

Statement of U.S. Senator Byron Dorgan for the Senate Finance
Committee Hearing on the Use of Tax Incentives to Address Rural Out-Migration
And Other Economic Challenges in the Heartland

August 25, 2004

Mr. Chairman, thank you for holding this important field hearing today in Sioux City, Iowa to examine tax policies that will help rural communities in your state, in North Dakota and across the country to grow and prosper.

As you know, I have worked several years with Senators Hagel, Brownback, Johnson and many of our colleagues on legislation we call the New Homestead Act, S. 602. This bill seeks to address one of the most serious threats to the future of America's Heartland – the loss of its people.

As a Senator from a rural state, Mr. Chairman, you know firsthand about the problems associated with the out-migration of people from our rural communities. Over the past two decades, a majority of the counties in Iowa have lost 10 percent or more of their population. The same is true for North Dakota, Nebraska and other rural states.

Hundreds of thousands of people have left small towns in rural areas throughout the Great Plains in search of opportunities elsewhere. It is a constant struggle for those who remain just to keep their communities alive. This shouldn't be. Our rural communities are among some of the strongest in the nation. Most of them have good schools, low crime rates, and a level of civic involvement that would make any public official proud. But people who are from these areas know that you simply can't grow or run a business in an environment where the overall economy is shrinking, current and potential customers are leaving, and public and private investment is falling.

The support that you and Senator Baucus have provided for the New Homestead Act has helped call national attention to the rural out-migration crisis. Many of our rural areas have been fighting for their very survival for years, yet most Americans didn't even know about this struggle. Today, general awareness about the decimation of rural America is quickly growing.

Inspired by the Homestead Act of 1862, the New Homestead Act proposes new incentives for people and businesses to locate or stay in rural areas that are suffering from out-migration. We can't give land anymore. But our legislation provides new opportunities through the use of tax and other financial rewards to fight against rural out-migration. S. 602 has garnered 17 bipartisan cosponsors in the U.S. Senate. It also has been endorsed by many important organizations, including the National Association of Counties, the National Telecommunications Cooperative Association, National Council of Farmer Cooperatives and the National Rural Electric Cooperative Association, the National Association of Realtors, the National Farmers Union, the American Bankers Association, the Independent Community Bankers of America, the Credit Union National Association, the Center for Rural Affairs and many others.

Specifically, the New Homestead Act would give people who commit to live and work in high out-migration areas for 5 years added incentives to buy a home, pay for college, build a nest egg, and start a business... or just plain get ahead in life. These incentives include repaying a portion of college loans, offering a tax credit for the purchase of a new home, protecting home values by allowing losses in home value to be deducted from federal income taxes, and establishing Individual Homestead Accounts that will help people build savings and have access to credit.

S. 602 also would establish a new venture capital fund with state and local governments as partners to ensure that entrepreneurs and companies in these areas get the capital they need to start and grow their businesses.

With your help, Mr. Chairman, during its debate on the JOBS Act, S. 1637, the Senate agreed to a Managers Amendment that included two other key measures from the New Homestead Act. Virtually identical provisions were also included in the Heartland Investment and Rural Employment Act that you introduced just prior to the August recess.

First, Section 633 of S. 1637 provides for rural investment tax credits. These tax credits would encourage businesses that move to or expand in a high out-migration rural county by offsetting the cost of newly constructed or existing buildings. Let's say, for example, that investors plan to build a new structure for a light manufacturing facility, and their structure would cost \$100,000. With a rural investment tax credit from state officials, these investors could claim a tax credit of approximately \$8,000 annually over a ten-year period. In present value terms, this credit effectively makes locating the facility in a high out-migration rural county less expensive than alternative locations.

Second, Section 634 of S. 1637 provides for small business investment tax credits. Under this provision, a state may choose to apply a portion of its rural investment tax credit allocation for qualifying start-up or expanding small businesses with five or fewer employees. In this case, the credits would help offset the cost of new funding needed for business expansion, including capital costs, plant and equipment, inventory expenses and wages. A taxpayer may claim up to \$5,000 per year (\$25,000 maximum for all years) in qualified rural small business investment credits.

Together, the rural investment tax credit and small business investment credit would make available an estimated \$641 million in credits for business investment in high out-migration rural counties over the next decade. I look forward to working with you, Senator Baucus and others to ensure that these provisions are included in the final version of the JOBS Act or any other tax legislation sent to the President for his signature this fall.

It will take plenty of hard work to get these and the other provisions in the New Homestead Act enacted into law. But with your help, Mr. Chairman, we will find a way to reverse the trend of population loss in North Dakota, Nebraska, Iowa, Kansas and the rest of America's Heartland.