I

119TH CONGRESS
2D SESSION

H. R. 9281

To provide rental vouchers for the homeless, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 11, 2026

Ms. HOYLE of Oregon (for herself and Mr. CARBAJAL) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To provide rental vouchers for the homeless, 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; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Decent, Affordable, Safe Housing for All Act" or the "DASH Act".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

TITLE I—GENERAL HOUSING ASSISTANCE

SEC. 101. RENTAL VOUCHERS FOR THE HOMELESS.

(a) IN GENERAL.—Section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)) is amended by adding at the end the following:

"(22) RENTAL VOUCHERS FOR THE HOMELESS.—

"(A) DEFINITIONS.—In this paragraph:

"(i) AT RISK OF HOMELESSNESS.—The term 'at risk of homelessness' has the meaning given the term in section 401(1) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11360), except that '50 percent' shall be substituted for '30 percent' in subparagraph (A) of that section.

"(ii) CAPACITY-BUILDING PERIOD.—The term 'capacity-building period' means the 2-year period beginning on the date on which the formula is established under subparagraph (E)(ii).

"(iii) CONTINUUM OF CARE.—The term 'continuum of care' has the meaning given the term in section 578.3 of title 24, Code of Federal Regulations, or any successor regulation.

"(iv) ELIGIBLE PUBLIC HOUSING AGENCY.—The term 'eligible public housing agency' means a public housing agency that—

"(I) administers assistance under this subsection through a contract for annual contributions entered into with the Secretary;

"(II) has a partnership with a public child welfare agency and a continuum of care that—

"(aa) has a system for identifying and referring eligible recipients for assistance under this paragraph from the public housing agency, including by providing a written certification that the eligible recipient is eligible to receive the assistance; and

"(bb) will, to the greatest extent practicable, provide or facilitate the provision of supportive services to those eligible recipients; and

"(III) submits to the Secretary a statement describing—

"(aa) how the public housing agency will connect eligible recipients with local community resources, to the extent available; and "(bb) the plan for use of capacity-building funding under subparagraph (E), including—

"(AA) a timeline for the use of that funding within the capacity-building period;

"(BB) hiring and personnel needs;

"(CC) physical infrastructure needs; and

"(DD) technological infrastructure needs, including upgrades to the HMIS, and any other capacity-related investments that are necessary to administer assistance under this paragraph.

"(v) ELIGIBLE RECIPIENT.—The term 'eligible recipient' means any individual or family experiencing homelessness or at risk of homelessness with an income that is less than 50 percent of the area median income.

"(vi) EXPERIENCING HOMELESSNESS; HOMELESS.—The terms 'experiencing homelessness' and 'homeless' means an individual or family who is—

"(I) living in a place not meant for human habitation or in an emergency shelter;

"(II) living in transitional housing for homeless persons and was homeless before entering transitional housing or an emergency shelter;

"(III) fleeing domestic violence; or

"(IV) at risk of homelessness.

"(vii) HMIS.—The term 'HMIS' means the community-wide homeless management information system described in section 402(f)(3)(D) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11360a(f)(3)(D)).

"(viii) PUBLIC HOUSING AGENCY.—The term 'public housing agency' includes a tribally designated housing entity.

"(ix) REFERRAL.—The term 'referral' means an affirmative connection between the voucher recipient and the organization providing services to the voucher recipient.

"(x) SERVICE COORDINATOR.—The term 'service coordinator' means an individual employed directly by a public housing agency who provides general case management and referral services to each voucher recipient served by the public housing agency, which shall include—

"(I) an individual intake screening of each voucher recipient to evaluate the voucher recipient's need for supportive services; and

"(II) referral to outside services, including cooperation and collaboration with a continuum of care.

"(xi) SOURCE OF INCOME.—The term 'source of income' means income from any lawful source, including—

"(I) income from any legal employment; and

"(II) any assistance, benefit, or subsidy through any Federal, State, or local program, whether the program is administered by a governmental or nongovernmental entity.

"(xii) TRIBALLY DESIGNATED HOUSING ENTITY.—The term 'tribally designated housing entity' has the meaning given the term in section 4 of the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4103).

"(xiii) VOUCHER RECIPIENT.—The term 'voucher recipient' means an individual or family receiving a voucher under this paragraph.

"(xiv) YOUTH.—The term 'youth' means an individual under the age of 25.

"(B) VOUCHERS.—

"(i) PROVISION OF VOUCHERS.—

"(I) IN GENERAL.—The Secretary shall provide vouchers for rental assistance on behalf of each eligible recipient in accordance with this paragraph.

"(II) DIRECT APPROPRIATION.—Subject to subclause (III), there is appropriated, out of any money in the Treasury not otherwise appropriated, for providing rental voucher assistance under this paragraph for fiscal year 2026 and each fiscal year thereafter—

"(aa) the amount necessary to fund the provision of a voucher for rental assistance under this paragraph on behalf of each eligible recipient;

"(bb) the amount necessary to provide administrative fees under clause (ii) in connection to each voucher for rental assistance provided under this paragraph; and

"(cc) the amount necessary to fund annual renewals of the vouchers provided under this paragraph.

"(III) NUMBER OF VOUCHERS.—The Secretary shall provide—

"(aa) 250,000 vouchers under this paragraph in fiscal year 2026; and

"(bb) 400,000 vouchers under this paragraph in each fiscal year thereafter until the Secretary determines that a smaller number of vouchers is sufficient to provide all eligible recipients with vouchers.

"(ii) ADMINISTRATIVE FEE FOR ANCILLARY COSTS.—The Secretary shall provide a public housing agency that requests a voucher under this paragraph an administrative fee sufficient to provide assistance to the voucher recipient for security deposits, application fees, moving costs, first or last month's rent, or other significant barriers to establishing use of the voucher and a lease, in an amount that is not more than 3 months' rent for the voucher recipient.

"(iii) PAYMENT STANDARD.—The payment standard for a voucher provided under this paragraph may not exceed 125 percent of the fair market rental in the jurisdiction in which the voucher is administered.

"(iv) SUPPLEMENTAL VOUCHER PAYMENT.—

"(I) IN GENERAL.—An eligible public housing agency may supplement the amount of a voucher provided under this paragraph in any case in which—

"(aa) the amount of the voucher is insufficient to cover the cost of a dwelling unit within the jurisdiction of the eligible public housing agency and that insufficiency may result in a voucher recipient losing housing and becoming homeless or doubled up; or

"(bb) the eligible public housing agency submits to the Secretary a waiver request for recalculation of the small area fair market rent applicable to the dwelling unit, which the Secretary shall approve or deny within 45 days of submission of the request.

"(II) PAYMENT UPON DENIAL.—An eligible public housing agency may supplement the amount of a voucher under subclause (I) even if the Secretary denies the request submitted under subclause (I)(aa), provided that the supplementation of the voucher amount is necessary to maintain housing for the voucher recipient.

"(v) CONDITIONS ON ASSISTANCE.—Notwithstanding any other provision of law, the Secretary—

"(I) may not condition receipt of a voucher under this paragraph on—

"(aa) participation in any service or program; or

"(bb) the sobriety or lack thereof of an eligible recipient;

"(II) except as provided in subclause (III), may not prohibit receipt of a voucher under this paragraph by an otherwise eligible recipient due to any criminal conviction or history of interaction with the criminal justice system; and

"(III) shall prohibit receipt of a voucher under this paragraph by individuals subject to a lifetime registration requirement under any State sex offender registration program.

"(vi) VERIFICATION OF STATEMENT MADE BY ELIGIBLE PUBLIC HOUSING AGENCIES.—

"(I) IN GENERAL.—Not later than 30 days after the date on which an eligible public housing agency submits the statement required under subparagraph (A)(iv)(III), the Secretary shall verify the statement.

"(II) UNSATISFACTORY STATEMENT.—If, upon verification of a statement under subclause (I), the Secretary determines that the statement is unsatisfactory, the Secretary shall inform the eligible public housing agency of that determination and the manner in which the eligible public housing agency may re-submit the statement.

"(vii) IDENTIFICATION OF ELIGIBLE RECIPIENTS.—

"(I) IN GENERAL.—A public housing agency shall partner with continuums of care, public child welfare agencies, street outreach providers, health care providers, and other similar organizations in the State in which the public housing agency operates to identify eligible recipients.

"(II) CONSIDERATIONS.—In identifying eligible recipients under subclause (I), the public housing agency and its partners shall—

"(aa) take into consideration demographic information of the eligible recipients, including the age, sex, gender identity, sexual orientation, race, ethnicity, and disability status of each such recipient; and

"(bb) coordinate outreach in a respectful manner with regard to the information described in item (aa).

"(III) CONTINUUMS OF CARE.—In partnering with public housing agencies to identify eligible recipients, continuums of care shall carry out assistance and services as planned under a Congressionally authorized two-year Notice of Funding Opportunity (NOFO).

"(viii) REQUIREMENTS FOR ELIGIBLE PUBLIC HOUSING AGENCIES.—

"(I) IN GENERAL.—Each eligible public housing agency providing assistance under this paragraph shall—

"(aa) on an annual basis and in conjunction with income reviews for purposes of determining income eligibility for assistance under this paragraph, verify the compliance of the eligible public housing agency with the eligibility requirements under this paragraph; and

"(bb) to the greatest extent possible—

"(AA) work with continuums of care to ensure continuity of data collection under this paragraph; and

"(BB) utilize the HMIS to collect and maintain the information required to be collected under this paragraph.

"(II) PRIORITY.—In providing vouchers under this paragraph, an eligible public housing agency—

"(aa) shall prioritize the first vouchers made available under this section for eligible recipients who are—

"(AA) unaccompanied homeless youth;

"(BB) homeless youth with minor children; or

"(CC) families with minor children experiencing homelessness;

"(bb) to the extent possible considering when the Secretary disburses funds under this paragraph, shall provide vouchers to the eligible recipients described in item (aa) not later than 1 year after the end of the capacity-building period; and

"(cc) may not issue vouchers to eligible recipients not described in item (aa) until the eligible public housing agency has issued vouchers to all eligible recipients described in that item.

"(ix) USE OF VOUCHER UPON EXIT.—An eligible public housing agency that issued a voucher to an eligible recipient that is no longer in use by the eligible recipient may provide the voucher to any other tenant eligible for tenant-based assistance under this subsection.

"(C) DATA COLLECTION.—

"(i) IN GENERAL.—The Secretary shall submit to Congress an annual report on assistance providing under this paragraph, which shall include—

"(I) an assessment of the progress of States toward housing—

"(aa) eligible recipients in the State; and

"(bb) the total population of people experiencing homelessness in the State; and

"(II) the information provided under clause (ii).

"(ii) INFORMATION FROM PUBLIC HOUSING AGENCIES.—Each eligible public housing agency administering assistance under this paragraph shall submit to the Secretary and to the State in which the public housing agency is located an annual report for each fiscal year that includes—

"(I) the number of voucher recipients, including aggregated demographic information on the age, sex, gender identity, sexual orientation, race, ethnicity, and disability status of each such recipient in a manner that does not reveal the personally identifiable information of each such recipient;

"(II) the number of eligible recipients who applied during the fiscal year for assistance under this paragraph, but were not provided assistance;

"(III) a brief identification in each instance described in subclause (II) of the reason why the eligible public housing agency was unable to provide the assistance; and

"(IV) a description of how the eligible public housing agency communicated or collaborated with public child welfare agencies and continuums of care to collect the data described in subclauses (I) and (II).

"(D) SUPPORTIVE SERVICES.—

"(i) ADMINISTRATIVE FEE.—

"(I) IN GENERAL.—The Secretary shall establish a fee under subsection (q) for the costs incurred by public housing agencies in administering vouchers under this paragraph.

"(II) COSTS.—In establishing the fee described in subclause (I), the Secretary shall include the costs to public housing agencies of employing full-time or full-time-equivalent service coordinators.

"(III) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated $300,000,000 for each of fiscal years 2026 through 2031 for the fee described in subclause (I).

"(ii) HIRING OF SERVICE COORDINATORS.—

"(I) IN GENERAL.—An eligible public housing agency shall hire the appropriate number of service coordinators to administer supportive services under this paragraph in partnership with the public child welfare agency or continuum of care in a jurisdiction.

"(II) INSUFFICIENT FUNDS.—If an eligible public housing agency is unable to hire an appropriate number of service coordinators under subclause (I) using the fee described in clause (i)(I)—

"(aa) the public housing agency may request an increased administrative fee from the Secretary; and

"(bb) the Secretary shall approve or deny a request received under item (aa) within 45 days.

"(III) REPORT TO CONGRESS.—Beginning in the first full fiscal year after the date of enactment of this paragraph, the Secretary shall submit an annual report to Congress on requests for increased administrative fees received from public housing agencies under subclause (II).

"(IV) APPROPRIATE NUMBER DEFINED.—For purposes of this clause, the term 'appropriate number', with respect to service coordinators, means enough service coordinators so that each household provided a voucher by a public housing agency under this paragraph is able to access a service coordinator for not less than 30 minutes each week.

"(iii) PROVISION OF SERVICES.—Upon intake of an eligible recipient, a public housing agency or a public child welfare agency or continuum of care with which the public housing agency has partnered shall—

"(I) assign the voucher recipient a case manager or service coordinator; and

"(II) provide or secure the provision of supportive services to contribute to the housing stability of the voucher recipient, including—

"(aa) any supportive service, as defined in section 401 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11360);

"(bb) referrals to health care providers, including mental health care providers, dental health care providers, and vision health care providers;

"(cc) referrals to substance use disorder treatment, including recovery, treatment, 12-step programs, relapse prevention, or medication-assisted treatment;

"(dd) assistance relating to enrollment in the Medicare or Medicaid programs under titles XVIII and XIX of the Social Security Act (42 U.S.C. 1395 et seq., 1396 et seq.), respectively, and referrals to other services, including—

"(AA) the supplemental nutrition assistance program under the Food and Nutrition Act of 2008 (7 U.S.C. 2011 et seq.) (commonly known as the 'SNAP Program'); and

"(BB) the program of block grants for States for temporary assistance for needy families established under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.) (commonly known as the 'TANF Program');

"(ee) advising on eligibility for the family self-sufficiency program established, credit counseling, and housing counseling programs;

"(ff) referrals to education services, including general educational development (commonly known as 'GED') preparation and testing, enrollment in post-secondary education programs, credit recovery, and affordable childcare programs; and

"(gg) facilitation of transportation assistance to any of the supportive services described in this subparagraph.

"(iv) ELIGIBILITY OF PRIVATE NON-PROFIT ORGANIZATIONS AND FAITH-BASED ORGANIZATIONS.—

"(I) DEFINITIONS.—In this clause, the terms 'eligible entity' and 'private nonprofit organization' have the meanings given those terms in section 401 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11360).

"(II) ELIGIBILITY.—Notwithstanding any other provision of law—

"(aa) the Secretary shall provide that private nonprofit organizations that are eligible entities, including faith-based private nonprofit organizations that are eligible entities, shall be eligible to—

"(AA) provide services described in clause (iii); and

"(BB) receive amounts made available to carry out clause (iii); and

"(bb) in determining eligibility for amounts made available to carry out clause (iii), the status of an entity as faith-based or the possibility that an entity may be faith-based may not be a basis for any discrimination against such entity in any manner or for any purpose.

"(v) ACCESS.—Services provided under this subparagraph shall be available to voucher recipients with low-to-no barrier access.

"(vi) EVALUATION.—An eligible public housing agency, public child welfare agency, or continuum of care described in clause (iii) shall evaluate each voucher recipient for individual case management needs under this subparagraph.

"(E) CAPACITY BUILDING.—

"(i) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to the Secretary $500,000,000 for each of fiscal years 2026 and 2027 to provide funding for capacity building to eligible public housing agencies.

"(ii) FUNDING FORMULA.—Not later than 45 days after the date of enactment of this paragraph, the Secretary shall establish a formula for allocating the funding authorized under clause (i) that takes into account—

"(I) the ratio of individuals in the State in which the eligible public housing agency operates who are homeless to the overall population of the State;

"(II) the proportion of families in each State with children experiencing unsheltered homelessness, as reported in the State's most recent point-in-time count, to the total number of unsheltered homeless families in the State as reported in the same point-in-time count; and

"(III) the rate of unsheltered homelessness in each State compared to each other State, as reported in each State's most recent point-in-time count.

"(iii) DISBURSEMENT.—Not later than 30 days after an eligible public housing agency submits an acceptable statement under subparagraph (A)(iv)(III), the

Secretary shall disburse amounts authorized under clause (i) of this subparagraph in accordance with the formula established under clause (ii) of this subparagraph.

"(iv) MINIMUM AND MAXIMUM ALLOCATION.—The Secretary shall ensure that—

"(I) each eligible public housing agency does not receive more than 10 percent of the amount authorized under clause (i); and

"(II) each State in which an eligible public housing agency receives funds under clause (i) does not receive more than 25 percent of the total amount authorized under that clause.

"(v) ELIGIBLE ACTIVITIES.—A recipient of funds authorized under clause (i) may only use the funds for—

"(I) hiring and personnel needs, such as case managers and housing placement advisory, including increased educational resources for staff to meet the needs of voucher recipients;

"(II) physical infrastructure—

"(aa) including increased office space or facilities for the provision of supportive services; and

"(bb) not including residential housing;

"(III) technological infrastructure needs, including upgrades to the HMIS; and

"(IV) any other capacity-related investments that are necessary for the public housing agency to—

"(aa) develop, acquire, or rehabilitate housing that is affordable to extremely low-income families, to be made available to people experiencing homelessness, including increased resources for eligible public housing agencies to conduct unit inspections; or

"(bb) support the successful administration of the vouchers under this paragraph.

"(vi) REQUIREMENT FOR EXPENDITURE OF FUNDS.—Each eligible public housing agency that receives funds under clause (i) shall expend not less than 60 percent of the funding during the 2-year period following receipt of the funding.

"(F) STATE ACCOUNTABILITY.—

"(i) IN GENERAL.—Each eligible public housing agency providing assistance under this paragraph shall—

"(I) on a monthly basis, report caseload and voucher administration statistics to the State in which the agency operates; and

"(II) twice annually, submit to the State in which the agency operates a report on the progress toward issuing a voucher under this paragraph to all eligible recipients, based on—

"(aa) the percentage reduction in the number of families with children and youth that are experiencing homelessness in the area in which the agency care operates, as determined by comparing the most recent point-in-time count with the point-in-time count conducted 1 year prior; and

"(bb) the percentage reduction in the number of children experiencing homelessness in the State, as documented under the requirements of the program authorized under subtitle B of title VII of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11431 et seq.).

"(ii) BENCHMARKS.—Each year, each State shall meet the benchmarks described in this clause, based equally on the percentage reduction in reported population of children and families experiencing homelessness in the following year's point-in-time count and the percentage reduction in population of students experiencing homelessness:

"(I) ANNUAL REPORT.—Each State shall submit an annual report to the Secretary that contains—

"(aa) data collected from schools pursuant to the program authorized under subtitle B of title VII of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11431 et seq.), including the number of students—

"(AA) experiencing unsheltered homelessness;

"(BB) living in shelters;

"(CC) living in motels, hotels, or campgrounds;

"(DD) living in a car or other motor vehicle; or

"(EE) sharing the housing of other persons due to loss of housing, economic hardship, or similar reasoning; and

"(bb) the information received from each public housing agency in the State under clause (i)(II).

"(II) ISSUANCE OF VOUCHERS FOR SMALLER STATES.—Each State with a rate of homelessness that is not higher than 10 people per 10,000 shall—

"(aa) not later than 2 years after the end of the capacity-building period—

"(AA) issue vouchers under this paragraph to not less than 50 percent of the population of people experiencing homelessness in the State, using data from the most recent point-in-time count; and

"(BB) to the greatest extent possible, prioritize the issuance of those vouchers to eligible youth and families;

"(bb) not later than 3 years after the end of the capacity-building period—

"(AA) issue vouchers under this paragraph to not less than 70 percent of the population of people experiencing homelessness in the State, using data from the most recent point-in-time count; and

"(BB) to the greatest extent possible, prioritize the issuance of those vouchers to eligible youth and families; and

"(cc) not later than 4 years after the end of the capacity-building period, issue vouchers under this paragraph to all people experiencing homelessness in the State.

"(III) ISSUANCE OF VOUCHERS FOR LARGER STATES.—Each State with a rate of homelessness that is higher than 10 people per 10,000 shall—

"(aa) not later than 2 years after the end of the capacity-building period—

"(AA) issue vouchers under this paragraph to not less than 40 percent of the population of people experiencing homelessness in the State, using data from the most recent point-in-time count; and

"(BB) to the greatest extent possible, prioritize the issuance of those vouchers to eligible youth and families;

"(bb) not later than 3 years after the end of the capacity-building period—

"(AA) issue vouchers under this paragraph to not less than 60 percent of the population of people experiencing homelessness in the State, using data from the most recent point-in-time count; and

"(BB) to the greatest extent possible, prioritize the issuance of those vouchers to eligible youth and families; and

"(cc) not later than 4 years after the end of the capacity-building period, issue vouchers under this paragraph to all people experiencing homelessness in the State.

"(iii) PENALTIES.—

"(I) WARNING.—Except as provided in clause (v), if a State does not meet the applicable benchmarks described in clause (ii), the Secretary shall publicly warn the State of the failure of the State to meet the benchmark and remind the State of the applicable penalties.

"(II) REDUCTION IN FEDERAL HIGHWAY FUNDS.—If a State does not meet the applicable benchmarks described in clause (ii)—

"(aa) by the date that is 180 days after the warning by the Secretary under subclause (I) of this clause, the Federal share payable for Federal-aid highway projects under section 120 of title 23, United States Code, shall be reduced by 5 percent; or

"(bb) by the date that is 180 days after a reduction made under item (aa) of this subclause, the Federal share payable for Federal-aid highway projects under section 120 of title 23, United States Code, shall be further reduced by 5 percent.

"(iv) CONDITION ON COMPLIANCE.—Beginning in the first Notice of Funding Availability cycle beginning after the date of enactment of this paragraph, and every Notice of Funding Availability cycle thereafter, the Secretary shall condition the awarding of all funding for vouchers under this paragraph by the Secretary to a public housing authority in a State on that State's compliance with the benchmarks described in clause (ii).

"(v) UNEMPLOYMENT RATE.—If the quarterly unemployment rate of the population of a State is not less than 6 percent—

"(I) the State shall not be penalized under clause (iii) for failure to meet the benchmarks described in clause (ii); and

"(II) the State shall be required to meet the benchmarks described in clause (ii) not later than 180 days after the date on which the quarterly unemployment rate descends beneath 6 percent.

"(G) ADMINISTRATIVE NEEDS OF HUD.—

"(i) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated $15,000,000 for each of fiscal years 2026 through 2030 to the Secretary for the administrative needs of the Department of Housing and Urban Development and regional offices of the Department in carrying out the voucher program under this paragraph.

"(ii) PROHIBITION.—None of the funds made available under this subparagraph may be used to provide raises or bonuses to any employee of the Department of Housing and Urban Development in an amount that is more than 10 percent of the annual gross salary of the employee.".

(b) TECHNICAL AND CONFORMING AMENDMENT.—Effective on December 29, 2027, paragraph (22) of section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)), as added by subsection (a), is redesignated as paragraph (23) and shall appear after paragraph (22), as added by section 601(a)(2)(B) of division AA of the Consolidated Appropriations Act, 2023 (Public Law 117–328).

SEC. 102. LAND ACQUISITION AND CONSTRUCTION.

(a) DEFINITIONS.—In this section—

(1) the term "at risk of homelessness" has the meaning given the term in section 401(1) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11360), except that "50 percent" shall be

substituted for ‘‘30 percent’’ in subparagraph (A) of that section;

(2) the terms ‘‘extremely low-income’’ and ‘‘very low-income’’ have the meanings given those terms in section 1303 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4502);

(3) the term ‘‘homeless’’ means an individual or family who is—

(A) living in a place not meant for human habitation or in an emergency shelter;

(B) living in transitional housing for homeless persons and was homeless before entering transitional housing or an emergency shelter;

(C) fleeing domestic violence; or

(D) at risk of homelessness; and

(4) the term ‘‘Secretary’’ means the Secretary of Housing and Urban Development.

(b) AUTHORIZATION OF APPROPRIATIONS.—

(1) IN GENERAL.—There is authorized to be appropriated to the Housing Trust Fund established under section 1338 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4568) $10,000,000,000 for each of fiscal years 2026 through 2036 for allocation to States in

accordance with subsection (c) of such section 1338, subject to subsections (c) through (f) of this section.

(2) ADMINISTRATIVE NEEDS OF STATES.—

(A) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to the Secretary $65,000,000 for each of fiscal years 2026 through 2031 for the administrative needs of States under this section, in accordance with subparagraph (C).

(B) ALLOCATION.—Of amounts authorized to be appropriated under subparagraph (A) for each fiscal year—

(i) $15,000,000 shall be allocated to the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the Virgin Islands; and

(ii) the remainder shall be allocated to States pursuant to the formula established under paragraph (22)(E)(ii) of section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)), as added by section 101 of this Act.

(C) ELIGIBLE ACTIVITIES.—A State that receives funds authorized to be appropriated under subparagraph (A) may only use the funds for capacity-related investments that are necessary for the State to successfully allocate funds made available under paragraph (1) of this subsection.

(D) PROHIBITION.—None of the funds made available under this paragraph may be used to provide raises or bonuses to any official of the executive branch of a State.

(c) REVISION OF FUNDING FORMULA.—

(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act, the Secretary shall report to Congress proposed changes to the funding formula under section 1338(c)(3) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4568(c)(3)) in order to ensure that the funding formula takes into account the economic status of the people of the United States.

(2) CONTENTS.—The revised formula proposed under paragraph (1) shall address the following concerns:

(A) The impacts of differing vacancy rates across various housing markets in the United States.

(B) The rate of unsheltered homelessness in various housing markets across the United States.

(C) The impact of differing rates of poverty and extreme poverty across various States.

(D) The gap between demand for and supply of rental units that are affordable and available to very low-income and extremely low-income renters in a State.

(d) ELIGIBLE HOUSEHOLDS.—Housing that is assisted using amounts made available under subsection (b) may only be used for the benefit of very low-income or extremely low-income households.

(e) ELIGIBLE ACTIVITIES.—A recipient of funds authorized under subsection (b)—

(1) may only use the funds for land acquisition and the acquisition, rehabilitation, or development of rental housing that is affordable for very low-income or extremely low-income households; and

(2) shall take all possible measures to expedite construction of housing described in paragraph (1).

(f) PRIORITY FOR OCCUPANCY IN DWELLING UNITS.—

(1) FIRST 2 FISCAL YEARS.—During the first 2 fiscal years for which amounts are made available to

carry out this section, the Secretary shall ensure that priority for occupancy in a dwelling unit that receives assistance under this section is given to a homeless family or homeless youth.

(2) SUBSEQUENT 3 FISCAL YEARS.—During the third, fourth, and fifth fiscal years for which amounts are made available to carry out this section, the Secretary shall ensure that priority for occupancy in a dwelling unit that receives assistance under this section is given to a homeless family or homeless individual.

SEC. 103. MODULAR CONSTRUCTION PILOT PROGRAM.

(a) DEFINITIONS.—In this section:

(1) ELIGIBLE ENTITY.—The term ''eligible entity'' means a public housing agency, a tribally designated housing entity (as defined in section 4 of the Native American Housing Assistance and Self Determination Act of 1996 (25 U.S.C. 4103)), a nonprofit entity, a company, a religious entity, or a unit of local or Tribal government.

(2) MODULAR CONSTRUCTION.—The term ''modular construction'' means the method of residential construction by which building modules are constructed off of the future site of a building, then brought together on the building site to form a larg-

er residential building, in an effort to reduce construction costs.

(3) SECRETARY.—The term ''Secretary'' means the Secretary of Housing and Urban Development.

(b) ESTABLISHMENT OF PROGRAM.—

(1) IN GENERAL.—The Secretary shall establish a pilot program to provide grants to eligible entities to promote the construction of affordable housing using modular construction.

(2) AFFORDABILITY REQUIREMENT.—To be eligible to receive a grant under paragraph (1), an eligible entity shall be required to guarantee affordability for a period of more than 20 years.

(3) PRIORITY.—In awarding grants under paragraph (1), the Secretary shall give priority to an eligible entity that fulfills not fewer than two of the following requirements:

(A) The eligible entity—

(i) will construct the housing in groups of more than 50 units; or

(ii) provides confirmation from the jurisdiction with land use control over the site proposed by the eligible entity that—

(I) construction will be completed within 18 months; and

(II) the housing will be constructed in groups of more than 30 units.

(B) The eligible entity partners with a public housing agency or unit of local government that will issue rental assistance to residents of the affordable housing through vouchers or grants.

(C) The eligible entity will provide supportive services (as described in paragraph (21)(D)(iii)(II) of section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)), as added by section 3 of this Act) to residents at no charge, or has secured the provision of publicly or privately administered supportive services (as so defined) to residents at no charge.

(c) MATCHING REQUIREMENT.—The Federal share of a project funded under this section shall be not more than 75 percent of the cost of the project.

(d) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to the Secretary $2,000,000 for each of fiscal years 2026 through 2031 to carry out this section.

SEC. 104. SUPPORTING PRO-HOUSING DEVELOPMENT.

(a) DEFINITIONS.—In this section:

(1) DUPLEX.—The term ''duplex'' means a residential building divided into 2 units, each of which has a separate entrance.

(2) ELIGIBLE ACTIVITY.—The term ''eligible activity'' means an activity authorized under section 105(a) of the Housing and Community Development Act of 1974 (42 U.S.C. 5305(a)).

(3) ELIGIBLE ENTITY.—The term ''eligible entity'' means a jurisdiction that adopts a zoning and community planning method described in subsection (d)(4) after the date of enactment of this Act.

(4) FLOOR AREA RATIO.—The term ''floor area ratio'' means the measurement of the floor area of a building in relation to the size of the unit of land on which the building is located.

(5) JURISDICTION.—The term ''jurisdiction'' has the meaning given the term in section 91.5 of title 24, Code of Federal Regulations, or any successor regulation.

(6) LOW-INCOME.—The term ''low-income'' has the meaning given the term in section 1303 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4502).

(7) MIXED-USE HOUSING.—The term ''mixed use housing'' means a building with—

(A) retail or other business, public service, or nonprofit establishments at the ground level or a lower level; and

(B) not less than 1 story of residential units above the establishments described in subparagraph (A).

(8) QUADPLEX.—The term ''quadplex'' means a residential building divided into 4 units, each of which has a separate entrance.

(9) SECRETARY.—The term ''Secretary'' means the Secretary of Housing and Urban Development.

(10) TRIPLEX.—The term ''triplex'' means a residential building divided into 3 units, each of which has a separate entrance.

(11) MULTIFAMILY HOUSING.—The term ''multifamily housing''—

(A) means housing accommodations that—

(i) are designed principally for residential use;

(ii) conform to standards satisfactory to the Secretary; and

(iii) consist of not less than 5 rental units on a site; and

(B) includes units that are detached, semidetached, row house, or multifamily structures.

(b) ZONING INFORMATION REPORTING REQUIREMENT.—

(1) IN GENERAL.—The Secretary shall require a jurisdiction that receives, directly or indirectly, any funding from the Secretary to submit to the Secretary a report containing information about the zoning and community planning methods of the jurisdiction, unless the jurisdiction already reports such information.

(2) ADDITIONAL INFORMATION.—Upon receiving a report described in paragraph (1) from a jurisdiction, the Secretary may request additional information, at the discretion of the Secretary.

(c) PROHIBITED ZONING METHODS.—

(1) IN GENERAL.—On and after the date that is 180 days after the date of enactment of this Act, a jurisdiction that uses a zoning and community planning method described in paragraph (2) may not receive, directly or indirectly, amounts from a grant awarded under subsection (d).

(2) PROHIBITED METHODS.—The methods referred to in paragraph (1) are the following:

(A) Prohibiting or discouraging duplexes in areas zoned for single-family homes.

(B) Prohibiting or discouraging single-room occupancy development in areas zoned for multifamily homes.

(C) In areas within one half-mile of a multimodal transit stop, maintaining requirements of more than 1 parking spot for a resident's car per residential unit.

(D) Prohibiting or discouraging accessory dwelling units (commonly known as an ''ADU'' or ''granny flat'') on the premises of single-family homes.

(E) Prohibiting or discouraging the conversion of commercial property into residential property.

(F) Prohibiting or discouraging the development of multifamily housing or mixed-use housing in commercial areas.

(3) EXCEPTION.—A jurisdiction shall not be penalized under paragraph (1) based on the use of a zoning and community planning method described in paragraph (2) over which the jurisdiction does not have control.

(d) GRANT PROGRAM.—

(1) ESTABLISHMENT.—The Secretary shall establish a program under which the Secretary awards competitive grants to eligible entities to use for eligible activities.

(2) PRIORITY.—In awarding grants under paragraph (1), the Secretary—

(A) shall give priority to an eligible entity that adopt more than one of the zoning and community planning methods described in paragraph (4); and

(B) in giving priority to an eligible entity under subparagraph (A) of this paragraph, shall base the degree of priority given on the number of such methods that the eligible entity has adopted, relative to the number of such methods that each other eligible entity has adopted.

(3) AMOUNT OF GRANT.—

(A) IN GENERAL.—The amount of a grant awarded to an eligible entity under paragraph (1) shall be not less than—

(i) $5,000,000 for an eligible entity with a population of less than 80,000;

(ii) $20,000,000 for an eligible entity with a population of less than 100,000;

(iii) $40,000,000 for an eligible entity with a population of less than 500,000;

(iv) $100,000,000 for an eligible entity with a population of less than 1,000,000; and

(v) $125,000,000 for an eligible entity with a population of not less than 1,000,000.

(B) POPULATION CALCULATION.—The Secretary shall calculate the population of an eligible entity for purposes of subparagraph (A) using the most recently available data from the Bureau of the Census.

(4) ENCOURAGED ZONING AND COMMUNITY PLANNING METHODS.—The zoning and community planning methods described in this paragraph are the following:

(A) Allowing—

(i) duplexes, triplexes, and quadplexes, or other multifamily housing, in areas zoned for single-family homes;

(ii) the subdivision of existing single-family homes into multiple units; and

(iii) waivers to permitting or zoning requirements to incentivize the construction of—

(I) accessory dwelling units;

(II) additions to existing single-family homes to create duplexes, triplexes, or quadplexes; or

(III) other additions that do not require demolition of an existing home on a given unit of land.

(B) Incentivizing the development of single-room occupancy multifamily housing and accessory dwelling units through expedited permitting, reduced fees, or other incentives.

(C) Not imposing a minimum lot size or minimum unit square-foot requirements.

(D) Incentivizing the development of commercial property into residential housing.

(E) Eliminating or lowering requirements for per-unit parking spots.

(F) Allowing increased floor area ratios.

(G) Eliminating or raising height limits on development to encourage building vertically rather than horizontally.

(H) Waiving or eliminating fees or permits for development in exchange for the development of a larger number of units that are affordable to low-income people.

(5) REGULATIONS.—The Secretary may promulgate any regulations necessary to carry out this subsection.

(6) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this subsection $4,000,000,000 for each of fiscal years 2026 through 2031.

SEC. 105. PERMANENT AUTHORIZATION OF APPROPRIATIONS FOR MCKINNEY-VENTO HOMELESS ASSISTANCE ACT GRANTS.

Section 408 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11364) is amended to read as follows:

"SEC. 408. AUTHORIZATION OF APPROPRIATIONS.

"There are authorized to be appropriated to carry out this title such sums as may be necessary for each fiscal year.".

TITLE II—REVENUE PROVISIONS

SEC. 201. INCREASES IN STATE ALLOCATIONS.

(a) IN GENERAL.—Clause (ii) of section 42(h)(3)(C) of the Internal Revenue Code is amended—

(1) by striking "$1.75" in subclause (I) and inserting "the per capita amount", and

(2) by striking "$2,000,000" in subclause (II) and inserting "the minimum amount".

(b) PER CAPITA AMOUNT; MINIMUM AMOUNT.—Section 42(h)(3) of the Internal Revenue Code of 1986 is amended by striking subparagraphs (H) and (I) and inserting the following:

"(H) PER CAPITA AMOUNT.—For purposes of subparagraph (C)(ii)(I), the per capita amount shall be determined as follows:

"(i) CALENDAR YEAR 2026.—For calendar year, 2026, the per capita amount is $4.30.

"(ii) CALENDAR YEAR 2027.—For calendar year 2027, the per capita amount is the product of—

"(I) 1.25, and

"(II) the dollar amount under clause (i) increased by an amount equal to—

"(aa) such dollar amount, multiplied by

"(bb) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting 'calendar year 2025' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

If the amount determined after application of the preceding sentence is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

"(iii) CALENDAR YEARS AFTER 2027.—In the case of any calendar year after 2027, the per capita amount is the dollar amount determined under clause (ii) increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting 'calendar year 2026' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

Any amount increased under the preceding sentence which is not a multiple of 5 cents shall be rounded to the next lowest multiple of 5 cents.

"(I) MINIMUM AMOUNT.—For purposes of subparagraph (C)(ii)(II), the minimum amount shall be determined as follows:

"(i) CALENDAR YEAR 2026.—For calendar year, 2026, the minimum amount is $4,965,000.

"(ii) CALENDAR YEAR 2027.—For calendar year 2027, the minimum amount is the product of—

"(I) 1.25, and

"(II) the dollar amount under clause (i) increased by an amount equal to—

"(aa) such dollar amount, multiplied by

"(bb) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting 'calendar year 2025' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

If the amount determined after application of the preceding sentence is not a multiple of 5 cents, such amount shall be rounded to the next lowest multiple of 5 cents.

"(iii) CALENDAR YEARS AFTER 2027.—In the case of any calendar year after 2027, the minimum amount is the dollar amount determined under clause (ii) increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting 'calendar year 2026' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

Any amount increased under the preceding sentence which is not a multiple of $5,000 shall be rounded to the next lowest multiple of $5,000.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years beginning after December 31, 2025.

SEC. 202. BUILDINGS DESIGNATED TO SERVE EXTREMELY LOW-INCOME HOUSEHOLDS.

(a) RESERVED STATE ALLOCATION.—

(1) IN GENERAL.—Section 42(h) of the Internal Revenue Code of 1986 is amended—

(A) by redesignating paragraphs (6), (7), and (8) as paragraphs (7), (8), and (9), respectively, and

(B) by inserting after paragraph (5) the following new paragraph:

"(6) PORTION OF STATE CEILING SET-ASIDE FOR PROJECTS DESIGNATED TO SERVE EXTREMELY LOW-INCOME HOUSEHOLDS.—

"(A) IN GENERAL.—Not more than 92 percent of the portion of the State housing credit ceiling amount described in paragraph (3)(C)(ii) for any State for any calendar year shall be allocated to buildings other than buildings described in subparagraph (B).

"(B) BUILDINGS DESCRIBED.—A building is described in this subparagraph if 20 percent or more of the residential units in such building are rent-restricted (determined as if the imputed income limitation applicable to such units were 30 percent of area median gross income) and are designated by the taxpayer for occupancy by households the aggregate household income of which does not exceed the greater of—

"(i) 30 percent of area median gross income, or

"(ii) 100 percent of an amount equal to the Federal poverty line (within the meaning of section 36B(d)(3)).

"(C) EXCEPTION.—A building shall not be treated as described in subparagraph (B) if such building is a part of a qualified low-income housing project with respect to which the taxpayer elects the requirements of subsection (g)(1)(C).".

(2) CONFORMING AMENDMENT.—Section 42(b)(4)(C) of such Code is amended by striking "(h)(7)" and inserting "(h)(8)".

(b) INCREASE IN CREDIT.—Paragraph (5) of section 42(d) of the Internal Revenue Code of 1986 is amended by adding at the end the following new subparagraph:

"(C) INCREASE IN CREDIT FOR BUILDINGS DESIGNATED TO SERVE EXTREMELY LOW-INCOME HOUSEHOLDS.—

"(i) IN GENERAL.—In the case of any building—

"(I) which is described in subsection (h)(6)(B), and

"(II) which is designated by the housing credit agency as requiring the increase in credit under this subparagraph in order for such building to be financially feasible as part of a qualified low-income housing project,

subparagraph (B) shall not apply to the portion of such building which is comprised of residential units described in subsection (h)(6)(B) (determined in a manner similar to the unit fraction under subsection (c)(1)(C)), and the eligible basis of such portion of the building shall be 150 percent of such basis determined without regard to this subparagraph.

"(ii) ALLOCATION RULES APPLICABLE TO PROJECTS TO WHICH CLAUSE (i) APPLIES.—

"(I) STATE HOUSING CREDIT CEILING.—For any calendar year, no more than 13 percent of the portion of the State housing credit ceiling described in subsection (h)(3)(C)(ii) shall be allocated to buildings to which clause (i) applies.

"(II) APPLICATION TO PROJECTS FINANCED WITH TAX-EXEMPT BONDS.—In the case of any building which is financed by an obligation described in subsection (h)(4), clause (i) shall not apply unless—

"(aa) the State in which the issuing authority issuing such obligation is located designates such obligation as an obligation to which this subparagraph applies, and

"(bb) the aggregate face amount of obligations designated under item (aa) by such State in the calendar year during which such obligation is issued does not exceed 8 percent of the State ceiling of such State under section 146(d)(1) for such year.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations of housing credit dollar amount after December 31, 2026, and to buildings that are described in section 42(h)(4)(B) of the Internal Revenue Code of 1986 taking into account only obligations that are part of an issue the issue date of which is after December 31, 2026.

SEC. 203. INCLUSION OF INDIAN AREAS AS DIFFICULT DEVELOPMENT AREAS FOR PURPOSES OF CERTAIN BUILDINGS.

(a) IN GENERAL.—Subclause (I) of section 42(d)(5)(B)(iii) of the Internal Revenue Code of 1986 is amended by inserting before the period the following: ", and any Indian area".

(b) INDIAN AREA.—Clause (iii) of section 42(d)(5)(B) of the Internal Revenue Code of 1986 is amended by redesignating subclause (II) as subclause (IV) and by inserting after subclause (I) the following new subclauses:

"(II) INDIAN AREA.—For purposes of subclause (I), the term 'Indian area' means—

"(aa) any Indian area (as defined in section 4(11) of the Native American Housing Assistance and Self Determination Act of 1996 (25 U.S.C. 4103(11))), and "(bb) any housing area (as defined in section 801(5) of such Act (25 U.S.C. 4221(5))).

"(III) SPECIAL RULE FOR BUILDINGS IN INDIAN AREAS.—In the case of an area which is a difficult development area solely because it is an Indian area, a building shall not be treated as located in such area unless such building is assisted or financed under the Native American Housing Assistance and Self Determination Act of 1996 (25 U.S.C. 4101 et seq.) or the project sponsor is an Indian tribe (as defined in section 45A(c)(6)), a tribally designated housing entity (as defined in section 4(22) of such Act (25 U.S.C. 4103(22))), or wholly owned or controlled by such an Indian tribe or tribally designated housing entity.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to buildings placed in service after December 31, 2026.

SEC. 204. INCLUSION OF RURAL AREAS AS DIFFICULT DEVELOPMENT AREAS.

(a) IN GENERAL.—Subclause (I) of section 42(d)(5)(B)(iii) of the Internal Revenue Code of 1986, as amended by section 203, is further amended by inserting ‘‘, any rural area’’ after ‘‘median gross income’’.

(b) RURAL AREA.—Clause (iii) of section 42(d)(5)(B) of the Internal Revenue Code of 1986, as amended by section 203, is further amended by redesignating subclause (IV) as subclause (V) and by inserting after subclause (III) the following new subclause:

‘‘(IV) RURAL AREA.—For purposes of subclause (I), the term ‘rural area’ means any non-metropolitan area, or any rural area as defined by section 520 of the Housing Act of 1949, which is identified by the qualified allocation plan under subsection (m)(1)(B).’’.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to buildings placed in service after December 31, 2026.

SEC. 205. INCREASE IN CREDIT FOR BOND-FINANCED PROJECTS DESIGNATED BY HOUSING CREDIT AGENCY.

(a) IN GENERAL.—Clause (v) of section 42(d)(5)(B) of the Internal Revenue Code of 1986 is amended by striking the second sentence.

(b) TECHNICAL AMENDMENTS.—Clause (v) of section 42(d)(5)(B) of the Internal Revenue Code of 1986, as amended by subsection (a), is further amended—

(1) by striking ‘‘STATE’’ in the heading; and

(2) by striking ‘‘State housing credit agency’’ and inserting ‘‘housing credit agency’’.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to a building if—

(A) any portion of such building is financed by an obligation described in paragraph (2), or

(B) the land on which the building is located is financed by an obligation described in paragraph (2).

(2) OBLIGATION DESCRIBED.—An obligation is described in this paragraph if such obligation—

(A) is described in section 42(h)(4)(A) of the Internal Revenue Code of 1986, and

(B) is issued after December 31, 2026.

SEC. 206. REPEAL OF QUALIFIED CONTRACT OPTION.

(a) TERMINATION OF OPTION FOR CERTAIN BUILDINGS.—

(1) IN GENERAL.—Subclause (II) of section 42(h)(7)(E)(i) of the Internal Revenue Code of 1986, as redesignated by section 202, is amended by inserting ''in the case of a building described in clause (iii),'' before ''on the last day''.

(2) BUILDINGS DESCRIBED.—Subparagraph (E) of section 42(h)(7) of such Code, as so redesignated, is amended by adding at the end the following new clause:

''(iii) BUILDINGS DESCRIBED.—A building described in this clause is a building—

''(I) which received its allocation of housing credit dollar amount before January 1, 2027, or

''(II) in the case of a building any portion of which is financed as described in paragraph (4), and which received before January 1, 2027, under the rules of paragraphs (1) and (2) of subsection (m), a determination from the issuer of the tax-exempt bonds or the housing credit agency that the building would be eligible under the qualified allocation plan to receive an allocation of housing credit dollar amount or that the credits to be earned are necessary for financial feasibility of the project and its viability as a qualified low-income housing project throughout the credit period.''.

(b) RULES RELATING TO EXISTING PROJECTS.—Subparagraph (F) of section 42(h)(7) of the Internal Revenue Code of 1986, as redesignated by section 202, is amended by striking ''the nonlow-income portion'' and all that follows and inserting ''the nonlow-income portion and the low-income portion of the building for fair market value (determined by the housing credit agency by taking into account the rent restrictions required for the low-income portion of the building to continue to meet the standards of paragraphs (1) and (2) of subsection (g)). The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this paragraph.''.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (7) of section 42(h) of the Internal Revenue Code of 1986, as redesignated by section 202, is amended by striking subparagraph (G) and by redesignating subparagraphs (H), (I), (J),

and (K) as subparagraphs (G), (H), (I), and (J), respectively.

(2) Subclause (II) of section 42(h)(7)(E)(i) of such Code, as so redesignated and as amended by subsection (a), is further amended by striking ''subparagraph (I)'' and inserting ''subparagraph (H)''.

(d) TECHNICAL AMENDMENT.—Subparagraph (I) of section 42(h)(7) of the Internal Revenue Code of 1986, as redesignated by section 202 and subsection (c), is amended by striking ''agreement'' and inserting ''commitment''.

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply to buildings with respect to which a written request described in section 42(h)(7)(H) of the Internal Revenue Code of 1986, as redesignated by section 202 and subsection (c), is submitted after the date of the enactment of this Act.

SEC. 207. MODIFICATION AND CLARIFICATION OF RIGHTS RELATING TO BUILDING PURCHASE.

(a) MODIFICATION OF RIGHT OF FIRST REFUSAL.—

(1) IN GENERAL.—Subparagraph (A) of section 42(i)(7) of the Internal Revenue Code of 1986 is amended by striking ‘‘a right of 1st refusal’’ and inserting ‘‘an option’’.

(2) CONFORMING AMENDMENT.—The heading of paragraph (7) of section 42(i) of such Code is amended by striking ‘‘RIGHT OF 1ST REFUSAL’’ and inserting ‘‘OPTION’’.

(b) CLARIFICATION WITH RESPECT TO RIGHT OF FIRST REFUSAL AND PURCHASE OPTIONS.—

(1) PURCHASE OF PARTNERSHIP INTEREST.—

(A) IN GENERAL.—Subparagraph (A) of section 42(i)(7) of the Internal Revenue Code of 1986, as amended by subsection (a), is amended by striking ‘‘the property’’ and inserting ‘‘the property or all of the partnership interests (other than interests of the person exercising such option or a related party thereto (within the meaning of section 267(b) or 707(b)(1))) relating to the property’’.

(B) APPLICATION TO S CORPORATIONS AND OTHER PASS-THROUGH ENTITIES.—Subparagraph (A) of section 42(i)(7) of such Code is amended by adding at the end the following: "Except as provided by the Secretary, the rules of this paragraph shall apply to S corporations and other pass-through entities in the same manner as such rules apply to partnerships.".

(C) CONFORMING AMENDMENT.—Subparagraph (B) of section 42(i)(7) of such Code is amended by adding at the end the following: "In the case of a purchase of all of the partnership interests, the minimum purchase price under this subparagraph shall be an amount not less than the sum of the interests' shares of the amount which would be determined with respect to the property under this subparagraph without regard to this sentence.".

(2) PROPERTY INCLUDES ASSETS RELATING TO THE BUILDING.—Paragraph (7) of section 42(i) of such Code is amended by adding at the end the following new subparagraph:

"(C) PROPERTY.—For purposes of subparagraph (A), the term 'property' may include all or any of the assets held for the development, operation, or maintenance of a building.".

(3) EXERCISE OF RIGHT OF FIRST REFUSAL AND PURCHASE OPTIONS.—Subparagraph (A) of section 42(i)(7) of such Code, as amended by subsection (a) and paragraph (1)(A), is amended by adding at the end the following: ''For purposes of determining whether an option, including a right of first refusal, to purchase property or all of the partnership interests holding (directly or indirectly) such property is described in the preceding sentence—

''(i) such option or right of first refusal shall be exercisable with or without the approval of any owner of the project (including any partner, member, or affiliated organization of such an owner), and

''(ii) a right of first refusal shall be exercisable in response to any offer to purchase the property or all of the partnership interests, including an offer by a related party.''.

(c) OTHER CONFORMING AMENDMENT.—Subparagraph (B) of section 42(i)(7) of the Internal Revenue Code of 1986, as amended by subsection (b), is amended by striking ''the sum of'' and all that follows through ''application of clause (ii).'' and inserting the following: ''the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of the sale to the tenants).''.

(d) EFFECTIVE DATES.—

(1) MODIFICATION OF RIGHT OF FIRST REFUSAL.—The amendments made by subsections (a) and (c) shall apply to agreements entered into or amended after the date of the enactment of this Act.

(2) CLARIFICATION.—The amendments made by subsection (b) shall apply to agreements among the owners of the project (including partners, members, and their affiliated organizations) and persons described in section 42(i)(7)(A) of the Internal Revenue Code of 1986 entered into before, on, or after the date of the enactment of this Act.

(3) NO EFFECT ON AGREEMENTS.—None of the amendments made by this section is intended to supersede express language in any agreement with respect to the terms of a right of first refusal or option permitted by section 42(i)(7) of the Internal Revenue Code of 1986 in effect on the date of the enactment of this Act.

SEC. 208. PROHIBITION OF LOCAL APPROVAL AND CONTRIBUTION REQUIREMENTS.

(a) IN GENERAL.—Paragraph (1) of section 42(m) of the Internal Revenue Code of 1986 is amended—

(1) by striking clause (ii) of subparagraph (A) and by redesignating clauses (iii) and (iv) thereof as clauses (ii) and (iii), respectively, and

(2) by adding at the end the following new subparagraph:

"(E) LOCAL APPROVAL OR CONTRIBUTION NOT TAKEN INTO ACCOUNT.—The selection criteria under a qualified allocation plan shall not include consideration of—

"(i) any support or opposition with respect to the project from local or elected officials, or

"(ii) any local government contribution to the project, except to the extent such contribution is taken into account as part of a broader consideration of the project's ability to leverage outside funding sources, and is not prioritized over any other source of outside funding.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations of housing credit dollar amounts made after December 31, 2026.

SEC. 209. INCREASE IN CREDIT FOR LOW-INCOME HOUSING SUPPORTIVE SERVICES.

(a) IN GENERAL.—Paragraph (5) of section 42(d) of the Internal Revenue Code of 1986, as amended by section 202, is further amended by adding at the end the following new subparagraphs:

"(D) INCREASE IN CREDIT FOR PROVIDING SUPPORTIVE SERVICES.—

"(i) IN GENERAL.—In the case of any building which includes common areas, or property used therein, dedicated to the provision of on-site qualified supportive services, except as provided in subparagraphs (E) and (F), the eligible basis of the portion of the building which is comprised of such areas or property (after the application of subparagraphs (A) and (B)) shall be increased by an amount equal to 50 percent of such basis determined without regard to this subparagraph and subparagraphs (B) and (C).

"(ii) QUALIFIED SUPPORTIVE SERVICES.—For purposes of clause (i), the term 'qualified supportive services' means services—

"(I) provided by the owner of a building (directly or through contracts with third-party service providers) primarily to tenants of the building,

"(II) which are intended to promote economic self-sufficiency and physical and mental health and well-being in pursuit of retaining permanent housing, including childcare or eldercare services, health services, coordination of tenant benefits, job training, financial counseling, resident engagement services, or such other similar services as may be defined by the allocating agency in the qualified allocation plan,

"(III) which are provided to tenants and other beneficiaries as may be specified by the housing credit agency, including specifications as to which services may be provided to non-tenants,

"(IV) which are provided at no cost to beneficiaries other than any fee, copay, or coinsurance customarily charged by service providers for similar services, and

"(V) usage of or participation in which is not a condition of tenancy in the building.

Such term includes reasonable and necessary measures for the provision of such services, including measures to engage tenants and other beneficiaries in and coordinate such services, and measures required to obtain the certification described in subparagraph (E)(ii)(III).

"(E) EXTENDED SUPPORTIVE SERVICES COMMITMENT.—

"(i) IN GENERAL.—Subparagraph (D)(i) shall not apply to a building for any taxable year unless an extended supportive services commitment is in effect for such taxable year.

"(ii) EXTENDED SUPPORTIVE SERVICES COMMITMENT.—The term 'extended supportive services commitment' means any agreement between the owner of a building and the housing credit agency which—

"(I) provides estimates of the amounts to be spent, updated at least once every 5 years, on the provision of qualified supportive services to tenants of such building and other beneficiaries for each taxable year remaining in the credit period,

"(II) requires the designation of one or more individuals to engage tenants regarding, and coordinate delivery of, qualified supportive services,

"(III) requires the maintenance of an appropriate certification, as determined by the Secretary in consultation with the housing credit agencies, for qualified supportive services, subject to recertification at least once every 5 years,

"(IV) requires appropriate annual reporting to the housing credit agency on expenditures and outcomes, as determined by such agency, and

"(V) is binding on all successors in ownership of such building.

"(iii) EXCEPTIONS IF FORECLOSURE OR IF NO BUYER WILLING TO MAINTAIN SERVICES.—The requirement of clause (ii)(V) for any building shall terminate on the date the building is acquired by foreclosure (or instrument in lieu of foreclosure) unless the housing credit agency determines that such acquisition is part of an arrangement with the taxpayer a purpose of which is to terminate such requirement.

"(iv) EFFECT OF NONCOMPLIANCE.—If, during a taxable year, there is a determination by the housing credit agency that an extended supportive services commitment was not in effect as of the beginning of such year or that there is evidence of other noncompliance as determined by the housing credit agency (including failure to provide qualified supportive services)—

"(I) such determination shall not apply to any period before such year and subparagraph (D)(i) shall apply to such taxable year without regard to such determination if the failure is corrected within 1 year from the date of the determination, and

"(II) in the case of any year to which such determination does apply, if the failure is not corrected within 1 year from the date of the determination, the credit recapture amount under subsection (j)(1) for the year in which such 1 year period expires shall be increased by the amount of any increase in the credit under this section by reason of subparagraph (D)(i) for the year to which the determination applies.

"(v) PROJECTS WHICH CONSIST OF MORE THAN 1 BUILDING.—Rules similar to the rules of subsection (h)(7)(J) shall apply.

"(F) RESPONSIBILITIES OF HOUSING CREDIT AGENCY.—Subparagraph (D)(i) shall not apply to a building for any taxable year unless—

"(i) the housing credit agency sets forth criteria—

"(I) to determine appropriate, evidence-based supportive services,

"(II) for the selection of appropriate and competent service providers, and

"(III) which common areas or property described in subparagraph (D)(i) shall meet in order to qualify for the increase in credit under subparagraph (D),

"(ii) the housing credit agency provides a procedure that the agency (or an agent or other private contractor of such agency) shall follow in monitoring for noncompliance with the provisions of this subparagraph and subparagraphs (D) and (E) and in reporting such noncompliance to the Secretary, and

"(iii) appropriate books and records for expenditures with respect to the qualified supportive services are maintained on an annual basis, and are available for inspection upon request by the housing credit agency.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to buildings which receive allocations of housing credit dollar amount or, in the case of projects financed by tax-exempt obligations as described in section 42(h)(4) of the Internal Revenue Code of 1986, which are first taken into account under section 146 of such Code, after the date of the enactment of this Act.

SEC. 210. STUDY OF TAX INCENTIVES FOR THE CONVERSION OF COMMERCIAL PROPERTY TO AFFORDABLE HOUSING.

Within 6 months of the date of the enactment of this Act, the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Deputy Under Secretary for Rural Development of the Department of Agriculture, and the Director of the Office of Management and Budget shall collaborate to produce a cost-benefit analysis of providing tax incentives, including the non-recognition of capital gains, to the owners of vacant or under-utilized commercial real estate in exchange for selling these properties to State, local, or tribal housing finance agencies for conversion to affordable rental housing for low-income residents, including shelters for the homeless.

SEC. 211. RENTERS CREDIT.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of

1986 is amended by inserting after section 36B the following new section:

"SEC. 36C. RENTERS CREDIT.

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this subtitle for any taxable year an amount equal to the sum of the amounts determined under paragraph (2) for all qualified buildings with a credit period which includes months occurring during the taxable year.

"(2) QUALIFIED BUILDING AMOUNT.—The amount determined under this paragraph with respect to any qualified building for any taxable year shall be an amount equal to the lesser of—

"(A) the aggregate qualified rental reduction amounts for all eligible units within such building for months occurring during the taxable year which are within the credit period for such building, or

"(B) the rental reduction credit amount allocated to such building for such months.

"(3) QUALIFIED BUILDING.—For purposes of this section—

"(A) IN GENERAL.—The term 'qualified building' means any building which is residential rental property (as defined in section 168(e)(2)(A)) of the taxpayer with respect to which—

"(i) a rental reduction credit amount has been allocated by a rental reduction credit agency of a State, and

"(ii) a qualified rental reduction agreement is in effect.

"(B) BUILDING NOT DISQUALIFIED BY OTHER ASSISTANCE.—A building shall not fail to be treated as a qualified building merely because—

"(i) a credit was allowed under section 42 with respect to such building or there was any other Federal assistance in the construction or rehabilitation of such building,

"(ii) the rehabilitation credit determined under section 47 was allowed under section 38 with respect to such building, or

"(iii) Federal rental assistance was provided for such building during any period preceding the credit period.

"(b) QUALIFIED RENTAL REDUCTION AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified rental reduction amount' means, with respect to any eligible unit for any month, an amount equal to the applicable percentage (as determined under subsection (e)(1)) of the excess of—

"(A) the applicable rent for such unit, over

"(B) the family rental payment required for such unit.

"(2) APPLICABLE RENT.—

"(A) IN GENERAL.—The term 'applicable rent' means, with respect to any eligible unit for any month, the lesser of—

"(i) the amount of rent which would be charged for a substantially similar unit with the same number of bedrooms in the same building which is not an eligible unit, or

"(ii) an amount equal to the market rent standard for such unit.

"(B) MARKET RENT STANDARD.—

"(i) IN GENERAL.—The market rent standard with respect to any eligible unit is—

"(I) the small area fair market rent determined by the Secretary of

Housing and Urban Development for units with the same number of bedrooms in the same Zip Code tabulation area, or

"(II) if there is no rent described in subclause (I) for such area, the fair market rent determined by such Secretary for units with the same number of bedrooms in the same county.

"(ii) STATE OPTION.—A State may in its rental reduction allocation plan provide that the market rent standard for all (or any part) of a Zip Code tabulation area or county within the State shall be equal to a percentage (not less than 75 nor more than 125) of the amount determined under clause (i) (after application of clause (iii)) for such area or county.

"(iii) MINIMUM AMOUNT.—Notwithstanding clause (i), the market rent standard with respect to any eligible unit for any year in the credit period after the first year in the credit period for such unit shall not be less than the market rent standard determined for such first year.

"(3) Family rental payment requirements.—

"(A) In general.—Each qualified rental reduction agreement with respect to any qualified building shall require that the family rental payment for an eligible unit within such building for any month shall be equal to the lesser of—

"(i) 30 percent of the monthly family income of the residents of the unit (as determined under subsection (e)(5)), or

"(ii) the applicable rent for such unit.

"(B) Utility costs.—Any utility allowance (determined by the Secretary in the same manner as under section 42(g)(2)(B)(ii)) paid by residents of an eligible unit shall be taken into account as rent in determining the family rental payment for such unit for purposes of this paragraph.

"(c) Rental Reduction Credit Amount.—For purposes of this section—

"(1) Determination of amount.—

"(A) In general.—The term 'rental reduction credit amount' means, with respect to any qualified building, the dollar amount which is allocated to such building (and to eligible units within such building) under this subsection. Such dollar amount shall be allocated to months in the credit period with respect to such building (and such units) on the basis of the estimates described in paragraph (2)(B).

"(B) ALLOCATION ON PROJECT BASIS.—In the case of a project which includes (or will include) more than 1 building, the rental reduction credit amount shall be the dollar amount which is allocated to such project for all buildings included in such project. Subject to the limitation under subsection (e)(3)(B), such amount shall be allocated among such buildings in the manner specified by the taxpayer unless the qualified rental reduction agreement with respect to such project provides for such allocation.

"(2) STATE ALLOCATION.—

"(A) IN GENERAL.—Except as provided in subparagraph (C), each rental reduction credit agency of a State shall each calendar year allocate its portion of the State rental reduction credit ceiling to qualified buildings (and to eligible units within each such building) in accordance with the State rental reduction allocation plan.

"(B) ALLOCATIONS TO EACH BUILDING.—The rental reduction credit amount allocated to any qualified building shall not exceed the aggregate qualified rental reduction amounts which such agency estimates will occur over the credit period for eligible units within such building, based on reasonable estimates of rents, family incomes, and vacancies in accordance with procedures established by the State as part of its State rental reduction allocation plan.

"(C) SPECIFIC ALLOCATIONS.—

"(i) NONPROFIT ORGANIZATIONS.—At least 25 percent of the State rental reduction credit ceiling for any State for any calendar year shall be allocated to qualified buildings in which a qualified nonprofit organization (as defined in section 42(h)(5)(C)) owns (directly or through 1 or more partnerships) an interest and materially participates (within the meaning of section 469(h)) in the operation of the building throughout the credit period. A

State may waive or lower the requirement under this clause for any calendar year if it determines that meeting such requirement is not feasible.

"(ii) RURAL AREAS.—

"(I) IN GENERAL.—The State rental reduction credit ceiling for any State for any calendar year shall be allocated to buildings in rural areas (as defined in section 520 of the Housing Act of 1949) in an amount which, as determined by the Secretary of Housing and Urban Development, bears the same ratio to such ceiling as the number of extremely low-income households with severe rent burdens in such rural areas bears to the total number of such households in the State.

"(II) ALTERNATIVE 5-YEAR TESTING PERIOD.—In the case of the 5-calendar year period beginning in 2026, a State shall not be treated as failing to meet the requirements of subclause (I) for any calendar year in such period if, as determined by the Secretary, the average annual amount allocated to such rural areas during such period meets such requirements.

"(3) APPLICATION OF ALLOCATED CREDIT AMOUNT.—

"(A) AMOUNT AVAILABLE TO TAXPAYER FOR ALL MONTHS IN CREDIT PERIOD.—Any rental reduction credit amount allocated to any qualified building out of the State rental reduction credit ceiling for any calendar year shall apply to such building for all months in the credit period ending during or after such calendar year.

"(B) CEILING FOR ALLOCATION YEAR REDUCED BY ENTIRE CREDIT AMOUNT.—Any rental reduction credit amount allocated to any qualified building out of an allocating agency's State rental reduction credit ceiling for any calendar year shall reduce such ceiling for such calendar year by the entire amount so allocated for all months in the credit period (as determined on the basis of the estimates under paragraph (2)(B)) and no reduction shall be made in such agency's State rental reduction credit ceiling for any subsequent calendar year by reason of such allocation.

"(4) STATE RENTAL REDUCTION CREDIT CEILING.—

"(A) IN GENERAL.—The State rental reduction credit ceiling applicable to any State for any calendar year shall be an amount equal to the sum of—

"(i) the greater of—

"(I) the per capita dollar amount multiplied by the State population, or

"(II) the minimum ceiling amount, plus

"(ii) the amount of the State rental reduction credit ceiling returned in the calendar year.

"(B) RETURN OF STATE CEILING AMOUNTS.—For purposes of subparagraph (A)(ii), except as provided in subsection (d)(2), the amount of the State rental reduction credit ceiling returned in a calendar year equals the amount of the rental reduction credit amount allocated to any building which, after the close of the calendar year for which the allocation is made—

“(i) is canceled by mutual consent of the rental reduction credit agency and the taxpayer because the estimates made under paragraph (2)(B) were substantially incorrect, or

“(ii) is canceled by the rental reduction credit agency because the taxpayer violates the qualified rental reduction agreement and, under the terms of the agreement, the rental reduction credit agency is authorized to cancel all (or any portion) of the allocation by reason of the violation.

“(C) PER CAPITA DOLLAR AMOUNT; MINIMUM CEILING AMOUNT.—For purposes of this paragraph—

“(i) PER CAPITA DOLLAR AMOUNT.—The per capita dollar amount is—

“(I) for calendar year 2026, $12.30,

“(II) for calendar year 2027, $24.50, and

“(III) for calendar years 2028 and thereafter, $36.75.

"(ii) MINIMUM CEILING AMOUNT.—The minimum ceiling amount is—

"(I) for calendar year 2026, $14,000,000,

"(II) for calendar year 2027, $28,000,000, and

"(III) for calendar years 2028 and thereafter, $42,000,000.

"(iii) COST-OF-LIVING ADJUSTMENT.—In the case of a calendar year beginning after 2028, the $36.75 and $42,000,000 amounts in clauses (i)(III) and (ii)(III) shall each be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2027' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

In the case of the $42,000,000 amount, any increase under this clause which is not a multiple of $5,000 shall be rounded to the next lowest multiple of $5,000 and in the case of the $36.75 amount, any increase under this clause which is not a multiple of 5 cents shall be rounded to the next lowest multiple of 5 cents.

"(D) POPULATION.—For purposes of this paragraph, population shall be determined in accordance with section 146(j).

"(E) UNUSED RENTAL REDUCTION CREDIT ALLOCATED AMONG CERTAIN STATES.—

"(i) IN GENERAL.—The unused rental reduction credit of a State for any calendar year shall be assigned to the Secretary for allocation among qualified States for the succeeding calendar year.

"(ii) UNUSED RENTAL REDUCTION CREDIT.—For purposes of this subparagraph, the unused rental reduction credit of a State for any calendar year is the excess (if any) of—

"(I) the State rental reduction credit ceiling for the year preceding such year, over

"(II) the aggregate rental reduction credit amounts allocated for such year.

"(iii) FORMULA FOR ALLOCATION OF UNUSED CREDIT AMONG QUALIFIED STATES.—The amount allocated under this subparagraph to a qualified State for any calendar year shall be the amount determined by the Secretary to bear the same ratio to the aggregate unused rental reduction credits of all States for the preceding calendar year as such State's population for the calendar year bears to the population of all qualified States for the calendar year. For purposes of the preceding sentence, population shall be determined in accordance with section 146(j).

"(iv) QUALIFIED STATE.—For purposes of this subparagraph, the term 'qualified State' means, with respect to a calendar year, any State—

"(I) which allocated its entire State rental reduction credit ceiling for the preceding calendar year, and

"(II) for which a request is made (at such time and in such manner as the Secretary may prescribe) to receive an allocation under clause (iii).

"(5) OTHER DEFINITIONS.—For purposes of this section—

"(A) RENTAL REDUCTION CREDIT AGENCY.—The term 'rental reduction credit agency' means any agency authorized by a State to carry out this section. Such authorization shall include the jurisdictions within the State where the agency may allocate rental reduction credit amounts.

"(B) POSSESSIONS TREATED AS STATES.—The term 'State' includes a possession of the United States.

"(C) FAMILY.—The term 'family' has the same meaning as when used in the United States Housing Act of 1937.

"(d) MODIFICATIONS TO CORRECT INACCURATE AMOUNTS DUE TO INCORRECT ESTIMATES.—

"(1) ESTABLISHMENT OF RESERVES.—

"(A) IN GENERAL.—Each rental reduction credit agency of a State shall establish a reserve for the transfer and reallocation of amounts pursuant to this paragraph, and notwithstanding any other provision of this section, the rental reduction credit amount allocated to any building by such agency shall be zero unless such agency has in effect such a reserve at the time of the allocation of such credit amount.

"(B) TRANSFERS TO RESERVE.—

"(i) IN GENERAL.—If, for any taxable year, a taxpayer would (but for this subparagraph) not be able to use the entire rental reduction credit amount allocated to a qualified building by a rental reduction credit agency of a State for the taxable year because of a rental reduction shortfall, then the taxpayer shall for the taxable year transfer to the reserve established by such agency under subparagraph (A) an amount equal to such rental reduction shortfall.

"(ii) RENTAL REDUCTION SHORTFALL.—For purposes of this subparagraph, the rental reduction shortfall for any qualified building for any taxable year is the amount by which the aggregate amount of the excesses determined under subsection (b)(1) for all eligible units within such building are less than such aggregate amount estimated under subsection (c)(2)(B) for the taxable year.

"(iii) TREATMENT OF TRANSFERRED AMOUNT.—For purposes of subsection (a)(2)(A), the aggregate qualified rental reduction amounts for all eligible units within a qualified building with respect to which clause (i) applies for any taxable year shall be increased by an amount equal to the applicable percentage (determined under subsection (e)(1) for the building) of the amount of the transfer to the reserve under clause (i) with respect to such building for such taxable year.

"(C) REALLOCATION OF AMOUNTS TRANSFERRED.—

"(i) IN GENERAL.—If, for any taxable year—

"(I) the aggregate qualified rental reduction amounts for all eligible units within a qualified building for the taxable year, exceed

"(II) the rental reduction credit amount allocated to such building by a rental reduction credit agency of a State for the taxable year (determined after any increase under paragraph (2)),

the rental reduction credit agency shall, upon application of the taxpayer, pay to the taxpayer from the reserve established by such agency under subparagraph (A) the amount which, when multiplied by the applicable percentage (determined under subsection (e)(1) for the building), equals such excess. If the amount in the reserve is less than the amounts requested by all taxpayers for taxable years ending within the same calendar year, the agency shall ratably reduce the amount of each payment otherwise required to be made.

"(ii) EXCESS RESERVE AMOUNTS.—If a rental reduction credit agency of a State determines that the balance in its reserve is in excess of the amounts reasonably needed over the following 5 calendar years to make payments under clause (i), the agency may withdraw such excess but only to—

"(I) reduce the rental payments of eligible tenants in a qualified building in units other than eligible units, or of eligible tenants in units in a building other than a qualified building, to amounts no higher than the sum of rental payments required for eligible tenants in qualified buildings under subsection (b)(3) and any rental charges to such tenants in excess of the market rent standard; or

"(II) address maintenance and repair needs in qualified buildings that cannot reasonably be met using other resources available to the owners of such buildings.

"(D) ADMINISTRATION.—Each rental reduction credit agency of a State shall establish procedures for the timing and manner of transfers and payments made under this paragraph.

"(E) SPECIAL RULE FOR PROJECTS.—In the case of a rental reduction credit allocated to a project consisting of more than 1 qualified building, a taxpayer may elect to have this paragraph apply as if all such buildings were 1 qualified building if the applicable percentage for each such building is the same.

"(F) ALTERNATIVE METHODS OF TRANSFER AND REALLOCATION.—Upon request to, and approval by, the Secretary, a State may establish an alternative method for the transfer and reallocation of amounts otherwise required to be transferred to, and allocated from, a reserve under this paragraph. Any State adopting an alternative method under this subparagraph shall, at such time and in such manner as the Secretary prescribes, provide to the Secretary and the Secretary of Housing and Urban Development detailed reports on the operation of such method, including providing such information as such Secretaries may require.

"(2) ALLOCATION OF RETURNED STATE CEILING AMOUNTS.—In the case of any rental reduction credit amount allocated to a qualified building which is canceled as provided in subsection (c)(4)(B)(i), the rental reduction credit agency may, in lieu of treating such allocation as a returned credit amount under subsection (c)(4)(A)(ii), elect to allocate, upon the request of the taxpayer, such amount to any other qualified building for which the credit amount allocated in any preceding calendar year was too small because the estimates made under subsection (c)(2)(B) were substantially incorrect.

"(3) RENTING TO NONELIGIBLE TENANTS.—If, after the application of paragraphs (1)(C) (or any similar reallocation under paragraph (1)(F)) and (2), a rental reduction credit agency of a State determines that, because of the incorrect estimates under subsection (c)(2)(B), the aggregate qualified rental reduction amounts for all eligible units within a qualified building will (on an ongoing basis) exceed the rental reduction credit amount allocated to such building, a taxpayer may elect, subject to subsection (g)(2) and only to the extent necessary to eliminate such excess, rent vacant eligible units without regard to the requirements that such units be rented only to eligible tenants and at the rental rate determined under subsection (b)(3).

"(e) TERMS RELATING TO RENTAL REDUCTION CREDIT AND REQUIREMENTS.—For purposes of this section—

"(1) APPLICABLE PERCENTAGE.—

"(A) In general.—The term 'applicable percentage' means, with respect to any qualified building, the percentage (not greater than 110 percent) set by the rental reduction credit agency at the time it allocates the rental reduction dollar amount to such building.

"(B) Higher percentage for high-opportunity areas.—The rental reduction credit agency may set a percentage under subparagraph (A) up to 120 percent for any qualified building which—

"(i) targets its eligible units for rental to families with children, and

"(ii) is located in a neighborhood which has a poverty rate of no more than 10 percent.

"(2) Credit period.—

"(A) In general.—The term 'credit period' means, with respect to any qualified building, the 15-year period beginning with the first month for which the qualified rental reduction agreement is in effect with respect to such building.

"(B) State option to reduce period.—A rental reduction credit agency may provide a credit period for any qualified building which is less than 15 years.

"(3) ELIGIBLE UNIT.—

"(A) IN GENERAL.—The term 'eligible unit' means, with respect to any qualified building, a unit—

"(i) which is occupied by an eligible tenant,

"(ii) the rent of which for any month equals 30 percent of the monthly family income of the residents of such unit (as determined under paragraph (5)),

"(iii) with respect to which the tenant is not concurrently receiving rental assistance under any other Federal program, and

"(iv) which is certified to the rental reduction credit agency as an eligible unit for purposes of this section and the qualified rental reduction agreement.

Notwithstanding clause (iii), a State may provide in its State rental reduction allocation plan that an eligible unit shall also not include a unit with respect to which any resident is receiving rental assistance under a State or local program.

"(B) LIMITATION ON NUMBER OF UNITS.—

"(i) IN GENERAL.—The number of units which may be certified as eligible units with respect to any qualified building under subparagraph (A)(iv) at any time shall not exceed the greater of—

"(I) 40 percent of the total units in such building, or

"(II) 25 units.

In the case of an allocation to a project under subsection (c)(1)(B), the limitation under the preceding sentence shall be applied on a project basis and the certification of such eligible units shall be allocated to each building in the project, except that if buildings in such project are on non-contiguous tracts of land, buildings on each such tract shall be treated as a separate project for purposes of applying this sentence.

"(ii) BUILDINGS RECEIVING PREVIOUS FEDERAL RENTAL ASSISTANCE.—If, at any time prior to the entering into of a qualified rental reduction agreement with respect to a qualified building, tenants in units within such building had been receiving project-based rental assistance under any other Federal program, then, notwithstanding clause (i), the maximum number of units which may be certified as eligible units with respect to the building under subparagraph (A)(iv) shall not be less than the sum of—

"(I) the maximum number of units in the building previously receiving such assistance at any time before the agreement takes effect, plus

"(II) the amount determined under clause (i) without taking into account the units described in subclause (I).

"(4) ELIGIBLE TENANT.—

"(A) IN GENERAL.—The term 'eligible tenant' means any individual if the individual's family income does not exceed the greater of—

"(i) 30 percent of the area median gross income (as determined under section 42(g)(1)), or

"(ii) the applicable poverty line for a family of the size involved.

"(B) TREATMENT OF INDIVIDUALS WHOSE INCOMES RISE ABOVE LIMIT.—

"(i) IN GENERAL.—Notwithstanding an increase in the family income of residents of a unit above the income limitation applicable under subparagraph (A), such residents shall continue to be treated as eligible tenants if the family income of such residents initially met such income limitation and such unit continues to be certified as an eligible unit under this section.

"(ii) NO RENTAL REDUCTION FOR AT LEAST 2 YEARS.—A qualified rental reduction agreement with respect to a qualified building shall provide that if, by reason of an increase in family income described in clause (i), there is no qualified rental reduction amount with respect to the dwelling unit for 2 consecutive years, the taxpayer shall rent the next available unit to an eligible tenant (without regard to whether such unit is an eligible unit under this section).

"(C) APPLICABLE POVERTY LINE.—The term 'applicable poverty line' means the most recently published poverty line (within the meaning of section 2110(c)(5) of the Social Security Act (42 U.S.C. 1397jj(c)(5))) as of the time of the determination as to whether an individual is an eligible tenant.

"(5) FAMILY INCOME.—

"(A) IN GENERAL.—Family income shall be determined in the same manner as under section 8 of the United States Housing Act of 1937.

"(B) TIME FOR DETERMINING INCOME.—

"(i) IN GENERAL.—Except as provided in this subparagraph, family income shall be determined at least annually on the basis of income for the preceding calendar year.

"(ii) FAMILIES ON FIXED INCOME.—If at least 90 percent of the family income of the residents of a unit at the time of any determination under clause (i) is derived from payments under title II or XVI of the Social Security Act (or any similar fixed income amounts specified by the Secretary), the taxpayer may elect to treat such payments (or amounts) as the family income of such residents for the year of the determination and the 2 succeeding years, except that the taxpayer shall, in such manner as the Secretary may prescribe, adjust such amount for increases in the cost of living.

"(iii) INITIAL INCOME.—The Secretary may allow a State to provide that the family income of residents at the time such residents first rent a unit in a qualified building may be determined on the basis of current or anticipated income.

"(iv) SPECIAL RULES WHERE FAMILY INCOME IS REDUCED.—If residents of a unit establish (in such manner as the rental reduction credit agency provides) that their family income has been reduced by at least 10 percent below such income for the determination year—

"(I) such residents may elect, at such time and in such manner as such agency may prescribe, to have their family income redetermined, and

"(II) clause (ii) shall not apply to any of the 2 succeeding years described in such clause which are specified in the election.

"(f) STATE RENTAL REDUCTION ALLOCATION PLAN.—

"(1) ADOPTION OF PLAN REQUIRED.—

"(A) IN GENERAL.—For purposes of this section—

"(i) each State shall, before the allocation of its State rental reduction credit ceiling, establish and have in effect a State rental reduction allocation plan, and

"(ii) notwithstanding any other provision of this section, the rental reduction credit amount allocated to any building shall be zero unless such amount was allocated pursuant to a State rental reduction allocation plan.

Such plan shall only be adopted after such plan is made public and at least 60 days has been allowed for public comment.

"(B) STATE RENTAL REDUCTION ALLOCATION PLAN.—For purposes of this section, the term 'State rental reduction allocation plan' means, with respect to any State, any plan of the State meeting the requirements of paragraphs (2) and (3).

"(2) GENERAL PLAN REQUIREMENTS.—A plan shall meet the requirements of this paragraph only if—

"(A) the plan sets forth the criteria and priorities which a rental reduction credit agency of the State shall use in allocating the State rental reduction credit ceiling to eligible units within a building,

"(B) the plan provides that no credit allocation shall be made which is not in accordance with the criteria and priorities set forth under subparagraph (A) unless such agency provides a written explanation to the general public for any credit allocation which is not so made and the reasons why such allocation is necessary, and

"(C) the plan provides that such agency is required to prioritize the renewal of existing credit allocations at the time of the expiration of the qualified rental reduction agreement with respect to the allocation, including, where appropriate, a commitment within a qualified rental reduction agreement that the credit allocation will be renewed if the terms of the agreement have been met and sufficient new credit authority is available.

"(3) SPECIFIC REQUIREMENTS.—A plan shall meet the requirements of this paragraph only if—

"(A) the plan provides methods for determining—

"(i) the amount of rent which would be charged for a substantially similar unit in the same building which is not an eligible unit for purposes of subsection (b)(2)(A)(i), including whether such determination may be made by self-certification or by undertaking rent reasonableness assessments similar to assessments required under section 8(o)(10) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(10)), ''(ii) the qualified rental reduction amounts under subsection (c)(2)(B), and

''(iii) the applicable percentage under subsection (e)(1),

''(B) the plan provides a procedure that the rental reduction credit agency (or an agent or other private contractor of such agency) will follow in monitoring for—

''(i) noncompliance with the provisions of this section and the qualified rental reduction agreement and in notifying the Internal Revenue Service of any such noncompliance of which such agency becomes aware, and

''(ii) noncompliance with habitability standards through regular site visits,

''(C) the plan requires a person receiving a credit allocation to report to the rental reduction credit agency such information as is necessary to ensure compliance with the provisions of this section and the qualified rental reduction agreement, and

''(D) the plan provides methods by which any excess reserve amounts which become available under subsection (d)(1)(C)(ii) will be used to reduce rental payments of eligible tenants or to address maintenance and repair needs in qualified buildings, including how such assistance will be allocated among eligible tenants and qualified buildings.

"(g) QUALIFIED RENTAL REDUCTION AGREEMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified rental reduction agreement' means, with respect to any building which is residential rental property (as defined in section 168(e)(2)(A)), a written, binding agreement between a rental reduction credit agency and the taxpayer which specifies—

"(A) the number of eligible units within such building for which a rental reduction credit amount is being allocated,

"(B) the credit period for such building,

"(C) the rental reduction credit amount allocated to such building (and dwelling units within such building) and the portion of such amount allocated to each month within the credit period under subsection (c)(2)(B),

"(D) the applicable percentage to be used in computing the qualified rental reduction amounts with respect to the building, "(E) the method for determining the amount of rent which may be charged for eligible units within the building, and

"(F) whether—

"(i) the agency commits to entering into a new agreement with the taxpayer if the terms of the agreement have been met and sufficient new credit authority is available for such new agreement, and

"(ii) the taxpayer is required to accept such new agreement.

"(2) TENANT PROTECTIONS.—A qualified rental reduction agreement shall provide the following:

"(A) NON-DISPLACEMENT OF NON-ELIGIBLE TENANTS.—A taxpayer receiving a rental reduction credit amount may not refuse to renew the lease of or evict (other than for good cause) a tenant of a unit who is not an eligible tenant at any time during the credit period and such unit shall not be treated as an eligible unit while such tenant resides there.

"(B) ONLY GOOD CAUSE EVICTIONS OF ELIGIBLE TENANTS.—A taxpayer receiving a rental reduction credit amount may not refuse to renew the lease of or evict (other than for good cause) an eligible tenant of an eligible unit.

"(C) MOBILITY.—A taxpayer receiving a rental reduction credit amount shall—

"(i) give priority to rent any available unit of suitable size to tenants who are eligible tenants who are moving from another qualified building where such tenants had lived at least 1 year and were in good standing, and

"(ii) inform eligible tenants within the building of their right to move after 1 year and provide a list maintained by the State of qualified buildings where such tenants might move.

"(D) FAIR HOUSING AND CIVIL RIGHTS.—If a taxpayer receives a rental reduction credit amount—

"(i) such taxpayer shall comply with the Fair Housing Act with respect to the building, and

"(ii) the receipt of such amount shall be treated as the receipt of Federal financial assistance for purposes of applying any Federal civil rights laws.

"(E) ADMISSIONS PREFERENCES.—A taxpayer receiving a rental reduction credit amount shall comply with any admissions preferences established by the State for tenants within particular demographic groups eligible for health or social services.

"(3) COMPLIANCE REQUIREMENTS.—A qualified rental reduction agreement shall provide that a taxpayer receiving a rental reduction credit amount shall comply with all reporting and other procedures established by the State to ensure compliance with this section and such agreement.

"(4) PROJECTS.—In the case of a rental reduction credit allocated to a project consisting of more than 1 building, the rental reduction credit agency may provide for a single qualified rental reduction agreement which applies to all buildings which are part of such project.

"(h) CERTIFICATIONS AND OTHER REPORTS TO SECRETARY.—

"(1) CERTIFICATION WITH RESPECT TO 1ST YEAR OF CREDIT PERIOD.—Following the close of the 1st taxable year in the credit period with respect to any qualified building, the taxpayer shall certify to the Secretary (at such time and in such form and in such manner as the Secretary prescribes)—

"(A) the information described in subsection (g)(1) required to be contained in the qualified rental reduction agreement with respect to the building, and

"(B) such other information as the Secretary may require.

In the case of a failure to make the certification required by the preceding sentence on the date prescribed therefor, unless it is shown that such failure is due to reasonable cause and not to willful neglect, no credit shall be allowable by reason of subsection (a) with respect to such building for any taxable year ending before such certification is made.

"(2) ANNUAL REPORTS TO THE SECRETARY.—The Secretary may require taxpayers to submit an information return (at such time and in such form and manner as the Secretary prescribes) for each taxable year setting forth—

"(A) the information described in paragraph (1)(A) for the taxable year, and

"(B) such other information as the Secretary may require.

The penalty under section 6652(j) shall apply to any failure to submit the return required by the Secretary under the preceding sentence on the date prescribed therefor.

"(3) ANNUAL REPORTS FROM RENTAL REDUCTION CREDIT AGENCY.—

"(A) REPORTS.—Each rental reduction credit agency which allocates any rental reduction credit amount to 1 or more buildings for any calendar year shall submit to the Secretary (at such time and in such manner as the Secretary shall prescribe) an annual report specifying—

"(i) the amount of rental reduction credit amounts allocated to each such building for such year,

"(ii) sufficient information to identify each such building and the taxpayer with respect thereto,

"(iii) information as to the demographic and income characteristics of eligible tenants of all such buildings to which such amounts were allocated, and

"(iv) such other information as the Secretary may require.

"(B) PENALTY.—The penalty under section 6652(j) shall apply to any failure to submit the report required by subparagraph (A) on the date prescribed therefor.

"(C) INFORMATION MADE PUBLIC.—The Secretary shall, in consultation with the Secretary of Housing and Urban Development, make information reported under this paragraph for each qualified building available to the public annually to the greatest degree possible without disclosing personal information about individual tenants.

"(i) SPECIAL RULE FOR PAYMENTS TO PARTNERSHIPS AND S CORPORATIONS.—For purposes of this subtitle, in the case of any qualified building directly held by any partnership or S corporation, the payment under section 6436 shall be made in lieu of the credit determined under this section with respect to such building.

"(j) REGULATIONS AND GUIDANCE.—The Secretary shall prescribe such regulations or guidance as may be necessary to carry out the purposes of this section, including—

"(1) providing necessary forms and instructions, and

"(2) providing for proper treatment of projects for which a credit is allowed both under this section and section 42.".

(b) PAYMENT TO PARTNERSHIPS AND S CORPORATIONS IN LIEU OF CREDIT.—

(1) IN GENERAL.—Subchapter B of chapter 65 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

"SEC. 6436. PAYMENTS IN LIEU OF RENTERS CREDIT FOR PARTNERSHIPS AND S CORPORATIONS.

"(a) IN GENERAL.—In the case of any qualified building (as defined in section 36C(a)(3)) directly held by any partnership or S corporation, the Secretary shall pay to such partnership or S corporation for any taxable year an amount equal to the amount of the credit which, but for section 36C(i), would be allowed under section 36C with respect to such building.

"(b) REGULATORY AUTHORITY.—The Secretary shall prescribe such regulations, rules, and guidance as may be necessary to carry out section 36C(i), section 92, and this section, including regulations, rules, and guidance providing for—

"(1) the application of the rules under section 36C with respect to payments under this section in the same manner as such rules apply for purposes of the credit under section 36C,

"(2) the time and manner of payments under subsection (a), and

"(3) the determination of a partner's distributive share, or an S corporation shareholder's pro rata share, of any payment under subsection (a).".

(2) CONFORMING AMENDMENT.—The table of sections for subchapter B of chapter 65 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

"Sec. 6436. Payments in lieu of renters credit for partnerships and S corporations.".

(c) CREDIT INCLUDIBLE IN GROSS INCOME.—

(1) IN GENERAL.—Part II of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

"SEC. 92. INCLUSION IN INCOME OF RENTERS CREDIT AND PAYMENTS.

"Gross income includes the amount of the credit allowed to the taxpayer under section 36C for the taxable year and the amount of any payment in lieu of such credit under section 6436.".

(2) Income disregarded for alternative minimum taxable income.—Section 56(a) of such Code is amended by adding at the end the following:

"(8) Section 92 not applicable.—Section 92 (relating to inclusion in income of renters credit) shall not apply.".

(3) Conforming amendment.—The table of sections for part II of subchapter B of chapter 1 of such Code is amended by adding at the end the following new item:

"Sec. 92. Inclusion in income of renters credit and payments.".

(d) Administrative Fees.—No provision of, or amendment made by, this Act shall be construed to prevent a rental reduction credit agency of a State from imposing fees to cover its costs or from levying any such fee on a taxpayer applying for or receiving a rental reduction credit amount.

(e) Other Conforming Amendments.—

(1) Section 6211(b)(4) of the Internal Revenue Code of 1986 is amended by inserting "36C (including any related payment under section 6436)," after "36B,".

(2) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting "36C (including any related payment under section 6436)," after "36B,".

(3) The table of sections for subpart C 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 36B the following new item:

"Sec. 36C. Renters credit.".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2025.

SEC. 212. MIDDLE-INCOME HOUSING TAX 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. MIDDLE-INCOME HOUSING CREDIT.

"(a) IN GENERAL.—For purposes of section 38, the amount of the middle-income housing credit determined under this section for any taxable year in the credit period shall be an amount equal to—

"(1) the applicable percentage, of

"(2) the qualified basis of each qualified middle-income building.

"(b) APPLICABLE PERCENTAGE.—

"(1) DETERMINATION OF APPLICABLE PERCENTAGE.—For purposes of this section—

"(A) IN GENERAL.—The term 'applicable percentage' means, with respect to any building, the appropriate percentage prescribed by the Secretary for the earlier of—

"(i) the month in which such building is placed in service, or

"(ii) at the election of the taxpayer, the month in which the taxpayer and the housing credit agency enter into an agreement with respect to such building (which is binding on such agency, the taxpayer, and all successors in interest) as to the housing credit dollar amount to be allocated to such building.

A month may be elected under clause (ii) only if the election is made not later than the 5th day after the close of such month. Such an election, once made, shall be irrevocable.

"(B) METHOD OF PRESCRIBING PERCENTAGES.—The percentages prescribed by the Secretary for any month shall be percentages which will yield over a 15-year period amounts of credit under subsection (a) which have a present value equal to—

"(i) 50 percent of the qualified basis of a new building which is not federally subsidized for the taxable year, and "(ii) 20 percent of the qualified basis of a building not described in clause (i).

"(C) METHOD OF DISCOUNTING.—The present value under subparagraph (B) shall be determined—

"(i) as of the last day of the 1st year of the 15-year period referred to in subparagraph (B),

"(ii) by using a discount rate equal to 72 percent of the average of the annual Federal mid-term rate and the annual Federal long-term rate applicable under section 1274(d)(1) to the month applicable under clause (i) or (ii) of subparagraph (A) and compounded annually, and

"(iii) by assuming that the credit allowable under this section for any year is received on the last day of such year.

"(2) MINIMUM CREDIT RATE.—

"(A) IN GENERAL.—The applicable percentage for any building which is not federally subsidized for the taxable year shall not be less than 5 percent.

"(B) MINIMUM CREDIT RATE FOR FEDERALLY SUBSIDIZED BUILDINGS.—In the case of any building to which subparagraph (A) does not apply, except as provided in paragraph (3), the applicable percentage shall not be less than 2 percent.

"(3) EXCEPTION FOR CERTAIN FEDERALLY SUBSIDIZED BUILDINGS.—In the case of any building to which paragraph (2)(A) does not apply, the applicable percentage is zero unless—

"(A) a credit is allowed under section 42 with respect to such building for the taxable year, and

"(B) such building is financed by tax-exempt bonds as described in section 42(h)(4).

"(4) CROSS REFERENCES.—

"(A) For treatment of certain rehabilitation expenditures as separate new buildings, see subsection (e).

"(B) For determination of applicable percentage for increases in qualified basis after the 1st year of the credit period, see subsection (f)(3).

"(C) For authority of housing credit agency to limit applicable percentage and qualified basis which may be taken into account under this section with respect to any building, see subsection (h)(6).

"(c) QUALIFIED BASIS; QUALIFIED MIDDLE-INCOME BUILDING.—For purposes of this section—

"(1) QUALIFIED BASIS.—

"(A) DETERMINATION.—The qualified basis of any qualified middle-income building for any taxable year is an amount equal to—

"(i) the applicable fraction (determined as of the close of such taxable year), of

"(ii) the eligible basis of such building (determined under subsection (d)).

"(B) APPLICABLE FRACTION.—For purposes of subparagraph (A), the term 'applicable fraction' means the smaller of the unit fraction or the floor space fraction.

"(C) UNIT FRACTION.—For purposes of subparagraph (B), the term 'unit fraction' means the fraction—

"(i) the numerator of which is the number of middle-income units in the building, and "(ii) the denominator of which is the number of residential rental units (whether or not occupied) in such building.

"(D) FLOOR SPACE FRACTION.—For purposes of subparagraph (B), the term 'floor space fraction' means the fraction—

"(i) the numerator of which is the total floor space of the middle-income units in such building, and

"(ii) the denominator of which is the total floor space of the residential rental units (whether or not occupied) in such building.

"(2) QUALIFIED MIDDLE-INCOME BUILDING.—The term 'qualified middle-income building' means any building which is part of a qualified middle-income housing project at all times during the period—

"(A) beginning on the 1st day in the credit period on which such building is part of such a project, and

"(B) ending on the last day of the credit period with respect to such building.

"(d) ELIGIBLE BASIS.—For purposes of this section—

"(1) NEW BUILDINGS.—The eligible basis of a new building is its adjusted basis as of the close of the 1st taxable year of the credit period.

"(2) EXISTING BUILDINGS.—

"(A) IN GENERAL.—The eligible basis of an existing building is—

"(i) in the case of a building which meets the requirements of subparagraph (B), its adjusted basis as of the close of the 1st taxable year of the credit period, and

"(ii) zero in any other case.

"(B) REQUIREMENTS.—A building meets the requirements of this subparagraph if—

"(i) the building is acquired by purchase (as defined in section 179(d)(2)),

"(ii) there is a period of at least 10 years between the date of its acquisition by the taxpayer and the date the building was last placed in service,

"(iii) the building was not previously placed in service by the taxpayer or by any person who was a related person with respect to the taxpayer as of the time previously placed in service, and "(iv) except as provided in subsection (f)(5), a credit is allowable under subsection (a) by reason of subsection (e) with respect to the building.

"(C) ADJUSTED BASIS.—For purposes of subparagraph (A), the adjusted basis of any building shall not include so much of the basis of such building as is determined by reference to the basis of other property held at any time by the person acquiring the building.

"(D) SPECIAL RULES.—

"(i) SPECIAL RULES FOR CERTAIN TRANSFERS.—For purposes of determining under subparagraph (B)(ii) when a building was last placed in service, there shall not be taken into account any placement in service—

"(I) in connection with the acquisition of the building in a transaction in which the basis of the building in the hands of the person acquiring it is determined in whole or in part by reference to the adjusted basis of such building in the hands of the person from whom acquired, "(II) by a person whose basis in such building is determined under section 1014(a) (relating to property acquired from a decedent),

"(III) by any governmental unit or qualified nonprofit organization (as defined in subsection (h)(4)) if the requirements of subparagraph (B)(ii) are met with respect to the placement in service by such unit or organization and all the income from such property is exempt from Federal income taxation,

"(IV) by any person who acquired such building by foreclosure (or by instrument in lieu of foreclosure) of any purchase-money security interest held by such person if the requirements of subparagraph (B)(ii) are met with respect to the placement in service by such person and such building is resold within 12 months after the date such building is placed in service by such person after such foreclosure, or

''(V) of a single-family residence by any individual who owned and used such residence for no other purpose than as his principal residence.

''(ii) RELATED PERSON.—For purposes of subparagraph (B)(iii), a person (hereinafter in this subclause 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).

''(3) ELIGIBLE BASIS REDUCED WHERE DISPROPORTIONATE STANDARDS FOR UNITS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the eligible basis of any building shall be reduced by an amount equal to the portion of the adjusted basis of the building which is attributable to residential rental units in the building which are not middle-income units and which are above the average quality standard of the middle-income units in the building.

"(B) EXCEPTION WHERE TAXPAYER ELECTS TO EXCLUDE EXCESS COSTS.—

"(i) IN GENERAL.—Subparagraph (A) shall not apply with respect to a residential rental unit in a building which is not a middle-income unit if—

"(I) the excess described in clause (ii) with respect to such unit is not greater than 15 percent of the cost described in clause (ii)(II), and

"(II) the taxpayer elects to exclude from the eligible basis of such building the excess described in clause (ii) with respect to such unit.

"(ii) EXCESS.—The excess described in this clause with respect to any unit is the excess of—

"(I) the cost of such unit, over

"(II) the amount which would be the cost of such unit if the average cost per square foot of middle-income units in the building were substituted for the cost per square foot of such unit.

The Secretary may by regulation provide for the determination of the excess under this clause on a basis other than square foot costs.

"(4) SPECIAL RULES RELATING TO DETERMINATION OF ADJUSTED BASIS.—For purposes of this subsection—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the adjusted basis of any building shall be determined without regard to the adjusted basis of any property which is not residential rental property.

"(B) BASIS OF PROPERTY IN COMMON AREAS, ETC., INCLUDED.—

"(i) IN GENERAL.—Except as provided in clause (ii), the adjusted basis of any building shall be determined by taking into account the adjusted basis of property (of a character subject to the allowance for depreciation) used in common areas or provided as comparable amenities to all residential rental units in such building.

"(ii) SPECIAL RULE.—In the case of any building for which the low-income housing tax credit is allowable under section 42, the adjusted basis of the building under this section shall be determined without regard to property used in common areas or provided as comparable amenities to all residential rental units in such building.

"(C) NO REDUCTION FOR DEPRECIATION.—The adjusted basis of any building shall be determined without regard to paragraphs (2) and (3) of section 1016(a).

"(5) SPECIAL RULES FOR DETERMINING ELIGIBLE BASIS.—

"(A) FEDERAL GRANTS NOT TAKEN INTO ACCOUNT IN DETERMINING ELIGIBLE BASIS.—The eligible basis of a building shall not include any costs financed with the proceeds of a federally funded grant.

"(B) INCREASE IN CREDIT FOR BUILDINGS IN HIGH COST AREAS.—

"(i) IN GENERAL.—In the case of any building located in a qualified census tract or difficult development area—

"(I) in the case of a new building, the eligible basis of such building shall be 130 percent of such basis determined without regard to this subparagraph, and

"(II) in the case of an existing building, the rehabilitation expenditures taken into account under subsection (e) shall be 130 percent of such expenditures determined without regard to this subparagraph.

"(ii) QUALIFIED CENSUS TRACT.—The term 'qualified census tract' means, with respect to any period any census tract which is treated as a qualified census tract under section 42(d)(5)(B).

"(iii) DIFFICULT DEVELOPMENT AREAS.—The term 'difficult development areas' means any census tract which is treated as a difficult development area under section 42(d)(5)(B) (determined without regard to clause (v) thereof).

"(iv) BUILDINGS DESIGNATED BY STATE HOUSING CREDIT AGENCY.—Any building which is designated by the State housing credit agency as requiring the increase in credit under this subparagraph in order for such building to be financially feasible as part of a qualified middle-income housing project shall be treated for purposes of this subparagraph as located in a difficult development area which is designated for purposes of this subparagraph. The preceding sentence shall not apply to any building if paragraph (1) of subsection (h) does not apply to any portion of the eligible basis of such building by reason of paragraph (9) of such subsection.

"(6) CREDIT ALLOWABLE FOR CERTAIN BUILDINGS ACQUIRED DURING 10-YEAR PERIOD.—

"(A) IN GENERAL.—Paragraph (2)(B)(ii) shall not apply to any federally assisted building (as defined in section 42(d)(6)(C)(i)) or State-assisted building (as defined in section 42(d)(6)(C)(ii)).

"(B) BUILDINGS ACQUIRED FROM INSURED DEPOSITORY INSTITUTIONS IN DEFAULT.—On application by the taxpayer, the Secretary may waive paragraph (2)(B)(ii) with respect to any building acquired from an insured depository institution in default (as defined in section 3 of the Federal Deposit Insurance Act) or from a receiver or conservator of such an institution.

"(7) ACQUISITION OF BUILDING BEFORE END OF PRIOR CREDIT PERIOD.—

"(A) IN GENERAL.—Under regulations prescribed by the Secretary, in the case of a building described in subparagraph (B) (or interest therein) which is acquired by the taxpayer—

"(i) paragraph (2)(B) shall not apply, but

"(ii) the credit allowable by reason of subsection (a) to the taxpayer for any period after such acquisition shall be equal to the amount of credit which would have been allowable under subsection (a) for such period to the prior owner referred to in subparagraph (B) had such owner not disposed of the building.

"(B) DESCRIPTION OF BUILDING.—A building is described in this subparagraph if—

"(i) a credit was allowed by reason of subsection (a) to any prior owner of such building, and

"(ii) the taxpayer acquired such building before the end of the credit period for such building with respect to such prior owner (determined without regard to any disposition by such prior owner).

"(e) REHABILITATION EXPENDITURES TREATED AS SEPARATE NEW BUILDING.—

"(1) IN GENERAL.—Rehabilitation expenditures paid or incurred by the taxpayer with respect to any building shall be treated for purposes of this section as a separate new building.

"(2) REHABILITATION EXPENDITURES.—For purposes of paragraph (1)—

"(A) IN GENERAL.—The term 'rehabilitation expenditures' means amounts chargeable to a capital account and incurred for property (or additions or improvements to property) of a character subject to the allowance for depreciation in connection with the rehabilitation of a building.

"(B) COST OF ACQUISITION, ETC., NOT INCLUDED.—Such term does not include the cost of acquiring any building (or interest therein) or any amount not permitted to be taken into account under paragraph (3) or (4) of subsection (d).

"(3) MINIMUM EXPENDITURES TO QUALIFY.—

"(A) IN GENERAL.—Paragraph (1) shall apply to rehabilitation expenditures with respect to any building only if—

"(i) the expenditures are allocable to 1 or more middle-income units or substantially benefit such units, and

"(ii) the amount of such expenditures during any 24-month period meets the requirements of whichever of the following subclauses requires the greater amount of such expenditures:

"(I) The requirement of this subclause is met if such amount is not less than 20 percent of the adjusted basis of the building (determined as of the 1st day of such period and without regard to paragraphs (2) and (3) of section 1016(a)).

"(II) The requirement of this subclause is met if the qualified basis attributable to such amount, when divided by the number of middle-income units in the building, is equal to or greater than the dollar amount in effect under section 42(e)(3)(A)(ii)(II) for the calendar year in which such expenditures are treated as placed in service under paragraph (4).

"(B) EXCEPTION.—In the case of a building acquired by the taxpayer from a governmental unit, at the election of the taxpayer, subparagraph (A)(ii)(I) shall not apply and the credit under this section for such rehabilitation expenditures shall be determined using the percentage under subsection (b) which is applicable to buildings which are federally subsidized.

"(C) DATE OF DETERMINATION.—The determination under subparagraph (A) shall be made as of the close of the 1st taxable year in the credit period with respect to such expenditures.

"(4) SPECIAL RULES.—For purposes of applying this section with respect to expenditures which are treated as a separate building by reason of this subsection—

"(A) such expenditures shall be treated as placed in service at the close of the 24-month period referred to in paragraph (3)(A), and

"(B) the applicable fraction under subsection (c)(1) shall be the applicable fraction for the building (without regard to paragraph (1)) with respect to which the expenditures were incurred.

Nothing in subsection (d)(2) shall prevent a credit from being allowed by reason of this subsection.

"(5) NO DOUBLE COUNTING.—Rehabilitation expenditures may, at the election of the taxpayer, be taken into account under this subsection or subsection (d)(2)(A)(i) but not under both such subsections.

"(6) REGULATIONS TO APPLY SUBSECTION WITH RESPECT TO GROUP OF UNITS IN BUILDING.—The Secretary may prescribe regulations, consistent with the purposes of this subsection, treating a group of units with respect to which rehabilitation expenditures are incurred as a separate new building.

"(f) DEFINITION AND SPECIAL RULES RELATING TO CREDIT PERIOD.—

"(1) CREDIT PERIOD DEFINED.—For purposes of this section, the term 'credit period' means, with respect to any building, the period of 15 taxable years beginning with—

"(A) the taxable year in which the building is placed in service, or

"(B) at the election of the taxpayer, the succeeding taxable year,

but only if the building is a qualified middle-income building as of the close of the 1st year of such period. The election under subparagraph (B), once made, shall be irrevocable.

"(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT PERIOD.—

"(A) IN GENERAL.—The credit allowable under subsection (a) with respect to any building for the 1st taxable year of the credit period shall be determined by substituting for the applicable fraction under subsection (c)(1) the fraction—

"(i) the numerator of which is the sum of the applicable fractions determined under subsection (c)(1) as of the close of each full month of such year during which such building was in service, and "(ii) the denominator of which is 12.

"(B) DISALLOWED 1ST-YEAR CREDIT ALLOWED IN 16TH YEAR.—Any reduction by reason of subparagraph (A) in the credit allowable (without regard to subparagraph (A)) for the 1st taxable year of the credit period shall be allowable under subsection (a) for the 1st taxable year following the credit period.

"(3) DETERMINATION OF APPLICABLE PERCENTAGE WITH RESPECT TO INCREASES IN QUALIFIED BASIS AFTER 1ST YEAR OF CREDIT PERIOD.—

"(A) IN GENERAL.—In the case of any building which was a qualified middle-income building as of the close of the 1st year of the credit period, if—

"(i) as of the close of any taxable year in the credit period (after the 1st year of such period) the qualified basis of such building, exceeds

"(ii) the qualified basis of such building as of the close of the 1st year of the credit period,

the applicable percentage which shall apply under subsection (a) for the taxable year to such excess shall be the percentage equal to ⅔ of the applicable percentage which (after the application of subsection (h)) would but for this paragraph apply to such basis.

"(B) 1ST YEAR COMPUTATION APPLIES.—A rule similar to the rule of paragraph (2)(A) shall apply to any increase in qualified basis to which subparagraph (A) applies for the 1st year of such increase.

"(4) DISPOSITIONS OF PROPERTY.—If a building (or an interest therein) is disposed of during any year for which credit is allowable under subsection (a), such credit shall be allocated between the parties on the basis of the number of days during such year the building (or interest) was held by each.

"(5) CREDIT PERIOD FOR EXISTING BUILDINGS NOT TO BEGIN BEFORE REHABILITATION CREDIT ALLOWED.—

"(A) IN GENERAL.—The credit period for an existing building shall not begin before the 1st taxable year of the credit period for rehabilitation expenditures with respect to the building.

"(B) ACQUISITION CREDIT ALLOWED FOR CERTAIN BUILDINGS NOT ALLOWED A REHABILITATION CREDIT.—

"(i) IN GENERAL.—In the case of a building described in clause (ii)—

"(I) subsection (d)(2)(B)(iv) shall not apply, and

"(II) the credit period for such building shall not begin before the taxable year which would be the 1st taxable year of the credit period for rehabilitation expenditures with respect to the building under the modifications described in clause (ii)(II).

"(ii) BUILDING DESCRIBED.—A building is described in this clause if—

"(I) a waiver is granted under subsection (d)(5) with respect to the acquisition of the building, and

"(II) a credit would be allowed for rehabilitation expenditures with respect to such building if subsection (e)(3)(A)(ii)(I) did not apply and if the dollar amount in effect under subsection (e)(3)(A)(ii)(II) were two-thirds of such amount.

"(g) QUALIFIED MIDDLE-INCOME HOUSING PROJECT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified middle-income housing project' means any project for residential rental property if—

"(A) 60 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 100 percent or less of area median gross income, and

"(B) not less than 20 percent of the residential units in such project are units which—

"(i) are described in subparagraph (A), and

"(ii) are not residential units which are taken into account under section 42.

"(2) RENT-RESTRICTED UNITS.—

"(A) IN GENERAL.—For purposes of paragraph (1), a residential unit is rent-restricted if the gross rent with respect to such unit does not exceed 30 percent of the imputed income limitation applicable to such unit. For purposes of the preceding sentence, the amount of the income limitation under paragraph (1) applicable for any period shall not be less than such limitation applicable for the earliest period the building (which contains the unit) was included in the determination of whether the project is a qualified middle-income housing project.

"(B) GROSS RENT.—For purposes of subparagraph (A), gross rent—

"(i) includes any utility allowance determined by the Secretary after taking into account such determinations under section 8 of the United States Housing Act of 1937,

"(ii) does not include any fee for a supportive service which is paid to the owner of the unit (on the basis of the middle-income status of the tenant of the unit) by any governmental program of assistance (or by an organization described in section 501(c)(3) and exempt from tax under section 501(a)) if such program (or organization) provides assistance for rent and the amount of assistance provided for rent is not separable from the amount of assistance provided for supportive services, and

"(iii) does not include any rental payment to the owner of the unit to the extent such owner pays an equivalent amount to the Farmers' Home Administration under section 515 of the Housing Act of 1949.

For purposes of clause (ii), the term 'supportive service' means any service provided under a planned program of services designed to enable residents of a residential rental property to remain independent and avoid placement in a hospital, nursing home, or intermediate care facility for the mentally or physically handicapped.

"(C) IMPUTED INCOME LIMITATION APPLICABLE TO UNIT.—For purposes of this paragraph, the imputed income limitation applicable to a unit is the income limitation which would apply under paragraph (1) to individuals occupying the unit if the number of individuals occupying the unit were as follows:

"(i) In the case of a unit which does not have a separate bedroom, 1 individual.

"(ii) In the case of a unit which has 1 or more separate bedrooms, 1.5 individuals for each separate bedroom.

In the case of a project with respect to which a credit is allowable by reason of this section and for which financing is provided by a bond described in section 142(a)(7), the imputed income limitation shall apply in lieu of the otherwise applicable income limitation for purposes of applying section 142(d)(4)(B)(ii).

"(D) TREATMENT OF UNITS OCCUPIED BY INDIVIDUALS WHOSE INCOMES RISE ABOVE LIMIT.—

"(i) IN GENERAL.—Except as provided in clause (ii), notwithstanding an increase in the income of the occupants of a middle-income unit above the income limitation applicable under paragraph (1), such unit shall continue to be treated as a middle-income unit if the income of such occupants initially met such income limitation and such unit continues to be rent-restricted.

"(ii) NEXT AVAILABLE UNIT MUST BE RENTED TO MIDDLE-INCOME TENANT IF INCOME RISES ABOVE 140 PERCENT OF INCOME LIMIT.—If the income of the occupants of the unit increases above 140 percent of the income limitation applicable under paragraph (1), clause (i) shall cease to apply to such unit if any residential rental unit in the building (of a size comparable to, or smaller than, such unit) is occupied by a new resident whose income exceeds such income limitation.

"(3) DATE FOR MEETING REQUIREMENTS.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, a building shall be treated as a qualified middle-income building only if the project (of which such building is a part) meets the requirements of paragraph (1) not later than the close of the 1st year of the credit period for such building.

"(B) BUILDINGS WHICH RELY ON LATER BUILDINGS FOR QUALIFICATION.—

"(i) IN GENERAL.—In determining whether a building (hereinafter in this subparagraph referred to as the 'prior building') is a qualified middle-income building, the taxpayer may take into account 1 or more additional buildings placed in service during the 12-month period described in subparagraph (A) with respect to the prior building only if the taxpayer elects to apply clause (ii) with respect to each additional building taken into account.

"(ii) TREATMENT OF ELECTED BUILDINGS.—In the case of a building which the taxpayer elects to take into account under clause (i), the period under subparagraph (A) for such building shall end at the close of the 12-month period applicable to the prior building.

"(iii) DATE PRIOR BUILDING IS TREATED AS PLACED IN SERVICE.—For purposes of determining the credit period for the prior building, the prior building shall be treated for purposes of this section as placed in service on the most recent date any additional building elected by the taxpayer (with respect to such prior building) was placed in service.

"(C) SPECIAL RULE.—A building—

"(i) other than the 1st building placed in service as part of a project, and

"(ii) other than a building which is placed in service during the 12-month period described in subparagraph (A) with respect to a prior building which becomes a qualified middle-income building, shall in no event be treated as a qualified middle-income building unless the project is a qualified middle-income housing project (without regard to such building) on the date such building is placed in service.

"(D) PROJECTS WITH MORE THAN 1 BUILDING MUST BE IDENTIFIED.—For purposes of this section, a project shall be treated as consisting of only 1 building unless, before the close of the 1st calendar year in the project period (as defined in subsection (h)(1)(F)(ii)), each building which is (or will be) part of such project is identified in such form and manner as the Secretary may provide.

"(4) CERTAIN RULES MADE APPLICABLE.—Paragraphs (2) (other than subparagraph (A) thereof), (3), and (7) of section 142(d), and section 6652(j), shall apply for purposes of determining whether any project is a qualified middle-income housing project and whether any unit is a middle-income unit; except that, in applying such provisions for such purposes—

"(A) the term 'gross rent' shall have the meaning given such term by paragraph (2)(B) of this subsection, and

"(B) the term 'applicable income limit' means the limitation under paragraph (1) of this subsection.

"(5) ELECTION TO TREAT BUILDING AFTER CREDIT PERIOD AS NOT PART OF A PROJECT.—For purposes of this section, the taxpayer may elect to treat any building as not part of a qualified middle-income housing project for any period beginning after the credit period for such building.

"(6) SPECIAL RULE WHERE DE MINIMIS EQUITY CONTRIBUTION.—Property shall not be treated as failing to be residential rental property for purposes of this section merely because the occupant of a residential unit in the project pays (on a voluntary basis) to the lessor a de minimis amount to be held toward the purchase by such occupant of a residential unit in such project if—

"(A) all amounts so paid are refunded to the occupant on the cessation of his occupancy of a unit in the project, and

"(B) the purchase of the unit is not permitted until after the close of the credit period with respect to the building in which the unit is located.

Any amount paid to the lessor as described in the preceding sentence shall be included in gross rent under paragraph (2) for purposes of determining whether the unit is rent-restricted.

"(7) SCATTERED SITE PROJECTS.—Buildings which would (but for their lack of proximity) be treated as a project for purposes of this section shall be so treated if all of the dwelling units in each of the buildings are rent-restricted (within the meaning of paragraph (2)) residential rental units.

"(8) WAIVER OF CERTAIN RECERTIFICATIONS.—On application by the taxpayer, the Secretary may waive any annual recertification of tenant income for purposes of this subsection, if the entire building is occupied by middle-income tenants.

"(9) CLARIFICATION OF GENERAL PUBLIC USE REQUIREMENT.—A project does not fail to meet the general public use requirement solely because of occupancy restrictions or preferences that favor tenants—

"(A) with special needs,

"(B) who are members of a specified group under a Federal program or State program or policy that supports housing for such a specified group, or

"(C) who are involved in artistic or literary activities.

"(h) LIMITATION ON AGGREGATE CREDIT ALLOWABLE WITH RESPECT TO PROJECTS LOCATED IN A STATE.—

"(1) CREDIT MAY NOT EXCEED CREDIT AMOUNT ALLOCATED TO BUILDING.—

"(A) IN GENERAL.—The amount of the credit determined under this section for any taxable year with respect to any building shall not exceed the housing credit dollar amount allocated to such building under this subsection.

"(B) TIME FOR MAKING ALLOCATION.— Except in the case of an allocation which meets the requirements of subparagraph (C), (D), (E), or (F), an allocation shall be taken into account under subparagraph (A) only if it is made not later than the close of the calendar year in which the building is placed in service.

"(C) EXCEPTION WHERE BINDING COMMITMENT.—An allocation meets the requirements of this subparagraph if there is a binding commitment (not later than the close of the calendar year in which the building is placed in service) by the housing credit agency to allocate a specified housing credit dollar amount to such building beginning in a specified later taxable year.

"(D) EXCEPTION WHERE INCREASE IN QUALIFIED BASIS.—

"(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made not later than the close of the calendar year in which ends the taxable year to which it will first apply but only to the extent the amount of such allocation does not exceed the limitation under clause (ii).

"(ii) LIMITATION.—The limitation under this clause is the amount of credit allowable under this section (without regard to this subsection) for a taxable year with respect to an increase in the qualified basis of the building equal to the excess of—

"(I) the qualified basis of such building as of the close of the 1st taxable year to which such allocation will apply, over

"(II) the qualified basis of such building as of the close of the 1st taxable year to which the most recent prior housing credit allocation with respect to such building applied.

"(iii) HOUSING CREDIT DOLLAR AMOUNT REDUCED BY FULL ALLOCATION.—Notwithstanding clause (i), the full amount of the allocation shall be taken into account under paragraph (2).

"(E) EXCEPTION WHERE 10 PERCENT OF COST INCURRED.—

"(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made with respect to a qualified building which is placed in service not later than the close of the second calendar year following the calendar year in which the allocation is made.

"(ii) QUALIFIED BUILDING.—For purposes of clause (i), the term 'qualified building' means any building which is part of a project if the taxpayer's basis in such project (as of the date which is 1 year after the date that the allocation was made) is more than 10 percent of the taxpayer's reasonably expected basis in such project (as of the close of the second calendar year referred to in clause (i)). Such term does not include any existing building unless a credit is allowable under subsection (e) for rehabilitation expenditures paid or incurred by the taxpayer with respect to such building for a taxable year ending during the second calendar year referred to in clause (i) or the prior taxable year.

"(F) ALLOCATION OF CREDIT ON A PROJECT BASIS.—

"(i) IN GENERAL.—In the case of a project which includes (or will include) more than 1 building, an allocation meets the requirements of this subparagraph if—

"(I) the allocation is made to the project for a calendar year during the project period,

"(II) the allocation only applies to buildings placed in service during or after the calendar year for which the allocation is made, and

"(III) the portion of such allocation which is allocated to any building in such project is specified not later than the close of the calendar year in which the building is placed in service.

"(ii) PROJECT PERIOD.—For purposes of clause (i), the term 'project period' means the period—

"(I) beginning with the 1st calendar year for which an allocation may be made for the first building placed in service as part of such project, and

"(II) ending with the calendar year the last building is placed in service as part of such project.

"(2) ALLOCATED CREDIT AMOUNT TO APPLY TO ALL TAXABLE YEARS ENDING DURING OR AFTER CREDIT ALLOCATION YEAR.—Any housing credit dollar amount allocated to any building for any calendar year—

"(A) shall apply to such building for all taxable years in the credit period ending during or after such calendar year, and

"(B) shall reduce the aggregate housing credit dollar amount of the allocating agency only for such calendar year.

"(3) HOUSING CREDIT DOLLAR AMOUNT FOR AGENCIES.—

"(A) IN GENERAL.—The aggregate housing credit dollar amount which a housing credit agency may allocate for any calendar year is the portion of the State housing credit ceiling allocated under this paragraph for such calendar year to such agency.

"(B) STATE CEILING INITIALLY ALLOCATED TO STATE HOUSING CREDIT AGENCIES.—Except as provided in subparagraph (D), the State housing credit ceiling for each calendar year shall be allocated to the housing credit agency of such State. If there is more than 1 housing credit agency of a State, all such agencies shall be treated as a single agency.

"(C) STATE HOUSING CREDIT CEILING.—The State housing credit ceiling applicable to any State for any calendar year shall be an amount equal to the sum of—

"(i) the unused State housing credit ceiling (if any) of such State for the preceding calendar year,

"(ii) the greater of—

"(I) $1.00 multiplied by the State population, or

"(II) $1,500,000, plus

"(iii) the amount of State housing credit ceiling returned in the calendar year.

For purposes of clause (i), the unused State housing credit ceiling for any calendar year is the excess (if any) of the sum of the amounts described in clauses (ii) (reduced by the aggregate amounts described in paragraph (10)(A)(i) with respect to all elections made for such calendar year) and (iii) over the aggregate housing credit dollar amount allocated for such year. For purposes of clause (iii), the amount of State housing credit ceiling returned in the calendar year equals the housing credit dollar amount previously allocated within the State to any project which fails to meet the 10 percent test under paragraph (1)(E)(ii) on a date after the close of the calendar year in which the allocation was made or which does not become a qualified middle-income housing project within the period required by this section or the terms of the allocation or to any project with respect to which an allocation is cancelled by mutual consent of the housing credit agency and the allocation recipient.

"(D) STATE MAY PROVIDE FOR DIFFERENT ALLOCATION.—Rules similar to the rules of section 146(e) (other than paragraph (2)(B) thereof) shall apply for purposes of this paragraph.

"(E) POPULATION.—For purposes of this paragraph, population shall be determined in accordance with section 146(j).

"(F) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of a calendar year after 2026, the $1,500,000 and $1.00 amounts in subparagraph (C) shall each be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2025' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

"(ii) ROUNDING.—

"(I) In the case of the $1,500,000 amount, any increase under clause (i) which is not a multiple of $5,000 shall be rounded to the next lowest multiple of $5,000.

"(II) In the case of the $1.00 amount, any increase under clause (i) which is not a multiple of 5 cents shall be rounded to the next lowest multiple of 5 cents.

"(4) PORTION OF STATE CEILING SET-ASIDE FOR CERTAIN PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—

"(A) IN GENERAL.—Not more than 90 percent of the State housing credit ceiling (determined without regard to paragraph (7)) for any State for any calendar year shall be allocated to projects other than qualified middle-income housing projects described in subparagraph (B).

"(B) PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—For purposes of subparagraph (A), a qualified middle-income housing project is described in this subparagraph if a qualified nonprofit organization is to own an interest in the project (directly or through a partnership) and materially participate (within the meaning of section 469(h)) in the development and operation of the project throughout the credit period.

"(C) QUALIFIED NONPROFIT ORGANIZATION.—For purposes of this paragraph, the term 'qualified nonprofit organization' means any organization if—

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

"(ii) such organization is determined by the State housing credit agency not to be affiliated with or controlled by a for-profit organization, and

"(iii) one of the exempt purposes of such organization includes the fostering of middle-income housing.

"(D) TREATMENT OF CERTAIN SUBSIDIARIES.—

"(i) IN GENERAL.—For purposes of this paragraph, a qualified nonprofit organization shall be treated as satisfying the ownership and material participation test of subparagraph (B) if any qualified corporation in which such organization holds stock satisfies such test.

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

"(E) STATE MAY NOT OVERRIDE SET-ASIDE.—Nothing in subparagraph (E) of paragraph (3) shall be construed to permit a State not to comply with subparagraph (A) of this paragraph.

"(5) BUILDINGS ELIGIBLE FOR CREDIT ONLY IF MINIMUM LONG-TERM COMMITMENT TO MIDDLE-INCOME HOUSING.—

"(A) IN GENERAL.—No credit shall be allowed by reason of this section with respect to any building for the taxable year unless an extended middle-income housing commitment is in effect as of the end of such taxable year.

"(B) EXTENDED MIDDLE-INCOME HOUSING COMMITMENT.—For purposes of this paragraph, the term 'extended middle-income housing commitment' means any agreement between the taxpayer and the housing credit agency—

"(i) which requires that the applicable fraction (as defined in subsection (c)(1)) for the building for each taxable year in the extended use period will not be less than the applicable fraction specified in such agreement and which prohibits the actions described in subclauses (I) and (II) of subparagraph (E)(ii),

"(ii) which allows individuals who meet the income limitation applicable to the building under subsection (g) (whether prospective, present, or former occupants of the building) the right to enforce in any State court the requirement and prohibitions of clause (i), "(iii) which prohibits the disposition to any person of any portion of the building to which such agreement applies unless all of the building to which such agreement applies is disposed of to such person,

"(iv) which prohibits the refusal to lease to a holder of a voucher or certificate of eligibility under section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder,

"(v) which is binding on all successors of the taxpayer, and

"(vi) which, with respect to the property, is recorded pursuant to State law as a restrictive covenant.

"(C) ALLOCATION OF CREDIT MAY NOT EXCEED AMOUNT NECESSARY TO SUPPORT COMMITMENT.—

"(i) IN GENERAL.—The housing credit dollar amount allocated to any building may not exceed the amount necessary to support the applicable fraction specified in the extended middle-income housing commitment for such building, including any increase in such fraction pursuant to the application of subsection (f)(3) if such increase is reflected in an amended middle-income housing commitment.

"(ii) BUILDINGS FINANCED BY TAX-EXEMPT BONDS.—If paragraph (9) applies to any building the amount of credit allowed in any taxable year may not exceed the amount necessary to support the applicable fraction specified in the extended low-income housing commitment for such building. Such commitment may be amended to increase such fraction.

"(D) EXTENDED USE PERIOD.—For purposes of this paragraph, the term 'extended use period' means the period—

"(i) beginning on the 1st day in the credit period on which such building is part of a qualified middle-income housing project, and

"(ii) ending on the later of—

"(I) the date specified by such agency in such agreement, or

"(II) the date which is 15 years after the close of the credit period.

"(E) EXCEPTIONS IF FORECLOSURE OR IF NO BUYER WILLING TO MAINTAIN MIDDLE-INCOME STATUS.—

"(i) IN GENERAL.—The extended use period for any building shall terminate—

"(I) on the date the building is acquired by foreclosure (or instrument in lieu of foreclosure) unless the Secretary determines that such acquisition is part of an arrangement with the taxpayer a purpose of which is to terminate such period, or

"(II) on the last day of the period specified in subparagraph (I) if the housing credit agency is unable to present during such period a qualified contract for the acquisition of the middle-income portion of the building by any person who will continue to operate such portion as a qualified middle-income building.

Subclause (II) shall no apply to the extent more stringent requirements are provided in the agreement or in State law.

"(ii) EVICTION, ETC., OF EXISTING MIDDLE-INCOME TENANTS NOT PERMITTED.—The termination of an extended use period under clause (i) shall not be construed to permit before the close of the 3-year period following such termination—

"(I) the eviction or the termination of tenancy (other than for good cause) of an existing tenant of any middle-income unit, or

"(II) any increase in the gross rent with respect to such unit not otherwise permitted under this section.

"(F) QUALIFIED CONTRACT.—For purposes of subparagraph (E), the term 'qualified contract' means a bona fide contract to acquire (within a reasonable period after the contract is entered into) the nonmiddle-income portion of the building for fair market value and the middle-income portion of the building for an amount not less than the applicable fraction (specified in the extended middle-income housing commitment) of—

"(i) the sum of—

"(I) the outstanding indebtedness secured by, or with respect to, the building,

"(II) the adjusted investor equity in the building, plus

"(III) other capital contributions not reflected in the amounts described in subclause (I) or (II), reduced by

"(ii) cash distributions from (or available for distribution from) the project.

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this paragraph, including regulations to prevent the manipulation of the amount determined under the preceding sentence.

"(G) ADJUSTED INVESTOR EQUITY.—

"(i) IN GENERAL.—For purposes of subparagraph (F), the term 'adjusted investor equity' means, with respect to any calendar year, the aggregate amount of cash taxpayers invested with respect to the project increased by the amount equal to—

"(I) such amount, multiplied by

"(II) the cost-of-living adjustment for such calendar year, determined under section 1(f)(3) by substituting the base calendar year for 'calendar year 2016' in subparagraph (A)(ii) thereof.

An amount shall be taken into account as an investment in the project only to the extent there was an obligation to invest such amount as of the beginning of the credit period and to the extent such amount is reflected in the adjusted basis of the project.

"(ii) COST-OF-LIVING INCREASES IN EXCESS OF 5 PERCENT NOT TAKEN INTO ACCOUNT.—Under regulations prescribed by the Secretary, if the C–CPI–U for any calendar year (as defined in section 1(f)(6)) exceeds the C–CPI–U for the preceding calendar year by more than 5 percent, the C–CPI–U for the base calendar year shall be increased such that such excess shall never be taken into account under clause (i). In the case of a base calendar year before 2017, the C–CPI–U for such year shall be determined by multiplying the CPI for such year by the amount determined under section 1(f)(3)(B).

"(iii) BASE CALENDAR YEAR.—For purposes of this subparagraph, the term 'base calendar year' means the calendar year with or within which the 1st taxable year of the credit period ends.

"(H) MIDDLE-INCOME PORTION.—For purposes of this paragraph, the middle-income portion of a building is the portion of such building equal to the applicable fraction specified in the extended middle-income housing commitment for the building.

"(I) PERIOD FOR FINDING BUYER.—The period referred to in this subparagraph is the 1-year period beginning on the date (after the 14th year of the credit period) the taxpayer submits a written request to the housing credit agency to find a person to acquire the taxpayer's interest in the low-income portion of the building.

"(J) EFFECT OF NONCOMPLIANCE.—If, during a taxable year, there is a determination that an extended middle-income housing agreement was not in effect as of the beginning of such year, such determination shall not apply to any period before such year and subparagraph (A) shall be applied without regard to such determination if the failure is corrected within 1 year from the date of the determination.

"(K) PROJECTS WHICH CONSIST OF MORE THAN 1 BUILDING.—The application of this paragraph to projects which consist of more than 1 building shall be made under regulations prescribed by the Secretary.

"(6) SPECIAL RULES.—

"(A) BUILDING MUST BE LOCATED WITHIN JURISDICTION OF CREDIT AGENCY.—A housing credit agency may allocate its aggregate housing credit dollar amount only to buildings located in the jurisdiction of the governmental unit of which such agency is a part.

"(B) AGENCY ALLOCATIONS IN EXCESS OF LIMIT.—If the aggregate housing credit dollar amounts allocated by a housing credit agency for any calendar year exceed the portion of the State housing credit ceiling allocated to such agency for such calendar year, the housing credit dollar amounts so allocated shall be reduced (to the extent of such excess) for buildings in the reverse of the order in which the allocations of such amounts were made.

"(C) CREDIT REDUCED IF ALLOCATED CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT WHICH WOULD BE ALLOWABLE WITHOUT REGARD TO PLACED IN SERVICE CONVENTION, ETC.—

"(i) IN GENERAL.—The amount of the credit determined under this section with respect to any building shall not exceed the clause (ii) percentage of the amount of the credit which would (but for this subparagraph) be determined under this section with respect to such building.

"(ii) DETERMINATION OF PERCENTAGE.—For purposes of clause (i), the clause (ii) percentage with respect to any building is the percentage which—

"(I) the housing credit dollar amount allocated to such building, bears to

"(II) the credit amount determined in accordance with clause (iii).

"(iii) DETERMINATION OF CREDIT AMOUNT.—The credit amount determined in accordance with this clause is the amount of the credit which would (but for this subparagraph) be determined under this section with respect to the building if—

"(I) this section were applied without regard to paragraphs (2)(A) and (3)(B) of subsection (f), and

"(II) subsection (f)(3)(A) were applied without regard to 'the percentage equal to ⅔ of'.

"(D) HOUSING CREDIT AGENCY TO SPECIFY APPLICABLE PERCENTAGE AND MAXIMUM QUALIFIED BASIS.—In allocating a housing credit dollar amount to any building, the housing credit agency shall specify the applicable percentage and the maximum qualified basis which may be taken into account under this section with respect to such building. The applicable percentage and maximum qualified basis so specified shall not exceed the applicable percentage and qualified basis determined under this section without regard to this subsection.

"(7) INCREASE IN STATE CEILING DEDICATED TO CERTAIN RURAL DEVELOPMENT PROJECTS.—

"(A) IN GENERAL.—The State housing credit ceiling for any calendar year shall be increased by an amount equal to 5 percent of the amount determined under paragraph (3)(C)(ii).

"(B) USE OF INCREASED AMOUNT.—

"(i) IN GENERAL.—The amount of the increase under subparagraph (A) for any calendar year may only be allocated to buildings located in a rural area.

"(ii) RURAL AREA.—For purposes of clause (i), the term 'rural area' means any non-metropolitan area, or any rural area as defined by section 520 of the Housing Act of 1949, which is identified by the qualified allocation plan under subsection (l)(1)(B).

"(8) OTHER DEFINITIONS.—For purposes of this subsection—

"(A) HOUSING CREDIT AGENCY.—The term 'housing credit agency' means any agency authorized to carry out this subsection.

"(B) POSSESSIONS TREATED AS STATES.—The term 'State' includes a possession of the United States.

"(9) CREDIT FOR BUILDINGS FINANCED BY TAX-EXEMPT BONDS SUBJECT TO VOLUME CAP NOT TAKEN INTO ACCOUNT.—Rules similar to the rules of subsections (h)(4), (m)(1)(D), and (m)(2)(D) of section 42 shall apply for purposes of this subsection.

"(10) ELECTION TO TRANSFER STATE HOUSING CREDIT CEILING FOR ALLOCATIONS TO LOW-INCOME BUILDINGS.—

"(A) IN GENERAL.—If a State housing credit agency makes an election under this paragraph with respect to a calendar year—

"(i) the State housing credit ceiling for such calendar year under paragraph (3) (determined before application of paragraph (7)) shall be reduced by the amount specified in such election,

"(ii) the amount determined under paragraph (7) for such calendar year shall be reduced by the amount specified in such election, and

"(iii) the amount determined under section 42(h)(3)(C)(ii) for such calendar year shall be increased by the sum of the amounts specified in clauses (i) and (ii), except that any amount specified under clause (ii)—

“(I) may only be allocated under such section to qualified low-income buildings (as defined in section 42) located in a rural area (as defined in paragraph (7)), and

“(II) shall not be taken into account for purposes of determining the unused housing credit ceiling under the second sentence of section 42(h)(3)(C).

“(B) TIME AND MANNER FOR MAKING ELECTION.—

“(i) IN GENERAL.—An election under this paragraph—

“(I) shall be made before the end of the calendar year with respect to which such election applies,

“(II) shall be made in such manner as specified by the Secretary, and

“(III) shall separately specify the amount of reductions to be made under paragraph (3) and paragraph (7).

"(ii) FREQUENCY.—A State housing credit agency may make more than one election under this section with respect to any calendar year, and any such election, once made, shall be revocable only if such revocation is made before the end of the calendar year with respect to which such election is made.

"(C) LIMITATION.—The aggregate amount specified in elections under this paragraph with respect to any State housing credit agency for calendar year shall not exceed the sum of—

"(i) the amount determined under paragraph (3)(C)(ii) for such calendar year, plus

"(ii) the amount determined under paragraph (7) for such calendar year.

"(i) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) MIDDLE-INCOME UNIT.—

"(A) IN GENERAL.—The term 'middle-income unit' means any unit in a building if—

"(i) such unit is rent-restricted (as defined in subsection (g)(2)), and "(ii) the individuals occupying such unit meet the income limitation applicable under subsection (g)(1) to the project of which such building is a part.

"(B) EXCEPTIONS.—

"(i) EXCLUSION OF LOW-INCOME UNITS.—A unit shall not be treated as a middle-income unit if such unit is a low-income unit (as defined under section 42(i)(3)).

"(ii) UNIT MUST BE SUITABLE FOR PERMANENT OCCUPANCY.—

"(I) IN GENERAL.—A unit shall not be treated as a middle-income unit unless the unit is suitable for occupancy and used other than on a transient basis.

"(II) TRANSITIONAL HOUSING FOR HOMELESS.—For purposes of subclause (I), a unit shall be considered to be used other than on a transient basis if the unit contains sleeping accommodations and kitchen and bathroom facilities and is located in a building—

"(aa) which is used exclusively to facilitate the transition of homeless individuals (within the meaning of section 103 of the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11302), as in effect on the date of the enactment of this clause) to independent living within 24 months, and

"(bb) in which a governmental entity or qualified nonprofit organization (as defined in subsection (h)(4)) provides such individuals with temporary housing and supportive services designed to assist such individuals in locating and retaining permanent housing.

"(III) SUITABILITY FOR OCCUPANCY.—For purposes of subclause (I), the suitability of a unit for occupancy shall be determined under regulations prescribed by the Secretary taking into account local health, safety, and building codes.

"(IV) SINGLE-ROOM OCCUPANCY UNITS.—For purposes of subclause (I), a single-room occupancy unit shall not be treated as used on a transient basis merely because it is rented on a month-by-month basis.

"(C) SPECIAL RULE FOR BUILDINGS HAVING 4 OR FEWER UNITS.—In the case of any building which has 4 or fewer residential rental units, no unit in such building shall be treated as a middle-income unit if the units in such building are owned by—

"(i) any individual who occupies a residential unit in such building, or

"(ii) any person who is related (as defined in subsection (d)(2)(D)(ii)) to such individual.

"(D) CERTAIN STUDENTS NOT TO DISQUALIFY UNIT.—A unit shall not fail to be treated as a middle-income unit merely because it is occupied—

"(i) by an individual who is—

“(I) a student and receiving assistance under title IV of the Social Security Act,

“(II) a student who was previously under the care and placement responsibility of the State agency responsible for administering a plan under part B or part E of title IV of the Social Security Act, or

“(III) enrolled in a job training program receiving assistance under the Job Training Partnership Act or under other similar Federal, State, or local laws, or

“(ii) entirely by full-time students if such students are—

“(I) single parents and their children and such parents are not dependents (as defined in section 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof) of another individual and such children are not dependents (as so defined) of another individual other than a parent of such children, or

"(II) married and file a joint return.

"(E) OWNER-OCCUPIED BUILDINGS HAVING 4 OR FEWER UNITS ELIGIBLE FOR CREDIT WHERE DEVELOPMENT PLAN.—

"(i) IN GENERAL.—Subparagraph (C) shall not apply to the acquisition or rehabilitation of a building pursuant to a development plan of action sponsored by a State or local government or a qualified nonprofit organization.

"(ii) LIMITATION ON CREDIT.—In the case of a building to which clause (i) applies, the applicable fraction shall not exceed 80 percent of the unit fraction.

"(iii) CERTAIN UNRENTED UNITS TREATED AS OWNER-OCCUPIED.—In the case of a building to which clause (i) applies, any unit which is not rented for 90 days or more shall be treated as occupied by the owner of the building as of the 1st day it is not rented.

"(2) NEW BUILDING.—The term 'new building' means a building the original use of which begins with the taxpayer.

"(3) EXISTING BUILDING.—The term 'existing building' means any building which is not a new building.

"(4) APPLICATION TO ESTATES AND TRUSTS.—In the case of an estate or trust, the amount of the credit determined under subsection (a) shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each.

"(5) IMPACT OF TENANT'S RIGHT OF 1ST REFUSAL TO ACQUIRE PROPERTY.—

"(A) IN GENERAL.—No Federal income tax benefit shall fail to be allowable to the taxpayer with respect to any qualified middle-income building merely by reason of a right of 1st refusal held by the tenants (in cooperative form or otherwise) or resident management corporation of such building or by a qualified nonprofit organization (as defined in subsection (h)(4)(C)) or government agency to purchase the property after the close of the credit period for a price which is not less than the minimum purchase price determined under subparagraph (B).

"(B) MINIMUM PURCHASE PRICE.—For purposes of subparagraph (A), the minimum purchase price under this subparagraph is an amount equal to the sum of—

"(i) the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of the sale to the tenants), and

"(ii) all Federal, State, and local taxes attributable to such sale.

Except in the case of Federal income taxes, there shall not be taken into account under clause (ii) any additional tax attributable to the application of clause (ii).

"(6) IMPACT OF PURCHASE OPTION TO ACQUIRE PROPERTY.—

"(A) IN GENERAL.—No Federal income tax benefit shall fail to be allowable to the taxpayer with respect to any qualified middle-income building merely by reason of a purchase option held by the tenants (in cooperative form or otherwise) or resident management corporation of such building or by a qualified nonprofit organization (as defined in subsection (h)(4)(C)) or government agency to purchase the property or all of the partnership interests (other than interests of the person exercising such option or a related party thereto (within the meaning of section 267(b) or 707(b)(1))) relating to the property after the close of the credit period for a price which is not less than the minimum purchase price determined under subparagraph (B).

"(B) MINIMUM PURCHASE PRICE.—For purposes of subparagraph (A)—

"(i) IN GENERAL.—Except as provided in clause (ii), the minimum purchase price is the amount determined under paragraph (5)(B).

"(ii) PARTNERSHIP INTERESTS.—In the case of a purchase of all of the partnership interests relating to a property, the minimum purchase price under this subparagraph shall be an amount not less than the sum of the interests' shares of the amount which would be determined with respect to the property under paragraph (5)(B) without regard to this sentence.

"(C) PROPERTY.—For purposes of subparagraph (A), the term 'property' may include all or any of the assets held for the development, operation, or maintenance of a building.

"(D) APPLICATION TO S CORPORATIONS AND OTHER PASS-THROUGH ENTITIES.—Except as provided by the Secretary, the rules of this paragraph shall apply to S corporations and other pass-through entities in the same manner as such rules apply to partnerships.

"(7) TREATMENT OF RURAL PROJECTS.—For purposes of this section, in the case of any project for residential rental property located in a rural area (as defined in section 520 of the Housing Act of 1949), any income limitation measured by reference to area median gross income shall be measured by reference to the greater of area median gross income or national non-metropolitan median income. The preceding sentence shall not apply with respect to any building if paragraph (1) of subsection (h) does not apply by reason of paragraph (9) thereof to any portion of the credit determined under this section with respect to such building.

"(8) DETERMINATION OF WHETHER BUILDING IS FEDERALLY SUBSIDIZED.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, for purposes of this section, a project shall be treated as federally subsidized for any taxable year if, at any time during such taxable year or any prior taxable year, there is or was outstanding any obligation the interest on which is exempt from tax under section 103 the proceeds of which are or were used (directly or indirectly) with respect to such project or the operation thereof.

"(B) ELECTION TO REDUCE ELIGIBLE BASIS BY PROCEEDS OF OBLIGATIONS.—A tax-exempt obligation shall not be taken into account under subparagraph (A) if the taxpayer elects to exclude from the eligible basis of the building for purposes of subsection (d) the proceeds of such obligation.

"(C) SPECIAL RULE FOR SUBSIDIZED CONSTRUCTION FINANCING.—Subparagraph (A) shall not apply to any tax-exempt obligation used to provide construction financing for any building if—

"(i) such obligation (when issued) identified the building for which the proceeds of such obligation would be used, and

"(ii) such obligation is redeemed before such building is placed in service.

"(9) REDUCTION IN BASIS.—In the case of any building for which a credit is allowable under this section and section 42, the basis of the building shall be reduced by the amount of such credit allowed under subsection (a).

"(j) APPLICATION OF AT-RISK RULES.—For purposes of this section—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, rules similar to the rules of section 49(a)(1) (other than subparagraphs (D)(ii)(II) and (D)(iv)(I) thereof), section 49(a)(2), and section 49(b)(1) shall apply in determining the qualified basis of any building in the same manner as such sections apply in determining the credit base of property.

"(2) SPECIAL RULES FOR DETERMINING QUALIFIED PERSON.—For purposes of paragraph (1)—

"(A) IN GENERAL.—If the requirements of subparagraphs (B), (C), and (D) are met with respect to any financing borrowed from a qualified nonprofit organization (as defined in subsection (h)(4)), the determination of whether such financing is qualified commercial financing with respect to any qualified middle-income building shall be made without regard to whether such organization—

"(i) is actively and regularly engaged in the business of lending money, or

"(ii) is a person described in section 49(a)(1)(D)(iv)(II).

"(B) FINANCING SECURED BY PROPERTY.—The requirements of this subparagraph are met with respect to any financing if such financing is secured by the qualified middle-income building, except that this subparagraph shall not apply in the case of a federally assisted building described in section 42(d)(6)(C)(i) if—

"(i) a security interest in such building is not permitted by a Federal agency holding or insuring the mortgage secured by such building, and

"(ii) the proceeds from the financing (if any) are applied to acquire or improve such building.

"(C) PORTION OF BUILDING ATTRIBUTABLE TO FINANCING.—The requirements of this subparagraph are met with respect to any financing for any taxable year in the credit period if, as of the close of such taxable year, not more than 60 percent of the eligible basis of the qualified middle-income building is attributable to such financing (reduced by the principal and interest of any governmental financing which is part of a wrap-around mortgage involving such financing).

"(D) REPAYMENT OF PRINCIPAL AND INTEREST.—The requirements of this subparagraph are met with respect to any financing if such financing is fully repaid on or before the earliest of—

"(i) the date on which such financing matures,

"(ii) the 90th day after the close of the credit period with respect to the qualified middle-income building, or

"(iii) the date of its refinancing or the sale of the building to which such financing relates.

In the case of a qualified nonprofit organization which is not described in section 49(a)(1)(D)(iv)(II) with respect to a building, clause (ii) of this subparagraph shall be applied as if the date described therein were the 90th day after the earlier of the date the building ceases to be a qualified middle-income building or the date which is 15 years after the close of a credit period with respect thereto.

"(3) PRESENT VALUE OF FINANCING.—If the rate of interest on any financing described in paragraph (2)(A) is less than the rate which is 1 percentage point below the applicable Federal rate as of the time such financing is incurred, then the qualified basis (to which such financing relates) of the qualified middle-income building shall be the present value of the amount of such financing, using as the discount rate such applicable Federal rate. For purposes of the preceding sentence, the rate of interest on any financing shall be determined by treating interest to the extent of government subsidies as not payable.

"(4) FAILURE TO FULLY REPAY.—

"(A) IN GENERAL.—To the extent that the requirements of paragraph (2)(D) are not met, then the taxpayer's tax under this chapter for the taxable year in which such failure occurs shall be increased by an amount equal to the applicable portion of the credit under this section with respect to such building, increased by an amount of interest for the period—

"(i) beginning with the due date for the filing of the return of tax imposed by chapter 1 for the 1st taxable year for which such credit was allowable, and

"(ii) ending with the due date for the taxable year in which such failure occurs,

determined by using the underpayment rate and method under section 6621.

"(B) APPLICABLE PORTION.—For purposes of subparagraph (A), the term 'applicable portion' means the aggregate decrease in the credits allowed to a taxpayer under section 38 for all prior taxable years which would have resulted if the eligible basis of the building were reduced by the amount of financing which does not meet requirements of paragraph (2)(D).

"(C) CERTAIN RULES TO APPLY.—Rules similar to the rules of subparagraphs (A) and

(D) of section 42(j)(4) shall apply for purposes of this subsection.

"(k) CERTIFICATIONS AND OTHER REPORTS TO SECRETARY.—

"(1) CERTIFICATION WITH RESPECT TO 1ST YEAR OF CREDIT PERIOD.—Following the close of the 1st taxable year in the credit period with respect to any qualified middle-income building, the taxpayer shall certify to the Secretary (at such time and in such form and in such manner as the Secretary prescribes)—

"(A) the taxable year, and calendar year, in which such building was placed in service,

"(B) the adjusted basis and eligible basis of such building as of the close of the 1st year of the credit period,

"(C) the maximum applicable percentage and qualified basis permitted to be taken into account by the appropriate housing credit agency under subsection (h), and

"(D) such other information as the Secretary may require.

In the case of a failure to make the certification required by the preceding sentence on the date prescribed therefor, unless it is shown that such failure is due to reasonable cause and not to willful neglect, no credit shall be allowable by reason of subsection (a) with respect to such building for any taxable year ending before such certification is made.

"(2) ANNUAL REPORTS TO THE SECRETARY.—The Secretary may require taxpayers to submit an information return (at such time and in such form and manner as the Secretary prescribes) for each taxable year setting forth—

"(A) the qualified basis for the taxable year of each qualified middle-income building of the taxpayer,

"(B) the information described in paragraph (1)(C) for the taxable year, and

"(C) such other information as the Secretary may require.

The penalty under section 6652(j) shall apply to any failure to submit the return required by the Secretary under the preceding sentence on the date prescribed therefor.

"(3) ANNUAL REPORTS FROM HOUSING CREDIT AGENCIES.—Each agency which allocates any housing credit amount to any building for any calendar year shall submit to the Secretary (at such time and in such manner as the Secretary shall prescribe) an annual report specifying—

"(A) the amount of housing credit amount allocated to each building for such year,

"(B) sufficient information to identify each such building and the taxpayer with respect thereto, and

"(C) such other information as the Secretary may require.

The penalty under section 6652(j) shall apply to any failure to submit the report required by the preceding sentence on the date prescribed therefor.

"(l) RESPONSIBILITIES OF HOUSING CREDIT AGENCIES.—

"(1) PLANS FOR ALLOCATION OF CREDIT AMONG PROJECTS.—

"(A) IN GENERAL.—Notwithstanding any other provision of this section, the housing credit dollar amount with respect to any building shall be zero unless—

"(i) such amount was allocated pursuant to a qualified allocation plan of the housing credit agency which is approved by the governmental unit (in accordance with rules similar to the rules of section 42(m)(1)) of which such agency is a part,

"(ii) a comprehensive market study of the housing needs of middle-income individuals in the area to be served by the project is conducted before the credit allocation is made and at the developer's expense by a disinterested party who is approved by such agency, and

"(iii) a written explanation is available to the general public for any allocation of a housing credit dollar amount which is not made in accordance with established priorities and selection criteria of the housing credit agency.

"(B) QUALIFIED ALLOCATION PLAN.—For purposes of this paragraph, the term 'qualified allocation plan' means any plan—

"(i) which sets forth selection criteria to be used to determine housing priorities of the housing credit agency which are appropriate to local conditions,

"(ii) which also gives preference in allocating housing credit dollar amounts among selected projects to—

"(I) projects obligated to serve qualified tenants for the longest periods,

"(II) projects in areas with an insufficient supply of housing affordable to median income households,

"(III) projects which target housing to tenants at a range of incomes between 60 and 100 percent of area median gross income, and

"(IV) projects located near transit hubs, and

"(iii) which provides a procedure that the agency (or an agent or other private contractor of such agency) will follow in monitoring for noncompliance with the provisions of this section and in notifying the Internal Revenue Service of such noncompliance which such agency becomes aware of and in monitoring for noncompliance with habitability standards through regular site visits.

"(C) CERTAIN SELECTION CRITERIA MUST BE USED.—The selection criteria set forth in a qualified allocation plan must include—

"(i) project location,

"(ii) housing needs characteristics,

"(iii) project characteristics, including whether the project includes the use of existing housing as part of a community revitalization plan,

"(iv) sponsor characteristics,

"(v) tenant populations with special housing needs,

"(vi) tenant populations of individuals with children,

"(vii) projects intended for eventual tenant ownership,

"(viii) the energy efficiency of the project, and

"(ix) the historic nature of the project.

"(D) CERTAIN SELECTION CRITERIA PROHIBITED.—The selection criteria set forth in a qualified allocation plan shall not include a requirement of local approval or local contributions, either as a threshold qualification requirement or as part of a point system to be considered for allocations of housing credit dollar amount.

"(2) CREDIT ALLOCATED TO BUILDING NOT TO EXCEED AMOUNT NECESSARY TO ASSURE PROJECT FEASIBILITY.—

"(A) IN GENERAL.—The housing credit dollar amount allocated to a project shall not exceed the amount the housing credit agency determines is necessary for the financial feasibility of the project and its viability as a qualified middle-income housing project throughout the credit period.

"(B) AGENCY EVALUATION.—In making the determination under subparagraph (A), the housing credit agency shall consider—

"(i) the sources and uses of funds and the total financing planned for the project,

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

"(iii) the percentage of the housing credit dollar amount used for project costs other than the cost of intermediaries, and

"(iv) the reasonableness of the developmental and operational costs of the project.

Clause (iii) shall not be applied so as to impede the development of projects in hard-to-develop areas. Such a determination shall not be construed to be a representation or warranty as to the feasibility or viability of the project.

"(C) DETERMINATION MADE WHEN CREDIT AMOUNT APPLIED FOR AND WHEN BUILDING PLACED IN SERVICE.—

"(i) IN GENERAL.—A determination under subparagraph (A) shall be made as of each of the following times:

"(I) The application for the housing credit dollar amount.

"(II) The allocation of the housing credit dollar amount.

"(III) The date the building is placed in service.

"(ii) CERTIFICATION AS TO AMOUNT OF OTHER SUBSIDIES.—Prior to each determination under clause (i), the taxpayer shall certify to the housing credit agency the full extent of all Federal, State, and local subsidies which apply (or which the taxpayer expects to apply) with respect to the building.

"(m) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including—

"(1) regulations dealing with—

"(A) projects which include more than 1 building or only a portion of a building, or

"(B) buildings which are placed in service in portions,

"(2) regulations providing for the application of this section to short taxable years,

"(3) regulations preventing the avoidance of the rules of this section,

"(4) regulations providing the opportunity for housing credit agencies to correct administrative errors and omissions with respect to allocations and record keeping within a reasonable period after their discovery, taking into account the availability of regulations and other administrative guidance from the Secretary, and

"(5) in consultation with the Secretary of Housing and Urban Development, regulations or guidance to promote uniform definitions and to streamline requirements with respect to qualified middle-income buildings which receive funding from programs administrated by the Department of Housing and Urban Development, including programs authorized by Native American Housing Assistance and Self-Determination Act of 1996.''.

(b) TREATMENT AS PART OF GENERAL BUSINESS CREDIT.—Section 38(b) of the Internal Revenue Code of 1986 is amended by striking ''plus'' at the end of paragraph (40), by striking the period at the end of paragraph (41) and inserting '', plus'', and by adding at the end the following new paragraph:

''(42) the middle-income housing credit determined under section 42A(a).''.

(c) REDUCTION IN BASIS.—Section 1016(a) of the Internal Revenue Code of 1986 is amended—

(1) by striking ''and'' at the end of paragraph (37),

(2) by redesignating paragraph (38) as paragraph (39), and

(3) by inserting after paragraph (37) the following new paragraph:

''(38) to the extent provided in section 42A(i)(9), and''.

(d) TREATMENT UNDER BASE EROSION MINIMUM TAX.—Section 59A(b)(3) of the Internal Revenue Code of 1986 is amended by redesignating subparagraphs (B) and (C) as subparagraphs (C) and (D), respectively, and by inserting after subparagraph (A) the following new subparagraph:

"(B) the middle-income housing credit determined under section 42A(a),".

(e) CONFORMING AMENDMENTS RELATING TO LOW-INCOME HOUSING TAX CREDIT.—Section 42(n) of the Internal Revenue Code of 1986 is amended—

(1) by striking "including regulations—" in the matter preceding paragraph (1) and inserting "including—",

(2) by inserting "regulations" before "dealing with" in paragraph (1),

(3) by inserting "regulations" before "providing" in paragraphs (2) and (4),

(4) by inserting "regulations" before "preventing" in paragraph (3),

(5) by striking "and" at the end of paragraph (3),

(6) by striking the period at the end of paragraph (4) and inserting ", and", and

(7) by adding at the end the following new paragraph:

"(5) in consultation with the Secretary of Housing and Urban Development, regulations or guidance to promote uniform definitions and to streamline requirements with respect to qualified low-income buildings which receive funding from programs administrated by the Department of Housing and Urban Development, including programs authorized by Native American Housing Assistance and Self-Determination Act of 1996.''.

(f) CONFORMING AMENDMENTS.—

(1) Section 45L(e) of the Internal Revenue Code of 1986 is amended by inserting ''or 42A'' after ''42''.

(2) Section 50(c)(3)(C) of such Code is amended by inserting ''or 42A'' after ''42''.

(3) Section 55(c)(1) of such Code is amended by inserting ''42A(j),'' before ''45(e)(11)(C)''.

(4) Subsections (i)(3)(C), (i)(6)(B)(i), and (k)(1) of section 469 of such Code are each amended by inserting ''or 42A'' after ''42''.

(5) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 42 the following new item:

''Sec. 42A. Middle-income housing credit.''.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to buildings placed in service after December 31, 2025, in taxable years ending after such date.

SEC. 213. NEIGHBORHOOD HOMES CREDIT.

(a) FINDINGS; SENSE OF CONGRESS.—

(1) FINDINGS.—Congress finds the following:

(A) Experts have determined that it could take nearly a decade to address the housing shortage in the United States, in large part due to increasing housing prices and insufficient supply.

(B) The housing supply shortage disproportionately impacts low-income and distressed communities.

(C) Homeownership is a primary source of household wealth and neighborhood stability. Many distressed communities have low rates of homeownership and lack quality, affordable starter homes, while many individuals who own their homes have difficulty securing financing for home repairs and improvements.

(D) Housing construction in distressed communities is prevented by the value gap, the difference between the cost to develop a home and the sale price of the home.

(E) The Neighborhood Homes Investment Act can close the financing gaps to increase housing development and rehabilitation in distressed communities.

(2) SENSE OF CONGRESS.—It is the sense of Congress that the neighborhood homes credit (as added under this section) should be an activity administered in a manner which—

(A) revitalizes distressed communities in rural and urban geographies;

(B) minimizes application burdens on small businesses applying for such credit; and

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

(b) ALLOWANCE OF CREDIT.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986, as amended by section 212, is amended by inserting after section 42A the following new section:

"SEC. 42B. NEIGHBORHOOD HOMES CREDIT.

"(a) ALLOWANCE OF CREDIT.—For purposes of section 38, the neighborhood homes credit determined under this section for the taxable year is, with respect to each qualified residence sold by the taxpayer during such taxable year in an affordable sale, the lesser of—

"(1) an amount equal to—

"(A) the excess (if any) of—

"(i) the reasonable development costs paid or incurred by the taxpayer with respect to such qualified residence, over "(ii) the sale price of such qualified residence (reduced by any reasonable expenses paid or incurred by the taxpayer in connection with such sale), or

"(B) if the neighborhood homes credit agency determines it is necessary to ensure financial feasibility, an amount not to exceed 120 percent of the amount under subparagraph (A),

"(2) 40 percent of the eligible development costs paid or incurred by the taxpayer with respect to such qualified residence, or

"(3) 32 percent of the national median sale price for new homes (as determined pursuant to the most recent census data available as of the date on which the neighborhood homes credit agency makes an allocation for the qualified project).

"(b) DEVELOPMENT COSTS.—For purposes of this section—

"(1) REASONABLE DEVELOPMENT COSTS.—

"(A) IN GENERAL.—The term 'reasonable development costs' means amounts paid or incurred for the acquisition of buildings and land, construction, substantial rehabilitation, demolition of structures, or environmental remediation, to the extent that the neighborhood homes credit agency determines that such amounts meet the standards specified pursuant to subsection (f)(1)(D) (as of the date on which construction or substantial rehabilitation is substantially complete, as determined by such agency) and are necessary to ensure the financial feasibility of such qualified residence.

"(B) CONSIDERATIONS IN MAKING DETERMINATION.—In making the determination under subparagraph (A), the neighborhood homes credit agency shall consider—

"(i) the sources and uses of funds and the total financing,

"(ii) any proceeds or receipts generated or expected to be generated by reason of tax benefits, and

"(iii) the reasonableness of the developmental costs and fees.

"(2) ELIGIBLE DEVELOPMENT COSTS.—The term 'eligible development costs' means the amount which would be reasonable development costs if the amounts taken into account as paid or incurred for the acquisition of buildings and land did not exceed 75 percent of such costs determined without regard to any amount paid or incurred for the acquisition of buildings and land.

"(3) SUBSTANTIAL REHABILITATION.—The term 'substantial rehabilitation' means amounts paid or incurred for rehabilitation of a qualified residence if such amounts exceed the greater of—

"(A) $25,000, or

"(B) 20 percent of the amounts paid or incurred by the taxpayer for the acquisition of buildings and land with respect to such qualified residence.

"(4) CONSTRUCTION AND REHABILITATION ONLY AFTER ALLOCATION TAKEN INTO ACCOUNT.—

"(A) IN GENERAL.—The terms 'reasonable development costs' and 'eligible development costs' shall not include any amount paid or incurred before the date on which an allocation is made to the taxpayer under subsection (e) with respect to the qualified project of which the qualified residence is part unless such amount is paid or incurred for the acquisition of buildings or land.

"(B) LAND AND BUILDING ACQUISITION COSTS.—Amounts paid or incurred for the acquisition of buildings or land shall be included under paragraph (A) only if paid or incurred not more than 3 years before the date on which the allocation referred to in subparagraph (A) is made. If the taxpayer acquired any building or land from an entity (or any related party to such entity) that holds an ownership interest in the taxpayer, then such entity must also have acquired such property within such 3-year period, and the acquisition cost included under subparagraph (A) with respect to the taxpayer shall not exceed the amount such entity paid or incurred to acquire such property.

"(c) QUALIFIED RESIDENCE.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified residence' means a residence that—

"(A) is real property (constructed on-site or manufactured off-site) affixed on a permanent foundation,

"(B) is—

"(i) a house which is comprised of 4 or fewer residential units,

"(ii) a condominium unit, or

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

"(C) is part of a qualified project with respect to which the neighborhood homes credit agency has made an allocation under subsection (e), and

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

"(2) QUALIFIED CENSUS TRACT.—

"(A) IN GENERAL.—The term 'qualified census tract' means a census tract—

"(i) which—

"(I) has a median family income which does not exceed 80 percent of the median family income for the applicable area,

"(II) has a poverty rate that is not less than 130 percent of the poverty rate of the applicable area, and

"(III) has a median value for owner-occupied homes that does not exceed the median value for owner-occupied homes in the applicable area,

"(ii) which—

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

"(II) has a median family income which does not exceed the median family income for the applicable area, and

"(III) has a median value for owner-occupied homes that does not exceed 80 percent of the median value for owner-occupied homes in the applicable area,

"(iii) which—

"(I) is located in a nonmetropolitan county,

"(II) has a median family income which does not exceed the median family income for the applicable area, and

"(III) has been designated by a neighborhood homes credit agency under this clause, "(iv) which is not otherwise a qualified census tract and is located in a disaster area (as defined in section 7508A(d)(3)), but only with respect to credits allocated in any period during which the President of the United States has determined that such area warrants individual or individual and public assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, or

"(v) which is not otherwise a qualified census tract and is identified by the neighborhood homes credit agency, through methodologies detailed in the qualified allocation plan, as having a shortage of affordable owner-occupied homes.

"(B) APPLICABLE AREA.—The term 'applicable area' means—

"(i) in the case of a metropolitan census tract, the metropolitan area in which such census tract is located, and

"(ii) in the case of a census tract other than a census tract described in clause (i), the State.

"(d) AFFORDABLE SALE.—For purposes of this section—

"(1) IN GENERAL.—The term 'affordable sale' means a sale to a qualified homeowner of a qualified residence that the neighborhood homes credit agency certifies as meeting the standards promulgated under subsection (f)(1)(D) for a price that does not exceed—

"(A) in the case of any qualified residence not described in subparagraph (B), (C), or (D), the amount equal to the product of 4 multiplied by the median family income for the applicable area (as determined pursuant to the most recent census data available as of the date of the contract for such sale),

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

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

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

"(2) QUALIFIED HOMEOWNER.—The term 'qualified homeowner' means, with respect to a qualified residence, an individual—

"(A) who owns and uses such qualified residence as the principal residence of such individual, and

"(B) whose family income (determined as of the date that a binding contract for the affordable sale of such residence is entered into) is 140 percent or less of the median family income for the applicable area in which the qualified residence is located.

"(e) CREDIT CEILING AND ALLOCATIONS.—

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

"(A) IN GENERAL.—The credit allowed under subsection (a) to any taxpayer for any taxable year with respect to one or more qualified residences which are part of the same qualified project shall not exceed the excess (if any) of—

"(i) the amount allocated by the neighborhood homes credit agency under this paragraph to such taxpayer with respect to such qualified project, over "(ii) the aggregate amount of credit allowed under subsection (a) to such taxpayer with respect to qualified residences which are a part of such qualified project for all prior taxable years.

"(B) DEADLINE FOR COMPLETION.—No credit shall be allowed under subsection (a) with respect to any qualified residence unless the affordable sale of such residence is during the 5-year period beginning on the date of the allocation to the qualified project of which such residence is a part (or, in the case of a qualified residence to which subsection (i) applies, the rehabilitation of such residence is completed during such 5-year period).

"(2) LIMITATIONS ON ALLOCATIONS TO QUALIFIED PROJECTS.—

"(A) ALLOCATIONS LIMITED BY STATE NEIGHBORHOOD HOMES CREDIT CEILING.—The aggregate amount allocated to taxpayers with respect to qualified projects by the neighborhood homes credit agency of any State for any calendar year shall not exceed the State neighborhood homes credit amount of such State for such calendar year.

"(B) Set-aside for certain projects involving qualified nonprofit organizations.—Rules similar to the rules of section 42(h)(5) shall apply for purposes of this section.

"(3) Determination of state neighborhood homes credit ceiling.—

"(A) In general.—The State neighborhood homes credit amount for a State for a calendar year is an amount equal to the sum of—

"(i) the greater of—

"(I) the product of $0, multiplied by the State population (determined in accordance with section 146(j)), or

"(II) $12,000,000, and

"(ii) any amount previously allocated to any taxpayer with respect to any qualified project by the neighborhood homes credit agency of such State which can no longer be allocated to any qualified residence because the 5-year period described in paragraph (1)(B) expires during such calendar year.

"(B) 3-year carryforward of unused limitation.—The State neighborhood homes credit amount for a State for a calendar year shall be increased by the excess (if any) of the State neighborhood homes credit amount for such State for the preceding calendar year over the aggregate amount allocated by the neighborhood homes credit agency of such State during such preceding calendar year. Any amount carried forward under the preceding sentence shall not be carried past the third calendar year after the calendar year in which such credit amount originally arose, determined on a first-in, first-out basis.

"(f) RESPONSIBILITIES OF NEIGHBORHOOD HOMES CREDIT AGENCIES.—

"(1) IN GENERAL.—Notwithstanding subsection (e), 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) subject to paragraph (2), allocates not more than 20 percent of amounts allocated in the previous year (or for allocations made in the first allocation year under this section, not more than 20 percent of the neighborhood homes credit ceiling for such year) to projects with respect to qualified residences which—

“(i) are located in census tracts described in subsection (c)(2)(A)(iii), (c)(2)(A)(iv), (i)(5), or

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

“(C) subject to paragraph (2), in addition to any allocation described in subparagraph (B), allocates not more than 20 percent of amounts allocated in the previous year (or for allocations made in the first allocation year under this section, not more than 20 percent of the neighborhood homes credit ceiling for such year) to projects with respect to qualified residences which are located in any census tract described in subsection (c)(2)(A)(v), except that, with respect to any qualified residence located within such census tract which is sold to a qualified homeowner, subsection (d)(2) shall be applied by substituting ‘120 percent’ for ‘140 percent’, "(D) promulgates standards with respect to reasonable qualified development costs and fees,

"(E) promulgates standards with respect to construction quality which are consistent with building codes or other standards required by the State or local jurisdiction in which the project is located,

"(F) in the case of any neighborhood homes credit agency which makes an allocation to a qualified project which includes any qualified residence to which subsection (i) applies, promulgates standards with respect to protecting the owners of such residences, including the capacity of such owners to pay rehabilitation costs not covered by the credit provided by this section and providing for the disclosure to such owners of their rights and responsibilities with respect to the rehabilitation of such residences,

"(G) 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,

"(ii) with respect to each qualified residence completed in the preceding calendar year—

"(I) the census tract in which such qualified residence is located,

"(II) with respect to the qualified project that includes such qualified residence, the year in which such project received an allocation under this section,

"(III) whether such qualified residence was new, substantially rehabilitated and sold to a qualified homeowner, or substantially rehabilitated pursuant to subsection (i),

"(IV) the eligible development costs of such qualified residence,

"(V) the amount of the neighborhood homes credit with respect to such qualified residence,

"(VI) the sales price of such qualified residence, if applicable, and

"(VII) the family income of the qualified homeowner (expressed as a percentage of the applicable area median family income for the location of the qualified residence), and

"(iii) such other information as the Secretary may require, and

"(H) makes available to the general public a written explanation for any allocation of a neighborhood homes credit dollar amount which is not made in accordance with established priorities and selection criteria of the neighborhood homes credit agency, and

"(I) provides educational outreach on application and compliance requirements, including for small residential builders and remodelers.

"(2) ALTERNATIVE FOR CERTAIN STATES.—

"(A) IN GENERAL.—In the case of any State which, for a calendar year, is an applicable State (as defined in subparagraph (B)), in lieu of the requirements under subparagraphs (B) and (C) of paragraph (1), the neighborhood homes credit agency of the State may elect to allocate not more than 40 percent of amounts allocated in the previous year (or for allocations made in the first allocation year under this section, not more than 40 percent of the neighborhood homes credit ceiling for such year) to projects with respect to qualified residences which are described in either subparagraph (B) or (C) of paragraph (1).

"(B) APPLICABLE STATE.—For purposes of this paragraph, the term 'applicable State' means a State which, for purposes of the determining the amount under subsection (e)(3)(A)(i) for the calendar year with respect to such State, received the amount described in subclause (II) of such subsection.

"(3) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, 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, including the impact on neighborhood residents,

"(iii) the capability and prior performance of the project sponsor, and

"(iv) the likelihood the project will result in long-term homeownership,

"(B) has been made available for public comment, and

"(C) as determined by the neighborhood homes credit agency, is likely to result in the selection of highly qualified applicants while also minimizing, to the extent practicable, application costs and barriers to entry for small residential builders and re-modelers, and

"(D) provides a procedure that the neighborhood homes credit agency (or any agent or contractor of such agency) shall follow for purposes of—

"(i) identifying noncompliance with any provisions of this section, and

"(ii) notifying the Internal Revenue Service of any such noncompliance of which the agency becomes aware.

"(g) REPAYMENT.—

"(1) IN GENERAL.—

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

"(B) USE OF REPAYMENTS.—A neighborhood homes credit agency shall use any amount received pursuant to subparagraph (A) only for purposes of qualified projects.

"(2) REPAYMENT AMOUNT.—For purposes of paragraph (1)(A)—

"(A) IN GENERAL.—The repayment amount is an amount equal to the applicable percentage of the gain from the sale to which the repayment relates.

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage is 50 percent, reduced by 10 percentage points for each year of the 5-year period referred to in paragraph (1)(A) which ends before the date of such sale.

"(3) LIEN FOR REPAYMENT AMOUNT.—A neighborhood homes credit agency receiving an allocation under this section shall place a lien on each qualified residence that is built or rehabilitated as part of a qualified project for an amount such agency deems necessary to ensure potential repayment pursuant to paragraph (1)(A).

"(4) WAIVER.—

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

"(B) HARDSHIP.—For purposes of subparagraph (A), with respect to the seller, a hardship may include—

"(i) divorce,

"(ii) disability,

"(iii) illness, or

"(iv) any other hardship identified by the neighborhood homes credit agency for purposes of this paragraph.

"(h) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) 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.

"(2) QUALIFIED PROJECT.—The term 'qualified project' means a project that a neighborhood homes credit agency certifies will build or substantially rehabilitate one or more qualified residences.

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

"(4) POSSESSIONS TREATED AS STATES.—The term 'State' includes the District of Columbia and the possessions of the United States.

"(5) SPECIAL RULES RELATED TO CONDOMINIUMS AND COOPERATIVE HOUSING CORPORATIONS.—

"(A) DETERMINATION OF DEVELOPMENT COSTS.—In the case of a qualified residence described in clause (ii) or (iii) of subsection (c)(1)(A), the reasonable development costs and eligible development costs of such qualified residence shall be an amount equal to such costs, respectively, of the entire condominium or cooperative housing property in which such qualified residence is located, multiplied by a fraction—

"(i) the numerator of which is the total floor space of such qualified residence, and

"(ii) the denominator of which is the total floor space of all residences within such property.

"(B) TENANT-STOCKHOLDERS OF COOPERATIVE HOUSING CORPORATIONS TREATED AS OWNERS.—In the case 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.

"(6) RELATED PARTY SALES NOT TREATED AS AFFORDABLE SALES.—

"(A) IN GENERAL.—A sale between related persons shall not be treated as an affordable sale.

"(B) RELATED PERSONS.—For purposes of this paragraph, a person (in this subparagraph 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'.

"(7) INFLATION ADJUSTMENT.—

"(A) IN GENERAL.—In the case of a calendar year after 2026, the dollar amounts in subsections (b)(3)(A), (e)(3)(A)(i)(I), (e)(3)(A)(i)(II), and (i)(2)(C) shall each be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2025' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

"(B) ROUNDING.—

"(i) In the case of the dollar amounts in subsections (b)(3)(A) and (i)(2)(C), any increase under paragraph (1) which is not a multiple of $1,000 shall be rounded to the nearest multiple of $1,000.

"(ii) In the case of the dollar amount in subsection (e)(3)(A)(i)(I), any increase under paragraph (1) which is not a multiple of $0.01 shall be rounded to the nearest multiple of $0.01.

"(iii) In the case of the dollar amount in subsection (e)(3)(A)(i)(II), any increase under paragraph (1) which is not a multiple of $100,000 shall be rounded to the nearest multiple of $100,000.

"(8) REPORT.—

"(A) IN GENERAL.—The Secretary shall annually issue a report, to be made available to the public, which contains the information submitted pursuant to subsection (f)(1)(G).

"(B) DE-IDENTIFICATION.—The Secretary shall ensure that any information made public pursuant to subparagraph (A) excludes any information that would allow for the identification of qualified homeowners.

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

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

"(B) clause (iii) of such subsection, and

"(C) subsection (i)(5)(A).

"(10) DENIAL OF DEDUCTIONS IF CONVERTED TO RENTAL HOUSING.—If, during the 5-year period beginning immediately after the affordable sale of a qualified residence referred to in subsection (a), an individual who owns a qualified residence (whether or not such individual was the purchaser in such affordable sale) fails to use such qualified 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 renting, during such period of time, such qualified residence.

"(i) APPLICATION OF CREDIT WITH RESPECT TO OWNER-OCCUPIED REHABILITATIONS.—

"(1) IN GENERAL.—In the case of a qualified rehabilitation by the taxpayer of any qualified residence which is owned (as of the date that the written binding contract referred to in paragraph (3) is entered into) by a specified homeowner, the rules of paragraphs (2) through (7) shall apply.

"(2) ALTERNATIVE CREDIT DETERMINATION.—In the case of any qualified residence described in paragraph (1), the neighborhood homes credit determined under subsection (a) with respect to such residence shall (in lieu of any credit otherwise determined under subsection (a) with respect to such residence) be allowed in the taxable year during which the qualified rehabilitation is completed (as determined by the neighborhood homes credit agency) and shall be equal to the least of—

"(A) the excess (if any) of—

"(i) the amounts paid or incurred by the taxpayer for the qualified rehabilitation of the qualified residence to the extent that such amounts are certified by the neighborhood homes credit agency (at the time of the completion of such rehabilitation) as meeting the standards specified pursuant to subsection (f)(1)(D), over

"(ii) any amounts paid to such taxpayer for such rehabilitation,

"(B) 50 percent of the amounts described in subparagraph (A)(i), or

"(C) $50,000.

"(3) QUALIFIED REHABILITATION.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'qualified rehabilitation' means a rehabilitation or reconstruction performed pursuant to a written binding contract between the taxpayer and the specified homeowner if the amount paid or incurred by the taxpayer in the performance of such rehabilitation or reconstruction exceeds the dollar amount in effect under subsection (b)(3)(A).

"(B) APPLICATION OF LIMITATION TO EXPENSES PAID OR INCURRED AFTER ALLOCATION.—A rule similar to the rule of section (b)(4) shall apply for purposes of this subsection.

"(4) SPECIFIED HOMEOWNER.—For purposes of this subsection, the term 'specified homeowner' means, with respect to a qualified residence, an individual—

"(A) who owns and uses such qualified residence as the principal residence of such individual as of the date that the written binding contract referred to in paragraph (3) is entered into, and

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

"(5) ADDITIONAL CENSUS TRACTS IN WHICH OWNER-OCCUPIED RESIDENCES MAY BE LOCATED.—In the case of any qualified residence described in paragraph (1), the term 'qualified census tract' includes any census tract which—

"(A) meets the requirements of subsection (c)(2)(A)(i) without regard to subclause (III) thereof, and

"(B) is designated by the neighborhood homes credit agency for purposes of this paragraph.

"(6) MODIFICATION OF REPAYMENT REQUIREMENT.—In the case of any qualified residence described in paragraph (1), subsection (g) shall be applied by beginning the 5-year period otherwise described therein on the date on which the qualified homeowner acquired such residence.

"(7) RELATED PARTIES.—Paragraph (1) shall not apply if the taxpayer is the owner of the qualified residence described in paragraph (1) or is related (within the meaning of subsection (h)(6)(B)) to such owner.

"(8) PYRRHOTITE REMEDIATION.—The requirement of subsection (c)(1)(D) shall not apply to a qualified rehabilitation under this subsection of a qualified residence that is documented by an engineer's report and core testing to have a foundation that is adversely impacted by pyrrhotite or other iron sulfide minerals.

"(j) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations that prevent avoidance of the rules, and abuse of the purposes, of this section.".

(c) CREDIT ALLOWED AS PART OF GENERAL BUSINESS CREDIT.—Section 38(b) of the Internal Revenue Code of 1986, as amended by section 212, is amended by striking "plus" at the end of paragraph (41), by striking the period at the end of paragraph (42) and inserting ", plus", and by adding at the end the following new paragraph:

"(43) the neighborhood homes credit determined under section 42B(a).".

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

"(iv) the credit determined under section 42B,".

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

"SEC. 139M. STATE ENERGY SUBSIDIES FOR QUALIFIED RESIDENCES.

"(a) EXCLUSION FROM GROSS INCOME.—Gross income shall not include the value of any subsidy provided to a taxpayer (whether directly or indirectly) by any State energy office (as defined in section 124(a) of the Energy Policy Act of 2005 (42 U.S.C. 15821(a))) for purposes of any energy improvements made to a qualified residence (as defined in section 42B(c)(1)).".

(f) CONFORMING AMENDMENTS.—

(1) Subsections (i)(3)(C), (i)(6)(B)(i), and (k)(1) of section 469 of the Internal Revenue Code of 1986, as amended by section 212, are each amended by striking "or 42A" and inserting ", 42A, or 42B".

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code, as

amended by section 212, is amended by inserting after the item relating to section 42A the following new item:

"Sec. 42B. Neighborhood homes credit.".

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

"Sec. 139M. State energy subsidies for qualified residences.".

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 214. FIRST-TIME HOMEBUYER REFUNDABLE CREDIT.

(a) IN GENERAL.—Section 36 of the Internal Revenue Code of 1986 is amended to read as follows:

"SEC. 36. FIRST-TIME HOMEBUYER REFUNDABLE CREDIT.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual who is a first-time homebuyer of a principal residence in the United States during a taxable year, there shall be allowed as a credit against the tax imposed by this subtitle for such taxable year an amount equal to 20 percent of the purchase price of the residence.

"(b) LIMITATIONS; SPECIAL RULES BASED ON MARITAL AND FILING STATUS.—

"(1) DOLLAR LIMITATION.—The credit allowed under subsection (a) shall not exceed $15,000.

"(2) Limitation based on purchase price.—The amount allowable as a credit under subsection (a) (determined without regard to this paragraph and paragraph (3), and after the application of paragraph (1)) for the taxable year shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which is so allowable as—

"(A) the excess (if any) of—

"(i) the purchase price of the residence, over

"(ii) an amount equal to 60 percent of the conforming loan limit applicable to the residence, bears to

"(B) $100,000.

For purposes of the preceding sentence, the term 'conforming loan limit' with respect to any residence means the applicable limitation governing the maximum original principal obligation for a mortgage secured by a residence of the same type, as determined and adjusted annually under section 302(b)(2) of the Federal National Mortgage Association Charter Act and section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act.

"(3) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The amount allowable as a credit under subsection (a) (determined without regard to this paragraph and after the application of paragraphs (1) and (2)) for the taxable year shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which is so allowable as—

"(i) the excess (if any) of—

"(I) the taxpayer's modified adjusted gross income for the applicable taxable year, over

"(II) the applicable threshold, bears to

"(ii) $50,000.

"(B) MODIFIED ADJUSTED GROSS INCOME.—For purposes of subparagraph (A), the term 'modified adjusted gross income' with respect to any taxable year means the adjusted gross income of the taxpayer for such taxable year increased by any amount excluded from gross income under section 911, 931, or 933 for such taxable year.

"(C) APPLICABLE THRESHOLD.—For purposes of subparagraph (A), the applicable threshold is—

"(i) except as provided in clause (ii), $100,000, and

"(ii) an amount equal to 200 percent of the amount in effect under clause (i), in the case of a head of household (as defined in section 2(b)) or a joint return.

"(D) APPLICABLE TAXABLE YEAR.—For purposes of subparagraph (A), the term 'applicable taxable year' means—

"(i) the taxable year with respect to which the credit allowable under subsection (a) is being claimed, or

"(ii) for purposes of the application of subsection (g)(3), the most recent taxable year for which a return of tax has been filed by the taxpayer, provided that such taxable year is either—

"(I) the taxable year preceding the taxable year described in clause (i), or

"(II) the taxable year preceding the taxable year described in subclause (I).

"(4) ADDITIONAL LIMITATIONS.—No credit shall be allowed under subsection (a) with respect to the purchase of any residence for a taxable year—

"(A) if the taxpayer is a nonresident alien, or

"(B) if—

"(i) the taxpayer has not attained age 18 as of the date of such purchase, or

"(ii) a deduction under section 151 with respect to the taxpayer is allowable to another taxpayer for the taxable year.

In the case of a taxpayer who is married, the taxpayer shall be treated as meeting the age requirement of subparagraph (B)(i) if the taxpayer or the taxpayer's spouse meets such age requirement.

"(5) MULTIPLE PURCHASERS.—If 2 or more individuals who are not married purchase a principal residence—

"(A) the amount of the credit under subsection (a) shall be allocated among such individuals in such manner as the Secretary may prescribe by taking into account the requirements of paragraphs (2) and (3),

"(B) for purposes of subparagraph (A), with respect to the requirements of paragraph (3)—

"(i) such paragraph shall be applied by aggregating the modified adjusted gross income of all such individuals, and

"(ii) the applicable threshold shall be the amount described in subparagraph (C)(ii) of such paragraph,

"(C) the total amount of the credits allowed to all such individuals shall not exceed the limitation under paragraph (1) (as modified by paragraph (7)), and

"(D) with respect to each such individual, no credit shall be allowed under subsection (a) unless such individual includes the taxpayer identification numbers for all such individuals on their return of tax for the taxable year.

"(6) MARRIED COUPLES MUST FILE JOINT RETURN.—If an individual is married at the close of the taxable year, the credit shall be allowed under subsection (a) only if the individual and the individual's spouse file a joint return for the taxable year.

"(7) ADJUSTMENT FOR INFLATION.—In the case of any taxable year beginning after December 31, 2027, each of the dollar amounts in paragraphs (1) and (3)(C)(i) 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 the calendar year in which the taxable year begins, determined by substituting 'calendar year 2026' for 'calendar year 2016' in subparagraph (A)(ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the next lowest multiple of $50.

"(c) DEFINITIONS.—For purposes of this section—

"(1) FIRST-TIME HOMEBUYER.—

"(A) IN GENERAL.—The term 'first-time homebuyer' means any individual who acquires a principal residence located in the United States by purchase if such individual (and, if married, such individual's spouse)—

"(i) has not claimed any credit or deduction under this title for any previous taxable year with respect to the purchase or ownership of any residence or residential real estate (including for any expenditures relating to the placing in service of any property on, in connection with, or for use in such a residence or real estate), and

"(ii) attests under penalty of perjury that—

"(I) the individual (and, if married, the individual's spouse) has not owned a principal residence at any time prior to the purchase of the principal residence to which this section applies, and

"(II) the principal residence to which this section applies was not acquired from a person related to such individual or spouse.

"(B) WAIVER IN CASE OF CERTAIN CHANGES IN STATUS.—The Secretary may, in such manner as the Secretary may prescribe, waive the requirements of subparagraph (A) for a taxable year in the case of an individual who is not eligible to file a joint return for the taxable year, and who was married at the time the individual or the individual's former spouse purchased a previous residence.

"(C) MULTIPLE PURCHASERS.—If 2 or more individuals who are not married purchase a principal residence, no credit shall be allowed under subsection (a) unless each individual satisfies the requirements under subparagraph (A).

"(2) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as when used in section 121.

"(3) PURCHASE.—

"(A) IN GENERAL.—The term 'purchase' means any acquisition, but only if—

"(i) the property is not acquired from a person related to the person acquiring such property (or, if either such person is married, such individual's spouse), and

"(ii) the basis of the property in the hands of the person acquiring such property is not determined—

"(I) in whole or in part by reference to the adjusted basis of such property in the hands of the person from whom acquired, or

"(II) under section 1014(a).

"(B) CONSTRUCTION.—A residence which is constructed by the taxpayer shall be treated as purchased by the taxpayer on the date the taxpayer first occupies such residence.

"(4) PURCHASE PRICE.—The term 'purchase price' means the adjusted basis (without regard to any reduction under section 1016(a)(39)) of the principal residence on the date such residence is purchased.

"(5) RELATED PERSONS.—A person shall be treated as related to another person if the relationship between such persons would result in the disallowance of losses under section 267 or 707(b) (but, in applying subsections (b) and (c) of section 267 for purposes of this section, paragraph (4) of section 267(c) shall be treated as providing that the family of an individual shall include only the individual's spouse, ancestors, lineal descendants, and spouse's ancestors and lineal descendants).

"(6) MARITAL STATUS.—An individual's marital status shall be determined in accordance with section 7703.

"(d) DENIAL AND RECAPTURE RULES IN CASE OF DISPOSAL OF RESIDENCE WITHIN 6 TAXABLE YEARS.—

"(1) DENIAL OF CREDIT IN CASE OF DISPOSAL WITHIN TAXABLE YEAR.—

"(A) IN GENERAL.—No credit under subsection (a) shall be allowed to any taxpayer for any taxable year with respect to the purchase of a residence if the taxpayer disposes of their interest in such residence (or such residence ceases to be the principal residence of the taxpayer (and, if married, the taxpayer's spouse)) before the close of such taxable year.

"(B) RECAPTURE IN CASES OF CREDIT TRANSFER.—In the case of a taxpayer which—

"(i) has made an election under subsection (g)(1), and

"(ii) disposes of their interest in such residence (or such residence ceases to be the principal residence of the taxpayer (and, if married, the taxpayer's spouse)) before the close of the taxable year described in subparagraph (A),

the tax imposed by this chapter for the taxable year in which such disposal (or cessation) occurs shall be increased by an amount equal to 100 percent of the amount of the credit allowed under subsection (a).

"(2) PHASED-OUT RECAPTURE.—

"(A) IN GENERAL.—Except as provided in subparagraph (D), if the taxpayer disposes of their interest in a residence with respect to which a credit was allowed under subsection (a) (or such residence ceases to be the principal residence of the taxpayer (and, if married, the taxpayer's spouse)) during the 5-taxable-year period beginning with the taxable year immediately following the credit year, the tax imposed by this chapter for the taxable year in which such disposal (or cessation) occurs shall be increased by an amount equal to the recapture percentage of the amount of the credit so allowed.

"(B) CREDIT YEAR.—For purposes of subparagraph (A), the term 'credit year' means the taxable year in which the credit under subsection (a) was allowed.

"(C) RECAPTURE PERCENTAGE.—For purposes of subparagraph (A), the recapture percentage with respect to any disposal or cessation described in such subparagraph shall be determined in accordance with the following table:

"If the disposal or cessation occurs in:	The recapture percentage is:
The 1st taxable year beginning after the credit year	100 percent
The 2nd taxable year beginning after the credit year	80 percent
The 3rd taxable year beginning after the credit year	60 percent
The 4th taxable year beginning after the credit year	40 percent
The 5th taxable year beginning after the credit year	20 percent.

"(D) EXCEPTIONS.—This paragraph shall not apply in the case of a disposal or cessation described in subparagraph (A) which occurs after or incident to any of the following:

"(i) Death of the taxpayer or the taxpayer's spouse.

"(ii) Divorce or separation of the taxpayer.

"(iii) Involuntary conversion of the residence (within the meaning of section 121(d)(5)(A)).

"(iv) Relocation of duty station or qualified official extended duty (as defined in section 121(d)(9)(C)) of the taxpayer or the taxpayer's spouse who is a member of the uniformed services (as defined in section 121(d)(9)(C)(ii)), a member of the Foreign Service of the United States (as defined in section 121(d)(9)(C)(iii)), or an employee of the intelligence community (as defined in section 121(d)(9)(C)(iv)).

"(v) Change of employment of the taxpayer or the taxpayer's spouse which meets the conditions of section 217(c).

"(vi) Change in the number of people residing in the residence of the taxpayer, including the addition of a child.

"(vii) Loss of employment, health conditions, caregiving needs, or such other unforeseen circumstances as may be specified by the Secretary.

"(e) ADJUSTMENT TO BASIS.—For purposes of this subtitle, if a credit is allowed under this section with respect to any property, the taxpayer's basis in such property shall be reduced by the amount of the credit so allowed.

"(f) REPORTING.—

"(1) IN GENERAL.—A credit shall be allowed under this section only if the following are included on the return of tax:

"(A) The individual's social security number issued by the Social Security Administration.

"(B) The street address (not including a post office box) of the principal residence purchased.

"(C) The purchase price of the principal residence.

"(D) The date of purchase of the principal residence.

"(E) The closing disclosure relating to the purchase (in the case of a purchase financed by a mortgage).

"(2) REPORTING OF REAL ESTATE TRANSACTIONS.—If the Secretary requires information reporting under section 6045 by a person described in subsection (e)(2) thereof to verify the eligibility of taxpayers for the credit allowable by this section, the exception provided by section 6045(e)(5) shall not apply.

"(g) TRANSFER OF CREDIT.—

"(1) IN GENERAL.—Subject to such regulations or other guidance as the Secretary determines necessary, if the taxpayer who acquires a principal residence by purchase using a qualified residential mortgage loan elects the application of this subsection with respect to such residence, 100 percent of the credit which would (but for this subsection) be allowed to such taxpayer with respect to such residence shall, at the time of purchase of such residence, be allowed to the eligible entity specified in such election (and not to such taxpayer) in the manner described in paragraph (2)(A)(ii)(III).

"(2) DEFINITIONS.—In this subsection—

"(A) ELIGIBLE ENTITY.—

"(i) IN GENERAL.—The term 'eligible entity' means, with respect to the residence for which the credit is allowed under subsection (a), the entity which originated the qualified residential mortgage loan used to purchase such residence and—

"(I) has registered with the Secretary for purposes of this subparagraph, at such time, and in such form and manner, as the Secretary may prescribe,

"(II) employs registered loan originators or State-licensed loan originators,

"(III) prior to the election described in paragraph (1) and not later than the closing date for such purchase, disclosed to the taxpayer purchasing such residence—

"(aa) the amount of the credit that would otherwise be allowable to the taxpayer under subsection (a),

"(bb) pursuant to the election under paragraph (1), the amount of the credit allowed to such entity,

"(cc) the terms of the qualified residential mortgage loan, which shall take into account the payment made by such entity pursuant to subclause (V),

"(IV) prior to the closing date for such purchase and in such manner as the Secretary may prescribe, verified—

"(aa) the eligibility of the taxpayer for the credit under subsection (a), and

"(bb) the amount of such credit to which the election under paragraph (1) is applicable,

"(V) on the closing date for the purchase of the residence, reduces the down payment otherwise required to be made by the taxpayer by making payment to the person selling such residence to the taxpayer in an amount equal to the amount of the credit allowable to the taxpayer under subsection (a) to which the election under paragraph (1) applies, and

"(VI) has not provided any terms or conditions (such as higher fees, closing costs, interest rates, or other incentives) with respect to the qualified residential mortgage loan to which an election under paragraph (1) applies which are less favorable than the terms and conditions for residential mortgage loans that would otherwise be provided to the taxpayer if an election described in such paragraph was not made by the taxpayer.

"(ii) SPECIAL RULES.—

"(I) TIMING; REVOCATION.—Rules similar to the rules under paragraphs (3) and (4) of section 30D(g) shall apply for purposes of this subparagraph.

"(II) TAX TREATMENT OF PAYMENTS.—With respect to any payment described in clause (i)(V), such payment—

"(aa) shall not be includible in the gross income of the taxpayer, and

"(bb) with respect to the eligible entity, shall not be deductible under this title.

"(III) ADVANCE PAYMENT TO ELIGIBLE ENTITIES.—

"(aa) IN GENERAL.—The Secretary shall establish a program to make advance payments to any eligible entity in an amount equal to the cumulative amount of the credits allowed to such entity pursuant to an election under paragraph (1).

"(bb) EXCESSIVE PAYMENTS; TREATMENT OF ADVANCE PAYMENTS.—Rules similar to the rules under subparagraphs (B) and (C) of section

30D(g)(7) shall apply for purposes of this subclause.

"(IV) RECAPTURE.—In the case of any taxpayer who has made an election described in paragraph (1) with respect to the purchase of a principal residence and for which a payment described in clause (i)(V) was made by an eligible entity, if the credit under subsection (a) is subsequently determined to not be allowable to such taxpayer with respect to such purchase, the tax imposed on such taxpayer under this chapter for the taxable year in which such residence was purchased shall be increased by the amount of the payment described in clause (i)(V).

"(B) QUALIFIED RESIDENTIAL MORTGAGE LOAN.—The term 'qualified residential mortgage loan' means a residential mortgage loan (as defined in section 1503 of the S.A.F.E. Mortgage Licensing Act of 2008 (12 U.S.C. 5102)) which—

"(i) does not exceed the conforming loan limit (as defined in subsection (b)(2)),

"(ii) was originated by a registered loan originator or State-licensed loan originator (as defined in section 1503 of the S.A.F.E. Mortgage Licensing Act of 2008 (12 U.S.C. 5102)) who is not, with respect to the taxpayer—

"(I) a person specified in section 267(b), or

"(II) a partnership described in section 707(b), and

"(iii) does not require a down payment in an amount which is greater than the amount equal to—

"(I) 20 percent of the purchase price of the residence, minus

"(II) the amount of the credit allowable to the taxpayer under subsection (a) to which the election under paragraph (1) applies.

"(3) APPLICATION OF LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—

"(i) PRIOR TAXABLE YEAR.—For purposes of this subsection, any reduction in the amount allowable as a credit under subsection (a) pursuant to subsection (b)(3) shall be determined based on the modified adjusted gross income of the taxpayer for the taxable year described in subparagraph (D)(ii) of such subsection.

"(ii) INDIVIDUALS WHO WERE NOT MARRIED IN PRIOR TAXABLE YEAR.—For purposes of clause (i), in the case of two individuals who are married during the taxable year in which the residence is purchased but were not married with respect to the taxable year described in such clause, rules similar to the rules under subsection (b)(5)(B) shall apply.

"(B) LOWER INCOME IN TAXABLE YEAR IN WHICH RESIDENCE IS PURCHASED.—

"(i) IN GENERAL.—If—

"(I) the taxpayer has made an election under paragraph (1),

"(II) a reduction described in subparagraph (A) is applicable with respect to the amount allowable as a credit under subsection (a), and

"(III) the modified adjusted gross income of the taxpayer for the taxable year described in clause (i) of subsection (b)(3)(D) is less than the modified adjusted gross income of the taxpayer for the taxable year described in clause (ii) of such section,

notwithstanding the application of paragraph (1), there shall be a credit allowed to the taxpayer against the tax imposed by this subtitle for the taxable year described in clause (i) of such subsection equal to the amount described in clause (ii).

"(ii) DIFFERENCE IN CREDIT AMOUNTS.—The amount described in this clause is equal to—

"(I) the amount allowable as a credit under subsection (a), as reduced pursuant to subsection (b)(3) based on the modified adjusted gross income of the taxpayer for the taxable year described in clause (i) of subsection (b)(3)(D), minus

"(II) the amount of the payment made by the eligible entity pursuant to paragraph (2)(A)(i)(V).

"(4) REPORTING.—

"(A) IN GENERAL.—In the case of a taxpayer that has made an election under paragraph (1), not later than 3 days after the closing date for the purchase of the residence, the eligible entity shall report to the Secretary (in such manner as the Secretary may prescribe) the following:

"(i) The name and taxpayer identification number of the taxpayer.

"(ii) The amount of the credit allowed under subsection (a) to which the election under paragraph (1) applied.

"(B) INFORMATION PROVIDED TO TAXPAYER.—At such time, and in such form and manner, as the Secretary may prescribe, the eligible entity shall provide the information described in subparagraph (A) to the taxpayer.

"(5) ONLINE PORTAL.—The Secretary shall establish an online portal which permits—

"(A) a taxpayer to—

"(i) determine the amount of the credit allowable under subsection (a) and the amount of such credit to which paragraph (1) may apply, and

"(ii) elect the application of this subsection with respect to the purchase of a residence, and

"(B) an eligible entity to—

"(i) verify the amount of the credit allowable under subsection (a) with respect to the taxpayer and the amount of such credit to which paragraph (1) may apply, and

"(ii) comply with the requirements under paragraph (4).

"(h) REGULATIONS AND GUIDANCE.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including rules for the application of subsection (d) in the case of a residence purchased by 2 or more individuals who are not married.".

(b) CONFORMING AMENDMENT RELATING TO BASIS ADJUSTMENT.—Subsection (a) of section 1016 of the Internal Revenue Code of 1986, as amended by section 212, is amended—

(1) by redesignating paragraphs (38) and (39) as paragraphs (39) and (40), respectively, and

(2) by inserting after paragraph (37) the following new paragraph:

"(38) to the extent provided in section 36(e),".

(c) CONFORMING AMENDMENT.—Section 26(b)(2) of the Internal Revenue Code of 1986 is amended by striking subparagraph (W) and by redesignating subparagraphs (X), (Y), and (Z) as subparagraphs (W), (X), and (Y), respectively.

(d) CLERICAL AMENDMENT.—The item relating to section 36 in the table of sections for subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended to read as follows:

"Sec. 36. First-time homebuyer refundable credit.".

(e) AUTHORITY TO TREAT CLAIM OF CREDIT AS ERROR, ETC.—Subparagraph (N) of section 6213(g)(2) of the Internal Revenue Code of 1986 is amended to read as follows:

"(N) in the case of a return claiming the credit under section 36—

"(i) the omission of a social security number required under section 36(f)(1)(A),

"(ii) the inclusion of a social security number so required if—

"(I) the claim of the credit on the return reflects the treatment of such individual as being of an age different from the individual's age based on such social security number, or

"(II) except as provided in section 36(c)(1)(B), such social security number has been included (other than as a dependent for purposes of section 151) on a return for any previous taxable year claiming any credit or deduction described in section 36(c)(1)(A)(i),

"(iii) the omission of any other required information or documentation described in section 36(f)(1), including the inclusion of a post office box instead of a street address for the purchased residence,

"(iv) the inclusion of any information or documentation described in clause (iii) if such information or documentation does not support a valid claim for the credit, or

"(v) a claim of such credit for a taxable year with respect to the purchase of a residence made after the last day of such taxable year,''.

(f) IRS RECORDKEEPING.—Notwithstanding the limitations on assessment and collection under section 6501 of the Internal Revenue Code of 1986, the Commissioner of Internal Revenue shall maintain records of returns and return information (as defined in section 6103(b)(2) of such Code) of any taxpayer claiming the credit under section 36 of such Code (as amended by this section) for the taxable year in which such credit is claimed and succeeding taxable years in the individual master files of the Internal Revenue Service.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2026.

SEC. 215. LOSSES FROM THE SALE OF PRINCIPAL RESIDENCES.

(a) ALLOWANCE OF LOSS.—

(1) IN GENERAL.—Section 165(c) of the Internal Revenue Code of 1986 is amended by striking ''and'' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting ''; and'', and by adding at the end the following new paragraph:

''(4) any—

"(A) qualified principal residence loss, and

"(B) any qualified principal residence loss carryforward (as determined under section 1212(b)(3)).".

(2) DEFINITIONS AND LIMITATIONS.—Section 165 of such Code is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) RULES RELATED TO QUALIFIED PRINCIPAL RESIDENCE LOSSES.—

"(1) QUALIFIED PRINCIPAL RESIDENCE LOSS.—For purposes of subsection (c)(4)—

"(A) IN GENERAL.—The term 'qualified principal residence loss' means any loss from the sale or exchange of a residence of the taxpayer located in the United States if, during the 5-year period ending on the date such residence is sold or exchanged, such property has been owned and used by the taxpayer as the taxpayer's principal residence (within the meaning of section 121) for periods aggregating 2 years or more.

"(B) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 2 YEARS.—Rules similar to the rules of section 121(b)(3) shall apply for purposes of this paragraph.

"(C) EXCLUSION OF LOSS ALLOCATED TO NONQUALIFIED USE.—

"(i) IN GENERAL.—Paragraph (1) shall not apply to so much of the loss from the sale or exchange of property as is allocated to periods of nonqualified use (as defined in section 121(b)(5)(C)).

"(ii) ALLOCATION RULES.—For purposes of this clause, loss shall be attributable to periods of nonqualified use under the principles of section 121(b)(5)(B).

"(D) TAXPAYERS FAILING TO MEET CERTAIN REQUIREMENTS.—Rules similar to the rules of section 121(c) shall apply for purposes of this paragraph (determined by substituting 'section 165(m)(2)' for 'paragraph (1) or (2) of subsection (b), whichever is applicable' in paragraph (1) thereof).

"(E) SPECIAL RULES.—

"(i) IN GENERAL.—Rules similar to the rules of paragraphs (1), (2), (3), (4), (5) (applied without regard to the phrase 'destruction, theft' in subparagraph (A) thereof), (7), (8), (9), (10), and (12) of section 121(d) shall apply for purposes of this paragraph.

"(F) EXPATRIATES.—Rules similar to the rules of subsection (e) of section 121 shall apply for purposes of this paragraph.

"(2) DOLLAR LIMITATION.—The amount of any qualified principal residence loss shall not exceed $100,000 ($50,000 in the case of a married individual filing a separate return).

"(3) INCOME LIMITATION.—

"(A) IN GENERAL.—The amount of qualified principal residence loss (determined after application of paragraph (2) and without regard to this paragraph) shall be reduced (but not below zero) by the amount which bears the same ratio to such loss (as so determined) as—

"(i) the excess of—

"(I) the taxpayer's modified adjusted gross income for such taxable year, over

"(II) $200,000 (50 percent of such amount in the case of a married individual filing a separate return), bears to "(ii) $50,000 (50 percent of such amount in the case of a married individual filing a separate return).

"(B) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this paragraph, the term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year determined without regard to subsection (c)(4) and increased by any amount excluded from gross income under section 911, 931, or 933.".

(3) COORDINATION WITH EXCLUSION FOR GAIN.—

(A) IN GENERAL.—Section 121(b)(3) of such Code is amended by inserting "or section 165(c)(4)" after "subsection (a)".

(B) CONFORMING AMENDMENT.—Section 121(c)(1)(B)(i)(II) of such Code is amended by inserting "or section 165(c)(4)" after "subsection (a)".

(4) APPLICATION OF RULES LIMITING LOSSES.—

(A) IN GENERAL.—Section 1211 of such Code is amended by adding at the end the following new subsection:

"(c) SPECIAL RULES FOR TAXPAYERS WITH QUALIFIED PRINCIPAL RESIDENCE LOSS.—

"(1) IN GENERAL.—In the case of a taxpayer (other than a corporation) which has a qualified principal residence loss for any taxable year—

"(A) this subsection shall be applied before subsection (b), and

"(B) such loss shall be allowed only to the extent of the sum of—

"(i) gains from sales or exchanges of capital assets during such taxable year, plus

"(ii) if such loss exceeds such gains, the amount of such excess.

"(2) COORDINATION WITH SUBSECTION (b).—In applying subsection (b) to any taxable year to which this subsection applies—

"(A) qualified principal residence losses shall not be taken into account, and

"(B) gains from sales or exchanges of capital assets during such taxable year taken into account under such subsection shall be reduced by the amount of such gains taken into account under paragraph (1)(B)(i).

"(3) Qualified principal residence loss.—For purposes of this paragraph, the term 'qualified principal residence loss' means, with respect to any taxable year, any loss allowed for such taxable year by reason of section 165(c)(4) (including any qualified principal residence loss carryforward taken into account for such taxable year under subparagraph (B) thereof).".

(B) Carryforwards.—Section 1212(b) of such Code is amended is amended by adding at the end the following new paragraph:

"(3) Special rule for qualified principal residence losses.—

"(A) In general.—For purposes of section 165(c)(4)(B), the amount of qualified principal residence loss carryforward determined under this paragraph is the excess (if any) of—

"(i) the excess determined under section 1211(c)(1)(B)(ii) for the taxable year, over

"(ii) taxable income (computed without regard to any loss allowed with respect to such excess or any amount or deduction described in paragraph (2)(B)).

"(B) COORDINATION WITH OTHER CAPITAL LOSSES.—For purposes of this subsection—

"(i) a qualified principal residence loss (as defined in section 1211(c)(3)) shall not be taken into account for purposes of paragraph (1) or (2), and

"(ii) taxable income for purposes of paragraph (2)(B) shall be computed after the allowance for any qualified personal residence loss (as so defined).".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to sales in taxable years beginning after the date of the enactment of this Act.

SEC. 216. REPEAL OF LIMITATION ON PERSONAL CASUALTY LOSS DEDUCTION.

(a) IN GENERAL.—Section 165(h) of the Internal Revenue Code of 1986 is amended by striking paragraph (5).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 217. PERMANENT EXCLUSION FROM GROSS INCOME OF DISCHARGE OF QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS.

(a) IN GENERAL.—Section 108(a)(1)(E) of the Internal Revenue Code of 1986 is amended by striking ‘‘which is discharged’’ and all that follows through ‘‘evidenced in writing before January 1, 2026’’.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to discharges of indebtedness after December 31, 2025.

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