

105TH CONGRESS  
1ST SESSION

# S. 117

To amend the Internal Revenue Code of 1986 to provide for the tax treatment of residential ground rents, and for other purposes.

---

IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1997

Mr. INOUE 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 for the tax treatment of residential ground rents, and for other purposes.

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. MORTGAGE INTEREST DEDUCTION FOR QUALI-**  
4       **FIED NON-REDEEMABLE GROUND RENTS.**

5       (a) IN GENERAL.—Section 163(c) of the Internal  
6       Revenue Code of 1986 is amended to read as follows:

7       “(c) GROUND RENTS.—For purposes of this subtitle,  
8       any annual or periodic rental under a redeemable ground

---

1 rent (excluding amounts in redemption thereof) or a quali-  
 2 fied non-redeemable ground rent shall be treated as inter-  
 3 est on an indebtedness secured by a mortgage.”

4 (b) TREATMENT OF QUALIFIED NON-REDEEMABLE  
 5 GROUND RENTS.—

6 (1) IN GENERAL.—Subsections (a), (b), and (d)  
 7 of section 1055 of the Internal Revenue Code of  
 8 1986 (relating to redeemable ground rents) are  
 9 amended by inserting “or qualified non-redeemable”  
 10 after “redeemable” each place it appears.

11 (2) DEFINITION.—Section 1055 of such Code is  
 12 amended by redesignating subsection (d) as sub-  
 13 section (e) and by inserting after subsection (c) the  
 14 following new subsection:

15 “(d) QUALIFIED NON-REDEEMABLE GROUND  
 16 RENT.—For purposes of this subtitle, the term ‘qualified  
 17 non-redeemable ground rent’ means a ground rent with  
 18 respect to which—

19 “(1) there is a lease of land which is for a term  
 20 in excess of 15 years,

21 “(2) no portion of any payment is allocable to  
 22 the use of any property other than the land surface,

1 “(3) the lessor’s interest in the land is pri-  
 2 marily a security interest to protect the rental pay-  
 3 ments to which the lessor is entitled under the lease,  
 4 and

5 “(4) the leased property must be used as the  
 6 taxpayer’s principal residence (within the meaning of  
 7 section 1034).”

8 (3) CONFORMING AMENDMENTS.—

9 (A) The heading for section 1055 of such  
 10 Code is amended by striking “**REDEEMABLE**”.

11 (B) The item relating to section 1055 in  
 12 the table of sections for part IV of subchapter  
 13 O of chapter 1 of subtitle A of such Code is  
 14 amended by striking “Redeemable ground” and  
 15 inserting “Ground”.

16 (c) EFFECTIVE DATE.—The amendments made by  
 17 this section shall take effect on the date of the enactment  
 18 of this Act, with respect to taxable years ending after such  
 19 date.

20 **SEC. 2. CREDIT FOR TRANSACTION COSTS ON THE TRANS-**  
 21 **FER OF LAND SUBJECT TO CERTAIN GROUND**  
 22 **RENTS.**

23 (a) IN GENERAL.—Subpart B of part IV of sub-  
 24 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 (relating to foreign tax credit, etc.) is amended by  
 2 inserting after section 30A the following new section:

3 **“SEC. 30B. CREDIT FOR TRANSACTION COSTS.**

4 “(a) ALLOWANCE OF CREDIT.—

5 “(1) IN GENERAL.—At the election of the tax-  
 6 payer, 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 transaction costs relating to  
 9 any sale or exchange of land subject to ground rents  
 10 with respect to which immediately after and for at  
 11 least 1 year prior to such sale or exchange—

12 “(A) the transferee is the lessee who owns  
 13 a dwelling unit on the land being transferred,  
 14 and

15 “(B) the transferor is the lessor.

16 “(2) CREDIT ALLOWED TO BOTH TRANSFEROR  
 17 AND TRANSFeree.—The credit allowed under para-  
 18 graph (1) shall be allowed to both the transferor and  
 19 the transferee.

20 “(b) LIMITATIONS.—

21 “(1) LIMITATION PER DWELLING UNIT.—The  
 22 amount of the credit allowed to a taxpayer under  
 23 subsection (a) for any taxable year shall not exceed  
 24 the lesser of—

25 “(A) \$5,000 per dwelling unit, or

1           “(B) 10 percent of the sale price of the  
2           land.

3           “(2) LIMITATION BASED ON TAXABLE IN-  
4           COME.—The amount of the credit allowed to a tax-  
5           payer under subsection (a) for any taxable year shall  
6           not exceed the sum of—

7           “(A) 20 percent of the regular tax for the  
8           taxable year reduced by the sum of the credits  
9           allowable under subpart A and sections 27, 28,  
10          29, 30, and 30A plus

11          “(B) the alternative minimum tax imposed  
12          by section 55.

13          “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
14          poses of this section—

15          “(1) TRANSACTION COSTS.—

16                 “(A) IN GENERAL.—The term ‘transaction  
17                 costs’ means any expenditure directly associated  
18                 with a transaction, the purpose of which is to  
19                 convey to the lessee, by the lessor, land subject  
20                 to ground rents.

21                 “(B) SPECIFIC EXPENDITURES.—Such  
22                 term includes closing costs, attorney fees, sur-  
23                 veys and appraisals, and telephone, office, and  
24                 travel expenses incurred in negotiations with re-  
25                 spect to such transaction.

1           “(C) LOST RENTS NOT INCLUDED.—Such  
 2           term does not include lost rents due to the pre-  
 3           mature termination of an existing lease.

4           “(2) DWELLING UNIT.—A dwelling unit shall  
 5           include any structure or portion of any structure  
 6           which serves as the principal residence (within the  
 7           meaning of section 1034) for the lessee.

8           “(3) REDUCTION IN BASIS.—The basis of prop-  
 9           erty acquired in a transaction to which this section  
 10          applies shall be reduced by the amount of credit al-  
 11          lowed under subsection (a).

12          “(4) ELECTION.—This section shall apply to  
 13          any taxpayer for the taxable year only if such tax-  
 14          payer elects to have this section so apply.

15          “(d) CARRYOVER OF CREDIT.—

16          “(1) CARRYOVER PERIOD.—If the credit al-  
 17          lowed to the taxpayer under subsection (a) for any  
 18          taxable year exceeds the amount of the limitation  
 19          imposed by subsection (b)(2) for such taxable year  
 20          (hereafter in this subsection referred to as the ‘un-  
 21          used credit year’), such excess shall be a carryover  
 22          to each of the 5 succeeding taxable years.

23          “(2) AMOUNT CARRIED TO EACH YEAR.—

24                  “(A) ENTIRE AMOUNT CARRIED TO FIRST  
 25          YEAR.—The entire amount of the unused credit

1           for an unused credit year shall be carried to the  
 2           earliest of the 5 taxable years to which (by rea-  
 3           son of paragraph (1)) such credit may be car-  
 4           ried.

5           “(B) AMOUNT CARRIED TO OTHER 4  
 6           YEARS.—The amount of unused credit for the  
 7           unused credit year shall be carried to each of  
 8           the remaining 4 taxable years to the extent that  
 9           such unused credit may not be taken into ac-  
 10          count for a prior taxable year because of the  
 11          limitation imposed by subsection (b)(2).

12          “(e) TERMINATION.—This section shall not apply to  
 13          any transaction cost paid or incurred in taxable years be-  
 14          ginning after December 31, 2001.”

15          (b) CLERICAL AMENDMENT.—The table of sections  
 16          for such subpart B is amended by inserting after the item  
 17          relating to section 30A the following new item:

            “Sec. 30B. Credit for transaction costs on the transfer of land  
    subject to certain ground rents.”

18          (c) EFFECTIVE DATE.—The amendments made by  
 19          this section shall apply to expenditures paid or incurred  
 20          in taxable years beginning after December 31, 1996.

○