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107TH CONGRESS
2^D SESSION**H.R. 7****[Report No. 107-211]**

IN THE SENATE OF THE UNITED STATES

JULY 19, 2001

Received; read twice and referred to the Committee on Finance

JULY 16, 2002

Reported by Mr. BAUCUS, with an amendment

[Strike out all after the enacting clause and insert the part printed in italic]

AN ACT

To provide incentives for charitable contributions by individuals and businesses, to improve the effectiveness and efficiency of government program delivery to individuals and families in need, and to enhance the ability of low-income Americans to gain financial security by building assets.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) ~~SHORT TITLE.~~—This Act may be cited as the
5 “Community Solutions Act of 2001”.

1 (b) TABLE OF CONTENTS.—The table of contents is
2 as follows:

Sec. 1. Short title; table of contents.

TITLE I—CHARITABLE GIVING INCENTIVES PACKAGE

Sec. 101. Deduction for portion of charitable contributions to be allowed to individuals who do not itemize deductions.

Sec. 102. Tax-free distributions from individual retirement accounts for charitable purposes.

Sec. 103. Increase in cap on corporate charitable contributions.

Sec. 104. Charitable deduction for contributions of food inventory.

Sec. 105. Reform of excise tax on net investment income of private foundations.

Sec. 106. Excise tax on unrelated business taxable income of charitable remainder trusts.

Sec. 107. Expansion of charitable contribution allowed for scientific property used for research and for computer technology and equipment used for educational purposes.

Sec. 108. Adjustment to basis of S corporation stock for certain charitable contributions.

TITLE II—EXPANSION OF CHARITABLE CHOICE

Sec. 201. Provision of assistance under government programs by religious and community organizations.

TITLE III—INDIVIDUAL DEVELOPMENT ACCOUNTS

Sec. 301. Additional qualified entities eligible to conduct projects under the Assets for Independence Act.

Sec. 302. Increase in limitation on net worth.

Sec. 303. Change in limitation on deposits for an individual.

Sec. 304. Elimination of limitation on deposits for a household.

Sec. 305. Extension of program.

Sec. 306. Conforming amendments.

Sec. 307. Applicability.

TITLE IV—CHARITABLE DONATIONS LIABILITY REFORM FOR IN-KIND CORPORATE CONTRIBUTIONS

Sec. 401. Charitable donations liability reform for in-kind corporate contributions.

1 **TITLE I—CHARITABLE GIVING**
 2 **INCENTIVES PACKAGE**

3 **SEC. 101. DEDUCTION FOR PORTION OF CHARITABLE CON-**
 4 **TRIBUTIONS TO BE ALLOWED TO INDIVID-**
 5 **UALS WHO DO NOT ITEMIZE DEDUCTIONS.**

6 (a) IN GENERAL.—Section 170 of the Internal Rev-
 7 enue Code of 1986 (relating to charitable, etc., contribu-
 8 tions and gifts) is amended by redesignating subsection
 9 (m) as subsection (n) and by inserting after subsection
 10 (l) the following new subsection:

11 “(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING
 12 DEDUCTIONS.—

13 “(1) IN GENERAL.—In the case of an individual
 14 who does not itemize his deductions for the taxable
 15 year, there shall be taken into account as a direct
 16 charitable deduction under section 63 an amount
 17 equal to the lesser of—

18 “(A) the amount allowable under sub-
 19 section (a) for the taxable year for each con-
 20 tributions; or

21 “(B) the applicable amount.

22 “(2) APPLICABLE AMOUNT.—For purposes of
 23 paragraph (1), the applicable amount shall be deter-
 24 mined as follows:

“For taxable years beginning in:	The applicable amount is:
2002 and 2003	\$25
2004, 2005, 2006	\$50
2007, 2008, 2009	\$75
2010 and thereafter	\$100.

1 In the case of a joint return, the applicable amount
2 is twice the applicable amount determined under the
3 preceding table.”.

4 **(b) DIRECT CHARITABLE DEDUCTION.—**

5 (1) IN GENERAL.—Subsection (b) of section 63
6 of such Code is amended by striking “and” at the
7 end of paragraph (1), by striking the period at the
8 end of paragraph (2) and inserting “, and”, and by
9 adding at the end thereof the following new para-
10 graph:

11 “(3) the direct charitable deduction.”.

12 (2) DEFINITION.—Section 63 of such Code is
13 amended by redesignating subsection (g) as sub-
14 section (h) and by inserting after subsection (f) the
15 following new subsection:

16 “(g) DIRECT CHARITABLE DEDUCTION.—For pur-
17 poses of this section, the term ‘direct charitable deduction’
18 means that portion of the amount allowable under section
19 170(a) which is taken as a direct charitable deduction for
20 the taxable year under section 170(m).”.

21 (3) CONFORMING AMENDMENT.—Subsection (d)
22 of section 63 of such Code is amended by striking

1 “and” at the end of paragraph (1), by striking the
2 period at the end of paragraph (2) and inserting “,
3 and”, and by adding at the end thereof the following
4 new paragraph:

5 “(3) the direct charitable deduction.”.

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

9 **SEC. 102. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
10 **TIREMENT ACCOUNTS FOR CHARITABLE**
11 **PURPOSES.**

12 (a) IN GENERAL.—Subsection (d) of section 408 of
13 the Internal Revenue Code of 1986 (relating to individual
14 retirement accounts) is amended by adding at the end the
15 following new paragraph:

16 “(8) DISTRIBUTIONS FOR CHARITABLE PUR-
17 POSES.—

18 “(A) IN GENERAL.—No amount shall be
19 includible in gross income by reason of a quali-
20 fied charitable distribution.

21 “(B) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the
22 term ‘qualified charitable distribution’ means
23 any distribution from an individual retirement
24 account—
25

1 “(i) which is made on or after the
2 date that the individual for whose benefit
3 the account is maintained has attained age
4 70½, and

5 “(ii) which is made directly by the
6 trustee—

7 “(I) to an organization described
8 in section 170(e), or

9 “(II) to a split-interest entity.

10 A distribution shall be treated as a qualified
11 charitable distribution only to the extent that
12 the distribution would be includible in gross in-
13 come without regard to subparagraph (A) and,
14 in the case of a distribution to a split-interest
15 entity, only if no person holds an income inter-
16 est in the amounts in the split-interest entity
17 attributable to such distribution other than one
18 or more of the following: the individual for
19 whose benefit such account is maintained; the
20 spouse of such individual, or any organization
21 described in section 170(e).

22 “(C) CONTRIBUTIONS MUST BE OTHER-
23 WISE DEDUCTIBLE.—For purposes of this
24 paragraph—

1 “(i) ~~DIRECT CONTRIBUTIONS.~~—A dis-
2 tribution to an organization described in
3 section 170(e) shall be treated as a quali-
4 fied charitable distribution only if a deduc-
5 tion for the entire distribution would be al-
6 lowable under section 170 (determined
7 without regard to subsection (b) thereof
8 and this paragraph).

9 “(ii) ~~SPLIT-INTEREST GIFTS.~~—A dis-
10 tribution to a split-interest entity shall be
11 treated as a qualified charitable distribu-
12 tion only if a deduction for the entire value
13 of the interest in the distribution for the
14 use of an organization described in section
15 170(e) would be allowable under section
16 170 (determined without regard to sub-
17 section (b) thereof and this paragraph).

18 “(D) ~~APPLICATION OF SECTION 72.~~—Not-
19 withstanding section 72, in determining the ex-
20 tent to which a distribution is a qualified chari-
21 table distribution, the entire amount of the dis-
22 tribution shall be treated as includible in gross
23 income without regard to subparagraph (A) to
24 the extent that such amount does not exceed
25 the aggregate amount which would be so includ-

1 ible if all amounts were distributed from all in-
2 dividual retirement accounts otherwise taken
3 into account in determining the inclusion on
4 such distribution under section 72. Proper ad-
5 justments shall be made in applying section 72
6 to other distributions in such taxable year and
7 subsequent taxable years.

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

10 “(i) CHARITABLE REMAINDER
11 TRUSTS.—Distributions made from an in-
12 dividual retirement account to a trust de-
13 scribed in subparagraph (G)(ii)(I) shall be
14 treated as income described in section
15 664(b)(1) except to the extent that the
16 beneficiary of the individual retirement ac-
17 count notifies the trustee of the trust of
18 the amount which is not allocable to in-
19 come under subparagraph (D).

20 “(ii) POOLED INCOME FUNDS.—No
21 amount shall be includible in the gross in-
22 come of a pooled income fund (as defined
23 in subparagraph (G)(ii)(II)) by reason of a
24 qualified charitable distribution to such
25 fund.

1 ~~“(iii) CHARITABLE GIFT ANNU-~~
 2 ~~ITIES.—Qualified charitable distributions~~
 3 ~~made for a charitable gift annuity shall not~~
 4 ~~be treated as an investment in the con-~~
 5 ~~tract.~~

6 ~~“(F) DENIAL OF DEDUCTION.—Qualified~~
 7 ~~charitable distributions shall not be taken into~~
 8 ~~account in determining the deduction under sec-~~
 9 ~~tion 170.~~

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

13 ~~“(i) a charitable remainder annuity~~
 14 ~~trust or a charitable remainder unitrust~~
 15 ~~(as such terms are defined in section~~
 16 ~~664(d));~~

17 ~~“(ii) a pooled income fund (as defined~~
 18 ~~in section 642(c)(5)); and~~

19 ~~“(iii) a charitable gift annuity (as de-~~
 20 ~~fin ed in section 501(m)(5)).”.~~

21 ~~(b) MODIFICATIONS RELATING TO INFORMATION RE-~~
 22 ~~TURNS BY CERTAIN TRUSTS.—~~

23 ~~(1) RETURNS.—Section 6034 of such Code (re-~~
 24 ~~lating to returns by trusts described in section~~

1 4947(a)(2) or claiming charitable deductions under
2 section 642(e) is amended to read as follows:

3 **“SEC. 6034. RETURNS BY TRUSTS DESCRIBED IN SECTION**
4 **4947(A)(2) OR CLAIMING CHARITABLE DEDUC-**
5 **TIONS UNDER SECTION 642(C).**

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

10 “(b) TRUSTS CLAIMING A CHARITABLE DEDUCTION
11 UNDER SECTION 642(e).—

12 “(1) IN GENERAL.—Every trust not required to
13 file a return under subsection (a) but claiming a
14 charitable, etc., deduction under section 642(e) for
15 the taxable year shall furnish such information with
16 respect to such taxable year as the Secretary may by
17 forms or regulations prescribe, including:

18 “(A) the amount of the charitable, etc., de-
19 duction taken under section 642(e) within such
20 year;

21 “(B) the amount paid out within such year
22 which represents amounts for which charitable,
23 etc., deductions under section 642(e) have been
24 taken in prior years;

1 “(C) the amount for which charitable, etc.,
2 deductions have been taken in prior years but
3 which has not been paid out at the beginning
4 of such year;

5 “(D) the amount paid out of principal in
6 the current and prior years for charitable, etc.,
7 purposes;

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

11 “(F) a balance sheet showing the assets, li-
12 abilities, and net worth of the trust as of the
13 beginning of such year.

14 “(2) EXCEPTIONS.—Paragraph (1) shall not
15 apply in the case of a taxable year if all the net in-
16 come for such year, determined under the applicable
17 principles of the law of trusts, is required to be dis-
18 tributed currently to the beneficiaries. Paragraph (1)
19 shall not apply in the case of a trust described in
20 section 4947(a)(1).”.

21 “(2) INCREASE IN PENALTY RELATING TO FILING OF INFORMATION RETURN BY SPLIT-INTEREST TRUSTS.—Paragraph (2) of section 6652(e) of such Code (relating to returns by exempt organizations

1 and by certain trusts) is amended by adding at the
2 end the following new subparagraph:

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

10 “(i) the 5 percent limitation in the
11 second sentence of paragraph (1)(A) shall
12 not apply;

13 “(ii) in the case of any trust with
14 gross income in excess of \$250,000, the
15 first sentence of paragraph (1)(A) shall be
16 applied by substituting ‘\$100’ for ‘\$20’,
17 and the second sentence thereof shall be
18 applied by substituting ‘\$50,000’ for
19 ‘\$10,000’, and

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

22 If the person required to file such return know-
23 ingly fails to file the return, such person shall
24 be personally liable for the penalty imposed
25 pursuant to this subparagraph.”

1 (3) **CONFIDENTIALITY OF NONCHARITABLE**
 2 **BENEFICIARIES.**—Subsection (b) of section 6104 of
 3 such Code (relating to inspection of annual informa-
 4 tion returns) is amended by adding at the end the
 5 following new sentence: “In the case of a trust which
 6 is required to file a return under section 6034(a),
 7 this subsection shall not apply to information re-
 8 garding beneficiaries which are not organizations de-
 9 scribed in section 170(e).”.

10 **(c) EFFECTIVE DATES.**—

11 (1) **SUBSECTION (a).**—The amendment made by
 12 subsection (a) shall apply to taxable years beginning
 13 after December 31, 2001.

14 (2) **SUBSECTION (b).**—The amendments made
 15 by subsection (b) shall apply to returns for taxable
 16 years beginning after December 31, 2001.

17 **SEC. 103. INCREASE IN CAP ON CORPORATE CHARITABLE**
 18 **CONTRIBUTIONS.**

19 (a) **IN GENERAL.**—Paragraph (2) of section 170(b)
 20 of the Internal Revenue Code of 1986 (relating to corpora-
 21 tions) is amended by striking “10 percent” and inserting
 22 “the applicable percentage”.

23 (b) **APPLICABLE PERCENTAGE.**—Subsection (b) of
 24 section 170 of such Code is amended by adding at the
 25 end the following new paragraph:

1 “(3) APPLICABLE PERCENTAGE DEFINED.—For
 2 purposes of paragraph (2), the applicable percentage
 3 shall be determined in accordance with the following
 4 table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2002 through 2007	11
2008	12
2009	13
2010 and thereafter	15.”.

5 (c) CONFORMING AMENDMENTS.—

6 (1) Sections 512(b)(10) and 805(b)(2)(A) of
 7 such Code are each amended by striking “10 per-
 8 cent” each place it occurs and inserting “the appli-
 9 cable percentage (determined under section
 10 170(b)(3))”.

11 (2) Sections 545(b)(2) and 556(b)(2) of such
 12 Code are each amended by striking “10-percent limi-
 13 tation” and inserting “applicable percentage limita-
 14 tion”.

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

18 **SEC. 104. CHARITABLE DEDUCTION FOR CONTRIBUTIONS**
 19 **OF FOOD INVENTORY.**

20 (a) IN GENERAL.—Paragraph (3) of section 170(e)
 21 of the Internal Revenue Code of 1986 (relating to special
 22 rule for certain contributions of inventory and other prop-

1 erty) is amended by redesignating subparagraph (C) as
2 subparagraph (D) and by inserting after subparagraph
3 (B) the following new subparagraph:

4 “(C) SPECIAL RULE FOR CONTRIBUTIONS
5 OF FOOD INVENTORY.—

6 “(i) GENERAL RULE.—In the case of
7 a charitable contribution of food, this para-
8 graph shall be applied—

9 “(I) without regard to whether
10 the contribution is made by a C cor-
11 poration, and

12 “(II) only for food that is appar-
13 ently wholesome food.

14 “(ii) DETERMINATION OF FAIR MAR-
15 KET VALUE.—In the case of a qualified
16 contribution of apparently wholesome food
17 to which this paragraph applies and which,
18 solely by reason of internal standards of
19 the taxpayer or lack of market, cannot or
20 will not be sold, the fair market value of
21 such food shall be determined by taking
22 into account the price at which the same
23 or similar food items are sold by the tax-
24 payer at the time of the contribution (or,

1 if not so sold at such time, in the recent
2 past):

3 “(iii) APPARENTLY WHOLESOME
4 FOOD.—For purposes of this subpara-
5 graph, the term ‘apparently wholesome
6 food’ shall have the meaning given to such
7 term by section 22(b)(2) of the Bill Emer-
8 son Good Samaritan Food Donation Act
9 (42 U.S.C. 1791(b)(2)), as in effect on the
10 date of the enactment of this subpara-
11 graph.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 subsection (a) shall apply to taxable years beginning after
14 December 31, 2001.

15 **SEC. 105. REFORM OF EXCISE TAX ON NET INVESTMENT IN-**
16 **COME OF PRIVATE FOUNDATIONS.**

17 (a) IN GENERAL.—Subsection (a) of section 4940 of
18 the Internal Revenue Code of 1986 (relating to excise tax
19 based on investment income) is amended by striking “2
20 percent” and inserting “1 percent”.

21 (b) REPEAL OF REDUCTION IN TAX WHERE PRI-
22 VATE FOUNDATION MEETS CERTAIN DISTRIBUTION RE-
23 QUIREMENTS.—Section 4940 of such Code is amended by
24 striking subsection (c).

1 (e) **EFFECTIVE DATE.**—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2001.

4 **SEC. 106. EXCISE TAX ON UNRELATED BUSINESS TAXABLE**
 5 **INCOME OF CHARITABLE REMAINDER**
 6 **TRUSTS.**

7 (a) **IN GENERAL.**—Subsection (e) of section 664 of
 8 the Internal Revenue Code of 1986 (relating to exemption
 9 from income taxes) is amended to read as follows:

10 “(e) **TAXATION OF TRUSTS.**—

11 “(1) **INCOME TAX.**—A charitable remainder an-
 12 nuity trust and a charitable remainder unitrust
 13 shall, for any taxable year, not be subject to any tax
 14 imposed by this subtitle.

15 “(2) **EXCISE TAX.**—

16 “(A) **IN GENERAL.**—In the case of a chari-
 17 table remainder annuity trust or a charitable
 18 remainder unitrust that has unrelated business
 19 taxable income (within the meaning of section
 20 512, determined as if part III of subchapter F
 21 applied to such trust) for a taxable year, there
 22 is hereby imposed on such trust or unitrust an
 23 excise tax equal to the amount of such unre-
 24 lated business taxable income.

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

5 “(C) CHARACTER OF DISTRIBUTIONS AND
6 COORDINATION WITH DISTRIBUTION REQUIRE-
7 MENTS.—The amounts taken into account in
8 determining unrelated business taxable income
9 (as defined in subparagraph (A)) shall not be
10 taken into account for purposes of—

11 “(i) subsection (b),

12 “(ii) determining the value of trust
13 assets under subsection (d)(2), and

14 “(iii) determining income under sub-
15 section (d)(3).

16 “(D) TAX COURT PROCEEDINGS.—For
17 purposes of this paragraph, the references in
18 section 6212(e)(1) to section 4940 shall be
19 deemed to include references to this para-
20 graph.”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 subsection (a) shall apply to taxable years beginning after
23 December 31, 2001.

1 **SEC. 107. EXPANSION OF CHARITABLE CONTRIBUTION AL-**
2 **LOWED FOR SCIENTIFIC PROPERTY USED**
3 **FOR RESEARCH AND FOR COMPUTER TECH-**
4 **NOLOGY AND EQUIPMENT USED FOR EDU-**
5 **CATIONAL PURPOSES.**

6 (a) **SCIENTIFIC PROPERTY USED FOR RESEARCH.**—
7 Clause (ii) of section 170(e)(4)(B) of the Internal Revenue
8 Code of 1986 (defining qualified research contributions)
9 is amended by inserting “or assembled” after “con-
10 structed”.

11 (b) **COMPUTER TECHNOLOGY AND EQUIPMENT FOR**
12 **EDUCATIONAL PURPOSES.**—Clause (ii) of section
13 170(e)(6)(B) of such Code is amended by inserting “or
14 assembled” after “constructed” and “or assembling” after
15 “construction”.

16 (c) **CONFORMING AMENDMENT.**—Subparagraph (D)
17 of section 170(e)(6) of such Code is amended by inserting
18 “or assembled” after “constructed” and “or assembling”
19 after “construction”.

20 (d) **EFFECTIVE DATE.**—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 2001.

1 **SEC. 108. ADJUSTMENT TO BASIS OF S CORPORATION**
 2 **STOCK FOR CERTAIN CHARITABLE CON-**
 3 **TRIBUTIONS.**

4 (a) **IN GENERAL.**—Paragraph (1) of section 1367(a)
 5 of such Code (relating to adjustments to basis of stock
 6 of shareholders, etc.) is amended by striking “and” at the
 7 end of subparagraph (B), by striking the period at the
 8 end of subparagraph (C) and inserting “, and”, and by
 9 adding at the end the following new subparagraph:

10 “(D) the excess of the amount of the
 11 shareholder’s deduction for any charitable con-
 12 tribution made by the S corporation over the
 13 shareholder’s proportionate share of the ad-
 14 justed basis of the property contributed.”.

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

18 **TITLE II—EXPANSION OF**
 19 **CHARITABLE CHOICE**

20 **SEC. 201. PROVISION OF ASSISTANCE UNDER GOVERN-**
 21 **MENT PROGRAMS BY RELIGIOUS AND COM-**
 22 **MUNITY ORGANIZATIONS.**

23 Title XXIV of the Revised Statutes of the United
 24 States is amended by inserting after section 1990 (42
 25 U.S.C. 1994) the following:

1 **“SEC. 1991. CHARITABLE CHOICE.**

2 “(a) **SHORT TITLE.**—This section may be cited as the
3 ‘Charitable Choice Act of 2001’.

4 “(b) **PURPOSES.**—The purposes of this section are—

5 “(1) to enable assistance to be provided to indi-
6 viduals and families in need in the most effective
7 and efficient manner;

8 “(2) to supplement the Nation’s social service
9 capacity by facilitating the entry of new, and the ex-
10 pansion of existing, efforts by religious and other
11 community organizations in the administration and
12 distribution of government assistance under the gov-
13 ernment programs described in subsection (c)(4);

14 “(3) to prohibit discrimination against religious
15 organizations on the basis of religion in the adminis-
16 tration and distribution of government assistance
17 under such programs;

18 “(4) to allow religious organizations to partici-
19 pate in the administration and distribution of such
20 assistance without impairing the religious character
21 and autonomy of such organizations; and

22 “(5) to protect the religious freedom of individ-
23 uals and families in need who are eligible for govern-
24 ment assistance, including expanding the possibility
25 of their being able to choose to receive services from
26 a religious organization providing such assistance.

1 “(c) RELIGIOUS ORGANIZATIONS INCLUDED AS PRO-
2 VIDERS; DISCLAIMERS.—

3 “(1) IN GENERAL.—

4 “(A) INCLUSION.—For any program de-
5 scribed in paragraph (4) that is carried out by
6 the Federal Government, or by a State or local
7 government with Federal funds, the government
8 shall consider, on the same basis as other non-
9 governmental organizations, religious organiza-
10 tions to provide the assistance under the pro-
11 gram, and the program shall be implemented in
12 a manner that is consistent with the establish-
13 ment clause and the free exercise clause of the
14 first amendment to the Constitution.

15 “(B) DISCRIMINATION PROHIBITED.—Nei-
16 ther the Federal Government, nor a State or
17 local government receiving funds under a pro-
18 gram described in paragraph (4), shall discrimi-
19 nate against an organization that provides as-
20 sistance under, or applies to provide assistance
21 under, such program on the basis that the orga-
22 nization is religious or has a religious character.

23 “(2) FUNDS NOT AID TO RELIGION.—Federal,
24 State, or local government funds or other assistance
25 that is received by a religious organization for the

1 provision of services under this section constitutes
2 aid to individuals and families in need, the ultimate
3 beneficiaries of such services, and not support for re-
4 ligion or the organization's religious beliefs or prac-
5 tices. Notwithstanding the provisions in this para-
6 graph, title VI of the Civil Rights Act of 1964 (42
7 U.S.C. 2000d et seq.) shall apply to organizations
8 receiving assistance funded under any program de-
9 scribed in subsection (c)(4).

10 “(3) FUNDS NOT ENDORSEMENT OF RELI-
11 GION.—The receipt by a religious organization of
12 Federal, State, or local government funds or other
13 assistance under this section is not an endorsement
14 by the government of religion or of the organiza-
15 tion's religious beliefs or practices.

16 “(4) PROGRAMS.—For purposes of this section,
17 a program is described in this paragraph—

18 “(A) if it involves activities carried out
19 using Federal funds—

20 “(i) related to the prevention and
21 treatment of juvenile delinquency and the
22 improvement of the juvenile justice system,
23 including programs funded under the Juve-
24 nile Justice and Delinquency Prevention
25 Act of 1974 (42 U.S.C. 5601 et seq.);

1 “(ii) related to the prevention of crime
2 and assistance to crime victims and offend-
3 ers’ families, including programs funded
4 under title I of the Omnibus Crime Control
5 and Safe Streets Act of 1968 (42 U.S.C.
6 3701 et seq.);

7 “(iii) related to the provision of assist-
8 ance under Federal housing statutes, in-
9 cluding the Community Development Block
10 Grant Program established under title I of
11 the Housing and Community Development
12 Act of 1974 (42 U.S.C. 5301 et seq.);

13 “(iv) under subtitle B or D of title I
14 of the Workforce Investment Act of 1998
15 (29 U.S.C. 2801 et seq.);

16 “(v) under the Older Americans Act
17 of 1965 (42 U.S.C. 3001 et seq.);

18 “(vi) related to the intervention in
19 and prevention of domestic violence, in-
20 cluding programs under the Child Abuse
21 Prevention and Treatment Act (42 U.S.C.
22 5101 et seq.) or the Family Violence Pre-
23 vention and Services Act (42 U.S.C. 10401
24 et seq.);

1 ~~“(vii) related to hunger relief activi-~~
2 ~~ties; or~~

3 ~~“(viii) under the Job Access and Re-~~
4 ~~verse Commute grant program established~~
5 ~~under section 3037 of the Federal Transit~~
6 ~~Act of 1998 (49 U.S.C. 5309 note); or~~

7 ~~“(B)(i) if it involves activities to assist stu-~~
8 ~~dents in obtaining the recognized equivalents of~~
9 ~~secondary school diplomas and activities relat-~~
10 ~~ing to nonschool hours programs, including pro-~~
11 ~~grams under—~~

12 ~~“(I) chapter 3 of subtitle A of title II~~
13 ~~of the Workforce Investment Act of 1998~~
14 ~~(Public Law 105–220); or~~

15 ~~“(II) part I of title X of the Elemen-~~
16 ~~tary and Secondary Education Act (20~~
17 ~~U.S.C. 6301 et seq.); and~~

18 ~~“(ii) except as provided in subparagraph~~
19 ~~(A) and clause (i), does not include activities~~
20 ~~carried out under Federal programs providing~~
21 ~~education to children eligible to attend elemen-~~
22 ~~tary schools or secondary schools, as defined in~~
23 ~~section 14101 of the Elementary and Secondary~~
24 ~~Education Act of 1965 (20 U.S.C. 8801).~~

1 “(d) ORGANIZATIONAL CHARACTER AND AUTON-
2 OMY.—

3 “(1) IN GENERAL.—A religious organization
4 that provides assistance under a program described
5 in subsection (e)(4) shall have the right to retain its
6 autonomy from Federal, State, and local govern-
7 ments, including such organization’s control over the
8 definition, development, practice, and expression of
9 its religious beliefs.

10 “(2) ADDITIONAL SAFEGUARDS.—Neither the
11 Federal Government, nor a State or local govern-
12 ment with Federal funds, shall require a religious
13 organization, in order to be eligible to provide assist-
14 ance under a program described in subsection (e)(4),
15 to—

16 “(A) alter its form of internal governance
17 or provisions in its charter documents; or

18 “(B) remove religious art, icons, scripture,
19 or other symbols, or to change its name, be-
20 cause such symbols or names are of a religious
21 character.

22 “(e) EMPLOYMENT PRACTICES.—A religious organi-
23 zation’s exemption provided under section 702 of the Civil
24 Rights Act of 1964 (42 U.S.C. 2000e–1) regarding em-
25 ployment practices shall not be affected by its participa-

1 tion in, or receipt of funds from, programs described in
2 subsection (c)(4), and any provision in such programs that
3 is inconsistent with or would diminish the exercise of an
4 organization's autonomy recognized in section 702 or in
5 this section shall have no effect. Nothing in this section
6 alters the duty of a religious organization to comply with
7 the nondiscrimination provisions of title VII of the Civil
8 Rights Act of 1964 in the use of funds from programs
9 described in subsection (c)(4).

10 “(f) EFFECT ON OTHER LAWS.—Nothing in this sec-
11 tion shall alter the duty of a religious organization receiv-
12 ing assistance or providing services under any program de-
13 scribed in subsection (c)(4) to comply with the non-
14 discrimination provisions in title VI of the Civil Rights Act
15 of 1964 (42 U.S.C. 2000d et seq.) (prohibiting discrimina-
16 tion on the basis of race, color, and national origin), title
17 IX of the Education Amendments of 1972 (20 U.S.C.
18 1681–1688) (prohibiting discrimination in education pro-
19 grams or activities on the basis of sex and visual impair-
20 ment), section 504 of the Rehabilitation Act of 1973 (29
21 U.S.C. 794) (prohibiting discrimination against otherwise
22 qualified disabled individuals), and the Age Discrimination
23 Act of 1975 (42 U.S.C. 6101–6107) (prohibiting discrimi-
24 nation on the basis of age).

25 “(g) RIGHTS OF BENEFICIARIES OF ASSISTANCE.—

1 “(1) IN GENERAL.—If an individual described
2 in paragraph (3) has an objection to the religious
3 character of the organization from which the indi-
4 vidual receives, or would receive, assistance funded
5 under any program described in subsection (e)(4),
6 the appropriate Federal, State, or local govern-
7 mental entity shall provide to such individual (if oth-
8 erwise eligible for such assistance) within a reason-
9 able period of time after the date of such objection,
10 assistance that—

11 “(A) is an alternative that is accessible to
12 the individual and unobjectionable to the indi-
13 vidual on religious grounds; and

14 “(B) has a value that is not less than the
15 value of the assistance that the individual would
16 have received from such organization.

17 “(2) NOTICE.—The appropriate Federal, State,
18 or local governmental entity shall guarantee that no-
19 tice is provided to the individuals described in para-
20 graph (3) of the rights of such individuals under this
21 section.

22 “(3) INDIVIDUAL DESCRIBED.—An individual
23 described in this paragraph is an individual who re-
24 ceives or applies for assistance under a program de-
25 scribed in subsection (e)(4).

1 “(h) NONDISCRIMINATION AGAINST BENE-
2 FICIARIES.—

3 “(1) GRANTS AND COOPERATIVE AGREE-
4 MENTS.—A religious organization providing assist-
5 ance through a grant or cooperative agreement
6 under a program described in subsection (e)(4) shall
7 not discriminate in carrying out the program against
8 an individual described in subsection (g)(3) on the
9 basis of religion, a religious belief, or a refusal to
10 hold a religious belief.

11 “(2) INDIRECT FORMS OF ASSISTANCE.—A reli-
12 gious organization providing assistance through a
13 voucher, certificate, or other form of indirect assist-
14 ance under a program described in subsection (e)(4)
15 shall not deny an individual described in subsection
16 (g)(3) admission into such program on the basis of
17 religion, a religious belief, or a refusal to hold a reli-
18 gious belief.

19 “(i) ACCOUNTABILITY.—

20 “(1) IN GENERAL.—Except as provided in para-
21 graphs (2) and (3), a religious organization pro-
22 viding assistance under any program described in
23 subsection (e)(4) shall be subject to the same regula-
24 tions as other nongovernmental organizations to ac-
25 count in accord with generally accepted accounting

1 principles for the use of such funds and its perform-
2 ance of such programs.

3 ~~“(2) LIMITED AUDIT.—~~

4 ~~“(A) GRANTS AND COOPERATIVE AGREE-~~
5 ~~MENTS.—A religious organization providing as-~~
6 ~~sistance through a grant or cooperative agree-~~
7 ~~ment under a program described in subsection~~
8 ~~(e)(4) shall segregate government funds pro-~~
9 ~~vided under such program into a separate ac-~~
10 ~~count or accounts. Only the separate accounts~~
11 ~~consisting of funds from the government shall~~
12 ~~be subject to audit by the government.~~

13 ~~“(B) INDIRECT FORMS OF ASSISTANCE.—~~

14 ~~A religious organization providing assistance~~
15 ~~through a voucher, certificate, or other form of~~
16 ~~indirect assistance under a program described~~
17 ~~in subsection (e)(4) may segregate government~~
18 ~~funds provided under such program into a sepa-~~
19 ~~rate account or accounts. If such funds are so~~
20 ~~segregated, then only the separate accounts~~
21 ~~consisting of funds from the government shall~~
22 ~~be subject to audit by the government.~~

23 ~~“(3) SELF AUDIT.—A religious organization~~
24 ~~providing services under any program described in~~
25 ~~subsection (e)(4) shall conduct annually a self audit~~

1 for compliance with its duties under this section and
2 submit a copy of the self audit to the appropriate
3 Federal, State, or local government agency, along
4 with a plan to timely correct variances, if any, iden-
5 tified in the self audit.

6 “(j) LIMITATIONS ON USE OF FUNDS; VOLUNTARI-
7 NESS.—No funds provided through a grant or cooperative
8 agreement to a religious organization to provide assistance
9 under any program described in subsection (e)(4) shall be
10 expended for sectarian instruction, worship, or proselytiza-
11 tion. If the religious organization offers such an activity,
12 it shall be voluntary for the individuals receiving services
13 and offered separate from the program funded under sub-
14 section (e)(4). A certificate shall be separately signed by
15 religious organizations, and filed with the government
16 agency that disburses the funds, certifying that the orga-
17 nization is aware of and will comply with this subsection.

18 “(k) EFFECT ON STATE AND LOCAL FUNDS.—If a
19 State or local government contributes State or local funds
20 to carry out a program described in subsection (e)(4), the
21 State or local government may segregate the State or local
22 funds from the Federal funds provided to carry out the
23 program or may commingle the State or local funds with
24 the Federal funds. If the State or local government com-
25 mingles the State or local funds, the provisions of this sec-

1 tion shall apply to the commingled funds in the same man-
2 ner, and to the same extent, as the provisions apply to
3 the Federal funds.

4 “(l) INDIRECT ASSISTANCE.—When consistent with
5 the purpose of a program described in subsection (e)(4),
6 the Secretary of the department administering the pro-
7 gram may direct the disbursement of some or all of the
8 funds, if determined by the Secretary to be feasible and
9 efficient, in the form of indirect assistance. For purposes
10 of this section, ‘indirect assistance’ constitutes assistance
11 in which an organization receiving funds through a vouch-
12 er, certificate, or other form of disbursement under this
13 section receives such funding only as a result of the private
14 choices of individual beneficiaries and no government en-
15 dorsement of any particular religion, or of religion gen-
16 erally, occurs.

17 “(m) TREATMENT OF INTERMEDIATE GRANTORS.—
18 If a nongovernmental organization (referred to in this sub-
19 section as an ‘intermediate grantor’), acting under a grant
20 or other agreement with the Federal Government, or a
21 State or local government with Federal funds, is given the
22 authority under the agreement to select nongovernmental
23 organizations to provide assistance under the programs
24 described in subsection (e)(4), the intermediate grantor
25 shall have the same duties under this section as the gov-

1 ernment when selecting or otherwise dealing with
2 subgrantors, but the intermediate grantor, if it is a reli-
3 gious organization, shall retain all other rights of a reli-
4 gious organization under this section.

5 “(n) COMPLIANCE.—A party alleging that the rights
6 of the party under this section have been violated by a
7 State or local government may bring a civil action for in-
8 junctive relief pursuant to section 1979 against the State
9 official or local government agency that has allegedly com-
10 mitted such violation. A party alleging that the rights of
11 the party under this section have been violated by the Fed-
12 eral Government may bring a civil action for injunctive
13 relief in Federal district court against the official or gov-
14 ernment agency that has allegedly committed such viola-
15 tion.

16 “(o) TRAINING AND TECHNICAL ASSISTANCE FOR
17 SMALL NONGOVERNMENTAL ORGANIZATIONS.—

18 “(1) IN GENERAL.—From amounts made avail-
19 able to carry out the purposes of the Office of Jus-
20 tice Programs (including any component or unit
21 thereof, including the Office of Community Oriented
22 Policing Services), funds are authorized to provide
23 training and technical assistance, directly or through
24 grants or other arrangements, in procedures relating
25 to potential application and participation in pro-

1 grams identified in subsection (c)(4) to small non-
2 governmental organizations, as determined by the
3 Attorney General, including religious organizations,
4 in an amount not to exceed \$50 million annually.

5 “(2) TYPES OF ASSISTANCE.—Such assistance
6 may include—

7 “(A) assistance and information relative to
8 creating an organization described in section
9 501(c)(3) of the Internal Revenue Code of 1986
10 to operate identified programs;

11 “(B) granting writing assistance which
12 may include workshops and reasonable guid-
13 ance;

14 “(C) information and referrals to other
15 nongovernmental organizations that provide ex-
16 pertise in accounting, legal issues, tax issues,
17 program development, and a variety of other or-
18 ganizational areas; and

19 “(D) information and guidance on how to
20 comply with Federal nondiscrimination provi-
21 sions including, but not limited to, title VI of
22 the Civil Rights Act of 1964 (42 U.S.C. 2000d
23 et seq.), title VII of the Civil Rights Act of
24 1964 (42 U.S.C. 2000e et seq.), the Fair Hous-
25 ing Act, as amended (42 U.S.C. 3601 et seq.);

1 title IX of the Education Amendments of 1972
 2 (20 U.S.C. 1681–1688), section 504 of the Re-
 3 habilitation Act of 1973 (29 U.S.C. 694), and
 4 the Age Discrimination Act of 1975 (42 U.S.C.
 5 6101–6107).

6 “(3) RESERVATION OF FUNDS.—An amount of
 7 no less than \$5,000,000 shall be reserved under this
 8 section. Small nongovernmental organizations may
 9 apply for these funds to be used for assistance in
 10 providing full and equal integrated access to individ-
 11 uals with disabilities in programs under this title.

12 “(4) PRIORITY.—In giving out the assistance
 13 described in this subsection, priority shall be given
 14 to small nongovernmental organizations serving
 15 urban and rural communities.”

16 TITLE III—INDIVIDUAL 17 DEVELOPMENT ACCOUNTS

18 SEC. 301. ADDITIONAL QUALIFIED ENTITIES ELIGIBLE TO 19 CONDUCT PROJECTS UNDER THE ASSETS 20 FOR INDEPENDENCE ACT.

21 Section 404(7)(A)(iii)(I)(aa) of the Assets for Inde-
 22 pendence Act (42 U.S.C. 604 note) is amended to read
 23 as follows:

24 “(aa) a federally insured
 25 credit union; or”

1 **SEC. 302. INCREASE IN LIMITATION ON NET WORTH.**

2 Section 408(a)(2)(A) of the Assets for Independence
3 Act (42 U.S.C. 604 note) is amended by striking
4 “\$10,000” and inserting “\$20,000”.

5 **SEC. 303. CHANGE IN LIMITATION ON DEPOSITS FOR AN IN-**
6 **DIVIDUAL.**

7 Section 410(b) of the Assets for Independence Act
8 (42 U.S.C. 604 note) is amended to read as follows:

9 “(b) LIMITATION ON DEPOSITS FOR AN INDI-
10 VIDUAL.—Not more than \$500 from a grant made under
11 section 406(b) shall be provided per year to any one indi-
12 vidual during the project.”

13 **SEC. 304. ELIMINATION OF LIMITATION ON DEPOSITS FOR**
14 **A HOUSEHOLD.**

15 Section 410 of the Assets for Independence Act (42
16 U.S.C. 604 note) is amended by striking subsection (e)
17 and redesignating subsections (d) and (e) as subsections
18 (e) and (d), respectively.

19 **SEC. 305. EXTENSION OF PROGRAM.**

20 Section 416 of the Assets for Independence Act (42
21 U.S.C. 604 note) is amended by striking “2001, 2002, and
22 2003” and inserting “and 2001, and \$50,000,000 for each
23 of fiscal years 2002 through 2008”.

24 **SEC. 306. CONFORMING AMENDMENTS.**

25 (a) AMENDMENTS TO TEXT.—The text of each of the
26 following provisions of the Assets for Independence Act

1 ~~(42 U.S.C. 604 note)~~ is amended by striking “demonstra-
2 tion” each place it appears:

3 ~~(1) Section 403.~~

4 ~~(2) Section 404(2).~~

5 ~~(3) Section 405(a).~~

6 ~~(4) Section 405(b).~~

7 ~~(5) Section 405(c).~~

8 ~~(6) Section 405(d).~~

9 ~~(7) Section 405(e).~~

10 ~~(8) Section 405(g).~~

11 ~~(9) Section 406(a).~~

12 ~~(10) Section 406(b).~~

13 ~~(11) Section 407(b)(1)(A).~~

14 ~~(12) Section 407(e)(1)(A).~~

15 ~~(13) Section 407(e)(1)(B).~~

16 ~~(14) Section 407(e)(1)(C).~~

17 ~~(15) Section 407(e)(1)(D).~~

18 ~~(16) Section 407(d).~~

19 ~~(17) Section 408(a).~~

20 ~~(18) Section 408(b).~~

21 ~~(19) Section 409.~~

22 ~~(20) Section 410(e).~~

23 ~~(21) Section 411.~~

24 ~~(22) Section 412(a).~~

25 ~~(23) Section 412(b)(2).~~

1 ~~(24) Section 412(c).~~

2 ~~(25) Section 413(a).~~

3 ~~(26) Section 413(b).~~

4 ~~(27) Section 414(a).~~

5 ~~(28) Section 414(b).~~

6 ~~(29) Section 414(c).~~

7 ~~(30) Section 414(d)(1).~~

8 ~~(31) Section 414(d)(2).~~

9 ~~(b) AMENDMENTS TO SUBSECTION HEADINGS.—The~~
 10 ~~heading of each of the following provisions of the Assets~~
 11 ~~for Independence Act (42 U.S.C. 604 note) is amended~~
 12 ~~by striking “DEMONSTRATION”:~~

13 ~~(1) Section 405(a).~~

14 ~~(2) Section 406(a).~~

15 ~~(3) Section 413(a).~~

16 ~~(c) AMENDMENTS TO SECTION HEADINGS.—The~~
 17 ~~headings of sections 406 and 411 of the Assets for Inde-~~
 18 ~~pendence Act (42 U.S.C. 604 note) are amended by strik-~~
 19 ~~ing “**DEMONSTRATION**”.~~

20 **SEC. 307. APPLICABILITY.**

21 ~~(a) IN GENERAL.—The amendments made by this~~
 22 ~~title shall apply to funds provided before, on or after the~~
 23 ~~date of the enactment of this Act.~~

24 ~~(b) PRIOR AMENDMENTS.—The amendments made~~
 25 ~~by title VI of the Departments of Labor, Health and~~

1 Human Services, and Education, and Related Agencies
 2 Appropriations Act, 2001 (as enacted into law by Public
 3 Law 106-554) shall apply to funds provided before, on
 4 or after the date of the enactment of such Act.

5 **TITLE IV—CHARITABLE DONA-**
 6 **TIONS LIABILITY REFORM**
 7 **FOR IN-KIND CORPORATE**
 8 **CONTRIBUTIONS**

9 **SEC. 401. CHARITABLE DONATIONS LIABILITY REFORM**
 10 **FOR IN-KIND CORPORATE CONTRIBUTIONS.**

11 (a) DEFINITIONS.—For purposes of this section:

12 (1) AIRCRAFT.—The term “aircraft” has the
 13 meaning provided that term in section 40102(6) of
 14 title 49, United States Code.

15 (2) BUSINESS ENTITY.—The term “business
 16 entity” means a firm, corporation, association, part-
 17 nership, consortium, joint venture, or other form of
 18 enterprise.

19 (3) EQUIPMENT.—The term “equipment” in-
 20 cludes mechanical equipment, electronic equipment,
 21 and office equipment.

22 (4) FACILITY.—The term “facility” means any
 23 real property, including any building, improvement,
 24 or appurtenance.

1 (5) GROSS NEGLIGENCE.—The term “gross
2 negligence” means voluntary and conscious conduct
3 by a person with knowledge (at the time of the con-
4 duct) that the conduct is likely to be harmful to the
5 health or well-being of another person.

6 (6) INTENTIONAL MISCONDUCT.—The term
7 “intentional misconduct” means conduct by a person
8 with knowledge (at the time of the conduct) that the
9 conduct is harmful to the health or well-being of an-
10 other person.

11 (7) MOTOR VEHICLE.—The term “motor vehi-
12 cle” has the meaning provided that term in section
13 30102(6) of title 49, United States Code.

14 (8) NONPROFIT ORGANIZATION.—The term
15 “nonprofit organization” means—

16 (A) any organization described in section
17 501(e)(3) of the Internal Revenue Code of 1986
18 and exempt from tax under section 501(a) of
19 such Code; or

20 (B) any not-for-profit organization orga-
21 nized and conducted for public benefit and op-
22 erated primarily for charitable, civic, edu-
23 cational, religious, welfare, or health purposes.

24 (9) STATE.—The term “State” means each of
25 the several States, the District of Columbia, the

1 Commonwealth of Puerto Rico, the Virgin Islands,
2 Guam, American Samoa, the Northern Mariana Is-
3 lands, any other territory or possession of the
4 United States, or any political subdivision of any
5 such State, territory, or possession.

6 (b) LIABILITY.—

7 (1) LIABILITY OF BUSINESS ENTITIES THAT
8 DONATE EQUIPMENT TO NONPROFIT ORGANIZA-
9 TIONS.—

10 (A) IN GENERAL.—Subject to subsection
11 (e), a business entity shall not be subject to
12 civil liability relating to any injury or death that
13 results from the use of equipment donated by a
14 business entity to a nonprofit organization.

15 (B) APPLICATION.—This paragraph shall
16 apply with respect to civil liability under Fed-
17 eral and State law.

18 (2) LIABILITY OF BUSINESS ENTITIES PRO-
19 VIDING USE OF FACILITIES TO NONPROFIT ORGANI-
20 ZATIONS.—

21 (A) IN GENERAL.—Subject to subsection
22 (e), a business entity shall not be subject to
23 civil liability relating to any injury or death oc-
24 ccurring at a facility of the business entity in

1 connection with a use of such facility by a non-
2 profit organization, if—

3 (i) the use occurs outside of the scope
4 of business of the business entity;

5 (ii) such injury or death occurs during
6 a period that such facility is used by the
7 nonprofit organization; and

8 (iii) the business entity authorized the
9 use of such facility by the nonprofit orga-
10 nization.

11 (B) APPLICATION.—This paragraph shall
12 apply—

13 (i) with respect to civil liability under
14 Federal and State law; and

15 (ii) regardless of whether a nonprofit
16 organization pays for the use of a facility.

17 (3) LIABILITY OF BUSINESS ENTITIES PRO-
18 VIDING USE OF A MOTOR VEHICLE OR AIRCRAFT.—

19 (A) IN GENERAL.—Subject to subsection
20 (e), a business entity shall not be subject to
21 civil liability relating to any injury or death oc-
22 ccurring as a result of the operation of aircraft
23 or a motor vehicle of a business entity loaned
24 to a nonprofit organization for use outside of
25 the scope of business of the business entity, if—

1 (i) such injury or death occurs during
2 a period that such motor vehicle or aircraft
3 is used by a nonprofit organization; and

4 (ii) the business entity authorized the
5 use by the nonprofit organization of motor
6 vehicle or aircraft that resulted in the in-
7 jury or death.

8 (B) APPLICATION.—This paragraph shall
9 apply—

10 (i) with respect to civil liability under
11 Federal and State law; and

12 (ii) regardless of whether a nonprofit
13 organization pays for the use of the air-
14 craft or motor vehicle.

15 (c) EXCEPTIONS.—Subsection (b) shall not apply to
16 an injury or death that results from an act or omission
17 of a business entity that constitutes gross negligence or
18 intentional misconduct.

19 (d) SUPERSEDING PROVISION.—

20 (1) IN GENERAL.—Subject to paragraph (2)
21 and subsection (c), this title preempts the laws of
22 any State to the extent that such laws are incon-
23 sistent with this title, except that this title shall not
24 preempt any State law that provides additional pro-
25 tection for a business entity for an injury or death

1 described in a paragraph of subsection (b) with re-
 2 spect to which the conditions specified in such para-
 3 graph apply.

4 (2) ~~LIMITATION.~~—Nothing in this title shall be
 5 construed to supersede any Federal or State health
 6 or safety law.

7 (c) ~~ELECTION OF STATE REGARDING NONAPPLICA-~~
 8 ~~BILITY.~~—A provision of this title shall not apply to any
 9 civil action in a State court against a business entity in
 10 which all parties are citizens of the State if such State
 11 enacts a statute—

12 (1) ~~citing the authority of this section;~~

13 (2) ~~declaring the election of such State that~~
 14 ~~such provision shall not apply to such civil action in~~
 15 ~~the State; and~~

16 (3) ~~containing no other provisions.~~

17 (f) ~~EFFECTIVE DATE.~~—This section shall apply to in-
 18 juries (and deaths resulting therefrom) occurring on or
 19 after the date of the enactment of this Act.

20 ***SECTION 1. SHORT TITLE; ETC.***

21 (a) *SHORT TITLE.*—*This Act may be cited as the*
 22 *“CARE Act of 2002”.*

23 (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*
 24 *expressly provided, whenever in this Act an amendment or*
 25 *repeal is expressed in terms of an amendment to, or repeal*

1 of, a section or other provision, the reference shall be consid-
 2 ered to be made to a section or other provision of the Inter-
 3 nal Revenue Code of 1986.

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

Sec. 1. Short title; etc.

TITLE I—CHARITABLE GIVING INCENTIVES

Sec. 101. Deduction for portion of charitable contributions to be allowed to individuals who do not itemize deductions.

Sec. 102. Tax-free distributions from individual retirement accounts for charitable purposes.

Sec. 103. Charitable deduction for contributions of food inventories.

Sec. 104. Charitable deduction for contributions of book inventories.

Sec. 105. Expansion of charitable contribution allowed for scientific property used for research and for computer technology and equipment used for educational purposes.

Sec. 106. Modifications to encourage contributions of capital gain real property made for conservation purposes.

Sec. 107. Exclusion of 25 percent of gain on sales or exchanges of land or water interests to eligible entities for conservation purposes.

Sec. 108. Tax exclusion for cost-sharing payments under Partners for Fish and Wildlife Program.

Sec. 109. Adjustment to basis of S corporation stock for certain charitable contributions.

Sec. 110. Enhanced deduction for charitable contribution of literary, musical, artistic, and scholarly compositions.

TITLE II—DISCLOSURE OF INFORMATION RELATING TO TAX-EXEMPT ORGANIZATIONS

Sec. 201. Disclosure of written determinations.

Sec. 202. Disclosure of Internet web site and name under which organization does business.

Sec. 203. Modification to reporting capital transactions.

Sec. 204. Disclosure that Form 990 is publicly available.

Sec. 205. Disclosure to State officials of proposed actions related to section 501(c) organizations.

TITLE III—OTHER CHARITABLE AND EXEMPT ORGANIZATION PROVISIONS

Sec. 301. Modification of excise tax on unrelated business taxable income of charitable remainder trusts.

Sec. 302. Modifications to section 512(b)(13).

Sec. 303. Simplification of lobbying expenditure limitation.

Sec. 304. Expedited review process for certain tax-exemption applications.

Sec. 305. Clarification of definition of church tax inquiry.

Sec. 306. Expansion of declaratory judgment remedy to tax-exempt organizations.

Sec. 307. Definition of convention or association of churches.

- Sec. 308. Charitable contribution deduction for certain expenses incurred in support of Native Alaskan subsistence whaling.*
- Sec. 309. Payments by charitable organizations to victims of war on terrorism.*
- Sec. 310. Treatment of bonds issued to acquire standing timber on land subject to conservation easement.*
- Sec. 311. Exemption from income tax for State-created organizations providing property and casualty insurance for property for which such coverage is otherwise unavailable.*
- Sec. 312. Modification of special arbitrage rule for certain funds.*
- Sec. 313. Matching grants to low-income taxpayer clinics for return preparation.*
- Sec. 314. Modification of scholarship foundation rules.*

TITLE IV—SOCIAL SERVICES BLOCK GRANT

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

TITLE V—INDIVIDUAL DEVELOPMENT ACCOUNTS

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

TITLE VI—REVENUE PROVISIONS

Subtitle A—Tax Shelter Transparency Requirements

PART I—TAXPAYER-RELATED PROVISIONS

- Sec. 601. Penalty for failing to disclose reportable transaction.*
- Sec. 602. Accuracy-related penalties for listed transactions and other reportable transactions having a significant tax avoidance purpose.*
- Sec. 603. Modifications of substantial understatement penalty for nonreportable transactions.*
- Sec. 604. Tax shelter exception to confidentiality privileges relating to taxpayer communications.*

PART II—PROMOTER AND PREPARER RELATED PROVISIONS

SUBPART A—PROVISIONS RELATING TO REPORTABLE TRANSACTIONS

- Sec. 611. Disclosure of reportable transactions.*
- Sec. 612. Modifications to penalty for failure to register tax shelters.*
- Sec. 613. Modification of penalty for failure to maintain lists of investors.*

Sec. 614. Modification of actions to enjoin specified conduct related to tax shelters and reportable transactions.

SUBPART B—OTHER PROMOTER AND PREPARER PROVISIONS

Sec. 621. Understatement of taxpayer's liability by income tax return preparer.

Sec. 622. Penalty on failure to report interests in foreign financial accounts.

Sec. 623. Frivolous tax submissions.

Sec. 624. Regulation of individuals practicing before the Department of Treasury.

Sec. 625. Penalty on promoters of tax shelters.

PART III—OTHER PROVISIONS

Sec. 631. Affirmation of consolidated return regulation authority.

Subtitle B—Tax Treatment of Inversion Transactions

Sec. 641. Tax treatment of inverted corporate entities.

Subtitle C—Reinsurance Agreements

Sec. 651. Reinsurance of United States risks in foreign jurisdictions.

Subtitle D—Extension of Internal Revenue Service User Fees

Sec. 661. Extension of Internal Revenue Service user fees.

Subtitle E—Imposition of Customs User Fees

Sec. 671. Customs user fees.

1 **TITLE I—CHARITABLE GIVING**
2 **INCENTIVES**

3 **SEC. 101. DEDUCTION FOR PORTION OF CHARITABLE CON-**
4 **TRIBUTIONS TO BE ALLOWED TO INDIVID-**
5 **UALS WHO DO NOT ITEMIZE DEDUCTIONS.**

6 *(a) IN GENERAL.—Section 170 (relating to charitable,*
7 *etc., contributions and gifts) is amended by redesignating*
8 *subsection (m) as subsection (n) and by inserting after sub-*
9 *section (l) the following new subsection:*

10 *“(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING*
11 *DEDUCTIONS.—In the case of an individual who does not*
12 *itemize deductions for any taxable year, there shall be taken*
13 *into account as a direct charitable deduction under section*

1 63 an amount equal to the amount allowable under sub-
 2 section (a) for the taxable year for cash contributions, but
 3 only with respect to such contributions which exceed \$250
 4 (\$500 in the case of a joint return), but do not exceed \$500
 5 (\$1,000 in the case of a joint return).”.

6 (b) *DIRECT CHARITABLE DEDUCTION.*—

7 (1) *IN GENERAL.*—Subsection (b) of section 63
 8 (defining taxable income) is amended by striking
 9 “and” at the end of paragraph (1), by striking the pe-
 10 riod at the end of paragraph (2) and inserting “,
 11 and”, and by adding at the end the following new
 12 paragraph:

13 “(3) the direct charitable deduction.”.

14 (2) *DEFINITION.*—Section 63 is amended by re-
 15 designating subsection (g) as subsection (h) and by
 16 inserting after subsection (f) the following new sub-
 17 section:

18 “(g) *DIRECT CHARITABLE DEDUCTION.*—For purposes
 19 of this section, the term ‘direct charitable deduction’ means
 20 that portion of the amount allowable under section 170(a)
 21 which is taken as a direct charitable deduction for the tax-
 22 able year under section 170(m).”.

23 (3) *CONFORMING AMENDMENT.*—Subsection (d)
 24 of section 63 is amended by striking “and” at the end
 25 of paragraph (1), by striking the period at the end of

1 paragraph (2) and inserting “, and”, and by adding
2 at the end the following new paragraph:

3 “(3) the direct charitable deduction.”.

4 (c) *STUDY*.—

5 (1) *IN GENERAL*.—*The Secretary of the Treasury*
6 *shall study the effect of the amendments made by this*
7 *section on increased charitable giving and taxpayer*
8 *compliance, including a comparison of taxpayer com-*
9 *pliance by those who itemize their charitable con-*
10 *tributions with those who claim a direct charitable*
11 *deduction.*

12 (2) *REPORT*.—*By not later than December 31,*
13 *2003, the Secretary of the Treasury shall report on*
14 *the study required under paragraph (1) to the Com-*
15 *mittee on Finance of the Senate and the Committee*
16 *on Ways and Means of the House of Representatives.*

17 (d) *EFFECTIVE DATE*.—*The amendments made by this*
18 *section shall apply to taxable years beginning after Decem-*
19 *ber 31, 2001, and before January 1, 2004.*

20 **SEC. 102. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
21 **TIREMENT ACCOUNTS FOR CHARITABLE PUR-**
22 **POSES.**

23 (a) *IN GENERAL*.—*Subsection (d) of section 408 (relat-*
24 *ing to individual retirement accounts) is amended by add-*
25 *ing at the end the following new paragraph:*

1 “(8) *DISTRIBUTIONS FOR CHARITABLE PUR-*
2 *POSES.—*

3 “(A) *IN GENERAL.—No amount shall be in-*
4 *cludible in gross income by reason of a qualified*
5 *charitable distribution.*

6 “(B) *QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the term*
7 *‘qualified charitable distribution’ means any dis-*
8 *tribution from an individual retirement*
9 *account—*
10

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

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

15 “(II) *to a split-interest entity,*
16 *and*

17 “(ii) *which is made on or after the*
18 *date that the individual for whose benefit*
19 *the account is maintained has attained—*

20 “(I) *in the case of any distribu-*
21 *tion described in clause (i)(I), age*
22 *70¹/₂, and*

23 “(II) *in the case of any distribu-*
24 *tion described in clause (i)(II), age*
25 *59¹/₂.*

1 *A distribution shall be treated as a qualified*
2 *charitable distribution only to the extent that the*
3 *distribution would be includible in gross income*
4 *without regard to subparagraph (A) and, in the*
5 *case of a distribution to a split-interest entity,*
6 *only if no person holds an income interest in the*
7 *amounts in the split-interest entity attributable*
8 *to such distribution other than one or more of*
9 *the following: the individual for whose benefit*
10 *such account is maintained, the spouse of such*
11 *individual, or any organization described in sec-*
12 *tion 170(c).*

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

16 “(i) *DIRECT CONTRIBUTIONS.—A dis-*
17 *tribution to an organization described in*
18 *section 170(c) shall be treated as a qualified*
19 *charitable distribution only if a deduction*
20 *for the entire distribution would be allow-*
21 *able under section 170 (determined without*
22 *regard to subsection (b) thereof and this*
23 *paragraph).*

24 “(ii) *SPLIT-INTEREST GIFTS.—A dis-*
25 *tribution to a split-interest entity shall be*

1 *treated as a qualified charitable distribu-*
2 *tion only if a deduction for the entire value*
3 *of the interest in the distribution for the use*
4 *of an organization described in section*
5 *170(c) would be allowable under section 170*
6 *(determined without regard to subsection (b)*
7 *thereof and this paragraph).*

8 “(D) *APPLICATION OF SECTION 72.—Not-*
9 *withstanding section 72, in determining the ex-*
10 *tent to which a distribution is a qualified chari-*
11 *table distribution, the entire amount of the dis-*
12 *tribution shall be treated as includible in gross*
13 *income without regard to subparagraph (A) to*
14 *the extent that such amount does not exceed the*
15 *aggregate amount which would be so includible*
16 *if all amounts were distributed from all indi-*
17 *vidual retirement accounts otherwise taken into*
18 *account in determining the inclusion on such*
19 *distribution under section 72. Proper adjust-*
20 *ments shall be made in applying section 72 to*
21 *other distributions in such taxable year and sub-*
22 *sequent taxable years.*

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

1 “(i) *CHARITABLE REMAINDER*
2 *TRUSTS.—Notwithstanding section 664(b),*
3 *distributions made from a trust described in*
4 *subparagraph (G)(i) shall be treated as or-*
5 *inary income in the hands of the bene-*
6 *ficiary to whom is paid the annuity de-*
7 *scribed in section 664(d)(1)(A) or the pay-*
8 *ment described in section 664(d)(2)(A).*

9 “(ii) *POOLED INCOME FUNDS.—No*
10 *amount shall be includible in the gross in-*
11 *come of a pooled income fund (as defined in*
12 *subparagraph (G)(ii)) by reason of a quali-*
13 *fied charitable distribution to such fund,*
14 *and all distributions from the fund which*
15 *are attributable to qualified charitable dis-*
16 *tributions shall be treated as ordinary in-*
17 *come to the beneficiary.*

18 “(iii) *CHARITABLE GIFT ANNUITIES.—*
19 *Qualified charitable distributions made for*
20 *a charitable gift annuity shall not be treat-*
21 *ed as an investment in the contract.*

22 “(F) *DENIAL OF DEDUCTION.—Qualified*
23 *charitable distributions shall not be taken into*
24 *account in determining the deduction under sec-*
25 *tion 170.*

1 “(G) *SPLIT-INTEREST ENTITY DEFINED.*—

2 *For purposes of this paragraph, the term ‘split-*
3 *interest entity’ means—*

4 “(i) *a charitable remainder annuity*
5 *trust or a charitable remainder unitrust (as*
6 *such terms are defined in section 664(d))*
7 *which must be funded exclusively by quali-*
8 *fied charitable distributions,*

9 “(ii) *a pooled income fund (as defined*
10 *in section 642(c)(5)), but only if the fund*
11 *accounts separately for amounts attrib-*
12 *utable to qualified charitable distributions,*
13 *and*

14 “(iii) *a charitable gift annuity (as de-*
15 *fined in section 501(m)(5)).”.*

16 (b) *MODIFICATIONS RELATING TO INFORMATION RE-*
17 *TURNS BY CERTAIN TRUSTS.*—

18 (1) *RETURNS.*—*Section 6034 (relating to returns*
19 *by trusts described in section 4947(a)(2) or claiming*
20 *charitable deductions under section 642(c)) is amend-*
21 *ed to read as follows:*

1 **“SEC. 6034. RETURNS BY TRUSTS DESCRIBED IN SECTION**
2 **4947(a)(2) OR CLAIMING CHARITABLE DEDUC-**
3 **TIONS UNDER SECTION 642(c).**

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

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

10 *“(1) IN GENERAL.—Every trust not required to*
11 *file a return under subsection (a) but claiming a*
12 *charitable, etc., deduction under section 642(c) for the*
13 *taxable year shall furnish such information with re-*
14 *spect to such taxable year as the Secretary may by*
15 *forms or regulations prescribe, including:*

16 *“(A) the amount of the charitable, etc., de-*
17 *duction taken under section 642(c) within such*
18 *year,*

19 *“(B) the amount paid out within such year*
20 *which represents amounts for which charitable,*
21 *etc., deductions under section 642(c) have been*
22 *taken in prior years,*

23 *“(C) the amount for which charitable, etc.,*
24 *deductions have been taken in prior years but*
25 *which has not been paid out at the beginning of*
26 *such year,*

1 “(D) the amount paid out of principal in
2 the current and prior years for charitable, etc.,
3 purposes,

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

7 “(F) a balance sheet showing the assets, li-
8 abilities, and net worth of the trust as of the be-
9 ginning of such year.

10 “(2) EXCEPTIONS.—Paragraph (1) shall not
11 apply in the case of a taxable year if all the net in-
12 come for such year, determined under the applicable
13 principles of the law of trusts, is required to be dis-
14 tributed currently to the beneficiaries. Paragraph (1)
15 shall not apply in the case of a trust described in sec-
16 tion 4947(a)(1).”.

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

23 “(C) SPLIT-INTEREST TRUSTS.—In the case
24 of a trust which is required to file a return
25 under section 6034(a), subparagraphs (A) and

1 *(B) of this paragraph shall not apply and para-*
2 *graph (1) shall apply in the same manner as if*
3 *such return were required under section 6033,*
4 *except that—*

5 *“(i) the 5 percent limitation in the sec-*
6 *ond sentence of paragraph (1)(A) shall not*
7 *apply,*

8 *“(ii) in the case of any trust with gross*
9 *income in excess of \$250,000, the first sen-*
10 *tence of paragraph (1)(A) shall be applied*
11 *by substituting ‘\$100’ for ‘\$20’, and the sec-*
12 *ond sentence thereof shall be applied by sub-*
13 *stituting ‘\$50,000’ for ‘\$10,000’, and*

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

16 *In addition to any penalty imposed on the trust*
17 *pursuant to this subparagraph, if the person re-*
18 *quired to file such return knowingly fails to file*
19 *the return, such penalty shall also be imposed on*
20 *such person who shall be personally liable for*
21 *such penalty.”.*

22 *(3) CONFIDENTIALITY OF NONCHARITABLE BENE-*
23 *FICIARIES.—Subsection (b) of section 6104 (relating*
24 *to inspection of annual information returns) is*
25 *amended by adding at the end the following new sen-*

1 *tence: “In the case of a trust which is required to file*
 2 *a return under section 6034(a), this subsection shall*
 3 *not apply to information regarding beneficiaries*
 4 *which are not organizations described in section*
 5 *170(c).”.*

6 *(c) EFFECTIVE DATES.—*

7 *(1) SUBSECTION (a).—The amendment made by*
 8 *subsection (a) shall apply to taxable years beginning*
 9 *after December 31, 2002.*

10 *(2) SUBSECTION (b).—The amendments made by*
 11 *subsection (b) shall apply to returns for taxable years*
 12 *beginning after December 31, 2002.*

13 **SEC. 103. CHARITABLE DEDUCTION FOR CONTRIBUTIONS**
 14 **OF FOOD INVENTORIES.**

15 *(a) IN GENERAL.—Subsection (e) of section 170 (relat-*
 16 *ing to certain contributions of ordinary income and capital*
 17 *gain property) is amended by adding at the end the fol-*
 18 *lowing new paragraph:*

19 *“(7) APPLICATION OF PARAGRAPH (3) TO CER-*
 20 *TAIN CONTRIBUTIONS OF FOOD INVENTORY.—For pur-*
 21 *poses of this section—*

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

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

4 “(ii) in the case of a taxpayer other
5 than a C corporation, the aggregate amount
6 of such contributions from any trade or
7 business (or interest therein) of the taxpayer
8 for any taxable year which may be taken
9 into account under this section shall not ex-
10 ceed 10 percent of the taxpayer’s net income
11 from any such trade or business, computed
12 without regard to this section, for such tax-
13 able year.

14 “(B) DETERMINATION OF BASIS.—If a
15 taxpayer—

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

18 “(ii) is not required to capitalize indi-
19 rect costs under section 263A,
20 the taxpayer may elect, solely for purposes of
21 paragraph (3)(B), to treat the basis of any ap-
22 parently wholesome food as being equal to 25
23 percent of the fair market value of such food.

24 “(C) DETERMINATION OF FAIR MARKET
25 VALUE.—In the case of a charitable contribution

1 of apparently wholesome food which is a quali-
2 fied contribution (within the meaning of para-
3 graph (3), as modified by subparagraph (A) of
4 this paragraph) and which, solely by reason of
5 internal standards of the taxpayer or lack of
6 market, cannot or will not be sold, the fair mar-
7 ket value of such contribution shall be
8 determined—

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

11 “(ii) by taking into account the price
12 at which the same or substantially the same
13 food items are sold by the taxpayer at the
14 time of the contribution (or, if not so sold
15 at such time, in the recent past).

16 “(D) APPARENTLY WHOLESOME FOOD.—For
17 purposes of this paragraph, the term ‘apparently
18 wholesome food’ has the meaning given such term
19 by section 22(b)(2) of the Bill Emerson Good Sa-
20 maritan Food Donation Act (42 U.S.C.
21 1791(b)(2)), as in effect on the date of the enact-
22 ment of this paragraph.”.

23 (b) EFFECTIVE DATE.—The amendment made by this
24 section shall apply to taxable years beginning after Decem-
25 ber 31, 2002.

1 **SEC. 104. CHARITABLE DEDUCTION FOR CONTRIBUTIONS**
2 **OF BOOK INVENTORIES.**

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

8 “(C) *SPECIAL RULE FOR CONTRIBUTIONS*
9 *OF BOOK INVENTORY FOR EDUCATIONAL PUR-*
10 *POSES.*—

11 “(i) *CONTRIBUTIONS OF BOOK INVEN-*
12 *TORY.*—*In determining whether a qualified*
13 *book contribution is a qualified contribu-*
14 *tion, subparagraph (A) shall be applied*
15 *without regard to whether—*

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

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

22 “(ii) *AMOUNT OF REDUCTION.*—*Not-*
23 *withstanding subparagraph (B), the*
24 *amount of the reduction determined under*
25 *paragraph (1)(A) shall not exceed the*
26 *amount by which the fair market value of*

1 *the contributed property (as determined by*
2 *the taxpayer using a bona fide published*
3 *market price for such book (using the same*
4 *printing and edition) published within 7*
5 *years preceding the contribution) exceeds*
6 *twice the basis of such property.*

7 “(iii) *QUALIFIED BOOK CONTRIBU-*
8 *TION.—For purposes of this paragraph, the*
9 *term ‘qualified book contribution’ means a*
10 *charitable contribution of books, but only if*
11 *the requirements of clauses (iv) and (v) are*
12 *met.*

13 “(iv) *IDENTITY OF DONEE.—The re-*
14 *quirement of this clause is met if the con-*
15 *tribution is to an organization—*

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

18 “(II) *described in section*
19 *501(c)(3) and exempt from tax under*
20 *section 501(a) (other than a private*
21 *foundation, as defined in section*
22 *509(a), which is not an operating*
23 *foundation, as defined in section*
24 *4942(j)(3)), which is organized pri-*
25 *marily to make books available to the*

1 *general public at no cost or to operate*
2 *a literacy program.*

3 “(v) *CERTIFICATION BY DONEE.*—*The*
4 *requirement of this clause is met if, in addi-*
5 *tion to the certifications required by sub-*
6 *paragraph (A) (as modified by this sub-*
7 *paragraph), the donee certifies in writing*
8 *that—*

9 “(I) *the books are suitable, in*
10 *terms of currency, content, and quan-*
11 *tity, for use in the donee’s educational*
12 *programs, and*

13 “(II) *the donee will use the books*
14 *in its educational programs.”.*

15 (b) *EFFECTIVE DATE.*—*The amendments made by this*
16 *section shall apply to taxable years beginning after Decem-*
17 *ber 31, 2002.*

18 **SEC. 105. EXPANSION OF CHARITABLE CONTRIBUTION AL-**
19 **LOWED FOR SCIENTIFIC PROPERTY USED**
20 **FOR RESEARCH AND FOR COMPUTER TECH-**
21 **NOLOGY AND EQUIPMENT USED FOR EDU-**
22 **CATIONAL PURPOSES.**

23 (a) *SCIENTIFIC PROPERTY USED FOR RESEARCH.*—

24 (1) *IN GENERAL.*—*Clause (ii) of section*
25 170(e)(4)(B) *(defining qualified research contribu-*

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

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

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

8 “(ii) *except as provided in subpara-*
9 *graph (B)(i), subsections (b)(1)(A) and*
10 *(d)(1) shall be applied separately with re-*
11 *spect to such contributions by treating ref-*
12 *erences to 50 percent of the taxpayer’s con-*
13 *tribution base as references to the amount of*
14 *such contributions reduced by the amount of*
15 *other contributions allowable under sub-*
16 *section (b)(1)(A), and*

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

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

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

24 “(B) *SPECIAL RULES FOR ELIGIBLE FARM-*
25 *ERS AND RANCHERS.—*

1 “(i) *IN GENERAL.*—*In the case of any*
2 *such contributions made by an eligible*
3 *farmer or rancher—*

4 “(I) *if the taxpayer is an indi-*
5 *vidual, subsections (b)(1)(A) and*
6 *(d)(1) shall be applied separately with*
7 *respect to such contributions by sub-*
8 *stituting ‘the taxpayer’s contribution*
9 *base reduced by the amount of the de-*
10 *duction under subsection (a) for con-*
11 *tributions described in subsection*
12 *(b)(1)(A) (other than qualified con-*
13 *servation contributions)’ for ‘50 per-*
14 *cent of the taxpayer’s contribution*
15 *base’ each place it appears, and*

16 “(II) *if the taxpayer is a corpora-*
17 *tion, subsections (b)(2) and (d)(2) shall*
18 *be applied separately with respect to*
19 *such contributions, subsection (b)(2)*
20 *shall be applied with respect to such*
21 *contributions as if such subsection did*
22 *not contain the words ‘10 percent of’*
23 *and as if subparagraph (A) thereof*
24 *read ‘the deduction under this section*
25 *for qualified conservation contribu-*

1 tions’, and rules similar to the rules of
2 subparagraph (A)(iii) shall apply for
3 purposes of subsection (d)(2).

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

13 (c) *EFFECTIVE DATE.*—The amendment made by this
14 section shall apply to contributions made in taxable years
15 beginning after December 31, 2002.

16 **SEC. 107. EXCLUSION OF 25 PERCENT OF GAIN ON SALES**
17 **OR EXCHANGES OF LAND OR WATER INTER-**
18 **ESTS TO ELIGIBLE ENTITIES FOR CONSERVA-**
19 **TION PURPOSES.**

20 (a) *IN GENERAL.*—Part III of subchapter B of chapter
21 1 (relating to items specifically excluded from gross income)
22 is amended by inserting after section 121 the following new
23 section:

1 **“SEC. 121A. 25-PERCENT EXCLUSION OF GAIN ON SALES OR**
2 **EXCHANGES OF LAND OR WATER INTERESTS**
3 **TO ELIGIBLE ENTITIES FOR CONSERVATION**
4 **PURPOSES.**

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

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

10 “(1) *IN GENERAL.*—The term ‘qualifying gain’
11 means any gain which would be recognized as long-
12 term capital gain, reduced by the amount of any
13 long-term capital gain attributable to disqualified im-
14 provements.

15 “(2) *DISQUALIFIED IMPROVEMENT.*—For pur-
16 poses of paragraph (1), the term ‘disqualified im-
17 provement’ means any building, structure, or other
18 improvement, other than—

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

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

24 “(ii) without taking into account sub-
25 paragraphs (A) and (B) thereof, or

1 “(B) any improvement which the Secretary
2 determines directly furthers conservation pur-
3 poses.

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

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

11 “(B) the product of—

12 “(i) the percentage of such corpora-
13 tion’s stock which is transferred by the tax-
14 payer, times

15 “(ii) the amount which would have
16 been the qualifying gain (determined under
17 paragraph (1)) if there had been a conserva-
18 tion sale by such corporation of all of its in-
19 terests in the land and water for a price
20 equal to the product of the fair market value
21 of such interests times the ratio of—

22 “(I) the proceeds of the conserva-
23 tion sale of the stock, to

1 “(II) the fair market value of the
2 stock which was the subject of the con-
3 servation sale.

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

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

10 “(2) QUALIFYING LETTER OF INTENT RE-
11 QUIRED.—At the time of the sale or exchange, such
12 transferee provides the taxpayer with a qualifying let-
13 ter of intent.

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

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

1 “(d) *LONG-HELD QUALIFYING LAND OR WATER IN-*
2 *TEREST.—For purposes of this section—*

3 “(1) *IN GENERAL.—The term ‘long-held quali-*
4 *fying land or water interest’ means any qualifying*
5 *land or water interest owned by the taxpayer or a*
6 *member of the taxpayer’s family (as defined in sec-*
7 *tion 2032A(e)(2)) at all times during the 5-year pe-*
8 *riod ending on the date of the sale.*

9 “(2) *QUALIFYING LAND OR WATER INTEREST.—*

10 “(A) *IN GENERAL.—The term ‘qualifying*
11 *land or water interest’ means a real property in-*
12 *terest which constitutes—*

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

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

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

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

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

23 “(i) *a partial interest in land or water*
24 *is not a taxpayer’s entire interest if an in-*
25 *terest in land or water was divided in order*

1 to create such partial interest in order to
2 avoid the requirements of such clause or sec-
3 tion 170(f)(3)(A), and

4 “(ii) a taxpayer’s entire interest in
5 certain land does not fail to satisfy sub-
6 paragraph (A)(i) solely because the tax-
7 payer has retained an interest in other
8 land, even if the other land is contiguous
9 with such certain land and was acquired by
10 the taxpayer along with such certain land
11 in a single conveyance.

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

14 “(1) *ELIGIBLE ENTITY.*—The term ‘eligible enti-
15 *ty*’ means—

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

21 “(B) an entity which is—

22 “(i) described in section
23 170(b)(1)(A)(vi) or section 170(h)(3)(B),
24 and

1 “(ii) organized and at all times oper-
2 ated primarily for 1 or more of the con-
3 servation purposes specified in clause (i),
4 (ii), or (iii) of section 170(h)(4)(A).

5 “(2) QUALIFYING LETTER OF INTENT.—The term
6 ‘qualifying letter of intent’ means a written letter of
7 intent which includes the following statement: ‘The
8 transferee’s intent is that this acquisition will serve 1
9 or more of the conservation purposes specified in
10 clause (i), (ii), or (iii) of section 170(h)(4)(A) of the
11 Internal Revenue Code of 1986, that the transferee’s
12 use of the property so acquired will be consistent with
13 section 170(h)(5) of such Code, and that the use of the
14 property will continue to be consistent with such sec-
15 tion, even if ownership or possession of such property
16 is subsequently transferred to another person.’

17 “(3) QUALIFYING LAND OR WATER CORPORA-
18 TION.—The term ‘qualifying land or water corpora-
19 tion’ means a C corporation (as defined in section
20 1361(a)(2)) if, as of the date of the conservation
21 sale—

22 “(A) the fair market value of the corpora-
23 tion’s interests in land or water held by the cor-
24 poration at all times during the preceding 5
25 years equals or exceeds 90 percent of the fair

1 *market value of all of such corporation's assets,*
2 *and*

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

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

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

11 *“(A) transfer by an eligible entity of owner-*
12 *ship or possession, whether by sale, exchange, or*
13 *lease, of property acquired directly or indirectly*
14 *in—*

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

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

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

22 *“(2) AMOUNT OF TAX.—The amount of tax im-*
23 *posed by paragraph (1) on any transfer or removal*
24 *shall be equal to the sum of—*

25 *“(A) either—*

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

5 “(ii) 20 percent of the fair market
6 value (determined at the time immediately
7 after the removal) of the property upon
8 which the conservation restriction was re-
9 moved, plus

10 “(B) the product of—

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

13 “(ii) any gain or income realized by
14 the transferor or person removing such re-
15 striction as a result of the transfer or re-
16 moval.

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

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

20 “(B) on any removal of a conservation re-
21 striction contained in an instrument of convey-
22 ance, by the person removing such restriction.

23 “(4) *RELIEF FROM LIABILITY.*—The person (oth-
24 erwise liable for any tax imposed by paragraph (1))

1 *shall be relieved of liability for the tax imposed by*
2 *paragraph (1)—*

3 “(A) *with respect to any transfer if—*

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

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

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

18 “(B) *with respect to any removal of a con-*
19 *servation restriction contained in an instrument*
20 *of conveyance, if it is established to the satisfac-*
21 *tion of the Secretary that the retention of the re-*
22 *striction was impracticable or impossible and*
23 *the proceeds continue to be used in a manner*
24 *consistent with 1 or more of the conservation*

1 purposes specified in clause (i), (ii), or (iii) of
2 section 170(h)(4)(A).

3 “(5) *ADMINISTRATIVE PROVISIONS.*—For pur-
4 poses of subtitle F, the taxes imposed by this sub-
5 section shall be treated as excise taxes with respect to
6 which the deficiency procedures of such subtitle apply.

7 “(6) *REPORTING.*—The Secretary may require
8 such reporting as may be necessary or appropriate to
9 further the purpose under this section that any con-
10 servation use be in perpetuity.”

11 (b) *CLERICAL AMENDMENT.*—The table of sections for
12 part III of subchapter B of chapter 1 is amended by insert-
13 ing after the item relating to section 121 the following new
14 item:

“Sec. 121A. 25-percent exclusion of gain on sales or exchanges of
land or water interests to eligible entities for con-
servation purposes.”

15 (c) *EFFECTIVE DATE.*—The amendments made by this
16 section shall apply to sales or exchanges occurring after De-
17 cember 31, 2003, in taxable years ending after such date.

18 **SEC. 108. TAX EXCLUSION FOR COST-SHARING PAYMENTS**

19 **UNDER PARTNERS FOR FISH AND WILDLIFE**

20 **PROGRAM.**

21 (a) *IN GENERAL.*—Section 126(a) (relating to certain
22 cost-sharing payments) is amended by redesignating para-
23 graph (10) as paragraph (11) and by inserting after para-
24 graph (9) the following:

1 “(10) *The Partners for Fish and Wildlife Pro-*
2 *gram authorized by the Fish and Wildlife Act of 1956*
3 *(16 U.S.C. 742a et seq.).*”

4 **(b) EFFECTIVE DATE.**—*The amendments made by this*
5 *section shall apply to payments received in taxable years*
6 *beginning after December 31, 2002.*

7 **SEC. 109. ADJUSTMENT TO BASIS OF S CORPORATION**
8 **STOCK FOR CERTAIN CHARITABLE CON-**
9 **TRIBUTIONS.**

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

14 *“The decrease under subparagraph (B) by reason of*
15 *a charitable contribution (as defined in section*
16 *170(c)) of property shall be the amount equal to the*
17 *shareholder’s pro rata share of the adjusted basis of*
18 *such property.”.*

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

1 **SEC. 110. ENHANCED DEDUCTION FOR CHARITABLE CON-**
 2 **TRIBUTION OF LITERARY, MUSICAL, ARTIS-**
 3 **TIC, AND SCHOLARLY COMPOSITIONS.**

4 *(a) IN GENERAL.—Subsection (e) of section 170 (relat-*
 5 *ing to certain contributions of ordinary income and capital*
 6 *gain property), as amended by this Act, is amended by add-*
 7 *ing at the end the following new paragraph:*

8 *“(8) SPECIAL RULE FOR CERTAIN CONTRIBU-*
 9 *TIONS OF LITERARY, MUSICAL, ARTISTIC, OR SCHOL-*
 10 *ARLY COMPOSITIONS.—*

11 *“(A) IN GENERAL.—In the case of a quali-*
 12 *fied artistic charitable contribution—*

13 *“(i) the amount of such contribution*
 14 *taken into account under this section shall*
 15 *be the fair market value of the property con-*
 16 *tributed (determined at the time of such*
 17 *contribution), and*

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

21 *“(B) QUALIFIED ARTISTIC CHARITABLE*
 22 *CONTRIBUTION.—For purposes of this para-*
 23 *graph, the term ‘qualified artistic charitable con-*
 24 *tribution’ means a charitable contribution of any*
 25 *literary, musical, artistic, or scholarly composi-*

1 *tion, or similar property, or the copyright there-*
2 *on (or both), but only if—*

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

7 *“(ii) the taxpayer—*

8 *“(I) has received a qualified ap-*
9 *praisal of the fair market value of such*
10 *property in accordance with the regu-*
11 *lations under this section, and*

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

16 *“(iii) the donee is an organization de-*
17 *scribed in subsection (b)(1)(A),*

18 *“(iv) the use of such property by the*
19 *donee is related to the purpose or function*
20 *constituting the basis for the donee’s exemp-*
21 *tion under section 501 (or, in the case of a*
22 *governmental unit, to any purpose or func-*
23 *tion described under section 501(c)),*

24 *“(v) the taxpayer receives from the*
25 *donee a written statement representing that*

1 *the donee's use of the property will be in ac-*
2 *cordance with the provisions of clause (iv),*
3 *and*

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

10 *“(I) owned, maintained, and dis-*
11 *played by organizations described in*
12 *subsection (b)(1)(A), and*

13 *“(II) sold to or exchanged by per-*
14 *sons other than the taxpayer, donee, or*
15 *any related person (as defined in sec-*
16 *tion 465(b)(3)(C)).*

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

21 *“(i) shall not exceed the artistic ad-*
22 *justed gross income of the taxpayer for such*
23 *taxable year, and*

24 *“(ii) shall not be taken into account in*
25 *determining the amount which may be car-*

1 ried from such taxable year under sub-
2 section (d).

3 “(D) *ARTISTIC ADJUSTED GROSS INCOME.*—

4 *For purposes of this paragraph, the term ‘artis-*
5 *tic adjusted gross income’ means that portion of*
6 *the adjusted gross income of the taxpayer for the*
7 *taxable year attributable to—*

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

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

15 “(E) *PARAGRAPH NOT TO APPLY TO CER-*
16 *TAIN CONTRIBUTIONS.*—*Subparagraph (A) shall*
17 *not apply to any charitable contribution of any*
18 *letter, memorandum, or similar property which*
19 *was written, prepared, or produced by or for an*
20 *individual while the individual is an officer or*
21 *employee of any person (including any govern-*
22 *ment agency or instrumentality) unless such let-*
23 *ter, memorandum, or similar property is en-*
24 *tirely personal.*

1 “(F) *COPYRIGHT TREATED AS SEPARATE*
 2 *PROPERTY FOR PARTIAL INTEREST RULE.—In*
 3 *the case of a qualified artistic charitable con-*
 4 *tribution, the tangible literary, musical, artistic,*
 5 *or scholarly composition, or similar property*
 6 *and the copyright on such work shall be treated*
 7 *as separate properties for purposes of this para-*
 8 *graph and subsection (f)(3).”.*

9 (b) *EFFECTIVE DATE.—The amendment made by this*
 10 *section shall apply to contributions made after December*
 11 *31, 2002, in taxable years ending after such date.*

12 ***TITLE II—DISCLOSURE OF IN-***
 13 ***FORMATION RELATING TO***
 14 ***TAX-EXEMPT ORGANIZATIONS***

15 ***SEC. 201. DISCLOSURE OF WRITTEN DETERMINATIONS.***

16 (a) *IN GENERAL.—Section 6110(l) (relating to section*
 17 *not to apply) is amended by striking all matter before sub-*
 18 *paragraph (A) of paragraph (2) and inserting the fol-*
 19 *lowing:*

20 “(l) *SECTION NOT TO APPLY.—*

21 “(1) *IN GENERAL.—This section shall not apply*
 22 *to any matter to which section 6104 or 6105 applies,*
 23 *except that this section shall apply to any written de-*
 24 *termination and related background file document re-*
 25 *lating to the tax-exempt status of an organization de-*

1 scribed under subsection (c) or (d) of section 501 (in-
2 cluding any organization that has applied for tax-ex-
3 empt status under such subsection) which is not re-
4 quired to be disclosed by section 6104(a)(1)(A) but
5 which is within the scope of section 6104.

6 “(2) *ADDITIONAL MATTERS.*—This section shall
7 not apply to any—”.

8 (b) *EFFECTIVE DATE.*—The amendment made by this
9 section shall apply to written determinations issued after
10 December 31, 2002.

11 **SEC. 202. DISCLOSURE OF INTERNET WEB SITE AND NAME**
12 **UNDER WHICH ORGANIZATION DOES BUSI-**
13 **NESS.**

14 (a) *IN GENERAL.*—Section 6033 (relating to returns
15 by exempt organizations) is amended by redesignating sub-
16 section (h) as subsection (i) and by inserting after sub-
17 section (g) the following new subsection:

18 “(h) *DISCLOSURE OF NAME UNDER WHICH ORGANI-*
19 *ZATION DOES BUSINESS AND ITS INTERNET WEB SITE.*—
20 Any organization which is subject to the requirements of
21 subsection (a) shall include on the return required under
22 subsection (a)—

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

1 *to the public under this subsection except upon the explicit*
2 *request by a member of the public to the Secretary .”.*

3 (c) *PUBLIC INSPECTION REQUIREMENT.*—Section
4 *6104(d) (relating to public inspection of certain annual re-*
5 *turns, applications for exemptions, and notices of status)*
6 *is amended by adding at the end the following new para-*
7 *graph:*

8 “(9) *APPLICATION TO PRIVATE FOUNDATION CAP-*
9 *ITAL TRANSACTION INFORMATION.*—With respect to
10 *any private foundation (as defined in section 509(a)),*
11 *any information regarding the gain or loss from the*
12 *sale or other disposition of property which is required*
13 *to be furnished in order to calculate the tax on net*
14 *investment income but which is not in summary form*
15 *is not required to be made available to the public*
16 *under this subsection except upon the explicit request*
17 *by a member of the public to the private foundation*
18 *in the form and manner of a request described in*
19 *paragraph (1)(B).”.*

20 (d) *EFFECTIVE DATE.*—The amendments made by this
21 *section shall apply to returns filed after December 31, 2002.*

22 **SEC. 204. DISCLOSURE THAT FORM 990 IS PUBLICLY AVAIL-**
23 **ABLE.**

24 (a) *IN GENERAL.*—The Commissioner of the Internal
25 *Revenue shall notify the public in appropriate publications*

1 *or other materials of the extent to which an exempt organi-*
2 *zation's Form 990, Form 990-EZ, or Form 990-PF is pub-*
3 *licly available.*

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

7 **SEC. 205. DISCLOSURE TO STATE OFFICIALS OF PROPOSED**
8 **ACTIONS RELATED TO SECTION 501(c) ORGA-**
9 **NIZATIONS.**

10 *(a) IN GENERAL.—Subsection (c) of section 6104 is*
11 *amended by striking paragraph (2) and inserting the fol-*
12 *lowing new paragraphs:*

13 *“(2) DISCLOSURE OF PROPOSED ACTIONS RE-*
14 *LATED TO CHARITABLE ORGANIZATIONS.—*

15 *“(A) SPECIFIC NOTIFICATIONS.—In the case*
16 *of an organization to which paragraph (1) ap-*
17 *plies, the Secretary may disclose to the appro-*
18 *priate State officer—*

19 *“(i) a notice of proposed refusal to rec-*
20 *ognize such organization as an organization*
21 *described in section 501(c)(3) or a notice of*
22 *proposed revocation of such organization's*
23 *recognition as an organization exempt from*
24 *taxation,*

1 “(ii) the issuance of a letter of pro-
2 posed deficiency of tax imposed under sec-
3 tion 507 or chapter 41 or 42, and

4 “(iii) the names and taxpayer identi-
5 fication numbers of organizations which
6 have applied for recognition as organiza-
7 tions described in section 501(c)(3).

8 “(B) *ADDITIONAL DISCLOSURES.*—Returns
9 and return information of organizations with re-
10 spect to which information is disclosed under
11 subparagraph (A) may be made available for in-
12 spection by or disclosed to an appropriate State
13 officer.

14 “(C) *PROCEDURES FOR DISCLOSURE.*—In-
15 formation may be inspected or disclosed under
16 subparagraph (A) or (B) only—

17 “(i) upon written request by an appro-
18 priate State officer, and

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

22 Such information may only be inspected by or
23 disclosed to representatives of the appropriate
24 State officer designated as the individuals who
25 are to inspect or to receive the returns or return

1 *information under this paragraph on behalf of*
2 *such officer. Such representatives shall not in-*
3 *clude any independent contractor.*

4 “(D) *DISCLOSURES OTHER THAN BY RE-*
5 *QUEST.—The Secretary may make available for*
6 *inspection or disclose returns and return infor-*
7 *mation of an organization to which paragraph*
8 *(1) applies to an appropriate State officer of*
9 *any State if the Secretary determines that such*
10 *inspection or disclosure may facilitate the resolu-*
11 *tion of Federal or State issues relating to the*
12 *tax-exempt status of such organization.*

13 “(3) *DISCLOSURE WITH RESPECT TO CERTAIN*
14 *OTHER EXEMPT ORGANIZATIONS.—Upon written re-*
15 *quest by an appropriate State officer, the Secretary*
16 *may make available for inspection or disclosure re-*
17 *turns and return information of an organization de-*
18 *scribed in paragraph (2), (4), (6), (7), (8), (10), or*
19 *(13) of section 501(c) for the purpose of, and to the*
20 *extent necessary in, the administration of State laws*
21 *regulating the tax-exempt status of such organiza-*
22 *tions. Such information may be inspected only by or*
23 *disclosed only to representatives of the appropriate*
24 *State officer designated as the individuals who are to*
25 *inspect or to receive the returns or return information*

1 *under this paragraph on behalf of such officer. Such*
2 *representatives shall not include any independent*
3 *contractor.*

4 “(4) *USE IN JUDICIAL AND ADMINISTRATIVE*
5 *PROCEEDINGS.—Returns and return information dis-*
6 *closed pursuant to this subsection may be disclosed in*
7 *civil administrative and judicial proceedings per-*
8 *taining to the enforcement of State laws regulating*
9 *such organizations in a manner prescribed by the*
10 *Secretary similar to that for tax administration pro-*
11 *ceedings under section 6103(h)(4).*

12 “(5) *NO DISCLOSURE IF IMPAIRMENT.—Returns*
13 *and return information shall not be disclosed under*
14 *this subsection, or in any proceeding described in*
15 *paragraph (4), to the extent that the Secretary deter-*
16 *mines that such disclosure would seriously impair*
17 *Federal tax administration.*

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

20 “(A) *RETURN AND RETURN INFORMA-*
21 *TION.—The terms ‘return’ and ‘return informa-*
22 *tion’ have the respective meanings given to such*
23 *terms by section 6103(b).*

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

- 1 “(i) the State attorney general,
2 “(ii) in the case of an organization to
3 which paragraph (1) applies, any other
4 State official charged with overseeing orga-
5 nizations of the type described in section
6 501(c)(3), and
7 “(iii) in the case of an organization to
8 which paragraph (3) applies, the head of an
9 agency designated by the State attorney
10 general as having primary responsibility
11 for overseeing the tax-exempt status of such
12 organizations.”.

13 (b) CONFORMING AMENDMENTS.—

- 14 (1) Subsection (a) of section 6103 is amended—
15 (A) by inserting “or section 6104(c)” after
16 “this section” in paragraph (2), and
17 (B) by striking “or subsection (n)” in para-
18 graph (3) and inserting “subsection (n), or sec-
19 tion 6104(c)”.
- 20 (2) Subparagraph (A) of section 6103(p)(3) is
21 amended by inserting “and section 6104(c)” after
22 “section” in the first sentence.
- 23 (3) Paragraph (4) of section 6103(p) is
24 amended—

1 (A) in the matter preceding subparagraph
2 (A), by striking “(16) or any other person de-
3 scribed in subsection (l)(16)” and inserting
4 “(16), any other person described in subsection
5 (l)(16), or any appropriate State officer (as de-
6 fined in section 6104(c))”, and

7 (B) in subparagraph (F), by striking “or
8 any other person described in subsection (l)(16)”
9 and inserting “any other person described in
10 subsection (l)(16), or any appropriate State offi-
11 cer (as defined in section 6104(c))”.

12 (4) The heading for paragraph (1) of section
13 6104(c) is amended by inserting “FOR CHARITABLE
14 ORGANIZATIONS”.

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

17 (6) Paragraph (2) of section 7213A(a) is amend-
18 ed by inserting “or 6104(c)” after “6103”.

19 (7) Paragraph (2) of section 7431(a) is amended
20 by inserting “(including any disclosure in violation
21 of section 6104(c))” after “6103”.

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

1 **TITLE III—OTHER CHARITABLE**
2 **AND EXEMPT ORGANIZATION**
3 **PROVISIONS**

4 **SEC. 301. MODIFICATION OF EXCISE TAX ON UNRELATED**
5 **BUSINESS TAXABLE INCOME OF CHARITABLE**
6 **REMAINDER TRUSTS.**

7 (a) *IN GENERAL.*—Subsection (c) of section 664 (relat-
8 ing to exemption from income taxes) is amended to read
9 as follows:

10 “(c) *TAXATION OF TRUSTS.*—

11 “(1) *INCOME TAX.*—A charitable remainder an-
12 nuity trust and a charitable remainder unitrust shall,
13 for any taxable year, not be subject to any tax im-
14 posed by this subtitle.

15 “(2) *EXCISE TAX.*—

16 “(A) *IN GENERAL.*—In the case of a chari-
17 table remainder annuity trust or a charitable re-
18 mainder unitrust which has unrelated business
19 taxable income (within the meaning of section
20 512, determined as if part III of subchapter F
21 applied to such trust) for a taxable year, there
22 is hereby imposed on such trust or unitrust an
23 excise tax equal to the amount of such unrelated
24 business taxable income.

1 *crued if such payment met the requirements*
2 *prescribed under section 482.*

3 “(ii) *ADDITION TO TAX FOR VALUATION*
4 *MISSTATEMENTS.—The tax imposed by this*
5 *chapter on the controlling organization*
6 *shall be increased by an amount equal to 20*
7 *percent of the larger of—*

8 “(I) *such excess determined with-*
9 *out regard to any amendment or sup-*
10 *plement to a return of tax, or*

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

14 (b) *EFFECTIVE DATE.—*

15 (1) *IN GENERAL.—The amendment made by this*
16 *section shall apply to payments received or accrued*
17 *after December 31, 2000.*

18 (2) *PAYMENTS SUBJECT TO BINDING CONTRACT*
19 *TRANSITION RULE.—If the amendments made by sec-*
20 *tion 1041 of the Taxpayer Relief Act of 1997 did not*
21 *apply to any amount received or accrued in the first*
22 *2 taxable years beginning on or after the date of the*
23 *enactment of the Taxpayer Relief Act of 1997 under*
24 *any contract described in subsection (b)(2) of such*
25 *section, such amendments also shall not apply to*

1 (c) *CONFORMING AMENDMENTS.*—

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

4 (2) *Section 4911(c) is amended by striking para-*
5 *graphs (3) and (4).*

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

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

12 (5) *Paragraphs (4)(A) and (4)(B) of section*
13 *4911(f) are each amended by striking “limits of sec-*
14 *tion 501(h)(1)” and inserting “limit of section*
15 *501(h)(1)”.*

16 (6) *Paragraph (8) of section 6033(b) (relating to*
17 *certain organizations described in section 501(c)(3))*
18 *is amended by inserting “and” at the end of subpara-*
19 *graph (A) and by striking subparagraphs (C) and*
20 *(D).*

21 (d) *EFFECTIVE DATE.*—*The amendments made by this*
22 *section shall apply to taxable years beginning after Decem-*
23 *ber 31, 2001.*

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

3 (a) *IN GENERAL.*—*The Secretary of the Treasury or*
4 *the Secretary’s delegate (in this section, referred to as the*
5 *“Secretary”)* shall adopt procedures to expedite the consid-
6 *eration of applications for exempt status under section*
7 *501(c)(3) of the Internal Revenue Code of 1986 filed after*
8 *December 31, 2002, by any organization that—*

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

11 (2) *is seeking a contract or grant under a Fed-*
12 *eral, State, or local program that provides funding*
13 *for social services programs;*

14 (3) *establishes that, under the terms and condi-*
15 *tions of the contract or grant program, an organiza-*
16 *tion is required to obtain such exempt status before*
17 *the organization is eligible to apply for a contract or*
18 *grant;*

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

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

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

1 (b) *WAIVER OF APPLICATION FEE FOR EXEMPT STA-*
2 *TUS.*—Any organization that meets the conditions described
3 *in subsection (a) (without regard to paragraph (3) of that*
4 *subsection) is entitled to a waiver of any fee for an applica-*
5 *tion for exempt status under section 501(c)(3) of the Inter-*
6 *nal Revenue Code of 1986 if the organization certifies that*
7 *the organization has had (or expects to have) average an-*
8 *nual gross receipts of not more than \$50,000 during the*
9 *preceding 4 years (or, in the case of an organization not*
10 *in existence throughout the preceding 4 years, during such*
11 *organization’s first 4 years).*

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

14 (1) *IN GENERAL.*—The term “social services”
15 *means services directed at helping people in need, re-*
16 *ducing poverty, improving outcomes of low-income*
17 *children, revitalizing low-income communities, and*
18 *empowering low-income families and low-income in-*
19 *dividuals to become self-sufficient, including—*

20 (A) *child care services, protective services*
21 *for children and adults, services for children and*
22 *adults in foster care, adoption services, services*
23 *related to the management and maintenance of*
24 *the home, day care services for adults, and serv-*
25 *ices to meet the special needs of children, older*

1 *individuals, and individuals with disabilities*
2 *(including physical, mental, or emotional dis-*
3 *abilities);*

4 *(B) transportation services;*

5 *(C) job training and related services, and*
6 *employment services;*

7 *(D) information, referral, and counseling*
8 *services;*

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

12 *(F) health support services;*

13 *(G) literacy and mentoring programs;*

14 *(H) services for the prevention and treat-*
15 *ment of juvenile delinquency and substance*
16 *abuse, services for the prevention of crime and*
17 *the provision of assistance to the victims and the*
18 *families of criminal offenders, and services re-*
19 *lated to the intervention in, and prevention of,*
20 *domestic violence; and*

21 *(I) services related to the provision of assist-*
22 *ance for housing under Federal law.*

23 (2) *EXCLUSIONS.*—*The term does not include a*
24 *program having the purpose of delivering educational*
25 *assistance under the Elementary and Secondary Edu-*

1 *to so qualify merely because the membership of such organi-*
 2 *zation includes individuals as well as churches or because*
 3 *individuals have voting rights in such organization.”.*

4 **SEC. 308. CHARITABLE CONTRIBUTION DEDUCTION FOR**
 5 **CERTAIN EXPENSES INCURRED IN SUPPORT**
 6 **OF NATIVE ALASKAN SUBSISTENCE WHALING.**

7 *(a) IN GENERAL.—Section 170 (relating to charitable,*
 8 *etc., contributions and gifts), as amended by this Act, is*
 9 *amended by redesignating subsection (n) as subsection (o)*
 10 *and by inserting after subsection (m) the following new sub-*
 11 *section:*

12 *“(n) EXPENSES PAID BY CERTAIN WHALING CAPTAINS*
 13 *IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE WHAL-*
 14 *ING.—*

15 *“(1) IN GENERAL.—In the case of an individual*
 16 *who is recognized by the Alaska Eskimo Whaling*
 17 *Commission as a whaling captain charged with the*
 18 *responsibility of maintaining and carrying out sanc-*
 19 *tioned whaling activities and who engages in such ac-*
 20 *tivities during the taxable year, the amount described*
 21 *in paragraph (2) (to the extent such amount does not*
 22 *exceed \$7,500 for the taxable year) shall be treated for*
 23 *purposes of this section as a charitable contribution.*

24 *“(2) AMOUNT DESCRIBED.—*

1 “(A) *IN GENERAL.*—*The amount described*
2 *in this paragraph is the aggregate of the reason-*
3 *able and necessary whaling expenses paid by the*
4 *taxpayer during the taxable year in carrying out*
5 *sanctioned whaling activities.*

6 “(B) *WHALING EXPENSES.*—*For purposes of*
7 *subparagraph (A), the term ‘whaling expenses’*
8 *includes expenses for—*

9 “(i) *the acquisition and maintenance*
10 *of whaling boats, weapons, and gear used in*
11 *sanctioned whaling activities,*

12 “(ii) *the supplying of food for the crew*
13 *and other provisions for carrying out such*
14 *activities, and*

15 “(iii) *storage and distribution of the*
16 *catch from such activities.*

17 “(3) *SANCTIONED WHALING ACTIVITIES.*—*For*
18 *purposes of this subsection, the term ‘sanctioned whal-*
19 *ing activities’ means subsistence bowhead whale hunt-*
20 *ing activities conducted pursuant to the management*
21 *plan of the Alaska Eskimo Whaling Commission.”*

22 “(b) *EFFECTIVE DATE.*—*The amendments made by sub-*
23 *section (a) shall apply to expenses paid after December 31,*
24 *2002, in taxable years ending after such date.*

1 **SEC. 309. PAYMENTS BY CHARITABLE ORGANIZATIONS TO**
2 **VICTIMS OF WAR ON TERRORISM.**

3 (a) *IN GENERAL.*—For purposes of the Internal Rev-
4 enue Code of 1986—

5 (1) *payments made by an organization described*
6 *in section 501(c)(3) of such Code to a member of the*
7 *Armed Forces of the United States, or to an indi-*
8 *vidual of such member’s immediate family by reason*
9 *of the death, injury, wounding, or illness of such*
10 *member incurred as the result of the military response*
11 *of the United States to the terrorist attacks against*
12 *the United States on September 11, 2001, shall be*
13 *treated as related to the purpose or function consti-*
14 *tuting the basis for such organization’s exemption*
15 *under section 501 of such Code if such payments are*
16 *made using an objective formula which is consistently*
17 *applied, and*

18 (2) *in the case of a private foundation (as de-*
19 *defined in section 509 of such Code), any payment de-*
20 *scribed in paragraph (1) shall not be treated as made*
21 *to a disqualified person for purposes of section 4941*
22 *of such Code.*

23 (b) *EFFECTIVE DATE.*—This section shall apply to
24 *payments made after the date of the enactment of this Act*
25 *and before September 11, 2003.*

1 **SEC. 310. TREATMENT OF BONDS ISSUED TO ACQUIRE**
2 **STANDING TIMBER ON LAND SUBJECT TO**
3 **CONSERVATION EASEMENT.**

4 (a) *IN GENERAL.*—Section 145 (defining qualified
5 501(c)(3) bond) is amended by redesignating subsection (e)
6 as subsection (f) and by inserting after subsection (d) the
7 following new subsection:

8 “(e) *BONDS ISSUED TO ACQUIRE STANDING TIMBER*
9 *ON LAND SUBJECT TO CONSERVATION EASEMENT.*—

10 “(1) *IN GENERAL.*—A bond to which this sub-
11 section applies shall not fail to be a qualified
12 501(c)(3) bond by reason of the sale, lease, or other
13 use of standing timber if—

14 “(A) such sale, lease, or other use does not
15 constitute an unrelated trade or business (deter-
16 mined by applying section 513(a)),

17 “(B) the bond is designated by the Secretary
18 for purposes of this subsection, and

19 “(C) the bond otherwise meets the require-
20 ments of this subsection.

21 “(2) *BONDS TO WHICH SUBSECTION APPLIES.*—
22 This subsection applies to bonds the proceeds of which
23 are used to acquire both land and any standing tim-
24 ber associated with such land from an unrelated per-
25 son if—

1 “(A) such land is subject to a conservation
2 restriction which—

3 “(i) is granted in perpetuity to an un-
4 related person which is a qualified organi-
5 zation (as defined in section 170(h)(3)),

6 “(ii) meets the requirements of clause
7 (ii) or (iii)(II) of section 170(h)(4)(A), and

8 “(iii) obligates the owner of such land
9 to pay the costs incurred by the holder of
10 the conservation restriction in monitoring
11 compliance with such restriction, and

12 “(B) the seller irrevocably elects not to ex-
13 clude from income any gain on the sale under
14 section 121A.

15 “(3) TREATMENT OF TIMBER, ETC.—

16 “(A) IN GENERAL.—For purposes of sub-
17 section (a), the cost of any standing timber ac-
18 quired with proceeds of such bonds shall be treat-
19 ed as a cost of acquiring the land associated with
20 the standing timber and such land shall not be
21 treated as used for a private business use because
22 of the sale or lease of the standing timber to, or
23 other use of the standing timber by, an unrelated
24 person to the extent that such sale, lease, or other

1 *use does not constitute an unrelated trade or*
2 *business, determined by applying section 513(a).*

3 “(B) *APPLICATION OF BOND MATURITY LIM-*
4 *ITATION.—For purposes of section 147(b), the*
5 *land or standing timber acquired with proceeds*
6 *of such bonds shall have an economic life of 35*
7 *years.*

8 “(C) *UNRELATED PERSON.—For purposes*
9 *of this subsection, a person shall be treated as*
10 *unrelated to—*

11 “(i) *an organization to which section*
12 *501 applies, if such person (or, if such per-*
13 *son is an individual, a member of such per-*
14 *son’s family) controls directly or indirectly*
15 *less than 20 percent of the governing body*
16 *of such organization,*

17 “(ii) *a corporation, if such person*
18 *owns directly or indirectly less than 20 per-*
19 *cent of the value of the outstanding stock of*
20 *such corporation, or*

21 “(iii) *a partnership, if such person*
22 *owns directly or indirectly less than 20 per-*
23 *cent of the capital interests or profit inter-*
24 *ests of such partnership.*

1 “(4) *LIMITATION ON AMOUNT OF BONDS DES-*
2 *IGNATED.—*

3 “(A) *IN GENERAL.—The aggregate amount*
4 *of bonds (including any bond (or series of bonds)*
5 *used to advance refund such bonds) which may*
6 *be designated for purposes of this subsection*
7 *under paragraph (1)(B) shall not exceed*
8 *\$2,000,000,000.*

9 “(B) *NO DESIGNATION AFTER 2005.—No*
10 *bonds may be so designated after 2005.*

11 “(C) *ALLOCATION OF LIMITATION.—The*
12 *limitation described in subparagraph (A) shall*
13 *be allocated by the Secretary among 501(c)(3)*
14 *organizations based on criteria established by the*
15 *Secretary after consultation with appropriate*
16 *Federal, State, and local officials.*

17 “(D) *TREATMENT OF CURRENT REFUNDING*
18 *BONDS.—Any bond (or series of bonds) issued to*
19 *refund a bond designated and issued before Jan-*
20 *uary 1, 2006, shall be treated as designated for*
21 *purposes of this subsection under paragraph*
22 *(1)(B) and shall not be taken into account in*
23 *applying subparagraph (A) or (B) of this para-*
24 *graph if—*

1 “(i) the amount of the refunding bond
2 does not exceed the outstanding amount of
3 the refunded bond, and

4 “(ii) the net proceeds of the refunding
5 bond are used to redeem the refunded bond
6 not later than 90 days after the date of the
7 issuance of the refunding bond.

8 “(5) *TERMINATION*.—This subsection shall not
9 apply to any bond (other than a refunding bond de-
10 scribed in paragraph (4)(D)) issued after December
11 31, 2005.”.

12 “(b) *EFFECTIVE DATE*.—The amendments made by sub-
13 section (a) shall apply to bonds issued after September 30,
14 2002.

15 **SEC. 311. EXEMPTION FROM INCOME TAX FOR STATE-CRE-**
16 **ATED ORGANIZATIONS PROVIDING PROP-**
17 **ERTY AND CASUALTY INSURANCE FOR PROP-**
18 **ERTY FOR WHICH SUCH COVERAGE IS OTHER-**
19 **WISE UNAVAILABLE.**

20 “(a) *IN GENERAL*.—Subsection (c) of section 501 (relat-
21 ing to exemption from tax on corporations, certain trusts,
22 etc.) is amended by adding at the end the following new
23 paragraph:

24 “(29)(A) Any association created before January
25 1, 1999, by State law and organized and operated ex-

1 *clusively to provide property and casualty insurance*
2 *coverage for windstorm, hail, and fire damage to*
3 *property located within the State for which the State*
4 *determines, through appropriate State action, that*
5 *such coverage in the authorized insurance market is*
6 *not reasonably available to a substantial number of*
7 *insurable real properties (and any successor associa-*
8 *tion) if—*

9 *“(i) no part of the net earnings of which in-*
10 *ures to the benefit of any private shareholder or*
11 *individual,*

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

15 *“(I) to satisfy, in whole or in part, the*
16 *liability of the association for, or with re-*
17 *spect to, claims made on policies written by*
18 *the association,*

19 *“(II) to invest in investments author-*
20 *ized by applicable law,*

21 *“(III) to pay reasonable and necessary*
22 *administration expenses in connection with*
23 *the establishment and operation of the asso-*
24 *ciation and the processing of claims against*
25 *the association, or*

1 “(IV) to make remittances pursuant to
2 State law to be used by the State to provide
3 for the payment of claims on policies writ-
4 ten by the association, purchase reinsurance
5 covering losses under such policies, or to
6 support governmental programs to prepare
7 for or mitigate the effects of natural cata-
8 strophic events,

9 “(iii) the State law governing the associa-
10 tion permits the association to levy assessments
11 on insurance companies authorized to sell prop-
12 erty and casualty insurance in the State, or on
13 property and casualty insurance policyholders
14 with insurable interests in property located in
15 the State to fund deficits of the association, in-
16 cluding the creation of reserves,

17 “(iv) the plan of operation of the associa-
18 tion is subject to approval by the chief executive
19 officer or other official of the State, by the State
20 legislature, or both, and

21 “(v) the assets of the association revert upon
22 dissolution to the State, the State’s designee, or
23 an entity designated by the State law governing
24 the association, or State law does not permit the
25 dissolution of the association.

1 “(B)(i) *An entity described in clause (ii) (and*
2 *any successor entity) shall be disregarded as a sepa-*
3 *rate entity and treated as part of the association de-*
4 *scribed in subparagraph (A) from which it receives*
5 *remittances described in clause (ii) if an election is*
6 *made within 30 days after the date that such associa-*
7 *tion is determined to be exempt from tax.*

8 “(ii) *An entity is described in this clause if it*
9 *is an entity or fund created before January 1, 1999,*
10 *pursuant to State law and organized and operated*
11 *exclusively to receive, hold, and invest remittances*
12 *from an association described in subparagraph (A)*
13 *and exempt from tax under subsection (a), to make*
14 *disbursements to pay claims on insurance contracts*
15 *issued by such association, and to make disbursements*
16 *to support governmental programs to prepare for or*
17 *mitigate the effects of natural catastrophic events.”.*

18 (b) *UNRELATED BUSINESS TAXABLE INCOME.*—Sub-
19 *section (a) of section 512 (relating to unrelated business*
20 *taxable income) is amended by adding at the end the fol-*
21 *lowing new paragraph:*

22 “(6) *SPECIAL RULE APPLICABLE TO ORGANIZA-*
23 *TIONS DESCRIBED IN SECTION 501(c)(29)—In the case*
24 *of an organization described in section 501(c)(29), the*
25 *term ‘unrelated business taxable income’ means tax-*

1 *able income for a taxable year computed without the*
2 *application of section 501(c)(29) if at the end of the*
3 *immediately preceding taxable year the organization's*
4 *net equity exceeded 15 percent of the total coverage in*
5 *force under insurance contracts issued by the organi-*
6 *zation and outstanding at the end of such preceding*
7 *year.”.*

8 *(c) TRANSITIONAL RULE.—No income or gain shall be*
9 *recognized by an association as a result of a change in sta-*
10 *tus to that of an association described by section 501(c)(29)*
11 *of the Internal Revenue Code of 1986, as amended by sub-*
12 *section (a).*

13 *(d) EFFECTIVE DATE.—The amendment made by sub-*
14 *section (a) shall apply to taxable years beginning after De-*
15 *cember 31, 2002.*

16 **SEC. 312. MODIFICATION OF SPECIAL ARBITRAGE RULE**
17 **FOR CERTAIN FUNDS.**

18 *(a) IN GENERAL.—Paragraph (1) of section 648 of the*
19 *Deficit Reduction Act of 1984 is amended to read as follows:*

20 *“(1) such securities or obligations are held in a*
21 *fund—*

22 *“(A) which, except to the extent of the in-*
23 *vestment earnings on such securities or obliga-*
24 *tions, cannot be used, under State constitutional*
25 *or statutory restrictions continuously in effect*

1 *since October 9, 1969, through the date of issue*
 2 *of the bond issue, to pay debt service on the bond*
 3 *issue or to finance the facilities that are to be fi-*
 4 *nanced with the proceeds of the bonds, or*

5 *“(B) the annual distributions from which*
 6 *cannot exceed 7 percent of the average fair mar-*
 7 *ket value of the assets held in such fund except*
 8 *to the extent distributions are necessary to pay*
 9 *debt service on the bond issue,”.*

10 **(b) CONFORMING AMENDMENT.**—*Section 648(3) of*
 11 *such Act is amended by striking “the investment earnings*
 12 *of” and inserting “distributions from”.*

13 **(c) EFFECTIVE DATE.**—*The amendments made by this*
 14 *section shall take effect on the date of the enactment of this*
 15 *Act.*

16 **SEC. 313. MATCHING GRANTS TO LOW-INCOME TAXPAYER**
 17 **CLINICS FOR RETURN PREPARATION.**

18 **(a) IN GENERAL.**—*Chapter 77 (relating to miscella-*
 19 *neous provisions) is amended by adding at the end the fol-*
 20 *lowing new section:*

21 **“SEC. 7527. ASSISTANCE FOR RETURN PREPARATION FOR**
 22 **LOW-INCOME TAXPAYERS.**

23 **“(a) IN GENERAL.**—*The Secretary may, subject to the*
 24 *availability of appropriated funds, make grants to provide*
 25 *matching funds to not-for-profit organizations described in*

1 *section 501(c) and exempt from taxation under section*
 2 *501(a) which assist low-income taxpayers in tax return*
 3 *preparation.*

4 “(b) *AGGREGATE LIMITATION.*—*Unless otherwise pro-*
 5 *vided by specific appropriation, the Secretary shall not al-*
 6 *locate more than \$10,000,000 per year (exclusive of costs*
 7 *of administering the program) to grants under this section.*

8 “(c) *REQUIREMENT OF MATCHING FUNDS.*—*A not-for-*
 9 *profit organization must provide matching funds on a dol-*
 10 *lar-for-dollar basis for all grants provided under this sec-*
 11 *tion. Matching funds may include—*

12 “(1) *the salary (including fringe benefits) of in-*
 13 *dividuals performing tax return preparation services*
 14 *for the organization; and*

15 “(2) *the cost of equipment used by the organiza-*
 16 *tion.*

17 *Indirect expenses, including general overhead of the organi-*
 18 *zation, shall not be counted as matching funds.”.*

19 “(b) *CLERICAL AMENDMENT.*—*The table of sections for*
 20 *chapter 77 is amended by adding at the end the following*
 21 *new item:*

“Sec. 7527. Assistance for return preparation for low-income tax-
payers.”.

22 “(c) *EFFECTIVE DATE.*—*The amendments made by this*
 23 *section shall take effect on the date of the enactment of this*
 24 *Act.*

1 **SEC. 314. MODIFICATION OF SCHOLARSHIP FOUNDATION**2 **RULES.**

3 *In applying the limitations on the percentage of schol-*
 4 *arship grants which may be awarded after December 31,*
 5 *2002, to children of employees under Revenue Procedure*
 6 *76-47, such percentage shall be increased to 35 percent of*
 7 *the eligible applicants to be considered by the selection com-*
 8 *mittee and to 20 percent of individuals eligible for the*
 9 *grants, but only if the foundation awarding the grants dem-*
 10 *onstrates that, in addition to meeting the other require-*
 11 *ments of Revenue Procedure 76-47, it provides a com-*
 12 *parable number and aggregate amount of grants during the*
 13 *same program year to children who are not children of cur-*
 14 *rent or former employees.*

15 **TITLE IV—SOCIAL SERVICES**
 16 **BLOCK GRANT**

17 **SEC. 401. RESTORATION OF FUNDS FOR THE SOCIAL SERV-**18 **ICES BLOCK GRANT.**

19 *(a) FINDINGS.—Congress makes the following findings:*

20 *(1) On August 22, 1996, the Personal Responsi-*
 21 *bility and Work Opportunity Reconciliation Act of*
 22 *1996 (Public Law 104-193; 110 Stat. 2105) was*
 23 *signed into law.*

24 *(2) In enacting that law, Congress authorized*
 25 *\$2,800,000,000 for fiscal year 2003 and each fiscal*
 26 *year thereafter to carry out the Social Services Block*

1 *Grant program established under title XX of the So-*
 2 *cial Security Act (42 U.S.C. 1397 et seq.).*

3 *(b) RESTORATION OF FUNDS.—Section 2003(c)(11) of*
 4 *the Social Security Act (42 U.S.C. 1397b(c)(11)) is amend-*
 5 *ed by inserting “, except that, with respect to fiscal year*
 6 *2003, the amount shall be \$1,975,000,000, and with respect*
 7 *to fiscal year 2004, the amount shall be \$2,800,000,000”*
 8 *after “thereafter.”.*

9 **SEC. 402. RESTORATION OF AUTHORITY TO TRANSFER UP**
 10 **TO 10 PERCENT OF TANF FUNDS TO THE SO-**
 11 **CIAL SERVICES BLOCK GRANT.**

12 *(a) IN GENERAL.—Section 404(d)(2) of the Social Se-*
 13 *curity Act (42 U.S.C. 604(d)(2)) is amended to read as fol-*
 14 *lows:*

15 *“(2) LIMITATION ON AMOUNT TRANSFERABLE TO*
 16 *TITLE XX PROGRAMS.—A State may use not more*
 17 *than 10 percent of the amount of any grant made to*
 18 *the State under section 403(a) for a fiscal year to*
 19 *carry out State programs pursuant to title XX.”.*

20 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 21 *section (a) applies to amounts made available for fiscal*
 22 *year 2003 and each fiscal year thereafter.*

1 **SEC. 403. REQUIREMENT TO SUBMIT ANNUAL REPORT ON**
2 **STATE ACTIVITIES.**

3 (a) *IN GENERAL.*—Section 2006(c) of the Social Secu-
4 rity Act (42 U.S.C. 1397e(c)) is amended by adding at the
5 end the following: “The Secretary shall compile the infor-
6 mation submitted by the States and submit that informa-
7 tion to Congress on an annual basis.”.

8 (b) *EFFECTIVE DATE.*—The amendment made by sub-
9 section (a) applies to information submitted by States
10 under section 2006 of the Social Security Act (42 U.S.C.
11 1397e) with respect to fiscal year 2002 and each fiscal year
12 thereafter.

13 **TITLE V—INDIVIDUAL**
14 **DEVELOPMENT ACCOUNTS**

15 **SEC. 501. SHORT TITLE.**

16 *This title may be cited as the “Savings for Working*
17 *Families Act of 2002”.*

18 **SEC. 502. PURPOSES.**

19 *The purposes of this title are to provide for the estab-*
20 *lishment of individual development account programs that*
21 *will—*

22 (1) *provide individuals and families with lim-*
23 *ited means an opportunity to accumulate assets and*
24 *to enter the financial mainstream,*

25 (2) *promote education, homeownership, and the*
26 *development of small businesses,*

- 1 (3) *stabilize families and build communities,*
2 *and*
3 (4) *support continued United States economic*
4 *expansion.*

5 **SEC. 503. DEFINITIONS.**

6 *As used in this title:*

7 (1) *ELIGIBLE INDIVIDUAL.—*

8 (A) *IN GENERAL.—The term “eligible indi-*
9 *vidual” means, with respect to any taxable year,*
10 *an individual who—*

11 (i) *has attained the age of 18 but not*
12 *the age of 61 as of the last day of such tax-*
13 *able year,*

14 (ii) *is a citizen or lawful permanent*
15 *resident (within the meaning of section*
16 *7701(b)(6) of the Internal Revenue Code of*
17 *1986) of the United States as of the last day*
18 *of such taxable year,*

19 (iii) *was not a student (as defined in*
20 *section 151(c)(4) of such Code) for the im-*
21 *mediately preceding taxable year,*

22 (iv) *is not an individual with respect*
23 *to whom a deduction under section 151 of*
24 *such Code is allowable to another taxpayer*
25 *for a taxable year of the other taxpayer end-*

1 *ing during the immediately preceding tax-*
2 *able year of the individual,*

3 *(v) is not a taxpayer described in sec-*
4 *tion 1(d) of such Code for the immediately*
5 *preceding taxable year, and*

6 *(vi) is a taxpayer the modified ad-*
7 *justed gross income of whom for the imme-*
8 *diately preceding taxable year does not*
9 *exceed—*

10 *(I) \$18,000, in the case of a tax-*
11 *payer described in section 1(c) of such*
12 *Code,*

13 *(II) \$30,000, in the case of a tax-*
14 *payer described in section 1(b) of such*
15 *Code, and*

16 *(III) \$38,000, in the case of a tax-*
17 *payer described in section 1(a) of such*
18 *Code.*

19 *(B) INFLATION ADJUSTMENT.—*

20 *(i) IN GENERAL.—In the case of any*
21 *taxable year beginning after 2004, each dol-*
22 *lar amount referred to in subparagraph*
23 *(A)(vi) shall be increased by an amount*
24 *equal to—*

1 (I) such dollar amount, multiplied
2 by

3 (II) the cost-of-living adjustment
4 determined under section (1)(f)(3) of
5 the Internal Revenue Code of 1986 for
6 the calendar year in which the taxable
7 year begins, by substituting “2003” for
8 “1992”.

9 (ii) *ROUNDING*.—If any amount as ad-
10 justed under clause (i) is not a multiple of
11 \$50, such amount shall be rounded to the
12 nearest multiple of \$50.

13 (C) *MODIFIED ADJUSTED GROSS INCOME*.—
14 For purposes of subparagraph (A)(v), the term
15 “modified adjusted gross income” means adjusted
16 gross income—

17 (i) determined without regard to sec-
18 tions 86, 893, 911, 931, and 933 of the In-
19 ternal Revenue Code of 1986, and

20 (ii) increased by the amount of interest
21 received or accrued by the taxpayer during
22 the taxable year which is exempt from tax.

23 (2) *INDIVIDUAL DEVELOPMENT ACCOUNT*.—The
24 term “Individual Development Account” means an
25 account established for an eligible individual as part

1 of a qualified individual development account pro-
2 gram, but only if the written governing instrument
3 creating the account meets the following requirements:

4 (A) The owner of the account is the indi-
5 vidual for whom the account was established.

6 (B) No contribution will be accepted unless
7 it is in cash.

8 (C) The trustee of the account is a qualified
9 financial institution.

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

13 (E) Except as provided in section 507(b),
14 any amount in the account may be paid out
15 only for the purpose of paying the qualified ex-
16 penses of the account owner.

17 (3) *PARALLEL ACCOUNT.*—The term “parallel ac-
18 count” means a separate, parallel individual or
19 pooled account for all matching funds and earnings
20 dedicated to an Individual Development Account
21 owner as part of a qualified individual development
22 account program, the trustee of which is a qualified
23 financial institution.

24 (4) *QUALIFIED FINANCIAL INSTITUTION.*—The
25 term “qualified financial institution” means any per-

1 *son authorized to be a trustee of any individual re-*
2 *irement account under section 408(a)(2) of the Inter-*
3 *nal Revenue Code of 1986.*

4 (5) *QUALIFIED INDIVIDUAL DEVELOPMENT AC-*
5 *COUNT PROGRAM.—The term “qualified individual*
6 *development account program” means a program es-*
7 *tablished upon approval of the Secretary under sec-*
8 *tion 504 after December 31, 2002, under which—*

9 (A) *Individual Development Accounts and*
10 *parallel accounts are held in trust by a qualified*
11 *financial institution, and*

12 (B) *additional activities determined by the*
13 *Secretary, in consultation with the Secretary of*
14 *Health and Human Services, as necessary to re-*
15 *sponsibly develop and administer accounts, in-*
16 *cluding recruiting, providing financial education*
17 *and other training to Account owners, and reg-*
18 *ular program monitoring, are carried out by the*
19 *qualified financial institution.*

20 (6) *QUALIFIED EXPENSE DISTRIBUTION.—*

21 (A) *IN GENERAL.—The term “qualified ex-*
22 *penditure distribution” means any amount paid (in-*
23 *cluding through electronic payments) or distrib-*
24 *uted out of an Individual Development Account*

1 or a parallel account established for an eligible
2 individual if such amount—

3 (i) is used exclusively to pay the quali-
4 fied expenses of the Individual Development
5 Account owner or such owner's spouse or de-
6 pendents,

7 (ii) is paid by the qualified financial
8 institution—

9 (I) except as otherwise provided
10 in this clause, directly to the unrelated
11 third party to whom the amount is
12 due,

13 (II) in the case of any qualified
14 rollover, directly to another Individual
15 Development Account and parallel ac-
16 count, or

17 (III) in the case of a qualified
18 final distribution, directly to the
19 spouse, dependent, or other named ben-
20 eficiary of the deceased Account owner,
21 and

22 (iii) is paid after the Account owner
23 has completed a financial education course
24 if required under section 505(b).

25 (B) QUALIFIED EXPENSES.—

1 (i) *IN GENERAL.*—The term “qualified
2 expenses” means any of the following ex-
3 penses approved by the qualified financial
4 institution:

5 (I) *Qualified higher education ex-*
6 penses.

7 (II) *Qualified first-time home-*
8 buyer costs.

9 (III) *Qualified business capital-*
10 ization or expansion costs.

11 (IV) *Qualified rollovers.*

12 (V) *Qualified final distribution.*

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

15 (I) *IN GENERAL.*—The term
16 “qualified higher education expenses”
17 has the meaning given such term by
18 section 529(e)(3) of the *Internal Rev-*
19 *enue Code of 1986*, determined by
20 treating the Account owner, the owner’s
21 spouse, or one or more of the owner’s
22 dependents as a designated beneficiary,
23 and reduced as provided in section
24 25A(g)(2) of such Code.

1 (II) COORDINATION WITH OTHER
2 BENEFITS.—The amount of expenses
3 which may be taken into account for
4 purposes of section 135, 529, or 530 of
5 such Code for any taxable year shall be
6 reduced by the amount of any qualified
7 higher education expenses taken into
8 account as qualified expense distribu-
9 tions during such taxable year.

10 (iii) QUALIFIED FIRST-TIME HOME-
11 BUYER COSTS.—The term “qualified first-
12 time homebuyer costs” means qualified ac-
13 quisition costs (as defined in section
14 72(t)(8)(C) of the Internal Revenue Code of
15 1986) with respect to a principal residence
16 (within the meaning of section 121 of such
17 Code) for a qualified first-time homebuyer
18 (as defined in section 72(t)(8)(D)(i) of such
19 Code).

20 (iv) QUALIFIED BUSINESS CAPITALIZA-
21 TION OR EXPANSION COSTS.—

22 (I) IN GENERAL.—The term
23 “qualified business capitalization or
24 expansion costs” means qualified ex-
25 penditures for the capitalization or ex-

1 *pansion of a qualified business pursu-*
2 *ant to a qualified business plan.*

3 (II) *QUALIFIED EXPENDI-*
4 *TURES.—The term “qualified expendi-*
5 *tures” means expenditures normally*
6 *associated with starting or expanding*
7 *a business and included in a qualified*
8 *business plan, including costs for cap-*
9 *ital, plant, and equipment, inventory*
10 *expenses, and attorney and accounting*
11 *fees.*

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

16 (IV) *QUALIFIED BUSINESS*
17 *PLAN.—The term “qualified business*
18 *plan” means a business plan which*
19 *has been approved by the qualified fi-*
20 *nancial institution and which meets*
21 *such requirements as the Secretary*
22 *may specify.*

23 (v) *QUALIFIED ROLLOVERS.—The term*
24 *“qualified rollover” means the complete dis-*
25 *tribution of the amounts in an Individual*

1 *Development Account and parallel account*
 2 *to another Individual Development Account*
 3 *and parallel account established in another*
 4 *qualified financial institution for the ben-*
 5 *efit of the Account owner.*

6 *(vi) QUALIFIED FINAL DISTRIBUTION.—The term “qualified final distribu-*
 7 *tion” means, in the case of a deceased Ac-*
 8 *count owner, the complete distribution of*
 9 *the amounts in the Individual Development*
 10 *Account and parallel account directly to the*
 11 *spouse, any dependent, or other named ben-*
 12 *eficiary of the deceased.*

13 *(7) SECRETARY.—The term “Secretary” means*
 14 *the Secretary of the Treasury.*

15 **SEC. 504. STRUCTURE AND ADMINISTRATION OF QUALI-**
 16 **FIED INDIVIDUAL DEVELOPMENT ACCOUNT**
 17 **PROGRAMS.**

18 *(a) ESTABLISHMENT OF QUALIFIED INDIVIDUAL DE-*
 19 *VELOPMENT ACCOUNT PROGRAMS.—Any qualified finan-*
 20 *cial institution may apply to the Secretary for approval*
 21 *to establish 1 or more qualified individual development ac-*
 22 *count programs which meet the requirements of this title*
 23 *and for an allocation of the Individual Development Ac-*
 24

1 *count limitation under section 45G(i)(3) of the Internal*
2 *Revenue Code of 1986 with respect to such programs.*

3 *(b) BASIC PROGRAM STRUCTURE.—*

4 *(1) IN GENERAL.—All qualified individual devel-*
5 *opment account programs shall consist of the fol-*
6 *lowing 2 components for each participant:*

7 *(A) An Individual Development Account to*
8 *which an eligible individual may contribute cash*
9 *in accordance with section 505.*

10 *(B) A parallel account to which all match-*
11 *ing funds shall be deposited in accordance with*
12 *section 506.*

13 *(2) TAILORED IDA PROGRAMS.—A qualified fi-*
14 *nancial institution may tailor its qualified indi-*
15 *vidual development account program to allow match-*
16 *ing funds to be spent on 1 or more of the categories*
17 *of qualified expenses.*

18 *(c) COORDINATION WITH PUBLIC HOUSING AGENCY*
19 *INDIVIDUAL SAVINGS ACCOUNTS.—Section 3(e)(2) of the*
20 *United States Housing Act of 1937 (42 U.S.C. 1437a(e)(2))*
21 *is amended by inserting “or in any Individual Develop-*
22 *ment Account established under the Savings for Working*
23 *Families Act of 2002” after “subsection”.*

24 *(d) TAX TREATMENT OF PARALLEL ACCOUNTS.—*

1 (1) *IN GENERAL.*—Chapter 77 of the Internal
 2 Revenue Code of 1986 (relating to miscellaneous pro-
 3 visions) is amended by adding at the end the fol-
 4 lowing new section:

5 **“SEC. 7525. TAX INCENTIVES FOR INDIVIDUAL DEVELOP-**
 6 **MENT PARALLEL ACCOUNTS.**

7 *“For purposes of this title—*

8 *“(1) any account described in section*
 9 *504(b)(1)(B) of the Savings for Working Families Act*
 10 *of 2002 shall be exempt from taxation,*

11 *“(2) except as provided in section 45G, no item*
 12 *of income, expense, basis, gain, or loss with respect to*
 13 *such an account may be taken into account, and*

14 *“(3) any amount withdrawn from such an ac-*
 15 *count shall not be includible in gross income.”.*

16 (2) *CONFORMING AMENDMENT.*—The table of sec-
 17 tions for chapter 77 of such Code is amended by add-
 18 ing at the end the following new item:

*“Sec. 7525. Tax incentives for individual development parallel ac-
 counts.”.*

19 (e) *COORDINATION OF CERTAIN EXPENSES.*—Section
 20 25A(g)(2) of the Internal Revenue Code of 1986 is amended
 21 by striking “and” at the end of subparagraph (C), by strik-
 22 ing the period at the end of subparagraph (D) and inserting
 23 “, and”, and by adding at the end the following new sub-
 24 paragraph:

1 “(D) a qualified expense distribution with
2 respect to qualified higher education expenses
3 from an Individual Development Account or a
4 parallel account under section 507(a) of the Sav-
5 ings for Working Families Act of 2002.

6 **SEC. 505. PROCEDURES FOR OPENING AND MAINTAINING**
7 **AN INDIVIDUAL DEVELOPMENT ACCOUNT**
8 **AND QUALIFYING FOR MATCHING FUNDS.**

9 (a) *OPENING AN ACCOUNT.*—An eligible individual
10 may open an Individual Development Account with a
11 qualified financial institution upon certification that such
12 individual has never maintained any other Individual De-
13 velopment Account (other than an Individual Development
14 Account to be terminated by a qualified rollover).

15 (b) *REQUIRED COMPLETION OF FINANCIAL EDU-*
16 *CATION COURSE.*—

17 (1) *IN GENERAL.*—Before becoming eligible to
18 withdraw funds to pay for qualified expenses, owners
19 of Individual Development Accounts must complete 1
20 or more financial education courses specified in the
21 qualified individual development account program.

22 (2) *STANDARD AND APPLICABILITY OF*
23 *COURSE.*—The Secretary, in consultation with rep-
24 resentatives of qualified individual development ac-
25 count programs and financial educators, shall not

1 *later than January 1, 2004, establish minimum qual-*
2 *ity standards for the contents of financial education*
3 *courses and providers of such courses described in*
4 *paragraph (1) and a protocol to exempt individuals*
5 *from the requirement under paragraph (1) in the case*
6 *of hardship, lack of need, the attainment of age 61,*
7 *or a qualified final distribution.*

8 *(c) PROOF OF STATUS AS AN ELIGIBLE INDIVIDUAL.—*
9 *Federal income tax forms for the immediately preceding*
10 *taxable year and any other evidence of eligibility which*
11 *may be required by a qualified financial institution shall*
12 *be presented to such institution at the time of the establish-*
13 *ment of the Individual Development Account and in any*
14 *taxable year in which contributions are made to the Ac-*
15 *count to qualify for matching funds under section*
16 *506(b)(1)(A).*

17 *(d) SPECIAL RULE IN THE CASE OF MARRIED INDI-*
18 *VIDUALS.—For purposes of this title, if, with respect to any*
19 *taxable year, 2 married individuals file a Federal joint in-*
20 *come tax return, then not more than 1 of such individuals*
21 *may be treated as an eligible individual with respect to the*
22 *succeeding taxable year.*

1 **SEC. 506. DEPOSITS BY QUALIFIED INDIVIDUAL DEVELOP-**
2 **MENT ACCOUNT PROGRAMS.**

3 (a) *PARALLEL ACCOUNTS.*—*The qualified financial*
4 *institution shall deposit all matching funds for each Indi-*
5 *vidual Development Account into a parallel account at a*
6 *qualified financial institution.*

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

8 (1) *IN GENERAL.*—*Subject to paragraph (2), the*
9 *qualified financial institution shall deposit into the*
10 *parallel account with respect to each eligible indi-*
11 *vidual the following amounts:*

12 (A) *A dollar-for-dollar match for the first*
13 *\$500 contributed by the eligible individual into*
14 *an Individual Development Account with respect*
15 *to any taxable year of such individual.*

16 (B) *Any matching funds provided by State,*
17 *local, or private sources in accordance with the*
18 *matching ratio set by those sources.*

19 (2) *TIMING OF DEPOSITS.*—*A deposit of the*
20 *amounts described in paragraph (1) shall be made*
21 *into a parallel account—*

22 (A) *in the case of amounts described in*
23 *paragraph (1)(A), not later than 30 days after*
24 *the end of the calendar quarter during which the*
25 *contribution described in such paragraph was*
26 *made, and*

1 (B) in the case of amounts described in
2 paragraph (1)(B), not later than 2 business days
3 after such amounts were provided.

4 (3) *CROSS REFERENCE.*—

For allowance of tax credit for Individual Development Account subsidies, including matching funds, see section 45G of the Internal Revenue Code of 1986.

5 (c) *DEPOSIT OF MATCHING FUNDS INTO INDIVIDUAL*
6 *DEVELOPMENT ACCOUNT OF INDIVIDUAL WHO HAS AT-*
7 *TAINED AGE 61.*—*In the case of an Individual Development*
8 *Account owner who attains the age of 61, the qualified fi-*
9 *nancial institution shall deposit the funds in the parallel*
10 *account with respect to such individual into the Individual*
11 *Development Account of such individual on the later of—*

12 (1) *the day which is the 1-year anniversary of*
13 *the deposit of such funds in the parallel account, or*

14 (2) *the first business day of the taxable year of*
15 *such individual following the taxable year in which*
16 *such individual attained age 61.*

17 (d) *UNIFORM ACCOUNTING REGULATIONS.*—*To ensure*
18 *proper recordkeeping and determination of the tax credit*
19 *under section 45G of the Internal Revenue Code of 1986,*
20 *the Secretary shall prescribe regulations with respect to ac-*
21 *counting for matching funds in the parallel accounts.*

22 (e) *REGULAR REPORTING OF ACCOUNTS.*—*Any quali-*
23 *fied financial institution shall report the balances in any*
24 *Individual Development Account and parallel account of an*

1 *individual on not less than an annual basis to such indi-*
2 *vidual.*

3 **SEC. 507. WITHDRAWAL PROCEDURES.**

4 *(a) WITHDRAWALS FOR QUALIFIED EXPENSES.—*

5 *(1) IN GENERAL.—An Individual Development*
6 *Account owner may withdraw funds in order to pay*
7 *qualified expense distributions from such*
8 *individual's—*

9 *(A) Individual Development Account, but*
10 *only from funds which have been on deposit in*
11 *such Account for at least 1 year, and*

12 *(B) parallel account, but only—*

13 *(i) from matching funds which have*
14 *been on deposit in such parallel account for*
15 *at least 1 year,*

16 *(ii) from earnings in such parallel ac-*
17 *count, after all matching funds described in*
18 *clause (i) have been withdrawn, and*

19 *(iii) to the extent such withdrawal does*
20 *not result in a remaining balance in such*
21 *parallel account which is less than the re-*
22 *maining balance in the Individual Develop-*
23 *ment Account after such withdrawal.*

24 *(2) PROCEDURE.—Upon receipt of a withdrawal*
25 *request which meets the requirements of paragraph*

1 (1), the qualified financial institution shall directly
2 transfer the funds electronically to the distributees de-
3 scribed in section 503(6)(A)(ii). If a distributee is not
4 equipped to receive funds electronically, the qualified
5 financial institution may issue such funds by paper
6 check to the distributee.

7 (b) *WITHDRAWALS FOR NONQUALIFIED EXPENSES.*—
8 An Individual Development Account owner may withdraw
9 any amount of funds from the Individual Development Ac-
10 count for purposes other than to pay qualified expense dis-
11 tributions, but if, after such withdrawal, the amount in the
12 parallel account of such owner (excluding earnings on
13 matching funds) exceeds the amount remaining in such In-
14 dividual Development Account, then such owner shall forfeit
15 from the parallel account the lesser of such excess or the
16 amount withdrawn.

17 (c) *WITHDRAWALS FROM ACCOUNTS OF NONELIGIBLE*
18 *INDIVIDUALS.*—If the individual for whose benefit an Indi-
19 vidual Development Account is established ceases to be an
20 eligible individual, such account shall remain an Indi-
21 vidual Development Account, but such individual shall not
22 be eligible for any further matching funds under section
23 506(b)(1)(A) for contributions which are made to the Ac-
24 count during any taxable year when such individual is not
25 an eligible individual.

1 (d) *EFFECT OF PLEDGING ACCOUNT AS SECURITY.*—
 2 *If, during any taxable year of the individual for whose ben-*
 3 *efit an Individual Development Account is established, that*
 4 *individual uses the Account, the individual's parallel ac-*
 5 *count, or any portion thereof as security for a loan, the*
 6 *portion so used shall be treated as a withdrawal of such*
 7 *portion from the Individual Development Account for pur-*
 8 *poses other than to pay qualified expenses.*

9 **SEC. 508. CERTIFICATION AND TERMINATION OF QUALI-**
 10 **FIED INDIVIDUAL DEVELOPMENT ACCOUNT**
 11 **PROGRAMS.**

12 (a) *CERTIFICATION PROCEDURES.*—*Upon establishing*
 13 *a qualified individual development account program under*
 14 *section 504, a qualified financial institution shall certify*
 15 *to the Secretary at such time and in such manner as may*
 16 *be prescribed by the Secretary and accompanied by any*
 17 *documentation required by the Secretary, that—*

18 (1) *the accounts described in subparagraphs (A)*
 19 *and (B) of section 504(b)(1) are operating pursuant*
 20 *to all the provisions of this title, and*

21 (2) *the qualified financial institution agrees to*
 22 *implement an information system necessary to mon-*
 23 *itor the cost and outcomes of the qualified individual*
 24 *development account program.*

1 **(b) AUTHORITY TO TERMINATE QUALIFIED IDA PRO-**
2 *GRAM.*—*If the Secretary determines that a qualified finan-*
3 *cial institution under this title is not operating a qualified*
4 *individual development account program in accordance*
5 *with the requirements of this title (and has not implemented*
6 *any corrective recommendations directed by the Secretary),*
7 *the Secretary shall terminate such institution’s authority*
8 *to conduct the program. If the Secretary is unable to iden-*
9 *tify a qualified financial institution to assume the author-*
10 *ity to conduct such program, then any funds in a parallel*
11 *account established for the benefit of any individual under*
12 *such program shall be deposited into the Individual Devel-*
13 *opment Account of such individual as of the first day of*
14 *such termination.*

15 **SEC. 509. REPORTING, MONITORING, AND EVALUATION.**

16 **(a) RESPONSIBILITIES OF QUALIFIED FINANCIAL IN-**
17 *STITUTIONS.*—

18 **(1) IN GENERAL.**—*Each qualified financial in-*
19 *stitution that operates a qualified individual develop-*
20 *ment account program under section 504 shall report*
21 *annually to the Secretary within 90 days after the*
22 *end of each calendar year on—*

23 **(A)** *the number of individuals making con-*
24 *tributions into Individual Development Accounts*
25 *and the amounts contributed,*

1 (B) the amounts contributed into Indi-
2 vidual Development Accounts by eligible individ-
3 uals and the amounts deposited into parallel ac-
4 counts for matching funds,

5 (C) the amounts withdrawn from Indi-
6 vidual Development Accounts and parallel ac-
7 counts, and the purposes for which such amounts
8 were withdrawn,

9 (D) the balances remaining in Individual
10 Development Accounts and parallel accounts,
11 and

12 (E) such other information needed to help
13 the Secretary monitor the effectiveness of the
14 qualified individual development account pro-
15 gram (provided in a non-individually-identifi-
16 able manner).

17 (2) *ADDITIONAL REPORTING REQUIREMENTS.*—
18 Each qualified financial institution that operates a
19 qualified individual development account program
20 under section 504 shall report at such time and in
21 such manner as the Secretary may prescribe any ad-
22 ditional information that the Secretary requires to be
23 provided for purposes of administering and super-
24 vising the qualified individual development account
25 program. This additional data may include, without

1 *limitation, identifying information about Individual*
2 *Development Account owners, their Accounts, addi-*
3 *tions to the Accounts, and withdrawals from the Ac-*
4 *counts.*

5 *(b) RESPONSIBILITIES OF THE SECRETARY.—*

6 *(1) MONITORING PROTOCOL.—Not later than 12*
7 *months after the date of the enactment of this Act, the*
8 *Secretary, in consultation with the Secretary of*
9 *Health and Human Services, shall develop and im-*
10 *plement a protocol and process to monitor the cost*
11 *and outcomes of the qualified individual development*
12 *account programs established under section 504.*

13 *(2) ANNUAL REPORTS.—For each year after*
14 *2003, the Secretary shall submit a progress report to*
15 *Congress on the status of such qualified individual de-*
16 *velopment account programs. Such report shall, to the*
17 *extent data are available, include from a representa-*
18 *tive sample of qualified individual development ac-*
19 *count programs information on—*

20 *(A) the characteristics of participants, in-*
21 *cluding age, gender, race or ethnicity, marital*
22 *status, number of children, employment status,*
23 *and monthly income,*

1 (B) deposits, withdrawals, balances, uses of
2 Individual Development Accounts, and partici-
3 pant characteristics,

4 (C) the characteristics of qualified indi-
5 vidual development account programs, including
6 match rate, economic education requirements,
7 permissible uses of accounts, staffing of programs
8 in full time employees, and the total costs of pro-
9 grams, and

10 (D) process information on program imple-
11 mentation and administration, especially on
12 problems encountered and how problems were
13 solved.

14 (3) REAUTHORIZATION REPORT ON COST AND
15 OUTCOMES OF IDAS.—

16 (A) IN GENERAL.—Not later than July 1,
17 2008, the Secretary of the Treasury shall submit
18 a report to Congress and the chairmen and rank-
19 ing members of the Committee on Finance, the
20 Committee on Banking, Housing, and Urban Af-
21 fairs, and the Committee on Health, Education,
22 Labor, and Pensions of the Senate and the Com-
23 mittee on Ways and Means, the Committee on
24 Banking and Financial Services, and the Com-
25 mittee on Education and the Workforce of the

1 *House of Representatives, in which the Secretary*
2 *shall—*

3 *(i) summarize the previously submitted*
4 *annual reports required under paragraph*
5 *(2),*

6 *(ii) from a representative sample of*
7 *qualified individual development account*
8 *programs, include an analysis of—*

9 *(I) the economic, social, and be-*
10 *havioral outcomes,*

11 *(II) the changes in savings rates,*
12 *asset holdings, and household debt, and*
13 *overall changes in economic stability,*

14 *(III) the changes in outlooks, atti-*
15 *tudes, and behavior regarding savings*
16 *strategies, investment, education, and*
17 *family,*

18 *(IV) the integration into the fi-*
19 *nancial mainstream, including de-*
20 *creased reliance on alternative finan-*
21 *cial services, and increase in acquisi-*
22 *tion of mainstream financial products,*
23 *and*

1 (V) *the involvement in civic af-*
2 *fairs, including neighborhood schools*
3 *and associations,*
4 *associated with participation in qualified*
5 *individual development account programs,*
6 (iii) *from a representative sample of*
7 *qualified individual development account*
8 *programs, include a comparison of outcomes*
9 *associated with such programs with out-*
10 *comes associated with other Federal Govern-*
11 *ment social and economic development pro-*
12 *grams, including asset building programs,*
13 *and*
14 (iv) *make recommendations regarding*
15 *the reauthorization of the qualified indi-*
16 *vidual development account programs,*
17 *including—*
18 (I) *recommendations regarding*
19 *reforms that will improve the cost and*
20 *outcomes of the such programs, includ-*
21 *ing the ability to help low income fam-*
22 *ilies save and accumulate productive*
23 *assets,*
24 (II) *recommendations regarding*
25 *the appropriate levels of subsidies to*

1 *provide effective incentives to financial*
2 *institutions and Account owners under*
3 *such programs, and*

4 *(III) recommendations regarding*
5 *how such programs should be inte-*
6 *grated into other Federal poverty re-*
7 *duction, asset building, and commu-*
8 *nity development policies and pro-*
9 *grams.*

10 *(B) AUTHORIZATION.—There is authorized*
11 *to be appropriated \$2,500,000, for carrying out*
12 *the purposes of this paragraph.*

13 *(4) USE OF ACCOUNTS IN RURAL AREAS ENCOUR-*
14 *AGED.—The Secretary shall develop methods to en-*
15 *courage the use of Individual Development Accounts*
16 *in rural areas.*

17 **SEC. 510. AUTHORIZATION OF APPROPRIATIONS.**

18 *There is authorized to be appropriated to the Secretary*
19 *\$1,000,000 for fiscal year 2003 and for each fiscal year*
20 *through 2010, for the purposes of implementing this title,*
21 *including the reporting, monitoring, and evaluation re-*
22 *quired under section 509, to remain available until ex-*
23 *pendent.*

1 **SEC. 511. MATCHING FUNDS FOR INDIVIDUAL DEVELOP-**
2 **MENT ACCOUNTS PROVIDED THROUGH A TAX**
3 **CREDIT FOR QUALIFIED FINANCIAL INSTITU-**
4 **TIONS.**

5 (a) *IN GENERAL.*—Subpart D of part IV of subchapter
6 A of chapter 1 of the Internal Revenue Code of 1986 (relat-
7 ing to business related credits) is amended by adding at
8 the end the following new section:

9 **“SEC. 45G. INDIVIDUAL DEVELOPMENT ACCOUNT INVEST-**
10 **MENT CREDIT.**

11 “(a) *DETERMINATION OF AMOUNT.*—For purposes of
12 section 38, the individual development account investment
13 credit determined under this section with respect to any eli-
14 gible entity for any taxable year is an amount equal to
15 the individual development account investment provided by
16 such eligible entity during the taxable year under an indi-
17 vidual development account program established under sec-
18 tion 504 of the Savings for Working Families Act of 2002.

19 “(b) *APPLICABLE TAX.*—For the purposes of this sec-
20 tion, the term ‘applicable tax’ means the excess (if any) of—

21 “(1) the tax imposed under this chapter (other
22 than the taxes imposed under the provisions described
23 in subparagraphs (C) through (Q) of section
24 26(b)(2)), over

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

1 “(c) *INDIVIDUAL DEVELOPMENT ACCOUNT INVEST-*
2 *MENT.*—*For purposes of this section, the term ‘individual*
3 *development account investment’ means, with respect to an*
4 *individual development account program in any taxable*
5 *year, an amount equal to the sum of—*

6 “(1) *the aggregate amount of dollar-for-dollar*
7 *matches under such program under section*
8 *506(b)(1)(A) of the Savings for Working Families Act*
9 *of 2002 for such taxable year, plus*

10 “(2) *\$50 with respect to each Individual Devel-*
11 *opment Account maintained as of the end of such tax-*
12 *able year, with a balance of not less than \$100 (other*
13 *than the taxable year in which such Account is*
14 *opened).*

15 “(d) *ELIGIBLE ENTITY.*—*For purposes of this section,*
16 *except as provided in regulations, the term ‘eligible entity’*
17 *means a qualified financial institution.*

18 “(e) *OTHER DEFINITIONS.*—*For purposes of this sec-*
19 *tion, any term used in this section and also in the Savings*
20 *for Working Families Act of 2002 shall have the meaning*
21 *given such term by such Act.*

22 “(f) *DENIAL OF DOUBLE BENEFIT.*—

23 “(1) *IN GENERAL.*—*No deduction or credit (other*
24 *than under this section) shall be allowed under this*
25 *chapter with respect to any expense which—*

1 “(A) is taken into account under subsection
2 (c)(1)(A) in determining the credit under this
3 section, or

4 “(B) is attributable to the maintenance of
5 an Individual Development Account.

6 “(2) DETERMINATION OF AMOUNT.—Solely for
7 purposes of paragraph (1)(B), the amount attrib-
8 utable to the maintenance of an Individual Develop-
9 ment Account shall be deemed to be the dollar amount
10 of the credit allowed under subsection (c)(1)(B) for
11 each taxable year such Individual Development Ac-
12 count is maintained.

13 “(g) CREDIT MAY BE TRANSFERRED.—

14 “(1) IN GENERAL.—An eligible entity may
15 transfer any credit allowable to the eligible entity
16 under subsection (a) to any person other than to an-
17 other eligible entity which is exempt from tax under
18 this title. The determination as to whether a credit is
19 allowable shall be made without regard to the tax-ex-
20 empt status of the eligible entity.

21 “(2) CONSENT REQUIRED FOR REVOCATION.—
22 Any transfer under paragraph (1) may be revoked
23 only with the consent of the Secretary.

1 “(h) *REGULATIONS.*—*The Secretary may prescribe*
2 *such regulations as may be necessary or appropriate to*
3 *carry out this section, including*

4 “(1) *such regulations as necessary to insure that*
5 *any credit described in subsection (g)(1) is claimed*
6 *once and not retransferred by a transferee, and*

7 “(2) *regulations providing for a recapture of the*
8 *credit allowed under this section (notwithstanding*
9 *any termination date described in subsection (i)) in*
10 *cases where there is a forfeiture under section 507(b)*
11 *of the Savings for Working Families Act of 2002 in*
12 *a subsequent taxable year of any amount which was*
13 *taken into account in determining the amount of such*
14 *credit.*

15 “(i) *APPLICATION OF SECTION.*—

16 “(1) *IN GENERAL.*—*This section shall apply to*
17 *any expenditure made in any taxable year ending*
18 *after December 31, 2003, and beginning on or before*
19 *January 1, 2011, with respect to any Individual De-*
20 *velopment Account which—*

21 “(A) *is opened before January 1, 2011, and*

22 “(B) *as determined by the Secretary, when*
23 *added to all of the previously opened Individual*
24 *Development Accounts, does not exceed—*

1 “(i) 100,000 Accounts if opened after
2 December 31, 2003, and before January 1,
3 2007,

4 “(ii) an additional 100,000 Accounts if
5 opened after December 31, 2006, and before
6 January 1, 2009, but only if, except as pro-
7 vided in paragraph (4), the total number of
8 Accounts described in clause (i) are opened
9 and the Secretary determines that such Ac-
10 counts are being reasonably and responsibly
11 administered, and

12 “(iii) an additional 100,000 Accounts
13 if opened after December 31, 2008, and be-
14 fore January 1, 2011, but only if the total
15 number of Accounts described in clauses (i)
16 and (ii) are opened and the Secretary
17 makes a determination described in para-
18 graph (2).

19 Notwithstanding the preceding sentence, this section
20 shall apply to amounts which are described in sub-
21 section (c)(1)(A) and which are timely deposited into
22 a parallel account during the 30-day period following
23 the end of last taxable year beginning before January
24 1, 2011.

1 “(2) *DETERMINATION WITH RESPECT TO THIRD*
2 *GROUP OF ACCOUNTS.*—A determination is described
3 in this paragraph if the Secretary determines that—

4 “(A) *substantially all of the previously*
5 *opened Accounts have been reasonably and re-*
6 *sponsibly administered prior to the date of the*
7 *determination,*

8 “(B) *the individual development account*
9 *programs have increased net savings of partici-*
10 *pants in the programs,*

11 “(C) *participants in the individual develop-*
12 *ment account programs have increased Federal*
13 *income tax liability and decreased utilization of*
14 *Federal assistance programs relative to similarly*
15 *situated individuals that did not participate in*
16 *the individual development account programs,*
17 *and*

18 “(D) *the sum of the estimated increased*
19 *Federal tax liability and reduction of Federal*
20 *assistance program benefits to participants in*
21 *the individual development account programs is*
22 *greater than the cost of the individual develop-*
23 *ment account programs to the Federal govern-*
24 *ment.*

1 “(3) *DETERMINATION OF LIMITATION.*—*The lim-*
2 *itation on the number of Individual Development Ac-*
3 *counts under paragraph (1)(B) shall be allocated by*
4 *the Secretary among qualified individual development*
5 *account programs selected by the Secretary and, in*
6 *the case of the limitation under clause (iii) of such*
7 *paragraph, shall be equally divided among the States.*

8 “(4) *SPECIAL RULE IF SMALLER NUMBER OF AC-*
9 *COUNTS ARE OPENED.*—*For purposes of paragraph*
10 *(1)(B)(ii)—*

11 “(i) *IN GENERAL.*—*If less than 100,000*
12 *Accounts are opened before January 1,*
13 *2007, such paragraph shall be applied by*
14 *substituting “applicable number of Ac-*
15 *counts’ for ‘100,000 Accounts’.*

16 “(ii) *APPLICABLE NUMBER.*—*For pur-*
17 *poses of clause (i), the applicable number*
18 *equals the lesser of—*

19 “(I) 75,000, or

20 “(II) 3 times the number of Ac-
21 *counts opened before January 1,*
22 *2007.”.*

23 “(b) *CREDIT TREATED AS BUSINESS CREDIT.*—*Section*
24 *38(b) of the Internal Revenue Code of 1986 (relating to cur-*
25 *rent year business credit) is amended by striking “plus”*

1 *at the end of paragraph (14), by striking the period at the*
2 *end of paragraph (15) and inserting “, plus”, and by add-*
3 *ing at the end the following new paragraph:*

4 “(16) *the individual development account invest-*
5 *ment credit determined under section 45G(a).”.*

6 *(c) NO CARRYBACKS.—Subsection (d) of section 39 of*
7 *the Internal Revenue Code of 1986 (relating to carryback*
8 *and carryforward of unused credits) is amended by adding*
9 *at the end the following:*

10 “(11) *NO CARRYBACK OF SECTION 45G CREDIT*
11 *BEFORE EFFECTIVE DATE.—No portion of the unused*
12 *business credit for any taxable year which is attrib-*
13 *utable to the individual development account invest-*
14 *ment credit determined under section 45G may be*
15 *carried back to a taxable year ending before January*
16 *1, 2004.”.*

17 *(d) CONFORMING AMENDMENT.—The table of sections*
18 *for subpart C of part IV of subchapter A of chapter 1 of*
19 *the Internal Revenue Code of 1986 is amended by adding*
20 *at the end the following new item:*

 “*Sec. 45G. Individual development account investment credit.*”.

21 *(e) EFFECTIVE DATE.—The amendments made by this*
22 *section shall apply to taxable years ending after December*
23 *31, 2003.*

1 **TITLE VI—REVENUE**
2 **PROVISIONS**
3 **Subtitle A—Tax Shelter**
4 **Transparency Requirements**

5 **PART I—TAXPAYER-RELATED PROVISIONS**

6 **SEC. 601. PENALTY FOR FAILING TO DISCLOSE REPORT-**
7 **ABLE TRANSACTION.**

8 (a) *IN GENERAL.*—Part I of subchapter B of chapter
9 68 (relating to assessable penalties) is amended by inserting
10 after section 6707 the following new section:

11 **“SEC. 6707A. PENALTY FOR FAILURE TO INCLUDE REPORT-**
12 **ABLE TRANSACTION INFORMATION WITH RE-**
13 **TURN OR STATEMENT.**

14 “(a) *IMPOSITION OF PENALTY.*—Any person who fails
15 to include on any return or statement any information with
16 respect to a reportable transaction which is required under
17 section 6011 to be included with such return or statement
18 shall pay a penalty in the amount determined under sub-
19 section (b).

20 “(b) *AMOUNT OF PENALTY.*—

21 “(1) *IN GENERAL.*—Except as provided in para-
22 graphs (2) and (3), the amount of the penalty under
23 subsection (a) shall be \$50,000.

1 “(2) *LISTED TRANSACTION.*—*The amount of the*
2 *penalty under subsection (a) with respect to a listed*
3 *transaction shall be \$100,000.*

4 “(3) *INCREASE IN PENALTY FOR LARGE ENTITIES*
5 *AND HIGH NET WORTH INDIVIDUALS.*—

6 “(A) *IN GENERAL.*—*In the case of a failure*
7 *under subsection (a) by—*

8 “(i) *a large entity, or*

9 “(ii) *a high net worth individual,*

10 *the penalty under paragraph (1) or (2) shall be*
11 *twice the amount determined without regard to*
12 *this paragraph.*

13 “(B) *LARGE ENTITY.*—*For purposes of sub-*
14 *paragraph (A), the term ‘large entity’ means,*
15 *with respect to any taxable year, a person (other*
16 *than a natural person) with gross receipts in ex-*
17 *cess of \$10,000,000 for the taxable year in which*
18 *the reportable transaction occurs or the pre-*
19 *ceding taxable year. Rules similar to the rules of*
20 *paragraph (2) and subparagraphs (B), (C), and*
21 *(D) of paragraph (3) of section 448(c) shall*
22 *apply for purposes of this subparagraph.*

23 “(C) *HIGH NET WORTH INDIVIDUAL.*—*The*
24 *term ‘high net worth individual’ means, with re-*
25 *spect to a reportable transaction, a natural per-*

1 son whose net worth exceeds \$2,000,000 imme-
2 diately before the transaction.

3 “(c) *DEFINITIONS.*—For purposes of this section—

4 “(1) *REPORTABLE TRANSACTION.*—The term ‘re-
5 portable transaction’ means any transaction with re-
6 spect to which information is required to be included
7 with a return or statement because, as determined
8 under regulations prescribed under section 6011, such
9 transaction is of a type which the Secretary deter-
10 mines as having a potential for tax avoidance or eva-
11 sion.

12 “(2) *LISTED TRANSACTION.*—Except as provided
13 in regulations, the term ‘listed transaction’ means a
14 reportable transaction which is the same as, or simi-
15 lar to, a transaction specifically identified by the Sec-
16 retary as a tax avoidance transaction for purposes of
17 section 6011.

18 “(d) *AUTHORITY TO RESCIND PENALTY.*—

19 “(1) *IN GENERAL.*—The Commissioner of Inter-
20 nal Revenue may rescind all or any portion of any
21 penalty imposed by this section with respect to any
22 violation if—

23 “(A) the violation is with respect to a re-
24 portable transaction other than a listed trans-
25 action,

1 “(B) the person on whom the penalty is im-
2 posed has a history of complying with the re-
3 quirements of this title,

4 “(C) it is shown that the violation is due to
5 an unintentional mistake of fact;

6 “(D) imposing the penalty would be against
7 equity and good conscience, and

8 “(E) rescinding the penalty would promote
9 compliance with the requirements of this title
10 and effective tax administration.

11 “(2) *DISCRETION.*—The exercise of authority
12 under paragraph (1) shall be at the sole discretion of
13 the Commissioner and may be delegated only to the
14 head of the Office of Tax Shelter Analysis. The Com-
15 missioner, in his sole discretion, may establish a pro-
16 cedure to determine if a penalty should be referred to
17 the Commissioner or the head of such Office for a de-
18 termination under paragraph (1).

19 “(3) *NO APPEAL.*—Notwithstanding any other
20 provision of law, any determination under this sub-
21 section may not be reviewed in any administrative or
22 judicial proceeding.

23 “(4) *RECORDS.*—If a penalty is rescinded under
24 paragraph (1), the Commissioner shall place in the
25 file in the Office of the Commissioner the opinion of

1 *the Commissioner or the head of the Office of Tax*
2 *Shelter Analysis with respect to the determination,*
3 *including—*

4 *“(A) the reasons for the rescission, and*

5 *“(B) the amount of the penalty rescinded.*

6 *“(5) REPORT.—The Commissioner shall each*
7 *year report to the Committee on Ways and Means of*
8 *the House of Representatives and the Committee on*
9 *Finance of the Senate—*

10 *“(A) a summary of the total number and*
11 *aggregate amount of penalties imposed, and re-*
12 *scinded, under this section, and*

13 *“(B) a description of each penalty rescinded*
14 *under this subsection and the reasons therefor.*

15 *“(e) PENALTY REPORTED TO SEC.—In the case of a*
16 *person—*

17 *“(1) which is required to file periodic reports*
18 *under section 13 or 15(d) of the Securities Exchange*
19 *Act of 1934 or is required to be consolidated with an-*
20 *other person for purposes of such reports, and*

21 *“(2) which—*

22 *“(A) is required to pay a penalty under*
23 *this section with respect to a listed transaction,*
24 *or*

1 “(B) is required to pay a penalty under sec-
2 tion 6662A with respect to any reportable trans-
3 action at a rate prescribed under section
4 6662A(c),
5 the requirement to pay such penalty shall be disclosed in
6 such reports filed by such person for such periods as the
7 Secretary shall specify. Failure to make a disclosure in ac-
8 cordance with the preceding sentence shall be treated as a
9 failure to which the penalty under subsection (b)(2) applies.

10 “(f) COORDINATION WITH OTHER PENALTIES.—The
11 penalty imposed by this section is in addition to any pen-
12 alty imposed under section 6662.”

13 (b) CONFORMING AMENDMENT.—The table of sections
14 for part I of subchapter B of chapter 68 is amended by
15 inserting after the item relating to section 6707 the fol-
16 lowing:

“Sec. 6707A. Penalty for failure to include reportable transaction
information with return or statement.”

17 (c) EFFECTIVE DATE.—The amendments made by this
18 section shall apply to returns and statements the due date
19 for which is after the date of the enactment of this Act.

1 **SEC. 602. ACCURACY-RELATED PENALTY FOR LISTED**
 2 **TRANSACTIONS AND OTHER REPORTABLE**
 3 **TRANSACTIONS HAVING A SIGNIFICANT TAX**
 4 **AVOIDANCE PURPOSE.**

5 (a) *IN GENERAL.*—Subchapter A of chapter 68 is
 6 amended by inserting after section 6662 the following new
 7 section:

8 **“SEC. 6662A. IMPOSITION OF ACCURACY-RELATED PENALTY**
 9 **ON UNDERSTATEMENTS WITH RESPECT TO**
 10 **REPORTABLE TRANSACTIONS.**

11 “(a) *IMPOSITION OF PENALTY.*—If a taxpayer has a
 12 reportable transaction understatement for any taxable year,
 13 there shall be added to the tax an amount equal to 20 per-
 14 cent of the amount of such understatement.

15 “(b) *REPORTABLE TRANSACTION UNDERSTATE-*
 16 *MENT.*—For purposes of this section—

17 “(1) *IN GENERAL.*—The term ‘reportable trans-
 18 action understatement’ means the sum of—

19 “(A) the product of—

20 “(i) the amount of the increase (if any)
 21 in taxable income which results from a dif-
 22 ference between the proper tax treatment of
 23 an item to which this section applies and
 24 the taxpayer’s treatment of such item (as
 25 shown on the taxpayer’s return of tax), and

1 “(ii) the highest rate of tax imposed by
2 section 1 (section 11 in the case of a tax-
3 payer which is a corporation), and

4 “(B) the amount of the decrease (if any) in
5 the aggregate amount of credits determined
6 under subtitle A which results from a difference
7 between the taxpayer’s treatment of an item to
8 which this section applies (as shown on the tax-
9 payer’s return of tax) and the proper tax treat-
10 ment of such item.

11 For purposes of subparagraph (A), any reduction of
12 the excess of deductions allowed for the taxable year
13 over gross income for such year, and any reduction
14 in the amount of capital losses which would (without
15 regard to section 1211) be allowed for such year, shall
16 be treated as an increase in taxable income.

17 “(2) ITEMS TO WHICH SECTION APPLIES.—This
18 section shall apply to any item which is attributable
19 to—

20 “(A) any listed transaction, and

21 “(B) any reportable transaction (other than
22 a listed transaction) if a significant purpose of
23 such transaction is the avoidance or evasion of
24 Federal income tax.

1 “(c) *HIGHER PENALTIES FOR NONDISCLOSED LISTED*
2 *AND OTHER AVOIDANCE TRANSACTIONS.*—*If the require-*
3 *ment of section 6664(d)(2)(A) is not met with respect to*
4 *any portion of any reportable transaction understatement,*
5 *then subsection (a) shall be applied by substituting—*

6 “(1) ‘30 percent’ for ‘20 percent’ if such under-
7 *statement is attributable to a listed transaction, and*

8 “(2) ‘25 percent’ for ‘20 percent’ in the case of
9 *any other understatement.*

10 “(d) *DEFINITIONS OF REPORTABLE AND LISTED*
11 *TRANSACTIONS.*—*For purposes of this section, the terms ‘re-*
12 *portable transaction’ and ‘listed transaction’ have the re-*
13 *spective meanings given to such terms by section 6707A(c).*

14 “(e) *SPECIAL RULES.*—

15 “(1) *COORDINATION WITH PENALTIES, ETC., ON*
16 *OTHER UNDERSTATEMENTS.*—*In the case of an under-*
17 *statement (as defined in section 6662(d)(2))—*

18 “(A) *the amount of such understatement*
19 *(determined without regard to this paragraph)*
20 *shall be increased by the aggregate amount of re-*
21 *portable transaction understatements for pur-*
22 *poses of determining whether such understate-*
23 *ment is a substantial understatement under sec-*
24 *tion 6662(d)(1), but*

1 “(B) the addition to tax under section
2 6662(a) shall apply only to the excess of the
3 amount of the substantial understatement (if
4 any) after the application of subparagraph (A)
5 over the aggregate amount of reportable trans-
6 action understatements.

7 “(2) COORDINATION WITH FRAUD PENALTY.—

8 “(A) IN GENERAL.—References to an under-
9 payment in section 6663 shall be treated as in-
10 cluding references to a reportable transaction un-
11 derstatement.

12 “(B) NO DOUBLE PENALTY.—This section
13 shall not apply to any portion of an understate-
14 ment on which a penalty is imposed under sec-
15 tion 6663.

16 “(3) SPECIAL RULE FOR AMENDED RETURNS.—

17 *Except as provided in regulations, in no event shall*
18 *any tax treatment included with an amendment or*
19 *supplement to a return of tax be taken into account*
20 *in determining the amount of any reportable trans-*
21 *action understatement if the amendment or supple-*
22 *ment is filed after the earlier of the date the taxpayer*
23 *is first contacted by the Secretary regarding the ex-*
24 *amination of the return or such other date as is speci-*
25 *fied by the Secretary.”*

1 (b) *DETERMINATION OF OTHER UNDERSTATE-*
2 *MENTS.*—Subparagraph (A) of section 6662(d)(2) is
3 *amended by adding at the end the following flush sentence:*

4 *“The excess under the preceding sentence shall be*
5 *determined without regard to items to which sec-*
6 *tion 6662A applies.”*

7 (c) *REASONABLE CAUSE EXCEPTION.*—

8 (1) *IN GENERAL.*—Section 6664 is amended by
9 *adding at the end the following new subsection:*

10 *“(d) REASONABLE CAUSE EXCEPTION FOR REPORT-*
11 *ABLE TRANSACTION UNDERSTATEMENTS.*—

12 *“(1) IN GENERAL.*—No penalty shall be imposed
13 *under section 6662A with respect to any portion of a*
14 *reportable transaction understatement if it is shown*
15 *that there was a reasonable cause for such portion*
16 *and that the taxpayer acted in good faith with respect*
17 *to such portion.*

18 (2) *SPECIAL RULES.*—Paragraph (1) shall not
19 *apply to any reportable transaction understatement*
20 *unless—*

21 *“(A) the relevant facts affecting the tax*
22 *treatment of the item are adequately disclosed in*
23 *accordance with the regulations prescribed under*
24 *section 6011,*

1 “(B) there is or was substantial authority
2 for such treatment, and

3 “(C) the taxpayer reasonably believed that
4 such treatment was more likely than not the
5 proper treatment.

6 A taxpayer failing to adequately disclose in accord-
7 ance with section 6011 shall be treated as meeting the
8 requirements of subparagraph (A) if the penalty for
9 such failure was rescinded under section 6707A(d).

10 “(3) RULES RELATING TO REASONABLE BE-
11 LIEF.—For purposes of paragraph (2)(C)—

12 “(A) IN GENERAL.—A taxpayer shall be
13 treated as having a reasonable belief with respect
14 to the tax treatment of an item only if such
15 belief—

16 “(i) is based on the facts and law that
17 exist at the time the return of tax which in-
18 cludes such tax treatment is filed, and

19 “(ii) relates solely to the taxpayer’s
20 chances of success on the merits of such
21 treatment and does not take into account
22 the possibility that a return will not be au-
23 dited, such treatment will not be raised on
24 audit, or such treatment will be resolved
25 through settlement if it is raised.

1 “(B) *CERTAIN OPINIONS MAY NOT BE RE-*
2 *LIED UPON.—*

3 “(i) *IN GENERAL.—An opinion of a*
4 *tax advisor may not be relied upon to estab-*
5 *lish the reasonable belief of a taxpayer if—*

6 “(I) *the tax advisor is described*
7 *in clause (ii), or*

8 “(II) *the opinion is described in*
9 *clause (iii).*

10 “(ii) *DISQUALIFIED TAX ADVISORS.—A*
11 *tax advisor is described in this clause if the*
12 *tax advisor is a material advisor (within*
13 *the meaning of section 6111(b)(1)) who—*

14 “(I) *participates in the organiza-*
15 *tion, management, promotion, or sale*
16 *of the transaction or is related (within*
17 *the meaning of section 267 or 707) to*
18 *any person who so participates,*

19 “(II) *is compensated by another*
20 *material advisor with respect to the*
21 *transaction,*

22 “(III) *has a fee arrangement with*
23 *respect to the transaction which is con-*
24 *tingent on all or part of the intended*

1 *tax benefits from the transaction being*
2 *sustained, or*

3 *“(IV) as determined under regula-*
4 *tions prescribed by the Secretary, has a*
5 *continuing financial interest with re-*
6 *spect to the transaction.*

7 *“(iii) DISQUALIFIED OPINIONS.—For*
8 *purposes of clause (i), an opinion is dis-*
9 *qualified if the opinion—*

10 *“(I) is based on unreasonable fac-*
11 *tual or legal assumptions (including*
12 *assumptions as to future events),*

13 *“(II) unreasonably relies on rep-*
14 *resentations, statements, findings, or*
15 *agreements of the taxpayer or any*
16 *other person,*

17 *“(III) does not identify and con-*
18 *sider all relevant facts, or*

19 *“(IV) fails to meet any other re-*
20 *quirement as the Secretary may pre-*
21 *scribe.”*

22 *(2) CONFORMING AMENDMENT.—The heading for*
23 *subsection (c) of section 6664 is amended by inserting*
24 *“FOR UNDERPAYMENTS” after “EXCEPTION”.*

25 *(d) CONFORMING AMENDMENTS.—*

1 (1) Subparagraph (C) of section 461(i)(3) is
2 amended by striking “section 6662(d)(2)(C)(iii)” and
3 inserting “section 1274(b)(3)(C)”.

4 (2) Paragraph (3) of section 1274(b) is
5 amended—

6 (A) by striking “(as defined in section
7 6662(d)(2)(C)(iii))” in subparagraph (B)(i), and

8 (B) by adding at the end the following new
9 subparagraph:

10 “(C) TAX SHELTER.—For purposes of sub-
11 paragraph (B), the term ‘tax shelter’ means—

12 “(i) a partnership or other entity,

13 “(ii) any investment plan or arrange-
14 ment, or

15 “(iii) any other plan or arrangement,
16 if a significant purpose of such partnership, en-
17 tity, plan, or arrangement is the avoidance or
18 evasion of Federal income tax.”

19 (3) Section 6662(d)(2) is amended by striking
20 subparagraphs (C) and (D).

21 (4) Section 6664(c)(1) is amended by striking
22 “part” and inserting “section 6662 or 6663”.

23 (5) Subsection (b) of section 7525 is amended by
24 striking “section 6662(d)(2)(C)(iii)” and inserting
25 “section 1274(b)(3)(C)”.

1 *if the amount of the understatement for the tax-*
2 *able year exceeds the lesser of—*

3 *“(i) 10 percent of the tax required to*
4 *be shown on the return for the taxable year*
5 *(or, if greater, \$10,000), or*

6 *“(ii) \$10,000,000.”*

7 ***(b) REDUCTION FOR UNDERSTATEMENT OF TAXPAYER***
8 ***DUE TO POSITION OF TAXPAYER OR DISCLOSED ITEM.—***

9 ***(1) IN GENERAL.—Section 6662(d)(2)(B)(i) (re-***
10 ***lating to substantial authority) is amended to read as***
11 ***follows:***

12 *“(i) the tax treatment of any item by*
13 *the taxpayer if the taxpayer had reasonable*
14 *belief that the tax treatment was more likely*
15 *than not the proper treatment, or”.*

16 ***(2) CONFORMING AMENDMENT.—Section 6662(d)***
17 ***is amended by adding at the end the following new***
18 ***paragraph:***

19 ***“(3) SECRETARIAL LIST.—For purposes of this***
20 ***subsection, section 6664(d)(2), and section 6694(a)(1),***
21 ***the Secretary may prescribe a list of positions for***
22 ***which the Secretary believes there is not substantial***
23 ***authority or there is no reasonable belief that the tax***
24 ***treatment is more likely than not the proper tax***
25 ***treatment. Such list (and any revisions thereof) shall***

1 *be published in the Federal Register or the Internal*
2 *Revenue Bulletin.”*

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

6 **SEC. 604. TAX SHELTER EXCEPTION TO CONFIDENTIALITY**
7 **PRIVILEGES RELATING TO TAXPAYER COM-**
8 **MUNICATIONS.**

9 (a) *IN GENERAL.*—*Section 7525(b) (relating to section*
10 *not to apply to communications regarding corporate tax*
11 *shelters) is amended to read as follows:*

12 “(b) *SECTION NOT TO APPLY TO COMMUNICATIONS*
13 *REGARDING TAX SHELTERS.*—*The privilege under sub-*
14 *section (a) shall not apply to any written communication*
15 *which is—*

16 “(1) *between a federally authorized tax practi-*
17 *tioner and—*

18 “(A) *any person,*

19 “(B) *any director, officer, employee, agent,*
20 *or representative of the person, or*

21 “(C) *any other person holding a capital or*
22 *profits interest in the person, and*

23 “(2) *in connection with the promotion of the di-*
24 *rect or indirect participation of the person in any tax*
25 *shelter (as defined in section 1274(b)(3)(C)).”*

1 “(A) *IN GENERAL.*—*The term ‘material ad-*
2 *visor’ means any person—*

3 “(i) *who provides any material aid,*
4 *assistance, or advice with respect to orga-*
5 *nizing, promoting, selling, implementing, or*
6 *carrying out any reportable transaction,*
7 *and*

8 “(ii) *who directly or indirectly derives*
9 *gross income in excess of the threshold*
10 *amount for such advice or assistance.*

11 “(B) *THRESHOLD AMOUNT.*—*For purposes*
12 *of subparagraph (A), the threshold amount is—*

13 “(i) *\$50,000 in the case of a reportable*
14 *transaction substantially all of the tax bene-*
15 *fits from which are provided to natural per-*
16 *sons, and*

17 “(ii) *\$250,000 in any other case.*

18 “(2) *REPORTABLE TRANSACTION.*—*The term ‘re-*
19 *portable transaction’ has the meaning given to such*
20 *term by section 6707A(c).*

21 “(c) *REGULATIONS.*—*The Secretary may prescribe reg-*
22 *ulations which provide—*

23 “(1) *that only 1 person shall be required to meet*
24 *the requirements of subsection (a) in cases in which*

1 2 or more persons would otherwise be required to meet
2 such requirements,

3 “(2) exemptions from the requirements of this
4 section, and

5 “(3) such rules as may be necessary or appro-
6 priate to carry out the purposes of this section.”

7 (b) *CONFORMING AMENDMENTS.*—

8 (1) *The item relating to section 6111 in the table*
9 *of sections for subchapter B of chapter 61 is amended*
10 *to read as follows:*

 “Sec. 6111. Disclosure of reportable transactions.”

11 (2)(A) *So much of section 6112 as precedes sub-*
12 *section (c) thereof is amended to read as follows:*

13 **“SEC. 6112. MATERIAL ADVISORS OF REPORTABLE TRANS-**
14 **ACTIONS MUST KEEP LISTS OF ADVISEES.**

15 “(a) *IN GENERAL.*—*Each material advisor (as defined*
16 *in section 6111) with respect to any reportable transaction*
17 *(as defined in section 6707A(c)) shall maintain, in such*
18 *manner as the Secretary may by regulations prescribe, a*
19 *list—*

20 “(1) *identifying each person with respect to*
21 *whom such advisor acted as such a material advisor*
22 *with respect to such transaction, and*

23 “(2) *containing such other information as the*
24 *Secretary may by regulations require.*

1 *This section shall apply without regard to whether a mate-*
 2 *rial advisor is required to file a return under section 6111*
 3 *with regard to such transaction.”*

4 (B) *Section 6112 is amended by redesignating*
 5 *subsection (c) as subsection (b).*

6 (C) *Section 6112(b), as redesignated by subpara-*
 7 *graph (B), is amended—*

8 (i) *by inserting “written” before “request”*
 9 *in paragraph (1)(A), and*

10 (ii) *by striking “shall prescribe” in para-*
 11 *graph (2) and inserting “may prescribe”.*

12 (D) *The item relating to section 6112 in the*
 13 *table of sections for subchapter B of chapter 61 is*
 14 *amended to read as follows:*

*“Sec. 6112. Material advisors of reportable transactions must keep
 lists of advisees.”*

15 (3)(A) *The heading for section 6708 is amended*
 16 *to read as follows:*

17 **“SEC. 6708. FAILURE TO MAINTAIN LISTS OF ADVISEES**
 18 **WITH RESPECT TO REPORTABLE TRANS-**
 19 **ACTIONS.”**

20 (B) *The item relating to section 6708 in the*
 21 *table of sections for part I of subchapter B of chapter*
 22 *68 is amended to read as follows:*

“Sec. 6708. Failure to maintain lists of advisees with respect to re-
portable transactions.”

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to transactions with respect to which*
3 *material aid, assistance, or advice referred to in section*
4 *6111(b)(1)(A)(i) of the Internal Revenue Code of 1986 (as*
5 *added by this section) is provided after the date of the enact-*
6 *ment of this Act.*

7 **SEC. 612. MODIFICATIONS TO PENALTY FOR FAILURE TO**
8 **REGISTER TAX SHELTERS.**

9 (a) *IN GENERAL.*—*Section 6707 (relating to failure to*
10 *furnish information regarding tax shelters) is amended to*
11 *read as follows:*

12 **“SEC. 6707. FAILURE TO FURNISH INFORMATION REGARD-**
13 **ING REPORTABLE TRANSACTIONS.**

14 “(a) *IN GENERAL.*—*If a person who is required to file*
15 *a return under section 6111(a) with respect to any report-*
16 *able transaction—*

17 “(1) *fails to file such return on or before the date*
18 *prescribed therefor, or*

19 “(2) *files false or incomplete information with*
20 *the Secretary with respect to such transaction,*

21 *such person shall pay a penalty with respect to such return*
22 *in the amount determined under subsection (b).*

23 “(b) *AMOUNT OF PENALTY.*—

1 “(1) *IN GENERAL.*—*Except as provided in para-*
2 *graph (2), the penalty imposed under subsection (a)*
3 *with respect to any failure shall be \$50,000.*

4 “(2) *LISTED TRANSACTIONS.*—*The penalty im-*
5 *posed under subsection (a) with respect to any listed*
6 *transaction shall be an amount equal to the greater*
7 *of—*

8 “(A) \$200,000, or

9 “(B) 50 percent of the gross income derived
10 by such person with respect to aid, assistance, or
11 advice which is provided with respect to the re-
12 portable transaction before the date the return
13 including the transaction is filed under section
14 6111.

15 *Subparagraph (B) shall be applied by substituting*
16 ‘75 percent’ for ‘50 percent’ in the case of an inten-
17 tional failure or act described in subsection (a).

18 “(c) *REPORTABLE AND LISTED TRANSACTIONS.*—*The*
19 *terms ‘reportable transaction’ and ‘listed transaction’ have*
20 *the respective meanings given to such terms by section*
21 *6707A(c).*

22 “(d) *RESCISSION AUTHORITY.*—*The provisions of sec-*
23 *tion 6707A(d) (relating to authority of Commissioner to re-*
24 *scind penalty) shall apply to any penalty imposed under*
25 *this section.”*

1 (b) *CLERICAL AMENDMENT.*—*The item relating to sec-*
2 *tion 6707 in the table of sections for part I of subchapter*
3 *B of chapter 68 is amended by striking “tax shelters” and*
4 *inserting “reportable transactions”.*

5 (c) *EFFECTIVE DATE.*—*The amendments made by this*
6 *section shall apply to returns the due date for which is after*
7 *the date of the enactment of this Act.*

8 **SEC. 613. MODIFICATION OF PENALTY FOR FAILURE TO**
9 **MAINTAIN LISTS OF INVESTORS.**

10 (a) *IN GENERAL.*—*Subsection (a) of section 6708 is*
11 *amended to read as follows:*

12 “(a) *IMPOSITION OF PENALTY.*—

13 “(1) *IN GENERAL.*—*If any person who is re-*
14 *quired to maintain a list under section 6112(a) fails*
15 *to make such list available to the Secretary in accord-*
16 *ance with section 6112(b)(1)(A) within 20 business*
17 *days after the date of the Secretary’s request, such*
18 *person shall pay a penalty of \$10,000 for each day*
19 *of such failure after such 20th day.*

20 “(2) *REASONABLE CAUSE EXCEPTION.*—*No pen-*
21 *alty shall be imposed by paragraph (1) with respect*
22 *to the failure on any day if such failure is due to rea-*
23 *sonable cause.”*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall apply to requests made after the date of the*
3 *enactment of this Act.*

4 **SEC. 614. MODIFICATION OF ACTIONS TO ENJOIN CERTAIN**
5 **CONDUCT RELATED TO TAX SHELTERS AND**
6 **REPORTABLE TRANSACTIONS.**

7 (a) *IN GENERAL.*—*Section 7408 (relating to action to*
8 *enjoin promoters of abusive tax shelters, etc.) is amended*
9 *by redesignating subsection (c) as subsection (d) and by*
10 *striking subsections (a) and (b) and inserting the following*
11 *new subsections:*

12 “(a) *AUTHORITY TO SEEK INJUNCTION.*—*A civil ac-*
13 *tion in the name of the United States to enjoin any person*
14 *from further engaging in specified conduct may be com-*
15 *menced at the request of the Secretary. Any action under*
16 *this section shall be brought in the district court of the*
17 *United States for the district in which such person resides,*
18 *has his principal place of business, or has engaged in speci-*
19 *fied conduct. The court may exercise its jurisdiction over*
20 *such action (as provided in section 7402(a)) separate and*
21 *apart from any other action brought by the United States*
22 *against such person.*

23 “(b) *ADJUDICATION AND DECREE.*—*In any action*
24 *under subsection (a), if the court finds—*

1 **Subpart B—Other Promoter and Preparer Provisions**

2 **SEC. 621. UNDERSTATEMENT OF TAXPAYER'S LIABILITY BY**
3 **INCOME TAX RETURN PREPARER.**

4 (a) *STANDARDS CONFORMED TO TAXPAYER STAND-*
5 *ARDS.*—Section 6694(a) (relating to understatements due to
6 *unrealistic positions*) is amended—

7 (1) by striking “realistic possibility of being sus-
8 tained on its merits” in paragraph (1) and inserting
9 “reasonable belief that the tax treatment in such posi-
10 tion was more likely than not the proper treatment”,

11 (2) by striking “or was frivolous” in paragraph
12 (3) and inserting “or there was no reasonable basis
13 for the tax treatment of such position”, and

14 (3) by striking “UNREALISTIC” in the heading
15 and inserting “IMPROPER”.

16 (b) *AMOUNT OF PENALTY.*—Section 6694 is
17 amended—

18 (1) by striking “\$250” in subsection (a) and in-
19 serting “\$1,000”, and

20 (2) by striking “\$1,000” in subsection (b) and
21 inserting “\$5,000”.

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

1 **SEC. 622. PENALTY ON FAILURE TO REPORT INTERESTS IN**
2 **FOREIGN FINANCIAL ACCOUNTS.**

3 (a) *IN GENERAL.*—Section 5321(a)(5) of title 31,
4 *United States Code*, is amended to read as follows:

5 “(5) *FOREIGN FINANCIAL AGENCY TRANSACTION*
6 *VIOLATION.*—

7 “(A) *PENALTY AUTHORIZED.*—*The Sec-*
8 *retary of the Treasury may impose a civil money*
9 *penalty on any person who violates, or causes*
10 *any violation of, any provision of section 5314.*

11 “(B) *AMOUNT OF PENALTY.*—

12 “(i) *IN GENERAL.*—*Except as provided*
13 *in subparagraph (C), the amount of any*
14 *civil penalty imposed under subparagraph*
15 *(A) shall not exceed \$5,000.*

16 “(ii) *REASONABLE CAUSE EXCEP-*
17 *TION.*—*No penalty shall be imposed under*
18 *subparagraph (A) with respect to any viola-*
19 *tion if—*

20 “(I) *such violation was due to*
21 *reasonable cause, and*

22 “(II) *the amount of the trans-*
23 *action or the balance in the account at*
24 *the time of the transaction was prop-*
25 *erly reported.*

1 “(C) *WILLFUL VIOLATIONS.*—*In the case of*
2 *any person willfully violating, or willfully caus-*
3 *ing any violation of, any provision of section*
4 *5314—*

5 “(i) *the maximum penalty under sub-*
6 *paragraph (B)(i) shall be increased to the*
7 *greater of—*

8 “(I) *\$25,000, or*

9 “(II) *the amount (not exceeding*
10 *\$100,000) determined under subpara-*
11 *graph (D), and*

12 “(ii) *subparagraph (B)(i) shall not*
13 *apply.*

14 “(D) *AMOUNT.*—*The amount determined*
15 *under this subparagraph is—*

16 “(i) *in the case of a violation involving*
17 *a transaction, the amount of the trans-*
18 *action, or*

19 “(ii) *in the case of a violation involv-*
20 *ing a failure to report the existence of an*
21 *account or any identifying information re-*
22 *quired to be provided with respect to an ac-*
23 *count, the balance in the account at the*
24 *time of the violation.”*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
 2 *section shall apply to violations occurring after the date of*
 3 *the enactment of this Act.*

4 **SEC. 623. FRIVOLOUS TAX SUBMISSIONS.**

5 (a) *CIVIL PENALTIES.*—*Section 6702 is amended to*
 6 *read as follows:*

7 **“SEC. 6702. FRIVOLOUS TAX SUBMISSIONS.**

8 “(a) *CIVIL PENALTY FOR FRIVOLOUS TAX RE-*
 9 *URNS.*—*A person shall pay a penalty of \$5,000 if—*

10 “(1) *such person files what purports to be a re-*
 11 *turn of a tax imposed by this title but which—*

12 “(A) *does not contain information on which*
 13 *the substantial correctness of the self-assessment*
 14 *may be judged, or*

15 “(B) *contains information that on its face*
 16 *indicates that the self-assessment is substantially*
 17 *incorrect; and*

18 “(2) *the conduct referred to in paragraph (1)—*

19 “(A) *is based on a position which the Sec-*
 20 *retary has identified as frivolous under sub-*
 21 *section (c), or*

22 “(B) *reflects a desire to delay or impede the*
 23 *administration of Federal tax laws.*

24 “(b) *CIVIL PENALTY FOR SPECIFIED FRIVOLOUS SUB-*
 25 *MISSIONS.*—

1 “(1) *IMPOSITION OF PENALTY.*—*Except as pro-*
2 *vided in paragraph (3), any person who submits a*
3 *specified frivolous submission shall pay a penalty of*
4 *\$5,000.*

5 “(2) *SPECIFIED FRIVOLOUS SUBMISSION.*—*For*
6 *purposes of this section—*

7 “(A) *SPECIFIED FRIVOLOUS SUBMISSION.*—
8 *The term ‘specified frivolous submission’ means*
9 *a specified submission if any portion of such*
10 *submission—*

11 *“(i) is based on a position which the*
12 *Secretary has identified as frivolous under*
13 *subsection (c), or*

14 *“(ii) reflects a desire to delay or im-*
15 *pede the administration of Federal tax*
16 *laws.*

17 “(B) *SPECIFIED SUBMISSION.*—*The term*
18 *‘specified submission’ means—*

19 *“(i) a request for a hearing under—*

20 *“(I) section 6320 (relating to no-*
21 *tice and opportunity for hearing upon*
22 *filing of notice of lien), or*

23 *“(II) section 6330 (relating to no-*
24 *tice and opportunity for hearing before*
25 *levy), and*

1 “(ii) an application under—

2 “(I) section 6159 (relating to
3 agreements for payment of tax liability
4 in installments),

5 “(II) section 7122 (relating to
6 compromises), or

7 “(III) section 7811 (relating to
8 taxpayer assistance orders).

9 “(3) *OPPORTUNITY TO WITHDRAW SUBMIS-*
10 *SION.—If the Secretary provides a person with notice*
11 *that a submission is a specified frivolous submission*
12 *and such person withdraws such submission within*
13 *30 days after such notice, the penalty imposed under*
14 *paragraph (1) shall not apply with respect to such*
15 *submission.*

16 “(c) *LISTING OF FRIVOLOUS POSITIONS.—The Sec-*
17 *retary shall prescribe (and periodically revise) a list of posi-*
18 *tions which the Secretary has identified as being frivolous*
19 *for purposes of this subsection. The Secretary shall not in-*
20 *clude in such list any position that the Secretary deter-*
21 *mines meets the requirement of section*
22 *6662(d)(2)(B)(ii)(II).*

23 “(d) *REDUCTION OF PENALTY.—The Secretary may*
24 *reduce the amount of any penalty imposed under this sec-*
25 *tion if the Secretary determines that such reduction would*

1 *promote compliance with and administration of the Federal*
2 *tax laws.*

3 “(e) *PENALTIES IN ADDITION TO OTHER PEN-*
4 *ALTIES.—The penalties imposed by this section shall be in*
5 *addition to any other penalty provided by law.”*

6 (b) *TREATMENT OF FRIVOLOUS REQUESTS FOR HEAR-*
7 *INGS BEFORE LEVY.—*

8 (1) *FRIVOLOUS REQUESTS DISREGARDED.—Sec-*
9 *tion 6330 (relating to notice and opportunity for*
10 *hearing before levy) is amended by adding at the end*
11 *the following new subsection:*

12 “(g) *FRIVOLOUS REQUESTS FOR HEARING, ETC.—*
13 *Notwithstanding any other provision of this section, if the*
14 *Secretary determines that any portion of a request for a*
15 *hearing under this section or section 6320 meets the require-*
16 *ment of clause (i) or (ii) of section 6702(b)(2)(A), then the*
17 *Secretary may treat such portion as if it were never sub-*
18 *mitted and such portion shall not be subject to any further*
19 *administrative or judicial review.”*

20 (2) *PRECLUSION FROM RAISING FRIVOLOUS*
21 *ISSUES AT HEARING.—Section 6330(c)(4) is*
22 *amended—*

23 (A) *by striking “(A)” and inserting*
24 *“(A)(i)”;*

25 (B) *by striking “(B)” and inserting “(ii)”;*

1 (C) by striking the period at the end of the
2 first sentence and inserting “; or”; and

3 (D) by inserting after subparagraph (A)(ii)
4 (as so redesignated) the following:

5 “(B) the issue meets the requirement of
6 clause (i) or (ii) of section 6702(b)(2)(A).”

7 (3) STATEMENT OF GROUNDS.—Section
8 6330(b)(1) is amended by striking “under subsection
9 (a)(3)(B)” and inserting “in writing under subsection
10 (a)(3)(B) and states the grounds for the requested
11 hearing”.

12 (c) TREATMENT OF FRIVOLOUS REQUESTS FOR HEAR-
13 INGS UPON FILING OF NOTICE OF LIEN.—Section 6320 is
14 amended—

15 (1) in subsection (b)(1), by striking “under sub-
16 section (a)(3)(B)” and inserting “in writing under
17 subsection (a)(3)(B) and states the grounds for the re-
18 quested hearing”, and

19 (2) in subsection (c), by striking “and (e)” and
20 inserting “(e), and (g)”.

21 (d) TREATMENT OF FRIVOLOUS APPLICATIONS FOR
22 OFFERS-IN-COMPROMISE AND INSTALLMENT AGREE-
23 MENTS.—Section 7122 is amended by adding at the end
24 the following new subsection:

1 (B) by adding at the end the following new
2 flush sentence:

3 “The Secretary may impose a monetary penalty on any
4 representative described in the preceding sentence. If the
5 representative was acting on behalf of an employer or any
6 firm or other entity in connection with the conduct giving
7 rise to such penalty, the Secretary may impose a monetary
8 penalty on such employer, firm, or entity if it knew, or
9 reasonably should have known, of such conduct. Such pen-
10 alty shall not exceed the gross income derived (or to be de-
11 rived) from the conduct giving rise to the penalty and may
12 be in addition to, or in lieu of, any suspension, disbarment,
13 or censure.”

14 (2) *EFFECTIVE DATE.*—The amendments made
15 by this subsection shall apply to actions taken after
16 the date of the enactment of this Act.

17 (b) *TAX SHELTER OPINIONS, ETC.*—Section 330 of
18 such title 31 is amended by adding at the end the following
19 new subsection:

20 “(d) Nothing in this section or in any other provision
21 of law shall be construed to limit the authority of the Sec-
22 retary of the Treasury to impose standards applicable to
23 the rendering of written advice with respect to any entity,
24 transaction plan or arrangement, or other plan or arrange-

1 ment, which is of a type which the Secretary determines
2 as having a potential for tax avoidance or evasion.”

3 **SEC. 625. PENALTY ON PROMOTERS OF TAX SHELTERS.**

4 (a) *PENALTY ON PROMOTING ABUSIVE TAX SHEL-*
5 *TERS.*—Section 6700(a) is amended by adding at the end
6 the following new sentence: “Notwithstanding the first sen-
7 tence, if an activity with respect to which a penalty im-
8 posed under this subsection involves a statement described
9 in paragraph (2)(A), the amount of the penalty shall be
10 equal to 50 percent of the gross income derived (or to be
11 derived) from such activity by the person on which the pen-
12 alty is imposed.”

13 (b) *EFFECTIVE DATE.*—The amendment made by this
14 section shall apply to activities after the date of the enact-
15 ment of this Act.

16 **PART III—OTHER PROVISIONS**

17 **SEC. 631. AFFIRMATION OF CONSOLIDATED RETURN REGU-**
18 **LATION AUTHORITY.**

19 (a) *IN GENERAL.*—Section 1502 (relating to consoli-
20 dated return regulations) is amended by adding at the end
21 the following new sentence: “In prescribing such regula-
22 tions, the Secretary may prescribe rules applicable to cor-
23 porations filing consolidated returns under section 1501
24 that are different from other provisions of this title that
25 would apply if such corporations filed separate returns.”

1 (b) *RESULT NOT OVERTURNED.*—Notwithstanding
 2 subsection (a), the Internal Revenue Code of 1986 shall be
 3 construed by treating Treasury regulation § 1.1502–
 4 20(c)(1)(iii) (as in effect on January 1, 2001) as being in-
 5 applicable to the type of factual situation in *Rite Aid Cor-*
 6 *poration v. United States*, 255 F.3d 1357 (Fed. Cir. 2001).

7 (c) *EFFECTIVE DATE.*—The provisions of this section
 8 shall apply to taxable years beginning before, on, or after
 9 the date of the enactment of this Act.

10 ***Subtitle B—Tax Treatment of***
 11 ***Inversion Transactions***

12 **SEC. 641. TAX TREATMENT OF INVERTED CORPORATE ENTI-**
 13 **TIES.**

14 (a) *IN GENERAL.*—Subchapter C of chapter 80 (relat-
 15 ing to provisions affecting more than one subtitle) is
 16 amended by adding at the end the following new section:

17 **“SEC. 7874. RULES RELATING TO INVERTED CORPORATE**
 18 **ENTITIES.**

19 “(a) *INVERTED CORPORATIONS TREATED AS DOMES-*
 20 *TIC CORPORATIONS.*—

21 “(1) *IN GENERAL.*—If a foreign incorporated en-
 22 tity is treated as an inverted domestic corporation,
 23 then, notwithstanding section 7701(a)(4), such entity
 24 shall be treated for purposes of this title as a domestic
 25 corporation.

1 “(2) *INVERTED DOMESTIC CORPORATION.*—*For*
2 *purposes of this section, a foreign incorporated entity*
3 *shall be treated as an inverted domestic corporation*
4 *if, pursuant to a plan (or a series of related trans-*
5 *actions)—*

6 “(A) *the entity completes after March 20,*
7 *2002, the direct or indirect acquisition of sub-*
8 *stantially all of the properties held directly or*
9 *indirectly by a domestic corporation or substan-*
10 *tially all of the properties constituting a trade or*
11 *business of a domestic partnership,*

12 “(B) *after the acquisition at least 80 per-*
13 *cent of the stock (by vote or value) of the entity*
14 *is held—*

15 “(i) *in the case of an acquisition with*
16 *respect to a domestic corporation, by former*
17 *shareholders of the domestic corporation by*
18 *reason of holding stock in the domestic cor-*
19 *poration, or*

20 “(ii) *in the case of an acquisition with*
21 *respect to a domestic partnership, by former*
22 *partners of the domestic partnership by rea-*
23 *son of holding a capital or profits interest*
24 *in the domestic partnership, and*

1 “(C) the expanded affiliated group which
2 after the acquisition includes the entity does not
3 have substantial business activities in the foreign
4 country in which or under the law of which the
5 entity is created or organized when compared to
6 the total business activities of such expanded af-
7 filiated group.

8 “(b) *PRESERVATION OF DOMESTIC TAX BASE IN CER-*
9 *TAIN INVERSION TRANSACTIONS TO WHICH SUBSECTION*
10 *(a) DOES NOT APPLY.—*

11 “(1) *IN GENERAL.—*If a foreign incorporated en-
12 tity would be treated as an inverted domestic corpora-
13 tion with respect to an acquired entity if either—

14 “(A) subsection (a)(2)(A) were applied by
15 substituting ‘after December 31, 1996, and on or
16 before March 20, 2002’ for ‘after March 20, 2002’
17 and subsection (a)(2)(B) were applied by sub-
18 stituting ‘more than 50 percent’ for ‘at least 80
19 percent’, or

20 “(B) subsection (a)(2)(B) were applied by
21 substituting ‘more than 50 percent’ for ‘at least
22 80 percent’,

23 then the rules of subsection (c) shall apply to any in-
24 version gain of the acquired entity during the appli-
25 cable period and the rules of subsection (d) shall

1 *apply to any related party transaction of the ac-*
2 *quired entity during the applicable period. This sub-*
3 *section shall not apply for any taxable year if sub-*
4 *section (a) applies to such foreign incorporated entity*
5 *for such taxable year.*

6 “(2) *ACQUIRED ENTITY.*—*For purposes of this*
7 *section—*

8 “(A) *IN GENERAL.*—*The term ‘acquired en-*
9 *tity’ means the domestic corporation or partner-*
10 *ship substantially all of the properties of which*
11 *are directly or indirectly acquired in an acquisi-*
12 *tion described in subsection (a)(2)(A) to which*
13 *this subsection applies.*

14 “(B) *AGGREGATION RULES.*—*Any domestic*
15 *person bearing a relationship described in sec-*
16 *tion 267(b) or 707(b) to an acquired entity shall*
17 *be treated as an acquired entity with respect to*
18 *the acquisition described in subparagraph (A).*

19 “(3) *APPLICABLE PERIOD.*—*For purposes of this*
20 *section—*

21 “(A) *IN GENERAL.*—*The term ‘applicable*
22 *period’ means the period—*

23 “(i) *beginning on the first date prop-*
24 *erties are acquired as part of the acquisi-*

1 tion described in subsection (a)(2)(A) to
2 which this subsection applies, and

3 “(ii) ending on the date which is 10
4 years after the last date properties are ac-
5 quired as part of such acquisition.

6 “(B) SPECIAL RULE FOR INVERSIONS OC-
7 CURRING BEFORE MARCH 21, 2002.—In the case
8 of any acquired entity to which paragraph
9 (1)(A) applies, the applicable period shall be the
10 10-year period beginning on January 1, 2002.

11 “(c) TAX ON INVERSION GAINS MAY NOT BE OFF-
12 SET.—If subsection (b) applies—

13 “(1) IN GENERAL.—The taxable income of an ac-
14 quired entity (or any expanded affiliated group which
15 includes such entity) for any taxable year which in-
16 cludes any portion of the applicable period shall in
17 no event be less than the inversion gain of the entity
18 for the taxable year.

19 “(2) CREDITS NOT ALLOWED AGAINST TAX ON IN-
20 VERSION GAIN.—Credits shall be allowed against the
21 tax imposed by this chapter on an acquired entity for
22 any taxable year described in paragraph (1) only to
23 the extent such tax exceeds the product of—

24 “(A) the amount of the inversion gain for
25 the taxable year, and

1 “(B) the highest rate of tax specified in sec-
2 tion 11(b)(1).

3 The credit allowed by section 901 may be taken into
4 account under the preceding sentence only to the ex-
5 tent of the product of such highest rate and the
6 amount of taxable income from sources without the
7 United States that is not inversion gain.

8 “(3) SPECIAL RULES FOR PARTNERSHIPS.—In
9 the case of an acquired entity which is a
10 partnership—

11 “(A) the limitations of this subsection shall
12 apply at the partner rather than the partnership
13 level,

14 “(B) the inversion gain of any partner for
15 any taxable year shall be equal to the sum of—

16 “(i) the partner’s distributive share of
17 inversion gain of the partnership for such
18 taxable year, plus

19 “(ii) income or gain required to be rec-
20 ognized for the taxable year by the partner
21 under section 367(a), 741, or 1001, or
22 under any other provision of chapter 1, by
23 reason of the transfer during the applicable
24 period of any partnership interest of the

1 *partner in such partnership to the foreign*
2 *incorporated entity, and*

3 *“(C) the highest rate of tax specified in the*
4 *rate schedule applicable to the partner under*
5 *chapter 1 shall be substituted for the rate of tax*
6 *under paragraph (2)(B).*

7 *“(4) INVERSION GAIN.—For purposes of this sec-*
8 *tion, the term ‘inversion gain’ means any income or*
9 *gain required to be recognized under section 304,*
10 *311(b), 367, 1001, or 1248, or under any other provi-*
11 *sion of chapter 1, by reason of the transfer during the*
12 *applicable period of stock or other properties by an*
13 *acquired entity—*

14 *“(A) as part of the acquisition described in*
15 *subsection (a)(2)(A) to which subsection (b) ap-*
16 *plies, or*

17 *“(B) after such acquisition to a foreign re-*
18 *lated person.*

19 *The Secretary may provide that income or gain from*
20 *the sale of inventories or other transactions in the or-*
21 *inary course of a trade or business shall not be treat-*
22 *ed as inversion gain under subparagraph (B) to the*
23 *extent the Secretary determines such treatment would*
24 *not be inconsistent with the purposes of this section.*

1 “(5) *COORDINATION WITH SECTION 172 AND MIN-*
2 *IMUM TAX.—Rules similar to the rules of paragraphs*
3 *(3) and (4) of section 860E(a) shall apply for pur-*
4 *poses of this section.*

5 “(6) *STATUTE OF LIMITATIONS.—*

6 “(A) *IN GENERAL.—The statutory period*
7 *for the assessment of any deficiency attributable*
8 *to the inversion gain of any taxpayer for any*
9 *pre-inversion year shall not expire before the ex-*
10 *piration of 3 years from the date the Secretary*
11 *is notified by the taxpayer (in such manner as*
12 *the Secretary may prescribe) of the acquisition*
13 *described in subsection (a)(2)(A) to which such*
14 *gain relates and such deficiency may be assessed*
15 *before the expiration of such 3-year period not-*
16 *withstanding the provisions of any other law or*
17 *rule of law which would otherwise prevent such*
18 *assessment.*

19 “(B) *PRE-INVERSION YEAR.—For purposes*
20 *of subparagraph (A), the term ‘pre-inversion*
21 *year’ means any taxable year if—*

22 “(i) *any portion of the applicable pe-*
23 *riod is included in such taxable year, and*

1 “(ii) such year ends before the taxable
2 year in which the acquisition described in
3 subsection (a)(2)(A) is completed.

4 “(d) *SPECIAL RULES APPLICABLE TO RELATED*
5 *PARTY TRANSACTIONS.*—

6 “(1) *ANNUAL APPLICATION FOR AGREEMENTS ON*
7 *RETURN POSITIONS.*—

8 “(A) *IN GENERAL.*—Each acquired entity to
9 which subsection (b) applies shall file with the
10 Secretary an application for an approval agree-
11 ment under subparagraph (D) for each taxable
12 year which includes a portion of the applicable
13 period. Such application shall be filed at such
14 time and manner, and shall contain such infor-
15 mation, as the Secretary may prescribe.

16 “(B) *SECRETARIAL ACTION.*—Within 90
17 days of receipt of an application under subpara-
18 graph (A) (or such longer period as the Secretary
19 and entity may agree upon), the Secretary
20 shall—

21 “(i) enter into an agreement described
22 in subparagraph (D) for the taxable year
23 covered by the application,

24 “(ii) notify the entity that the Sec-
25 retary has determined that the application

1 *was filed in good faith and substantially*
2 *complies with the requirements for the ap-*
3 *plication under subparagraph (A), or*

4 *“(iii) notify the entity that the Sec-*
5 *retary has determined that the application*
6 *was not filed in good faith or does not sub-*
7 *stantially comply with such requirements.*

8 *If the Secretary fails to act within the time pre-*
9 *scribed under the preceding sentence, the entity*
10 *shall be treated for purposes of this paragraph as*
11 *having received notice under clause (ii).*

12 “(C) *FAILURES TO COMPLY.—If an ac-*
13 *quired entity fails to file an application under*
14 *subparagraph (A), or the acquired entity receives*
15 *a notice under subparagraph (B)(iii), for any*
16 *taxable year, then for such taxable year—*

17 *“(i) there shall not be allowed any de-*
18 *duction, or addition to basis or cost of goods*
19 *sold, for amounts paid or incurred, or losses*
20 *incurred, by reason of a transaction between*
21 *the acquired entity and a foreign related*
22 *person,*

23 *“(ii) any transfer or license of intan-*
24 *gible property (as defined in section*
25 *936(h)(3)(B)) between the acquired entity*

1 and a foreign related person shall be dis-
2 regarded, and

3 “(iii) any cost-sharing arrangement
4 between the acquired entity and a foreign
5 related person shall be disregarded.

6 “(D) APPROVAL AGREEMENT.—For pur-
7 poses of subparagraph (A), the term ‘approval
8 agreement’ means a prefiling, advance pricing,
9 or other agreement specified by the Secretary
10 which contains such provisions as the Secretary
11 determines necessary to ensure that the require-
12 ments of sections 163(j), 267(a)(3), 482, and 845,
13 and any other provision of this title applicable
14 to transactions between related persons and spec-
15 ified by the Secretary, are met.

16 “(2) MODIFICATIONS OF LIMITATION ON INTER-
17 EST DEDUCTION.—In the case of an acquired entity
18 to which subsection (b) applies, section 163(j) shall be
19 applied—

20 “(A) without regard to paragraph (2)(A)(ii)
21 thereof, and

22 “(B) by substituting ‘25 percent’ for ‘50
23 percent’ each place it appears in paragraph
24 (2)(B) thereof.

1 “(e) *OTHER DEFINITIONS AND SPECIAL RULES.—For*
2 *purposes of this section—*

3 “(1) *RULES FOR APPLICATION OF SUBSECTION*
4 *(a)(2).—In applying subsection (a)(2) for purposes of*
5 *subsections (a) and (b), the following rules shall*
6 *apply:*

7 “(A) *CERTAIN STOCK DISREGARDED.—*
8 *There shall not be taken into account in deter-*
9 *mining ownership for purposes of subsection*
10 *(a)(2)(B)—*

11 “(i) *stock held by members of the ex-*
12 *panded affiliated group which includes the*
13 *foreign incorporated entity, or*

14 “(ii) *stock of such entity which is sold*
15 *in a public offering related to the acquisi-*
16 *tion described in subsection (a)(2)(A).*

17 “(B) *PLAN DEEMED IN CERTAIN CASES.—If*
18 *a foreign incorporated entity acquires directly or*
19 *indirectly substantially all of the properties of a*
20 *domestic corporation or partnership during the*
21 *4-year period beginning on the date which is 2*
22 *years before the ownership requirements of sub-*
23 *section (a)(2)(B) are met, such actions shall be*
24 *treated as pursuant to a plan.*

1 “(C) *CERTAIN TRANSFERS DISREGARDED.*—
2 *The transfer of properties or liabilities (includ-*
3 *ing by contribution or distribution) shall be dis-*
4 *regarded if such transfers are part of a plan a*
5 *principal purpose of which is to avoid the pur-*
6 *poses of this section.*

7 “(D) *SPECIAL RULE FOR RELATED PART-*
8 *NERSHIPS.*—*For purposes of applying subsection*
9 *(a)(2) to the acquisition of a domestic partner-*
10 *ship, except as provided in regulations, all part-*
11 *nerships which are under common control (with-*
12 *in the meaning of section 482) shall be treated*
13 *as 1 partnership.*

14 “(E) *TREATMENT OF CERTAIN RIGHTS.*—
15 *The Secretary shall prescribe such regulations as*
16 *may be necessary—*

17 “(i) *to treat warrants, options, con-*
18 *tracts to acquire stock, convertible debt in-*
19 *struments, and other similar interests as*
20 *stock, and*

21 “(ii) *to treat stock as not stock.*

22 “(2) *EXPANDED AFFILIATED GROUP.*—*The term*
23 *‘expanded affiliated group’ means an affiliated group*
24 *as defined in section 1504(a) but without regard to*
25 *section 1504(b), except that section 1504(a) shall be*

1 *applied by substituting ‘more than 50 percent’ for ‘at*
2 *least 80 percent’ each place it appears.*

3 “(3) *FOREIGN INCORPORATED ENTITY.*—*The*
4 *term ‘foreign incorporated entity’ means any entity*
5 *which is, or but for subsection (a)(1) would be, treated*
6 *as a foreign corporation for purposes of this title.*

7 “(4) *FOREIGN RELATED PERSON.*—*The term ‘for-*
8 *foreign related person’ means, with respect to any ac-*
9 *quired entity, a foreign person which—*

10 “(A) *bears a relationship to such entity de-*
11 *scribed in section 267(b) or 707(b), or*

12 “(B) *is under the same common control*
13 *(within the meaning of section 482) as such enti-*
14 *ty.*

15 “(5) *SUBSEQUENT ACQUISITIONS BY UNRELATED*
16 *DOMESTIC CORPORATIONS.*—*Subject to such condi-*
17 *tions, limitations, and exceptions as the Secretary*
18 *may prescribe, if, after an acquisition described in*
19 *subsection (a)(2)(A) to which subsection (b) applies—*

20 “(A) *a domestic corporation stock of which*
21 *is traded on an established securities market ac-*
22 *quires directly or indirectly substantially all of*
23 *the properties of an acquired entity,*

24 “(B) *before such acquisition such domestic*
25 *corporation did not have a relationship described*

1 in section 267(b) or 707(b), and was not under
2 common control (within the meaning of section
3 482), with such entity, or any member of an ex-
4 panded affiliated group including such entity,
5 and

6 “(C) after such acquisition such acquired
7 entity does not have such a relationship and was
8 not under such common control with any mem-
9 ber of the expanded affiliated group which before
10 such acquisition included such entity,
11 then this section shall cease to apply to such entity.

12 “(f) REGULATIONS.—The Secretary shall provide such
13 regulations as are necessary to carry out this section, in-
14 cluding regulations providing for such adjustments to the
15 application of this section as are necessary to prevent the
16 avoidance of the purposes of this section, including the
17 avoidance of such purposes through—

18 “(1) the use of related persons, pass-through or
19 other noncorporate entities, or other intermediaries,
20 or

21 “(2) transactions designed to have persons cease
22 to be (or not become) members of expanded affiliated
23 groups or related persons.”

24 (b) TREATMENT OF AGREEMENTS.—

25 (1) CONFIDENTIALITY.—

1 (A) *TREATMENT AS RETURN INFORMA-*
2 *TION.—Section 6103(b)(2) (relating to return in-*
3 *formation) is amended by striking “and” at the*
4 *end of subparagraph (C), by inserting “and” at*
5 *the end of subparagraph (D), and by inserting*
6 *after subparagraph (D) the following new sub-*
7 *paragraph:*

8 *“(E) any approval agreement under section*
9 *7874(d)(1) to which any preceding subparagraph*
10 *does not apply and any background information*
11 *related to the agreement or any application for*
12 *the agreement.”.*

13 (B) *EXCEPTION FROM PUBLIC INSPECTION*
14 *AS WRITTEN DETERMINATION.—Section*
15 *6110(b)(1)(B) is amended by striking “or (D)”*
16 *and inserting “, (D), or (E)”.*

17 (2) *REPORTING.—The Secretary of the Treasury*
18 *shall include with any report on advance pricing*
19 *agreements required to be submitted after the date of*
20 *the enactment of this Act under section 521(b) of the*
21 *Ticket to Work and Work Incentives Improvement Act*
22 *of 1999 (Public Law 106–170) a report regarding ap-*
23 *proval agreements under section 7874(d)(1) of the In-*
24 *ternal Revenue Code of 1986. Such report shall in-*
25 *clude information similar to the information required*

1 *with respect to advance pricing agreements and shall*
 2 *be treated for confidentiality purposes in the same*
 3 *manner as the reports on advance pricing agreements*
 4 *are treated under section 521(b)(3) of such Act.*

5 (c) *INFORMATION REPORTING.*—*The Secretary of the*
 6 *Treasury shall exercise the Secretary’s authority under the*
 7 *Internal Revenue Code of 1986 to require entities involved*
 8 *in transactions to which section 7874 of such Code (as*
 9 *added by subsection (a)) applies to report to the Secretary,*
 10 *shareholders, partners, and such other persons as the Sec-*
 11 *retary may prescribe such information as is necessary to*
 12 *ensure the proper tax treatment of such transactions.*

13 (d) *CONFORMING AMENDMENT.*—*The table of sections*
 14 *for subchapter C of chapter 80 is amended by adding at*
 15 *the end the following new item:*

“Sec. 7874. Rules relating to inverted corporate entities.”

16 ***Subtitle C—Reinsurance***
 17 ***Agreements***

18 ***SEC. 651. REINSURANCE OF UNITED STATES RISKS IN FOR-***
 19 ***EIGN JURISDICTIONS.***

20 (a) *IN GENERAL.*—*Section 845(a) (relating to alloca-*
 21 *tion in case of reinsurance agreement involving tax avoid-*
 22 *ance or evasion) is amended by striking “source and char-*
 23 *acter” and inserting “amount, source, or character”.*

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to any risk reinsured after April 11,*
3 *2002.*

4 ***Subtitle D—Extension of Internal***
5 ***Revenue Service User Fees***

6 ***SEC. 661. EXTENSION OF INTERNAL REVENUE SERVICE***
7 ***USER FEES.***

8 (a) *IN GENERAL.*—*Chapter 77 (relating to miscella-*
9 *neous provisions) is amended by adding at the end the fol-*
10 *lowing new section:*

11 ***“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.***

12 ***“(a) GENERAL RULE.***—*The Secretary shall establish*
13 *a program requiring the payment of user fees for—*

14 ***“(1) requests to the Internal Revenue Service for***
15 ***ruling letters, opinion letters, and determination let-***
16 ***ters, and***

17 ***“(2) other similar requests.***

18 ***“(b) PROGRAM CRITERIA.***—

19 ***“(1) IN GENERAL.***—*The fees charged under the*
20 *program required by subsection (a)—*

21 ***“(A) shall vary according to categories (or***
22 ***subcategories) established by the Secretary,***

23 ***“(B) shall be determined after taking into***
24 ***account the average time for (and difficulty of)***

1 *complying with requests in each category (and*
2 *subcategory), and*

3 *“(C) shall be payable in advance.*

4 *“(2) EXEMPTIONS, ETC.—*

5 *“(A) IN GENERAL.—The Secretary shall*
6 *provide for such exemptions (and reduced fees)*
7 *under such program as the Secretary determines*
8 *to be appropriate.*

9 *“(B) EXEMPTION FOR CERTAIN REQUESTS*
10 *REGARDING PENSION PLANS.—The Secretary*
11 *shall not require payment of user fees under such*
12 *program for requests for determination letters*
13 *with respect to the qualified status of a pension*
14 *benefit plan maintained solely by 1 or more eli-*
15 *gible employers or any trust which is part of the*
16 *plan. The preceding sentence shall not apply to*
17 *any request—*

18 *“(i) made after the later of—*

19 *“(I) the fifth plan year the pen-*
20 *sion benefit plan is in existence, or*

21 *“(II) the end of any remedial*
22 *amendment period with respect to the*
23 *plan beginning within the first 5 plan*
24 *years, or*

1 “(ii) made by the sponsor of any proto-
2 type or similar plan which the sponsor in-
3 tends to market to participating employers.

4 “(C) DEFINITIONS AND SPECIAL RULES.—

5 For purposes of subparagraph (B)—

6 “(i) PENSION BENEFIT PLAN.—The
7 term ‘pension benefit plan’ means a pen-
8 sion, profit-sharing, stock bonus, annuity,
9 or employee stock ownership plan.

10 “(ii) ELIGIBLE EMPLOYER.—The term
11 ‘eligible employer’ means an eligible em-
12 ployer (as defined in section
13 408(p)(2)(C)(i)(I)) which has at least 1 em-
14 ployee who is not a highly compensated em-
15 ployee (as defined in section 414(q)) and is
16 participating in the plan. The determina-
17 tion of whether an employer is an eligible
18 employer under subparagraph (B) shall be
19 made as of the date of the request described
20 in such subparagraph.

21 “(iii) DETERMINATION OF AVERAGE
22 FEES CHARGED.—For purposes of any de-
23 termination of average fees charged, any re-
24 quest to which subparagraph (B) applies
25 shall not be taken into account.

1 “(3) *AVERAGE FEE REQUIREMENT.*—*The average*
 2 *fee charged under the program required by subsection*
 3 *(a) shall not be less than the amount determined*
 4 *under the following table:*

“Category	Average Fee
<i>Employee plan ruling and opinion</i>	\$250
<i>Exempt organization ruling</i>	\$350
<i>Employee plan determination</i>	\$300
<i>Exempt organization determination</i>	\$275
<i>Chief counsel ruling</i>	\$200.

5 “(c) *TERMINATION.*—*No fee shall be imposed under*
 6 *this section with respect to requests made after June 30,*
 7 *2008.”*

8 (b) *CONFORMING AMENDMENTS.*—

9 (1) *The table of sections for chapter 77 is amend-*
 10 *ed by adding at the end the following new item:*

“Sec. 7527. Internal Revenue Service user fees.”.

11 (2) *Section 10511 of the Revenue Act of 1987 is*
 12 *repealed.*

13 (3) *Section 620 of the Economic Growth and*
 14 *Tax Relief Reconciliation Act of 2001 is repealed.*

15 (c) *LIMITATIONS.*—*Notwithstanding any other provi-*
 16 *sion of law, any fees collected pursuant to section 7527 of*
 17 *the Internal Revenue Code of 1986, as added by subsection*
 18 *(a), shall not be expended by the Internal Revenue Service*
 19 *unless provided by an appropriations Act.*

1 (d) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to requests made after the date of the*
3 *enactment of this Act.*

4 ***Subtitle E—Imposition of Customs***
5 ***User Fees***

6 ***SEC. 671. CUSTOMS USER FEES.***

7 *Section 13031(j)(3) of the Consolidated Omnibus*
8 *Budget Reconciliation Act of 1985 (19 U.S.C. 58c(j)(3)) is*
9 *amended by striking “September 30, 2003” and inserting*
10 *“June 30, 2008”.*

Calendar No. 496

107TH CONGRESS
2^D SESSION

H. R. 7

[Report No. 107-211]

AN ACT

To provide incentives for charitable contributions by individuals and businesses, to improve the effectiveness and efficiency of government program delivery to individuals and families in need, and to enhance the ability of low-income Americans to gain financial security by building assets.

JULY 16, 2002

Reported with an amendment