

1 and (b) shall apply to returns filed after July 25,
2 2006.

3 **SEC. 1220. ADDITIONAL STANDARDS FOR CREDIT COUN-**
4 **SELING ORGANIZATIONS.**

5 (a) IN GENERAL.—Section 501 (relating to exemp-
6 tion from tax on corporations, certain trusts, etc.) is
7 amended by redesignating subsection (q) as subsection (r)
8 and by inserting after subsection (p) the following new
9 subsection:

10 “(q) SPECIAL RULES FOR CREDIT COUNSELING OR-
11 GANIZATIONS.—

12 “(1) IN GENERAL.—An organization with re-
13 spect to which the provision of credit counseling
14 services is a substantial purpose shall not be exempt
15 from tax under subsection (a) unless such organiza-
16 tion is described in paragraph (3) or (4) of sub-
17 section (c) and such organization is organized and
18 operated in accordance with the following require-
19 ments:

20 “(A) The organization—

21 “(i) provides credit counseling services
22 tailored to the specific needs and cir-
23 cumstances of consumers,

24 “(ii) makes no loans to debtors (other
25 than loans with no fees or interest) and

1 does not negotiate the making of loans on
2 behalf of debtors,

3 “(iii) provides services for the purpose
4 of improving a consumer’s credit record,
5 credit history, or credit rating only to the
6 extent that such services are incidental to
7 providing credit counseling services, and

8 “(iv) does not charge any separately
9 stated fee for services for the purpose of
10 improving any consumer’s credit record,
11 credit history, or credit rating.

12 “(B) The organization does not refuse to
13 provide credit counseling services to a consumer
14 due to the inability of the consumer to pay, the
15 ineligibility of the consumer for debt manage-
16 ment plan enrollment, or the unwillingness of
17 the consumer to enroll in a debt management
18 plan.

19 “(C) The organization establishes and im-
20 plements a fee policy which—

21 “(i) requires that any fees charged to
22 a consumer for services are reasonable,

23 “(ii) allows for the waiver of fees if
24 the consumer is unable to pay, and

1 “(iii) except to the extent allowed by
2 State law, prohibits charging any fee based
3 in whole or in part on a percentage of the
4 consumer’s debt, the consumer’s payments
5 to be made pursuant to a debt manage-
6 ment plan, or the projected or actual sav-
7 ings to the consumer resulting from enroll-
8 ing in a debt management plan.

9 “(D) At all times the organization has a
10 board of directors or other governing body—

11 “(i) which is controlled by persons
12 who represent the broad interests of the
13 public, such as public officials acting in
14 their capacities as such, persons having
15 special knowledge or expertise in credit or
16 financial education, and community lead-
17 ers,

18 “(ii) not more than 20 percent of the
19 voting power of which is vested in persons
20 who are employed by the organization or
21 who will benefit financially, directly or in-
22 directly, from the organization’s activities
23 (other than through the receipt of reason-
24 able directors’ fees or the repayment of
25 consumer debt to creditors other than the

1 credit counseling organization or its affili-
2 ates), and

3 “(iii) not more than 49 percent of the
4 voting power of which is vested in persons
5 who are employed by the organization or
6 who will benefit financially, directly or in-
7 directly, from the organization’s activities
8 (other than through the receipt of reason-
9 able directors’ fees).

10 “(E) The organization does not own more
11 than 35 percent of—

12 “(i) the total combined voting power
13 of any corporation (other than a corpora-
14 tion which is an organization described in
15 subsection (c)(3) and exempt from tax
16 under subsection (a)) which is in the trade
17 or business of lending money, repairing
18 credit, or providing debt management plan
19 services, payment processing, or similar
20 services,

21 “(ii) the profits interest of any part-
22 nership (other than a partnership which is
23 an organization described in subsection
24 (c)(3) and exempt from tax under sub-
25 section (a)) which is in the trade or busi-

1 ness of lending money, repairing credit, or
2 providing debt management plan services,
3 payment processing, or similar services,
4 and

5 “(iii) the beneficial interest of any
6 trust or estate (other than a trust which is
7 an organization described in subsection
8 (c)(3) and exempt from tax under sub-
9 section (a)) which is in the trade or busi-
10 ness of lending money, repairing credit, or
11 providing debt management plan services,
12 payment processing, or similar services.

13 “(F) The organization receives no amount
14 for providing referrals to others for debt man-
15 agement plan services, and pays no amount to
16 others for obtaining referrals of consumers.

17 “(2) ADDITIONAL REQUIREMENTS FOR ORGANI-
18 ZATIONS DESCRIBED IN SUBSECTION (c)(3).—

19 “(A) IN GENERAL.—In addition to the re-
20 quirements under paragraph (1), an organiza-
21 tion with respect to which the provision of cred-
22 it counseling services is a substantial purpose
23 and which is described in paragraph (3) of sub-
24 section (c) shall not be exempt from tax under
25 subsection (a) unless such organization is orga-

1 nized and operated in accordance with the fol-
2 lowing requirements:

3 “(i) The organization does not solicit
4 contributions from consumers during the
5 initial counseling process or while the con-
6 sumer is receiving services from the orga-
7 nization.

8 “(ii) The aggregate revenues of the
9 organization which are from payments of
10 creditors of consumers of the organization
11 and which are attributable to debt manage-
12 ment plan services do not exceed the appli-
13 cable percentage of the total revenues of
14 the organization.

15 “(B) APPLICABLE PERCENTAGE.—

16 “(i) IN GENERAL.—For purposes of
17 subparagraph (A)(ii), the applicable per-
18 centage is 50 percent.

19 “(ii) TRANSITION RULE.—Notwith-
20 standing clause (i), in the case of an orga-
21 nization with respect to which the provi-
22 sion of credit counseling services is a sub-
23 stantial purpose and which is described in
24 paragraph (3) of subsection (c) and ex-
25 empt from tax under subsection (a) on the

1 date of the enactment of this subsection,
2 the applicable percentage is—

3 “(I) 80 percent for the first tax-
4 able year of such organization begin-
5 ning after the date which is 1 year
6 after the date of the enactment of this
7 subsection, and

8 “(II) 70 percent for the second
9 such taxable year beginning after such
10 date, and

11 “(III) 60 percent for the third
12 such taxable year beginning after such
13 date.

14 “(3) ADDITIONAL REQUIREMENT FOR ORGANI-
15 ZATIONS DESCRIBED IN SUBSECTION (c)(4).—In ad-
16 dition to the requirements under paragraph (1), an
17 organization with respect to which the provision of
18 credit counseling services is a substantial purpose
19 and which is described in paragraph (4) of sub-
20 section (c) shall not be exempt from tax under sub-
21 section (a) unless such organization notifies the Sec-
22 retary, in such manner as the Secretary may by reg-
23 ulations prescribe, that it is applying for recognition
24 as a credit counseling organization.

1 “(4) CREDIT COUNSELING SERVICES; DEBT
2 MANAGEMENT PLAN SERVICES.—For purposes of
3 this subsection—

4 “(A) CREDIT COUNSELING SERVICES.—
5 The term ‘credit counseling services’ means—

6 “(i) the providing of educational infor-
7 mation to the general public on budgeting,
8 personal finance, financial literacy, saving
9 and spending practices, and the sound use
10 of consumer credit,

11 “(ii) the assisting of individuals and
12 families with financial problems by pro-
13 viding them with counseling, or

14 “(iii) a combination of the activities
15 described in clauses (i) and (ii).

16 “(B) DEBT MANAGEMENT PLAN SERV-
17 ICES.—The term ‘debt management plan serv-
18 ices’ means services related to the repayment,
19 consolidation, or restructuring of a consumer’s
20 debt, and includes the negotiation with creditors
21 of lower interest rates, the waiver or reduction
22 of fees, and the marketing and processing of
23 debt management plans.”.

24 (b) DEBT MANAGEMENT PLAN SERVICES TREATED
25 AS AN UNRELATED BUSINESS.—Section 513 (relating to

1 unrelated trade or business) is amended by adding at the
2 end the following:

3 “(j) DEBT MANAGEMENT PLAN SERVICES.—The
4 term ‘unrelated trade or business’ includes the provision
5 of debt management plan services (as defined in section
6 501(q)(4)(B)) by any organization other than an organiza-
7 tion which meets the requirements of section 501(q).”.

8 (c) EFFECTIVE DATE.—

9 (1) IN GENERAL.—Except as provided in para-
10 graph (2), the amendments made by this section
11 shall apply to taxable years beginning after the date
12 of the enactment of this Act.

13 (2) TRANSITION RULE FOR EXISTING ORGANI-
14 ZATIONS.—In the case of any organization described
15 in paragraph (3) or (4) section 501(c) of the Inter-
16 nal Revenue Code of 1986 and with respect to which
17 the provision of credit counseling services is a sub-
18 stantial purpose on the date of the enactment of this
19 Act, the amendments made by this section shall
20 apply to taxable years beginning after the date
21 which is 1 year after the date of the enactment of
22 this Act.

23 **SEC. 1221. EXPANSION OF THE BASE OF TAX ON PRIVATE**
24 **FOUNDATION NET INVESTMENT INCOME.**

25 (a) GROSS INVESTMENT INCOME.—