

107TH CONGRESS
2D SESSION

H. R. 5052

To amend the Internal Revenue Code of 1986 to allow an income tax credit for the provision of homeownership and community development, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 27, 2002

Mr. PORTMAN (for himself, Mr. CARDIN, and Mr. WATTS of Oklahoma) 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 allow an income tax credit for the provision of homeownership and community development, 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. SHORT TITLE; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Renewing the Dream Tax Credit Act”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 **SEC. 2. COMMUNITY HOMEOWNERSHIP CREDIT.**

4 (a) IN GENERAL.—Subpart D of part IV of sub-
 5 chapter A of chapter 1 is amended by inserting after sec-
 6 tion 42 the following new section:

7 **“SEC. 42A. COMMUNITY HOMEOWNERSHIP CREDIT.**

8 “(a) ALLOWANCE OF CREDIT.—For purposes of sec-
 9 tion 38, the amount of the homeownership credit deter-
 10 mined under this section for any taxable year in the credit
 11 period shall be an amount equal to the applicable percent-
 12 age of the eligible basis of each qualified residence.

13 “(b) APPLICABLE PERCENTAGE.—For purposes of
 14 this section—

15 “(1) IN GENERAL.—The term ‘applicable per-
 16 centage’ means the appropriate percentage pre-
 17 scribed by the Secretary for the month in which the
 18 taxpayer and the homeownership credit agency enter
 19 into an agreement with respect to such residence
 20 (which is binding on such agency, the taxpayer, and
 21 all successors in interest) as to the homeownership
 22 credit dollar amount to be allocated to such resi-
 23 dence.

24 “(2) METHOD OF PRESCRIBING PERCENT-
 25 AGE.—The percentage prescribed by the Secretary

1 for any month shall be the percentage which will
2 yield over a 5-year period amounts of credit under
3 subsection (a) which have a present value equal to
4 50 percent of the eligible basis of a qualified resi-
5 dence.

6 “(3) METHOD OF DISCOUNTING.—The present
7 value under paragraph (2) shall be determined—

8 “(A) as of the last day of the 1st year of
9 the 5-year period referred to in paragraph (2),

10 “(B) by using a discount rate equal to 72
11 percent of the annual Federal mid-term rate
12 applicable under section 1274(d)(1) to the
13 month applicable under paragraph (1) and com-
14 pounded annually, and

15 “(C) by assuming that the credit allowable
16 under this section for any year is received on
17 the last day of such year.

18 “(c) QUALIFIED RESIDENCE.—For purposes of this
19 section—

20 “(1) IN GENERAL.—The term ‘qualified resi-
21 dence’ means any residence—

22 “(A) which is located—

23 “(i) in a census tract which has a me-
24 dian gross income which does not exceed

1 80 percent of the greater of area or state-
2 wide median gross income,

3 “(ii) in a rural area (as defined under
4 section 520 of the Housing Act of 1949),

5 “(iii) on a reservation for a federally
6 recognized Indian tribe, or

7 “(iv) in an area of chronic economic
8 distress, and

9 “(B) which is purchased by a qualified
10 buyer.

11 For purposes of subparagraph (A)(iv), an area is an
12 area of chronic economic distress if it is approved
13 for designation as such under section 143(j)(3); ex-
14 cept that such designation shall not require the ap-
15 proval of the Secretary, shall be deemed to be ap-
16 proved by the Secretary of Housing and Urban De-
17 velopment if not approved or disapproved by the
18 Secretary of Housing and Urban Development with-
19 in 60 days after submission for approval for pur-
20 poses of section 143(j)(3)(A)(ii), and shall cease to
21 apply after the end of the 5th calendar year after
22 the calendar year in which the designation is made.

23 “(2) RESIDENCE.—For purposes of paragraph
24 (1), the term ‘residence’ means—

1 “(A) a single-family home containing 1 to
2 4 housing units,

3 “(B) a condominium unit,

4 “(C) stock in a cooperative housing cor-
5 poration (as defined in section 216(b)), or

6 “(D) any factory-made housing which is
7 permanently affixed to real property.

8 In the case of a single-family home described in sub-
9 paragraph (A) that contains more than one housing
10 unit, the term ‘residence’ shall not include any new
11 residence and shall include only the portion of such
12 home that is occupied by the owner thereof (deter-
13 mined based on the percentage of the total area of
14 such home that is occupied by the owner).

15 “(3) TIMING OF DETERMINATION.—For pur-
16 poses of paragraph (1), the determination of wheth-
17 er a residence is a qualified residence shall be made
18 at the time a binding commitment for an allocation
19 of credit is awarded by the homeownership credit
20 agency; except that the determination of whether a
21 purchaser is a qualified buyer shall be made at the
22 time the residence is sold.

23 “(4) MEDIAN GROSS INCOME.—For purposes of
24 this section, median gross income shall be deter-
25 mined consistent with section 143(f)(2).

1 “(d) ELIGIBLE BASIS.—For purposes of this
2 section—

3 “(1) NEW QUALIFIED RESIDENCES.—

4 “(A) IN GENERAL.—The eligible basis of a
5 new qualified residence is—

6 “(i) in the case of a qualified resi-
7 dence which is sold in a transaction which
8 meets the requirements of subparagraph
9 (B), its adjusted basis (excluding land) im-
10 mediately before such sale, and

11 “(ii) zero in any other case.

12 “(B) REQUIREMENTS.—A sale of a quali-
13 fied residence meets the requirements of this
14 subparagraph if—

15 “(i) the buyer acquires the qualified
16 residence by purchase (as defined in sec-
17 tion 179(d)(2)),

18 “(ii) the buyer of the qualified resi-
19 dence is not a related person with respect
20 to the seller, and

21 “(iii) in the case of a seller who mate-
22 rially participates in the development of
23 the residence, the buyer’s debt financing is
24 originated by a third party who is not a re-
25 lated person with respect to such seller.

1 “(2) EXISTING QUALIFIED RESIDENCES.—

2 “(A) IN GENERAL.—The eligible basis of
3 an existing qualified residence is—

4 “(i) in the case of a qualified resi-
5 dence which is sold in a transaction which
6 meets the requirements of subparagraph
7 (B), its adjusted basis (excluding land) im-
8 mediately before such sale, and

9 “(ii) zero in any other case.

10 “(B) REQUIREMENTS.—A sale of a quali-
11 fied residence meets the requirements of this
12 subparagraph if—

13 “(i) the buyer acquires the qualified
14 residence by purchase (as defined in sec-
15 tion 179(d)(2)),

16 “(ii) the qualified residence has un-
17 dergone substantial rehabilitation in con-
18 nection with the sale described in clause
19 (i),

20 “(iii) the buyer of the qualified resi-
21 dence is not a related person with respect
22 to the seller, and

23 “(iv) in the case of a seller who mate-
24 rially participates in the development of
25 the residence, the buyer’s debt financing is

1 originated by a third party who is not a re-
 2 lated person with respect to such seller.

3 “(C) SUBSTANTIAL REHABILITATION.—

4 “(i) IN GENERAL.—For purposes of
 5 subparagraph (B), substantial rehabilita-
 6 tion means rehabilitation expenditures paid
 7 or incurred with respect to a qualified resi-
 8 dence that are at least \$15,000.

9 “(ii) INFLATION ADJUSTMENT.—In
 10 the case of a calendar year after 2002, the
 11 dollar amount contained in clause (i) shall
 12 be increased by an amount equal to—

13 “(I) such dollar amount, multi-
 14 plied by

15 “(II) the cost-of-living adjust-
 16 ment determined under section 1(f)(3)
 17 for such calendar year by substituting
 18 ‘calendar year 2001’ for ‘calendar
 19 year 1992’ in subparagraph (B) there-
 20 of.

21 Any increase under clause (ii) which is not
 22 a multiple of \$1,000 shall be rounded to
 23 the next lowest multiple of \$1,000.

24 “(D) LIMITATION ON ACQUISITION
 25 BASIS.—The eligible basis of an existing quali-

1 fied residence may not exceed 150 percent of
2 the qualified rehabilitation expenditures.

3 “(3) EFFECT OF SUBSEQUENT SALE, ETC.—A
4 subsequent sale, assignment, rental, or refinancing
5 of the qualified residence by the buyer or the subse-
6 quent sale, assignment, or pooling of the buyer’s fi-
7 nancing by the originator shall not be considered in
8 determining whether or not the prior sales trans-
9 action satisfied the requirements of subparagraph
10 (B) of paragraph (1) or (2).

11 “(4) SPECIAL RULES RELATING TO DETER-
12 MINATION OF ADJUSTED BASIS.—For purposes of
13 this subsection—

14 “(A) IN GENERAL.—Except as provided in
15 subparagraph (B), the adjusted basis of any
16 qualified residence—

17 “(i) shall not include so much of the
18 basis of such qualified residence as is de-
19 termined by reference to the basis of other
20 property held at any time by the person
21 acquiring the residence, and

22 “(ii) shall be determined without re-
23 gard to the adjusted basis of any property
24 which is not part of such qualified resi-
25 dence.

1 “(B) BASIS OF PROPERTY IN COMMON
2 AREAS, ETC., INCLUDED.—The adjusted basis
3 of any qualified residence shall be determined
4 by taking into account (on a pro rata basis) the
5 adjusted basis of property (other than land)
6 used in common areas or provided as com-
7 parable amenities to all residences within a
8 project.

9 “(5) SPECIAL RULES FOR DETERMINING ELIGI-
10 BLE BASIS.—

11 “(A) RELATED PERSON, ETC.—For pur-
12 poses of this section, a person (in this clause re-
13 ferred to as the ‘related person’) is related to
14 any person if the related person bears a rela-
15 tionship to such person specified in section
16 267(b) or 707(b)(1), or the related person and
17 such person are engaged in trades or businesses
18 under common control (within the meaning of
19 subsections (a) and (b) of section 52). For pur-
20 poses of the preceding sentence, in applying
21 section 267(b) or 707(b)(1), ‘10 percent’ shall
22 be substituted for ‘50 percent’.

23 “(B) NONRESIDENTIAL SPACE EX-
24 CLUDED.—No portion of the eligible basis of a

1 qualified residence shall include costs attrib-
2 utable to nonresidential space.

3 “(C) LIMITATION.—The eligible basis of
4 any residence may not exceed the mortgage
5 limit for Federal Housing Administration in-
6 sured mortgages for single family homes in the
7 area in which such residence is located.

8 “(e) DEFINITION AND SPECIAL RULES RELATING TO
9 CREDIT PERIOD.—

10 “(1) CREDIT PERIOD DEFINED.—For purposes
11 of this section, the term ‘credit period’ means, with
12 respect to any qualified residence, the period of 5
13 taxable years beginning with the taxable year in
14 which the sale of the qualified residence occurs satis-
15 fying the requirements of subsection (d)(1)(B) or
16 (d)(2)(B).

17 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT
18 PERIOD.—

19 “(A) IN GENERAL.—The credit allowable
20 under subsection (a) with respect to any quali-
21 fied residence for the 1st taxable year of the
22 credit period shall be determined by multiplying
23 the eligible basis under subsection (d) by the
24 fraction—

1 “(i) the numerator of which is the
 2 sum of the number of remaining whole
 3 months in such 1st taxable year after the
 4 sale of the qualified residence, and

5 “(ii) the denominator of which is 12.

6 “(B) DISALLOWED 1ST YEAR CREDIT AL-
 7 LOWED IN 6TH YEAR.—Any reduction by reason
 8 of subparagraph (A) in the credit allowable
 9 (without regard to subparagraph (A)) for the
 10 1st taxable year of the credit period shall be al-
 11 lowable under subsection (a) for the 1st taxable
 12 year following the credit period.

13 “(f) LIMITATION ON AGGREGATE CREDIT ALLOW-
 14 ABLE WITH RESPECT TO QUALIFIED RESIDENCES LO-
 15 CATED IN A STATE.—

16 “(1) CREDIT MAY NOT EXCEED CREDIT DOLLAR
 17 AMOUNT ALLOCATED TO QUALIFIED RESIDENCE.—

18 “(A) IN GENERAL.—The amount of the
 19 credit determined under this section for any
 20 taxable year with respect to any qualified resi-
 21 dence shall not exceed the homeownership cred-
 22 it dollar amount allocated to such qualified resi-
 23 dence under this subsection.

24 “(B) TIME FOR MAKING ALLOCATION.—

1 “(i) An allocation shall be taken into
2 account under subparagraph (A) only if it
3 is made not later than the close of the cal-
4 endar year in which the qualified residence
5 is sold.

6 “(ii) A homeownership credit agency
7 may allocate available homeownership cred-
8 it dollar amounts to a qualified residence
9 prior to the year of sale of such qualified
10 residence if—

11 “(I) the taxpayer owns fee title
12 or a leasehold interest of not less than
13 50 years in the site of the qualified
14 residence as of the later of the date
15 which is 6 months after the date that
16 the allocation was made or the close
17 of the calendar year in which the allo-
18 cation is made, and

19 “(II) such qualified residence is
20 completed not later than the close of
21 the second calendar year following the
22 calendar year in which the allocation
23 was made.

24 “(C) VESTED RIGHT TO CREDIT DOLLAR
25 AMOUNT.—Once a homeownership credit alloca-

tion is received by a taxpayer, the right to such credit is vested in such taxpayer and is not subject to recapture, except as provided in paragraph (5)(B).

“(2) HOMEOWNERSHIP CREDIT DOLLAR AMOUNT FOR AGENCIES.—

“(A) IN GENERAL.—The aggregate homeownership credit dollar amount which a homeownership credit agency may allocate for any calendar year is the portion of the State homeownership credit ceiling allocated under this paragraph for such calendar year to such agency.

“(B) STATE CEILING INITIALLY ALLOCATED TO STATE HOMEOWNERSHIP CREDIT AGENCIES.—Except as provided in subparagraphs (D) and (E), the State homeownership credit ceiling for each calendar year shall be allocated to the homeownership credit agency of such State. If there is more than 1 homeownership credit agency of a State, all such agencies shall be treated as a single agency.

“(C) STATE HOMEOWNERSHIP CREDIT CEILING.—The State homeownership credit ceil-

1 ing applicable to any State for any calendar
2 year shall be an amount equal to the sum of—

3 “(i) the unused State homeownership
4 credit ceiling (if any) of such State for the
5 preceding calendar year,

6 “(ii) the greater of—

7 “(I) \$1.75 multiplied by the
8 State population, or

9 “(II) \$2,000,000,

10 “(iii) the amount of State homeowner-
11 ship credit ceiling returned in the calendar
12 year, plus

13 “(iv) the amount (if any) allocated
14 under subparagraph (D) to such State by
15 the Secretary.

16 For purposes of clause (i), the unused State
17 homeownership credit ceiling for any calendar
18 year is the excess (if any) of the sum of the
19 amounts described in clauses (ii) through (iv)
20 over the aggregate homeownership credit dollar
21 amount allocated for such year. For purposes of
22 clause (iii), the amount of State homeownership
23 credit ceiling returned in the calendar year
24 equals the homeownership credit dollar amount
25 previously allocated within the State to any

1 qualified residence with respect to which an al-
2 location is canceled by mutual consent of the
3 homeownership credit agency and the allocation
4 recipient.

5 “(D) UNUSED HOMEOWNERSHIP CREDIT
6 CARRYOVERS ALLOCATED AMONG CERTAIN
7 STATES.—

8 “(i) IN GENERAL.—The unused home-
9 ownership credit carryover of a State for
10 any calendar year shall be assigned to the
11 Secretary for allocation among qualified
12 States for the succeeding calendar year.

13 “(ii) UNUSED HOMEOWNERSHIP
14 CREDIT CARRYOVER.—For purposes of this
15 subparagraph, the unused homeownership
16 credit carryover of a State for any calendar
17 year is the excess (if any) of—

18 “(I) the unused State home-
19 ownership credit ceiling for the year
20 preceding such year, over

21 “(II) the aggregate homeowner-
22 ship credit dollar amount allocated for
23 such year.

24 “(iii) FORMULA FOR ALLOCATION OF
25 UNUSED HOMEOWNERSHIP CREDIT

1 CARRYOVERS AMONG QUALIFIED
 2 STATES.—The amount allocated under this
 3 subparagraph to a qualified State for any
 4 calendar year shall be the amount deter-
 5 mined by the Secretary to bear the same
 6 ratio to the aggregate unused homeowner-
 7 ship credit carryovers of all States for the
 8 preceding calendar year as such State’s
 9 population for the calendar year bears to
 10 the population of all qualified States for
 11 the calendar year.

12 “(iv) QUALIFIED STATE.—For pur-
 13 poses of this subparagraph, the term
 14 ‘qualified State’ means, with respect to a
 15 calendar year, any State—

16 “(I) which allocated its entire
 17 State homeownership credit ceiling for
 18 the preceding calendar year, and

19 “(II) for which a request is made
 20 (not later than May 1 of the calendar
 21 year) to receive an allocation under
 22 clause (iii).

23 “(E) STATE MAY PROVIDE FOR DIF-
 24 FERENT ALLOCATION.—Rules similar to the
 25 rules of section 146(e) (other than paragraph

1 (2)(B) thereof) shall apply for purposes of this
2 paragraph.

3 “(F) POPULATION.—For purposes of this
4 paragraph, population shall be determined in
5 accordance with section 146(j).

6 “(G) COST-OF-LIVING ADJUSTMENT.—

7 “(i) IN GENERAL.—In the case of a
8 calendar year after 2002, the \$2,000,000
9 and \$1.75 amounts in subparagraph (C)
10 shall each be increased by an amount equal
11 to—

12 “(I) such dollar amount, multi-
13 plied by

14 “(II) the cost-of-living adjust-
15 ment determined under section
16 1(f)(3) for such calendar year by sub-
17 stituting ‘calendar year 2001’ for ‘cal-
18 endar year 1992’ in subparagraph (B)
19 thereof.

20 “(ii) ROUNDING.—

21 “(I) In the case of the
22 \$2,000,000 amount, any increase
23 under clause (i) which is not a mul-
24 tiple of \$5,000 shall be rounded to the
25 next lowest multiple of \$5,000.

1 “(II) In the case of the \$1.75
2 amount, any increase under clause (i)
3 which is not a multiple of 5 cents
4 shall be rounded to the next lowest
5 multiple of 5 cents.

6 “(3) PORTION OF STATE CEILING SET-ASIDE
7 FOR CERTAIN PROJECTS INVOLVING QUALIFIED
8 NONPROFIT ORGANIZATIONS.—

9 “(A) IN GENERAL.—Not more than 90
10 percent of the State homeownership credit ceil-
11 ing for any State for any calendar year shall be
12 allocated to projects other than qualified non-
13 profit housing projects described in subpara-
14 graph (B).

15 “(B) PROJECTS INVOLVING QUALIFIED
16 NONPROFIT ORGANIZATIONS.—For purposes of
17 subparagraph (A), a qualified nonprofit housing
18 project is described in this subparagraph if a
19 qualified nonprofit organization is to own an in-
20 terest in the project (directly or through a part-
21 nership) and materially participate (within the
22 meaning of section 469(h)) in the development
23 and operation of the project throughout the
24 credit period.

“(C) QUALIFIED NONPROFIT ORGANIZATION.—For purposes of this paragraph, the term ‘qualified nonprofit organization’ means any organization if—

“(i) such organization is described in paragraph (3) or (4) of section 501(c) and is exempt from tax under section 501(a),

“(ii) such organization is determined by the State homeownership credit agency not to be affiliated with or controlled by a for-profit organization, and

“(iii) 1 of the exempt purposes of such organization includes the fostering of low-income housing.

“(D) TREATMENT OF CERTAIN SUBSIDIARIES.—

“(i) IN GENERAL.—For purposes of this paragraph, a qualified nonprofit organization shall be treated as satisfying the ownership and material participation test of subparagraph (B) if any qualified corporation in which such organization holds stock satisfies such test.

“(ii) QUALIFIED CORPORATION.—For purposes of clause (i), the term ‘qualified

1 corporation’ means any corporation if 100
 2 percent of the stock of such corporation is
 3 held by 1 or more qualified nonprofit orga-
 4 nizations at all times during the period
 5 such corporation is in existence.

6 “(E) STATE MAY NOT OVERRIDE SET-
 7 ASIDE.—Nothing in subparagraph (E) of para-
 8 graph (2) shall be construed to permit a State
 9 not to comply with subparagraph (A) of this
 10 paragraph.

11 “(4) LIMITATION ON ALLOCATIONS TO AREAS
 12 OF CHRONIC ECONOMIC DISTRESS.—No more than
 13 50 percent of a homeownership credit agency’s por-
 14 tion of the State homeownership credit ceiling for a
 15 calendar year may be allocated to residences located
 16 in areas that—

17 “(A) are designated as areas of chronic
 18 economic distress in accordance with paragraph
 19 (1) of subsection (c), and

20 “(B) that do not meet the requirements of
 21 clause (i), (ii), or (iii) of subsection (c)(1)(A).

22 “(5) SPECIAL RULES.—

23 “(A) RESIDENCE MUST BE LOCATED
 24 WITHIN JURISDICTION OF CREDIT AGENCY.—A
 25 homeownership credit agency may allocate its

1 aggregate homeownership credit dollar amount
2 only to qualified residences located in the juris-
3 diction of the governmental unit of which such
4 agency is a part.

5 “(B) AGENCY ALLOCATIONS IN EXCESS OF
6 LIMIT.—If the aggregate homeownership credit
7 dollar amounts allocated by a homeownership
8 credit agency for any calendar year exceed the
9 portion of the State homeownership credit ceil-
10 ing allocated to such agency for such calendar
11 year, the homeownership credit dollar amounts
12 so allocated shall be reduced (to the extent of
13 such excess) for residences in the reverse of the
14 order in which the allocations of such amounts
15 were made.

16 “(g) DEFINITIONS AND SPECIAL RULES.—For pur-
17 poses of this section—

18 “(1) COMPLETED.—The term ‘completed’
19 means the point in time where a qualified residence
20 is first placed in a condition or state of readiness
21 and availability for occupancy.

22 “(2) PROJECT.—The term ‘project’ means 1 or
23 more residences together with functionally related
24 and subordinate facilities developed and made avail-
25 able to inhabitants of such residences, including rec-

1 reational facilities and parking areas. To constitute
2 a project, each residence must—

3 “(A) be developed by the same taxpayer
4 pursuant to common planning and feasibility
5 studies,

6 “(B) be financed through a common plan
7 of construction financing, and

8 “(C) have common ownership prior to sale.

9 For purposes of this paragraph, it is not necessary
10 that all residences within a project be contiguous or
11 that all residences consist only of either new resi-
12 dences or existing residences and it is not necessary
13 that each residence within a project be a qualified
14 residence.

15 “(3) QUALIFIED BUYER.—

16 “(A) IN GENERAL.—The term ‘qualified
17 buyer’ means a buyer if at the time of the ac-
18 quisition of the qualified residence, the buyer—

19 “(i) is 1 or more individuals whose in-
20 come does not exceed 80 percent of the
21 area median gross income (70 percent for
22 families of less than 3 members), and

23 “(ii) intends to occupy the residence
24 as the buyer’s principal residence (within
25 the meaning of section 121).

1 “(B) SPECIAL RULES IN QUALIFIED CEN-
2 SUS TRACTS.—With respect to residences lo-
3 cated in qualified census tracts (as defined in
4 section 42), subparagraph (A) shall be applied
5 by substituting ‘100 percent’ for ‘80 percent’
6 and ‘90 percent’ for ‘70 percent’.

7 “(C) DETERMINATION OF INCOME.—For
8 purposes of this paragraph, a buyer’s income
9 shall be determined in accordance with section
10 143(f)(4).

11 “(4) NEW QUALIFIED RESIDENCE.—The term
12 ‘new qualified residence’ means a qualified residence
13 the original ownership of which begins with the tax-
14 payer.

15 “(5) EXISTING QUALIFIED RESIDENCE.—The
16 term ‘existing qualified residence’ means any quali-
17 fied residence which is not a new qualified residence.

18 “(6) HOMEOWNERSHIP CREDIT AGENCY.—The
19 term ‘homeownership credit agency’ means any
20 agency authorized to carry out this section.

21 “(7) POSSESSIONS TREATED AS STATES.—The
22 term ‘State’ includes the District of Columbia and a
23 possession of the United States.

24 “(8) APPLICATION TO ESTATES AND TRUSTS.—
25 In the case of an estate or trust, the amount of the

1 credit determined under subsection (a) shall be ap-
2 portioned between the estate or trust and the bene-
3 ficiaries on the basis of the income of the estate or
4 trust allocable to each.

5 “(h) REDUCTION IN TAX BENEFITS.—

6 “(1) RECAPTURE OF CREDIT.—If within the 5-
7 year period beginning on the date of the original
8 purchase of a qualified residence, the residence is
9 sold, the qualified buyer—

10 “(A) shall deduct and withhold an amount
11 equal to the recapture amount from the amount
12 realized on such sale, and

13 “(B) shall transfer such amount to the
14 homeownership credit agency which allocated
15 the homeownership credit dollar amount to such
16 residence.

17 “(2) RECAPTURE AMOUNT.—For purposes of
18 paragraph (1), the recapture amount is an amount
19 equal to the lesser of—

20 “(A) 50 percent of the gain from such re-
21 sale, or

22 “(B) the homeownership credit dollar
23 amount allocated to such residence, reduced by
24 1/36th of such amount for each month after the
25 first 2 years of the 5-year period referred to in

1 paragraph (1) which is before the date of the
2 sale referred to in paragraph (1).

3 “(3) DENIAL OF DEDUCTIONS IF CONVERTED
4 TO RENTAL HOUSING.—If a qualified residence is
5 converted to rental housing within the 5-year period
6 beginning on the date of the original purchase of the
7 qualified residence, no deduction under this chapter
8 shall be permitted to offset rental income with re-
9 spect to such residence during such period.

10 “(i) APPLICATION OF AT-RISK RULES.—For pur-
11 poses of this section, rules of section 465 shall not apply
12 in determining the eligible basis of any qualified residence.

13 “(j) REPORTS TO THE SECRETARY.—

14 “(1) FROM THE TAXPAYER.—The Secretary
15 may require taxpayers to submit an information re-
16 turn (at such time and in such form and manner as
17 the Secretary prescribes) for each taxable year set-
18 ting forth—

19 “(A) the eligible basis for the taxable year
20 of each qualified residence with respect to which
21 the taxpayer is claiming a credit under this sec-
22 tion,

23 “(B) the amount of all homeownership
24 credit allocations received by the taxpayer from

1 any and all State homeownership credit agen-
2 cies, and

3 “(C) such other information as the Sec-
4 retary may require.

5 The penalty under section 6652(j) shall apply to any
6 failure to submit the return required by the Sec-
7 retary under the preceding sentence on the date pre-
8 scribed therefor.

9 “(2) FROM HOMEOWNERSHIP CREDIT AGEN-
10 CIES.—Each agency which allocates any homeowner-
11 ship credit dollar amount to any residence for any
12 calendar year shall submit to the Secretary (at such
13 time and in such form and manner as the Secretary
14 shall prescribe) an annual report specifying—

15 “(A) the amount of the homeownership
16 credit dollar amount allocated to each residence
17 for such year,

18 “(B) sufficient information to identify each
19 such residence and the taxpayer initially enti-
20 tled to claim the credit under this section with
21 respect thereto, and

22 “(C) such other information as the Sec-
23 retary may require.

24 “(k) RESPONSIBILITIES OF HOMEOWNERSHIP CRED-
25 IT AGENCIES.—

1 “(1) PLANS FOR ALLOCATION OF CREDIT
2 AMONG RESIDENCES.—

3 “(A) IN GENERAL.—Notwithstanding any
4 other provision of this section, the homeowner-
5 ship credit dollar amount with respect to any
6 qualified residence shall be zero unless such
7 amount was allocated pursuant to a qualified
8 allocation plan of the homeownership credit
9 agency which is approved by the governmental
10 unit (in accordance with rules similar to the
11 rules of section 147(f)(2) (other than subpara-
12 graph (B)(ii) thereof)) of which such agency is
13 a part.

14 “(B) QUALIFIED ALLOCATION PLAN.—For
15 purposes of this paragraph, the term ‘qualified
16 allocation plan’ means any plan which sets forth
17 selection criteria to be used to determine the
18 homeownership development priorities of the
19 homeownership credit agency which are appro-
20 priate to local conditions.

21 “(C) CERTAIN HOMEOWNERSHIP DEVEL-
22 OPMENT CRITERIA MUST BE USED.—The devel-
23 opment criteria set forth in a qualified alloca-
24 tion plan must include—

1 “(i) contribution of the development
2 to community stability and revitalization,

3 “(ii) community and local government
4 support for the development,

5 “(iii) need for homeownership develop-
6 ment within the area,

7 “(iv) sponsor capability, and

8 “(v) long-term sustainability of the
9 project as owner-occupied residences.

10 “(2) CREDIT ALLOCATED TO RESIDENCE NOT
11 TO EXCEED AMOUNT NECESSARY TO ASSURE FEASI-
12 BILITY.—

13 “(A) IN GENERAL.—The homeownership
14 credit dollar amount allocated to a residence
15 shall not exceed the amount the homeownership
16 credit agency determines is necessary for the
17 feasibility of the residence.

18 “(B) AGENCY EVALUATION.—In making
19 the determination under subparagraph (A), the
20 homeownership credit agency shall consider—

21 “(i) the sources and uses of funds and
22 the total financing planned for the resi-
23 dence,

24 “(ii) any proceeds or receipts expected
25 to be generated by reason of tax benefits,

1 “(iii) the anticipated appraised value
2 of the residence,

3 “(iv) the reasonableness of the devel-
4 opmental costs of the residence, and

5 “(v) the affordability to a reasonable
6 range of prospective qualified buyers.

7 “(C) DETERMINATION MADE WHEN CRED-
8 IT DOLLAR AMOUNT APPLIED FOR.—A deter-
9 mination under subparagraph (A) shall be made
10 as of each of the following times:

11 “(i) The application for the home-
12 ownership credit dollar amount.

13 “(ii) The allocation of the homeowner-
14 ship credit dollar amount.

15 “(3) LIEN FOR RECAPTURE AMOUNT.—A home-
16 ownership credit dollar amount may be allocated by
17 a homeownership credit agency to a residence only
18 if such agency has a lien on such residence for the
19 payment of any amount potentially required to be
20 paid under subsection (h) to such agency.

21 “(l) REGULATIONS.—The Secretary shall prescribe
22 such regulations as may be necessary or appropriate to
23 carry out the purposes of this section, including
24 regulations—

25 “(1) dealing with—

1 “(A) projects which include more than 1
2 residence or only a portion of a residence, and

3 “(B) buildings which are completed in por-
4 tions,

5 “(2) providing for the application of this section
6 to short taxable years,

7 “(3) preventing the avoidance of the rules of
8 this section, and

9 “(4) providing the opportunity for homeowner-
10 ship credit agencies to correct administrative errors
11 and omissions with respect to allocations and record-
12 keeping within a reasonable period after their dis-
13 covery, taking into account the availability of regula-
14 tions and other administrative guidance from the
15 Secretary.”.

16 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-
17 TION.—Section 38(b) (relating to current year business
18 credit) is amended by redesignating paragraphs (6)
19 through (15) as paragraphs (7) through (16), respectively,
20 and by inserting after paragraph (5) the following new
21 paragraph:

22 “(6) the homeownership credit determined
23 under section 42A(a),”.

24 (c) LIMITATION ON CARRYBACK.—Subsection (d) of
25 section 39 (relating to carryback and carryforward of un-

1 used credits) is amended by adding at the end the fol-
 2 lowing:

3 “(11) NO CARRYBACK OF HOMEOWNERSHIP
 4 CREDIT BEFORE EFFECTIVE DATE.—No amount of
 5 unused business credit available under section 42A
 6 may be carried back to a taxable year beginning on
 7 or before the date of the enactment of this para-
 8 graph.”.

9 (d) CONFORMING AMENDMENTS.—

10 (1) Section 55(c)(1) is amended by inserting
 11 “or subsection (h) or (i) of section 42A” after “sec-
 12 tion 42”.

13 (2) Subsections (i)(3)(D), (i)(6)(B)(i), and
 14 (k)(1) of section 469 are each amended by inserting
 15 “or 42A” after “section 42”.

16 (3) Section 772(a) is amended by striking
 17 “and” at the end of paragraph (10), by redesign-
 18 ating paragraph (11) as paragraph (12), and by in-
 19 serting after paragraph (10) the following:

20 “(11) the homeownership credit determined
 21 under section 42A, and”.

22 (4) Section 774(b)(4) is amended by inserting
 23 “, 42A(h),” after “section 42(j)”.

24 (e) CLERICAL AMENDMENT.—The table of sections
 25 for subpart D of part IV of subchapter A of chapter 1

1 is amended by inserting after the item relating to section
2 42 the following:

“Sec. 42A. Community homeownership credit.”.

3 (f) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to qualified residences sold after
5 the date of the enactment of this Act.

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