

109<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 1549

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.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 12, 2005

Mr. REYNOLDS (for himself, Mr. CARDIN, Mr. PORTMAN, Ms. PRYCE of Ohio, Mr. ENGLISH of Pennsylvania, Mrs. JOHNSON of Connecticut, Mr. HERGER, Mr. RAMSTAD, Mr. HAYWORTH, Mr. LEWIS of Kentucky, Mr. FOLEY, Mr. BRADY of Texas, Mr. CANTOR, Ms. HART, Mr. CHOCOLA, Mr. McDERMOTT, Mr. LEWIS of Georgia, Mr. McNULTY, Mr. JEFFERSON, Mr. POMEROY, Mr. THOMPSON of California, Mr. LARSON of Connecticut, Mr. EMANUEL, Mr. BOEHNER, Mr. FOSSELLA, Mr. BOUSTANY, Mr. KIRK, Mr. OTTER, Mr. YOUNG of Alaska, Mr. GARY G. MILLER of California, Mr. SHAYS, Mr. CUMMINGS, Mr. FORTUÑO, Mr. TOWNS, Mr. SIMPSON, Mr. LYNCH, and Mr. SKELTON) introduced the following bill; which was referred to the Committee on Ways and Means

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## 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.**

4 This Act may be cited as the “Renewing the Dream  
5 Tax Credit Act”.

1 **SEC. 2. COMMUNITY HOMEOWNERSHIP CREDIT.**

2 (a) IN GENERAL.—Subpart D of part IV of sub-  
3 chapter A of chapter 1 of the Internal Revenue Code of  
4 1986 (relating to business related credits) is amended by  
5 inserting after section 42 the following new section:

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

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

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

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

23 “(2) METHOD OF PRESCRIBING PERCENT-  
24 AGE.—The percentage prescribed by the Secretary  
25 for any month shall be the percentage which will  
26 yield over a 5-year period amounts of credit under

1 subsection (a) which have a present value equal to  
2 50 percent of the eligible basis of a qualified resi-  
3 dence.

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

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

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

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

16 “(c) QUALIFIED RESIDENCE.—For purposes of this  
17 section—

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

20 “(A) which is located—

21 “(i) in a census tract which has a me-  
22 dian gross income which does not exceed  
23 80 percent of the greater of area or state-  
24 wide median gross income,

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

3                   “(iii) on a reservation for a federally  
4                   recognized Indian tribe, or

5                   “(iv) in an area of chronic economic  
6                   distress, and

7                   “(B) which is purchased by a qualified  
8                   buyer.

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

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

23                         “(A) a single-family home containing 1 to  
24                         4 housing units,

25                         “(B) a condominium unit, or

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

3           In the case of a single-family home described in sub-  
4           paragraph (A) that contains more than one housing  
5           unit, the term ‘residence’ shall not include any new  
6           residence and shall include only the portion of such  
7           home that is occupied by the owner thereof (deter-  
8           mined based on the percentage of the total area of  
9           such home that is occupied by the owner). In the  
10          case of subparagraphs (A), (B), and (C), factory-  
11          built homes shall be included in the definition of res-  
12          idence.

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

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

24           “(d) ELIGIBLE BASIS.—For purposes of this sec-  
25          tion—

1 “(1) NEW QUALIFIED RESIDENCES.—

2 “(A) IN GENERAL.—The eligible basis of a  
3 new 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 buyer of the qualified resi-  
17 dence is not a related person with respect  
18 to the seller, and

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

24 “(2) EXISTING QUALIFIED RESIDENCES.—

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

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

8           “(ii) zero in any other case.

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

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

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

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

22           “(iv) in the case of a seller who mate-  
23 rially participates in the development of  
24 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 2005, 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 2004’ 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-

1           tion is received by a taxpayer, the right to such  
2           credit is vested in such taxpayer and is not sub-  
3           ject to recapture, except as provided in para-  
4           graph (5)(B).

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

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

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

23                   “(C) STATE HOMEOWNERSHIP CREDIT  
24          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) \$1.80 multiplied by the  
8                           State population, or

9                           “(II) \$2,000,000,

10                   “(iii) the amount of State homeown-  
11                   ership 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 2005, the \$2,000,000  
9 and \$1.80 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 1(f)(3)  
16 for such calendar year by substituting  
17 ‘calendar year 2004’ for ‘calendar  
18 year 1992’ in subparagraph (B) there-  
19 of.

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 \$1.80  
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.

1           “(C) QUALIFIED NONPROFIT ORGANIZA-  
2           TION.—For purposes of this paragraph, the  
3           term ‘qualified nonprofit organization’ means  
4           any organization if—

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

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

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

15           “(D) TREATMENT OF CERTAIN SUBSIDI-  
16           ARIES.—

17                   “(i) IN GENERAL.—For purposes of  
18                   this paragraph, a qualified nonprofit orga-  
19                   nization shall be treated as satisfying the  
20                   ownership and material participation test  
21                   of subparagraph (B) if any qualified cor-  
22                   poration in which such organization holds  
23                   stock satisfies such test.

24                   “(ii) QUALIFIED CORPORATION.—For  
25                   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 regula-  
24                  tions—

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) of such Code (relating to current  
18          year business credit) is amended by striking “plus” at the  
19          end of paragraph (18), by striking the period at the end  
20          of paragraph (19) and inserting “, plus”, and by adding  
21          at the end the following new paragraph:

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

24          (c) CONFORMING AMENDMENTS.—

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

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

7           (3) Section 772(a) of such Code is amended by  
8           striking “and” at the end of paragraph (10), by re-  
9           designating paragraph (11) as paragraph (12), and  
10          by inserting after paragraph (10) the following:

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

13          (4) Section 774(b)(4) of such Code is amended  
14          by inserting “, 42A(h),” after “section 42(j)”.

15          (d) CLERICAL AMENDMENT.—The table of sections  
16          for subpart D of part IV of subchapter A of chapter 1  
17          of such Code is amended by inserting after the item relat-  
18          ing to section 42 the following:

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

19          (e) EFFECTIVE DATE.—The amendments made by  
20          this section shall apply to qualified residences sold after  
21          the date of the enactment of this Act.

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