

108TH CONGRESS
1ST SESSION

H. R. 839

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

FEBRUARY 13, 2003

Mr. PORTMAN (for himself, Mr. CARDIN, Ms. PRYCE of Ohio, Mr. ENGLISH, Mrs. JONES of Ohio, Mr. BONILLA, Mr. TERRY, Mr. GARY G. MILLER of California, Ms. JACKSON-LEE of Texas, Mr. BURGESS, and Ms. HARRIS) 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

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

4 **SEC. 2. COMMUNITY HOMEOWNERSHIP CREDIT.**

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

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

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

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

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

1 “(2) METHOD OF PRESCRIBING PERCENT-
2 AGE.—The percentage prescribed by the Secretary
3 for any month shall be the percentage which will
4 yield over a 5-year period amounts of credit under
5 subsection (a) which have a present value equal to
6 50 percent of the eligible basis of a qualified resi-
7 dence.

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

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

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

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

20 “(c) QUALIFIED RESIDENCE.—For purposes of this
21 section—

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

24 “(A) which is located—

1 “(i) in a census tract which has a me-
2 dian gross income which does not exceed
3 80 percent of the greater of area or state-
4 wide median gross income,

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

7 “(iii) on a reservation for a federally
8 recognized Indian tribe, or

9 “(iv) in an area of chronic economic
10 distress, and

11 “(B) which is purchased by a qualified
12 buyer.

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

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

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

5 “(B) a condominium unit, or

6 “(C) stock in a cooperative housing cor-
7 poration (as defined in section 216(b)).

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). In the
15 case of subparagraphs (A), (B), and (C), factory-
16 built homes shall be included in the definition of res-
17 idence.

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

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

4 “(d) ELIGIBLE BASIS.—For purposes of this sec-
5 tion—

6 “(1) NEW QUALIFIED RESIDENCES.—

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

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

14 “(ii) zero in any other case.

15 “(B) REQUIREMENTS.—A sale of a quali-
16 fied residence meets the requirements of this
17 subparagraph if—

18 “(i) the buyer acquires the qualified
19 residence by purchase (as defined in sec-
20 tion 179(d)(2)),

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

24 “(iii) in the case of a seller who mate-
25 rially participates in the development of

1 the residence, the buyer's debt financing is
2 originated by a third party who is not a re-
3 lated person with respect to such seller.

4 “(2) EXISTING QUALIFIED RESIDENCES.—

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

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

12 “(ii) zero in any other case.

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

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

19 “(ii) the qualified residence has un-
20 dergone substantial rehabilitation in con-
21 nection with the sale described in clause
22 (i),

23 “(iii) the buyer of the qualified resi-
24 dence is not a related person with respect
25 to the seller, and

1 “(iv) in the case of a seller who mate-
2 rially participates in the development of
3 the residence, the buyer’s debt financing is
4 originated by a third party who is not a re-
5 lated person with respect to such seller.

6 “(C) SUBSTANTIAL REHABILITATION.—

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

12 “(ii) INFLATION ADJUSTMENT.—In
13 the case of a calendar year after 2003, the
14 dollar amount contained in clause (i) shall
15 be increased by an amount equal to—

16 “(I) such dollar amount, multi-
17 plied by

18 “(II) the cost-of-living adjust-
19 ment determined under section 1(f)(3)
20 for such calendar year by substituting
21 ‘calendar year 2002’ for ‘calendar
22 year 1992’ in subparagraph (B) there-
23 of.

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

4 “(D) LIMITATION ON ACQUISITION
5 BASIS.—The eligible basis of an existing quali-
6 fied residence may not exceed 150 percent of
7 the qualified rehabilitation expenditures.

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

16 “(4) SPECIAL RULES RELATING TO DETER-
17 MINATION OF ADJUSTED BASIS.—For purposes of
18 this subsection—

19 “(A) IN GENERAL.—Except as provided in
20 subparagraph (B), the adjusted basis of any
21 qualified residence—

22 “(i) shall not include so much of the
23 basis of such qualified residence as is de-
24 termined by reference to the basis of other

1 property held at any time by the person
2 acquiring the residence, and

3 “(ii) shall be determined without re-
4 gard to the adjusted basis of any property
5 which is not part of such qualified resi-
6 dence.

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

15 “(5) SPECIAL RULES FOR DETERMINING ELIGI-
16 BLE BASIS.—

17 “(A) RELATED PERSON, ETC.—For pur-
18 poses of this section, a person (in this clause re-
19 ferred to as the ‘related person’) is related to
20 any person if the related person bears a rela-
21 tionship to such person specified in section
22 267(b) or 707(b)(1), or the related person and
23 such person are engaged in trades or businesses
24 under common control (within the meaning of
25 subsections (a) and (b) of section 52). For pur-

1 poses of the preceding sentence, in applying
 2 section 267(b) or 707(b)(1), ‘10 percent’ shall
 3 be substituted for ‘50 percent’.

4 “(B) NONRESIDENTIAL SPACE EX-
 5 CLUDED.—No portion of the eligible basis of a
 6 qualified residence shall include costs attrib-
 7 utable to nonresidential space.

8 “(C) LIMITATION.—The eligible basis of
 9 any residence may not exceed the mortgage
 10 limit for Federal Housing Administration in-
 11 sured mortgages for single family homes in the
 12 area in which such residence is located.

13 “(e) DEFINITION AND SPECIAL RULES RELATING TO
 14 CREDIT PERIOD.—

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

22 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT
 23 PERIOD.—

24 “(A) IN GENERAL.—The credit allowable
 25 under subsection (a) with respect to any quali-

1 fied residence for the 1st taxable year of the
 2 credit period shall be determined by multiplying
 3 the eligible basis under subsection (d) by the
 4 fraction—

5 “(i) the numerator of which is the
 6 sum of the number of remaining whole
 7 months in such 1st taxable year after the
 8 sale of the qualified residence, and

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

10 “(B) DISALLOWED 1ST YEAR CREDIT AL-
 11 LOWED IN 6TH YEAR.—Any reduction by reason
 12 of subparagraph (A) in the credit allowable
 13 (without regard to subparagraph (A)) for the
 14 1st taxable year of the credit period shall be al-
 15 lowable under subsection (a) for the 1st taxable
 16 year following the credit period.

17 “(f) LIMITATION ON AGGREGATE CREDIT ALLOW-
 18 ABLE WITH RESPECT TO QUALIFIED RESIDENCES LO-
 19 CATED IN A STATE.—

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

22 “(A) IN GENERAL.—The amount of the
 23 credit determined under this section for any
 24 taxable year with respect to any qualified resi-
 25 dence shall not exceed the homeownership cred-

1 it dollar amount allocated to such qualified resi-
2 dence under this subsection.

3 “(B) TIME FOR MAKING ALLOCATION.—

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

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

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

22 “(II) such qualified residence is
23 completed not later than the close of
24 the second calendar year following the

1 calendar year in which the allocation
2 was made.

3 “(C) VESTED RIGHT TO CREDIT DOLLAR
4 AMOUNT.—Once a homeownership credit alloca-
5 tion is received by a taxpayer, the right to such
6 credit is vested in such taxpayer and is not sub-
7 ject to recapture, except as provided in para-
8 graph (5)(B).

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

11 “(A) IN GENERAL.—The aggregate home-
12 ownership credit dollar amount which a home-
13 ownership credit agency may allocate for any
14 calendar year is the portion of the State home-
15 ownership credit ceiling allocated under this
16 paragraph for such calendar year to such agen-
17 cy.

18 “(B) STATE CEILING INITIALLY ALLO-
19 CATED TO STATE HOMEOWNERSHIP CREDIT
20 AGENCIES.—Except as provided in subpara-
21 graphs (D) and (E), the State homeownership
22 credit ceiling for each calendar year shall be al-
23 located to the homeownership credit agency of
24 such State. If there is more than 1 homeowner-

1 ship credit agency of a State, all such agencies
2 shall be treated as a single agency.

3 “(C) STATE HOMEOWNERSHIP CREDIT
4 CEILING.—The State homeownership credit ceil-
5 ing applicable to any State for any calendar
6 year shall be an amount equal to the sum of—

7 “(i) the unused State homeownership
8 credit ceiling (if any) of such State for the
9 preceding calendar year,

10 “(ii) the greater of—

11 “(I) \$1.75 multiplied by the
12 State population, or

13 “(II) \$2,000,000,

14 “(iii) the amount of State homeowner-
15 ship credit ceiling returned in the calendar
16 year, plus

17 “(iv) the amount (if any) allocated
18 under subparagraph (D) to such State by
19 the Secretary.

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

1 clause (iii), the amount of State homeownership
 2 credit ceiling returned in the calendar year
 3 equals the homeownership credit dollar amount
 4 previously allocated within the State to any
 5 qualified residence with respect to which an al-
 6 location is canceled by mutual consent of the
 7 homeownership credit agency and the allocation
 8 recipient.

9 “(D) UNUSED HOMEOWNERSHIP CREDIT
 10 CARRYOVERS ALLOCATED AMONG CERTAIN
 11 STATES.—

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

17 “(ii) UNUSED HOMEOWNERSHIP
 18 CREDIT CARRYOVER.—For purposes of this
 19 subparagraph, the unused homeownership
 20 credit carryover of a State for any calendar
 21 year is the excess (if any) of—

22 “(I) the unused State home-
 23 ownership credit ceiling for the year
 24 preceding such year, over

1 “(II) the aggregate homeowner-
2 ship credit dollar amount allocated for
3 such year.

4 “(iii) FORMULA FOR ALLOCATION OF
5 UNUSED HOMEOWNERSHIP CREDIT
6 CARRYOVERS AMONG QUALIFIED
7 STATES.—The amount allocated under this
8 subparagraph to a qualified State for any
9 calendar year shall be the amount deter-
10 mined by the Secretary to bear the same
11 ratio to the aggregate unused homeowner-
12 ship credit carryovers of all States for the
13 preceding calendar year as such State’s
14 population for the calendar year bears to
15 the population of all qualified States for
16 the calendar year.

17 “(iv) QUALIFIED STATE.—For pur-
18 poses of this subparagraph, the term
19 ‘qualified State’ means, with respect to a
20 calendar year, any State—

21 “(I) which allocated its entire
22 State homeownership credit ceiling for
23 the preceding calendar year, and

24 “(II) for which a request is made
25 (not later than May 1 of the calendar

1 year) to receive an allocation under
2 clause (iii).

3 “(E) STATE MAY PROVIDE FOR DIF-
4 FERENT ALLOCATION.—Rules similar to the
5 rules of section 146(e) (other than paragraph
6 (2)(B) thereof) shall apply for purposes of this
7 paragraph.

8 “(F) POPULATION.—For purposes of this
9 paragraph, population shall be determined in
10 accordance with section 146(j).

11 “(G) COST-OF-LIVING ADJUSTMENT.—

12 “(i) IN GENERAL.—In the case of a
13 calendar year after 2003, the \$2,000,000
14 and \$1.75 amounts in subparagraph (C)
15 shall each be increased by an amount equal
16 to—

17 “(I) such dollar amount, multi-
18 plied by

19 “(II) the cost-of-living adjust-
20 ment determined under section
21 1(f)(3) for such calendar year by sub-
22 stituting ‘calendar year 2002’ for ‘cal-
23 endar year 1992’ in subparagraph (B)
24 thereof.

25 “(ii) ROUNDING.—

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

6 “(II) In the case of the \$1.75
7 amount, any increase under clause (i)
8 which is not a multiple of 5 cents
9 shall be rounded to the next lowest
10 multiple of 5 cents.

11 “(3) PORTION OF STATE CEILING SET-ASIDE
12 FOR CERTAIN PROJECTS INVOLVING QUALIFIED
13 NONPROFIT ORGANIZATIONS.—

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

20 “(B) PROJECTS INVOLVING QUALIFIED
21 NONPROFIT ORGANIZATIONS.—For purposes of
22 subparagraph (A), a qualified nonprofit housing
23 project is described in this subparagraph if a
24 qualified nonprofit organization is to own an in-
25 terest in the project (directly or through a part-

nership) and materially participate (within the meaning of section 469(h)) in the development and operation of the project throughout the 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 cor-

poration in which such organization holds stock satisfies such test.

“(ii) QUALIFIED CORPORATION.—For purposes of clause (i), the term ‘qualified corporation’ means any corporation if 100 percent of the stock of such corporation is held by 1 or more qualified nonprofit organizations at all times during the period such corporation is in existence.

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

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

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

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

1 “(5) SPECIAL RULES.—

2 “(A) RESIDENCE MUST BE LOCATED
3 WITHIN JURISDICTION OF CREDIT AGENCY.—A
4 homeownership credit agency may allocate its
5 aggregate homeownership credit dollar amount
6 only to qualified residences located in the juris-
7 diction of the governmental unit of which such
8 agency is a part.

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

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

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

1 “(2) PROJECT.—The term ‘project’ means 1 or
2 more residences together with functionally related
3 and subordinate facilities developed and made avail-
4 able to inhabitants of such residences, including rec-
5 reational facilities and parking areas. To constitute
6 a project, each residence must—

7 “(A) be developed by the same taxpayer
8 pursuant to common planning and feasibility
9 studies,

10 “(B) be financed through a common plan
11 of construction financing, and

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

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

19 “(3) QUALIFIED BUYER.—

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

23 “(i) is 1 or more individuals whose in-
24 come does not exceed 80 percent of the

1 area median gross income (70 percent for
2 families of less than 3 members), and

3 “(ii) intends to occupy the residence
4 as the buyer’s principal residence (within
5 the meaning of section 121).

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

12 “(C) DETERMINATION OF INCOME.—For
13 purposes of this paragraph, a buyer’s income
14 shall be determined in accordance with section
15 143(f)(4).

16 “(4) NEW QUALIFIED RESIDENCE.—The term
17 ‘new qualified residence’ means a qualified residence
18 the original ownership of which begins with the tax-
19 payer.

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

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

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

4 “(8) APPLICATION TO ESTATES AND TRUSTS.—
5 In the case of an estate or trust, the amount of the
6 credit determined under subsection (a) shall be ap-
7 portioned between the estate or trust and the bene-
8 ficiaries on the basis of the income of the estate or
9 trust allocable to each.

10 “(h) REDUCTION IN TAX BENEFITS.—

11 “(1) RECAPTURE OF CREDIT.—If within the 5-
12 year period beginning on the date of the original
13 purchase of a qualified residence, the residence is
14 sold, the qualified buyer—

15 “(A) shall deduct and withhold an amount
16 equal to the recapture amount from the amount
17 realized on such sale, and

18 “(B) shall transfer such amount to the
19 homeownership credit agency which allocated
20 the homeownership credit dollar amount to such
21 residence.

22 “(2) RECAPTURE AMOUNT.—For purposes of
23 paragraph (1), the recapture amount is an amount
24 equal to the lesser of—

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

3 “(B) the homeownership credit dollar
4 amount allocated to such residence, reduced by
5 1/36th of such amount for each month after the
6 first 2 years of the 5-year period referred to in
7 paragraph (1) which is before the date of the
8 sale referred to in paragraph (1).

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

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

19 “(j) REPORTS TO THE SECRETARY.—

20 “(1) FROM THE TAXPAYER.—The Secretary
21 may require taxpayers to submit an information re-
22 turn (at such time and in such form and manner as
23 the Secretary prescribes) for each taxable year set-
24 ting forth—

1 “(A) the eligible basis for the taxable year
2 of each qualified residence with respect to which
3 the taxpayer is claiming a credit under this sec-
4 tion,

5 “(B) the amount of all homeownership
6 credit allocations received by the taxpayer from
7 any and all State homeownership credit agen-
8 cies, and

9 “(C) such other information as the Sec-
10 retary may require.

11 The penalty under section 6652(j) shall apply to any
12 failure to submit the return required by the Sec-
13 retary under the preceding sentence on the date pre-
14 scribed therefor.

15 “(2) FROM HOMEOWNERSHIP CREDIT AGEN-
16 CIES.—Each agency which allocates any homeowner-
17 ship credit dollar amount to any residence for any
18 calendar year shall submit to the Secretary (at such
19 time and in such form and manner as the Secretary
20 shall prescribe) an annual report specifying—

21 “(A) the amount of the homeownership
22 credit dollar amount allocated to each residence
23 for such year,

24 “(B) sufficient information to identify each
25 such residence and the taxpayer initially enti-

1 tled to claim the credit under this section with
2 respect thereto, and

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

5 “(k) RESPONSIBILITIES OF HOMEOWNERSHIP CRED-
6 IT AGENCIES.—

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

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

20 “(B) QUALIFIED ALLOCATION PLAN.—For
21 purposes of this paragraph, the term ‘qualified
22 allocation plan’ means any plan which sets forth
23 selection criteria to be used to determine the
24 homeownership development priorities of the

1 homeownership credit agency which are appro-
2 priate to local conditions.

3 “(C) CERTAIN HOMEOWNERSHIP DEVEL-
4 OPMENT CRITERIA MUST BE USED.—The devel-
5 opment criteria set forth in a qualified alloca-
6 tion plan must include—

7 “(i) contribution of the development
8 to community stability and revitalization,

9 “(ii) community and local government
10 support for the development,

11 “(iii) need for homeownership develop-
12 ment within the area,

13 “(iv) sponsor capability, and

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

16 “(2) CREDIT ALLOCATED TO RESIDENCE NOT
17 TO EXCEED AMOUNT NECESSARY TO ASSURE FEASI-
18 BILITY.—

19 “(A) IN GENERAL.—The homeownership
20 credit dollar amount allocated to a residence
21 shall not exceed the amount the homeownership
22 credit agency determines is necessary for the
23 feasibility of the residence.

1 “(B) AGENCY EVALUATION.—In making
2 the determination under subparagraph (A), the
3 homeownership credit agency shall consider—

4 “(i) the sources and uses of funds and
5 the total financing planned for the resi-
6 dence,

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

9 “(iii) the anticipated appraised value
10 of the residence,

11 “(iv) the reasonableness of the devel-
12 opmental costs of the residence, and

13 “(v) the affordability to a reasonable
14 range of prospective qualified buyers.

15 “(C) DETERMINATION MADE WHEN CRED-
16 IT DOLLAR AMOUNT APPLIED FOR.—A deter-
17 mination under subparagraph (A) shall be made
18 as of each of the following times:

19 “(i) The application for the home-
20 ownership credit dollar amount.

21 “(ii) The allocation of the homeowner-
22 ship credit dollar amount.

23 “(3) LIEN FOR RECAPTURE AMOUNT.—A home-
24 ownership credit dollar amount may be allocated by
25 a homeownership credit agency to a residence only

1 if such agency has a lien on such residence for the
 2 payment of any amount potentially required to be
 3 paid under subsection (h) to such agency.

4 “(l) REGULATIONS.—The Secretary shall prescribe
 5 such regulations as may be necessary or appropriate to
 6 carry out the purposes of this section, including regula-
 7 tions—

8 “(1) dealing with—

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

11 “(B) buildings which are completed in por-
 12 tions,

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

15 “(3) preventing the avoidance of the rules of
 16 this section, and

17 “(4) providing the opportunity for homeowner-
 18 ship credit agencies to correct administrative errors
 19 and omissions with respect to allocations and record-
 20 keeping within a reasonable period after their dis-
 21 covery, taking into account the availability of regula-
 22 tions and other administrative guidance from the
 23 Secretary.”.

24 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-
 25 TION.—Section 38(b) (relating to current year business

1 credit) is amended by redesignating paragraphs (6) through (15) as paragraphs (7) through (16), respectively, and by inserting after paragraph (5) the following new paragraph:

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

(c) LIMITATION ON CARRYBACK.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits) is amended by adding at the end the following:

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

(d) CONFORMING AMENDMENTS.—

(1) Section 55(c)(1) is amended by inserting “or subsection (h) or (i) of section 42A” after “section 42”.

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

(3) Section 772(a) is amended by striking “and” at the end of paragraph (10), by redesign-

1 nating paragraph (11) as paragraph (12), and by in-
2 serting after paragraph (10) the following:

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

5 (4) Section 774(b)(4) is amended by inserting
6 “, 42A(h),” after “section 42(j)”.

7 (e) CLERICAL AMENDMENT.—The table of sections
8 for subpart D of part IV of subchapter A of chapter 1
9 is amended by inserting after the item relating to section
10 42 the following:

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

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

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