

108TH CONGRESS  
1ST SESSION

# S. 198

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 SENATE OF THE UNITED STATES

JANUARY 21, 2003

Mr. SMITH (for himself, Ms. STABENOW, and Mr. SANTORUM) introduced the following bill; which was read twice and referred to the Committee on Finance

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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; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “New Homestead Economic Opportunity Act”.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 “(A) which is located—

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

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

3                   “(ii) in an area of chronic economic  
4           distress, and

5                   “(B) which is purchased by a qualified  
6           buyer.

7           For purposes of clause (ii) of subparagraph (A), an  
8           area is an area of chronic economic distress if it is  
9           approved for designation as such under section  
10          143(j)(3), except that such designation shall not re-  
11          quire the approval of the Secretary and shall cease  
12          to apply after the end of the 5th calendar year after  
13          the calendar year in which the designation is made.

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

16                   “(A) a single-family home containing 1 to  
17          4 housing units,

18                   “(B) a condominium unit,

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

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

23          In the case of a single-family home described in sub-  
24          paragraph (A) which contains more than 1 housing  
25          unit, the term ‘residence’ shall not include any new

1 residence and shall include only the portion of such  
2 home which is to be occupied by the owner thereof  
3 (based on the percentage of the total area of such  
4 home which is to be occupied by the owner).

5 “(3) TIMING OF DETERMINATION.—For pur-  
6 poses of paragraph (1), the determination of wheth-  
7 er a residence is a qualified residence shall be made  
8 at the time a binding commitment for an allocation  
9 of credit is awarded by the homeownership credit  
10 agency, except that the determination of whether a  
11 buyer is a qualified buyer shall be made at the time  
12 the residence is sold.

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

16 “(d) ELIGIBLE BASIS.—For purposes of this sec-  
17 tion—

18 “(1) NEW QUALIFIED RESIDENCES.—

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

21 “(i) in the case of a qualified resi-  
22 dence which is sold in a transaction which  
23 meets the requirements of subparagraph  
24 (B), its adjusted basis (excluding land) im-  
25 mediately before such sale, and

1 “(ii) zero in any other case.

2 “(B) REQUIREMENTS.—A sale of a quali-  
3 fied residence meets the requirements of this  
4 subparagraph if—

5 “(i) the buyer acquires the qualified  
6 residence by purchase (as defined in sec-  
7 tion 179(d)(2)),

8 “(ii) the buyer of the qualified resi-  
9 dence is not a related person with respect  
10 to the seller, and

11 “(iii) the buyer’s debt financing is  
12 originated by a 3rd party who is not a re-  
13 lated person with respect to the seller.

14 “(2) EXISTING QUALIFIED RESIDENCES.—

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

17 “(i) in the case of a qualified resi-  
18 dence which is sold in a transaction which  
19 meets the requirements of subparagraph  
20 (B), the adjusted basis of the rehabilitation  
21 expenditures with respect to the qualified  
22 residence which are paid or incurred in  
23 connection with such sale, and

24 “(ii) zero in any other case.

1           “(B) REQUIREMENTS.—A sale of a quali-  
2           fied residence meets the requirements of this  
3           subparagraph if—

4                   “(i) the buyer acquires the qualified  
5                   residence by purchase (as defined in sec-  
6                   tion 179(d)(2)),

7                   “(ii) the qualified residence has un-  
8                   dergone substantial rehabilitation in con-  
9                   nection with the sale described in clause  
10                  (i),

11                  “(iii) the buyer of the qualified resi-  
12                  dence is not a related person with respect  
13                  to the seller, and

14                  “(iv) the buyer’s debt financing is  
15                  originated by a 3rd party who is not a re-  
16                  lated person with respect to the seller.

17           “(C) SUBSTANTIAL REHABILITATION.—

18                   “(i) IN GENERAL.—For purposes of  
19                   subparagraph (B), substantial rehabilita-  
20                   tion means rehabilitation expenditures paid  
21                   or incurred with respect to a qualified resi-  
22                   dence which are at least \$25,000.

23                   “(ii) INFLATION ADJUSTMENT.—In  
24                   the case of a calendar year after 2003, the

1           dollar amount contained in clause (i) shall  
2           be increased by an amount equal to—

3                   “(I) such dollar amount, multi-  
4                   plied by

5                           “(II) the cost-of-living adjust-  
6                           ment determined under section 1(f)(3)  
7                           for such calendar year by substituting  
8                           ‘calendar year 2002’ for ‘calendar  
9                           year 1992’ in subparagraph (B) there-  
10                          of.

11           Any increase under this clause which is not  
12           a multiple of \$1,000 shall be rounded to  
13           the next lowest multiple of \$1,000.

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

22                   “(4) SPECIAL RULES RELATING TO DETER-  
23           MINATION OF ADJUSTED BASIS.—For purposes of  
24           this subsection—

1           “(A) IN GENERAL.—Except as provided in  
2           subparagraph (B), the adjusted basis of any  
3           qualified residence (or any rehabilitation ex-  
4           penditures in respect thereof)—

5                   “(i) shall not include so much of the  
6                   basis of such qualified residence (or reha-  
7                   bilitation expenditures) as is determined by  
8                   reference to the basis of other property  
9                   held at any time by the person acquiring  
10                  the residence, and

11                   “(ii) shall be determined without re-  
12                   gard to the adjusted basis of any property  
13                   which is not part of such qualified resi-  
14                   dence.

15           “(B) BASIS OF PROPERTY IN COMMON  
16           AREAS, ETC., INCLUDED.—The adjusted basis  
17           of any qualified residence shall be determined  
18           by taking into account (on a pro rata basis) the  
19           adjusted basis of property (of a character sub-  
20           ject to the allowance for depreciation) used in  
21           common areas or provided as comparable amen-  
22           ities to all residences within a project.

23           “(5) SPECIAL RULES FOR DETERMINING ELIGI-  
24           BLE BASIS.—

1           “(A) RELATED PERSON, ETC.—For pur-  
2           poses of this section, a person (in this clause re-  
3           ferred to as the ‘related person’) is related to  
4           any person if the related person bears a rela-  
5           tionship to such person specified in section  
6           267(b) or 707(b)(1), or the related person and  
7           such person are engaged in trades or businesses  
8           under common control (within the meaning of  
9           subsections (a) and (b) of section 52). For pur-  
10          poses of the preceding sentence, in applying  
11          section 267(b) or 707(b)(1), ‘10 percent’ shall  
12          be substituted for ‘50 percent’.

13          “(B) NONRESIDENTIAL SPACE EX-  
14          CLUDED.—No portion of the eligible basis of a  
15          qualified residence shall include costs attrib-  
16          utable to nonresidential space.

17          “(C) LIMITATION.—The eligible basis of  
18          any residence may not exceed the mortgage  
19          limit for Federal Housing Administration in-  
20          sured mortgages in the area in which such resi-  
21          dence is located.

22          “(e) DEFINITION AND SPECIAL RULES RELATING TO  
23          CREDIT PERIOD.—

24                 “(1) CREDIT PERIOD DEFINED.—For purposes  
25                 of this section, the term ‘credit period’ means, with

1 respect to any qualified residence, the period of 5  
2 taxable years beginning with the taxable year in  
3 which the sale of the qualified residence occurs satis-  
4 fying the requirements of subsection (d)(1)(B) or  
5 (d)(2)(B).

6 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT  
7 PERIOD.—

8 “(A) IN GENERAL.—The credit allowable  
9 under subsection (a) with respect to any quali-  
10 fied residence for the 1st taxable year of the  
11 credit period shall be determined by multiplying  
12 the eligible basis under subsection (d) by the  
13 fraction—

14 “(i) the numerator of which is the  
15 sum of the number of remaining whole  
16 months in such 1st taxable year after the  
17 sale of the qualified residence, and

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

19 “(B) DISALLOWED 1ST YEAR CREDIT AL-  
20 LOWED IN 6TH YEAR.—Any reduction by reason  
21 of subparagraph (A) in the credit allowable  
22 (without regard to subparagraph (A)) for the  
23 1st taxable year of the credit period shall be al-  
24 lowable under subsection (a) for the 1st taxable  
25 year following the credit period.

1       “(f) LIMITATION ON AGGREGATE CREDIT ALLOW-  
2 ABLE WITH RESPECT TO QUALIFIED RESIDENCES LO-  
3 CATED IN A STATE.—

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

6               “(A) IN GENERAL.—The amount of the  
7 credit determined under this section for any  
8 taxable year with respect to any qualified resi-  
9 dence shall not exceed the homeownership cred-  
10 it dollar amount allocated to such qualified resi-  
11 dence under this subsection.

12               “(B) TIME FOR MAKING ALLOCATION.—

13               “(i) GENERAL RULE.—An allocation  
14 shall be taken into account under subpara-  
15 graph (A) only if it is made not later than  
16 the close of the calendar year in which the  
17 qualified residence is sold, and only if the  
18 qualified residence is sold within 1 year  
19 after the residence (or the rehabilitation  
20 expenditures, as applicable) is completed.

21               “(ii) EARLIER ALLOCATION BY AGEN-  
22 CY.—A homeownership credit agency may  
23 allocate available homeownership credit  
24 dollar amounts to a qualified residence

1 prior to the year of sale of such qualified  
2 residence if—

3 “(I) the taxpayer owns fee title  
4 or a leasehold interest of not less than  
5 50 years in the site of the qualified  
6 residence as of the later of the date  
7 which is 6 months after the date that  
8 the allocation was made or the close  
9 of the calendar year in which the allo-  
10 cation is made, and

11 “(II) such qualified residence is  
12 completed not later than the close of  
13 the 2nd calendar year following the  
14 calendar year in which the allocation  
15 was made.

16 “(C) VESTED RIGHT TO CREDIT DOLLAR  
17 AMOUNT.—Once a homeownership credit alloca-  
18 tion is received by a taxpayer, the right to such  
19 credit is vested in such taxpayer and is not sub-  
20 ject to recapture, except as provided in para-  
21 graph (4)(B).

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

24 “(A) IN GENERAL.—The aggregate home-  
25 ownership credit dollar amount which a home-

1 ownership credit agency may allocate for any  
2 calendar year is the portion of the State home-  
3 ownership credit ceiling allocated under this  
4 paragraph for such calendar year to such agen-  
5 cy.

6 “(B) STATE CEILING INITIALLY ALLO-  
7 CATED TO STATE HOMEOWNERSHIP CREDIT  
8 AGENCIES.—Except as provided in subpara-  
9 graphs (D) and (E), the State homeownership  
10 credit ceiling for each calendar year shall be al-  
11 located to the homeownership credit agency of  
12 such State. If there is more than 1 homeowner-  
13 ship credit agency of a State, all such agencies  
14 shall be treated as a single agency.

15 “(C) STATE HOMEOWNERSHIP CREDIT  
16 CEILING.—The State homeownership credit ceil-  
17 ing applicable to any State for any calendar  
18 year before 2003 shall be zero and for any cal-  
19 endar year after 2002 shall be an amount equal  
20 to the sum of—

21 “(i) the unused State homeownership  
22 credit ceiling (if any) of such State for the  
23 preceding calendar year,

24 “(ii) the greater of—

1                   “(I) \$1.75 multiplied by the  
2                   State population, or

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

4                   “(iii) the amount of State homeown-  
5                   ership credit ceiling returned in the calendar  
6                   year, plus

7                   “(iv) the amount (if any) allocated  
8                   under subparagraph (D) to such State by  
9                   the Secretary.

10                   For purposes of clause (i), the unused State  
11                   homeownership credit ceiling for any calendar  
12                   year is the excess (if any) of the sum of the  
13                   amounts described in clauses (ii) through (iv)  
14                   over the aggregate homeownership credit dollar  
15                   amount allocated for such year, except that  
16                   such amount shall be zero for 2003. For pur-  
17                   poses of clause (iii), the amount of State home-  
18                   ownership credit ceiling returned in the cal-  
19                   endar year equals the homeownership credit  
20                   dollar amount previously allocated within the  
21                   State to any qualified residence with respect to  
22                   which an allocation is canceled by mutual con-  
23                   sent of the homeownership credit agency and  
24                   the allocation recipient.

1           “(D) UNUSED HOMEOWNERSHIP CREDIT  
2 CARRYOVERS ALLOCATED AMONG CERTAIN  
3 STATES.—

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

9           “(ii) UNUSED HOMEOWNERSHIP  
10 CREDIT CARRYOVER.—For purposes of this  
11 subparagraph, the unused homeownership  
12 credit carryover of a State for any calendar  
13 year is the excess (if any) of the unused  
14 State homeownership credit ceiling for  
15 such year (as defined in subparagraph  
16 (C)(i)) over the excess (if any) of—

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

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

23           “(iii) FORMULA FOR ALLOCATION OF  
24 UNUSED HOMEOWNERSHIP CREDIT  
25 CARRYOVERS AMONG QUALIFIED

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

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

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

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

22 “(E) STATE MAY PROVIDE FOR DIF-  
23 FERENT ALLOCATION.—Rules similar to the  
24 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 2003, the \$2,000,000  
9 and \$1.75 amounts in subparagraph (C)  
10 shall each be increased by an amount equal  
11 to—

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

14 “(II) the cost-of-living adjust-  
15 ment determined under section  
16 1(f)(3) for such calendar year by sub-  
17 stituting ‘calendar year 2002’ for ‘cal-  
18 endar year 1992’ in subparagraph (B)  
19 thereof.

20 “(ii) ROUNDING.—

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

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

6                   “(3) LIMITATION ON ALLOCATIONS TO AREAS  
7                   OF CHRONIC ECONOMIC DISTRESS.—Not more than  
8                   50 percent of a homeownership credit agency’s por-  
9                   tion of the State homeownership credit ceiling for a  
10                  calendar year may be allocated to residences located  
11                  in areas which are designated as areas of chronic  
12                  economic distress in accordance with paragraph (1)  
13                  of subsection (c).

14                  “(4) SPECIAL RULES.—

15                  “(A) RESIDENCE MUST BE LOCATED  
16                  WITHIN JURISDICTION OF CREDIT AGENCY.—A  
17                  homeownership credit agency may allocate its  
18                  aggregate homeownership credit dollar amount  
19                  only to qualified residences located in the juris-  
20                  diction of the governmental unit of which such  
21                  agency is a part.

22                  “(B) AGENCY ALLOCATIONS IN EXCESS OF  
23                  LIMIT.—If the aggregate homeownership credit  
24                  dollar amounts allocated by a homeownership  
25                  credit agency for any calendar year exceed the

1           portion of the State homeownership credit ceil-  
2           ing allocated to such agency for such calendar  
3           year, the homeownership credit dollar amounts  
4           so allocated shall be reduced (to the extent of  
5           such excess) for residences in the reverse of the  
6           order in which the allocations of such amounts  
7           were made.

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

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

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

20                   “(A) be developed by the same taxpayer  
21                   pursuant to common planning and feasibility  
22                   studies,

23                   “(B) be financed through a common plan  
24                   of construction financing, and

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

1 For purposes of this paragraph, it is not necessary  
2 that all residences within a project be contiguous or  
3 that all residences consist only of either new resi-  
4 dences or existing residences and it is not necessary  
5 that each residence within a project be a qualified  
6 residence.

7 “(3) QUALIFIED BUYER.—

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

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

15 “(ii) intends to occupy the residence  
16 as the buyer’s principal residence (within  
17 the meaning of section 121).

18 “(B) SPECIAL RULES IN QUALIFIED CEN-  
19 SUS TRACTS.—With respect to residences lo-  
20 cated in qualified census tracts (as defined in  
21 section 42), subparagraph (A) shall be applied  
22 by substituting ‘100 percent’ for ‘80 percent’  
23 and ‘90 percent’ for ‘70 percent’.

24 “(C) DETERMINATION OF INCOME.—For  
25 purposes of this paragraph, a buyer’s income

1           shall be determined in accordance with section  
2           143(f)(4).

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

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

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

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

16          “(8) APPLICATION TO ESTATES AND TRUSTS.—  
17          In the case of an estate or trust, the amount of the  
18          credit determined under subsection (a) shall be ap-  
19          portioned between the estate or trust and the bene-  
20          ficiaries on the basis of the income of the estate or  
21          trust allocable to each.

22          “(h) REDUCTION IN TAX BENEFITS.—

23          “(1) RECAPTURE OF CREDIT.—If within the  
24          first 3 years after the original purchase of a quali-  
25          fied residence, the residence is sold by the qualified

1 buyer to a buyer who does not qualify as a qualified  
2 buyer, the qualified buyer—

3 “(A) shall deduct and withhold an amount  
4 equal to the recapture amount from the amount  
5 realized on such sale, and

6 “(B) shall transfer such amount to the  
7 homeownership credit agency which allocated  
8 the homeownership credit dollar amount to such  
9 residence.

10 “(2) RECAPTURE AMOUNT.—For purposes of  
11 paragraph (1), the recapture amount is an amount  
12 equal to 50 percent of the gain resulting from such  
13 resale, reduced by 1/36th for each month the resale  
14 occurs after the original purchase.

15 “(3) DENIAL OF DEDUCTIONS IF CONVERTED  
16 TO RENTAL HOUSING.—If a qualified residence is  
17 converted to rental housing within the first 3 years  
18 after the original purchase, no deduction under this  
19 chapter shall be permitted to offset rental income  
20 with respect to such residence during such period.

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

24 “(j) REPORTS TO THE SECRETARY.—

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

6                   “(A) the eligible basis for the taxable year  
7                   of each qualified residence with respect to which  
8                   the taxpayer is claiming a credit under this sec-  
9                   tion,

10                   “(B) the amount of all homeownership  
11                   credit allocations received by the taxpayer from  
12                   any and all State homeownership credit agen-  
13                   cies, and

14                   “(C) such other information as the Sec-  
15                   retary may require.

16           The penalty under section 6652(j) shall apply to any  
17           failure to submit the return required by the Sec-  
18           retary under the preceding sentence on the date pre-  
19           scribed therefor.

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

1           “(A) the amount of the homeownership  
2 credit dollar amount allocated to each residence  
3 for such year,

4           “(B) sufficient information to identify each  
5 such residence and the taxpayer initially enti-  
6 tled to claim the credit under this section with  
7 respect thereto, and

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

10       “(k) RESPONSIBILITIES OF HOMEOWNERSHIP CRED-  
11 IT AGENCIES.—

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

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

1           “(B) QUALIFIED ALLOCATION PLAN.—For  
 2 purposes of this paragraph, the term ‘qualified  
 3 allocation plan’ means any plan which sets forth  
 4 the homeownership development priorities of  
 5 the homeownership credit agency.

6           “(C) CERTAIN HOMEOWNERSHIP DEVEL-  
 7 OPMENT PRIORITIES MUST BE USED.—The de-  
 8 velopment priorities set forth in a qualified allo-  
 9 cation plan must include—

10                   “(i) contribution of the development  
 11 to community stability and revitalization,

12                   “(ii) community and local government  
 13 support for the development,

14                   “(iii) need for homeownership develop-  
 15 ment within the area,

16                   “(iv) sponsor capability, and

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

19           “(2) CREDIT ALLOCATED TO RESIDENCE NOT  
 20 TO EXCEED AMOUNT NECESSARY TO ASSURE FEASI-  
 21 BILITY.—

22           “(A) IN GENERAL.—The homeownership  
 23 credit dollar amount allocated to a residence  
 24 shall not exceed the amount the homeownership

1 credit agency determines is necessary for the  
2 feasibility of the residence.

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

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

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

11 “(iii) the anticipated appraised value  
12 of the residence, and

13 “(iv) the reasonableness of the devel-  
14 opmental costs of the residence.

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 “(1) 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 homeownership  
 18 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 striking “plus” at the end of para-  
2 graph (14), by striking the period at the end of paragraph  
3 (15) and inserting “, plus”, and by adding at the end the  
4 following:

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

7           (c) LIMITATION ON CARRYBACK.—Subsection (d) of  
8 section 39 (relating to carryback and carryforward of un-  
9 used credits) is amended by adding at the end the fol-  
10 lowing:

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

17           (d) CONFORMING AMENDMENTS.—

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

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

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

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. Homeownership credit.”.

11 (f) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to qualified residences sold after  
13 December 31, 2002.

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