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

A BILL

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Neighborhood Homes Investment Act”.

SEC. 2. NEIGHBORHOOD HOMES CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of
1986 is amended by inserting after section 42 the following new section:

“SEC. 42A. NEIGHBORHOOD HOMES CREDIT.

“(a) ALLOWANCE OF CREDIT.—For purposes of section 38, the amount of the neighborhood homes credit determined under this section for a taxable year for a qualified project shall be, with respect to each qualified residence that is part of such qualified project and that experiences a qualified completion event during such taxable year, an amount equal to—

“(1) in the case of an affordable sale, with respect to the seller, the excess of—

“(A) the qualified development cost incurred by such seller for such residence, over

“(B) the sale price of such residence, or

“(2) in the case of any other qualified completion event, with respect to a taxpayer other than the owner of the residence (or a related person with respect to such owner), the excess of—

“(A) the development cost incurred by such taxpayer for such residence, over

“(B) the amount received by such taxpayer as payment for such rehabilitation.

“(b) LIMITATIONS.—
“(1) AMOUNT.—The amount determined under subsection (a) with respect to a residence shall not exceed 35 percent of the lesser of—

“(A) the qualified development cost, or

“(B) 80 percent of the national median sale price for new homes.

“(2) ALLOCATIONS.—

“(A) IN GENERAL.—The amount determined under subsection (a) with respect to a residence that is part of a qualified project and that experiences a qualified completion event shall not exceed the excess of—

“(i) the amount determined under subparagraph (B), over

“(ii) the amounts previously determined under subsection (a) with respect to such qualified project.

“(B) ALLOCATION AMOUNT.—The amount determined under this paragraph with respect to a residence that is part of a qualified project and that experiences a qualified completion event is the least of—

“(i) the amount allocated to such project by the neighborhood homes credit agency under this section,
“(ii) the amount such agency determines at the time of the qualified completion event is necessary to ensure the financial feasibility of the project given the sources and uses of funds and the total financing (including local, State, and Federal subsidies) planned for the project, or

“(iii) in the case of a qualified completion event that occurs after the 5-year period beginning on the date of the allocation referred to in clause (i), $0.

“(c) QUALIFIED DEVELOPMENT COST.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified development cost’ means, with respect to a residence so much of the allowable development cost as the neighborhood homes credit agency certifies, at the time of the completion event—

“(A) meets the standards promulgated under subsection (h)(1)(C), and

“(B) does not represent unreasonable fees by the taxpayer claiming the credit under subsection (a).

“(2) ALLOWABLE DEVELOPMENT COST.—The term ‘allowable development cost’ means—
“(A) the cost of construction, substantial rehabilitation, demolition of any structure, and environmental remediation, and

“(B) in the case of an affordable sale, so much of the cost of acquiring buildings and land as does not exceed an amount equal to 75 percent of the costs described in subparagraph (A).

“(3) Properties with multiple residences.—The allowable development cost of any residence shall include on a pro-rata basis the allowable development cost with respect to common areas or other comparable amenities.

“(d) Qualified Project.—For purposes of this section, the term ‘qualified project’ means a project that—

“(1) a neighborhood homes credit agency certifies will build or substantially rehabilitate 1 or more qualified residences located in one or more qualified census tracts, and

“(2) is designated by such agency as a qualified project under this section and is allocated (before such building or substantial rehabilitation begins) a portion of the amount allocated to such agency under subsection (g).
“(e) QUALIFIED CENSUS TRACT.—For purposes of this section—

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

“(A) with—

“(i) a median gross income which does not exceed 80 percent of the applicable area median gross income,

“(ii) a poverty rate that is not less than 130 percent of the applicable area poverty rate, and

“(iii) a median value for owner-occupied homes that does not exceed applicable area median value for owner-occupied homes, or

“(B) that is—

“(i) in a nonmetropolitan county,

“(ii) with a median gross income which does not exceed the applicable area median gross income, and

“(iii) designated by a neighborhood homes credit agency under this clause.

“(2) ADDITIONAL CENSUS TRACTS FOR SUBSTANTIAL REHABILITATION.—In the case of a residence that is intended for substantial rehabilitation
described in subsection (f)(5)(B), the term ‘qualified census tract’ includes a census tract that meets the requirements of paragraph (1)(A), without regard to clause (iii), and that is designated by the neighborhood homes credit agency under this paragraph.

“(3) List of Qualified Census Tracts.—

The Secretary of Housing and Urban Development shall make publically available a list of qualified census tracts under paragraph (1)(A), a list of qualified census tracts under paragraph (1)(B), and a list of qualified census tracts under paragraph (2) for each year.

“(f) Other Definitions.—For purposes of this section—

“(1) Qualified Residence.—The term ‘qualified residence’ means a residence that consists of—

“(A) a single-family home containing 4 or fewer residential units,

“(B) a condominium, or

“(C) a house or an apartment owned by a cooperative housing corporation (as defined in section 216(b)).

“(2) Affordable Sale.—

“(A) In General.—
“(i) IN GENERAL.—The term ‘affordable sale’ means a sale to a qualified homeowner of a residence that the neighborhood homes credit agency certifies as meeting the standards promulgated under subsection (h)(1)(D) for a price that does not exceed—

“(I) in the case of any residence not described in subclause (II), (III), or (IV), the amount equal to the product of 4 multiplied by the applicable area median gross income,

“(II) in the case of a single-family home containing two residential units, 125 percent of the amount described in subclause (I),

“(III) in the case of a single-family home containing three residential units, 150 percent of the amount described in subclause (I), or

“(IV) in the case of a single-family home containing four residential units, 175 percent of the amount described in subclause (I).

“(ii) RELATED PERSONS.—
“(I) IN GENERAL.—A sale between related persons shall not be treated as an affordable sale.

“(II) DEFINITION.—For purposes of this section, a person (in this clause referred to as the ‘related person’) is related to any person if the related person bears a relationship to such person specified in section 267(b) or 707(b)(1), or the related person and such person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52).

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

“(3) APPLICABLE AREA.—The term ‘applicable area’ means—

“(A) in the case of a metropolitan census tract, the metropolitan area in which such census tract is located, and
“(B) in the case of a census tract other than a census tract described in subparagraph (A), the State.

“(4) Substantial rehabilitation.—The term ‘substantial rehabilitation’ means rehabilitation efforts involving qualified development costs that are not less than the greater of—

“(A) $20,000, and

“(B) 20 percent of the cost of acquiring buildings and land.

“(5) Qualified completion event.—The term ‘qualified completion event’ means—

“(A) in the case of a residence that is built or substantially rehabilitated as part of a qualified project and sold, an affordable sale, or

“(B) in the case of a residence that is substantially rehabilitated as part of a qualified project and owned by the same qualified homeowner throughout such rehabilitation, the completion of such rehabilitation (as determined by the neighborhood homes credit agency) to the standards promulgated under subsection (h)(1)(D).

“(6) Qualified homeowner.—
“(A) IN GENERAL.—The term ‘qualified homeowner’ means, with respect to a residence, an individual—

“(i) who owns and uses such residence as the principal residence of such individual, and

“(ii) whose income is 140 percent or less of the applicable area median gross income for the location of the residence.

“(B) OWNERSHIP.—For purposes of a cooperative housing corporation (as such term is defined in section 216(b)), a tenant-stockholder shall be treated as owning the house or apartment which such person is entitled to occupy.

“(C) INCOME.—For purposes of this paragraph, income shall be determined in accordance with section 143(f)(2) and 143(f)(4).

“(D) TIMING.—For purposes of this paragraph, the income of a taxpayer shall be determined—

“(i) in the case of a residence that is built or substantially rehabilitated as part of a qualified project and sold, at the time a binding contract for purchase is made, or
“(ii) in the case of a residence that is occupied by a qualified homeowner and intended to be substantially rehabilitated as part of a qualified project, at the time a binding contract to undertake such rehabilitation is made.

“(7) Neighborhood homes credit agency.—The term ‘neighborhood homes credit agency’ means the agency designated by the governor of a State as the neighborhood homes credit agency of the State.

“(g) Allocation.—

“(1) State neighborhood homes credit ceiling.—The State neighborhood homes credit amount for a State for a calendar year is an amount equal to the sum of—

“(A) the greater of—

“(i) the product of $3, multiplied by the State population (determined in accordance with section 146(j)), or

“(ii) $4,000,000, plus

“(B) the converted private activity bond amount with respect to the State for the calendar year.
“(2) UNUSED AMOUNT.—The State neighborhood homes credit amount for a calendar year shall be increased by the sum of—

“(A) any amount certified by the neighborhood homes credit agency of the State as having been previously allocated to a qualified project and not used during the 5-year period described in subsection (b)(2)(iii), plus

“(B) sum of the amount by which the amount determined under paragraph (1) (without application of this paragraph) exceeded the amount allocated to qualified projects in each of the three immediately preceding calendar years.

“(3) CONVERTED PRIVATE ACTIVITY BOND AMOUNT.—

“(A) IN GENERAL.—For purposes of this paragraph, the converted private activity bond amount with respect to any State for any calendar year shall be 60 percent of the amount elected by—

“(i) the State agency that is an issuer of qualified mortgage bonds (as defined in section 143) that is designated by the governor of the State under this subparagraph for such year, or
“(ii) if no such agency exists, the neighborhood homes credit agency of the State.

“(B) REDUCTION OF PRIVATE ACTIVITY BOND CEILING.—The State ceiling under section 146(d)(1) shall be reduced by the amount elected under subparagraph (A).

“(4) PORTION OF STATE CREDIT CEILING FOR CERTAIN PROJECTS INVOLVING QUALIFIED NON-PROFIT ORGANIZATIONS.—Rules similar to the rules of section 42(h)(5) shall apply.

“(h) RESPONSIBILITIES OF NEIGHBORHOOD HOMES CREDIT AGENCIES.—

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

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

“(B) allocates not more than 20 percent of such amount for the previous year to projects with respect to residences in census tracts under subsection (e)(1)(B) or (e)(2),
“(C) promulgates standards with respect to reasonable qualified development costs,

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

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

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

“(ii) such other information as the Secretary may require.

“(2) QUALIFIED ALLOCATION PLAN.—For purposes of this paragraph, the term ‘qualified allocation plan’ means any plan which—

“(A) sets forth the selection criteria to be used to prioritize qualified projects for allocations of State neighborhood homes credit dollar amounts, including—

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

“(ii) the expected contribution of the project to neighborhood stability and revitalization,
“(iii) the capability of the project
sponsor, and
“(iv) the likelihood the project will re-
sult in long-term homeownership, and
“(B) has been made available for public
comment.
“(i) Possessions Treated as States.—For pur-
poses of this section, the term ‘State’ includes the District
of Columbia and a possession of the United States.
“(j) Repayment.—
“(1) In General.—If a residence is sold dur-
ing the 5-year period beginning on the date of the
qualified completion event described in subsection
(a) with respect to such residence, the seller shall
transfer an amount equal to the repayment amount
from the amount realized on such sale to the rel-
evant neighborhood homes credit agency to be used
to stabilize or revitalize qualified census tracts (de-
determined without regard to paragraphs (1)(B) and
(2) of subsection (e)).
“(2) Repayment Amount.—For purposes of
paragraph (1), the repayment amount is an amount
equal to 50 percent of the gain from such resale, re-
duced by 20 percent for each year of the 5-year pe-
rior period referred to in paragraph (1) which ends before the date of the sale referred to in paragraph (1).

“(3) LIEN FOR REPAYMENT AMOUNT.—A neighborhood homes credit agency receiving an allo-
cation under this section shall place a lien on each residence that is built or rehabilitated as part of a qualified project for the greatest amount that could be required to be paid under this subsection to such agency.

“(4) DENIAL OF DEDUCTIONS IF CONVERTED TO RENTAL HOUSING.—If, during the 5-year period beginning on the date of the qualified completion event described in subsection (a), an individual who owns a residence fails to use such residence as such individual’s principal residence for any period of time, no deduction shall be allowed for expenses paid or incurred by such individual with respect to rent-
ing, during such period of time, such residence.

“(5) WAIVER.—The neighborhood homes credit agency may waive the repayment required under paragraph (1) in the case of homeowner experi-
cencing a hardship.

“(k) INFLATION ADJUSTMENT.—
“(1) IN GENERAL.—In the case of a calendar year after 2020, the dollar amounts in this section shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting ‘calendar year 2019’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

“(2) ROUNDING.—

“(A) SUBSTANTIAL REHABILITATION.—In the case of the dollar amount in subsection (f)(4), any increase under the preceding sentence which is not a multiple of $1,000 shall be rounded to the nearest multiple of $1,000.

“(B) In the case of the dollar amount in subsection (g)(1)(A)(i), any increase under the preceding sentence which is not a multiple of $0.01 shall be rounded to the nearest multiple of $0.01.

“(C) In the case of the dollar amount in subsection (g)(1)(A)(ii), any increase under the preceding sentence which is not a multiple of $100,000 shall be rounded to the nearest multiple of $100,000.”.
(b) Current Year Business Credit Calculation.—Section 38(b) (of the Internal Revenue Code of 1986) is amended by redesignating paragraphs (6) through (37) as paragraphs (7) through (38), respectively, and by inserting after paragraph (5) the following new paragraph:

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

(e) Limitation on Carryback.—Section 39 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

“(e) No Carryback of Neighborhood Homes Credit Before Effective Date.—No amount of the unused credit attributable to section 42A may be taken into account under section 38(a)(3) for any taxable year beginning before the date of the enactment of this Act.”.

(d) Cancellation of Indebtedness.—Section 108 of the Internal Revenue Code of 1986 is amended—

(1) by striking “or” at the end of subsection (a)(1)(D), by striking the period at the end of subsection (a)(1)(E)(ii) and inserting “, or”, and adding at the end of subsection (a)(1) the following new subparagraph:

“(F) if the discharge is qualified neighborhood homes credit indebtedness.”, and
(2) by adding at the end of subsection (b)(2) the following new subparagraph:

“(H) Special rules relating to qualified neighborhood homes credit indebtedness.—For purposes of this section, the term ‘qualified neighborhood homes credit indebtedness’ means indebtedness arising in connection with the development of a qualified residence under section 42A.”.

(e) Conforming Amendments.—Subsections (i)(3)(D), (i)(6)(B)(i), and (k)(1) of section 469 of the Internal Revenue Code of 1986 are each amended by inserting “or 42A” after “section 42”.

(f) Clerical Amendment.—The table of sections for subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 42 the following:

“Sec. 42A. Neighborhood homes credit.”

(g) Effective Date.—The amendments made by this section shall apply to calendar years beginning after December 31, 2019.