

106TH CONGRESS
1ST SESSION

S. 1859

To amend the Internal Revenue Code of 1986 to provide a tax credit to taxpayers investing in economically distressed rural communities, and for other purposes.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 4, 1999

Mr. GRAMS introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide a tax credit to taxpayers investing in economically distressed rural communities, and for other purposes.

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 “Rural Revitalization
5 Act of 1999”.

6 **SEC. 2. RURAL REVITALIZATION TAX CREDIT.**

7 (a) IN GENERAL.—Subpart D of part IV of sub-
8 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 (relating to business-related credits) is amended by
 2 adding at the end the following new section:

3 **“SEC. 45D. RURAL REVITALIZATION TAX CREDIT.**

4 “(a) ALLOWANCE OF CREDIT.—

5 “(1) IN GENERAL.—For purposes of section 38,
 6 the rural revitalization tax credit determined under
 7 this section with respect to taxpayer for a taxable
 8 year is an amount equal to the sum of—

9 “(A) the development credit, and

10 “(B) the wage credit.

11 “(2) CREDITS.—For purposes of paragraph
 12 (1)—

13 “(A) DEVELOPMENT CREDIT.—The term
 14 ‘development credit’ means, in the case of a
 15 taxpayer who holds a qualified equity invest-
 16 ment on a credit allowance date of such invest-
 17 ment which occurs during the taxable year, 6
 18 percent of the amount paid to the qualified
 19 community development entity for such invest-
 20 ment at its original issue.

21 “(B) WAGE CREDIT.—The term ‘wage
 22 credit’ means, in the case of any employer, the
 23 qualified wages paid or incurred during the cal-
 24 endar year which ends with or within such tax-
 25 able year.

1 “(3) CREDIT ALLOWANCE DATE.—The term
2 ‘credit allowance date’ means, with respect to any
3 qualified equity investment—

4 “(A) the date on which such investment is
5 initially made, and

6 “(B) each of the 6 annual anniversary
7 dates of such date thereafter.

8 “(b) QUALIFIED EQUITY INVESTMENT.—For pur-
9 poses of this section—

10 “(1) IN GENERAL.—The term ‘qualified equity
11 investment’ means any equity investment in a quali-
12 fied economic development entity if—

13 “(A) such investment is acquired by the
14 taxpayer at its original issue (directly or
15 through an underwriter) solely in exchange for
16 cash,

17 “(B) substantially all of the proceeds from
18 such investment are used by the qualified eco-
19 nomic development entity to make qualified low-
20 income rural community investments, and

21 “(C) such investment is designated for
22 purposes of this section by the qualified eco-
23 nomic development entity.

24 Such term shall not include any equity investment
25 issued by a qualified economic development entity

1 more than 7 years after the date that such entity re-
2 ceives an allocation under subsection (g). Any alloca-
3 tion not used within such 7-year period may be re-
4 allocated by the Secretary under subsection (g).

5 “(2) LIMITATION.—The maximum amount of
6 equity investments issued by a qualified economic
7 development entity which may be designated under
8 paragraph (1)(C) by such entity shall not exceed the
9 portion of the limitation amount allocated under
10 subsection (g) to such entity.

11 “(3) SAFE HARBOR FOR DETERMINING USE OF
12 CASH.—The requirement of paragraph (1)(B) shall
13 be treated as met if at least 85 percent of the aggre-
14 gate gross assets of the qualified economic develop-
15 ment entity are invested in qualified low-income
16 rural community investments.

17 “(4) TREATMENT OF SUBSEQUENT PUR-
18 CHASERS.—The term ‘qualified equity investment’
19 includes any equity investment which would (but for
20 paragraph (1)(A)) be a qualified equity investment
21 in the hands of the taxpayer if such investment was
22 a qualified equity investment in the hands of a prior
23 holder.

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

4 “(6) EQUITY INVESTMENT.—The term ‘equity
5 investment’ means—

6 “(A) any stock in a qualified economic de-
7 velopment entity which is a corporation, and

8 “(B) any capital interest in a qualified eco-
9 nomic development entity which is a partner-
10 ship.

11 “(c) QUALIFIED ECONOMIC DEVELOPMENT ENTI-
12 TY.—For purposes of this section—

13 “(1) IN GENERAL.—The term ‘qualified eco-
14 nomic development entity’ means any domestic cor-
15 poration or partnership if—

16 “(A) the primary mission of the entity is
17 serving, or providing investment capital for,
18 low-income rural communities or low-income
19 persons located in such communities, and

20 “(B) the entity is certified by the Sec-
21 retary for purposes of this section as being a
22 qualified economic development entity.

23 “(2) SPECIAL RULES FOR CERTAIN ORGANIZA-
24 TIONS.—The requirements of paragraph (1) shall be
25 treated as met by—

1 “(A) any specialized small business invest-
 2 ment company (as defined in section
 3 1044(c)(3)), and

4 “(B) any community development financial
 5 institution (as defined in section 103 of the
 6 Community Development Banking and Finan-
 7 cial Institutions Act of 1994 (12 U.S.C. 4702)).

8 “(d) QUALIFIED LOW-INCOME RURAL COMMUNITY
 9 INVESTMENTS.—For purposes of this section—

10 “(1) IN GENERAL.—The term ‘qualified low-in-
 11 come rural community investment’ means—

12 “(A) any equity investment in, or loan to,
 13 any qualified active low-income rural commu-
 14 nity business,

15 “(B) the purchase from another economic
 16 development entity of any loan made by such
 17 entity which is a qualified low-income rural
 18 community investment if the amount received
 19 by such other entity from such purchase is used
 20 by such other entity to make qualified low-in-
 21 come rural community investments,

22 “(C) financial counseling and other serv-
 23 ices specified in regulations prescribed by the
 24 Secretary to businesses located in, and resi-
 25 dents of, low-income rural communities, and

1 “(D) any equity investment in, or loan to,
 2 any qualified economic development entity if
 3 substantially all of the investment or loan is
 4 used by such entity to make qualified low-in-
 5 come rural community investments described in
 6 subparagraphs (A), (B), and (C).

7 “(2) QUALIFIED ACTIVE LOW-INCOME RURAL
 8 COMMUNITY BUSINESS.—

9 “(A) IN GENERAL.—For purposes of para-
 10 graph (1), the term ‘qualified active low-income
 11 rural community business’ means, with respect
 12 to any taxable year, any corporation or partner-
 13 ship if for such year—

14 “(i) at least 50 percent of the total
 15 gross income of such entity is derived from
 16 the active conduct of a qualified business
 17 within any low-income rural community,

18 “(ii) a substantial portion of the use
 19 of the tangible property of such entity
 20 (whether owned or leased) is within any
 21 low-income rural community,

22 “(iii) a substantial portion of the serv-
 23 ices performed for such entity by its em-
 24 ployees are performed in any low-income
 25 rural community,

“(iv) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in section 408(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business, and

“(v) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property (as defined in section 1397B(e)).

“(B) PROPRIETORSHIP.—Such term shall include any business carried on by an individual as a proprietor if such business would meet the requirements of subparagraph (A) were it incorporated.

“(C) PORTIONS OF BUSINESS MAY BE QUALIFIED ACTIVE LOW-INCOME RURAL COMMUNITY BUSINESS.—The term ‘qualified active low-income rural community business’ includes any trades or businesses which would qualify as a qualified active low-income rural community business if such trades or businesses were separately incorporated.

1 “(3) QUALIFIED BUSINESS.—For purposes of
 2 this subsection, the term ‘qualified business’ has the
 3 meaning given to such term by section 1397B(d);
 4 except that—

5 “(A) in lieu of applying paragraph (2)(B)
 6 thereof, the rental to others of real property lo-
 7 cated in any low-income rural community shall
 8 be treated as a qualified business if there are
 9 substantial improvements located on such prop-
 10 erty, and

11 “(B) paragraph (3) thereof shall not apply.

12 “(e) LOW-INCOME RURAL COMMUNITY.—For pur-
 13 poses of this section—

14 “(1) IN GENERAL.—The term ‘low-income rural
 15 community’ means any population census tract if—

16 “(A) for the 5 previous calendar years end-
 17 ing before the date on which the taxable year
 18 in which the investment is made begins—

19 “(i) the average poverty rate for such
 20 tract is at least 20 percent, or

21 “(ii) the average median family in-
 22 come for such tract does not exceed 80
 23 percent of statewide median family income
 24 of the State in which such tract is located,
 25 and

1 “(B) the tract is not located within a met-
2 ropolitan area.

3 “(2) AREAS NOT WITHIN CENSUS TRACTS.—In
4 the case of an area which is not tracted for popu-
5 lation census tracts, the equivalent county divisions
6 (as defined by the Bureau of the Census for pur-
7 poses of defining poverty areas) shall be used for
8 purposes of determining poverty rates and median
9 family income.

10 “(3) TARGETED POPULATION.—The Secretary
11 may prescribe regulations under which 1 or more
12 targeted populations (within the meaning of section
13 3(20) of the Riegle Community Development and
14 Regulatory Improvement Act of 1974 (12 U.S.C.
15 4702(20))) may be treated as low-income rural com-
16 munities. Such regulations shall include procedures
17 for identifying the area covered by any such commu-
18 nity for purposes of determining entities which are
19 qualified active low-income rural community busi-
20 nesses with respect to such community.

21 “(f) QUALIFIED WAGES.—

22 “(1) IN GENERAL.—For purposes of this sec-
23 tion, the term ‘qualified wages’ means any wages
24 paid or incurred by an employer for services per-

1 formed by an employee while such employee is a
2 qualified employee.

3 “(2) ONLY FIRST \$3,000 OF WAGES PER YEAR
4 TAKEN INTO ACCOUNT.—With respect to each quali-
5 fied employee, the amount of qualified wages which
6 may be taken into account for a calendar year shall
7 not exceed \$3,000.

8 “(3) COORDINATION WITH WORK OPPORTUNITY
9 CREDIT AND EMPOWERMENT ZONE EMPLOYMENT
10 CREDIT.—The term ‘qualified wages’ shall not in-
11 clude wages taken into account in determining the
12 credit under section 51 or 1396.

13 “(4) OTHER DEFINITIONS; SPECIAL RULES.—

14 “(A) QUALIFIED EMPLOYEE.—For pur-
15 poses of this section—

16 “(i) IN GENERAL.—The term ‘quali-
17 fied employee’ means, with respect to any
18 period, any employee of an employer if—

19 “(I) substantially all of the serv-
20 ices performed during such period by
21 such employee for such employer are
22 performed within a low-income rural
23 community in a trade or business of
24 the employer, and

1 “(II) the principal place of abode
 2 of such employee while performing
 3 such services is within such low-in-
 4 come rural community.

5 “(ii) ELIGIBILITY RULES.—Rules
 6 similar to the rules of paragraphs (2) and
 7 (3) of section 1396(d) shall apply.

8 “(B) WAGES.—The term ‘wages’ has the
 9 same meaning as when used in section 1396.

10 “(C) CERTAIN OTHER RULES MADE APPLI-
 11 CABLE.—For purposes of this section, rules
 12 similar to the rules of subsections (b) and (c)
 13 of section 1396 shall apply.

14 “(g) NATIONAL LIMITATION ON AMOUNT OF INVEST-
 15 MENTS DESIGNATED.—

16 “(1) IN GENERAL.—There is a development
 17 credit limitation of \$1,200,000,000 for each of cal-
 18 endar years 2000 through 2004.

19 “(2) ALLOCATION OF LIMITATION.—The limita-
 20 tion under paragraph (1) shall be allocated by the
 21 Secretary among qualified economic development en-
 22 tities selected by the Secretary. In making alloca-
 23 tions under the preceding sentence, the Secretary
 24 shall give priority to entities with records of having

1 successfully provided capital or technical assistance
2 to disadvantaged businesses or communities.

3 “(3) CARRYOVER OF UNUSED LIMITATION.—If
4 the development credit limitation for any calendar
5 year exceeds the aggregate amount allocated under
6 paragraph (2) for such year, such limitation for the
7 succeeding calendar year shall be increased by the
8 amount of such excess.

9 “(h) RECAPTURE OF CREDIT IN CERTAIN CASES.—

10 “(1) IN GENERAL.—If, at any time during the
11 7-year period beginning on the date of the original
12 issue of a qualified equity investment in a qualified
13 economic development entity, there is a recapture
14 event with respect to such investment, then the tax
15 imposed by this chapter for the taxable year in
16 which such event occurs shall be increased by the
17 credit recapture amount.

18 “(2) CREDIT RECAPTURE AMOUNT.—For pur-
19 poses of paragraph (1), the credit recapture amount
20 is an amount equal to the sum of—

21 “(A) the aggregate decrease in the credits
22 allowed to the taxpayer under section 38 for all
23 prior taxable years which would have resulted if
24 no credit had been determined under this sec-
25 tion with respect to such investment, plus

1 “(B) interest at the overpayment rate es-
 2 tablished under section 6621 on the amount de-
 3 termined under subparagraph (A) for each
 4 prior taxable year for the period beginning on
 5 the due date for filing the return for the prior
 6 taxable year involved.

7 No deduction shall be allowed under this chapter for
 8 interest described in subparagraph (B).

9 “(3) RECAPTURE EVENT.—For purposes of
 10 paragraph (1), there is a recapture event with re-
 11 spect to an equity investment in a qualified economic
 12 development entity if—

13 “(A) such entity ceases to be a qualified
 14 economic development entity,

15 “(B) the proceeds of the investment cease
 16 to be used as required of subsection (b)(1)(B),
 17 or

18 “(C) such investment is redeemed by such
 19 entity.

20 “(4) SPECIAL RULES.—

21 “(A) TAX BENEFIT RULE.—The tax for
 22 the taxable year shall be increased under para-
 23 graph (1) only with respect to credits allowed
 24 by reason of this section which were used to re-
 25 duce tax liability. In the case of credits not so

1 used to reduce tax liability, the carryforwards
2 and carrybacks under section 39 shall be appro-
3 priately adjusted.

4 “(B) NO CREDITS AGAINST TAX.—Any in-
5 crease in tax under this subsection shall not be
6 treated as a tax imposed by this chapter for
7 purposes of determining the amount of any
8 credit under this chapter or for purposes of sec-
9 tion 55.

10 “(i) BASIS REDUCTION.—The basis of any qualified
11 equity investment shall be reduced by the amount of any
12 credit determined under this section with respect to such
13 investment.

14 “(j) REGULATIONS.—The Secretary shall prescribe
15 such regulations as may be appropriate to carry out this
16 section, including regulations—

17 “(1) which limit the development credit for in-
18 vestments which are directly or indirectly subsidized
19 by other Federal benefits (including the credit under
20 section 42 and the exclusion from gross income
21 under section 103),

22 “(2) which prevent the abuse of the provisions
23 of this section through the use of related parties,

24 “(3) which impose appropriate reporting re-
25 quirements, and

1 “(4) which apply the provisions of this section
2 to newly formed entities.”

3 (b) CREDIT MADE PART OF GENERAL BUSINESS
4 CREDIT.—

5 (1) IN GENERAL.—Subsection (b) of section 38
6 of the Internal Revenue Code of 1986 is amended by
7 striking “plus” at the end of paragraph (12), by
8 striking the period at the end of paragraph (13) and
9 inserting “, plus”, and by adding at the end the fol-
10 lowing new paragraph:

11 “(14) the rural revitalization tax credit deter-
12 mined under section 45D(a).”

13 (2) LIMITATION ON CARRYBACK.—Subsection
14 (d) of section 39 of such Code is amended by adding
15 at the end the following new paragraph:

16 “(10) NO CARRYBACK OF RURAL REVITALIZA-
17 TION TAX CREDIT BEFORE JANUARY 1, 2000.—No
18 portion of the unused business credit for any taxable
19 year which is attributable to the credit under section
20 45D may be carried back to a taxable year ending
21 before January 1, 2000.”

22 (c) DEDUCTION FOR UNUSED CREDIT.—Subsection
23 (c) of section 196 of the Internal Revenue Code of 1986
24 is amended by striking “and” at the end of paragraph (7),
25 by striking the period at the end of paragraph (8) and

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

3 “(9) the rural revitalization tax credit deter-
 4 mined under section 45D(a).”

5 (d) CLERICAL AMENDMENT.—The table of sections
 6 for subpart D of part IV of subchapter A of chapter 1
 7 of the Internal Revenue Code of 1986 is amended by add-
 8 ing at the end the following new item:

“Sec. 45D. Rural revitalization tax credit.”

9 (e) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to investments made after Decem-
 11 ber 31, 1999.

12 **SEC. 3. INCREASE IN EXPENSING FOR QUALIFIED ACTIVE**
 13 **LOW-INCOME RURAL COMMUNITY BUSI-**
 14 **NESSES.**

15 (a) IN GENERAL.—Subsection (b) of section 179 of
 16 the Internal Revenue Code of 1986 (relating to election
 17 to expense certain depreciable business assets) is amended
 18 by adding at the end the following new paragraph:

19 “(5) INCREASED LIMITATION FOR QUALIFIED
 20 ACTIVE LOW-INCOME RURAL COMMUNITY BUSI-
 21 NESSES.—In the case of a qualified active low-in-
 22 come rural community business (as defined in sec-
 23 tion 45D(d)(2)), the applicable amount under para-
 24 graph (1) shall be \$37,500.”

1 (b) CONFORMING AMENDMENT.—Section 179(b)(1)
2 of the Internal Revenue Code of 1986 (relating to dollar
3 limitation) is amended by striking “The aggregate” and
4 inserting “Except as provided in paragraph (5), the aggre-
5 gate”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to property placed in service after
8 December 31, 1999.

○