

108TH CONGRESS  
1ST SESSION

# H. R. 1686

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

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 9, 2003

Mr. CARSON of Oklahoma introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Education and the Workforce, and Agriculture, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

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

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

3       **SECTION 1. SHORT TITLE; ETC.**

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

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

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

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

Sec. 1. Short title; etc.

#### TITLE I—NEW HOMESTEAD OPPORTUNITIES

Sec. 101. Loans for leadership initiative.

Sec. 102. Credit for certain rural homebuyers.

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

Sec. 104. Individual homestead accounts.

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

Sec. 201. Rural investment tax credit.

Sec. 202. Accelerated depreciation for rural investment property.

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

Sec. 301. New homestead venture capital fund.

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

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

9 (a) DEFINITIONS.—In this section:

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

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

(3) QUALIFYING COUNTY.—The term ‘qualifying county’ means any county which—

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

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

14 (b) PROGRAM.—

24 (A) completes a degree;

25 (B) resides in a qualifying county; and

1 (C) is employed in a qualifying county.

5 (c) LOAN REPAYMENT.—

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

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

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

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

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       payment 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 2003 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 2003 and each of the 5 suc-  
16       ceeding fiscal years for Federal capital contributions  
17       to student loan funds established under part E of  
18       title IV of the Higher Education Act of 1965.

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

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

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

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

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

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

15 “(2) \$5,000.

16 “(b) LIMITATIONS.—

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

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

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

## 1           “(2) MARRIED INDIVIDUALS FILING JOINTLY.—

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

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

12          “(4) OTHER TAXPAYERS.—If 2 or more individ-  
13       uals who are not married purchase a qualified resi-  
14       dence, the amount of the credit allowed under sub-  
15       section (a) shall be allocated among such individuals  
16       in such manner as the Secretary may prescribe, ex-  
17       cept that the total amount of the credits allowed to  
18       all such individuals shall not exceed \$5,000.

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

20           “(1) QUALIFIED RESIDENCE.—The term ‘quali-  
21       fied residence’ has the same meaning as when used  
22       in section 163(h).

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

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

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

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

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

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

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

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

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

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

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

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

25          “(3) APPLICABLE RECAPTURE PERCENTAGE.—

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

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

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

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).”.

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

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”.

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.—

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

(6), (7), and (9) of subsection (b) shall apply to taxable years beginning after December 31, 2002.

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

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

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.—(A) For pur-  
 13 poses of this subsection, the applicable percentage  
 14 with respect to any qualified individual for any tax-  
 15 able year shall be determined in accordance with the  
 16 following tables:

**“If modified adjusted gross      The applicable percentage is:  
 income 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           “(B) In the case of a head of household (as de-  
 18 fined in section 2(b)):

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

19           “(C) In the case of any other individual:

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

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

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

8      “(4) FORFEITURE OF MATCHING CONTRIBUTIONS IN THE CASE OF CERTAIN DISTRIBUTIONS.—  
9  
10     In the event of a distribution from an individual  
11     homestead account before the date described in sub-  
12     section (f)(1)(A) (other than a distribution described  
13     in subsection (e)(2)(A)), the account holder shall  
14     forfeit the corresponding matching contributions and  
15     interest earned on the matching contributions, un-  
16     less such distribution is recontributed to such ac-  
17     count within 6 months of such distribution.

18      “(e) TAX TREATMENT OF DISTRIBUTIONS.—

19      “(1) INCLUSION OF AMOUNTS IN GROSS IN-  
20     COME.—Except as otherwise provided in this sub-  
21     section, any amount paid or distributed out of an in-  
22     dividual homestead account shall be includible in the

1       gross income of the payee or distributee, as the case  
2       may be, in the manner as provided in section 72.  
3       For purposes of the preceding sentence, distributions  
4       which are includable in gross income shall be treated  
5       as first attributable to amounts contributed under  
6       subsection (d) to the extent thereof.

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

11           “(A) any distribution described in section  
12      72(t)(2)(B) before the date described in sub-  
13      section (f)(1)(A), but only to the extent such  
14      distribution does not exceed the balance in the  
15      account as of the date of such distribution, re-  
16      duced by any matching contribution under sub-  
17      section (d), and

18           “(B) any qualified individual homestead  
19      distribution.

20           “(f) QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBU-  
21      TION.—For purposes of this section—

22           “(1) IN GENERAL.—The term ‘qualified indi-  
23      vidual homestead distribution’ means any amount  
24      paid or distributed out of an individual homestead  
25      account which would otherwise be includable in gross

1       income, to the extent that such payment or distribu-  
2       tion—

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

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

12               “(2) **QUALIFIED INDIVIDUAL HOMESTEAD EX-**  
13       **PENSES.**—The term ‘qualified individual homestead

14       expenses’ means any of the following:

15               “(A) Qualified higher education expenses.

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

17               “(C) Qualified business capitalization  
18       costs.

19               “(D) Qualified medical expenses.

20               “(E) Qualified rollovers.

21               “(3) **QUALIFIED HIGHER EDUCATION EX-**  
22       **PENSES.**—

23               “(A) **IN GENERAL.**—The term ‘qualified  
24       higher education expenses’ has the meaning  
25       given such term by section 72(t)(7), determined

1        by treating postsecondary vocational educational schools as eligible educational institutions.

4                “(B) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term ‘postsecondary vocational educational school’ means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

15                “(C) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2).

19                “(4) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term ‘qualified first-time homebuyer costs’ means qualified acquisition costs (as defined 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

1       qualifying county for a qualified first-time home-  
2       buyer (as defined in section 72(t)(8)).

3               “(5) QUALIFIED BUSINESS CAPITALIZATION  
4       COSTS.—

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

9               “(B) QUALIFIED EXPENDITURES.—The  
10       term ‘qualified expenditures’ means expendi-  
11       tures included in a qualified plan, including  
12       capital, plant, equipment, working capital, and  
13       inventory expenses.

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

18               “(i) which consists of the operation of  
19       any facility described in section  
20       144(c)(6)(B), or

21               “(ii) which contravenes any law.

22       Rules similar to the rules under subsection (b)  
23       or (c) of section 1397C shall apply to any qual-  
24       fied business under this section.

1                   “(D) QUALIFIED PLAN.—The term ‘qualified  
2                   plan’ means a business plan which meets  
3                   such requirements as the Secretary may specify.

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

10                   “(7) QUALIFIED ROLLOVERS.—The term ‘qualified  
11                   rollover’ means any amount paid from an individual  
12                   homestead account of a taxpayer into another  
13                   such account established for the benefit of—

14                   “(A) such taxpayer, or

15                   “(B) any qualified individual who is—

16                   “(i) the spouse of such taxpayer, or  
17                   “(ii) any dependent (as defined in sec-  
18                   tion 152) of the taxpayer.

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

21                   “(g) TAX TREATMENT OF ACCOUNTS.—

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

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

4           “(h) OTHER DEFINITIONS AND SPECIAL RULES.—

5        For purposes of this section—

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

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

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

19           “(4) REPORTS.—The trustee of an individual  
20        homestead account shall make such reports regard-  
21        ing such account to the Secretary and to the indi-  
22        vidual for whom the account is maintained with re-  
23        spect to contributions (and the years to which they  
24        relate), distributions, and such other matters as the

1       Secretary may require under regulations. The re-  
2       ports required by this paragraph—

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

6               “(B) shall be furnished to individuals—

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

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

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

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

18               “(1) IN GENERAL.—With respect to the return  
19               of any qualified individual for the taxable year of the  
20               tax imposed by this chapter, such individual may  
21               designate that a specified portion (not less than \$1)  
22               of any overpayment of tax for such taxable year  
23               which is attributable to the earned income tax credit  
24               shall be deposited by the Secretary into an individual  
25               homestead account of such individual. The Secretary

1 shall so deposit such portion designated under this  
2 subsection.

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

6           “(A) at the time of filing the return of the  
7 tax imposed by this chapter for such taxable  
8 year, or

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

13 Such designation shall be made in such manner as  
14 the Secretary prescribes by regulations.

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

22       “(4) OVERPAYMENTS TREATED AS RE-  
23 FUNDED.—For purposes of this title, any portion of  
24 an overpayment of tax designated under paragraph  
25 (1) shall be treated as being refunded to the tax-

1 payer as of the last date prescribed for filing the re-  
2 turn of tax imposed by this chapter (determined  
3 without regard to extensions) or, if later, the date  
4 the return is filed.

5       “(j) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
6 QUALIFIED INDIVIDUAL HOMESTEAD EXPENSES.—

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

20           “(2) EXCEPTION FOR CERTAIN DISTRIBU-  
21 TIONS.—Paragraph (1) shall not apply to distribu-  
22 tions which are—

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

1               “(B) made to a beneficiary (or the estate  
2               of the account holder) on or after the death of  
3               the account holder,

4               “(C) attributable to the account holder’s  
5               being disabled within the meaning of section  
6               72(m)(7), or

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

8               “(k) APPLICATION OF SECTION.—This section shall  
9               apply to amounts paid to an individual homestead account  
10               for any taxable year beginning after December 31, 2002.”.

11               (b) TAX ON EXCESS CONTRIBUTIONS.—

12               (1) TAX IMPOSED.—Subsection (a) of section  
13               4973 is amended by striking “or” at the end of  
14               paragraph (3), adding “or” at the end of paragraph  
15               (4), and inserting after paragraph (4) the following:

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

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

20               “(g) INDIVIDUAL HOMESTEAD ACCOUNTS.—For pur-  
21               poses of this section, in the case of individual homestead  
22               accounts, the term ‘excess contributions’ means the sum  
23               of—

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

1                 “(A) the amount contributed for the tax-  
2                 able year to the accounts (other than a qual-  
3                 fied rollover, as defined in section 530A(f)(7),  
4                 or a contribution under section 530A(d)), over  
5                 “(B) the amount allowable under section  
6                 530A for such contributions; and  
7                 “(2) the amount determined under this sub-  
8                 section for the preceding taxable year reduced by the  
9                 sum of—  
10                 “(A) the distributions out of the accounts  
11                 for the taxable year which were included in the  
12                 gross income of the payee under section  
13                 530A(e)(1);  
14                 “(B) the distributions out of the accounts  
15                 for the taxable year to which rules similar to  
16                 the rules of section 408(d)(5) apply by reason  
17                 of section 530A(g)(2); and  
18                 “(C) the excess (if any) of the maximum  
19                 amount allowable as a contribution under sec-  
20                 tion 530A for the taxable year over the amount  
21                 contributed to the account for the taxable year  
22                 (other than a contribution under section  
23                 530A(d)).

24 For purposes of this subsection, any contribution which  
25 is distributed from the individual homestead account in

1 a distribution to which rules similar to the rules of section  
2 408(d)(4) apply by reason of section 530A(g)(2) shall be  
3 treated as an amount not contributed.”.

4 (c) TAX ON PROHIBITED TRANSACTIONS.—Section  
5 4975 is amended—

6 (1) by adding at the end of subsection (c) the  
7 following:

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

19 (2) in subsection (e)(1), by striking “or” at the  
20 end of subparagraph (E), by redesignating subpara-  
21 graph (F) as subparagraph (G), and by inserting  
22 after subparagraph (E) the following:

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

1       (d) INFORMATION RELATING TO CERTAIN TRUSTS  
2 AND ANNUITY PLANS.—Subsection (c) of section 6047 is  
3 amended—

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

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

9       (e) INSPECTION OF APPLICATIONS FOR TAX EXEM-  
10 TION.—Clause (i) of section 6104(a)(1)(B) is amended by  
11 inserting “an individual homestead account described in  
12 section 530A(b),” after “section 408(a),”.

13       (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
14 HOMESTEAD ACCOUNTS.—Paragraph (2) of section  
15 6693(a) is amended by striking “and” at the end of sub-  
16 paragraph (C), by striking the period and inserting “,  
17 and” at the end of subparagraph (D), and by adding at  
18 the end the following:

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

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

“Part IX. Individual homestead accounts.”.

1 **TITLE II—INCENTIVES FOR MAIN**  
2 **STREET BUSINESSES**

3 **SEC. 201. RURAL INVESTMENT TAX CREDIT.**

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

7 **“SEC. 42A. RURAL INVESTMENT CREDIT.**

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

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

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

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

22 “(B) at the election of the taxpayer, the  
23 month in which the taxpayer and the rural in-  
24 vestment credit agency enter into an agreement  
25 with respect to such building (which is binding

1           on such agency, the taxpayer, and all successors  
2           in interest) as to the rural investment credit  
3           dollar amount to be allocated to such building.

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

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

13           “(A) 70 percent of the eligible basis of a  
14           new building, and

15           “(B) 30 percent of the eligible basis of an  
16           existing building.

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

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

21           “(B) by using a discount rate equal to 72  
22           percent of the average of the annual Federal  
23           mid-term rate and the annual Federal long-  
24           term rate applicable under section 1274(d)(1)  
25           to the month applicable under subparagraph

(A) or (B) of paragraph (1) and compounded annually, and

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

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

8                   “(1) ELIGIBLE BASIS.—

9                         “(A) IN GENERAL.—The eligible basis of  
10                         any qualified rural investment building for any  
11                         taxable year shall be determined under rules  
12                         similar to the rules under section 42(d), except  
13                         that—

“(B) DEVELOPMENT COSTS.—For purposes of subparagraph (A)(ii), the term ‘development costs’ includes—

23 “(j) site preparation costs

## 24 “(ii) State and local impact fees

25 “(iii) reasonable development costs

1                             “(iv) professional fees related to basis  
2                             items,

3                             “(v) construction financing costs re-  
4                             lated to basis items other than land, and  
5                             “(vi) on-site and adjacent improve-  
6                             ments required by State and local govern-  
7                             ments.

8                             “(2) **QUALIFIED RURAL INVESTMENT BUILD-**  
9                             **ING.**—The term ‘qualified rural investment building’  
10                             means any building which is part of a qualified rural  
11                             investment project at all times during the period—

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

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

17                             “(d) **REHABILITATION EXPENDITURES TREATED AS**  
18                             **SEPARATE NEW BUILDING.**—Rehabilitation expenditures  
19                             paid or incurred by the taxpayer with respect to any build-  
20                             ing shall be treated for purposes of this section as a sepa-  
21                             rate new building under the rules of section 42(e).

22                             “(e) **DEFINITION AND SPECIAL RULES RELATING TO**  
23                             **CREDIT PERIOD.**—

24                             “(1) **CREDIT PERIOD DEFINED.**—For purposes  
25                             of this section, the term ‘credit period’ means, with

1 respect to any building, the period of 10 taxable  
2 years beginning with the taxable year in which the  
3 building is first placed in service.

4       “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT  
5 PERIOD.—

6           “(A) IN GENERAL.—The credit allowable  
7 under subsection (a) with respect to any build-  
8 ing for the 1st taxable year of the credit period  
9 shall be determined by multiplying such credit  
10 by the fraction—

11           “(i) the numerator of which is the  
12 number of full months of such year during  
13 which such building was in service, and

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

15           “(B) DISALLOWED 1ST YEAR CREDIT AL-  
16 LOWED IN 11TH YEAR.—Any reduction by rea-  
17 son of subparagraph (A) in the credit allowable  
18 (without regard to subparagraph (A)) for the  
19 1st taxable year of the credit period shall be al-  
20 lowable under subsection (a) for the 1st taxable  
21 year following the credit period.

22       “(3) CREDIT PERIOD FOR EXISTING BUILDINGS  
23 NOT TO BEGIN BEFORE REHABILITATION CREDIT  
24 ALLOWED.—The credit period for an existing build-  
25 ing shall not begin before the 1st taxable year of the

1 credit period for rehabilitation expenditures with re-  
2 spect to the building.

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

5 “(1) QUALIFIED RURAL INVESTMENT  
6 PROJECT.—The term ‘qualified rural investment  
7 project’ means any investment project of 1 or more  
8 qualified rural investment buildings located in a  
9 qualifying county (and, if necessary to the project,  
10 any contiguous county) and selected by the State ac-  
11 cording to its qualified rural investment plan.

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

14 “(A) is outside a metropolitan statistical  
15 area (defined as such by the Office of Manage-  
16 ment and Budget), and

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

23 “(g) LIMITATION ON AGGREGATE CREDIT ALLOW-  
24 ABLE WITH RESPECT TO INVESTMENT PROJECTS LO-  
25 CATED IN A STATE.—

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

8           “(2) ALLOCATED CREDIT AMOUNT TO APPLY  
9 TO ALL TAXABLE YEARS ENDING DURING OR AFTER  
10 CREDIT ALLOCATION YEAR.—Any rural investment  
11 credit dollar amount allocated to any building for  
12 any calendar year—

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

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

19           “(3) RURAL INVESTMENT CREDIT DOLLAR  
20 AMOUNT FOR AGENCIES.—

21           “(A) IN GENERAL.—The aggregate rural  
22 investment credit dollar amount which a rural  
23 investment credit agency may allocate for any  
24 calendar year is the portion of the State rural  
25 investment credit ceiling allocated under this

1                   paragraph for such calendar year to such agen-  
2                   cy.

3                   “(B) STATE CEILING INITIALLY ALLO-  
4                   CATED TO STATE RURAL INVESTMENT CREDIT  
5                   AGENCIES.—Except as provided in subparagraphs (D) and (E), the State rural investment  
6                   credit ceiling for each calendar year shall be al-  
7                   located to the rural investment credit agency of  
8                   such State. If there is more than 1 rural invest-  
9                   ment credit agency of a State, all such agencies  
10                   shall be treated as a single agency.

12                   “(C) STATE RURAL INVESTMENT CREDIT  
13                   CEILING.—The State rural investment credit  
14                   ceiling applicable to any State and any calendar  
15                   year shall be an amount equal to the sum of—

16                   “(i) the unused State rural investment  
17                   credit ceiling (if any) of such State for the  
18                   preceding calendar year,

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

21                   “(iii) the amount of State rural in-  
22                   vestment credit ceiling returned in the cal-  
23                   endar year, plus

1                             “(iv) the amount (if any) allocated  
2                             under subparagraph (D) to such State by  
3                             the Secretary.

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

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

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

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

17                     “(I) the unused State rural in-  
18                     vestment credit ceiling for the year  
19                     preceding such year, over

20                     “(II) the aggregate rural invest-  
21                     ment credit dollar amount allocated  
22                     for such year.

23                     “(iii) FORMULA FOR ALLOCATION OF  
24                     UNUSED RURAL INVESTMENT CREDIT  
25                     CARRYOVERS    AMONG    QUALIFIED

1 STATES.—The amount allocated under this  
2 subparagraph to a qualified State for any  
3 calendar year shall be the amount deter-  
4 mined by the Secretary to bear the same  
5 ratio to the aggregate unused rural invest-  
6 ment credit carryovers of all States for the  
7 preceding calendar year as such State's  
8 population for the calendar year bears to  
9 the population of all qualified States for  
10 the calendar year. For purposes of the pre-  
11 ceding sentence, population shall be deter-  
12 mined in accordance with section 146(j).

13 “(iv) QUALIFIED STATE.—For pur-  
14 poses of this subparagraph, the term  
15 ‘qualified State’ means, with respect to a  
16 calendar year, any State—

17 “(I) which allocated its entire  
18 State rural investment credit ceiling  
19 for the preceding calendar year, and

20 “(II) for which a request is made  
21 (not later than May 1 of the calendar  
22 year) to receive an allocation under  
23 clause (iii).

24 “(E) STATE MAY PROVIDE FOR DIF-  
25 FERENT ALLOCATION.—Rules similar to the

1       rules of section 146(e) (other than paragraph  
2       (2)(B) thereof) shall apply for purposes of this  
3       paragraph.

4           “(F) POPULATION.—For purposes of this  
5       paragraph, population shall be determined in  
6       accordance with section 146(j).

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

8           “(i) IN GENERAL.—In the case of a  
9       calendar year after 2003, the \$1,000,000  
10      amount in subparagraph (C) shall be in-  
11      creased by an amount equal to—

12           “(I) such dollar amount, multi-  
13      plied by

14           “(II) the cost-of-living adjust-  
15      ment determined under section  
16      1(f)(3) for such calendar year by sub-  
17      stituting ‘calendar year 2002’ for ‘cal-  
18      endar year 1992’ in subparagraph (B)  
19      thereof.

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

1           “(4) PORTION OF STATE CEILING SET-ASIDE  
2       FOR CERTAIN INVESTMENT PROJECTS INVOLVING  
3       QUALIFIED NONPROFIT ORGANIZATIONS.—

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

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

18           “(C) QUALIFIED NONPROFIT ORGANIZA-  
19       TION.—For purposes of this paragraph, the  
20       term ‘qualified nonprofit organization’ means  
21       any organization if—

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

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

5                         “(iii) 1 of the exempt purposes of  
6                         such organization includes the fostering of  
7                         rural investment.

8                         “(D) TREATMENT OF CERTAIN SUBSIDI-  
9                         ARIES.—

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

17                         “(ii) QUALIFIED CORPORATION.—For  
18                         purposes of clause (i), the term ‘qualified  
19                         corporation’ means any corporation if 100  
20                         percent of the stock of such corporation is  
21                         held by 1 or more qualified nonprofit orga-  
22                         nizations at all times during the period  
23                         such corporation is in existence.

24                         “(E) STATE MAY NOT OVERRIDE SET-  
25                         ASIDE.—Nothing in subparagraph (F) of para-

1 graph (3) shall be construed to permit a State  
2 not to comply with subparagraph (A) of this  
3 paragraph.

4 “(F) CREDITS FOR QUALIFIED NONPROFIT  
5 ORGANIZATIONS.—

6 “(i) ALLOWANCE OF CREDIT.—Any  
7 credit which would be allowable under sub-  
8 section (a) with respect to a qualified rural  
9 investment building of a qualified nonprofit  
10 organization if such organization were not  
11 exempt from tax under this chapter shall  
12 be treated as a credit allowable under sub-  
13 part C to such organization.

14 “(ii) USE OF CREDIT.—A qualified  
15 nonprofit organization may assign, trade,  
16 sell, or otherwise transfer any credit allow-  
17 able to such organization under subpara-  
18 graph (A) to any taxpayer.

19 “(iii) CREDIT NOT INCOME.—A trans-  
20 fer under subparagraph (B) of any credit  
21 allowable under subparagraph (A) shall not  
22 result in income for purposes of section  
23 511.

24 “(5) SPECIAL RULES.—

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

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

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

23                 “(i) IN GENERAL.—The amount of  
24                 the credit determined under this section  
25                 with respect to any building shall not ex-

1           ceed the clause (ii) percentage of the  
2           amount of the credit which would (but for  
3           this subparagraph) be determined under  
4           this section with respect to such building.

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

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

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

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

22           “(D) RURAL INVESTMENT CREDIT AGENCY  
23           TO SPECIFY APPLICABLE PERCENTAGE AND  
24           MAXIMUM ELIGIBLE BASIS.—In allocating a  
25           rural investment credit dollar amount to any

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

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

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

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

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

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

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

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

14       “(i) RECAPTURE OF CREDIT.—If—

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

19           “(2) the amount of such basis as of the close  
20       of the preceding taxable year,

21       then the taxpayer’s tax under this chapter for the taxable  
22       year shall be increased by the credit recapture amount de-  
23       termined under rules similar to the rules of section 42(j).

24       “(j) CERTIFICATIONS AND OTHER REPORTS TO SEC-  
25       RETARY.—

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

8           “(A) the taxable year, and calendar year,  
9       in which such building was first placed in serv-  
10       ice,

11           “(B) the eligible basis of such building as  
12       of the beginning of the credit period,

13           “(C) the maximum applicable percentage  
14       and eligible basis permitted to be taken into ac-  
15       count by the appropriate rural investment cred-  
16       it agency under subsection (g),

17           “(D) the election made under subsection  
18       (f) with respect to the qualified rural invest-  
19       ment project of which such building is a part,  
20       and

21           “(E) such other information as the Sec-  
22       retary may require.

23       In the case of a failure to make the certification re-  
24       quired by the preceding sentence on the date pre-  
25       scribed therefor, unless it is shown that such failure

1 is due to reasonable cause and not to willful neglect,  
2 no credit shall be allowable by reason of subsection  
3 (a) with respect to such building for any taxable  
4 year ending before such certification is made.

5           “(2) ANNUAL REPORTS TO THE SECRETARY.—  
6 The Secretary may require taxpayers to submit an  
7 information return (at such time and in such form  
8 and manner as the Secretary prescribes) for each  
9 taxable year setting forth—

10           “(A) the eligible basis for the taxable year  
11 of each qualified rural investment building of  
12 the taxpayer,

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

15           “(C) such other information as the Sec-  
16 retary may require.

17 The penalty under section 6652(j) shall apply to any  
18 failure to submit the return required by the Sec-  
19 retary under the preceding sentence on the date pre-  
20 scribed therefor.

21           “(3) ANNUAL REPORTS FROM RURAL INVEST-  
22 MENT CREDIT AGENCIES.—Each agency which allo-  
23 cates any rural investment credit amount to any  
24 building for any calendar year shall submit to the  
25 Secretary (at such time and in such manner as the

1       Secretary shall prescribe) an annual report speci-  
2       fying—

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

5               “(B) sufficient information to identify each  
6               such building and the taxpayer with respect  
7               thereto, and

8               “(C) such other information as the Sec-  
9               retary may require.

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

13      “(k) RESPONSIBILITIES OF RURAL INVESTMENT  
14      CREDIT AGENCIES.—

15               “(1) PLANS FOR ALLOCATION OF CREDIT  
16               AMONG INVESTMENT PROJECTS.—

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

21               “(i) such amount was allocated pursu-  
22               ant to a qualified rural investment plan of  
23               the agency which is approved by the gov-  
24               ernmental unit (in accordance with rules  
25               similar to the rules of section 147(f)(2)

1 (other than subparagraph (B)(ii) thereof))  
2 of which such agency is a part,

3 “(ii) such agency notifies the chief ex-  
4 ecutive officer (or the equivalent) of the  
5 local jurisdiction within which the building  
6 is located of such investment project and  
7 provides such individual a reasonable op-  
8 portunity to comment on the investment  
9 project,

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

17 “(iv) a written explanation is available  
18 to the general public for any allocation of  
19 a rural investment credit dollar amount  
20 which is not made in accordance with es-  
21 tablished priorities and selection criteria of  
22 the rural investment credit agency.

23 “(B) QUALIFIED RURAL INVESTMENT  
24 PLAN.—For purposes of this section, the term

1       ‘qualified rural investment plan’ means any  
2       plan—

3               “(i) which sets forth selection criteria  
4               to be used to determine priorities of the  
5               rural investment credit agency which are  
6               appropriate to qualifying counties,

7               “(ii) which also gives preference in al-  
8               locating rural investment credit dollar  
9               amounts among selected investment  
10               projects to—

11               “(I) investment projects that tar-  
12               get those small rural counties with  
13               consistently high rates of net out-mi-  
14               gration,

15               “(II) investment projects that  
16               link the economic development and job  
17               creation efforts of 2 or more small  
18               rural counties with high rates of net  
19               out-migration, and

20               “(III) investment projects that  
21               link the economic development and job  
22               creation efforts of 1 or more small  
23               rural counties in the State with high  
24               rates of net out-migration to related

19           “(2) CREDIT ALLOCATED TO BUILDING NOT TO  
20        EXCEED AMOUNT NECESSARY TO ASSURE INVEST-  
21        MENT PROJECT FEASIBILITY.—

22                   “(A) IN GENERAL.—The rural investment  
23                   credit dollar amount allocated to an investment  
24                   project shall not exceed the amount the rural  
25                   investment credit agency determines is nec-

1       essary for the financial feasibility of the invest-  
2       ment project and its viability as a qualified  
3       rural investment project throughout the compli-  
4       ance period.

5           “(B) AGENCY EVALUATION.—In making  
6       the determination under subparagraph (A), the  
7       rural investment credit agency shall consider—

8               “(i) the sources and uses of funds and  
9       the total financing planned for the invest-  
10       ment project,

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

13               “(iii) the percentage of the rural in-  
14       vestment credit dollar amount used for in-  
15       vestment project costs other than the cost  
16       of intermediaries, and

17               “(iv) the reasonableness of the devel-  
18       opmental and operational costs of the in-  
19       vestment project.

20       Clause (iii) shall not be applied so as to impede  
21       the development of investment projects in hard-  
22       to-develop areas.

23           “(C) DETERMINATION MADE WHEN CRED-  
24       IT AMOUNT APPLIED FOR AND WHEN BUILDING  
25       PLACED IN SERVICE.—

1                     “(i) IN GENERAL.—A determination  
2                     under subparagraph (A) shall be made as  
3                     of each of the following times:

4                     “(I) The application for the rural  
5                     investment credit dollar amount.

6                     “(II) The allocation of the rural  
7                     investment credit dollar amount.

8                     “(III) The date the building is  
9                     first placed in service.

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

18                    “(l) REGULATIONS.—The Secretary shall prescribe  
19                     such regulations as may be necessary or appropriate to  
20                     carry out the purposes of this section, including regula-  
21                     tions—

22                    “(1) dealing with—

23                    “(A) investment projects which include  
24                     more than 1 building or only a portion of a  
25                     building, and

1               “(B) buildings which are sold in portions,  
2               “(2) providing for the application of this section  
3               to short taxable years,

4               “(3) preventing the avoidance of the rules of  
5               this section, and

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

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

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

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

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

6 (d) CONFORMING AMENDMENTS.—

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

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

13                 (3) Section 772(a) is amended by striking  
14 “and” at the end of paragraph (10), by redesign-  
15 nating paragraph (11) as paragraph (12), and by in-  
16 serting after paragraph (10) the following:

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

19                 (4) Section 774(b)(4) is amended by inserting  
20 “, 42A(i),” after “section 42(j)”.

21                 (e) CLERICAL AMENDMENT.—The table of sections  
22 for subpart D of part IV of subchapter A of chapter 1  
23 is amended by inserting after the item relating to section  
24 42 the following:

“Sec. 42A. Rural investment credit.”.

1       (f) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to expenditures made in taxable  
 3 years beginning after December 31, 2002.

4 **SEC. 202. ACCELERATED DEPRECIATION FOR RURAL IN-**

5                   **VESTMENT PROPERTY.**

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

8       “(k) PROPERTY IN RURAL INVESTMENT  
 9 PROJECTS.—

10               “(1) IN GENERAL.—For purposes of subsection  
 11 (a), the applicable recovery period for qualified rural  
 12 investment property shall be determined in accord-  
 13 ance with the table contained in paragraph (2) in  
 14 lieu of the table contained in subsection (c).

15               “(2) APPLICABLE RECOVERY PERIOD FOR  
 16 RURAL INVESTMENT PROPERTY.—For purposes of  
 17 paragraph (1)—

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

18               “(3) DEDUCTION ALLOWED IN COMPUTING  
 19 MINIMUM TAX.—For purposes of determining alter-  
 20 native minimum taxable income under section 55,  
 21 the deduction under subsection (a) for property to

1 which paragraph (1) applies shall be determined  
2 under this section without regard to any adjustment  
3 under section 56.

4       “(4) QUALIFIED RURAL INVESTMENT PROPERTY DEFINED.—For purposes of this subsection—

5           “(A) IN GENERAL.—The term ‘qualified  
6           rural investment property’ means property  
7           which is property described in the table in para-  
8           graph (2) and which is—

9           “(i) used by the taxpayer predomi-  
10           nantly in the active conduct of a trade or  
11           business within a qualified rural invest-  
12           ment project,

13           “(ii) not used or located outside the  
14           qualified rural investment project on a reg-  
15           ular basis,

16           “(iii) not acquired (directly or indi-  
17           rectly) by the taxpayer from a person who  
18           is related to the taxpayer (within the  
19           meaning of section 465(b)(3)(C)), and

20           “(iv) not property (or any portion  
21           thereof) placed in service for purposes of  
22           operating any facility described in section  
23           144(c)(6)(B).

1                   “(B) EXCEPTION FOR ALTERNATIVE DE-  
2                   PRECIATION PROPERTY.—The term ‘qualified  
3                   rural investment property’ does not include any  
4                   property to which the alternative depreciation  
5                   system under subsection (g) applies, deter-  
6                   mined—

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

10                   “(ii) after the application of section  
11                   280F(b) (relating to listed property with  
12                   limited business use).

13                   “(C) SPECIAL RULE FOR INFRASTRUCTURE  
14                   INVESTMENT.—

15                   “(i) IN GENERAL.—Subparagraph  
16                   (A)(ii) shall not apply to qualified infra-  
17                   structure property located outside of the  
18                   qualified rural investment project if the  
19                   purpose of such property is to connect with  
20                   qualified infrastructure property located  
21                   within such project.

22                   “(ii) QUALIFIED INFRASTRUCTURE  
23                   PROPERTY.—For purposes of this subpara-  
24                   graph, the term ‘qualified infrastructure  
25                   property’ means qualified rural investment

1                   property (determined without regard to  
2                   subparagraph (A)(ii)) which—

3                         “(I) benefits the qualifying coun-  
4                         ty infrastructure,

5                         “(II) is available to the general  
6                         public, and

7                         “(III) is placed in service in con-  
8                         nection with the taxpayer’s active con-  
9                         duct of a trade or business within a  
10                         qualified rural investment project.

11                   Such term includes, but is not limited to,  
12                   roads, power lines, water systems, railroad  
13                   spurs, and communications facilities.

14                   “(5) DEFINITIONS.—For purposes of this sub-  
15                   section, any term used in this section which is used  
16                   in section 42A shall have the meaning given such  
17                   term by section 42A.”.

18                   (b) EFFECTIVE DATE.—The amendment made by  
19                   this section shall apply to property placed in service after  
20                   December 31, 2002.

1       **TITLE III—NEW HOMESTEAD**  
2       **VENTURE CAPITAL FUND**

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

4       The Consolidated Farm and Rural Development Act  
5       (7 U.S.C. 1921 et seq.) is amended by adding at the end  
6       the following:

7       **“Subtitle G—New Homestead**  
8       **Venture Capital Fund**

9       **“SEC. 383A. SHORT TITLE.**

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

12       **“SEC. 383B. DEFINITIONS.**

13       “In this subtitle:

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

18       “(A) is eligible to receive a loan guarantee  
19       under this title;

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

23       “(C) is created under the National Con-  
24       sumer Cooperative Bank Act (12 U.S.C. 3011  
25       et seq.);

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

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

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

8               “(2) BOARD.—The term ‘Board’ means the  
9               board of directors of the Fund established under  
10               section 383F.

11               “(3) FUND.—The term ‘Fund’ means the New  
12               Homestead Venture Capital Fund established under  
13               section 383C.

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

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

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

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

24               “(D) Cooperative financial institutions  
25               (other than Farm Credit System institutions).

1                   “(E) Authorized private investors, other  
2                   than those described in subparagraphs (A)  
3                   through (D).

4                   “(F) Other nonprofit organizations, includ-  
5                   ing credit unions.

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

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

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

16                   “(B) during the 20-year period ending  
17                   with the fiscal year preceding the applicable fis-  
18                   cal year for which assistance is made available  
19                   under section 383E, has a net outmigration of  
20                   inhabitants from the county of at least 10 per-  
21                   cent of the population of the county at the be-  
22                   ginning of the period.

23                   “(7) RURAL BUSINESS.—The term ‘rural busi-  
24                   ness’ means a rural cooperative, a value-added agri-

1       cultural enterprise, or any other enterprise that is or  
2       will be located in a qualifying county.

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

4       “(a) IN GENERAL.—

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

16       “(2) OWNERSHIP.—

17           “(A) IN GENERAL.—To the maximum ex-  
18       tent practicable, equity ownership of the Fund  
19       shall be distributed among authorized private  
20       investors representing all of the groups of simi-  
21       lar authorized private investors described in  
22       subparagraphs (A) through (F) of section  
23       383B(4).

24           “(B) EXCLUSION OF GROUPS.—No group  
25       of similar authorized private investors shall be

6        "(b) PURPOSE.—The purpose of the Fund is to  
7 strengthen the economies of qualifying counties by—

8               “(1) making needed investments in qualifying  
9        counties to reverse the devastating impact of chronic  
10       outmigration and to help the qualifying counties re-  
11       build and grow;

12               “(2) providing equity funding for existing and  
13                startup rural businesses with high potential for job  
14                creation that are or will be located in qualifying  
15                counties;

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

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

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

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

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

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

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

12                 “(1) subject to subsection (b)(1), make avail-  
13         able to the Fund \$200,000,000 for each of fiscal  
14         years 2003 through 2012;

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

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

22                 “(b) NON-FEDERAL FUNDS.—

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

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

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

9                     “(2) INSURED DEPOSITORY INSTITUTIONS.—

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

12                    “(i) an insured depository institution  
13                    may be an authorized private investor in  
14                    the Fund; and

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

21                    “(B) INVESTMENT LIMIT.—The total in-  
22                    vestment in the Fund of an insured depository  
23                    institution shall not exceed 5 percent of the in-  
24                    stitution’s capital and surplus.

1                         “(C) REGULATORY AUTHORITY.—An appropriate Federal banking agency may, by regulation or order, impose on any insured depository institution investing in the Fund, any safeguard, limitation, or condition (including an investment limit that is lower than the investment limit under subparagraph (B)) that the Federal banking agency considers to be appropriate to ensure that the institution operates—

10                         “(i) in a financially sound manner; and

12                         “(ii) in compliance with all applicable law.

14                         “(c) GUARANTEE OF PRIVATE INVESTMENTS.—

15                         “(1) IN GENERAL.—The Secretary shall guarantee, under terms and conditions determined by the Secretary—

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

22                         “(B) 60 percent of any loss of the principal of each investment made by an authorized private investor in the Fund if the investment

1           is used for a manufacturing or high-technology  
2           business.

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

8           “(3) REDEMPTION OF GUARANTEE.—

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

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

18           “(ii) annually thereafter.

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

22           “(i) the shares in the Fund of the au-  
23           thorized private investor shall be redeemed;  
24           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 deben-  
16                             tutes 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 invest-  
24 ments—

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.”.

