

110TH CONGRESS
1ST SESSION

S. 1093

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 SENATE OF THE UNITED STATES

APRIL 12, 2007

Mr. DORGAN (for himself, Mr. HAGEL, Mr. JOHNSON, Mr. BROWNBACK, Mr. DURBIN, Mr. CONRAD, Mr. SALAZAR, Mr. ROCKEFELLER, Mr. COLEMAN, Ms. LANDRIEU, Mrs. LINCOLN, Mr. HARKIN, and Mr. PRYOR) introduced the following bill; which was read twice and referred to the Committee on Finance

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 2007”.

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) 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.—The credit allowed under subsection (a) for
7 any taxable year shall not exceed the excess of—

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

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

14 “(2) MARRIED INDIVIDUALS FILING JOINTLY.—
15 In the case of a husband and wife who file a joint
16 return, the credit under this section is allowable only
17 if the residence is a qualified residence with respect
18 to both the husband and wife, and the amount speci-
19 fied under subsection (a)(2) shall apply to the joint
20 return.

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

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

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

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

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

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

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

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

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

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

14 “(f) RECAPTURE OF CREDIT IN CASE OF CERTAIN
15 SALES.—

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

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

4 “(A) the applicable recapture percentage of
5 the amount of the credit allowed to the tax-
6 payer under this section, plus

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

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

15 “(3) APPLICABLE RECAPTURE PERCENTAGE.—

16 “(A) IN GENERAL.—For purposes of this
17 subsection, the applicable recapture percentage
18 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.

19 “(B) YEARS.—For purposes of subpara-
20 graph (A), year 1 shall begin on the first day
21 of the taxable year in which the purchase of the

1 qualified residence described in subsection (a)
2 occurs.

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

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

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

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

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

1 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
2 title, if a credit is allowed under this section with respect
3 to the purchase of any residence, the basis of such resi-
4 dence shall be reduced by the amount of the credit so al-
5 lowed.”.

6 (b) CONFORMING AMENDMENTS.—

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

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

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

18 (3) Section 25(e)(1)(C) is amended by inserting
19 “25E,” after “25D,” both places it appears.

20 (4) Section 1400C(d)(1) is amended by striking
21 “and section 25D” and inserting “and sections 25D
22 and 25E”.

23 (5) Section 1400C(d)(2) is amended by striking
24 “and 25D” and inserting “25D, and 25E”.

1 (6) The table of sections for subpart A of part
 2 IV of subchapter A of chapter 1 is amended by in-
 3 serting before the item relating to section 26 the fol-
 4 lowing new item:

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

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to purchases after the date of the
 7 enactment of this Act, in taxable years ending after such
 8 date.

9 **SEC. 103. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**
 10 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**
 11 **RESIDENCE IN CERTAIN RURAL AREAS.**

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

14 (1) by striking “and” at the end of paragraph

15 (2),

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

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

20 “(4) losses arising from the sale or exchange of
 21 the principal residence (within the meaning of sec-
 22 tion 121) of the taxpayer located in a qualifying
 23 county (as defined in section 223(b)(2)), but only if
 24 the principal residence was acquired by the taxpayer
 25 after the date of enactment of this paragraph.”.

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

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to sales and exchanges after the
 6 date of the enactment of this Act, in taxable years ending
 7 after such date.

8 **SEC. 104. INDIVIDUAL HOMESTEAD ACCOUNTS.**

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

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

“Sec. 530A. Individual homestead accounts.

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

14 “(a) GENERAL RULE.—An individual homestead ac-
 15 count shall be exempt from taxation under this subtitle.
 16 Notwithstanding the preceding sentence, any individual
 17 homestead account shall be subject to the taxes imposed
 18 by section 511 (relating to imposition of tax on unrelated
 19 business income of charitable, etc., organizations).

20 “(b) INDIVIDUAL HOMESTEAD ACCOUNT.—For pur-
 21 poses of this title, the term ‘individual homestead account’
 22 means a trust created or organized in the United States
 23 for the exclusive benefit of a qualified individual or his

1 beneficiaries, but only if the written governing instrument
 2 creating the trust meets the following requirements:

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

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

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

11 “(C) contributions will not be accepted for
 12 any taxable year following the fifth taxable year
 13 in which the qualified individual has contributed
 14 to any individual homestead account.

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

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

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

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

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

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

10 “(d) MATCHING CONTRIBUTIONS TO INDIVIDUAL
11 HOMESTEAD ACCOUNTS.—

12 “(1) IN GENERAL.—Not less than once each
13 taxable year, the Secretary shall deposit (to the ex-
14 tent provided in appropriation Acts) into an indi-
15 vidual Homestead account of each qualified indi-
16 vidual an amount equal to the applicable percentage
17 of the sum of the amounts deposited into all of the
18 individual homestead accounts of such individual
19 during such taxable year (determined without regard
20 to any amount contributed under this subsection).

21 “(2) APPLICABLE PERCENTAGE.—For purposes
22 of this subsection, the applicable percentage with re-
23 spect to any qualified individual for any taxable year
24 shall be determined in accordance with the following
25 tables:

1 “(A) In the case of a married individual
 2 (as defined in section 7703) filing a joint re-
 3 turn:

“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.

4 “(B) In the case of a head of household
 5 (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.

6 “(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.

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

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

14 “(4) FORFEITURE OF MATCHING CONTRIBU-
 15 TIONS IN THE CASE OF CERTAIN DISTRIBUTIONS.—
 16 In the event of a distribution from an individual

1 homestead account before the date described in sub-
2 section (f)(1)(A) (other than a distribution described
3 in subsection (e)(2)(A)), the account holder shall
4 forfeit the corresponding matching contributions and
5 interest earned on the matching contributions, un-
6 less such distribution is recontributed to such ac-
7 count within 6 months of such distribution.

8 “(e) TAX TREATMENT OF DISTRIBUTIONS.—

9 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
10 COME.—Except as otherwise provided in this sub-
11 section, any amount paid or distributed out of an in-
12 dividual homestead account shall be includible in the
13 gross income of the payee or distributee, as the case
14 may be, in the manner as provided in section 72.
15 For purposes of the preceding sentence, distributions
16 which are includible in gross income shall be treated
17 as first attributable to amounts contributed under
18 subsection (d) to the extent thereof.

19 “(2) EXCLUSION OF CATASTROPHIC MEDICAL
20 EXPENSE DISTRIBUTIONS IN FIRST FIVE YEARS AND
21 QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBUTIONS
22 THEREAFTER.—Paragraph (1) shall not apply to—

23 “(A) any distribution described in section
24 72(t)92)(B) before the date described in sub-
25 section (f)(1)(A), but only to the extent such

1 distribution does not exceed the balance in the
2 account as of the date of such distribution, re-
3 duced by any matching contribution under sub-
4 section (d), and

5 “(B) any qualified individual homestead
6 distribution.

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

9 “(1) IN GENERAL.—The term ‘qualified indi-
10 vidual homestead distribution’ means any amount
11 paid or distributed out of an individual homestead
12 account which would otherwise be includible in gross
13 income, to the extent that such payment or distribu-
14 tion—

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

20 “(B) is used exclusively to pay qualified in-
21 dividual homestead expenses for the qualified
22 individual or the spouse or dependent (as de-
23 fined in section 152) of such individual.

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

4 “(A) Qualified higher education expenses.

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

6 “(C) Qualified business capitalization
 7 costs.

8 “(D) Qualified medical expenses.

9 “(E) Qualified rollovers.

10 “(3) QUALIFIED HIGHER EDUCATION EX-
 11 PENSES.—

12 “(A) IN GENERAL.—The term ‘qualified
 13 higher education expenses’ has the meaning
 14 given such term by section 72(t)(7), determined
 15 by treating postsecondary vocational edu-
 16 cational schools as eligible educational institu-
 17 tions.

18 “(B) POSTSECONDARY VOCATIONAL EDU-
 19 CATION SCHOOL.—The term ‘postsecondary vo-
 20 cational educational school’ means an area vo-
 21 cational education school (as defined in sub-
 22 paragraph (C) or (D) of section 521(4) of the
 23 Carl D. Perkins Vocational and Applied Tech-
 24 nology Education Act (20 U.S.C. 2471(4)))
 25 which is in any State (as defined in section

1 521(33) of such Act), as such sections are in
2 effect on the date of the enactment of this sec-
3 tion.

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

8 “(4) QUALIFIED FIRST-TIME HOMEBUYER
9 COSTS.—The term ‘qualified first-time homebuyer
10 costs’ means qualified acquisition costs (as defined
11 in section 72(t)(8) without regard to subparagraph
12 (B) thereof) with respect to a principal residence
13 (within the meaning of section 121) located in a
14 qualifying county for a qualified first-time home-
15 buyer (as defined in section 72(t)(8)).

16 “(5) QUALIFIED BUSINESS CAPITALIZATION
17 COSTS.—

18 “(A) IN GENERAL.—The term ‘qualified
19 business capitalization costs’ means qualified
20 expenditures for the capitalization of a qualified
21 business pursuant to a qualified plan.

22 “(B) QUALIFIED EXPENDITURES.—The
23 term ‘qualified expenditures’ means expendi-
24 tures included in a qualified plan, including

1 capital, plant, equipment, working capital, and
2 inventory expenses.

3 “(C) QUALIFIED BUSINESS.—The term
4 ‘qualified business’ means any trade or business
5 located in a qualifying county other than any
6 trade or business—

7 “(i) which consists of the operation of
8 any facility described in section
9 144(c)(6)(B), or

10 “(ii) which contravenes any law.

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

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

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

23 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
24 fied rollover’ means any amount paid from an indi-

1 vidual homestead account of a taxpayer into another
2 such account established for the benefit of—

3 “(A) such taxpayer, or

4 “(B) any qualified individual who is—

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

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

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

10 “(g) TAX TREATMENT OF ACCOUNTS.—

11 “(1) LOSS OF EXEMPTION IN CASE OF PROHIB-
12 ITED TRANSACTIONS.—For purposes of this section,
13 rules similar to the rules of section 408(e) shall
14 apply.

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

18 “(h) OTHER DEFINITIONS AND SPECIAL RULES.—
19 For purposes of this section—

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

23 “(2) TIME WHEN CONTRIBUTIONS DEEMED
24 MADE.—A taxpayer shall be deemed to have made a
25 contribution to an individual homestead account on

1 the last day of the preceding taxable year if the con-
2 tribution is made on account of such taxable year
3 and is made not later than the time prescribed by
4 law for filing the return for such taxable year (not
5 including extensions thereof).

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

8 “(4) REPORTS.—The trustee of an individual
9 homestead account shall make such reports regard-
10 ing such account to the Secretary and to the indi-
11 vidual for whom the account is maintained with re-
12 spect to contributions (and the years to which they
13 relate), distributions, and such other matters as the
14 Secretary may require under regulations. The re-
15 ports required by this paragraph—

16 “(A) shall be filed at such time and in
17 such manner as the Secretary prescribes in
18 such regulations, and

19 “(B) shall be furnished to individuals—

20 “(i) not later than January 31 of the
21 calendar year following the calendar year
22 to which such reports relate, and

23 “(ii) in such manner as the Secretary
24 prescribes in such regulations.

1 “(5) INVESTMENT IN COLLECTIBLES TREATED
2 AS DISTRIBUTIONS.—Rules similar to the rules of
3 section 408(m) shall apply.

4 “(i) DESIGNATION OF EARNED INCOME TAX CREDIT
5 PAYMENTS FOR DEPOSIT TO INDIVIDUAL HOMESTEAD
6 ACCOUNT.—

7 “(1) IN GENERAL.—With respect to the return
8 of any qualified individual for the taxable year of the
9 tax imposed by this chapter, such individual may
10 designate that a specified portion (not less than \$1)
11 of any overpayment of tax for such taxable year
12 which is attributable to the earned income tax credit
13 shall be deposited by the Secretary into an individual
14 homestead account of such individual. The Secretary
15 shall so deposit such portion designated under this
16 subsection.

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

20 “(A) at the time of filing the return of the
21 tax imposed by this chapter for such taxable
22 year, or

23 “(B) at any other time (after the time of
24 filing the return of the tax imposed by this

1 chapter for such taxable year) specified in regu-
2 lations prescribed by the Secretary.

3 Such designation shall be made in such manner as
4 the Secretary prescribes by regulations.

5 “(3) PORTION ATTRIBUTABLE TO EARNED IN-
6 COME TAX CREDIT.—For purposes of this sub-
7 section, an overpayment for any taxable year shall
8 be treated as attributable to the earned income tax
9 credit to the extent that such overpayment does not
10 exceed the credit allowed to the taxpayer under sec-
11 tion 32 for such taxable year.

12 “(4) OVERPAYMENTS TREATED AS RE-
13 FUNDED.—For purposes of this title, any portion of
14 an overpayment of tax designated under paragraph
15 (1) shall be treated as being refunded to the tax-
16 payer as of the last date prescribed for filing the re-
17 turn of tax imposed by this chapter (determined
18 without regard to extensions) or, if later, the date
19 the return is filed.

20 “(j) PENALTY FOR DISTRIBUTIONS NOT USED FOR
21 QUALIFIED INDIVIDUAL HOMESTEAD EXPENSES.—

22 “(1) IN GENERAL.—If any amount is distrib-
23 uted from an individual homestead account and is
24 not used exclusively to pay qualified individual
25 homestead expenses for the holder of the account or

1 the spouse or dependent (as defined in section 152)
2 of such holder, the tax imposed by this chapter for
3 the taxable year of such distribution shall be in-
4 creased by 10 percent of such amount which is in-
5 cludible in gross income. For purposes of the pre-
6 ceding sentence, distributions which are includible in
7 gross income shall be treated as first attributable to
8 amounts contributed under subsection (d) to the ex-
9 tent thereof.

10 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distribu-
11 tions which are—
12 tions which are—

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

15 “(B) made to a beneficiary (or the estate
16 of the account holder) on or after the death of
17 the account holder,

18 “(C) attributable to the account holder’s
19 being disabled within the meaning of section
20 72(m)(7), or

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

22 “(k) APPLICATION OF SECTION.—This section shall
23 apply to amounts paid to an individual homestead account
24 for any taxable year beginning after the date of the enact-
25 ment of the New Homestead Act of 2007.”.

1 (b) TAX ON EXCESS CONTRIBUTIONS.—

2 (1) TAX IMPOSED.—Subsection (a) of section
3 4973 is amended by striking “or” at the end of
4 paragraph (4), by redesignating paragraph (5) as
5 paragraph (6), and by inserting after paragraph (4)
6 the following new paragraph:

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

9 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
10 amended by adding at the end the following sub-
11 section:

12 “(h) INDIVIDUAL HOMESTEAD ACCOUNTS.—For pur-
13 poses of this section, in the case of individual homestead
14 accounts, the term ‘excess contributions’ means the sum
15 of—

16 “(1) the excess (if any) of—

17 “(A) the amount contributed for the tax-
18 able year to the accounts (other than a quali-
19 fied rollover, as defined in section 530A(f)(7),
20 or a contribution under section 530A(d)), over

21 “(B) the amount allowable under section
22 530A for such contributions, and

23 “(2) the amount determined under this sub-
24 section for the preceding taxable year reduced by the
25 sum of—

1 “(A) the distributions out of the accounts
2 for the taxable year which were included in the
3 gross income of the payee under section
4 530A(e)(1),

5 “(B) the distributions out of the accounts
6 for the taxable year to which rules similar to
7 the rules of section 408(d)(5) apply by reason
8 of section 530A(g)(2), and

9 “(C) the excess (if any) of the maximum
10 amount allowable as a contribution under sec-
11 tion 530A for the taxable year over the amount
12 contributed to the account for the taxable year
13 (other than a contribution under section
14 530A(d)).

15 For purposes of this subsection, any contribution which
16 is distributed from the individual homestead account in
17 a distribution to which rules similar to the rules of section
18 408(d)(4) apply by reason of section 530A(g)(2) shall be
19 treated as an amount not contributed.”.

20 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
21 4975 is amended—

22 (1) by adding at the end of subsection (c) the
23 following paragraph:

24 “(7) SPECIAL RULE FOR INDIVIDUAL HOME-
25 STEAD ACCOUNTS.—An individual for whose benefit

1 an individual homestead account is established and
2 any contributor to such account shall be exempt
3 from the tax imposed by this section with respect to
4 any transaction concerning such account (which
5 would otherwise be taxable under this section) if,
6 with respect to such transaction, the account ceases
7 to be an individual homestead account by reason of
8 the application of section 530A(g)(1) to such ac-
9 count.”, and

10 (2) in subsection (e)(1), by striking “or” at the
11 end of subparagraph (F), by redesignating subpara-
12 graph (G) as subparagraph (H), and by inserting
13 after subparagraph (F) the following new subpara-
14 graph:

15 “(G) an individual homestead account de-
16 scribed in section 530A(b), or”.

17 (d) INFORMATION RELATING TO CERTAIN TRUSTS
18 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
19 amended—

20 (1) by inserting “or section 530A” after “sec-
21 tion 219”, and

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

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

5 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL
 6 HOMESTEAD ACCOUNTS.—Paragraph (2) of section
 7 6693(a) is amended by striking “and” at the end of sub-
 8 paragraph (D), by striking the period and inserting “,
 9 and” at the end of subparagraph (E), and by inserting
 10 after subparagraph (E) the following new subparagraph:

11 “(F) section 530A(h)(4) (relating to indi-
 12 vidual homestead accounts).”.

13 (g) CLERICAL AMENDMENT.—The table of parts for
 14 subchapter F of chapter 1 is amended by adding at the
 15 end the following new item:

“PART IX. INDIVIDUAL HOMESTEAD ACCOUNTS”.

16 **TITLE II—INCENTIVES FOR MAIN**
 17 **STREET BUSINESSES**

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

19 (a) IN GENERAL.—Subpart D of part IV of sub-
 20 chapter A of chapter 1 (relating to business related cred-
 21 its) is amended by adding at the end the following new
 22 section:

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

24 “(a) IN GENERAL.—For purposes of section 38, the
 25 amount of the rural investment credit determined under

1 this section for any taxable year in the credit period shall
 2 be an amount equal to the applicable percentage of the
 3 eligible basis of each qualified rural investment building.

4 “(b) APPLICABLE PERCENTAGE: 70 PERCENT
 5 PRESENT VALUE CREDIT FOR NEW BUILDINGS; 30 PER-
 6 CENT PRESENT VALUE CREDIT FOR EXISTING BUILD-
 7 INGS.—For purposes of this section—

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

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

13 “(B) at the election of the taxpayer, the
 14 month in which the taxpayer and the rural in-
 15 vestment credit agency enter into an agreement
 16 with respect to such building (which is binding
 17 on such agency, the taxpayer, and all successors
 18 in interest) as to the rural investment credit
 19 dollar amount to be allocated to such building.

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

24 “(2) METHOD OF PRESCRIBING PERCENT-
 25 AGES.—The percentages prescribed by the Secretary

1 for any month shall be percentages which will yield
2 over a 10-year period amounts of credit under sub-
3 section (a) which have a present value equal to—

4 “(A) 70 percent of the eligible basis of a
5 new building, and

6 “(B) 30 percent of the eligible basis of an
7 existing building.

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

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

12 “(B) by using a discount rate equal to 72
13 percent of the average of the annual Federal
14 mid-term rate and the annual Federal long-
15 term rate applicable under section 1274(d)(1)
16 to the month applicable under subparagraph
17 (A) or (B) of paragraph (1) and compounded
18 annually, and

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

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

24 “(1) ELIGIBLE BASIS.—

1 “(A) IN GENERAL.—The eligible basis of
2 any qualified rural investment building for any
3 taxable year shall be determined under rules
4 similar to the rules under section 42(d), except
5 that—

6 “(i) the determination of the adjusted
7 basis of any building shall be made as of
8 the beginning of the credit period, and

9 “(ii) such basis shall include develop-
10 ment costs properly attributable to such
11 building.

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

15 “(i) site preparation costs,

16 “(ii) State and local impact fees,

17 “(iii) reasonable development costs,

18 “(iv) professional fees related to basis
19 items,

20 “(v) construction financing costs re-
21 lated to basis items other than land, and

22 “(vi) on-site and adjacent improve-
23 ments required by State and local govern-
24 ments.

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

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

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

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

15 “(e) DEFINITION AND SPECIAL RULES RELATING TO
 16 CREDIT PERIOD.—

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

22 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT
 23 PERIOD.—

24 “(A) IN GENERAL.—The credit allowable
 25 under subsection (a) with respect to any build-

1 ing for the 1st taxable year of the credit period
 2 shall be determined by multiplying such credit
 3 by the fraction—

4 “(i) the numerator of which is the
 5 number of full months of such year during
 6 which such building was in service, and

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

8 “(B) DISALLOWED 1ST YEAR CREDIT AL-
 9 LOWED IN 11TH YEAR.—Any reduction by rea-
 10 son of subparagraph (A) in the credit allowable
 11 (without regard to subparagraph (A)) for the
 12 1st taxable year of the credit period shall be al-
 13 lowable under subsection (a) for the 1st taxable
 14 year following the credit period.

15 “(3) CREDIT PERIOD FOR EXISTING BUILDINGS
 16 NOT TO BEGIN BEFORE REHABILITATION CREDIT
 17 ALLOWED.—The credit period for an existing build-
 18 ing shall not begin before the 1st taxable year of the
 19 credit period for rehabilitation expenditures with re-
 20 spect to the building.

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

23 “(1) QUALIFIED RURAL INVESTMENT
 24 PROJECT.—The term ‘qualified rural investment
 25 project’ means any investment project of 1 or more

1 qualified rural investment buildings located in a
 2 qualifying county (and, if necessary to the project,
 3 any contiguous county) and selected by the State ac-
 4 cording to its qualified rural investment plan.

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

7 “(A) is outside a metropolitan statistical
 8 area (defined as such by the Office of Manage-
 9 ment and Budget), and

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

16 “(g) LIMITATION ON AGGREGATE CREDIT ALLOW-
 17 ABLE WITH RESPECT TO INVESTMENT PROJECTS LO-
 18 CATED IN A STATE.—

19 “(1) CREDIT MAY NOT EXCEED CREDIT
 20 AMOUNT ALLOCATED TO BUILDING.—The amount of
 21 the credit determined under this section for any tax-
 22 able year with respect to any building shall not ex-
 23 ceed the rural investment credit dollar amount allo-
 24 cated to such building under rules similar to the
 25 rules of section 42(h)(1).

1 “(2) ALLOCATED CREDIT AMOUNT TO APPLY
2 TO ALL TAXABLE YEARS ENDING DURING OR AFTER
3 CREDIT ALLOCATION YEAR.—Any rural investment
4 credit dollar amount allocated to any building for
5 any calendar year—

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

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

12 “(3) RURAL INVESTMENT CREDIT DOLLAR
13 AMOUNT FOR AGENCIES.—

14 “(A) IN GENERAL.—The aggregate rural
15 investment credit dollar amount which a rural
16 investment credit agency may allocate for any
17 calendar year is the portion of the State rural
18 investment credit ceiling allocated under this
19 paragraph for such calendar year to such agen-
20 cy.

21 “(B) STATE CEILING INITIALLY ALLO-
22 CATED TO STATE RURAL INVESTMENT CREDIT
23 AGENCIES.—Except as provided in subpara-
24 graphs (D) and (E), the State rural investment
25 credit ceiling for each calendar year shall be al-

1 located to the rural investment credit agency of
2 such State. If there is more than 1 rural invest-
3 ment credit agency of a State, all such agencies
4 shall be treated as a single agency.

5 “(C) STATE RURAL INVESTMENT CREDIT
6 CEILING.—The State rural investment credit
7 ceiling applicable to any State and any calendar
8 year shall be an amount equal to the sum of—

9 “(i) the unused State rural investment
10 credit ceiling (if any) of such State for the
11 preceding calendar year,

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

14 “(iii) the amount of State rural in-
15 vestment credit ceiling returned in the cal-
16 endar year, plus

17 “(iv) the amount (if any) allocated
18 under subparagraph (D) to such State by
19 the Secretary.

20 For purposes of clause (i), the unused State
21 rural investment credit ceiling for any calendar
22 year is the excess (if any) of the sum of the
23 amounts described in clauses (ii) through (iv)
24 over the aggregate rural investment credit dol-
25 lar amount allocated for such year. For pur-

1 poses of clause (iii), the amount of State rural
2 investment credit ceiling returned in the cal-
3 endar year equals the rural investment credit
4 dollar amount previously allocated within the
5 State to any investment project which fails to
6 meet the 10 percent test under section
7 42(h)(1)(E)(ii) on a date after the close of the
8 calendar year in which the allocation was made
9 or which does not become a qualified rural in-
10 vestment project within the period required by
11 this section or the terms of the allocation or to
12 any investment project with respect to which an
13 allocation is canceled by mutual consent of the
14 rural investment credit agency and the alloca-
15 tion recipient.

16 “(D) UNUSED RURAL INVESTMENT CREDIT
17 CARRYOVERS ALLOCATED AMONG CERTAIN
18 STATES.—

19 “(i) IN GENERAL.—The unused rural
20 investment credit carryover of a State for
21 any calendar year shall be assigned to the
22 Secretary for allocation among qualified
23 States for the succeeding calendar year.

24 “(ii) UNUSED RURAL INVESTMENT
25 CREDIT CARRYOVER.—For purposes of this

1 subparagraph, the unused rural investment
2 credit carryover of a State for any calendar
3 year is the excess (if any) of the unused
4 State rural investment credit ceiling for
5 such year (as defined in subparagraph
6 (C)(i)) over the excess (if any) of—

7 “(I) the unused State rural in-
8 vestment credit ceiling for the year
9 preceding such year, over

10 “(II) the aggregate rural invest-
11 ment credit dollar amount allocated
12 for such year.

13 “(iii) FORMULA FOR ALLOCATION OF
14 UNUSED RURAL INVESTMENT CREDIT
15 CARRYOVERS AMONG QUALIFIED
16 STATES.—The amount allocated under this
17 subparagraph to a qualified State for any
18 calendar year shall be the amount deter-
19 mined by the Secretary to bear the same
20 ratio to the aggregate unused rural invest-
21 ment credit carryovers of all States for the
22 preceding calendar year as such State’s
23 population for the calendar year bears to
24 the population of all qualified States for
25 the calendar year. For purposes of the pre-

1 ceding sentence, population shall be deter-
2 mined in accordance with section 146(j).

3 “(iv) QUALIFIED STATE.—For pur-
4 poses of this subparagraph, the term
5 ‘qualified State’ means, with respect to a
6 calendar year, any State—

7 “(I) which allocated its entire
8 State rural investment credit ceiling
9 for the preceding calendar year, and

10 “(II) for which a request is made
11 (not later than May 1 of the calendar
12 year) to receive an allocation under
13 clause (iii).

14 “(E) STATE MAY PROVIDE FOR DIF-
15 FERENT ALLOCATION.—Rules similar to the
16 rules of section 146(e) (other than paragraph
17 (2)(B) thereof) shall apply for purposes of this
18 paragraph.

19 “(F) POPULATION.—For purposes of this
20 paragraph, population shall be determined in
21 accordance with section 146(j).

22 “(G) COST-OF-LIVING ADJUSTMENT.—

23 “(i) IN GENERAL.—In the case of a
24 calendar year after 2007, the \$1,000,000

1 amount in subparagraph (C) shall be in-
2 creased by an amount equal to—

3 “(I) such dollar amount, multi-
4 plied by

5 “(II) the cost-of-living adjust-
6 ment determined under section 1(f)(3)
7 for such calendar year by substituting
8 ‘calendar year 2006’ for ‘calendar
9 year 1992’ in subparagraph (B) there-
10 of.

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

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

18 “(A) IN GENERAL.—At least 10 percent of
19 the State rural investment credit ceiling for any
20 State for any calendar year shall be allocated to
21 qualified rural investment projects described in
22 subparagraph (B).

23 “(B) INVESTMENT PROJECTS INVOLVING
24 QUALIFIED NONPROFIT ORGANIZATIONS.—For
25 purposes of subparagraph (A), a qualified rural

1 investment project is described in this subpara-
2 graph if a qualified nonprofit organization is to
3 materially participate (within the meaning of
4 section 469(h)) in the development and oper-
5 ation of the investment project throughout the
6 compliance period.

7 “(C) QUALIFIED NONPROFIT ORGANIZA-
8 TION.—For purposes of this paragraph, the
9 term ‘qualified nonprofit organization’ means
10 any organization if—

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

14 “(ii) such organization is determined
15 by the State rural investment credit agency
16 not to be affiliated with or controlled by a
17 for-profit organization, and

18 “(iii) 1 of the exempt purposes of
19 such organization includes the fostering of
20 rural investment.

21 “(D) TREATMENT OF CERTAIN SUBSIDI-
22 ARIES.—

23 “(i) IN GENERAL.—For purposes of
24 this paragraph, a qualified nonprofit orga-
25 nization shall be treated as satisfying the

1 ownership and material participation test
2 of subparagraph (B) if any qualified cor-
3 poration in which such organization holds
4 stock satisfies such test.

5 “(ii) QUALIFIED CORPORATION.—For
6 purposes of clause (i), the term ‘qualified
7 corporation’ means any corporation if 100
8 percent of the stock of such corporation is
9 held by 1 or more qualified nonprofit orga-
10 nizations at all times during the period
11 such corporation is in existence.

12 “(E) STATE MAY NOT OVERRIDE SET-
13 ASIDE.—Nothing in subparagraph (F) of para-
14 graph (3) shall be construed to permit a State
15 not to comply with subparagraph (A) of this
16 paragraph.

17 “(F) CREDITS FOR QUALIFIED NONPROFIT
18 ORGANIZATIONS.—

19 “(i) ALLOWANCE OF CREDIT.—Any
20 credit which would be allowable under sub-
21 section (a) with respect to a qualified rural
22 investment building of a qualified nonprofit
23 organization if such organization were not
24 exempt from tax under this chapter shall

1 be treated as a credit allowable under sub-
2 part C to such organization.

3 “(ii) USE OF CREDIT.—A qualified
4 nonprofit organization may assign, trade,
5 sell, or otherwise transfer any credit allow-
6 able to such organization under subpara-
7 graph (A) to any taxpayer.

8 “(iii) CREDIT NOT INCOME.—A trans-
9 fer under subparagraph (B) of any credit
10 allowable under subparagraph (A) shall not
11 result in income for purposes of section
12 511.

13 “(5) SPECIAL RULES.—

14 “(A) BUILDING MUST BE LOCATED WITH-
15 IN JURISDICTION OF CREDIT AGENCY.—A rural
16 investment credit agency may allocate its aggre-
17 gate rural investment credit dollar amount only
18 to buildings located in the jurisdiction of the
19 governmental unit of which such agency is a
20 part.

21 “(B) AGENCY ALLOCATIONS IN EXCESS OF
22 LIMIT.—If the aggregate rural investment cred-
23 it dollar amounts allocated by a rural invest-
24 ment credit agency for any calendar year exceed
25 the portion of the State rural investment credit

1 ceiling allocated to such agency for such cal-
2 endar year, the rural investment credit dollar
3 amounts so allocated shall be reduced (to the
4 extent of such excess) for buildings in the re-
5 verse of the order in which the allocations of
6 such amounts were made.

7 “(C) CREDIT REDUCED IF ALLOCATED
8 CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT
9 WHICH WOULD BE ALLOWABLE WITHOUT RE-
10 GARD TO SALES CONVENTION, ETC.—

11 “(i) IN GENERAL.—The amount of
12 the credit determined under this section
13 with respect to any building shall not ex-
14 ceed the clause (ii) percentage of the
15 amount of the credit which would (but for
16 this subparagraph) be determined under
17 this section with respect to such building.

18 “(ii) DETERMINATION OF PERCENT-
19 AGE.—For purposes of clause (i), the
20 clause (ii) percentage with respect to any
21 building is the percentage which—

22 “(I) the rural investment credit
23 dollar amount allocated to such build-
24 ing bears to

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

3 “(iii) DETERMINATION OF CREDIT
4 AMOUNT.—The credit amount determined
5 in accordance with this clause is the
6 amount of the credit which would (but for
7 this subparagraph) be determined under
8 this section with respect to the building if
9 this section were applied without regard to
10 paragraph (2)(A) of subsection (e).

11 “(D) RURAL INVESTMENT CREDIT AGENCY
12 TO SPECIFY APPLICABLE PERCENTAGE AND
13 MAXIMUM ELIGIBLE BASIS.—In allocating a
14 rural investment credit dollar amount to any
15 building, the rural investment credit agency
16 shall specify the applicable percentage and the
17 maximum eligible basis which may be taken
18 into account under this section with respect to
19 such building. The applicable percentage and
20 maximum eligible basis so specified shall not ex-
21 ceed the applicable percentage and eligible basis
22 determined under this section without regard to
23 this subsection.

24 “(6) OTHER DEFINITIONS.—For purposes of
25 this subsection—

1 “(A) RURAL INVESTMENT CREDIT AGEN-
2 CY.—The term ‘rural investment credit agency’
3 means any agency authorized to carry out this
4 subsection.

5 “(B) POSSESSIONS TREATED AS STATES.—
6 The term ‘State’ includes a possession of the
7 United States.

8 “(7) PORTION OF STATE CEILING SET-ASIDE
9 FOR QUALIFIED RURAL SMALL BUSINESS INVEST-
10 MENT CREDITS.—Not more than 20 percent of the
11 State rural investment credit ceiling for any State
12 for any calendar year may be allocated to qualified
13 rural small business investment credits under section
14 42B.

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

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

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

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

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

11 “(i) RECAPTURE OF CREDIT.—If—

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

16 “(2) the amount of such basis as of the close
17 of the preceding taxable year, then the taxpayer’s
18 tax under this chapter for the taxable year shall be
19 increased by the credit recapture amount determined
20 under rules similar to the rules of section 42(j).

21 “(j) CERTIFICATIONS AND OTHER REPORTS TO SEC-
22 RETARY.—

23 “(1) CERTIFICATION WITH RESPECT TO 1ST
24 YEAR OF CREDIT PERIOD.—Following the close of
25 the 1st taxable year in the credit period with respect

1 to any qualified rural investment building, the tax-
2 payer shall certify to the Secretary (at such time
3 and in such form and in such manner as the Sec-
4 retary prescribes)—

5 “(A) the taxable year, and calendar year,
6 in which such building was first placed in serv-
7 ice,

8 “(B) the eligible basis of such building as
9 of the beginning of the credit period,

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

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

18 “(E) such other information as the Sec-
19 retary may require.

20 In the case of a failure to make the certification re-
21 quired by the preceding sentence on the date pre-
22 scribed therefor, unless it is shown that such failure
23 is due to reasonable cause and not to willful neglect,
24 no credit shall be allowable by reason of subsection

1 (a) with respect to such building for any taxable
2 year ending before such certification is made.

3 “(2) ANNUAL REPORTS TO THE SECRETARY.—

4 The Secretary may require taxpayers to submit an
5 information return (at such time and in such form
6 and manner as the Secretary prescribes) for each
7 taxable year setting forth—

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

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

13 “(C) such other information as the Sec-
14 retary may require.

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

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

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

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

6 “(C) such other information as the Sec-
7 retary may require.

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

11 “(k) RESPONSIBILITIES OF RURAL INVESTMENT
12 CREDIT AGENCIES.—

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

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

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

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

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

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

21 “(B) QUALIFIED RURAL INVESTMENT
22 PLAN.—For purposes of this section, the term
23 ‘qualified rural investment plan’ means any
24 plan—

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

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

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

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

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

1 “(iii) which provides a procedure that
 2 the agency (or an agent or other private
 3 contractor of such agency) will follow in
 4 monitoring for noncompliance with the
 5 provisions of this section and in notifying
 6 the Internal Revenue Service of such non-
 7 compliance which such agency becomes
 8 aware of and in monitoring for noncompli-
 9 ance through regular site visits.

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

13 “(i) investment project location,

14 “(ii) technology and transportation in-
 15 frastructure needs, and

16 “(iii) private development trends.

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

20 “(A) IN GENERAL.—The rural investment
 21 credit dollar amount allocated to an investment
 22 project shall not exceed the amount the rural
 23 investment credit agency determines is nec-
 24 essary for the financial feasibility of the invest-
 25 ment project and its viability as a qualified

1 rural investment project throughout the compli-
2 ance period.

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

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

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

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

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

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

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

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

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

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

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

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

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

22 “(1) dealing with—

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

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

2 “(2) providing for the application of this section

3 to short taxable years,

4 “(3) preventing the avoidance of the rules of

5 this section, and

6 “(4) providing the opportunity for rural invest-

7 ment credit agencies to correct administrative errors

8 and omissions with respect to allocations and record

9 keeping within a reasonable period after their dis-

10 covery, taking into account the availability of regula-

11 tions and other administrative guidance from the

12 Secretary.”.

13 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-

14 TION.—Section 38(b) (relating to current year business

15 credit) is amended by striking “plus” at the end of para-

16 graph (30), by striking the period at the end of paragraph

17 (31) and inserting “, plus”, and by adding at the end the

18 following new paragraph:

19 “(32) the rural investment credit determined

20 under section 42A(a).”.

21 (c) CONFORMING AMENDMENTS.—

22 (1) Section 55(c)(1) is amended by inserting

23 “or subsection (i) or (j) of section 42A” after “sec-

24 tion 42”.

1 its), as amended by this Act, is amended by adding at
2 the end the following new section:

3 **“SEC. 42B. QUALIFIED RURAL SMALL BUSINESS INVEST-**
4 **MENT CREDIT.**

5 “(a) IN GENERAL.—For purposes of section 38, in
6 the case of a qualified rural small business, the amount
7 of the qualified rural small business investment credit de-
8 termined under this section for any taxable year is equal
9 to 30 percent of the qualified expenditures for the taxable
10 year of such business.

11 “(b) DOLLAR LIMITATION.—

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

15 “(A) \$5,000, or

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

20 “(2) NO DOUBLE CREDIT ALLOWED.—In the
21 case of any qualified rural small business which
22 places in service a qualified rural investment build-
23 ing with respect to which a rural investment credit
24 is allowed under section 42A for any taxable year,

1 paragraph (1)(A) shall be applied with respect to
2 such taxable year by substituting ‘zero’ for ‘\$5,000’.

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

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

8 “(2) materially and substantially participates in
9 management,

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

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

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

20 “(d) QUALIFIED EXPENDITURES.—For purposes of
21 this section—

22 “(1) IN GENERAL.—The term ‘qualified expend-
23 itures’ means expenditures normally associated with
24 starting or expanding a business and included in a
25 qualified business plan, including costs for capital,

1 plant and equipment, inventory expenses, and wages,
2 but not including interest costs.

3 “(2) ONLY CERTAIN EXPENDITURES INCLUDED
4 FOR EXISTING BUSINESSES.—In the case of a quali-
5 fied rural small business with respect to which a
6 credit under subsection (a) was allowed for a pre-
7 ceding taxable year, such term shall include only so
8 much of the expenditures described in paragraph (1)
9 for the taxable year as exceed the aggregate of such
10 expenditures for the preceding taxable year.

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

14 “(1) has been approved by the rural investment
15 credit agency with jurisdiction over the qualifying
16 county in which the qualified rural small business is
17 located pursuant to such agency’s rural investment
18 plan, and

19 “(2) meets such requirements as the agency
20 may specify.

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

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

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

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

5 “(1) any term which is used in this section
6 which is used in section 42A shall have the meaning
7 given such term by section 42A, and

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

10 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-
11 TION.—Section 38(b) (relating to current year business
12 credit), as amended by this Act, is amended by striking
13 “plus” at the end of paragraph (31), by striking the period
14 at the end of paragraph (32) and inserting “, plus”, and
15 by adding at the end the following new paragraph:

16 “(33) the qualified rural small business invest-
17 ment credit determined under section 42B(a).”.

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

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

22 (d) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to expenditures made in taxable
24 years beginning after the date of the enactment of this
25 Act.

1 **SEC. 203. ACCELERATED DEPRECIATION FOR RURAL IN-**
 2 **VESTMENT PROPERTY.**

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

5 “(m) PROPERTY IN RURAL INVESTMENT
 6 PROJECTS.—

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

12 “(2) APPLICABLE RECOVERY PERIOD FOR
 13 RURAL INVESTMENT PROPERTY.—For purposes of
 14 paragraph (1)—

“In the case of:	The applicable recovery period is:
3-year property	2 years
5-year property	3 years
7-year property	4 years
10-year property	6 years
15-year property	9 years
20-year property	12 years
Nonresidential real property	22 years.

15 “(3) DEDUCTION ALLOWED IN COMPUTING
 16 MINIMUM TAX.—For purposes of determining alter-
 17 native minimum taxable income under section 55,
 18 the deduction under subsection (a) for property to
 19 which paragraph (1) applies shall be determined
 20 under this section without regard to any adjustment
 21 under section 56.

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

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

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

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

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

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

22 “(B) EXCEPTION FOR ALTERNATIVE DE-
23 PRECIATION PROPERTY.—The term ‘qualified
24 rural investment property’ does not include any
25 property to which the alternative depreciation

1 system under subsection (g) applies, deter-
2 mined—

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

6 “(ii) after the application of section
7 280F(b) (relating to listed property with
8 limited business use).

9 “(C) SPECIAL RULE FOR INFRASTRUCTURE
10 INVESTMENT.—

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

18 “(ii) QUALIFIED INFRASTRUCTURE
19 PROPERTY.—For purposes of this subpara-
20 graph, the term ‘qualified infrastructure
21 property’ means qualified rural investment
22 property (determined without regard to
23 subparagraph (A)(ii)) which—

24 “(I) benefits the qualifying coun-
25 ty infrastructure,

1 “(II) is available to the general
2 public, and

3 “(III) is placed in service in con-
4 nection with the taxpayer’s active con-
5 duct of a trade or business within a
6 qualified rural investment project.

7 Such term includes, but is not limited to,
8 roads, power lines, water systems, railroad
9 spurs, and communications facilities.

10 “(5) DEFINITIONS.—For purposes of this sub-
11 section, any term used in this section which is used
12 in section 42A shall have the meaning given such
13 term by section 42A.”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall apply to property placed in service after
16 the date of the enactment of this Act, in taxable years
17 ending after such date.

18 **TITLE III—NEW HOMESTEAD**

19 **VENTURE CAPITAL FUND**

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

21 The Consolidated Farm and Rural Development Act
22 (7 U.S.C. 1921 et seq.) is amended by adding at the end
23 the following new subtitle:

1 **“Subtitle J—New Homestead**
2 **Venture Capital Fund**

3 **“SEC. 386A. SHORT TITLE.**

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

6 **“SEC. 386B. DEFINITIONS.**

7 “In this subtitle:

8 “(1) AUTHORIZED PRIVATE INVESTOR.—The
9 term ‘authorized private investor’ means an indi-
10 vidual, legal entity, or affiliate or subsidiary of an
11 individual or legal entity that—

12 “(A) is eligible to receive a loan guarantee
13 under this title;

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

17 “(C) is created under the National Con-
18 sumer Cooperative Bank Act (12 U.S.C. 3011
19 et seq.);

20 “(D) is an insured depository institution
21 subject to section 386D(b)(2);

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

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

3 “(2) BOARD.—The term ‘Board’ means the
4 board of directors of the Fund established under
5 section 386F.

6 “(3) FUND.—The term ‘Fund’ means the New
7 Homestead Venture Capital Fund established under
8 section 386C.

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

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

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

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

19 “(D) Cooperative financial institutions
20 (other than Farm Credit System institutions).

21 “(E) Authorized private investors, other
22 than those described in subparagraphs (A)
23 through (D).

24 “(F) Other nonprofit organizations, includ-
25 ing credit unions.

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

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

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

11 “(B) during the 20-year period ending
 12 with the fiscal year preceding the applicable fis-
 13 cal year for which assistance is made available
 14 under section 386E, has a net outmigration of
 15 inhabitants from the county of at least 10 per-
 16 cent of the population of the county at the be-
 17 ginning of the period.

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

22 **“SEC. 386C. ESTABLISHMENT OF THE FUND.**

23 “(a) IN GENERAL.—

24 “(1) AUTHORITY TO ESTABLISH.—Upon certifi-
 25 cation by the Secretary that, to the maximum extent

1 practicable, the parties proposing to establish a fund
2 provide a broad representation of all of the groups
3 of similar authorized private investors described in
4 subparagraphs (A) through (F) of section 386B(4),
5 the parties so certified may establish, a non-Federal
6 entity under State law, to purchase shares of, and
7 manage a fund to be known as the ‘New Homestead
8 Venture Capital Fund’, to generate and provide eq-
9 uity capital to rural businesses.

10 “(2) OWNERSHIP.—

11 “(A) IN GENERAL.—To the maximum ex-
12 tent practicable, equity ownership of the Fund
13 shall be distributed among authorized private
14 investors representing all of the groups of simi-
15 lar authorized private investors described in
16 subparagraphs (A) through (F) of section
17 386B(4).

18 “(B) EXCLUSION OF GROUPS.—No group
19 of similar authorized private investors shall be
20 excluded from equity ownership of the Fund
21 during any period during which the Fund is in
22 existence if an authorized private investor rep-
23 resentative of the group is able and willing to
24 invest in the Fund.

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

3 “(1) making needed investments in qualifying
4 counties to reverse the devastating impact of chronic
5 outmigration and to help the qualifying counties re-
6 build and grow;

7 “(2) providing equity funding for existing and
8 startup rural businesses with high potential for job
9 creation that are or will be located in qualifying
10 counties;

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

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

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

20 “(6) providing incentives to greater participa-
21 tion by authorized private investors through provi-
22 sion of guarantees of up to 60 percent of the invest-
23 ments of the authorized private investors in quali-
24 fying counties.

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

5 **“SEC. 386D. INVESTMENT IN THE FUND.**

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

7 “(1) subject to subsection (b)(1), make avail-
8 able to the Fund \$200,000,000 for each of fiscal
9 years 2008 through 2017;

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

13 “(3) subject to subsection (d), guarantee the re-
14 payment of principal of, and accrued interest on, de-
15 bentures issued by the Fund to authorized private
16 investors.

17 “(b) NON-FEDERAL FUNDS.—

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

21 “(A) at least \$50,000,000 has been in-
22 vested in the Fund for the fiscal year by au-
23 thorized private investors in accordance with
24 this subtitle and the terms and conditions set
25 forth in the by-laws of the Fund; and

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

4 “(2) INSURED DEPOSITORY INSTITUTIONS.—

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

7 “(i) an insured depository institution
8 may be an authorized private investor in
9 the Fund; and

10 “(ii) an investment in the Fund may
11 be considered to be part of the record of
12 an institution in meeting the credit needs
13 of the community in which the institution
14 is located under any applicable Federal
15 law.

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

20 “(C) REGULATORY AUTHORITY.—An ap-
21 propriate Federal banking agency may, by regu-
22 lation or order, impose on any insured deposi-
23 tory institution investing in the Fund, any safe-
24 guard, limitation, or condition (including an in-
25 vestment limit that is lower than the investment

1 limit under subparagraph (B)) that the Federal
2 banking agency considers to be appropriate to
3 ensure that the institution operates—

4 “(i) in a financially sound manner;

5 and

6 “(ii) in compliance with all applicable
7 law.

8 “(c) GUARANTEE OF PRIVATE INVESTMENTS.—

9 “(1) IN GENERAL.—The Secretary shall guar-
10 antee, under terms and conditions determined by the
11 Secretary—

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

16 “(B) 60 percent of any loss of the prin-
17 cipal of each investment made by an authorized
18 private investor in the Fund if the investment
19 is used for a manufacturing or high-technology
20 business.

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

1 “(3) REDEMPTION OF GUARANTEE.—

2 “(A) DATE.—An authorized private inves-
3 tor in the Fund may redeem a guarantee under
4 paragraph (1), with respect to the total invest-
5 ments in the Fund and the total losses of the
6 authorized private investor as of the date of re-
7 demption—

8 “(i) on the date that is 5 years after
9 the date of the initial investment of the au-
10 thorized private investor; or

11 “(ii) annually thereafter.

12 “(B) EFFECT OF REDEMPTION.—On re-
13 demption of a guarantee under subparagraph
14 (A)—

15 “(i) the shares in the Fund of the au-
16 thorized private investor shall be redeemed;
17 and

18 “(ii) the authorized private investor
19 shall be prohibited from making any future
20 investment in the Fund.

21 “(d) DEBENTURES.—

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

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

2 “(A) IN GENERAL.—The Secretary shall
3 guarantee 100 percent of the principal of, and
4 accrued interest on, debentures issued by the
5 Fund that are approved by the Secretary.

6 “(B) MAXIMUM DEBT GUARANTEED BY
7 SECRETARY.—The outstanding value of debentures
8 issued by the Fund and guaranteed by
9 the Secretary shall not exceed the lesser of—

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

12 “(ii) \$500,000,000.

13 “(C) RECAPTURE OF GUARANTEE PAY-
14 MENTS.—If the Secretary makes a payment on
15 a debenture issued by the Fund as a result of
16 a guarantee of the Secretary under this para-
17 graph, the Secretary shall have priority over
18 other creditors for repayment of the debenture.

19 “(3) AUTHORIZED PRIVATE INVESTORS.—An
20 authorized private investor may purchase debentures
21 issued by the Fund.

22 **“SEC. 386E. INVESTMENTS AND OTHER ACTIVITIES OF THE**
23 **FUND.**

24 “(a) INVESTMENTS.—

25 “(1) IN GENERAL.—

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

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

7 “(ii) extend credit to such rural busi-
8 ness in—

9 “(I) the form of mezzanine debt,
10 convertible debt, or subordinated debt;
11 or

12 “(II) any other form of near-eq-
13 uity debt.

14 “(B) LIMITATIONS ON EQUITY INVEST-
15 MENTS.—After the initial equity investment in
16 a rural business described in subparagraph
17 (A)(i), the Fund may not make additional eq-
18 uity investments in such rural business if the
19 additional equity investments would result in
20 the Fund owning more than 30 percent of the
21 equity of such rural business.

22 “(C) LIMITATION ON NONEQUITY INVEST-
23 MENTS.—Except in the case of a project to as-
24 sist a rural cooperative, the total amount of
25 nonequity investments described in subpara-

1 graph (A)(ii) that may be provided by the Fund
2 shall not exceed 20 percent of the total invest-
3 ments of the Fund in the project.

4 “(2) PROCEDURES.—The Fund shall implement
5 procedures to ensure that—

6 “(A) the financing arrangements of the
7 Fund meet the Fund’s primary focus of pro-
8 viding equity capital; and

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

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

12 “(A) shall seek to make equity investments
13 in a variety of viable projects for rural busi-
14 nesses, with a significant share of invest-
15 ments—

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

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

20 “(iii) in cooperative and noncoopera-
21 tive businesses; and

22 “(B) shall be managed in a manner that
23 diversifies the risks to the Fund among a vari-
24 ety of projects.

1 “(4) LIMITATION ON RURAL BUSINESSES AS-
2 SISTED.—The Fund shall not invest in any rural
3 business that—

4 “(A) is primarily retail in nature (as deter-
5 mined by the Board), other than a purchasing
6 cooperative, or

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

9 “(5) INTEREST RATE LIMITATIONS.—Returns
10 on investments in and by the Fund, and returns on
11 the extension of credit by participants in projects as-
12 sisted by the Fund, shall not be subject to any State
13 or Federal law establishing a maximum allowable in-
14 terest rate.

15 “(6) REQUIREMENTS FOR RECIPIENTS.—

16 “(A) OTHER INVESTMENTS.—Any recipi-
17 ent of amounts from the Fund shall make or
18 obtain a significant investment from a source of
19 capital other than the Fund.

20 “(B) SPONSORSHIP.—To be considered for
21 an equity investment from the Fund, a rural
22 business investment project shall be sponsored
23 by a regional, State, or local sponsoring or en-
24 dorsing organization such as—

25 “(i) a financial institution;

1 “(ii) a development organization; or

2 “(iii) any other established entity en-
3 gaging or assisting in rural business devel-
4 opment, including a rural cooperative.

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

9 “(c) ANNUAL AUDIT.—

10 “(1) IN GENERAL.—The Board shall authorize
11 an annual audit of the financial statements of the
12 Fund by a nationally recognized auditing firm using
13 generally accepted accounting procedures.

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

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

19 “(1) describes the projects funded with amounts
20 from the Fund;

21 “(2) specifies the recipients of amounts from
22 the Fund;

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

1 “(4) meets the reporting requirements, if any,
2 of the State under the law of which the Fund is es-
3 tablished.

4 “(e) OTHER AUTHORITIES.—

5 “(1) IN GENERAL.—The Board may exercise
6 such other authorities as are necessary to carry out
7 this subtitle.

8 “(2) OVERSIGHT.—The Secretary shall enter
9 into a contract with the Administrator of the Small
10 Business Administration under which the Adminis-
11 trator of the Small Business Administration shall be
12 responsible for the routine duties of the Secretary in
13 regard to the Fund.

14 **“SEC. 386F. GOVERNANCE OF THE FUND.**

15 “(a) IN GENERAL.—The Fund shall be governed by
16 a board of directors that represents all of the authorized
17 private investors in the Fund and the Federal Government
18 and that consists of—

19 “(1) a designee of the Secretary;

20 “(2) 2 members who are appointed by the Sec-
21 retary and are not Federal employees, including—

22 “(A) 1 member with expertise in venture
23 capital investment; and

24 “(B) 1 member with expertise in coopera-
25 tive development;

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

5 “(4) 7 members who are elected by the author-
6 ized private investors with investments in the Fund,
7 of whom not less than 1 member shall be a rural
8 community banker from an insured depository insti-
9 tution with total assets equal to or less than
10 \$250,000,000 with an investment in the Fund.

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

15 **“SEC. 386G. AUTHORIZATION OF APPROPRIATIONS.**

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

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