

107TH CONGRESS  
2D SESSION

# H. R. 5273

To reward the hard work and risk of individuals who choose to live in and help preserve America's small, rural towns, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 26, 2002

Mr. CARSON of Oklahoma (for himself and Mr. POMEROY) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Education and the Workforce, and Agriculture, 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

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## A BILL

To reward the hard work and risk of individuals who choose to live in and help preserve America's small, rural towns, 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; ETC.**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “New Homestead Economic Opportunity Act”.

6       (b) AMENDMENT OF 1986 CODE.—Except as other-  
7       wise expressly provided, whenever in this Act an amend-  
8       ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference  
 2 shall be considered to be made to a section or other provi-  
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents for  
 5 this Act is as follows:

Sec. 1. Short title; etc.

#### TITLE I—NEW HOMESTEAD OPPORTUNITIES

Sec. 101. Loans for leadership initiative.

Sec. 102. Credit for certain rural homebuyers.

Sec. 103. Capital loss deduction allowed with respect to sale or exchange of  
 principal residence in certain rural areas.

Sec. 104. Individual homestead accounts.

#### TITLE II—INCENTIVES FOR MAIN STREET BUSINESSES

Sec. 201. Rural investment tax credit.

Sec. 202. Accelerated depreciation for rural investment property.

#### TITLE III—NEW HOMESTEAD VENTURE CAPITAL FUND

Sec. 301. New homestead venture capital fund.

## 6 **TITLE I—NEW HOMESTEAD** 7 **OPPORTUNITIES**

### 8 **SEC. 101. LOANS FOR LEADERSHIP INITIATIVE.**

9 (a) DEFINITIONS.—In this section:

10 (1) DEGREE.—The term “degree” means an as-  
 11 sociate’s or bachelor’s degree awarded by an institu-  
 12 tion of higher education.

13 (2) INSTITUTION OF HIGHER EDUCATION.—The  
 14 term “institution of higher education” has the  
 15 meaning given the term in section 101 of the Higher  
 16 Education Act of 1965 (20 U.S.C. 1001).

1           (3) QUALIFYING COUNTY.—The term ‘quali-  
2       fying county’ means any county which—

3           (A) is outside a metropolitan statistical  
4       area (defined as such by the Office of Manage-  
5       ment and Budget), and

6           (B) during the 20-year period ending with  
7       the calendar year preceding the date of enact-  
8       ment of this Act, has a net out-migration of in-  
9       habitants from the county of at least 10 percent  
10      of the population of the county at the beginning  
11      of such period.

12          (4) SECRETARY.—The term “Secretary” means  
13      the Secretary of Education.

14      (b) PROGRAM.—

15          (1) IN GENERAL.—The Secretary shall carry  
16      out a program of assuming the obligation to repay,  
17      pursuant to subsection (c), a loan made, insured, or  
18      guaranteed under part B, D, or E of title IV of the  
19      Higher Education Act of 1965 (20 U.S.C. 1071 et  
20      seq., 20 U.S.C. 1087a et seq., and 20 U.S.C.  
21      1087aa et seq.), excluding loans made under section  
22      428B of such Act or comparable loans made under  
23      part D of such Act, for any borrower who—

24           (A) completes a degree;

25           (B) resides in a qualifying county; and

1 (C) is employed in a qualifying county.

2 (2) REGULATIONS.—The Secretary is author-  
3 ized to prescribe such regulations as may be nec-  
4 essary to carry out the provisions of this section.

5 (c) LOAN REPAYMENT.—

6 (1) IN GENERAL.—The Secretary shall assume  
7 the obligation to repay, after each of the first 5  
8 years of the residency and employment described in  
9 subparagraphs (B) and (C) of subsection (b)(1) that  
10 occur after the date of enactment of this section, the  
11 percentage described in paragraph (2) of the total  
12 amount of all loans made to a student under the  
13 provisions of the Higher Education Act of 1965 as  
14 described in subsection (b)(1), up to a maximum  
15 amount of \$3,000 each year.

16 (2) PERCENTAGES.—The percentage of repay-  
17 ment under paragraph (1) shall be—

18 (A) 7.5 percent of the total amount for  
19 each of the first and second years;

20 (B) 10 percent of the total amount for  
21 each of the third and fourth years; and

22 (C) 15 percent of the total amount for the  
23 fifth year.

24 (3) CONSTRUCTION.—Nothing in this section  
25 shall be construed to authorize the refunding of any

1        repayment of a loan made under part B, D, or E  
2        of title IV of the Higher Education Act of 1965.

3            (4) INTEREST.—If a portion of a loan is repaid  
4        by the Secretary under this section for any year, the  
5        proportionate amount of interest on such loan which  
6        accrues for such year shall be repaid by the Sec-  
7        retary so long as the total amount repaid by the  
8        Secretary in any 1 year does not exceed \$3,000.

9            (d) REPAYMENT TO ELIGIBLE LENDERS.—The Sec-  
10       retary shall pay to each eligible lender or holder for each  
11       fiscal year an amount equal to the aggregate amount of  
12       loans which are subject to repayment pursuant to this sec-  
13       tion for such year.

14           (e) APPLICATION FOR REPAYMENT.—

15            (1) IN GENERAL.—An eligible borrower desiring  
16        loan repayment under this section shall submit a  
17        complete and accurate application to the Secretary  
18        at such time, in such manner, and containing such  
19        information as the Secretary may require.

20            (2) CONDITIONS.—An eligible borrower may  
21        apply for loan repayment under this section after  
22        completing each year of qualifying residency and em-  
23        ployment. The eligible borrower shall receive forbear-  
24        ance while engaged in qualifying residency and em-

1       ployment unless the borrower is in deferment while  
2       so engaged.

3       (f) DEFINITION OF ELIGIBLE BORROWER.—In this  
4       section the term “eligible borrower” means any borrower  
5       who is not in default on any of the borrower’s student  
6       loans under part B, D, or E of title IV of the Higher  
7       Education Act of 1965.

8       (g) AUTHORIZATION OF APPROPRIATIONS.—

9               (1) LOAN REPAYMENT.—There are authorized  
10       to be appropriated to carry out this section such  
11       sums as may be necessary for fiscal year 2002 and  
12       each of the 5 succeeding fiscal years.

13              (2) PERKINS LOAN FUNDS.—There are author-  
14       ized to be appropriated such sums as may be nec-  
15       essary for fiscal year 2002 and each of the 5 suc-  
16       ceeding fiscal years for Federal capital contributions  
17       to student loan funds established under part E of  
18       title IV of the Higher Education Act of 1965.

19       (h) REPAYMENT EXCLUDED FROM GROSS IN-  
20       COME.—Section 108(f)(1) (relating to student loans) is  
21       amended by inserting “or pursuant to section 101 of the  
22       New Homestead Economic Opportunity Act” after “em-  
23       ployers”.

1 **SEC. 102. CREDIT FOR CERTAIN RURAL HOMEBUYERS.**

2 (a) IN GENERAL.—Subpart A of part IV of sub-  
 3 chapter A of chapter 1 (relating to nonrefundable personal  
 4 credits) is amended by inserting before section 26 the fol-  
 5 lowing:

6 **“SEC. 25C. PURCHASE OF RESIDENCES BY CERTAIN RURAL**  
 7 **HOMEBUYERS.**

8 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 9 dividual who purchases a qualified residence in a quali-  
 10 fying county during any taxable year, there shall be al-  
 11 lowed as a credit against the tax imposed by this chapter  
 12 for the taxable year an amount equal to the lesser of—

13 “(1) 10 percent of the purchase price of the  
 14 residence, or

15 “(2) \$5,000.

16 “(b) LIMITATIONS.—

17 “(1) LIMITATION BASED ON AMOUNT OF  
 18 TAX.—The credit allowed under subsection (a) for  
 19 any taxable year shall not exceed the excess of—

20 “(A) the sum of the regular tax liability  
 21 (as defined in section 26(b)) plus the tax im-  
 22 posed by section 55, over

23 “(B) the sum of the credits allowable  
 24 under this subpart (other than this section and  
 25 section 23) and section 27 for the taxable year.

1           “(2) MARRIED INDIVIDUALS FILING JOINTLY.—

2           In the case of a husband and wife who file a joint  
3           return, the credit under this section is allowable only  
4           if the residence is a qualified residence with respect  
5           to both the husband and wife, and the amount speci-  
6           fied under subsection (a)(2) shall apply to the joint  
7           return.

8           “(3) MARRIED INDIVIDUALS FILING SEPA-

9           RATELY.—In the case of a married individual filing  
10          a separate return, subsection (a)(2) shall be applied  
11          by substituting ‘\$2,500’ for ‘\$5,000’.

12          “(4) OTHER TAXPAYERS.—If 2 or more individ-

13          uals who are not married purchase a qualified resi-  
14          dence, the amount of the credit allowed under sub-  
15          section (a) shall be allocated among such individuals  
16          in such manner as the Secretary may prescribe, ex-  
17          cept that the total amount of the credits allowed to  
18          all such individuals shall not exceed \$5,000.

19          “(c) DEFINITIONS.—For purposes of this section—

20               “(1) QUALIFIED RESIDENCE.—The term ‘quali-

21               fied residence’ has the same meaning as when used  
22               in section 163(h).

23               “(2) QUALIFYING COUNTY.—The term ‘quali-

24               fying county’ means any county which—



1           “(A) is outside a metropolitan statistical  
2           area (defined as such by the Office of Manage-  
3           ment and Budget), and

4           “(B) during the 20-year period ending  
5           with the calendar year preceding the date of the  
6           enactment of this section, has a net out-migra-  
7           tion of inhabitants from the county of at least  
8           10 percent of the population of the county at  
9           the beginning of such period.

10          “(3) PURCHASE AND PURCHASE PRICE.—The  
11          terms ‘purchase’ and ‘purchase price’ have the  
12          meanings provided by section 1400C(e).

13          “(d) CARRYFORWARD OF UNUSED CREDIT.—If the  
14          credit allowable under subsection (a) for any taxable year  
15          exceeds the limitation imposed by subsection (b)(1) for  
16          such taxable year reduced by the sum of the credits allow-  
17          able under this subpart (other than this section and sec-  
18          tion 23), such excess shall be carried to the succeeding  
19          taxable year and added to the credit allowable under sub-  
20          section (a) for such taxable year.

21          “(e) REPORTING.—If the Secretary requires informa-  
22          tion reporting under section 6045 by a person described  
23          in subsection (e)(2) thereof to verify the eligibility of tax-  
24          payers for the credit allowable by this section, the excep-  
25          tion provided by section 6045(e)(5) shall not apply.

1       “(f) RECAPTURE OF CREDIT IN CASE OF CERTAIN  
2 SALES.—

3               “(1) IN GENERAL.—Except as provided in para-  
4 graph (5), if the taxpayer disposes of a qualified res-  
5 idence with respect to the purchase of which a credit  
6 was allowed under subsection (a) at any time within  
7 5 years after the date the taxpayer acquired the  
8 property, then the tax imposed under this chapter  
9 for the taxable year in which the disposition occurs  
10 is increased by the credit recapture amount.

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

14                   “(A) the applicable recapture percentage of  
15 the amount of the credit allowed to the tax-  
16 payer under this section, plus

17                   “(B) interest at the overpayment rate es-  
18 tablished under section 6621 on the amount de-  
19 termined under subparagraph (A) for each  
20 prior taxable year for the period beginning on  
21 the due date for filing the return for the prior  
22 taxable year involved.

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

25              “(3) APPLICABLE RECAPTURE PERCENTAGE.—

1           “(A) IN GENERAL.—For purposes of this  
 2           subsection, the applicable recapture percentage  
 3           shall be determined from the following table:

<b>“If the sale occurs in:</b>	<b>The applicable recapture percentage is:</b>
Year 1 .....	100
Year 2 .....	80
Year 3 .....	60
Year 4 .....	40
Year 5 .....	20
Years 6 and thereafter .....	0.

4           “(B) YEARS.—For purposes of subpara-  
 5           graph (A), year 1 shall begin on the first day  
 6           of the taxable year in which the purchase of the  
 7           qualified residence described in subsection (a)  
 8           occurs.

9           “(4) NO CREDITS AGAINST TAX.—Any increase  
 10          in tax under this subsection shall not be treated as  
 11          a tax imposed by this chapter for purposes of deter-  
 12          mining the amount of any credit under this chapter  
 13          or for purposes of section 55.

14          “(5) DEATH OF OWNER; CASUALTY LOSS; IN-  
 15          VOLUNTARY CONVERSION; ETC.—The provisions of  
 16          paragraph (1) do not apply to—

17                 “(A) a disposition of a qualified residence  
 18                 made on account of the death of any individual  
 19                 having a legal or equitable interest therein oc-  
 20                 curring during the 5-year period to which ref-  
 21                 erence is made under paragraph (1),

1           “(B) a disposition of the old qualified resi-  
 2           dence if it is substantially or completely de-  
 3           stroyed by a casualty described in section  
 4           165(c)(3) or compulsorily or involuntarily con-  
 5           verted (within the meaning of section 1033(a)),  
 6           or

7           “(C) a disposition pursuant to a settlement  
 8           in a divorce or legal separation proceeding  
 9           where the qualified residence is sold or the  
 10          other spouse retains such residence.

11          “(g) BASIS ADJUSTMENT.—For purposes of this sub-  
 12          title, if a credit is allowed under this section with respect  
 13          to the purchase of any residence, the basis of such resi-  
 14          dence shall be reduced by the amount of the credit so al-  
 15          lowed.”.

16          (b) CONFORMING AMENDMENTS.—

17               (1) Subsection (a) of section 1016 (relating to  
 18               general rule for adjustments to basis) is amended by  
 19               striking “and” at the end of paragraph (26), by  
 20               striking the period at the end of paragraph (27) and  
 21               inserting “, and”, and by adding at the end the fol-  
 22               lowing new paragraph:

23               “(28) in the case of a residence with respect to  
 24               which a credit was allowed under section 25C, to the  
 25               extent provided in section 25C(g).”.

1           (2) Subsection (a) of section 1016 (relating to  
2           general rule for adjustments to basis), as amended  
3           by the Economic Growth and Tax Relief Reconcili-  
4           ation Act of 2001, is amended by striking “and” at  
5           the end of paragraph (27), by striking the period at  
6           the end of paragraph (28) and inserting “, and”,  
7           and by adding at the end the following:

8           “(29) in the case of a residence with respect to  
9           which a credit was allowed under section 25C, to the  
10          extent provided in section 25C(g).”.

11          (3) Section 24(b)(3)(B), as added and amended  
12          by the Economic Growth and Tax Relief Reconcili-  
13          ation Act of 2001, is amended by striking “23 and  
14          25B” and inserting “23, 25B, and 25C”.

15          (4) Section 25(e)(1)(C) is amended by striking  
16          “23 and 1400C” and by inserting “23, 25C, and  
17          1400C”.

18          (5) Section 25(e)(1)(C), as amended by the  
19          Economic Growth and Tax Relief Reconciliation Act  
20          of 2001, is amended by inserting “25C,” after  
21          “25B,”.

22          (6) Section 25B, as added by the Economic  
23          Growth and Tax Relief Reconciliation Act of 2001,  
24          is amended by striking “section 23” and inserting  
25          “sections 23 and 25C”.

1           (7) Section 26(a)(1), as amended by the Eco-  
 2           nomic Growth and Tax Relief Reconciliation Act of  
 3           2001, is amended by striking “and 25B” and insert-  
 4           ing “25B, and 25C”.

5           (8) Section 1400C(d) is amended by inserting  
 6           “and section 25C” after “this section”.

7           (9) Section 1400C(d), as amended by the Eco-  
 8           nomic Growth and Tax Relief Reconciliation Act of  
 9           2001, is amended by striking “and 25B” and insert-  
 10          ing “25B, and 25C”.

11          (10) The table of sections for subpart A of part  
 12          IV of subchapter A of chapter 1 is amended by in-  
 13          serting before the item relating to section 26 the fol-  
 14          lowing:

            “Sec. 25C. Purchase of residences by certain rural homebuyers.”.

15          (c) EFFECTIVE DATE.—

16           (1) IN GENERAL.—The amendments made by  
 17           subsections (a) and (b)(10) shall apply to purchases  
 18           after the date of the enactment of this Act, in tax-  
 19           able years ending after such date.

20           (2) TEMPORARY CONFORMING AMENDMENTS.—  
 21           The amendments made by paragraphs (1), (4), and  
 22           (8) of subsection (b) shall apply to taxable years  
 23           ending before January 1, 2002.

24           (3) PERMANENT CONFORMING AMENDMENTS.—  
 25           The amendments made by paragraphs (2), (3), (5),

1       (6), (7), and (9) of subsection (b) shall apply to tax-  
2       able years beginning after December 31, 2001.

3   **SEC. 103. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**  
4                   **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**  
5                   **RESIDENCE IN CERTAIN RURAL AREAS.**

6       (a) IN GENERAL.—Subsection (c) of section 165 (re-  
7       lating to limitation on losses of individuals) is amended—

8               (1) by striking “and” at the end of paragraph  
9       (2),

10           (2) by striking the period at the end of para-  
11       graph (3) and inserting “; and”, and

12           (3) by adding at the end the following:

13               “(4) losses arising from the sale or exchange of  
14       the principal residence (within the meaning of sec-  
15       tion 121) of the taxpayer located in a qualifying  
16       county (as defined in section 223(b)(2)), but only if  
17       the principal residence was acquired by the taxpayer  
18       after the date of enactment of this paragraph.”.

19       (b) CONFORMING AMENDMENT.—Section 67(b)(3) is  
20       amended by striking “paragraph (2) or (3)” and inserting  
21       “paragraph (2), (3), or (4)”.

22       (c) EFFECTIVE DATE.—The amendments made by  
23       this section shall apply to sales and exchanges after the  
24       date of the enactment of this Act, in taxable years ending  
25       after such date.

1 **SEC. 104. INDIVIDUAL HOMESTEAD ACCOUNTS.**

2 (a) IN GENERAL.—Subchapter F of chapter 1 (relat-  
3 ing to exempt organizations) is amended by adding at the  
4 end the following:

5 **“PART IX—INDIVIDUAL HOMESTEAD ACCOUNTS**

“Sec. 530A. Individual homestead accounts.

6 **“SEC. 530A. INDIVIDUAL HOMESTEAD ACCOUNTS.**

7 “(a) GENERAL RULE.—An individual homestead ac-  
8 count shall be exempt from taxation under this subtitle.  
9 Notwithstanding the preceding sentence, any individual  
10 homestead account shall be subject to the taxes imposed  
11 by section 511 (relating to imposition of tax on unrelated  
12 business income of charitable, etc., organizations).

13 “(b) INDIVIDUAL HOMESTEAD ACCOUNT.—For pur-  
14 poses of this title, the term ‘individual homestead account’  
15 means a trust created or organized in the United States  
16 for the exclusive benefit of a qualified individual or his  
17 beneficiaries, but only if the written governing instrument  
18 creating the trust meets the following requirements:

19 “(1) Except in the case of a qualified rollover  
20 (as defined in subsection (f)(7))—

21 “(A) no contribution will be accepted un-  
22 less it is in cash;

23 “(B) contributions will not be accepted for  
24 the taxable year in excess of \$2,500 (deter



1           mined without regard to any contribution made  
2           under subsection (d)); and

3           “(C) contributions will not be accepted for  
4           any taxable year following the fifth taxable year  
5           in which the qualified individual has contributed  
6           to any individual homestead account.

7           “(2) The requirements of paragraphs (2)  
8           through (6) of section 408(a) are met.

9           “(c) QUALIFIED INDIVIDUAL; QUALIFYING COUN-  
10          TY.—For purposes of this section—

11           “(1) QUALIFIED INDIVIDUAL.—The term ‘quali-  
12          fied individual’ means, for any taxable year, an indi-  
13          vidual who is a bona fide resident of a qualifying  
14          county.

15           “(2) QUALIFYING COUNTY.—The term ‘quali-  
16          fying county’ means any county which—

17           “(A) is outside a metropolitan statistical  
18          area (defined as such by the Office of Manage-  
19          ment and Budget), and

20           “(B) during the 20-year period ending  
21          with the calendar year preceding the date of the  
22          enactment of this section, has a net out-migra-  
23          tion of inhabitants from the county of at least  
24          10 percent of the population of the county at  
25          the beginning of such period.

1       “(d) MATCHING CONTRIBUTIONS TO INDIVIDUAL  
2 HOMESTEAD ACCOUNTS.—

3               “(1) IN GENERAL.—Not less than once each  
4 taxable year, the Secretary shall deposit (to the ex-  
5 tent provided in appropriation Acts) into an indi-  
6 vidual Homestead account of each qualified indi-  
7 vidual an amount equal to the applicable percentage  
8 of the sum of the amounts deposited into all of the  
9 individual homestead accounts of such individual  
10 during such taxable year (determined without regard  
11 to any amount contributed under this subsection).

12               “(2) APPLICABLE PERCENTAGE.—For purposes  
13 of this subsection, the applicable percentage with re-  
14 spect to any qualified individual for any taxable year  
15 shall be determined in accordance with the following  
16 tables:

<b>“If modified adjusted gross income is:</b>	<b>The applicable percentage is:</b>
\$30,000 or less .....	100
Over \$30,000 but not over \$60,000 .....	50
Over \$60,000 but not over \$100,000 .....	25
Over \$100,000 .....	zero.

17               “(ii) In the case of a head of house-  
18 hold (as defined in section 2(b)):

<b>“If modified adjusted gross income is:</b>	<b>The applicable percentage is:</b>
\$22,500 or less .....	100
Over \$22,500 but not over \$45,000 .....	50
Over \$45,000 but not over \$75,000 .....	25
Over \$75,000 .....	zero.

1 “(iii) In the case of any other indi-  
 2 vidual:

“If modified adjusted gross income is:      The applicable percentage is:

\$15,000 or less .....	100
Over \$15,000 but not over \$30,000 .....	50
Over \$30,000 but not over \$50,000 .....	25
Over \$50,000 .....	zero.

3 For purposes of this paragraph, the term ‘modified  
 4 adjusted gross income’ has the meaning given such  
 5 term by section 86(b)(2).

6 “(3) EXCLUSION FROM INCOME.—Except as  
 7 otherwise provided in this section, gross income shall  
 8 not include any amount deposited into an individual  
 9 homestead account under paragraph (1).

10 “(4) FORFEITURE OF MATCHING CONTRIBU-  
 11 TIONS IN THE CASE OF CERTAIN DISTRIBUTIONS.—  
 12 In the event of a distribution from an individual  
 13 homestead account before the date described in sub-  
 14 section (f)(1)(A) (other than a distribution described  
 15 in subsection (e)(2)(A)), the account holder shall  
 16 forfeit the corresponding matching contributions and  
 17 interest earned on the matching contributions, un-  
 18 less such distribution is recontributed to such ac-  
 19 count within 6 months of such distribution.

20 “(e) TAX TREATMENT OF DISTRIBUTIONS.—

21 “(1) INCLUSION OF AMOUNTS IN GROSS IN-  
 22 COME.—Except as otherwise provided in this sub-

1 section, any amount paid or distributed out of an in-  
 2 dividual homestead account shall be includible in the  
 3 gross income of the payee or distributee, as the case  
 4 may be, in the manner as provided in section 72.  
 5 For purposes of the preceding sentence, distributions  
 6 which are includable in gross income shall be treated  
 7 as first attributable to amounts contributed under  
 8 subsection (d) to the extent thereof.

9 “(2) EXCLUSION OF CATASTROPHIC MEDICAL  
 10 EXPENSE DISTRIBUTIONS IN FIRST FIVE YEARS AND  
 11 QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBUTIONS  
 12 THEREAFTER.—Paragraph (1) shall not apply to—

13 “(A) any distribution described in section  
 14 72(t)(2)(B) before the date described in sub-  
 15 section (f)(1)(A), but only to the extent such  
 16 distribution does not exceed the balance in the  
 17 account as of the date of such distribution, re-  
 18 duced by any matching contribution under sub-  
 19 section (d), and

20 “(B) any qualified individual homestead  
 21 distribution.

22 “(f) QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBUTION.—For purposes of this section—

23 “(1) IN GENERAL.—The term ‘qualified indi-  
 24 vidual homestead distribution’ means any amount  
 25

1       paid or distributed out of an individual homestead  
2       account which would otherwise be includible in gross  
3       income, to the extent that such payment or  
4       distribution—

5               “(A) is paid or distributed after the 5-tax-  
6               able year period beginning with the first taxable  
7               year in which the qualified individual made a  
8               contribution to the individual homestead ac-  
9               count (including any predecessor account), and

10              “(B) is used exclusively to pay qualified in-  
11              dividual homestead expenses for the qualified  
12              individual or the spouse or dependent (as de-  
13              fined in section 152) of such individual.

14              “(2) QUALIFIED INDIVIDUAL HOMESTEAD EX-  
15              PENSES.—The term ‘qualified individual homestead  
16              expenses’ means any of the following:

17                      “(A) Qualified higher education expenses.

18                      “(B) Qualified first-time homebuyer costs.

19                      “(C) Qualified business capitalization  
20              costs.

21                      “(D) Qualified medical expenses.

22                      “(E) Qualified rollovers.

23              “(3) QUALIFIED HIGHER EDUCATION EX-  
24              PENSES.—

1           “(A) IN GENERAL.—The term ‘qualified  
2           higher education expenses’ has the meaning  
3           given such term by section 72(t)(7), determined  
4           by treating postsecondary vocational edu-  
5           cational schools as eligible educational institu-  
6           tions.

7           “(B) POSTSECONDARY VOCATIONAL EDU-  
8           CATION SCHOOL.—The term ‘postsecondary vo-  
9           cational educational school’ means an area vo-  
10          cational education school (as defined in sub-  
11          paragraph (C) or (D) of section 521(4) of the  
12          Carl D. Perkins Vocational and Applied Tech-  
13          nology Education Act (20 U.S.C. 2471(4)))  
14          which is in any State (as defined in section  
15          521(33) of such Act), as such sections are in  
16          effect on the date of the enactment of this sec-  
17          tion.

18          “(C) COORDINATION WITH OTHER BENE-  
19          FITS.—The amount of qualified higher edu-  
20          cation expenses for any taxable year shall be re-  
21          duced as provided in section 25A(g)(2).

22          “(4) QUALIFIED FIRST-TIME HOMEBUYER  
23          COSTS.—The term ‘qualified first-time homebuyer  
24          costs’ means qualified acquisition costs (as defined  
25          in section 72(t)(8) without regard to subparagraph

(B) thereof) with respect to a principal residence (within the meaning of section 121) located in a qualifying county for a qualified first-time home-buyer (as defined in section 72(t)(8)).

“(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

“(A) IN GENERAL.—The term ‘qualified business capitalization costs’ means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

“(B) QUALIFIED EXPENDITURES.—The term ‘qualified expenditures’ means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

“(C) QUALIFIED BUSINESS.—The term ‘qualified business’ means any trade or business located in a qualifying county other than any trade or business—

“(i) which consists of the operation of any facility described in section 144(c)(6)(B), or

“(ii) which contravenes any law.

1 Rules similar to the rules under subsection (b)  
 2 or (c) of section 1397C shall apply to any quali-  
 3 fied business under this section.

4 “(D) QUALIFIED PLAN.—The term ‘quali-  
 5 fied plan’ means a business plan which meets  
 6 such requirements as the Secretary may specify.

7 “(6) QUALIFIED MEDICAL EXPENSES.—The  
 8 term ‘qualified medical expenses’ means any amount  
 9 paid during the taxable year, not compensated for by  
 10 insurance or otherwise, for medical care (as defined  
 11 in section 213(d)) of the taxpayer, his spouse, or his  
 12 dependent (as defined in section 152).

13 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-  
 14 fied rollover’ means any amount paid from an indi-  
 15 vidual homestead account of a taxpayer into another  
 16 such account established for the benefit of—

17 “(A) such taxpayer, or

18 “(B) any qualified individual who is—

19 “(i) the spouse of such taxpayer, or

20 “(ii) any dependent (as defined in sec-  
 21 tion 152) of the taxpayer.

22 Rules similar to the rules of section 408(d)(3) shall  
 23 apply for purposes of this paragraph.

24 “(g) TAX TREATMENT OF ACCOUNTS.—



1           “(1) LOSS OF EXEMPTION IN CASE OF PROHIB-  
2       ITED TRANSACTIONS.—For purposes of this section,  
3       rules similar to the rules of section 408(e) shall  
4       apply.

5           “(2) OTHER RULES TO APPLY.—Rules similar  
6       to the rules of paragraphs (4), (5), and (6) of sec-  
7       tion 408(d) shall apply for purposes of this section.

8           “(h) OTHER DEFINITIONS AND SPECIAL RULES.—  
9       For purposes of this section—

10          “(1) ALL ACCOUNTS TREATED AS ONE AC-  
11       COUNT.—All individual homestead accounts of a  
12       qualified individual shall be treated as 1 account.

13          “(2) TIME WHEN CONTRIBUTIONS DEEMED  
14       MADE.—A taxpayer shall be deemed to have made a  
15       contribution to an individual homestead account on  
16       the last day of the preceding taxable year if the con-  
17       tribution is made on account of such taxable year  
18       and is made not later than the time prescribed by  
19       law for filing the return for such taxable year (not  
20       including extensions thereof).

21          “(3) CUSTODIAL ACCOUNTS.—Rules similar to  
22       the rules of section 408(h) shall apply.

23          “(4) REPORTS.—The trustee of an individual  
24       homestead account shall make such reports regard-  
25       ing such account to the Secretary and to the indi-

vidual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

“(A) shall be filed at such time and in such manner as the Secretary prescribes in such regulations; and

“(B) shall be furnished to individuals—

“(i) not later than January 31 of the calendar year following the calendar year to which such reports relate; and

“(ii) in such manner as the Secretary prescribes in such regulations.

“(5) INVESTMENT IN COLLECTIBLES TREATED AS DISTRIBUTIONS.—Rules similar to the rules of section 408(m) shall apply.

“(i) DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO INDIVIDUAL HOMESTEAD ACCOUNT.—

“(1) IN GENERAL.—With respect to the return of any qualified individual for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than \$1) of any overpayment of tax for such taxable year

1       which is attributable to the earned income tax credit  
2       shall be deposited by the Secretary into an individual  
3       homestead account of such individual. The Secretary  
4       shall so deposit such portion designated under this  
5       subsection.

6               “(2) MANNER AND TIME OF DESIGNATION.—A  
7       designation under paragraph (1) may be made with  
8       respect to any taxable year—

9               “(A) at the time of filing the return of the  
10       tax imposed by this chapter for such taxable  
11       year, or

12               “(B) at any other time (after the time of  
13       filing the return of the tax imposed by this  
14       chapter for such taxable year) specified in regu-  
15       lations prescribed by the Secretary.

16       Such designation shall be made in such manner as  
17       the Secretary prescribes by regulations.

18               “(3) PORTION ATTRIBUTABLE TO EARNED IN-  
19       COME TAX CREDIT.—For purposes of this sub-  
20       section, an overpayment for any taxable year shall  
21       be treated as attributable to the earned income tax  
22       credit to the extent that such overpayment does not  
23       exceed the credit allowed to the taxpayer under sec-  
24       tion 32 for such taxable year.

1           “(4) OVERPAYMENTS TREATED AS RE-  
2 FUNDED.—For purposes of this title, any portion of  
3 an overpayment of tax designated under paragraph  
4 (1) shall be treated as being refunded to the tax-  
5 payer as of the last date prescribed for filing the re-  
6 turn of tax imposed by this chapter (determined  
7 without regard to extensions) or, if later, the date  
8 the return is filed.

9           “(j) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
10 QUALIFIED INDIVIDUAL HOMESTEAD EXPENSES.—

11           “(1) IN GENERAL.—If any amount is distrib-  
12 uted from an individual homestead account and is  
13 not used exclusively to pay qualified individual  
14 homestead expenses for the holder of the account or  
15 the spouse or dependent (as defined in section 152)  
16 of such holder, the tax imposed by this chapter for  
17 the taxable year of such distribution shall be in-  
18 creased by 10 percent of such amount which is in-  
19 cludible in gross income. For purposes of the pre-  
20 ceding sentence, distributions which are includable  
21 in gross income shall be treated as first attributable  
22 to amounts contributed under subsection (d) to the  
23 extent thereof.

1           “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distributions which are—

4                   “(A) made on or after the date on which  
5                   the account holder attains age 59½,

6                   “(B) made to a beneficiary (or the estate  
7                   of the account holder) on or after the death of  
8                   the account holder,

9                   “(C) attributable to the account holder’s  
10                  being disabled within the meaning of section  
11                  72(m)(7), or

12                  “(D) described in subsection (e)(2)(A).

13           “(k) APPLICATION OF SECTION.—This section shall  
14           apply to amounts paid to an individual homestead account  
15           for any taxable year beginning after December 31, 2001.”.

16           (b) TAX ON EXCESS CONTRIBUTIONS.—

17                   (1) TAX IMPOSED.—Subsection (a) of section  
18                   4973 is amended by striking “or” at the end of  
19                   paragraph (3), adding “or” at the end of paragraph  
20                   (4), and inserting after paragraph (4) the following:

21                   “(5) an individual homestead account (within  
22                   the meaning of section 530A(b)),”.

23                   (2) EXCESS CONTRIBUTIONS.—Section 4973 is  
24                   amended by adding at the end the following:

1       “(g) INDIVIDUAL HOMESTEAD ACCOUNTS.—For pur-  
2 poses of this section, in the case of individual homestead  
3 accounts, the term ‘excess contributions’ means the sum  
4 of—

5               “(1) the excess (if any) of—

6                       “(A) the amount contributed for the tax-  
7 able year to the accounts (other than a quali-  
8 fied rollover, as defined in section 530A(f)(7),  
9 or a contribution under section 530A(d)), over

10                      “(B) the amount allowable under section  
11 530A for such contributions; and

12               “(2) the amount determined under this sub-  
13 section for the preceding taxable year reduced by the  
14 sum of—

15                      “(A) the distributions out of the accounts  
16 for the taxable year which were included in the  
17 gross income of the payee under section  
18 530A(e)(1);

19                      “(B) the distributions out of the accounts  
20 for the taxable year to which rules similar to  
21 the rules of section 408(d)(5) apply by reason  
22 of section 530A(g)(2); and

23                      “(C) the excess (if any) of the maximum  
24 amount allowable as a contribution under sec-  
25 tion 530A for the taxable year over the amount

1 contributed to the account for the taxable year  
2 (other than a contribution under section  
3 530A(d)).

4 For purposes of this subsection, any contribution which  
5 is distributed from the individual homestead account in  
6 a distribution to which rules similar to the rules of section  
7 408(d)(4) apply by reason of section 530A(g)(2) shall be  
8 treated as an amount not contributed.”.

9 (c) TAX ON PROHIBITED TRANSACTIONS.—Section  
10 4975 is amended—

11 (1) by adding at the end of subsection (c) the  
12 following:

13 “(6) SPECIAL RULE FOR INDIVIDUAL HOME-  
14 STEAD ACCOUNTS.—An individual for whose benefit  
15 an individual homestead account is established and  
16 any contributor to such account shall be exempt  
17 from the tax imposed by this section with respect to  
18 any transaction concerning such account (which  
19 would otherwise be taxable under this section) if,  
20 with respect to such transaction, the account ceases  
21 to be an individual homestead account by reason of  
22 the application of section 530A(g)(1) to such ac-  
23 count.”; and

24 (2) in subsection (e)(1), by striking “or” at the  
25 end of subparagraph (E), by redesignating subpara-

1 graph (F) as subparagraph (G), and by inserting  
2 after subparagraph (E) the following:

3 “(F) an individual homestead account de-  
4 scribed in section 530A(b), or”.

5 (d) INFORMATION RELATING TO CERTAIN TRUSTS  
6 AND ANNUITY PLANS.—Subsection (c) of section 6047 is  
7 amended—

8 (1) by inserting “or section 530A” after “sec-  
9 tion 219”; and

10 (2) by inserting “, of any individual homestead  
11 account described in section 530A(b),” after “sec-  
12 tion 408(a)”.

13 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-  
14 TION.—Clause (i) of section 6104(a)(1)(B) is amended by  
15 inserting “an individual homestead account described in  
16 section 530A(b),” after “section 408(a),”.

17 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
18 HOMESTEAD ACCOUNTS.—Paragraph (2) of section  
19 6693(a) is amended by striking “and” at the end of sub-  
20 paragraph (C), by striking the period and inserting “,  
21 and” at the end of subparagraph (D), and by adding at  
22 the end the following:

23 “(E) section 530A(h)(4) (relating to indi-  
24 vidual homestead accounts).”.



1 (g) CLERICAL AMENDMENT.—The table of parts for  
 2 subchapter F of chapter 1 is amended by adding at the  
 3 end the following:

“Part IX. Individual homestead accounts.”.

## 4 **TITLE II—INCENTIVES FOR MAIN** 5 **STREET BUSINESSES**

### 6 **SEC. 201. RURAL INVESTMENT TAX CREDIT.**

7 (a) IN GENERAL.—Subpart D of part IV of sub-  
 8 chapter A of chapter 1 (relating to business related cred-  
 9 its) is amended by adding at the end the following:

#### 10 **“SEC. 42A. RURAL INVESTMENT CREDIT.**

11 “(a) IN GENERAL.—For purposes of section 38, the  
 12 amount of the rural investment credit determined under  
 13 this section for any taxable year in the credit period shall  
 14 be an amount equal to the applicable percentage of the  
 15 eligible basis of each qualified rural investment building.

16 “(b) APPLICABLE PERCENTAGE: 70 PERCENT  
 17 PRESENT VALUE CREDIT FOR NEW BUILDINGS; 30 PER-  
 18 CENT PRESENT VALUE CREDIT FOR EXISTING BUILD-  
 19 INGS.—For purposes of this section—

20 “(1) IN GENERAL.—The term ‘applicable per-  
 21 centage’ means the appropriate percentage pre-  
 22 scribed by the Secretary for the earlier of—

23 “(A) the first month of the credit period  
 24 with respect to a rural investment building, or

1           “(B) at the election of the taxpayer, the  
 2           month in which the taxpayer and the rural in-  
 3           vestment credit agency enter into an agreement  
 4           with respect to such building (which is binding  
 5           on such agency, the taxpayer, and all successors  
 6           in interest) as to the rural investment credit  
 7           dollar amount to be allocated to such building.

8           A month may be elected under subparagraph (B)  
 9           only if the election is made not later than the 5th  
 10          day after the close of such month. Such an election,  
 11          once made, shall be irrevocable.

12           “(2) METHOD OF PRESCRIBING PERCENT-  
 13          AGES.—The percentages prescribed by the Secretary  
 14          for any month shall be percentages which will yield  
 15          over a 10-year period amounts of credit under sub-  
 16          section (a) which have a present value equal to—

17                   “(A) 70 percent of the eligible basis of a  
 18                  new building, and

19                   “(B) 30 percent of the eligible basis of an  
 20                  existing building.

21           “(3) METHOD OF DISCOUNTING.—The present  
 22          value under paragraph (2) shall be determined—

23                   “(A) as of the last day of the 1st year of  
 24                  the 10-year period referred to in paragraph (2),

1           “(B) by using a discount rate equal to 72  
2           percent of the average of the annual Federal  
3           mid-term rate and the annual Federal long-  
4           term rate applicable under section 1274(d)(1)  
5           to the month applicable under subparagraph  
6           (A) or (B) of paragraph (1) and compounded  
7           annually, and

8           “(C) by assuming that the credit allowable  
9           under this section for any year is received on  
10          the last day of such year.

11          “(c) ELIGIBLE BASIS; QUALIFIED RURAL INVEST-  
12          MENT BUILDING.—For purposes of this section—

13               “(1) ELIGIBLE BASIS.—

14                   “(A) IN GENERAL.—The eligible basis of  
15                   any qualified rural investment building for any  
16                   taxable year shall be determined under rules  
17                   similar to the rules under section 42(d), except  
18                   that—

19                           “(i) the determination of the adjusted  
20                           basis of any building shall be made as of  
21                           the beginning of the credit period, and

22                           “(ii) such basis shall include develop-  
23                           ment costs properly attributable to such  
24                           building.

1                   “(B) DEVELOPMENT COSTS.—For pur-  
 2                   poses of subparagraph (A)(ii), the term ‘devel-  
 3                   opment costs’ includes—

4                               “(i) site preparation costs,

5                               “(ii) State and local impact fees,

6                               “(iii) reasonable development costs,

7                               “(iv) professional fees related to basis  
 8                   items,

9                               “(v) construction financing costs re-  
 10                   lated to basis items other than land, and

11                               “(vi) on-site and adjacent improve-  
 12                   ments required by State and local govern-  
 13                   ments.

14                   “(2) QUALIFIED RURAL INVESTMENT BUILD-  
 15                   ING.—The term ‘qualified rural investment building’  
 16                   means any building which is part of a qualified rural  
 17                   investment project at all times during the period—

18                               “(A) beginning on the 1st day in the com-  
 19                   pliance period on which such building is part of  
 20                   such an investment project, and

21                               “(B) ending on the last day of the compli-  
 22                   ance period with respect to such building.

23                   “(d) REHABILITATION EXPENDITURES TREATED AS  
 24                   SEPARATE NEW BUILDING.—Rehabilitation expenditures  
 25                   paid or incurred by the taxpayer with respect to any build-

1 ing shall be treated for purposes of this section as a sepa-  
 2 rate new building under the rules of section 42(e).

3 “(e) DEFINITION AND SPECIAL RULES RELATING TO  
 4 CREDIT PERIOD.—

5 “(1) CREDIT PERIOD DEFINED.—For purposes  
 6 of this section, the term ‘credit period’ means, with  
 7 respect to any building, the period of 10 taxable  
 8 years beginning with the taxable year in which the  
 9 building is first placed in service.

10 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT  
 11 PERIOD.—

12 “(A) IN GENERAL.—The credit allowable  
 13 under subsection (a) with respect to any build-  
 14 ing for the 1st taxable year of the credit period  
 15 shall be determined by multiplying such credit  
 16 by the fraction—

17 “(i) the numerator of which is the  
 18 number of full months of such year during  
 19 which such building was in service, and

20 “(ii) the denominator of which is 12.

21 “(B) DISALLOWED 1ST YEAR CREDIT AL-  
 22 LOWED IN 11TH YEAR.—Any reduction by rea-  
 23 son of subparagraph (A) in the credit allowable  
 24 (without regard to subparagraph (A)) for the  
 25 1st taxable year of the credit period shall be al-

1           lowable under subsection (a) for the 1st taxable  
2           year following the credit period.

3           “(3) CREDIT PERIOD FOR EXISTING BUILDINGS  
4           NOT TO BEGIN BEFORE REHABILITATION CREDIT  
5           ALLOWED.—The credit period for an existing build-  
6           ing shall not begin before the 1st taxable year of the  
7           credit period for rehabilitation expenditures with re-  
8           spect to the building.

9           “(f) QUALIFIED RURAL INVESTMENT PROJECT;  
10          QUALIFYING COUNTY.—For purposes of this section—

11           “(1) QUALIFIED RURAL INVESTMENT  
12          PROJECT.—The term ‘qualified rural investment  
13          project’ means any investment project of 1 or more  
14          qualified rural investment buildings located in a  
15          qualifying county (and, if necessary to the project,  
16          any contiguous county) and selected by the State ac-  
17          cording to its qualified rural investment plan.

18           “(2) QUALIFYING COUNTY.—The term ‘quali-  
19          fying county’ means any county which—

20           “(A) is outside a metropolitan statistical  
21          area (defined as such by the Office of Manage-  
22          ment and Budget), and

23           “(B) during the 20-year period ending  
24          with the calendar year preceding the date of the  
25          enactment of this section, has a net out-migra-

1           tion of inhabitants from the county of at least  
 2           10 percent of the population of the county at  
 3           the beginning of such period.

4           “(g) LIMITATION ON AGGREGATE CREDIT ALLOW-  
 5   ABLE WITH RESPECT TO INVESTMENT PROJECTS LO-  
 6   CATED IN A STATE.—

7           “(1) CREDIT MAY NOT EXCEED CREDIT  
 8   AMOUNT ALLOCATED TO BUILDING.—The amount of  
 9   the credit determined under this section for any tax-  
 10   able year with respect to any building shall not ex-  
 11   ceed the rural investment credit dollar amount allo-  
 12   cated to such building under rules similar to the  
 13   rules of section 42(h)(1).

14           “(2) ALLOCATED CREDIT AMOUNT TO APPLY  
 15   TO ALL TAXABLE YEARS ENDING DURING OR AFTER  
 16   CREDIT ALLOCATION YEAR.—Any rural investment  
 17   credit dollar amount allocated to any building for  
 18   any calendar year—

19           “(A) shall apply to such building for all  
 20   taxable years in the credit period ending during  
 21   or after such calendar year, and

22           “(B) shall reduce the aggregate rural in-  
 23   vestment credit dollar amount of the allocating  
 24   agency only for such calendar year.

1           “(3) RURAL INVESTMENT CREDIT DOLLAR  
2           AMOUNT FOR AGENCIES.—

3           “(A) IN GENERAL.—The aggregate rural  
4           investment credit dollar amount which a rural  
5           investment credit agency may allocate for any  
6           calendar year is the portion of the State rural  
7           investment credit ceiling allocated under this  
8           paragraph for such calendar year to such agen-  
9           cy.

10           “(B) STATE CEILING INITIALLY ALLO-  
11           CATED TO STATE RURAL INVESTMENT CREDIT  
12           AGENCIES.—Except as provided in subpara-  
13           graphs (D) and (E), the State rural investment  
14           credit ceiling for each calendar year shall be al-  
15           located to the rural investment credit agency of  
16           such State. If there is more than 1 rural invest-  
17           ment credit agency of a State, all such agencies  
18           shall be treated as a single agency.

19           “(C) STATE RURAL INVESTMENT CREDIT  
20           CEILING.—The State rural investment credit  
21           ceiling applicable to any State and any calendar  
22           year shall be an amount equal to the sum of—

23           “(i) the unused State rural investment  
24           credit ceiling (if any) of such State for the  
25           preceding calendar year,



1 “(ii) \$1,000,000 for each qualifying  
2 county in the State,

3 “(iii) the amount of State rural in-  
4 vestment credit ceiling returned in the cal-  
5 endar year, plus

6 “(iv) the amount (if any) allocated  
7 under subparagraph (D) to such State by  
8 the Secretary.

9 For purposes of clause (i), the unused State  
10 rural investment credit ceiling for any calendar  
11 year is the excess (if any) of the sum of the  
12 amounts described in clauses (ii) through (iv)  
13 over the aggregate rural investment credit dol-  
14 lar amount allocated for such year. For pur-  
15 poses of clause (iii), the amount of State rural  
16 investment credit ceiling returned in the cal-  
17 endar year equals the rural investment credit  
18 dollar amount previously allocated within the  
19 State to any investment project which fails to  
20 meet the 10 percent test under section  
21 42(h)(1)(E)(ii) on a date after the close of the  
22 calendar year in which the allocation was made  
23 or which does not become a qualified rural in-  
24 vestment project within the period required by  
25 this section or the terms of the allocation or to

1 any investment project with respect to which an  
2 allocation is canceled by mutual consent of the  
3 rural investment credit agency and the alloca-  
4 tion recipient.

5 “(D) UNUSED RURAL INVESTMENT CREDIT  
6 CARRYOVERS ALLOCATED AMONG CERTAIN  
7 STATES.—

8 “(i) IN GENERAL.—The unused rural  
9 investment credit carryover of a State for  
10 any calendar year shall be assigned to the  
11 Secretary for allocation among qualified  
12 States for the succeeding calendar year.

13 “(ii) UNUSED RURAL INVESTMENT  
14 CREDIT CARRYOVER.—For purposes of this  
15 subparagraph, the unused rural investment  
16 credit carryover of a State for any calendar  
17 year is the excess (if any) of the unused  
18 State rural investment credit ceiling for  
19 such year (as defined in subparagraph  
20 (C)(i)) over the excess (if any) of —

21 “(I) the unused State rural in-  
22 vestment credit ceiling for the year  
23 preceding such year, over

1 “(II) the aggregate rural invest-  
2 ment credit dollar amount allocated  
3 for such year.

4 “(iii) FORMULA FOR ALLOCATION OF  
5 UNUSED RURAL INVESTMENT CREDIT  
6 CARRYOVERS AMONG QUALIFIED  
7 STATES.—The amount allocated under this  
8 subparagraph to a qualified State for any  
9 calendar year shall be the amount deter-  
10 mined by the Secretary to bear the same  
11 ratio to the aggregate unused rural invest-  
12 ment credit carryovers of all States for the  
13 preceding calendar year as such State’s  
14 population for the calendar year bears to  
15 the population of all qualified States for  
16 the calendar year. For purposes of the pre-  
17 ceding sentence, population shall be deter-  
18 mined in accordance with section 146(j).

19 “(iv) QUALIFIED STATE.—For pur-  
20 poses of this subparagraph, the term  
21 ‘qualified State’ means, with respect to a  
22 calendar year, any State—

23 “(I) which allocated its entire  
24 State rural investment credit ceiling  
25 for the preceding calendar year, and

1                   “(II) for which a request is made  
2                   (not later than May 1 of the calendar  
3                   year) to receive an allocation under  
4                   clause (iii).

5                   “(E) STATE MAY PROVIDE FOR DIF-  
6                   FERENT ALLOCATION.—Rules similar to the  
7                   rules of section 146(e) (other than paragraph  
8                   (2)(B) thereof) shall apply for purposes of this  
9                   paragraph.

10                  “(F) POPULATION.—For purposes of this  
11                  paragraph, population shall be determined in  
12                  accordance with section 146(j).

13                  “(G) COST-OF-LIVING ADJUSTMENT.—

14                         “(i) IN GENERAL.—In the case of a  
15                         calendar year after 2002, the \$1,000,000  
16                         amount in subparagraph (C) shall be in-  
17                         creased by an amount equal to—

18                                 “(I) such dollar amount, multi-  
19                                 plied by

20   “(II) the cost-of-living adjust-  
21   ment determined under section  
22   1(f)(3) for such calendar year by sub-  
23   stituting ‘calendar year 2001’ for ‘cal-  
24   endar year 1992’ in subparagraph (B)  
25   thereof.

1                   “(ii) ROUNDING.—Any increase under  
2                   clause (i) which is not a multiple of \$5,000  
3                   shall be rounded to the next lowest mul-  
4                   tiple of \$5,000.

5                   “(4) PORTION OF STATE CEILING SET-ASIDE  
6                   FOR CERTAIN INVESTMENT PROJECTS INVOLVING  
7                   QUALIFIED NONPROFIT ORGANIZATIONS.—

8                   “(A) IN GENERAL.—At least 10 percent of  
9                   the State rural investment credit ceiling for any  
10                  State for any calendar year shall be allocated to  
11                  qualified rural investment projects described in  
12                  subparagraph (B).

13                  “(B) INVESTMENT PROJECTS INVOLVING  
14                  QUALIFIED NONPROFIT ORGANIZATIONS.—For  
15                  purposes of subparagraph (A), a qualified rural  
16                  investment project is described in this subpara-  
17                  graph if a qualified nonprofit organization is to  
18                  materially participate (within the meaning of  
19                  section 469(h)) in the development and oper-  
20                  ation of the investment project throughout the  
21                  compliance period.

22                  “(C) QUALIFIED NONPROFIT ORGANIZA-  
23                  TION.—For purposes of this paragraph, the  
24                  term ‘qualified nonprofit organization’ means  
25                  any organization if—

1 “(i) such organization is described in  
 2 any paragraph of section 501(c) and is ex-  
 3 empt from tax under section 501(a),

4 “(ii) such organization is determined  
 5 by the State rural investment credit agency  
 6 not to be affiliated with or controlled by a  
 7 for-profit organization; and

8 “(iii) 1 of the exempt purposes of  
 9 such organization includes the fostering of  
 10 rural investment.

11 “(D) TREATMENT OF CERTAIN SUBSIDI-  
 12 ARIES.—

13 “(i) IN GENERAL.—For purposes of  
 14 this paragraph, a qualified nonprofit orga-  
 15 nization shall be treated as satisfying the  
 16 ownership and material participation test  
 17 of subparagraph (B) if any qualified cor-  
 18 poration in which such organization holds  
 19 stock satisfies such test.

20 “(ii) QUALIFIED CORPORATION.—For  
 21 purposes of clause (i), the term ‘qualified  
 22 corporation’ means any corporation if 100  
 23 percent of the stock of such corporation is  
 24 held by 1 or more qualified nonprofit orga-

1           nizations at all times during the period  
2           such corporation is in existence.

3           “(E) STATE MAY NOT OVERRIDE SET-  
4           ASIDE.—Nothing in subparagraph (F) of para-  
5           graph (3) shall be construed to permit a State  
6           not to comply with subparagraph (A) of this  
7           paragraph.

8           “(F) CREDITS FOR QUALIFIED NONPROFIT  
9           ORGANIZATIONS.—

10          “(A) ALLOWANCE OF CREDIT.—Any credit  
11          which would be allowable under subsection (a)  
12          with respect to a qualified rural investment  
13          building of a qualified nonprofit organization if  
14          such organization were not exempt from tax  
15          under this chapter shall be treated as a credit  
16          allowable under subpart C to such organization.

17          “(B) USE OF CREDIT.—A qualified non-  
18          profit organization may assign, trade, sell, or  
19          otherwise transfer any credit allowable to such  
20          organization under subparagraph (A) to any  
21          taxpayer.

22          “(C) CREDIT NOT INCOME.—A transfer  
23          under subparagraph (B) of any credit allowable  
24          under subparagraph (A) shall not result in in-  
25          come for purposes of section 511.

1 “(5) SPECIAL RULES.—

2 “(A) BUILDING MUST BE LOCATED WITH-  
3 IN JURISDICTION OF CREDIT AGENCY.—A rural  
4 investment credit agency may allocate its aggre-  
5 gate rural investment credit dollar amount only  
6 to buildings located in the jurisdiction of the  
7 governmental unit of which such agency is a  
8 part.

9 “(B) AGENCY ALLOCATIONS IN EXCESS OF  
10 LIMIT.—If the aggregate rural investment cred-  
11 it dollar amounts allocated by a rural invest-  
12 ment credit agency for any calendar year exceed  
13 the portion of the State rural investment credit  
14 ceiling allocated to such agency for such cal-  
15 endar year, the rural investment credit dollar  
16 amounts so allocated shall be reduced (to the  
17 extent of such excess) for buildings in the re-  
18 verse of the order in which the allocations of  
19 such amounts were made.

20 “(C) CREDIT REDUCED IF ALLOCATED  
21 CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT  
22 WHICH WOULD BE ALLOWABLE WITHOUT RE-  
23 GARD TO SALES CONVENTION, ETC.—

24 “(i) IN GENERAL.—The amount of  
25 the credit determined under this section



1 with respect to any building shall not ex-  
 2 ceed the clause (ii) percentage of the  
 3 amount of the credit which would (but for  
 4 this subparagraph) be determined under  
 5 this section with respect to such building.

6 “(ii) DETERMINATION OF PERCENT-  
 7 AGE.—For purposes of clause (i), the  
 8 clause (ii) percentage with respect to any  
 9 building is the percentage which—

10 “(I) the rural investment credit  
 11 dollar amount allocated to such build-  
 12 ing bears to

13 “(II) the credit amount deter-  
 14 mined in accordance with clause (iii).

15 “(iii) DETERMINATION OF CREDIT  
 16 AMOUNT.—The credit amount determined  
 17 in accordance with this clause is the  
 18 amount of the credit which would (but for  
 19 this subparagraph) be determined under  
 20 this section with respect to the building if  
 21 this section were applied without regard to  
 22 paragraph (2)(A) of subsection (e).

23 “(D) RURAL INVESTMENT CREDIT AGENCY  
 24 TO SPECIFY APPLICABLE PERCENTAGE AND  
 25 MAXIMUM ELIGIBLE BASIS.—In allocating a

1 rural investment credit dollar amount to any  
2 building, the rural investment credit agency  
3 shall specify the applicable percentage and the  
4 maximum eligible basis which may be taken  
5 into account under this section with respect to  
6 such building. The applicable percentage and  
7 maximum eligible basis so specified shall not ex-  
8 ceed the applicable percentage and eligible basis  
9 determined under this section without regard to  
10 this subsection.

11 “(6) OTHER DEFINITIONS.—For purposes of  
12 this subsection—

13 “(A) RURAL INVESTMENT CREDIT AGEN-  
14 CY.—The term ‘rural investment credit agency’  
15 means any agency authorized to carry out this  
16 subsection.

17 “(B) POSSESSIONS TREATED AS  
18 STATES.—The term ‘State’ includes a posses-  
19 sion of the United States.

20 “(h) DEFINITIONS AND SPECIAL RULES.—For pur-  
21 poses of this section—

22 “(1) COMPLIANCE PERIOD.—The term ‘compli-  
23 ance period’ means, with respect to any building, the  
24 period of 10 taxable years beginning with the 1st

1 taxable year of the credit period with respect there-  
2 to.

3 “(2) NEW BUILDING.—The term ‘new building’  
4 means a building the original use of which begins  
5 with the taxpayer.

6 “(3) EXISTING BUILDING.—The term ‘existing  
7 building’ means any building which is not a new  
8 building.

9 “(4) APPLICATION TO ESTATES AND TRUSTS.—  
10 In the case of an estate or trust, the amount of the  
11 credit determined under subsection (a) and any in-  
12 crease in tax under subsection (i) shall be appor-  
13 tioned between the estate or trust and the bene-  
14 ficiaries on the basis of the income of the estate or  
15 trust allocable to each.

16 “(i) RECAPTURE OF CREDIT.—If—

17 “(1) as of the close of any taxable year in the  
18 compliance period, the amount of the eligible basis  
19 of any building with respect to the taxpayer is less  
20 than

21 “(2) the amount of such basis as of the close  
22 of the preceding taxable year,  
23 then the taxpayer’s tax under this chapter for the  
24 taxable year shall be increased by the credit recap-

1       ture amount determined under rules similar to the  
2       rules of section 42(j).

3       “(j) CERTIFICATIONS AND OTHER REPORTS TO SEC-  
4       RETARY.—

5               “(1) CERTIFICATION WITH RESPECT TO 1ST  
6       YEAR OF CREDIT PERIOD.—Following the close of  
7       the 1st taxable year in the credit period with respect  
8       to any qualified rural investment building, the tax-  
9       payer shall certify to the Secretary (at such time  
10       and in such form and in such manner as the Sec-  
11       retary prescribes)—

12               “(A) the taxable year, and calendar year,  
13       in which such building was first placed in serv-  
14       ice,

15               “(B) the eligible basis of such building as  
16       of the beginning of the credit period,

17               “(C) the maximum applicable percentage  
18       and eligible basis permitted to be taken into ac-  
19       count by the appropriate rural investment cred-  
20       it agency under subsection (g),

21               “(D) the election made under subsection  
22       (f) with respect to the qualified rural invest-  
23       ment project of which such building is a part,  
24       and

1                   “(E) such other information as the Sec-  
2                   retary may require.

3           In the case of a failure to make the certification re-  
4           quired by the preceding sentence on the date pre-  
5           scribed therefor, unless it is shown that such failure  
6           is due to reasonable cause and not to willful neglect,  
7           no credit shall be allowable by reason of subsection  
8           (a) with respect to such building for any taxable  
9           year ending before such certification is made.

10           “(2) ANNUAL REPORTS TO THE SECRETARY.—  
11           The Secretary may require taxpayers to submit an  
12           information return (at such time and in such form  
13           and manner as the Secretary prescribes) for each  
14           taxable year setting forth—

15                   “(A) the eligible basis for the taxable year  
16                   of each qualified rural investment building of  
17                   the taxpayer,

18                   “(B) the information described in para-  
19                   graph (1)(C) for the taxable year, and

20                   “(C) such other information as the Sec-  
21                   retary may require.

22           The penalty under section 6652(j) shall apply to any  
23           failure to submit the return required by the Sec-  
24           retary under the preceding sentence on the date pre-  
25           scribed therefor.

1           “(3) ANNUAL REPORTS FROM RURAL INVEST-  
 2           MENT CREDIT AGENCIES.—Each agency which allo-  
 3           cates any rural investment credit amount to any  
 4           building for any calendar year shall submit to the  
 5           Secretary (at such time and in such manner as the  
 6           Secretary shall prescribe) an annual report  
 7           specifying—

8                   “(A) the amount of rural investment credit  
 9                   amount allocated to each building for such year,

10                   “(B) sufficient information to identify each  
 11                   such building and the taxpayer with respect  
 12                   thereto, and

13                   “(C) such other information as the Sec-  
 14                   retary may require.

15           The penalty under section 6652(j) shall apply to any  
 16           failure to submit the report required by the pre-  
 17           ceding sentence on the date prescribed therefor.

18           “(k) RESPONSIBILITIES OF RURAL INVESTMENT  
 19           CREDIT AGENCIES.—

20                   “(1) PLANS FOR ALLOCATION OF CREDIT  
 21                   AMONG INVESTMENT PROJECTS.—

22                   “(A) IN GENERAL.—Notwithstanding any  
 23                   other provision of this section, the rural invest-  
 24                   ment credit dollar amount with respect to any  
 25                   building shall be zero unless—

1           “(i) such amount was allocated pursu-  
2           ant to a qualified rural investment plan of  
3           the agency which is approved by the gov-  
4           ernmental unit (in accordance with rules  
5           similar to the rules of section 147(f)(2)  
6           (other than subparagraph (B)(ii) thereof))  
7           of which such agency is a part,

8           “(ii) such agency notifies the chief ex-  
9           ecutive officer (or the equivalent) of the  
10          local jurisdiction within which the building  
11          is located of such investment project and  
12          provides such individual a reasonable op-  
13          portunity to comment on the investment  
14          project,

15          “(iii) a comprehensive market study  
16          of the development needs of individuals in  
17          the qualifying county to be served by the  
18          investment project is conducted before the  
19          credit allocation is made and at the devel-  
20          oper’s expense by a disinterested party who  
21          is approved by such agency, and

22          “(iv) a written explanation is available  
23          to the general public for any allocation of  
24          a rural investment credit dollar amount  
25          which is not made in accordance with es-

1           tablished priorities and selection criteria of  
2           the rural investment credit agency.

3           “(B) QUALIFIED RURAL INVESTMENT  
4           PLAN.—For purposes of this section, the term  
5           ‘qualified rural investment plan’ means any  
6           plan—

7                   “(i) which sets forth selection criteria  
8                   to be used to determine priorities of the  
9                   rural investment credit agency which are  
10                  appropriate to qualifying counties,

11                  “(ii) which also gives preference in al-  
12                  locating rural investment credit dollar  
13                  amounts among selected investment  
14                  projects to—

15                   “(I) investment projects that tar-  
16                   get those small rural counties with  
17                   consistently high rates of net out-mi-  
18                   gration,

19                   “(II) investment projects that  
20                   link the economic development and job  
21                   creation efforts of 2 or more small  
22                   rural counties with high rates of net  
23                   out-migration, and

24                   “(III) investment projects that  
25                   link the economic development and job



1 creation efforts of 1 or more small  
2 rural counties in the State with high  
3 rates of net out-migration to related  
4 efforts in regions of such State experi-  
5 encing economic growth, and

6 “(iii) which provides a procedure that  
7 the agency (or an agent or other private  
8 contractor of such agency) will follow in  
9 monitoring for noncompliance with the  
10 provisions of this section and in notifying  
11 the Internal Revenue Service of such non-  
12 compliance which such agency becomes  
13 aware of and in monitoring for noncompli-  
14 ance through regular site visits.

15 “(C) CERTAIN SELECTION CRITERIA MUST  
16 BE USED.—The selection criteria set forth in a  
17 qualified rural investment plan must include—

18 “(i) investment project location,

19 “(ii) technology and transportation in-  
20 frastructure needs, and

21 “(vi) private development trends.

22 “(2) CREDIT ALLOCATED TO BUILDING NOT TO  
23 EXCEED AMOUNT NECESSARY TO ASSURE INVEST-  
24 MENT PROJECT FEASIBILITY.—

1           “(A) IN GENERAL.—The rural investment  
2           credit dollar amount allocated to an investment  
3           project shall not exceed the amount the rural  
4           investment credit agency determines is nec-  
5           essary for the financial feasibility of the invest-  
6           ment project and its viability as a qualified  
7           rural investment project throughout the compli-  
8           ance period.

9           “(B) AGENCY EVALUATION.—In making  
10          the determination under subparagraph (A), the  
11          rural investment credit agency shall consider—

12               “(i) the sources and uses of funds and  
13               the total financing planned for the invest-  
14               ment project,

15               “(ii) any proceeds or receipts expected  
16               to be generated by reason of tax benefits,

17               “(iii) the percentage of the rural in-  
18               vestment credit dollar amount used for in-  
19               vestment project costs other than the cost  
20               of intermediaries, and

21               “(iv) the reasonableness of the devel-  
22               opmental and operational costs of the in-  
23               vestment project.

1           Clause (iii) shall not be applied so as to impede  
2           the development of investment projects in hard-  
3           to-develop areas.

4           “(C) DETERMINATION MADE WHEN CRED-  
5           IT AMOUNT APPLIED FOR AND WHEN BUILDING  
6           PLACED IN SERVICE.—

7           “(i) IN GENERAL.—A determination  
8           under subparagraph (A) shall be made as  
9           of each of the following times:

10           “(I) The application for the rural  
11           investment credit dollar amount.

12           “(II) The allocation of the rural  
13           investment credit dollar amount.

14           “(III) The date the building is  
15           first placed in service.

16           “(ii) CERTIFICATION AS TO AMOUNT  
17           OF OTHER SUBSIDIES.—Prior to each de-  
18           termination under clause (i), the taxpayer  
19           shall certify to the rural investment credit  
20           agency the full extent of all Federal, State,  
21           and local subsidies which apply (or which  
22           the taxpayer expects to apply) with respect  
23           to the building.

24           “(l) REGULATIONS.—The Secretary shall prescribe  
25           such regulations as may be necessary or appropriate to

1 carry out the purposes of this section, including  
2 regulations—

3 “(1) dealing with—

4 “(A) investment projects which include  
5 more than 1 building or only a portion of a  
6 building,

7 “(B) buildings which are sold in portions,

8 “(2) providing for the application of this section  
9 to short taxable years,

10 “(3) preventing the avoidance of the rules of  
11 this section, and

12 “(4) providing the opportunity for rural invest-  
13 ment credit agencies to correct administrative errors  
14 and omissions with respect to allocations and record  
15 keeping within a reasonable period after their dis-  
16 covery, taking into account the availability of regula-  
17 tions and other administrative guidance from the  
18 Secretary.”.

19 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-  
20 TION.—Section 38(b) (relating to current year business  
21 credit) is amended by striking “plus” at the end of para-  
22 graph (14), by striking the period at the end of paragraph  
23 (15) and inserting “, plus”, and by adding at the end the  
24 following:

1           “(16) the rural investment credit determined  
2           under section 42A(a).”.

3           (c) LIMITATION ON CARRYBACK.—Subsection (d) of  
4           section 39 (relating to carryback and carryforward of un-  
5           used credits) is amended by adding at the end the fol-  
6           lowing:

7           “(11) NO CARRYBACK OF RURAL INVESTMENT  
8           CREDIT BEFORE EFFECTIVE DATE.—No amount of  
9           unused business credit available under section 42A  
10          may be carried back to a taxable year ending the  
11          date of the enactment of this paragraph.”.

12          (d) CONFORMING AMENDMENTS.—

13           (1) Section 55(c)(1) is amended by inserting  
14           “or subsection (i) or (j) of section 42A” after “sec-  
15           tion 42”.

16           (2) Subsections (i)(c)(3), (i)(c)(6)(B)(i), and  
17           (k)(1) of section 469 are each amended by inserting  
18           “or 42A” after “section 42”.

19           (3) Section 772(a) is amended by striking  
20           “and” at the end of paragraph (10), by redesign-  
21           nating paragraph (11) as paragraph (12), and by in-  
22           serting after paragraph (10) the following:

23           “(11) the rural investment credit determined  
24           under section 42A, and”.

1 (4) Section 774(b)(4) is amended by inserting  
 2 “, 42A(i),” after “section 42(j)”.

3 (e) CLERICAL AMENDMENT.—The table of sections  
 4 for subpart D of part IV of subchapter A of chapter 1  
 5 is amended by inserting after the item relating to section  
 6 42 the following:

“Sec. 42A. Rural investment credit.”.

7 (f) EFFECTIVE DATE.—The amendments made by  
 8 this section shall apply to expenditures made in taxable  
 9 years beginning after December 31, 2001.

10 **SEC. 202. ACCELERATED DEPRECIATION FOR RURAL IN-**  
 11 **VESTMENT PROPERTY.**

12 (a) IN GENERAL.—Section 168 is amended by adding  
 13 at the end the following:

14 “(k) PROPERTY IN RURAL INVESTMENT  
 15 PROJECTS.—

16 “(1) IN GENERAL.—For purposes of subsection  
 17 (a), the applicable recovery period for qualified rural  
 18 investment property shall be determined in accord-  
 19 ance with the table contained in paragraph (2) in  
 20 lieu of the table contained in subsection (c).

21 “(2) APPLICABLE RECOVERY PERIOD FOR  
 22 RURAL INVESTMENT PROPERTY.—For purposes of  
 23 paragraph (1)—

<b>“In the case of:</b>	<b>The applicable recovery period is:</b>
3-year property .....	2 years
5-year property .....	3 years

<b>“In the case of:</b>	<b>The applicable recovery period is:</b>
7-year property .....	4 years
10-year property .....	6 years
15-year property .....	9 years
20-year property .....	12 years
Nonresidential real property .....	22 years.

1           “(3) DEDUCTION ALLOWED IN COMPUTING  
2       MINIMUM TAX.—For purposes of determining alter-  
3       native minimum taxable income under section 55,  
4       the deduction under subsection (a) for property to  
5       which paragraph (1) applies shall be determined  
6       under this section without regard to any adjustment  
7       under section 56.

8           “(4) QUALIFIED RURAL INVESTMENT PROP-  
9       ERTY DEFINED.—For purposes of this subsection—  
10           “(A) IN GENERAL.—The term ‘qualified  
11       rural investment property’ means property  
12       which is property described in the table in para-  
13       graph (2) and which is—

14           “(i) used by the taxpayer predomi-  
15       nantly in the active conduct of a trade or  
16       business within a qualified rural invest-  
17       ment project,

18           “(ii) not used or located outside the  
19       qualified rural investment project on a reg-  
20       ular basis,

21           “(iii) not acquired (directly or indi-  
22       rectly) by the taxpayer from a person who

1 is related to the taxpayer (within the  
2 meaning of section 465(b)(3)(C)), and

3 “(iv) not property (or any portion  
4 thereof) placed in service for purposes of  
5 operating any facility described in section  
6 144(c)(6)(B).

7 “(B) EXCEPTION FOR ALTERNATIVE DE-  
8 PRECIATION PROPERTY.—The term ‘qualified  
9 rural investment property’ does not include any  
10 property to which the alternative depreciation  
11 system under subsection (g) applies,  
12 determined—

13 “(i) without regard to subsection  
14 (g)(7) (relating to election to use alter-  
15 native depreciation system), and

16 “(ii) after the application of section  
17 280F(b) (relating to listed property with  
18 limited business use).

19 “(C) SPECIAL RULE FOR INFRASTRUCTURE  
20 INVESTMENT.—

21 “(i) IN GENERAL.—Subparagraph  
22 (A)(ii) shall not apply to qualified infra-  
23 structure property located outside of the  
24 qualified rural investment project if the  
25 purpose of such property is to connect with



1 qualified infrastructure property located  
2 within such project.

3 “(ii) QUALIFIED INFRASTRUCTURE  
4 PROPERTY.—For purposes of this subpara-  
5 graph, the term ‘qualified infrastructure  
6 property’ means qualified rural investment  
7 property (determined without regard to  
8 subparagraph (A)(ii)) which—

9 “(I) benefits the qualifying coun-  
10 ty infrastructure,

11 “(II) is available to the general  
12 public, and

13 “(III) is placed in service in con-  
14 nection with the taxpayer’s active con-  
15 duct of a trade or business within a  
16 qualified rural investment project.

17 Such term includes, but is not limited to,  
18 roads, power lines, water systems, railroad  
19 spurs, and communications facilities.

20 “(5) DEFINITIONS.—For purposes of this sub-  
21 section, any term used in this section which is used  
22 in section 42A shall have the meaning given such  
23 term by section 42A.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
 2 this section shall apply to property placed in service after  
 3 December 31, 2001.

4 **TITLE III—NEW HOMESTEAD**  
 5 **VENTURE CAPITAL FUND**

6 **SEC. 301. NEW HOMESTEAD VENTURE CAPITAL FUND.**

7 The Consolidated Farm and Rural Development Act  
 8 (7 U.S.C. 1921 et seq.) is amended by adding at the end  
 9 the following:

10 **“Subtitle G—New Homestead**  
 11 **Venture Capital Fund**

12 **“SEC. 383A. SHORT TITLE.**

13 “This subtitle may be cited as the ‘New Homestead  
 14 Venture Capital Fund Act’.

15 **“SEC. 383B. DEFINITIONS.**

16 “In this subtitle:

17 “(1) AUTHORIZED PRIVATE INVESTOR.—The  
 18 term ‘authorized private investor’ means an indi-  
 19 vidual, legal entity, or affiliate or subsidiary of an  
 20 individual or legal entity that—

21 “(A) is eligible to receive a loan guarantee  
 22 under this title;

23 “(B) is eligible to receive a loan guarantee  
 24 under the Rural Electrification Act of 1936 (7  
 25 U.S.C. 901 et seq.);

1           “(C) is created under the National Con-  
2           sumer Cooperative Bank Act (12 U.S.C. 3011  
3           et seq.);

4           “(D) is an insured depository institution  
5           subject to section 383D(b)(2);

6           “(E) is a Farm Credit System institution  
7           described in section 1.2(a) of the Farm Credit  
8           Act of 1971 (12 U.S.C. 2002(a)); or

9           “(F) is determined by the Board to be an  
10          appropriate investor in the Fund.

11          “(2) BOARD.—The term ‘Board’ means the  
12          board of directors of the Fund established under  
13          section 383F.

14          “(3) FUND.—The term ‘Fund’ means the New  
15          Homestead Venture Capital Fund established under  
16          section 383C.

17          “(4) GROUP OF SIMILAR AUTHORIZED PRIVATE  
18          INVESTORS.—The term ‘group of similar authorized  
19          private investors’ means any 1 of the following:

20               “(A) Insured depository institutions with  
21               total assets of more than \$250,000,000.

22               “(B) Insured depository institutions with  
23               total assets equal to or less than \$250,000,000.

1           “(C) Farm Credit System institutions de-  
2           scribed in section 1.2(a) of the Farm Credit Act  
3           of 1971 (12 U.S.C. 2002(a)).

4           “(D) Cooperative financial institutions  
5           (other than Farm Credit System institutions).

6           “(E) Authorized private investors, other  
7           than those described in subparagraphs (A)  
8           through (D).

9           “(F) Other nonprofit organizations, includ-  
10          ing credit unions.

11          “(5) INSURED DEPOSITORY INSTITUTION.—The  
12          term ‘insured depository institution’ means any bank  
13          or savings association the deposits of which are in-  
14          sured under the Federal Deposit Insurance Act (12  
15          U.S.C. 1811 et seq.).

16          “(6) QUALIFYING COUNTY.—The term ‘quali-  
17          fying county’ means any county that—

18               “(A) is located outside a metropolitan sta-  
19               tistical area (as defined by the Office of Man-  
20               agement and Budget); and

21               “(B) during the 20-year period ending  
22               with the fiscal year preceding the applicable fis-  
23               cal year for which assistance is made available  
24               under section 383E, has a net outmigration of  
25               inhabitants from the county of at least 10 per-

1           cent of the population of the county at the be-  
2           ginning of the period.

3           “(7) RURAL BUSINESS.—The term ‘rural busi-  
4           ness’ means a rural cooperative, a value-added agri-  
5           cultural enterprise, or any other enterprise that is or  
6           will be located in a qualifying county.

7   **“SEC. 383C. ESTABLISHMENT OF THE FUND.**

8           “(a) IN GENERAL.—

9           “(1) AUTHORITY TO ESTABLISH.—Upon certifi-  
10          cation by the Secretary that, to the maximum extent  
11          practicable, the parties proposing to establish a fund  
12          provide a broad representation of all of the groups  
13          of similar authorized private investors described in  
14          subparagraphs (A) through (F) of section 383B(4),  
15          the parties so certified may establish, a non-Federal  
16          entity under State law, to purchase shares of, and  
17          manage a fund to be known as the ‘New Homestead  
18          Venture Capital Fund’, to generate and provide eq-  
19          uity capital to rural businesses.

20          “(2) OWNERSHIP.—

21                 “(A) IN GENERAL.—To the maximum ex-  
22                 tent practicable, equity ownership of the Fund  
23                 shall be distributed among authorized private  
24                 investors representing all of the groups of simi-  
25                 lar authorized private investors described in

1           subparagraphs (A) through (F) of section  
2           383B(4).

3           “(B) EXCLUSION OF GROUPS.—No group  
4           of similar authorized private investors shall be  
5           excluded from equity ownership of the Fund  
6           during any period during which the Fund is in  
7           existence if an authorized private investor rep-  
8           resentative of the group is able and willing to  
9           invest in the Fund.

10          “(b) PURPOSE.—The purpose of the Fund is to  
11       strengthen the economies of qualifying counties by—

12               “(1) making needed investments in qualifying  
13           counties to reverse the devastating impact of chronic  
14           outmigration and to help the qualifying counties re-  
15           build and grow;

16               “(2) providing equity funding for existing and  
17           startup rural businesses with high potential for job  
18           creation that are or will be located in qualifying  
19           counties;

20               “(3) offering the funding described in para-  
21           graph (2) to rural businesses, many of which have  
22           difficulty obtaining equity capital;

23               “(4) authorizing use of the funding described in  
24           paragraph (2) only after State and local govern-  
25           ments match a significant portion of the funding;

1           “(5) requiring a portion of the funding de-  
 2       scribed in paragraph (2) to be used for technical and  
 3       other similar assistance to rural businesses; and

4           “(6) providing incentives to greater participa-  
 5       tion by authorized private investors through provi-  
 6       sion of guarantees of up to 60 percent of the invest-  
 7       ments of the authorized private investors in quali-  
 8       fying counties.

9       “(c) ARTICLES OF INCORPORATION AND BY-LAWS.—  
 10   The articles of incorporation and by-laws of the Fund shall  
 11   set forth purposes of the Fund that are consistent with  
 12   the purposes described in subsection (b).

13   **“SEC. 383D. INVESTMENT IN THE FUND.**

14       “(a) IN GENERAL.—The Secretary shall—

15           “(1) subject to subsection (b)(1), make avail-  
 16       able to the Fund \$200,000,000 for each of fiscal  
 17       years 2002 through 2011;

18           “(2) subject to subsection (c), guarantee a por-  
 19       tion of each investment made by an authorized pri-  
 20       vate investor in the Fund; and

21           “(3) subject to subsection (d), guarantee the re-  
 22       payment of principal of, and accrued interest on, de-  
 23       bentures issued by the Fund to authorized private  
 24       investors.

25       “(b) NON-FEDERAL FUNDS.—

1           “(1) IN GENERAL.—Under subsection (a)(1),  
2           the Secretary shall make an amount available to the  
3           Fund for a fiscal year only after—

4                   “(A) at least \$50,000,000 has been in-  
5                   vested in the Fund for the fiscal year by au-  
6                   thorized private investors in accordance with  
7                   this subtitle and the terms and conditions set  
8                   forth in the by-laws of the Fund; and

9                   “(B) at least \$50,000,000 has been in-  
10                  vested in the Fund for the fiscal year by State  
11                  and local governments.

12           “(2) INSURED DEPOSITORY INSTITUTIONS.—

13                   “(A) IN GENERAL.—Subject to subpara-  
14                   graphs (B) and (C)—

15                           “(i) an insured depository institution  
16                           may be an authorized private investor in  
17                           the Fund; and

18                           “(ii) an investment in the Fund may  
19                           be considered to be part of the record of  
20                           an institution in meeting the credit needs  
21                           of the community in which the institution  
22                           is located under any applicable Federal  
23                           law.

24                   “(B) INVESTMENT LIMIT.—The total in-  
25                  vestment in the Fund of an insured depository



1 institution shall not exceed 5 percent of the in-  
 2 stitution's capital and surplus.

3 “(C) REGULATORY AUTHORITY.—An ap-  
 4 propriate Federal banking agency may, by regu-  
 5 lation or order, impose on any insured deposi-  
 6 tory institution investing in the Fund, any safe-  
 7 guard, limitation, or condition (including an in-  
 8 vestment limit that is lower than the investment  
 9 limit under subparagraph (B)) that the Federal  
 10 banking agency considers to be appropriate to  
 11 ensure that the institution operates—

12 “(i) in a financially sound manner;  
 13 and  
 14 “(ii) in compliance with all applicable  
 15 law.

16 “(c) GUARANTEE OF PRIVATE INVESTMENTS.—

17 “(1) IN GENERAL.—The Secretary shall guar-  
 18 antee, under terms and conditions determined by the  
 19 Secretary—

20 “(A) except as provided in subparagraph  
 21 (B), 40 percent of any loss of the principal of  
 22 each investment made by an authorized private  
 23 investor in the Fund; and

24 “(B) 60 percent of any loss of the prin-  
 25 cipal of each investment made by an authorized

1 private investor in the Fund if the investment  
2 is used for a manufacturing or high-technology  
3 business.

4 “(2) MAXIMUM TOTAL GUARANTEE.—The ag-  
5 gregate potential liability of the Secretary with re-  
6 spect to all guarantees under paragraph (1) shall  
7 not apply to more than \$500,000,000 in private in-  
8 vestments in the Fund.

9 “(3) REDEMPTION OF GUARANTEE.—

10 “(A) DATE.—An authorized private inves-  
11 tor in the Fund may redeem a guarantee under  
12 paragraph (1), with respect to the total invest-  
13 ments in the Fund and the total losses of the  
14 authorized private investor as of the date of  
15 redemption—

16 “(i) on the date that is 5 years after  
17 the date of the initial investment of the au-  
18 thorized private investor; or

19 “(ii) annually thereafter.

20 “(B) EFFECT OF REDEMPTION.—On re-  
21 demption of a guarantee under subparagraph  
22 (A)—

23 “(i) the shares in the Fund of the au-  
24 thorized private investor shall be redeemed;  
25 and

1                   “(ii) the authorized private investor  
2                   shall be prohibited from making any future  
3                   investment in the Fund.

4           “(d) DEBENTURES.—

5                   “(1) IN GENERAL.—The Fund may, at the dis-  
6                   cretion of the Board, raise additional capital through  
7                   the issuance of debentures and through other means  
8                   determined to be appropriate by the Board.

9                   “(2) GUARANTEE OF DEBT BY SECRETARY.—

10                   “(A) IN GENERAL.—The Secretary shall  
11                   guarantee 100 percent of the principal of, and  
12                   accrued interest on, debentures issued by the  
13                   Fund that are approved by the Secretary.

14                   “(B) MAXIMUM DEBT GUARANTEED BY  
15                   SECRETARY.—The outstanding value of debentures  
16                   issued by the Fund and guaranteed by  
17                   the Secretary shall not exceed the lesser of—

18                   “(i) the amount equal to twice the  
19                   value of the assets held by the Fund; or

20                   “(ii) \$500,000,000.

21                   “(C) RECAPTURE OF GUARANTEE PAY-  
22                   MENTS.—If the Secretary makes a payment on  
23                   a debenture issued by the Fund as a result of  
24                   a guarantee of the Secretary under this para-

1 graph, the Secretary shall have priority over  
 2 other creditors for repayment of the debenture.

3 “(3) AUTHORIZED PRIVATE INVESTORS.—An  
 4 authorized private investor may purchase debentures  
 5 issued by the Fund.

6 **“SEC. 383E. INVESTMENTS AND OTHER ACTIVITIES OF THE**  
 7 **FUND.**

8 “(a) INVESTMENTS.—

9 “(1) IN GENERAL.—

10 “(A) TYPES.—Subject to subparagraphs  
 11 (B) and (C), the Fund may—

12 “(i) make equity investments in a  
 13 rural business that meets the requirements  
 14 of paragraph (6) and such other require-  
 15 ments as the Board may establish; and

16 “(ii) extend credit to such rural busi-  
 17 ness in—

18 “(I) the form of mezzanine debt,  
 19 convertible debt, or subordinated debt;  
 20 or

21 “(II) any other form of near-eq-  
 22 uity debt.

23 “(B) LIMITATIONS ON EQUITY INVEST-  
 24 MENTS.—After the initial equity investment in  
 25 a rural business described in subparagraph

1 (A)(i), the Fund may not make additional eq-  
2 uity investments in such rural business if the  
3 additional equity investments would result in  
4 the Fund owning more than 30 percent of the  
5 equity of such rural business.

6 “(C) LIMITATION ON NONEQUITY INVEST-  
7 MENTS.—Except in the case of a project to as-  
8 sist a rural cooperative, the total amount of  
9 nonequity investments described in subpara-  
10 graph (A)(ii) that may be provided by the Fund  
11 shall not exceed 20 percent of the total invest-  
12 ments of the Fund in the project.

13 “(2) PROCEDURES.—The Fund shall implement  
14 procedures to ensure that—

15 “(A) the financing arrangements of the  
16 Fund meet the Fund’s primary focus of pro-  
17 viding equity capital; and

18 “(B) the Fund does not compete with con-  
19 ventional sources of credit.

20 “(3) DIVERSITY OF PROJECTS.—The Fund—

21 “(A) shall seek to make equity investments  
22 in a variety of viable projects for rural busi-  
23 nesses, with a significant share of  
24 investments—

1 “(i) in manufacturing or high-tech-  
2 nology businesses of diverse sizes;

3 “(ii) in smaller projects in rural com-  
4 munities of diverse sizes; and

5 “(iii) in cooperative and noncoopera-  
6 tive businesses; and

7 “(B) shall be managed in a manner that  
8 diversifies the risks to the Fund among a vari-  
9 ety of projects.

10 “(4) LIMITATION ON RURAL BUSINESSES AS-  
11 SISTED.—The Fund shall not invest in any rural  
12 business that—

13 “(A) is primarily retail in nature (as deter-  
14 mined by the Board), other than a purchasing  
15 cooperative, or

16 “(B) consists of the operation of any facil-  
17 ity described in section 144(c)(6)(B).

18 “(5) INTEREST RATE LIMITATIONS.—Returns  
19 on investments in and by the Fund, and returns on  
20 the extension of credit by participants in projects as-  
21 sisted by the Fund, shall not be subject to any State  
22 or Federal law establishing a maximum allowable in-  
23 terest rate.

24 “(6) REQUIREMENTS FOR RECIPIENTS.—

1           “(A) OTHER INVESTMENTS.—Any recipi-  
2           ent of amounts from the Fund shall make or  
3           obtain a significant investment from a source of  
4           capital other than the Fund.

5           “(B) SPONSORSHIP.—To be considered for  
6           an equity investment from the Fund, a rural  
7           business investment project shall be sponsored  
8           by a regional, State, or local sponsoring or en-  
9           dorsing organization such as—

10                   “(i) a financial institution;

11                   “(ii) a development organization; or

12                   “(iii) any other established entity en-  
13                   gaging or assisting in rural business devel-  
14                   opment, including a rural cooperative.

15           “(b) TECHNICAL ASSISTANCE.—The Board shall use  
16           not less than 2 percent of capital provided by the Federal  
17           Government to provide technical assistance to rural busi-  
18           nesses seeking an equity investment from the Fund.

19           “(c) ANNUAL AUDIT.—

20                   “(1) IN GENERAL.—The Board shall authorize  
21           an annual audit of the financial statements of the  
22           Fund by a nationally recognized auditing firm using  
23           generally accepted accounting procedures.

1           “(2) AVAILABILITY OF AUDIT RESULTS.—The  
2       results of the audit required by paragraph (1) shall  
3       be made available to investors in the Fund.

4           “(d) ANNUAL REPORT.—The Board shall prepare  
5       and make available to the public an annual report that—

6           “(1) describes the projects funded with amounts  
7       from the Fund;

8           “(2) specifies the recipients of amounts from  
9       the Fund;

10          “(3) specifies the co-investors in all projects  
11       that receive amounts from the Fund; and

12          “(4) meets the reporting requirements, if any,  
13       of the State under the law of which the Fund is es-  
14       tablished.

15          “(e) OTHER AUTHORITIES.—

16          “(1) IN GENERAL.—The Board may exercise  
17       such other authorities as are necessary to carry out  
18       this subtitle.

19          “(2) OVERSIGHT.—The Secretary shall enter  
20       into a contract with the Administrator of the Small  
21       Business Administration under which the Adminis-  
22       trator of the Small Business Administration shall be  
23       responsible for the routine duties of the Secretary in  
24       regard to the Fund.



1 **“SEC. 383F. GOVERNANCE OF THE FUND.**

2 “(a) IN GENERAL.—The Fund shall be governed by  
3 a board of directors that represents all of the authorized  
4 private investors in the Fund and the Federal Government  
5 and that consists of—

6 “(1) a designee of the Secretary;

7 “(2) 2 members who are appointed by the Sec-  
8 retary and are not Federal employees, including—

9 “(A) 1 member with expertise in venture  
10 capital investment; and

11 “(B) 1 member with expertise in coopera-  
12 tive development;

13 “(3) 1 member who is appointed by the Sec-  
14 retary and is a State government representative  
15 from among States with the highest rates of out-  
16 migration from qualifying counties; and

17 “(4) 7 members who are elected by the author-  
18 ized private investors with investments in the Fund,  
19 of whom not less than 1 member shall be a rural  
20 community banker from an insured depository insti-  
21 tution with total assets equal to or less than  
22 \$250,000,000 with an investment in the Fund.

23 “(b) LIMITATION ON VOTING CONTROL.—No indi-  
24 vidual investor or group of similar authorized private in-  
25 vestors may control more than 25 percent of the votes on  
26 the Board.

1 **“SEC. 383G. AUTHORIZATION OF APPROPRIATIONS.**

2       “**There are authorized to be appropriated such sums**

3 **as are necessary to carry out this subtitle.”.**

○