Building Wealth in Rural Communities: The New Homestead Act and Individual Homestead Accounts

New Homestead Act Overview

The *New Homestead Act of 2005* was introduced in the U.S. Senate as S. 675

The New Homestead Act offers incentives to live and establish businesses in non-metropolitan counties that have experienced net out-migration of 10 percent or more of county population over the past 20 years. Among the provisions, the New Homestead Act would provide:

- forgiveness of 50 percent of college loans for recent graduates who live and work in qualifying counties
- a tax credit up to $5,000 for home purchases in qualifying counties
- tax incentives for new buildings
- a federally subsidized $3 billion venture capital fund to invest in businesses in qualifying counties
- a tax credit for microenterprise businesses in qualifying counties
- an Individual Development Account (IDA)-type provision to help build savings and increase access to credit

A total of 698 non-metro counties in the United States would currently qualify for the provisions of the New Homestead Act. This represents nearly 22 percent of the nation's counties. Qualifying counties are scattered around the nation, with the largest number in the Plains and upper Midwest; North Dakota, South Dakota, Nebraska, Iowa and Montana have 50 percent or more of their counties qualify as "high out-migration" counties. For a list of eligible counties, visit www.cfra.org.

Individual Homestead Accounts

The New Homestead Act creates an Individual Development Account-like program for people in qualifying counties entitled "Individual Homestead Accounts." Individual Homestead Accounts (IHA) – like Individual Development Accounts – are savings accounts matched (generally with public funds) that allow tax-free withdrawals for certain purposes; IHA allowable purposes are unreimbursed medical expenses, first-time home purchases in qualifying counties, costs incurred developing a business in qualifying counties, expenses related to obtaining higher education, and qualified retirement account rollovers. Any individual who is a bona fide resident of a qualifying county is allowed to create an IHA. The IHA provision is generally identical to Individual Development Account legislation.

Based on 2000 Census data, over 3.3 million households in qualifying counties would have household income that would qualify them for matching IHA funds. This represents about 16 percent of all non-metropolitan households in the United States, but about 81 percent of households in New Homestead Act counties.

Rural Families and Allowable Uses of Individual Homestead Account

- ***Medical Expenses***
- ***First-Time Homebuyer Costs***
- ***Business Capitalization Costs***
- ***Higher Education Costs***
- ***Retirement Accounts***

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The figures listed below show the potential impact of the New Homestead Act on each state.

State	Number of NHA Counties	Number of NHA Households	Number of Businesses	Jobs/1000 Population
AL	12	69,013	3,203	1.33
AK	11	17,602	817	2.02
AZ	2	16,681	774	0.25
AR	17	108,029	5,014	3.32
CO	11	23,288	1,081	0.40
GA	12	38,467	1,785	0.37
ID	11	43,333	2,011	2.55
IL	29	220,637	10,240	1.38
IN	12	131,432	6,100	1.82
IA	55	313,256	14,538	8.69
KS	52	156,327	7,255	4.75
KT	18	142,466	6,612	2.99
KA	21	135,132	6,271	2.57
NE	1	24,634	1,143	1.48
MI	4	57,460	2,667	0.46
MN	31	138,518	6,429	2.0
MS	22	157,422	7,306	4.78
MO	14	48,084	2,232	0.69
MT	28	58,194	2,701	4.88
NE	56	113,909	5,287	5.40
NV	1	1,820	84	0.07
NM	7	55,616	2,581	2.48
NY	4	81,693	3,791	0.33
NC	2	9,883	459	0.10
ND	47	113,853	5,284	14.23
OH	11	157,432	7,306	1.15
OK	23	104,265	7,839	2.48
OR	4	6,681	310	0.15
PA	6	95,283	4,422	0.65
SC	4	31,179	1,447	0.65
SD	42	71,170	3,303	7.44
TN	1	5,883	273	0.09
TX	78	217,919	10,114	0.85
UT	7	26,516	1,231	0.85
VA	9	55,875	2,593	0.64
WV	21	189,814	8,809	9.01
WI	2	21,465	996	0.32
WY	10	46,635	2,164	7.45