

104TH CONGRESS
2D SESSION

H. R. 2847

To amend the Internal Revenue Code of 1986 to permit the issuance of tax-exempt bonds for the economic development of distressed communities.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1996

Mr. COYNE introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to permit the issuance of tax-exempt bonds for the economic development of distressed communities.

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 “Economic Revitaliza-
5 tion Act of 1996”.

6 **SEC. 2. DISTRESSED COMMUNITY ECONOMIC DEVELOP-**
7 **MENT BONDS.**

8 (a) IN GENERAL.—Paragraph (1) of section 141(e)
9 of the Internal Revenue Code of 1986 (defining qualified
10 bond) is amended by striking “or” at the end of subpara-

1 graph (F), by striking the period at the end of subpara-
2 graph (G) and inserting “, or”, and by adding at the end
3 thereof the following new subparagraph:

4 “(H) a distressed community economic de-
5 velopment bond.”

6 (b) DISTRESSED COMMUNITY ECONOMIC DEVELOP-
7 MENT BOND DEFINED.—

8 (1) IN GENERAL.—Section 144 of such Code is
9 amended by adding at the end thereof the following
10 new subsection:

11 “(d) DISTRESSED COMMUNITY ECONOMIC DEVELOP-
12 MENT BOND.—For purposes of this subpart—

13 “(1) IN GENERAL.—The term ‘distressed com-
14 munity economic development bond’ means any bond
15 issued as part of an issue 95 percent or more of the
16 net proceeds of which are to be used for distressed
17 community economic development purposes.

18 “(2) DISTRESSED COMMUNITY ECONOMIC DE-
19 VELOPMENT PURPOSES.—For purposes of this sub-
20 section, the net proceeds of any issue shall be treat-
21 ed as used for distressed community economic devel-
22 opment purposes to the extent such proceeds are
23 used—

1 “(A) to provide qualified economic develop-
2 ment facilities or land which is functionally re-
3 lated and subordinate to such facilities, or

4 “(B) to provide working capital required in
5 connection with the establishment of a qualified
6 business in a distressed community or the ex-
7 pansion of such a business in such a commu-
8 nity.

9 “(3) QUALIFIED ECONOMIC DEVELOPMENT FA-
10 CILITIES.—For purposes of this subsection, the term
11 ‘qualified economic development facilities’ means any
12 property to which section 168 applies (or would
13 apply but for section 179) if—

14 “(A) such property was acquired by pur-
15 chase (as defined in section 179(d)(2)) after the
16 date on which the designation of the distressed
17 community took effect,

18 “(B) the original use of which in the dis-
19 tressed community commences with the person
20 to whom the financing is provided under the
21 issue, and

22 “(C) substantially all the use of which is in
23 a distressed community and in the active con-
24 duct of a qualified business.

1 For purposes of the preceding sentence, rules similar
2 to the rules of subsections (a)(2) and (b) of section
3 1397C shall apply.

4 “(4) QUALIFIED BUSINESS.—For purposes of
5 this subsection—

6 “(A) IN GENERAL.—Except as otherwise
7 provided in this paragraph, the term ‘qualified
8 business’ means any trade or business.

9 “(B) RENTAL OF REAL PROPERTY.—The
10 rental of any building or structure located in a
11 distressed community shall be treated as a
12 qualified business if and only if—

13 “(i) the property is not residential
14 rental property (as defined in section
15 168(e)(2), and

16 “(ii) at least 50 percent of the gross
17 rental income from the building or struc-
18 ture is from other qualified businesses in
19 such community.

20 “(C) RENTAL OF TANGIBLE PERSONAL
21 PROPERTY.—The rental of tangible personal
22 property shall be treated as a qualified business
23 if and only if substantially all of the rental of
24 such property is by qualified businesses in the

1 distressed community or by individual residents
2 of the distressed community.

3 “(D) TREATMENT OF BUSINESS HOLDING
4 INTANGIBLES.—The term ‘qualified business’
5 shall not include any trade or business consist-
6 ing predominantly of the development or hold-
7 ing of intangibles for sale or license.

8 “(E) CERTAIN BUSINESSES EXCLUDED.—
9 The term ‘qualified business’ shall not include
10 any trade or business consisting of—

11 “(i) the operation of any facility de-
12 scribed in subsection (c)(6)(B), or

13 “(ii) operating a trade or business the
14 principal activity of which is farming
15 (within the meaning of subparagraph (A)
16 or (B) of section 2032A(e)(5)), but only if,
17 as of the close of the preceding taxable
18 year, the sum of the following exceeds
19 \$500,000—

20 “(I) the aggregate unadjusted
21 bases (or, if greater, the fair market
22 value) of the assets owned by the tax-
23 payer and used in such trade or busi-
24 ness, and

1 “(II) the aggregate value of the
2 assets leased by the taxpayer and
3 used in such trade or business.

4 For purposes of subclause (II), rules simi-
5 lar to the rules of section 1397(b) shall
6 apply.

7 “(5) DISTRESSED COMMUNITY.—For purposes
8 of this subsection, the term ‘distressed community’
9 means, with respect to periods in any calendar year,
10 any area—

11 “(A) which is the area over which a gen-
12 eral purpose local governmental unit has juris-
13 diction and which is designated for purposes of
14 this subsection by the governing body of such
15 unit, and

16 “(B) which (as of the beginning of such
17 year) meets the requirements of clause (i), (ii),
18 or (iii) of this subparagraph:

19 “(i) CHRONIC ECONOMIC DISTRESS.—
20 An area meets the requirements of this
21 clause if—

22 “(I) the area has experienced
23 population loss (as determined by the
24 1990 or subsequent census data) of
25 not less than 5 percent, or

1 “(II) the area has experienced an
2 average unemployment rate over the
3 last 5 years (as determined by the
4 Bureau of Labor Statistics) of not
5 less than 8 percent.

6 “(ii) SLOW JOB GROWTH.—An area
7 meets the requirements of this clause if,
8 over the last 5 years—

9 “(I) the area has experienced job
10 growth in the retail and manufactur-
11 ing sectors of less than 3 percent, or

12 “(II) if data are available only
13 for the manufacturing sector, the
14 community has experienced no job
15 growth in such sector, or if data are
16 available only for the retail sector, the
17 area has experienced job growth in
18 such sector of less than 8.5 percent.

19 “(iii) MAJOR BASE CLOSING.—An
20 area meets the requirements of this clause
21 if—

22 “(I) there has been a military
23 base closing within its boundaries or
24 adjacent thereto within the last 2
25 years which has resulted, or will re-

1 sult, in the loss of not less than 500
2 jobs, or

3 “(II) there has been an official
4 notification of a military base closing
5 within its boundaries or adjacent
6 thereto within the next 6 months,
7 which will result in the loss of not less
8 than 500 jobs.

9 “(6) PROHIBITION OF ASSISTANCE FOR BUSI-
10 NESS RELOCATIONS.—

11 “(A) IN GENERAL.—This subsection shall
12 not apply to any bonds issued as part of an
13 issue if any of the proceeds of such an issue are
14 used to assist any establishment in relocating
15 from an area outside the distressed community
16 to the distressed community.

17 “(B) EXCEPTION.—The limitation estab-
18 lished in subparagraph (A) shall not be con-
19 strued to prohibit assistance for the expansion
20 of an existing business entity through the estab-
21 lishment of a new branch affiliate, or subsidiary
22 if—

23 “(i) the establishment of the new
24 branch, affiliate, or subsidiary will not re-
25 sult in a decrease in employment in the

1 area of original location or in any other
2 area where the existing business entity
3 conducts business operations, and

4 “(ii) there is no reason to believe that
5 the new branch, affiliate, or subsidiary is
6 being established with the intention of clos-
7 ing down the operations of the existing
8 business entity in the area of its original
9 location or in any other area where the ex-
10 isting business entity conducts business op-
11 erations.”

12 (2) CLERICAL AMENDMENTS.—

13 (A) The section heading for section 144 is
14 amended by striking “**QUALIFIED REDEVEL-**
15 **OPMENT BOND.**” and inserting “**ETC.**”.

16 (B) The table of sections for subpart A of
17 part IV of subchapter B of chapter 1 is amend-
18 ed by striking “qualified redevelopment bond.”
19 in the item relating to section 144 and inserting
20 “etc.”.

21 (c) CERTAIN RULES NOT TO APPLY.—

22 (1) Subsection (h) of section 147 of such Code
23 (relating to certain rules which do not apply) is
24 amended by adding at the end thereof the following
25 new paragraph:

1 “(3) BONDS FOR DISTRESSED COMMUNITY ECO-
2 NOMIC DEVELOPMENT FACILITIES.—Subsection
3 (c)(1)(A) shall be applied by substituting ‘50 per-
4 cent’ for ‘25 percent’ and subsection (d) shall not
5 apply to any bond issued as part of an issue de-
6 scribed in section 144(d)(1).”

7 (2) The subsection heading for subsection (h) of
8 section 147 of such Code is amended to read as fol-
9 lows:

10 “(h) SPECIAL RULES FOR CERTAIN BONDS.—”.

11 (d) VOLUME CAP ONLY CHARGED WITH 50 PER-
12 CENT OF DISTRESSED COMMUNITY ECONOMIC DEVELOP-
13 MENT BONDS.—Subsection (g) of section 146 of such
14 Code (relating to an exception for certain bonds from vol-
15 ume cap) is amended by striking “and” at the end of para-
16 graph (3), by striking the period at the end of paragraph
17 (4) and inserting “, and”, and by inserting after para-
18 graph (4) the following new paragraph:

19 “(5) 50 percent of any bond issued as part of
20 an issue described in section 144(d)(1) (relating to
21 distressed community economic development facili-
22 ties).”

23 (e) PENALTIES FOR LOANS MADE TO BUSINESSES
24 THAT CEASE TO BE DISTRESSED COMMUNITY ECONOMIC
25 DEVELOPMENT BUSINESSES, ETC.—Subsection (b) of

1 section 150 of such Code (relating to change in use) is
2 amended by adding at the end thereof the following new
3 paragraph:

4 “(7) DISTRESSED COMMUNITY ECONOMIC DE-
5 VELOPMENT BONDS.—In the case of any qualified
6 economic development facility with respect to which
7 financing was provided by an issue described in sec-
8 tion 144(d)(1):

9 “(A) NO DEDUCTION ALLOWED.—No de-
10 duction shall be allowed under this chapter for
11 interest on such financing which accrues during
12 the period beginning on the first day of the cal-
13 endar year which includes the date on which—

14 “(i) the trade or business to which the
15 financing was provided ceases to be a
16 qualified business, or

17 “(ii) substantially all of the use of
18 such facility with respect to which the fi-
19 nancing was provided ceases to be in a dis-
20 tressed community.

21 For purposes of this subparagraph, the term
22 ‘distressed community’ means any area which
23 qualifies as a distressed community under sec-
24 tion 144(d)(5) as of the time the financing was

1 provided without regard to any subsequent rev-
2 ocation or termination.

3 “(B) PENALTY IMPOSED ON DISTRESSED
4 COMMUNITY ECONOMIC DEVELOPMENT BUSI-
5 NESS.—If at any time while such financing is
6 outstanding—

7 “(i) such facility ceases to be in use in
8 a qualified business, or

9 “(ii) substantially all of the use of
10 such facility ceases to be in a distressed
11 community (as so defined),

12 there is hereby imposed on such business to
13 which such financing was provided a penalty
14 equal to 1.25 percent of the portion of such fi-
15 nancing which is outstanding immediately be-
16 fore such cessation. Such penalty shall be as-
17 sessed and collected by the Secretary.

18 “(C) EXCEPTION FOR BANKRUPTCY.—
19 Subparagraphs (A) and (B) shall not apply to
20 any cessation resulting from bankruptcy.”

21 (f) BANK INTEREST DEDUCTION.—

22 (1) IN GENERAL.—Clause (ii) of section
23 265(b)(3)(B) of such Code (relating to exception for
24 certain tax-exempt obligations) is amended—

1 (A) by striking “or” at the end of
2 subclause (I),

3 (B) by redesignating subclause (II) as
4 subclause (III), and

5 (C) by inserting after subclause (I) the fol-
6 lowing new subclause:

7 “(II) any bond issued as part of
8 an issue described in section
9 144(d)(1), or”.

10 (2) CONFORMING AGREEMENT.—Subclause (I)
11 of section 265(b)(3)(B)(i) of such Code (defining
12 qualified tax-exempt obligation) is amended by in-
13 sserting “or is an obligation issued as part of an
14 issue described in section 144(d)(1)” after “issuer”.

15 (g) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to bonds issued after the date of
17 the enactment of this Act.

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