

107TH CONGRESS
1ST SESSION

S. 1860

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.

IN THE SENATE OF THE UNITED STATES

DECEMBER 20 (legislative day, DECEMBER 18), 2001

Mr. DORGAN (for himself and Mr. HAGEL) introduced the following bill; which was read twice and referred to the Committee on Finance

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
9 to, or repeal of, a section or other provision, the reference

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

3 (c) TABLE OF CONTENTS.—The table of contents for
 4 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.

5 **TITLE I—NEW HOMESTEAD** 6 **OPPORTUNITIES**

7 **SEC. 101. LOANS FOR LEADERSHIP INITIATIVE.**

8 (a) DEFINITIONS.—In this section:

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

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

16 (3) QUALIFYING COUNTY.—The term ‘quali-
 17 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 with
 5 the calendar year preceding the date of enact-
 6 ment of this Act, has a net out-migration of in-
 7 habitants from the county of at least 10 percent
 8 of the population of the county at the beginning
 9 of such period.

10 (4) SECRETARY.—The term “Secretary” means
 11 the Secretary of Education.

12 (b) PROGRAM.—

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

22 (A) completes a degree;

23 (B) resides in a qualifying county; and

24 (C) is employed in a qualifying county.

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

4 (c) LOAN REPAYMENT.—

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

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

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

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

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

23 (3) CONSTRUCTION.—Nothing in this section
 24 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:

“If the sale occurs in:	The applicable recapture percentage is:
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:

“If modified adjusted gross income is:	The applicable percentage is:
\$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)):

“If modified adjusted gross income is:	The applicable percentage is:
\$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)(92)(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

any investment project with respect to which an allocation is canceled by mutual consent of the rural investment credit agency and the allocation recipient.

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

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

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

“(I) the unused State rural investment credit ceiling for the year 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)—

“In the case of:	The applicable recovery period is:
3-year property	2 years
5-year property	3 years

“In the case of:	The applicable recovery period is:
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.”.**

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