

118TH CONGRESS
1ST SESSION

H. R. 3906

To amend the Internal Revenue Code of 1986 to establish special rules
for capital gains invested in rural opportunity zones.

IN THE HOUSE OF REPRESENTATIVES

JUNE 7, 2023

Mr. FERGUSON (for himself, Mrs. MILLER of West Virginia, Mr. FEENSTRA,
and Mr. KUSTOFF) 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 establish
special rules for capital gains invested in rural oppor-
tunity 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 “Rural Opportunity
5 Zone and Investment Act”.

1 **SEC. 2. ESTABLISHMENT OF SPECIAL RULES FOR CAPITAL**
2 **GAINS INVESTED IN RURAL OPPORTUNITY**
3 **ZONES.**

4 (a) IN GENERAL.—Subchapter Z of chapter 1 of the
5 Internal Revenue Code of 1986 is amended by adding at
6 the end the following new section:

7 **“SEC. 1400Z-3. SPECIAL RULES FOR CAPITAL GAINS IN-**
8 **VESTED IN RURAL OPPORTUNITY ZONES.**

9 “(a) IN GENERAL.—

10 “(1) TREATMENT OF GAINS.—In the case of
11 capital gain from the sale to, or exchange with, an
12 unrelated person of any property held by the tax-
13 payer, at the election of the taxpayer—

14 “(A) gross income for the taxable year
15 shall not include so much of such gain as does
16 not exceed the aggregate amount invested by
17 the taxpayer in a qualified rural opportunity
18 fund during the 180-day period beginning on
19 the date of such sale or exchange,

20 “(B) the amount of gain excluded by sub-
21 paragraph (A) shall be included in gross income
22 as provided by subsection (b), and

23 “(C) subsection (c) shall apply.

24 “(2) ELECTION.—No election may be made
25 under paragraph (1)—

1 “(A) with respect to a sale or exchange if
2 an election previously made with respect to such
3 sale or exchange is in effect, or

4 “(B) with respect to any sale or exchange
5 after December 31, 2032.

6 “(b) DEFERRAL OF GAIN INVESTED IN QUALIFIED
7 RURAL OPPORTUNITY ZONE PROPERTY.—

8 “(1) YEAR OF INCLUSION.—Gain to which sub-
9 section (a)(1)(B) applies shall be included in income
10 in the taxable year which includes the earlier of—

11 “(A) the date on which such investment is
12 sold or exchanged, or

13 “(B) December 31, 2032.

14 “(2) AMOUNT INCLUDIBLE.—

15 “(A) IN GENERAL.—The amount of gain
16 included in gross income under subsection
17 (a)(1)(A) shall be the excess of—

18 “(i) the lesser of the amount of gain
19 excluded under paragraph (1) or the fair
20 market value of the investment as deter-
21 mined as of the date described in para-
22 graph (1), over

23 “(ii) the taxpayer’s basis in the in-
24 vestment.

1 “(B) DETERMINATION OF BASIS QUALI-
2 FIED RURAL OPPORTUNITY ZONE PROPERTY.—

3 “(i) IN GENERAL.—Except as other-
4 wise provided in this clause or subsection
5 (c), the taxpayer’s basis in the investment
6 shall be zero.

7 “(ii) INCREASE FOR GAIN RECOG-
8 NIZED UNDER SUBSECTION (A)(1)(B).—The
9 basis in the investment shall be increased
10 by the amount of gain recognized by rea-
11 son of subsection (a)(1)(B) with respect to
12 such property.

13 “(iii) INVESTMENTS HELD FOR 5
14 YEARS.—In the case of any investment
15 held for at least 5 years, the basis of such
16 investment shall be increased by an
17 amount equal to 10 percent of the amount
18 of gain deferred by reason of subsection
19 (a)(1)(A).

20 “(iv) INVESTMENTS HELD FOR 7
21 YEARS.—In the case of any investment
22 held by the taxpayer for at least 7 years,
23 in addition to any adjustment made under
24 clause (iii), the basis of such property shall
25 be increased by an amount equal to 5 per-

1 cent of the amount of gain deferred by rea-
2 son of subsection (a)(1)(A).

3 “(c) SPECIAL RULE FOR INVESTMENTS HELD FOR
4 AT LEAST 10 YEARS.—In the case of any investment held
5 by the taxpayer for at least 10 years and with respect to
6 which the taxpayer makes an election under this sub-
7 section, the basis of such property shall be equal to the
8 fair market value of such investment on the date that the
9 investment is sold or exchanged.

10 “(d) QUALIFIED RURAL OPPORTUNITY FUND.—For
11 purposes of this section—

12 “(1) IN GENERAL.—The term ‘qualified rural
13 opportunity fund’ means any investment vehicle
14 which is organized as a corporation or a partnership
15 for the purpose of investing in qualified rural oppor-
16 tunity zone property (other than another qualified
17 rural opportunity fund) that holds at least 90 per-
18 cent of its assets in qualified rural opportunity zone
19 property, determined by the average of the percent-
20 age of qualified rural opportunity zone property held
21 in the fund as measured—

22 “(A) on the last day of the first 6-month
23 period of the taxable year of the fund, and

24 “(B) on the last day of the taxable year of
25 the fund.

1 “(2) QUALIFIED RURAL OPPORTUNITY ZONE
2 PROPERTY.—

3 “(A) IN GENERAL.—The term ‘qualified
4 rural opportunity zone property’ means prop-
5 erty which is—

6 “(i) qualified rural opportunity zone
7 stock,

8 “(ii) qualified rural opportunity zone
9 partnership interest, or

10 “(iii) qualified rural opportunity zone
11 business property.

12 “(B) QUALIFIED RURAL OPPORTUNITY
13 ZONE STOCK.—

14 “(i) IN GENERAL.—Except as pro-
15 vided in clause (ii), the term ‘qualified
16 rural opportunity zone stock’ means any
17 stock in a domestic corporation if—

18 “(I) such stock is acquired by the
19 qualified rural opportunity fund after
20 December 31, 2023, at its original
21 issue (directly or through an under-
22 writer) from the corporation solely in
23 exchange for cash,

24 “(II) as of the time such stock
25 was issued, such corporation was a

1 qualified rural opportunity zone busi-
2 ness (or, in the case of a new corpora-
3 tion, such corporation was being orga-
4 nized for purposes of being a qualified
5 rural opportunity zone business), and

6 “(III) during substantially all of
7 the qualified rural opportunity fund’s
8 holding period for such stock, such
9 corporation qualified as a qualified
10 rural opportunity zone business.

11 “(ii) REDEMPTIONS.—A rule similar
12 to the rule of section 1202(c)(3) shall
13 apply for purposes of this paragraph.

14 “(C) QUALIFIED RURAL OPPORTUNITY
15 ZONE PARTNERSHIP INTEREST.—The term
16 ‘qualified rural opportunity zone partnership in-
17 terest’ means any capital or profits interest in
18 a domestic partnership if—

19 “(i) such interest is acquired by the
20 qualified rural opportunity fund after De-
21 cember 31, 2023, from the partnership
22 solely in exchange for cash,

23 “(ii) as of the time such interest was
24 acquired, such partnership was a qualified
25 rural opportunity zone business (or, in the

1 case of a new partnership, such partner-
2 ship was being organized for purposes of
3 being a qualified rural opportunity zone
4 business), and

5 “(iii) during substantially all of the
6 qualified rural opportunity fund’s holding
7 period for such interest, such partnership
8 qualified as a qualified rural opportunity
9 zone business.

10 “(D) QUALIFIED RURAL OPPORTUNITY
11 ZONE BUSINESS PROPERTY.—

12 “(i) IN GENERAL.—The term ‘quali-
13 fied rural opportunity zone business prop-
14 erty’ means tangible property used in a
15 trade or business of the qualified rural op-
16 portunity fund if—

17 “(I) such property was acquired
18 by the qualified rural opportunity
19 fund by purchase (as defined in sec-
20 tion 179(d)(2)) after December 31,
21 2023,

22 “(II) the original use of such
23 property in the qualified rural oppor-
24 tunity zone commences with the quali-
25 fied rural opportunity fund or the

1 qualified rural opportunity fund sub-
2 stantially improves the property, and

3 “(III) during substantially all of
4 the qualified rural opportunity fund’s
5 holding period for such property, sub-
6 stantially all of the use of such prop-
7 erty was in a qualified rural oppor-
8 tunity zone.

9 “(ii) SUBSTANTIAL IMPROVEMENT.—

10 For purposes of subparagraph (A)(ii),
11 property shall be treated as substantially
12 improved by the qualified rural opportunity
13 fund only if, during any 30-month period
14 beginning after the date of acquisition of
15 such property, additions to basis with re-
16 spect to such property in the hands of the
17 qualified rural opportunity fund exceed an
18 amount equal to the adjusted basis of such
19 property at the beginning of such 30-
20 month period in the hands of the qualified
21 rural opportunity fund.

22 “(iii) RELATED PARTY.—For pur-
23 poses of subparagraph (A)(i), the related
24 person rule of section 179(d)(2) shall be
25 applied pursuant to subsection (e)(2) in

1 lieu of the application of such rule in sec-
2 tion 179(d)(2)(A).

3 “(3) QUALIFIED RURAL OPPORTUNITY ZONE
4 BUSINESS.—

5 “(A) IN GENERAL.—The term ‘qualified
6 rural opportunity zone business’ means a trade
7 or business—

8 “(i) in which substantially all of the
9 tangible property owned or leased by the
10 taxpayer is qualified rural opportunity zone
11 business property (determined by sub-
12 stituting ‘qualified rural opportunity zone
13 business’ for ‘qualified rural opportunity
14 fund’ each place it appears in paragraph
15 (2)(D)),

16 “(ii) which satisfies the requirements
17 of paragraphs (2), (4), and (8) of section
18 1397C(b), and

19 “(iii) which is not described in section
20 144(e)(6)(B).

21 “(B) SPECIAL RULE.—For purposes of
22 subparagraph (A), tangible property that ceases
23 to be a qualified rural opportunity zone busi-
24 ness property shall continue to be treated as a

1 qualified rural opportunity zone business prop-
2 erty for the lesser of—

3 “(i) 5 years after the date on which
4 such tangible property ceases to be so
5 qualified, or

6 “(ii) the date on which such tangible
7 property is no longer held by the qualified
8 rural opportunity zone business.

9 “(4) QUALIFIED RURAL OPPORTUNITY ZONE.—

10 “(A) IN GENERAL.—The term ‘qualified
11 rural opportunity zone’ means any population
12 census tract which—

13 “(i) is located in a rural county, and

14 “(ii) is in persistent poverty (as deter-
15 mined by the Bureau of the Census as of
16 the date of the enactment of this Act).

17 “(B) RURAL COUNTY.—The term ‘rural
18 county’ means any county if more than 50 per-
19 cent of the census blocks which comprise such
20 county are rural blocks (as determined by the
21 Bureau of the Census as of the date of the en-
22 actment of this Act). A rule similar to section
23 143(k)(2)(D) shall apply for purposes of the
24 preceding sentence.

25 “(e) APPLICABLE RULES.—

1 “(1) TREATMENT OF INVESTMENTS WITH
2 MIXED FUNDS.—In the case of any investment in a
3 qualified rural opportunity fund only a portion of
4 which consists of investments of gain to which an
5 election under subsection (a) is in effect—

6 “(A) such investment shall be treated as 2
7 separate investments, consisting of—

8 “(i) one investment that only includes
9 amounts to which the election under sub-
10 section (a) applies, and

11 “(ii) a separate investment consisting
12 of other amounts, and

13 “(B) subsections (a), (b), and (c) shall
14 only apply to the investment described in sub-
15 paragraph (A)(i).

16 “(2) RELATED PERSONS.—For purposes of this
17 section, persons are related to each other if such
18 persons are described in section 267(b) or 707(b)(1),
19 determined by substituting ‘20 percent’ for ‘50 per-
20 cent’ each place it occurs in such sections.

21 “(3) DECEDENTS.—In the case of a decedent,
22 amounts recognized under this section shall, if not
23 properly includible in the gross income of the dece-
24 dent, be includible in gross income as provided by
25 section 691.

1 “(4) REGULATIONS.—The Secretary shall pre-
2 scribe such regulations as may be necessary or ap-
3 propriate to carry out the purposes of this section,
4 including—

5 “(A) rules for the certification of qualified
6 rural opportunity funds for the purposes of this
7 section,

8 “(B) rules to ensure a qualified rural op-
9 portunity fund has a reasonable period of time
10 to reinvest the return of capital from invest-
11 ments in qualified rural opportunity zone stock
12 and qualified rural opportunity zone partner-
13 ship interests, and to reinvest proceeds received
14 from the sale or disposition of qualified rural
15 opportunity zone property, and

16 “(C) rules to prevent abuse.

17 “(f) FAILURE OF QUALIFIED RURAL OPPORTUNITY
18 FUND TO MAINTAIN INVESTMENT STANDARD.—

19 “(1) IN GENERAL.—If a qualified rural oppor-
20 tunity fund fails to meet the 90-percent requirement
21 of subsection (d)(1), the qualified rural opportunity
22 fund shall pay a penalty for each month it fails to
23 meet the requirement in an amount equal to the
24 product of—

25 “(A) the excess of—

1 “(i) the amount equal to 90 percent of
2 its aggregate assets, over

3 “(ii) the aggregate amount of quali-
4 fied rural opportunity zone property held
5 by the fund, multiplied by

6 “(B) the underpayment rate established
7 under section 6621(a)(2) for such month.

8 “(2) SPECIAL RULE FOR PARTNERSHIPS.—In
9 the case that the qualified rural opportunity fund is
10 a partnership, the penalty imposed by paragraph (1)
11 shall be taken into account proportionately as part
12 of the distributive share of each partner of the part-
13 nership.

14 “(3) REASONABLE CAUSE EXCEPTION.—No
15 penalty shall be imposed under this subsection with
16 respect to any failure if it is shown that such failure
17 is due to reasonable cause.”.

18 (b) CLERICAL AMENDMENT.—The table of sections
19 for subchapter Z of chapter 1 of such Code is amended
20 by adding at the end the following new item:

 “Sec. 1400Z-3. Special rules for capital gains invested in rural opportunity
 zones.”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to amounts invested after the date
23 of the enactment of this section.

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