

109TH CONGRESS  
1ST SESSION

# S. 238

To amend the Internal Revenue Code of 1986 to exclude from gross income interest received on loans secured by agricultural real property.

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IN THE SENATE OF THE UNITED STATES

FEBRUARY 1, 2005

Mr. HAGEL introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to exclude from gross income interest received on loans secured by agricultural real property.

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.**

4       This Act may be cited as the “Rural Economic In-  
5       vestment Act of 2005”.

6       **SEC. 2. EXCLUSION FOR INTEREST ON LOANS SECURED BY**  
7               **AGRICULTURAL REAL PROPERTY.**

8       (a) IN GENERAL.—Part III of subchapter B of chap-  
9       ter 1 of the Internal Revenue Code of 1986 (relating to

1 items specifically excluded from gross income) is amended  
 2 by inserting after section 139A the following new section:

3 **“SEC. 139B. INTEREST ON LOANS SECURED BY AGRICUL-**  
 4 **TURAL REAL PROPERTY.**

5 “(a) EXCLUSION.—Gross income shall not include in-  
 6 terest received by a qualified lender on any qualified real  
 7 estate loan.

8 “(b) DEFINITIONS.—For purposes of this section—

9 “(1) QUALIFIED LENDER.—The term ‘qualified  
 10 lender’ means any bank or savings association the  
 11 deposits of which are insured under the Federal De-  
 12 posit Insurance Act (12 U.S.C. 1811 et seq.).

13 “(2) QUALIFIED REAL ESTATE LOAN.—The  
 14 term ‘qualified real estate loan’ means any loan se-  
 15 cured by agricultural real estate or by a leasehold  
 16 mortgage (with a status as a lien) on agricultural  
 17 real estate. For purposes of the preceding sentence,  
 18 the determination of whether property securing such  
 19 loan is agricultural real estate shall be made as of  
 20 the time the interest income on such loan is accrued.

21 “(3) AGRICULTURAL REAL ESTATE.—The term  
 22 ‘agricultural real estate’ means—

23 “(A) real property used for the production  
 24 of 1 or more agricultural products, and

25 “(B) any single family residence—

1 “(i) which is the principal residence  
 2 (within the meaning of section 121) of its  
 3 occupant,

4 “(ii) which is located in a rural area  
 5 (as determined by the Secretary of Agri-  
 6 culture), which is not within a Metropoli-  
 7 tan Statistical Area (as defined by the Of-  
 8 fice of Management and Budget) and  
 9 which has a population (determined on the  
 10 basis of the most recent decennial census  
 11 for which data are available) of 2,500 or  
 12 less, and

13 “(iii) which is purchased or improved  
 14 with the proceeds of the qualified real es-  
 15 tate loan.

16 “(c) COORDINATION WITH SECTION 265.—Qualified  
 17 real estate loans shall be treated as obligations described  
 18 in section 265(a)(2) the interest on which is wholly exempt  
 19 from the taxes imposed by this subtitle.”.

20 (b) CLERICAL AMENDMENT.—The table of sections  
 21 for such part III is amended by inserting after the item  
 22 relating to section 139A the following new item:

“Sec. 139B. Interest on loans secured by agricultural real property.”.

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 the date of the enactment of this Act.

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