

1 “(D) PRO RATA ALLOCATION.—In the case
2 of amounts paid to any person which (but for
3 this subsection) are subject to the tax imposed
4 by subsection (a), a portion of which consists of
5 amounts described in subparagraph (A), this
6 paragraph shall apply on a pro rata basis only
7 to the portion which consists of amounts de-
8 scribed in such subparagraph.”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to amounts paid after the date of
11 the enactment of this Act.

12 **SEC. 13823. OPPORTUNITY ZONES.**

13 (a) IN GENERAL.—Chapter 1 is amended by adding
14 at the end the following:

15 **“Subchapter Z—Opportunity Zones**

 “Sec. 1400Z-1. Designation.

 “Sec. 1400Z-2. Special rules for capital gains invested in opportunity zones.

16 **“SEC. 1400Z-1. DESIGNATION.**

17 “(a) QUALIFIED OPPORTUNITY ZONE DEFINED.—
18 For the purposes of this subchapter, the term ‘qualified
19 opportunity zone’ means a population census tract that
20 is a low-income community that is designated as a quali-
21 fied opportunity zone.

22 “(b) DESIGNATION.—

23 “(1) IN GENERAL.—For purposes of subsection
24 (a), a population census tract that is a low-income

1 community is designated as a qualified opportunity
2 zone if—

3 “(A) not later than the end of the deter-
4 mination period, the chief executive officer of
5 the State in which the tract is located—

6 “(i) nominates the tract for designa-
7 tion as a qualified opportunity zone, and

8 “(ii) notifies the Secretary in writing
9 of such nomination, and

10 “(B) the Secretary certifies such nomina-
11 tion and designates such tract as a qualified op-
12 portunity zone before the end of the consider-
13 ation period.

14 “(2) EXTENSION OF PERIODS.—A chief execu-
15 tive officer of a State may request that the Sec-
16 retary extend either the determination or consider-
17 ation period, or both (determined without regard to
18 this subparagraph), for an additional 30 days.

19 “(c) OTHER DEFINITIONS.—For purposes of this
20 subsection—

21 “(1) LOW-INCOME COMMUNITIES.—The term
22 ‘low-income community’ has the same meaning as
23 when used in section 45D(e).

24 “(2) DEFINITION OF PERIODS.—

1 “(A) CONSIDERATION PERIOD.—The term
2 ‘consideration period’ means the 30-day period
3 beginning on the date on which the Secretary
4 receives notice under subsection (b)(1)(A)(ii),
5 as extended under subsection (b)(2).

6 “(B) DETERMINATION PERIOD.—The term
7 ‘determination period’ means the 90-day period
8 beginning on the date of the enactment of the
9 Tax Cuts and Jobs Act, as extended under sub-
10 section (b)(2).

11 “(3) STATE.—For purposes of this section, the
12 term ‘State’ includes any possession of the United
13 States.

14 “(d) NUMBER OF DESIGNATIONS.—

15 “(1) IN GENERAL.—Except as provided by
16 paragraph (2), the number of population census
17 tracts in a State that may be designated as qualified
18 opportunity zones under this section may not exceed
19 25 percent of the number of low-income communities
20 in the State.

21 “(2) EXCEPTION.—If the number of low-income
22 communities in a State is less than 100, then a total
23 of 25 of such tracts may be designated as qualified
24 opportunity zones.

1 “(e) DESIGNATION OF TRACTS CONTIGUOUS WITH
2 LOW-INCOME COMMUNITIES.—

3 “(1) IN GENERAL.—A population census tract
4 that is not a low-income community may be des-
5 ignated as a qualified opportunity zone under this
6 section if—

7 “(A) the tract is contiguous with the low-
8 income community that is designated as a
9 qualified opportunity zone, and

10 “(B) the median family income of the tract
11 does not exceed 125 percent of the median fam-
12 ily income of the low-income community with
13 which the tract is contiguous.

14 “(2) LIMITATION.—Not more than 5 percent of
15 the population census tracts designated in a State as
16 a qualified opportunity zone may be designated
17 under paragraph (1).

18 “(f) PERIOD FOR WHICH DESIGNATION IS IN EF-
19 FECT.—A designation as a qualified opportunity zone
20 shall remain in effect for the period beginning on the date
21 of the designation and ending at the close of the 10th cal-
22 endar year beginning on or after such date of designation.

23 **“SEC. 1400Z-2. SPECIAL RULES FOR CAPITAL GAINS IN-**
24 **VESTED IN OPPORTUNITY ZONES.**

25 “(a) IN GENERAL.—

1 “(1) TREATMENT OF GAINS.—In the case of
2 gain from the sale to, or exchange with, an unre-
3 lated person of any property held by the taxpayer,
4 at the election of the taxpayer—

5 “(A) gross income for the taxable year
6 shall not include so much of such gain as does
7 not exceed the aggregate amount invested by
8 the taxpayer in a qualified opportunity fund
9 during the 180-day period beginning on the
10 date of such sale or exchange,

11 “(B) the amount of gain excluded by sub-
12 paragraph (A) shall be included in gross income
13 as provided by subsection (b), and

14 “(C) subsection (c) shall apply.

15 “(2) ELECTION.—No election may be made
16 under paragraph (1)—

17 “(A) with respect to a sale or exchange if
18 an election previously made with respect to such
19 sale or exchange is in effect, or

20 “(B) with respect to any sale or exchange
21 after December 31, 2026.

22 “(b) DEFERRAL OF GAIN INVESTED IN OPPOR-
23 TUNITY ZONE PROPERTY.—

1 “(1) YEAR OF INCLUSION.—Gain to which sub-
2 section (a)(1)(B) applies shall be included in income
3 in the taxable year which includes the earlier of—

4 “(A) the date on which such investment is
5 sold or exchanged, or

6 “(B) December 31, 2026.

7 “(2) AMOUNT INCLUDIBLE.—

8 “(A) IN GENERAL.—The amount of gain
9 included in gross income under subsection
10 (a)(1)(A) shall be the excess of—

11 “(i) the lesser of the amount of gain
12 excluded under paragraph (1) or the fair
13 market value of the investment as deter-
14 mined as of the date described in para-
15 graph (1), over

16 “(ii) the taxpayer’s basis in the in-
17 vestment.

18 “(B) DETERMINATION OF BASIS.—

19 “(i) IN GENERAL.—Except as other-
20 wise provided in this clause or subsection
21 (c), the taxpayer’s basis in the investment
22 shall be zero.

23 “(ii) INCREASE FOR GAIN RECOG-
24 NIZED UNDER SUBSECTION (a)(1)(B).—
25 The basis in the investment shall be in-

1 creased by the amount of gain recognized
2 by reason of subsection (a)(1)(B) with re-
3 spect to such property.

4 “(iii) INVESTMENTS HELD FOR 5
5 YEARS.—In the case of any investment
6 held for at least 5 years, the basis of such
7 investment shall be increased by an
8 amount equal to 10 percent of the amount
9 of gain deferred by reason of subsection
10 (a)(1)(A).

11 “(iv) INVESTMENTS HELD FOR 7
12 YEARS.—In the case of any investment
13 held by the taxpayer for at least 7 years,
14 in addition to any adjustment made under
15 clause (iii), the basis of such property shall
16 be increased by an amount equal to 5 per-
17 cent of the amount of gain deferred by rea-
18 son of subsection (a)(1)(A).

19 “(c) SPECIAL RULE FOR INVESTMENTS HELD FOR
20 AT LEAST 10 YEARS.—In the case of any investment held
21 by the taxpayer for at least 10 years and with respect to
22 which the taxpayer makes an election under this clause,
23 the basis of such property shall be equal to the fair market
24 value of such investment on the date that the investment
25 is sold or exchanged.

1 “(d) QUALIFIED OPPORTUNITY FUND.—For pur-
2 poses of this section—

3 “(1) IN GENERAL.—The term ‘qualified oppor-
4 tunity fund’ means any investment vehicle which is
5 organized as a corporation or a partnership for the
6 purpose of investing in qualified opportunity zone
7 property (other than another qualified opportunity
8 fund) that holds at least 90 percent of its assets in
9 qualified opportunity zone property, determined by
10 the average of the percentage of qualified oppor-
11 tunity zone property held in the fund as measured—

12 “(A) on the last day of the first 6-month
13 period of the taxable year of the fund, and

14 “(B) on the last day of the taxable year of
15 the fund.

16 “(2) QUALIFIED OPPORTUNITY ZONE PROP-
17 erty.—

18 “(A) IN GENERAL.—The term ‘qualified
19 opportunity zone property’ means property
20 which is—

21 “(i) qualified opportunity zone stock,

22 “(ii) qualified opportunity zone part-
23 nership interest, or

24 “(iii) qualified opportunity zone busi-
25 ness property.

1 “(B) QUALIFIED OPPORTUNITY ZONE
2 STOCK.—

3 “(i) IN GENERAL.—Except as pro-
4 vided in clause (ii), the term ‘qualified op-
5 portunity zone stock’ means any stock in a
6 domestic corporation if—

7 “(I) such stock is acquired by the
8 qualified opportunity fund after De-
9 cember 31, 2017, at its original issue
10 (directly or through an underwriter)
11 from the corporation solely in ex-
12 change for cash,

13 “(II) as of the time such stock
14 was issued, such corporation was a
15 qualified opportunity zone business
16 (or, in the case of a new corporation,
17 such corporation was being organized
18 for purposes of being a qualified op-
19 portunity zone business), and

20 “(III) during substantially all of
21 the qualified opportunity fund’s hold-
22 ing period for such stock, such cor-
23 poration qualified as a qualified op-
24 portunity zone business.

1 “(ii) REDEMPTIONS.—A rule similar
2 to the rule of section 1202(c)(3) shall
3 apply for purposes of this paragraph.

4 “(C) QUALIFIED OPPORTUNITY ZONE
5 PARTNERSHIP INTEREST.—The term ‘qualified
6 opportunity zone partnership interest’ means
7 any capital or profits interest in a domestic
8 partnership if—

9 “(i) such interest is acquired by the
10 qualified opportunity fund after December
11 31, 2017, from the partnership solely in
12 exchange for cash,

13 “(ii) as of the time such interest was
14 acquired, such partnership was a qualified
15 opportunity zone business (or, in the case
16 of a new partnership, such partnership was
17 being organized for purposes of being a
18 qualified opportunity zone business), and

19 “(iii) during substantially all of the
20 qualified opportunity fund’s holding period
21 for such interest, such partnership quali-
22 fied as a qualified opportunity zone busi-
23 ness.

24 “(D) QUALIFIED OPPORTUNITY ZONE
25 BUSINESS PROPERTY.—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied opportunity zone business property’
3 means tangible property used in a trade or
4 business of the qualified opportunity fund
5 if—

6 “(I) such property was acquired
7 by the qualified opportunity fund by
8 purchase (as defined in section
9 179(d)(2)) after December 31, 2017,

10 “(II) the original use of such
11 property in the qualified opportunity
12 zone commences with the qualified op-
13 portunity fund or the qualified oppor-
14 tunity fund substantially improves the
15 property, and

16 “(III) during substantially all of
17 the qualified opportunity fund’s hold-
18 ing period for such property, substan-
19 tially all of the use of such property
20 was in a qualified opportunity zone.

21 “(ii) SUBSTANTIAL IMPROVEMENT.—
22 For purposes of subparagraph (A)(ii),
23 property shall be treated as substantially
24 improved by the qualified opportunity fund
25 only if, during any 30-month period begin-

1 ning after the date of acquisition of such
2 property, additions to basis with respect to
3 such property in the hands of the qualified
4 opportunity fund exceed an amount equal
5 to the adjusted basis of such property at
6 the beginning of such 30-month period in
7 the hands of the qualified opportunity
8 fund.

9 “(iii) RELATED PARTY.—For pur-
10 poses of subparagraph (A)(i), the related
11 person rule of section 179(d)(2) shall be
12 applied pursuant to paragraph (8) of this
13 subsection in lieu of the application of such
14 rule in section 179(d)(2)(A).

15 “(3) QUALIFIED OPPORTUNITY ZONE BUSI-
16 NESS.—

17 “(A) IN GENERAL.—The term ‘qualified
18 opportunity zone business’ means a trade or
19 business—

20 “(i) in which substantially all of the
21 tangible property owned or leased by the
22 taxpayer is qualified opportunity zone busi-
23 ness property (determined by substituting
24 ‘qualified opportunity zone business’ for

1 ‘qualified opportunity fund’ each place it
2 appears in paragraph (2)(D)),

3 “(ii) which satisfies the requirements
4 of paragraphs (2), (4), and (8) of section
5 1397C(b), and

6 “(iii) which is not described in section
7 144(c)(6)(B).

8 “(B) SPECIAL RULE.—For purposes of
9 subparagraph (A), tangible property that ceases
10 to be a qualified opportunity zone business
11 property shall continue to be treated as a quali-
12 fied opportunity zone business property for the
13 lesser of—

14 “(i) 5 years after the date on which
15 such tangible property ceases to be so
16 qualified, or

17 “(ii) the date on which such tangible
18 property is no longer held by the qualified
19 opportunity zone business.

20 “(e) APPLICABLE RULES.—

21 “(1) TREATMENT OF INVESTMENTS WITH
22 MIXED FUNDS.—In the case of any investment in a
23 qualified opportunity fund only a portion of which
24 consists of investments of gain to which an election
25 under subsection (a) is in effect—

1 “(A) such investment shall be treated as 2
2 separate investments, consisting of—

3 “(i) one investment that only includes
4 amounts to which the election under sub-
5 section (a) applies, and

6 “(ii) a separate investment consisting
7 of other amounts, and

8 “(B) subsections (a), (b), and (c) shall
9 only apply to the investment described in sub-
10 paragraph (A)(i).

11 “(2) RELATED PERSONS.—For purposes of this
12 section, persons are related to each other if such
13 persons are described in section 267(b) or 707(b)(1),
14 determined by substituting ‘20 percent’ for ‘50 per-
15 cent’ each place it occurs in such sections.

16 “(3) DECEDENTS.—In the case of a decedent,
17 amounts recognized under this section shall, if not
18 properly includible in the gross income of the dece-
19 dent, be includible in gross income as provided by
20 section 691.

21 “(4) REGULATIONS.—The Secretary shall pre-
22 scribe such regulations as may be necessary or ap-
23 propriate to carry out the purposes of this section,
24 including—

1 “(A) rules for the certification of qualified
2 opportunity funds for the purposes of this sec-
3 tion,

4 “(B) rules to ensure a qualified oppor-
5 tunity fund has a reasonable period of time to
6 reinvest the return of capital from investments
7 in qualified opportunity zone stock and quali-
8 fied opportunity zone partnership interests, and
9 to reinvest proceeds received from the sale or
10 disposition of qualified opportunity zone prop-
11 erty, and

12 “(C) rules to prevent abuse.

13 “(f) FAILURE OF QUALIFIED OPPORTUNITY FUND
14 TO MAINTAIN INVESTMENT STANDARD.—

15 “(1) IN GENERAL.—If a qualified opportunity
16 fund fails to meet the 90-percent requirement of
17 subsection (c)(1), the qualified opportunity fund
18 shall pay a penalty for each month it fails to meet
19 the requirement in an amount equal to the product
20 of—

21 “(A) the excess of—

22 “(i) the amount equal to 90 percent of
23 its aggregate assets, over

1 “(ii) the aggregate amount of quali-
2 fied opportunity zone property held by the
3 fund, multiplied by

4 “(B) the underpayment rate established
5 under section 6621(a)(2) for such month.

6 “(2) SPECIAL RULE FOR PARTNERSHIPS.—In
7 the case that the qualified opportunity fund is a
8 partnership, the penalty imposed by paragraph (1)
9 shall be taken into account proportionately as part
10 of the distributive share of each partner of the part-
11 nership.

12 “(3) REASONABLE CAUSE EXCEPTION.—No
13 penalty shall be imposed under this subsection with
14 respect to any failure if it is shown that such failure
15 is due to reasonable cause.”.

16 (b) BASIS ADJUSTMENTS.—Section 1016(a) is
17 amended by striking “and” at the end of paragraph (36),
18 by striking the period at the end of paragraph (37) and
19 inserting “, and”, and by inserting after paragraph (37)
20 the following:

21 “(38) to the extent provided in subsections
22 (b)(2) and (c) of section 1400Z-2.”.

23 (c) CLERICAL AMENDMENT.—The table of sub-
24 chapters for chapter 1 is amended by adding at the end
25 the following new item:

“SUBCHAPTER Z. OPPORTUNITY ZONES”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect on the date of the enactment
3 of this Act.

4 **Subtitle D—International Tax** 5 **Provisions**

6 **PART I—OUTBOUND TRANSACTIONS**

7 **Subpart A—Establishment of Participation**

8 **Exemption System for Taxation of Foreign Income**

9 **SEC. 14101. DEDUCTION FOR FOREIGN-SOURCE PORTION** 10 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-** 11 **PORATIONS FROM SPECIFIED 10-PERCENT** 12 **OWNED FOREIGN CORPORATIONS.**

13 (a) IN GENERAL.—Part VIII of subchapter B of
14 chapter 1 is amended by inserting after section 245 the
15 following new section:

16 **“SEC. 245A. DEDUCTION FOR FOREIGN SOURCE-PORION** 17 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-** 18 **PORATIONS FROM SPECIFIED 10-PERCENT** 19 **OWNED FOREIGN CORPORATIONS.**

20 “(a) IN GENERAL.—In the case of any dividend re-
21 ceived from a specified 10-percent owned foreign corpora-
22 tion by a domestic corporation which is a United States
23 shareholder with respect to such foreign corporation, there
24 shall be allowed as a deduction an amount equal to the
25 foreign-source portion of such dividend.