

118TH CONGRESS
1ST SESSION

S. _____

To amend the Internal Revenue Code of 1986 to establish a tax credit for neighborhood revitalization, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. CARDIN (for himself and Mr. YOUNG) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to establish a tax credit for neighborhood revitalization, 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 “Neighborhood Homes
5 Investment Act”.

6 **SEC. 2. FINDINGS AND SENSE OF CONGRESS.**

7 (a) FINDINGS.—Congress finds the following:

8 (1) Experts have determined that it could take
9 nearly a decade to address the housing shortage in

1 the United States, in large part due to increasing
2 housing prices and decreased housing inventory.

3 (2) The housing supply shortage disproportion-
4 ately impacts low-income and distressed commu-
5 nities.

6 (3) Homeownership is a primary source of
7 household wealth and neighborhood stability. Many
8 distressed communities have low rates of homeown-
9 ership and lack quality, affordable starter homes.

10 (4) Housing revitalization in distressed commu-
11 nities is prevented by the value gap, the difference
12 between the price to rehabilitate a home and the sale
13 value of the home.

14 (5) The Neighborhood Homes Investment Act
15 can address the value gap to increase housing reha-
16 bilitation in distressed communities.

17 (6) The Neighborhood Homes Investment Act
18 has the potential to generate 500,000 homes over 10
19 years, \$125,000,000,000 of total development activ-
20 ity, over 800,000 jobs in construction and construc-
21 tion-related industries, and over \$35,000,000,000 in
22 Federal, state, and local tax revenues.

23 (b) SENSE OF CONGRESS.—It is the sense of Con-
24 gress that the neighborhood homes credit (as added under

1 section 3 of this Act) should be an activity administered
2 in a manner which—

3 (1) is consistent with the Fair Housing Act of
4 1968 (42 U.S.C. 3601 et seq.);

5 (2) empowers residents in eligible communities;
6 and

7 (3) revitalizes distressed neighborhoods.

8 **SEC. 3. NEIGHBORHOOD HOMES CREDIT.**

9 (a) IN GENERAL.—Subpart D of part IV of sub-
10 chapter A of chapter 1 of the Internal Revenue Code of
11 1986 is amended by inserting after section 42 the fol-
12 lowing new section:

13 **“SEC. 42A. NEIGHBORHOOD HOMES CREDIT.**

14 “(a) ALLOWANCE OF CREDIT.—For purposes of sec-
15 tion 38, the neighborhood homes credit determined under
16 this section for the taxable year is, with respect to each
17 qualified residence sold by the taxpayer during such tax-
18 able year in an affordable sale, the lesser of—

19 “(1) an amount equal to—

20 “(A) the excess (if any) of—

21 “(i) the reasonable development costs
22 paid or incurred by the taxpayer with re-
23 spect to such qualified residence, over

24 “(ii) the sale price of such qualified
25 residence (reduced by any reasonable ex-

1 penses paid or incurred by the taxpayer in
2 connection with such sale), or

3 “(B) if the neighborhood homes credit
4 agency determines it is necessary to ensure fi-
5 nancial feasibility, an amount not to exceed 120
6 percent of the amount under subparagraph (A),

7 “(2) 35 percent of the eligible development
8 costs paid or incurred by the taxpayer with respect
9 to such qualified residence, or

10 “(3) 28 percent of the national median sale
11 price for new homes (as determined pursuant to the
12 most recent census data available as of the date on
13 which the neighborhood homes credit agency makes
14 an allocation for the qualified project).

15 “(b) DEVELOPMENT COSTS.—For purposes of this
16 section—

17 “(1) REASONABLE DEVELOPMENT COSTS.—

18 “(A) IN GENERAL.—The term ‘reasonable
19 development costs’ means amounts paid or in-
20 curred for the acquisition of buildings and land,
21 construction, substantial rehabilitation, demoli-
22 tion of structures, or environmental remedi-
23 ation, to the extent that the neighborhood
24 homes credit agency determines that such
25 amounts meet the standards specified pursuant

1 to subsection (f)(1)(C) (as of the date on which
2 construction or substantial rehabilitation is sub-
3 stantially complete, as determined by such
4 agency) and are necessary to ensure the finan-
5 cial feasibility of such qualified residence.

6 “(B) CONSIDERATIONS IN MAKING DETER-
7 MINATION.—In making the determination under
8 subparagraph (A), the neighborhood homes
9 credit agency shall consider—

10 “(i) the sources and uses of funds and
11 the total financing,

12 “(ii) any proceeds or receipts gen-
13 erated or expected to be generated by rea-
14 son of tax benefits, and

15 “(iii) the reasonableness of the devel-
16 opmental costs and fees.

17 “(2) ELIGIBLE DEVELOPMENT COSTS.—The
18 term ‘eligible development costs’ means the amount
19 which would be reasonable development costs if the
20 amounts taken into account as paid or incurred for
21 the acquisition of buildings and land did not exceed
22 75 percent of such costs determined without regard
23 to any amount paid or incurred for the acquisition
24 of buildings and land.

1 “(3) SUBSTANTIAL REHABILITATION.—The
2 term ‘substantial rehabilitation’ means amounts paid
3 or incurred for rehabilitation of a qualified residence
4 if such amounts exceed the greater of—

5 “(A) \$20,000, or

6 “(B) 20 percent of the amounts paid or in-
7 curred by the taxpayer for the acquisition of
8 buildings and land with respect to such quali-
9 fied residence.

10 “(4) CONSTRUCTION AND REHABILITATION
11 ONLY AFTER ALLOCATION TAKEN INTO ACCOUNT.—

12 “(A) IN GENERAL.—The terms ‘reasonable
13 development costs’ and ‘eligible development
14 costs’ shall not include any amount paid or in-
15 curred before the date on which an allocation is
16 made to the taxpayer under subsection (e) with
17 respect to the qualified project of which the
18 qualified residence is part unless such amount
19 is paid or incurred for the acquisition of build-
20 ings or land.

21 “(B) LAND AND BUILDING ACQUISITION
22 COSTS.—Amounts paid or incurred for the ac-
23 quisition of buildings or land shall be included
24 under paragraph (A) only if paid or incurred
25 not more than 3 years before the date on which

1 the allocation referred to in subparagraph (A)
2 is made. If the taxpayer acquired any building
3 or land from an entity (or any related party to
4 such entity) that holds an ownership interest in
5 the taxpayer, then such entity must also have
6 acquired such property within such 3-year pe-
7 riod, and the acquisition cost included under
8 subparagraph (A) with respect to the taxpayer
9 shall not exceed the amount such entity paid or
10 incurred to acquire such property.

11 “(c) QUALIFIED RESIDENCE.—For purposes of this
12 section—

13 “(1) IN GENERAL.—The term ‘qualified resi-
14 dence’ means a residence that—

15 “(A) is real property affixed on a perma-
16 nent foundation,

17 “(B) is—

18 “(i) a house which is comprised of 4
19 or fewer residential units,

20 “(ii) a condominium unit, or

21 “(iii) a house or an apartment owned
22 by a cooperative housing corporation (as
23 defined in section 216(b)),

24 “(C) is part of a qualified project with re-
25 spect to which the neighborhood homes credit

1 agency has made an allocation under subsection
2 (e), and

3 “(D) is located in a qualified census tract
4 (determined as of the date of such allocation).

5 “(2) QUALIFIED CENSUS TRACT.—

6 “(A) IN GENERAL.—The term ‘qualified
7 census tract’ means a census tract—

8 “(i) which—

9 “(I) has a median family income
10 which does not exceed 80 percent of
11 the median family income for the ap-
12 plicable area,

13 “(II) has a poverty rate that is
14 not less than 130 percent of the pov-
15 erty rate of the applicable area, and

16 “(III) has a median value for
17 owner-occupied homes that does not
18 exceed the median value for owner-oc-
19 cupied homes in the applicable area,

20 “(ii) which—

21 “(I) is located in a city which has
22 a population of not less than 50,000
23 and such city has a poverty rate that
24 is not less than 150 percent of the
25 poverty rate of the applicable area,

1 has determined that such area warrants in-
2 dividual or individual and public assistance
3 by the Federal Government under the Rob-
4 ert T. Stafford Disaster Relief and Emer-
5 gency Assistance Act.

6 “(B) APPLICABLE AREA.—The term ‘appli-
7 cable area’ means—

8 “(i) in the case of a metropolitan cen-
9 sus tract, the metropolitan area in which
10 such census tract is located, and

11 “(ii) in the case of a census tract
12 other than a census tract described in
13 clause (i), the State.

14 “(d) AFFORDABLE SALE.—For purposes of this sec-
15 tion—

16 “(1) IN GENERAL.—The term ‘affordable sale’
17 means a sale to a qualified homeowner of a qualified
18 residence that the neighborhood homes credit agency
19 certifies as meeting the standards promulgated
20 under subsection (f)(1)(D) for a price that does not
21 exceed—

22 “(A) in the case of any qualified residence
23 not described in subparagraph (B), (C), or (D),
24 the amount equal to the product of 4 multiplied
25 by the median family income for the applicable

1 area (as determined pursuant to the most re-
2 cent census data available as of the date of the
3 contract for such sale),

4 “(B) in the case of a house comprised of
5 2 residential units, 125 percent of the amount
6 described in subparagraph (A),

7 “(C) in the case of a house comprised of
8 3 residential units, 150 percent of the amount
9 described in subparagraph (A), or

10 “(D) in the case of a house comprised of
11 4 residential units, 175 percent of the amount
12 described in subparagraph (A).

13 “(2) QUALIFIED HOMEOWNER.—The term
14 ‘qualified homeowner’ means, with respect to a
15 qualified residence, an individual—

16 “(A) who owns and uses such qualified res-
17 idence as the principal residence of such indi-
18 vidual, and

19 “(B) whose family income (determined as
20 of the date that a binding contract for the af-
21 fordable sale of such residence is entered into)
22 is 140 percent or less of the median family in-
23 come for the applicable area in which the quali-
24 fied residence is located.

25 “(e) CREDIT CEILING AND ALLOCATIONS.—

1 “(1) CREDIT LIMITED BASED ON ALLOCATIONS
2 TO QUALIFIED PROJECTS.—

3 “(A) IN GENERAL.—The credit allowed
4 under subsection (a) to any taxpayer for any
5 taxable year with respect to one or more quali-
6 fied residences which are part of the same
7 qualified project shall not exceed the excess (if
8 any) of—

9 “(i) the amount allocated by the
10 neighborhood homes credit agency under
11 this paragraph to such taxpayer with re-
12 spect to such qualified project, over

13 “(ii) the aggregate amount of credit
14 allowed under subsection (a) to such tax-
15 payer with respect to qualified residences
16 which are a part of such qualified project
17 for all prior taxable years.

18 “(B) DEADLINE FOR COMPLETION.—No
19 credit shall be allowed under subsection (a)
20 with respect to any qualified residence unless
21 the affordable sale of such residence is during
22 the 5-year period beginning on the date of the
23 allocation to the qualified project of which such
24 residence is a part (or, in the case of a qualified
25 residence to which subsection (i) applies, the re-

1 habilitation of such residence is completed dur-
2 ing such 5-year period).

3 “(2) LIMITATIONS ON ALLOCATIONS TO QUALI-
4 FIED PROJECTS.—

5 “(A) ALLOCATIONS LIMITED BY STATE
6 NEIGHBORHOOD HOMES CREDIT CEILING.—The
7 aggregate amount allocated to taxpayers with
8 respect to qualified projects by the neighbor-
9 hood homes credit agency of any State for any
10 calendar year shall not exceed the State neigh-
11 borhood homes credit amount of such State for
12 such calendar year.

13 “(B) SET-ASIDE FOR CERTAIN PROJECTS
14 INVOLVING QUALIFIED NONPROFIT ORGANIZA-
15 TIONS.—Rules similar to the rules of section
16 42(h)(5) shall apply for purposes of this sec-
17 tion.

18 “(3) DETERMINATION OF STATE NEIGHBOR-
19 HOOD HOMES CREDIT CEILING.—

20 “(A) IN GENERAL.—The State neighbor-
21 hood homes credit amount for a State for a cal-
22 endar year is an amount equal to the sum of—

23 “(i) the greater of—

1 “(I) the product of \$7, multiplied
2 by the State population (determined
3 in accordance with section 146(j)), or

4 “(II) \$9,000,000, and

5 “(ii) any amount previously allocated
6 to any taxpayer with respect to any quali-
7 fied project by the neighborhood homes
8 credit agency of such State which can no
9 longer be allocated to any qualified resi-
10 dence because the 5-year period described
11 in paragraph (1)(B) expires during cal-
12 endar year.

13 “(B) 3-YEAR CARRYFORWARD OF UNUSED
14 LIMITATION.—The State neighborhood homes
15 credit amount for a State for a calendar year
16 shall be increased by the excess (if any) of the
17 State neighborhood homes credit amount for
18 such State for the preceding calendar year over
19 the aggregate amount allocated by the neigh-
20 borhood homes credit agency of such State dur-
21 ing such preceding calendar year. Any amount
22 carried forward under the preceding sentence
23 shall not be carried past the third calendar year
24 after the calendar year in which such credit

1 amount originally arose, determined on a first-
2 in, first-out basis.

3 “(f) RESPONSIBILITIES OF NEIGHBORHOOD HOMES
4 CREDIT AGENCIES.—

5 “(1) IN GENERAL.—Notwithstanding subsection
6 (e), the State neighborhood homes credit dollar
7 amount shall be zero for a calendar year unless the
8 neighborhood homes credit agency of the State—

9 “(A) allocates such amount pursuant to a
10 qualified allocation plan of the neighborhood
11 homes credit agency,

12 “(B) allocates not more than 20 percent of
13 amounts allocated in the previous year (or for
14 allocations made in 2023, not more than 20
15 percent of the neighborhood homes credit ceil-
16 ing for such year) to projects with respect to
17 qualified residences which—

18 “(i) are located in census tracts de-
19 scribed in subsection (c)(2)(A)(iii),
20 (c)(2)(A)(iv), (i)(5), or

21 “(ii) are not located in a qualified
22 census tract but meet the requirements of
23 subsection (i)(8),

1 “(C) promulgates standards with respect
2 to reasonable qualified development costs and
3 fees,

4 “(D) promulgates standards with respect
5 to construction quality,

6 “(E) in the case of any neighborhood
7 homes credit agency which makes an allocation
8 to a qualified project which includes any quali-
9 fied residence to which subsection (i) applies,
10 promulgates standards with respect to pro-
11 tecting the owners of such residences, including
12 the capacity of such owners to pay rehabilita-
13 tion costs not covered by the credit provided by
14 this section and providing for the disclosure to
15 such owners of their rights and responsibilities
16 with respect to the rehabilitation of such resi-
17 dences,

18 “(F) submits to the Secretary (at such
19 time and in such manner as the Secretary may
20 prescribe) an annual report specifying—

21 “(i) the amount of the neighborhood
22 homes credits allocated to each qualified
23 project for the previous year,

1 “(ii) with respect to each qualified
2 residence completed in the preceding cal-
3 endar year—

4 “(I) the census tract in which
5 such qualified residence is located,

6 “(II) with respect to the qualified
7 project that includes such qualified
8 residence, the year in which such
9 project received an allocation under
10 this section,

11 “(III) whether such qualified res-
12 idence was new, substantially rehabili-
13 tated and sold to a qualified home-
14 owner, or substantially rehabilitated
15 pursuant to subsection (i),

16 “(IV) the eligible development
17 costs of such qualified residence,

18 “(V) the amount of the neighbor-
19 hood homes credit with respect to
20 such qualified residence,

21 “(VI) the sales price of such
22 qualified residence, if applicable, and

23 “(VII) the family income of the
24 qualified homeowner (expressed as a
25 percentage of the applicable area me-

1 dian family income for the location of
2 the qualified residence), and

3 “(iii) such other information as the
4 Secretary may require, and

5 “(G) makes available to the general public
6 a written explanation for any allocation of a
7 neighborhood homes credit dollar amount which
8 is not made in accordance with established pri-
9 orities and selection criteria of the neighbor-
10 hood homes credit agency.

11 Subparagraph (B) shall be applied by substituting
12 ‘40 percent’ for ‘20 percent’ each place it appears in
13 the case of any State in which at least 45 percent
14 of the State population resides outside metropolitan
15 statistical areas (within the meaning of section
16 143(k)(2)(B)) and less than 20 percent of the cen-
17 sus tracts located in the State are described in sub-
18 section (c)(2)(A)(i).

19 “(2) QUALIFIED ALLOCATION PLAN.—For pur-
20 poses of this subsection, the term ‘qualified alloca-
21 tion plan’ means any plan which—

22 “(A) sets forth the selection criteria to be
23 used to prioritize qualified projects for alloca-
24 tions of State neighborhood homes credit dollar
25 amounts, including—

1 “(i) the need for new or substantially
2 rehabilitated owner-occupied homes in the
3 area addressed by the project,

4 “(ii) the expected contribution of the
5 project to neighborhood stability and re-
6 talization, including the impact on neigh-
7 borhood residents,

8 “(iii) the capability and prior perform-
9 ance of the project sponsor, and

10 “(iv) the likelihood the project will re-
11 sult in long-term homeownership,

12 “(B) has been made available for public
13 comment, and

14 “(C) provides a procedure that the neigh-
15 borhood homes credit agency (or any agent or
16 contractor of such agency) shall follow for pur-
17 poses of—

18 “(i) identifying noncompliance with
19 any provisions of this section, and

20 “(ii) notifying the Internal Revenue
21 Service of any such noncompliance of
22 which the agency becomes aware.

23 “(g) REPAYMENT.—

24 “(1) IN GENERAL.—

1 “(A) SOLD DURING 5-YEAR PERIOD.—If a
2 qualified residence is sold during the 5-year pe-
3 riod beginning immediately after the affordable
4 sale of such qualified residence referred to in
5 subsection (a), the seller shall transfer an
6 amount equal to the repayment amount to the
7 relevant neighborhood homes credit agency.

8 “(B) USE OF REPAYMENTS.—A neighbor-
9 hood homes credit agency shall use any amount
10 received pursuant to subparagraph (A) only for
11 purposes of qualified projects.

12 “(2) REPAYMENT AMOUNT.—For purposes of
13 paragraph (1)(A)—

14 “(A) IN GENERAL.—The repayment
15 amount is an amount equal to the applicable
16 percentage of the gain from the sale to which
17 the repayment relates.

18 “(B) APPLICABLE PERCENTAGE.—For
19 purposes of subparagraph (A), the applicable
20 percentage is 50 percent, reduced by 10 per-
21 centage points for each year of the 5-year pe-
22 riod referred to in paragraph (1)(A) which ends
23 before the date of such sale.

24 “(3) LIEN FOR REPAYMENT AMOUNT.—A
25 neighborhood homes credit agency receiving an allo-

1 cation under this section shall place a lien on each
2 qualified residence that is built or rehabilitated as
3 part of a qualified project for an amount such agen-
4 cy deems necessary to ensure potential repayment
5 pursuant to paragraph (1)(A).

6 “(4) WAIVER.—

7 “(A) IN GENERAL.—The neighborhood
8 homes credit agency may waive the repayment
9 required under paragraph (1)(A) if the agency
10 determines that making a repayment would
11 constitute a hardship to the seller.

12 “(B) HARDSHIP.—For purposes of sub-
13 paragraph (A), with respect to the seller, a
14 hardship may include—

15 “(i) divorce,

16 “(ii) disability,

17 “(iii) illness, or

18 “(iv) any other hardship identified by
19 the neighborhood homes credit agency for
20 purposes of this paragraph.

21 “(h) OTHER DEFINITIONS AND SPECIAL RULES.—

22 For purposes of this section—

23 “(1) NEIGHBORHOOD HOMES CREDIT AGEN-
24 CY.—The term ‘neighborhood homes credit agency’
25 means the agency designated by the governor of a

1 State as the neighborhood homes credit agency of
2 the State.

3 “(2) QUALIFIED PROJECT.—The term ‘qualified
4 project’ means a project that a neighborhood homes
5 credit agency certifies will build or substantially re-
6 habilitate one or more qualified residences.

7 “(3) DETERMINATIONS OF FAMILY INCOME.—
8 Rules similar to the rules of section 143(f)(2) shall
9 apply for purposes of this section.

10 “(4) POSSESSIONS TREATED AS STATES.—The
11 term ‘State’ includes the District of Columbia and
12 the possessions of the United States.

13 “(5) SPECIAL RULES RELATED TO CONDOMIN-
14 IUMS AND COOPERATIVE HOUSING CORPORATIONS.—

15 “(A) DETERMINATION OF DEVELOPMENT
16 COSTS.—In the case of a qualified residence de-
17 scribed in clause (ii) or (iii) of subsection
18 (c)(1)(A), the reasonable development costs and
19 eligible development costs of such qualified resi-
20 dence shall be an amount equal to such costs,
21 respectively, of the entire condominium or coop-
22 erative housing property in which such qualified
23 residence is located, multiplied by a fraction—

1 “(i) the numerator of which is the
2 total floor space of such qualified resi-
3 dence, and

4 “(ii) the denominator of which is the
5 total floor space of all residences within
6 such property.

7 “(B) TENANT-STOCKHOLDERS OF COOPER-
8 ATIVE HOUSING CORPORATIONS TREATED AS
9 OWNERS.—In the case of a cooperative housing
10 corporation (as such term is defined in section
11 216(b)), a tenant-stockholder shall be treated
12 as owning the house or apartment which such
13 person is entitled to occupy.

14 “(6) RELATED PARTY SALES NOT TREATED AS
15 AFFORDABLE SALES.—

16 “(A) IN GENERAL.—A sale between related
17 persons shall not be treated as an affordable
18 sale.

19 “(B) RELATED PERSONS.—For purposes
20 of this paragraph, a person (in this subpara-
21 graph referred to as the ‘related person’) is re-
22 lated to any person if the related person bears
23 a relationship to such person specified in sec-
24 tion 267(b) or 707(b)(1), or the related person
25 and such person are engaged in trades or busi-

1 nesses under common control (within the mean-
2 ing of subsections (a) and (b) of section 52).
3 For purposes of the preceding sentence, in ap-
4 plying section 267(b) or 707(b)(1), ‘10 percent’
5 shall be substituted for ‘50 percent’.

6 “(7) INFLATION ADJUSTMENT.—

7 “(A) IN GENERAL.—In the case of a cal-
8 endar year after 2023, the dollar amounts in
9 subsection (b)(3)(A), (e)(3)(A)(i)(I),
10 (e)(3)(A)(i)(II), and (i)(2)(C) shall each be in-
11 creased by an amount equal to—

12 “(i) such dollar amount, multiplied by

13 “(ii) the cost-of-living adjustment de-
14 termined under section 1(f)(3) for such
15 calendar year by substituting ‘calendar
16 year 2022’ for ‘calendar year 2016’ in sub-
17 paragraph (A)(ii) thereof.

18 “(B) ROUNDING.—

19 “(i) In the case of the dollar amounts
20 in subsection (b)(3)(A) and (i)(2)(C), any
21 increase under paragraph (1) which is not
22 a multiple of \$1,000 shall be rounded to
23 the nearest multiple of \$1,000.

24 “(ii) In the case of the dollar amount
25 in subsection (e)(3)(A)(i)(I), any increase

1 under paragraph (1) which is not a mul-
2 tiple of \$0.01 shall be rounded to the near-
3 est multiple of \$0.01.

4 “(iii) In the case of the dollar amount
5 in subsection (e)(3)(A)(i)(II), any increase
6 under paragraph (1) which is not a mul-
7 tiple of \$100,000 shall be rounded to the
8 nearest multiple of \$100,000.

9 “(8) REPORT.—

10 “(A) IN GENERAL.—The Secretary shall
11 annually issue a report, to be made available to
12 the public, which contains the information sub-
13 mitted pursuant to subsection (f)(1)(F).

14 “(B) DE-IDENTIFICATION.—The Secretary
15 shall ensure that any information made public
16 pursuant to subparagraph (A) excludes any in-
17 formation that would allow for the identification
18 of qualified homeowners.

19 “(9) LIST OF QUALIFIED CENSUS TRACTS.—
20 The Secretary of Housing and Urban Development
21 shall, for each year, make publicly available a list of
22 qualified census tracts under—

23 “(A) on a combined basis, clauses (i) and
24 (ii) of subsection (c)(2)(A),

25 “(B) clause (iii) of such subsection, and

1 “(C) subsection (i)(5)(A).

2 “(10) DENIAL OF DEDUCTIONS IF CONVERTED
3 TO RENTAL HOUSING.—If, during the 5-year period
4 beginning immediately after the affordable sale of a
5 qualified residence referred to in subsection (a), an
6 individual who owns a qualified residence (whether
7 or not such individual was the purchaser in such af-
8 fordable sale) fails to use such qualified residence as
9 such individual’s principal residence for any period
10 of time, no deduction shall be allowed for expenses
11 paid or incurred by such individual with respect to
12 renting, during such period of time, such qualified
13 residence.

14 “(i) APPLICATION OF CREDIT WITH RESPECT TO
15 OWNER-OCCUPIED REHABILITATIONS.—

16 “(1) IN GENERAL.—In the case of a qualified
17 rehabilitation by the taxpayer of any qualified resi-
18 dence which is owned (as of the date that the writ-
19 ten binding contract referred to in paragraph (3) is
20 entered into) by a specified homeowner, the rules of
21 paragraphs (2) through (7) shall apply.

22 “(2) ALTERNATIVE CREDIT DETERMINATION.—
23 In the case of any qualified residence described in
24 paragraph (1), the neighborhood homes credit deter-
25 mined under subsection (a) with respect to such res-

1 idence shall (in lieu of any credit otherwise deter-
2 mined under subsection (a) with respect to such res-
3 idence) be allowed in the taxable year during which
4 the qualified rehabilitation is completed (as deter-
5 mined by the neighborhood homes credit agency)
6 and shall be equal to the least of—

7 “(A) the excess (if any) of—

8 “(i) the amounts paid or incurred by
9 the taxpayer for the qualified rehabilitation
10 of the qualified residence to the extent that
11 such amounts are certified by the neigh-
12 borhood homes credit agency (at the time
13 of the completion of such rehabilitation) as
14 meeting the standards specified pursuant
15 to subsection (f)(1)(C), over

16 “(ii) any amounts paid to such tax-
17 payer for such rehabilitation,

18 “(B) 50 percent of the amounts described
19 in subparagraph (A)(i), or

20 “(C) \$50,000.

21 “(3) QUALIFIED REHABILITATION.—

22 “(A) IN GENERAL.—For purposes of this
23 subsection, the term ‘qualified rehabilitation’
24 means a rehabilitation or reconstruction per-
25 formed pursuant to a written binding contract

1 between the taxpayer and the specified home-
2 owner if the amount paid or incurred by the
3 taxpayer in the performance of such rehabilita-
4 tion or reconstruction exceeds the dollar
5 amount in effect under subsection (b)(3)(A).

6 “(B) APPLICATION OF LIMITATION TO EX-
7 PENSES PAID OR INCURRED AFTER ALLOCA-
8 TION.—A rule similar to the rule of section
9 (b)(4) shall apply for purposes of this sub-
10 section.

11 “(4) SPECIFIED HOMEOWNER.—For purposes
12 of this subsection, the term ‘qualified homeowner’
13 means, with respect to a qualified residence, an indi-
14 vidual—

15 “(A) who owns and uses such qualified res-
16 idence as the principal residence of such indi-
17 vidual as of the date that the written binding
18 contract referred to in paragraph (3) is entered
19 into, and

20 “(B) whose family income (determined as
21 of such date) does not exceed the median family
22 income for the applicable area (with respect to
23 the census tract in which the qualified residence
24 is located).

1 “(5) ADDITIONAL CENSUS TRACTS IN WHICH
2 OWNER-OCCUPIED RESIDENCES MAY BE LOCATED.—
3 In the case of any qualified residence described in
4 paragraph (1), the term ‘qualified census tract’ in-
5 cludes any census tract which—

6 “(A) meets the requirements of subsection
7 (c)(2)(A)(i) without regard to subclause (III)
8 thereof, and

9 “(B) is designated by the neighborhood
10 homes credit agency for purposes of this para-
11 graph.

12 “(6) MODIFICATION OF REPAYMENT REQUIRE-
13 MENT.—In the case of any qualified residence de-
14 scribed in paragraph (1), subsection (g) shall be ap-
15 plied by beginning the 5-year period otherwise de-
16 scribed therein on the date on which the qualified
17 homeowner acquired such residence.

18 “(7) RELATED PARTIES.—Paragraph (1) shall
19 not apply if the taxpayer is the owner of the quali-
20 fied residence described in paragraph (1) or is re-
21 lated (within the meaning of subsection (h)(6)(B))
22 to such owner.

23 “(8) PYRRHOTITE REMEDIATION.—The require-
24 ment of subsection (c)(1)(C) shall not apply to a
25 qualified rehabilitation under this subsection of a

1 qualified residence that is documented by an engi-
2 neer’s report and core testing to have a foundation
3 that is adversely impacted by pyrrhotite or other
4 iron sulfide minerals.

5 “(j) REGULATIONS.—The Secretary shall prescribe
6 such regulations as may be necessary or appropriate to
7 carry out the purposes of this section, including regula-
8 tions that prevent avoidance of the rules, and abuse of
9 the purposes, of this section.”.

10 (b) CREDIT ALLOWED AS PART OF GENERAL BUSI-
11 NESS CREDIT.—Section 38(b) of the Internal Revenue
12 Code of 1986 is amended by striking “plus” at the end
13 of paragraph (37), by striking the period at the end of
14 paragraph (38) and inserting “, plus”, and by adding at
15 the end the following new paragraph:

16 “(39) the neighborhood homes credit deter-
17 mined under section 42A(a).”.

18 (c) CREDIT ALLOWED AGAINST ALTERNATIVE MIN-
19 IMUM TAX.—Section 38(c)(4)(B) of the Internal Revenue
20 Code of 1986 is amended by redesignating clauses (iv)
21 through (xii) as clauses (v) through (xiii), respectively, and
22 by inserting after clause (iii) the following new clause:

23 “(iv) the credit determined under sec-
24 tion 42A,”.

25 (d) BASIS ADJUSTMENTS.—

1 (1) ENERGY EFFICIENT HOME IMPROVEMENT
2 CREDIT.—Section 25C(g) of the Internal Revenue
3 Code of 1986 is amended by adding after the first
4 sentence the following new sentence: “This sub-
5 section shall not apply for purposes of determining
6 the eligible development costs or adjusted basis of
7 any building under section 42A.”.

8 (2) RESIDENTIAL CLEAN ENERGY CREDIT.—
9 Section 25D(f) of such Code is amended by adding
10 after the first sentence the following new sentence:
11 “‘This subsection shall not apply for purposes of de-
12 termining the eligible development costs or adjusted
13 basis of any building under section 42A.’”.

14 (3) NEW ENERGY EFFICIENT HOME CREDIT.—
15 Section 45L(e) of such Code is amended by inserting
16 “or for purposes of determining the eligible develop-
17 ment costs or adjusted basis of any building under
18 section 42A” after “section 42”.

19 (e) EXCLUSION FROM GROSS INCOME.—Part III of
20 subchapter B of chapter 1 of the Internal Revenue Code
21 of 1986 is amended by inserting before section 140 the
22 following new section:

1 **“SEC. 139J. STATE ENERGY SUBSIDIES FOR QUALIFIED**
2 **RESIDENCES.**

3 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
4 come shall not include the value of any subsidy provided
5 to a taxpayer (whether directly or indirectly) by any State
6 energy office (as defined in section 124(a) of the Energy
7 Policy Act of 2005 (42 U.S.C. 15821(a))) for purposes
8 of any energy improvements made to a qualified residence
9 (as defined in section 42A(c)(1)).”.

10 (f) CONFORMING AMENDMENTS.—

11 (1) Subsections (i)(3)(C), (i)(6)(B)(i), and
12 (k)(1) of section 469 of the Internal Revenue Code
13 of 1986 are each amended by inserting “or 42A”
14 after “section 42”.

15 (2) The table of sections for subpart D of part
16 IV of subchapter A of chapter 1 of such Code is
17 amended by inserting after the item relating to sec-
18 tion 42 the following new item:

“Sec. 42A. Neighborhood homes credit.”.

19 (3) The table of sections for part III of sub-
20 chapter B of chapter 1 of such Code is amended by
21 inserting before the item relating to section 140 the
22 following new item:

“Sec. 139J. State energy subsidies for qualified residences.”.

1 (g) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2023.