

104TH CONGRESS
1ST SESSION

H. R. 1072

To amend the Internal Revenue Code of 1986 to provide tax incentives to encourage corporations to provide financing and management support services to small business concerns operating in urban areas designated as enterprise zones.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 28, 1995

Mr. FRANKS of Connecticut 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 provide tax incentives to encourage corporations to provide financing and management support services to small business concerns operating in urban areas designated as enterprise zones.

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 “Urban Entrepreneurial
5 Opportunities Act”.

1 **SEC. 2. TAX INCENTIVES FOR URBAN ENTREPRENEURIAL**
 2 **OPPORTUNITY FINANCING SUBSIDIARIES.**

3 (a) GENERAL RULE.—Part VIII of subchapter B of
 4 chapter 1 of the Internal Revenue Code of 1986 (relating
 5 to special deductions for corporations) is amended by add-
 6 ing at the end thereof the following new subpart:

7 **“Subpart B—Tax Incentives for Urban**
 8 **Entrepreneurial Opportunity Financing Subsidiaries**

“Sec. 251. Deduction for equity contributions to urban entre-
 preneurial opportunity financing subsidiaries.

“Sec. 252. Overall limitation on deductions.

“Sec. 253. Definitions and special rules.

9 **“SEC. 251. DEDUCTION FOR EQUITY CONTRIBUTIONS TO**
 10 **URBAN ENTREPRENEURIAL OPPORTUNITY**
 11 **FINANCING SUBSIDIARIES.**

12 “(a) GENERAL RULE.—In the case of a qualified con-
 13 tributing corporation, there shall be allowed as a deduction
 14 an amount equal to the equity contributions made by such
 15 corporation to an urban entrepreneurial opportunity fi-
 16 nancing subsidiary of such corporation. Such deduction
 17 shall be allowed for the taxable year of the contributing
 18 corporation in which the equity contribution is used by the
 19 subsidiary in making qualified enterprise zone business
 20 loans.

21 “(b) LIMITATION.—The amount allowed as a deduc-
 22 tion under subsection (a) to any qualified contributing cor-

1 poration for any taxable year shall not exceed the lesser
2 of—

3 “(1) \$10,000,000, or

4 “(2) the portion of the program limitation allo-
5 cated to such corporation under section 252 to the
6 extent the amount so allocated was not used in a
7 prior taxable year.

8 “(c) EQUITY CONTRIBUTION.—For purposes of this
9 section, the term ‘equity contribution’ means—

10 “(1) any amount paid in cash for stock in an
11 urban entrepreneurial opportunity financing subsidi-
12 ary of the corporation if such stock is acquired at
13 its original issuance, and

14 “(2) any contribution in cash to the capital of
15 an urban entrepreneurial opportunity financing sub-
16 sidiary of the corporation.

17 “(d) RECAPTURE PROVISIONS.—

18 “(1) BASIS ADJUSTMENT.—The adjusted basis
19 of any stock held by a corporation in an urban en-
20 trepreneurial opportunity financing subsidiary of
21 such corporation shall be reduced by the amount al-
22 lowed as a deduction under subsection (a) in connec-
23 tion with the acquisition of such stock. No increase
24 in the basis of any such stock shall be made on ac-
25 count of any contribution to the capital of such sub-

1 subsidiary for which a deduction is allowed under sub-
2 section (a).

3 “(2) ORDINARY INCOME RECAPTURE.—Any
4 gain recognized on the sale or other disposition by
5 a corporation of stock in an urban entrepreneurial
6 opportunity financing subsidiary of such corporation
7 shall be treated as ordinary income.

8 “(3) CERTAIN EVENTS TREATED AS DISPOSI-
9 TIONS.—If any urban entrepreneurial opportunity fi-
10 nancing subsidiary of a corporation ceases to qualify
11 as an urban entrepreneurial opportunity financing
12 subsidiary with respect to such corporation, such
13 corporation shall recognize gain as if it sold its stock
14 in such subsidiary for an amount equal to its fair
15 market value immediately before such cessation.

16 **“SEC. 252. OVERALL LIMITATION ON DEDUCTIONS.**

17 “(a) GENERAL RULE.—The Secretary of Housing
18 and Urban Development shall allocate the program limita-
19 tion among the qualified contributing corporations submit-
20 ting applications to such Secretary for allocations under
21 this section.

22 “(b) PROGRAM LIMITATION.—The program limita-
23 tion is \$250,000,000.

24 “(c) METHOD OF MAKING ALLOCATIONS.—The Sec-
25 retary of Housing and Urban Development shall prescribe

1 regulations setting forth the procedures for making alloca-
2 tions under this section. Such procedures shall—

3 “(1) include the criteria used in selecting the
4 corporations to which the allocations are made, and

5 “(2) be designed to ensure a reasonable avail-
6 ability, on a geographical basis, of the benefits of
7 this subpart.

8 **“SEC. 253. DEFINITIONS AND SPECIAL RULES.**

9 “(a) QUALIFIED CONTRIBUTING CORPORATION.—

10 For purposes of this subpart, the term ‘qualified contrib-
11 uting corporation’ means any domestic corporation which
12 is not a small business concern; except that such term
13 shall not include any corporation predominantly engaged
14 in a banking, insurance, finance, or similar business.

15 “(b) URBAN ENTREPRENEURIAL OPPORTUNITY FI-
16 NANCING SUBSIDIARY.—For purposes of this subpart, the
17 term ‘urban entrepreneurial opportunity financing subsidi-
18 ary’ means any domestic corporation—

19 “(1) all the stock of which (exclusive of direc-
20 tors’ qualifying shares) is held directly by one quali-
21 fied contributing corporation, and

22 “(2) all the activities of which consist of—

23 “(A) making qualified enterprise zone busi-
24 ness loans,

1 “(B) providing management, administra-
2 tive, consulting, and other support services to
3 qualified small business concerns to which such
4 corporation has made qualified enterprise zone
5 business loans, and

6 “(C) making temporary investments (for a
7 period not exceeding 6 months) of amounts
8 being held for purposes of making qualified en-
9 terprise zone business loans.

10 “(c) QUALIFIED ENTERPRISE ZONE BUSINESS
11 LOANS.—For purposes of this subpart, the term ‘qualified
12 enterprise zone business loan’ means any loan made by
13 an urban entrepreneurial opportunity financing subsidiary
14 if—

15 “(1) such loan is made to a qualified small
16 business concern and such concern is not related
17 (within the meaning of section 267(b) or 707(b)) to
18 such subsidiary or the qualified contributing cor-
19 poration holding such subsidiary,

20 “(2) the proceeds of such loan are used by such
21 qualified small business concern in the active con-
22 duct of a trade or business in an urban enterprise
23 zone,

24 “(3) the urban entrepreneurial opportunity fi-
25 nancing subsidiary provides (without charge) sub-

1 stantial qualified services to the qualified small busi-
2 ness concern in connection with such loan, except
3 that such small business concern may waive the re-
4 quirements of this paragraph, and

5 “(4) the interest on such loan does not ex-
6 ceed—

7 “(A) in the case of a secured loan, the
8 prime rate plus 3 percentage points, or

9 “(B) in the case of any other loan, the
10 prime rate plus 8 percentage points.

11 “(d) QUALIFIED SMALL BUSINESS CONCERN.—For
12 purposes of this subpart, the term ‘qualified small busi-
13 ness concern’ means any person if—

14 “(1) such person is a small business concern
15 within the meaning of section 3 of the Small Busi-
16 ness Act (15 U.S.C. 632), and

17 “(2) substantially all of the activities of such
18 person are within an urban enterprise zone.

19 “(e) OTHER DEFINITIONS AND SPECIAL RULES.—

20 “(1) URBAN ENTERPRISE ZONE.—For purposes
21 of this subpart, the term ‘urban enterprise zone’
22 means—

23 “(A) any urban area designated as an en-
24 terprise zone under any State law program, and

1 “(B) any urban area designated as an en-
2 terprise zone under Federal law.

3 “(2) SUBSTANTIAL QUALIFIED SERVICES.—For
4 purposes of this subpart, the term ‘substantial quali-
5 fied services’ means, with respect to any loan made
6 by an urban entrepreneurial opportunity financing
7 subsidiary, any management, administrative, con-
8 sulting, or other support services provided to the
9 borrower under such loan, but only if the amount of
10 such services, to be provided during the first year
11 such loan is outstanding involve at least 1,000 man-
12 hours for each \$100,000 principal amount of such
13 loan.

14 “(3) PRIME RATE.—For purposes of this sub-
15 part—

16 “(A) IN GENERAL.—The term ‘prime rate’
17 means the average predominant prime rate
18 quoted by commercial banks to large busi-
19 nesses, as determined by the Board of Gov-
20 ernors of the Federal Reserve System.

21 “(B) WHEN DETERMINATION MADE.—

22 “(i) Except as provided in clause (ii),
23 the determination of the prime rate shall
24 be made as of the time the loan is made.

1 “(ii) If the loan is a variable rate
2 loan, the prime rate taken into account
3 with respect to any change in rate shall be
4 determined as of the time such change
5 takes effect.

6 “(4) TREATMENT OF CONTROLLED GROUPS.—
7 Any group of corporations treated as a single em-
8 ployer under section 52 (a) or (b) shall be treated
9 as one corporation for purposes of this subpart.

10 “(f) EMPLOYEES OF BORROWER MAY BE TAKEN
11 INTO ACCOUNT FOR CERTAIN PURPOSES.—If—

12 “(1) a qualified contributing corporation has
13 provided financing through an urban entrepreneurial
14 opportunity financing subsidiary to any qualified
15 small business concern, and

16 “(2) such qualified small business concern des-
17 ignates such subsidiary as its primary lender,
18 such qualified contributing corporation may treat the em-
19 ployees of such qualified small business concern as its own
20 employees for purposes of determining which such quali-
21 fied contributing corporation is in compliance with the re-
22 quirements of any Federal law. A qualified small business
23 concern may designate only 1 urban entrepreneurial op-
24 portunity financing subsidiary is its primary lender for
25 any period.”

1 (b) CLERICAL AMENDMENT.—Part VIII of sub-
2 chapter B of chapter 1 of such Code is amended by insert-
3 ing after the part heading the following:

“Subpart A—General provisions.

“Subpart B—Tax incentives for urban entrepreneurial oppor-
tunity financing subsidiaries.

4 **“Subpart A—General Provisions”.**

5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall take effect on the date of the enactment
7 of this Act.

