

105TH CONGRESS  
1ST SESSION

# H. R. 522

To amend the Internal Revenue Code of 1986 to permit the issuance of tax-exempt bonds for the economic development of distressed communities.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1997

Mr. COYNE introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to permit the issuance of tax-exempt bonds for the economic development of distressed communities.

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

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Economic Revitaliza-  
5       tion Act of 1997”.

6       **SEC. 2. DISTRESSED COMMUNITY ECONOMIC DEVELOP-**  
7       **MENT BONDS.**

8       (a) IN GENERAL.—Paragraph (1) of section 141(e)  
9       of the Internal Revenue Code of 1986 (defining qualified

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1 bond) is amended by striking “or” at the end of subpara-  
 2 graph (F), by striking the period at the end of subpara-  
 3 graph (G) and inserting “, or”, and by adding at the end  
 4 thereof the following new subparagraph:

5                   “(H) a distressed community economic de-  
 6                   velopment bond.”

7           (b) DISTRESSED COMMUNITY ECONOMIC DEVELOP-  
 8   MENT BOND DEFINED.—

9           (1) IN GENERAL.—Section 144 of such Code is  
 10       amended by adding at the end thereof the following  
 11       new subsection:

12       “(d) DISTRESSED COMMUNITY ECONOMIC DEVELOP-  
 13   MENT BOND.—For purposes of this subpart—

14           “(1) IN GENERAL.—The term ‘distressed com-  
 15       munity economic development bond’ means any bond  
 16       issued as part of an issue 95 percent or more of the  
 17       net proceeds of which are to be used for distressed  
 18       community economic development purposes.

19           “(2) DISTRESSED COMMUNITY ECONOMIC DE-  
 20   VELOPMENT PURPOSES.—For purposes of this sub-  
 21   section, the net proceeds of any issue shall be treat-  
 22   ed as used for distressed community economic devel-  
 23   opment purposes to the extent such proceeds are  
 24   used—

1           “(A) to provide qualified economic develop-  
2           ment facilities or land which is functionally re-  
3           lated and subordinate to such facilities, or

4           “(B) to provide working capital required in  
5           connection with the establishment of a qualified  
6           business in a distressed community or the ex-  
7           pansion of such a business in such a commu-  
8           nity.

9           “(3) QUALIFIED ECONOMIC DEVELOPMENT FA-  
10          CILITIES.—For purposes of this subsection, the term  
11          ‘qualified economic development facilities’ means any  
12          property to which section 168 applies (or would  
13          apply but for section 179) if—

14               “(A) such property was acquired by pur-  
15               chase (as defined in section 179(d)(2)) after the  
16               date on which the designation of the distressed  
17               community took effect,

18               “(B) the original use of which in the dis-  
19               tressed community commences with the person  
20               to whom the financing is provided under the  
21               issue, and

22               “(C) substantially all the use of which is in  
23               a distressed community and in the active con-  
24               duct of a qualified business.

1 For purposes of the preceding sentence, rules similar  
2 to the rules of subsections (a)(2) and (b) of section  
3 1397C shall apply.

4 “(4) QUALIFIED BUSINESS.—For purposes of  
5 this subsection—

6 “(A) IN GENERAL.—Except as otherwise  
7 provided in this paragraph, the term ‘qualified  
8 business’ means any trade or business.

9 “(B) RENTAL OF REAL PROPERTY.—The  
10 rental of any building or structure located in a  
11 distressed community shall be treated as a  
12 qualified business if and only if—

13 “(i) the property is not residential  
14 rental property (as defined in section  
15 168(e)(2), and

16 “(ii) at least 50 percent of the gross  
17 rental income from the building or struc-  
18 ture is from other qualified businesses in  
19 such community.

20 “(C) RENTAL OF TANGIBLE PERSONAL  
21 PROPERTY.—The rental of tangible personal  
22 property shall be treated as a qualified business  
23 if and only if substantially all of the rental of  
24 such property is by qualified businesses in the

1 distressed community or by individual residents  
2 of the distressed community.

3 “(D) TREATMENT OF BUSINESS HOLDING  
4 INTANGIBLES.—The term ‘qualified business’  
5 shall not include any trade or business consist-  
6 ing predominantly of the development or hold-  
7 ing of intangibles for sale or license.

8 “(E) CERTAIN BUSINESSES EXCLUDED.—  
9 The term ‘qualified business’ shall not include  
10 any trade or business consisting of—

11 “(i) the operation of any facility de-  
12 scribed in subsection (c)(6)(B), or

13 “(ii) operating a trade or business the  
14 principal activity of which is farming  
15 (within the meaning of subparagraph (A)  
16 or (B) of section 2032A(e)(5)), but only if,  
17 as of the close of the preceding taxable  
18 year, the sum of the following exceeds  
19 \$500,000—

20 “(I) the aggregate unadjusted  
21 bases (or, if greater, the fair market  
22 value) of the assets owned by the tax-  
23 payer and used in such trade or busi-  
24 ness, and

1 “(II) the aggregate value of the  
2 assets leased by the taxpayer and  
3 used in such trade or business.

4 For purposes of subclause (II), rules simi-  
5 lar to the rules of section 1397(b) shall  
6 apply.

7 “(5) DISTRESSED COMMUNITY.—For purposes  
8 of this subsection, the term ‘distressed community’  
9 means, with respect to periods in any calendar year,  
10 any area—

11 “(A) which is the area over which a gen-  
12 eral purpose local governmental unit has juris-  
13 diction and which is designated for purposes of  
14 this subsection by the governing body of such  
15 unit, and

16 “(B) which (as of the beginning of such  
17 year) meets the requirements of clause (i), (ii),  
18 or (iii) of this subparagraph:

19 “(i) CHRONIC ECONOMIC DISTRESS.—  
20 An area meets the requirements of this  
21 clause if—

22 “(I) the area has experienced  
23 population loss (as determined by the  
24 1990 or subsequent census data) of  
25 not less than 5 percent, or

1 “(II) the area has experienced an  
2 average unemployment rate over the  
3 last 5 years (as determined by the  
4 Bureau of Labor Statistics) of not  
5 less than 8 percent.

6 “(ii) SLOW JOB GROWTH.—An area  
7 meets the requirements of this clause if,  
8 over the last 5 years—

9 “(I) the area has experienced job  
10 growth in the retail and manufactur-  
11 ing sectors of less than 3 percent, or

12 “(II) if data are available only  
13 for the manufacturing sector, the  
14 community has experienced no job  
15 growth in such sector, or if data are  
16 available only for the retail sector, the  
17 area has experienced job growth in  
18 such sector of less than 8.5 percent.

19 “(iii) MAJOR BASE CLOSING.—An  
20 area meets the requirements of this clause  
21 if—

22 “(I) there has been a military  
23 base closing within its boundaries or  
24 adjacent thereto within the last 2

1 years which has resulted, or will re-  
2 sult, in the loss of not less than 500  
3 jobs, or

4 “(II) there has been an official  
5 notification of a military base closing  
6 within its boundaries or adjacent  
7 thereto within the next 6 months,  
8 which will result in the loss of not less  
9 than 500 jobs.

10 “(6) PROHIBITION OF ASSISTANCE FOR BUSI-  
11 NESS RELOCATIONS.—

12 “(A) IN GENERAL.—This subsection shall  
13 not apply to any bonds issued as part of an  
14 issue if any of the proceeds of such an issue are  
15 used to assist any establishment in relocating  
16 from an area outside the distressed community  
17 to the distressed community.

18 “(B) EXCEPTION.—The limitation estab-  
19 lished in subparagraph (A) shall not be con-  
20 strued to prohibit assistance for the expansion  
21 of an existing business entity through the estab-  
22 lishment of a new branch affiliate, or subsidiary  
23 if—



1 “(i) the establishment of the new  
 2 branch, affiliate, or subsidiary will not re-  
 3 sult in a decrease in employment in the  
 4 area of original location or in any other  
 5 area where the existing business entity  
 6 conducts business operations, and

7 “(ii) there is no reason to believe that  
 8 the new branch, affiliate, or subsidiary is  
 9 being established with the intention of clos-  
 10 ing down the operations of the existing  
 11 business entity in the area of its original  
 12 location or in any other area where the ex-  
 13 isting business entity conducts business op-  
 14 erations.”

15 (2) CLERICAL AMENDMENTS.—

16 (A) The section heading for section 144 is  
 17 amended by striking “**QUALIFIED REDEVEL-**  
 18 **OPMENT BOND.**” and inserting “**ETC.**”.

19 (B) The table of sections for subpart A of  
 20 part IV of subchapter B of chapter 1 is amend-  
 21 ed by striking “qualified redevelopment bond.”  
 22 in the item relating to section 144 and inserting  
 23 “etc.”.

24 (c) CERTAIN RULES NOT TO APPLY.—

1           (1) Subsection (h) of section 147 of such Code  
 2           (relating to certain rules which do not apply) is  
 3           amended by adding at the end thereof the following  
 4           new paragraph:

5           “(3) BONDS FOR DISTRESSED COMMUNITY ECO-  
 6           NOMIC DEVELOPMENT FACILITIES.—Subsection  
 7           (c)(1)(A) shall be applied by substituting ‘50 per-  
 8           cent’ for ‘25 percent’ and subsection (d) shall not  
 9           apply to any bond issued as part of an issue de-  
 10          scribed in section 144(d)(1).”

11          (2) The subsection heading for subsection (h) of  
 12          section 147 of such Code is amended to read as fol-  
 13          lows:

14          “(h) SPECIAL RULES FOR CERTAIN BONDS.—”.

15          (d) VOLUME CAP ONLY CHARGED WITH 50 PER-  
 16          CENT OF DISTRESSED COMMUNITY ECONOMIC DEVELOP-  
 17          MENT BONDS.—Subsection (g) of section 146 of such  
 18          Code (relating to an exception for certain bonds from vol-  
 19          ume cap) is amended by striking “and” at the end of para-  
 20          graph (3), by striking the period at the end of paragraph  
 21          (4) and inserting “, and”, and by inserting after para-  
 22          graph (4) the following new paragraph:

23                 “(5) 50 percent of any bond issued as part of  
 24                 an issue described in section 144(d)(1) (relating to

1 distressed community economic development facili-  
2 ties).”

3 (e) PENALTIES FOR LOANS MADE TO BUSINESSES  
4 THAT CEASE TO BE DISTRESSED COMMUNITY ECONOMIC  
5 DEVELOPMENT BUSINESSES, ETC.—Subsection (b) of  
6 section 150 of such Code (relating to change in use) is  
7 amended by adding at the end thereof the following new  
8 paragraph:

9 “(7) DISTRESSED COMMUNITY ECONOMIC DE-  
10 VELOPMENT BONDS.—In the case of any qualified  
11 economic development facility with respect to which  
12 financing was provided by an issue described in sec-  
13 tion 144(d)(1):

14 “(A) NO DEDUCTION ALLOWED.—No de-  
15 duction shall be allowed under this chapter for  
16 interest on such financing which accrues during  
17 the period beginning on the first day of the cal-  
18 endar year which includes the date on which—

19 “(i) the trade or business to which the  
20 financing was provided ceases to be a  
21 qualified business, or

22 “(ii) substantially all of the use of  
23 such facility with respect to which the fi-  
24 nancing was provided ceases to be in a dis-  
25 tressed community.

For purposes of this subparagraph, the term ‘distressed community’ means any area which qualifies as a distressed community under section 144(d)(5) as of the time the financing was provided without regard to any subsequent revocation or termination.

“(B) PENALTY IMPOSED ON DISTRESSED COMMUNITY ECONOMIC DEVELOPMENT BUSINESS.—If at any time while such financing is outstanding—

“(i) such facility ceases to be in use in a qualified business, or

“(ii) substantially all of the use of such facility ceases to be in a distressed community (as so defined),

there is hereby imposed on such business to which such financing was provided a penalty equal to 1.25 percent of the portion of such financing which is outstanding immediately before such cessation. Such penalty shall be assessed and collected by the Secretary.

“(C) EXCEPTION FOR BANKRUPTCY.—Subparagraphs (A) and (B) shall not apply to any cessation resulting from bankruptcy.”

(f) BANK INTEREST DEDUCTION.—

1           (1) IN GENERAL.—Clause (ii) of section  
2           265(b)(3)(B) of such Code (relating to exception for  
3           certain tax-exempt obligations) is amended—

4                   (A) by striking “or” at the end of sub-  
5           clause (I),

6                   (B) by redesignating subclause (II) as sub-  
7           clause (III), and

8                   (C) by inserting after subclause (I) the fol-  
9           lowing new subclause:

10                           “(II) any bond issued as part of  
11                           an issue described in section  
12                           144(d)(1), or”.

13           (2) CONFORMING AGREEMENT.—Subclause (I)  
14           of section 265(b)(3)(B)(i) of such Code (defining  
15           qualified tax-exempt obligation) is amended by in-  
16           serting “or is an obligation issued as part of an  
17           issue described in section 144(d)(1)” after “issuer”.

18           (g) EFFECTIVE DATE.—The amendments made by  
19           this section shall apply to bonds issued after the date of  
20           the enactment of this Act.

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