

110TH CONGRESS
1ST SESSION

S. 1264

To amend the Internal Revenue Code of 1986 to provide a credit to holders of rural renaissance bonds.

IN THE SENATE OF THE UNITED STATES

MAY 2, 2007

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

A BILL

To amend the Internal Revenue Code of 1986 to provide
a credit to holders of rural renaissance bonds.

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

3 **SECTION 1. CREDIT TO HOLDERS OF RURAL RENAISSANCE**

4 **BONDS.**

5 (a) IN GENERAL.—Subpart H of part IV of sub-
6 chapter A of chapter 1 of the Internal Revenue Code of
7 1986 (relating to credits against tax) is amended by add-
8 ing at the end the following new section:

1 **“SEC. 54A. CREDIT TO HOLDERS OF RURAL RENAISSANCE**
 2 **BONDS.**

3 “(a) ALLOWANCE OF CREDIT.—In the case of a tax-
 4 payer who holds a rural renaissance bond on 1 or more
 5 credit allowance dates of the bond occurring during any
 6 taxable year, there shall be allowed as a credit against the
 7 tax imposed by this chapter for the taxable year an
 8 amount equal to the sum of the credits determined under
 9 subsection (b) with respect to such dates.

10 “(b) AMOUNT OF CREDIT.—

11 “(1) IN GENERAL.—The amount of the credit
 12 determined under this subsection with respect to any
 13 credit allowance date for a rural renaissance bond is
 14 25 percent of the annual credit determined with re-
 15 spect to such bond.

16 “(2) ANNUAL CREDIT.—The annual credit de-
 17 termined with respect to any rural renaissance bond
 18 is the product of—

19 “(A) the credit rate determined by the Sec-
 20 retary under paragraph (3) for the day on
 21 which such bond was sold, multiplied by

22 “(B) the outstanding face amount of the
 23 bond.

24 “(3) DETERMINATION.—For purposes of para-
 25 graph (2), with respect to any rural renaissance
 26 bond, the Secretary shall determine daily or caused

1 to be determined daily a credit rate which shall
 2 apply to the first day on which there is a binding,
 3 written contract for the sale or exchange of the
 4 bond. The credit rate for any day is the credit rate
 5 which the Secretary or the Secretary's designee esti-
 6 mates will permit the issuance of rural renaissance
 7 bonds with a specified maturity or redemption date
 8 without discount and without interest cost to the
 9 qualified issuer.

10 “(4) CREDIT ALLOWANCE DATE.—For purposes
 11 of this section, the term ‘credit allowance date’
 12 means—

13 “(A) March 15,

14 “(B) June 15,

15 “(C) September 15, and

16 “(D) December 15.

17 Such term also includes the last day on which the
 18 bond is outstanding.

19 “(5) SPECIAL RULE FOR ISSUANCE AND RE-
 20 DEMPTION.—In the case of a bond which is issued
 21 during the 3-month period ending on a credit allow-
 22 ance date, the amount of the credit determined
 23 under this subsection with respect to such credit al-
 24 lowance date shall be a ratable portion of the credit
 25 otherwise determined based on the portion of the 3-

1 month period during which the bond is outstanding.

2 A similar rule shall apply when the bond is redeemed
3 or matures.

4 “(c) LIMITATION BASED ON AMOUNT OF TAX.—The
5 credit allowed under subsection (a) for any taxable year
6 shall not exceed the excess of—

7 “(1) the sum of the regular tax liability (as de-
8 fined in section 26(b)) plus the tax imposed by sec-
9 tion 55, over

10 “(2) the sum of the credits allowable under this
11 part (other than this subpart, subpart C, and section
12 1400N(l)).

13 “(d) RURAL RENAISSANCE BOND.—For purposes of
14 this section—

15 “(1) IN GENERAL.—The term ‘rural renaiss-
16 sance bond’ means any bond issued as part of an
17 issue if—

18 “(A) the bond is issued by a qualified
19 issuer pursuant to an allocation by the Sec-
20 retary to such issuer of a portion of the na-
21 tional rural renaissance bond limitation under
22 subsection (f)(2),

23 “(B) 95 percent or more of the proceeds
24 from the sale of such issue are to be used for

1 capital expenditures incurred by qualified bor-
 2 rowers for 1 or more qualified projects,

3 “(C) the qualified issuer designates such
 4 bond for purposes of this section and the bond
 5 is in registered form,

6 “(D) the issue meets the requirements of
 7 subsection (h), and

8 “(E) such bond is not a federally guaran-
 9 teed bond (within the meaning of section
 10 149(b)(2)).

11 “(2) QUALIFIED PROJECT; SPECIAL USE
 12 RULES.—

13 “(A) IN GENERAL.—The term ‘qualified
 14 project’ means 1 or more projects described in
 15 subparagraph (B) located in a rural area.

16 “(B) PROJECTS DESCRIBED.—A project
 17 described in this subparagraph is a project eli-
 18 gible for assistance under—

19 “(i) the utilities programs described in
 20 section 381E(d)(2) of the Consolidated
 21 Farm and Rural Development Act (7
 22 U.S.C. 2009d(d)(2)),

23 “(ii) the distance learning or telemedi-
 24 cine programs authorized pursuant to
 25 chapter 1 of subtitle D of title XXIII of

the Food, Agriculture, Conservation, and Trade Act of 1990 (7 U.S.C. 950aaa et seq.),

“(iii) the rural electric programs authorized pursuant to the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.),

“(iv) the rural telephone programs authorized pursuant to the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.),

“(v) the broadband access programs authorized pursuant to title VI of the Rural Electrification Act of 1936 (7 U.S.C. 950bb et seq.), and

“(vi) the rural community facility programs as described in section 381E(d)(1) of the Consolidated Farm and Rural Development Act (7 U.S.C. 2009d(d)(1)).

“(C) REFINANCING RULES.—For purposes of paragraph (1)(B), a qualified project may be refinanced with proceeds of a rural renaissance bond only if the indebtedness being refinanced (including any obligation directly or indirectly refinanced by such indebtedness) was originally incurred by a qualified borrower after the date of the enactment of this section.

“(D) REIMBURSEMENT.—For purposes of paragraph (1)(B), a rural renaissance bond may be issued to reimburse a qualified borrower for amounts paid after the date of the enactment of this section with respect to a qualified project, but only if—

“(i) prior to the payment of the original expenditure, the qualified borrower declared its intent to reimburse such expenditure with the proceeds of a rural renaissance bond,

“(ii) not later than 60 days after payment of the original expenditure, the qualified issuer adopts an official intent to reimburse the original expenditure with such proceeds, and

“(iii) the reimbursement is made not later than 18 months after the date the original expenditure is paid.

“(E) TREATMENT OF CHANGES IN USE.—For purposes of paragraph (1)(B), the proceeds of an issue shall not be treated as used for a qualified project to the extent that a qualified borrower or qualified issuer takes any action within its control which causes such proceeds

not to be used for a qualified project. The Secretary shall prescribe regulations specifying remedial actions that may be taken (including conditions to taking such remedial actions) to prevent an action described in the preceding sentence from causing a bond to fail to be a rural renaissance bond.

“(F) TREATMENT OF OTHER SUBSIDIES.—

For purposes of subparagraph (B), a qualified project does not include any portion of a project financed by grants or subsidized financing provided (directly or indirectly) under a Federal program, including any State or local obligation used to provide financing for such portion the interest on which is exempt from tax under section 103.

“(e) MATURITY LIMITATIONS.—

“(1) DURATION OF TERM.—A bond shall not be treated as a rural renaissance bond if the maturity of such bond exceeds the maximum term determined by the Secretary under paragraph (2) with respect to such bond.

“(2) MAXIMUM TERM.—During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds

1 issued during the following calendar month. Such
2 maximum term shall be the term which the Sec-
3 retary estimates will result in the present value of
4 the obligation to repay the principal on the bond
5 being equal to 50 percent of the face amount of such
6 bond. Such present value shall be determined with-
7 out regard to the requirements of paragraph (3) and
8 using as a discount rate the average annual interest
9 rate of tax-exempt obligations having a term of 10
10 years or more which are issued during the month. If
11 the term as so determined is not a multiple of a
12 whole year, such term shall be rounded to the next
13 highest whole year.

14 “(3) RATABLE PRINCIPAL AMORTIZATION RE-
15 QUIRED.—A bond shall not be treated as a rural
16 renaissance bond unless it is part of an issue which
17 provides for an equal amount of principal to be paid
18 by the qualified issuer during each calendar year
19 that the issue is outstanding.

20 “(f) LIMITATION ON AMOUNT OF BONDS DES-
21 IGNATED.—

22 “(1) NATIONAL LIMITATION.—There is a na-
23 tional rural renaissance bond limitation of
24 \$400,000,000.

25 “(2) ALLOCATION BY SECRETARY.—

1 “(A) IN GENERAL.—In accordance with
2 subparagraph (B), the Secretary shall allocate
3 the amount described in paragraph (1) among
4 at least 20 qualified projects, or such lesser
5 number of qualified projects with proper appli-
6 cations filed after 12 months after the adoption
7 of the selection process under subparagraph
8 (B).

9 “(B) SELECTION PROCESS.—In consulta-
10 tion with the Secretary of Agriculture, the Sec-
11 retary shall adopt a process to select projects
12 described in subparagraph (A). Under such
13 process, no State may receive more than 15
14 percent of the allocation under subparagraph
15 (A).

16 “(g) CREDIT INCLUDED IN GROSS INCOME.—Gross
17 income includes the amount of the credit allowed to the
18 taxpayer under this section (determined without regard to
19 subsection (c)) and the amount so included shall be treat-
20 ed as interest income.

21 “(h) SPECIAL RULES RELATING TO EXPENDI-
22 TURES.—

23 “(1) IN GENERAL.—An issue shall be treated as
24 meeting the requirements of this subsection if, as of

1 the date of issuance, the qualified issuer reasonably
2 expects—

3 “(A) at least 95 percent of the proceeds
4 from the sale of the issue are to be spent for
5 1 or more qualified projects within the 5-year
6 period beginning on the date of issuance of the
7 rural renaissance bond,

8 “(B) a binding commitment with a third
9 party to spend at least 10 percent of the pro-
10 ceeds from the sale of the issue will be incurred
11 within the 6-month period beginning on the
12 date of issuance of the rural renaissance bond
13 or, in the case of a rural renaissance bond the
14 proceeds of which are to be loaned to 2 or more
15 qualified borrowers, such binding commitment
16 will be incurred within the 6-month period be-
17 ginning on the date of the loan of such proceeds
18 to a qualified borrower, and

19 “(C) such projects will be completed with
20 due diligence and the proceeds from the sale of
21 the issue will be spent with due diligence.

22 “(2) EXTENSION OF PERIOD.—Upon submis-
23 sion of a request prior to the expiration of the period
24 described in paragraph (1)(A), the Secretary may
25 extend such period if the qualified issuer establishes

1 that the failure to satisfy the 5-year requirement is
 2 due to reasonable cause and the related projects will
 3 continue to proceed with due diligence.

4 “(3) FAILURE TO SPEND REQUIRED AMOUNT
 5 OF BOND PROCEEDS WITHIN 5 YEARS.—To the ex-
 6 tent that less than 95 percent of the proceeds of
 7 such issue are expended by the close of the 5-year
 8 period beginning on the date of issuance (or if an
 9 extension has been obtained under paragraph (2), by
 10 the close of the extended period), the qualified issuer
 11 shall redeem all of the nonqualified bonds within 90
 12 days after the end of such period. For purposes of
 13 this paragraph, the amount of the nonqualified
 14 bonds required to be redeemed shall be determined
 15 in the same manner as under section 142.

16 “(i) SPECIAL RULES RELATING TO ARBITRAGE.—A
 17 bond which is part of an issue shall not be treated as a
 18 rural renaissance bond unless, with respect to the issue
 19 of which the bond is a part, the qualified issuer satisfies
 20 the arbitrage requirements of section 148 with respect to
 21 proceeds of the issue.

22 “(j) DEFINITIONS AND SPECIAL RULES RELATING
 23 TO ISSUERS AND BORROWERS.—For purposes of this sec-
 24 tion—

1 “(1) QUALIFIED ISSUER.—The term ‘qualified
2 issuer’ means—

3 “(A) a rural renaissance bond lender,

4 “(B) a cooperative electric company, or

5 “(C) a governmental body.

6 “(2) QUALIFIED BORROWER.—The term ‘quali-
7 fied borrower’ means—

8 “(A) a mutual or cooperative electric com-
9 pany described in section 501(c)(12) or
10 1381(a)(2)(C), or

11 “(B) a governmental body.

12 “(3) RURAL RENAISSANCE BOND LENDER.—
13 The term ‘rural renaissance bond lender’ means a
14 lender which is a cooperative which is owned by, or
15 has outstanding loans to, 100 or more cooperative
16 electric companies and is in existence on February
17 1, 2002, and shall include any affiliated entity which
18 is controlled by such lender.

19 “(4) COOPERATIVE ELECTRIC COMPANY.—The
20 term ‘cooperative electric company’ means a mutual
21 or cooperative electric company described in section
22 501(c)(12) or section 1381(a)(2)(C), or a not-for-
23 profit electric utility which has received a loan or
24 loan guarantee under the Rural Electrification Act.

1 “(5) GOVERNMENTAL BODY.—The term ‘gov-
 2 ernmental body’ means any State, territory, posses-
 3 sion of the United States, the District of Columbia,
 4 Indian tribal government, and any political subdivi-
 5 sion thereof.

6 “(k) SPECIAL RULES RELATING TO POOL BONDS.—
 7 No portion of a pooled financing bond may be allocable
 8 to loan unless the borrower has entered into a written loan
 9 commitment for such portion prior to the issue date of
 10 such issue.

11 “(l) OTHER DEFINITIONS AND SPECIAL RULES.—
 12 For purposes of this section—

13 “(1) BOND.—The term ‘bond’ includes any ob-
 14 ligation.

15 “(2) POOLED FINANCING BOND.—The term
 16 ‘pooled financing bond’ shall have the meaning given
 17 such term by section 149(f)(4)(A).

18 “(3) RURAL AREA.—The term ‘rural area’ shall
 19 have the meaning given such term by section
 20 1393(a)(2).

21 “(4) PARTNERSHIP; S CORPORATION; AND
 22 OTHER PASS-THRU ENTITIES.—

23 “(A) IN GENERAL.—Under regulations
 24 prescribed by the Secretary, in the case of a
 25 partnership, trust, S corporation, or other pass-

1 thru entity, rules similar to the rules of section
 2 41(g) shall apply with respect to the credit al-
 3 lowable under subsection (a).

4 “(B) NO BASIS ADJUSTMENT.—In the case
 5 of a bond held by a partnership or an S cor-
 6 poration, rules similar to the rules under sec-
 7 tion 1397E(i) shall apply.

8 “(5) BONDS HELD BY REGULATED INVEST-
 9 MENT COMPANIES.—If any rural renaissance bond is
 10 held by a regulated investment company, the credit
 11 determined under subsection (a) shall be allowed to
 12 shareholders of such company under procedures pre-
 13 scribed by the Secretary.

14 “(6) REPORTING.—Issuers of rural renaissance
 15 bonds shall submit reports similar to the reports re-
 16 quired under section 149(e).

17 “(7) TERMINATION.—This section shall not
 18 apply with respect to any bond issued after Decem-
 19 ber 31, 2008.”.

20 (b) REPORTING.—Subsection (d) of section 6049 of
 21 the Internal Revenue Code of 1986 (relating to returns
 22 regarding payments of interest) is amended by adding at
 23 the end the following new paragraph:

24 “(9) REPORTING OF CREDIT ON RURAL RENAISS-
 25 SANCE BONDS.—

“(A) IN GENERAL.—For purposes of subsection (a), the term ‘interest’ includes amounts includible in gross income under section 54A(g) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54A(b)(4)).

“(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A), subsection (b)(4) shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i) of such subsection.

“(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.”.

(c) CONFORMING AMENDMENTS.—

(1) The table of sections for subpart H of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

“Sec. 54A. Credit to holders of rural renaissance bonds.”.

(2) Section 54(c)(2) of such Code is amended by inserting “, section 54A,” after “subpart C”.

1 (d) ISSUANCE OF REGULATIONS.—The Secretary of
2 Treasury shall issue regulations required under section
3 54A of the Internal Revenue Code of 1986 (as added by
4 this section) not later than 120 days after the date of the
5 enactment of this Act.

6 (e) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to bonds issued after the date of
8 the enactment of this Act.

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