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COMMUNITY SOLUTIONS ACT OF 2001

JULY 16, 2001.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. THOMAS, from the Committee on Ways and Means, submitted the following

REPORT

together with

DISSENTING VIEWS

[To accompany H.R. 7]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 7) 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, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Community Solutions Act of 2001".

(b) TABLE OF CONTENTS.—The table of contents is 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 donations liability reform for in-kind corporate contributions.
Sec. 105. Charitable deduction for contributions of food inventory.
Sec. 106. Reform of excise tax on net investment income of private foundations.
Sec. 107. Excise tax on unrelated business taxable income of charitable remainder trusts.
Sec. 108. Expansion of charitable contribution allowed for scientific property used for research and for computer technology and equipment used for educational purposes.
Sec. 109. 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 I—CHARITABLE GIVING INCENTIVES PACKAGE

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

(a) IN GENERAL.—Section 170 of the Internal Revenue Code of 1986 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING DEDUCTIONS.—

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

"(A) the amount allowable under subsection (a) for the taxable year for cash contributions, or

"(B) the applicable amount.

"(2) APPLICABLE AMOUNT.—For purposes of paragraph (1), the applicable amount shall be determined 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.

In the case of a joint return, the applicable amount is twice the applicable amount determined under the preceding table.".

(b) DIRECT CHARITABLE DEDUCTION.—

(1) IN GENERAL.—Subsection (b) of section 63 of such Code is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and", and by adding at the end thereof the following new paragraph:

"(3) the direct charitable deduction.".

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

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

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

"(3) the direct charitable deduction.".

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

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

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

"(8) DISTRIBUTIONS FOR CHARITABLE PURPOSES.—

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

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

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

"(ii) which is made directly by the trustee—

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

"(II) to a split-interest entity.

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

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

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

"(ii) SPLIT-INTEREST GIFTS.—A distribution to a split-interest entity shall be treated as a qualified charitable distribution only if a deduction for the entire value of the interest in the distribution for the use of an organization described in section 170(c) would be allowable under

section 170 (determined without regard to subsection (b) thereof and this paragraph).

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

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

"(i) CHARITABLE REMAINDER TRUSTS.—Distributions made from an individual retirement account to a trust described in subparagraph (G)(ii)(I) shall be treated as income described in section 664(b)(1) except to the extent that the beneficiary of the individual retirement account notifies the trustee of the trust of the amount which is not allocable to income under subparagraph (D).

"(ii) POOLED INCOME FUNDS.—No amount shall be includible in the gross income of a pooled income fund (as defined in subparagraph (G)(ii)(II)) by reason of a qualified charitable distribution to such fund.

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

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

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

"(i) a charitable remainder annuity trust or a charitable remainder unitrust (as such terms are defined in section 664(d)),

"(ii) a pooled income fund (as defined in section 642(c)(5)), and

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

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

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

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

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

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

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

"(A) the amount of the charitable, etc., deduction taken under section 642(c) within such year,

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

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

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

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

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

"(2) EXCEPTIONS.—Paragraph (1) shall not apply in the case of a taxable year if all the net income for such year, determined under the applicable principles of the law of trusts, is required to be distributed currently to the beneficiaries. Paragraph (1) shall not apply in the case of a trust described in section 4947(a)(1).".

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

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

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

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

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

If the person required to file such return knowingly fails to file the return, such person shall be personally liable for the penalty imposed pursuant to this subparagraph.".

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

(c) EFFECTIVE DATES.—

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

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

SEC. 103. INCREASE IN CAP ON CORPORATE CHARITABLE CONTRIBUTIONS.

(a) IN GENERAL.—Paragraph (2) of section 170(b) of the Internal Revenue Code of 1986 (relating to corporations) is amended by striking "10 percent" and inserting "the applicable percentage".

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

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

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

(c) CONFORMING AMENDMENTS.—

(1) Sections 512(b)(10) and 805(b)(2)(A) of such Code are each amended by striking "10 percent" each place it occurs and inserting "the applicable percentage (determined under section 170(b)(3))".

(2) Sections 545(b)(2) and 556(b)(2) of such Code are each amended by striking "10-percent limitation" and inserting "applicable percentage limitation".

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

SEC. 104. CHARITABLE DONATIONS LIABILITY REFORM FOR IN-KIND CORPORATE CONTRIBUTIONS.

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

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

(2) BUSINESS ENTITY.—The term "business entity" means a firm, corporation, association, partnership, consortium, joint venture, or other form of enterprise.

(3) EQUIPMENT.—The term "equipment" includes mechanical equipment, electronic equipment, and office equipment.

(4) FACILITY.—The term "facility" means any real property, including any building, improvement, or appurtenance.

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

(6) INTENTIONAL MISCONDUCT.—The term "intentional misconduct" means conduct by a person with knowledge (at the time of the conduct) that the conduct is harmful to the health or well-being of another person.

(7) MOTOR VEHICLE.—The term "motor vehicle" has the meaning provided that term in section 30102(6) of title 49, United States Code.

(8) NONPROFIT ORGANIZATION.—The term "nonprofit organization" means—

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

(B) any not-for-profit organization organized and conducted for public benefit and operated primarily for charitable, civic, educational, religious, welfare, or health purposes.

(9) STATE.—The term "State" means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, any other territory or possession of the United States, or any political subdivision of any such State, territory, or possession.

(b) LIABILITY.—

(1) LIABILITY OF BUSINESS ENTITIES THAT DONATE EQUIPMENT TO NONPROFIT ORGANIZATIONS.—

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

(B) APPLICATION.—This paragraph shall apply with respect to civil liability under Federal and State law.

(2) LIABILITY OF BUSINESS ENTITIES PROVIDING USE OF FACILITIES TO NONPROFIT ORGANIZATIONS.—

(A) IN GENERAL.—Subject to subsection (c), a business entity shall not be subject to civil liability relating to any injury or death occurring at a facility of the business entity in connection with a use of such facility by a nonprofit organization, if—

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

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

(iii) the business entity authorized the use of such facility by the nonprofit organization.

(B) APPLICATION.—This paragraph shall apply—

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

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

(3) LIABILITY OF BUSINESS ENTITIES PROVIDING USE OF A MOTOR VEHICLE OR AIRCRAFT.—

(A) IN GENERAL.—Subject to subsection (c), a business entity shall not be subject to civil liability relating to any injury or death occurring as a result of the operation of aircraft or a motor vehicle of a business entity loaned to a nonprofit organization for use outside of the scope of business of the business entity, if—

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

(ii) the business entity authorized the use by the nonprofit organization of motor vehicle or aircraft that resulted in the injury or death.

(B) APPLICATION.—This paragraph shall apply—

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

(ii) regardless of whether a nonprofit organization pays for the use of the aircraft or motor vehicle.

(4) LIABILITY OF BUSINESS ENTITIES PROVIDING TOURS OF FACILITIES.—

(A) IN GENERAL.—Subject to subsection (c), a business entity shall not be subject to civil liability relating to any injury to, or death of an individual occurring at a facility of the business entity, if—

(i) such injury or death occurs during a tour of the facility in an area of the facility that is not otherwise accessible to the general public; and

(ii) the business entity authorized the tour.

(B) APPLICATION.—This paragraph shall apply—

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

(ii) regardless of whether an individual pays for the tour.

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

(1) constitutes a crime of violence (as that term is defined in section 16 of title 18, United States Code) or act of international terrorism (as that term is defined in section 2331 of title 18, United States Code) for which the defendant has been convicted in any court;

(2) constitutes a hate crime (as that term is used in the Hate Crime Statistics Act (28 U.S.C. 534 note));

(3) involves a sexual offense, as defined by applicable State law, for which the defendant has been convicted in any court; or

(4) involves misconduct for which the defendant has been found to have violated a Federal or State civil rights law.

(d) SUPERSEDING PROVISION.—

(1) IN GENERAL.—Subject to paragraph (2) and subsection (e), this title preempts the laws of any State to the extent that such laws are inconsistent with this title, except that this title shall not preempt any State law that provides additional protection for a business entity for an injury or death described in a paragraph of subsection (b) with respect to which the conditions specified in such paragraph apply.

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

(e) ELECTION OF STATE REGARDING NONAPPLICABILITY.—A provision of this title shall not apply to any civil action in a State court against a business entity in which all parties are citizens of the State if such State enacts a statute—

(1) citing the authority of this section;

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

(3) containing no other provisions.

(f) EFFECTIVE DATE.—This section shall apply to injuries (and deaths resulting therefrom) occurring on or after the date of the enactment of this Act.

SEC. 105. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY.

(a) IN GENERAL.—Paragraph (3) of section 170(e) of the Internal Revenue Code of 1986 (relating to special rule for certain contributions of inventory and other property) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

"(C) SPECIAL RULE FOR CONTRIBUTIONS OF FOOD INVENTORY.—

"(i) GENERAL RULE.—In the case of a charitable contribution of food, this paragraph shall be applied—

"(I) without regard to whether the contribution is made by a C corporation, and

"(II) only for food that is apparently wholesome food.

"(ii) DETERMINATION OF FAIR MARKET VALUE.—In the case of a qualified contribution of apparently wholesome food to which this paragraph applies and which, solely by reason of internal standards of the taxpayer or lack of market, cannot or will not be sold, the fair market value of such food shall be determined by taking into account the price at which the same or similar food items are sold by the taxpayer at the time of the contribution (or, if not so sold at such time, in the recent past).

"(iii) APPARENTLY WHOLESOME FOOD.—For purposes of this subparagraph, the term 'apparently wholesome food' shall have the meaning given to such term by section 22(b)(2) of the Bill Emerson Good Samaritan Food Donation Act (42 U.S.C. 1791(b)(2)), as in effect on the date of the enactment of this subparagraph.".

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

SEC. 106. REFORM OF EXCISE TAX ON NET INVESTMENT INCOME OF PRIVATE FOUNDATIONS.

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

(b) REPEAL OF REDUCTION IN TAX WHERE PRIVATE FOUNDATION MEETS CERTAIN DISTRIBUTION REQUIREMENTS.—Section 4940 of such Code is amended by striking subsection (e).

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

SEC. 107. EXCISE TAX ON UNRELATED BUSINESS TAXABLE INCOME OF CHARITABLE REMAINDER TRUSTS.

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

"(c) TAXATION OF TRUSTS.—

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

"(2) EXCISE TAX.—

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

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

"(C) CHARACTER OF DISTRIBUTIONS AND COORDINATION WITH DISTRIBUTION REQUIREMENTS.—The amounts taken into account in determining unrelated business taxable income (as defined in subparagraph (A)) shall not be taken into account for purposes of—

"(i) subsection (b),

"(ii) determining the value of trust assets under subsection (d)(2), and

"(iii) determining income under subsection (d)(3).

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

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

SEC. 108. EXPANSION OF CHARITABLE CONTRIBUTION ALLOWED FOR SCIENTIFIC PROPERTY USED FOR RESEARCH AND FOR COMPUTER TECHNOLOGY AND EQUIPMENT USED FOR EDUCATIONAL PURPOSES.

(a) SCIENTIFIC PROPERTY USED FOR RESEARCH.—Clause (ii) of section 170(e)(4)(B) of the Internal Revenue Code of 1986 (defining qualified research contributions) is amended by inserting "or assembled" after "constructed".

(b) COMPUTER TECHNOLOGY AND EQUIPMENT FOR EDUCATIONAL PURPOSES.—Clause (ii) of section 170(e)(6)(B) of such Code is amended by inserting "or assembled" after "constructed" and "or assembling" after "construction".

(c) CONFORMING AMENDMENT.—Subparagraph (D) of section 170(e)(6) of such Code is amended by inserting "or assembled" after "constructed" and "or assembling" after "construction".

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

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

(a) IN GENERAL.—Paragraph (1) of section 1367(a) of such Code (relating to adjustments to basis of stock of shareholders, etc.) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting ", and", and by adding at the end the following new subparagraph:

"(D) the excess of the amount of the shareholder's deduction for any charitable contribution made by the S corporation over the shareholder's proportionate share of the adjusted basis of the property contributed.".

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

TITLE II—EXPANSION OF CHARITABLE CHOICE

SEC. 201. PROVISION OF ASSISTANCE UNDER GOVERNMENT PROGRAMS BY RELIGIOUS AND COMMUNITY ORGANIZATIONS.

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

"SEC. 1994A. CHARITABLE CHOICE.

"(a) SHORT TITLE.—This section may be cited as the 'Charitable Choice Act of 2001'.

"(b) PURPOSES.—The purposes of this section are—

"(1) to provide assistance to individuals and families in need in the most effective and efficient manner;

"(2) to prohibit discrimination against religious organizations on the basis of religion in the administration and distribution of government assistance under the government programs described in subsection (c)(4);

"(3) to allow religious organizations to assist in the administration and distribution of such assistance without impairing the religious character of such organizations; and

"(4) to protect the religious freedom of individuals and families in need who are eligible for government assistance, including expanding the possibility of choosing to receive services from a religious organization providing such assistance.

"(c) RELIGIOUS ORGANIZATIONS INCLUDED AS NONGOVERNMENTAL PROVIDERS.—

"(1) IN GENERAL.—

"(A) INCLUSION.—For any program described in paragraph (4) that is carried out by the Federal Government, or by a State or local government with Federal funds, the government shall consider, on the same basis as other nongovernmental organizations, religious organizations to provide the assistance under the program, if the program is implemented in a manner that is consistent with the Establishment Clause and the Free Exercise Clause of the first amendment to the Constitution.

"(B) DISCRIMINATION PROHIBITED.—Neither the Federal Government nor a State or local government receiving funds under a program described in paragraph (4) shall discriminate against an organization that provides assistance under, or applies to provide assistance under, such program, on the basis that the organization has a religious character.

"(2) FUNDS NOT AID TO RELIGION.—Federal, State, or local government funds or other assistance that is received by a religious organization for the provision of services under this section constitutes aid to individuals and families in need, the ultimate beneficiaries of such services, and not aid to the religious organization.

"(3) FUNDS NOT ENDORSEMENT OF RELIGION.—The receipt by a religious organization of Federal, State, or local government funds or other assistance under this section is not and should not be perceived as an endorsement by the government of religion or the organization's religious beliefs or practices.

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

"(A) if it involves activities carried out using Federal funds—

"(i) related to the prevention and treatment of juvenile delinquency and the improvement of the juvenile justice system, including programs funded under the Juvenile Justice and Delinquency Prevention Act of 1974 (42 U.S.C. 5601 et seq.);

"(ii) related to the prevention of crime, including programs funded under title I of the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3701 et seq.);

"(iii) under the Federal housing laws;

"(iv) under title I of the Workforce Investment Act of 1998 (29 U.S.C. 2801 et seq.)

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

"(vi) under the Child Care Development Block Grant Act of 1990 (42 U.S.C. 9858 et seq.);

"(vii) under the Community Development Block Grant Program established under title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.);

"(viii) related to the intervention in and prevention of domestic violence;

"(ix) related to hunger relief activities; or

"(x) under the Job Access and Reverse Commute grant program established under section 3037 of the Federal Transit Act of 1998 (49 U.S.C. 5309 note); or

"(B)(i) if it involves activities to assist students in obtaining the recognized equivalents of secondary school diplomas and activities relating to non-school-hours programs; and

"(ii) except as provided in subparagraph (A) and clause (i), does not include activities carried out under Federal programs providing education to children eligible to attend elementary schools or secondary schools, as defined in section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801).

"(d) ORGANIZATIONAL CHARACTER AND AUTONOMY.—

"(1) IN GENERAL.—A religious organization that provides assistance under a program described in subsection (c)(4) shall retain its autonomy from Federal, State, and local governments, including such organization's control over the definition, development, practice, and expression of its religious beliefs.

"(2) ADDITIONAL SAFEGUARDS.—Neither the Federal Government nor a State or local government shall require a religious organization in order to be eligible to provide assistance under a program described in subsection (c)(4)—

"(A) to alter its form of internal governance; or

"(B) to remove religious art, icons, scripture, or other symbols because they are religious.

"(e) EMPLOYMENT PRACTICES.—

"(1) IN GENERAL.—In order to aid in the preservation of its religious character, a religious organization that provides assistance under a program described in subsection (c)(4) may, notwithstanding any other provision of law, require that its employees adhere to the religious practices of the organization.

"(2) TITLE VII EXEMPTION.—The exemption of a religious organization provided under section 702 or 703(e)(2) of the Civil Rights Act of 1964 (42 U.S.C. 2000e–1, 2000e–2(e)(2)) regarding employment practices shall not be affected by the religious organization's provision of assistance under, or receipt of funds from, a program described in subsection (c)(4).

"(3) EFFECT ON OTHER LAWS.—Nothing in this section alters the duty of a religious organization to comply with the nondiscrimination provisions in title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) (prohibiting discrimination on the basis of race, color, and national origin), title IX of the Education Amendments of 1972 (20 U.S.C. 1681–1686) (prohibiting discrimination in educational institutions on the basis of sex and visual impairment), section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) (prohibiting discrimination against otherwise qualified disabled individuals), and the Age Discrimination Act of 1975 (42 U.S.C. 6101–6107) (prohibiting discrimination on the basis of age).

"(f) RIGHTS OF BENEFICIARIES OF ASSISTANCE.—

"(1) IN GENERAL.—If an individual described in paragraph (3) has an objection to the religious character of the organization from which the individual receives, or would receive, assistance funded under any program described in subsection (c)(4), the appropriate Federal, State, or local governmental entity shall provide to such individual (if otherwise eligible for such assistance) within a reasonable period of time after the date of such objection, assistance that—

"(A) is an alternative, including a nonreligious alternative, that is accessible to the individual; and

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

"(2) NOTICE.—The appropriate Federal, State, or local governmental entity shall guarantee that notice is provided to the individuals described in paragraph (3) of the rights of such individuals under this section.

"(3) INDIVIDUAL DESCRIBED.—An individual described in this paragraph is an individual who receives or applies for assistance under a program described in subsection (c)(4).

"(g) NONDISCRIMINATION AGAINST BENEFICIARIES.—

"(1) GRANTS AND CONTRACTS.—A religious organization providing assistance through a grant or contract under a program described in subsection (c)(4) shall not discriminate, in carrying out the program, against an individual described in subsection (f)(3) on the basis of religion, a religious belief, or a refusal to hold a religious belief.

"(2) INDIRECT FORMS OF DISBURSEMENT.—A religious organization providing assistance through a voucher, certificate, or other form of indirect disbursement under a program described in subsection (c)(4) shall not discriminate, in carrying out the program, against an individual described in subsection (f)(3) on the basis of religion, a religious belief, or a refusal to hold a religious belief.

"(h) ACCOUNTABILITY.—

"(1) IN GENERAL.—Except as provided in paragraph (2), a religious organization providing assistance under any program described in subsection (c)(4) shall be subject to the same regulations as other nongovernmental organizations to account in accord with generally accepted accounting principles for the use of such funds provided under such program.

"(2) LIMITED AUDIT.—Such organization shall segregate government funds provided under such program into a separate account or accounts. Only the government funds shall be subject to audit by the government.

"(i) LIMITATIONS ON USE OF FUNDS FOR CERTAIN PURPOSES.—No funds provided through a grant or contract to a religious organization to provide assistance under any program described in subsection (c)(4) shall be expended for sectarian worship, instruction, or proselytization. A certificate shall be signed by such organizations and filed with the government agency that disbursed the funds that gives assurance the organization will comply with this subsection.

"(j) EFFECT ON STATE AND LOCAL FUNDS.—If a State or local government contributes State or local funds to carry out a program described in subsection (c)(4), the State or local government may segregate the State or local funds from the Federal funds provided to carry out the program or may commingle the State or local funds

with the Federal funds. If the State or local government commingles the State or local funds, the provisions of this section shall apply to the commingled funds in the same manner, and to the same extent, as the provisions apply to the Federal funds.

"(k) TREATMENT OF INTERMEDIATE CONTRACTORS.—If a nongovernmental organization (referred to in this subsection as an 'intermediate contractor'), acting under a contract or other agreement with the Federal Government or a State or local government, is given the authority under the contract or agreement to select nongovernmental organizations to provide assistance under the programs described in subsection (c)(4), the intermediate contractor shall have the same duties under this section as the government when selecting or otherwise dealing with subcontractors, but the intermediate contractor, if it is a religious organization, shall retain all other rights of a religious organization under this section.

"(l) COMPLIANCE.—A party alleging that the rights of the party under this section have been violated by a State or local government may bring a civil action pursuant to section 1979 against the official or government agency that has allegedly committed such violation. A party alleging that the rights of the party under this section have been violated by the Federal Government may bring a civil action for appropriate relief in Federal district court against the official or government agency that has allegedly committed such violation.".

TITLE III—INDIVIDUAL DEVELOPMENT ACCOUNTS

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

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

"(aa) a federally insured credit union; or".

SEC. 302. INCREASE IN LIMITATION ON NET WORTH.

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

SEC. 303. CHANGE IN LIMITATION ON DEPOSITS FOR AN INDIVIDUAL.

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

"(b) LIMITATION ON DEPOSITS FOR AN INDIVIDUAL.—Not more than $500 from a grant made under section 406(b) shall be provided per year to any one individual during the project.".

SEC. 304. ELIMINATION OF LIMITATION ON DEPOSITS FOR A HOUSEHOLD.

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

SEC. 305. EXTENSION OF PROGRAM.

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

SEC. 306. CONFORMING AMENDMENTS.

(a) AMENDMENTS TO TEXT.—The text of each of the following provisions of the Assets for Independence Act (42 U.S.C. 604 note) is amended by striking "demonstration" each place it appears:

(1) Section 403.
(2) Section 404(2).
(3) Section 405(a).
(4) Section 405(b).
(5) Section 405(c).
(6) Section 405(d).
(7) Section 405(e).
(8) Section 405(g).
(9) Section 406(a).
(10) Section 406(b).
(11) Section 407(b)(1)(A).
(12) Section 407(c)(1)(A).
(13) Section 407(c)(1)(B).
(14) Section 407(c)(1)(C).

(15) Section 407(c)(1)(D).
(16) Section 407(d).
(17) Section 408(a).
(18) Section 408(b).
(19) Section 409.
(20) Section 410(e).
(21) Section 411.
(22) Section 412(a).
(23) Section 412(b)(2).
(24) Section 412(c).
(25) Section 413(a).
(26) Section 413(b).
(27) Section 414(a).
(28) Section 414(b).
(29) Section 414(c).
(30) Section 414(d)(1).
(31) Section 414(d)(2).

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

(1) Section 405(a).
(2) Section 406(a).
(3) Section 413(a).

(c) AMENDMENTS TO SECTION HEADINGS.—The headings of sections 406 and 411 of the Assets for Independence Act (42 U.S.C. 604 note) are amended by striking "**DEMONSTRATION**".

SEC. 307. APPLICABILITY.

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

(b) PRIOR AMENDMENTS.—The amendments made by title VI of the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 2001 (as enacted into law by Public Law 106–554) shall apply to funds provided before, on or after the date of the enactment of such Act.

I. SUMMARY AND BACKGROUND

A. PURPOSE AND SUMMARY

The tax and individual development account provisions of the bill, H.R. 7, as amended (the "Community Solutions Act of 2001"), facilitate charitable giving and charitable activity.

The bill provides net tax reductions of over $4.4 billion over fiscal years 2002–2006. This will bolster the nonprofit sector of the economy.

The bill provides a charitable contribution deduction for individuals taking the standard deduction, facilitates transfers to charity from individual retirement arrangements, increases the percentage limitation on corporate charitable contributions, and reforms the excise tax based on the investment income of private foundations leaving such foundations with more funds to spend on charitable activities. The bill also encourages charitable contributions of food inventory, scientific property used for research, and computer technology and equipment used for educational purposes. In addition, the bill makes charitable contributions by S corporations more attractive and provides a more appropriate remedy on charitable remainder trusts that have unrelated business income. Finally, the bill strengthens the creation and maintenance of individual development accounts.

B. BACKGROUND AND NEED FOR LEGISLATION

The provisions approved by the Committee will stimulate charitable giving and therefore provide more funds to charitable organi-

zations, many of which will perform activities that otherwise would have to be performed by the Federal government. The estimated revenue effects of the provisions comply with the most recent Congressional Budget Office revisions of budget surplus projections.

C. Legislative History

COMMITTEE ACTION

The Committee on Ways and Means marked up the provisions of the bill on July 11, 2001, and reported the provisions, as amended, on July 11, 2001, by a roll call vote of 23 yeas and 16 nays, with a quorum present.

COMMITTEE HEARING

A joint hearing was held on June 14, 2001, before the Subcommittees on Select Revenue Measures and Human Resources of the Committee on Ways and Means on the provisions of H.R. 7.

II. EXPLANATION OF THE BILL

A. Charitable Deduction for Nonitemizers

(Sec. 101 of the Bill and Secs. 63 and 170 of the Code)

PRESENT LAW

In computing taxable income, a taxpayer who itemizes deductions generally is allowed to deduct the amount of cash and the fair market value of property contributed to a charity described in section 501(c)(3) or a Federal, State, or local governmental entity. The deduction also is allowed for purposes of calculating alternative minimum taxable income.

The amount of the deduction allowable for a taxable year with respect to a charitable contribution of property may be reduced depending on the type of property contributed, the type of charitable organization to which the property is contributed, and the income of the taxpayer.[1]

A taxpayer who takes the standard deduction (i.e., who does not itemize deductions) may not take a separate deduction for charitable contributions.[2]

A payment to a charity (regardless of whether it is termed a "contribution") in exchange for which the donor receives an economic benefit is not deductible, except to the extent that the donor can demonstrate that the payment exceeds the fair market value of the benefit received from the charity. To facilitate distinguishing charitable contributions from purchases of goods or services from charities, present law provides that no charitable contribution deduction is allowed for a separate contribution of $250 or more unless the donor obtains a contemporaneous written acknowledgement of the contribution from the charity indicating whether the

[1] Secs. 170(b) and (e).

[2] Sec. 170(a). The Economic Recovery Tax Act of 1981 adopted a temporary provision that permitted individual taxpayers who did not itemize income tax deductions to claim a deduction from gross income for a specified percentage of their charitable contributions. The maximum deduction was $25 for 1982 and 1983, $75 for 1984, 50 percent of the amount of the contribution for 1985, and 100 percent of the amount of the contribution for 1986. The nonitemizer deduction terminated after 1986.

charity provided any good or service (and an estimate of the value of any such good or service) to the taxpayer in consideration for the contribution.[3] In addition, present law requires that any charity that receives a contribution exceeding $75 made partly as a gift and partly as consideration for goods or services furnished by the charity (a "quid pro quo" contribution) is required to inform the contributor in writing of an estimate of the value of the goods or services furnished by the charity and that only the portion exceeding the value of the goods or services is deductible as a charitable contribution.[4]

Under present law, total deductible contributions of an individual taxpayer to public charities, private operating foundations, and certain types of private nonoperating foundations may not exceed 50 percent of the taxpayer's contribution base, which is the taxpayer's adjusted gross income for a taxable year (disregarding any net operating loss carryback). To the extent a taxpayer has not exceeded the 50-percent limitation, (1) contributions of capital gain property to public charities generally may be deducted up to 30 percent of the taxpayer's contribution base, (2) contributions of cash to private foundations and certain other charitable organizations generally may be deducted up to 30 percent of the taxpayer's contribution base, and (3) contributions of capital gain property to private foundations and certain other charitable organizations generally may be deducted up to 20 percent of the taxpayer's contribution base.

Contributions by individuals in excess of the 50-percent, 30-percent, and 20-percent limit may be carried over and deducted over the next five taxable years, subject to the relevant percentage limitations on the deduction in each of those years.

In addition to the percentage limitations imposed specifically on charitable contributions, present law imposes a reduction on most itemized deductions, including charitable contribution deductions, for taxpayers with adjusted gross income in excess of a threshold amount, which is indexed annually for inflation. The threshold amount for 2001 is $132,950 ($66,475 for married individuals filing separate returns). For those deductions that are subject to the limit, the total amount of itemized deductions is reduced by 3 percent of adjusted gross income over the threshold amount, but not by more than 80 percent of itemized deductions subject to the limit. Beginning in 2006, the Economic Growth and Tax Relief Reconciliation Act of 2001 phases-out the overall limitation on itemized deductions for all taxpayers. The overall limitation on itemized deductions is reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation on itemized deductions is eliminated for taxable years beginning after December 31, 2009; however this elimination of the limitation sunsets on December 31, 2010.

REASONS FOR CHANGE

The Committee believes that allowing a charitable deduction to nonitemizers will stimulate charitable giving, thereby providing more funds for worthwhile nonprofit organizations, many of which

[3] Sec. 170(f)(8).
[4] Sec. 6115.

provide services that otherwise might have to be provided by the Federal government.

EXPLANATION OF PROVISION

In the case of an individual taxpayer who does not itemize deductions, the provision allows a deduction from adjusted gross income for charitable contributions paid in cash. This deduction is allowed in addition to the standard deduction and is calculated as the lesser of (1) the amount allowable to itemizers as a charitable deduction for cash contributions and (2) an applicable amount. The new deduction generally is subject to the tax rules normally governing charitable deductions, such as the substantiation requirements and carryforward rules. For taxpayers taking a deduction of the applicable amount, the portion of contributions in excess of the applicable amount may not be carried forward. The deduction is allowed in computing alternative minimum taxable income.

The applicable amount is $25 ($50 in the case of a joint return) in 2002 and 2003, $50 ($100 in the case of a joint return) in 2004 through 2006, $75 ($150 in the case of a joint return) in 2007 through 2009, and $100 ($200 in the case of a joint return) in 2010 and thereafter.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

B. Tax-Free Distributions From Individual Retirement Arrangements for Charitable Purposes

(Sec. 102 of the Bill and Secs. 408 and 6034 of the Code)

PRESENT LAW

In general

If an amount withdrawn from a traditional individual retirement arrangement ("IRA") or a Roth IRA is donated to a charitable organization, the rules relating to the tax treatment of withdrawals from IRAs apply and the charitable contribution is subject to the normally applicable limitations on deductibility of such contributions.

Charitable contributions

In computing taxable income, a taxpayer who itemizes deductions generally is allowed to deduct the amount of cash and the fair market value of property contributed to an organization described in section 170(c), including charities and Federal, State, and local governmental entities. The deduction also is allowed for purposes of calculating alternative minimum taxable income.

The amount of the deduction allowable for a taxable year with respect to a charitable contribution of property may be reduced depending on the type of property contributed, the type of charitable organization to which the property is contributed, and the income of the taxpayer.[5]

[5] Secs. 170(b) and (e).

A payment to a charity (regardless of whether it is termed a "contribution") in exchange for which the donor receives an economic benefit is not deductible, except to the extent that the donor can demonstrate that the payment exceeds the fair market value of the benefit received from the charity. To facilitate distinguishing charitable contributions from purchases of goods or services from charities, present law provides that no charitable contribution deduction is allowed for a separate contribution of $250 or more unless the donor obtains a contemporaneous written acknowledgement of the contribution from the charity indicating whether the charity provided any good or service (and an estimate of the value of any such good or service) to the taxpayer in consideration for the contribution.[6] In addition, present law requires that any charity that receives a contribution exceeding $75 made partly as a gift and partly as consideration for goods or services furnished by the charity (a "quid pro quo" contribution) is required to inform the contributor in writing of an estimate of the value of the goods or services furnished by the charity and that only the portion exceeding the value of the goods or services is deductible as a charitable contribution.[7]

Under present law, total deductible contributions of an individual taxpayer to public charities, private operating foundations, and certain types of private nonoperating foundations may not exceed 50 percent of the taxpayer's contribution base, which is the taxpayer's adjusted gross income for a taxable year (disregarding any net operating loss carryback). To the extent a taxpayer has not exceeded the 50-percent limitation, (1) contributions of capital gain property to public charities generally may be deducted up to 30 percent of the taxpayer's contribution base, (2) contributions of cash to private foundations and certain other charitable organizations generally may be deducted up to 30 percent of the taxpayer's contribution base, and (3) contributions of capital gain property to private foundations and certain other charitable organizations generally may be deducted up to 20 percent of the taxpayer's contribution base.

Contributions by individuals in excess of the 50-percent, 30-percent, and 20-percent limit may be carried over and deducted over the next five taxable years, subject to the relevant percentage limitations on the deduction in each of those years.

In addition to the percentage limitations imposed specifically on charitable contributions, present law imposes a reduction on most itemized deductions, including charitable contribution deductions, for taxpayers with adjusted gross income in excess of a threshold amount, which is indexed annually for inflation. The threshold amount for 2001 is $132,950 ($66,475 for married individuals filing separate returns). For those deductions that are subject to the limit, the total amount of itemized deductions is reduced by 3 percent of adjusted gross income over the threshold amount, but not by more than 80 percent of itemized deductions subject to the limit. Beginning in 2006, the Economic Growth and Tax Relief Reconciliation Act of 2001 phases-out the overall limitation on itemized deductions for all taxpayers. The overall limitation on itemized deductions is reduced by one-third in taxable years beginning in 2006

[6] Sec. 170(f)(8).
[7] Sec. 6115.

and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation on itemized deductions is eliminated for taxable years beginning after December 31, 2009; however this elimination of the limitation sunsets on December 31, 2010.

In general, a charitable deduction is not allowed for income, estate, or gift tax purposes if the donor transfers an interest in property to a charity (e.g., a remainder) while also either retaining an interest in that property (e.g., an income interest) or transferring an interest in that property to a noncharity for less than full and adequate consideration.[8] Exceptions to this general rule are provided for, among other interests, remainder interests in charitable remainder annuity trusts, charitable remainder unitrusts, and pooled income funds, and present interests in the form of a guaranteed annuity or a fixed percentage of the annual value of the property.[9] For such interests, a charitable deduction is allowed to the extent of the present value of the interest designated for a charitable organization.

IRA rules

Within limits, individuals may make deductible and nondeductible contributions to a traditional IRA. Amounts in a traditional IRA are includible in income when withdrawn (except to the extent the withdrawal represents a return of nondeductible contributions). Individuals also may make nondeductible contributions to a Roth IRA. Qualified withdrawals from a Roth IRA are excludable from gross income. Withdrawals from a Roth IRA that are not qualified withdrawals are includible in gross income to the extent attributable to earnings. Includible amounts withdrawn from a traditional IRA or a Roth IRA before attainment of age 59½ are subject to an additional 10-percent early withdrawal tax, unless an exception applies.

If an individual has made nondeductible contributions to a traditional IRA, a portion of each distribution from an IRA is nontaxable, until the total amount of nondeductible contributions has been received. In general, the amount of a distribution that is nontaxable is determined by multiplying the amount of the distribution by the ratio of the remaining nondeductible contributions to the account balance. In making the calculation, all traditional IRAs of an individual are treated as a single IRA, all distributions during any taxable year are treated as a single distribution, and the value of the contract, income on the contract, and investment in the contract are computed as of the close of the calendar year.

In the case of a distribution from a Roth IRA that is not a qualified distribution, in determining the portion of the distribution attributable to earnings, contributions and distributions are deemed to be distributed in the following order: (1) regular Roth IRA contributions; (2) taxable conversion contributions;[10] (3) nontaxable conversion contributions; and (4) earnings. In determining the amount of taxable distributions from a Roth IRA, all Roth IRA distributions in the same taxable year are treated as a single distribution, all regular Roth IRA contributions for a year are treated as

[8] Secs. 170(f), 2055(e)(2), and 2522(c)(2).
[9] Sec. 170(f)(2).
[10] Conversion contributions refer to conversions of amounts in a traditional IRA to a Roth IRA.

a single contribution, and all conversion contributions during the year are treated as a single contribution.

Split-interest trust filing requirements

Split-interest trusts described in section 4947(a)(2), including charitable remainder annuity trusts, charitable remainder unitrusts, and pooled income funds are required to file an annual information return under section 6034 (Form 1041A). Trusts that are not split-interest trusts but that claim a charitable deduction for amounts permanently set aside for a charitable purpose [11] also are required to file Form 1041A. The returns are required to be made publicly available by section 6104(b). A trust that is required to distribute all trust net income currently to trust beneficiaries in a taxable year is exempt from this return requirement for such taxable year. A trust's failure to file a return required by section 6034 results in a penalty on the trust of $10 a day for as long as the failure continues, up to a maximum of $5,000 per return.

In addition, split-interest trusts are required under section 6011 to file annually Form 5227.[12] Form 5227 requires disclosure of information regarding the trusts' noncharitable beneficiaries. The penalty for failure to file a return under section 6011 is calculated based on the amount of tax owed. A split-interest trust generally is not subject to tax and therefore, in general, a penalty may not be imposed for the failure to file Form 5227. Form 5227 is not required to be made publicly available.

REASONS FOR CHANGE

The Committee believes it appropriate to facilitate the making of charitable contributions from IRAs.

EXPLANATION OF PROVISION

The provision provides an exclusion from gross income for otherwise taxable IRA withdrawals from a traditional or a Roth IRA for qualified charitable distributions. The present-law rules continue to apply to distributions from an IRA that are not qualified charitable distributions. A qualified charitable distribution is defined as any distribution from an IRA that is (1) otherwise includible in gross income, (2) made on or after the date the IRA owner attains age 70½, and (3) is made directly by the IRA trustee (a) to a charitable organization to which deductible contributions can be made or (b) to a split-interest entity in which no person holds an income interest in the amounts in the split-interest entity attributable to the charitable distribution other than the IRA owner, his or her spouse, or a charitable organization. A split-interest entity means a charitable remainder annuity trust or charitable remainder unitrust, a pooled income fund, or a charitable gift annuity. Qualified charitable distributions count toward the minimum distribution requirements applicable to IRAs.

The exclusion applies to distributions made directly to a charitable organization to which deductible contributions can be made only if a charitable contribution deduction for the entire distribution otherwise is allowable, determined without regard to the per-

[11] Sec. 642(c).
[12] Treas. Reg. sec. 53.6011–1(d).

centage limitations. Thus, for example, if the deductible amount is reduced because of a benefit received in exchange, or if a deduction is not allowable because the donor did not obtain sufficient substantiation, the exclusion is not available with respect to any part of the distribution. The exclusion applies in the case of a distribution directly to a split-interest entity only if a charitable contribution deduction for the entire present value of the charitable interest (for example, a remainder interest) is allowable, determined without regard to the percentage limitations.

In determining the extent to which a distribution from an IRA is a qualified charitable distribution, the distribution is treated as consisting of income first, up to the aggregate amount that would be includible in gross income but for the proposal if all amounts were distributed from all IRAs otherwise taken into account in determining the amount includible in income under section 72.

A qualified charitable distribution to a pooled income fund is not includible in the fund's gross income.

In determining the amount includible in gross income by reason of a payment from a charitable remainder annuity trust or charitable remainder unitrust to which a qualified charitable distribution from an IRA was made, the taxpayer is required to treat as ordinary income (as described in sec. 664(b)(1)) the total amount distributed directly from the IRA to the trust, except to the extent the taxpayer notifies the trust that a portion of the direct distribution was allocable to investment in the contract. This could occur, for example, if the entire interest in all an individual's traditional IRAs is distributed directly to a charitable remainder trust, and the IRA included nondeductible contributions. Similarly, in determining the amount includible in gross income by reason of a payment from a charitable gift annuity purchased with a qualified charitable distribution from an IRA, the portion of the distribution from the IRA used to purchase the annuity is not investment in the annuity contract.

Any amount excluded from gross income by reason of the proposal is not taken into account in determining the deduction for charitable contributions under section 170.

The provision increases the penalty on split-interest trusts described in section 4947(a)(2) for failure to file a return and for failure to include any of the information required to be shown on such return and to show the correct information. The penalty is $20 for each day the failure continues up to $10,000 for any one return. In the case of a split-interest trust with gross income in excess of $250,000, the penalty is $100 for each day the failure continues up to a maximum of $50,000. If a person (meaning any officer, director, trustee, employee, or other individual who is under a duty to file the return or include required information)[13] knowingly failed to file the return or include required information, then the person personally is liable for the penalty. Information regarding beneficiaries that are not charitable organizations as described in section 170(c) are exempt from the requirement to make information publicly available. In addition, the provision repeals the present law exception to the filing requirement for split-interest trusts that are required in a taxable year to distribute all net income currently

[13] Sec. 6652(c)(4)(C).

to beneficiaries. Such exception remains available to nonsplit-interest trusts that are otherwise subject to the filing requirement. The Committee anticipates that the Secretary of the Treasury shall exercise authority under section 6034 to require that Form 5227 be filed pursuant to section 6034.

EFFECTIVE DATE

The provision generally is effective for taxable years beginning after December 31, 2001. The provision relating to information returns of split-interest trusts is effective for returns for taxable years beginning after December 31, 2001.

C. Increase Percentage Limitation for Corporate Charitable Contributions

(Sec. 103 of the Bill and Sec. 170 of the Code)

PRESENT LAW

Under present law, a corporation is allowed to deduct charitable contributions up to 10 percent of the corporation's modified taxable income for the year. For this purpose, taxable income is determined without regard to (1) the charitable contributions deduction, (2) any net operating loss carryback, (3) deductions for dividends received, (4) deductions for dividends paid on certain preferred stock of public utilities, and (5) any capital loss carryback for the taxable year.[14] Any charitable contribution by a corporation that is not currently deductible because of the percentage limitation may be carried forward for up to five taxable years.

A transfer of property by a business to a charity might qualify as either a charitable contribution or a deductible business expense, but not both. No deduction is allowed as a business expense under section 162 for any contribution that would be deductible as a charitable gift were it not for the percentage limitations on the charitable contributions deduction.[15] Likewise, a business transfer made with a reasonable expectation of financial return commensurate with the amount of the transfer is not deductible as a charitable contribution, but may be deductible under section 162.

REASONS FOR CHANGE

The Committee believes that increasing the annual limitation on the allowable corporate charitable contribution deduction will encourage more charitable giving by corporations.

EXPLANATION OF PROVISION

The provision increases the percentage limitation on corporate charitable deductions from 10 percent to 15 percent. The provision is phased-in over nine years, beginning in taxable years beginning after December 31, 2001. The percentage limitation on corporate charitable deductions is 11 percent in 2002 through 2007, 12 percent in 2008, 13 percent in 2009, and 15 percent in 2010 and thereafter.

[14] Sec. 170(b)(2).
[15] Sec. 162(b).

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

D. Enhanced Deduction for Charitable Contributions of Food Inventory

(Sec. 105 of the Bill and Sec. 170 of the Code)

PRESENT LAW

Under present law, a taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically, cost) in the inventory. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of (1) basis plus one-half of the item's appreciated value (i.e., basis plus one half of fair market value in excess of basis) or (2) two times basis.[16]

To be eligible for the enhanced deduction, the contributed property generally must be inventory of the taxpayer, contributed to a charitable organization described in section 501(c) (except for private nonoperating foundations), and the donee must (1) use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy, or infants, (2) not transfer the property in exchange for money, other property, or services, and (3) provide the taxpayer a written statement that the donee's use of the property will be consistent with such requirements. In the case of contributed property subject to the Federal Food, Drug, and Cosmetic Act, the property must satisfy the applicable requirements of such Act on the date of transfer and for 180 days prior to the transfer.

To use the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis. The valuation of food inventory has been the subject of ongoing disputes between taxpayers and the IRS. In one case, the Tax Court held that the value of surplus bread inventory donated to charity was the full retail price of the bread rather than half the retail price, as the IRS asserted.[17]

REASONS FOR CHANGE

The Committee believes that more should be done to encourage contributions of food inventory to charitable organizations that provide food for the hungry. Extending the availability of an enhanced deduction for contributions of food inventory to any taxpayer engaged in a trade or business and clarifying the determination of the value of the donated food will increase donations of food inventory and thereby help nourish more of our nation's underprivileged.

EXPLANATION OF PROVISION

Under the provision, any taxpayer engaged in a trade or business is eligible under section 170(e) to claim an enhanced deduction for donations of food inventory. The enhanced deduction is available only for food that qualifies as "apparently wholesome food," as defined by the Bill Emerson Good Samaritan Food Donation Act. "Ap-

[16] Sec. 170(e)(3).
[17] *Lucky Stores Inc.* v. *Commissioner,* 105 T.C. 420 (1995).

parently wholesome food" is food intended for human consumption that meets all quality and labeling standards imposed by Federal, State, and local laws and regulations even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other conditions.

In addition, the provision provides that the fair market value of donated apparently wholesome food that cannot or will not be sold solely due to internal standards of the taxpayer or lack of market, is determined by taking into account the price at which the same or similar food items are sold by the taxpayer at the time of the contribution or, if not so sold at such time, in the recent past.

Consistent with present law, taxpayers who donate food inventory and receive consideration in exchange, whether such consideration is for food processing costs, including the costs of processing raw food to meet the nutritional specifications of the donee, or otherwise, shall apply the bargain sale rules[18] to determine the amount of gain from the sale and the value of the enhanced deduction.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

E. Reform Excise Tax Based on Investment Income of Private Foundations

(Sec. 106 of the Bill and Sec. 4940 of the Code)

PRESENT LAW

In general

In general, a private foundation is an organization organized and operated exclusively for charitable purposes.[19] Under section 4940(a) of the Code, private foundations that are recognized as exempt from Federal income tax under section 501(a) of the Code are subject to a two-percent excise tax on their net investment income. Private foundations that are not exempt from tax, such as certain charitable trusts,[20] also are subject to an excise tax under section 4940(b).

Net investment income is determined under the principles of Subtitle A of the Code, except to the extent those principles are inconsistent with section 4940. Net investment income is defined as the amount by which the sum of gross investment income and capital gain net income exceeds the deductions relating to the production of gross investment income.[21] Net investment income also is determined by applying section 103 (generally providing an exclusion for interest on certain State and local bonds) and section 265 (generally disallowing the deduction for interest and certain other expenses with respect to tax-exempt income).[22] Special definitions

[18] Sec. 1011(b); Treas. Reg. sec. 170A–4(c)(2).
[19] Secs. 509(a) and 501(c)(3).
[20] Sec. 4947.
[21] Sec. 4940(c)(1).
[22] Sec. 4940(c)(5).

of gross investment income and capital gain net income are provided for purposes of the excise tax.[23]

The two-percent rate of tax is reduced to one-percent if certain requirements are met in a taxable year.[24] The requirements are that the foundation's qualifying distributions (generally, amounts paid to accomplish exempt purposes)[25] must be at least a certain amount and the foundation cannot have been subject to tax for failure to distribute a certain amount of income[26] for any of the five years preceding the taxable year (the "base period"). The required amount of qualifying distributions is the sum of two elements: (1) the amount of the foundation's assets for the taxable year multiplied by the average over the base period of the percentage of assets distributed as qualifying distributions in a year divided by the assets of the foundation for the year (the "average percentage payout for the base period") plus (2) one percent of the net investment income of the foundation for the taxable year.[27]

The tax on taxable private foundations under section 4940(b) is equal to the excess of the sum of the excise tax that would have been imposed under section 4940(a) if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation under subtitle A of the Code.

Private foundations (taxable and tax exempt) are required to pay estimated taxes of the section 4940 tax in quarterly installments in the same manner as corporate estimated tax payments.[28] "Exempt operating foundations" are exempt from the section 4940 tax.[29]

The amount of tax paid under section 4940 reduces a foundation's "distributable amount" under section 4942.[30] Accordingly, the minimum amount of qualified distributions a foundation has to make to avoid tax under section 4942 is reduced by the amount of section 4940 excise taxes paid.

REASONS FOR CHANGE

The Committee believes that reforming the excise tax based on the investment income of private foundations will result in increased charitable activity and simplify the tax laws. The reduction in the rate of tax will increase the required minimum charitable distributions for many private foundations, leading private foundations to increase the amount of their charitable activity. In addition, elimination of the two-tiered nature of the tax will simplify the Code and make compliance easier for private foundations.

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[23] Secs. 4940(c)(2) and 4940(c)(4).
[24] Sec. 4940(e).
[25] Sec. 4942(g).
[26] Sec. 4942.
[27] Sec. 4940(e).
[28] Treas. Reg. sec. 1.6302–1.
[29] Sec. 4940(d)(1). To be an exempt operating foundation, an organization must (1) be an operating foundation (as defined in section 4942(j)(3)), (2) be publicly supported for at least 10 taxable years, (3) have a governing body no more than 25 percent of whom are disqualified persons and that is broadly representative of the general public, and (4) have no officers who are disqualified persons. Sec. 4940(d)(2). Exempt operating foundations generally include organizations such as museums or libraries that devote their assets to operating charitable programs but have difficulty meeting the "public support" tests necessary not to be classified as a private foundation. For an organization to qualify as an exempt operating foundation it must obtain a ruling letter from the IRS. IRS Announcement 85–88.
[30] Sec. 4942(d)(2).

EXPLANATION OF PROVISION

The provision replaces the two rates of tax under present law with a single rate of tax based on net investment income and sets such rate of tax at one percent. Thus, a tax-exempt private foundation is subject to tax on one percent of net investment income and does not have to calculate its average percentage payout for the base period to determine eligibility for a different rate of tax. A taxable private foundation is subject to tax on the excess of the sum of one percent of net investment income and the amount of the unrelated business income tax (both calculated as if the foundation were tax-exempt) over the income tax imposed on the foundation under subtitle A of the Code.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

F. MODIFY TAX ON UNRELATED BUSINESS TAXABLE INCOME OF CHARITABLE REMAINDER TRUSTS

(Sec. 107 of the Bill and Sec. 664 of the Code)

PRESENT LAW

Sections 170(f), 2055(e)(2), and 2522(c)(2) disallow a charitable deduction for income, estate or gift tax purposes, respectively, if the donor transfers an interest in property to a charity (e.g., a remainder interest) while also either retaining an interest in that property (e.g., an income interest) or transferring an interest in that property to a noncharity for less than full and adequate consideration. One of several exceptions to this general rule is provided for remainder interests in charitable remainder annuity trusts and charitable remainder unitrusts.

A charitable remainder annuity trust is a trust that is required to pay, at least annually, a fixed dollar amount of at least five percent of the initial value of the trust to a noncharity for the life of an individual or for a period of less than 20 years, with the remainder passing to charity. A charitable remainder unitrust is a trust that generally is required to pay, at least annually, a fixed percentage of at least five percent of the fair market value of the trust's assets determined at least annually to a non-charity for the life of an individual or for a period less than 20 years, with the remainder passing to charity.[31]

A trust does not qualify as charitable remainder annuity trust if the annuity for a year is greater than 50 percent of the initial fair market value of the trust's assets. A trust does not qualify as a charitable remainder unitrust if the percentage of assets that are required to be distributed at least annually is greater than 50 percent. A trust does not qualify as a charitable remainder annuity trust or a charitable remainder unitrust unless the value of the remainder interest in the trust is at least 10 percent of the value of the assets contributed to the trust.

Distributions from a charitable remainder annuity trust or charitable remainder unitrust are treated in the following order as: (1)

[31] Sec. 664(d).

ordinary income to the extent of the trust's current and previously undistributed ordinary income for the trust's year in which the distribution occurred, (2) capital gains to the extent of the trust's current capital gain and previously undistributed capital gain for the trust's year in which the distribution occurred, (3) other income (e.g., tax-exempt income) to the extent of the trust's current and previously undistributed other income for the trust's year in which the distribution occurred, and (4) corpus.[32]

Distributions are includible in the income of the beneficiary for the year that the annuity or unitrust amount is required to be distributed even though the annuity or unitrust amount is not distributed until after the close of the trust's taxable year.[33]

Under section 664(c), charitable remainder annuity trusts and charitable remainder unitrusts are exempt from Federal income tax unless the trust has any unrelated business taxable income. Under section 514, unrelated business taxable income includes certain debt financed income.

REASONS FOR CHANGE

The Committee believes that in years that a charitable remainder trust has unrelated business income, an excise tax of 100 percent on such income is a more appropriate remedy than loss of tax exemption for the year.

EXPLANATION OF PROVISION

In lieu of removing the income tax exemption of a charitable remainder trust for any year in which the trust has any unrelated business taxable income, the provision imposes a 100 percent excise tax on the unrelated business taxable income of the trust. Because the effect of the excise tax is the same as if the unrelated business taxable income were not incurred by the charitable remainder annuity trust or charitable remainder unitrust, the provision excludes such income from the determination of (1) the value of a charitable remainder unitrust's assets,[34] (2) the amount of charitable remainder unitrust income for purposes of determining the unitrust's required distributions, and (3) the effect on the income character of any distributions to beneficiaries by a charitable remainder annuity trust or charitable remainder unitrust.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001, regardless of when the trust was created.

[32] Sec. 664(b).

[33] Treas. Reg. sec. 1.664–1(d)(4).

[34] *See* Treas. Reg. sec. 1.664–3(a)(iv), which requires that all assets and liabilities of the trust are taken into account in determining their net fair market value.

G. Extend "Constructed by" Requirement for Contributions of Scientific Property Used for Research and for Computer Technology and Equipment

(Sec. 108 of the Bill and Sec. 170 of the Code)

PRESENT LAW

In the case of a charitable contribution of inventory or other ordinary-income or short-term capital gain property, the amount of the deduction is limited to the taxpayer's basis in the property. In the case of a charitable contribution of tangible personal property, the deduction is limited to the taxpayer's basis in such property if the use by the recipient charitable organization is unrelated to the organization's tax-exempt purpose. In cases involving contributions to a private foundation (other than certain private operating foundations), the amount of the deduction is limited to the taxpayer's basis in the property.[35]

Under present law, a taxpayer's deduction for charitable contributions of scientific property used for research and for contributions of computer technology and equipment generally is limited to the taxpayer's basis (typically, cost) in the property. However, certain corporations may claim a deduction in excess of basis for a "qualified research contribution" or a "qualified computer contribution."[36] This enhanced deduction is equal to the lesser of (1) basis plus one-half of the item's appreciated value (i.e., basis plus one half of fair market value minus basis) or (2) two times basis.

A qualified research contribution means a charitable contribution of inventory that is tangible personal property. The contribution must be to a qualified educational or scientific organization and be made not later than two years after construction of the property is substantially completed. The original use of the property must be by the donee, and be used substantially for research or experimentation, or for research training in the U.S. in the physical or biological sciences. The property must be scientific equipment or apparatus, constructed by the taxpayer, and may not be transferred by the donee in exchange for money, other property, or services. The donee must provide the taxpayer with a written statement representing that it will use the property in accordance with the conditions for the deduction. For purposes of the enhanced deduction, property is considered constructed by the taxpayer only if the cost of the parts used in the construction of the property (other than parts manufactured by the taxpayer or a related person) do not exceed 50 percent of the taxpayer's basis in the property.

A qualified computer contribution means a charitable contribution of any computer technology or equipment, which meets standards of functionality and suitability as established by the Secretary of the Treasury. The contribution must be to certain educational organizations or public libraries and made not later than three years after the taxpayer acquired the property or, if the taxpayer constructed the property, not later than the date construction of the

[35] Sec. 170(e)(1).
[36] Secs. 170(e)(4) and 170(e)(6).

property is substantially completed.[37] The original use of the property must be by the donor or the donee,[38] and in the case of the donee, must be used substantially for educational purposes related to the function or purpose of the donee. The property must fit productively into the donee's education plan. The donee may not transfer the property in exchange for money, other property, or services, except for shipping, installation, and transfer costs. To determine whether property is constructed by the taxpayer, the rules applicable to qualified research contributions apply. Contributions may be made to private foundations under certain conditions.[39]

REASONS FOR CHANGE

The Committee believes that extension of the enhanced deduction to include property assembled by the taxpayer will lead to increased charitable contributions of scientific property used for research and of computer technology and equipment.

EXPLANATION OF PROVISION

Under the provision, property assembled by the taxpayer, in addition to property constructed by the taxpayer, is eligible for either enhanced deduction. The Committee does not intend that old or used components assembled by the taxpayer into scientific property or computer technology or equipment are eligible for the enhanced deduction.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2001.

H. Basis Adjustment to Stock of S Corporation Contributing Appreciated Property

(Sec. 109 of the Bill and Sec. 1367 of the Code)

PRESENT LAW

Under present law, if an S corporation contributes money or other property to a charity, each shareholder takes into account the shareholder's pro rata share of the contribution in determining its own income tax liability.[40] A shareholder of an S corporation reduces the basis in the stock of the S corporation by the amount of the charitable contribution that flows through to the shareholder.[41]

REASONS FOR CHANGE

The Committee wishes to preserve the benefit of providing a charitable contribution deduction for contributions of property by an S corporation with a fair market value in excess of its adjusted basis. Thus, the bill provides for a basis adjustment to the stock of the S corporation to prevent the later recognition of gain attrib-

[37] If the taxpayer constructed the property and reacquired such property, the contribution must be within three years of the date the original construction was substantially completed. Sec. 170(e)(6)(D)(i).

[38] This requirement does not apply if the property was reacquired by the manufacturer and contributed. Sec. 170(e)(6)(D)(ii).

[39] Sec. 170(e)(6)(C).

[40] Sec. 1366(a)(1)(A).

[41] Sec. 1367(a)(2)(B).

utable to the contributed property on the disposition of the S corporation stock.

EXPLANATION OF PROVISION

The provision allows a shareholder in an S corporation to increase the basis of the S corporation stock by an amount equal to the excess of the charitable contribution deduction that flows through to the shareholder[42] over the shareholder's pro rata share of the adjusted basis of the property contributed.[43]

EFFECTIVE DATE

The provision applies to taxable years beginning after December 31, 2001.

I. INDIVIDUAL DEVELOPMENT ACCOUNTS

(Secs. 301–307 of the Bill)

PRESENT LAW

The Assets for Independence Act[44] authorizes $25 million annually for a five-year demonstration Individual Development Account ("IDA") program to evaluate the effects of savings incentives on persons of limited means. Means tested programs must disregard all funds in an IDA, including accruing interest, in determining an individual's eligibility. The demonstration program provides direct Federal funds to nonprofit organizations, States and localities, tribal governments, community-development financial institutions, and certain credit unions to match the amount of earnings deposited by eligible individuals. Grantees must provide nonFederal matching funds (one dollar per Federal grant dollar), and the maximum Federal grant is $1 million for each project year. Eligible persons are those (1) who are eligible under the Temporary Assistance for Needy Families program, or (2) whose household net worth is below $10,000 ("net worth test"), and who meet the greater of (a) the income limits of the earned income credit (taking into account the size of the household)[45] or (b) 200 percent of the poverty guideline ("income test").

Each participant is eligible to receive up to $2,000 in Federal funds plus accrued interest while they participate over the course of the project. Households may receive no more than $4,000 in Federal grant funds over the course of the project. The projects must create trust or custodial accounts that permit withdrawals of account balances only for three designated purposes: (1) first home purchase, (2) business capitalization, and (3) postsecondary education. Emergency withdrawals (from the account holder's own deposits only) are allowed for three conditions—medical expenses, prevention of eviction or mortgage foreclosure, and living expenses after job losses.

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[42] The amount of the deduction flowing through to a shareholder is to be determined after the application of any provision of section 170 limiting the amount of the deduction to less than the fair market value of the property, but without regard to any percentage limitation that may be applicable to a shareholder under section 170(b).

[43] *See* Rev. Rul. 96–11, 1996–1 C.B. 140, for a similar rule applicable to contributions made by a partnership.

[44] Title IV of Pub. L. No. 105–285 (1998).

[45] Sec. 32(b)(2).

Each grantee is required to prepare an annual report on the progress of its project. These reports must be submitted to the Secretary of Health and Human Services, and if a tribe, State or local government committed funds to the project, to the Treasurer (or equivalent official) of the State in which the project is conducted. The Secretary of Health and Human Services is required to provide the results of these reports to Congress every 12 months until all of the demonstration projects are completed, and to submit a final report, setting forth the results and findings of all reports and evaluations, not later than 12 months after the conclusion of all demonstration projects. The Assets for Independence Act directs the Secretary of Health and Human Services to enter into a contract with an independent research organization to evaluate the projects, individually, and as a group. The Secretary of Health and Human Services may spend up to $500,000 each fiscal year for evaluation expenses.

The demonstration program expires at the end of fiscal year 2003.

REASONS FOR CHANGE

The Committee seeks to expand the availability and use of IDAs, which promote work and asset-building among low-income families, rather than dependence on cash welfare and other benefits. These goals are consistent with the Committee's extensive activities in recent years to reform welfare by promoting work and independence from government benefits, as well as the Committee's recent activities to promote savings and investment through tax policy changes.

EXPLANATION OF PROVISION

The provision eliminates references to "demonstration" projects. The provision expands the category of qualified entities that could apply for IDA projects to include any federally-insured credit union.

The provision repeals the current household cap on receipt of Federal funds. The individual lifetime cap on receipt of Federal funds is replaced with an annual cap of $500.

The provision increases the net worth test for eligible individuals from $10,000 to $20,000.

The provision extends the program for an additional five years, through fiscal year 2008. Under the provision, the annual program authorization would be doubled from $25 million to $50 million, beginning in fiscal year 2002.

The program modifications made under the provision and the "Assets for Independence Act Amendments of 2000"[46] apply to existing grants, as well as grants made on or after the date of enactment.

[46] Title IV of H.R. 5656 as enacted by Pub. L. No. 106–554 (2000). The "Assets for Independence Act Amendments of 2000" (1) made matching contributions unavailable for emergency withdrawals, (2) added low income credit unions and community financial development institutions as qualified entities; (3) modified home purchase costs; (4) increased set-aside for economic literacy training and administrative costs; (5) added the 200 percent of poverty alternative to the income test; (6) revised the annual and interim progress report deadlines; (7) increased appropriations for evaluation expenses; and (8) provided that means tested programs must disregard all funds in an IDA, including accruing interest, in determining an individual's eligibility. Id. at secs. 602–610.

EFFECTIVE DATE

The provision is effective on the date of enactment.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 7.

MOTION TO REPORT THE BILL

The bill, H.R. 7, as amended, was ordered favorably reported by a rollcall vote of 23 yeas to 16 nays (with a quorum being present). The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas	X			Mr. Rangel		X	
Mr. Crane	X			Mr. Stark		X	
Mr. Shaw	X			Mr. Matsui		X	
Mrs. Johnson	X			Mr. Coyne			
Mr. Houghton				Mr. Levin		X	
Mr. Herger	X			Mr. Cardin		X	
Mr. McCrery	X			Mr. McDermott		X	
Mr. Camp	X			Mr. Kleczka		X	
Mr. Ramstad	X			Mr. Lewis (GA)		X	
Mr. Nussle	X			Mr. Neal		X	
Mr. Johnson	X			Mr. McNulty		X	
Ms. Dunn	X			Mr. Jefferson		X	
Mr. Collins	X			Mr. Tanner		X	
Mr. Portman	X			Mr. Becerra		X	
Mr. English	X			Mrs. Thurman		X	
Mr. Watkins	X			Mr. Doggett		X	
Mr. Hayworth	X			Mr. Pomeroy		X	
Mr. Weller	X						
Mr. Hulshof	X						
Mr. McInnis	X						
Mr. Lewis (KY)	X						
Mr. Foley	X						
Mr. Brady	X						
Mr. Ryan	X						

VOTES ON AMENDMENTS

A rollcall vote was conducted on the following amendments to the amendment in the nature of a substitute.

An amendment by Mrs. Thurman, which would make the provisions in the bill contingent upon sufficient non-Social Security, non-Medicare surpluses, was defeated by a rollcall vote of 17 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas		X		Mr. Rangel	X		
Mr. Crane		X		Mr. Stark	X		
Mr. Shaw		X		Mr. Matsui	X		
Mrs. Johnson		X		Mr. Coyne			
Mr. Houghton	X			Mr. Levin	X		
Mr. Herger		X		Mr. Cardin	X		
Mr. McCrery		X		Mr. McDermott	X		
Mr. Camp		X		Mr. Kleczka	X		
Mr. Ramstad		X		Mr. Lewis (GA)	X		
Mr. Nussle		X		Mr. Neal	X		
Mr. Johnson		X		Mr. McNulty	X		

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Ms. Dunn		X		Mr. Jefferson	X		
Mr. Collins		X		Mr. Tanner	X		
Mr. Portman		X		Mr. Becerra	X		
Mr. English		X		Mrs. Thurman	X		
Mr. Watkins		X		Mr. Doggett	X		
Mr. Hayworth		X		Mr. Pomeroy	X		
Mr. Weller		X					
Mr. Hulshof		X					
Mr. McInnis		X					
Mr. Lewis (KY)		X					
Mr. Foley		X					
Mr. Brady		X					
Mr. Ryan		X					

An amendment by Mr. McDermott, which would add a new section relating to credits to holders of residential solar energy bonds, was defeated by a rollcall vote of 15 yeas to 24 nays, and 1 voting present. The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas		X		Mr. Rangel	X		
Mr. Crane		X		Mr. Stark	X		
Mr. Shaw		X		Mr. Matsui	X		
Mrs. Johnson		X		Mr. Coyne			
Mr. Houghton		X		Mr. Levin	X		
Mr. Herger		X		Mr. Cardin	X		
Mr. McCrery		X		Mr. McDermott	X		
Mr. Camp		X		Mr. Kleczka	X		
Mr. Ramstad		X		Mr. Lewis (GA)	X		
Mr. Nussle		X		Mr. Neal	X		
Mr. Johnson		X		Mr. McNulty	X		
Ms. Dunn		X		Mr. Jefferson	X		
Mr. Collins		X		Mr. Tanner			X
Mr. Portman		X		Mr. Becerra	X		
Mr. English		X		Mrs. Thurman	X		
Mr. Watkins		X		Mr. Doggett	X		
Mr. Hayworth		X		Mr. Pomeroy	X		
Mr. Weller		X					
Mr. Hulshof		X					
Mr. McInnis		X					
Mr. Lewis (KY)		X					
Mr. Foley		X					
Mr. Brady		X					
Mr. Ryan		X					

An amendment by Mr. Rangel, which would increase the top individual income tax rate by 0.2 percentage points for taxable years 2002 through 2005, and by 0.5 percentage points for taxable years 2006 through 2010, was defeated by a rollcall vote of 16 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Thomas		X		Mr. Rangel	X		
Mr. Crane		X		Mr. Stark	X		
Mr. Shaw		X		Mr. Matsui	X		
Mrs. Johnson		X		Mr. Coyne			
Mr. Houghton				Mr. Levin	X		
Mr. Herger		X		Mr. Cardin	X		
Mr. McCrery		X		Mr. McDermott	X		
Mr. Camp		X		Mr. Kleczka	X		
Mr. Ramstad		X		Mr. Lewis (GA)	X		
Mr. Nussle		X		Mr. Neal	X		
Mr. Johnson		X		Mr. McNulty	X		

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Ms. Dunn		X		Mr. Jefferson	X		
Mr. Collins		X		Mr. Tanner	X		
Mr. Portman		X		Mr. Becerra	X		
Mr. English		X		Mrs. Thurman	X		
Mr. Watkins		X		Mr. Doggett	X		
Mr. Hayworth		X		Mr. Pomeroy	X		
Mr. Weller		X					
Mr. Hulshof		X					
Mr. McInnis		X					
Mr. Lewis (KY)		X					
Mr. Foley		X					
Mr. Brady		X					
Mr. Ryan		X					

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 7 as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2002–2006:

ESTIMATED BUDGET EFFECTS OF H.R. 7, THE "COMMUNITY SOLUTIONS ACT OF 2001," AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

[Fiscal years 2002–2006, in millions of dollars]

Provision	Effective	2002	2003	2004	2005	2006	2002–06
Charitable Giving Incentive Provisions							
1. Deduction for cash charitable contributions of individuals who do not itemize deductions in addition to their standard deduction; maximum deduction of $25 single/$50 joint for 2002 and 2003, $50 single/$100 joint for 2004 through 2006, $75 single/$150 joint for 2007 through 2009, and $100 single/$200 joint for 2010 and thereafter	tyba 12/31/01	−40	−269	−316	−561	−573	−1,759
2. Tax-free distributions from individual retirement accounts for charitable purposes for individuals age 70½ and above	tyba 12/31/01	−143	−233	−245	−259	−253	−1,133
3. Raise the cap on corporate charitable contributions from 10% to: 11% in 2002 through 2007, 12% in 2008, 13% in 2009, and 15% in 2010 and thereafter	cmi tyba 12/31/01	−28	−50	−52	−55	−41	−226
4. Extend present-law section 170(e)(3) deduction for food inventory to all businesses	tyba 12/31/01	−27	−46	−55	−61	−66	−255
5. Modify the section 4940(a) 2% excise tax to eliminate the 2-tier regime and impose 1% excise tax on net investment income	tyba 12/31/01	−118	−186	−195	−205	−215	−920
6. Modify the unrelated business income tax for charitable remainder trusts	tyba 12/31/01		−5	−5	−5	−6	−21
7. Modify the self-constructed property rule for certain charitable contributions	cma DOE	−1	−1	−1	−1	−1	−4

ESTIMATED BUDGET EFFECTS OF H.R. 7, THE ''COMMUNITY SOLUTIONS ACT OF 2001,'' AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS—Continued

[Fiscal years 2002–2006, in millions of dollars]

Provision	Effective	2002	2003	2004	2005	2006	2002–06
8. Modify the basis of S corporation stock for certain charitable contributions	tyba 12/31/01	−11	−26	−31	−35	−38	−141
Net Total		−368	−816	−900	−1,182	−1,193	−4,459

Legend for ''Effective'' column: cma = contributions made after; cmi = contributions made in; DOE = date of payment; tyba = taxable years beginning after.

Note.—Details may not add to totals due of rounding.

Source: Joint Committee on Taxation.

B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves new or increased budget authority (as detailed in the statement by the Congressional Budget Office ("CBO"); see Part IV.C., below). The Committee further states that the revenue reducing income tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 16, 2001.

Hon. William "Bill" M. Thomas,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 7, the Community Solutions Act of 2001.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Sheila Dacey (for federal spending), Erin Whitaker (for revenues), and Shelley Finlayson (for the state and local impact).

Sincerely,

Barry B. Anderson
(For Dan L. Crippen, Director).

Enclosure.

H.R. 7—Community Solutions Act of 2001

Summary: H.R. 7 would establish certain guidelines for religious organizations or their affiliates to receive federal funds for the provision of social services and would make several changes to tax law concerning deductions for charitable contributions. The Joint Committee on Taxation (JCT) estimates that the revenue loss associ-

ated with this legislation would be $4.5 billion over the 2002–2006 period and more than $13 billion over the 2002–2011 period. Because H.R. 7 would affect revenues, pay-as-you-go procedures would apply. The bill also would extend and expand the Assets for Independence Program that provides federal funds to encourage saving by low-income individuals. Assuming the appropriation of the specified amounts, CBO estimates that expansion would cost $119 million over the 2002–2006 period.

The Joint Committee on Taxation has reviewed the tax provisions (parts of title I) of H.R. 7 and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO reviewed the remaining provisions of the bill and found that section 104 contains an intergovernmental mandate as defined in UMRA because it would preempt certain state liability laws. CBO estimates that complying with this mandate would result in no direct costs to state governments and thus, would not exceed the threshold established in that act ($56 million in 2001, adjusted annually for inflation). Title III of the bill also would establish new requirements and prohibitions on state and local governments as conditions of receiving federal assistance under numerous federal programs.

Estimated budgetary impact of H.R. 7 is shown in the following table. The cost of this legislation falls within budget function 500 (education, training, employment, and social services).

	By fiscal year, in millions of dollars—					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending for Individual Development Accounts Under Current Law:						
Authorization Level [1]	25	25	25	0	0	0
Outlays	9	17	23	24	13	4
Total Proposed Changes:						
Authorization Level	0	25	25	50	50	50
Outlays	0	1	12	23	37	46
Spending for Individual Development Accounts Under the Bill:						
Authorization Level [1]	25	50	50	50	50	50
Outlays	9	19	35	46	50	50
CHANGES IN REVENUES [2]						
Deduct some charitable contributions of individuals who do not itemize deductions	0	−40	−269	−316	−561	−573
Allow tax-free distributions from individual retirement accounts for charitable purposes	0	−143	−233	−245	−259	−253
Raise the cap on corporate charitable contributions	0	−28	−50	−52	−55	−41
Expand and increase the charitable deduction for contributions of food	0	−27	−46	−55	−61	−66
Modify excise tax to eliminate the 2-tier regime and impose 1% excise tax on net investment income	0	−118	−186	−195	−205	−215
Modify the unrelated business income tax for charitable remainder trusts	0	0	−5	−5	−5	−6
Modify the self-constructed property rule for certain charitable contributions	0	1	−1	−1	−1	−1
Modify the basis of S corporation stock for certain charitable contributions	0	−11	−26	−31	−35	−38
Total Changes in Revenues	0	−368	−816	−900	−1,182	−1,193

[1] The 2001 level is the amount appropriated for that year.
[2] All estimates of the revenue effects of H.R. 7 were provided to JCT.

Basis of estimate: For this estimate, CBO assumes that H.R. 7 will be enacted by the end of fiscal year 2001 and that the authorized amounts will be appropriated for each year.

Spending subject to appropriations

Title II—Expansion of Charitable Choice. H.R. 7 would establish certain guidelines for religious organizations or their affiliates to receive federal funds for the provision of social services. It also would require that any governmental organization that contracts with a religious organization to provide social services guarantee that eligible individuals who object to a specific service provider on religious grounds be directed to a different provider of comparable services. Although in many areas the number of provisions would be sufficient to ensure that alternative providers would be available, very small communities might find it difficult to comply with these requirements. Although the requirement to find an alternate provider could increase federal costs in some cases by requiring the federal government to pay a portion of the costs of such alternate providers, CBO has been unable to obtain data to estimate any such costs. However, CBO does not anticipate that any resulting costs to the federal government would be substantial.

Title III—Individual Development Accounts. Title III would reauthorize the Individual Development Accounts (IDA) program, currently authorized at $25 million through 2003 under the Assets for Independence Act (Public Law 106–554). The IDA program provides matching funds to qualified low income individuals who save in order to encourage more savings. All deposits made by individuals and matching organizations in IDAs do not count toward the asset limits for federal means-tested benefits.

The bill would authorize $50 million for 2002 and extend the authorization through 2008. The program is funded at $25 million in 2001. Based on historical spending patterns, CBO estimates implementing this title would cost $119 million over the 2002–2006 period.

The bill also would increase the net worth test for an eligible household from a maximum of $10,000 to $20,000, and replace the $4,000 lifetime grant deposit limit for a household with an individual annual grant limit of $500.

It is possible that expanding the IDA program could allow certain people with assets to participate in means-tested programs who would otherwise be ineligible, but CBO estimates that would have an insignificant effect (less than $500,000 a year) on federal spending. While there are limited data on IDA participants, the available information indicates most participants would not deposit enough into their accounts to disqualify themselves from any federal means-tested program.

Revenues

H.R. 7 would allow taxpayers who do not itemize their deductions to deduct a limited amount of charitable contributions paid in cash. The deduction would phase in over time, and would be allowed in computing alternative minimum taxable income. In 2002 and 2003, a single taxpayer could deduct up to $25 and married taxpayers filing jointly could deduct up to $50, with the allowable deduction increasing to $100 for a single taxpayer or $200 for mar-

ried taxpayers in 2010 and thereafter. The bill would allow taxpayers to exclude from their gross income otherwise-taxable withdrawals from individual retirement accounts (IRAs) if those withdrawals were made for certain charitable distributions, were made after the IRA owner attained the age 70½, and were made directly by the IRA trustee to certain entities. The bill also would increase the penalty on certain trusts for failure to file a return.

H.R. 7 would increase the percentage limitation on modified taxable income for corporate charitable deductions from 10 percent to 15 percent, and phase in that increase over time. The bill would allow all taxpayers to claim enhanced deductions for donations of food that meets certain quality standards. The bill also would replace two rates of tax based on net investment income for private foundations not exempt from tax with a single rate of tax of one percent. It also would apply a 100-percent excise tax to any unrelated business taxable income of a trust that is required to pay a certain percentage of the value of the trust to a noncharity (charitable remainder trust), make donated scientific property or computer technology and equipment that is assembled by a taxpayer eligible for either of two enhanced charitable deductions in excess of the cost of the property, and allow shareholders of certain corporations to update the basis they hold in stock to a present value amount in order to take into account the shareholders' portion of charitable contributions made by those corporations.

The Joint Committee on Taxation estimates that the revenue loss associated with this legislation would be $4.5 billion over the 2002–2006 period and more than $13 billion over the 2002–2011 period.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	Not applicable										
Changes in receipts [1]	0	−368	−816	−900	−1,182	−1,193	−1,281	−1,583	−1,705	−1,901	−2,367

[1] Estimate was provided by JCT.

Estimated impact on state, local, and tribal governments: The Joint Committee on Taxation (JCT) has reviewed the tax provisions of H.R. 7 and CBO has reviewed the remaining provisions of the bill for intergovernmental mandates.

MANDATES

JCT determined that the tax provisions of H.R. 7 (part of title I) contain no intergovernmental mandates as defined in UMRA. CBO has reviewed the remaining provisions of the bill and has determined that section 104 contains an intergovernmental mandate as defined in UMRA because it would preempt inconsistent or more stringent state liability laws that hold businesses civilly liable for injuries or death that result from the use of equipment, facilities, or vehicles donated or lent to nonprofit organizations or for tours of business facilities. This preemption would be an intergovern-

mental mandate as defined in UMRA, but because the preemption is narrow and state governments could enact legislation to opt out, CBO estimates complying with this mandate would result in no direct costs. Thus, the threshold established in that act ($56 million in 2001, adjusted annually for inflation) would not be exceeded.

OTHER IMPACTS

Title II would establish new requirements and prohibitions on how state and local governments receive and use federal funds under numerous federal programs. Such programs include anything related to hunger relief activities, federal housing under the Community Development Block Grant Program, prevention of domestic violence under the Child Abuse Prevention and Treatment Act, and services for the elderly under the Older Americans Act. Specifically, title II would require state and local governments to consider religious organizations on the same basis as other organizations to provide assistance under programs carried out using federal funds.

The bill also would require that the appropriate government entity notify applicants and recipients about provider options and provide, in a timely manner, an equivalent alternative from a nonreligious provider if a recipient objects to receiving services from a religious provider. In addition, state and local governments that discriminate on the basis of religion in selecting service providers could be sued for injunctive relief. All of those requirements are conditions of federal assistance, and therefore, are not mandates under UMRA. However, those requirements could increase state and local costs to administer numerous federal programs. In particular, some small communities could find it difficult or costly to comply with the alternate provider requirements. CBO does not have sufficient information to estimate for aggregate costs nationwide.

Estimated impact on the private sector: This bill contains no new private-sector mandates as defined in UMRA.

Previous CBO estimate: On July 11, 2001, CBO transmitted a cost estimate for H.R. 7, the Community Solutions Act of 2001, as ordered reported by the House Committee on the Judiciary on June 28, 2001. That bill included somewhat different provisions related to tax changes and individual development accounts.

The House Judiciary Committee's version of H.R. 7 would allow taxpayers to deduct charitable contributions up to the amount of the standard deduction. The bill included slightly different provisions relating to tax-free distributions from individual retirement accounts and charitable deductions for contributions on food. In addition, it included a tax credit for financial institutions running individual development account programs, rather than a grant program to encourage such accounts. The Joint Committee on Taxation estimates that the revenue loss associated with those changes would be almost $50 billion over the 2002–2006 period and more than $120 billion over the 2002–2011 period.

While this version of H.R. 7 differs from the version ordered reported by the House Judiciary Committee, CBO's estimate of the costs to state and local governments is the same for both versions.

Estimate prepared by: Federal Spending: Sheila Dacey, Donna Wong, and Geoff Gerhardt; Federal Revenues: Erin Whitaker; Im-

pact on State, Local, and Tribal Governments: Shelly Finlayson; and Impact on the Private Sector: Paige Piper/Bach.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis. G. Thomas Woodward, Assistant Director for Tax Analysis Division.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was a result of the Committee's oversight review concerning the tax burden on individual taxpayers and the tax rules relating to charitable giving and the impact of these rules on charitable organizations that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the performance goals and objectives of that part of this legislation that authorizes funding (i.e., individual development accounts) are to encourage savings of certain lower-income individuals.

C. Constitutional Authority Statement

With respect to clause 3(d)(1) of the rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises * * *"), and from the 16th Amendment to the Constitution.

D. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104–4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

E. Applicability of House Rule XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. TAX COMPLEXITY ANALYSIS

The following tax complexity analysis is provided pursuant to section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998, which requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service ("IRS") and the Treasury Department) to provide a complexity analysis of tax legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or a Conference Report containing tax provisions. The complexity analysis is required to report on the complexity and administrative issues raised by provisions that directly or indirectly amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses. For each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.

Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS and the Treasury Department regarding each of the provisions included in the complexity analysis, including a discussion of the likely effect on IRS forms and any expected impact on the IRS.

Charitable deduction for nonitemizers (sec. 101 of the bill)

Summary description of provision

The provision permits an individual taxpayer who does not itemize deductions to take a deduction for charitable contributions paid in cash. The deduction is allowed in addition to the standard deduction and is calculated as the lesser of (1) the amount allowable to itemizers as a charitable deduction for cash contributions and (2) an applicable amount. The applicable amount is $25 ($50 in the case of a joint return) in 2002 and 2003, $50 ($100 in the case of a joint return) in 2004 through 2006, $75 ($150 in the case of a joint return) in 2007 through 2009, and $100 ($200 in the case of a joint return) in 2010 and thereafter.

Number of affected taxpayers

It is estimated that the provision will affect approximately 43 million individual tax returns.

Discussion

Individuals who do not itemize their deductions will need to keep additional records (e.g., canceled checks, a receipt from the donee organization, or other reliable written records) in order to substantiate that a contribution was made to a qualified charitable organization. The information necessary to implement the provision should be readily available to taxpayers (in the form of new tax return forms and instructions). The nonitemizer charitable contribution deduction is expected to require an additional line on the individual income tax return forms. The provision might result in an increase in disputes with the IRS for taxpayers who are unable to substantiate a claimed deduction. Additional regulatory guidance will not be necessary to implement this provision. Any increase in tax preparation costs is expected be negligible.

DEPARTMENT OF THE TREASURY,
INTERNAL REVENUE SERVICE,
Washington, DC, July 13, 2001.

MS. LINDY L. PAULL,
Chief of Staff, Joint Committee on Taxation,
Washignton, DC

DEAR MS. PAULL: Enclosed are the combined comments of the Internal Revenue Service and the Treasury Department on the provisions from the House Committee on Ways and Means markup of the "Community Solutions Act of 2001" that you identified for complexity analysis in your letter of July 10, 2001. Our comments are based on the description of those provisions in JCX–58–01, Joint Committee on Taxation, description of an Amendment in the Nature of a Substitute to H.R. 7, July 10, 2001, and the statutory language for the substitute published in the Daily Tax Report on July 12, 2001.

Due to the short turnaround time, our comments are provisional and subject to change upon a more complete and in-depth analysis of the provisions.

Sincerely,

CHARLES O. ROSSOTTI.

Enclosure.

COMPLEXITY ANALYSIS OF COMMUNITY SOLUTIONS ACT OF 2001

CHARITABLE DEDUCTION FOR NON-ITEMIZERS

Provision: Individuals who do not itemize deductions would be allowed a deduction from adjusted gross income for charitable contributions paid in cash. This deduction would be in addition to the standard deduction and would be calculated as the lesser of (i) the amount allowable to itemizers as a charitable deduction for cash contributions and (ii) an applicable amount. The applicable amount would be $25 ($50 in the case of a joint return) in 2002 and 2003, $50 ($100 in the case of a joint return) in 2004 through 2006, $75 ($150 in the case of a joint return) in 2007 through 2009, and $100 ($200 in the case of a joint return) in 2010 and thereafter. The deduction would be allowed in computing alternative minimum taxable income. The provision would be effective for taxable years beginning after December 31, 2001.

IRS and Treasury Comments

- Two lines would have to be added to Forms 1040, 1040A, 1040EZ, 1040NR, and 1040NR–EZ and to the TeleFile tax Record beginning in 2002—one for entering the new deduction, the second for subtracting the new deduction to derive the subtotal. All taxpayers, including those who itemize and those who have no charitable deductions for the year, would need to make an entry on the subtotal line. No new forms would be required.
- The deduction would have to be reflected on Forms 1040–ES and 6251 for 2002. The Form 1040–ES instruc-

tions for 2004, 2007, and 2010 would have to be modified to reflect the phase-in of the deduction amount.

- Information necessary for taxpayers to determine their eligibility for the deduction would have to be reflected in the instructions for Forms 1040, 1040A, 1040EZ, 1040NR, and 1040NR–EZ and for TeleFile beginning in 2002. The Instructions for 2004, 2007, and 2010 forms would have to be revised to reflect the phase-in of the deduction.
- Programming changes would be required to reflect the new deduction and the phase-in of the amount of the deduction. Currently, IRS tax computation programs are updated annually to incorporate mandated inflation adjustments. Programming changes necessitated by this provision would be included during that process.
- The TeleFile script would have to be expanded to accommodate the deduction, thereby increasing the time needed to file by TeleFile.
- Ensuring compliance with the direct charitable deduction would be difficult. The only means of verifying amounts deducted would be through examination, which is not practical because of the small amounts involved.

G. COMMITTEE CORRESPONDENCE

COMMITTEE ON EDUCATION AND THE WORKFORCE,
HOUSE OF REPRESENTATIVES,
Washington, DC, July 12, 2001.

Hon. WILLIAM M. THOMAS,
Chairman, Committee on Ways and Means, Longworth House Office Building, Washington, DC.

DEAR CHAIRMAN THOMAS: Thank you for working with me regarding H.R. 7, the Community Solutions Act of 2001, which was referred to the Committee on Ways and Means and in addition the Committee on the Judiciary. As you know, the Committee on Education and the Workforce holds a jurisdictional interest in this legislation and I appreciate your acknowledgement of that jurisdictional interest. While the bill would be sequentially referred to the Education and the Workforce Committee, I understand the desire to have this legislation considered expeditiously by the House; hence, I do not intend to hold a hearing or markup on this legislation.

In agreeing to waive consideration by our Committee, I would expect you to agree that this procedural route should not be construed to prejudice the Committee on Education and the Workforce's jurisdictional interest and prerogatives on this or any similar legislation and will not be considered as precedent for consideration of matters of jurisdictional interest to my Committee in the future. I would also expect your support in my request to the Speaker for the appointment of conferees from my Committee with respect to matters within the jurisdiction of my Committee should a conference with the Senate be convened on this or similar legislation.

Again, thank you for your letter. I would appreciate your including our exchange of letters in your Committee's report to accompany H.R. 7. Again, I thank you for working with me in developing

this legislation and I look forward to working with you on these issues in the future.

Sincerely,

JOHN BOEHNER,
Chairman.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC, July 12, 2001.

Hon. MICHAEL G. OXLEY,
Chairman, Committee on Financial Services,
Rayburn House Office Building, Washington, DC.

DEAR CHAIRMAN OXLEY: Thank you for your letter regarding H.R. 7, the "Community Solutions Act of 2001."

As you have noted, the Committee on Ways and Means has ordered favorably reported H.R. 7, the "Community Solutions Act of 2001." I appreciate your agreement to expedite the passage of this legislation despite affecting programs within the jurisdiction of the Committee on Financial Services. I acknowledge your decision to forego further action on the bill was based on our mutual understanding that it will not prejudice the Committee on Financial Services with respect to the appointment of conferees or its jurisdictional prerogatives on this or similar legislation.

Finally, I will include in the Congressional Record a copy of our exchange of letters on this matter. Thank you for your assistance and cooperation. We look forward to working with you in the future.

Sincerely,

BILL THOMAS,
Chairman.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC, July 11, 2001.

Hon. WILLIAM M. THOMAS,
Chairman, Committee on Ways and Means,
Longworth House Office Building, Washington, DC.

DEAR CHAIRMAN, THOMAS: I understand that the Committee on Ways of Means recently ordered reported H.R. 7, the Community Solutions Act of 2001. As you know, the legislation contains provisions relating to community development block grants (CDBGs) and other programs under the Nation's housing laws which fall within the jurisdiction of the Committee on Financial Services pursuant to clause 1(g) of rule X of the Rules of the House of Representatives.

Because of your willingness to consult with the Committee on Financial Services regarding this matter and the need to move this legislation expeditiously, I will waive consideration of the bill by the Financial Services Committee. By agreeing to waive its consideration of the bill, the Financial Services Committee does not waive its jurisdiction over H.R. 7. In addition, the Committee on Financial Services reserves its authority to seek conferees on any provisions of the bill that are within the Financial Services Committee's

jurisdiction during any House-Senate conference that may be convened on this legislation. I ask your commitment to support any request by the Committee on Financial Services for conferees on H.R. 7 or related legislation.

I request that you include this letter and your response as part of your committee's report on the bill and the Congressional Record during consideration of the legislation on the House floor.

Thank you for your attention to these matters.

Sincerely,

MICHAEL G. OXLEY,
Chairman.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC, July 16, 2001.

Hon. JOHN A. BOEHNER,
Chairman, Committee on Education and the Workforce,
Rayburn House Office Building, Washington, DC.

DEAR CHAIRMAN BOEHNER: Thank you for your letter regarding H.R. 7, the "Community Solutions Act of 2001."

As you have noted, the Committee on Ways and Means has ordered favorably reported H.R. 7, the "Community Solutions Act of 2001." I appreciate your agreement to expedite the passage of this legislation despite affecting programs within the jurisdiction of Committee on Education and the Workforce. I acknowledge your decision to forego further action on the bill was based on the understanding that it will not prejudice the Committee on Education and the Workforce with respect to the appointment of conferees or its jurisdictional prerogatives on this or similar legislation.

Finally, I will include in the Congressional Record a copy of our exchange of letters on this matter. Thank you for your assistance and cooperation. We look forward to working with you in the future.

Best regards,

BILL THOMAS,
Chairman.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

The bill was referred to this committee, and in addition to the Committee on the Judiciary, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by that portion of the bill within the jurisdiction of the Committee on the Judiciary, as reported, are shown in part 1 of this report and changes in existing law made by that portion of the bill within the jurisdiction of the Committee on Ways and Means, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

* * * * * * *

Subtitle A—Income Taxes

* * * * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * * * *

Subchapter B—Computation of Taxable Income

* * * * * * *

PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.

* * * * * * *

SEC. 63. TAXABLE INCOME DEFINED.

(a) * * *

(b) INDIVIDUALS WHO DO NOT ITEMIZE THEIR DEDUCTIONS.—In the case of an individual who does not elect to itemize his deductions for the taxable year, for purposes of this subtitle, the term "taxable income" means adjusted gross income, minus—

(1) the standard deduction, **[**and**]**

(2) the deduction for personal exemptions provided in section 151**[**.**]**, *and*

(3) the direct charitable deduction.

* * * * * * *

(d) ITEMIZED DEDUCTIONS.—For purposes of this subtitle, the term "itemized deductions" means the deductions allowable under this chapter other than—

(1) the deductions allowable in arriving at adjusted gross income, **[**and**]**

(2) the deduction for personal exemptions provided by section 151**[**.**]**, *and*

(3) the direct charitable deduction.

* * * * * * *

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

[(g)**]** *(h)* MARITAL STATUS.—For purposes of this section, marital status shall be determined under section 7703.

* * * * * * *

PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS

* * * * * * *

SEC. 170. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

(a) * * *

(b) PERCENTAGE LIMITATIONS.—

(1) * * *

(2) CORPORATIONS.—In the case of a corporation, the total deductions under subsection (a) for any taxable year shall not exceed [10 percent] *the applicable percentage* of the taxpayer's taxable income computed without regard to—

(A) * * *

* * * * * * *

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

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

* * * * * * *

(e) CERTAIN CONTRIBUTIONS OF ORDINARY INCOME AND CAPITAL GAIN PROPERTY.—

(1) * * *

* * * * * * *

(3) SPECIAL RULE FOR CERTAIN CONTRIBUTIONS OF INVENTORY AND OTHER PROPERTY.—

(A) * * *

* * * * * * *

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

(i) GENERAL RULE.—In the case of a charitable contribution of food, this paragraph shall be applied—

(I) without regard to whether the contribution is made by a C corporation, and

(II) only for food that is apparently wholesome food.

(ii) DETERMINATION OF FAIR MARKET VALUE.—In the case of a qualified contribution of apparently wholesome food to which this paragraph applies and which, solely by reason of internal standards of the taxpayer or lack of market, cannot or will not be sold, the fair market value of such food shall be determined by taking into account the price at which the same or similar food items are sold by the taxpayer at the time of the contribution (or, if not so sold at such time, in the recent past).

(iii) APPARENTLY WHOLESOME FOOD.—For purposes of this subparagraph, the term "apparently wholesome food" shall have the meaning given to such term by section 22(b)(2) of the Bill Emerson Good Samaritan Food Donation Act (42 U.S.C. 1791(b)(2)), as in effect on the date of the enactment of this subparagraph.

[(C)] *(D)* This paragraph shall not apply to so much of the amount of the gain described in paragraph (1)(A) which would be long-term capital gain but for the application of sections 617, 1245, 1250, or 1252.

(4) SPECIAL RULE FOR CONTRIBUTIONS OF SCIENTIFIC PROPERTY USED FOR RESEARCH.—

(A) * * *

(B) QUALIFIED RESEARCH CONTRIBUTIONS.—For purposes of this paragraph, the term "qualified research contribution" means a charitable contribution by a corporation of tangible personal property described in paragraph (1) of section 1221(a), but only if—

(i) * * *

(ii) the property is constructed *or assembled* by the taxpayer,

* * * * * * *

(6) SPECIAL RULE FOR CONTRIBUTIONS OF COMPUTER TECHNOLOGY AND EQUIPMENT FOR EDUCATIONAL PURPOSES.—

(A) * * *

(B) QUALIFIED COMPUTER CONTRIBUTION.—For purposes of this paragraph, the term "qualified computer contribution" means a charitable contribution by a corporation of any computer technology or equipment, but only if—

(i) * * *

(ii) the contribution is made not later than 3 years after the date the taxpayer acquired the property (or in the case of property constructed *or assembled* by the taxpayer, the date the construction *or assembling* of the property is substantially completed),

* * * * * * *

(D) DONATIONS OF PROPERTY REACQUIRED BY MANUFACTURER.—In the case of property which is reacquired by the person who constructed *or assembled* the property—

(i) subparagraph (B)(ii) shall be applied to a contribution of such property by such person by taking into account the date that the original construction *or assembling* of the property was substantially completed, and

(ii) subparagraph (B)(iii) shall not apply to such contribution.

* * * * * * *

(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING DEDUCTIONS.—

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

(A) the amount allowable under subsection (a) for the taxable year for cash contributions, or

(B) the applicable amount.

(2) APPLICABLE AMOUNT.—For purposes of paragraph (1), the applicable amount shall be determined 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.*

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

[(m)] *(n)* OTHER CROSS REFERENCES.—

(1) * * *

* * * * * * *

Subchapter D—Deferred Compensation, Etc.

* * * * * * *

PART I—PENSION, PROFIT-SHARING, STOCK BONUS PLANS, ETC.

* * * * * * *

Subpart A—General Rule

* * * * * * *

SEC. 408. INDIVIDUAL RETIREMENT ACCOUNTS.

(a) * * *

* * * * * * *

(d) TAX TREATMENT OF DISTRIBUTIONS.—

(1) * * *

* * * * * * *

(8) DISTRIBUTIONS FOR CHARITABLE PURPOSES.—

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

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

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

(ii) which is made directly by the trustee—

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

(II) to a split-interest entity.

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

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

(i) DIRECT CONTRIBUTIONS.—A distribution to an organization described in section 170(c) shall be treated as a qualified charitable distribution only if a deduction for the entire distribution would be allowable

under section 170 (determined without regard to subsection (b) thereof and this paragraph).

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

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

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

(i) CHARITABLE REMAINDER TRUSTS.—Distributions made from an individual retirement account to a trust described in subparagraph (G)(ii)(I) shall be treated as income described in section 664(b)(1) except to the extent that the beneficiary of the individual retirement account notifies the trustee of the trust of the amount which is not allocable to income under subparagraph (D).

(ii) POOLED INCOME FUNDS.—No amount shall be includible in the gross income of a pooled income fund (as defined in subparagraph (G)(ii)(II)) by reason of a qualified charitable distribution to such fund.

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

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

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

(i) a charitable remainder annuity trust or a charitable remainder unitrust (as such terms are defined in section 664(d)),

(ii) a pooled income fund (as defined in section 642(c)(5)), and

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

* * * * * * *

Subchapter F—Exempt Organizations

* * * * * * *

PART III—TAXATION OF BUSINESS INCOME OF CERTAIN EXEMPT ORGANIZATIONS

* * * * * * *

SEC. 512. UNRELATED BUSINESS TAXABLE INCOME.

(a) * * *

(b) MODIFICATIONS.—The modifications referred to in subsection (a) are the following:

(1) * * *

* * * * * * *

(10) In the case of any organization described in section 511(a), the deduction allowed by section 170 (relating to charitable etc. contributions and gifts) shall be allowed (whether or not directly connected with the carrying on of the trade or business), but shall not exceed **[**10 percent**]** *the applicable percentage (determined under section 170(b)(3))* of the unrelated business taxable income computed without the benefit of this paragraph.

* * * * * * *

Subchapter G—Corporations Used to Avoid Income Tax on Shareholders

* * * * * * *

PART II—PERSONAL HOLDING COMPANIES

* * * * * * *

SEC. 545. UNDISTRIBUTED PERSONAL HOLDING COMPANY INCOME.

(a) * * *

(b) ADJUSTMENTS TO TAXABLE INCOME.—For the purposes of subsection (a), the taxable income shall be adjusted as follows:

(1) * * *

(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions provided under section 170 shall be allowed, but in computing such deduction the limitations in section 170(b)(1)(A), (B), and (D) shall apply, and section 170(b)(2) and (d)(1) shall not apply. For purposes of this paragraph, the term "contribution base" when used in section 170(b)(1) means the taxable income computed with the adjustments (other than the **[**10-percent limitation**]** *applicable percentage limitation*) provided in section 170(b)(2) and (d)(1) and without deduction of the amount disallowed under paragraph (6) of this subsection.

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PART III—FOREIGN PERSONAL HOLDING COMPANIES

* * * * * * *

SEC. 556. UNDISTRIBUTED FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) * * *

(b) ADJUSTMENTS TO TAXABLE INCOME.—For the purposes of subsection (a), the taxable income shall be adjusted as follows:

(1) * * *

(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions provided under section 170 shall be allowed, but in computing such deduction the limitations in section 170(b)(1)(A), (B), and (D) shall apply, and section 170(b)(2) and (d)(1) shall not apply. For purposes of this paragraph, the term "contribution base" when used in section 170(b)(1) means the taxable income computed with the adjustments (other than the [10-percent limitation] *applicable percentage limitation*) provided in section 170(b)(2) and (d)(1) and without the deduction of the amounts disallowed under paragraphs (5) and (6) of this subsection or the inclusion in gross income of the amounts includible therein as dividends by reason of the application of the provisions of section 555(b) (relating to the inclusion in gross income of a foreign personal holding company of its distributive share of the undistributed foreign personal holding company income of another company in which it is a shareholder).

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Subchapter J—Estates, Trusts, Beneficiaries, and Decedents

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PART I—ESTATES, TRUSTS, AND BENEFICIARIES

* * * * * * *

Subpart C—Estates and Trusts Which May Accumulate Income or Which Distribute Corpus

* * * * * * *

SEC. 664. CHARITABLE REMAINDER TRUSTS.

(a) * * *

* * * * * * *

[(c) EXEMPTION FROM INCOME TAXES.—A charitable remainder annuity trust and a charitable remainder unitrust shall, for any taxable year, not be subject to any tax imposed by this subtitle, unless such trust, for such year, has unrelated business taxable income (within the meaning of section 512, determined as if part III of subchapter F applied to such trust).]

(c) TAXATION OF TRUSTS.—

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

(2) EXCISE TAX.—

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

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

(C) CHARACTER OF DISTRIBUTIONS AND COORDINATION WITH DISTRIBUTION REQUIREMENTS.—The amounts taken into account in determining unrelated business taxable income (as defined in subparagraph (A)) shall not be taken into account for purposes of—

(i) subsection (b),

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

(iii) determining income under subsection (d)(3).

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

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Subchapter L—Insurance Companies

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PART I—LIFE INSURANCE COMPANIES

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Subpart C—Life Insurance Deductions

* * * * * * *

SEC. 805. GENERAL DEDUCTIONS.

(a) * * *

(b) MODIFICATIONS.—The modifications referred to in subsection (a)(8) are as follows:

(1) * * *

(2) CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.—In applying section 170—

(A) the limit on the total deductions under such section provided by section 170(b)(2) shall be **[**10 percent**]** *the applicable percentage (determined under section 170(b)(3))* of the life insurance company taxable income computed without regard to—

(i) * * *

* * * * * * *

Subchapter S—Tax Treatment of S Corporations and Their Shareholders

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PART II—TAX TREATMENT OF SHAREHOLDERS

* * * * * * *

SEC. 1367. ADJUSTMENTS TO BASIS OF STOCK OF SHAREHOLDERS, ETC.

(a) GENERAL RULE.—

(1) INCREASES IN BASIS.—The basis of each shareholder's stock in an S corporation shall be increased for any period by the sum of the following items determined with respect to that shareholder for such period:

(A) the items of income described in subparagraph (A) of section 1366(a)(1),

(B) any nonseparately computed income determined under subparagraph (B) of section 1366(a)(1), [and]

(C) the excess of the deductions for depletion over the basis of the property subject to depletion[.], *and*

(D) the excess of the amount of the shareholder's deduction for any charitable contribution made by the S corporation over the shareholder's proportionate share of the adjusted basis of the property contributed.

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Subtitle D—Miscellaneous Excise Taxes

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CHAPTER 42—PRIVATE FOUNDATIONS AND CERTAIN OTHER TAX-EXEMPT ORGANIZATIONS

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Subchapter A—Private Foundations

* * * * * * *

SEC. 4940. EXCISE TAX BASED ON INVESTMENT INCOME.

(a) TAX-EXEMPT FOUNDATIONS.—There is hereby imposed on each private foundation which is exempt from taxation under section 501(a) for the taxable year, with respect to the carrying on of its activities, a tax equal to [2] *1* percent of the net investment income of such foundation for the taxable year.

* * * * * * *

[(e) REDUCTION IN TAX WHERE PRIVATE FOUNDATION MEETS CERTAIN DISTRIBUTION REQUIREMENTS.—

[(1) IN GENERAL.—In the case of any private foundation which meets the requirements of paragraph (2) for any taxable year, subsection (a) shall be applied with respect to such taxable year by substituting "1 percent" for "2 percent".

[(2) REQUIREMENTS.—A private foundation meets the requirements of this paragraph for any taxable year if—

[(A) the amount of the qualifying distributions made by the private foundation during such taxable year equals or exceeds the sum of—

[(i) an amount equal to the assets of such foundation for such taxable year multiplied by the average percentage payout for the base period, plus

[(ii) 1 percent of the net investment income of such foundation for such taxable year, and

[(B) such private foundation was not liable for tax under section 4942 with respect to any year in the base period.

[(3) AVERAGE PERCENTAGE PAYOUT FOR BASE PERIOD.—For purposes of this subsection—

[(A) IN GENERAL.—The average percentage payout for the base period is the average of the percentage payouts for taxable years in the base period.

[(B) PERCENTAGE PAYOUT.—The term "percentage payout" means, with respect to any taxable year, the percentage determined by dividing—

[(i) the amount of the qualifying distributions made by the private foundation during the taxable year, by

[(ii) the assets of the private foundation for the taxable year.

[(C) SPECIAL RULE WHERE TAX REDUCED UNDER THIS SUBSECTION.—For purposes of this paragraph, if the amount of the tax imposed by this section for any taxable year in the base period is reduced by reason of this subsection, the amount of the qualifying distributions made by the private foundation during such year shall be reduced by the amount of such reduction in tax.

[(4) BASE PERIOD.—For purposes of this subsection—

[(A) IN GENERAL.—The term "base period" means, with respect to any taxable year, the 5 taxable years preceding such taxable year.

[(B) NEW PRIVATE FOUNDATIONS, ETC.—If an organization has not been a private foundation throughout the base period referred to in subparagraph (A), the base period shall consist of the taxable years during which such foundation has been in existence.

[(5) OTHER DEFINITIONS.—For purposes of this subsection—

[(A) QUALIFYING DISTRIBUTION.—The term "qualifying distribution" has the meaning given such term by section 4942(g).

[(B) ASSETS.—The assets of a private foundation for any taxable year shall be treated as equal to the excess determined under section 4942(e)(1).

[(6) TREATMENT OF SUCCESSOR ORGANIZATIONS, ETC.—In the case of—

[(A) a private foundation which is a successor to another private foundation, this subsection shall be applied with respect to such successor by taking into account the experience of such other foundation, and

[(B) a merger, reorganization, or division of a private foundation, this subsection shall be applied under regulations prescribed by the Secretary.]

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Subtitle F—Procedures and Administration

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CHAPTER 61—INFORMATION AND RETURNS

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Subchapter A—Returns and Records

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PART III—INFORMATION RETURNS

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Subpart A—Information Concerning Persons Subject to Special Provisions

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[SEC. 6034. RETURNS BY TRUSTS DESCRIBED IN SECTION 4947(A)(2) OR CLAIMING CHARITABLE DEDUCTIONS UNDER SECTION 642(C).

[(a) GENERAL RULE.—Every trust described in section 4947(a)(2) or claiming a charitable, etc., deduction under section 642(c) for the taxable year shall furnish such information with respect to such taxable year as the Secretary may by forms or regulations prescribe, including—

[(1) the amount of the charitable, etc., deduction taken under section 642(c) within such year,

[(2) the amount paid out within such year which represents amounts for which charitable, etc., deductions under section 642(c) have been taken in prior years,

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

[(4) the amount paid out of principal in the current and prior years for charitable, etc., purposes,

[(5) the total income of the trust within such year and the expenses attributable thereto, and

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

[(b) EXCEPTIONS.—This section shall not apply in the case of a taxable year if all the net income for such year, determined under the applicable principles of the law of trusts, is required to be distributed currently to the beneficiaries. This section shall not apply in the case of a trust described in section 4947(a)(1).

[(c) CROSS REFERENCE.—

[For provisions relating to penalties for failure to file a return required by this section, see section 6652(c).]

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

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

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

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

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

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

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

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

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

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

(2) EXCEPTIONS.—Paragraph (1) shall not apply in the case of a taxable year if all the net income for such year, determined under the applicable principles of the law of trusts, is required to be distributed currently to the beneficiaries. Paragraph (1) shall not apply in the case of a trust described in section 4947(a)(1).

* * * * * * *

Subchapter B—Miscellaneous Provisions

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SEC. 6104. PUBLICITY OF INFORMATION REQUIRED FROM CERTAIN EXEMPT ORGANIZATIONS AND CERTAIN TRUSTS.

(a) * * *

(b) INSPECTION OF ANNUAL INFORMATION RETURNS.—The information required to be furnished by sections 6012(a)(6), 6033, 6034, and 6058, together with the names and addresses of such organizations and trusts, shall be made available to the public at such times and in such places as the Secretary may prescribe. Nothing in this subsection shall authorize the Secretary to disclose the name or address of any contributor to any organization or trust (other than a private foundation, as defined in section 509(a) or a political organization exempt from taxation under section 527) which is required to furnish such information. In the case of an organization described in section 501(d), this subsection shall not apply to copies referred to in section 6031(b) with respect to such organization. *In the case of a trust which is required to file a return under section 6034(a), this subsection shall not apply to information regarding beneficiaries which are not organizations described in section 170(c).*

* * * * * * *

CHAPTER 68—ADDITIONS TO THE TAX, ADDITIONAL AMOUNTS, AND ASSESSABLE PENALTIES

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Subchapter A—Additions to the Tax and Additional Amounts

* * * * * * *

PART I—GENERAL PROVISIONS

* * * * * * *

SEC. 6652. FAILURE TO FILE CERTAIN INFORMATION RETURNS, REGISTRATION STATEMENTS, ETC.

(a) * * *

* * * * * * *

(c) RETURNS BY EXEMPT ORGANIZATIONS AND BY CERTAIN TRUSTS.—

(1) * * *

(2) RETURNS UNDER SECTION 6034 OR 6043(b).—

(A) * * *

* * * * * * *

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

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

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

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

If the person required to file such return knowingly fails to file the return, such person shall be personally liable for the penalty imposed pursuant to this subparagraph.

* * * * * * *

ASSETS FOR INDEPENDENCE ACT

* * * * * * *

SEC. 403. PURPOSES.

The purposes of this title are to provide for the establishment of [demonstration] projects designed to determine—

(1) the social, civic, psychological, and economic effects of providing to individuals and families with limited means an in-

centive to accumulate assets by saving a portion of their earned income;

(2) the extent to which an asset-based policy that promotes saving for postsecondary education, homeownership, and microenterprise development may be used to enable individuals and families with limited means to increase their economic self-sufficiency; and

(3) the extent to which an asset-based policy stabilizes and improves families and the community in which the families live.

SEC. 404. DEFINITIONS.

In this title:

(1) * * *

* * * * * * *

(2) ELIGIBLE INDIVIDUAL.—The term "eligible individual" means an individual who is selected to participate in a [demonstration] project by a qualified entity under section 409.

* * * * * * *

(7) QUALIFIED ENTITY.—

(A) IN GENERAL.—The term "qualified entity" means—

(i) * * *

* * * * * * *

(iii) an entity that—

(I) is—

[(aa) a credit union designated as a low-income credit union by the National Credit Union Administration (NCUA); or]

(aa) a federally insured credit union; or

* * * * * * *

SEC. 405. APPLICATIONS.

(a) ANNOUNCEMENT OF [DEMONSTRATION] PROJECTS.—Not later than 3 months after the date of enactment of this title, the Secretary shall publicly announce the availability of funding under this title for [demonstration] projects and shall ensure that applications to conduct the [demonstration] projects are widely available to qualified entities.

(b) SUBMISSION.—Not later than 6 months after the date of enactment of this title, a qualified entity may submit to the Secretary an application to conduct a [demonstration] project under this title.

(c) CRITERIA.—In considering whether to approve an application to conduct a [demonstration] project under this title, the Secretary shall assess the following:

(1) * * *

* * * * * * *

(d) PREFERENCES.—In considering an application to conduct a [demonstration] project under this title, the Secretary shall give preference to an application that—

(1) * * *

* * * * * * *

(e) APPROVAL.—Not later than 9 months after the date of enactment of this title, the Secretary shall, on a competitive basis, approve such applications to conduct [demonstration] projects under this title as the Secretary considers to be appropriate, taking into account the assessments required by subsections (c) and (d). The Secretary shall ensure, to the maximum extent practicable, that the applications that are approved involve a range of communities (both rural and urban) and diverse populations.

* * * * * * *

(g) GRANDFATHERING OF EXISTING STATEWIDE PROGRAMS.—Any statewide individual asset-building program that is carried out in a manner consistent with the purposes of this title, that is established under State law as of the date of enactment of this Act, and that as of such date is operating with an annual State appropriation of not less than $1,000,000 in non-Federal funds, shall be deemed to meet the eligibility requirements of this subtitle, and the entity carrying out the program shall be deemed to be a qualified entity. The Secretary shall consider funding the statewide program as a [demonstration] project described in this subtitle. In considering the statewide program for funding, the Secretary shall review an application submitted by the entity carrying out such statewide program under this section, notwithstanding the preference requirements listed in subsection (d). Any program requirements under sections 407 through 411 that are inconsistent with State statutory requirements in effect on the date of enactment of this Act, governing such statewide program, shall not apply to the program.

SEC. 406. [DEMONSTRATION] AUTHORITY; ANNUAL GRANTS.

(a) [DEMONSTRATION] AUTHORITY.—If the Secretary approves an application to conduct a [demonstration] project under this title, the Secretary shall, not later than 10 months after the date of enactment of this title, authorize the applicant to conduct the project for 5 project years in accordance with the approved application and the requirements of this title.

(b) GRANT AUTHORITY.—For each project year of a [demonstration] project conducted under this title, the Secretary may make a grant to the qualified entity authorized to conduct the project. In making such a grant, the Secretary shall make the grant on the first day of the project year in an amount not to exceed the lesser of—

(1) * * *

* * * * * * *

SEC. 407. RESERVE FUND.

(a) * * *

(b) AMOUNTS IN RESERVE FUND.—

(1) IN GENERAL.—As soon after receipt as is practicable, a qualified entity shall deposit in the Reserve Fund established under subsection (a)—

(A) all funds provided to the qualified entity from any public or private source in connection with the [demonstration] project; and

* * * * * * *

(c) USE OF AMOUNTS IN THE RESERVE FUND.—

(1) IN GENERAL.—A qualified entity shall use the amounts in the Reserve Fund established under subsection (a) to—

(A) assist participants in the [demonstration] project in obtaining the skills (including economic literacy, budgeting, credit, and counseling skills) and information necessary to achieve economic self-sufficiency through activities requiring qualified expenses;

(B) provide deposits in accordance with section 410 for individuals selected by the qualified entity to participate in the [demonstration] project;

(C) administer the [demonstration] project; and

(D) provide the research organization evaluating the [demonstration] project under section 414 with such information with respect to the [demonstration] project as may be required for the evaluation.

* * * * * * *

(d) UNUSED FEDERAL GRANT FUNDS TRANSFERRED TO THE SECRETARY WHEN PROJECT TERMINATES.—Notwithstanding subsection (c), upon the termination of any [demonstration] project authorized under this section, the qualified entity conducting the project shall transfer to the Secretary an amount equal to—

(1) * * *

* * * * * * *

SEC. 408. ELIGIBILITY FOR PARTICIPATION.

(a) IN GENERAL.—Any individual who is a member of a household that is eligible for assistance under the State temporary assistance for needy families program established under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.), or that meets each of the following requirements shall be eligible to participate in a [demonstration] project conducted under this title:

(1) * * *

(2) NET WORTH TEST.—

(A) IN GENERAL.—The net worth of the household, as of the end of the calendar year preceding the determination of eligibility, does not exceed [$10,000] *$20,000*.

* * * * * * *

(b) INDIVIDUALS UNABLE TO COMPLETE THE PROJECT.—The Secretary shall establish such regulations as are necessary to ensure compliance with this title if an individual participating in the [demonstration] project moves from the community in which the project is conducted or is otherwise unable to continue participating in that project, including regulations prohibiting future eligibility to participate in any other [demonstration] project conducted under this title.

SEC. 409. SELECTION OF INDIVIDUALS TO PARTICIPATE.

From among the individuals eligible to participate in a [demonstration] project conducted under this title, each qualified entity shall select the individuals—

(1) that the qualified entity determines to be best suited to participate; and

(2) to whom the qualified entity will provide deposits in accordance with section 410.

SEC. 410. DEPOSITS BY QUALIFIED ENTITIES.

(a) * * *

* * * * * * *

[(b) LIMITATION ON DEPOSITS FOR AN INDIVIDUAL.—Not more than $2,000 from a grant made under section 406(b) shall be provided to any one individual over the course of the demonstration project.

[(c) LIMITATION ON DEPOSITS FOR A HOUSEHOLD.—Not more than $4,000 from a grant made under section 406(b) shall be provided to any one household over the course of the demonstration project.]

(b) LIMITATION ON DEPOSITS FOR AN INDIVIDUAL.—Not more than $500 from a grant made under section 406(b) shall be provided per year to any one individual during the project.

[(d)] *(c)* WITHDRAWAL OF FUNDS.—The Secretary shall establish such guidelines as may be necessary to ensure that funds held in an individual development account are not withdrawn, except for one or more qualified expenses, or for an emergency withdrawal. Such guidelines shall include a requirement that a responsible official of the qualified entity conducting a project approve a withdrawal from such an account in writing. The guidelines shall provide that no individual may withdraw funds from an individual development account earlier than 6 months after the date on which the individual first deposits funds in the account.

[(e)] *(d)* REIMBURSEMENT.—An individual shall reimburse an individual development account for any funds withdrawn from the account for an emergency withdrawal, not later than 12 months after the date of the withdrawal. If the individual fails to make the reimbursement, the qualified entity administering the account shall transfer the funds deposited into the account or a parallel account under this section to the Reserve Fund of the qualified entity, and use the funds to benefit other individuals participating in the [demonstration] project involved.

SEC. 411. LOCAL CONTROL OVER [DEMONSTRATION] PROJECTS.

A qualified entity under this title, other than a State or local government agency or a tribal government, shall, subject to the provisions of section 413, have sole authority over the administration of the project. The Secretary may prescribe only such regulations or guidelines with respect to [demonstration] projects conducted under this title as are necessary to ensure compliance with the approved applications and the requirements of this title.

SEC. 412. ANNUAL PROGRESS REPORTS.

(a) IN GENERAL.—Each qualified entity under this title shall prepare an annual report on the progress of the [demonstration] project. Each report shall include both program and participant information and shall specify for the period covered by the report the following information:

(1) * * *

* * * * * * *

(6) The savings account characteristics (such as threshold amounts and match rates) required to stimulate participation in the [demonstration] project, and how such characteristics vary among different populations or communities.

(7) What service configurations of the qualified entity (such as configurations relating to peer support, structured planning exercises, mentoring, and case management) increased the rate and consistency of participation in the [demonstration] project and how such configurations varied among different populations or communities.

(8) Such other information as the Secretary may require to evaluate the [demonstration] project.

(b) SUBMISSION OF REPORTS.—The qualified entity shall submit each report required to be prepared under subsection (a) to—

(1) the Secretary; and

(2) the Treasurer (or equivalent official) of the State in which the project is conducted, if the State or a local government or a tribal government committed funds to the [demonstration] project.

(c) TIMING.—The first report required by subsection (a) shall be submitted not later than 60 days after the end of the project year in which the Secretary authorized the qualified entity to conduct the [demonstration] project, and subsequent reports shall be submitted every 12 months thereafter, until the conclusion of the project.

SEC. 413. SANCTIONS.

(a) AUTHORITY TO TERMINATE [DEMONSTRATION] PROJECT.—If the Secretary determines that a qualified entity under this title is not operating a [demonstration] project in accordance with the entity's approved application under section 405 or the requirements of this title (and has not implemented any corrective recommendations directed by the Secretary), the Secretary shall terminate such entity's authority to conduct the [demonstration] project.

(b) ACTIONS REQUIRED UPON TERMINATION.—If the Secretary terminates the authority to conduct a [demonstration] project, the Secretary—

(1) shall suspend the [demonstration] project;

(2) shall take control of the Reserve Fund established pursuant to section 407;

(3) shall make every effort to identify another qualified entity (or entities) willing and able to conduct the project in accordance with the approved application (or, if modification is necessary to incorporate the recommendations, the application as modified) and the requirements of this title;

(4) shall, if the Secretary identifies an entity (or entities) described in paragraph (3)—

(A) * * *

* * * * * * *

(C) consider, for purposes of this title—

(i) such other entity (or entities) to be the qualified entity (or entities) originally authorized to conduct the [demonstration] project; and

* * * * * * *

SEC. 414. EVALUATIONS.

(a) IN GENERAL.—Not later than 10 months after the date of enactment of this title, the Secretary shall enter into a contract with an independent research organization to evaluate the [demonstra-

tion] projects conducted under this title, individually and as a group, including evaluating all qualified entities participating in and sources providing funds for the [demonstration] projects conducted under this title.

(b) FACTORS TO EVALUATE.—In evaluating any [demonstration] project conducted under this title, the research organization shall address the following factors:

(1) The effects of incentives and organizational or institutional support on savings behavior in the [demonstration] project.

(2) The savings rates of individuals in the [demonstration] project based on demographic characteristics including gender, age, family size, race or ethnic background, and income.

* * * * * * *

(6) The lessons to be learned from the [demonstration] projects conducted under this title and if a permanent program of individual development accounts should be established.

* * * * * * *

(c) METHODOLOGICAL REQUIREMENTS.—In evaluating any [demonstration] project conducted under this title, the research organization shall—

* * * * * * *

(d) REPORTS BY THE SECRETARY.—

(1) INTERIM REPORTS.—Not later than 90 days after the end of the project year in which the Secretary first authorizes a qualified entity to conduct a [demonstration] project under this title, and every 12 months thereafter until all [demonstration] projects conducted under this title are completed, the Secretary shall submit to Congress an interim report setting forth the results of the reports submitted pursuant to section 412(b).

(2) FINAL REPORTS.—Not later than 12 months after the conclusion of all [demonstration] projects conducted under this title, the Secretary shall submit to Congress a final report setting forth the results and findings of all reports and evaluations conducted pursuant to this title.

* * * * * * *

SEC. 416. AUTHORIZATION OF APPROPRIATIONS.

There is authorized to be appropriated to carry out this title, $25,000,000 for each of fiscal years 1999, 2000, [2001, 2002, and 2003] *and 2001, and $50,000,000 for each of fiscal years 2002 through 2008*, to remain available until expended.

* * * * * * *

VII. DISSENTING VIEWS

We support appropriate and meaningful tax incentives for charitable giving. We regret that earlier this year the Congressional Republican Leadership and the Bush Administration decided to enact a large tax reduction that reserved no resources for bipartisan tax priorities such as charitable giving incentives, energy tax provisions, extensions of expiring provisions, minimum tax relief and other priorities of the American people. The priorities of the Congressional Republican Leadership and the Bush Administration were different. They insisted on enacting tax legislation that puts the Medicare and Social Security surpluses at risk and that disproportionately benefits the wealthiest in our society.

As a result of the Bush tax cut, Congressional supporters of provisions such as charitable giving tax incentives face a difficult choice. They can choose to offset the cost of those incentives with other provisions, or they can place the Medicare and Social Security surpluses at risk to fund those benefits.

Congressman Rangel offered an amendment during the markup that would have offset the cost of the charitable giving tax incentives contained in the Committee's bill. The amendment would have reduced slightly the recently enacted reduction in the top marginal income tax rate, a rate that applies only to the wealthiest seven-tenths of one percent of individuals. Even with that amendment, those individuals still would receive a 4.1 percentage point reduction in their marginal rate, a larger marginal rate reduction than provided to most other individuals. Committee Republican rejected the amendment because, like earlier this year, they have different priorities.

Without Congressman Rangel's amendment, we believe that there is a substantial certainty that the tax reductions contained in the Committee bill will be funded, in part by raiding the Medicare and possibly the Social Security Trust Funds. As a result, we can not support the Committee bill.

Reflecting the Republican skittishness over the issue of raiding the Medicare Trust Fund, during the markup Chairman Thomas released a letter written by Congressman Nussle, the Chairman of the Budget Committee. The letter attempts to give comfort to the Republican members of the Committee. It states "on the basis of estimates released in May on the state of the economy, I am pleased to advise you that this bill, in its present form, will not effect the Medicare Hospital Trust Fund in fiscal year 2002." It goes on to state that there will be a surplus of $12.3 billion in fiscal 2002 outside the Medicare and Social Security Trust Funds.

We would suggest that Congressman Nussle's letter should give no comfort to his Republican colleagues for the following reasons.

1. Congressman Nussle only was willing to claim that the Medicare Trust Fund would not be raided in fiscal year 2002. The fact

that he failed to make that assertion for any other fiscal year speaks for itself.

2. Congressman Nussle's assertion that there will be a $12.3 billion surplus in fiscal year 2002 after protecting the Medicare Trust Fund is dubious for reasons discussed below. However, there would be absolutely no basis for that assertion if the Bush tax cut had not raided the Medicare Trust Fund in the current fiscal year (FY 2001) in an attempt to avoid a raid in fiscal year 2002.

The Bush tax cut contained a gimmick that shifted $32 billion in corporate estimated tax receipts from fiscal year 2001 to 2002. Without that shift in receipts, even under Congressman Nussle's analysis, there would have been a $20 billion raid on Medicare next year.

As a result of that gimmick, there will be at least a $20 billion raid on Medicare in the current fiscal year according to recent testimony of Mitchell Daniels, Director of the Office of Management and Budget. Indeed, according to his testimony, a raid on the Social Security Trust Fund in fiscal year 2001 will be avoided by only a very small amount.

Raiding Medicare in 2001 in a desperate attempt to avoid a raid in 2002 may give comfort to the Republicans, but it gives on comfort to us.

3. The assertion that there will be a $12 billion surplus next fiscal year outside of the Medicare system ignores the recent Administration request for $18.4 billion in additional defense spending for that year. Secretary Rumsfeld testified before the Senate Armed Services Committee that the extra $18.4 billion for fiscal 2002 would not be a one time request. He said that another $18 billion would be "needed" for fiscal year 2003 on top of continuing the $18.4 billion increase in fiscal 2002 just to stay even. None of those amounts would advance the defense modernization effort the Administration has promised.

4. The economic projections have deteriorated dramatically since the CBO May analysis relief on by Congressman Nussle in his letter. Lawrence B. Lindsey, the Director of the White House National Economic Council, and OMB Director Daniels both recently have indicated that there will be shortfall in tax receipts. They are not alone in suggesting the potential for unpleasant budget surprises from the current economic slowdown. William Dudley, Goldman-Sachs Research Director, has been quoted as stating that revenues would be as much as $75 billion below expectations, forcing a raid on the Medicare Trust Fund to balance this year's budget and putting next year's budget in the red if the downturn persists.

The economy has not weakened significantly since the May CBO projection, but the budget projections have. One has the impression that the tax bill was enacted with reckless haste in order to take advantage of the temporarily favorable budget projections.

Congresswoman Karen Thurman offered an amendment in Committee that would have made the Committee bill contingent on the availability of surpluses outside the Medicare and social Security systems. If the Republican members of the Committee believed Congressman Nussle's letter, they could have supported Mrs. Thurman's amendment without endangering the tax incentives for char-

itable giving. They voted no, an action that speaks louder than Congressman Nussle's letter.

We would have opposed the Committee bill because of the potential for raiding the Medicare Trust Fund even it had provided significant and meaningful tax incentives for charitable giving. However, the Committee bill does not accomplish its intended goal increasing charitable giving. Therefore, it is very easy for us to oppose it.

The Committee contains two provisions designed to encourage charitable giving by individuals, an above-the-line charitable deduction for nonitemizers and a provision permitting individual retirement account assets to be used for charitable purposes. The second provision will provide incentives only to a very narrow class of individuals, namely individuals who are over age 70 and have accumulations in individual retirement accounts not needed for retirement income.

The bill pretends to provide incentives for charitable giving by individuals who do not itemize their deductions. It does so by providing a deduction for charitable contributions in addition to the standard deduction. However, the size of the new deduction is so small (initially $25 for single individuals, $50 for married couples) that the provision will create no significant incentive for additional charitable contributions. During the markup the staff of the Joint Committee on Taxation made it clear that the new deduction would complicate the individual tax return and that there was little prospect that the Internal Revenue Service could effectively audit the new provision. One has the strong impression that the Committee bill is equivalent to a small increase in the standard deduction and it will result in little, if any, additional charitable contributions.

During markup, Democrats asked how this new tax cut—following last month's $1.35 trillion tax cut—would fit into a budget that would protect Social Security and Medicare, accommodate the policies in the Budget Resolution, and accommodate the President's new June defense spending request. Chairman Thomas explained that the ways and Means Committee should press ahead with a new tax cut because the Congressional budget process was a race. If other Committees weren't as quickly reporting legislation to use up budget surpluses, that was their problem.

Democrats do not agree with Chairman Thomas, nor we expect, do his Republican colleagues on the Appropriations and other Committees who do not agree that their priorities should be crowded out by Mr. Thomas's rush to report more tax cuts.

The purpose of the Congressional Budget is to have a sensible plan, not a race among Committees to use up budget surpluses. Formally, the Congressional Budget makes allocations among Committees and sets targets for revenues that are separate from spending limits. However, Chairman Thomas may be correct about how the Republican majority actually will administer the congressional Budget process. If so, his remarks validate earlier criticism from Democrats that Republican Congressional budgets have been publicity documents that are not enforced. In recent years, this Committee has been used to pump out one tax-cut bill after another no matter how large the cumulative total, and the Majority has voted overwhelmingly appropriations bills that busted their own budgets.

CHARLES B. RANGEL.
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KAREN L. THURMAN.
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