

109TH CONGRESS
2D SESSION

S. 2347

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

IN THE SENATE OF THE UNITED STATES

MARCH 1, 2006

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

A BILL

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

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

3 **SECTION 1. EXTENSION AND MODIFICATION OF TREAT-**
4 **MENT OF QUALIFIED ZONE ACADEMY BONDS.**

5 (a) EXTENSION AND ALLOCATION OF CREDIT AU-
6 THORITY.—

7 (1) EXTENSION.—Paragraph (1) of section
8 1397E(e) of the Internal Revenue Code of 1986 is
9 amended by striking “and 2005” and inserting
10 “2005, 2006, and 2007”.

(2) ALLOCATION OF LIMITATION.—Section 1397E(e)(2) of such Code is amended to read as follows:

“(2) ALLOCATION OF LIMITATION.—

“(A) ALLOCATION AMONG STATES.—

“(i) LIMITATION BEFORE 2006.—The national zone academy bond limitations for calendar years 1998, 1999, 2000, 2001, 2002, 2003, 2004, and 2005 shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget).

“(ii) LIMITATION AFTER 2005.—

“(I) IN GENERAL.—The national zone academy bond limitation for any calendar year after 2005 shall be allocated by the Secretary among the States in proportion to the respective amounts each such State received for basic grants under subpart 2 of part A of title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6331 et seq.) for the most re-

cent fiscal year ending before such
calendar year.

“(II) MINIMUM ALLOCATION.—

The allocation under subclause (I) to
any State shall in no event be less
than 1 percent of the national zone
academy bond limitation. The Sec-
retary shall ratably reduce the alloca-
tions of States to which this subclause
does not apply by the amount re-
quired to offset increases in alloca-
tions of other States under this sub-
clause.

“(B) ALLOCATION TO ACADEMIES.—The

limitation amount allocated to a State under
subparagraph (A) shall be allocated by the
State to qualified zone academies within such
State.

“(C) DESIGNATION SUBJECT TO LIMITA-

TION AMOUNT.—The maximum aggregate face
amount of bonds issued during any calendar
year which may be designated under subsection
(a) with respect to any qualified zone academy
shall not exceed the limitation amount allocated

1 to such academy under subparagraph (B) for
 2 such calendar year.”.

3 (3) UNUSED AUTHORITY.—Section 1397E(e) of
 4 such Code (relating to limitation on amount of
 5 bonds designated) is amended—

6 (A) by striking “If” in paragraph (4) and
 7 inserting “Except as provided in paragraph (5),
 8 if”, and

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

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

14 (b) PROCEEDS OF BONDS MAY BE USED FOR CON-
 15 STRUCTION.—Paragraph (5) of section 1397E(d) of the
 16 Internal Revenue Code of 1986 (defining qualified pur-
 17 pose) is amended—

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

21 (2) by redesignating subparagraphs (B), (C),
 22 and (D) as subparagraphs (C), (D), and (E), respec-
 23 tively, and by inserting after subparagraph (A) the
 24 following:

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

3 (c) REPEAL OF LIMITATION ON TAXPAYERS ELIGI-
4 BLE FOR CREDIT.—

5 (1) IN GENERAL.—Section 1397E(a) of the In-
6 ternal Revenue Code of 1986 (relating to allowance
7 of credit) is amended by striking “an eligible tax-
8 payer” and inserting “a taxpayer”.

9 (2) CONFORMING AMENDMENT.—Section
10 1397E(d)(6) of such Code is amended to read as fol-
11 lows:

12 “(6) BONDS HELD BY REGULATED INVEST-
13 MENT COMPANIES.—If any qualified zone academy
14 bond is held by a regulated investment company, the
15 credit determined under subsection (a) shall be al-
16 lowed to shareholders of such company under proce-
17 dures prescribed by the Secretary.”.

18 (d) CREDITS MAY BE STRIPPED.—Section 1397E of
19 the Internal Revenue Code of 1986 is amended by adding
20 at the end the following new subsection:

21 “(j) CREDITS MAY BE STRIPPED.—Under regula-
22 tions prescribed by the Secretary—

23 “(1) IN GENERAL.—There may be a separation
24 (including at issuance) of the ownership of a quali-
25 fied zone academy bond and the entitlement to the

1 credit under this section with respect to such bond.
2 In case of any such separation, the credit under this
3 section shall be allowed to the person who on the
4 credit allowance date holds the instrument evidenc-
5 ing the entitlement to the credit and not to the hold-
6 er of the bond.

7 “(2) CERTAIN RULES TO APPLY.—In the case
8 of a separation described in paragraph (1), the rules
9 of section 1286 shall apply to the qualified zone
10 academy bond as if it were a stripped bond and to
11 the credit under this section as if it were a stripped
12 coupon.”

13 (e) EFFECTIVE DATES.—

14 (1) IN GENERAL.—Except as otherwise pro-
15 vided in this subsection, the amendments made by
16 this section shall apply to obligations issued after
17 December 31, 2005.

18 (2) REPEAL OF RESTRICTION ON ZONE ACAD-
19 EMY BOND HOLDERS.—In the case of bonds to
20 which section 1397E of the Internal Revenue Code
21 of 1986 (as in effect before the date of the enact-
22 ment of this Act) applies, the limitation of such sec-
23 tion to eligible taxpayers (as defined in subsection

1 (d)(6) of such section) shall not apply after the date
2 of the enactment of this Act.

