

109TH CONGRESS
2D SESSION

H. R. 5380

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

IN THE HOUSE OF REPRESENTATIVES

MAY 11, 2006

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

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 Act of 2006”.

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. Qualified rural small business investment credit.

Sec. 203. Accelerated depreciation for rural investment property.

TITLE III—NEW HOMESTEAD VENTURE CAPITAL FUND

Sec. 301. New homestead venture capital fund.

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

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

9 (a) DEFINITIONS.—In this section:

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

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

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

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

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

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

14 (b) PROGRAM.—

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

24 (A) completes a degree;

25 (B) resides in a qualifying county; and

1 (C) is employed in a qualifying county.

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

5 (c) LOAN REPAYMENT.—

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

15 (2) CONSTRUCTION.—Nothing in this section
16 shall be construed to authorize the refunding of any
17 repayment of a loan made under part B, D, or E
18 of title IV of the Higher Education Act of 1965.

19 (3) INTEREST.—If a portion of a loan is repaid
20 by the Secretary under this section for any year, the
21 proportionate amount of interest on such loan which
22 accrues for such year shall be repaid by the Sec-
23 retary so long as the total amount repaid by the
24 Secretary in any 1 year does not exceed \$2,000.

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

6 (e) APPLICATION FOR REPAYMENT.—

7 (1) IN GENERAL.—An eligible borrower desiring
8 loan repayment under this section shall submit a
9 complete and accurate application to the Secretary
10 at such time, in such manner, and containing such
11 information as the Secretary may require.

12 (2) CONDITIONS.—An eligible borrower may
13 apply for loan repayment under this section after
14 completing each year of qualifying residency and em-
15 ployment. The eligible borrower shall receive forbear-
16 ance while engaged in qualifying residency and em-
17 ployment unless the borrower is in deferment while
18 so engaged.

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

24 (g) AUTHORIZATION OF APPROPRIATIONS.—

1 (1) LOAN REPAYMENT.—There are authorized
2 to be appropriated to carry out this section such
3 sums as may be necessary.

4 (2) PERKINS LOAN FUNDS.—There are author-
5 ized to be appropriated such sums as may be nec-
6 essary for Federal capital contributions to student
7 loan funds established under part E of title IV of
8 the Higher Education Act of 1965.

9 (h) REPAYMENT EXCLUDED FROM GROSS IN-
10 COME.—Section 108(f)(1) (relating to student loans) is
11 amended by inserting “or pursuant to section 101 of the
12 New Homestead Act of 2006” after “employers”.

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

14 (a) IN GENERAL.—Subpart A of part IV of sub-
15 chapter A of chapter 1 (relating to nonrefundable personal
16 credits) is amended by inserting before section 26 the fol-
17 lowing new section:

18 **“SEC. 25E. PURCHASE OF RESIDENCES BY CERTAIN RURAL**
19 **HOMEBUYERS.**

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

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

3 “(2) \$5,000.

4 “(b) LIMITATIONS.—

5 “(1) LIMITATION BASED ON AMOUNT OF
6 TAX.—In the case of a taxable year to which section
7 26(a)(2) does not apply, the credit allowed under
8 subsection (a) for any taxable year shall not exceed
9 the excess of—

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

13 “(B) the sum of the credits allowable
14 under this subpart (other than this section) and
15 section 27 for the taxable year.

16 “(2) MARRIED INDIVIDUALS FILING JOINTLY.—

17 In the case of a husband and wife who file a joint
18 return, the credit under this section is allowable only
19 if the residence is a qualified residence with respect
20 to both the husband and wife, and the amount speci-
21 fied under subsection (a)(2) shall apply to the joint
22 return.

23 “(3) MARRIED INDIVIDUALS FILING SEPA-
24 RATELY.—In the case of a married individual filing

1 a separate return, subsection (a)(2) shall be applied
2 by substituting ‘\$2,500’ for ‘\$5,000’.

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

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

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

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

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

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

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

4 “(d) CARRYFORWARD OF UNUSED CREDIT.—If the
5 credit allowable under subsection (a) for any taxable year
6 exceeds the limitation imposed by subsection (b)(1) for
7 such taxable year reduced by the sum of the credits allow-
8 able under this subpart (other than this section and sec-
9 tion 23), such excess shall be carried to the succeeding
10 taxable year and added to the credit allowable under sub-
11 section (a) for such taxable year.

12 “(1) RULE FOR YEARS IN WHICH ALL PER-
13 SONAL CREDITS ALLOWED AGAINST REGULAR AND
14 ALTERNATIVE MINIMUM TAX.—In the case of a tax-
15 able year to which section 26(a)(2) applies, if the
16 credit allowable under subsection (a) for any taxable
17 year exceeds the limitation imposed by section
18 26(a)(2) for such taxable year reduced by the sum
19 of the credits allowable under this subpart (other
20 than this section), such excess shall be carried to the
21 succeeding taxable year and added to the credit al-
22 lowable under subsection (a) for such taxable year.

23 “(2) RULE FOR OTHER YEARS.—In the case of
24 a taxable year to which section 26(a)(2) does not
25 apply, if the credit allowable under subsection (a) for

1 any taxable year exceeds the limitation imposed by
2 subsection (b)(4) for such taxable year, such excess
3 shall be carried to the succeeding taxable year and
4 added to the credit allowable under subsection (a)
5 for such taxable year.

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

11 “(f) RECAPTURE OF CREDIT IN CASE OF CERTAIN
12 SALES.—

13 “(1) IN GENERAL.—Except as provided in para-
14 graph (5), if the taxpayer disposes of a qualified res-
15 idence with respect to the purchase of which a credit
16 was allowed under subsection (a) at any time within
17 5 years after the date the taxpayer acquired the
18 property, then the tax imposed under this chapter
19 for the taxable year in which the disposition occurs
20 is increased by the credit recapture amount.

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

1 “(A) the applicable recapture percentage of
2 the amount of the credit allowed to the tax-
3 payer under this section, plus

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

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

12 “(3) APPLICABLE RECAPTURE PERCENTAGE.—

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

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

16 “(B) YEARS.—For purposes of subpara-
17 graph (A), year 1 shall begin on the first day
18 of the taxable year in which the purchase of the
19 qualified residence described in subsection (a)
20 occurs.

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

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

9 “(A) a disposition of a qualified residence
10 made on account of the death of any individual
11 having a legal or equitable interest therein oc-
12 curring during the 5-year period to which ref-
13 erence is made under paragraph (1),

14 “(B) a disposition of the old qualified resi-
15 dence if it is substantially or completely de-
16 stroyed by a casualty described in section
17 165(c)(3) or compulsorily or involuntarily con-
18 verted (within the meaning of section 1033(a)),
19 or

20 “(C) a disposition pursuant to a settlement
21 in a divorce or legal separation proceeding
22 where the qualified residence is sold or the
23 other spouse retains such residence.

24 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
25 title, if a credit is allowed under this section with respect

1 to the purchase of any residence, the basis of such resi-
 2 dence shall be reduced by the amount of the credit so al-
 3 lowed.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Subsection (a) of section 1016 (relating to
 6 general rule for adjustments to basis) is amended by
 7 striking “and” at the end of paragraph (36), by
 8 striking the period at the end of paragraph (37) and
 9 inserting “, and”, and by adding at the end the fol-
 10 lowing new paragraph:

11 “(38) in the case of a residence with respect to
 12 which a credit was allowed under section 25E, to the
 13 extent provided in section 25E(g).”.

14 (2) Section 23(b)(4)(B) is amended by inserting
 15 “and section 25E” after “other than this section”.

16 (3) Section 23(c)(1) is amended by inserting “,
 17 25E, ” after “25D”.

18 (4) Section 24(b)(3)(B) is amended by striking
 19 “23 and 25B” and inserting “23, 25B, and 25E”.

20 (5) Section 25(e)(1)(C) is amended by inserting
 21 “25E,” after “25D,”.

22 (6) Section 25B(g) is amended by striking “sec-
 23 tion 23” and inserting “sections 23 and 25E”.

24 (7) Section 25D(c)(1) is amended by inserting
 25 “and section 25E” after “other than this section”.

1 (8) Section 25D(c)(2) is amended by striking
2 “and 25B” inserting “25B, and 25E”.

3 (9) Section 26(a)(1) is amended by striking
4 “and 25B” and inserting “25B, and 25E”.

5 (10) Section 1400C(d)(1) is amended by strik-
6 ing “section 25D” and inserting “sections 25D and
7 25E”.

8 (11) Section 1400C(d)(2) is amended by strik-
9 ing “and 25D” and inserting “25D, and 25E”.

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

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

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to purchases after the date of the
16 enactment of this Act, in taxable years ending after such
17 date.

18 **SEC. 103. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**
19 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**
20 **RESIDENCE IN CERTAIN RURAL AREAS.**

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

23 (1) by striking “and” at the end of paragraph
24 (2),

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

3 (3) by adding at the end the following new
4 paragraph:

5 “(4) losses arising from the sale or exchange of
6 the principal residence (within the meaning of sec-
7 tion 121) of the taxpayer located in a qualifying
8 county (as defined in section 25E(c)(2)), but only if
9 the principal residence was acquired by the taxpayer
10 after the date of enactment of this paragraph.”.

11 (b) CONFORMING AMENDMENT.—Section 67(b)(3) is
12 amended by striking “paragraph (2) or (3)” and inserting
13 “paragraph (2), (3), or (4)”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to sales and exchanges after the
16 date of the enactment of this Act, in taxable years ending
17 after such date.

18 **SEC. 104. INDIVIDUAL HOMESTEAD ACCOUNTS.**

19 (a) IN GENERAL.—Subchapter F of chapter 1 (relat-
20 ing to exempt organizations) is amended by adding at the
21 end the following new part:

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

“Sec. 530A. Individual homestead accounts.

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

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

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

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

16 “(A) no contribution will be accepted un-
17 less it is in cash,

18 “(B) contributions will not be accepted for
19 the taxable year in excess of \$2,500 (deter-
20 mined without regard to any contribution made
21 under subsection (d)), and

22 “(C) contributions will not be accepted for
23 any taxable year following the fifth taxable year
24 in which the qualified individual has contributed
25 to any individual homestead account.

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

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

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

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

11 “(A) is outside a metropolitan statistical
12 area (defined as such by the Office of Manage-
13 ment and Budget), and

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

20 “(d) MATCHING CONTRIBUTIONS TO INDIVIDUAL
21 HOMESTEAD ACCOUNTS.—

22 “(1) IN GENERAL.—Not less than once each
23 taxable year, the Secretary shall deposit (to the ex-
24 tent provided in appropriation Acts) into an indi-
25 vidual homestead account of each qualified indi-

vidual an amount equal to the applicable percentage of the sum of the amounts deposited into all of the individual homestead accounts of such individual during such taxable year (determined without regard to any amount contributed under this subsection).

“(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the applicable percentage with respect to any qualified individual for any taxable year shall be determined in accordance with the following tables:

“(A) In the case of a married individual (as defined in section 7703) filing a joint return:

“If modified adjusted gross income is:	The applicable percentage is:
\$30,000 or less	50
Over \$30,000 but not over \$60,000	25
Over \$60,000 but not over \$100,000	12.5
Over \$100,000	zero.

“(B) In the case of a head of household (as defined in section 2(b)):

“If modified adjusted gross income is:	The applicable percentage is:
\$22,500 or less	50
Over \$22,500 but not over \$45,000	25
Over \$45,000 but not over \$75,000	12.5
Over \$75,000	zero.

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

“If modified adjusted gross income is:	The applicable percentage is:
\$15,000 or less	50
Over \$15,000 but not over \$30,000	25
Over \$30,000 but not over \$50,000	12.5
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 CONTRIBU-
9 TIONS IN THE CASE OF CERTAIN DISTRIBUTIONS.—
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
23 gross income of the payee or distributee, as the case
24 may be, in the manner as provided in section 72.

25 For purposes of the preceding sentence, distributions

1 which are includible in gross income shall be treated
 2 as first attributable to amounts contributed under
 3 subsection (d) to the extent thereof.

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

8 “(A) any distribution described in section
 9 72(t)(2)(B) before the date described in sub-
 10 section (f)(1)(A), but only to the extent such
 11 distribution does not exceed the balance in the
 12 account as of the date of such distribution, re-
 13 duced by any matching contribution under sub-
 14 section (d), and

15 “(B) any qualified individual homestead
 16 distribution.

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

18 “(1) IN GENERAL.—The term ‘qualified indi-
 19 vidual homestead distribution’ means any amount
 20 paid or distributed out of an individual homestead
 21 account which would otherwise be includible in gross
 22 income, to the extent that such payment or distribu-
 23 tion—
 24

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

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

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

13 “(A) Qualified higher education expenses.

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

15 “(C) Qualified business capitalization
 16 costs.

17 “(D) Qualified medical expenses.

18 “(E) Qualified rollovers.

19 “(3) QUALIFIED HIGHER EDUCATION EX-
 20 PENSES.—

21 “(A) IN GENERAL.—The term ‘qualified
 22 higher education expenses’ has the meaning
 23 given such term by section 72(t)(7), determined
 24 by treating postsecondary vocational edu-

1 cational schools as eligible educational institu-
2 tions.

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

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

18 “(4) QUALIFIED FIRST-TIME HOMEBUYER
19 COSTS.—The term ‘qualified first-time homebuyer
20 costs’ means qualified acquisition costs (as defined
21 in section 72(t)(8) without regard to subparagraph
22 (B) thereof) with respect to a principal residence
23 (within the meaning of section 121) located in a
24 qualifying county for a qualified first-time home-
25 buyer (as defined in section 72(t)(8)).

1 “(5) QUALIFIED BUSINESS CAPITALIZATION
2 COSTS.—

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

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

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

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

19 “(ii) which contravenes any law.

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

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

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

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

11 “(A) such taxpayer, or

12 “(B) any qualified individual who is—

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

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

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

18 “(g) TAX TREATMENT OF ACCOUNTS.—

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

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

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

2 For purposes of this section—

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

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

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

16 “(4) REPORTS.—The trustee of an individual
17 homestead account shall make such reports regard-
18 ing such account to the Secretary and to the indi-
19 vidual for whom the account is maintained with re-
20 spect to contributions (and the years to which they
21 relate), distributions, and such other matters as the
22 Secretary may require under regulations. The re-
23 ports required by this paragraph—

1 “(A) shall be filed at such time and in
2 such manner as the Secretary prescribes in
3 such regulations, and

4 “(B) shall be furnished to individuals—

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

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

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

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

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

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

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

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

11 Such designation shall be made in such manner as
12 the Secretary prescribes by regulations.

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

20 “(4) OVERPAYMENTS TREATED AS RE-
21 FUNDED.—For purposes of this title, any portion of
22 an overpayment of tax designated under paragraph
23 (1) shall be treated as being refunded to the tax-
24 payer as of the last date prescribed for filing the re-
25 turn of tax imposed by this chapter (determined

1 without regard to extensions) or, if later, the date
2 the return is filed.

3 “(j) PENALTY FOR DISTRIBUTIONS NOT USED FOR
4 QUALIFIED INDIVIDUAL HOMESTEAD EXPENSES.—

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

18 “(2) EXCEPTION FOR CERTAIN DISTRIBUTI-
19 TIONS.—Paragraph (1) shall not apply to distribu-
20 tions which are—

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

23 “(B) made to a beneficiary (or the estate
24 of the account holder) on or after the death of
25 the account holder,

1 “(C) attributable to the account holder’s
 2 being disabled within the meaning of section
 3 72(m)(7), or

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

5 “(k) APPLICATION OF SECTION.—This section shall
 6 apply to amounts paid to an individual homestead account
 7 for any taxable year beginning after the date of the enact-
 8 ment of the New Homestead Act of 2006.”.

9 (b) TAX ON EXCESS CONTRIBUTIONS.—

10 (1) TAX IMPOSED.—Subsection (a) of section
 11 4973 is amended by striking “or” at the end of
 12 paragraph (4), by redesignating paragraph (5) as
 13 paragraph (6), and by inserting after paragraph (4)
 14 the following new paragraph:

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

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

20 “(h) 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 quali-
 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 paragraph:

8 “(7) 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 (F), by redesignating subpara-
 21 graph (G) as subparagraph (H), and by inserting
 22 after subparagraph (F) the following new subpara-
 23 graph:

24 “(G) an individual homestead account de-
 25 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 EXEMP-
 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 (D), by striking the period and inserting “,
 17 and” at the end of subparagraph (E), and by inserting
 18 after subparagraph (E) the following new subparagraph:

19 “(F) 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 new item:

“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 inserting after section 42 the following
7 new section:

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

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

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

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

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

23 “(B) at the election of the taxpayer, the
24 month in which the taxpayer and the rural in-
25 vestment credit agency enter into an agreement

1 with respect to such building (which is binding
2 on such agency, the taxpayer, and all successors
3 in interest) as to the rural investment credit
4 dollar amount to be allocated to such building.

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

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

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

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

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

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

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

1 to the month applicable under subparagraph
 2 (A) or (B) of paragraph (1) and compounded
 3 annually, and

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

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

9 “(1) ELIGIBLE BASIS.—

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

15 “(i) the determination of the adjusted
 16 basis of any building shall be made as of
 17 the beginning of the credit period, and

18 “(ii) such basis shall include develop-
 19 ment costs properly attributable to such
 20 building.

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

24 “(i) site preparation costs,

25 “(ii) State and local impact fees,

1 “(iii) reasonable development costs,
2 “(iv) professional fees related to basis
3 items,
4 “(v) construction financing costs re-
5 lated to basis items other than land, and
6 “(vi) on-site and adjacent improve-
7 ments required by State and local govern-
8 ments.

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

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

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

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

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

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

6 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT
7 PERIOD.—

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

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

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

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

24 “(3) CREDIT PERIOD FOR EXISTING BUILDINGS
25 NOT TO BEGIN BEFORE REHABILITATION CREDIT

1 ALLOWED.—The credit period for an existing build-
 2 ing shall not begin before the 1st taxable year of the
 3 credit period for rehabilitation expenditures with re-
 4 spect to the building.

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

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

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

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

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

1 “(g) LIMITATION ON AGGREGATE CREDIT ALLOW-
2 ABLE WITH RESPECT TO INVESTMENT PROJECTS LO-
3 CATED IN A STATE.—

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

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

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

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

22 “(3) RURAL INVESTMENT CREDIT DOLLAR
23 AMOUNT FOR AGENCIES.—

24 “(A) IN GENERAL.—The aggregate rural
25 investment credit dollar amount which a rural

1 investment credit agency may allocate for any
2 calendar year is the portion of the State rural
3 investment credit ceiling allocated under this
4 paragraph for such calendar year to such agen-
5 cy.

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

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

19 “(i) the unused State rural investment
20 credit ceiling (if any) of such State for the
21 preceding calendar year,

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

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

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

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

1 rural investment credit agency and the alloca-
 2 tion recipient.

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

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

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

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

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

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

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

20 “(I) which allocated its entire
21 State rural investment credit ceiling
22 for the preceding calendar year, and

23 “(II) for which a request is made
24 (not later than May 1 of the calendar

1 year) to receive an allocation under
2 clause (iii).

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

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

11 “(G) COST-OF-LIVING ADJUSTMENT.—

12 “(i) IN GENERAL.—In the case of a
13 calendar year after 2005, the \$1,000,000
14 amount in subparagraph (C) shall be in-
15 creased by an amount equal to—

16 “(I) such dollar amount, multi-
17 plied by

18 “(II) the cost-of-living adjust-
19 ment determined under section 1(f)(3)
20 for such calendar year by substituting
21 ‘calendar year 2004’ for ‘calendar
22 year 1992’ in subparagraph (B) there-
23 of.

24 “(ii) ROUNDING.—Any increase under
25 clause (i) which is not a multiple of \$5,000

1 shall be rounded to the next lowest mul-
2 tiple of \$5,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 “(iii) CREDIT NOT INCOME.—A trans-
24 fer under subparagraph (B) of any credit
25 allowable under subparagraph (A) shall not

1 result in income for purposes of section
2 511.

3 “(5) SPECIAL RULES.—

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

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

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

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

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

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

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

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

1 “(D) RURAL INVESTMENT CREDIT AGENCY
2 TO SPECIFY APPLICABLE PERCENTAGE AND
3 MAXIMUM ELIGIBLE BASIS.—In allocating a
4 rural investment credit dollar amount to any
5 building, the rural investment credit agency
6 shall specify the applicable percentage and the
7 maximum eligible basis which may be taken
8 into account under this section with respect to
9 such building. The applicable percentage and
10 maximum eligible basis so specified shall not ex-
11 ceed the applicable percentage and eligible basis
12 determined under this section without regard to
13 this subsection.

14 “(6) OTHER DEFINITIONS.—For purposes of
15 this subsection—

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

20 “(B) POSSESSIONS TREATED AS STATES.—
21 The term ‘State’ includes a possession of the
22 United States.

23 “(7) PORTION OF STATE CEILING SET-ASIDE
24 FOR QUALIFIED RURAL SMALL BUSINESS INVEST-
25 MENT CREDITS.—Not more than 20 percent of the

1 State rural investment credit ceiling for any State
2 for any calendar year may be allocated to qualified
3 rural small business investment credits under section
4 42B.

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

7 “(1) COMPLIANCE PERIOD.—The term ‘compli-
8 ance period’ means, with respect to any building, the
9 period of 10 taxable years beginning with the 1st
10 taxable year of the credit period with respect there-
11 to.

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

15 “(3) EXISTING BUILDING.—The term ‘existing
16 building’ means any building which is not a new
17 building.

18 “(4) APPLICATION TO ESTATES AND TRUSTS.—
19 In the case of an estate or trust, the amount of the
20 credit determined under subsection (a) and any in-
21 crease in tax under subsection (i) shall be appor-
22 tioned between the estate or trust and the bene-
23 ficiaries on the basis of the income of the estate or
24 trust allocable to each.

25 “(i) RECAPTURE OF CREDIT.—If—

1 “(1) as of the close of any taxable year in the
 2 compliance period, the amount of the eligible basis
 3 of any building with respect to the taxpayer is less
 4 than

5 “(2) the amount of such basis as of the close
 6 of the preceding taxable year, then the taxpayer’s
 7 tax under this chapter for the taxable year shall be
 8 increased by the credit recapture amount determined
 9 under rules similar to the rules of section 42(j).

10 “(j) CERTIFICATIONS AND OTHER REPORTS TO SEC-
 11 RETARY.—

12 “(1) CERTIFICATION WITH RESPECT TO 1ST
 13 YEAR OF CREDIT PERIOD.—Following the close of
 14 the 1st taxable year in the credit period with respect
 15 to any qualified rural investment building, the tax-
 16 payer shall certify to the Secretary (at such time
 17 and in such form and in such manner as the Sec-
 18 retary prescribes)—

19 “(A) the taxable year, and calendar year,
 20 in which such building was first placed in serv-
 21 ice,

22 “(B) the eligible basis of such building as
 23 of the beginning of the credit period,

24 “(C) the maximum applicable percentage
 25 and eligible basis permitted to be taken into ac-

1 count by the appropriate rural investment cred-
 2 it agency under subsection (g),

3 “(D) the election made under subsection
 4 (f) with respect to the qualified rural invest-
 5 ment project of which such building is a part,
 6 and

7 “(E) such other information as the Sec-
 8 retary may require.

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

16 “(2) ANNUAL REPORTS TO THE SECRETARY.—
 17 The Secretary may require taxpayers to submit an
 18 information return (at such time and in such form
 19 and manner as the Secretary prescribes) for each
 20 taxable year setting forth—

21 “(A) the eligible basis for the taxable year
 22 of each qualified rural investment building of
 23 the taxpayer,

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

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

3 The penalty under section 6652(j) shall apply to any
4 failure to submit the return required by the Sec-
5 retary under the preceding sentence on the date pre-
6 scribed therefor.

7 “(3) ANNUAL REPORTS FROM RURAL INVEST-
8 MENT CREDIT AGENCIES.—Each agency which allo-
9 cates any rural investment credit amount to any
10 building for any calendar year shall submit to the
11 Secretary (at such time and in such manner as the
12 Secretary shall prescribe) an annual report speci-
13 fying—

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

16 “(B) sufficient information to identify each
17 such building and the taxpayer with respect
18 thereto, and

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

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

24 “(k) RESPONSIBILITIES OF RURAL INVESTMENT
25 CREDIT AGENCIES.—

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

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

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

14 “(ii) such agency notifies the chief ex-
15 ecutive officer (or the equivalent) of the
16 local jurisdiction within which the building
17 is located of such investment project and
18 provides such individual a reasonable op-
19 portunity to comment on the investment
20 project,

21 “(iii) a comprehensive market study
22 of the development needs of individuals in
23 the qualifying county to be served by the
24 investment project is conducted before the
25 credit allocation is made and at the devel-

1 oper’s expense by a disinterested party who
2 is approved by such agency, and

3 “(iv) a written explanation is available
4 to the general public for any allocation of
5 a rural investment credit dollar amount
6 which is not made in accordance with es-
7 tablished priorities and selection criteria of
8 the rural investment credit agency.

9 “(B) QUALIFIED RURAL INVESTMENT
10 PLAN.—For purposes of this section, the term
11 ‘qualified rural investment plan’ means any
12 plan—

13 “(i) which sets forth selection criteria
14 to be used to determine priorities of the
15 rural investment credit agency which are
16 appropriate to qualifying counties,

17 “(ii) which also gives preference in al-
18 locating rural investment credit dollar
19 amounts among selected investment
20 projects to—

21 “(I) investment projects that tar-
22 get those small rural counties with
23 consistently high rates of net out-mi-
24 gration,

1 “(II) investment projects that
2 link the economic development and job
3 creation efforts of 2 or more small
4 rural counties with high rates of net
5 out-migration, and

6 “(III) investment projects that
7 link the economic development and job
8 creation efforts of 1 or more small
9 rural counties in the State with high
10 rates of net out-migration to related
11 efforts in regions of such State experi-
12 encing economic growth, and

13 “(iii) which provides a procedure that
14 the agency (or an agent or other private
15 contractor of such agency) will follow in
16 monitoring for noncompliance with the
17 provisions of this section and in notifying
18 the Internal Revenue Service of such non-
19 compliance which such agency becomes
20 aware of and in monitoring for noncompli-
21 ance through regular site visits.

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

25 “(i) investment project location,

1 “(ii) technology and transportation in-
2 frastructure needs, and

3 “(iii) private development trends.

4 “(2) CREDIT ALLOCATED TO BUILDING NOT TO
5 EXCEED AMOUNT NECESSARY TO ASSURE INVEST-
6 MENT PROJECT FEASIBILITY.—

7 “(A) IN GENERAL.—The rural investment
8 credit dollar amount allocated to an investment
9 project shall not exceed the amount the rural
10 investment credit agency determines is nec-
11 essary for the financial feasibility of the invest-
12 ment project and its viability as a qualified
13 rural investment project throughout the compli-
14 ance period.

15 “(B) AGENCY EVALUATION.—In making
16 the determination under subparagraph (A), the
17 rural investment credit agency shall consider—

18 “(i) the sources and uses of funds and
19 the total financing planned for the invest-
20 ment project,

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

23 “(iii) the percentage of the rural in-
24 vestment credit dollar amount used for in-

1 investment project costs other than the cost
2 of intermediaries, and

3 “(iv) the reasonableness of the devel-
4 opmental and operational costs of the in-
5 vestment project.

6 Clause (iii) shall not be applied so as to impede
7 the development of investment projects in hard-
8 to-develop areas.

9 “(C) DETERMINATION MADE WHEN CRED-
10 IT AMOUNT APPLIED FOR AND WHEN BUILDING
11 PLACED IN SERVICE.—

12 “(i) IN GENERAL.—A determination
13 under subparagraph (A) shall be made as
14 of each of the following times:

15 “(I) The application for the rural
16 investment credit dollar amount.

17 “(II) The allocation of the rural
18 investment credit dollar amount.

19 “(III) The date the building is
20 first placed in service.

21 “(ii) CERTIFICATION AS TO AMOUNT
22 OF OTHER SUBSIDIES.—Prior to each de-
23 termination under clause (i), the taxpayer
24 shall certify to the rural investment credit
25 agency the full extent of all Federal, State,

1 and local subsidies which apply (or which
2 the taxpayer expects to apply) with respect
3 to the building.

4 “(1) REGULATIONS.—The Secretary shall prescribe
5 such regulations as may be necessary or appropriate to
6 carry out the purposes of this section, including regula-
7 tions—

8 “(1) dealing with—

9 “(A) investment projects which include
10 more than 1 building or only a portion of a
11 building,

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

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

15 “(3) preventing the avoidance of the rules of
16 this section, and

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

24 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-
25 TION.—Section 38(b) (relating to current year business

1 credit) is amended by striking “plus” at the end of para-
 2 graph (29), by striking the period at the end of paragraph
 3 (30) and inserting “, plus”, and by adding at the end the
 4 following new paragraph:

5 “(31) the rural investment credit determined
 6 under section 42A(a).”.

7 (c) CONFORMING AMENDMENTS.—

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

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

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

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

21 (4) Section 774(b)(4) is amended by inserting
 22 “, 42A(i),” after “section 42(j)”.

23 (d) CLERICAL AMENDMENT.—The table of sections
 24 for subpart D of part IV of subchapter A of chapter 1

1 is amended by inserting after the item relating to section
 2 42 the following new item:

“Sec. 42A. Rural investment credit.”.

3 (e) EFFECTIVE DATE.—The amendments made by
 4 this section shall apply to expenditures made in taxable
 5 years beginning after the date of the enactment of this
 6 Act.

7 **SEC. 202. QUALIFIED RURAL SMALL BUSINESS INVEST-**
 8 **MENT CREDIT.**

9 (a) IN GENERAL.—Subpart D of part IV of sub-
 10 chapter A of chapter 1 (relating to business related cred-
 11 its), as amended by this Act, is amended by inserting after
 12 section 42A the following new section:

13 **“SEC. 42B. QUALIFIED RURAL SMALL BUSINESS INVEST-**
 14 **MENT CREDIT.**

15 “(a) IN GENERAL.—For purposes of section 38, in
 16 the case of a qualified rural small business, the amount
 17 of the qualified rural small business investment credit de-
 18 termined under this section for any taxable year is equal
 19 to 30 percent of the qualified expenditures for the taxable
 20 year of such business.

21 “(b) DOLLAR LIMITATION.—

22 “(1) IN GENERAL.—The credit allowable under
 23 subsection (a) for any taxable year shall not exceed
 24 the lesser of—

25 “(A) \$5,000, or

1 “(B) the amount when added to the aggre-
2 gate credits allowable to the taxpayer under
3 subsection (a) for all preceding taxable years
4 does not exceed \$25,000.

5 “(2) NO DOUBLE CREDIT ALLOWED.—In the
6 case of any qualified rural small business which
7 places in service a qualified rural investment build-
8 ing with respect to which a rural investment credit
9 is allowed under section 42A for any taxable year,
10 paragraph (1)(A) shall be applied with respect to
11 such taxable year by substituting ‘zero’ for ‘\$5,000’.

12 “(c) QUALIFIED RURAL SMALL BUSINESS.—For
13 purposes of this section, the term ‘qualified rural small
14 business’ means any person if such person—

15 “(1) employed not more than 5 full-time em-
16 ployees during the taxable year,

17 “(2) materially and substantially participates in
18 management,

19 “(3) is located in a qualifying county, and

20 “(4) submitted a qualified business plan with
21 respect to which the rural investment credit agency
22 with jurisdiction over such qualifying county has al-
23 located a portion of the State rural investment ceil-
24 ing for such taxable year under section 42A(g)(7).

1 For purposes of paragraph (1), an employee shall be con-
2 sidered full-time if such employee is employed at least 30
3 hours per week for 20 or more calendar weeks in the tax-
4 able year.

5 “(d) QUALIFIED EXPENDITURES.—For purposes of
6 this section—

7 “(1) IN GENERAL.—The term ‘qualified expend-
8 itures’ means expenditures normally associated with
9 starting or expanding a business and included in a
10 qualified business plan, including costs for capital,
11 plant and equipment, inventory expenses, and wages,
12 but not including interest costs.

13 “(2) ONLY CERTAIN EXPENDITURES INCLUDED
14 FOR EXISTING BUSINESSES.—In the case of a quali-
15 fied rural small business with respect to which a
16 credit under subsection (a) was allowed for a pre-
17 ceding taxable year, such term shall include only so
18 much of the expenditures described in paragraph (1)
19 for the taxable year as exceed the aggregate of such
20 expenditures for the preceding taxable year.

21 “(e) QUALIFIED BUSINESS PLAN.—For purposes of
22 this section, the term ‘qualified business plan’ means a
23 business plan which—

24 “(1) has been approved by the rural investment
25 credit agency with jurisdiction over the qualifying

1 county in which the qualified rural small business is
2 located pursuant to such agency's rural investment
3 plan, and

4 “(2) meets such requirements as the agency
5 may specify.

6 “(f) DENIAL OF DOUBLE BENEFIT.—In the case of
7 the amount of the credit determined under this section—

8 “(1) no deduction or credit shall be allowed for
9 such amount under any other provision of this chap-
10 ter, and

11 “(2) no increase in the adjusted basis of any
12 property shall result from such amount.

13 “(g) DEFINITIONS AND SPECIAL RULES.—For pur-
14 poses of this section—

15 “(1) any term which is used in this section
16 which is used in section 42A shall have the meaning
17 given such term by section 42A, and

18 “(2) rules similar to the rules under subsections
19 (j)(2), (j)(3), and (k) of section 42A shall apply.”.

20 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-
21 TION.—Section 38(b) (relating to current year business
22 credit), as amended by this Act, is amended by striking
23 “plus” at the end of paragraph (30), by striking the period
24 at the end of paragraph (31) and inserting “, plus”, and
25 by adding at the end the following new paragraph:

1 “(32) the qualified rural small business invest-
 2 ment credit determined under section 42B(a).”.

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

“Sec. 42B. Qualified rural small business investment credit.”.

7 (d) EFFECTIVE DATE.—The amendments made by
 8 this section shall apply to expenditures made in taxable
 9 years beginning after the date of the enactment of this
 10 Act.

11 **SEC. 203. ACCELERATED DEPRECIATION FOR RURAL IN-**
 12 **VESTMENT PROPERTY.**

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

15 “(1) PROPERTY IN RURAL INVESTMENT PROJECTS.—

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

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

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

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

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

8 “(4) QUALIFIED RURAL INVESTMENT PROP-
9 ERTY DEFINED.—For purposes of this subsection—

10 “(A) IN GENERAL.—The term ‘qualified
11 rural investment property’ means property
12 which is property described in the table in para-
13 graph (2) and which is—

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

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

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

5 “(iv) not property (or any portion
 6 thereof) placed in service for purposes of
 7 operating any facility described in section
 8 144(c)(6)(B).

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

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

18 “(ii) after the application of section
 19 280F(b) (relating to listed property with
 20 limited business use).

21 “(C) SPECIAL RULE FOR INFRASTRUCTURE
 22 INVESTMENT.—

23 “(i) IN GENERAL.—Subparagraph
 24 (A)(ii) shall not apply to qualified infra-
 25 structure property located outside of the

1 qualified rural investment project if the
2 purpose of such property is to connect with
3 qualified infrastructure property located
4 within such project.

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

11 “(I) benefits the qualifying coun-
12 ty infrastructure,

13 “(II) is available to the general
14 public, and

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

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

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

1 (b) EFFECTIVE DATE.—The amendment made by
 2 this section shall apply to property placed in service after
 3 the date of the enactment of this Act, in taxable years
 4 ending after such date.

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

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

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

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

13 **“SEC. 383A. SHORT TITLE.**

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

16 **“SEC. 383B. DEFINITIONS.**

17 “In this subtitle:

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

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

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

4 “(C) is created under the National Con-
5 sumer Cooperative Bank Act (12 U.S.C. 3011
6 et seq.);

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

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

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

14 “(2) BOARD.—The term ‘Board’ means the
15 board of directors of the Fund established under
16 section 383F.

17 “(3) FUND.—The term ‘Fund’ means the New
18 Homestead Venture Capital Fund established under
19 section 383C.

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

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

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

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

6 “(D) Cooperative financial institutions
7 (other than Farm Credit System institutions).

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

11 “(F) Other nonprofit organizations, includ-
12 ing credit unions.

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

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

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

23 “(B) during the 20-year period ending
24 with the fiscal year preceding the applicable fis-
25 cal year for which assistance is made available

1 under section 383E, has a net outmigration of
2 inhabitants from the county of at least 10 per-
3 cent of the population of the county at the be-
4 ginning of the period.

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

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

10 “(a) IN GENERAL.—

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

22 “(2) OWNERSHIP.—

23 “(A) IN GENERAL.—To the maximum ex-
24 tent practicable, equity ownership of the Fund
25 shall be distributed among authorized private

1 investors representing all of the groups of simi-
2 lar authorized private investors described in
3 subparagraphs (A) through (F) of section
4 383B(4).

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

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

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

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

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

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

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

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

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

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

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

18 “(1) subject to subsection (b)(1), make avail-
19 able to the Fund \$200,000,000 for each of fiscal
20 years 2006 through 2015;

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

24 “(3) subject to subsection (d), guarantee the re-
25 payment of principal of, and accrued interest on, de-

1 ventures issued by the Fund to authorized private
2 investors.

3 “(b) NON-FEDERAL FUNDS.—

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

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

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

15 “(2) INSURED DEPOSITORY INSTITUTIONS.—

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

18 “(i) an insured depository institution
19 may be an authorized private investor in
20 the Fund; and

21 “(ii) an investment in the Fund may
22 be considered to be part of the record of
23 an institution in meeting the credit needs
24 of the community in which the institution

1 is located under any applicable Federal
2 law.

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

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

16 “(i) in a financially sound manner;
17 and

18 “(ii) in compliance with all applicable
19 law.

20 “(c) GUARANTEE OF PRIVATE INVESTMENTS.—

21 “(1) IN GENERAL.—The Secretary shall guar-
22 antee, under terms and conditions determined by the
23 Secretary—

24 “(A) except as provided in subparagraph
25 (B), 40 percent of any loss of the principal of

1 each investment made by an authorized private
2 investor in the Fund; and

3 “(B) 60 percent of any loss of the prin-
4 cipal of each investment made by an authorized
5 private investor in the Fund if the investment
6 is used for a manufacturing or high-technology
7 business.

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

13 “(3) REDEMPTION OF GUARANTEE.—

14 “(A) DATE.—An authorized private inves-
15 tor in the Fund may redeem a guarantee under
16 paragraph (1), with respect to the total invest-
17 ments in the Fund and the total losses of the
18 authorized private investor as of the date of re-
19 demption—

20 “(i) on the date that is 5 years after
21 the date of the initial investment of the au-
22 thorized private investor; or

23 “(ii) annually thereafter.

1 “(B) EFFECT OF REDEMPTION.—On re-
2 redemption of a guarantee under subparagraph
3 (A)—

4 “(i) the shares in the Fund of the au-
5 thorized private investor shall be redeemed;
6 and

7 “(ii) the authorized private investor
8 shall be prohibited from making any future
9 investment in the Fund.

10 “(d) DEBENTURES.—

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

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

16 “(A) IN GENERAL.—The Secretary shall
17 guarantee 100 percent of the principal of, and
18 accrued interest on, debentures issued by the
19 Fund that are approved by the Secretary.

20 “(B) MAXIMUM DEBT GUARANTEED BY
21 SECRETARY.—The outstanding value of deben-
22 tures issued by the Fund and guaranteed by
23 the Secretary shall not exceed the lesser of—

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

1 “(ii) \$500,000,000.

2 “(C) RECAPTURE OF GUARANTEE PAY-
3 MENTS.—If the Secretary makes a payment on
4 a debenture issued by the Fund as a result of
5 a guarantee of the Secretary under this para-
6 graph, the Secretary shall have priority over
7 other creditors for repayment of the debenture.

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

11 **“SEC. 383E. INVESTMENTS AND OTHER ACTIVITIES OF THE**
12 **FUND.**

13 “(a) INVESTMENTS.—

14 “(1) IN GENERAL.—

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

17 “(i) make equity investments in a
18 rural business that meets the requirements
19 of paragraph (6) and such other require-
20 ments as the Board may establish; and

21 “(ii) extend credit to such rural busi-
22 ness in—

23 “(I) the form of mezzanine debt,
24 convertible debt, or subordinated debt;
25 or

1 “(II) any other form of near-equ-
2 uity debt.

3 “(B) LIMITATIONS ON EQUITY INVEST-
4 MENTS.—After the initial equity investment in
5 a rural business described in subparagraph
6 (A)(i), the Fund may not make additional eq-
7 uity investments in such rural business if the
8 additional equity investments would result in
9 the Fund owning more than 30 percent of the
10 equity of such rural business.

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

18 “(2) PROCEDURES.—The Fund shall implement
19 procedures to ensure that—

20 “(A) the financing arrangements of the
21 Fund meet the Fund’s primary focus of pro-
22 viding equity capital; and

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

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

1 “(A) shall seek to make equity investments
 2 in a variety of viable projects for rural busi-
 3 nesses, with a significant share of invest-
 4 ments—

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

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

9 “(iii) in cooperative and noncoopera-
 10 tive businesses; and

11 “(B) shall be managed in a manner that
 12 diversifies the risks to the Fund among a vari-
 13 ety of projects.

14 “(4) LIMITATION ON RURAL BUSINESSES AS-
 15 SISTED.—The Fund shall not invest in any rural
 16 business that—

17 “(A) is primarily retail in nature (as deter-
 18 mined by the Board), other than a purchasing
 19 cooperative, or

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

22 “(5) INTEREST RATE LIMITATIONS.—Returns
 23 on investments in and by the Fund, and returns on
 24 the extension of credit by participants in projects as-
 25 sisted by the Fund, shall not be subject to any State

1 or Federal law establishing a maximum allowable in-
2 terest rate.

3 “(6) REQUIREMENTS FOR RECIPIENTS.—

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

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

13 “(i) a financial institution;

14 “(ii) a development organization; or

15 “(iii) any other established entity en-
16 gaging or assisting in rural business devel-
17 opment, including a rural cooperative.

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

22 “(c) ANNUAL AUDIT.—

23 “(1) IN GENERAL.—The Board shall authorize
24 an annual audit of the financial statements of the

1 Fund by a nationally recognized auditing firm using
2 generally accepted accounting procedures.

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

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

8 “(1) describes the projects funded with amounts
9 from the Fund;

10 “(2) specifies the recipients of amounts from
11 the Fund;

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

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

17 “(e) OTHER AUTHORITIES.—

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

21 “(2) OVERSIGHT.—The Secretary shall enter
22 into a contract with the Administrator of the Small
23 Business Administration under which the Adminis-
24 trator of the Small Business Administration shall be

1 responsible for the routine duties of the Secretary in
2 regard to the Fund.

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

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

8 “(1) a designee of the Secretary;

9 “(2) 2 members who are appointed by the Sec-
10 retary and are not Federal employees, including—

11 “(A) 1 member with expertise in venture
12 capital investment; and

13 “(B) 1 member with expertise in coopera-
14 tive development;

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

19 “(4) 7 members who are elected by the author-
20 ized private investors with investments in the Fund,
21 of whom not less than 1 member shall be a rural
22 community banker from an insured depository insti-
23 tution with total assets equal to or less than
24 \$250,000,000 with an investment in the Fund.

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

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

6 “‘There are authorized to be appropriated such sums
7 as are necessary to carry out this subtitle.’”.

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