-

lating, has violated, or is or was a cause of the violation of, any provision of this title or any rule or regulation thereunder, and that such penalty is in the public interest.

“(2) MAXIMUM AMOUNT OF PENALTY.—

“(A) FIRST TIER.—The maximum amount of penalty for each act or omission described in paragraph (1) shall be \$100,000 for a natural person or \$250,000 for any other person.

“(B) SECOND TIER.—Notwithstanding subparagraph (A), the maximum amount of penalty for such act or omission described in paragraph (1) shall be \$500,000 for a natural person or \$1,000,000 for any other person, if the act or omission involved fraud, deceit, manipulation, or deliberate or reckless disregard of a statutory or regulatory requirement.

“(C) THIRD TIER.—Notwithstanding subparagraphs (A) and (B), the maximum amount of penalty for each act or omission described in paragraph (1) shall be \$1,000,000 for a natural person or \$2,000,000 for any other person, if—

“(i) the act or omission involved fraud, deceit, manipulation, or deliberate or reckless disregard of a statutory or regulatory requirement; and

“(ii) such act or omission directly or indirectly resulted in substantial losses or created a significant risk of substantial losses to other persons or resulted in substantial pecuniary gain to the person who committed the act or omission.

“(3) EVIDENCE CONCERNING ABILITY TO PAY.—In any proceeding in which the Commission or the appropriate regulatory agency may impose a penalty under this section, a respondent may present evidence of the ability of the respondent to pay such penalty. The Commission or the appropriate regulatory agency may, in its discretion, consider such evidence in determining whether the penalty is in the public interest. Such evidence may relate to the extent of the person's ability to continue in business and the collectability of a penalty, taking into account any other claims of the United States or third parties upon the assets of that person and the amount of the assets of that person.”

(2) SECURITIES EXCHANGE ACT OF 1934.—Section 21B(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-2(a)) is amended—

(A) in paragraph (4), by striking “supervision;” and all that follows through the end of the subsection and inserting “supervision.”;

(B) by redesignating paragraphs (1) through (4) as subparagraphs (A) through (D), respectively, and moving the margins 2 ems to the right;

(C) by inserting “that such penalty is in the public interest and” after “hearing;”;

(D) by striking “In any proceeding” and inserting the following:

“(1) IN GENERAL.—In any proceeding”; and

(E) by adding at the end the following:

“(2) OTHER MONEY PENALTIES.—In any proceeding under section 21C against any person, the Commission may impose a civil monetary penalty if it finds, on the record after notice and opportunity for hearing, that such person is violating, has violated, or is or was a cause of the violation of, any provision of this title or any rule or regulation thereunder, and that such penalty is in the public interest.”

(3) INVESTMENT COMPANY ACT OF 1940.—Section 9(d)(1) of the Investment Company Act of 1940 (15 U.S.C. 80a-9(d)(1)) is amended—

(A) in subparagraph (C), by striking “therein;” and all that follows through the end of the paragraph and inserting “supervision.”;

(B) by redesignating subparagraphs (A) through (C) as clauses (i) through (iii), respectively, and moving the margins 2 ems to the right;

(C) by inserting "that such penalty is in the public interest and" after "hearing,";

(D) by striking "In any proceeding" and inserting the following:

"(A) IN GENERAL.—In any proceeding"; and

(E) by adding at the end the following:

"(B) OTHER MONEY PENALTIES.—In any proceeding under subsection (f) against any person, the Commission may impose a civil monetary penalty if it finds, on the record after notice and opportunity for hearing, that such person is violating, has violated, or is or was a cause of the violation of, any provision of this title or any rule or regulation thereunder, and that such penalty is in the public interest."

(4) INVESTMENT ADVISERS ACT OF 1940.—Section 203(i)(1) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-3(i)(1)) is amended—

(A) in subparagraph (D), by striking "supervision;" and all that follows through the end of the paragraph and inserting "supervision.";

(B) by redesignating subparagraphs (A) through (D) as clauses (i) through (iv), respectively, and moving the margins 2 ems to the right;

(C) by inserting "that such penalty is in the public interest and" after "hearing,";

(D) by striking "In any proceeding" and inserting the following:

"(A) IN GENERAL.—In any proceeding"; and

(E) by adding at the end the following:

"(B) OTHER MONEY PENALTIES.—In any proceeding under subsection (k) against any person, the Commission may impose a civil monetary penalty if it finds, on the record after notice and opportunity for hearing, that such person is violating, has violated, or is or was a cause of the violation of, any provision of this title or any rule or regulation thereunder, and that such penalty is in the public interest."

(b) INCREASED MAXIMUM CIVIL MONEY PENALTIES.—

(1) SECURITIES ACT OF 1933.—Section 20(d)(2) of the Securities Act of 1933 (15 U.S.C. 77t(d)(2)) is amended—

(A) in subparagraph (A)(i)—

(i) by striking "\$5,000" and inserting "\$100,000"; and

(ii) by striking "\$50,000" and inserting "\$250,000";

(B) in subparagraph (B)(i)—

(i) by striking "\$50,000" and inserting "\$500,000"; and

(ii) by striking "\$250,000" and inserting "\$1,000,000"; and

(C) in subparagraph (C)(i)—

(i) by striking "\$100,000" and inserting "\$1,000,000"; and

(ii) by striking "\$500,000" and inserting "\$2,000,000".

(2) SECURITIES EXCHANGE ACT OF 1934.—

(A) PENALTIES.—Section 32 of the Securities Exchange Act of 1934 (15 U.S.C. 78ff) is amended—

(i) in subsection (b), by striking "\$100" and inserting "\$10,000"; and

(ii) in subsection (c)—

(I) in paragraph (1)(B), by striking "\$10,000" and inserting "\$500,000"; and

(II) in paragraph (2)(B), by striking "\$10,000" and inserting "\$500,000".

(B) INSIDER TRADING.—Section 21A(a)(3) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-1(a)(3)) is amended by striking "\$1,000,000" and inserting "\$2,000,000".

(C) ADMINISTRATIVE PROCEEDINGS.—Section 21B(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-2(b)) is amended—

(i) in paragraph (1)—

(I) by striking "\$5,000" and inserting "\$100,000"; and

(II) by striking "\$50,000" and inserting "\$250,000";

(i) in paragraph (2)—

(I) by striking "\$50,000" and inserting "\$500,000"; and

(II) by striking "\$250,000" and inserting "\$1,000,000"; and

(iii) in paragraph (3)—

(I) by striking "\$100,000" and inserting "\$1,000,000"; and

(II) by striking "\$500,000" and inserting "\$2,000,000".

(D) CIVIL ACTIONS.—Section 21(d)(3)(B) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(d)(3)(B)) is amended—

(i) in clause (i)—

(I) by striking "\$5,000" and inserting "\$100,000"; and

(II) by striking "\$50,000" and inserting "\$250,000";

(ii) in clause (ii)—

(I) by striking "\$50,000" and inserting "\$500,000"; and

(II) by striking "\$250,000" and inserting "\$1,000,000"; and

(iii) in clause (iii)—

(I) by striking "\$100,000" and inserting "\$1,000,000"; and

(II) by striking "\$500,000" and inserting "\$2,000,000".

(3) INVESTMENT COMPANY ACT OF 1940.—

(A) INELIGIBILITY.—Section 9(d)(2) of the Investment Company Act of 1940 (15 U.S.C. 80a-9(d)(2)) is amended—

(i) in subparagraph (A)—

(I) by striking "\$5,000" and inserting "\$100,000"; and

(II) by striking "\$50,000" and inserting "\$250,000";

(ii) in subparagraph (B)—

(I) by striking "\$50,000" and inserting "\$500,000"; and

(II) by striking "\$250,000" and inserting "\$1,000,000"; and

(iii) in subparagraph (C)—

(I) by striking "\$100,000" and inserting "\$1,000,000"; and

(II) by striking "\$500,000" and inserting "\$2,000,000".

(B) ENFORCEMENT OF INVESTMENT COMPANY ACT.—Section 42(e)(2) of the Investment Company Act of 1940 (15 U.S.C. 80a-41(e)(2)) is amended—

(i) in subparagraph (A)—

(I) by striking "\$5,000" and inserting "\$100,000"; and

(II) by striking "\$50,000" and inserting "\$250,000";

(ii) in subparagraph (B)—

(I) by striking "\$50,000" and inserting "\$500,000"; and

(II) by striking "\$250,000" and inserting "\$1,000,000"; and

(iii) in subparagraph (C)—

(I) by striking "\$100,000" and inserting "\$1,000,000"; and

(II) by striking "\$500,000" and inserting "\$2,000,000".

(4) INVESTMENT ADVISERS ACT OF 1940.—

(A) REGISTRATION.—Section 203(i)(2) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-3(i)(2)) is amended—

(i) in subparagraph (A)—

(I) by striking "\$5,000" and inserting "\$100,000"; and

(II) by striking "\$50,000" and inserting "\$250,000";

(ii) in subparagraph (B)—

(I) by striking "\$50,000" and inserting "\$500,000"; and

(II) by striking "\$250,000" and inserting "\$1,000,000"; and

(iii) in subparagraph (C)—

(I) by striking "\$100,000" and inserting "\$1,000,000"; and

(II) by striking "\$500,000" and inserting "\$2,000,000".

(B) ENFORCEMENT OF INVESTMENT ADVISERS ACT.—Section 209(e)(2) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-9(e)(2)) is amended—

(i) in subparagraph (A)—

(I) by striking "\$5,000" and inserting "\$100,000"; and

(II) by striking "\$50,000" and inserting "\$250,000";

(ii) in subparagraph (B)—

(I) by striking "\$50,000" and inserting "\$500,000"; and

(II) by striking "\$250,000" and inserting "\$1,000,000"; and

(iii) in subparagraph (C)—

(I) by striking "\$100,000" and inserting "\$1,000,000"; and

(II) by striking "\$500,000" and inserting "\$2,000,000".

(c) AUTHORITY TO OBTAIN FINANCIAL RECORDS.—Section 21(h) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(h)) is amended—

(1) by striking paragraphs (2) through (8);

(2) in paragraph (9), by striking "(9)(A)" and all that follows through "(B) The" and inserting "(3) The";

(3) by inserting after paragraph (1), the following:

"(2) ACCESS TO FINANCIAL RECORDS.—

"(A) IN GENERAL.—Notwithstanding section 1105 or 1107 of the Right to Financial Privacy Act of 1978, the Commission may obtain access to and copies of, or the information contained in, financial records of any person held by a financial institution, including the financial records of a customer, without notice to that person, when it acts pursuant to a subpoena authorized by a formal order of investigation of the Commission and issued under the securities laws or pursuant to an administrative or judicial subpoena issued in a proceeding or action to enforce the securities laws.

"(B) NONDISCLOSURE OF REQUESTS.—If the Commission so directs in its subpoena, no financial institution, or officer, director, partner, employee, shareholder, representative or agent of such financial institution, shall, directly or indirectly, disclose that records have been requested or provided in accordance with subparagraph (A), if the Commission finds reason to believe that such disclosure may—

"(i) result in the transfer of assets or records outside the territorial limits of the United States;

"(ii) result in improper conversion of investor assets;

"(iii) impede the ability of the Commission to identify, trace, or freeze funds involved in any securities transaction;

"(iv) endanger the life or physical safety of an individual;

"(v) result in flight from prosecution;

"(vi) result in destruction of or tampering with evidence;

"(vii) result in intimidation of potential witnesses; or

"(viii) otherwise seriously jeopardize an investigation or unduly delay a trial.

"(C) TRANSFER OF RECORDS TO GOVERNMENT AUTHORITIES.—The Commission may transfer financial records or the information contained therein to any government authority, if the Commission proceeds as a transferring agency in accordance with section 1112 of the Right to Financial Privacy Act of 1978 (12 U.S.C. 3412), except that a customer notice shall not be required under subsection (b) or (c) of that section 1112, if the Commission determines that there is reason to believe that such notification may result in or lead to any of the factors identified under clauses (i) through (viii) of subparagraph (B) of this paragraph."

(4) by striking paragraph (10); and

(5) by redesignating paragraphs (11), (12), and (13) as paragraphs (4), (5), and (6), respectively.

SEC. 724. REVIEW OF STATE AGENCY BLINDNESS AND DISABILITY DETERMINATIONS.

Section 1633 of the Social Security Act (42 U.S.C. 1383b) is amended by adding at the end the following:

“(e)(1) The Commissioner of Social Security shall review determinations, made by State agencies pursuant to subsection (a) in connection with applications for benefits under this title on the basis of blindness or disability, that individuals who have attained 18 years of age are blind or disabled as of a specified onset date. The Commissioner of Social Security shall review such a determination before any action is taken to implement the determination.

“(2)(A) In carrying out paragraph (1), the Commissioner of Social Security shall review—

“(i) at least 25 percent of all determinations referred to in paragraph (1) that are made in fiscal year 2004; and

“(ii) at least 50 percent of all such determinations that are made in fiscal year 2005 or thereafter.

“(B) In carrying out subparagraph (A), the Commissioner of Social Security shall, to the extent feasible, select for review the determinations which the Commissioner of Social Security identifies as being the most likely to be incorrect.”.

TITLE VIII—COMPASSION CAPITAL FUND

SEC. 801. SUPPORT FOR NONPROFIT COMMUNITY-BASED ORGANIZATIONS; DEPARTMENT OF HEALTH AND HUMAN SERVICES.

(a) SUPPORT FOR NONGOVERNMENTAL ORGANIZATIONS.—The Secretary of Health and Human Services (referred to in this section as “the Secretary”) may award grants to and enter into cooperative agreements with nongovernmental organizations, to—

(1) provide technical assistance for community-based organizations, which may include—

(A) grant writing and grant management assistance, which may include assistance provided through workshops and other guidance;

(B) legal assistance with incorporation;

(C) legal assistance to obtain tax-exempt status; and

(D) information on, and referrals to, other nongovernmental organizations that provide expertise in accounting, on legal issues, on tax issues, in program development, and on a variety of other organizational topics;

(2) provide information and assistance for community-based organizations on capacity building;

(3) provide for community-based organizations information on and assistance in identifying and using best practices for delivering assistance to persons, families, and communities in need;

(4) provide information on and assistance in utilizing regional intermediary organizations to increase and strengthen the capabilities of nonprofit community-based organizations;

(5) assist community-based organizations in replicating social service programs of demonstrated effectiveness; and

(6) encourage research on the best practices of social service organizations.

(b) SUPPORT FOR STATES.—The Secretary—

(1) may award grants to and enter into cooperative agreements with States and political subdivisions of States to provide seed money to establish State and local offices of faith-based and community initiatives; and

(2) shall provide technical assistance to States and political subdivisions of States in administering the provisions of this Act.

(c) APPLICATIONS.—To be eligible to receive a grant or enter into a cooperative agreement under this section, a nongovernmental organization, State, or political subdivision shall submit an application to the Secretary at such time, in such manner, and containing such information as the Secretary may require.

(d) LIMITATION.—In order to widely disburse limited resources, no community-based organization (other than a direct recipient of a grant or cooperative agreement from the Secretary) may receive more than 1 grant or cooperative agreement under this section for the same purpose.

(e) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this section \$85,000,000 for fiscal year 2003, and such sums as may be necessary for each of fiscal years 2004 through 2007.

(f) DEFINITION.—In this section, the term “community-based organization” means a nonprofit corporation or association that has—

(1) not more than 6 full-time equivalent employees who are engaged in the provision of social services; or

(2) a current annual budget (current as of the date the entity seeks assistance under this section) for the provision of social services, compiled and adopted in good faith, of less than \$450,000.

SEC. 802. SUPPORT FOR NONPROFIT COMMUNITY-BASED ORGANIZATIONS; CORPORATION FOR NATIONAL AND COMMUNITY SERVICE.

(a) SUPPORT FOR NONGOVERNMENTAL ORGANIZATIONS.—The Corporation for National and Community Service (referred to in this section as “the Corporation”) may award grants to and enter into cooperative agreements with nongovernmental organizations and State Commissions on National and Community Service established under section 178 of the National and Community Service Act of 1990 (42 U.S.C. 12638), to—

(1) provide technical assistance for community-based organizations, which may include—

(A) grant writing and grant management assistance, which may include assistance provided through workshops and other guidance;

(B) legal assistance with incorporation;

(C) legal assistance to obtain tax-exempt status; and

(D) information on, and referrals to, other nongovernmental organizations that provide expertise in accounting, on legal issues, on tax issues, in program development, and on a variety of other organizational topics;

(2) provide information and assistance for community-based organizations on capacity building;

(3) provide for community-based organizations information on and assistance in identifying and using best practices for delivering assistance to persons, families, and communities in need;

(4) provide information on and assistance in utilizing regional intermediary organizations to increase and strengthen the capabilities of community-based organizations;

(5) assist community-based organizations in replicating social service programs of demonstrated effectiveness; and

(6) encourage research on the best practices of social service organizations.

(b) APPLICATIONS.—To be eligible to receive a grant or enter into a cooperative agreement under this section, a nongovernmental organization, State Commission, State, or political subdivision shall submit an application to the Corporation at such time, in such manner, and containing such information as the Corporation may require.

(c) LIMITATION.—In order to widely disburse limited resources, no community-

based organization (other than a direct recipient of a grant or cooperative agreement from the Secretary) may receive more than 1 grant or cooperative agreement under this section for the same purpose.

(d) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this section \$15,000,000 for fiscal year 2003, and such sums as may be necessary for each of fiscal years 2004 through 2007.

(e) DEFINITION.—In this section, the term “community-based organization” means a nonprofit corporation or association that has—

(1) not more than 6 full-time equivalent employees who are engaged in the provision of social services; or

(2) a current annual budget (current as of the date the entity seeks assistance under this section) for the provision of social services, compiled and adopted in good faith, of less than \$450,000.

SEC. 803. SUPPORT FOR NONPROFIT COMMUNITY-BASED ORGANIZATIONS; DEPARTMENT OF JUSTICE.

(a) SUPPORT FOR NONGOVERNMENTAL ORGANIZATIONS.—The Attorney General may award grants to and enter into cooperative agreements with nongovernmental organizations, to—

(1) provide technical assistance for community-based organizations, which may include—

(A) grant writing and grant management assistance, which may include assistance provided through workshops and other guidance;

(B) legal assistance with incorporation;

(C) legal assistance to obtain tax-exempt status; and

(D) information on, and referrals to, other nongovernmental organizations that provide expertise in accounting, on legal issues, on tax issues, in program development, and on a variety of other organizational topics;

(2) provide information and assistance for community-based organizations on capacity building;

(3) provide for community-based organizations information on and assistance in identifying and using best practices for delivering assistance to persons, families, and communities in need;

(4) provide information on and assistance in utilizing regional intermediary organizations to increase and strengthen the capabilities of nonprofit community-based organizations;

(5) assist community-based organizations in replicating social service programs of demonstrated effectiveness; and

(6) encourage research on the best practices of social service organizations.

(b) APPLICATIONS.—To be eligible to receive a grant or enter into a cooperative agreement under this section, a nongovernmental organization, State, or political subdivision shall submit an application to the Attorney General at such time, in such manner, and containing such information as the Attorney General may require.

(c) LIMITATION.—In order to widely disburse limited resources, no community-based organization (other than a direct recipient of a grant or cooperative agreement from the Attorney General) may receive more than 1 grant or cooperative agreement under this section for the same purpose.

(d) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this section \$35,000,000 for fiscal year 2003, and such sums as may be necessary for each of fiscal years 2004 through 2007.

(e) DEFINITION.—In this section, the term “community-based organization” means a nonprofit corporation or association that has—

(1) not more than 6 full-time equivalent employees who are engaged in the provision of social services; or

(2) a current annual budget (current as of the date the entity seeks assistance under this section) for the provision of social services, compiled and adopted in good faith, of less than \$450,000.

SEC. 804. SUPPORT FOR NONPROFIT COMMUNITY-BASED ORGANIZATIONS; DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

(a) **SUPPORT FOR NONGOVERNMENTAL ORGANIZATIONS.**—The Secretary of Housing and Urban Development (referred to in this section “the Secretary”) may award grants to and enter into cooperative agreements with nongovernmental organizations, to—

(1) provide technical assistance for community-based organizations, which may include—

(A) grant writing and grant management assistance, which may include assistance provided through workshops and other guidance;

(B) legal assistance with incorporation;

(C) legal assistance to obtain tax-exempt status; and

(D) information on, and referrals to, other nongovernmental organizations that provide expertise in accounting, on legal issues, on tax issues, in program development, and on a variety of other organizational topics;

(2) provide information and assistance for community-based organizations on capacity building;

(3) provide for community-based organizations information on and assistance in identifying and using best practices for delivering assistance to persons, families, and communities in need;

(4) provide information on and assistance in utilizing regional intermediary organizations to increase and strengthen the capabilities of community-based organizations;

(5) assist community-based organizations in replicating social service programs of demonstrated effectiveness; and

(6) encourage research on the best practices of social service organizations.

(b) **APPLICATIONS.**—To be eligible to receive a grant or enter into a cooperative agreement under this section, a nongovernmental organization, State, or political subdivision shall submit an application to the Secretary at such time, in such manner, and containing such information as the Secretary may require.

(c) **LIMITATION.**—In order to widely disburse limited resources, no community-based organization (other than a direct recipient of a grant or cooperative agreement from the Secretary) may receive more than 1 grant or cooperative agreement under this section for the same purpose.

(d) **AUTHORIZATION OF APPROPRIATIONS.**—There are authorized to be appropriated to carry out this section \$15,000,000 for fiscal year 2003, and such sums as may be necessary for each of fiscal years 2004 through 2007.

(e) **DEFINITION.**—In this section, the term “community-based organization” means a nonprofit corporation or association that has—

(1) not more than 6 full-time equivalent employees who are engaged in the provision of social services; or

(2) a current annual budget (current as of the date the entity seeks assistance under this section) for the provision of social services, compiled and adopted in good faith, of less than \$450,000.

SEC. 805. COORDINATION.

The Secretary of Health and Human Services, the Corporation for National and Community Service, the Attorney General, and the Secretary of Housing and Urban Development shall coordinate their activities under this title to ensure—

(1) nonduplication of activities under this title; and

(2) an equitable distribution of resources under this title.

TITLE IX—MATERNITY GROUP HOMES

SEC. 901. MATERNITY GROUP HOMES.

(a) **PERMISSIBLE USE OF FUNDS.**—Section 322 of the Runaway and Homeless Youth Act (42 U.S.C. 5714-2) is amended—

(1) in subsection (a)(1), by inserting “(including maternity group homes)” after “group homes”; and

(2) by adding at the end the following:

“(c) **MATERNITY GROUP HOME.**—In this part, the term ‘maternity group home’ means a community-based, adult-supervised group home that provides young mothers and their children with a supportive and supervised living arrangement in which such mothers are required to learn parenting skills, including child development, family budgeting, health and nutrition, and other skills to promote their long-term economic independence and the well-being of their children.”

(b) **CONTRACT FOR EVALUATION.**—Part B of the Runaway and Homeless Youth Act (42 U.S.C. 5701 et seq.) is amended by adding at the end the following:

“SEC. 323. CONTRACT FOR EVALUATION.

“(a) **IN GENERAL.**—The Secretary shall enter into a contract with a public or private entity for an evaluation of the maternity group homes that are supported by grant funds under this Act.

“(b) **INFORMATION.**—The evaluation described in subsection (a) shall include the collection of information about the relevant characteristics of individuals who benefit from maternity group homes such as those that are supported by grant funds under this Act and what services provided by those maternity group homes are most beneficial to such individuals.

“(c) **REPORT.**—Not later than 2 years after the date on which the Secretary enters into a contract for an evaluation under subsection (a), and biennially thereafter, the entity conducting the evaluation under this section shall submit to Congress a report on the status, activities, and accomplishments of maternity group homes that are supported by grant funds under this Act.”

(c) **AUTHORIZATION OF APPROPRIATIONS.**—Section 388 of the Runaway and Homeless Youth Act (42 U.S.C. 5751) is amended—

(1) in subsection (a)(1)—

(A) by striking “There” and inserting the following:

“(A) **IN GENERAL.**—There”;

(B) in subparagraph (A), as redesignated, by inserting “and the purpose described in subparagraph (B)” after “other than part E”;

and

(C) by adding at the end the following:

“(B) **MATERNITY GROUP HOMES.**—There is authorized to be appropriated, for maternity group homes eligible for assistance under section 322(a)(1)—

“(i) \$33,000,000 for fiscal year 2003; and

“(ii) such sums as may be necessary for fiscal year 2004.”; and

(2) in subsection (a)(2)(A), by striking “paragraph (1)” and inserting “paragraph (1)(A)”.

Passed the Senate April 9, 2003.

Attest:

Secretary.

The PRESIDING OFFICER (Mr. TALENT). Under the previous order, S. 476 will be held at the desk.

Mr. GRASSLEY. Madam President, I want to take a brief moment to thank the many, many people that helped bring President Bush’s words supporting charities and charitable giving into reality.

First, I thank my colleague, Senator BAUCUS. I appreciate his bipartisanship on this matter. The people of Montana are well served by his leadership on the Senate Finance Committee. In addition, I thank the Democratic staff on the Finance Committee, Russ Sullivan, Pat Heck and Jon Selib, for their work.

At this time, I should also commend the work of my staff on the Finance Committee, Dean Zerbe for the charitable provisions and Ed McClellan for the corporate shelter legislation. In addition, Mark Prater, Elizabeth Paris, Christy Mistr and Diann Howland were critical in putting this bill together.

It is clear that without the drive and energy of Senators SANTORUM and LIEBERMAN we would not have had this success. I thank them for their efforts and their staff: Randy Brandt and Chuck Ludlam.

I also thank all those behind the scenes who have toiled on the CARE Act. Roger Colvineaux, Ron Schultz, Joe Naga from the Joint Committee on Taxation, as well as Mark Mathiesen from Legislative Counsel who did all the drafting.

Finally, let me note just a few of the members of the administration who ably served the President in this effort: Jim Towey, David Kuo, and Susan Brown at Treasury.

Thanks to all for their efforts.

Mr. MILLER. Mr. President, I rise today to express my thanks for the Senate’s passage of S. 476, the CARE Act, which included my amendment requiring chief executive officers to sign their company’s tax returns.

And I especially thank Senator GRASSLEY and Senator BAUCUS and their staffs for working with me on this issue.

I offered this amendment last summer when we were debating the corporate governance bill amid the corporate scandals involving Enron, World Com, and others. In these corporate scandals, the corporate big shots got the gold mine while the poor employees and innocent stockholders got the shaft.

Now, I am as probusiness as anyone in this body. As Governor and Senator I have worked to give tax cuts and tax incentives and pay for the training of their employees, all to provide a probusiness environment in which the entrepreneurial spirit can thrive and prosper and create jobs.

But folks, there comes a time when so much greed and so many lies become so bad—even if it is by only a few—that something has to be done. The corporate governance bill we passed last summer will go a long way to protect the investor, provide some security for the worker and restore confidence in the market place.

My amendment today will help even more. It is only two short paragraphs, but it goes to the very essence of fairness. It simply says that when the tax man cometh, we all—workers and high-dollar bosses alike—must face him just alike without any go-betweens, liability firewalls or corporate veils.

The standard 1040 tax form that individuals must fill out each year says:

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief they are true, correct and complete.

If Joe Sixpack is required to sign this oath for his family, why shouldn't Josephus Chardonnay be required to sign that same oath for his big corporation?

So, my amendment simply requires that henceforth the chief executive officer of all publicly owned and publicly traded corporations must sign the corporation's annual Federal tax return.

Currently, there is an IRS rule that corporations can designate any corporate officer to sign their tax return. But that won't get it, Mr. president. Let's be specific. The CEO is the one who must sign the tax return and must be accountable for it.

Where I come from it is expected that those being paid to mind the store should at least know whether the store is losing or making money.

If any CEO is not willing to sign the company tax return if they are not willing to take steps to satisfy themselves that their corporation is accurately reporting financial information—then those CEOs have no right to the prestige and respect that goes with the position they hold.

What is good for the goose is good for the gander.

So, I thank my colleagues for holding our CEOs to the same standard that we now impose upon our average wage earners.

ORDER OF PROCEDURE

Mr. SUNUNU. Mr. President, I ask unanimous consent that there now be a period of morning business until 2:30 p.m. today, with Senators to speak for up to 10 minutes each and the time equally divided in the usual form. Further, I ask unanimous consent that at 2:30 the Senate stand in recess until 3:30 today.

The PRESIDING OFFICER. Is there objection?

Mr. REID. Mr. President, it is my understanding the recess is because the Secretary of Defense is coming to the Capitol; is that right?

Mr. SUNUNU. That is correct.

Mr. REID. Does the acting majority leader know what we will do at 3:30?

Mr. SUNUNU. I am sorry; I didn't hear the question.

Mr. REID. The question is, Is the acting majority leader informed as to what we will do at 3:30?

Mr. SUNUNU. I am, indeed.

The PRESIDING OFFICER. Without objection, it is so ordered.

UNANIMOUS CONSENT AGREEMENT—S. CON. RES. 31

Mr. SUNUNU. Mr. President, I ask unanimous consent that at the 3:30 p.m. today, the Foreign Relations Com-

mittee be discharged from further consideration of S. Con. Res. 31 and the Senate proceed to its immediate consideration, provided that there be 1 hour of debate on the resolution equally divided between the majority leader and the minority leader or their designees, with no amendments or motions in order to the resolution, that the only amendment in order be a Lieberman amendment to the preamble which is at the desk, and that upon the use or yielding back of the time, the Senate proceed to a vote on the resolution. I further ask unanimous consent that following the adoption of the resolution, the amendment to the preamble be agreed to, the preamble, as amended, be agreed to, and all of the above mentioned occur without any intervening action or debate.

The PRESIDING OFFICER. Is there objection?

Mr. REID. No objection.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from New York.

RECESS

The PRESIDING OFFICER. In my capacity as a Senator from North Carolina, I ask unanimous consent that the Senate stand in recess under the previous order.

There being no objection, the Senate, at 2:30 p.m., recessed until 3:30 p.m., and reassembled when called to order by the Presiding Officer (Mrs. DOLE).

The PRESIDING OFFICER. In my capacity as a Senator from North Carolina, I suggest the absence of a quorum.

The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. REID. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. REID. Madam President, I ask unanimous consent that I be allowed to speak as in morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

WILLIAM "WILLIE" MCCOOL SCHOOL

Mr. REID. Madam President, 2 days ago, the Senate passed by unanimous consent H.R. 672, a bill to rename Guam South Elementary and Middle School after CDR William McCool, the pilot of the *Columbia* Space Shuttle.

Guam has a unique tie to LCDR William McCool. He lived on Guam and attended Dededo Middle School and John F. Kennedy High School in the 1970s while his father served as a Navy and Marine pilot, a veteran of the Vietnam conflict. His father, Barry, is a Las Vegas resident, as is his mother, Audrey. Commander McCool's mother is dean at the University of Nevada, Las Vegas. His dad, Barry, after retiring from the military, teaches and is a graduate student at UNLV.

Willie was an exceptional student and a talented athlete in high school. He graduated with good grades in high school, of course, and went to the U.S. Naval Academy. He graduated with a 4.0 grade point average at the Academy in Annapolis, but only finished second in his class because one person had a better grade point average. After he graduated from the Academy, he received advanced degrees in computer science and engineering and became an elite pilot.

He had more than 400 carrier landings and almost 3,000 hours of flight experience in the Navy. Willie McCool was a dedicated father and husband. Due to the tragedy in space, he left behind his wife Lani and their three sons, Sean, Christopher, and Cameron.

As I indicated, Nevada also has a tie with Willie McCool because of his parents. It is traditional in Nevada that every legislative session, the congressional delegation—it used to be very small, of course, with only three members in the Nevada congressional delegation, but now there are five because of our Third Congressional District. We always go to the legislature and speak. When I spoke this February at the State legislature shortly after this tragedy in space, I had his parents there. They traveled from Las Vegas to Carson City for this joint session of the legislature. I said a few things, I am sure, that the members of the legislature agreed and thought was OK when I mentioned and pointed out his parents. Everyone in the Chamber rose and applauded these two very sad but proud parents.

So I am happy that there is a school in faraway Guam named after Willie, who pursued his dream of space with vigor and passion. Teachers on Guam point to his remarkable life to inspire schoolchildren to dare to dream big and believe in themselves and to reach for the stars.

While he was at Dededo Middle School in Guam, young Willie wrote a poem that was published on the front page of the school newspaper that revealed his love of Guam and his early ambition to be an astronaut. This is a poem written by a child in middle school, but I think it really gives insight into this young man's dreams. This is the poem he wrote:

I came to an island in the middle of the sea,
It was so nice that I jumped for glee.
There are palm trees, coconuts, and bananas,
too

Plus birds and fish so unbelievable but true.
It is so nice that no one can complain.
But he who does must be insane.
This is such a nice and beautiful place,
You'd think it was heaven—or outer space.

Even back then, Willie was thinking of going into space, and he did, now leaving behind the proud family members and an entire Nation that is aware of the sacrifice he made along with those others on that spacecraft.

I salute Willie McCool and his family and join in applauding and congratulating those school authorities in Guam who will have a school named