

107<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# S. 2882

To amend the Internal Revenue Code of 1986 to modify the tax credit  
for holders of qualified zone academy bonds.

---

IN THE SENATE OF THE UNITED STATES

AUGUST 1, 2002

Mr. CONRAD (for himself, Mr. JOHNSON, and Mr. ROCKEFELLER) introduced  
the following bill; which was read twice and referred to the Committee  
on Finance

---

## A BILL

To amend the Internal Revenue Code of 1986 to modify  
the tax credit for holders of qualified zone academy bonds.

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. MODIFICATIONS OF TREATMENT OF QUALI-**  
4 **FIED ZONE ACADEMY BONDS.**

5 (a) PROCEEDS OF BONDS MAY BE USED FOR CON-  
6 STRUCTION.—Paragraph (5) of section 1397E(d) of the  
7 Internal Revenue Code of 1986 (defining qualified pur-  
8 pose) is amended—

1           (1) by striking “rehabilitating or repairing” in  
2           subparagraph (A) and inserting “constructing, reha-  
3           bilitating, or repairing”, and

4           (2) by redesignating subparagraphs (B), (C),  
5           and (D) as subparagraphs (C), (D), and (E), respec-  
6           tively, and by inserting after subparagraph (A) the  
7           following:

8                     “(B) acquiring the land on which the facil-  
9                     ity is to be constructed.”.

10          (b) REPEAL OF LIMITATION ON TAXPAYERS ELIGI-  
11          BLE FOR CREDIT.—

12           (1) IN GENERAL.—Section 1397E(a) of such  
13          Code (relating to allowance of credit) is amended by  
14          striking “an eligible taxpayer” and inserting “a tax-  
15          payer”.

16           (2) CONFORMING AMENDMENT.—Section  
17          1397E(d)(6) of such Code is amended to read as fol-  
18          lows:

19                     “(6) BONDS HELD BY REGULATED INVEST-  
20                     MENT COMPANIES.—If any qualified zone academy  
21                     bond is held by a regulated investment company, the  
22                     credit determined under subsection (a) shall be al-  
23                     lowed to shareholders of such company under proce-  
24                     dures prescribed by the Secretary.”

1 (c) CREDITS MAY BE STRIPPED.—Section 1397E of  
2 such Code is amended by adding at the end the following  
3 new subsection:

4 “(i) CREDITS MAY BE STRIPPED.—Under regula-  
5 tions prescribed by the Secretary—

6 “(1) IN GENERAL.—There may be a separation  
7 (including at issuance) of the ownership of a quali-  
8 fied zone academy bond and the entitlement to the  
9 credit under this section with respect to such bond.  
10 In case of any such separation, the credit under this  
11 section shall be allowed to the person who on the  
12 credit allowance date holds the instrument evidenc-  
13 ing the entitlement to the credit and not to the hold-  
14 er of the bond.

15 “(2) CERTAIN RULES TO APPLY.—In the case  
16 of a separation described in paragraph (1), the rules  
17 of section 1286 shall apply to the qualified zone  
18 academy bond as if it were a stripped bond and to  
19 the credit under this section as if it were a stripped  
20 coupon.”

21 (d) ALLOCATION OF CREDIT AUTHORITY.—

22 (1) ALLOCATION OF LIMITATION.—Section  
23 1397(e)(2) of the Internal Revenue Code of 1986 is  
24 amended to read as follows:

25 “(2) ALLOCATION OF LIMITATION.—

1 “(A) ALLOCATION AMONG STATES.—

2 “(i) 1998, 1999, 2000, 2001, AND 2002  
3 LIMITATIONS.—The national zone academy  
4 bond limitations for calendar years 1998,  
5 1999, 2000, 2001, and 2002 shall be allo-  
6 cated by the Secretary among the States  
7 on the basis of their respective populations  
8 of individuals below the poverty line (as de-  
9 fined by the Office of Management and  
10 Budget).

11 “(ii) LIMITATION AFTER 2002.—The  
12 national zone academy bond limitation for  
13 any calendar year after 2002 shall be allo-  
14 cated by the Secretary among the States in  
15 proportion to the respective amounts each  
16 such State received for basic grants under  
17 subpart 2 of part A of title I of the Ele-  
18 mentary and Secondary Education Act of  
19 1965 (20 U.S.C. 6331 et seq.) for the  
20 most recent fiscal year ending before such  
21 calendar year.

22 “(B) ALLOCATION TO LOCAL EDU-  
23 CATIONAL AGENCIES.—The limitation amount  
24 allocated to a State under subparagraph (A)

1 shall be allocated by the State to qualified zone  
2 academies within such State.

3 “(C) DESIGNATION SUBJECT TO LIMITA-  
4 TION AMOUNT.—The maximum aggregate face  
5 amount of bonds issued during any calendar  
6 year which may be designated under subsection  
7 (a) with respect to any qualified zone academy  
8 shall not exceed the limitation amount allocated  
9 to such academy under subparagraph (B) for  
10 such calendar year.”

11 (2) UNUSED AUTHORITY.—Section 1397E(e) of  
12 such Code (relating to limitation on amount of  
13 bonds designated) is amended—

14 (A) by striking “If” in paragraph (4) and  
15 inserting “Except as provided in paragraph (5),  
16 if”, and

17 (B) by adding at the end the following:

18 “(5) REALLOCATION FOR AMOUNTS UNUSED  
19 FOR TWO YEARS.—Notwithstanding paragraph (4),  
20 rules similar to the rules of section 42(h)(3)(D) shall  
21 apply for purposes of this section.”

22 (e) EFFECTIVE DATES.—

23 (1) IN GENERAL.—Except as otherwise pro-  
24 vided in this subsection, the amendments made by

1       this section shall apply to obligations issued after  
2       December 31, 2001.

3               (2) REPEAL OF RESTRICTION ON ZONE ACAD-  
4       EMY BOND HOLDERS.—In the case of bonds to  
5       which section 1397E of the Internal Revenue Code  
6       of 1986 (as in effect before the date of the enact-  
7       ment of this Act) applies, the limitation of such sec-  
8       tion to eligible taxpayers (as defined in subsection  
9       (d)(6) of such section) shall not apply after the date  
10      of the enactment of this Act.

○