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Empowerment
Zones

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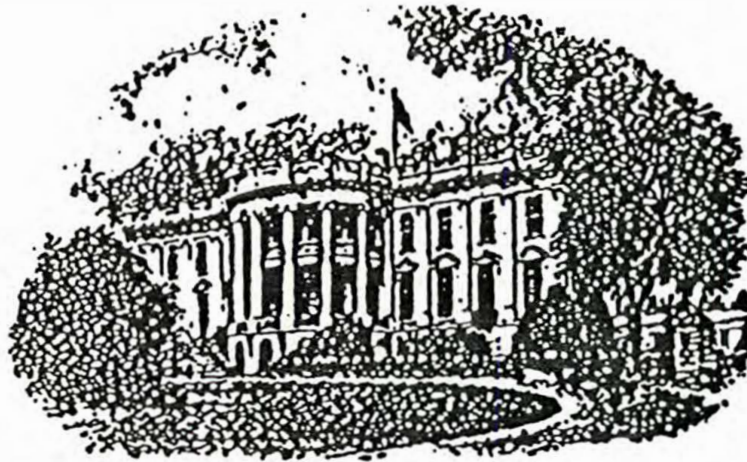
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EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

Details of Budget Reconciliation Provisions

A. Competitive Designation Process

- **Designating Secretaries:** The Secretary of HUD will designate the urban zones and the Secretary of Agriculture will designate the rural zones. All designations will occur in 1994 and 1995. (The Act does not provide for the creation of an Enterprise Board, however, the Administration will may establish the Board and promulgate rules regarding the selection and revocation processes.)
- **Comprehensive Strategic Plan:** Applicants must meet the eligibility criteria and submit a comprehensive strategic plan for coordinated economic, human, community and physical development for the proposed nominated area. The plan must describe, among other things, the plan for coordinated development; the process by which the affected community was a full partner in developing the plan; the amount of State, local and private resources that will be made available in the nominated area; and the baseline, methods of evaluation, and benchmarks for measuring success in carrying out the plan. No designation can occur unless the nominating government(s) provide written assurances that the strategic plan will be implemented.
- **Revocation of Designation:** The Act delegates to the Designating Secretary the task of promulgating regulations outlining the revocation process. However, the Conference Report states that it expects that a designation will be revoked only after a hearing on the record and that no replacement designations will occur upon revocation of a designation.

B. Number of Designated Areas (Zones)

Empowerment Zones:

- 9 zones with 6 urban (and a total resident population at the time of designation of 750,000 or less), 3 rural. (The reconciliation bill also provides separate tax incentives for businesses operating in Indian reservations, as described below.)
- Of the 6 urban zones, at least one must be in a city with a population of 500,000 or less and at least one of the zones itself must have a population of 50,000 or less and include areas located in two states.
- All may be designated as early as 1994 but no later than 1996. Designation runs for 10 years, subject to early termination for failure to substantially comply with or achieve terms and benchmarks included in the community's

strategic plan.

Enterprise Communities:

- 95 zones (65 urban, 30 rural). (Again, Indian reservations addressed separately below.)
- All may be designated as early as 1994 but no later than 1996. Designation runs for 10 years, subject to early termination for failure to substantially comply with or achieve terms and benchmarks included in the community's strategic plan.

C. Eligibility Criteria

1. Geographic and Population Restrictions

- Urban zones can consist of up to 3 noncontiguous areas in 2 or fewer states.
- Rural zones can consist of up to
 - 3 noncontiguous areas if located in 1 state, or
 - 1 contiguous area if located in up to 3 states.
- Size limits:
 - 20 square miles for urban zones.
 - 1,000 square miles for rural zones.
- Maximum population:
 - For cities with populations of 500,000 or above, the lesser of 200,000 residents or 10 percent of city population.
 - For cities with populations less than 500,000, zones can have a maximum population of 50,000 residents.
 - For rural areas up to 30,000 residents.

2. Poverty Rates:

Generally, within each zone,

- 50 percent of census tracts must have a poverty rate of 35 percent or more,
- 90 percent of census tracts must have a poverty rate of 25 percent or more, and
- 100 percent of census tracts must have a poverty rate of 20 percent or more.

Subject to the following exceptions --

- The Designating Secretary has no discretion to reduce poverty criteria applicable to empowerment zones. With respect to enterprise communities, the Designating Secretary may reduce one of the poverty criteria by five percentage points for not more than 10 percent of the population census tracts (up to a maximum of five population census tracts), or, in the alternative, may reduce the 35-percent poverty threshold to 25-percent for up to three population census tracts.
- There is also a special exception for census tracts having either (i) no population, or (ii) population less than 2,000 residents where more than 75 percent of the tract is zoned for commercial or industrial use.
- Central business districts can be included in zones but any tract including part of the central business district must have a poverty rate of 35 percent or more.

D. Investments Under the Budget Reconciliation Act -- Approximately \$2.5 billion in new tax incentives and \$1 billion in capped entitlement expenditures. (Additional monies will be available for empowerment zones and enterprise communities through new authorizations under the Economic Empowerment Act of 1993 and through diversion of funds from existing agency programs.)

E. Capped Entitlement Spending under the Budget Reconciliation

- \$1 billion available under Title XX for grants to States for social services spending in empowerment zones and enterprise communities designated by the Designating Secretaries.
- Grants in the following amounts will be available to states for each designated zone:
 - urban empowerment zone: two consecutive yearly grants of \$50 million
 - rural empowerment zone: two consecutive yearly grants of \$20 million
 - urban and rural enterprise communities: one grant of \$2.95 million
- The grant funds must be used in accordance with the zone's comprehensive strategic plan and on activities that benefit zone residents.
- Program options for use of these funds include: drug and alcohol prevention and treatment programs that offer services to pregnant women, mothers and children; training and employing disadvantaged adults and youth in construction and rehabilitation of affordable housing, public infrastructure and

community facilities; training in entrepreneurship and self-employment; after-school programs designed to promote and protect families and children; services designed to promote community and economic development, such as skills training, job counseling, transportation services, housing, counseling, financial management and business counseling; emergency shelter for disadvantaged families; programs that promote home ownership, education or other routes to economic independence for low income families and individuals.

- Each state is required to remit to the Secretary of HHS any amount of the grants that are not obligated within two years of payment. Remitted amounts will be made available to states under the basic title XX plan.

F. Tax Incentives for Empowerment Zones and Enterprise Communities

Tax-exempt enterprise zone facility bonds for zone businesses

- New category of exempt activity bonds created for loans to qualified zone businesses located in zones.
- Up to \$3 million per business per zone in bond funding and \$20 million per business for all zones.
- These bonds are exempt from general restrictions on financing the acquisition of existing property and on financing land with 25 percent or more of the net proceeds of a bond issue, the bonds are subject to the State private activity bond volume cap.

G. Tax Incentives Available only for Empowerment Zones

1. Employment and Training Credit

- From the time of designation through the year 2001, employer credit of 20 percent of the first \$15,000 of wages or certain training expenses for employees who are zone residents and perform substantially all services in the zone. The maximum credit per qualified employee is \$3000 per year.
- Credit will be phased out beginning in 2002.
 - From 1994 through 2001, the credit is 20 percent
 - in 2002, the credit is 15 percent
 - in 2003, the credit is 10 percent
 - in 2004, the credit is 5 percent

- The credit is allowable to offset up to 25 percent of alternative minimum tax liability.
- Qualified wages include certain training and educational expenses paid on behalf of the employee.

2. Property expensing

- Section 179 expensing for depreciable property for qualified zone businesses is increased by the lesser of (1) \$20,000 or (2) the cost of section 179 property that is qualified zone property and that is placed in service during the taxable year. (This increase is in addition to the \$17,500 in 179 expensing now available to all small businesses.)
- This increased expensing does not apply to buildings.
- The present-law phase-out range is expanded from \$217,500 to \$257,500. The cost of section 179 property that is not qualified zone property is not reduced.
- The increased expensing allowance does apply for purposes of the alternative minimum tax (i.e., it is not treated as an adjustment for purposes of the AMT).
- Among other requirements to ensure close ties to the zone, qualified zone businesses must have at least 35 percent of employees who are zone residents, and do not include certain types of businesses.

H. Tax Credit for Contributions to Certain Community Development Corporations (not limited to Zones)

- A taxpayer will receive a credit for qualified cash contributions made to certain CDCs. The credit may be claimed for each taxable year during the 10-year period following the making of the contribution. The credit claimed for each year can equal 5% of the total contribution, for a total of a 50% credit over the 10-year period.
- The aggregate amount of contribution may not exceed \$2,000,000.
- The Secretary of HUD may select up to 20 CDCs eligible to participate in the program, at least eight of which must operate in rural areas. Selected CDCs must: be tax-exempt, 501(c)(3) organizations; have a principal purposes of promoting employment and business opportunities for residents of its target area; have a target area which meets geographic limitations for empowerment zones and enterprise communities and meets certain indicia of distress.

- The Secretary shall give priority to CDCs with a demonstrated record of performance in administering community development programs which target at least 75% of created jobs to low-income or unemployed individuals.

I. Incentives for Investments in SSBICs (not limited to Zones)

- Waives active business requirement for Specialized Small Business Investment Corporations (SSBICs) that would otherwise not be eligible as a qualified small business for the new 50% capital gains exclusion on investments in small businesses.
- Allows deferral of gain by corporate or individual investors from the sale of publicly-traded securities if the proceeds are reinvested in the equity of a SSBIC.

J. Expanded Low Income Housing Credit (not limited to Zones)

- Property developed using HOME funds would be eligible for the credit if 40% or more of the residents have incomes no greater than 50% of the area median income.

K. Tax Incentives for businesses on Indian Reservations

1. Accelerated Depreciation

- Allows shorter recovery periods for section 168 depreciation of investment in certain "qualified Indian reservation property."
 - 3-year property depreciated over 2 years.
 - 5-year property depreciated over 3 years.
 - 7-year property depreciated over 4 years.
 - 10-year property depreciated over 6 years.
 - 15-year property depreciated over 9 years.
 - 20-year property depreciated over 12 years.
 - Non-residential real property depreciated over 22 years.

2. Indian Employment Credit

- A 20% credit is available to employers for the first \$20,000 of qualified wages and qualified employee health insurance costs paid to each qualified employee.
- The credit is an incremental credit, such that an employer's current-year qualified wages and qualified employee health insurance costs are eligible for the credit only to the extent that the sum of such costs exceeds the sum of

comparable costs paid during 1993 to employees whose wages did not exceed \$30,000.

employee began work for such employer on or after January 1, 1994.

An employee may be treated as a qualified employee for a maximum period of seven years after the day on which the employee first begins work for the employer. In addition, an employee will not be treated as a qualified employee for any taxable year of the employer if the total amount of wages paid or incurred by the employer with respect to such employee during such taxable year (whether or not for services rendered while the Indian reservation) exceeds an amount determined at an annual rate of \$30,000 (as adjusted for inflation for years beginning after 1993). Further, an employee will be treated as a qualified employee for a taxable year of the employer only if more than 50 percent of the wages paid or incurred by the employer to such employee during such taxable year are for services performed in a trade or business of the employer.

Qualified employees do not include certain relatives or dependents of the employer (described under present-law sections 411(k)(1) or, if the employer is a corporation, certain relatives of a person who owns more than 10 percent of the corporation. In addition, any person who owns more than five percent of the stock of the employer (or if the employer is not a corporation, more than five percent of the capital or profits interest in the employer) cannot be a qualified employee. Finally, a qualified employee does not include any individual if the services performed by the individual for the employer involve certain gaming activities or are performed in a building housing such gaming activities.¹⁷

The Indian employment credit is allowed with respect to full-time and part-time employees. However, if an employee is terminated less than one year after the date of initial employment, the amount of credit previously claimed by the employer with respect to that employee generally is recaptured unless the employee voluntarily leaves, becomes disabled, or is fired due to misconduct.

An employer's deduction otherwise allowed for wages is reduced by the amount of the credit claimed for the taxable year. The Senate amendment also provides that the employment credit is not refundable. Finally, the Indian employment credit is subject to the general business credit limitations of section 26.¹⁸ and, therefore, the credit may not be used to reduce tentative minimum tax.

Effective date

Under the Senate amendment, the Indian reservation credit applies to property placed in service after December 31, 1993, and the Indian employment credit applies to wages paid or incurred after December 31, 1993.

Conference Agreement

The conference agreement provides the following tax incentives for Indian reservations.¹⁹

Assets and Depreciation

With respect to certain property used in connection with the conduct of a trade or

business within an Indian reservation, depreciation deductions for purposes of section 168 will be determined using the following recovery periods:

3-year property	7 years
5-year property	7 years
7-year property	9 years
10-year property	12 years
15-year property	15 years
20-year property	22 years
Nonresidential real property	22 years

"Qualified Indian reservation property" is eligible for accelerated depreciation. It includes property which is (1) used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation²⁰, (2) not used or located outside the reservation on a regular basis, (3) not acquired (directly or indirectly) by the taxpayer from a person who is related to the taxpayer (within the meaning of section 2612(b)(3)(C)), and (4) described in the recovery-period table above.²¹ In addition, property is not "qualified Indian reservation property" if it is placed in service for purposes of conducting gaming activities.²²

The conference agreement includes a special rule for "qualified infrastructure property" which may be eligible for the accelerated depreciation even if located outside an Indian reservation, provided that the purpose of such property is to connect with qualified infrastructure property located within the reservation (e.g., roads, power lines, water systems, railroad spurs, and communications facilities). For this purpose, "qualified infrastructure property" must be property that is (1) allowed a depreciation deduction under section 168, (2) benefits the tribal infrastructure, (3) available to the general public, and (4) placed in service in connection with the taxpayer's active conduct of a trade or business within a reservation.

The depreciation deduction allowed for regular tax purposes is also allowed for purposes of the alternative minimum tax.

Indian employment credit

The conference agreement follows the Senate amendment, except that (1) a single-rate 20-percent credit applies (rather than the two-tiered 10-percent and 30-percent credit rates of the Senate amendment), and (2) the credit is available only for the first \$20,000 of qualified wages and qualified employee health insurance costs paid to each qualified employee.

As under the Senate amendment, a tribal member or spouse is a qualified employee only if he or she works on a reservation (and lives on or near that reservation) and is paid wages that do not exceed \$30,000 annually.²³ The credit is an incremental credit, such that an employer's current-year qualified wages and qualified employee health insurance costs (up to \$20,000 per employee) are eligible for the credit only to the extent that the sum of such costs exceeds the sum of

comparable costs paid during 1993 to employees whose wages did not exceed \$30,000.

Effective date

The accelerated depreciation for Indian reservations is available with respect to property placed in service on or after January 1, 1994, and before December 31, 2003. The wage credit is available for wages paid or incurred on or after January 1, 1994, in a taxable year that begins before December 31, 2003.

IV. OTHER REVENUE PROVISIONS

A. DISCLOSURE PROVISIONS

1. *Extend access to tax information for the Department of Veterans Affairs* (sec. 14901 of the House bill, sec. 7901 and 13008 of the Senate amendment, sec. 14101 of the conference agreement, and sec. 6103 of the Code)

Present Law

The Internal Revenue Code prohibits disclosure of tax returns and return information, except to the extent specifically authorized by the Internal Revenue Code (sec. 6103). Unauthorized disclosure is a felony punishable by a fine not exceeding \$5,000 or imprisonment of not more than five years, or both (sec. 7213). An action for civil damages also may be brought for unauthorized disclosure (sec. 7411). No tax information may be furnished by the Internal Revenue Service (IRS) to another agency unless the other agency establishes procedures satisfactory to the IRS for safeguarding the tax information it receives (sec. 6103(p)).

Among the disclosures permitted under the Code is disclosure to the Department of Veterans Affairs ("DVA") of self-employment tax information and certain tax information supplied to the Internal Revenue Service and Social Security Administration by third parties. Disclosure is permitted to assist DVA in determining eligibility for, and establishing correct benefit amounts under, certain of its needs-based pension and other programs (sec. 6103(k)(7)(D)(viii)). The income tax returns filed by the veterans themselves are not disclosed to DVA.

The DVA is required to comply with the safeguards currently contained in the Code and in section 137(c) of the Social Security Act (governing the use of disclosed tax information). These safeguards include independent verification of tax data, notification to the individual concerned, and the opportunity to contest agency findings based on such information.

The DVA disclosure provision is scheduled to expire after September 30, 1997.

House Bill

The House bill extends the authority to disclose tax information to the DVA for one year, through September 30, 1998.

Effective date.—The provision in the House bill applies after September 30, 1997.

Senate Amendment

Section 7901 of the Senate amendment is the same as the House bill. Section 13008 of the Senate amendment permanently extends the authority to disclose tax information to the DVA.

Conference Agreement

The conference agreement follows the House bill and section 7901 of the Senate amendment.

2. *Access to tax information for the Department of Education* (secs. 4832, 4833, and 16402 of the House bill, sec. 7902, 13011, and 13053 of the Senate amendment, sec. 13402 of the conference agreement, and sec. 6103 of the Code)

Present Law

The Internal Revenue Code prohibits disclosure of tax returns and return informa-

¹⁷ The limitation applies to class I, II, or III gaming as defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2703), as in effect on the date of enactment of the provision.

¹⁸ No portion of the general business credit for any taxable year that is attributable to the Indian employment credit may be carried back to a taxable year ending before the date of enactment of the provision.

¹⁹ As under the Senate amendment, the term "Indian reservation" means a reservation as defined in section 2 of the Indian Financing Act of 1974 (25 U.S.C. 1624), as in effect on the date of enactment of this provision, or (2) section 419 of the Indian Child Welfare Act of 1978 (25 U.S.C. 19039), as in effect on the date of enactment of this provision.

²⁰ The conference agreement treats the rental of real property located within a reservation as an active trade or business.

²¹ In addition, the conference agreement provides that accelerated depreciation is not available for any property to which the alternative depreciation system under section 168(c) applies (determined without regard to subsection 168(c)(7) and after application of section 207(b)).

²² For this purpose, gaming activities include class I, II, or III gaming, as defined in section 4 of the Indian Regulatory Act (25 U.S.C. sec. 2703) as in effect on the date of enactment of this provision.

²³ The \$30,000 amount for determining qualified employees is adjusted for inflation beginning after 1994.

not been in session for at least 30 calendar days between the date of enactment and October 1, 1993, the provision would not be a State law requirement before 30 calendar days after the first day on which its legislature is in session on or after October 1, 1993.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

6. Repeal of Special Eligibility Requirements for Extended Benefits (Sec. 13276 of House bill)

Private Law

Public Law 102-318, the Unemployment Compensation Amendments of 1992, suspended certain Extended Benefits (EB) suitable work, job search, and re-employment requirements until January 1, 1995. During the suspension, States may apply the same requirements they use in their regular State programs.

Under the suspended requirements of the Extended Benefits program (EB), benefits may not be paid to an individual in any week of unemployment if (a) he fails to accept an offer of "suitable work" or he fails to apply for suitable work to which he was referred by the State agency; or (b) he fails to actively seek work, unless (1) he was issued a summons to appear for jury duty before any court of the United States or any State, or (2) he was hospitalized for treatment of any emergency or a life-threatening condition if such exemptions apply to claimants of regular State benefits and the State chooses to apply them to claimants of EB.

If a claimant is ineligible because of either (a) or (b) above, the claimant is disqualified the week following the week in which the violation occurred and for each subsequent week until he has been employed for at least 2 weeks and earned at least 4 times his week-benefit amount.

The term "suitable work" means any work within the claimant's capabilities, except that if the individual furnishes evidence that his prospects for obtaining work in his customary occupation within a reasonably short time period are good, the definition of "suitable work" conforms to State law.

EB may not be denied to a claimant for a failure to apply for or accept a suitable job if (a) the gross pay does not exceed the claimant's weekly benefit amount plus any supplemental benefits payable to him; (b) the position was not offered in writing and was not listed with the State employment service; (c) such failure would not result in a denial of regular State benefits as long as other conditions of the EB program are met; or (d) the job pays wages less than the higher of (1) the Federal minimum wage, or (2) the applicable State or local minimum wage.

The claimant is treated as actively seeking work if (a) he has engaged in a systematic and sustained effort to obtain work; and (b) he provides tangible evidence to the State agency that he has engaged in such effort.

The State must provide for referring applicants for EB to any suitable work to which these provisions apply.

No provision of State law which terminates a disqualification of a claimant for regular State benefits because of voluntarily leaving a job, being discharged for misconduct, or refusing suitable work applies to EB program unless such termination is based on subsequent employment.

House Bill

The provision would repeal the currently ended eligibility requirements.

Effective Date

Weeks beginning on or after October 2, 1993.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

7. Two-Year Extension of Federal Unemployment Surplus (Sec. 13278 of House bill)

Private Law

The Federal unemployment tax of 0.8 percent is paid by employers on the first \$7,000 paid annually to each employee. Of the 0.8 percent tax rate, 0.6 percentage point is permanent and 0.2 percentage point is scheduled to expire at the end of 1996.

House Bill

The 0.2 percent surtax would be extended for two years, through 1998.

Effective Date

Upon enactment.

Senate Amendment

No provision.

Conference Agreement

The conference agreement follows the House bill.

8. Disclosure of Information to Railroad Retirement Board (Sec. 13277 of House bill)

Private Law

The Railroad Retirement Board (RRB) has access to returns and return information regarding taxes imposed under the Railroad Retirement Tax Act for purposes of the administration of the Railroad Retirement Act (RRA), but it is not authorized to receive returns and return information filed under the Railroad Repayment Tax provisions. (The Railroad Unemployment Repayment Tax was imposed to repay loans from the Railroad Retirement Account obtained by the Railroad Unemployment Insurance Account.) In addition, there is no specific authority to disclose RRA information for purposes of the administration of the Railroad Unemployment Insurance Act (RUIA).

House Bill

The provision would amend the Internal Revenue Code to enable the RRB to obtain Railroad Unemployment Tax information.

Effective Date

Upon enactment.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

SOCIAL SERVICES BLOCK GRANT

1. Targeted Federal Assistance for Social Services

Private Law

Under title XX of the Social Security Act, States are entitled to receive social services block grant funds. Title XX is a capped entitlement, with an entitlement ceiling of \$2.8 billion per fiscal year. The share for each State is based on its relative share of the national population.

States may use the block grant funds for a wide range of social services, directed at five goals: (1) achieving or maintaining economic self-support to prevent, reduce or eliminate dependency; (2) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; (3) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reunifying families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and (5) securing referral or admission

for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

According to State preexpenditure reports, which describe the intended use of block grant funds, in fiscal year 1992 States funded such services as: substance abuse services; residential care and treatment; education and training; employment; transportation; health-related services; prevention and intervention services; and social support services (such as recreation, camping, family development and physical activities).

House Bill

No provision.

Senate Amendment

No provision.

Conference Agreement

The conference agreement makes \$1 billion available under Title XX to the Secretary for grants to States for social services. Each State is entitled to grants for each qualified empowerment zone and each qualified enterprise community in the State.

An empowerment zone or enterprise community is qualified if it has been designated a zone or community under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986 and if its strategic plan (required in an application for designation under the Internal Revenue Code) is qualified.

A qualified plan is a plan that: (a) includes a detailed description of the activities proposed for the area that are to be funded with the grant; (b) contains a commitment that the amounts provided will not be used to supplant Federal or non-Federal funds for services and activities which promote the purposes of the grant; (c) to the extent a State does not use the funds on certain program options (see below), explains the reasons why not; and (d) was developed in cooperation with the local government or governments with jurisdiction over the zone or community.

With respect to each empowerment zone, the Secretary will make one grant to each State in which the zone lies, on the date of its designation, and a second grant on the first day of the first fiscal year that begins after the designation. With respect to each enterprise community, the Secretary will make one grant to each State in which the community lies, on the date of its designation.

The amount of each grant to a State for an empowerment zone will equal \$50 million if the zone is designated in an urban area and \$20 million if the zone is designated in a rural area (multiplied by the proportion of the population of the urban or rural zone that resides in the State).

The amount of each grant to a State for an enterprise community will equal 1/95 of \$280 million, multiplied by the proportion of the population of the community that resides in the State.

A State must use the grant funds: (a) for social services directed at three goals: (i) achieving or maintaining economic self-support to prevent, reduce or eliminate dependency; (ii) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; or (iii) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reunifying families; (b) in accordance with the strategic plan for the zone or community; and (c) on activities that benefit residents of the zone or community.

The following are among the program options available to the States:

(1) in order to prevent and remedy the neglect and abuse of children, a State may use

the grant funds to make grants to, or enter into contracts with, entities to provide residential or nonresidential drug and alcohol prevention and treatment programs that offer comprehensive services for pregnant women and mothers, and their children.

The conferees intend that such programs provide, directly or in collaboration with other community-based programs, pregnant women and mothers, and their children, a wide array of services based on their need for services, such as referral and linkages to obstetric and pediatric medical care, addiction and substance abuse education, counseling and treatment; parenting skills counseling and education with an emphasis on infant and child development, access to schools and child care, job counseling and training, transitional housing assistance; transportation; post-program follow-up services and activities; and referral and linkages to other services.

(2) In order to assist disadvantaged adults and youths in achieving and maintaining self-sufficiency, a State may use the grant funds to make grants to, or enter into contracts with (a) organizations operated for profit or not for profit, for the purpose of training and employing disadvantaged adults and youths in the construction, rehabilitation, or improvement of affordable housing, public infrastructure, and community facilities; and (b) nonprofit organizations and community or junior colleges, for the purpose of enabling them to provide short-term training courses in entrepreneurship and self-employment, and other training that will promote individual self-sufficiency and the interests of the community.

The conferees intend that, to the extent possible, programs under (2)(a) use public funds to match private investment, by entities located in the zone, in projects to rehabilitate public infrastructure that will benefit the community.

(3) A State may use grant funds to make grants to, or enter into contracts with, nonprofit community-based organizations to enable them to provide activities designed to promote and protect the interests of children and families, outside of school hours, including keeping schools open during evenings and weekends for mentoring and study.

(4) In order to assist disadvantaged adults and youths in achieving and maintaining economic self-support, a State may use grant funds to: (a) fund services designed to promote community and economic development, such as skills training, job counseling, transportation services, housing, counseling, financial management and business counseling; (b) assist in emergency and transitional shelter for disadvantaged families and individuals; or (c) support programs that promote home ownership, education or other routes to economic independence for low income families and individuals.

The conferees intend that funds may be used for transportation services that improve access by zone residents to areas of high job growth that are not located in the zone. For example, funds may be used to supplement job training and placement programs with transportation services in the form of van service operated by a public or private job program; to provide transportation counseling to supplement job counseling; and to provide a direct subsidy of transportation expenses.

TECHNICAL PROVISIONS

Corrections Related to the Income Security and Human Resource Provisions of the Omnibus Budget Reconciliation Act of 1990 (Sec. 13281 of House bill)

Present Law

No provision.

House Bill

The provision would correct references and punctuation in various SSI and AFDC provisions, eliminate conflicting provisions concerning the reporting date of the National Commission on Children, and correct and simplify language concerning special sequestration rules for JOBS funds.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

2. Corrections Related to the Human Resources and Income Security Provisions of the Omnibus Budget Reconciliation Act of 1989 (Sec. 13282 of House bill)

Present Law

No provision.

House Bill

The provision would correct a word and spacing in AFDC quality control and adoption assistance legislative language, and a reference concerning foster care and adoption assistance.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

3. Elimination of Obsolete Provisions Relating to Treatment of the Earned Income Tax Credit (Sec. 13283 of House bill)

Present Law

No provision.

House Bill

The provision would eliminate provisions in SSI law about treatment of EITC made obsolete by OBRA 1990, which specifies that SSI (and AFDC, Medicaid, and food stamps) are to disregard EITC as income.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

4. Redesignation of Certain Provisions (Sec. 13284 of House bill)

Present Law

No provision.

House Bill

The provision would redesignate two subparagraphs of the Social Security Act concerning when face-to-face interviews at field offices must be granted.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

1. Clarification of Statutory Requirement for Public Telephone Access to Local Social Security Offices (Sec. 13001 of House bill)

Present Law

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508), requires SSA to: (a) maintain telephone access to local offices at the level generally available as of September 30, 1989, and (b) relist the numbers of affected offices in local telephone directories. P.L. 101-508 also required the General Accounting Office to report to Congress on the level of public telephone access to local offices following enactment of these requirements.

In September 1991, the GAO reported that SSA had generally complied with the requirement that it relist local office tele-

phone numbers. It also reported that general inquiry lines to the offices to which the provisions of P.L. 101-508 apply had decreased by 30 percent, or 766 lines, below the level that existed on September 30, 1989.

House Bill

The provision would add the following sentence to the current statutory requirement that SSA maintain public access to its local offices at the level generally available on September 30, 1989: "In carrying out the requirements of the preceding sentence, the Secretary shall reestablish and maintain in service the same number of telephone lines to each such local office which were in place as of such date, including telephone sets for connections to such lines."

In addition, the General Accounting Office would be required to make an independent determination of the number of telephone lines to each SSA local office which are in place 90 days after enactment and to report its findings to the House Committee on Ways and Means and the Senate Committee on Finance no later than 150 days after enactment.

SSA would be required to maintain its toll-free service at a level at least equal to that in effect on the date of enactment.

Effective Date

The provision relating to local telephone access would be effective 90 days after enactment. The provision relating to toll-free service would be effective upon enactment.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the House provision.

2. Increase in Social Security Exclusion for Election Workers (Sec. 13002 of the House bill)

Present Law

Election workers who earn less than \$100 per year are subject to three Social Security exclusions: (a) at the option of a State, they may be excluded from the State's voluntary coverage agreement with the Secretary of Health and Human Services (HHS); (b) they are excluded from the requirement that State and local workers hired after March 31, 1966, pay the hospital insurance portion of the Social Security tax (1.45 percent); and (c) they are excluded from the requirement in the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) that State and local workers who are neither covered by a State or local retirement system nor by a voluntary agreement pay the full Social Security tax (7.65 percent).

House Bill

These three exclusions would be modified to apply to election workers with annual earnings of up to \$1,000, rather than the current \$100; and the new exempt amount would be indexed for increases in wages in the economy.

Effective Date

The provision would apply to service performed on or after January 1, 1994.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the House provision.

3. Use of Social Security Numbers for Jury Selection (Sec. 13003 of House bill)

Present Law

The Privacy Act of 1974 prohibits States from requiring individuals to provide Social Security numbers for identification purposes unless the State was doing so prior to January 1, 1975, or the State is specifically per-

"(A) capital is not a material income-producing factor for the partnership, and

"(B) the retiring or deceased partner was a general partner in the partnership."

(b) LIMITATION ON DEFINITION OF UNREALIZED RECEIVABLES.—

(1) IN GENERAL.—Subsection (c) of section 751 (defining unrealized receivables) is amended—

(A) by striking "sections 731, 736, and 741" each place they appear and inserting "sections 731 and 741 (but not for purposes of section 736)", and

(B) by striking "section 731, 736, or 741" each place it appears and inserting "section 731 or 741".

(2) TECHNICAL AMENDMENTS.—

(A) Subsection (e) of section 751 is amended by striking "sections 731, 736, and 741" and inserting "sections 731 and 741".

(B) Section 736 is amended by striking subsection (c).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply in the case of partner's retiring or dying on or after January 5, 1993.

(2) BINDING CONTRACT EXCEPTION.—The amendments made by this section shall not apply to any partner retiring on or after January 5, 1993, if a written contract to purchase such partner's interest in the partnership was binding on January 4, 1993, and at all times thereafter before such purchase.

PART VII—MISCELLANEOUS PROVISIONS
SEC. 1391. DISALLOWANCE OF INTEREST ON CERTAIN OVERPAYMENTS OF TAX

(a) GENERAL RULE.—Subsection (e) of section 6611 is amended to read as follows:

"(e) DISALLOWANCE OF INTEREST ON CERTAIN OVERPAYMENTS.—

"(1) REFUNDS WITHIN 45 DAYS AFTER RETURN IS FILED.—If any overpayment of tax imposed by this title is refunded within 45 days after the last day prescribed for filing the return of such tax (determined without regard to any extension of time for filing the return) or, in the case of a return filed after such last date, is refunded within 45 days after the date the return is filed, no interest shall be allowed under subsection (a) on such overpayment.

"(2) REFUNDS AFTER CLAIM FOR CREDIT OR REFUND.—If—

"(A) the taxpayer files a claim for a credit or refund for any overpayment of tax imposed by this title, and

"(B) such overpayment is refunded within 45 days after such claim is filed,

no interest shall be allowed on such overpayment from the date the claim is filed until the day the refund is made.

"(3) IRS INITIATED ADJUSTMENTS.—If an adjustment initiated by the Secretary, results in a refund or credit of an overpayment, interest on such overpayment shall be computed by subtracting 45 days from the number of days interest would otherwise be allowed with respect to such overpayment."

(b) EFFECTIVE DATES.—

(1) Paragraph (1) of section 6611(e) of the Internal Revenue Code of 1986 (as amended by subsection (a)) shall apply in the case of returns the due date for which (determined without regard to extensions) is on or after January 1, 1994.

(2) Paragraph (2) of section 6611(e) of such Code (as so amended) shall apply in the case of claims for credit or refund of any overpayment filed on or after January 1, 1995, regardless of the taxable period to which such refund relates.

(3) Paragraph (3) of section 6611(e) of such Code (as so amended) shall apply in the case of any refund paid on or after January 1, 1995, regardless of the taxable period to which such refund relates.

SEC. 1392. DENTAL OF DEDUCTION RELATING TO TRAVEL EXPENSES

(a) IN GENERAL.—Section 276(m) (relating to additional limitations on travel expenses) is

amended by adding at the end thereof the following new paragraph:

"(3) TRAVEL EXPENSES OF SPOUSE, DEPENDENT, OR OTHERS.—No deduction shall be allowed under this chapter (other than section 217) for travel expenses paid or incurred with respect to a spouse, dependent, or other individual accompanying the taxpayer (or an officer or employee of the taxpayer) on business travel, unless—

"(A) the spouse, dependent, or other individual is an employee of the taxpayer,

"(B) the travel of the spouse, dependent, or other individual is for a bona fide business purpose, and

"(C) such expenses would otherwise be deductible by the spouse, dependent, or other individual."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts paid or incurred after December 31, 1993.

SEC. 1393. INCREASE IN WITHHOLDING FROM SUPPLEMENTAL WAGE PAYMENTS

If an employer elects under Treasury Regulation 31.3402(g)-1 to determine the amount to be deducted and withheld from any supplemental wage payment by using a flat percentage rate, the rate to be used in determining the amount to be so deducted and withheld shall not be less than 28 percent. The preceding sentence shall apply to payments made after December 31, 1993.

Subchapter C—Empowerment Zones, Enterprise Communities, Rural Development Investment Areas, Etc.

PART I—EMPOWERMENT ZONES, ENTERPRISE COMMUNITIES, AND RURAL DEVELOPMENT INVESTMENT AREAS

SEC. 1394. DESIGNATION AND TREATMENT OF EMPOWERMENT ZONES, ENTERPRISE COMMUNITIES, AND RURAL DEVELOPMENT INVESTMENT AREAS

(a) IN GENERAL.—Chapter 1 (relating to normal taxes and surtaxes) is amended by inserting after subchapter T the following new subchapter:

"Subchapter U—Designation and Treatment of Empowerment Zones, Enterprise Communities, and Rural Development Investment Areas

"Part I. Designation.

"Part II. Tax-exempt facility bonds for empowerment zones and enterprise communities.

"Part III. Additional incentives for empowerment zones.

"Part IV. Regulations.

"PART I—DESIGNATION

"Sec. 1391. Designation procedure.

"Sec. 1392. Eligibility criteria.

"Sec. 1393. Definitions and special rules.

"SEC. 1394. DESIGNATION PROCEDURE

"(a) IN GENERAL.—From among the areas nominated for designation under this section, the appropriate Secretary may designate empowerment zones and enterprise communities.

"(b) NUMBER OF DESIGNATIONS.—

"(1) ENTERPRISE COMMUNITIES.—The appropriate Secretary may designate in the aggregate 25 nominated areas as enterprise communities under this section, subject to the availability of eligible nominated areas. Of that number, not more than 65 may be designated in urban areas and not more than 30 may be designated in rural areas.

"(2) EMPOWERMENT ZONES.—The appropriate Secretary may designate in the aggregate 9 nominated areas as empowerment zones under this section, subject to the availability of eligible nominated areas. Of that number, not more than 6 may be designated in urban areas and not more than 3 may be designated in rural areas. If 6 empowerment zones are designated in urban areas, no less than 1 shall be designated in an urban area the most populous city of which has a population of 500,000 or less and no less than 1 shall be a nominated area which in-

cludes areas in 2 States and which has a population of 50,000 or less. The Secretary of Housing and Urban Development shall designate empowerment zones located in urban areas in such a manner that the aggregate population of all such zones does not exceed 750,000.

"(c) PERIOD DESIGNATIONS MAY BE MADE.—A designation may be made under this section only after 1993 and before 1996.

"(d) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

"(1) IN GENERAL.—Any designation under this section shall remain in effect during the period beginning on the date of the designation and ending on the earliest of—

"(A) the close of the 10th calendar year beginning on or after such date of designation,

"(B) the termination date designated by the State and local governments as provided for in their nomination, or

"(C) the date the appropriate Secretary revokes the designation.

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

"(A) has modified the boundaries of the area,

or

"(B) is not complying substantially with, or fails to make progress in achieving the benchmarks set forth in, the strategic plan under subsection (f)(2).

"(c) LIMITATIONS ON DESIGNATIONS.—No area may be designated under subsection (a) unless—

"(1) the area is nominated by 1 or more local governments and the State or States in which it is located for designation under this section,

"(2) such State or States and the local governments have the authority—

"(A) to nominate the area for designation under this section, and

"(B) to provide the assurances described in paragraph (3).

"(3) such State or States and the local governments provide written assurances satisfactory to the appropriate Secretary that the strategic plan described in the application under subsection (f)(2) for such area will be implemented.

"(4) the appropriate Secretary determines that any information furnished is reasonably accurate, and

"(5) such State or States and local governments certify that no portion of the area nominated is already included in an empowerment zone or in an enterprise community or in an area otherwise nominated to be designated under this section.

"(f) APPLICATION.—No area may be designated under subsection (a) unless the application for such designation—

"(1) demonstrates that the nominated area satisfies the eligibility criteria described in section 1392,

"(2) includes a strategic plan for accomplishing the purposes of this subchapter that—

"(A) describes the coordinated economic, human, community, and physical development plan and related activities proposed for the nominated area,

"(B) describes the process by which the affected community is a full partner in the process of developing and implementing the plan and the extent to which local institutions and organizations have contributed to the planning process,

"(C) identifies the amount of State, local, and private resources that will be available in the nominated area and the private/public partnerships to be used, which may include participation by, and cooperation with, universities, medical centers, and other private and public entities,

"(D) identifies the funding requested under any Federal program in support of the proposed economic, human, community, and physical development and related activities,

"(E) identifies baselines, methods, and benchmarks for measuring the success of carrying out

the strategic plan, including the extent to which poor persons and families will be empowered to become economically self-sufficient, and

"(F) does not include any action to assist any business in relocating from one area outside the nominated area to the nominated area, or that assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary is permitted if—

"(i) the establishment of the new branch, affiliate, or subsidiary will not result in a decrease in employment in the area of original location or in any other area where the existing business entity conducts business operations, and

"(ii) there is no reason to believe that the new branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where the existing business entity conducts business operation, and

"(3) includes such other information as may be required by the appropriate Secretary.

SEC. 1391. ELIGIBILITY CRITERIA

"(a) IN GENERAL.—A nominated area shall be eligible for designation under section 1391 only if it meets the following criteria:

"(1) POPULATION.—The nominated area has a minimum population of—

"(A) in the case of an urban area, the lesser of—

"(i) 200,000, or

"(ii) the greater of 50,000 or 10 percent of the population of the most populous city located within the nominated area, and

"(B) in the case of a rural area, 30,000.

"(2) DISTRESS.—The nominated area is one of pervasive poverty, unemployment, and general distress.

"(3) SIZE.—The nominated area—

"(A) does not exceed 20 square miles if an urban area or 1,000 square miles if a rural area,

"(B) has a boundary which is continuous, or, except in the case of a rural area located in more than 1 State, consists of not more than 3 noncontiguous parcels,

"(C)(i) in the case of an urban area, is located entirely within no more than 2 contiguous States, and

"(ii) in the case of a rural area, is located entirely within no more than 3 contiguous States, and

"(D) does not include any portion of a central business district (as such term is used for purposes of the most recent Census of Retail Trade) unless the poverty rate for each population census tract in such district is not less than 35 percent (30 percent in the case of an enterprise community).

"(4) POVERTY RATE.—The poverty rate—

"(A) for each population census tract within the nominated area is not less than 20 percent,

"(B) for at least 90 percent of the population census tracts within the nominated area is not less than 25 percent, and

"(C) for at least 50 percent of the population census tracts within the nominated area is not less than 35 percent.

"(b) SPECIAL RULES RELATING TO DETERMINATION OF POVERTY RATE.—For purposes of subsection (a)(4)—

"(1) TREATMENT OF CENSUS TRACTS WITH SMALL POPULATIONS.—

"(A) TRACTS WITH NO POPULATION.—In the case of a population census tract with no population—

"(i) such tract shall be treated as having a poverty rate which meets the requirements of paragraphs (A) and (B) of subsection (a)(4), and

"(ii) such tract shall be treated as having a zero poverty rate for purposes of applying subparagraph (C) thereof.

"(B) TRACTS WITH POPULATIONS OF LESS THAN 1,000.—A population census tract with a population of less than 2,000 shall be treated as hav-

ing a poverty rate which meets the requirements of subparagraphs (A) and (B) of subsection (a)(4) if more than 75 percent of such tract is zoned for commercial or industrial use.

"(2) DISCRETION TO ADJUST REQUIREMENTS FOR ENTERPRISE COMMUNITIES.—In determining whether a nominated area is eligible for designation as an enterprise community, the appropriate Secretary may, where necessary to carry out the purposes of this subchapter, reduce by 5 percentage points one of the following thresholds for not more than 10 percent of the population census tracts (or, if fewer, 5 population census tracts) in the nominated area:

"(A) The 20 percent threshold in subsection (a)(4)(A).

"(B) The 25 percent threshold in subsection (a)(4)(B).

"(C) The 35 percent threshold in subsection (a)(4)(C).

If the appropriate Secretary elects to reduce the threshold under subparagraph (C), such Secretary may (in lieu of applying the preceding sentence) reduce by 10 percentage points the threshold under subparagraph (C) for 3 population census tracts.

"(3) EACH NONCONTIGUOUS AREA MUST SATISFY POVERTY RATE RULE.—A nominated area may not include a noncontiguous parcel unless such parcel separately meets (subject to paragraphs (1) and (2)) the criteria set forth in subsection (a)(4).

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

"(c) FACTORS TO CONSIDER.—From among the nominated areas eligible for designation under section 1391 by the appropriate Secretary, such appropriate Secretary shall make designations of empowerment zones and enterprise communities on the basis of—

"(1) the effectiveness of the strategic plan submitted pursuant to section 1391(f)(2) and the assurances made pursuant to section 1391(e)(3), and

"(2) criteria specified by the appropriate Secretary.

SEC. 1391. DEFINITIONS AND SPECIAL RULES

"(a) IN GENERAL.—For purposes of this subchapter—

"(1) APPROPRIATE SECRETARY.—The term 'appropriate Secretary' means—

"(A) the Secretary of Housing and Urban Development in the case of any nominated area which is located in an urban area, and

"(B) the Secretary of Agriculture in the case of any nominated area which is located in a rural area.

"(2) RURAL AREA.—The term 'rural area' means any area which is—

"(A) outside of a metropolitan statistical area (within the meaning of section 143(k)(2)(B)), or

"(B) determined by the Secretary of Agriculture, after consultation with the Secretary of Commerce, to be a rural area.

"(3) URBAN AREA.—The term 'urban area' means an area which is not a rural area.

"(4) SPECIAL RULES FOR INDIAN RESERVATIONS.—

"(A) IN GENERAL.—No empowerment zone or enterprise community may include any area within an Indian reservation.

"(B) INDIAN RESERVATION DEFINED.—The term 'Indian reservation' has the meaning given such term by section 1601(j)(6).

"(5) LOCAL GOVERNMENT.—The term 'local government' means—

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

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

"(6) NOMINATED AREA.—The term 'nominated area' means an area which is nominated by 1 or

more local governments and the State or States in which it is located for designation under section 1391.

"(7) GOVERNMENTS.—If more than 1 State or local government seeks to nominate an area under this part, any reference to, or requirement of, this subchapter shall apply to all such governments.

"(8) SPECIAL RULE.—An area shall be treated as nominated by a State and a local government if it is nominated by an economic development corporation chartered by the State.

"(9) USE OF CENSUS DATA.—Population and poverty rate shall be determined by the most recent decennial census data available.

"(b) EMPOWERMENT ZONE, ENTERPRISE COMMUNITY.—For purposes of this title, the terms 'empowerment zone' and 'enterprise community' mean areas designated as such under section 1391.

PART II—TAX-EXEMPT FACILITY BONDS FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

"Sec. 1394. Tax-exempt enterprise zone facility bonds.

SEC. 1394. TAX-EXEMPT ENTERPRISE ZONE FACILITY BONDS

"(a) IN GENERAL.—For purposes of part IV of subchapter B of this chapter (relating to tax exemption requirements for State and local bonds), the term 'exempt facility bond' includes any bond issued as part of an issue 95 percent or more of the net proceeds (as defined in section 150(a)(3)) of which are to be used to provide any enterprise zone facility.

"(b) ENTERPRISE ZONE FACILITY.—For purposes of this section—

"(1) IN GENERAL.—The term 'enterprise zone facility' means any qualified zone property the principal user of which is an enterprise zone business, and any land which is functionally related and subordinate to such property.

"(2) QUALIFIED ZONE PROPERTY.—The term 'qualified zone property' has the meaning given such term by section 1397C, except that the references to empowerment zones shall be treated as including references to enterprise communities.

"(3) ENTERPRISE ZONE BUSINESS.—The term 'enterprise zone business' has the meaning given to such term by section 1397B, except that—

"(A) references to empowerment zones shall be treated as including references to enterprise communities, and

"(B) such term includes any trades or businesses which would qualify as an enterprise zone business (determined after the modification of subparagraph (A)) if such trades or businesses were separately incorporated.

"(c) LIMITATION ON AMOUNT OF BONDS.—

"(1) IN GENERAL.—Subsection (a) shall not apply to any issue if the aggregate amount of outstanding enterprise zone facility bonds allocable to any person (taking into account such issue) exceeds—

"(A) \$3,000,000 with respect to any 1 empowerment zone or enterprise community, or

"(B) \$20,000,000 with respect to all empowerment zones and enterprise communities.

"(2) AGGREGATE ENTERPRISE ZONE FACILITY BOND BENEFIT.—For purposes of subparagraph (A), the aggregate amount of outstanding enterprise zone facility bonds allocable to any person shall be determined under rules similar to the rules of section 144(a)(10), taking into account only bonds to which subsection (a) applies.

"(d) ACQUISITION OF LAND AND EXISTING PROPERTY PERMITTED.—The requirements of sections 147(c)(1)(A) and 147(d) shall not apply to any bond described in subsection (a).

"(e) PENALTY FOR CEASING TO MEET REQUIREMENTS.—

"(1) FAILURES CORRECTED.—An issue which fails to meet 1 or more of the requirements of subsections (a) and (b) shall be treated as meeting such requirements if—

"(A) the issuer and any principal user in good faith attempted to meet such requirements, and

"(B) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered.

"(2) **LOSS OF DEDUCTIONS WHERE FACILITY CEASES TO BE QUALIFIED.**—No deduction shall be allowed under this chapter for interest on any financing provided from any bond to which subsection (a) applies with respect to any facility to the extent such interest accrues during the period beginning on the first day of the calendar year which includes the date on which—

"(1) substantially all of the facility with respect to which the financing was provided ceases to be used in an empowerment zone or enterprise community, or

"(2) the principal user of such facility ceases to be an enterprise zone business (as defined in subsection (b)).

"(3) **EXCEPTION IF ZONE CEASES.**—Paragraphs (1) and (2) shall not apply solely by reason of the termination or revocation of a designation as an empowerment zone or an enterprise community.

"(4) **EXCEPTION FOR BANKRUPTCY.**—Paragraphs (1) and (2) shall not apply to any cessation resulting from bankruptcy.

"PART III—ADDITIONAL INCENTIVES FOR EMPOWERMENT ZONES

"SUBPART A. Empowerment zone employment credit.

"SUBPART B. Additional expensing.

"SUBPART C. General provisions.

"Subpart A—Empowerment Zone Employment Credit

"Sec. 1396. Empowerment zone employment credit.

"Sec. 1397. Other definitions and special rules.

"SEC. 1398. EMPOWERMENT ZONE EMPLOYMENT CREDIT.

"(a) **AMOUNT OF CREDIT.**—For purposes of section 38, the amount of the empowerment zone employment credit determined under this section with respect to any employer for any taxable year is the applicable percentage of the qualified zone wages paid or incurred during the calendar year which ends with or within such taxable year.

"(b) **APPLICABLE PERCENTAGE.**—For purposes of this section, the term 'applicable percentage' means the percentage determined in accordance with the following table:

In the case of wages paid or incurred during calendar year:	The applicable percentage is:
1994 through 2001	20
2002	25
2003	30
2004	35

"(c) **QUALIFIED ZONE WAGES.**—

"(1) **IN GENERAL.**—For purposes of this section, the term 'qualified zone wages' means any wages paid or incurred by an employer for services performed by an employee while such employee is a qualified zone employee.

"(2) **ONLY FIRST \$15,000 OF WAGES PER YEAR TAKEN INTO ACCOUNT.**—With respect to each qualified zone employee, the amount of qualified zone wages which may be taken into account for a calendar year shall not exceed \$15,000.

"(3) **COORDINATION WITH TARGETED JOBS CREDIT.**—

"(A) **IN GENERAL.**—The term 'qualified zone wages' shall not include wages taken into account in determining the credit under section 51.

"(B) **COORDINATION WITH PARAGRAPH (2).**—The \$15,000 amount in paragraph (2) shall be reduced for any calendar year by the amount of wages paid or incurred during such year which are taken into account in determining the credit under section 51.

"(d) **QUALIFIED ZONE EMPLOYEE.**—For purposes of this section—

"(1) **IN GENERAL.**—Except as otherwise provided in this subsection, the term 'qualified zone

employee' means, with respect to any period, any employee of an employer if—

"(A) substantially all of the services performed during such period by such employee for such employer are performed within an empowerment zone in a trade or business of the employer, and

"(B) the principal place of abode of such employee while performing such services is within such empowerment zone.

"(2) **CERTAIN INDIVIDUALS NOT ELIGIBLE.**—The term 'qualified zone employee' shall not include—

"(A) any individual described in subparagraph (A), (B), or (C) of section 51(k)(1),

"(B) any 5-percent owner (as defined in section 416(l)(1)(B)),

"(C) any individual employed by the employer for less than 90 days,

"(D) any individual employed by the employer at any facility described in section 144(c)(6)(B), and

"(E) any individual employed by the employer in a trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) or (B) of section 2032A(e)(5)), but only if, as of the close of the taxable year, the sum of—

"(i) the aggregate unadjusted bases (or, if greater, the fair market value) of the assets owned by the employer which are used in such a trade or business, and

"(ii) the aggregate value of assets leased by the employer which are used in such a trade or business (as determined under regulations prescribed by the Secretary), exceeds \$500,000.

"(3) **SPECIAL RULES RELATED TO TERMINATION OF EMPLOYMENT.**—

"(A) **IN GENERAL.**—Paragraph (2)(C) shall not apply to—

"(i) a termination of employment of an individual who before the close of the period referred to in paragraph (2)(C) becomes disabled to perform the services of such employment unless such disability is removed before the close of such period and the taxpayer fails to offer reemployment to such individual, or

"(ii) a termination of employment of an individual if it is determined under the applicable State unemployment compensation law that the termination was due to the misconduct of such individual.

"(B) **CHANGES IN FORM OF BUSINESS.**—For purposes of paragraph (2)(C), the employment relationship between the taxpayer and an employee shall not be treated as terminated—

"(i) by a transaction to which section 381(a) applies if the employee continues to be employed by the acquiring corporation, or

"(ii) by reason of a mere change in the form of conducting the trade or business of the taxpayer if the employee continues to be employed in such trade or business and the taxpayer retains a substantial interest in such trade or business.

"SEC. 1397. OTHER DEFINITIONS AND SPECIAL RULES.

"(a) **WAGES.**—For purposes of this subpart—

"(1) **IN GENERAL.**—The term 'wages' has the same meaning as when used in section 51.

"(2) **CERTAIN TRAINING AND EDUCATIONAL BENEFITS.**—

"(A) **IN GENERAL.**—The following amounts shall be treated as wages paid to an employee:

"(i) Any amount paid or incurred by an employer which is excludable from the gross income of an employee under section 127, but only to the extent paid or incurred to a person not related to the employer.

"(ii) In the case of an employee who has not attained the age of 19, any amount paid or incurred by an employer for any youth training program operated by such employer in conjunction with local education officials.

"(B) **RELATED PERSON.**—A person is related to any other person if the person bears a relation-

ship to such other person specified in section 267(b) or 707(b)(1), or such person and such other person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52). For purposes of the preceding sentence, in applying section 267(b) or 707(b)(1), '10 percent' shall be substituted for '50 percent'.

"(b) **CONTROLLED GROUPS.**—For purposes of this subpart—

"(1) all employers treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single employer for purposes of this subpart, and

"(2) the credit (if any) determined under section 1396 with respect to each such employer shall be its proportionate share of the wages giving rise to such credit.

"(c) **CERTAIN OTHER RULES MADE APPLICABLE.**—For purposes of this subpart, rules similar to the rules of section 51(k) and subsections (c), (d), and (e) of section 52 shall apply.

"Subpart B—Additional Expensing

"Sec. 1397A. Increase in expensing under section 179.

"SEC. 1397A. INCREASE IN EXPENSING UNDER SECTION 179.

"(a) **GENERAL RULE.**—In the case of an enterprise zone business, for purposes of section 179—

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

"(A) \$20,000, or

"(B) the cost of section 179 property which is qualified zone property placed in service during the taxable year, and

"(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified zone property shall be 50 percent of the cost thereof.

"(b) **RECAPTURE.**—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified zone property which ceases to be used in an empowerment zone by an enterprise zone business.

"Subpart C—General Provisions

"Sec. 1397B. Enterprise zone business defined.

"Sec. 1397C. Qualified zone property defined.

"SEC. 1397D. ENTERPRISE ZONE BUSINESS DEFINED.

"(a) **IN GENERAL.**—For purposes of this part, the term 'enterprise zone business' means—

"(1) any qualified business entity, and

"(2) any qualified proprietorship.

"(b) **QUALIFIED BUSINESS ENTITY.**—For purposes of this section, the term 'qualified business entity' means, with respect to any taxable year, any corporation or partnership if for such year—

"(1) every trade or business of such entity is the active conduct of a qualified business within an empowerment zone,

"(2) at least 80 percent of the total gross income of such entity is derived from the active conduct of such business,

"(3) substantially all of the use of the tangible property of such entity (whether owned or leased) is within an empowerment zone,

"(4) substantially all of the intangible property of such entity is used in, and exclusively related to, the active conduct of any such business,

"(5) substantially all of the services performed for such entity by its employees are performed in an empowerment zone,

"(6) at least 35 percent of its employees are residents of an empowerment zone,

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

"(8) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property.

"(c) **QUALIFIED PROPRIETORSHIP.**—For purposes of this section, the term 'qualified proprietorship' means, with respect to any taxable year, any qualified business carried on by an individual as a proprietorship if for such year—

"(1) at least 80 percent of the total gross income of such individual from such business is derived from the active conduct of such business in an empowerment zone;

"(2) substantially all of the use of the tangible property of such individual in such business (whether owned or leased) is within an empowerment zone;

"(3) substantially all of the intangible property of such business is used in, and exclusively related to, the active conduct of such business;

"(4) substantially all of the services performed for such individual in such business by employees of such business are performed in an empowerment zone;

"(5) at least 35 percent of such employees are residents of an empowerment zone;

"(6) less than 5 percent of the average of the aggregate unadjusted bases of the property of such individual which is used in such business is attributable to collectibles (as defined in section 6012(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business; and

"(7) less than 5 percent of the average of the aggregate unadjusted bases of the property of such individual which is used in such business is attributable to nonqualified financial property.

For purposes of this subsection, the term 'employer' includes the proprietor.

"(d) **QUALIFIED BUSINESS.**—For purposes of this section—

"(1) **IN GENERAL.**—Except as otherwise provided in this subsection, the term 'qualified business' means any trade or business.

"(2) **RENTAL OF REAL PROPERTY.**—The rental to others of real property located in an empowerment zone shall be treated as a qualified business if and only if—

"(A) the property is not residential rental property (as defined in section 168(e)(2)), and

"(B) at least 50 percent of the gross rental income from the real property is from enterprise zone businesses.

"(3) **RENTAL OF TANGIBLE PERSONAL PROPERTY.**—The rental to others of tangible personal property shall be treated as a qualified business if and only if substantially all of the rental of such property is by enterprise zone businesses or by residents of an empowerment zone.

"(4) **TREATMENT OF BUSINESS HOLDING INTANGIBLES.**—The term 'qualified business' shall not include any trade or business consisting predominantly of the development or holding of intangibles for sale or license.

"(5) **CERTAIN BUSINESSES EXCLUDED.**—The term 'qualified business' shall not include—

"(A) any trade or business consisting of the operation of any facility described in section 144(c)(6)(B); and

"(B) any trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) or (B) of section 2032A(e)(5)), but only if, as of the close of the preceding taxable year, the sum of—

"(i) the aggregate unadjusted bases (or, if greater, the fair market value) of the assets owned by the taxpayer which are used in such a trade or business; and

"(ii) the aggregate value of assets leased by the taxpayer which are used in such a trade or business,

exceeds \$500,000.

For purposes of subparagraph (B), rules similar to the rules of section 1357(b) shall apply.

"(e) **NONQUALIFIED FINANCIAL PROPERTY.**—For purposes of this section, the term 'nonqualified financial property' means debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, annuities, and other similar property

specified in regulations; except that such term shall not include—

"(1) reasonable amounts of working capital held in cash, cash equivalents, or debt instruments with a term of 18 months or less; or

"(2) debt instruments described in section 1221(4).

SEC. 1397C. QUALIFIED ZONE PROPERTY DEFINED.

"(a) **GENERAL RULE.**—For purposes of this part—

"(1) **IN GENERAL.**—The term 'qualified zone property' means any property to which section 168 applies (or would apply but for section 179) if—

"(A) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after the date on which the designation of the empowerment zone took effect;

"(B) the original use of which in an empowerment zone commenced with the taxpayer; and

"(C) substantially all of the use of which is in an empowerment zone and is in the active conduct of a qualified business by the taxpayer in such zone.

"(2) **SPECIAL RULE FOR SUBSTANTIAL RENOVATIONS.**—In the case of any property which is substantially renovated by the taxpayer, the requirements of subparagraphs (A) and (B) of paragraph (1) shall be treated as satisfied. For purposes of the preceding sentence, property shall be treated as substantially renovated by the taxpayer if, during any 24-month period beginning after the date on which the designation of the empowerment zone took effect, additions to basis with respect to such property in the hands of the taxpayer exceed the greater of (i) an amount equal to the adjusted basis at the beginning of such 24-month period in the hands of the taxpayer, or (ii) \$5,000.

"(b) **SPECIAL RULES FOR SALE-LEASEBACKS.**—For purposes of subsection (a)(1)(B), if property is sold and leased back by the taxpayer within 3 months after the date such property was originally placed in service, such property shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback.

"PART IV—REGULATIONS

"Sec. 1397D. Regulations.

"SEC. 1397E. REGULATIONS

"The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of parts II and III, including—

"(1) regulations limiting the benefit of parts II and III in circumstances where such benefits, in combination with benefits provided under other Federal programs, would result in an activity being 100 percent or more subsidized by the Federal Government;

"(2) regulations preventing abuse of the provisions of parts II and III; and

"(3) regulations dealing with inadvertent failures of entities to be enterprise zone businesses."

"(b) **CLERICAL AMENDMENT.**—The table of subchapters for chapter I is amended by inserting after the item relating to subchapter T the following new item:

"Subchapter U. Designation and treatment of empowerment zones, enterprise communities, and rural development investment areas."

SEC. 1397F. TECHNICAL AND CONFORMING AMENDMENTS

"(a) **EMPOWERMENT ZONE EMPLOYMENT CREDIT PART OF GENERAL BUSINESS CREDIT.**—

"(1) Subsection (b) of section 38 (relating to current year business credit) is amended by striking "plus" at the end of paragraph (7), by striking the period at the end of paragraph (8) and inserting ", and", and by adding at the end the following new paragraph:

"(9) the empowerment zone employment credit determined under section 1396(a)."

"(2) Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

"(4) **EMPOWERMENT ZONE EMPLOYMENT CREDIT.**—No portion of the unused business credit which is attributable to the credit determined under section 1396 (relating to empowerment zone employment credit) may be carried to any taxable year ending before January 1, 1994."

"(b) **DENIAL OF DEDUCTION FOR PORTION OF WAGES EQUAL TO EMPOWERMENT ZONE EMPLOYMENT CREDIT.**—

"(1) Subsection (a) of section 280C (relating to rule for targeted jobs credit) is amended—

"(A) by striking "the amount of the credit determined for the taxable year under section 51(a)" and inserting "the sum of the credits determined for the taxable year under sections 51(a) and 1396(a)", and

"(B) by striking "TARGETED JOBS CREDIT" in the subsection heading and inserting "EMPLOYMENT CREDITS".

"(2) Subsection (c) of section 136 (relating to deduction for certain unused business credits) is amended by striking "and" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting ", and", and by adding at the end the following new paragraph:

"(6) the empowerment zone employment credit determined under section 1396(a)."

"(c) **EMPOWERMENT ZONE EMPLOYMENT CREDIT MAY OFFSET 25 PERCENT OF MINIMUM TAX.**—

"(1) **IN GENERAL.**—Section 38(c) (relating to limitation based on amount of tax) is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

"(2) **EMPOWERMENT ZONE EMPLOYMENT CREDIT MAY OFFSET 25 PERCENT OF MINIMUM TAX.**—

"(A) **IN GENERAL.**—In the case of the empowerment zone employment credit credit—

"(i) this section and section 38 shall be applied separately with respect to such credit; and

"(ii) for purposes of applying paragraph (1) to such credit—

"(I) 75 percent of the tentative minimum tax shall be substituted for the tentative minimum tax under subparagraph (A) thereof; and

"(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the empowerment zone employment credit).

"(B) **EMPOWERMENT ZONE EMPLOYMENT CREDIT.**—For purposes of this paragraph, the term 'empowerment zone employment credit' means the portion of the credit under subsection (a) which is attributable to the credit determined under section 1396 (relating to empowerment zone employment credit)."

"(d) **AMENDMENT OF TARGETED JOBS CREDIT.**—

Subparagraph (A) of section 51(u)(1) is amended by inserting ", or, if the taxpayer is an entity other than a corporation, to any individual who owns, directly or indirectly, more than 50 percent of the capital and profits interests in the entity," after "of the corporation".

"(e) **CARRYOVERS.**—Subsection (c) of section 38 (relating to carryovers in certain corporate acquisitions) is amended by adding at the end the following new paragraph:

"(26) **ENTERPRISE ZONE PROVISIONS.**—The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and subchapter U, and under such regulations as may be prescribed by the Secretary) the items required to be taken into account for purposes of subchapter U in respect of the distributor or transferee corporation."

SEC. 1397G. EFFECTIVE DATE

The amendments made by this part shall take effect on the date of the enactment of this Act.

PART II—CREDIT FOR CONTRIBUTIONS TO CERTAIN COMMUNITY DEVELOPMENT CORPORATIONS

SEC. 1397H. CREDIT FOR CONTRIBUTIONS TO CERTAIN COMMUNITY DEVELOPMENT CORPORATIONS

"(a) **IN GENERAL.**—For purposes of section 38 of the Internal Revenue Code of 1986, the current

year business credit shall include the credit determined under this section.

(b) **DETERMINATION OF CREDIT.**—The credit determined under this section for each taxable year in the credit period with respect to any qualified CDC contribution made by the taxpayer is an amount equal to 5 percent of such contribution.

(c) **CREDIT PERIOD.**—For purposes of this section, the credit period with respect to any qualified CDC contribution is the period of 10 taxable years beginning with the taxable year during which such contribution was made.

(d) **QUALIFIED CDC CONTRIBUTION.**—For purposes of this section—

(1) **IN GENERAL.**—The term "qualified CDC contribution" means any transfer of cash—

(A) which is made to a selected community development corporation during the 5-year period beginning on the date such corporation was selected for purposes of this section,

(B) the amount of which is available for use by such corporation for at least 10 years,

(C) which is to be used by such corporation for qualified low-income assistance within its operational area, and

(D) which is designated by such corporation for purposes of this section.

(2) **LIMITATIONS ON AMOUNT DESIGNATED.**—The aggregate amount of contributions to a selected community development corporation which may be designated by such corporation shall not exceed \$2,000,000.

(e) **SELECTED COMMUNITY DEVELOPMENT CORPORATIONS.**—

(1) **IN GENERAL.**—For purposes of this section, the term "selected community development corporation" means any corporation—

(A) which is described in section 501(c)(3) of such Code and exempt from tax under section 501(a) of such Code,

(B) the principal purposes of which include promoting employment of, and business opportunities for, low-income individuals who are residents of the operational area, and

(C) which is selected by the Secretary of Housing and Urban Development for purposes of this section.

(2) **ONLY 20 CORPORATIONS MAY BE SELECTED.**—The Secretary of Housing and Urban Development may select 20 corporations for purposes of this section, subject to the availability of eligible corporations. Such selections may be made only before July 1, 1994. At least 8 of the operational areas of the corporations selected must be rural areas (as defined by section 1393(a)(3) of such Code).

(3) **OPERATIONAL AREAS MUST HAVE CERTAIN CHARACTERISTICS.**—A corporation may be selected for purposes of this section only if its operational area meets the following criteria:

(A) The area meets the size requirements under section 1393(a)(3).

(B) The unemployment rate (as determined by the appropriate available data) is not less than the national unemployment rate.

(C) The median family income of residents of such area does not exceed 80 percent of the median gross income of residents of the jurisdiction of the local government which includes such area.

(f) **QUALIFIED LOW-INCOME ASSISTANCE.**—For purposes of this section, the term "qualified low-income assistance" means assistance—

(1) which is designed to provide employment of, and business opportunities for, low-income individuals who are residents of the operational area of the community development corporation, and

(2) which is approved by the Secretary of Housing and Urban Development.

Part III—Investment in Indian Reservations
SEC. 1331 ACCELERATED DEPRECIATION FOR PROPERTY ON INDIAN RESERVATIONS.

(a) **IN GENERAL.**—Section 168 is amended by adding at the end the following new subsection:

"(f) **PROPERTY ON INDIAN RESERVATIONS.**—

(1) **IN GENERAL.**—For purposes of subsection (a), the applicable recovery period for qualified Indian reservation property shall be determined in accordance with the table contained in paragraph (2) in lieu of the table contained in subsection (c).

(2) **APPLICABLE RECOVERY PERIOD FOR INDIAN RESERVATION PROPERTY.**—For purposes of paragraph (1)—

In the case of:		The applicable recovery period is:	
3-year property		2 years	
5-year property		3 years	
7-year property		4 years	
10-year property		6 years	
15-year property		9 years	
20-year property		12 years	
Nonresidential real property		22 years	

(3) **DEDUCTION ALLOWED IN COMPUTING MINIMUM TAX.**—For purposes of determining alternative minimum taxable income under section 55, the deduction under subsection (a) for property to which paragraph (1) applies shall be determined under this section without regard to any adjustment under section 56.

(4) **QUALIFIED INDIAN RESERVATION PROPERTY DEFINED.**—For purposes of this subsection—

(A) **IN GENERAL.**—The term "qualified Indian reservation property" means property which is property described in the table in paragraph (2) and which is—

(i) used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation,

(ii) not used or located outside the Indian reservation on a regular basis,

(iii) not acquired (directly or indirectly) by the taxpayer from a person who is related to the taxpayer (within the meaning of section 65(b)(3)(C)), and

(iv) not property (or any portion thereof) placed in service for purposes of conducting or housing class I, II, or III gaming (as defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2703)).

(B) **EXCEPTION FOR ALTERNATIVE DEPRECIATION PROPERTY.**—The term "qualified Indian reservation property" does not include any property to which the alternative depreciation system under subsection (g) applies, determined—

(i) without regard to subsection (g)(7) (relating to election to use alternative depreciation system), and

(ii) after the application of section 280F(b) (relating to listed property with limited business use).

(C) **SPECIAL RULE FOR RESERVATION INFRASTRUCTURE INVESTMENT.**—

(i) **IN GENERAL.**—Subparagraph (A)(ii) shall not apply to qualified infrastructure property located outside of the Indian reservation if the purpose of such property is to connect with qualified infrastructure property located within the Indian reservation.

(ii) **QUALIFIED INFRASTRUCTURE PROPERTY.**—For purposes of this subparagraph, the term "qualified infrastructure property" means qualified Indian reservation property (determined without regard to subparagraph (A)(ii)) which—

(I) benefits the tribal infrastructure,

(II) is available to the general public, and

(III) is placed in service in connection with the taxpayer's active conduct of a trade or business within an Indian reservation. Such term includes, but is not limited to, roads, power lines, water systems, railroad spurs, and communications facilities.

(5) **REAL ESTATE RENTALS.**—For purposes of this subsection, the rental to others of real property located within an Indian reservation shall be treated as the active conduct of a trade or business within an Indian reservation.

(6) **INDIAN RESERVATION DEFINED.**—For purposes of this subsection, the term "Indian reservation" means a reservation, as defined in—

"(A) section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)), or

"(B) section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)).

(7) **COORDINATION WITH NONREVENUE LAWS.**—Any reference in this subsection to a provision not contained in this title shall be treated for purposes of this subsection as a reference to such provision as in effect on the date of the enactment of this paragraph.

(8) **TERMINATION.**—This subsection shall not apply to property placed in service after December 31, 2003.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to property placed in service after December 31, 1993.

SEC. 1332 INDIAN EMPLOYMENT CREDIT.

(a) **ALLOWANCE OF INDIAN EMPLOYMENT CREDIT.**—Section 38(b) (relating to general business credits) is amended by striking "plus" at the end of paragraph (8), by striking the period at the end of paragraph (9) and inserting "plus", and by adding after paragraph (9) the following new paragraph:

"(10) the Indian employment credit as determined under section 45A(a)."

(b) **AMOUNT OF INDIAN EMPLOYMENT CREDIT.**—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding at the end thereof the following new section:

"SEC. 45A INDIAN EMPLOYMENT CREDIT.

(a) **AMOUNT OF CREDIT.**—For purposes of section 38, the amount of the Indian employment credit determined under this section with respect to any employer for any taxable year is an amount equal to 20 percent of the excess (if any) of—

(1) the sum of—

(A) the qualified wages paid or incurred during such taxable year, plus

(B) qualified employee health insurance costs paid or incurred during such taxable year, over

(2) the sum of the qualified wages and qualified employee health insurance costs (determined as if this section were in effect) which were paid or incurred by the employer (or any predecessor) during calendar year 1993.

(b) **QUALIFIED WAGES QUALIFIED EMPLOYEE HEALTH INSURANCE COSTS.**—For purposes of this section—

(1) **QUALIFIED WAGES.**—

(A) **IN GENERAL.**—The term "qualified wages" means any wages paid or incurred by an employer for services performed by an employee while such employee is a qualified employee.

(B) **COORDINATION WITH TARGETED JOBS CREDIT.**—The term "qualified wages" shall not include wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer if any portion of such wages is taken into account in determining the credit under section 51.

(2) **QUALIFIED EMPLOYEE HEALTH INSURANCE COSTS.**—

(A) **IN GENERAL.**—The term "qualified employee health insurance costs" means any amount paid or incurred by an employer for health insurance to the extent such amount is attributable to coverage provided to any employee while such employee is a qualified employee.

(B) **EXCEPTION FOR AMOUNTS PAID UNDER SALARY REDUCTION ARRANGEMENTS.**—No amount paid or incurred for health insurance pursuant to a salary reduction arrangement shall be taken into account under subparagraph (A).

(3) **LIMITATION.**—The aggregate amount of qualified wages and qualified employee health insurance costs taken into account with respect to any employee for any taxable year (and for the base period under subsection (a)(2)) shall not exceed \$20,000.

(c) **QUALIFIED EMPLOYEE.**—For purposes of this section—

(1) **IN GENERAL.**—Except as otherwise provided in this subsection, the term "qualified em-

employee' means, with respect to any period, any employee of an employer (—

"(A) the employee is an enrolled member of an Indian tribe or the spouse of an enrolled member of an Indian tribe.

"(B) substantially all of the services performed during such period by such employee for an employer are performed within an Indian reservation, and

"(C) the principal place of abode of such employee while performing such services is on or near the reservation in which the services are performed.

"(2) INDIVIDUALS RECEIVING WAGES IN EXCESS OF \$30,000 NOT ELIGIBLE.—An employee shall not be treated as a qualified employee for any taxable year of the employer if the total amount of the wages paid or incurred by such employer to such employee during such taxable year (whether or not for services within an Indian reservation) exceeds the amount determined at an annual rate of \$30,000.

"(3) INFLATION ADJUSTMENT.—The Secretary shall adjust the \$30,000 amount under paragraph (2) for years beginning after 1994 at the same time and in the same manner as under section 415(d).

"(4) EMPLOYMENT MUST BE TRADE OR BUSINESS EMPLOYMENT.—An employee shall be treated as a qualified employee for any taxable year of the employer only if more than 50 percent of the wages paid or incurred by the employer to such employee during such taxable year are for services performed in a trade or business of the employer. Any determination as to whether the preceding sentence applies with respect to any employee for any taxable year shall be made without regard to subsection (e)(2).

"(5) CERTAIN EMPLOYEES NOT ELIGIBLE.—The term 'qualified employee' shall not include—

"(A) any individual described in subparagraph (A), (B), or (C) of section 51(i)(1),

"(B) any 5-percent owner (as defined in section 416(i)(1)(B)), and

"(C) any individual if the services performed by such individual for the employer involve the conduct of class I, II, or III gaming as defined in section 4 of the Indian Gaming Regulatory Act (25 U.S.C. 2703), or are performed in a building housing such gaming activity.

"(6) INDIAN TRIBE DEFINED.—The term 'Indian tribe' means any Indian tribe, band, nation, pueblo, or other organized group or community, including any Alaska Native village, or regional or village corporation, as defined in, or established pursuant to, the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et seq.) which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

"(7) INDIAN RESERVATION DEFINED.—The term 'Indian reservation' has the meaning given such term by section 1601(j)(6).

"(d) EARLY TERMINATION OF EMPLOYMENT BY EMPLOYER—

"(1) IN GENERAL.—If the employment of any employee is terminated by the taxpayer before the day 1 year after the day on which such employee began work for the employer—

"(A) no wages (or qualified employee health insurance costs) with respect to such employee shall be taken into account under subsection (a) for the taxable year in which such employment is terminated, and

"(B) the tax under this chapter for the taxable year in which such employment is terminated shall be increased by the aggregate credits (if any) allowed under section 38(a) for prior taxable years by reason of wages (or qualified employee health insurance costs) taken into account with respect to such employee.

"(2) CARRYBACKS AND CARRYOVERS ADJUSTED.—In the case of any termination of employment to which paragraph (1) applies, the carrybacks and carryovers under section 39 shall be properly adjusted.

"(3) SUBSECTION NOT TO APPLY IN CERTAIN CASES.—

"(A) IN GENERAL.—Paragraph (1) shall not apply to—

"(i) a termination of employment of an employee who voluntarily leaves the employment of the taxpayer,

"(ii) a termination of employment of an individual who before the close of the period referred to in paragraph (1) becomes disabled to perform the services of such employment unless such disability is removed before the close of such period and the taxpayer fails to offer reemployment to such individual, or

"(iii) a termination of employment of an individual if it is determined under the applicable State unemployment compensation law that the termination was due to the misconduct of such individual.

"(B) CHANGES IN FORM OF BUSINESS.—For purposes of paragraph (1), the employment relationship between the taxpayer and an employee shall not be treated as terminated—

"(i) by a transaction to which section 381(a) applies if the employee continues to be employed by the acquiring corporation, or

"(ii) by reason of a mere change in the form of conducting the trade or business of the taxpayer if the employee continues to be employed in such trade or business and the taxpayer retains a substantial interest in such trade or business.

"(4) SPECIAL RULE.—Any increase in tax under paragraph (1) shall not be treated as a tax imposed by this chapter for purposes of—

"(A) determining the amount of any credit allowable under this chapter, and

"(B) determining the amount of the tax imposed by section 55.

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

"(1) WAGES.—The term 'wages' has the same meaning given to such term in section 51.

"(2) CONTROLLED GROUPS.—

"(A) All employers treated as a single employer under section (a) or (b) of section 52 shall be treated as a single employer for purposes of this section.

"(B) The credit (if any) determined under this section with respect to each such employer shall be its proportionate share of the wages and qualified employee health insurance costs giving rise to such credit.

"(3) CERTAIN OTHER RULES MADE APPLICABLE.—Rules similar to the rules of section 51(k) and subsections (c), (d), and (e) of section 52 shall apply.

"(4) COORDINATION WITH NONREVENUE LAWS.—Any reference in this section to a provision not contained in this title shall be treated for purposes of this section as a reference to such provision as in effect on the date of the enactment of this paragraph.

"(5) SPECIAL RULE FOR SHORT TAXABLE YEARS.—For any taxable year having less than 12 months, the amount determined under subsection (a)(2) shall be multiplied by a fraction, the numerator of which is the number of days in the taxable year and the denominator of which is 365.

"(f) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2003."

"(c) DENIAL OF DEDUCTION FOR PORTION OF WAGES EQUAL TO INDIAN EMPLOYMENT CREDIT.—

"(1) Subsection (a) of section 280C (relating to rule for targeted jobs credit) is amended by striking "51(a)" and inserting "45A(a), 51(a), and".

"(2) Subsection (c) of section 196 (relating to deduction for certain unused business credits) is amended by striking "and" at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting ", and", and by adding at the end the following new paragraph:

"(7) The Indian employment credit determined under section 45A(a)."

"(d) DENIAL OF CARRYBACKS TO PREENACTMENT YEARS.—Subsection (d) of section 39 is amended

by adding at the end thereof the following new paragraph:

"(5) NO CARRYBACK OF SECTION 45A CREDIT BEFORE ENACTMENT.—No portion of the unused business credit for any taxable year which is attributable to the Indian employment credit determined under section 45A may be carried to a taxable year ending before the date of the enactment of section 45A."

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

"Sec. 45A. Indian employment credit."

"(f) EFFECTIVE DATE.—The amendments made by this section shall apply to wages paid or incurred after December 31, 1993.

Subchapter D—Other Provisions

PART I—DISCLOSURE PROVISIONS

SEC. 13401. DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS.

"(a) GENERAL RULE.—Subparagraph (D) of section 6103(f)(7) (relating to disclosure of return information to Federal, State, and local agencies administering certain programs) is amended by striking "September 30, 1997" in the second sentence following clause (viii) and inserting "September 30, 1998".

"(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 13402. DISCLOSURE OF RETURN INFORMATION TO CARRY OUT INCOME CONTINGENT REPAYMENT OF STUDENT LOANS.

"(a) GENERAL RULE.—Subsection (f) of section 6103 (relating to confidentiality and disclosure of returns and return information) is amended by adding at the end thereof the following new paragraph:

"(13) DISCLOSURE OF RETURN INFORMATION TO CARRY OUT INCOME CONTINGENT REPAYMENT OF STUDENT LOANS—

"(A) IN GENERAL.—The Secretary may, upon written request from the Secretary of Education, disclose to officers and employees of the Department of Education return information with respect to a taxpayer who has received an applicable student loan and whose loan repayment amounts are based in whole or in part on the taxpayer's income. Such return information shall be limited to—

"(i) taxpayer identity information with respect to such taxpayer,

"(ii) the filing status of such taxpayer, and

"(iii) the adjusted gross income of such taxpayer.

"(B) RESTRICTION ON USE OF DISCLOSED INFORMATION.—Return information disclosed under subparagraph (A) may be used by officers and employees of the Department of Education only for the purposes of, and to the extent necessary in, establishing the appropriate income contingent repayment amount for an applicable student loan.

"(C) APPLICABLE STUDENT LOAN.—For purposes of this paragraph, the term 'applicable student loan' means—

"(i) any loan made under the program authorized under part D of title IV of the Higher Education Act of 1965, and

"(ii) any loan made under part B or E of title IV of the Higher Education Act of 1965 which is in default and has been assigned to the Department of Education.

"(D) TERMINATION.—This paragraph shall not apply to any request made after September 30, 1998."

(b) CONFORMING AMENDMENTS.—

"(1) So much of paragraph (d) of section 6103(m) as precedes subparagraph (B) thereof is amended to read as follows:

"(4) INDIVIDUALS WHO OWE AN OVERPAYMENT OF FEDERAL PELL GRANTS OR WHO HAVE DEFAULTED ON STUDENT LOANS ADMINISTERED BY THE DEPARTMENT OF EDUCATION.—

(1) by striking "1996" in paragraph (1) and inserting "1998"; and
(2) by striking "1997" in paragraph (2) and inserting "1999".

ART VI—SOCIAL SERVICES IN EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

SEC. 1391. INCREASE IN BLOCK GRANTS TO STATES FOR SOCIAL SERVICES

Titile XX (42 U.S.C. 1397–1397e) is amended by adding at the end the following:

"SEC. 2001. ADDITIONAL GRANTS.

"(a) ENTITLEMENT.—

"(1) IN GENERAL.—In addition to any payment under section 2002, each State shall be entitled to—

"(A) 2 grants under this section for each qualified empowerment zone in the State; and

"(B) 1 grant under this section for each qualified enterprise community in the State.

"(2) AMOUNT OF GRANTS.—

"(A) EMPOWERMENT GRANTS.—The amount of each grant to a State under this section for a qualified empowerment zone shall be—

"(i) if the zone is designated in an urban area, \$50,000,000, multiplied by that proportion of the population of the zone that resides in the State; or

"(ii) if the zone is designated in a rural area, \$20,000,000, multiplied by such proportion.

"(B) ENTERPRISE GRANTS.—The amount of the grant to a State under this section for a qualified enterprise community shall be $\frac{1}{4}$ of \$280,000,000, multiplied by that proportion of the population of the community that resides in the State.

"(C) POPULATION DETERMINATIONS.—The Secretary shall make population determinations for purposes of this paragraph based on the most recent decennial census data available.

"(3) TIMING OF GRANTS.—

"(A) QUALIFIED EMPOWERMENT ZONES.—With respect to each qualified empowerment zone, the Secretary shall make—

"(i) 1 grant under this section to each State in which the zone lies, on the date of the designation of the zone under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986; and

"(ii) 1 grant under this section to each such State, on the 1st day of the 1st fiscal year that begins after the date of the designation.

"(B) QUALIFIED ENTERPRISE COMMUNITIES.—With respect to each qualified enterprise community, the Secretary shall make 1 grant under this section to each State in which the community lies, on the date of the designation of the community under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986.

"(4) FUNDING.—\$1,000,000,000 shall be made available to the Secretary for grants under this section.

"(b) PROGRAM OPTIONS.—Notwithstanding section 2005(a):

"(1) In order to prevent and remedy the neglect and abuse of children, a State may use amounts paid under this section to make grants to, or enter into contracts with, entities to provide residential or nonresidential drug and alcohol prevention and treatment programs that offer comprehensive services for pregnant women and mothers, and their children.

"(2) In order to assist disadvantaged adults and youths in achieving and maintaining self-sufficiency, a State may use amounts paid under this section to make grants to, or enter into contracts with—

"(A) organizations operated for profit or not for profit, for the purpose of training and employing disadvantaged adults and youths in construction, rehabilitation, or improvement of affordable housing, public infrastructure, and community facilities; and

"(B) nonprofit organizations and community or junior colleges, for the purpose of enabling such entities to provide short-term training courses in entrepreneurship and self-employ-

ment, and other training that will promote individual self-sufficiency and the interests of the community.

"(3) A State may use amounts paid under this section to make grants to, or enter into contracts with, nonprofit community-based organizations to enable such organizations to provide activities designed to promote and protect the interests of children and families, outside of school hours, including keeping schools open during evenings and weekends for mentoring and study.

"(4) In order to assist disadvantaged adults and youths in achieving and maintaining economic self-support, a State may use amounts paid under this section to—

"(A) fund services designed to promote community and economic development in qualified empowerment zones and qualified enterprise communities, such as skills training, job counseling, transportation services, housing counseling, financial management, and business counseling;

"(B) assist in emergency and transitional shelter for disadvantaged families and individuals; or

"(C) support programs that promote home ownership, education, or other routes to economic independence for low income families and individuals.

"(c) USE OF GRANTS.—

"(1) IN GENERAL.—Subject to subsection (d) of this section, each State that receives a grant under this section with respect to an area shall use the grant—

"(A) for services directed only at the goals set forth in paragraphs (1), (2), and (3) of section 2001;

"(B) in accordance with the strategic plan for the area; and

"(C) for activities that benefit residents of the area for which the grant is made.

"(2) TECHNICAL ASSISTANCE.—A State may use a portion of any grant made under this section in the manner described in section 2002(e).

"(d) REMITTANCE OF CERTAIN AMOUNTS.—

"(1) PORTION OF GRANT UPON TERMINATION OF DESIGNATION.—Each State to which an amount is paid under this subsection during a fiscal year with respect to an area the designation of which under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986 ends before the end of the fiscal year shall remit to the Secretary an amount equal to the total of the amounts so paid with respect to the area, multiplied by that proportion of the fiscal year remaining after the designation ends.

"(2) AMOUNTS PAID TO THE STATES AND NOT OBLIGATED WITHIN 2 YEARS.—Each State shall remit to the Secretary any amount paid to the State under this section that is not obligated by the end of the 2-year period that begins with the date of the payment.

"(e) DEFINITIONS.—As used in this section:

"(1) QUALIFIED EMPOWERMENT ZONE.—The term 'qualified empowerment zone' means, with respect to a State, an area—

"(A) which has been designated (other than by the Secretary of the Interior) as an empowerment zone under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986;

"(B) with respect to which the designation is in effect;

"(C) the strategic plan for which is a qualified plan; and

"(D) part or all of which is in the State.

"(2) QUALIFIED ENTERPRISE COMMUNITY.—The term 'qualified enterprise community' means, with respect to a State, an area—

"(A) which has been designated (other than by the Secretary of the Interior) as an enterprise community under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986;

"(B) with respect to which the designation is in effect;

"(C) the strategic plan for which is a qualified plan; and

"(D) part or all of which is in the State.

"(3) STRATEGIC PLAN.—The term 'strategic plan' means, with respect to an area, the plan contained in the application for designation of the area under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986.

"(4) QUALIFIED PLAN.—The term 'qualified plan' means, with respect to an area, a plan that—

"(A) includes a detailed description of the activities proposed for the area that are to be funded with amounts provided under this section;

"(B) contains a commitment that the amounts provided under this section to any State for the area will not be used to supplant Federal or non-Federal funds for services and activities which promote the purposes of this section;

"(C) was developed in cooperation with the local government or governments with jurisdiction over the area; and

"(D) to the extent that any State will not use the amounts provided under this section for the area in the manner described in subsection (b), explains the reasons why not.

"(5) RURAL AREA.—The term 'rural area' has the meaning given such term in section 1393(a)(2) of the Internal Revenue Code of 1986.

"(6) URBAN AREA.—The term 'urban area' has the meaning given such term in section 1393(a)(3) of the Internal Revenue Code of 1986."

Subchapter D—Customs and Trade Provisions

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SUBCHAPTER D—CUSTOMS AND TRADE PROVISIONS

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PART I—EXTENSION OF CUSTOMS USER FEE, GSP, AND TRADE ADJUSTMENT ASSISTANCE PROGRAMS

SEC. 13801. EXTENSION OF AUTHORITY TO LEVY CUSTOMS USER FEES

Section 13031(j)(3) of the Consolidated Omnibus Budget Reconciliation Act of 1985 (19 U.S.C. 58c(j)(3)) is amended by striking out "1995" and inserting "1998".

SEC. 13802. GENERALIZED SYSTEM OF PREFERRED TREATMENT

(a) TREATMENT OF COUNTRIES FORMERLY WITHIN THE UNION OF SOVIET SOCIALIST REPUBLICS.—The table in section 502(b) of the Trade Act of 1974 (19 U.S.C. 2462(b)) is amended by striking out "Union of Soviet Socialist Republics".

(b) EXTENSION OF DUTY-FREE TREATMENT UNDER SYSTEM.—

(1) IN GENERAL.—Section 505(a) of the Trade Act of 1974 (19 U.S.C. 2465(a)) is amended by striking out "July 4, 1993" and inserting "September 30, 1994".

(2) RETROACTIVE APPLICATION FOR CERTAIN LIQUIDATIONS AND RESLIQUIDATIONS.—

Notwithstanding section 514 of the Tariff Act of 1930 or any other provision of law, upon proper request filed with the appropriate customs officer within 180 days after the date of the enactment of this Act, the entry—

(A) of any article to which duty-free treatment under title V of the Trade Act of 1974 would have applied if the entry had been made on July 4, 1993, and

Conference Agreement

The conference agreement follows the House bill and the Senate amendment.

2. Increase withholding rate on supplemental wage payments (sec. 14375 of the House bill, sec. 13373 of the Senate amendment, sec. 13373 of the conference agreement, and sec. 1402(g) of the Code).

Private Law

Under Treasury regulations, withholding on supplemental wage payments (such as bonuses, commissions, and overtime pay) that are not paid concurrently with wages (or that are paid concurrently with wages, but are separately stated) for a payroll period may be done at a rate of 20 percent (at the employer's election) (Treas. Reg. sec. 31.3402(g)-1).

House Bill

The House bill increases the applicable withholding rate on supplemental wage payments to 25 percent.

Effective date.—The provision is effective for payments made after December 31, 1993.

Senate Amendment

The Senate amendment is the same as the House bill.

Conference Agreement

The conference agreement follows the House bill and the Senate amendment.

III. EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

1. Tax benefits for empowerment zones and enterprise communities (secs. 14301-14304 of the House bill, sec. 15007 of the Senate amendment, sec. 13301-13304 of the conference agreement, and new sec. 1391-1397D of the Code).

Private Law

The Internal Revenue Code does not contain general rules that target specific geographic areas for special Federal income tax treatment. Within certain Code sections, however, there are definitions of targeted areas for limited purposes (e.g., low-income housing credit and qualified mortgage bond provisions target certain economically distressed areas). In addition, present law provides favorable Federal income tax treatment for certain U.S. corporations that operate in Puerto Rico, the U.S. Virgin Islands, or possessions of the United States to encourage the conduct of trades or businesses within these areas.

*House Bill**Designation of eligible areas*
In general

A total of 10 empowerment zones and 100 enterprise communities will be designated (subject to availability of eligible areas) during 1994 and 1995. Empowerment zones and enterprise communities will be designated from areas nominated by State and local governments or a governing body of an Indian reservation.¹ Empowerment zones will be eligible for additional tax incentives beyond those provided in the areas designated as enterprise communities.

The Secretary of Housing and Urban Development (HUD) will designate in eligible

urban areas six empowerment zones and 65 enterprise communities. (The six empowerment zones located in urban areas will include at least one zone in an urban area the most populous city of which has a population of 500,000 or less.) The Secretary of Agriculture will designate in eligible rural areas three empowerment zones and 30 enterprise communities. In addition, the Secretary of the Interior will designate in eligible Indian reservation areas one empowerment zone and five enterprise communities.² Nominated areas located in Indian reservations also will be eligible for designation (provided the bill's criteria are met) as rural areas. All designations will be made in consultation with an Enterprise Board (to be established in the future), which will include officials from various Federal agencies. The designations will be made prior to January 1, 1996.

Designations of areas as empowerment zones or enterprise communities generally will remain in effect for 10 years. An area's designation may be revoked if the local government(s) or State(s) modify the boundaries of the designated area or do not comply with the agreed-upon strategic plan for the area (described below).

Eligibility criteria for zones

The eligibility criteria for urban areas, rural areas, and Indian reservations generally are the same (except as noted below). To be eligible for designation, a nominated area is required to possess all of the following characteristics:

Resident population.—An eligible urban area is subject to a maximum population of the lesser of (1) 200,000, or (2) the greater of 50,000 or 10 percent of the population of the most populous city within the nominated area. (In addition, the Secretary of HUD is required to designate empowerment zones located in urban areas in such a manner that the aggregate population of such zones does not exceed 750,000.) Rural areas are subject to a maximum population of 30,000. Indian reservations are not subject to a population limit.

General condition.—An eligible area must have a condition of pervasive poverty, unemployment, and general economic distress (which may include distress from a high incidence of crime and narcotics use).

Area.—The nominated area must either (1) have a continuous boundary, or (2) except in the case of a rural area located in more than one State, consist of not more than three noncontiguous parcels. Urban areas must be located entirely within no more than two contiguous States, and rural areas must be located entirely within no more than three contiguous States.

Size.—The nominated area must not exceed (1) 20 square miles for urban areas, or (2) 1,000 square miles for rural areas and Indian reservations.

Poverty.—Each of the census tracts within a nominated area must have a poverty rate of at least 20 percent,³ at least 90 percent of

the area's census tracts must each have a poverty rate of at least 25 percent, and at least 80 percent of the area's census tracts must each have a poverty rate of at least 35 percent.⁴ For purposes of these measurements, unpopulated census tracts and census tracts with limited populations and 75 percent or more zoned for commercial or industrial use will be treated as satisfying the bill's 20-percent and 25-percent poverty rate criteria. With respect to empowerment zones, each census tract located in a central business district (as such term is used for purposes of the most recent Census of Retail Trade) must have a poverty rate of at least 25 percent. With respect to enterprise communities, each census tract located in a central business district must have a poverty rate of at least 30 percent.⁵ If the nominated area consists of noncontiguous parcels, each parcel must separately satisfy the above poverty criteria.

Strategic plan.—A strategic plan must be submitted by the nominating body for purposes of accomplishing the goals of this legislation.

Contents of strategic plan

In order for a nominated area to be eligible for designation, the local government(s) and State(s) in which the area is located are required to provide a strategic plan that: (1) describes the coordinated economic, human, community, and physical development plan and related activities proposed for the nominated area; (2) describes the process by which the affected community is a full partner in the process of developing and implementing the plan and the extent to which local institutions and organizations have contributed to the planning process; (3) identifies the amount of State, local, and private resources that will be available in the nominated area and the private/public partnerships to be used, which may include participation by, and cooperation with, universities, medical centers, and other private and public entities; (4) identifies the funding requested under any Federal program in support of the proposed economic, human, community, and physical development and related activities; (5) identifies baseline methods and benchmarks for measuring the success of carrying out the strategic plan, including the extent to which poor persons and families will be empowered to become economically self-sufficient, and (6) generally does not include any action to assist any establishment in relocating from an area outside the nominated area to the nominated area.⁶

county divisions as defined by the Bureau of the Census for purposes of defining poverty areas would be treated as population census tracts.

¹ With respect to an area nominated to be an empowerment zone, the appropriate Secretary may reduce one of these poverty criteria by five percentage points for not more than 10 percent of the population census tracts (up to a maximum of five population census tracts) in the nominated area. With respect to an area nominated to be an enterprise community, the appropriate Secretary may reduce one of the poverty criteria as described in the preceding sentence or, as an alternative, may reduce the 25-percent poverty threshold by ten percentage points (i.e., to 20 percent) for up to three population census tracts.

² The appropriate Secretary has no discretion to reduce the 25-percent poverty rate threshold for tracts located in a central business district that is part of an empowerment zone or to reduce the 30-percent poverty rate threshold for tracts located in a central business district that is part of an enterprise community.

³ In the case of an Indian reservation, the reservation governing body is deemed to be both the State and local governments with respect to such area.

⁴ The House bill provides that the required strategic plan may not include any action to assist any business in relocating from one area outside the

Continued

¹ If the employer chooses not to use the 2-percent method, withholding may be computed by aggregating the supplemental payments with regular wages paid within the same calendar year for the last preceding payroll period or the current payroll period. The employer would then use withholding tables to determine the total tax on this aggregate amount. The amount to be withheld for the supplemental wages to the total tax less any amount already withheld for regular wages included in the aggregate amount.

² An area will be treated as dominated by a State or local government if it is dominated by such other entity as may be specified by an Enterprise Board (to be established in the future).

³ For purposes of the House bill, a "rural area" means any area which is (1) outside a metropolitan statistical area as defined by the Secretary of Commerce, or (2) determined by the Secretary of Agriculture to be a rural area. The term "urban area" means any area which is not a rural area.

⁴ Under the House bill, the term "Indian reservation" means a reservation as defined in (1) section 2(c) of the Indian Financing Act of 1974 (25 U.S.C. 1632(c)), or (2) section 4(10) of the Indian Child Welfare Act of 1974 (25 U.S.C. 1903(10)).

⁵ An area's designation may be revoked only after a hearing on the record at which officials of the State and local governments are given an opportunity to participate.

⁶ The poverty rate is to be determined by the 1990 census or subsequent census data. If areas are not tracked as population census tracts, the equivalent

Selection process and criteria

From among the eligible areas, designations of empowerment zones and enterprise communities will be made on the basis of (1) effectiveness of the strategic plan for a nominated area and the assurances that such plan will be implemented and (2) criteria cited by the Enterprise Board.

A limitation for empowerment zone employer wage credit

A 25-percent credit against income tax liability is available to all employers for the first \$20,000 of qualified wages paid to each employee who (1) is a zone resident (i.e., his or her principal place of abode is within the zone), and (2) performs substantially all employment services within the zone in a trade or business of the employer.

The maximum credit per qualified employee is \$5,000 per year. Wages paid to a qualified employee continue to be eligible for the credit if the employee earns more than \$20,000, although only the first \$20,000 of wages will be eligible for the credit.¹⁴ The wage credit is available with respect to a qualified employee, regardless of the number of other employees who work for the employer or whether the employer meets the definition of an "enterprise zone business" (which applies for the investment tax incentives described below).¹⁵

The credit will be phased out beginning in 2001. The credit rate will be reduced to 20 percent in 2001, 15 percent in 2002, 10 percent in 2003, and five percent in 2004. The credit will not be available after December 31, 2004.

Qualified wages include the first \$20,000 of "wages," defined to include (1) salary and wages as generally defined for FUTA purposes, and (2) certain training and educational expenses paid on behalf of a qualified employee, provided that: (a) the expenses are paid to an unrelated third party and are deductible from gross income of the employee under section 127 (which is retroactively and permanently extended under another provision of the bill), or (b) in the case of an employee under age 19, the expenses are incurred by the employer in operating a youth training program in conjunction with local education officials.

The credit is allowed with respect to full-time and part-time employees. However, the employee must be employed by the employer for a minimum period of at least 90 days. Wages are not eligible for the credit if paid to certain relatives of the employer or, if the employer is a corporation or partnership, certain relatives of a person who owns more

than 50 percent of the business. In addition, wages are not eligible for the credit if paid to a person who owns more than five percent of the stock (or capital or profits interests) of the employer.¹⁶

An employer's deduction otherwise allowed for wages paid is reduced by the amount of credit claimed for that taxable year. Wages are not taken into account for purposes of the empowerment zone employment credit if taken into account in determining the employer's targeted jobs tax credit (TJTC).

The credit is allowable to offset up to 25 percent of alternative minimum tax liability.

Expansion of targeted jobs tax credit (TJTC)

The present-law targeted jobs tax credit (sec. 51) is expanded so that an economically disadvantaged person¹⁷ who resides in an empowerment zone but is employed outside of an empowerment zone will be treated as a member of a targeted group for purposes of that credit.¹⁸ Thus, employers located outside of empowerment zones are entitled to claim the 40-percent TJTC credit on up to \$6,000 of qualified first-year wages paid to economically disadvantaged employees who reside within an empowerment zone. An employer located in an empowerment zone may be able to claim the TJTC with respect to wages paid to a member of another targeted group (e.g., a qualified summer youth employee or a participant in a school-to-work program), but such an employer may not utilize the bill's expanded TJTC provision for certain empowerment zone residents who work outside of the zone.

As under present law, an employer's deduction otherwise allowed for wages paid is reduced by the amount of TJTC claimed for that taxable year.

Empowerment savings credit

A tax credit is available to employers for certain contributions made to a tax-qualified defined contribution plan on behalf of employees with respect to whom the wage credit could be claimed. Thus, in general, the credit is available with respect to contributions made on behalf of employees who (1) are zone residents and (2) perform substantially all employment services within the zone in a trade or business of the employer.¹⁹ The credit is equal to 50 percent of contributions up to two percent of compensation (as defined in sec. 414(s)) not in excess of \$35,000. If an area is not designated as an empowerment zone for an entire taxable year, the \$35,000 compensation limit is rat-

ably reduced to reflect the portion of the year the designation is not in effect.

The credit is available for contributions to any tax-qualified defined contribution plan other than an employee stock ownership plan, stock bonus plan, or a plan subject to the minimum funding requirements (sec. 412). Contributions may also be made to a simplified employee pension (as defined in sec. 408(k) (SEP)). Except as specifically provided, the rules applicable to qualified plans and SEPs (as the case may be) apply to contributions for which the credit is available.

To be eligible for the credit, the employer contribution must be 100 percent vested, and must be either a matching or nonelective contribution; salary reduction contributions are not eligible for the credit. The plan is required to permit an employee with respect to whom the credit can be claimed to withdraw contributions from the plan (and earnings thereon) for higher education or health expenses, first-time home purchase, or to invest in a qualified enterprise zone business. A plan that permits such withdrawals will not fail to be a tax-qualified plan merely because it does so. The 10-percent early withdrawal tax (sec. 72(t)) will not apply to such withdrawals. The special withdrawal provisions apply only while the employee meets the qualifications for the credit.

The credit is available in lieu of the otherwise available deduction for the contributions and may be claimed in addition to the employment and training credit. The credit is elective.

Definition of "enterprise zone business"

The investment tax incentives for empowerment zones described below (but not the labor incentives described above) are available only with respect to trade or business activities that satisfy the criteria for an "enterprise zone business." Under the proposal, an "enterprise zone business" is defined as a corporation or partnership (or proprietorship) if for the taxable year (1) the sole trade or business of the corporation or partnership is the active conduct of a qualified business within an empowerment zone;²⁰ (2) at least 80 percent of the total gross income is derived from the active conduct of a "qualified business" within a zone; (3) substantially all of the use of its tangible property occurs within a zone; (4) substantially all of its intangible property is used in, and exclusively related to, the active conduct of such business; (5) substantially all of the services performed by employees are performed within a zone; (6) at least 35 percent of the employees are residents of the zone;²¹ and (7) no more than five percent of the average of the aggregate unadjusted bases of the property owned by the business is attributable to (a) certain financial property, or (b) collectibles not held primarily for sale to customers in the ordinary course of an active trade or business.

A "qualified business" is defined as any trade or business other than a trade or business that consists predominantly of the development or holding of intangibles for sale or license.²² In addition, the leasing of real

dominated area to the nominated area, except that assistance for the expansion of an existing business activity through establishment of a new branch, affiliate, or subsidiary is permitted if (1) the establishment of the new branch, affiliate, or subsidiary will not result in a decrease in employment in the area of original location or in any other area where the existing business entity conducts business operations, and (2) there is no reason to believe that the new branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where the existing business entity conducts business operations.

The House committee report indicates that it is intended that employers will undertake reasonable measures to verify an employee's residence within the zone, so that the employer will be able to substantiate a wage credit claimed under the House

To prevent avoidance of the \$20,000 limit, all members of a controlled group of corporations (or partnerships or proprietorships under common control) would be treated as a single employer.

Employers would be required to take reasonable steps to notify all qualified zone employees of the availability to eligible individuals of receiving advance payments of the earned income tax credit (EITC).

¹⁴The wage credit is not available with respect to any individual employed at any facility described in present-law section 144(c)(6)(B) (i.e., a private or commercial golf course, country club, massage parlor, hot tub facility, sunbath facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises). In addition, the wage credit is not available with respect to any individual employed by a trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) and (B) of section 3002A(e)(5)), but only if, as of the close of the preceding taxable year, the sum of the aggregate unadjusted bases (or, if greater, the fair market value) of assets of the farm exceed \$500,000.

¹⁵For this purpose, an individual is economically disadvantaged if he or she is a member of an economically disadvantaged family under present-law section 51(d)(11).

¹⁶The TJTC expired on June 30, 1992, but it is to be extended until December 31, 1994 by section 13105 of the conference agreement.

¹⁷The restrictions regarding employees with respect to whom the wage credit can be claimed also apply here. Thus, for example, the credit for savings contributions is not available with respect to any individual employed at certain facilities. See the discussion under the wage credit for further explanation.

¹⁸This requirement does not apply to a business carried on by an individual as a proprietorship.

¹⁹For this purpose, the term "employee" includes a self-employed individual (within the meaning of section 601(c)(1)).

The House committee report indicates that it is intended that the Secretary of the Treasury will prescribe regulations to determine the appropriate treatment of part-time employees for purposes of calculating whether 35 percent of the employees are residents of the empowerment zone.

²⁰However, the House bill specifically provides that a "qualified business" does not include (1) any trade or business consisting of the operation of any facility described in present-law section 144(c)(6)(B) (i.e., a private or commercial golf course, country

property that is located within the empowerment zone to others is treated as a qualified business only if (1) the leased property is not residential property, and (2) at least 50 percent of the gross rental income from the real property is from enterprise zone businesses. The rental of tangible personal property to others is not a qualified business unless substantially all of the rental of such property is by enterprise zone businesses or by residents of an empowerment zone.

Activities of legally separate (even if related) parties would not be aggregated for purposes of determining whether an entity qualifies as an enterprise zone business.

Increased section 179 expensing

The expensing allowance for certain depreciable business property provided under section 179 is increased to \$75,000 for qualified zone property of an enterprise zone business (as defined above). In addition, the types of property eligible for section 179 expensing are expanded to include buildings used in enterprise zone businesses.

"Qualified zone property" is defined as depreciable tangible property (including buildings), provided that: (1) such property was acquired by the taxpayer (but not from a related party) after the zone designation took effect; (2) the original use of the property in the zone commences with the taxpayer; and (3) substantially all of the use of the property is in the zone in the active conduct of a trade or business by the taxpayer in the zone. In the case of property which is substantially renovated by the taxpayer, however, such property need not be acquired by the taxpayer after zone designation or originally used by the taxpayer within the zone if during any 24-month period after zone designation the additions to the taxpayer's basis in such property exceed 100 percent of the taxpayer's basis in such property at the beginning of the period or \$5,000 (whichever is greater).¹⁴

As under present law, the section 179 expensing allowance is phased out for certain taxpayers with investment in qualified property during the taxable year above a specified threshold. However, under the bill, the present-law phase-out range is applied by decreasing the amount of the cost of qualified zone property that is deductible under section 179 by one-half of the amount by which the cost of qualified zone property (other than real estate) and other section 179 property exceeds \$200,000. Thus, the section 179 deduction applicable to qualified zone property is completely phased-out when the cost of qualified zone property (other than real estate) and other section 179 property placed in service during the taxable year reaches \$350,000. For example, assume that a taxpayer places \$270,000 of qualified zone property (none of which is real estate) in service during the taxable year and that the taxpayer does not place any property in service outside the zone. Under the bill, the tax-

payer will be allowed to claim a section 179 deduction of \$40,000 (\$75,000 section 179 amount less \$35,000 (one-half of the difference between \$270,000 and \$200,000)).

As under present-law section 179, all component members of a controlled group are treated as one taxpayer for purposes of the expensing allowance and application of the phase-out range (sec. 179(d)(6)). Also, as under present law, the \$75,000 expensing allowance is to apply at both the partnership (and S corporation) and partner (and shareholder) levels.

The increased expensing allowance would apply for purposes of the alternative minimum tax (i.e., it is not treated as an adjustment for purposes of the alternative minimum tax). The section 179 expensing deduction will be recaptured if the property is not used predominantly in a enterprise zone business (under rules similar to present-law section 179(d)(10)).

Accelerated depreciation

An enterprise zone business (as defined above) will determine depreciation deductions with respect to "qualified zone property" (also defined above) by using the following recovery periods:

	Years
3-year property	3
5-year property	3
7-year property	4
10-year property	6
15-year property	9
20-year property	12
Nonresidential real property	22

The shorter recovery periods allowed for qualified zone property of enterprise zone businesses will be allowed for alternative minimum tax purposes.

Tax-exempt financing

In general.—The House bill creates a new category of exempt facility private activity bonds, qualified enterprise zone facility bonds for use in empowerment zones. Generally qualified enterprise zone facility bonds are bonds 95 percent or more of the net proceeds of which is used to finance qualified zone property (as generally defined under the bill) for a qualified enterprise zone business (as generally defined under the bill) and land located in the empowerment zone which is functionally related and subordinate to the qualified zone property. These bonds may be issued only while a zone designation is in effect.

Special rules on issue size and use to finance certain facilities.—The aggregate face amount of all outstanding qualified enterprise zone bonds per qualified enterprise zone business may not exceed \$3 million for each zone. In addition total outstanding qualified enterprise zone bond financing for each qualified enterprise zone business may not exceed \$20 million for all zones. For purposes of these determinations, the aggregate amount of outstanding enterprise zone facility bonds allocable to any business shall be determined under rules similar to rules contained in section 144(a)(10).

As with other exempt facility bonds, these bonds may be issued only to finance identified facilities. However the House committee report indicates that it is not intended that the \$3 million per enterprise zone business requirement will limit issuance of a single issue of bonds (in excess of \$3 million) for more than one identified facility, provided that the \$3 million limit is satisfied with respect to each zone business. The House committee report contemplates that ease of marketing these exempt facility bonds, like other exempt facility bonds, may require common marketing of separate issues of bonds for discrete facilities if such issues are simultaneous or proximate in time.

The House bill exempts qualified enterprise zone facility bonds from the general restrictions on financing the acquisition of existing property (sec. 147(d)). Additionally, these bonds are exempted from the general restriction on financing land (or an interest therein) with 25 percent or more of the net proceeds of a bond issue (sec. 147(c)(1)(A)). Unless otherwise noted, all tax-exempt bond rules relating to exempt facility bonds shall apply to qualified enterprise zone facility bonds.

Penalty for failure to continue as zone business or to use bond-financed property in the zone business.—The House bill extends change-in-use rules to qualified enterprise zone facility bonds. Accordingly, interest on all bond-financed loans to a business that no longer qualifies as an enterprise zone business, or on loans to finance property that ceases to be used by the business in the enterprise zone, becomes nondeductible, effective from the first day of the taxable year in which the disqualification or cessation of use occurs. This penalty is waived if: (1) the issuer and principal user in good faith attempted to meet these requirements and (2) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered. This penalty does not apply solely by reason of the termination or revocation of a designation as an empowerment zone. The good faith rule described above also applies to certain other requirements of qualified enterprise zone facility bonds.

Partial exemption from State volume limitations.—Under the House bill, only 25 percent of the amount of qualified enterprise zone facility bonds is subject to the State private activity volume cap, provided that enterprise zone residents possess more than a 50 percent ownership interest in the principal user of the bond-proceeds. If the resident ownership requirement is not satisfied, then 50 percent of the qualified enterprise zone facility bonds (rather than 25 percent) is subject to the State private activity volume cap.

Exception from bank pro rata interest deduction disallowance.—The House bill exempts financial institutions from the general rule denying them a ratable portion of their otherwise allowable interest expense deductions to the extent that they have invested in qualified enterprise zone facility bonds (sec. 265(b)).

Tax incentives available in both empowerment zone and enterprise zone business

Tax-exempt financing

Under the House bill, the tax-exempt financing benefits described above are available (with one modification) to otherwise qualifying businesses that are located in enterprise communities. The one modification to the tax-exempt financing benefits is that 50 percent (rather than 25 percent) of the amount of the enterprise zone facility bonds is subject to the State private activity volume cap, regardless of whether enterprise zone residents possess more than a 50 percent ownership interest in the principal user of the bond-proceeds.

Low-income housing credit (LIHC) expansion

For purposes of the low-income housing credit (sec. 42),¹⁵ a building located (1) in an empowerment zone or an enterprise community, and (2) in a census tract having a poverty rate of at least 30 percent will be treated as being located in a "difficult to develop" area, within which the eligible basis of buildings for purposes of computing the

¹⁴The low-income housing credit expired on June 30, 1992, but is permanently extended by section 1312 of the Conference agreement.

club, massage parlor, hot tub facility, similar facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises, or (2) any trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) or (B) of section 2032A(e)(3)), but only if, as of the close of the preceding taxable year, the sum of the aggregate unadjusted bases (or, if greater, the fair market value) of assets of the farm exceeded \$200,000.

¹⁵Thus, used property may constitute qualified zone property so long as it has not previously been used within the empowerment zone.

¹⁶Qualified zone property does not include any property to which the alternative depreciation system under section 158(g) applies, determined (1) without regard to section 168(g)(7), and (2) after application of section 200(f)(b).

credit is 10 percent of the cost basis. (Thus, the credit will be based on 10 percent of present value instead of the regular LIRC of 10 percent of present value.) The new-law State credit cap and other rules continue to apply.

The House bill also provides an additional arising credit dollar amount of \$318,000 to each empowerment zone and enterprise community. Allocation of this amount may be made over a three-year period. This amount is available for allocation only during calendar years 1994, 1995, and 1996. The House committee report indicates that it is intended that these amounts be allocated in a way that will not displace, but will supplement, allocations to low-income housing credit buildings located within empowerment zones and enterprise communities.

Eligible areas

Under the House bill, empowerment zone and enterprise community designations will be made only during calendar years 1994 and 1995. The tax incentives will be available during the period that the designation remains in effect, which generally will be a period of 10 years.

State involvement

No provision. (However, section 15001 of the Senate amendment states that it is the sense of the Senate that Congress should adopt Federal enterprise zone legislation.)

Conference Agreement

The conference agreement generally follows the House bill in providing certain tax benefits for areas designated as empowerment zones and enterprise communities. However, the conference agreement makes certain modifications regarding the designation of areas as zones or communities, as well as the extent and nature of tax incentives available in such areas.

Designation of eligible areas

In general

The conference agreement follows the House bill, except that Indian reservations are not eligible for designation as empowerment zones or enterprise communities. The conference agreement provides separate tax incentives for businesses operating in Indian reservations in sections 1341 and 1342. Thus, under the conference agreement, 512 empowerment zones and 65 enterprise communities will be designated (subject to availability of eligible areas) during 1994 and 1995. 512 empowerment zones and 65 enterprise communities will be located in eligible urban areas¹⁰ and three empowerment zones and 11 enterprise communities will be located in rural areas.¹¹

Eligibility criteria for areas

The conference agreement follows the House bill, except that with respect to an area nominated to be an empowerment zone, the conference agreement does not allow the appropriate Secretary (the Secretary of HUD with respect to urban areas and the Secretary of Agriculture with respect to rural areas) discretion to reduce the applicable poverty criteria in a nominated area. In addition, as under the House bill, no area may be designated as an empowerment zone or enterprise community unless the nominating State and local governments provide written assurances that their strategic plan will be implemented.¹²

"General distress" may be indicated by factors such as high crime rates, high vacancy rates, or designation of an area as a disaster area or high intensity drug trafficking area ("HIDTA") under the Anti-Drug Abuse Act of 1988, job loss (including manufacturing job loss), and economic distress due to closure of military bases or restrictions on timber harvesting. In addition, consideration should be given to communities along the U.S. border in which population has increased significantly, without a corresponding expansion of basic infrastructure, and in which a significant portion of the area's population reside in substandard housing.

Tax incentives for empowerment zones

The conference agreement provides the following tax incentives for areas designated as empowerment zones:

Employer wage credit

A 25-percent credit against income tax liability is available to all employers for the first \$15,000 of qualified wages paid to each employee who (1) is a zone resident (i.e., his or her principal place of abode is within the zone¹³), and (2) performs substantially all employment services within the zone in a trade or business of the employer.

The maximum credit per qualified employee is \$3,000 per year. Wages paid to a qualified employee continue to be eligible for the credit if the employee earns more than \$15,000, although only the first \$15,000 of wages will be eligible for the credit.¹⁴ The wage credit is available with respect to a qualified employee, regardless of the number of other employees who work for the employer or whether the employer meets the definition of an "enterprise zone business" (which applies for the increased section 179 expensing and the tax-exempt financing provisions described below).¹⁵

¹⁰ With respect to an area nominated to be an enterprise community, the appropriate Secretary may reduce one of the poverty criteria by five percentage points for not more than 10 percent of the population census tracts (up to a maximum of five population census tracts) in the nominated area, or, as an alternative, may reduce the 25-percent poverty threshold by 10 percentage points (i.e., to 15 percent) for up to three population census tracts.

¹¹ The conferees intend that, in the case of an urban empowerment zone located in two States, the nominating States and local governments shall provide written assurances satisfactory to the Secretary of HUD that the incentives afforded the zone on the account of the designation will be distributed equitably between the two States.

¹² The conferees intend that employers will undertake reasonable measures to verify an employee's residence within the zone so that the employer will be able to substantiate a wage credit claimed under the conference agreement.

¹³ To prevent avoidance of the \$15,000 limit, all employees of a controlled group of corporations (or partnership or proprietorships under common control) will be treated as a single employer.

¹⁴ The conferees intend that employers take reasonable steps to notify all qualified zone employees of the availability to eligible individuals of advance payments of the earned income tax credit (EITC).

The credit will be phased out beginning in 2002. The credit rate will be reduced to 15 percent in 2002, 10 percent in 2003, and five percent in 2004. The credit will not be available after December 31, 2004.

Qualified wages include the first \$15,000 of "wages" defined to include (1) salary and wages as generally defined for FUTA purposes, and (2) certain training and educational expenses paid on behalf of a qualified employee, provided that (a) the expenses are paid to an unrelated third party and are excludable from gross income of the employee under section 137 (which is retroactively and permanently extended under another provision of the bill), or (b) in the case of an employee under age 19, the expenses are incurred by the employer in operating a youth training program in conjunction with local education officials.

The credit is allowed with respect to full-time and part-time employees. However, the employee must be employed by the employer for a minimum period of at least 90 days. Wages are not eligible for the credit if paid to certain relatives of the employer or, if the employer is a corporation or partnership, certain relatives of a person who owns more than 50 percent of the business. In addition, wages are not eligible for the credit if paid to a person who owns more than five percent of the stock (or capital or profits interests) of the employer.¹⁶

An employer's deduction otherwise allowed for wages paid is reduced by the amount of credit claimed for that taxable year. Wages are not to be taken into account for purposes of the empowerment zone employment credit if taken into account in determining the employer's targeted jobs tax credit (TJTC).

The credit is allowable to offset up to 25 percent of alternative minimum tax liability.

Increased section 179 expensing

For an enterprise zone business, the expensing allowance for certain depreciable business property provided under section 179 is increased by the lesser of: (1) \$20,000 or (2) the cost of section 179 property that is "qualified zone property" (as defined in the House bill) and that is placed in service during the taxable year. As under present law, the types of property eligible for section 179 expensing under this provision do not include buildings.

As under present law, the section 179 expensing allowance is phased out for certain taxpayers with investment in qualified property during the taxable year above a specified threshold. However, under the conference agreement, the present-law phase-out range is applied by taking into account only one-half of the cost of qualified zone property that is section 179 property. In applying the section 179 phase-out, the cost of section 179 property that is not qualified zone property is not reduced.

In general, all other provisions of present-law section 179 apply to the increased expensing for enterprise zone businesses. Thus, all component members of a controlled group are treated as one taxpayer for pur-

¹⁵ The wage credit is not available with respect to any individual employed at any facility described in present-law section 1414(c)(5)(B) (i.e., a private or commercial golf course, country club, massage parlor, hot tub facility, sunbath facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises). In addition, the wage credit is not available with respect to any individual employed by a trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) and (B) of section 1402A(c)(3)), but only if, as of the close of the preceding taxable year, the sum of the aggregate unadjusted bases (or, if greater, the fair market value) of assets of the farm exceed \$500,000.

¹⁰ The conference agreement does not include section 15001 of the Senate amendment (the sense of the Senate regarding this).

¹¹ The conferees agree that the House bill's urban empowerment zones are designated, not less than one urban empowerment zone must be designated in an area the most populous city of which has a population of 500,000 or less, and not less than one urban empowerment zone shall be a nominated area (1) with a population of 50,000 or less, and (2) which includes areas located in two States.

¹² The conference agreement does not provide for the creation of an Enterprise Board which, under the House bill, was to participate in the designation of eligible areas as empowerment zones and enterprise communities. In addition, the conference agreement does not provide a procedure for the revocation of an area's designation as an eligible zone or community. However, the conferees intend that (1) the Secretary will promulgate rules regarding both the selection and revocation, and (2) a designation will be revoked only after a hearing on the record (involving officials of the State and local governments). The conferees further intend that, if an area's zone or community designation is revoked, the relevant Secretary shall not designate another area as a zone or community in the year of revocation.

poses of the expensing allowance and the application of the phaseout range (sec. 179(d)(6)). The limitations apply at both the partnership (and S corporation) and partner (and shareholder) levels. The increased expensing allowance is allowed for purposes of the alternative minimum tax (i.e., it is not treated as an adjustment for purposes of the alternative minimum tax). The section 179 expensing deduction will be recaptured if the property is not used predominantly in a enterprise zone business (under rules similar to present-law section 179(d)(10)).

Definition of "enterprise zone business"

The conference agreement follows the House bill.

Tax-exempt facility bonds available for both empowerment zones and enterprise communities

In general

The conference agreement creates a new category of exempt facility private activity bonds—qualified enterprise zone facility bonds—for use in empowerment zones and enterprise communities. These bonds are fully subject to the State private activity bond volume limitations.

Generally, qualified enterprise zone facility bonds are bonds 95 percent or more of the net proceeds of which are used to finance: (1) qualified zone property the principal user of which is a qualified enterprise zone business, and (2) functionally related and subordinate land located in the empowerment zone or enterprise community. Qualified zone property for these purposes is generally defined as under the House bill, except that it also includes property which would qualify as qualified zone property but for the fact that it is located in an enterprise community rather than in an empowerment zone. For these purposes, the term "enterprise zone business" has the same meaning generally given to it under the House bill, but also includes a business located in a zone or community which would qualify as an enterprise zone business if it were separately incorporated.¹⁰ These bonds may only be issued while an empowerment zone or enterprise community designation is in effect.

Special rules on issue size and use to finance certain facilities

The aggregate face amount of all outstanding qualified enterprise zone bonds per qualified enterprise zone business may not exceed \$3 million for each zone or community. In addition, total outstanding qualified enterprise zone bond financing for each principal user of these bonds may not exceed \$20 million for all zones and communities. For purposes of these determinations, the aggregate amount of outstanding enterprise zone facility bonds allocable to any business shall be determined under rules similar to rules contained in section 144(a)(10).

As with other exempt facility bonds, these bonds may be issued only to finance identified facilities. However, the \$3 million-per-enterprise zone business requirement should not limit issuance of a single issue of bonds (in excess of \$3 million) for more than one identified facility, provided that the \$3 million limit is satisfied with respect to each zone business. The conferees recognize that it may be necessary to permit common marketing of separate issues of bonds for discrete facilities (if such issues are simultaneous or proximate in time) to enable qualified enterprise zone facility bonds to be marketed in a manner comparable to other exempt facility bonds.

¹⁰ For example, an establishment which is part of a national chain could qualify as an enterprise zone business for purposes of the tax-exempt financing incentive, provided that such establishment would satisfy the definition of an enterprise zone business if it were separately incorporated.

The conference agreement exempts qualified enterprise zone facility bonds from the general restrictions on financing the acquisition of existing property (sec. 147(d)). Additionally, these bonds are exempted from the general restriction on financing land (or an interest therein) with 25 percent or more of the net proceeds of a bond issue (sec. 147(c)(1)(A)). Unless otherwise noted, all other tax-exempt bond rules relating to exempt facility bonds (including the restrictions on bank deductibility of interest allocable to tax-exempt bonds) apply to qualified enterprise zone facility bonds.

Penalty for failure to continue as zone business or to use bond-financed property in the zone business

The conference agreement extends change-in-use rules to qualified enterprise zone facility bonds. Accordingly, interest on all bond-financed loans to a business that no longer qualifies as an enterprise zone business, or on loans to finance property that ceases to be used by the business in the empowerment zone or enterprise community, becomes nondeductible, effective from the first day of the taxable year in which the disqualification or cessation of use occurs. This penalty is waived if: (1) the issuer and principal user in good faith attempted to meet these requirements and (2) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered. This penalty does not apply solely by reason of the termination or revocation of a designation as an empowerment zone or enterprise community. The good faith rule described above also applies to certain other requirements of qualified enterprise zone facility bonds.

Effective date

The conference agreement follows the House bill.

2. Tax credit for contributions to certain community development corporations (sec. 14311 of the House bill, sec. 13311 of the conference agreement, and sec. 34 of the Code)

Private Law

There are no tax credits available for contributions to community development corporations (CDCs).

House Bill

Under the House bill, a taxpayer will receive a credit for qualified cash contributions made to certain CDCs. If a taxpayer makes a qualified contribution, the credit may be claimed by the taxpayer for each taxable year during a 10-year period beginning with the taxable year during which the contribution was made. The credit that may be claimed for each year is equal to five percent of the amount of the contribution to the CDC. Thus, during the 10-year credit period, the taxpayer may claim aggregate credit amounts totalling 50 percent of the contribution.

For purposes of this provision, a qualified contribution is defined as any transfer of cash that meets the following requirements: (1) it is made to one of up to 10 CDCs selected by the Secretary of HUD, provided that the contribution is made during the five-year period after the CDC is so selected by the Secretary of HUD; (2) the amount is available for use by the CDC for at least 10 years;¹⁰ (3)

¹⁰ The contribution of the CDC must be available for use by the CDC for up to a 10-year period, but need not meet the requirements of a "contribution or gift" for purposes of section 170. In other words, a contribution eligible for the credit under the bill may be made in the form of a 10-year loan (or other long-term investment), the principal of which is to be returned to the taxpayer after the 10-year period. However, in the case of a donation of cash made by

the contribution is to be used by the CDC to provide qualified low-income assistance¹¹ within its operational area; and (4) the CDC designates the contribution as eligible for the credit. The aggregate amount of contributions which may be designated by a selected CDC as eligible for the credit may not exceed \$4 million.

Prior to July 1, 1994, the Secretary of HUD may select up to 10 CDCs as eligible to participate in the program (subject to the availability of eligible CDCs), at least four of which must operate in rural areas. To be selected, a CDC must have the following characteristics: (1) it must be a tax-exempt charity described in section 501(c)(3) of the Code; (2) its principal purposes must include promoting employment and business opportunities for individuals who are residents of its operational area; and (3) its operational area must (a) meet the geographic limitations that would apply if the area were designated as an empowerment zone or enterprise community, (b) have an unemployment rate that is not less than the national average, and (c) have a median family income which does not exceed 80 percent of the median family income of residents within the jurisdiction of the local government.

The credit is subject to the general business credit limitations of section 38 and, therefore, may not be used to reduce tentative minimum tax.

Effective date.—The provision is effective on the date of enactment.

Small Amendment

No provision.

Conference Agreement

The conference agreement follows the House bill, except that the aggregate amount of contributions which may be designated by a selected CDC as eligible for the credit may not exceed \$2 million, and the Secretary of HUD may select up to 20 CDCs as eligible to participate in the program.¹² In addition, the conferees intend that, in selecting CDCs, the Secretary of HUD shall give priority to corporations with a demonstrated record of performance in administering community development programs which target at least 75 percent of the jobs emanating from their investment funds to low income or unemployed individuals.

2. Tax incentives for businesses on Indian reservations (secs. 8181-8182 of the Senate amendment, sec. 13321-13322 of the conference agreement, secs. 280C(a), 286(c), 39(d), and 39(b), and new secs. 168(j) and 45A of the Code)

Private Law

The Internal Revenue Code does not contain general rules that target specific geographic areas for special Federal income tax treatment. Within certain Code sections, however, there are definitions of targeted areas for limited purposes (e.g., low-income housing credit and qualified mortgage bond provisions target certain economically distressed areas). In addition, present law provides favorable Federal income tax treatment for certain U.S. corporations that operate in Puerto Rico, the U.S. Virgin Islands, or a possession of the United States to en-

a taxpayer to an eligible CDC, the taxpayer would be allowed to claim a charitable contribution deduction (subject to the present-law rules under section 170) and, in addition, could claim the credit under the bill's provisions.

¹¹ The House bill defines "qualified low-income assistance" as assistance (1) which is designed to provide employment and business opportunities to individuals who are residents of the operational area of the CDC, and (2) which is approved by the Secretary of HUD.

¹² Under the conference agreement, at least eight of the selected CDCs must operate in rural areas.

courage the conduct of trades or businesses within these areas.

House 870

No provision.

Small Business

General

Under the Senate amendment, businesses located on Indian reservations¹⁰ generally are allowed a credit against income tax liability for certain investments (the "Indian reservation credit") and a credit against income tax liability for certain wages and health insurance costs (the "Indian employment credit").

Indian reservation credit

A credit against income tax liability is allowed for investments in certain property located or used within an Indian reservation which has a level of unemployment that greatly exceeds the national average. In general, the amount of the credit allowed a taxpayer for any taxable year equals the sum of (1) 10 percent of the qualified investment in "reservation personal property" placed in service by the taxpayer during the taxable year, and (2) 15 percent of the qualified investment in "new reservation construction property" and "reservation infrastructure investment" placed in service by the taxpayer during the taxable year.

The full amount of the credit is allowed only if the Indian unemployment rate¹¹ on the applicable Indian reservation exceeds 300 percent of the national average unemployment rate at any time during the calendar year in which the property is placed in service or during either of the immediately preceding two calendar years.¹² If the Indian unemployment rate on the applicable Indian reservation exceeds 150 percent but does not exceed 300 percent of the national average unemployment rate at any time during the relevant calendar years, then only one-half of the otherwise allowable credit may be claimed (i.e., the credit rates are 7.5 percent and 7.5 percent). If the Indian unemployment rate on the applicable Indian reservation does not exceed 150 percent of the national average unemployment rate at any time during the relevant calendar years, then no credit is allowed.

For purposes of the credit, "reservation personal property" is defined as property: (1) for which a depreciation deduction is allowable under section 168 of the Code; (2) which is not nonresidential real property, residential rental property, or any other real property with a class life of more than 12.5 years; (3) which is used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation; and (4) which is not used or located outside the Indian reservation on any regular basis.

In addition, "new reservation construction property" is defined as property: (1) which is

nonresidential real property, residential rental property, or any other real property with a class life of more than 12.5 years for which a depreciation deduction is allowable under section 168 of the Code; (2) which is located in an Indian reservation; (3) which is used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation; and (4) which is originally placed in service by the taxpayer.

Further, "reservation infrastructure investment" is defined as property: (1) for which a depreciation deduction is allowable under section 168 of the Code (whether real or personal property); (2) which benefits the tribal infrastructure; (3) which is available to the general public; and (4) which is placed in service in connection with the taxpayer's active conduct of a trade or business within an Indian reservation. The term "reservation infrastructure investment" is to include otherwise qualifying property that is used or located outside an Indian reservation only if the purpose of the property is to connect to existing tribal infrastructure in the reservation (including, but not limited to, roads, power lines, water systems, railroad spurs, and communications facilities).

Notwithstanding the above definitions, property will not qualify for the Indian reservation credit if the property is acquired (directly or indirectly) by the taxpayer from a person who is related to the taxpayer (within the meaning of section 465(b)(2)(C) of the Code). In addition, property will not qualify for the credit if the property (or any portion thereof) is placed in service for purposes of conducting or housing certain gaming activities.¹³ Finally, property will not qualify for the Indian reservation credit if the energy credit or the rehabilitation credit is allowed with respect to the property.

In the case of reservation personal property and new reservation construction property, the qualified investment for purposes of determining the amount of the credit is the taxpayer's basis in the property. In the case of reservation infrastructure investment, the qualified investment for purposes of determining the amount of the credit is the amount expended by the taxpayer for the acquisition or construction of the property. The at-risk rules of section 49 of the Code also apply in determining the amount of the qualified investment for purposes of the Indian reservation credit.

The basis of new reservation construction property is reduced by the full amount of the credit allowed with respect to the property. The basis of reservation personal property and reservation infrastructure investment is reduced by only 50 percent of the credit allowed with respect to the property. The Indian reservation credit is recaptured (i.e., the amount of tax due is increased) if, before the end of the applicable recovery period with respect to the property, the property is disposed of by the taxpayer, or, in the case of reservation personal property, is removed from the Indian reservation, converted, or otherwise ceases to be reservation personal property with respect to the taxpayer.

Indian employment credit

A credit against income tax liability is also allowed to employers for certain wages and health insurance costs paid or incurred

by the employer with respect to certain employees. In general, the amount of the credit allowed an employer for any taxable year equals 10 percent¹⁴ of the sum of (1) the wages paid or incurred by the employer for services performed by an employee while the employee is a qualified employee ("qualified wages")¹⁵ and (2) the amount paid or incurred by the employer for health insurance (other than health insurance provided pursuant to a salary reduction arrangement) to the extent that such amount is attributable to coverage provided to an employee while the employee is a qualified employee ("qualified employee health insurance costs").

The credit is available to an employer, however, only to the extent its qualified wages and health insurance costs during the current year exceed such wages and costs incurred by the employer during 1993. Specifically, the amount of the credit allowed an employer for any taxable year is limited to an amount equal to the credit rate multiplied by the excess (if any) of (1) the sum of the qualified wages and qualified health insurance costs paid or incurred by the employer during the taxable year with respect to employees whose wages (which are paid or incurred by the employer) for such taxable year do not exceed the amount determined at an annual rate of \$30,000 (as adjusted for inflation for years beginning after 1993), over (2) the sum of the qualified wages and qualified health insurance costs paid or incurred by the employer (or any predecessor) during the 1993 calendar year with respect to employees whose wages (which are paid or incurred by the employer or any predecessor) for such taxable year do not exceed the amount determined at an annual rate of \$30,000.¹⁶ For purposes of this limitation, all employees of a controlled group of corporations for partnerships or proprietorships under common control are treated as employed by a single employer.

In general, an individual is a qualified employee of an employer for any period only if: (1) the individual is an enrolled member of an Indian tribe or the spouse of an enrolled member of an Indian tribe;¹⁷ (2) substantially all of the services performed during such period by the employee for such employer are performed within an Indian reservation; (3) the principal place of abode of the employee while performing such services is on or near the Indian reservation within which the services are performed; and (4) the

¹⁰ For the entire taxable year of the employer, at least 25 percent of the employees of the employer are enrolled members of an Indian tribe or spouses of enrolled members of an Indian tribe. Then the amount of the credit for such taxable year is to be determined by using a 30-percent rate rather than the 10-percent rate.

¹¹ Wages are not eligible for the credit if attributable to services rendered by an employee during the first year he or she begins work for the employer if any portion of such wages is taken into account in determining the targeted jobs tax credit (TJTC) under present-law section 51.

¹² In the case of a short taxable year, the qualified wages and the qualified health insurance costs paid or incurred by the employer are to be annualized and the limitation for such taxable year is to equal the otherwise applicable limitation determined using such annualized amounts multiplied by a fraction, the numerator of which is the number of days in the taxable year and the denominator of which is 365.

¹³ For this purpose, an Indian tribe is defined as any Indian tribe, band, nation, pueblo, or other organized group or community, including any Alaska Native village, or regional or village corporation, as defined in or established pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et. seq.) as in effect on the date of enactment of the provision, which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

¹⁰ For purposes of the Indian employment and investment incentives, the term "Indian reservation" means a reservation as defined in (1) section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)), as in effect on the date of enactment of the provision, or (2) section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)), as in effect on the date of enactment of the provision.

¹¹ The Indian unemployment rate is to be based on the number of Indians unemployed and able to work and is to be certified by the Secretary of the Interior.

¹² A special rule applies to qualifying property that has (or is a component of) a project that has an estimated construction period of more than two years or a cost of more than \$1 million. With respect to such property, the relevant unemployment rate is the rate during the calendar year in which the taxpayer enters into a binding agreement to make a qualified investment (or, if earlier, the first calendar year in which the taxpayer has expended at least 70 percent of the qualified investment) or during the immediately preceding calendar year.

¹³ The active conduct of a trade or business for purposes of the Indian reservation credit includes the rental to others of real property located in an Indian reservation. In addition, the credit for new reservation construction property is allowed with respect to otherwise qualifying property that is used to furnish lodging.

¹⁴ The limitation applies to class I, II, or III gaming as defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2700), as in effect on the date of enactment of the provision.

employee began work for such employer on or after January 1, 1994.

An employee may be treated as a qualified employee for a maximum period of seven years after the day on which the employee first begins work for the employer. In addition, an employee will not be treated as a qualified employee for any taxable year of the employer if the total amount of wages paid or incurred by the employer with respect to such employee during such taxable year (whether or not for services rendered within the Indian reservation) exceeds an amount determined at an annual rate of \$30,000 (as adjusted for inflation for years beginning after 1993). Further, an employee will be treated as a qualified employee for a taxable year of the employer only if more than 50 percent of the wages paid or incurred by the employer to such employee during such taxable year are for services performed in a trade or business of the employer.

Qualified employees do not include certain relatives or dependents of the employer (described under present-law sections 411(k)(1) or, if the employer is a corporation, certain relatives of a person who owns more than 10 percent of the corporation. In addition, any person who owns more than five percent of the stock of the employer (or if the employer is not a corporation, more than five percent of the capital or profits interests in the employer) cannot be a qualified employee. Finally, a qualified employee does not include any individual if the services performed by the individual for the employer involve certain gaming activities or are performed in a building housing such gaming activities.¹⁷

The Indian employment credit is allowed with respect to full-time and part-time employees. However, if an employee is terminated less than one year after the date of initial employment, the amount of credits previously claimed by the employer with respect to that employee generally is recaptured unless the employee voluntarily leaves, becomes disabled, or is fired due to misconduct.

An employer's deduction otherwise allowed for wages is reduced by the amount of the credit claimed for the taxable year. The Senate amendment also provides that the employment credit is not refundable. Finally, the Indian employment credit is subject to the general business credit limitations of section 28.¹⁸ and, therefore, the credit may not be used to reduce tentative minimum tax.

Effective date

Under the Senate amendment, the Indian reservation credit applies to property placed in service after December 31, 1993, and the Indian employment credit applies to wages paid or incurred after December 31, 1993.

Conference Agreement

The conference agreement provides the following tax incentives for Indian reservations.¹⁹

Accelerated Depreciation

With respect to certain property used in connection with the conduct of a trade or

business within an Indian reservation, depreciation deductions for purposes of section 168 will be determined using the following recovery periods:

	Years
3-year property	3 years
5-year property	5 years
7-year property	7 years
10-year property	10 years
15-year property	15 years
20-year property	20 years
Nonresidential real property	22 years

"Qualified Indian reservation property" eligible for accelerated depreciation includes property which is (1) used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation²⁰; (2) not used or located outside the reservation on a regular basis; (3) not acquired (directly or indirectly) by the taxpayer from a person who is related to the taxpayer (within the meaning of section 453(b)(3)(C)); and (4) described in the recovery-period table above. In addition, property is not "qualified Indian reservation property" if it is placed in service for purposes of conducting gaming activities.²¹

The conference agreement includes a special rule for "qualified infrastructure property" which may be eligible for the accelerated depreciation even if located outside an Indian reservation, provided that the purpose of such property is to connect with qualified infrastructure property located within the reservation (e.g., roads, power lines, water systems, railroad spurs, and communications facilities). For this purpose, "qualified infrastructure property" must be property that is (1) allowed a depreciation deduction under section 168, (2) benefits the tribal infrastructure, (3) available to the general public, and (4) placed in service in connection with the taxpayer's active conduct of a trade or business within a reservation.

The depreciation deduction allowed for regular tax purposes is also allowed for purposes of the alternative minimum tax.

Indian employment credit

The conference agreement follows the Senate amendment, except that (1) a single-rate 20-percent credit applies (rather than the two-tiered 10-percent and 30-percent credit rates of the Senate amendment); and (2) the credit is available only for the first \$20,000 of qualified wages and qualified employee health insurance costs paid to each qualified employee.

As under the Senate amendment, a tribal member or spouse is a qualified employee only if he or she works on a reservation (and lives on or near that reservation) and is paid wages that do not exceed \$30,000 annually.²² The credit is an incremental credit, such that an employer's current-year qualified wages and qualified employee health insurance costs (up to \$20,000 per employee) are eligible for the credit only to the extent that the sum of such costs exceeds the sum of

comparable costs paid during 1993 to employees whose wages did not exceed \$30,000.

Effective date

The accelerated depreciation for Indian reservations is available with respect to property placed in service on or after January 1, 1994, and before December 31, 2003. The wage credit is available for wages paid or incurred on or after January 1, 1994, in a taxable year that begins before December 31, 2003.

IV. OTHER REVENUE PROVISIONS

A. DISCLOSURE PROVISIONS

1. *Extend access to tax information for the Department of Veterans Affairs* (sec. 1401 of the House bill, sec. 7801 and 13008 of the Senate amendment, sec. 13401 of the conference agreement, and sec. 6103 of the Code)

Present Law

The Internal Revenue Code prohibits disclosure of tax returns and return information, except to the extent specifically authorized by the Internal Revenue Code (sec. 6103). Unauthorized disclosure is a felony punishable by a fine not exceeding \$5,000 or imprisonment of not more than five years, or both (sec. 7213). An action for civil damages also may be brought for unauthorized disclosure (sec. 7432). No tax information may be furnished by the Internal Revenue Service (IRS) to another agency unless the other agency establishes procedures satisfactory to the IRS for safeguarding the tax information it receives (sec. 603(p)).

Among the disclosures permitted under the Code is disclosure to the Department of Veterans Affairs ("DVA") of self-employment tax information and certain tax information supplied to the Internal Revenue Service and Social Security Administration by third parties. Disclosure is permitted to assist DVA in determining eligibility for, and establishing correct benefit amounts under, certain of its needs-based pension and other programs (sec. 603(k)(7)(D)(viii)). The income tax returns filed by the veterans themselves are not disclosed to DVA.

The DVA is required to comply with the safeguards currently contained in the Code and in section 1137(c) of the Social Security Act (governing the use of disclosed tax information). These safeguards include independent verification of tax data, notification to the individual concerned, and the opportunity to contest agency findings based on such information.

The DVA disclosure provision is scheduled to expire after September 30, 1997.

House Bill

The House bill extends the authority to disclose tax information to the DVA for one year, through September 30, 1998.

Effective date.—The provision in the House bill applies after September 30, 1997.

Senate Amendment

Section 7801 of the Senate amendment is the same as the House bill. Section 13008 of the Senate amendment permanently extends the authority to disclose tax information to the DVA.

Conference Agreement

The conference agreement follows the House bill and section 7801 of the Senate amendment.

2. *Access to tax information by the Department of Education* (secs. 4832, 4833, and 14402 of the House bill, sec. 7802, 13011, and 13053 of the Senate amendment, sec. 13402 of the conference agreement and sec. 6103 of the Code)

Present Law

The Internal Revenue Code prohibits disclosure of tax returns and return information,

¹⁷ The limitation applies to class I, II, or III gaming as defined in section 4 of the Indian Regulatory Act (25 U.S.C. 7701), as in effect on the date of enactment of the provision.

¹⁸ No portion of the unused business credit for any taxable year that is attributable to the Indian employment credit may be carried back to a taxable year ending before the date of enactment of the provision.

¹⁹ As under the Senate amendment, the term "Indian reservation" means a reservation as defined in (1) section 8(d) of the Indian Financing Act of 1974 (25 U.S.C. 1624(d)), as in effect on the date of enactment of this provision, or (2) section 470 of the Indian Child Welfare Act of 1978 (25 U.S.C. 1923), as in effect on the date of enactment of this provision.

²⁰ The conference agreement treats the rental of real property located within a reservation as an active trade or business.

²¹ In addition, the conference agreement provides that accelerated depreciation is not available for any property to which the alternative depreciation system under section 168(p) applies (determined without regard to subsection 168(p)(7) and after application of section 280F(b)).

²² For this purpose, gaming activities include class I, II, or III gaming as defined in section 4 of the Indian Regulatory Act (25 U.S.C. sec. 7701), as in effect on the date of enactment of this provision.

²³ The \$30,000 amount for determining qualified employees is adjusted for inflation beginning after 1994.

not been in session for at least 30 calendar days between the date of enactment and October 1, 1993, the provision would not be a State law requirement before 30 calendar days after the first day on which its legislature is in session on or after October 1, 1993.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

6. Repeal of Special Eligibility Requirements for Extended Benefits (Sec. 13276 of House bill)

Present Law

Public Law 102-318, the Unemployment Compensation Amendments of 1992, suspended certain Extended Benefits (EB) suitable work, job search, and re-employment requirements until January 1, 1995. During the suspension, States may apply the same requirements they use in their regular State programs.

Under the suspended requirements of the Extended Benefits program (EB), benefits may not be paid to an individual in any week of unemployment if (a) he fails to accept an offer of "suitable work" or he fails to apply for suitable work to which he was referred by the State agency; or (b) he fails to actively seek work, unless (1) he was issued a summons to appear for jury duty before any court of the United States or any State, or (2) he was hospitalized for treatment of any emergency or a life-threatening condition if such exemptions apply to claimants of regular State benefits and the State chooses to apply them to claimants of EB.

If a claimant is ineligible because of either (a) or (b) above, the claimant is disqualified for the week following the week in which the violation occurred and for each subsequent week until he has been employed for at least 2 weeks and earned at least 4 times his week-benefit amount.

The term "suitable work" means any work within the claimant's capabilities, except that if the individual furnishes evidence that his prospects for obtaining work in his customary occupation within a reasonably short time period are good, the definition of "suitable work" conforms to State law.

EB may not be denied to a claimant for a failure to apply for or accept a suitable job if (a) the gross pay does not exceed the claimant's weekly benefit amount plus any supplemental benefits payable to him; (b) the position was not offered in writing and was not listed with the State employment service; (c) such failure would not result in a denial of regular State benefits as long as other conditions of the EB program are met; or (d) the job pays wages less than the higher of: (1) the Federal minimum wage, or (2) the applicable State or local minimum wage.

The claimant is treated as actively seeking work if: (a) he has engaged in a systematic and sustained effort to obtain work; and (b) he provides tangible evidence to the State agency that he has engaged in such effort.

The State must provide for referring applicants for EB to any suitable work to which these provisions apply.

No provision of State law which terminates a disqualification of a claimant for regular State benefits because of voluntarily leaving a job, being discharged for misconduct, or refusing suitable work applies to the EB program unless such termination is based on subsequent employment.

House Bill

The provision would repeal the currently suspended eligibility requirements.

Effective Date

Weeks beginning on or after October 2, 1993.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

7. Two-Year Extension of Federal Unemployment Surtax (Sec. 13276 of House bill)

Present Law

The Federal unemployment tax of 0.6 percent is paid by employers on the first \$7,000 paid annually to each employee. Of the 0.8 percent tax rate, 0.6 percentage point is permanent and 0.2 percentage point is scheduled to expire at the end of 1996.

House Bill

The 0.2 percent surtax would be extended for two years, through 1998.

Effective Date

Upon enactment.

Senate Amendment

No provision.

Conference Agreement

The conference agreement follows the House bill.

8. Disclosure of Information to Railroad Retirement Board (Sec. 13277 of House bill)

Present Law

The Railroad Retirement Board (RRB) has access to returns and return information regarding taxes imposed under the Railroad Retirement Tax Act for purposes of the administration of the Railroad Retirement Act (RRA), but it is not authorized to receive returns and return information filed under the Railroad Repayment Tax provisions. (The Railroad Unemployment Repayment Tax was imposed to repay loans from the Railroad Retirement Account obtained by the Railroad Unemployment Insurance Account.) In addition, there is no specific authority to disclose RRA information for purposes of the administration of the Railroad Unemployment Insurance Act (RUIA).

House Bill

The provision would amend the Internal Revenue Code to enable the RRB to obtain Railroad Unemployment Tax information.

Effective Date

Upon enactment.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

SOCIAL SERVICES BLOCK GRANT

1. Targeted Federal Assistance for Social Services

Present Law

Under title XX of the Social Security Act, States are entitled to receive social services block grant funds. Title XX is a capped entitlement, with an entitlement ceiling of \$2.8 billion per fiscal year. The share for each State is based on its relative share of the national population.

States may use the block grant funds for a wide range of social services, directed at five goals: (1) achieving or maintaining economic self-support to prevent, reduce or eliminate dependency; (2) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; (3) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reunifying families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and (5) securing referral or admission

for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

According to State preexpenditure reports, which describe the intended use of block grant funds, in fiscal year 1992 States funded such services as: substance abuse services; residential care and treatment; education and training; employment; transportation; health-related services; prevention and intervention services; and social support services (such as recreation, camping, family development and physical activities).

House Bill

No provision.

Senate Amendment

No provision.

Conference Agreement

The conference agreement makes \$1 billion available under Title XX to the Secretary for grants to States for social services. Each State is entitled to grants for each qualified empowerment zone and each qualified enterprise community in the State.

An empowerment zone or enterprise community is qualified if it has been designated a zone or community under part I of subchapter U of chapter 1 of the Internal Revenue Code of 1986 and if its strategic plan (required in an application for designation under the Internal Revenue Code) is qualified.

A qualified plan is a plan that: (a) includes a detailed description of the activities proposed for the area that are to be funded with the grant; (b) contains a commitment that the amounts provided will not be used to supplant Federal or non-Federal funds for services and activities which promote the purposes of the grant; (c) to the extent a State does not use the funds on certain program options (see below), explains the reasons why not; and (d) was developed in cooperation with the local government or governments with jurisdiction over the zone or community.

With respect to each empowerment zone, the Secretary will make one grant to each State in which the zone lies, on the date of its designation, and a second grant on the first day of the first fiscal year that begins after the designation. With respect to each enterprise community, the Secretary will make one grant to each State in which the community lies, on the date of its designation.

The amount of each grant to a State for an empowerment zone will equal \$50 million if the zone is designated in an urban area and \$20 million if the zone is designated in a rural area (multiplied by the proportion of the population of the urban or rural zone that resides in the State).

The amount of each grant to a State for an enterprise community will equal 1/95 of \$280 million, multiplied by the proportion of the population of the community that resides in the State.

A State must use the grant funds: (a) for social services directed at three goals: (i) achieving or maintaining economic self-support to prevent, reduce or eliminate dependency; (ii) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; or (iii) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reunifying families; (b) in accordance with the strategic plan for the zone or community; and (c) on activities that benefit residents of the zone or community.

The following are among the program options available to the States:

(1) in order to prevent and remedy the neglect and abuse of children, a State may use

the grant funds to make grants to, or enter into contracts with, entities to provide residential or nonresidential drug and alcohol prevention and treatment programs that offer comprehensive services for pregnant women and mothers and their children.

The conferees intend that such programs provide, directly or in collaboration with other community-based programs, pregnant women and mothers, and their children, a wide array of services based on their need for services, such as referral and linkages to obstetric and pediatric medical care, addiction and substance abuse education, counseling and treatment; parenting skills counseling and education with an emphasis on infant and child development; access to schools and child care; job counseling and training, transitional housing assistance; transportation; post-program follow-up services and activities; and referral and linkages to other services.

(2) In order to assist disadvantaged adults and youths in achieving and maintaining self-sufficiency, a State may use the grant funds to make grants to, or enter into contracts with: (a) organizations operated for profit or not for profit, for the purpose of training and employing disadvantaged adults and youths in the construction, rehabilitation, or improvement of affordable housing, public infrastructure, and community facilities; and (b) nonprofit organizations and community or junior colleges, for the purpose of enabling them to provide short-term training courses in entrepreneurship and self-employment, and other training that will promote individual self-sufficiency and the interests of the community.

The conferees intend that, to the extent possible, programs under (2)(a) use public funds to match private investment, by entities located in the zone, in projects to rehabilitate public infrastructure that will benefit the community.

(3) A State may use grant funds to make grants to, or enter into contracts with, nonprofit community-based organizations to enable them to provide activities designed to promote and protect the interests of children and families, outside of school hours, including keeping schools open during evenings and weekends for mentoring and study.

(4) In order to assist disadvantaged adults and youths in achieving and maintaining economic self-support, a State may use grant funds to: (a) fund services designed to promote community and economic development, such as skills training, job counseling, transportation services, housing, counseling, financial management and business counseling; (b) assist in emergency and transitional shelter for disadvantaged families and individuals; or (c) support programs that promote home ownership, education or other routes to economic independence for low income families and individuals.

The conferees intend that funds may be used for transportation services that improve access by zone residents to areas of high job growth that are not located in the zone. For example, funds may be used to supplement job training and placement programs with transportation services in the form of van service operated by a public or private job program; to provide transportation counseling to supplement job counseling; and to provide a direct subsidy of transportation expenses.

TECHNICAL PROVISIONS

Corrections Related to the Income Security and Human Resource Provisions of the Omnibus Budget Reconciliation Act of 1990 (Sec. 13281 of House bill)

Present Law

No provision.

House Bill

The provision would correct references and punctuation in various SSI and AFDC provisions, eliminate conflicting provisions concerning the reporting date of the National Commission on Children, and correct and simplify language concerning special sequestration rules for JOBS funds.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

2. Corrections Related to the Human Resource and Income Security Provisions of the Omnibus Budget Reconciliation Act of 1990 (Sec. 13282 of House bill)

Present Law

No provision.

House Bill

The provision would correct a word and spacing in AFDC quality control and adoption assistance legislative language, and a reference concerning foster care and adoption assistance.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

3. Elimination of Obsolete Provisions Relating to Treatment of the Earned Income Tax Credit (Sec. 13283 of House bill)

Present Law

No provision.

House Bill

The provision would eliminate provisions in SSI law about treatment of EITC made obsolete by OBRA 1990, which specifies that SSI (and AFDC, Medicaid, and food stamps) are to disregard EITC as income.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

4. Redesignation of Certain Provisions (Sec. 13284 of House bill)

Present Law

No provision.

House Bill

The provision would redesignate two subparagraphs of the Social Security Act concerning when face-to-face interviews at field offices must be granted.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the provision in the House bill.

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

1. Clarification of Statutory Requirement for Public Telephone Access to Local Social Security Offices (Sec. 13001 of House bill)

Present Law

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508), requires SSA to: (a) maintain telephone access to local offices at the level generally available as of September 30, 1989, and (b) relist the numbers of affected offices in local telephone directories. P.L. 101-508 also required the General Accounting Office to report to Congress on the level of public telephone access to local offices following enactment of these requirements.

In September 1991, the GAO reported that SSA had generally complied with the requirement that it relist local office tele-

phone numbers. It also reported that general inquiry lines to the offices to which the provisions of P.L. 101-508 apply had decreased by 30 percent, or 766 lines, below the level that existed on September 30, 1989.

House Bill

The provision would add the following sentence to the current statutory requirement that SSA maintain public access to its local offices at the level generally available on September 30, 1989: "In carrying out the requirements of the preceding sentence, the Secretary shall reestablish and maintain in service the same number of telephone lines to each such local office which were in place as of such date, including telephone sets for connections to such lines."

In addition, the General Accounting Office would be required to make an independent determination of the number of telephone lines to each SSA local office which are in place 90 days after enactment and to report its findings to the House Committee on Ways and Means and the Senate Committee on Finance no later than 150 days after enactment.

SSA would be required to maintain its toll-free service at a level at least equal to that in effect on the date of enactment.

Effective Date

The provision relating to local telephone access would be effective 90 days after enactment. The provision relating to toll-free service would be effective upon enactment.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the House provision.

2. Increase in Social Security Exclusion for Election Workers (Sec. 13002 of the House bill)

Present Law

Election workers who earn less than \$100 per year are subject to three Social Security exclusions: (a) at the option of a State, they may be excluded from the State's voluntary coverage agreement with the Secretary of Health and Human Services (HHS); (b) they are excluded from the requirement that State and local workers hired after March 31, 1986, pay the hospital insurance portion of the Social Security tax (1.45 percent); and (c) they are excluded from the requirement in the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) that State and local workers who are neither covered by a State or local retirement system nor by a voluntary agreement pay the full Social Security tax (7.65 percent).

House Bill

These three exclusions would be modified to apply to election workers with annual earnings of up to \$1,000, rather than the current \$100, and the new exempt amount would be indexed for increases in wages in the economy.

Effective Date

The provision would apply to service performed on or after January 1, 1994.

Senate Amendment

No provision.

Conference Agreement

The conference agreement does not include the House provision.

3. Use of Social Security Numbers for Jury Selection (Sec. 13003 of House bill)

Present Law

The Privacy Act of 1974 prohibits States from requiring individuals to provide Social Security numbers for identification purposes unless the State was doing so prior to January 1, 1975, or the State is specifically per-

*All Empowerment
Zones*

13 March 1995

MEMORANDUM TO MELANNE VERVEER
FROM JANICE ENRIGHT *(A)*
RE Empowerment Zones

Melanne, as you can see from Harold's note at the top, you need to talk to Jack Quinn. The VP's office has set up an operation to track implementation of the empowerment zones, public relations, etc.

cc: Jack Quinn

3/13/95 - J - Tell Melanne to talk w/ Sam & Ann about this. The VP ~~has~~ office has set up an operation to track implementation of the experiment zones - & to do so etc -

To: Melanne Verveer

From: Pat Ford-Roegner

Date: March 3, 1995

I am up to my neck in EZ/EC's in my region. There are 24.

While there are teams on teams at the agency level, I am trying to find out who is/are the political and communications persons at the WH on EC/EZ's. Is it Gore's staff such as Tomika?

The President announced these on December 21, 1994. Not one MOA with benchmarks has been signed. The money has gone to the state agency that signed the application but the states are having second thoughts about a 2-10 year process and their audit responsibilities regarding Title XX money.

The communities are ready to go. I have visited 5 and talked to all 24. I also spoke at the national training program for AG staff and found the states to be laboring over the MOA.

I asked and understand that a letter is going once again from HHS to the states clarifying the states role and responsibilities.

Great, but who is tracking the political issues at the WH and who is tracking the press response to EC/EZ's. The community leader in Kentucky Highlands, the \$40m rural ez, said the press representatives that came during the VP's visit in January call every two weeks to find out what has taken place and not one dime has been expended so far.

We are all focused on the budget processes in both DC and in the states due to rescissions and their potential impact on current state budget negotiations with state legislatures. I am worried about whose watching the store for the President and Vice President on this \$1B plus EC/EZ effort.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL

of pages ▶

To: Melanne Verveer	From: Pat Ford-Roegner
Deputy Asst. to the	Phone # 404-331-2442
First Lady	Fax # 404-331-1807

NSN 7540-01-317-7368

5096-101

GENERAL SERVICES ADMINISTRATION

Melanne Verveer

Harold - this is a plea from one of the HHS regional office directors on enterprise zones. Any advice.