SUMMARY OF PROVISIONS CONTAINED IN H.R. 5662, THE "COMMUNITY RENEWAL TAX RELIEF ACT OF 2000"

Prepared by the Staff
of the
Joint Committee on Taxation

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INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, contains a summary of the provisions in H.R. 5662, the "Community Renewal Tax Relief Act of 2000". The provisions of H.R. 5662 are to be incorporated by reference in the conference agreement for H.R. 4577, the Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriations Act, 2001.

[1] This document may be cited as follows: Joint Committee on Taxation, *Summary of Provisions Contained in H.R. 5662, the "Community Renewal Tax Relief Act of 2000,"* (JCX-112-00), December 15, 2000.

TITLE I. COMMUNITY RENEWAL PROVISIONS

A. Renewal Communities Provisions

The bill authorizes the Secretary of HUD to designate up to 40 "renewal communities" from areas nominated by States and local governments. At least 12 of the designated renewal communities must be in rural areas. In general, nominated areas are ranked based on a formula that takes into account the area's poverty rate, median income, and unemployment rate.

A nominated area that is designated as a renewal community is eligible for the following tax incentives: (1) a zero-percent rate for capital gain from the sale of qualifying assets; (2) a 15-percent wage credit to employers for the first $10,000 of qualified wages; (3) a "commercial revitalization deduction" that allows taxpayers (to the extent allocated by the appropriate State agency for the period after December 31, 2001) to deduct either (a) 50 percent of qualifying expenditures for the taxable year in which a qualified building is placed in service, or (b) all of the qualifying expenditures ratably over a 10-year period beginning with the month in which such building is placed in service; (4) an additional $35,000 of section 179 expensing for qualified property; and (5) an expansion of the WOTC with respect to individuals who live in a renewal community.

The 40 renewal communities must be designated by January 1, 2002, and the resulting tax benefits will be available for the period beginning on January 1, 2002, and ending December 31, 2009.

B. Empowerment Zone Provisions

The bill extends the designation of empowerment zone status for existing empowerment zones (other than the D.C. Enterprise Zone) through December 31, 2009. The 20-percent wage credit is made available to all existing empowerment zones beginning in 2002 (and remains at the 20-percent rate). Under the bill, $35,000 (rather than $20,000) of additional section 179 expensing is available for qualified zone property placed in service in taxable years beginning after December 31, 2001, by a qualified zone business. Also beginning in 2002, certain businesses in existing empowerment zones (other than the D.C. Enterprise Zone) become eligible for more generous tax-exempt bond rules.

The bill authorizes the Secretaries of HUD and Agriculture to designate nine additional empowerment zones (seven to be located in urban areas and two in rural areas) by January 1, 2002. Businesses in the new empowerment zones are eligible for the same tax incentives that, under the bill, are available to existing zones (i.e., a 20-percent wage credit, $35,000 of additional section 179 expensing, and the enhanced tax-exempt financing benefits). The new empowerment zones must be designated by January 1, 2002, and the tax incentives with respect to the new empowerment zones generally are available during the period beginning on January 1, 2002, and ending on December 31, 2009.

The bill permits a taxpayer to roll over gain from the sale or exchange of any qualified empowerment zone asset held for more than one year if the taxpayer uses the proceeds to purchase other qualifying empowerment zone assets (in the same zone) within 60 days of the sale of the original asset. In general, a qualifying empowerment zone asset refers to a stock or partnership investment in, or assets acquired by, a qualifying business within an empowerment zone that is purchased by a taxpayer after the date of enactment of the bill.

The bill increases to 60 percent (from 50 percent) the exclusion of gain from the sale of qualifying small business stock held more than five years if such stock also satisfies the requirements of a qualifying business under the empowerment zone rules. The provision is effective for qualifying stock that is purchased after the date of enactment of the bill.

C. New Markets Tax Credit

The bill creates a new tax credit for qualified equity investments made after December 31, 2000, to acquire stock in a community development entity ("CDE"). The maximum annual amount of qualifying equity investments is capped as follows:

Calendar Year	Maximum Qualifying Equity Investment
2001	$1.0 billion
2002-2003	$1.5 billion per year
2004-2005	$2.0 billion per year
2006-2007	$3.5 billion per year

The amount of the credit allowed to the investor is (1) a five-percent credit for the year in which the equity interest is purchased from the CDE and for the first two anniversary dates after the purchase from the CDE, and (2) a six-percent credit on each anniversary date thereafter for the following four years. The credit is recaptured if the entity fails to continue to be a CDE or the interest is redeemed within seven years.

A CDE is any domestic corporation or partnership (1) whose primary mission is serving or providing investment capital for low-income communities or low-income persons, (2) that maintains accountability to residents of low-income communities through representation on governing or advisory boards of the CDE, and (3) is certified by the Treasury Department as an eligible CDE. A qualified equity investment means stock or a similar equity interest acquired directly from a CDE for cash. Substantially all of the cash must be used by the CDE to make investments in, or loans to, qualified active businesses located in low-income communities, or certain financial services to businesses and residents in low-income communities. A "low-income community" generally is defined as census tracts with either (1) poverty rates of at least 20 percent or (2) median family income which does not exceed 80 percent of the greater of metropolitan area income or statewide median family income. The Secretary may designate any area within any census tract as a low-income community provided that (1) the boundary is continuous, (2) the area would otherwise satisfy the poverty rate and median income requirements, and (3) an inadequate access to capital exists in the area.

D. Increase the Low-Income Housing Tax Credit Cap and Make Other Modifications

The bill increases the per-capita low-income housing credit cap from $1.25 per capita to $1.50 per capita in calendar year 2001 and to $1.75 per capita in calendar year 2002. Beginning in calendar year 2003, the per-capita portion of the credit cap will be adjusted annually for inflation. For small States, a minimum annual cap of $2 million is provided for calendar years 2001 and 2002. Beginning in calendar year 2003, the small State minimum is adjusted for inflation. The bill also makes programmatic changes to the credit. The provisions are generally effective for calendar years beginning after December 31, 2000, and buildings placed-in-service after such date in the case of projects that also receive financing with proceeds of tax-exempt bonds subject to the private activity bond volume limit which are issued after such date.

E. Accelerate Scheduled Increase in State Volume Limits on Tax-Exempt Private Activity Bonds

The bill increases the State volume limits on tax-exempt private activity bonds from the greater of $50 per resident or $150 million to the greater of $75 per resident or $225 million beginning in calendar year 2002. Under the bill, the volume limit is the greater of $62.50 per resident or $187.5 million in calendar year 2001. Beginning in calendar year 2003, the volume limit will be adjusted annually for inflation.

F. Extension and Modification to Expensing of Environmental Remediation Costs

The bill extends the expiration date for expenditures for environmental remediation to be eligible for a current deduction in lieu of capitalization to include those expenditures paid or incurred before January 1, 2004. The bill eliminates the targeted area requirement, thereby expanding eligible sites to include any site, other than a site identified on the national priorities list, containing (or potentially containing) a hazardous substance that is certified by the appropriate State environmental agency. The provision to expand the class of eligible sites is effective for expenditures paid or incurred after the date of enactment.

G. Extension of the District of Columbia Homebuyer Tax Credit

The bill extends the $5,000 tax credit that is available to first-time homebuyers of a principal residence in the District of Columbia for two years (through December 31, 2003).

H. Extension of the D.C. Enterprise Zone

The bill extends the D.C. Enterprise Zone designation through December 31, 2003.

I. Extension and Modification of Enhanced Deduction for Corporate Donations of Computer Technology

The bill extends the current enhanced deduction for donations of computer technology and equipment for two years (through December 31, 2003). In addition, the bill expands the enhanced deduction to include donations to public libraries, to apply to property donated no later than three years (instead of two years) after the date the taxpayer acquired or substantially completed the construction of the donated property, and to apply to property donated after reaquisition by a computer manufacturer. The bill permits the Secretary to develop standards to assure that computer donations meet minimum standards for educational purposes. The provision is effective for contributions made after December 31, 2000.

J. Treatment of Indian Tribes as Non-Profit Organizations and State or Local Governments for Purposes of the Federal Unemployment Tax ("FUTA")

The bill provides that an Indian tribe (including any subdivision, subsidiary, or business enterprise chartered and wholly owned by an Indian tribe) is treated like a non-profit organization or State or local government for FUTA purposes (i.e., given an election to choose the reimbursement treatment).

The provision generally is effective with respect to service performed beginning on or after the date of enactment. Under a transition rule, service performed in the employ of an Indian tribe is not treated as employment for FUTA purposes if: (1) it is service which is performed before the date of enactment and with respect to which FUTA tax has not been paid; and (2) such Indian tribe reimburses a State unemployment fund for unemployment benefits paid for service attributable to such tribe for such period.

TITLE II. MEDICAL SAVINGS ACCOUNTS

The bill extends the MSA program through 2002. It is clarified that, as under present law, the cap and reporting requirements do not apply for 2000.

MSAs are renamed under the bill as Archer MSAs.

TITLE III. ADMINISTRATIVE AND TECHNICAL CORRECTIONS PROVISIONS

Subtitle A. Administrative Provisions

A. Exempt Certain Reports From Elimination Under the Federal Reports Elimination and Sunset Act of 1995

The bill exempts certain reports from elimination and sunset pursuant to the Federal Reports Elimination and Sunset Act of 1995, effective on the date of enactment.

B. Extension of Deadlines for IRS Compliance with Certain Notice Requirements

The Internal Revenue Service Restructuring and Reform Act of 1998 requires the IRS to include the following information in each notice imposing a penalty: (1) the name of the penalty; (2) the Code section under which the penalty is impose; and (3) a computation of the penalty. The Act also requires the IRS to include in notices requiring an amount of interest to be paid by the taxpayer a detailed computation of the interest charged and a citation to the Code section under which such interest is imposed. The bill extends the deadlines for the IRS to comply with the penalty and interest notice requirements from December 31, 2000, to June 30, 2001. For every taxpayer in an installment agreement, the IRS is required to send an annual statement of (1) the initial balance owed, (2) the payments made during the year, and (3) the remaining balance. The bill extends the deadline for the IRS to comply with this requirement from July 1, 2001, to September 1, 2001.

C. Extension of Authority for Undercover Operations

The bill extends for five years (through December 31, 2005) the authority of the IRS to "churn" the income earned from undercover operations to pay additional expenses incurred in the undercover operation, effective on the date of enactment.

D. Competent Authority and Pre-Filing Agreements

The bill affirms that closing agreements, similar agreements, and related background information, are confidential return information. Closing agreements and similar agreements includes pre-filing agreements. The bill also clarifies that information exchanged and agreements reached pursuant to tax treaties are confidential. The provision is effective for documents in existence on or created after the date of enactment.

E. Increase in Joint Committee on Taxation Refund Review Threshold

The bill increases the threshold above which refunds must be submitted to the Joint Committee on Taxation for review from $1,000,000 to $2,000,000, effective on the date of enactment, except that the higher threshold does not apply to a refund or credit with respect to which a report was made before the date of enactment.

F. Clarify the Allowance of Certain Tax Benefits with Respect to Kidnapped Children

The bill clarifies that the dependency exemption, the child credit, the surviving spouse filing status, the head of household filing status, and the earned income credit are available to an otherwise qualifying taxpayer with respect to a child who is presumed by law enforcement authorities to have been kidnapped by someone who is not a member of the family of such child or the taxpayer. Generally, this treatment continues for all taxable years ending during the period that the child is kidnapped. However, this treatment ends for the taxable year ending after the calender year in which it is determined that the child is dead (or, if earlier, the year in which the child would have attained age 18). The provision is effective for taxable years ending after the date of enactment.

G. Conforming Changes to Accommodate Reduced Issuances of 52-Week Treasury Bills

The bill changes references to "52-week Treasury bills" in the Code and in certain other provisions of Federal law to refer instead to "the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System." The provision is effective on the date of enactment.

H. Authorization of Agencies to Use Corrected Consumer Price Index ("CPI")

The bill authorizes the Secretary of the Treasury to use the corrected levels of the CPI for all purposes of the Code to which they might apply, for taxable years beginning after December 31, 2000. In addition, the bill provides that the Director of the Office of Management and Budget ("OMB") is to assess Federal benefit programs to ascertain the extent to which the CPI error has or will result in a shortfall in program payments to individuals for 2000 and future years and instruct the head of any Federal agency which administers an affected program to make a payment or payments to compensate for the shortfall and that such payments are targeted to the amount of the shortfall experienced by individual beneficiaries. The provision is effective on the date of enactment.

I. Prevent Duplication or Acceleration of Loss Through Assumption of Certain Liabilities

The bill requires that the basis of stock received in a tax-free incorporation be reduced (but not below the stock's fair market value) by the amount of any liability that (1) is assumed in the exchange for such stock and (2) did not otherwise reduce the transferor's basis of the stock by reason of the assumption. Except as provided by the Treasury Department, the provision does not apply if the trade or business with which the liability associated is transferred to the corporation as part of the exchange, or if substantially all of the assets with which the liability is associated are transferred to the corporation as part of the exchange. The Secretary is to prescribe similar rules for transactions involving partnerships. The provision is effective for assumptions of liabilities on or after October 19, 1999.

J. Disclosure of Return Information to the Congressional Budget Office

The bill amends section 6103 to permit the Secretary to furnish to CBO return information to the extent such information is necessary for purposes of CBO's long-term models of Social Security and Medicare.

Subtitle B. Technical Corrections

The bill contains technical corrections to recent tax legislation.

TITLE IV. TAX TREATMENT OF SECURITIES FUTURES CONTRACTS

The bill provides rules regarding the tax treatment of securities futures contracts. A securities futures contract generally is a contract of sale for future delivery of a single security or a narrow-based security index.

Under the bill, except in the case of a dealer securities futures contract, gain or loss from a securities futures contract is generally treated in a manner similar to gain or loss from transactions in the underlying security. Gain or loss from the sale or exchange of a securities futures contract generally is considered gain or loss from the sale or exchange of property which has the same character as the property to which the contract relates has (or would have) in the hands of the taxpayer. Any capital gain or loss from the sale or exchange of a securities futures contract to sell property (i.e., the short side of a securities futures contract) generally will be short-term capital gain or loss. The bill also provides for the application of the wash sale rules, the short sale rules, and the straddle rules to securities futures contracts.

A "dealer securities futures contract" is treated as a section 1256 contract, which is marked to market and treated as 40 percent short-term capital gain or loss and 60 percent long-term capital gain or loss. The term "dealer securities futures contract" means a securities futures contract which is entered into by a dealer in the normal course of his or her trade or business activity of dealing in such contracts, and is traded on a qualified board of trade or exchange. The term also includes any option to enter into securities futures contracts purchased or granted by a dealer in the normal course of his or her trade or business activity of dealing in such options. The determination of who is to be treated as a dealer in securities is to be made by the Secretary of the Treasury or his delegate not later than July 1, 2001, in a manner to provide comparable tax treatment to dealers in equity options.

The bill modifies the definition of "equity option" for purposes of section 1256 to take into account changes made by the non-tax provisions of the bill.

These provisions are effective on the date of enactment of the bill.