

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

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Decent, Affordable, Safe Housing for All Act” or the
6 “DASH Act”.

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

Sec. 1. Short title; table of contents.

TITLE I—GENERAL HOUSING ASSISTANCE

- Sec. 101. Rental vouchers for the homeless.
- Sec. 102. Land acquisition and construction.
- Sec. 103. Modular construction pilot program.
- Sec. 104. Supporting pro-housing development.
- Sec. 105. Permanent authorization of appropriations for McKinney-Vento Homeless Assistance Act grants.

TITLE II—REVENUE PROVISIONS

- Sec. 201. Increases in State allocations.
- Sec. 202. Buildings designated to serve extremely low-income households.
- Sec. 203. Inclusion of Indian areas as difficult development areas for purposes of certain buildings.
- Sec. 204. Inclusion of rural areas as difficult development areas.
- Sec. 205. Increase in credit for bond-financed projects designated by housing credit agency.
- Sec. 206. Repeal of qualified contract option.
- Sec. 207. Modification and clarification of rights relating to building purchase.
- Sec. 208. Prohibition of local approval and contribution requirements.
- Sec. 209. Increase in credit for low-income housing supportive services.
- Sec. 210. Study of tax incentives for the conversion of commercial property to affordable housing.
- Sec. 211. Renters credit.
- Sec. 212. Middle-income housing tax credit.
- Sec. 213. Neighborhood homes credit.
- Sec. 214. First-time homebuyer refundable credit.
- Sec. 215. Losses from the sale of principal residences.
- Sec. 216. Repeal of limitation on personal casualty loss deduction.
- Sec. 217. Permanent exclusion from gross income of discharge of qualified principal residence indebtedness.

1 **TITLE I—GENERAL HOUSING**

2 **ASSISTANCE**

3 **SEC. 101. RENTAL VOUCHERS FOR THE HOMELESS.**

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

7 “(22) RENTAL VOUCHERS FOR THE HOME-
 8 LESS.—

9 “(A) DEFINITIONS.—In this paragraph:

10 “(i) AT RISK OF HOMELESSNESS.—

11 The term ‘at risk of homelessness’ has the

1 meaning given the term in section 401(1)
2 of the McKinney-Vento Homeless Assist-
3 ance Act (42 U.S.C. 11360), except that
4 ‘50 percent’ shall be substituted for ‘30
5 percent’ in subparagraph (A) of that sec-
6 tion.

7 “(ii) CAPACITY-BUILDING PERIOD.—
8 The term ‘capacity-building period’ means
9 the 2-year period beginning on the date on
10 which the formula is established under
11 subparagraph (E)(ii).

12 “(iii) CONTINUUM OF CARE.—The
13 term ‘continuum of care’ has the meaning
14 given the term in section 578.3 of title 24,
15 Code of Federal Regulations, or any suc-
16 cessor regulation.

17 “(iv) ELIGIBLE PUBLIC HOUSING
18 AGENCY.—The term ‘eligible public hous-
19 ing agency’ means a public housing agency
20 that—

21 “(I) administers assistance under
22 this subsection through a contract for
23 annual contributions entered into with
24 the Secretary;

1 “(II) has a partnership with a
2 public child welfare agency and a con-
3 tinuum of care that—

4 “(aa) has a system for iden-
5 tifying and referring eligible re-
6 cipients for assistance under this
7 paragraph from the public hous-
8 ing agency, including by pro-
9 viding a written certification that
10 the eligible recipient is eligible to
11 receive the assistance; and

12 “(bb) will, to the greatest
13 extent practicable, provide or fa-
14 cilitate the provision of sup-
15 portive services to those eligible
16 recipients; and

17 “(III) submits to the Secretary a
18 statement describing—

19 “(aa) how the public hous-
20 ing agency will connect eligible
21 recipients with local community
22 resources, to the extent available;
23 and

1 “(bb) the plan for use of ca-
2 pacity-building funding under
3 subparagraph (E), including—

4 “(AA) a timeline for
5 the use of that funding with-
6 in the capacity-building pe-
7 riod;

8 “(BB) hiring and per-
9 sonnel needs;

10 “(CC) physical infra-
11 structure needs; and

12 “(DD) technological in-
13 frastructure needs, including
14 upgrades to the HMIS, and
15 any other capacity-related
16 investments that are nec-
17 essary to administer assist-
18 ance under this paragraph.

19 “(v) ELIGIBLE RECIPIENT.—The term
20 ‘eligible recipient’ means any individual or
21 family experiencing homelessness or at risk
22 of homelessness with an income that is less
23 than 50 percent of the area median in-
24 come.

1 “(vi) EXPERIENCING HOMELESSNESS;
 2 HOMELESS.—The terms ‘experiencing
 3 homelessness’ and ‘homeless’ means an in-
 4 dividual or family who is—

5 “(I) living in a place not meant
 6 for human habitation or in an emer-
 7 gency shelter;

8 “(II) living in transitional hous-
 9 ing for homeless persons and was
 10 homeless before entering transitional
 11 housing or an emergency shelter;

12 “(III) fleeing domestic violence;
 13 or

14 “(IV) at risk of homelessness.

15 “(vii) HMIS.—The term ‘HMIS’
 16 means the community-wide homeless man-
 17 agement information system described in
 18 section 402(f)(3)(D) of the McKinney-
 19 Vento Homeless Assistance Act (42 U.S.C.
 20 11360a(f)(3)(D)).

21 “(viii) PUBLIC HOUSING AGENCY.—
 22 The term ‘public housing agency’ includes
 23 a tribally designated housing entity.

24 “(ix) REFERRAL.—The term ‘referral’
 25 means an affirmative connection between

1 the voucher recipient and the organization
2 providing services to the voucher recipient.

3 “(x) SERVICE COORDINATOR.—The
4 term ‘service coordinator’ means an indi-
5 vidual employed directly by a public hous-
6 ing agency who provides general case man-
7 agement and referral services to each
8 voucher recipient served by the public
9 housing agency, which shall include—

10 “(I) an individual intake screen-
11 ing of each voucher recipient to evalu-
12 ate the voucher recipient’s need for
13 supportive services; and

14 “(II) referral to outside services,
15 including cooperation and collabora-
16 tion with a continuum of care.

17 “(xi) SOURCE OF INCOME.—The term
18 ‘source of income’ means income from any
19 lawful source, including—

20 “(I) income from any legal em-
21 ployment; and

22 “(II) any assistance, benefit, or
23 subsidy through any Federal, State,
24 or local program, whether the pro-

1 gram is administered by a govern-
2 mental or nongovernmental entity.

3 “(xii) TRIBALLY DESIGNATED HOUS-
4 ING ENTITY.—The term ‘tribally des-
5 ignated housing entity’ has the meaning
6 given the term in section 4 of the Native
7 American Housing Assistance and Self-De-
8 termination Act of 1996 (25 U.S.C. 4103).

9 “(xiii) VOUCHER RECIPIENT.—The
10 term ‘voucher recipient’ means an indi-
11 vidual or family receiving a voucher under
12 this paragraph.

13 “(xiv) YOUTH.—The term ‘youth’
14 means an individual under the age of 25.

15 “(B) VOUCHERS.—

16 “(i) PROVISION OF VOUCHERS.—

17 “(I) IN GENERAL.—The Sec-
18 retary shall provide vouchers for rent-
19 al assistance on behalf of each eligible
20 recipient in accordance with this para-
21 graph.

22 “(II) DIRECT APPROPRIATION.—
23 Subject to subclause (III), there is ap-
24 propriated, out of any money in the
25 Treasury not otherwise appropriated,

1 for providing rental voucher assistance
2 under this paragraph for fiscal year
3 2026 and each fiscal year thereafter—

4 “(aa) the amount necessary
5 to fund the provision of a vouch-
6 er for rental assistance under
7 this paragraph on behalf of each
8 eligible recipient;

9 “(bb) the amount necessary
10 to provide administrative fees
11 under clause (ii) in connection to
12 each voucher for rental assistance
13 provided under this paragraph;
14 and

15 “(cc) the amount necessary
16 to fund annual renewals of the
17 vouchers provided under this
18 paragraph.

19 “(III) NUMBER OF VOUCHERS.—

20 The Secretary shall provide—

21 “(aa) 250,000 vouchers
22 under this paragraph in fiscal
23 year 2026; and

24 “(bb) 400,000 vouchers
25 under this paragraph in each fis-

1 cal year thereafter until the Sec-
2 retary determines that a smaller
3 number of vouchers is sufficient
4 to provide all eligible recipients
5 with vouchers.

6 “(ii) ADMINISTRATIVE FEE FOR AN-
7 CILLARY COSTS.—The Secretary shall pro-
8 vide a public housing agency that requests
9 a voucher under this paragraph an admin-
10 istrative fee sufficient to provide assistance
11 to the voucher recipient for security depos-
12 its, application fees, moving costs, first or
13 last month’s rent, or other significant bar-
14 riers to establishing use of the voucher and
15 a lease, in an amount that is not more
16 than 3 months’ rent for the voucher recipi-
17 ent.

18 “(iii) PAYMENT STANDARD.—The
19 payment standard for a voucher provided
20 under this paragraph may not exceed 125
21 percent of the fair market rental in the ju-
22 risdiction in which the voucher is adminis-
23 tered.

24 “(iv) SUPPLEMENTAL VOUCHER PAY-
25 MENT.—

1 “(I) IN GENERAL.—An eligible
2 public housing agency may supple-
3 ment the amount of a voucher pro-
4 vided under this paragraph in any
5 case in which—

6 “(aa) the amount of the
7 voucher is insufficient to cover
8 the cost of a dwelling unit within
9 the jurisdiction of the eligible
10 public housing agency and that
11 insufficiency may result in a
12 voucher recipient losing housing
13 and becoming homeless or dou-
14 bled up; or

15 “(bb) the eligible public
16 housing agency submits to the
17 Secretary a waiver request for re-
18 calculation of the small area fair
19 market rent applicable to the
20 dwelling unit, which the Sec-
21 retary shall approve or deny
22 within 45 days of submission of
23 the request.

24 “(II) PAYMENT UPON DENIAL.—
25 An eligible public housing agency may

1 supplement the amount of a voucher
2 under subclause (I) even if the Sec-
3 retary denies the request submitted
4 under subclause (I)(aa), provided that
5 the supplementation of the voucher
6 amount is necessary to maintain hous-
7 ing for the voucher recipient.

8 “(v) CONDITIONS ON ASSISTANCE.—
9 Notwithstanding any other provision of
10 law, the Secretary—

11 “(I) may not condition receipt of
12 a voucher under this paragraph on—

13 “(aa) participation in any
14 service or program; or

15 “(bb) the sobriety or lack
16 thereof of an eligible recipient;

17 “(II) except as provided in sub-
18 clause (III), may not prohibit receipt
19 of a voucher under this paragraph by
20 an otherwise eligible recipient due to
21 any criminal conviction or history of
22 interaction with the criminal justice
23 system; and

24 “(III) shall prohibit receipt of a
25 voucher under this paragraph by indi-

viduals 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.—

1 “(I) IN GENERAL.—A public
2 housing agency shall partner with
3 continuums of care, public child wel-
4 fare agencies, street outreach pro-
5 viders, health care providers, and
6 other similar organizations in the
7 State in which the public housing
8 agency operates to identify eligible re-
9 cipients.

10 “(II) CONSIDERATIONS.—In
11 identifying eligible recipients under
12 subclause (I), the public housing
13 agency and its partners shall—

14 “(aa) take into consideration
15 demographic information of the
16 eligible recipients, including the
17 age, sex, gender identity, sexual
18 orientation, race, ethnicity, and
19 disability status of each such re-
20 cipient; and

21 “(bb) coordinate outreach in
22 a respectful manner with regard
23 to the information described in
24 item (aa).

1 “(III) CONTINUUMS OF CARE.—

2 In partnering with public housing
3 agencies to identify eligible recipients,
4 continuums of care shall carry out as-
5 sistance and services as planned under
6 a Congressionally authorized two-year
7 Notice of Funding Opportunity
8 (NOFO).

9 “(viii) REQUIREMENTS FOR ELIGIBLE
10 PUBLIC HOUSING AGENCIES.—

11 “(I) IN GENERAL.—Each eligible
12 public housing agency providing as-
13 sistance under this paragraph shall—

14 “(aa) on an annual basis
15 and in conjunction with income
16 reviews for purposes of deter-
17 mining income eligibility for as-
18 sistance under this paragraph,
19 verify the compliance of the eligi-
20 ble public housing agency with
21 the eligibility requirements under
22 this paragraph; and

23 “(bb) to the greatest extent
24 possible—

1 “(AA) work with con-
2 tinuums of care to ensure
3 continuity of data collection
4 under this paragraph; and

5 “(BB) utilize the HMIS
6 to collect and maintain the
7 information required to be
8 collected under this para-
9 graph.

10 “(II) PRIORITY.—In providing
11 vouchers under this paragraph, an eli-
12 gible public housing agency—

13 “(aa) shall prioritize the
14 first vouchers made available
15 under this section for eligible re-
16 cipients who are—

17 “(AA) unaccompanied
18 homeless youth;

19 “(BB) homeless youth
20 with minor children; or

21 “(CC) families with
22 minor children experiencing
23 homelessness;

24 “(bb) to the extent possible
25 considering when the Secretary

1 disburses funds under this para-
2 graph, shall provide vouchers to
3 the eligible recipients described in
4 item (aa) not later than 1 year
5 after the end of the capacity-
6 building period; and

7 “(cc) may not issue vouchers
8 to eligible recipients not de-
9 scribed in item (aa) until the eli-
10 gible public housing agency has
11 issued vouchers to all eligible re-
12 cipients described in that item.

13 “(ix) USE OF VOUCHER UPON EXIT.—
14 An eligible public housing agency that
15 issued a voucher to an eligible recipient
16 that is no longer in use by the eligible re-
17 cipient may provide the voucher to any
18 other tenant eligible for tenant-based as-
19 sistance under this subsection.

20 “(C) DATA COLLECTION.—

21 “(i) IN GENERAL.—The Secretary
22 shall submit to Congress an annual report
23 on assistance providing under this para-
24 graph, which shall include—

1 “(I) an assessment of the
2 progress of States toward housing—

3 “(aa) eligible recipients in
4 the State; and

5 “(bb) the total population of
6 people experiencing homelessness
7 in the State; and

8 “(II) the information provided
9 under clause (ii).

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

17 “(I) the number of voucher re-
18 cipients, including aggregated demo-
19 graphic information on the age, sex,
20 gender identity, sexual orientation,
21 race, ethnicity, and disability status of
22 each such recipient in a manner that
23 does not reveal the personally identifi-
24 able information of each such recipi-
25 ent;

1 “(II) the number of eligible re-
2 cipients who applied during the fiscal
3 year for assistance under this para-
4 graph, but were not provided assist-
5 ance;

6 “(III) a brief identification in
7 each instance described in subclause
8 (II) of the reason why the eligible
9 public housing agency was unable to
10 provide the assistance; and

11 “(IV) a description of how the el-
12 igible public housing agency commu-
13 nicated or collaborated with public
14 child welfare agencies and continuums
15 of care to collect the data described in
16 subclauses (I) and (II).

17 “(D) SUPPORTIVE SERVICES.—

18 “(i) ADMINISTRATIVE FEE.—

19 “(I) IN GENERAL.—The Sec-
20 retary shall establish a fee under sub-
21 section (q) for the costs incurred by
22 public housing agencies in admin-
23 istering vouchers under this para-
24 graph.

1 “(II) COSTS.—In establishing the
2 fee described in subclause (I), the Sec-
3 retary shall include the costs to public
4 housing agencies of employing full-
5 time or full-time-equivalent service co-
6 ordinators.

7 “(III) AUTHORIZATION OF AP-
8 PROPRIATIONS.—There is authorized
9 to be appropriated \$300,000,000 for
10 each of fiscal years 2026 through
11 2031 for the fee described in sub-
12 clause (I).

13 “(ii) HIRING OF SERVICE COORDINA-
14 TORS.—

15 “(I) IN GENERAL.—An eligible
16 public housing agency shall hire the
17 appropriate number of service coordi-
18 nators to administer supportive serv-
19 ices under this paragraph in partner-
20 ship with the public child welfare
21 agency or continuum of care in a ju-
22 risdiction.

23 “(II) INSUFFICIENT FUNDS.—If
24 an eligible public housing agency is
25 unable to hire an appropriate number

1 of service coordinators under sub-
2 clause (I) using the fee described in
3 clause (i)(I)—

4 “(aa) the public housing
5 agency may request an increased
6 administrative fee from the Sec-
7 retary; and

8 “(bb) the Secretary shall ap-
9 prove or deny a request received
10 under item (aa) within 45 days.

11 “(III) REPORT TO CONGRESS.—
12 Beginning in the first full fiscal year
13 after the date of enactment of this
14 paragraph, the Secretary shall submit
15 an annual report to Congress on re-
16 quests for increased administrative
17 fees received from public housing
18 agencies under subclause (II).

19 “(IV) APPROPRIATE NUMBER
20 DEFINED.—For purposes of this
21 clause, the term ‘appropriate number’,
22 with respect to service coordinators,
23 means enough service coordinators so
24 that each household provided a vouch-
25 er by a public housing agency under

1 this paragraph is able to access a
2 service coordinator for not less than
3 30 minutes each week.

4 “(iii) PROVISION OF SERVICES.—
5 Upon intake of an eligible recipient, a pub-
6 lic housing agency or a public child welfare
7 agency or continuum of care with which
8 the public housing agency has partnered
9 shall—

10 “(I) assign the voucher recipient
11 a case manager or service coordinator;
12 and

13 “(II) provide or secure the provi-
14 sion of supportive services to con-
15 tribute to the housing stability of the
16 voucher recipient, including—

17 “(aa) any supportive service,
18 as defined in section 401 of the
19 McKinney-Vento Homeless As-
20 sistance Act (42 U.S.C. 11360);

21 “(bb) referrals to health
22 care providers, including mental
23 health care providers, dental
24 health care providers, and vision
25 health care providers;

1 “(cc) referrals to substance
2 use disorder treatment, including
3 recovery, treatment, 12-step pro-
4 grams, relapse prevention, or
5 medication-assisted treatment;

6 “(dd) assistance relating to
7 enrollment in the Medicare or
8 Medicaid programs under titles
9 XVIII and XIX of the Social Se-
10 curity Act (42 U.S.C. 1395 et
11 seq., 1396 et seq.), respectively,
12 and referrals to other services,
13 including—

14 “(AA) the supplemental
15 nutrition assistance program
16 under the Food and Nutri-
17 tion Act of 2008 (7 U.S.C.
18 2011 et seq.) (commonly
19 known as the ‘SNAP Pro-
20 gram’); and

21 “(BB) the program of
22 block grants for States for
23 temporary assistance for
24 needy families established
25 under part A of title IV of

1 the Social Security Act (42
2 U.S.C. 601 et seq.) (com-
3 monly known as the ‘TANF
4 Program’);

5 “(ee) advising on eligibility
6 for the family self-sufficiency
7 program established, credit coun-
8 seling, and housing counseling
9 programs;

10 “(ff) referrals to education
11 services, including general edu-
12 cational development (commonly
13 known as ‘GED’) preparation
14 and testing, enrollment in post-
15 secondary education programs,
16 credit recovery, and affordable
17 childcare programs; and

18 “(gg) facilitation of trans-
19 portation assistance to any of the
20 supportive services described in
21 this subparagraph.

22 “(iv) ELIGIBILITY OF PRIVATE NON-
23 PROFIT ORGANIZATIONS AND FAITH-BASED
24 ORGANIZATIONS.—

1 “(I) DEFINITIONS.—In this
2 clause, the terms ‘eligible entity’ and
3 ‘private nonprofit organization’ have
4 the meanings given those terms in
5 section 401 of the McKinney-Vento
6 Homeless Assistance Act (42 U.S.C.
7 11360).

8 “(II) ELIGIBILITY.—Notwith-
9 standing any other provision of law—

10 “(aa) the Secretary shall
11 provide that private nonprofit or-
12 ganizations that are eligible enti-
13 ties, including faith-based private
14 nonprofit organizations that are
15 eligible entities, shall be eligible
16 to—

17 “(AA) provide services
18 described in clause (iii); and

19 “(BB) receive amounts
20 made available to carry out
21 clause (iii); and

22 “(bb) in determining eligi-
23 bility for amounts made available
24 to carry out clause (iii), the sta-
25 tus of an entity as faith-based or

1 the possibility that an entity may
2 be faith-based may not be a basis
3 for any discrimination against
4 such entity in any manner or for
5 any purpose.

6 “(v) ACCESS.—Services provided
7 under this subparagraph shall be available
8 to voucher recipients with low-to-no barrier
9 access.

10 “(vi) EVALUATION.—An eligible pub-
11 lic housing agency, public child welfare
12 agency, or continuum of care described in
13 clause (iii) shall evaluate each voucher re-
14 cipient for individual case management
15 needs under this subparagraph.

16 “(E) CAPACITY BUILDING.—

17 “(i) AUTHORIZATION OF APPROPRIA-
18 TIONS.—There is authorized to be appro-
19 priated to the Secretary \$500,000,000 for
20 each of fiscal years 2026 and 2027 to pro-
21 vide funding for capacity building to eligi-
22 ble public housing agencies.

23 “(ii) FUNDING FORMULA.—Not later
24 than 45 days after the date of enactment
25 of this paragraph, the Secretary shall es-

1 tablish a formula for allocating the funding
2 authorized under clause (i) that takes into
3 account—

4 “(I) the ratio of individuals in
5 the State in which the eligible public
6 housing agency operates who are
7 homeless to the overall population of
8 the State;

9 “(II) the proportion of families in
10 each State with children experiencing
11 unsheltered homelessness, as reported
12 in the State’s most recent point-in-
13 time count, to the total number of
14 unsheltered homeless families in the
15 State as reported in the same point-
16 in-time count; and

17 “(III) the rate of unsheltered
18 homelessness in each State compared
19 to each other State, as reported in
20 each State’s most recent point-in-time
21 count.

22 “(iii) DISBURSEMENT.—Not later
23 than 30 days after an eligible public hous-
24 ing agency submits an acceptable state-
25 ment under subparagraph (A)(iv)(III), the

1 Secretary shall disburse amounts author-
2 ized under clause (i) of this subparagraph
3 in accordance with the formula established
4 under clause (ii) of this subparagraph.

5 “(iv) MINIMUM AND MAXIMUM ALLO-
6 CATION.—The Secretary shall ensure
7 that—

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

12 “(II) each State in which an eli-
13 gible public housing agency receives
14 funds under clause (i) does not receive
15 more than 25 percent of the total
16 amount authorized under that clause.

17 “(v) ELIGIBLE ACTIVITIES.—A recipi-
18 ent of funds authorized under clause (i)
19 may only use the funds for—

20 “(I) hiring and personnel needs,
21 such as case managers and housing
22 placement advisory, including in-
23 creased educational resources for staff
24 to meet the needs of voucher recipi-
25 ents;

1 “(II) physical infrastructure—

2 “(aa) including increased of-
3 fice space or facilities for the pro-
4 vision of supportive services; and

5 “(bb) not including residen-
6 tial housing;

7 “(III) technological infrastruc-
8 ture needs, including upgrades to the
9 HMIS; and

10 “(IV) any other capacity-related
11 investments that are necessary for the
12 public housing agency to—

13 “(aa) develop, acquire, or re-
14 habilitate housing that is afford-
15 able to extremely low-income
16 families, to be made available to
17 people experiencing homelessness,
18 including increased resources for
19 eligible public housing agencies to
20 conduct unit inspections; or

21 “(bb) support the successful
22 administration of the vouchers
23 under this paragraph.

24 “(vi) REQUIREMENT FOR EXPENDI-
25 TURE OF FUNDS.—Each eligible public

1 housing agency that receives funds under
2 clause (i) shall expend not less than 60
3 percent of the funding during the 2-year
4 period following receipt of the funding.

5 “(F) STATE ACCOUNTABILITY.—

6 “(i) IN GENERAL.—Each eligible pub-
7 lic housing agency providing assistance
8 under this paragraph shall—

9 “(I) on a monthly basis, report
10 caseload and voucher administration
11 statistics to the State in which the
12 agency operates; and

13 “(II) twice annually, submit to
14 the State in which the agency oper-
15 ates a report on the progress toward
16 issuing a voucher under this para-
17 graph to all eligible recipients, based
18 on—

19 “(aa) the percentage reduc-
20 tion in the number of families
21 with children and youth that are
22 experiencing homelessness in the
23 area in which the agency care op-
24 erates, as determined by com-
25 paring the most recent point-in-

1 time count with the point-in-time
2 count conducted 1 year prior;
3 and

4 “(bb) the percentage reduc-
5 tion in the number of children
6 experiencing homelessness in the
7 State, as documented under the
8 requirements of the program au-
9 thorized under subtitle B of title
10 VII of the McKinney-Vento
11 Homeless Assistance Act (42
12 U.S.C. 11431 et seq.).

13 “(ii) BENCHMARKS.—Each year, each
14 State shall meet the benchmarks described
15 in this clause, based equally on the per-
16 centage reduction in reported population of
17 children and families experiencing home-
18 lessness in the following year’s point-in-
19 time count and the percentage reduction in
20 population of students experiencing home-
21 lessness:

22 “(I) ANNUAL REPORT.—Each
23 State shall submit an annual report to
24 the Secretary that contains—

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

8 “(AA) experiencing
9 unsheltered homelessness;

10 “(BB) living in shel-
11 ters;

12 “(CC) living in motels,
13 hotels, or campgrounds;

14 “(DD) living in a car or
15 other motor vehicle; or

16 “(EE) sharing the
17 housing of other persons due
18 to loss of housing, economic
19 hardship, or similar rea-
20 soning; and

21 “(bb) the information re-
22 ceived from each public housing
23 agency in the State under clause
24 (i)(II).

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

6 “(aa) not later than 2 years
7 after the end of the capacity-
8 building period—

9 “(AA) issue vouchers
10 under this paragraph to not
11 less than 50 percent of the
12 population of people experi-
13 encing homelessness in the
14 State, using data from the
15 most recent point-in-time
16 count; and

17 “(BB) to the greatest
18 extent possible, prioritize the
19 issuance of those vouchers
20 to eligible youth and fami-
21 lies;

22 “(bb) not later than 3 years
23 after the end of the capacity-
24 building period—

1 “(AA) issue vouchers
2 under this paragraph to not
3 less than 70 percent of the
4 population of people experi-
5 encing homelessness in the
6 State, using data from the
7 most recent point-in-time
8 count; and

9 “(BB) to the greatest
10 extent possible, prioritize the
11 issuance of those vouchers
12 to eligible youth and fami-
13 lies; and

14 “(cc) not later than 4 years
15 after the end of the capacity-
16 building period, issue vouchers
17 under this paragraph to all peo-
18 ple experiencing homelessness in
19 the State.

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

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

4 “(AA) issue vouchers
5 under this paragraph to not
6 less than 40 percent of the
7 population of people experi-
8 encing homelessness in the
9 State, using data from the
10 most recent point-in-time
11 count; and

12 “(BB) to the greatest
13 extent possible, prioritize the
14 issuance of those vouchers
15 to eligible youth and fami-
16 lies;

17 “(bb) not later than 3 years
18 after the end of the capacity-
19 building period—

20 “(AA) issue vouchers
21 under this paragraph to not
22 less than 60 percent of the
23 population of people experi-
24 encing homelessness in the
25 State, using data from the

1 most recent point-in-time
2 count; and

3 “(BB) to the greatest
4 extent possible, prioritize the
5 issuance of those vouchers
6 to eligible youth and fami-
7 lies; and

8 “(cc) not later than 4 years
9 after the end of the capacity-
10 building period, issue vouchers
11 under this paragraph to all peo-
12 ple experiencing homelessness in
13 the State.

14 “(iii) PENALTIES.—

15 “(I) WARNING.—Except as pro-
16 vided in clause (v), if a State does not
17 meet the applicable benchmarks de-
18 scribed in clause (ii), the Secretary
19 shall publicly warn the State of the
20 failure of the State to meet the bench-
21 mark and remind the State of the ap-
22 plicable penalties.

23 “(II) REDUCTION IN FEDERAL
24 HIGHWAY FUNDS.—If a State does

1 not meet the applicable benchmarks
2 described in clause (ii)—

3 “(aa) by the date that is
4 180 days after the warning by
5 the Secretary under subclause (I)
6 of this clause, the Federal share
7 payable for Federal-aid highway
8 projects under section 120 of
9 title 23, United States Code,
10 shall be reduced by 5 percent; or

11 “(bb) by the date that is
12 180 days after a reduction made
13 under item (aa) of this subclause,
14 the Federal share payable for
15 Federal-aid highway projects
16 under section 120 of title 23,
17 United States Code, shall be fur-
18 ther reduced by 5 percent.

19 “(iv) CONDITION ON COMPLIANCE.—
20 Beginning in the first Notice of Funding
21 Availability cycle beginning after the date
22 of enactment of this paragraph, and every
23 Notice of Funding Availability cycle there-
24 after, the Secretary shall condition the
25 awarding of all funding for vouchers under

1 this paragraph by the Secretary to a public
2 housing authority in a State on that
3 State's compliance with the benchmarks
4 described in clause (ii).

5 “(v) UNEMPLOYMENT RATE.—If the
6 quarterly unemployment rate of the popu-
7 lation of a State is not less than 6 per-
8 cent—

9 “(I) the State shall not be penal-
10 ized under clause (iii) for failure to
11 meet the benchmarks described in
12 clause (ii); and

13 “(II) the State shall be required
14 to meet the benchmarks described in
15 clause (ii) not later than 180 days
16 after the date on which the quarterly
17 unemployment rate descends beneath
18 6 percent.

19 “(G) ADMINISTRATIVE NEEDS OF HUD.—

20 “(i) AUTHORIZATION OF APPROPRIA-
21 TIONS.—There is authorized to be appro-
22 priated \$15,000,000 for each of fiscal
23 years 2026 through 2030 to the Secretary
24 for the administrative needs of the Depart-
25 ment of Housing and Urban Development

1 and regional offices of the Department in
2 carrying out the voucher program under
3 this paragraph.

4 “(ii) PROHIBITION.—None of the
5 funds made available under this subpara-
6 graph may be used to provide raises or bo-
7 nuses to any employee of the Department
8 of Housing and Urban Development in an
9 amount that is more than 10 percent of
10 the annual gross salary of the employee.”.

11 (b) TECHNICAL AND CONFORMING AMENDMENT.—
12 Effective on December 29, 2027, paragraph (22) of sec-
13 tion 8(o) of the United States Housing Act of 1937 (42
14 U.S.C. 1437f(o)), as added by subsection (a), is redesign-
15 nated as paragraph (23) and shall appear after paragraph
16 (22), as added by section 601(a)(2)(B) of division AA of
17 the Consolidated Appropriations Act, 2023 (Public Law
18 117–328).

19 **SEC. 102. LAND ACQUISITION AND CONSTRUCTION.**

20 (a) DEFINITIONS.—In this section—

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

1 substituted for “30 percent” in subparagraph (A) of
2 that section;

3 (2) the terms “extremely low-income” and
4 “very low-income” have the meanings given those
5 terms in section 1303 of the Federal Housing Enter-
6 prises Financial Safety and Soundness Act of 1992
7 (12 U.S.C. 4502);

8 (3) the term “homeless” means an individual or
9 family who is—

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

12 (B) living in transitional housing for home-
13 less persons and was homeless before entering
14 transitional housing or an emergency shelter;

15 (C) fleeing domestic violence; or

16 (D) at risk of homelessness; and

17 (4) the term “Secretary” means the Secretary
18 of Housing and Urban Development.

19 (b) AUTHORIZATION OF APPROPRIATIONS.—

20 (1) IN GENERAL.—There is authorized to be
21 appropriated to the Housing Trust Fund established
22 under section 1338 of the Federal Housing Enter-
23 prises Financial Safety and Soundness Act of 1992
24 (12 U.S.C. 4568) \$10,000,000,000 for each of fiscal
25 years 2026 through 2036 for allocation to States in

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

3 (2) ADMINISTRATIVE NEEDS OF STATES.—

4 (A) AUTHORIZATION OF APPROPRIA-
5 TIONS.—There is authorized to be appropriated
6 to the Secretary \$65,000,000 for each of fiscal
7 years 2026 through 2031 for the administrative
8 needs of States under this section, in accord-
9 ance with subparagraph (C).

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

13 (i) \$15,000,000 shall be allocated to
14 the Commonwealth of the Northern Mar-
15 iana Islands, Guam, American Samoa, and
16 the Virgin Islands; and

17 (ii) the remainder shall be allocated to
18 States pursuant to the formula established
19 under paragraph (22)(E)(ii) of section 8(o)
20 of the United States Housing Act of 1937
21 (42 U.S.C. 1437f(o)), as added by section
22 101 of this Act.

23 (C) ELIGIBLE ACTIVITIES.—A State that
24 receives funds authorized to be appropriated
25 under subparagraph (A) may only use the funds

1 for capacity-related investments that are nec-
2 essary for the State to successfully allocate
3 funds made available under paragraph (1) of
4 this subsection.

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

9 (c) REVISION OF FUNDING FORMULA.—

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

19 (2) CONTENTS.—The revised formula proposed
20 under paragraph (1) shall address the following con-
21 cerns:

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

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

4 (C) The impact of differing rates of pov-
5 erty and extreme poverty across various States.

6 (D) The gap between demand for and sup-
7 ply of rental units that are affordable and avail-
8 able to very low-income and extremely low-in-
9 come renters in a State.

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

14 (e) ELIGIBLE ACTIVITIES.—A recipient of funds au-
15 thorized under subsection (b)—

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

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

22 (f) PRIORITY FOR OCCUPANCY IN DWELLING
23 UNITS.—

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

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

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

12 **SEC. 103. MODULAR CONSTRUCTION PILOT PROGRAM.**

13 (a) DEFINITIONS.—In this section:

14 (1) ELIGIBLE ENTITY.—The term “eligible enti-
15 ty” means a public housing agency, a tribally des-
16 igned housing entity (as defined in section 4 of the
17 Native American Housing Assistance and Self De-
18 termination Act of 1996 (25 U.S.C. 4103)), a non-
19 profit entity, a company, a religious entity, or a unit
20 of local or Tribal government.

21 (2) MODULAR CONSTRUCTION.—The term
22 “modular construction” means the method of resi-
23 dential construction by which building modules are
24 constructed off of the future site of a building, then
25 brought together on the building site to form a larg-

1 er residential building, in an effort to reduce con-
2 struction costs.

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

5 (b) ESTABLISHMENT OF PROGRAM.—

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

10 (2) AFFORDABILITY REQUIREMENT.—To be eli-
11 gible to receive a grant under paragraph (1), an eli-
12 gible entity shall be required to guarantee afford-
13 ability for a period of more than 20 years.

14 (3) PRIORITY.—In awarding grants under para-
15 graph (1), the Secretary shall give priority to an eli-
16 gible entity that fulfills not fewer than two of the
17 following requirements:

18 (A) The eligible entity—

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

21 (ii) provides confirmation from the ju-
22 risdiction with land use control over the
23 site proposed by the eligible entity that—

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

1 (II) the housing will be con-
2 structed in groups of more than 30
3 units.

4 (B) The eligible entity partners with a
5 public housing agency or unit of local govern-
6 ment that will issue rental assistance to resi-
7 dents of the affordable housing through vouch-
8 ers or grants.

9 (C) The eligible entity will provide sup-
10 portive services (as described in paragraph
11 (21)(D)(iii)(II) of section 8(o) of the United
12 States Housing Act of 1937 (42 U.S.C.
13 1437f(o)), as added by section 3 of this Act) to
14 residents at no charge, or has secured the pro-
15 vision of publicly or privately administered sup-
16 portive services (as so defined) to residents at
17 no charge.

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

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

1 **SEC. 104. SUPPORTING PRO-HOUSING DEVELOPMENT.**

2 (a) DEFINITIONS.—In this section:

3 (1) DUPLEX.—The term “duplex” means a res-
4 idential building divided into 2 units, each of which
5 has a separate entrance.

6 (2) ELIGIBLE ACTIVITY.—The term “eligible
7 activity” means an activity authorized under section
8 105(a) of the Housing and Community Development
9 Act of 1974 (42 U.S.C. 5305(a)).

10 (3) ELIGIBLE ENTITY.—The term “eligible enti-
11 ty” means a jurisdiction that adopts a zoning and
12 community planning method described in subsection
13 (d)(4) after the date of enactment of this Act.

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

18 (5) JURISDICTION.—The term “jurisdiction”
19 has the meaning given the term in section 91.5 of
20 title 24, Code of Federal Regulations, or any suc-
21 cessor regulation.

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

1 (7) MIXED-USE HOUSING.—The term “mixed
2 use housing” means a building with—

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

6 (B) not less than 1 story of residential
7 units above the establishments described in sub-
8 paragraph (A).

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

12 (9) SECRETARY.—The term “Secretary” means
13 the Secretary of Housing and Urban Development.

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

17 (11) MULTIFAMILY HOUSING.—The term “mul-
18 tifamily housing”—

19 (A) means housing accommodations that—

20 (i) are designed principally for resi-
21 dential use;

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

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

1 (B) includes units that are detached,
2 semidetached, row house, or multifamily struc-
3 tures.

4 (b) ZONING INFORMATION REPORTING REQUIRE-
5 MENT.—

6 (1) IN GENERAL.—The Secretary shall require
7 a jurisdiction that receives, directly or indirectly, any
8 funding from the Secretary to submit to the Sec-
9 retary a report containing information about the
10 zoning and community planning methods of the ju-
11 risdiction, unless the jurisdiction already reports
12 such information.

13 (2) ADDITIONAL INFORMATION.—Upon receiv-
14 ing a report described in paragraph (1) from a juris-
15 diction, the Secretary may request additional infor-
16 mation, at the discretion of the Secretary.

17 (c) PROHIBITED ZONING METHODS.—

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

24 (2) PROHIBITED METHODS.—The methods re-
25 ferred to in paragraph (1) are the following:

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

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

6 (C) In areas within one half-mile of a
7 multimodal transit stop, maintaining require-
8 ments of more than 1 parking spot for a resi-
9 dent's car per residential unit.

10 (D) Prohibiting or discouraging accessory
11 dwelling units (commonly known as an "ADU"
12 or "granny flat") on the premises of single-fam-
13 ily homes.

14 (E) Prohibiting or discouraging the conver-
15 sion of commercial property into residential
16 property.

17 (F) Prohibiting or discouraging the devel-
18 opment of multifamily housing or mixed-use
19 housing in commercial areas.

20 (3) EXCEPTION.—A jurisdiction shall not be pe-
21 nalized under paragraph (1) based on the use of a
22 zoning and community planning method described in
23 paragraph (2) over which the jurisdiction does not
24 have control.

25 (d) GRANT PROGRAM.—

1 (1) ESTABLISHMENT.—The Secretary shall es-
2 tablish a program under which the Secretary awards
3 competitive grants to eligible entities to use for eligi-
4 ble activities.

5 (2) PRIORITY.—In awarding grants under para-
6 graph (1), the Secretary—

7 (A) shall give priority to an eligible entity
8 that adopt more than one of the zoning and
9 community planning methods described in para-
10 graph (4); and

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

18 (3) AMOUNT OF GRANT.—

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

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

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

- 1 (iii) \$40,000,000 for an eligible entity
2 with a population of less than 500,000;
3 (iv) \$100,000,000 for an eligible enti-
4 ty with a population of less than
5 1,000,000; and
6 (v) \$125,000,000 for an eligible entity
7 with a population of not less than
8 1,000,000.

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

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

18 (A) Allowing—

- 19 (i) duplexes, triplexes, and quadplexes,
20 or other multifamily housing, in areas
21 zoned for single-family homes;
22 (ii) the subdivision of existing single-
23 family homes into multiple units; and

1 (iii) waivers to permitting or zoning
2 requirements to incentivize the construc-
3 tion of—

4 (I) accessory dwelling units;

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

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

11 (B) Incentivizing the development of sin-
12 gle-room occupancy multifamily housing and ac-
13 cessory dwelling units through expedited per-
14 mitting, reduced fees, or other incentives.

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

17 (D) Incentivizing the development of com-
18 mercial property into residential housing.

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

21 (F) Allowing increased floor area ratios.

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

1 (H) Waiving or eliminating fees or permits
 2 for development in exchange for the develop-
 3 ment of a larger number of units that are af-
 4 fordable to low-income people.

5 (5) REGULATIONS.—The Secretary may pro-
 6 mulgate any regulations necessary to carry out this
 7 subsection.

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

12 **SEC. 105. PERMANENT AUTHORIZATION OF APPROPRIA-**
 13 **TIONS FOR MCKINNEY-VENTO HOMELESS AS-**
 14 **SISTANCE ACT GRANTS.**

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

17 **“SEC. 408. AUTHORIZATION OF APPROPRIATIONS.**

18 “There are authorized to be appropriated to carry out
 19 this title such sums as may be necessary for each fiscal
 20 year.”.

21 **TITLE II—REVENUE PROVISIONS**

22 **SEC. 201. INCREASES IN STATE ALLOCATIONS.**

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

1 (1) by striking “\$1.75” in subclause (I) and in-
 2 serting “the per capita amount”, and

3 (2) by striking “\$2,000,000” in subclause (II)
 4 and inserting “the minimum amount”.

5 (b) PER CAPITA AMOUNT; MINIMUM AMOUNT.—Sec-
 6 tion 42(h)(3) of the Internal Revenue Code of 1986 is
 7 amended by striking subparagraphs (H) and (I) and in-
 8 serting the following:

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

12 “(i) CALENDAR YEAR 2026.—For cal-
 13 endar year, 2026, the per capita amount is
 14 \$4.30.

15 “(ii) CALENDAR YEAR 2027.—For cal-
 16 endar year 2027, the per capita amount is
 17 the product of—

18 “(I) 1.25, and

19 “(II) the dollar amount under
 20 clause (i) increased by an amount
 21 equal to—

22 “(aa) such dollar amount,
 23 multiplied by

24 “(bb) the cost-of-living ad-
 25 justment determined under sec-

1 tion 1(f)(3) for such calendar
2 year, determined by substituting
3 ‘calendar year 2025’ for ‘cal-
4 endar year 2016’ in subpara-
5 graph (A)(ii) thereof.

6 If the amount determined after application of
7 the preceding sentence is not a multiple of
8 \$5,000, such amount shall be rounded to the
9 next lowest multiple of \$5,000.

10 “(iii) CALENDAR YEARS AFTER
11 2027.—In the case of any calendar year
12 after 2027, the per capita amount is the
13 dollar amount determined under clause (ii)
14 increased by an amount equal to—

15 “(I) such dollar amount, multi-
16 plied by

17 “(II) the cost-of-living adjust-
18 ment determined under section 1(f)(3)
19 for such calendar year, determined by
20 substituting ‘calendar year 2026’ for
21 ‘calendar year 2016’ in subparagraph
22 (A)(ii) thereof.

23 Any amount increased under the preceding
24 sentence which is not a multiple of 5 cents

1 shall be rounded to the next lowest mul-
2 tiple of 5 cents.

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

6 “(i) CALENDAR YEAR 2026.—For cal-
7 endar year, 2026, the minimum amount is
8 \$4,965,000.

9 “(ii) CALENDAR YEAR 2027.—For cal-
10 endar year 2027, the minimum amount is
11 the product of—

12 “(I) 1.25, and

13 “(II) the dollar amount under
14 clause (i) increased by an amount
15 equal to—

16 “(aa) such dollar amount,
17 multiplied by

18 “(bb) the cost-of-living ad-
19 justment determined under sec-
20 tion 1(f)(3) for such calendar
21 year, determined by substituting
22 ‘calendar year 2025’ for ‘cal-
23 endar year 2016’ in subpara-
24 graph (A)(ii) thereof.

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

5 “(iii) CALENDAR YEARS AFTER
6 2027.—In the case of any calendar year
7 after 2027, the minimum amount is the
8 dollar amount determined under clause (ii)
9 increased by an amount equal to—

10 “(I) such dollar amount, multi-
11 plied by

12 “(II) the cost-of-living adjust-
13 ment determined under section 1(f)(3)
14 for such calendar year, determined by
15 substituting ‘calendar year 2026’ for
16 ‘calendar year 2016’ in subparagraph
17 (A)(ii) thereof.

18 Any amount increased under the preceding
19 sentence which is not a multiple of \$5,000
20 shall be rounded to the next lowest mul-
21 tiple of \$5,000.”.

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

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

3 (a) RESERVED STATE ALLOCATION.—

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

6 (A) by redesignating paragraphs (6), (7),
 7 and (8) as paragraphs (7), (8), and (9), respec-
 8 tively, and

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

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

14 “(A) IN GENERAL.—Not more than 92
 15 percent of the portion of the State housing
 16 credit ceiling amount described in paragraph
 17 (3)(C)(ii) for any State for any calendar year
 18 shall be allocated to buildings other than build-
 19 ings described in subparagraph (B).

20 “(B) BUILDINGS DESCRIBED.—A building
 21 is described in this subparagraph if 20 percent
 22 or more of the residential units in such building
 23 are rent-restricted (determined as if the im-
 24 puted income limitation applicable to such units
 25 were 30 percent of area median gross income)
 26 and are designated by the taxpayer for occu-

pancy 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—

1 “(I) which is described in sub-
2 section (h)(6)(B), and

3 “(II) which is designated by the
4 housing credit agency as requiring the
5 increase in credit under this subpara-
6 graph in order for such building to be
7 financially feasible as part of a quali-
8 fied low-income housing project,
9 subparagraph (B) shall not apply to the
10 portion of such building which is comprised
11 of residential units described in subsection
12 (h)(6)(B) (determined in a manner similar
13 to the unit fraction under subsection
14 (c)(1)(C)), and the eligible basis of such
15 portion of the building shall be 150 per-
16 cent of such basis determined without re-
17 gard to this subparagraph.

18 “(ii) ALLOCATION RULES APPLICABLE
19 TO PROJECTS TO WHICH CLAUSE (i) AP-
20 PLIES.—

21 “(I) STATE HOUSING CREDIT
22 CEILING.—For any calendar year, no
23 more than 13 percent of the portion
24 of the State housing credit ceiling de-
25 scribed in subsection (h)(3)(C)(ii)

1 shall be allocated to buildings to
2 which clause (i) applies.

3 “(II) APPLICATION TO PROJECTS
4 FINANCED WITH TAX-EXEMPT
5 BONDS.—In the case of any building
6 which is financed by an obligation de-
7 scribed in subsection (h)(4), clause (i)
8 shall not apply unless—

9 “(aa) the State in which the
10 issuing authority issuing such ob-
11 ligation is located designates
12 such obligation as an obligation
13 to which this subparagraph ap-
14 plies, and

15 “(bb) the aggregate face
16 amount of obligations designated
17 under item (aa) by such State in
18 the calendar year during which
19 such obligation is issued does not
20 exceed 8 percent of the State
21 ceiling of such State under sec-
22 tion 146(d)(1) for such year.”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to allocations of housing credit dol-
25 lar amount after December 31, 2026, and to buildings

1 that are described in section 42(h)(4)(B) of the Internal
 2 Revenue Code of 1986 taking into account only obligations
 3 that are part of an issue the issue date of which is after
 4 December 31, 2026.

5 **SEC. 203. INCLUSION OF INDIAN AREAS AS DIFFICULT DE-**
 6 **VELOPMENT AREAS FOR PURPOSES OF CER-**
 7 **TAIN BUILDINGS.**

8 (a) IN GENERAL.—Subclause (I) of section
 9 42(d)(5)(B)(iii) of the Internal Revenue Code of 1986 is
 10 amended by inserting before the period the following: “,
 11 and any Indian area”.

12 (b) INDIAN AREA.—Clause (iii) of section
 13 42(d)(5)(B) of the Internal Revenue Code of 1986 is
 14 amended by redesignating subclause (II) as subclause (IV)
 15 and by inserting after subclause (I) the following new sub-
 16 clauses:

17 “(II) INDIAN AREA.—For pur-
 18 poses of subclause (I), the term ‘In-
 19 dian area’ means—

20 “(aa) any Indian area (as
 21 defined in section 4(11) of the
 22 Native American Housing Assist-
 23 ance and Self Determination Act
 24 of 1996 (25 U.S.C. 4103(11))),
 25 and

1 “(bb) any housing area (as
2 defined in section 801(5) of such
3 Act (25 U.S.C. 4221(5))).

4 “(III) SPECIAL RULE FOR
5 BUILDINGS IN INDIAN AREAS.—In the
6 case of an area which is a difficult de-
7 velopment area solely because it is an
8 Indian area, a building shall not be
9 treated as located in such area unless
10 such building is assisted or financed
11 under the Native American Housing
12 Assistance and Self Determination
13 Act of 1996 (25 U.S.C. 4101 et seq.)
14 or the project sponsor is an Indian
15 tribe (as defined in section
16 45A(c)(6)), a tribally designated hous-
17 ing entity (as defined in section 4(22)
18 of such Act (25 U.S.C. 4103(22))), or
19 wholly owned or controlled by such an
20 Indian tribe or tribally designated
21 housing entity.”.

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

1 **SEC. 204. INCLUSION OF RURAL AREAS AS DIFFICULT DE-**
2 **VELOPMENT AREAS.**

3 (a) IN GENERAL.—Subclause (I) of section
4 42(d)(5)(B)(iii) of the Internal Revenue Code of 1986, as
5 amended by section 203, is further amended by inserting
6 “, any rural area” after “median gross income”.

7 (b) RURAL AREA.—Clause (iii) of section
8 42(d)(5)(B) of the Internal Revenue Code of 1986, as
9 amended by section 203, is further amended by redesignig-
10 nating subclause (IV) as subclause (V) and by inserting
11 after subclause (III) the following new subclause:

12 “(IV) RURAL AREA.—For pur-
13 poses of subclause (I), the term ‘rural
14 area’ means any non-metropolitan
15 area, or any rural area as defined by
16 section 520 of the Housing Act of
17 1949, which is identified by the quali-
18 fied allocation plan under subsection
19 (m)(1)(B).”.

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

1 **SEC. 205. INCREASE IN CREDIT FOR BOND-FINANCED**
 2 **PROJECTS DESIGNATED BY HOUSING CREDIT**
 3 **AGENCY.**

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

7 (b) TECHNICAL AMENDMENTS.—Clause (v) of sec-
 8 tion 42(d)(5)(B) of the Internal Revenue Code of 1986,
 9 as amended by subsection (a), is further amended—

10 (1) by striking “STATE” in the heading; and

11 (2) by striking “State housing credit agency”
 12 and inserting “housing credit agency”.

13 (c) EFFECTIVE DATE.—

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

16 (A) any portion of such building is fi-
 17 nanced by an obligation described in paragraph
 18 (2), or

19 (B) the land on which the building is lo-
 20 cated is financed by an obligation described in
 21 paragraph (2).

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

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

26 (B) is issued after December 31, 2026.

1 **SEC. 206. REPEAL OF QUALIFIED CONTRACT OPTION.**

2 (a) TERMINATION OF OPTION FOR CERTAIN BUILD-
3 INGS.—

4 (1) IN GENERAL.—Subclause (II) of section
5 42(h)(7)(E)(i) of the Internal Revenue Code of
6 1986, as redesignated by section 202, is amended by
7 inserting “in the case of a building described in
8 clause (iii),” before “on the last day”.

9 (2) BUILDINGS DESCRIBED.—Subparagraph
10 (E) of section 42(h)(7) of such Code, as so redesign-
11 nated, is amended by adding at the end the following
12 new clause:

13 “(iii) BUILDINGS DESCRIBED.—A
14 building described in this clause is a build-
15 ing—

16 “(I) which received its allocation
17 of housing credit dollar amount before
18 January 1, 2027, or

19 “(II) in the case of a building
20 any portion of which is financed as
21 described in paragraph (4), and which
22 received before January 1, 2027,
23 under the rules of paragraphs (1) and
24 (2) of subsection (m), a determination
25 from the issuer of the tax-exempt
26 bonds or the housing credit agency

1 that the building would be eligible
2 under the qualified allocation plan to
3 receive an allocation of housing credit
4 dollar amount or that the credits to be
5 earned are necessary for financial fea-
6 sibility of the project and its viability
7 as a qualified low-income housing
8 project throughout the credit period.”.

9 (b) RULES RELATING TO EXISTING PROJECTS.—

10 Subparagraph (F) of section 42(h)(7) of the Internal Rev-
11 enue Code of 1986, as redesignated by section 202, is
12 amended by striking “the nonlow-income portion” and all
13 that follows and inserting “the nonlow-income portion and
14 the low-income portion of the building for fair market
15 value (determined by the housing credit agency by taking
16 into account the rent restrictions required for the low-in-
17 come portion of the building to continue to meet the stand-
18 ards of paragraphs (1) and (2) of subsection (g)). The
19 Secretary shall prescribe such regulations as may be nec-
20 essary or appropriate to carry out this paragraph.”.

21 (c) CONFORMING AMENDMENTS.—

22 (1) Paragraph (7) of section 42(h) of the Inter-
23 nal Revenue Code of 1986, as redesignated by sec-
24 tion 202, is amended by striking subparagraph (G)
25 and by redesignating subparagraphs (H), (I), (J),

1 and (K) as subparagraphs (G), (H), (I), and (J), re-
2 spectively.

3 (2) Subclause (II) of section 42(h)(7)(E)(i) of
4 such Code, as so redesignated and as amended by
5 subsection (a), is further amended by striking “sub-
6 paragraph (I)” and inserting “subparagraph (H)”.

7 (d) TECHNICAL AMENDMENT.—Subparagraph (I) of
8 section 42(h)(7) of the Internal Revenue Code of 1986,
9 as redesignated by section 202 and subsection (c), is
10 amended by striking “agreement” and inserting “commit-
11 ment”.

12 (e) EFFECTIVE DATES.—

13 (1) IN GENERAL.—Except as provided in para-
14 graph (2), the amendments made by this section
15 shall take effect on the date of the enactment of this
16 Act.

17 (2) SUBSECTION (b).—The amendments made
18 by subsection (b) shall apply to buildings with re-
19 spect to which a written request described in section
20 42(h)(7)(H) of the Internal Revenue Code of 1986,
21 as redesignated by section 202 and subsection (c), is
22 submitted after the date of the enactment of this
23 Act.

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

3 (a) **MODIFICATION OF RIGHT OF FIRST REFUSAL.—**

4 (1) **IN GENERAL.**—Subparagraph (A) of section
5 42(i)(7) of the Internal Revenue Code of 1986 is
6 amended by striking “a right of 1st refusal” and in-
7 serting “an option”.

8 (2) **CONFORMING AMENDMENT.**—The heading
9 of paragraph (7) of section 42(i) of such Code is
10 amended by striking “RIGHT OF 1ST REFUSAL” and
11 inserting “OPTION”.

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

14 (1) **PURCHASE OF PARTNERSHIP INTEREST.—**

15 (A) **IN GENERAL.**—Subparagraph (A) of
16 section 42(i)(7) of the Internal Revenue Code of
17 1986, as amended by subsection (a), is amend-
18 ed by striking “the property” and inserting
19 “the property or all of the partnership interests
20 (other than interests of the person exercising
21 such option or a related party thereto (within
22 the meaning of section 267(b) or 707(b)(1)))
23 relating to the property”.

24 (B) **APPLICATION TO S CORPORATIONS**
25 **AND OTHER PASS-THROUGH ENTITIES.**—Sub-
26 paragraph (A) of section 42(i)(7) of such Code

1 is amended by adding at the end the following:

2 “Except as provided by the Secretary, the rules
3 of this paragraph shall apply to S corporations
4 and other pass-through entities in the same
5 manner as such rules apply to partnerships.”.

6 (C) CONFORMING AMENDMENT.—Subpara-
7 graph (B) of section 42(i)(7) of such Code is
8 amended by adding at the end the following:

9 “In the case of a purchase of all of the partner-
10 ship interests, the minimum purchase price
11 under this subparagraph shall be an amount
12 not less than the sum of the interests’ shares
13 of the amount which would be determined with
14 respect to the property under this subparagraph
15 without regard to this sentence.”.

16 (2) PROPERTY INCLUDES ASSETS RELATING TO
17 THE BUILDING.—Paragraph (7) of section 42(i) of
18 such Code is amended by adding at the end the fol-
19 lowing new subparagraph:

20 “(C) PROPERTY.—For purposes of sub-
21 paragraph (A), the term ‘property’ may include
22 all or any of the assets held for the develop-
23 ment, operation, or maintenance of a build-
24 ing.”.

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

10 “(i) such option or right of first re-
 11 fusal shall be exercisable with or without
 12 the approval of any owner of the project
 13 (including any partner, member, or affili-
 14 ated organization of such an owner), and

15 “(ii) a right of first refusal shall be
 16 exercisable in response to any offer to pur-
 17 chase the property or all of the partnership
 18 interests, including an offer by a related
 19 party.”.

20 (c) OTHER CONFORMING AMENDMENT.—Subpara-
 21 graph (B) of section 42(i)(7) of the Internal Revenue Code
 22 of 1986, as amended by subsection (b), is amended by
 23 striking “the sum of” and all that follows through “appli-
 24 cation of clause (ii).” and inserting the following: “the
 25 principal amount of outstanding indebtedness secured by

1 the building (other than indebtedness incurred within the
2 5-year period ending on the date of the sale to the ten-
3 ants).”.

4 (d) EFFECTIVE DATES.—

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

9 (2) CLARIFICATION.—The amendments made
10 by subsection (b) shall apply to agreements among
11 the owners of the project (including partners, mem-
12 bers, and their affiliated organizations) and persons
13 described in section 42(i)(7)(A) of the Internal Rev-
14 enue Code of 1986 entered into before, on, or after
15 the date of the enactment of this Act.

16 (3) NO EFFECT ON AGREEMENTS.—None of the
17 amendments made by this section is intended to su-
18 persede express language in any agreement with re-
19 spect to the terms of a right of first refusal or op-
20 tion permitted by section 42(i)(7) of the Internal
21 Revenue Code of 1986 in effect on the date of the
22 enactment of this Act.

1 **SEC. 208. PROHIBITION OF LOCAL APPROVAL AND CON-**
2 **TRIBUTION REQUIREMENTS.**

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

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

8 (2) by adding at the end the following new sub-
9 paragraph:

10 “(E) LOCAL APPROVAL OR CONTRIBUTION
11 NOT TAKEN INTO ACCOUNT.—The selection cri-
12 teria under a qualified allocation plan shall not
13 include consideration of—

14 “(i) any support or opposition with re-
15 spect to the project from local or elected
16 officials, or

17 “(ii) any local government contribu-
18 tion to the project, except to the extent
19 such contribution is taken into account as
20 part of a broader consideration of the
21 project’s ability to leverage outside funding
22 sources, and is not prioritized over any
23 other source of outside funding.”.

24 (b) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to allocations of housing credit dol-
26 lar amounts made after December 31, 2026.

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

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

7 “(D) INCREASE IN CREDIT FOR PROVIDING
8 SUPPORTIVE SERVICES.—

9 “(i) IN GENERAL.—In the case of any
10 building which includes common areas, or
11 property used therein, dedicated to the
12 provision of on-site qualified supportive
13 services, except as provided in subpara-
14 graphs (E) and (F), the eligible basis of
15 the portion of the building which is com-
16 prised of such areas or property (after the
17 application of subparagraphs (A) and (B))
18 shall be increased by an amount equal to
19 50 percent of such basis determined with-
20 out regard to this subparagraph and sub-
21 paragraphs (B) and (C).

22 “(ii) QUALIFIED SUPPORTIVE SERV-
23 ICES.—For purposes of clause (i), the term
24 ‘qualified supportive services’ means serv-
25 ices—

1 “(I) provided by the owner of a
2 building (directly or through contracts
3 with third-party service providers) pri-
4 marily to tenants of the building,

5 “(II) which are intended to pro-
6 mote economic self-sufficiency and
7 physical and mental health and well-
8 being in pursuit of retaining perma-
9 nent housing, including childcare or
10 eldercare services, health services, co-
11 ordination of tenant benefits, job
12 training, financial counseling, resident
13 engagement services, or such other
14 similar services as may be defined by
15 the allocating agency in the qualified
16 allocation plan,

17 “(III) which are provided to ten-
18 ants and other beneficiaries as may be
19 specified by the housing credit agency,
20 including specifications as to which
21 services may be provided to non-ten-
22 ants,

23 “(IV) which are provided at no
24 cost to beneficiaries other than any
25 fee, copay, or coinsurance customarily

1 charged by service providers for simi-
2 lar services, and

3 “(V) usage of or participation in
4 which is not a condition of tenancy in
5 the building.

6 Such term includes reasonable and nec-
7 essary measures for the provision of such
8 services, including measures to engage ten-
9 ants and other beneficiaries in and coordi-
10 nate such services, and measures required
11 to obtain the certification described in sub-
12 paragraph (E)(ii)(III).

13 “(E) EXTENDED SUPPORTIVE SERVICES
14 COMMITMENT.—

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

20 “(ii) EXTENDED SUPPORTIVE SERV-
21 ICES COMMITMENT.—The term ‘extended
22 supportive services commitment’ means
23 any agreement between the owner of a
24 building and the housing credit agency
25 which—

1 “(I) provides estimates of the
2 amounts to be spent, updated at least
3 once every 5 years, on the provision of
4 qualified supportive services to ten-
5 ants of such building and other bene-
6 ficiaries for each taxable year remain-
7 ing in the credit period,

8 “(II) requires the designation of
9 one or more individuals to engage ten-
10 ants regarding, and coordinate deliv-
11 ery of, qualified supportive services,

12 “(III) requires the maintenance
13 of an appropriate certification, as de-
14 termined by the Secretary in consulta-
15 tion with the housing credit agencies,
16 for qualified supportive services, sub-
17 ject to recertification at least once
18 every 5 years,

19 “(IV) requires appropriate an-
20 nual reporting to the housing credit
21 agency on expenditures and outcomes,
22 as determined by such agency, and

23 “(V) is binding on all successors
24 in ownership of such building.

1 “(iii) EXCEPTIONS IF FORECLOSURE
2 OR IF NO BUYER WILLING TO MAINTAIN
3 SERVICES.—The requirement of clause
4 (ii)(V) for any building shall terminate on
5 the date the building is acquired by fore-
6 closure (or instrument in lieu of fore-
7 closure) unless the housing credit agency
8 determines that such acquisition is part of
9 an arrangement with the taxpayer a pur-
10 pose of which is to terminate such require-
11 ment.

12 “(iv) EFFECT OF NONCOMPLIANCE.—
13 If, during a taxable year, there is a deter-
14 mination by the housing credit agency that
15 an extended supportive services commit-
16 ment was not in effect as of the beginning
17 of such year or that there is evidence of
18 other noncompliance as determined by the
19 housing credit agency (including failure to
20 provide qualified supportive services)—

21 “(I) such determination shall not
22 apply to any period before such year
23 and subparagraph (D)(i) shall apply
24 to such taxable year without regard to
25 such determination if the failure is

1 corrected within 1 year from the date
2 of the determination, and

3 “(II) in the case of any year to
4 which such determination does apply,
5 if the failure is not corrected within 1
6 year from the date of the determina-
7 tion, the credit recapture amount
8 under subsection (j)(1) for the year in
9 which such 1 year period expires shall
10 be increased by the amount of any in-
11 crease in the credit under this section
12 by reason of subparagraph (D)(i) for
13 the year to which the determination
14 applies.

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

19 “(F) RESPONSIBILITIES OF HOUSING
20 CREDIT AGENCY.—Subparagraph (D)(i) shall
21 not apply to a building for any taxable year un-
22 less—

23 “(i) the housing credit agency sets
24 forth criteria—

1 “(I) to determine appropriate,
2 evidence-based supportive services,

3 “(II) for the selection of appro-
4 priate and competent service pro-
5 viders, and

6 “(III) which common areas or
7 property described in subparagraph
8 (D)(i) shall meet in order to qualify
9 for the increase in credit under sub-
10 paragraph (D),

11 “(ii) the housing credit agency pro-
12 vides a procedure that the agency (or an
13 agent or other private contractor of such
14 agency) shall follow in monitoring for non-
15 compliance with the provisions of this sub-
16 paragraph and subparagraphs (D) and (E)
17 and in reporting such noncompliance to the
18 Secretary, and

19 “(iii) appropriate books and records
20 for expenditures with respect to the quali-
21 fied supportive services are maintained on
22 an annual basis, and are available for in-
23 spection upon request by the housing cred-
24 it agency.”.

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

8 **SEC. 210. STUDY OF TAX INCENTIVES FOR THE CONVER-**
9 **SION OF COMMERCIAL PROPERTY TO AF-**
10 **FORDABLE HOUSING.**

11 Within 6 months of the date of the enactment of this
12 Act, the Secretary of the Treasury, the Secretary of Hous-
13 ing and Urban Development, the Deputy Under Secretary
14 for Rural Development of the Department of Agriculture,
15 and the Director of the Office of Management and Budget
16 shall collaborate to produce a cost-benefit analysis of pro-
17 viding tax incentives, including the non-recognition of cap-
18 ital gains, to the owners of vacant or under-utilized com-
19 mercial real estate in exchange for selling these properties
20 to State, local, or tribal housing finance agencies for con-
21 version to affordable rental housing for low-income resi-
22 dents, including shelters for the homeless.

23 **SEC. 211. RENTERS CREDIT.**

24 (a) IN GENERAL.—Subpart C of part IV of sub-
25 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 is amended by inserting after section 36B the fol-
 2 lowing new section:

3 **“SEC. 36C. RENTERS CREDIT.**

4 “(a) ALLOWANCE OF CREDIT.—

5 “(1) IN GENERAL.—There shall be allowed as a
 6 credit against the tax imposed by this subtitle for
 7 any taxable year an amount equal to the sum of the
 8 amounts determined under paragraph (2) for all
 9 qualified buildings with a credit period which in-
 10 cludes months occurring during the taxable year.

11 “(2) QUALIFIED BUILDING AMOUNT.—The
 12 amount determined under this paragraph with re-
 13 spect to any qualified building for any taxable year
 14 shall be an amount equal to the lesser of—

15 “(A) the aggregate qualified rental reduc-
 16 tion amounts for all eligible units within such
 17 building for months occurring during the tax-
 18 able year which are within the credit period for
 19 such building, or

20 “(B) the rental reduction credit amount al-
 21 located to such building for such months.

22 “(3) QUALIFIED BUILDING.—For purposes of
 23 this section—

24 “(A) IN GENERAL.—The term ‘qualified
 25 building’ means any building which is residen-

1 tial rental property (as defined in section
2 168(e)(2)(A)) of the taxpayer with respect to
3 which—

4 “(i) a rental reduction credit amount
5 has been allocated by a rental reduction
6 credit agency of a State, and

7 “(ii) a qualified rental reduction
8 agreement is in effect.

9 “(B) BUILDING NOT DISQUALIFIED BY
10 OTHER ASSISTANCE.—A building shall not fail
11 to be treated as a qualified building merely be-
12 cause—

13 “(i) a credit was allowed under section
14 42 with respect to such building or there
15 was any other Federal assistance in the
16 construction or rehabilitation of such
17 building,

18 “(ii) the rehabilitation credit deter-
19 mined under section 47 was allowed under
20 section 38 with respect to such building, or

21 “(iii) Federal rental assistance was
22 provided for such building during any pe-
23 riod preceding the credit period.

24 “(b) QUALIFIED RENTAL REDUCTION AMOUNT.—

25 For purposes of this section—

1 “(1) IN GENERAL.—The term ‘qualified rental
2 reduction amount’ means, with respect to any eligi-
3 ble unit for any month, an amount equal to the ap-
4 plicable percentage (as determined under subsection
5 (e)(1)) of the excess of—

6 “(A) the applicable rent for such unit, over

7 “(B) the family rental payment required
8 for such unit.

9 “(2) APPLICABLE RENT.—

10 “(A) IN GENERAL.—The term ‘applicable
11 rent’ means, with respect to any eligible unit
12 for any month, the lesser of—

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

18 “(ii) an amount equal to the market
19 rent standard for such unit.

20 “(B) MARKET RENT STANDARD.—

21 “(i) IN GENERAL.—The market rent
22 standard with respect to any eligible unit
23 is—

24 “(I) the small area fair market
25 rent determined by the Secretary of

1 Housing and Urban Development for
2 units with the same number of bed-
3 rooms in the same Zip Code tabula-
4 tion area, or

5 “(II) if there is no rent described
6 in subclause (I) for such area, the fair
7 market rent determined by such Sec-
8 retary for units with the same number
9 of bedrooms in the same county.

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

19 “(iii) MINIMUM AMOUNT.—Notwith-
20 standing clause (i), the market rent stand-
21 ard with respect to any eligible unit for
22 any year in the credit period after the first
23 year in the credit period for such unit shall
24 not be less than the market rent standard
25 determined for such first year.

1 “(3) FAMILY RENTAL PAYMENT REQUIRE-
2 MENTS.—

3 “(A) IN GENERAL.—Each qualified rental
4 reduction agreement with respect to any quali-
5 fied building shall require that the family rental
6 payment for an eligible unit within such build-
7 ing for any month shall be equal to the lesser
8 of—

9 “(i) 30 percent of the monthly family
10 income of the residents of the unit (as de-
11 termined under subsection (e)(5)), or

12 “(ii) the applicable rent for such unit.

13 “(B) UTILITY COSTS.—Any utility allow-
14 ance (determined by the Secretary in the same
15 manner as under section 42(g)(2)(B)(ii)) paid
16 by residents of an eligible unit shall be taken
17 into account as rent in determining the family
18 rental payment for such unit for purposes of
19 this paragraph.

20 “(c) RENTAL REDUCTION CREDIT AMOUNT.—For
21 purposes of this section—

22 “(1) DETERMINATION OF AMOUNT.—

23 “(A) IN GENERAL.—The term ‘rental re-
24 duction credit amount’ means, with respect to
25 any qualified building, the dollar amount which

1 is allocated to such building (and to eligible
2 units within such building) under this sub-
3 section. Such dollar amount shall be allocated
4 to months in the credit period with respect to
5 such building (and such units) on the basis of
6 the estimates described in paragraph (2)(B).

7 “(B) ALLOCATION ON PROJECT BASIS.—In
8 the case of a project which includes (or will in-
9 clude) more than 1 building, the rental reduc-
10 tion credit amount shall be the dollar amount
11 which is allocated to such project for all build-
12 ings included in such project. Subject to the
13 limitation under subsection (e)(3)(B), such
14 amount shall be allocated among such buildings
15 in the manner specified by the taxpayer unless
16 the qualified rental reduction agreement with
17 respect to such project provides for such alloca-
18 tion.

19 “(2) STATE ALLOCATION.—

20 “(A) IN GENERAL.—Except as provided in
21 subparagraph (C), each rental reduction credit
22 agency of a State shall each calendar year allo-
23 cate its portion of the State rental reduction
24 credit ceiling to qualified buildings (and to eligi-
25 ble units within each such building) in accord-

1 ance with the State rental reduction allocation
2 plan.

3 “(B) ALLOCATIONS TO EACH BUILDING.—

4 The rental reduction credit amount allocated to
5 any qualified building shall not exceed the ag-
6 gregate qualified rental reduction amounts
7 which such agency estimates will occur over the
8 credit period for eligible units within such
9 building, based on reasonable estimates of
10 rents, family incomes, and vacancies in accord-
11 ance with procedures established by the State
12 as part of its State rental reduction allocation
13 plan.

14 “(C) SPECIFIC ALLOCATIONS.—

15 “(i) NONPROFIT ORGANIZATIONS.—At
16 least 25 percent of the State rental reduc-
17 tion credit ceiling for any State for any
18 calendar year shall be allocated to qualified
19 buildings in which a qualified nonprofit or-
20 ganization (as defined in section
21 42(h)(5)(C)) owns (directly or through 1
22 or more partnerships) an interest and ma-
23 terially participates (within the meaning of
24 section 469(h)) in the operation of the
25 building throughout the credit period. A

1 State may waive or lower the requirement
2 under this clause for any calendar year if
3 it determines that meeting such require-
4 ment is not feasible.

5 “(ii) RURAL AREAS.—

6 “(I) IN GENERAL.—The State
7 rental reduction credit ceiling for any
8 State for any calendar year shall be
9 allocated to buildings in rural areas
10 (as defined in section 520 of the
11 Housing Act of 1949) in an amount
12 which, as determined by the Secretary
13 of Housing and Urban Development,
14 bears the same ratio to such ceiling as
15 the number of extremely low-income
16 households with severe rent burdens
17 in such rural areas bears to the total
18 number of such households in the
19 State.

20 “(II) ALTERNATIVE 5-YEAR
21 TESTING PERIOD.—In the case of the
22 5-calendar year period beginning in
23 2026, a State shall not be treated as
24 failing to meet the requirements of
25 subclause (I) for any calendar year in

1 such period if, as determined by the
2 Secretary, the average annual amount
3 allocated to such rural areas during
4 such period meets such requirements.

5 “(3) APPLICATION OF ALLOCATED CREDIT
6 AMOUNT.—

7 “(A) AMOUNT AVAILABLE TO TAXPAYER
8 FOR ALL MONTHS IN CREDIT PERIOD.—Any
9 rental reduction credit amount allocated to any
10 qualified building out of the State rental reduc-
11 tion credit ceiling for any calendar year shall
12 apply to such building for all months in the
13 credit period ending during or after such cal-
14 endar year.

15 “(B) CEILING FOR ALLOCATION YEAR RE-
16 DUCED BY ENTIRE CREDIT AMOUNT.—Any
17 rental reduction credit amount allocated to any
18 qualified building out of an allocating agency’s
19 State rental reduction credit ceiling for any cal-
20 endar year shall reduce such ceiling for such
21 calendar year by the entire amount so allocated
22 for all months in the credit period (as deter-
23 mined on the basis of the estimates under para-
24 graph (2)(B)) and no reduction shall be made
25 in such agency’s State rental reduction credit

1 ceiling for any subsequent calendar year by rea-
 2 son of such allocation.

3 “(4) STATE RENTAL REDUCTION CREDIT CEIL-
 4 ING.—

5 “(A) IN GENERAL.—The State rental re-
 6 duction credit ceiling applicable to any State for
 7 any calendar year shall be an amount equal to
 8 the sum of—

9 “(i) the greater of—

10 “(I) the per capita dollar amount
 11 multiplied by the State population, or

12 “(II) the minimum ceiling
 13 amount, plus

14 “(ii) the amount of the State rental
 15 reduction credit ceiling returned in the cal-
 16 endar year.

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

1 “(i) is canceled by mutual consent of
 2 the rental reduction credit agency and the
 3 taxpayer because the estimates made under
 4 paragraph (2)(B) were substantially incor-
 5 rect, or

6 “(ii) is canceled by the rental reduc-
 7 tion credit agency because the taxpayer
 8 violates the qualified rental reduction
 9 agreement and, under the terms of the
 10 agreement, the rental reduction credit
 11 agency is authorized to cancel all (or any
 12 portion) of the allocation by reason of the
 13 violation.

14 “(C) PER CAPITA DOLLAR AMOUNT; MIN-
 15 IMUM CEILING AMOUNT.—For purposes of this
 16 paragraph—

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

19 “(I) for calendar year 2026,
 20 \$12.30,

21 “(II) for calendar year 2027,
 22 \$24.50, and

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

1 “(ii) MINIMUM CEILING AMOUNT.—

2 The minimum ceiling amount is—

3 “(I) for calendar year 2026,
4 \$14,000,000,

5 “(II) for calendar year 2027,
6 \$28,000,000, and

7 “(III) for calendar years 2028
8 and thereafter, \$42,000,000.

9 “(iii) COST-OF-LIVING ADJUST-
10 MENT.—In the case of a calendar year be-
11 ginning after 2028, the \$36.75 and
12 \$42,000,000 amounts in clauses (i)(III)
13 and (ii)(III) shall each be increased by an
14 amount equal to—

15 “(I) such dollar amount, multi-
16 plied by

17 “(II) the cost-of-living adjust-
18 ment determined under section 1(f)(3)
19 for such calendar year by substituting
20 ‘calendar year 2027’ for ‘calendar
21 year 2016’ in subparagraph (A)(ii)
22 thereof.

23 In the case of the \$42,000,000 amount,
24 any increase under this clause which is not
25 a multiple of \$5,000 shall be rounded to

1 the next lowest multiple of \$5,000 and in
2 the case of the \$36.75 amount, any in-
3 crease under this clause which is not a
4 multiple of 5 cents shall be rounded to the
5 next lowest multiple of 5 cents.

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

9 “(E) UNUSED RENTAL REDUCTION CREDIT
10 ALLOCATED AMONG CERTAIN STATES.—

11 “(i) IN GENERAL.—The unused rental
12 reduction credit of a State for any cal-
13 endar year shall be assigned to the Sec-
14 retary for allocation among qualified
15 States for the succeeding calendar year.

16 “(ii) UNUSED RENTAL REDUCTION
17 CREDIT.—For purposes of this subpara-
18 graph, the unused rental reduction credit
19 of a State for any calendar year is the ex-
20 cess (if any) of—

21 “(I) the State rental reduction
22 credit ceiling for the year preceding
23 such year, over

1 “(II) the aggregate rental reduc-
2 tion credit amounts allocated for such
3 year.

4 “(iii) FORMULA FOR ALLOCATION OF
5 UNUSED CREDIT AMONG QUALIFIED
6 STATES.—The amount allocated under this
7 subparagraph to a qualified State for any
8 calendar year shall be the amount deter-
9 mined by the Secretary to bear the same
10 ratio to the aggregate unused rental reduc-
11 tion credits of all States for the preceding
12 calendar year as such State’s population
13 for the calendar year bears to the popu-
14 lation of all qualified States for the cal-
15 endar year. For purposes of the preceding
16 sentence, population shall be determined in
17 accordance with section 146(j).

18 “(iv) QUALIFIED STATE.—For pur-
19 poses of this subparagraph, the term
20 ‘qualified State’ means, with respect to a
21 calendar year, any State—

22 “(I) which allocated its entire
23 State rental reduction credit ceiling
24 for the preceding calendar year, and

1 “(II) for which a request is made
2 (at such time and in such manner as
3 the Secretary may prescribe) to re-
4 ceive an allocation under clause (iii).

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

7 “(A) RENTAL REDUCTION CREDIT AGEN-
8 CY.—The term ‘rental reduction credit agency’
9 means any agency authorized by a State to
10 carry out this section. Such authorization shall
11 include the jurisdictions within the State where
12 the agency may allocate rental reduction credit
13 amounts.

14 “(B) POSSESSIONS TREATED AS STATES.—
15 The term ‘State’ includes a possession of the
16 United States.

17 “(C) FAMILY.—The term ‘family’ has the
18 same meaning as when used in the United
19 States Housing Act of 1937.

20 “(d) MODIFICATIONS TO CORRECT INACCURATE
21 AMOUNTS DUE TO INCORRECT ESTIMATES.—

22 “(1) ESTABLISHMENT OF RESERVES.—

23 “(A) IN GENERAL.—Each rental reduction
24 credit agency of a State shall establish a reserve
25 for the transfer and reallocation of amounts

1 pursuant to this paragraph, and notwith-
 2 standing any other provision of this section, the
 3 rental reduction credit amount allocated to any
 4 building by such agency shall be zero unless
 5 such agency has in effect such a reserve at the
 6 time of the allocation of such credit amount.

7 “(B) TRANSFERS TO RESERVE.—

8 “(i) IN GENERAL.—If, for any taxable
 9 year, a taxpayer would (but for this sub-
 10 paragraph) not be able to use the entire
 11 rental reduction credit amount allocated to
 12 a qualified building by a rental reduction
 13 credit agency of a State for the taxable
 14 year because of a rental reduction short-
 15 fall, then the taxpayer shall for the taxable
 16 year transfer to the reserve established by
 17 such agency under subparagraph (A) an
 18 amount equal to such rental reduction
 19 shortfall.

20 “(ii) RENTAL REDUCTION SHORT-
 21 FALL.—For purposes of this subpara-
 22 graph, the rental reduction shortfall for
 23 any qualified building for any taxable year
 24 is the amount by which the aggregate
 25 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

1 “(II) the rental reduction credit
2 amount allocated to such building by
3 a rental reduction credit agency of a
4 State for the taxable year (determined
5 after any increase under paragraph
6 (2)),

7 the rental reduction credit agency shall,
8 upon application of the taxpayer, pay to
9 the taxpayer from the reserve established
10 by such agency under subparagraph (A)
11 the amount which, when multiplied by the
12 applicable percentage (determined under
13 subsection (e)(1) for the building), equals
14 such excess. If the amount in the reserve
15 is less than the amounts requested by all
16 taxpayers for taxable years ending within
17 the same calendar year, the agency shall
18 ratably reduce the amount of each pay-
19 ment otherwise required to be made.

20 “(ii) EXCESS RESERVE AMOUNTS.—If
21 a rental reduction credit agency of a State
22 determines that the balance in its reserve
23 is in excess of the amounts reasonably
24 needed over the following 5 calendar years
25 to make payments under clause (i), the

1 agency may withdraw such excess but only
2 to—

3 “(I) reduce the rental payments
4 of eligible tenants in a qualified build-
5 ing in units other than eligible units,
6 or of eligible tenants in units in a
7 building other than a qualified build-
8 ing, to amounts no higher than the
9 sum of rental payments required for
10 eligible tenants in qualified buildings
11 under subsection (b)(3) and any rent-
12 al charges to such tenants in excess of
13 the market rent standard; or

14 “(II) address maintenance and
15 repair needs in qualified buildings
16 that cannot reasonably be met using
17 other resources available to the own-
18 ers of such buildings.

19 “(D) ADMINISTRATION.—Each rental re-
20 duction credit agency of a State shall establish
21 procedures for the timing and manner of trans-
22 fers and payments made under this paragraph.

23 “(E) SPECIAL RULE FOR PROJECTS.—In
24 the case of a rental reduction credit allocated to
25 a project consisting of more than 1 qualified

1 building, a taxpayer may elect to have this
2 paragraph apply as if all such buildings were 1
3 qualified building if the applicable percentage
4 for each such building is the same.

5 “(F) ALTERNATIVE METHODS OF TRANS-
6 FER AND REALLOCATION.—Upon request to,
7 and approval by, the Secretary, a State may es-
8 tablish an alternative method for the transfer
9 and reallocation of amounts otherwise required
10 to be transferred to, and allocated from, a re-
11 serve under this paragraph. Any State adopting
12 an alternative method under this subparagraph
13 shall, at such time and in such manner as the
14 Secretary prescribes, provide to the Secretary
15 and the Secretary of Housing and Urban Devel-
16 opment detailed reports on the operation of
17 such method, including providing such informa-
18 tion as such Secretaries may require.

19 “(2) ALLOCATION OF RETURNED STATE CEIL-
20 ING AMOUNTS.—In the case of any rental reduction
21 credit amount allocated to a qualified building which
22 is canceled as provided in subsection (c)(4)(B)(i),
23 the rental reduction credit agency may, in lieu of
24 treating such allocation as a returned credit amount
25 under subsection (c)(4)(A)(ii), elect to allocate, upon

1 the request of the taxpayer, such amount to any
2 other qualified building for which the credit amount
3 allocated in any preceding calendar year was too
4 small because the estimates made under subsection
5 (c)(2)(B) were substantially incorrect.

6 “(3) RENTING TO NONELIGIBLE TENANTS.—If,
7 after the application of paragraphs (1)(C) (or any
8 similar reallocation under paragraph (1)(F)) and
9 (2), a rental reduction credit agency of a State de-
10 termines that, because of the incorrect estimates
11 under subsection (c)(2)(B), the aggregate qualified
12 rental reduction amounts for all eligible units within
13 a qualified building will (on an ongoing basis) exceed
14 the rental reduction credit amount allocated to such
15 building, a taxpayer may elect, subject to subsection
16 (g)(2) and only to the extent necessary to eliminate
17 such excess, rent vacant eligible units without regard
18 to the requirements that such units be rented only
19 to eligible tenants and at the rental rate determined
20 under subsection (b)(3).

21 “(e) TERMS RELATING TO RENTAL REDUCTION
22 CREDIT AND REQUIREMENTS.—For purposes of this sec-
23 tion—

24 “(1) APPLICABLE PERCENTAGE.—

1 “(A) IN GENERAL.—The term ‘applicable
2 percentage’ means, with respect to any qualified
3 building, the percentage (not greater than 110
4 percent) set by the rental reduction credit agen-
5 cy at the time it allocates the rental reduction
6 dollar amount to such building.

7 “(B) HIGHER PERCENTAGE FOR HIGH-OP-
8 PORTUNITY AREAS.—The rental reduction cred-
9 it agency may set a percentage under subpara-
10 graph (A) up to 120 percent for any qualified
11 building which—

12 “(i) targets its eligible units for rental
13 to families with children, and

14 “(ii) is located in a neighborhood
15 which has a poverty rate of no more than
16 10 percent.

17 “(2) CREDIT PERIOD.—

18 “(A) IN GENERAL.—The term ‘credit pe-
19 riod’ means, with respect to any qualified build-
20 ing, the 15-year period beginning with the first
21 month for which the qualified rental reduction
22 agreement is in effect with respect to such
23 building.

24 “(B) STATE OPTION TO REDUCE PE-
25 RIOD.—A rental reduction credit agency may

1 provide a credit period for any qualified build-
2 ing which is less than 15 years.

3 “(3) ELIGIBLE UNIT.—

4 “(A) IN GENERAL.—The term ‘eligible
5 unit’ means, with respect to any qualified build-
6 ing, a unit—

7 “(i) which is occupied by an eligible
8 tenant,

9 “(ii) the rent of which for any month
10 equals 30 percent of the monthly family in-
11 come of the residents of such unit (as de-
12 termined under paragraph (5)),

13 “(iii) with respect to which the tenant
14 is not concurrently receiving rental assist-
15 ance under any other Federal program,
16 and

17 “(iv) which is certified to the rental
18 reduction credit agency as an eligible unit
19 for purposes of this section and the quali-
20 fied rental reduction agreement.

21 Notwithstanding clause (iii), a State may pro-
22 vide in its State rental reduction allocation plan
23 that an eligible unit shall also not include a unit
24 with respect to which any resident is receiving

1 rental assistance under a State or local pro-
2 gram.

3 “(B) LIMITATION ON NUMBER OF
4 UNITS.—

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

10 “(I) 40 percent of the total units
11 in such building, or

12 “(II) 25 units.

13 In the case of an allocation to a project
14 under subsection (c)(1)(B), the limitation
15 under the preceding sentence shall be ap-
16 plied on a project basis and the certifi-
17 cation of such eligible units shall be allo-
18 cated to each building in the project, ex-
19 cept that if buildings in such project are
20 on non-contiguous tracts of land, buildings
21 on each such tract shall be treated as a
22 separate project for purposes of applying
23 this sentence.

24 “(ii) BUILDINGS RECEIVING PREVIOUS
25 FEDERAL RENTAL ASSISTANCE.—If, at any

1 time prior to the entering into of a quali-
2 fied rental reduction agreement with re-
3 spect to a qualified building, tenants in
4 units within such building had been receiv-
5 ing project-based rental assistance under
6 any other Federal program, then, notwith-
7 standing clause (i), the maximum number
8 of units which may be certified as eligible
9 units with respect to the building under
10 subparagraph (A)(iv) shall not be less than
11 the sum of—

12 “(I) the maximum number of
13 units in the building previously receiv-
14 ing such assistance at any time before
15 the agreement takes effect, plus

16 “(II) the amount determined
17 under clause (i) without taking into
18 account the units described in sub-
19 clause (I).

20 “(4) ELIGIBLE TENANT.—

21 “(A) IN GENERAL.—The term ‘eligible ten-
22 ant’ means any individual if the individual’s
23 family income does not exceed the greater of—

1 “(i) 30 percent of the area median
2 gross income (as determined under section
3 42(g)(1)), or

4 “(ii) the applicable poverty line for a
5 family of the size involved.

6 “(B) TREATMENT OF INDIVIDUALS WHOSE
7 INCOMES RISE ABOVE LIMIT.—

8 “(i) IN GENERAL.—Notwithstanding
9 an increase in the family income of resi-
10 dents of a unit above the income limitation
11 applicable under subparagraph (A), such
12 residents shall continue to be treated as el-
13 igible tenants if the family income of such
14 residents initially met such income limita-
15 tion and such unit continues to be certified
16 as an eligible unit under this section.

17 “(ii) NO RENTAL REDUCTION FOR AT
18 LEAST 2 YEARS.—A qualified rental reduc-
19 tion agreement with respect to a qualified
20 building shall provide that if, by reason of
21 an increase in family income described in
22 clause (i), there is no qualified rental re-
23 duction amount with respect to the dwell-
24 ing unit for 2 consecutive years, the tax-
25 payer shall rent the next available unit to

1 an eligible tenant (without regard to
2 whether such unit is an eligible unit under
3 this section).

4 “(C) APPLICABLE POVERTY LINE.—The
5 term ‘applicable poverty line’ means the most
6 recently published poverty line (within the
7 meaning of section 2110(c)(5) of the Social Se-
8 curity Act (42 U.S.C. 1397jj(c)(5))) as of the
9 time of the determination as to whether an in-
10 dividual is an eligible tenant.

11 “(5) FAMILY INCOME.—

12 “(A) IN GENERAL.—Family income shall
13 be determined in the same manner as under
14 section 8 of the United States Housing Act of
15 1937.

16 “(B) TIME FOR DETERMINING INCOME.—

17 “(i) IN GENERAL.—Except as pro-
18 vided in this subparagraph, family income
19 shall be determined at least annually on
20 the basis of income for the preceding cal-
21 endar year.

22 “(ii) FAMILIES ON FIXED INCOME.—If
23 at least 90 percent of the family income of
24 the residents of a unit at the time of any
25 determination under clause (i) is derived

1 from payments under title II or XVI of the
2 Social Security Act (or any similar fixed
3 income amounts specified by the Sec-
4 retary), the taxpayer may elect to treat
5 such payments (or amounts) as the family
6 income of such residents for the year of
7 the determination and the 2 succeeding
8 years, except that the taxpayer shall, in
9 such manner as the Secretary may pre-
10 scribe, adjust such amount for increases in
11 the cost of living.

12 “(iii) INITIAL INCOME.—The Sec-
13 retary may allow a State to provide that
14 the family income of residents at the time
15 such residents first rent a unit in a quali-
16 fied building may be determined on the
17 basis of current or anticipated income.

18 “(iv) SPECIAL RULES WHERE FAMILY
19 INCOME IS REDUCED.—If residents of a
20 unit establish (in such manner as the rent-
21 al reduction credit agency provides) that
22 their family income has been reduced by at
23 least 10 percent below such income for the
24 determination year—

1 “(I) such residents may elect, at
2 such time and in such manner as such
3 agency may prescribe, to have their
4 family income redetermined, and

5 “(II) clause (ii) shall not apply to
6 any of the 2 succeeding years de-
7 scribed in such clause which are speci-
8 fied in the election.

9 “(f) STATE RENTAL REDUCTION ALLOCATION
10 PLAN.—

11 “(1) ADOPTION OF PLAN REQUIRED.—

12 “(A) IN GENERAL.—For purposes of this
13 section—

14 “(i) each State shall, before the allo-
15 cation of its State rental reduction credit
16 ceiling, establish and have in effect a State
17 rental reduction allocation plan, and

18 “(ii) notwithstanding any other provi-
19 sion of this section, the rental reduction
20 credit amount allocated to any building
21 shall be zero unless such amount was allo-
22 cated pursuant to a State rental reduction
23 allocation plan.

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

4 “(B) STATE RENTAL REDUCTION ALLOCA-
5 TION PLAN.—For purposes of this section, the
6 term ‘State rental reduction allocation plan’
7 means, with respect to any State, any plan of
8 the State meeting the requirements of para-
9 graphs (2) and (3).

10 “(2) GENERAL PLAN REQUIREMENTS.—A plan
11 shall meet the requirements of this paragraph only
12 if—

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

18 “(B) the plan provides that no credit allo-
19 cation shall be made which is not in accordance
20 with the criteria and priorities set forth under
21 subparagraph (A) unless such agency provides
22 a written explanation to the general public for
23 any credit allocation which is not so made and
24 the reasons why such allocation is necessary,
25 and

1 “(C) the plan provides that such agency is
2 required to prioritize the renewal of existing
3 credit allocations at the time of the expiration
4 of the qualified rental reduction agreement with
5 respect to the allocation, including, where ap-
6 propriate, a commitment within a qualified
7 rental reduction agreement that the credit allo-
8 cation will be renewed if the terms of the agree-
9 ment have been met and sufficient new credit
10 authority is available.

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

13 “(A) the plan provides methods for deter-
14 mining—

15 “(i) the amount of rent which would
16 be charged for a substantially similar unit
17 in the same building which is not an eligi-
18 ble unit for purposes of subsection
19 (b)(2)(A)(i), including whether such deter-
20 mination may be made by self-certification
21 or by undertaking rent reasonableness as-
22 sessments similar to assessments required
23 under section 8(o)(10) of the United
24 States Housing Act of 1937 (42 U.S.C.
25 1437f(o)(10)),

1 “(ii) the qualified rental reduction
2 amounts under subsection (c)(2)(B), and

3 “(iii) the applicable percentage under
4 subsection (e)(1),

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

9 “(i) noncompliance with the provisions
10 of this section and the qualified rental re-
11 duction agreement and in notifying the In-
12 ternal Revenue Service of any such non-
13 compliance of which such agency becomes
14 aware, and

15 “(ii) noncompliance with habitability
16 standards through regular site visits,

17 “(C) the plan requires a person receiving a
18 credit allocation to report to the rental reduc-
19 tion credit agency such information as is nec-
20 essary to ensure compliance with the provisions
21 of this section and the qualified rental reduction
22 agreement, and

23 “(D) the plan provides methods by which
24 any excess reserve amounts which become avail-
25 able under subsection (d)(1)(C)(ii) will be used

1 to reduce rental payments of eligible tenants or
2 to address maintenance and repair needs in
3 qualified buildings, including how such assist-
4 ance will be allocated among eligible tenants
5 and qualified buildings.

6 “(g) QUALIFIED RENTAL REDUCTION AGREE-
7 MENT.—For purposes of this section—

8 “(1) IN GENERAL.—The term ‘qualified rental
9 reduction agreement’ means, with respect to any
10 building which is residential rental property (as de-
11 fined in section 168(e)(2)(A)), a written, binding
12 agreement between a rental reduction credit agency
13 and the taxpayer which specifies—

14 “(A) the number of eligible units within
15 such building for which a rental reduction cred-
16 it amount is being allocated,

17 “(B) the credit period for such building,

18 “(C) the rental reduction credit amount al-
19 located to such building (and dwelling units
20 within such building) and the portion of such
21 amount allocated to each month within the
22 credit period under subsection (c)(2)(B),

23 “(D) the applicable percentage to be used
24 in computing the qualified rental reduction
25 amounts with respect to the building,

1 “(E) the method for determining the
2 amount of rent which may be charged for eligi-
3 ble units within the building, and

4 “(F) whether—

5 “(i) the agency commits to entering
6 into a new agreement with the taxpayer if
7 the terms of the agreement have been met
8 and sufficient new credit authority is avail-
9 able for such new agreement, and

10 “(ii) the taxpayer is required to accept
11 such new agreement.

12 “(2) TENANT PROTECTIONS.—A qualified rent-
13 al reduction agreement shall provide the following:

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

22 “(B) ONLY GOOD CAUSE EVICTIONS OF
23 ELIGIBLE TENANTS.—A taxpayer receiving a
24 rental reduction credit amount may not refuse
25 to renew the lease of or evict (other than for

1 good cause) an eligible tenant of an eligible
2 unit.

3 “(C) MOBILITY.—A taxpayer receiving a
4 rental reduction credit amount shall—

5 “(i) give priority to rent any available
6 unit of suitable size to tenants who are eli-
7 gible tenants who are moving from another
8 qualified building where such tenants had
9 lived at least 1 year and were in good
10 standing, and

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

16 “(D) FAIR HOUSING AND CIVIL RIGHTS.—
17 If a taxpayer receives a rental reduction credit
18 amount—

19 “(i) such taxpayer shall comply with
20 the Fair Housing Act with respect to the
21 building, and

22 “(ii) the receipt of such amount shall
23 be treated as the receipt of Federal finan-
24 cial assistance for purposes of applying any
25 Federal civil rights laws.

1 “(E) ADMISSIONS PREFERENCES.—A tax-
2 payer receiving a rental reduction credit
3 amount shall comply with any admissions pref-
4 erences established by the State for tenants
5 within particular demographic groups eligible
6 for health or social services.

7 “(3) COMPLIANCE REQUIREMENTS.—A quali-
8 fied rental reduction agreement shall provide that a
9 taxpayer receiving a rental reduction credit amount
10 shall comply with all reporting and other procedures
11 established by the State to ensure compliance with
12 this section and such agreement.

13 “(4) PROJECTS.—In the case of a rental reduc-
14 tion credit allocated to a project consisting of more
15 than 1 building, the rental reduction credit agency
16 may provide for a single qualified rental reduction
17 agreement which applies to all buildings which are
18 part of such project.

19 “(h) CERTIFICATIONS AND OTHER REPORTS TO SEC-
20 RETARY.—

21 “(1) CERTIFICATION WITH RESPECT TO 1ST
22 YEAR OF CREDIT PERIOD.—Following the close of
23 the 1st taxable year in the credit period with respect
24 to any qualified building, the taxpayer shall certify

1 to the Secretary (at such time and in such form and
2 in such manner as the Secretary prescribes)—

3 “(A) the information described in sub-
4 section (g)(1) required to be contained in the
5 qualified rental reduction agreement with re-
6 spect to the building, and

7 “(B) such other information as the Sec-
8 retary may require.

9 In the case of a failure to make the certification re-
10 quired by the preceding sentence on the date pre-
11 scribed therefor, unless it is shown that such failure
12 is due to reasonable cause and not to willful neglect,
13 no credit shall be allowable by reason of subsection
14 (a) with respect to such building for any taxable
15 year ending before such certification is made.

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

21 “(A) the information described in para-
22 graph (1)(A) for the taxable year, and

23 “(B) such other information as the Sec-
24 retary may require.

1 The penalty under section 6652(j) shall apply to any
2 failure to submit the return required by the Sec-
3 retary under the preceding sentence on the date pre-
4 scribed therefor.

5 “(3) ANNUAL REPORTS FROM RENTAL REDUC-
6 TION CREDIT AGENCY.—

7 “(A) REPORTS.—Each rental reduction
8 credit agency which allocates any rental reduc-
9 tion credit amount to 1 or more buildings for
10 any calendar year shall submit to the Secretary
11 (at such time and in such manner as the Sec-
12 retary shall prescribe) an annual report speci-
13 fying—

14 “(i) the amount of rental reduction
15 credit amounts allocated to each such
16 building for such year,

17 “(ii) sufficient information to identify
18 each such building and the taxpayer with
19 respect thereto,

20 “(iii) information as to the demo-
21 graphic and income characteristics of eligi-
22 ble tenants of all such buildings to which
23 such amounts were allocated, and

24 “(iv) such other information as the
25 Secretary may require.

1 “(B) PENALTY.—The penalty under sec-
2 tion 6652(j) shall apply to any failure to submit
3 the report required by subparagraph (A) on the
4 date prescribed therefor.

5 “(C) INFORMATION MADE PUBLIC.—The
6 Secretary shall, in consultation with the Sec-
7 retary of Housing and Urban Development,
8 make information reported under this para-
9 graph for each qualified building available to
10 the public annually to the greatest degree pos-
11 sible without disclosing personal information
12 about individual tenants.

13 “(i) SPECIAL RULE FOR PAYMENTS TO PARTNER-
14 SHIPS AND S CORPORATIONS.—For purposes of this sub-
15 title, in the case of any qualified building directly held by
16 any partnership or S corporation, the payment under sec-
17 tion 6436 shall be made in lieu of the credit determined
18 under this section with respect to such building.

19 “(j) REGULATIONS AND GUIDANCE.—The Secretary
20 shall prescribe such regulations or guidance as may be
21 necessary to carry out the purposes of this section, includ-
22 ing—

23 “(1) providing necessary forms and instruc-
24 tions, and

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

4 (b) PAYMENT TO PARTNERSHIPS AND S CORPORA-
5 TIONS IN LIEU OF CREDIT.—

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

9 **“SEC. 6436. PAYMENTS IN LIEU OF RENTERS CREDIT FOR**
10 **PARTNERSHIPS AND S CORPORATIONS.**

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

18 “(b) REGULATORY AUTHORITY.—The Secretary shall
19 prescribe such regulations, rules, and guidance as may be
20 necessary to carry out section 36C(i), section 92, and this
21 section, including regulations, rules, and guidance pro-
22 viding for—

23 “(1) the application of the rules under section
24 36C with respect to payments under this section in

1 the same manner as such rules apply for purposes
 2 of the credit under section 36C,

3 “(2) the time and manner of payments under
 4 subsection (a), and

5 “(3) the determination of a partner’s distribu-
 6 tive share, or an S corporation shareholder’s pro
 7 rata share, of any payment under subsection (a).”.

8 (2) CONFORMING AMENDMENT.—The table of
 9 sections for subchapter B of chapter 65 of the Inter-
 10 nal Revenue Code of 1986 is amended by adding at
 11 the end the following new item:

“Sec. 6436. Payments in lieu of renters credit for partnerships and S corpora-
 tions.”.

12 (c) CREDIT INCLUDIBLE IN GROSS INCOME.—

13 (1) IN GENERAL.—Part II of subchapter B of
 14 chapter 1 of the Internal Revenue Code of 1986 is
 15 amended by adding at the end the following new sec-
 16 tion:

17 **“SEC. 92. INCLUSION IN INCOME OF RENTERS CREDIT AND**
 18 **PAYMENTS.**

19 “Gross income includes the amount of the credit al-
 20 lowed to the taxpayer under section 36C for the taxable
 21 year and the amount of any payment in lieu of such credit
 22 under section 6436.”.

1 (2) INCOME DISREGARDED FOR ALTERNATIVE
2 MINIMUM TAXABLE INCOME.—Section 56(a) of such
3 Code is amended by adding at the end the following:

4 “(8) SECTION 92 NOT APPLICABLE.—Section 92
5 (relating to inclusion in income of renters credit)
6 shall not apply.”.

7 (3) CONFORMING AMENDMENT.—The table of
8 sections for part II of subchapter B of chapter 1 of
9 such Code is amended by adding at the end the fol-
10 lowing new item:

“Sec. 92. Inclusion in income of renters credit and payments.”.

11 (d) ADMINISTRATIVE FEES.—No provision of, or
12 amendment made by, this Act shall be construed to pre-
13 vent a rental reduction credit agency of a State from im-
14 posing fees to cover its costs or from levying any such fee
15 on a taxpayer applying for or receiving a rental reduction
16 credit amount.

17 (e) OTHER CONFORMING AMENDMENTS.—

18 (1) Section 6211(b)(4) of the Internal Revenue
19 Code of 1986 is amended by inserting “36C (includ-
20 ing any related payment under section 6436),” after
21 “36B,”.

22 (2) Paragraph (2) of section 1324(b) of title
23 31, United States Code, is amended by inserting
24 “36C (including any related payment under section
25 6436),” after “36B,”.

1 (3) The table of sections for subpart C of part
 2 IV of subchapter A of chapter 1 of the Internal Rev-
 3 enue Code of 1986 is amended by inserting after the
 4 item relating to section 36B the following new item:

“Sec. 36C. Renters credit.”.

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

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

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

13 **“SEC. 42A. MIDDLE-INCOME HOUSING CREDIT.**

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

18 “(1) the applicable percentage, of

19 “(2) the qualified basis of each qualified mid-
 20 dle-income building.

21 “(b) APPLICABLE PERCENTAGE.—

22 “(1) DETERMINATION OF APPLICABLE PER-
 23 CENTAGE.—For purposes of this section—

24 “(A) IN GENERAL.—The term ‘applicable
 25 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

1 “(ii) 20 percent of the qualified basis
2 of a building not described in clause (i).

3 “(C) METHOD OF DISCOUNTING.—The
4 present value under subparagraph (B) shall be
5 determined—

6 “(i) as of the last day of the 1st year
7 of the 15-year period referred to in sub-
8 paragraph (B),

9 “(ii) by using a discount rate equal to
10 72 percent of the average of the annual
11 Federal mid-term rate and the annual
12 Federal long-term rate applicable under
13 section 1274(d)(1) to the month applicable
14 under clause (i) or (ii) of subparagraph
15 (A) and compounded annually, and

16 “(iii) by assuming that the credit al-
17 lowable under this section for any year is
18 received on the last day of such year.

19 “(2) MINIMUM CREDIT RATE.—

20 “(A) IN GENERAL.—The applicable per-
21 centage for any building which is not federally
22 subsidized for the taxable year shall not be less
23 than 5 percent.

24 “(B) MINIMUM CREDIT RATE FOR FEDER-
25 ALLY SUBSIDIZED BUILDINGS.—In the case of

1 any building to which subparagraph (A) does
2 not apply, except as provided in paragraph (3),
3 the applicable percentage shall not be less than
4 2 percent.

5 “(3) EXCEPTION FOR CERTAIN FEDERALLY
6 SUBSIDIZED BUILDINGS.—In the case of any build-
7 ing to which paragraph (2)(A) does not apply, the
8 applicable percentage is zero unless—

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

12 “(B) such building is financed by tax-ex-
13 empt bonds as described in section 42(h)(4).

14 “(4) CROSS REFERENCES.—

15 “(A) For treatment of certain rehabilita-
16 tion expenditures as separate new buildings, see
17 subsection (e).

18 “(B) For determination of applicable per-
19 centage for increases in qualified basis after the
20 1st year of the credit period, see subsection
21 (f)(3).

22 “(C) For authority of housing credit agen-
23 cy to limit applicable percentage and qualified
24 basis which may be taken into account under

1 this section with respect to any building, see
2 subsection (h)(6).

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

5 “(1) QUALIFIED BASIS.—

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

9 “(i) the applicable fraction (deter-
10 mined as of the close of such taxable year),
11 of

12 “(ii) the eligible basis of such building
13 (determined under subsection (d)).

14 “(B) APPLICABLE FRACTION.—For pur-
15 poses of subparagraph (A), the term ‘applicable
16 fraction’ means the smaller of the unit fraction
17 or the floor space fraction.

18 “(C) UNIT FRACTION.—For purposes of
19 subparagraph (B), the term ‘unit fraction’
20 means the fraction—

21 “(i) the numerator of which is the
22 number of middle-income units in the
23 building, and

1 “(ii) the denominator of which is the
 2 number of residential rental units (whether
 3 or not occupied) in such building.

4 “(D) FLOOR SPACE FRACTION.—For pur-
 5 poses of subparagraph (B), the term ‘floor
 6 space fraction’ means the fraction—

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

10 “(ii) the denominator of which is the
 11 total floor space of the residential rental
 12 units (whether or not occupied) in such
 13 building.

14 “(2) QUALIFIED MIDDLE-INCOME BUILDING.—
 15 The term ‘qualified middle-income building’ means
 16 any building which is part of a qualified middle-in-
 17 come housing project at all times during the pe-
 18 riod—

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

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

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

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

4 “(2) EXISTING BUILDINGS.—

5 “(A) IN GENERAL.—The eligible basis of
6 an existing building is—

7 “(i) in the case of a building which
8 meets the requirements of subparagraph
9 (B), its adjusted basis as of the close of
10 the 1st taxable year of the credit period,
11 and

12 “(ii) zero in any other case.

13 “(B) REQUIREMENTS.—A building meets
14 the requirements of this subparagraph if—

15 “(i) the building is acquired by pur-
16 chase (as defined in section 179(d)(2)),

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

21 “(iii) the building was not previously
22 placed in service by the taxpayer or by any
23 person who was a related person with re-
24 spect to the taxpayer as of the time pre-
25 viously placed in service, and

1 “(iv) except as provided in subsection
2 (f)(5), a credit is allowable under sub-
3 section (a) by reason of subsection (e) with
4 respect to the building.

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

11 “(D) SPECIAL RULES.—

12 “(i) SPECIAL RULES FOR CERTAIN
13 TRANSFERS.—For purposes of determining
14 under subparagraph (B)(ii) when a build-
15 ing was last placed in service, there shall
16 not be taken into account any placement in
17 service—

18 “(I) in connection with the acqui-
19 sition of the building in a transaction
20 in which the basis of the building in
21 the hands of the person acquiring it is
22 determined in whole or in part by ref-
23 erence to the adjusted basis of such
24 building in the hands of the person
25 from whom acquired,

1 “(II) by a person whose basis in
2 such building is determined under sec-
3 tion 1014(a) (relating to property ac-
4 quired from a decedent),

5 “(III) by any governmental unit
6 or qualified nonprofit organization (as
7 defined in subsection (h)(4)) if the re-
8 quirements of subparagraph (B)(ii)
9 are met with respect to the placement
10 in service by such unit or organization
11 and all the income from such property
12 is exempt from Federal income tax-
13 ation,

14 “(IV) by any person who ac-
15 quired such building by foreclosure
16 (or by instrument in lieu of fore-
17 closure) of any purchase-money secu-
18 rity interest held by such person if the
19 requirements of subparagraph (B)(ii)
20 are met with respect to the placement
21 in service by such person and such
22 building is resold within 12 months
23 after the date such building is placed
24 in service by such person after such
25 foreclosure, or

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

5 “(ii) RELATED PERSON.—For pur-
6 poses of subparagraph (B)(iii), a person
7 (hereinafter in this subclause referred to as
8 the ‘related person’) is related to any per-
9 son if the related person bears a relation-
10 ship to such person specified in section
11 267(b) or 707(b)(1), or the related person
12 and such person are engaged in trades or
13 businesses under common control (within
14 the meaning of subsections (a) and (b) of
15 section 52).

16 “(3) ELIGIBLE BASIS REDUCED WHERE DIS-
17 PROPORTIONATE STANDARDS FOR UNITS.—

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

1 standard of the middle-income units in the
2 building.

3 “(B) EXCEPTION WHERE TAXPAYER
4 ELECTS TO EXCLUDE EXCESS COSTS.—

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

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

13 “(II) the taxpayer elects to ex-
14 clude from the eligible basis of such
15 building the excess described in clause
16 (ii) with respect to such unit.

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

20 “(I) the cost of such unit, over

21 “(II) the amount which would be
22 the cost of such unit if the average
23 cost per square foot of middle-income
24 units in the building were substituted

1 for the cost per square foot of such
2 unit.

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

7 “(4) SPECIAL RULES RELATING TO DETER-
8 MINATION OF ADJUSTED BASIS.—For purposes of
9 this subsection—

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

15 “(B) BASIS OF PROPERTY IN COMMON
16 AREAS, ETC., INCLUDED.—

17 “(i) IN GENERAL.—Except as pro-
18 vided in clause (ii), the adjusted basis of
19 any building shall be determined by taking
20 into account the adjusted basis of property
21 (of a character subject to the allowance for
22 depreciation) used in common areas or
23 provided as comparable amenities to all
24 residential rental units in such building.

1 “(ii) SPECIAL RULE.—In the case of
2 any building for which the low-income
3 housing tax credit is allowable under sec-
4 tion 42, the adjusted basis of the building
5 under this section shall be determined
6 without regard to property used in com-
7 mon areas or provided as comparable
8 amenities to all residential rental units in
9 such building.

10 “(C) NO REDUCTION FOR DEPRECIA-
11 TION.—The adjusted basis of any building shall
12 be determined without regard to paragraphs (2)
13 and (3) of section 1016(a).

14 “(5) SPECIAL RULES FOR DETERMINING ELIGI-
15 BLE BASIS.—

16 “(A) FEDERAL GRANTS NOT TAKEN INTO
17 ACCOUNT IN DETERMINING ELIGIBLE BASIS.—
18 The eligible basis of a building shall not include
19 any costs financed with the proceeds of a feder-
20 ally funded grant.

21 “(B) INCREASE IN CREDIT FOR BUILDINGS
22 IN HIGH COST AREAS.—

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

1 “(I) in the case of a new build-
2 ing, the eligible basis of such building
3 shall be 130 percent of such basis de-
4 termined without regard to this sub-
5 paragraph, and

6 “(II) in the case of an existing
7 building, the rehabilitation expendi-
8 tures taken into account under sub-
9 section (e) shall be 130 percent of
10 such expenditures determined without
11 regard to this subparagraph.

12 “(ii) QUALIFIED CENSUS TRACT.—
13 The term ‘qualified census tract’ means,
14 with respect to any period any census tract
15 which is treated as a qualified census tract
16 under section 42(d)(5)(B).

17 “(iii) DIFFICULT DEVELOPMENT
18 AREAS.—The term ‘difficult development
19 areas’ means any census tract which is
20 treated as a difficult development area
21 under section 42(d)(5)(B) (determined
22 without regard to clause (v) thereof).

23 “(iv) BUILDINGS DESIGNATED BY
24 STATE HOUSING CREDIT AGENCY.—Any
25 building which is designated by the State

1 housing credit agency as requiring the in-
 2 crease in credit under this subparagraph in
 3 order for such building to be financially
 4 feasible as part of a qualified middle-in-
 5 come housing project shall be treated for
 6 purposes of this subparagraph as located
 7 in a difficult development area which is
 8 designated for purposes of this subpara-
 9 graph. The preceding sentence shall not
 10 apply to any building if paragraph (1) of
 11 subsection (h) does not apply to any por-
 12 tion of the eligible basis of such building
 13 by reason of paragraph (9) of such sub-
 14 section.

15 “(6) CREDIT ALLOWABLE FOR CERTAIN BUILD-
 16 INGS ACQUIRED DURING 10-YEAR PERIOD.—

17 “(A) IN GENERAL.—Paragraph (2)(B)(ii)
 18 shall not apply to any federally assisted build-
 19 ing (as defined in section 42(d)(6)(C)(i)) or
 20 State-assisted building (as defined in section
 21 42(d)(6)(C)(ii)).

22 “(B) BUILDINGS ACQUIRED FROM IN-
 23 SURED DEPOSITORY INSTITUTIONS IN DE-
 24 FAULT.—On application by the taxpayer, the
 25 Secretary may waive paragraph (2)(B)(ii) with

1 respect to any building acquired from an in-
2 sured depository institution in default (as de-
3 fined in section 3 of the Federal Deposit Insur-
4 ance Act) or from a receiver or conservator of
5 such an institution.

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

8 “(A) IN GENERAL.—Under regulations
9 prescribed by the Secretary, in the case of a
10 building described in subparagraph (B) (or in-
11 terest therein) which is acquired by the tax-
12 payer—

13 “(i) paragraph (2)(B) shall not apply,
14 but

15 “(ii) the credit allowable by reason of
16 subsection (a) to the taxpayer for any pe-
17 riod after such acquisition shall be equal to
18 the amount of credit which would have
19 been allowable under subsection (a) for
20 such period to the prior owner referred to
21 in subparagraph (B) had such owner not
22 disposed of the building.

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

1 “(i) a credit was allowed by reason of
2 subsection (a) to any prior owner of such
3 building, and

4 “(ii) the taxpayer acquired such build-
5 ing before the end of the credit period for
6 such building with respect to such prior
7 owner (determined without regard to any
8 disposition by such prior owner).

9 “(e) REHABILITATION EXPENDITURES TREATED AS
10 SEPARATE NEW BUILDING.—

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

15 “(2) REHABILITATION EXPENDITURES.—For
16 purposes of paragraph (1)—

17 “(A) IN GENERAL.—The term ‘rehabilita-
18 tion expenditures’ means amounts chargeable to
19 a capital account and incurred for property (or
20 additions or improvements to property) of a
21 character subject to the allowance for deprecia-
22 tion in connection with the rehabilitation of a
23 building.

24 “(B) COST OF ACQUISITION, ETC., NOT IN-
25 CLUDED.—Such term does not include the cost

1 of acquiring any building (or interest therein)
2 or any amount not permitted to be taken into
3 account under paragraph (3) or (4) of sub-
4 section (d).

5 “(3) MINIMUM EXPENDITURES TO QUALIFY.—

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

9 “(i) the expenditures are allocable to
10 1 or more middle-income units or substan-
11 tially benefit such units, and

12 “(ii) the amount of such expenditures
13 during any 24-month period meets the re-
14 quirements of whichever of the following
15 subclauses requires the greater amount of
16 such expenditures:

17 “(I) The requirement of this sub-
18 clause is met if such amount is not
19 less than 20 percent of the adjusted
20 basis of the building (determined as of
21 the 1st day of such period and with-
22 out regard to paragraphs (2) and (3)
23 of section 1016(a)).

24 “(II) The requirement of this
25 subclause is met if the qualified basis

1 attributable to such amount, when di-
2 vided by the number of middle-income
3 units in the building, is equal to or
4 greater than the dollar amount in ef-
5 fect under section 42(e)(3)(A)(ii)(II)
6 for the calendar year in which such
7 expenditures are treated as placed in
8 service under paragraph (4).

9 “(B) EXCEPTION.—In the case of a build-
10 ing acquired by the taxpayer from a govern-
11 mental unit, at the election of the taxpayer,
12 subparagraph (A)(ii)(I) shall not apply and the
13 credit under this section for such rehabilitation
14 expenditures shall be determined using the per-
15 centage under subsection (b) which is applicable
16 to buildings which are federally subsidized.

17 “(C) DATE OF DETERMINATION.—The de-
18 termination under subparagraph (A) shall be
19 made as of the close of the 1st taxable year in
20 the credit period with respect to such expendi-
21 tures.

22 “(4) SPECIAL RULES.—For purposes of apply-
23 ing this section with respect to expenditures which
24 are treated as a separate building by reason of this
25 subsection—

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

4 “(B) the applicable fraction under sub-
5 section (c)(1) shall be the applicable fraction for
6 the building (without regard to paragraph (1))
7 with respect to which the expenditures were in-
8 curred.

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

11 “(5) NO DOUBLE COUNTING.—Rehabilitation
12 expenditures may, at the election of the taxpayer, be
13 taken into account under this subsection or sub-
14 section (d)(2)(A)(i) but not under both such sub-
15 sections.

16 “(6) REGULATIONS TO APPLY SUBSECTION
17 WITH RESPECT TO GROUP OF UNITS IN BUILDING.—

18 The Secretary may prescribe regulations, consistent
19 with the purposes of this subsection, treating a
20 group of units with respect to which rehabilitation
21 expenditures are incurred as a separate new build-
22 ing.

23 “(f) DEFINITION AND SPECIAL RULES RELATING TO
24 CREDIT PERIOD.—

1 “(1) CREDIT PERIOD DEFINED.—For purposes
2 of this section, the term ‘credit period’ means, with
3 respect to any building, the period of 15 taxable
4 years beginning with—

5 “(A) the taxable year in which the building
6 is placed in service, or

7 “(B) at the election of the taxpayer, the
8 succeeding taxable year,
9 but only if the building is a qualified middle-income
10 building as of the close of the 1st year of such pe-
11 riod. The election under subparagraph (B), once
12 made, shall be irrevocable.

13 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT
14 PERIOD.—

15 “(A) IN GENERAL.—The credit allowable
16 under subsection (a) with respect to any build-
17 ing for the 1st taxable year of the credit period
18 shall be determined by substituting for the ap-
19 plicable fraction under subsection (c)(1) the
20 fraction—

21 “(i) the numerator of which is the
22 sum of the applicable fractions determined
23 under subsection (c)(1) as of the close of
24 each full month of such year during which
25 such building was in service, and

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

2 “(B) DISALLOWED 1ST-YEAR CREDIT AL-
3 LOWED IN 16TH YEAR.—Any reduction by rea-
4 son of subparagraph (A) in the credit allowable
5 (without regard to subparagraph (A)) for the
6 1st taxable year of the credit period shall be al-
7 lowable under subsection (a) for the 1st taxable
8 year following the credit period.

9 “(3) DETERMINATION OF APPLICABLE PER-
10 CENTAGE WITH RESPECT TO INCREASES IN QUALI-
11 FIED BASIS AFTER 1ST YEAR OF CREDIT PERIOD.—

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

16 “(i) as of the close of any taxable year
17 in the credit period (after the 1st year of
18 such period) the qualified basis of such
19 building, exceeds

20 “(ii) the qualified basis of such build-
21 ing as of the close of the 1st year of the
22 credit period,

23 the applicable percentage which shall apply
24 under subsection (a) for the taxable year to
25 such excess shall be the percentage equal to $\frac{2}{3}$

1 of the applicable percentage which (after the
2 application of subsection (h)) would but for this
3 paragraph apply to such basis.

4 “(B) 1ST YEAR COMPUTATION APPLIES.—

5 A rule similar to the rule of paragraph (2)(A)
6 shall apply to any increase in qualified basis to
7 which subparagraph (A) applies for the 1st year
8 of such increase.

9 “(4) DISPOSITIONS OF PROPERTY.—If a build-

10 ing (or an interest therein) is disposed of during any
11 year for which credit is allowable under subsection
12 (a), such credit shall be allocated between the par-
13 ties on the basis of the number of days during such
14 year the building (or interest) was held by each.

15 “(5) CREDIT PERIOD FOR EXISTING BUILDINGS

16 NOT TO BEGIN BEFORE REHABILITATION CREDIT
17 ALLOWED.—

18 “(A) IN GENERAL.—The credit period for

19 an existing building shall not begin before the
20 1st taxable year of the credit period for reha-
21 bilitation expenditures with respect to the build-
22 ing.

23 “(B) ACQUISITION CREDIT ALLOWED FOR

24 CERTAIN BUILDINGS NOT ALLOWED A REHA-
25 BILITATION CREDIT.—

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

3 “(I) subsection (d)(2)(B)(iv)
 4 shall not apply, and

5 “(II) the credit period for such
 6 building shall not begin before the
 7 taxable year which would be the 1st
 8 taxable year of the credit period for
 9 rehabilitation expenditures with re-
 10 spect to the building under the modi-
 11 fications described in clause (ii)(II).

12 “(ii) BUILDING DESCRIBED.—A build-
 13 ing is described in this clause if—

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

17 “(II) a credit would be allowed
 18 for rehabilitation expenditures with
 19 respect to such building if subsection
 20 (e)(3)(A)(ii)(I) did not apply and if
 21 the dollar amount in effect under sub-
 22 section (e)(3)(A)(ii)(II) were two-
 23 thirds of such amount.

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

1 “(1) IN GENERAL.—The term ‘qualified middle-
2 income housing project’ means any project for resi-
3 dential rental property if—

4 “(A) 60 percent or more of the residential
5 units in such project are both rent-restricted
6 and occupied by individuals whose income is
7 100 percent or less of area median gross in-
8 come, and

9 “(B) not less than 20 percent of the resi-
10 dential units in such project are units which—

11 “(i) are described in subparagraph
12 (A), and

13 “(ii) are not residential units which
14 are taken into account under section 42.

15 “(2) RENT-RESTRICTED UNITS.—

16 “(A) IN GENERAL.—For purposes of para-
17 graph (1), a residential unit is rent-restricted if
18 the gross rent with respect to such unit does
19 not exceed 30 percent of the imputed income
20 limitation applicable to such unit. For purposes
21 of the preceding sentence, the amount of the in-
22 come limitation under paragraph (1) applicable
23 for any period shall not be less than such limi-
24 tation applicable for the earliest period the
25 building (which contains the unit) was included

1 in the determination of whether the project is
2 a qualified middle-income housing project.

3 “(B) GROSS RENT.—For purposes of sub-
4 paragraph (A), gross rent—

5 “(i) includes any utility allowance de-
6 termined by the Secretary after taking into
7 account such determinations under section
8 8 of the United States Housing Act of
9 1937,

10 “(ii) does not include any fee for a
11 supportive service which is paid to the
12 owner of the unit (on the basis of the mid-
13 dle-income status of the tenant of the unit)
14 by any governmental program of assistance
15 (or by an organization described in section
16 501(c)(3) and exempt from tax under sec-
17 tion 501(a)) if such program (or organiza-
18 tion) provides assistance for rent and the
19 amount of assistance provided for rent is
20 not separable from the amount of assist-
21 ance provided for supportive services, and

22 “(iii) does not include any rental pay-
23 ment to the owner of the unit to the extent
24 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

1 rental unit in the building (of a size com-
2 parable to, or smaller than, such unit) is
3 occupied by a new resident whose income
4 exceeds such income limitation.

5 “(3) DATE FOR MEETING REQUIREMENTS.—

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

13 “(B) BUILDINGS WHICH RELY ON LATER
14 BUILDINGS FOR QUALIFICATION.—

15 “(i) IN GENERAL.—In determining
16 whether a building (hereinafter in this sub-
17 paragraph referred to as the ‘prior build-
18 ing’) is a qualified middle-income building,
19 the taxpayer may take into account 1 or
20 more additional buildings placed in service
21 during the 12-month period described in
22 subparagraph (A) with respect to the prior
23 building only if the taxpayer elects to apply
24 clause (ii) with respect to each additional
25 building taken into account.

1 “(ii) TREATMENT OF ELECTED
2 BUILDINGS.—In the case of a building
3 which the taxpayer elects to take into ac-
4 count under clause (i), the period under
5 subparagraph (A) for such building shall
6 end at the close of the 12-month period ap-
7 plicable to the prior building.

8 “(iii) DATE PRIOR BUILDING IS
9 TREATED AS PLACED IN SERVICE.—For
10 purposes of determining the credit period
11 for the prior building, the prior building
12 shall be treated for purposes of this section
13 as placed in service on the most recent
14 date any additional building elected by the
15 taxpayer (with respect to such prior build-
16 ing) was placed in service.

17 “(C) SPECIAL RULE.—A building—

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

20 “(ii) other than a building which is
21 placed in service during the 12-month pe-
22 riod described in subparagraph (A) with
23 respect to a prior building which becomes
24 a qualified middle-income building,

1 shall in no event be treated as a qualified mid-
2 dle-income building unless the project is a
3 qualified middle-income housing project (with-
4 out regard to such building) on the date such
5 building is placed in service.

6 “(D) PROJECTS WITH MORE THAN 1
7 BUILDING MUST BE IDENTIFIED.—For pur-
8 poses of this section, a project shall be treated
9 as consisting of only 1 building unless, before
10 the close of the 1st calendar year in the project
11 period (as defined in subsection (h)(1)(F)(ii)),
12 each building which is (or will be) part of such
13 project is identified in such form and manner
14 as the Secretary may provide.

15 “(4) CERTAIN RULES MADE APPLICABLE.—
16 Paragraphs (2) (other than subparagraph (A) there-
17 of), (3), and (7) of section 142(d), and section
18 6652(j), shall apply for purposes of determining
19 whether any project is a qualified middle-income
20 housing project and whether any unit is a middle-in-
21 come unit; except that, in applying such provisions
22 for such purposes—

23 “(A) the term ‘gross rent’ shall have the
24 meaning given such term by paragraph (2)(B)
25 of this subsection, and

1 “(B) the term ‘applicable income limit’
2 means the limitation under paragraph (1) of
3 this subsection.

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

10 “(6) SPECIAL RULE WHERE DE MINIMIS EQ-
11 UNITY CONTRIBUTION.—Property shall not be treated
12 as failing to be residential rental property for pur-
13 poses of this section merely because the occupant of
14 a residential unit in the project pays (on a voluntary
15 basis) to the lessor a de minimis amount to be held
16 toward the purchase by such occupant of a residen-
17 tial unit in such project if—

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

21 “(B) the purchase of the unit is not per-
22 mitted until after the close of the credit period
23 with respect to the building in which the unit
24 is located.

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

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

11 “(8) WAIVER OF CERTAIN RECERTIFI-
12 CATIONS.—On application by the taxpayer, the Sec-
13 retary may waive any annual recertification of ten-
14 ant income for purposes of this subsection, if the en-
15 tire building is occupied by middle-income tenants.

16 “(9) CLARIFICATION OF GENERAL PUBLIC USE
17 REQUIREMENT.—A project does not fail to meet the
18 general public use requirement solely because of oc-
19 cupancy restrictions or preferences that favor ten-
20 ants—

21 “(A) with special needs,

22 “(B) who are members of a specified group
23 under a Federal program or State program or
24 policy that supports housing for such a speci-
25 fied group, or

1 “(C) who are involved in artistic or literary
2 activities.

3 “(h) LIMITATION ON AGGREGATE CREDIT ALLOW-
4 ABLE WITH RESPECT TO PROJECTS LOCATED IN A
5 STATE.—

6 “(1) CREDIT MAY NOT EXCEED CREDIT
7 AMOUNT ALLOCATED TO BUILDING.—

8 “(A) IN GENERAL.—The amount of the
9 credit determined under this section for any
10 taxable year with respect to any building shall
11 not exceed the housing credit dollar amount al-
12 located to such building under this subsection.

13 “(B) TIME FOR MAKING ALLOCATION.—
14 Except in the case of an allocation which meets
15 the requirements of subparagraph (C), (D),
16 (E), or (F), an allocation shall be taken into ac-
17 count under subparagraph (A) only if it is
18 made not later than the close of the calendar
19 year in which the building is placed in service.

20 “(C) EXCEPTION WHERE BINDING COM-
21 MITMENT.—An allocation meets the require-
22 ments of this subparagraph if there is a binding
23 commitment (not later than the close of the cal-
24 endar year in which the building is placed in
25 service) by the housing credit agency to allocate

1 a specified housing credit dollar amount to such
2 building beginning in a specified later taxable
3 year.

4 “(D) EXCEPTION WHERE INCREASE IN
5 QUALIFIED BASIS.—

6 “(i) IN GENERAL.—An allocation
7 meets the requirements of this subpara-
8 graph if such allocation is made not later
9 than the close of the calendar year in
10 which ends the taxable year to which it will
11 first apply but only to the extent the
12 amount of such allocation does not exceed
13 the limitation under clause (ii).

14 “(ii) LIMITATION.—The limitation
15 under this clause is the amount of credit
16 allowable under this section (without re-
17 gard to this subsection) for a taxable year
18 with respect to an increase in the qualified
19 basis of the building equal to the excess
20 of—

21 “(I) the qualified basis of such
22 building as of the close of the 1st tax-
23 able year to which such allocation will
24 apply, over

1 “(II) the qualified basis of such
2 building as of the close of the 1st tax-
3 able year to which the most recent
4 prior housing credit allocation with re-
5 spect to such building applied.

6 “(iii) HOUSING CREDIT DOLLAR
7 AMOUNT REDUCED BY FULL ALLOCA-
8 TION.—Notwithstanding clause (i), the full
9 amount of the allocation shall be taken
10 into account under paragraph (2).

11 “(E) EXCEPTION WHERE 10 PERCENT OF
12 COST INCURRED.—

13 “(i) IN GENERAL.—An allocation
14 meets the requirements of this subpara-
15 graph if such allocation is made with re-
16 spect to a qualified building which is
17 placed in service not later than the close of
18 the second calendar year following the cal-
19 endar year in which the allocation is made.

20 “(ii) QUALIFIED BUILDING.—For pur-
21 poses of clause (i), the term ‘qualified
22 building’ means any building which is part
23 of a project if the taxpayer’s basis in such
24 project (as of the date which is 1 year
25 after the date that the allocation was

1 made) is more than 10 percent of the tax-
2 payer's reasonably expected basis in such
3 project (as of the close of the second cal-
4 endar year referred to in clause (i)). Such
5 term does not include any existing building
6 unless a credit is allowable under sub-
7 section (e) for rehabilitation expenditures
8 paid or incurred by the taxpayer with re-
9 spect to such building for a taxable year
10 ending during the second calendar year re-
11 ferred to in clause (i) or the prior taxable
12 year.

13 “(F) ALLOCATION OF CREDIT ON A
14 PROJECT BASIS.—

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

19 “(I) the allocation is made to the
20 project for a calendar year during the
21 project period,

22 “(II) the allocation only applies
23 to buildings placed in service during
24 or after the calendar year for which
25 the allocation is made, and

1 “(III) the portion of such alloca-
2 tion which is allocated to any building
3 in such project is specified not later
4 than the close of the calendar year in
5 which the building is placed in service.

6 “(ii) PROJECT PERIOD.—For pur-
7 poses of clause (i), the term ‘project pe-
8 riod’ means the period—

9 “(I) beginning with the 1st cal-
10 endar year for which an allocation
11 may be made for the first building
12 placed in service as part of such
13 project, and

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

17 “(2) ALLOCATED CREDIT AMOUNT TO APPLY
18 TO ALL TAXABLE YEARS ENDING DURING OR AFTER
19 CREDIT ALLOCATION YEAR.—Any housing credit dol-
20 lar amount allocated to any building for any cal-
21 endar year—

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

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

4 “(3) HOUSING CREDIT DOLLAR AMOUNT FOR
5 AGENCIES.—

6 “(A) IN GENERAL.—The aggregate hous-
7 ing credit dollar amount which a housing credit
8 agency may allocate for any calendar year is
9 the portion of the State housing credit ceiling
10 allocated under this paragraph for such cal-
11 endar year to such agency.

12 “(B) STATE CEILING INITIALLY ALLO-
13 CATED TO STATE HOUSING CREDIT AGEN-
14 CIES.—Except as provided in subparagraph
15 (D), the State housing credit ceiling for each
16 calendar year shall be allocated to the housing
17 credit agency of such State. If there is more
18 than 1 housing credit agency of a State, all
19 such agencies shall be treated as a single agen-
20 cy.

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

1 “(i) the unused State housing credit
2 ceiling (if any) of such State for the pre-
3 ceding calendar year,

4 “(ii) the greater of—

5 “(I) \$1.00 multiplied by the
6 State population, or

7 “(II) \$1,500,000, plus

8 “(iii) the amount of State housing
9 credit ceiling returned in the calendar year.

10 For purposes of clause (i), the unused State
11 housing credit ceiling for any calendar year is
12 the excess (if any) of the sum of the amounts
13 described in clauses (ii) (reduced by the aggre-
14 gate amounts described in paragraph (10)(A)(i)
15 with respect to all elections made for such cal-
16 endar year) and (iii) over the aggregate housing
17 credit dollar amount allocated for such year.

18 For purposes of clause (iii), the amount of
19 State housing credit ceiling returned in the cal-
20 endar year equals the housing credit dollar
21 amount previously allocated within the State to
22 any project which fails to meet the 10 percent
23 test under paragraph (1)(E)(ii) on a date after
24 the close of the calendar year in which the allo-
25 cation was made or which does not become a

1 qualified middle-income housing project within
2 the period required by this section or the terms
3 of the allocation or to any project with respect
4 to which an allocation is cancelled by mutual
5 consent of the housing credit agency and the al-
6 location recipient.

7 “(D) STATE MAY PROVIDE FOR DIF-
8 FERENT ALLOCATION.—Rules similar to the
9 rules of section 146(e) (other than paragraph
10 (2)(B) thereof) shall apply for purposes of this
11 paragraph.

12 “(E) POPULATION.—For purposes of this
13 paragraph, population shall be determined in
14 accordance with section 146(j).

15 “(F) COST-OF-LIVING ADJUSTMENT.—

16 “(i) IN GENERAL.—In the case of a
17 calendar year after 2026, the \$1,500,000
18 and \$1.00 amounts in subparagraph (C)
19 shall each be increased by an amount equal
20 to—

21 “(I) such dollar amount, multi-
22 plied by

23 “(II) the cost-of-living adjust-
24 ment determined under section 1(f)(3)
25 for such calendar year by substituting

1 ‘calendar year 2025’ for ‘calendar
2 year 2016’ in subparagraph (A)(ii)
3 thereof.

4 “(ii) ROUNDING.—

5 “(I) In the case of the
6 \$1,500,000 amount, any increase
7 under clause (i) which is not a mul-
8 tiple of \$5,000 shall be rounded to the
9 next lowest multiple of \$5,000.

10 “(II) In the case of the \$1.00
11 amount, any increase under clause (i)
12 which is not a multiple of 5 cents
13 shall be rounded to the next lowest
14 multiple of 5 cents.

15 “(4) PORTION OF STATE CEILING SET-ASIDE
16 FOR CERTAIN PROJECTS INVOLVING QUALIFIED
17 NONPROFIT ORGANIZATIONS.—

18 “(A) IN GENERAL.—Not more than 90
19 percent of the State housing credit ceiling (de-
20 termined without regard to paragraph (7)) for
21 any State for any calendar year shall be allo-
22 cated to projects other than qualified middle-in-
23 come housing projects described in subpara-
24 graph (B).

1 “(B) PROJECTS INVOLVING QUALIFIED
2 NONPROFIT ORGANIZATIONS.—For purposes of
3 subparagraph (A), a qualified middle-income
4 housing project is described in this subpara-
5 graph if a qualified nonprofit organization is to
6 own an interest in the project (directly or
7 through a partnership) and materially partici-
8 pate (within the meaning of section 469(h)) in
9 the development and operation of the project
10 throughout the credit period.

11 “(C) QUALIFIED NONPROFIT ORGANIZA-
12 TION.—For purposes of this paragraph, the
13 term ‘qualified nonprofit organization’ means
14 any organization if—

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

18 “(ii) such organization is determined
19 by the State housing credit agency not to
20 be affiliated with or controlled by a for-
21 profit organization, and

22 “(iii) one of the exempt purposes of
23 such organization includes the fostering of
24 middle-income housing.

1 “(D) TREATMENT OF CERTAIN SUBSIDI-
2 ARIES.—

3 “(i) IN GENERAL.—For purposes of
4 this paragraph, a qualified nonprofit orga-
5 nization shall be treated as satisfying the
6 ownership and material participation test
7 of subparagraph (B) if any qualified cor-
8 poration in which such organization holds
9 stock satisfies such test.

10 “(ii) QUALIFIED CORPORATION.—For
11 purposes of clause (i), the term ‘qualified
12 corporation’ means any corporation if 100
13 percent of the stock of such corporation is
14 held by 1 or more qualified nonprofit orga-
15 nizations at all times during the period
16 such corporation is in existence.

17 “(E) STATE MAY NOT OVERRIDE SET-
18 ASIDE.—Nothing in subparagraph (E) of para-
19 graph (3) shall be construed to permit a State
20 not to comply with subparagraph (A) of this
21 paragraph.

22 “(5) BUILDINGS ELIGIBLE FOR CREDIT ONLY
23 IF MINIMUM LONG-TERM COMMITMENT TO MIDDLE-
24 INCOME HOUSING.—

1 “(A) IN GENERAL.—No credit shall be al-
2 lowed by reason of this section with respect to
3 any building for the taxable year unless an ex-
4 tended middle-income housing commitment is in
5 effect as of the end of such taxable year.

6 “(B) EXTENDED MIDDLE-INCOME HOUS-
7 ING COMMITMENT.—For purposes of this para-
8 graph, the term ‘extended middle-income hous-
9 ing commitment’ means any agreement between
10 the taxpayer and the housing credit agency—

11 “(i) which requires that the applicable
12 fraction (as defined in subsection (c)(1))
13 for the building for each taxable year in
14 the extended use period will not be less
15 than the applicable fraction specified in
16 such agreement and which prohibits the
17 actions described in subclauses (I) and (II)
18 of subparagraph (E)(ii),

19 “(ii) which allows individuals who
20 meet the income limitation applicable to
21 the building under subsection (g) (whether
22 prospective, present, or former occupants
23 of the building) the right to enforce in any
24 State court the requirement and prohibi-
25 tions of clause (i),

1 “(iii) which prohibits the disposition
2 to any person of any portion of the build-
3 ing to which such agreement applies unless
4 all of the building to which such agreement
5 applies is disposed of to such person,

6 “(iv) which prohibits the refusal to
7 lease to a holder of a voucher or certificate
8 of eligibility under section 8 of the United
9 States Housing Act of 1937 because of the
10 status of the prospective tenant as such a
11 holder,

12 “(v) which is binding on all successors
13 of the taxpayer, and

14 “(vi) which, with respect to the prop-
15 erty, is recorded pursuant to State law as
16 a restrictive covenant.

17 “(C) ALLOCATION OF CREDIT MAY NOT
18 EXCEED AMOUNT NECESSARY TO SUPPORT
19 COMMITMENT.—

20 “(i) IN GENERAL.—The housing cred-
21 it dollar amount allocated to any building
22 may not exceed the amount necessary to
23 support the applicable fraction specified in
24 the extended middle-income housing com-
25 mitment for such building, including any

1 increase in such fraction pursuant to the
2 application of subsection (f)(3) if such in-
3 crease is reflected in an amended middle-
4 income housing commitment.

5 “(ii) BUILDINGS FINANCED BY TAX-
6 EXEMPT BONDS.—If paragraph (9) applies
7 to any building the amount of credit al-
8 lowed in any taxable year may not exceed
9 the amount necessary to support the appli-
10 cable fraction specified in the extended
11 low-income housing commitment for such
12 building. Such commitment may be amend-
13 ed to increase such fraction.

14 “(D) EXTENDED USE PERIOD.—For pur-
15 poses of this paragraph, the term ‘extended use
16 period’ means the period—

17 “(i) beginning on the 1st day in the
18 credit period on which such building is
19 part of a qualified middle-income housing
20 project, and

21 “(ii) ending on the later of—

22 “(I) the date specified by such
23 agency in such agreement, or

24 “(II) the date which is 15 years
25 after the close of the credit period.

1 “(E) EXCEPTIONS IF FORECLOSURE OR IF
2 NO BUYER WILLING TO MAINTAIN MIDDLE-IN-
3 COME STATUS.—

4 “(i) IN GENERAL.—The extended use
5 period for any building shall terminate—

6 “(I) on the date the building is
7 acquired by foreclosure (or instrument
8 in lieu of foreclosure) unless the Sec-
9 retary determines that such acquisi-
10 tion is part of an arrangement with
11 the taxpayer a purpose of which is to
12 terminate such period, or

13 “(II) on the last day of the pe-
14 riod specified in subparagraph (I) if
15 the housing credit agency is unable to
16 present during such period a qualified
17 contract for the acquisition of the
18 middle-income portion of the building
19 by any person who will continue to op-
20 erate such portion as a qualified mid-
21 dle-income building.

22 Subclause (II) shall no apply to the extent
23 more stringent requirements are provided
24 in the agreement or in State law.

1 “(ii) EVICTION, ETC., OF EXISTING
2 MIDDLE-INCOME TENANTS NOT PER-
3 MITTED.—The termination of an extended
4 use period under clause (i) shall not be
5 construed to permit before the close of the
6 3-year period following such termination—

7 “(I) the eviction or the termi-
8 nation of tenancy (other than for good
9 cause) of an existing tenant of any
10 middle-income unit, or

11 “(II) any increase in the gross
12 rent with respect to such unit not oth-
13 erwise permitted under this section.

14 “(F) QUALIFIED CONTRACT.—For pur-
15 poses of subparagraph (E), the term ‘qualified
16 contract’ means a bona fide contract to acquire
17 (within a reasonable period after the contract is
18 entered into) the nonmiddle-income portion of
19 the building for fair market value and the mid-
20 dle-income portion of the building for an
21 amount not less than the applicable fraction
22 (specified in the extended middle-income hous-
23 ing commitment) of—

24 “(i) the sum of—

1 “(I) the outstanding indebtedness
 2 secured by, or with respect to, the
 3 building,

4 “(II) the adjusted investor equity
 5 in the building, plus

6 “(III) other capital contributions
 7 not reflected in the amounts described
 8 in subclause (I) or (II), reduced by

9 “(ii) cash distributions from (or avail-
 10 able for distribution from) the project.

11 The Secretary shall prescribe such regulations
 12 as may be necessary or appropriate to carry out
 13 this paragraph, including regulations to prevent
 14 the manipulation of the amount determined
 15 under the preceding sentence.

16 “(G) ADJUSTED INVESTOR EQUITY.—

17 “(i) IN GENERAL.—For purposes of
 18 subparagraph (F), the term ‘adjusted in-
 19 vestor equity’ means, with respect to any
 20 calendar year, the aggregate amount of
 21 cash taxpayers invested with respect to the
 22 project increased by the amount equal to—

23 “(I) such amount, multiplied by

24 “(II) the cost-of-living adjust-
 25 ment for such calendar year, deter-

1 mined under section 1(f)(3) by sub-
2 stituting the base calendar year for
3 ‘calendar year 2016’ in subparagraph
4 (A)(ii) thereof.

5 An amount shall be taken into account as
6 an investment in the project only to the ex-
7 tent there was an obligation to invest such
8 amount as of the beginning of the credit
9 period and to the extent such amount is
10 reflected in the adjusted basis of the
11 project.

12 “(ii) COST-OF-LIVING INCREASES IN
13 EXCESS OF 5 PERCENT NOT TAKEN INTO
14 ACCOUNT.—Under regulations prescribed
15 by the Secretary, if the C–CPI–U for any
16 calendar year (as defined in section
17 1(f)(6)) exceeds the C–CPI–U for the pre-
18 ceding calendar year by more than 5 per-
19 cent, the C–CPI–U for the base calendar
20 year shall be increased such that such ex-
21 cess shall never be taken into account
22 under clause (i). In the case of a base cal-
23 endar year before 2017, the C–CPI–U for
24 such year shall be determined by multi-
25 plying the CPI for such year by the

1 amount determined under section
2 1(f)(3)(B).

3 “(iii) BASE CALENDAR YEAR.—For
4 purposes of this subparagraph, the term
5 ‘base calendar year’ means the calendar
6 year with or within which the 1st taxable
7 year of the credit period ends.

8 “(H) MIDDLE-INCOME PORTION.—For
9 purposes of this paragraph, the middle-income
10 portion of a building is the portion of such
11 building equal to the applicable fraction speci-
12 fied in the extended middle-income housing
13 commitment for the building.

14 “(I) PERIOD FOR FINDING BUYER.—The
15 period referred to in this subparagraph is the 1-
16 year period beginning on the date (after the
17 14th year of the credit period) the taxpayer
18 submits a written request to the housing credit
19 agency to find a person to acquire the tax-
20 payer’s interest in the low-income portion of the
21 building.

22 “(J) EFFECT OF NONCOMPLIANCE.—If,
23 during a taxable year, there is a determination
24 that an extended middle-income housing agree-
25 ment was not in effect as of the beginning of

1 such year, such determination shall not apply to
2 any period before such year and subparagraph
3 (A) shall be applied without regard to such de-
4 termination if the failure is corrected within 1
5 year from the date of the determination.

6 “(K) PROJECTS WHICH CONSIST OF MORE
7 THAN 1 BUILDING.—The application of this
8 paragraph to projects which consist of more
9 than 1 building shall be made under regulations
10 prescribed by the Secretary.

11 “(6) SPECIAL RULES.—

12 “(A) BUILDING MUST BE LOCATED WITH-
13 IN JURISDICTION OF CREDIT AGENCY.—A hous-
14 ing credit agency may allocate its aggregate
15 housing credit dollar amount only to buildings
16 located in the jurisdiction of the governmental
17 unit of which such agency is a part.

18 “(B) AGENCY ALLOCATIONS IN EXCESS OF
19 LIMIT.—If the aggregate housing credit dollar
20 amounts allocated by a housing credit agency
21 for any calendar year exceed the portion of the
22 State housing credit ceiling allocated to such
23 agency for such calendar year, the housing
24 credit dollar amounts so allocated shall be re-
25 duced (to the extent of such excess) for build-

1 ings in the reverse of the order in which the al-
2 locations of such amounts were made.

3 “(C) CREDIT REDUCED IF ALLOCATED
4 CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT
5 WHICH WOULD BE ALLOWABLE WITHOUT RE-
6 GARD TO PLACED IN SERVICE CONVENTION,
7 ETC.—

8 “(i) IN GENERAL.—The amount of
9 the credit determined under this section
10 with respect to any building shall not ex-
11 ceed the clause (ii) percentage of the
12 amount of the credit which would (but for
13 this subparagraph) be determined under
14 this section with respect to such building.

15 “(ii) DETERMINATION OF PERCENT-
16 AGE.—For purposes of clause (i), the
17 clause (ii) percentage with respect to any
18 building is the percentage which—

19 “(I) the housing credit dollar
20 amount allocated to such building,
21 bears to

22 “(II) the credit amount deter-
23 mined in accordance with clause (iii).

24 “(iii) DETERMINATION OF CREDIT
25 AMOUNT.—The credit amount determined

1 in accordance with this clause is the
2 amount of the credit which would (but for
3 this subparagraph) be determined under
4 this section with respect to the building
5 if—

6 “(I) this section were applied
7 without regard to paragraphs (2)(A)
8 and (3)(B) of subsection (f), and

9 “(II) subsection (f)(3)(A) were
10 applied without regard to ‘the per-
11 centage equal to $\frac{2}{3}$ of’.

12 “(D) HOUSING CREDIT AGENCY TO SPECI-
13 FY APPLICABLE PERCENTAGE AND MAXIMUM
14 QUALIFIED BASIS.—In allocating a housing
15 credit dollar amount to any building, the hous-
16 ing credit agency shall specify the applicable
17 percentage and the maximum qualified basis
18 which may be taken into account under this
19 section with respect to such building. The appli-
20 cable percentage and maximum qualified basis
21 so specified shall not exceed the applicable per-
22 centage and qualified basis determined under
23 this section without regard to this subsection.

24 “(7) INCREASE IN STATE CEILING DEDICATED
25 TO CERTAIN RURAL DEVELOPMENT PROJECTS.—

1 “(A) IN GENERAL.—The State housing
2 credit ceiling for any calendar year shall be in-
3 creased by an amount equal to 5 percent of the
4 amount determined under paragraph (3)(C)(ii).

5 “(B) USE OF INCREASED AMOUNT.—

6 “(i) IN GENERAL.—The amount of
7 the increase under subparagraph (A) for
8 any calendar year may only be allocated to
9 buildings located in a rural area.

10 “(ii) RURAL AREA.—For purposes of
11 clause (i), the term ‘rural area’ means any
12 non-metropolitan area, or any rural area
13 as defined by section 520 of the Housing
14 Act of 1949, which is identified by the
15 qualified allocation plan under subsection
16 (l)(1)(B).

17 “(8) OTHER DEFINITIONS.—For purposes of
18 this subsection—

19 “(A) HOUSING CREDIT AGENCY.—The
20 term ‘housing credit agency’ means any agency
21 authorized to carry out this subsection.

22 “(B) POSSESSIONS TREATED AS STATES.—
23 The term ‘State’ includes a possession of the
24 United States.

1 “(9) CREDIT FOR BUILDINGS FINANCED BY
2 TAX-EXEMPT BONDS SUBJECT TO VOLUME CAP NOT
3 TAKEN INTO ACCOUNT.—Rules similar to the rules
4 of subsections (h)(4), (m)(1)(D), and (m)(2)(D) of
5 section 42 shall apply for purposes of this sub-
6 section.

7 “(10) ELECTION TO TRANSFER STATE HOUSING
8 CREDIT CEILING FOR ALLOCATIONS TO LOW-INCOME
9 BUILDINGS.—

10 “(A) IN GENERAL.—If a State housing
11 credit agency makes an election under this
12 paragraph with respect to a calendar year—

13 “(i) the State housing credit ceiling
14 for such calendar year under paragraph
15 (3) (determined before application of para-
16 graph (7)) shall be reduced by the amount
17 specified in such election,

18 “(ii) the amount determined under
19 paragraph (7) for such calendar year shall
20 be reduced by the amount specified in such
21 election, and

22 “(iii) the amount determined under
23 section 42(h)(3)(C)(ii) for such calendar
24 year shall be increased by the sum of the
25 amounts specified in clauses (i) and (ii),

1 except that any amount specified under
2 clause (ii)—

3 “(I) may only be allocated under
4 such section to qualified low-income
5 buildings (as defined in section 42) lo-
6 cated in a rural area (as defined in
7 paragraph (7)), and

8 “(II) shall not be taken into ac-
9 count for purposes of determining the
10 unused housing credit ceiling under
11 the second sentence of section
12 42(h)(3)(C).

13 “(B) TIME AND MANNER FOR MAKING
14 ELECTION.—

15 “(i) IN GENERAL.—An election under
16 this paragraph—

17 “(I) shall be made before the end
18 of the calendar year with respect to
19 which such election applies,

20 “(II) shall be made in such man-
21 ner as specified by the Secretary, and

22 “(III) shall separately specify the
23 amount of reductions to be made
24 under paragraph (3) and paragraph
25 (7).

1 “(ii) FREQUENCY.—A State housing
2 credit agency may make more than one
3 election under this section with respect to
4 any calendar year, and any such election,
5 once made, shall be revocable only if such
6 revocation is made before the end of the
7 calendar year with respect to which such
8 election is made.

9 “(C) LIMITATION.—The aggregate amount
10 specified in elections under this paragraph with
11 respect to any State housing credit agency for
12 calendar year shall not exceed the sum of—

13 “(i) the amount determined under
14 paragraph (3)(C)(ii) for such calendar
15 year, plus

16 “(ii) the amount determined under
17 paragraph (7) for such calendar year.

18 “(i) DEFINITIONS AND SPECIAL RULES.—For pur-
19 poses of this section—

20 “(1) MIDDLE-INCOME UNIT.—

21 “(A) IN GENERAL.—The term ‘middle-in-
22 come unit’ means any unit in a building if—

23 “(i) such unit is rent-restricted (as de-
24 fined in subsection (g)(2)), and

1 “(ii) the individuals occupying such
2 unit meet the income limitation applicable
3 under subsection (g)(1) to the project of
4 which such building is a part.

5 “(B) EXCEPTIONS.—

6 “(i) EXCLUSION OF LOW-INCOME
7 UNITS.—A unit shall not be treated as a
8 middle-income unit if such unit is a low-in-
9 come unit (as defined under section
10 42(i)(3)).

11 “(ii) UNIT MUST BE SUITABLE FOR
12 PERMANENT OCCUPANCY.—

13 “(I) IN GENERAL.—A unit shall
14 not be treated as a middle-income
15 unit unless the unit is suitable for oc-
16 cupancy and used other than on a
17 transient basis.

18 “(II) TRANSITIONAL HOUSING
19 FOR HOMELESS.—For purposes of
20 subclause (I), a unit shall be consid-
21 ered to be used other than on a tran-
22 sient basis if the unit contains sleep-
23 ing accommodations and kitchen and
24 bathroom facilities and is located in a
25 building—

1 “(aa) which is used exclu-
2 sively to facilitate the transition
3 of homeless individuals (within
4 the meaning of section 103 of the
5 Stewart B. McKinney Homeless
6 Assistance Act (42 U.S.C.
7 11302), as in effect on the date
8 of the enactment of this clause)
9 to independent living within 24
10 months, and

11 “(bb) in which a govern-
12 mental entity or qualified non-
13 profit organization (as defined in
14 subsection (h)(4)) provides such
15 individuals with temporary hous-
16 ing and supportive services de-
17 signed to assist such individuals
18 in locating and retaining perma-
19 nent housing.

20 “(III) SUITABILITY FOR OCCU-
21 PANCY.—For purposes of subclause
22 (I), the suitability of a unit for occu-
23 pancy shall be determined under regu-
24 lations prescribed by the Secretary

1 taking into account local health, safe-
2 ty, and building codes.

3 “(IV) SINGLE-ROOM OCCUPANCY
4 UNITS.—For purposes of subclause
5 (I), a single-room occupancy unit shall
6 not be treated as used on a transient
7 basis merely because it is rented on a
8 month-by-month basis.

9 “(C) SPECIAL RULE FOR BUILDINGS HAV-
10 ING 4 OR FEWER UNITS.—In the case of any
11 building which has 4 or fewer residential rental
12 units, no unit in such building shall be treated
13 as a middle-income unit if the units in such
14 building are owned by—

15 “(i) any individual who occupies a res-
16 idential unit in such building, or

17 “(ii) any person who is related (as de-
18 fined in subsection (d)(2)(D)(ii)) to such
19 individual.

20 “(D) CERTAIN STUDENTS NOT TO DIS-
21 QUALIFY UNIT.—A unit shall not fail to be
22 treated as a middle-income unit merely because
23 it is occupied—

24 “(i) by an individual who is—

1 “(I) a student and receiving as-
2 sistance under title IV of the Social
3 Security Act,

4 “(II) a student who was pre-
5 viously under the care and placement
6 responsibility of the State agency re-
7 sponsible for administering a plan
8 under part B or part E of title IV of
9 the Social Security Act, or

10 “(III) enrolled in a job training
11 program receiving assistance under
12 the Job Training Partnership Act or
13 under other similar Federal, State, or
14 local laws, or

15 “(ii) entirely by full-time students if
16 such students are—

17 “(I) single parents and their chil-
18 dren and such parents are not de-
19 pendents (as defined in section 152,
20 determined without regard to sub-
21 sections (b)(1), (b)(2), and (d)(1)(B)
22 thereof) of another individual and
23 such children are not dependents (as
24 so defined) of another individual other
25 than a parent of such children, or

1 “(II) married and file a joint re-
2 turn.

3 “(E) OWNER-OCCUPIED BUILDINGS HAV-
4 ING 4 OR FEWER UNITS ELIGIBLE FOR CREDIT
5 WHERE DEVELOPMENT PLAN.—

6 “(i) IN GENERAL.—Subparagraph (C)
7 shall not apply to the acquisition or reha-
8 bilitation of a building pursuant to a devel-
9 opment plan of action sponsored by a
10 State or local government or a qualified
11 nonprofit organization.

12 “(ii) LIMITATION ON CREDIT.—In the
13 case of a building to which clause (i) ap-
14 plies, the applicable fraction shall not ex-
15 ceed 80 percent of the unit fraction.

16 “(iii) CERTAIN UNRENTED UNITS
17 TREATED AS OWNER-OCCUPIED.—In the
18 case of a building to which clause (i) ap-
19 plies, any unit which is not rented for 90
20 days or more shall be treated as occupied
21 by the owner of the building as of the 1st
22 day it is not rented.

23 “(2) NEW BUILDING.—The term ‘new building’
24 means a building the original use of which begins
25 with the taxpayer.

1 “(3) EXISTING BUILDING.—The term ‘existing
2 building’ means any building which is not a new
3 building.

4 “(4) APPLICATION TO ESTATES AND TRUSTS.—
5 In the case of an estate or trust, the amount of the
6 credit determined under subsection (a) shall be ap-
7 portioned between the estate or trust and the bene-
8 ficiaries on the basis of the income of the estate or
9 trust allocable to each.

10 “(5) IMPACT OF TENANT’S RIGHT OF 1ST RE-
11 FUSAL TO ACQUIRE PROPERTY.—

12 “(A) IN GENERAL.—No Federal income
13 tax benefit shall fail to be allowable to the tax-
14 payer with respect to any qualified middle-in-
15 come building merely by reason of a right of 1st
16 refusal held by the tenants (in cooperative form
17 or otherwise) or resident management corpora-
18 tion of such building or by a qualified nonprofit
19 organization (as defined in subsection
20 (h)(4)(C)) or government agency to purchase
21 the property after the close of the credit period
22 for a price which is not less than the minimum
23 purchase price determined under subparagraph
24 (B).

1 “(B) MINIMUM PURCHASE PRICE.—For
2 purposes of subparagraph (A), the minimum
3 purchase price under this subparagraph is an
4 amount equal to the sum of—

5 “(i) the principal amount of out-
6 standing indebtedness secured by the
7 building (other than indebtedness incurred
8 within the 5-year period ending on the date
9 of the sale to the tenants), and

10 “(ii) all Federal, State, and local
11 taxes attributable to such sale.

12 Except in the case of Federal income taxes,
13 there shall not be taken into account under
14 clause (ii) any additional tax attributable to the
15 application of clause (ii).

16 “(6) IMPACT OF PURCHASE OPTION TO AC-
17 QUIRE PROPERTY.—

18 “(A) IN GENERAL.—No Federal income
19 tax benefit shall fail to be allowable to the tax-
20 payer with respect to any qualified middle-in-
21 come building merely by reason of a purchase
22 option held by the tenants (in cooperative form
23 or otherwise) or resident management corpora-
24 tion of such building or by a qualified nonprofit
25 organization (as defined in subsection

1 (h)(4)(C)) or government agency to purchase
2 the property or all of the partnership interests
3 (other than interests of the person exercising
4 such option or a related party thereto (within
5 the meaning of section 267(b) or 707(b)(1)))
6 relating to the property after the close of the
7 credit period for a price which is not less than
8 the minimum purchase price determined under
9 subparagraph (B).

10 “(B) MINIMUM PURCHASE PRICE.—For
11 purposes of subparagraph (A)—

12 “(i) IN GENERAL.—Except as pro-
13 vided in clause (ii), the minimum purchase
14 price is the amount determined under
15 paragraph (5)(B).

16 “(ii) PARTNERSHIP INTERESTS.—In
17 the case of a purchase of all of the part-
18 nership interests relating to a property, the
19 minimum purchase price under this sub-
20 paragraph shall be an amount not less
21 than the sum of the interests’ shares of the
22 amount which would be determined with
23 respect to the property under paragraph
24 (5)(B) without regard to this sentence.

1 “(C) PROPERTY.—For purposes of sub-
2 paragraph (A), the term ‘property’ may include
3 all or any of the assets held for the develop-
4 ment, operation, or maintenance of a building.

5 “(D) APPLICATION TO S CORPORATIONS
6 AND OTHER PASS-THROUGH ENTITIES.—Except
7 as provided by the Secretary, the rules of this
8 paragraph shall apply to S corporations and
9 other pass-through entities in the same manner
10 as such rules apply to partnerships.

11 “(7) TREATMENT OF RURAL PROJECTS.—For
12 purposes of this section, in the case of any project
13 for residential rental property located in a rural area
14 (as defined in section 520 of the Housing Act of
15 1949), any income limitation measured by reference
16 to area median gross income shall be measured by
17 reference to the greater of area median gross income
18 or national non-metropolitan median income. The
19 preceding sentence shall not apply with respect to
20 any building if paragraph (1) of subsection (h) does
21 not apply by reason of paragraph (9) thereof to any
22 portion of the credit determined under this section
23 with respect to such building.

24 “(8) DETERMINATION OF WHETHER BUILDING
25 IS FEDERALLY SUBSIDIZED.—

1 “(A) IN GENERAL.—Except as otherwise
2 provided in this paragraph, for purposes of this
3 section, a project shall be treated as federally
4 subsidized for any taxable year if, at any time
5 during such taxable year or any prior taxable
6 year, there is or was outstanding any obligation
7 the interest on which is exempt from tax under
8 section 103 the proceeds of which are or were
9 used (directly or indirectly) with respect to such
10 project or the operation thereof.

11 “(B) ELECTION TO REDUCE ELIGIBLE
12 BASIS BY PROCEEDS OF OBLIGATIONS.—A tax-
13 exempt obligation shall not be taken into ac-
14 count under subparagraph (A) if the taxpayer
15 elects to exclude from the eligible basis of the
16 building for purposes of subsection (d) the pro-
17 ceeds of such obligation.

18 “(C) SPECIAL RULE FOR SUBSIDIZED CON-
19 STRUCTION FINANCING.—Subparagraph (A)
20 shall not apply to any tax-exempt obligation
21 used to provide construction financing for any
22 building if—

23 “(i) such obligation (when issued)
24 identified the building for which the pro-

1 ceeds of such obligation would be used,
2 and

3 “(ii) such obligation is redeemed be-
4 fore such building is placed in service.

5 “(9) REDUCTION IN BASIS.—In the case of any
6 building for which a credit is allowable under this
7 section and section 42, the basis of the building shall
8 be reduced by the amount of such credit allowed
9 under subsection (a).

10 “(j) APPLICATION OF AT-RISK RULES.—For pur-
11 poses of this section—

12 “(1) IN GENERAL.—Except as otherwise pro-
13 vided in this subsection, rules similar to the rules of
14 section 49(a)(1) (other than subparagraphs
15 (D)(ii)(II) and (D)(iv)(I) thereof), section 49(a)(2),
16 and section 49(b)(1) shall apply in determining the
17 qualified basis of any building in the same manner
18 as such sections apply in determining the credit base
19 of property.

20 “(2) SPECIAL RULES FOR DETERMINING QUALI-
21 FIED PERSON.—For purposes of paragraph (1)—

22 “(A) IN GENERAL.—If the requirements of
23 subparagraphs (B), (C), and (D) are met with
24 respect to any financing borrowed from a quali-
25 fied nonprofit organization (as defined in sub-

1 section (h)(4)), the determination of whether
2 such financing is qualified commercial financing
3 with respect to any qualified middle-income
4 building shall be made without regard to wheth-
5 er such organization—

6 “(i) is actively and regularly engaged
7 in the business of lending money, or

8 “(ii) is a person described in section
9 49(a)(1)(D)(iv)(II).

10 “(B) FINANCING SECURED BY PROP-
11 ERTY.—The requirements of this subparagraph
12 are met with respect to any financing if such fi-
13 nancing is secured by the qualified middle-in-
14 come building, except that this subparagraph
15 shall not apply in the case of a federally as-
16 sisted building described in section
17 42(d)(6)(C)(i) if—

18 “(i) a security interest in such build-
19 ing is not permitted by a Federal agency
20 holding or insuring the mortgage secured
21 by such building, and

22 “(ii) the proceeds from the financing
23 (if any) are applied to acquire or improve
24 such building.

1 “(C) PORTION OF BUILDING ATTRIB-
2 UTABLE TO FINANCING.—The requirements of
3 this subparagraph are met with respect to any
4 financing for any taxable year in the credit pe-
5 riod if, as of the close of such taxable year, not
6 more than 60 percent of the eligible basis of the
7 qualified middle-income building is attributable
8 to such financing (reduced by the principal and
9 interest of any governmental financing which is
10 part of a wrap-around mortgage involving such
11 financing).

12 “(D) REPAYMENT OF PRINCIPAL AND IN-
13 TEREST.—The requirements of this subpara-
14 graph are met with respect to any financing if
15 such financing is fully repaid on or before the
16 earliest of—

17 “(i) the date on which such financing
18 matures,

19 “(ii) the 90th day after the close of
20 the credit period with respect to the quali-
21 fied middle-income building, or

22 “(iii) the date of its refinancing or the
23 sale of the building to which such financ-
24 ing relates.

1 In the case of a qualified nonprofit organization
2 which is not described in section
3 49(a)(1)(D)(iv)(II) with respect to a building,
4 clause (ii) of this subparagraph shall be applied
5 as if the date described therein were the 90th
6 day after the earlier of the date the building
7 ceases to be a qualified middle-income building
8 or the date which is 15 years after the close of
9 a credit period with respect thereto.

10 “(3) PRESENT VALUE OF FINANCING.—If the
11 rate of interest on any financing described in para-
12 graph (2)(A) is less than the rate which is 1 per-
13 centage point below the applicable Federal rate as of
14 the time such financing is incurred, then the quali-
15 fied basis (to which such financing relates) of the
16 qualified middle-income building shall be the present
17 value of the amount of such financing, using as the
18 discount rate such applicable Federal rate. For pur-
19 poses of the preceding sentence, the rate of interest
20 on any financing shall be determined by treating in-
21 terest to the extent of government subsidies as not
22 payable.

23 “(4) FAILURE TO FULLY REPAY.—

24 “(A) IN GENERAL.—To the extent that the
25 requirements of paragraph (2)(D) are not met,

1 then the taxpayer’s tax under this chapter for
2 the taxable year in which such failure occurs
3 shall be increased by an amount equal to the
4 applicable portion of the credit under this sec-
5 tion with respect to such building, increased by
6 an amount of interest for the period—

7 “(i) beginning with the due date for
8 the filing of the return of tax imposed by
9 chapter 1 for the 1st taxable year for
10 which such credit was allowable, and

11 “(ii) ending with the due date for the
12 taxable year in which such failure occurs,
13 determined by using the underpayment rate and
14 method under section 6621.

15 “(B) APPLICABLE PORTION.—For pur-
16 poses of subparagraph (A), the term ‘applicable
17 portion’ means the aggregate decrease in the
18 credits allowed to a taxpayer under section 38
19 for all prior taxable years which would have re-
20 sulted if the eligible basis of the building were
21 reduced by the amount of financing which does
22 not meet requirements of paragraph (2)(D).

23 “(C) CERTAIN RULES TO APPLY.—Rules
24 similar to the rules of subparagraphs (A) and

1 (D) of section 42(j)(4) shall apply for purposes
2 of this subsection.

3 “(k) CERTIFICATIONS AND OTHER REPORTS TO SEC-
4 RETARY.—

5 “(1) CERTIFICATION WITH RESPECT TO 1ST
6 YEAR OF CREDIT PERIOD.—Following the close of
7 the 1st taxable year in the credit period with respect
8 to any qualified middle-income building, the tax-
9 payer shall certify to the Secretary (at such time
10 and in such form and in such manner as the Sec-
11 retary prescribes)—

12 “(A) the taxable year, and calendar year,
13 in which such building was placed in service,

14 “(B) the adjusted basis and eligible basis
15 of such building as of the close of the 1st year
16 of the credit period,

17 “(C) the maximum applicable percentage
18 and qualified basis permitted to be taken into
19 account by the appropriate housing credit agen-
20 cy under subsection (h), and

21 “(D) such other information as the Sec-
22 retary may require.

23 In the case of a failure to make the certification re-
24 quired by the preceding sentence on the date pre-
25 scribed therefor, unless it is shown that such failure

1 is due to reasonable cause and not to willful neglect,
2 no credit shall be allowable by reason of subsection
3 (a) with respect to such building for any taxable
4 year ending before such certification is made.

5 “(2) ANNUAL REPORTS TO THE SECRETARY.—

6 The Secretary may require taxpayers to submit an
7 information return (at such time and in such form
8 and manner as the Secretary prescribes) for each
9 taxable year setting forth—

10 “(A) the qualified basis for the taxable
11 year of each qualified middle-income building of
12 the taxpayer,

13 “(B) the information described in para-
14 graph (1)(C) for the taxable year, and

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

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

21 “(3) ANNUAL REPORTS FROM HOUSING CREDIT
22 AGENCIES.—Each agency which allocates any hous-
23 ing credit amount to any building for any calendar
24 year shall submit to the Secretary (at such time and

1 in such manner as the Secretary shall prescribe) an
2 annual report specifying—

3 “(A) the amount of housing credit amount
4 allocated to each building for such year,

5 “(B) sufficient information to identify each
6 such building and the taxpayer with respect
7 thereto, and

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

10 The penalty under section 6652(j) shall apply to any
11 failure to submit the report required by the pre-
12 ceding sentence on the date prescribed therefor.

13 “(l) RESPONSIBILITIES OF HOUSING CREDIT AGEN-
14 CIES.—

15 “(1) PLANS FOR ALLOCATION OF CREDIT
16 AMONG PROJECTS.—

17 “(A) IN GENERAL.—Notwithstanding any
18 other provision of this section, the housing cred-
19 it dollar amount with respect to any building
20 shall be zero unless—

21 “(i) such amount was allocated pursu-
22 ant to a qualified allocation plan of the
23 housing credit agency which is approved by
24 the governmental unit (in accordance with

1 rules similar to the rules of section
2 42(m)(1)) of which such agency is a part,

3 “(ii) a comprehensive market study of
4 the housing needs of middle-income indi-
5 viduals in the area to be served by the
6 project is conducted before the credit allo-
7 cation is made and at the developer’s ex-
8 pense by a disinterested party who is ap-
9 proved by such agency, and

10 “(iii) a written explanation is available
11 to the general public for any allocation of
12 a housing credit dollar amount which is
13 not made in accordance with established
14 priorities and selection criteria of the hous-
15 ing credit agency.

16 “(B) QUALIFIED ALLOCATION PLAN.—For
17 purposes of this paragraph, the term ‘qualified
18 allocation plan’ means any plan—

19 “(i) which sets forth selection criteria
20 to be used to determine housing priorities
21 of the housing credit agency which are ap-
22 propriate to local conditions,

23 “(ii) which also gives preference in al-
24 locating housing credit dollar amounts
25 among selected projects to—

1 “(I) projects obligated to serve
2 qualified tenants for the longest peri-
3 ods,

4 “(II) projects in areas with an
5 insufficient supply of housing afford-
6 able to median income households,

7 “(III) projects which target hous-
8 ing to tenants at a range of incomes
9 between 60 and 100 percent of area
10 median gross income, and

11 “(IV) projects located near tran-
12 sit hubs, and

13 “(iii) which provides a procedure that
14 the agency (or an agent or other private
15 contractor of such agency) will follow in
16 monitoring for noncompliance with the
17 provisions of this section and in notifying
18 the Internal Revenue Service of such non-
19 compliance which such agency becomes
20 aware of and in monitoring for noncompli-
21 ance with habitability standards through
22 regular site visits.

23 “(C) CERTAIN SELECTION CRITERIA MUST
24 BE USED.—The selection criteria set forth in a
25 qualified allocation plan must include—

1 “(i) project location,

2 “(ii) housing needs characteristics,

3 “(iii) project characteristics, including
4 whether the project includes the use of ex-
5 isting housing as part of a community revi-
6 talization plan,

7 “(iv) sponsor characteristics,

8 “(v) tenant populations with special
9 housing needs,

10 “(vi) tenant populations of individuals
11 with children,

12 “(vii) projects intended for eventual
13 tenant ownership,

14 “(viii) the energy efficiency of the
15 project, and

16 “(ix) the historic nature of the
17 project.

18 “(D) CERTAIN SELECTION CRITERIA PRO-
19 HIBITED.—The selection criteria set forth in a
20 qualified allocation plan shall not include a re-
21 quirement of local approval or local contribu-
22 tions, either as a threshold qualification re-
23 quirement or as part of a point system to be
24 considered for allocations of housing credit dol-
25 lar amount.

1 “(2) CREDIT ALLOCATED TO BUILDING NOT TO
2 EXCEED AMOUNT NECESSARY TO ASSURE PROJECT
3 FEASIBILITY.—

4 “(A) IN GENERAL.—The housing credit
5 dollar amount allocated to a project shall not
6 exceed the amount the housing credit agency
7 determines is necessary for the financial feasi-
8 bility of the project and its viability as a quali-
9 fied middle-income housing project throughout
10 the credit period.

11 “(B) AGENCY EVALUATION.—In making
12 the determination under subparagraph (A), the
13 housing credit agency shall consider—

14 “(i) the sources and uses of funds and
15 the total financing planned for the project,

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

18 “(iii) the percentage of the housing
19 credit dollar amount used for project costs
20 other than the cost of intermediaries, and

21 “(iv) the reasonableness of the devel-
22 opmental and operational costs of the
23 project.

24 Clause (iii) shall not be applied so as to impede
25 the development of projects in hard-to-develop

1 areas. Such a determination shall not be con-
2 strued to be a representation or warranty as to
3 the feasibility or viability of the project.

4 “(C) DETERMINATION MADE WHEN CRED-
5 IT AMOUNT APPLIED FOR AND WHEN BUILDING
6 PLACED IN SERVICE.—

7 “(i) IN GENERAL.—A determination
8 under subparagraph (A) shall be made as
9 of each of the following times:

10 “(I) The application for the
11 housing credit dollar amount.

12 “(II) The allocation of the hous-
13 ing credit dollar amount.

14 “(III) The date the building is
15 placed in service.

16 “(ii) CERTIFICATION AS TO AMOUNT
17 OF OTHER SUBSIDIES.—Prior to each de-
18 termination under clause (i), the taxpayer
19 shall certify to the housing credit agency
20 the full extent of all Federal, State, and
21 local subsidies which apply (or which the
22 taxpayer expects to apply) with respect to
23 the building.

1 “(m) REGULATIONS.—The Secretary shall prescribe
2 such regulations as may be necessary or appropriate to
3 carry out the purposes of this section, including—

4 “(1) regulations dealing with—

5 “(A) projects which include more than 1
6 building or only a portion of a building, or

7 “(B) buildings which are placed in service
8 in portions,

9 “(2) regulations providing for the application of
10 this section to short taxable years,

11 “(3) regulations preventing the avoidance of the
12 rules of this section,

13 “(4) regulations providing the opportunity for
14 housing credit agencies to correct administrative er-
15 rors and omissions with respect to allocations and
16 record keeping within a reasonable period after their
17 discovery, taking into account the availability of reg-
18 ulations and other administrative guidance from the
19 Secretary, and

20 “(5) in consultation with the Secretary of
21 Housing and Urban Development, regulations or
22 guidance to promote uniform definitions and to
23 streamline requirements with respect to qualified
24 middle-income buildings which receive funding from
25 programs administrated by the Department of Hous-

1 ing and Urban Development, including programs au-
2 thorized by Native American Housing Assistance
3 and Self-Determination Act of 1996.”.

4 (b) TREATMENT AS PART OF GENERAL BUSINESS
5 CREDIT.—Section 38(b) of the Internal Revenue Code of
6 1986 is amended by striking “plus” at the end of para-
7 graph (40), by striking the period at the end of paragraph
8 (41) and inserting “, plus”, and by adding at the end the
9 following new paragraph:

10 “(42) the middle-income housing credit deter-
11 mined under section 42A(a).”.

12 (c) REDUCTION IN BASIS.—Section 1016(a) of the
13 Internal Revenue Code of 1986 is amended—

14 (1) by striking “and” at the end of paragraph
15 (37),

16 (2) by redesignating paragraph (38) as para-
17 graph (39), and

18 (3) by inserting after paragraph (37) the fol-
19 lowing new paragraph:

20 “(38) to the extent provided in section
21 42A(i)(9), and”.

22 (d) TREATMENT UNDER BASE EROSION MINIMUM
23 TAX.—Section 59A(b)(3) of the Internal Revenue Code of
24 1986 is amended by redesignating subparagraphs (B) and
25 (C) as subparagraphs (C) and (D), respectively, and by

1 inserting after subparagraph (A) the following new sub-
2 paragraph:

3 “(B) the middle-income housing credit de-
4 termined under section 42A(a),”.

5 (e) CONFORMING AMENDMENTS RELATING TO LOW-
6 INCOME HOUSING TAX CREDIT.—Section 42(n) of the In-
7 ternal Revenue Code of 1986 is amended—

8 (1) by striking “including regulations—” in the
9 matter preceding paragraph (1) and inserting “in-
10 cluding—”,

11 (2) by inserting “regulations” before “dealing
12 with” in paragraph (1),

13 (3) by inserting “regulations” before “pro-
14 viding” in paragraphs (2) and (4),

15 (4) by inserting “regulations” before “pre-
16 venting” in paragraph (3),

17 (5) by striking “and” at the end of paragraph
18 (3),

19 (6) by striking the period at the end of para-
20 graph (4) and inserting “, and”, and

21 (7) by adding at the end the following new
22 paragraph:

23 “(5) in consultation with the Secretary of
24 Housing and Urban Development, regulations or
25 guidance to promote uniform definitions and to

1 streamline requirements with respect to qualified
2 low-income buildings which receive funding from
3 programs administrated by the Department of Hous-
4 ing and Urban Development, including programs au-
5 thorized by Native American Housing Assistance
6 and Self-Determination Act of 1996.”.

7 (f) CONFORMING AMENDMENTS.—

8 (1) Section 45L(e) of the Internal Revenue
9 Code of 1986 is amended by inserting “or 42A”
10 after “42”.

11 (2) Section 50(c)(3)(C) of such Code is amend-
12 ed by inserting “or 42A” after “42”.

13 (3) Section 55(c)(1) of such Code is amended
14 by inserting “42A(j),” before “45(e)(11)(C)”.

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

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

“Sec. 42A. Middle-income housing credit.”.

22 (g) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to buildings placed in service after
24 December 31, 2025, in taxable years ending after such
25 date.

1 **SEC. 213. NEIGHBORHOOD HOMES CREDIT.**

2 (a) FINDINGS; SENSE OF CONGRESS.—

3 (1) FINDINGS.—Congress finds the following:

4 (A) Experts have determined that it could
5 take nearly a decade to address the housing
6 shortage in the United States, in large part due
7 to increasing housing prices and insufficient
8 supply.

9 (B) The housing supply shortage dis-
10 proportionately impacts low-income and dis-
11 tressed communities.

12 (C) Homeownership is a primary source of
13 household wealth and neighborhood stability.
14 Many distressed communities have low rates of
15 homeownership and lack quality, affordable
16 starter homes, while many individuals who own
17 their homes have difficulty securing financing
18 for home repairs and improvements.

19 (D) Housing construction in distressed
20 communities is prevented by the value gap, the
21 difference between the cost to develop a home
22 and the sale price of the home.

23 (E) The Neighborhood Homes Investment
24 Act can close the financing gaps to increase
25 housing development and rehabilitation in dis-
26 tressed communities.

1 (2) SENSE OF CONGRESS.—It is the sense of
2 Congress that the neighborhood homes credit (as
3 added under this section) should be an activity ad-
4 ministered in a manner which—

5 (A) revitalizes distressed communities in
6 rural and urban geographies;

7 (B) minimizes application burdens on
8 small businesses applying for such credit; and

9 (C) is consistent with the Fair Housing
10 Act of 1968 (42 U.S.C. 3601 et seq.).

11 (b) ALLOWANCE OF CREDIT.—Subpart D of part IV
12 of subchapter A of chapter 1 of the Internal Revenue Code
13 of 1986, as amended by section 212, is amended by insert-
14 ing after section 42A the following new section:

15 **“SEC. 42B. NEIGHBORHOOD HOMES CREDIT.**

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

21 “(1) an amount equal to—

22 “(A) the excess (if any) of—

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

1 “(ii) the sale price of such qualified
2 residence (reduced by any reasonable ex-
3 penses paid or incurred by the taxpayer in
4 connection with such sale), or

5 “(B) if the neighborhood homes credit
6 agency determines it is necessary to ensure fi-
7 nancial feasibility, an amount not to exceed 120
8 percent of the amount under subparagraph (A),
9 “(2) 40 percent of the eligible development
10 costs paid or incurred by the taxpayer with respect
11 to such qualified residence, or

12 “(3) 32 percent of the national median sale
13 price for new homes (as determined pursuant to the
14 most recent census data available as of the date on
15 which the neighborhood homes credit agency makes
16 an allocation for the qualified project).

17 “(b) DEVELOPMENT COSTS.—For purposes of this
18 section—

19 “(1) REASONABLE DEVELOPMENT COSTS.—

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

1 homes credit agency determines that such
2 amounts meet the standards specified pursuant
3 to subsection (f)(1)(D) (as of the date on which
4 construction or substantial rehabilitation is sub-
5 stantially complete, as determined by such
6 agency) and are necessary to ensure the finan-
7 cial feasibility of such qualified residence.

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

12 “(i) the sources and uses of funds and
13 the total financing,

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

17 “(iii) the reasonableness of the devel-
18 opmental costs and fees.

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

1 to any amount paid or incurred for the acquisition
2 of buildings and land.

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

7 “(A) \$25,000, or

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

12 “(4) CONSTRUCTION AND REHABILITATION
13 ONLY AFTER ALLOCATION TAKEN INTO ACCOUNT.—

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

23 “(B) LAND AND BUILDING ACQUISITION
24 COSTS.—Amounts paid or incurred for the ac-
25 quisition of buildings or land shall be included

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

13 “(c) QUALIFIED RESIDENCE.—For purposes of this
14 section—

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

17 “(A) is real property (constructed on-site
18 or manufactured off-site) affixed on a perma-
19 nent foundation,

20 “(B) is—

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

23 “(ii) a condominium unit, or

1 “(iii) a house or an apartment owned
2 by a cooperative housing corporation (as
3 defined in section 216(b)),

4 “(C) is part of a qualified project with re-
5 spect to which the neighborhood homes credit
6 agency has made an allocation under subsection
7 (e), and

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

10 “(2) QUALIFIED CENSUS TRACT.—

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

13 “(i) which—

14 “(I) has a median family income
15 which does not exceed 80 percent of
16 the median family income for the ap-
17 plicable area,

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

21 “(III) has a median value for
22 owner-occupied homes that does not
23 exceed the median value for owner-oc-
24 cupied homes in the applicable area,

25 “(ii) which—

1 “(I) is located in a city which has
2 a population of not less than 50,000
3 and such city has a poverty rate that
4 is not less than 150 percent of the
5 poverty rate of the applicable area,

6 “(II) has a median family income
7 which does not exceed the median
8 family income for the applicable area,
9 and

10 “(III) has a median value for
11 owner-occupied homes that does not
12 exceed 80 percent of the median value
13 for owner-occupied homes in the ap-
14 plicable area,

15 “(iii) which—

16 “(I) is located in a nonmetropoli-
17 tan county,

18 “(II) has a median family income
19 which does not exceed the median
20 family income for the applicable area,
21 and

22 “(III) has been designated by a
23 neighborhood homes credit agency
24 under this clause,

1 “(iv) which is not otherwise a quali-
2 fied census tract and is located in a dis-
3 aster area (as defined in section
4 7508A(d)(3)), but only with respect to
5 credits allocated in any period during
6 which the President of the United States
7 has determined that such area warrants in-
8 dividual or individual and public assistance
9 by the Federal Government under the Rob-
10 ert T. Stafford Disaster Relief and Emer-
11 gency Assistance Act, or

12 “(v) which is not otherwise a qualified
13 census tract and is identified by the neigh-
14 borhood homes credit agency, through
15 methodologies detailed in the qualified allo-
16 cation plan, as having a shortage of afford-
17 able owner-occupied homes.

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

20 “(i) in the case of a metropolitan cen-
21 sus tract, the metropolitan area in which
22 such census tract is located, and

23 “(ii) in the case of a census tract
24 other than a census tract described in
25 clause (i), the State.

1 “(d) AFFORDABLE SALE.—For purposes of this sec-
2 tion—

3 “(1) IN GENERAL.—The term ‘affordable sale’
4 means a sale to a qualified homeowner of a qualified
5 residence that the neighborhood homes credit agency
6 certifies as meeting the standards promulgated
7 under subsection (f)(1)(D) for a price that does not
8 exceed—

9 “(A) in the case of any qualified residence
10 not described in subparagraph (B), (C), or (D),
11 the amount equal to the product of 4 multiplied
12 by the median family income for the applicable
13 area (as determined pursuant to the most re-
14 cent census data available as of the date of the
15 contract for such sale),

16 “(B) in the case of a house comprised of
17 2 residential units, 125 percent of the amount
18 described in subparagraph (A),

19 “(C) in the case of a house comprised of
20 3 residential units, 150 percent of the amount
21 described in subparagraph (A), or

22 “(D) in the case of a house comprised of
23 4 residential units, 175 percent of the amount
24 described in subparagraph (A).

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

4 “(A) who owns and uses such qualified res-
5 idence as the principal residence of such indi-
6 vidual, and

7 “(B) whose family income (determined as
8 of the date that a binding contract for the af-
9 fordable sale of such residence is entered into)
10 is 140 percent or less of the median family in-
11 come for the applicable area in which the quali-
12 fied residence is located.

13 “(e) CREDIT CEILING AND ALLOCATIONS.—

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

16 “(A) IN GENERAL.—The credit allowed
17 under subsection (a) to any taxpayer for any
18 taxable year with respect to one or more quali-
19 fied residences which are part of the same
20 qualified project shall not exceed the excess (if
21 any) of—

22 “(i) the amount allocated by the
23 neighborhood homes credit agency under
24 this paragraph to such taxpayer with re-
25 spect to such qualified project, over

1 “(ii) the aggregate amount of credit
2 allowed under subsection (a) to such tax-
3 payer with respect to qualified residences
4 which are a part of such qualified project
5 for all prior taxable years.

6 “(B) DEADLINE FOR COMPLETION.—No
7 credit shall be allowed under subsection (a)
8 with respect to any qualified residence unless
9 the affordable sale of such residence is during
10 the 5-year period beginning on the date of the
11 allocation to the qualified project of which such
12 residence is a part (or, in the case of a qualified
13 residence to which subsection (i) applies, the re-
14 habilitation of such residence is completed dur-
15 ing such 5-year period).

16 “(2) LIMITATIONS ON ALLOCATIONS TO QUALI-
17 FIED PROJECTS.—

18 “(A) ALLOCATIONS LIMITED BY STATE
19 NEIGHBORHOOD HOMES CREDIT CEILING.—The
20 aggregate amount allocated to taxpayers with
21 respect to qualified projects by the neighbor-
22 hood homes credit agency of any State for any
23 calendar year shall not exceed the State neigh-
24 borhood homes credit amount of such State for
25 such calendar year.

1 “(B) SET-ASIDE FOR CERTAIN PROJECTS
2 INVOLVING QUALIFIED NONPROFIT ORGANIZA-
3 TIONS.—Rules similar to the rules of section
4 42(h)(5) shall apply for purposes of this sec-
5 tion.

6 “(3) DETERMINATION OF STATE NEIGHBOR-
7 HOOD HOMES CREDIT CEILING.—

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

11 “(i) the greater of—

12 “(I) the product of \$0, multiplied
13 by the State population (determined
14 in accordance with section 146(j)), or

15 “(II) \$12,000,000, and

16 “(ii) any amount previously allocated
17 to any taxpayer with respect to any quali-
18 fied project by the neighborhood homes
19 credit agency of such State which can no
20 longer be allocated to any qualified resi-
21 dence because the 5-year period described
22 in paragraph (1)(B) expires during such
23 calendar year.

24 “(B) 3-YEAR CARRYFORWARD OF UNUSED
25 LIMITATION.—The State neighborhood homes

1 credit amount for a State for a calendar year
2 shall be increased by the excess (if any) of the
3 State neighborhood homes credit amount for
4 such State for the preceding calendar year over
5 the aggregate amount allocated by the neigh-
6 borhood homes credit agency of such State dur-
7 ing such preceding calendar year. Any amount
8 carried forward under the preceding sentence
9 shall not be carried past the third calendar year
10 after the calendar year in which such credit
11 amount originally arose, determined on a first-
12 in, first-out basis.

13 “(f) RESPONSIBILITIES OF NEIGHBORHOOD HOMES
14 CREDIT AGENCIES.—

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

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

22 “(B) subject to paragraph (2), allocates
23 not more than 20 percent of amounts allocated
24 in the previous year (or for allocations made in
25 the first allocation year under this section, not

1 more than 20 percent of the neighborhood
2 homes credit ceiling for such year) to projects
3 with respect to qualified residences which—

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

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

10 “(C) subject to paragraph (2), in addition
11 to any allocation described in subparagraph
12 (B), allocates not more than 20 percent of
13 amounts allocated in the previous year (or for
14 allocations made in the first allocation year
15 under this section, not more than 20 percent of
16 the neighborhood homes credit ceiling for such
17 year) to projects with respect to qualified resi-
18 dences which are located in any census tract de-
19 scribed in subsection (c)(2)(A)(v), except that,
20 with respect to any qualified residence located
21 within such census tract which is sold to a
22 qualified homeowner, subsection (d)(2) shall be
23 applied by substituting ‘120 percent’ for ‘140
24 percent’,

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

4 “(E) promulgates standards with respect
5 to construction quality which are consistent
6 with building codes or other standards required
7 by the State or local jurisdiction in which the
8 project is located,

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

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

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

4 “(ii) with respect to each qualified
5 residence completed in the preceding cal-
6 endar year—

7 “(I) the census tract in which
8 such qualified residence is located,

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

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

19 “(IV) the eligible development
20 costs of such qualified residence,

21 “(V) the amount of the neighbor-
22 hood homes credit with respect to
23 such qualified residence,

24 “(VI) the sales price of such
25 qualified residence, if applicable, and

1 “(VII) the family income of the
2 qualified homeowner (expressed as a
3 percentage of the applicable area me-
4 dian family income for the location of
5 the qualified residence), and

6 “(iii) such other information as the
7 Secretary may require, and

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

14 “(I) provides educational outreach on ap-
15 plication and compliance requirements, includ-
16 ing for small residential builders and remodel-
17 ers.

18 “(2) ALTERNATIVE FOR CERTAIN STATES.—

19 “(A) IN GENERAL.—In the case of any
20 State which, for a calendar year, is an applica-
21 ble State (as defined in subparagraph (B)), in
22 lieu of the requirements under subparagraphs
23 (B) and (C) of paragraph (1), the neighborhood
24 homes credit agency of the State may elect to
25 allocate not more than 40 percent of amounts

1 allocated in the previous year (or for allocations
2 made in the first allocation year under this sec-
3 tion, not more than 40 percent of the neighbor-
4 hood homes credit ceiling for such year) to
5 projects with respect to qualified residences
6 which are described in either subparagraph (B)
7 or (C) of paragraph (1).

8 “(B) APPLICABLE STATE.—For purposes
9 of this paragraph, the term ‘applicable State’
10 means a State which, for purposes of the deter-
11 mining the amount under subsection
12 (e)(3)(A)(i) for the calendar year with respect
13 to such State, received the amount described in
14 subclause (II) of such subsection.

15 “(3) QUALIFIED ALLOCATION PLAN.—For pur-
16 poses of this subsection, the term ‘qualified alloca-
17 tion plan’ means any plan which—

18 “(A) sets forth the selection criteria to be
19 used to prioritize qualified projects for alloca-
20 tions of State neighborhood homes credit dollar
21 amounts, including—

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

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

5 “(iii) the capability and prior perform-
6 ance of the project sponsor, and

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

9 “(B) has been made available for public
10 comment, and

11 “(C) as determined by the neighborhood
12 homes credit agency, is likely to result in the
13 selection of highly qualified applicants while
14 also minimizing, to the extent practicable, appli-
15 cation costs and barriers to entry for small resi-
16 dential builders and re-modelers, and

17 “(D) provides a procedure that the neigh-
18 borhood homes credit agency (or any agent or
19 contractor of such agency) shall follow for pur-
20 poses of—

21 “(i) identifying noncompliance with
22 any provisions of this section, and

23 “(ii) notifying the Internal Revenue
24 Service of any such noncompliance of
25 which the agency becomes aware.

1 “(g) REPAYMENT.—

2 “(1) IN GENERAL.—

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

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

14 “(2) REPAYMENT AMOUNT.—For purposes of
15 paragraph (1)(A)—

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

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

1 “(3) LIEN FOR REPAYMENT AMOUNT.—A
2 neighborhood homes credit agency receiving an allo-
3 cation under this section shall place a lien on each
4 qualified residence that is built or rehabilitated as
5 part of a qualified project for an amount such agen-
6 cy deems necessary to ensure potential repayment
7 pursuant to paragraph (1)(A).

8 “(4) WAIVER.—

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

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

17 “(i) divorce,

18 “(ii) disability,

19 “(iii) illness, or

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

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

24 For purposes of this section—

1 “(1) NEIGHBORHOOD HOMES CREDIT AGEN-
2 CY.—The term ‘neighborhood homes credit agency’
3 means the agency designated by the governor of a
4 State as the neighborhood homes credit agency of
5 the State.

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

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

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

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

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

erative 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 sec-

tion 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.

1 “(ii) In the case of the dollar amount
2 in subsection (e)(3)(A)(i)(I), any increase
3 under paragraph (1) which is not a mul-
4 tiple of \$0.01 shall be rounded to the near-
5 est multiple of \$0.01.

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

11 “(8) REPORT.—

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

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

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

1 “(A) on a combined basis, clauses (i) and
2 (ii) of subsection (c)(2)(A),
3 “(B) clause (iii) of such subsection, and
4 “(C) subsection (i)(5)(A).

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

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

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

1 “(2) ALTERNATIVE CREDIT DETERMINATION.—

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

11 “(A) the excess (if any) of—

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

20 “(ii) any amounts paid to such tax-
21 payer for such rehabilitation,

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

24 “(C) \$50,000.

25 “(3) QUALIFIED REHABILITATION.—

1 “(A) IN GENERAL.—For purposes of this
2 subsection, the term ‘qualified rehabilitation’
3 means a rehabilitation or reconstruction per-
4 formed pursuant to a written binding contract
5 between the taxpayer and the specified home-
6 owner if the amount paid or incurred by the
7 taxpayer in the performance of such rehabilita-
8 tion or reconstruction exceeds the dollar
9 amount in effect under subsection (b)(3)(A).

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

15 “(4) SPECIFIED HOMEOWNER.—For purposes
16 of this subsection, the term ‘specified homeowner’
17 means, with respect to a qualified residence, an indi-
18 vidual—

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

24 “(B) whose family income (determined as
25 of such date) does not exceed the median family

1 income for the applicable area (with respect to
2 the census tract in which the qualified residence
3 is located).

4 “(5) ADDITIONAL CENSUS TRACTS IN WHICH
5 OWNER-OCCUPIED RESIDENCES MAY BE LOCATED.—

6 In the case of any qualified residence described in
7 paragraph (1), the term ‘qualified census tract’ in-
8 cludes any census tract which—

9 “(A) meets the requirements of subsection
10 (c)(2)(A)(i) without regard to subclause (III)
11 thereof, and

12 “(B) is designated by the neighborhood
13 homes credit agency for purposes of this para-
14 graph.

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

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

1 “(8) PYRRHOTITE REMEDIATION.—The require-
2 ment of subsection (c)(1)(D) shall not apply to a
3 qualified rehabilitation under this subsection of a
4 qualified residence that is documented by an engi-
5 neer’s report and core testing to have a foundation
6 that is adversely impacted by pyrrhotite or other
7 iron sulfide minerals.

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

13 (c) CREDIT ALLOWED AS PART OF GENERAL BUSI-
14 NESS CREDIT.—Section 38(b) of the Internal Revenue
15 Code of 1986, as amended by section 212, is amended by
16 striking “plus” at the end of paragraph (41), by striking
17 the period at the end of paragraph (42) and inserting “,
18 plus”, and by adding at the end the following new para-
19 graph:

20 “(43) the neighborhood homes credit deter-
21 mined under section 42B(a).”.

22 (d) CREDIT ALLOWED AGAINST ALTERNATIVE MIN-
23 IMUM TAX.—Section 38(c)(4)(B) of the Internal Revenue
24 Code of 1986 is amended by redesignating clauses (iv)

1 through (xii) as clauses (v) through (xiii), respectively, and
2 by inserting after clause (iii) the following new clause:

3 “(iv) the credit determined under sec-
4 tion 42B,”.

5 (e) EXCLUSION FROM GROSS INCOME.—Part III of
6 subchapter B of chapter 1 of the Internal Revenue Code
7 of 1986 is amended by inserting before section 140 the
8 following new section:

9 **“SEC. 139M. STATE ENERGY SUBSIDIES FOR QUALIFIED**
10 **RESIDENCES.**

11 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
12 come shall not include the value of any subsidy provided
13 to a taxpayer (whether directly or indirectly) by any State
14 energy office (as defined in section 124(a) of the Energy
15 Policy Act of 2005 (42 U.S.C. 15821(a))) for purposes
16 of any energy improvements made to a qualified residence
17 (as defined in section 42B(c)(1)).”.

18 (f) CONFORMING AMENDMENTS.—

19 (1) Subsections (i)(3)(C), (i)(6)(B)(i), and
20 (k)(1) of section 469 of the Internal Revenue Code
21 of 1986, as amended by section 212, are each
22 amended by striking “or 42A” and inserting “, 42A,
23 or 42B”.

24 (2) The table of sections for subpart D of part
25 IV of subchapter A of chapter 1 of such Code, as

1 amended by section 212, is amended by inserting
 2 after the item relating to section 42A the following
 3 new item:

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

4 (3) The table of sections for part III of sub-
 5 chapter B of chapter 1 of such Code is amended by
 6 inserting before the item relating to section 140 the
 7 following new item:

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

8 (g) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to taxable years beginning after
 10 December 31, 2026.

11 **SEC. 214. FIRST-TIME HOMEBUYER REFUNDABLE CREDIT.**

12 (a) IN GENERAL.—Section 36 of the Internal Rev-
 13 enue Code of 1986 is amended to read as follows:

14 **“SEC. 36. FIRST-TIME HOMEBUYER REFUNDABLE CREDIT.**

15 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
 16 dividual who is a first-time homebuyer of a principal resi-
 17 dence in the United States during a taxable year, there
 18 shall be allowed as a credit against the tax imposed by
 19 this subtitle for such taxable year an amount equal to 20
 20 percent of the purchase price of the residence.

21 “(b) LIMITATIONS; SPECIAL RULES BASED ON MAR-
 22 ITAL AND FILING STATUS.—

23 “(1) DOLLAR LIMITATION.—The credit allowed
 24 under subsection (a) shall not exceed \$15,000.

1 “(2) LIMITATION BASED ON PURCHASE
2 PRICE.—The amount allowable as a credit under
3 subsection (a) (determined without regard to this
4 paragraph and paragraph (3), and after the applica-
5 tion of paragraph (1)) for the taxable year shall be
6 reduced (but not below zero) by the amount which
7 bears the same ratio to the amount which is so al-
8 lowable as—

9 “(A) the excess (if any) of—

10 “(i) the purchase price of the resi-
11 dence, over

12 “(ii) an amount equal to 60 percent of
13 the conforming loan limit applicable to the
14 residence, bears to

15 “(B) \$100,000.

16 For purposes of the preceding sentence, the term
17 ‘conforming loan limit’ with respect to any residence
18 means the applicable limitation governing the max-
19 imum original principal obligation for a mortgage se-
20 cured by a residence of the same type, as determined
21 and adjusted annually under section 302(b)(2) of
22 the Federal National Mortgage Association Charter
23 Act and section 305(a)(2) of the Federal Home
24 Loan Mortgage Corporation Act.

1 “(3) LIMITATION BASED ON MODIFIED AD-
2 JUSTED GROSS INCOME.—

3 “(A) IN GENERAL.—The amount allowable
4 as a credit under subsection (a) (determined
5 without regard to this paragraph and after the
6 application of paragraphs (1) and (2)) for the
7 taxable year shall be reduced (but not below
8 zero) by the amount which bears the same ratio
9 to the amount which is so allowable as—

10 “(i) the excess (if any) of—

11 “(I) the taxpayer’s modified ad-
12 justed gross income for the applicable
13 taxable year, over

14 “(II) the applicable threshold,
15 bears to

16 “(ii) \$50,000.

17 “(B) MODIFIED ADJUSTED GROSS IN-
18 COME.—For purposes of subparagraph (A), the
19 term ‘modified adjusted gross income’ with re-
20 spect to any taxable year means the adjusted
21 gross income of the taxpayer for such taxable
22 year increased by any amount excluded from
23 gross income under section 911, 931, or 933
24 for such taxable year.

1 “(C) APPLICABLE THRESHOLD.—For pur-
2 poses of subparagraph (A), the applicable
3 threshold is—

4 “(i) except as provided in clause (ii),
5 \$100,000, and

6 “(ii) an amount equal to 200 percent
7 of the amount in effect under clause (i), in
8 the case of a head of household (as defined
9 in section 2(b)) or a joint return.

10 “(D) APPLICABLE TAXABLE YEAR.—For
11 purposes of subparagraph (A), the term ‘appli-
12 cable taxable year’ means—

13 “(i) the taxable year with respect to
14 which the credit allowable under subsection
15 (a) is being claimed, or

16 “(ii) for purposes of the application of
17 subsection (g)(3), the most recent taxable
18 year for which a return of tax has been
19 filed by the taxpayer, provided that such
20 taxable year is either—

21 “(I) the taxable year preceding
22 the taxable year described in clause
23 (i), or

1 “(II) the taxable year preceding
2 the taxable year described in sub-
3 clause (I).

4 “(4) ADDITIONAL LIMITATIONS.—No credit
5 shall be allowed under subsection (a) with respect to
6 the purchase of any residence for a taxable year—

7 “(A) if the taxpayer is a nonresident alien,
8 or

9 “(B) if—

10 “(i) the taxpayer has not attained age
11 18 as of the date of such purchase, or

12 “(ii) a deduction under section 151
13 with respect to the taxpayer is allowable to
14 another taxpayer for the taxable year.

15 In the case of a taxpayer who is married, the tax-
16 payer shall be treated as meeting the age require-
17 ment of subparagraph (B)(i) if the taxpayer or the
18 taxpayer’s spouse meets such age requirement.

19 “(5) MULTIPLE PURCHASERS.—If 2 or more in-
20 dividuals who are not married purchase a principal
21 residence—

22 “(A) the amount of the credit under sub-
23 section (a) shall be allocated among such indi-
24 viduals in such manner as the Secretary may

1 prescribe by taking into account the require-
2 ments of paragraphs (2) and (3),

3 “(B) for purposes of subparagraph (A),
4 with respect to the requirements of paragraph
5 (3)—

6 “(i) such paragraph shall be applied
7 by aggregating the modified adjusted gross
8 income of all such individuals, and

9 “(ii) the applicable threshold shall be
10 the amount described in subparagraph
11 (C)(ii) of such paragraph,

12 “(C) the total amount of the credits al-
13 lowed to all such individuals shall not exceed
14 the limitation under paragraph (1) (as modified
15 by paragraph (7)), and

16 “(D) with respect to each such individual,
17 no credit shall be allowed under subsection (a)
18 unless such individual includes the taxpayer
19 identification numbers for all such individuals
20 on their return of tax for the taxable year.

21 “(6) MARRIED COUPLES MUST FILE JOINT RE-
22 TURN.—If an individual is married at the close of
23 the taxable year, the credit shall be allowed under
24 subsection (a) only if the individual and the individ-
25 ual’s spouse file a joint return for the taxable year.

1 “(7) ADJUSTMENT FOR INFLATION.—In the
2 case of any taxable year beginning after December
3 31, 2027, each of the dollar amounts in paragraphs
4 (1) and (3)(C)(i) shall be increased by an amount
5 equal to—

6 “(A) such dollar amount, multiplied by

7 “(B) the cost-of-living adjustment deter-
8 mined under section 1(f)(3) for the calendar
9 year in which the taxable year begins, deter-
10 mined by substituting ‘calendar year 2026’ for
11 ‘calendar year 2016’ in subparagraph (A)(ii)
12 thereof.

13 Any increase determined under the preceding sen-
14 tence shall be rounded to the next lowest multiple of
15 \$50.

16 “(c) DEFINITIONS.—For purposes of this section—

17 “(1) FIRST-TIME HOMEBUYER.—

18 “(A) IN GENERAL.—The term ‘first-time
19 homebuyer’ means any individual who acquires
20 a principal residence located in the United
21 States by purchase if such individual (and, if
22 married, such individual’s spouse)—

23 “(i) has not claimed any credit or de-
24 duction under this title for any previous
25 taxable year with respect to the purchase

1 or ownership of any residence or residen-
2 tial real estate (including for any expendi-
3 tures relating to the placing in service of
4 any property on, in connection with, or for
5 use in such a residence or real estate), and

6 “(ii) attests under penalty of perjury
7 that—

8 “(I) the individual (and, if mar-
9 ried, the individual’s spouse) has not
10 owned a principal residence at any
11 time prior to the purchase of the prin-
12 cipal residence to which this section
13 applies, and

14 “(II) the principal residence to
15 which this section applies was not ac-
16 quired from a person related to such
17 individual or spouse.

18 “(B) WAIVER IN CASE OF CERTAIN
19 CHANGES IN STATUS.—The Secretary may, in
20 such manner as the Secretary may prescribe,
21 waive the requirements of subparagraph (A) for
22 a taxable year in the case of an individual who
23 is not eligible to file a joint return for the tax-
24 able year, and who was married at the time the

1 individual or the individual's former spouse pur-
2 chased a previous residence.

3 “(C) MULTIPLE PURCHASERS.—If 2 or
4 more individuals who are not married purchase
5 a principal residence, no credit shall be allowed
6 under subsection (a) unless each individual sat-
7 isfies the requirements under subparagraph
8 (A).

9 “(2) PRINCIPAL RESIDENCE.—The term ‘prin-
10 cipal residence’ has the same meaning as when used
11 in section 121.

12 “(3) PURCHASE.—

13 “(A) IN GENERAL.—The term ‘purchase’
14 means any acquisition, but only if—

15 “(i) the property is not acquired from
16 a person related to the person acquiring
17 such property (or, if either such person is
18 married, such individual's spouse), and

19 “(ii) the basis of the property in the
20 hands of the person acquiring such prop-
21 erty is not determined—

22 “(I) in whole or in part by ref-
23 erence to the adjusted basis of such
24 property in the hands of the person
25 from whom acquired, or

1 “(II) under section 1014(a).

2 “(B) CONSTRUCTION.—A residence which
3 is constructed by the taxpayer shall be treated
4 as purchased by the taxpayer on the date the
5 taxpayer first occupies such residence.

6 “(4) PURCHASE PRICE.—The term ‘purchase
7 price’ means the adjusted basis (without regard to
8 any reduction under section 1016(a)(39)) of the
9 principal residence on the date such residence is pur-
10 chased.

11 “(5) RELATED PERSONS.—A person shall be
12 treated as related to another person if the relation-
13 ship between such persons would result in the dis-
14 allowance of losses under section 267 or 707(b) (but,
15 in applying subsections (b) and (c) of section 267
16 for purposes of this section, paragraph (4) of section
17 267(c) shall be treated as providing that the family
18 of an individual shall include only the individual’s
19 spouse, ancestors, lineal descendants, and spouse’s
20 ancestors and lineal descendants).

21 “(6) MARITAL STATUS.—An individual’s mar-
22 ital status shall be determined in accordance with
23 section 7703.

24 “(d) DENIAL AND RECAPTURE RULES IN CASE OF
25 DISPOSAL OF RESIDENCE WITHIN 6 TAXABLE YEARS.—

1 “(1) DENIAL OF CREDIT IN CASE OF DISPOSAL
2 WITHIN TAXABLE YEAR.—

3 “(A) IN GENERAL.—No credit under sub-
4 section (a) shall be allowed to any taxpayer for
5 any taxable year with respect to the purchase of
6 a residence if the taxpayer disposes of their in-
7 terest in such residence (or such residence
8 ceases to be the principal residence of the tax-
9 payer (and, if married, the taxpayer’s spouse))
10 before the close of such taxable year.

11 “(B) RECAPTURE IN CASES OF CREDIT
12 TRANSFER.—In the case of a taxpayer which—

13 “(i) has made an election under sub-
14 section (g)(1), and

15 “(ii) disposes of their interest in such
16 residence (or such residence ceases to be
17 the principal residence of the taxpayer
18 (and, if married, the taxpayer’s spouse))
19 before the close of the taxable year de-
20 scribed in subparagraph (A),

21 the tax imposed by this chapter for the taxable
22 year in which such disposal (or cessation) oc-
23 curs shall be increased by an amount equal to
24 100 percent of the amount of the credit allowed
25 under subsection (a).

1 “(2) PHASED-OUT RECAPTURE.—

2 “(A) IN GENERAL.—Except as provided in
3 subparagraph (D), if the taxpayer disposes of
4 their interest in a residence with respect to
5 which a credit was allowed under subsection (a)
6 (or such residence ceases to be the principal
7 residence of the taxpayer (and, if married, the
8 taxpayer’s spouse)) during the 5-taxable-year
9 period beginning with the taxable year imme-
10 diately following the credit year, the tax im-
11 posed by this chapter for the taxable year in
12 which such disposal (or cessation) occurs shall
13 be increased by an amount equal to the recap-
14 ture percentage of the amount of the credit so
15 allowed.

16 “(B) CREDIT YEAR.—For purposes of sub-
17 paragraph (A), the term ‘credit year’ means the
18 taxable year in which the credit under sub-
19 section (a) was allowed.

20 “(C) RECAPTURE PERCENTAGE.—For pur-
21 poses of subparagraph (A), the recapture per-
22 centage with respect to any disposal or ces-
23 sation described in such subparagraph shall be
24 determined in accordance with the following
25 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.

1 “(D) EXCEPTIONS.—This paragraph shall
2 not apply in the case of a disposal or cessation
3 described in subparagraph (A) which occurs
4 after or incident to any of the following:

5 “(i) Death of the taxpayer or the tax-
6 payer’s spouse.

7 “(ii) Divorce or separation of the tax-
8 payer.

9 “(iii) Involuntary conversion of the
10 residence (within the meaning of section
11 121(d)(5)(A)).

12 “(iv) Relocation of duty station or
13 qualified official extended duty (as defined
14 in section 121(d)(9)(C)) of the taxpayer or
15 the taxpayer’s spouse who is a member of
16 the uniformed services (as defined in sec-
17 tion 121(d)(9)(C)(ii)), a member of the
18 Foreign Service of the United States (as
19 defined in section 121(d)(9)(C)(iii)), or an
20 employee of the intelligence community (as
21 defined in section 121(d)(9)(C)(iv)).

1 “(v) Change of employment of the
2 taxpayer or the taxpayer’s spouse which
3 meets the conditions of section 217(c).

4 “(vi) Change in the number of people
5 residing in the residence of the taxpayer,
6 including the addition of a child.

7 “(vii) Loss of employment, health con-
8 ditions, caregiving needs, or such other un-
9 foreseen circumstances as may be specified
10 by the Secretary.

11 “(e) ADJUSTMENT TO BASIS.—For purposes of this
12 subtitle, if a credit is allowed under this section with re-
13 spect to any property, the taxpayer’s basis in such prop-
14 erty shall be reduced by the amount of the credit so al-
15 lowed.

16 “(f) REPORTING.—

17 “(1) IN GENERAL.—A credit shall be allowed
18 under this section only if the following are included
19 on the return of tax:

20 “(A) The individual’s social security num-
21 ber issued by the Social Security Administra-
22 tion.

23 “(B) The street address (not including a
24 post office box) of the principal residence pur-
25 chased.

1 “(C) The purchase price of the principal
2 residence.

3 “(D) The date of purchase of the principal
4 residence.

5 “(E) The closing disclosure relating to the
6 purchase (in the case of a purchase financed by
7 a mortgage).

8 “(2) REPORTING OF REAL ESTATE TRANS-
9 ACTIONS.—If the Secretary requires information re-
10 porting under section 6045 by a person described in
11 subsection (e)(2) thereof to verify the eligibility of
12 taxpayers for the credit allowable by this section, the
13 exception provided by section 6045(e)(5) shall not
14 apply.

15 “(g) TRANSFER OF CREDIT.—

16 “(1) IN GENERAL.—Subject to such regulations
17 or other guidance as the Secretary determines nec-
18 essary, if the taxpayer who acquires a principal resi-
19 dence by purchase using a qualified residential mort-
20 gage loan elects the application of this subsection
21 with respect to such residence, 100 percent of the
22 credit which would (but for this subsection) be al-
23 lowed to such taxpayer with respect to such resi-
24 dence shall, at the time of purchase of such resi-
25 dence, be allowed to the eligible entity specified in

1 such election (and not to such taxpayer) in the man-
 2 ner described in paragraph (2)(A)(ii)(III).

3 “(2) DEFINITIONS.—In this subsection—

4 “(A) ELIGIBLE ENTITY.—

5 “(i) IN GENERAL.—The term ‘eligible
 6 entity’ means, with respect to the residence
 7 for which the credit is allowed under sub-
 8 section (a), the entity which originated the
 9 qualified residential mortgage loan used to
 10 purchase such residence and—

11 “(I) has registered with the Sec-
 12 retary for purposes of this subpara-
 13 graph, at such time, and in such form
 14 and manner, as the Secretary may
 15 prescribe,

16 “(II) employs registered loan
 17 originators or State-licensed loan
 18 originators,

19 “(III) prior to the election de-
 20 scribed in paragraph (1) and not later
 21 than the closing date for such pur-
 22 chase, disclosed to the taxpayer pur-
 23 chasing such residence—

24 “(aa) the amount of the
 25 credit that would otherwise be al-

1 lowable to the taxpayer under
2 subsection (a),

3 “(bb) pursuant to the elec-
4 tion under paragraph (1), the
5 amount of the credit allowed to
6 such entity,

7 “(cc) the terms of the quali-
8 fied residential mortgage loan,
9 which shall take into account the
10 payment made by such entity
11 pursuant to subclause (V),

12 “(IV) prior to the closing date
13 for such purchase and in such manner
14 as the Secretary may prescribe,
15 verified—

16 “(aa) the eligibility of the
17 taxpayer for the credit under
18 subsection (a), and

19 “(bb) the amount of such
20 credit to which the election under
21 paragraph (1) is applicable,

22 “(V) on the closing date for the
23 purchase of the residence, reduces the
24 down payment otherwise required to
25 be made by the taxpayer by making

1 payment to the person selling such
2 residence to the taxpayer in an
3 amount equal to the amount of the
4 credit allowable to the taxpayer under
5 subsection (a) to which the election
6 under paragraph (1) applies, and

7 “(VI) has not provided any terms
8 or conditions (such as higher fees,
9 closing costs, interest rates, or other
10 incentives) with respect to the quali-
11 fied residential mortgage loan to
12 which an election under paragraph (1)
13 applies which are less favorable than
14 the terms and conditions for residen-
15 tial mortgage loans that would other-
16 wise be provided to the taxpayer if an
17 election described in such paragraph
18 was not made by the taxpayer.

19 “(ii) SPECIAL RULES.—

20 “(I) TIMING; REVOCATION.—
21 Rules similar to the rules under para-
22 graphs (3) and (4) of section 30D(g)
23 shall apply for purposes of this sub-
24 paragraph.

1 “(II) TAX TREATMENT OF PAY-
2 MENTS.—With respect to any pay-
3 ment described in clause (i)(V), such
4 payment—

5 “(aa) shall not be includible
6 in the gross income of the tax-
7 payer, and

8 “(bb) with respect to the eli-
9 gible entity, shall not be deduct-
10 ible under this title.

11 “(III) ADVANCE PAYMENT TO
12 ELIGIBLE ENTITIES.—

13 “(aa) IN GENERAL.—The
14 Secretary shall establish a pro-
15 gram to make advance payments
16 to any eligible entity in an
17 amount equal to the cumulative
18 amount of the credits allowed to
19 such entity pursuant to an elec-
20 tion under paragraph (1).

21 “(bb) EXCESSIVE PAY-
22 MENTS; TREATMENT OF AD-
23 VANCE PAYMENTS.—Rules simi-
24 lar to the rules under subpara-
25 graphs (B) and (C) of section

1 30D(g)(7) shall apply for pur-
2 poses of this subclause.

3 “(IV) RECAPTURE.—In the case
4 of any taxpayer who has made an
5 election described in paragraph (1)
6 with respect to the purchase of a prin-
7 cipal residence and for which a pay-
8 ment described in clause (i)(V) was
9 made by an eligible entity, if the cred-
10 it under subsection (a) is subsequently
11 determined to not be allowable to such
12 taxpayer with respect to such pur-
13 chase, the tax imposed on such tax-
14 payer under this chapter for the tax-
15 able year in which such residence was
16 purchased shall be increased by the
17 amount of the payment described in
18 clause (i)(V).

19 “(B) QUALIFIED RESIDENTIAL MORTGAGE
20 LOAN.—The term ‘qualified residential mort-
21 gage loan’ means a residential mortgage loan
22 (as defined in section 1503 of the S.A.F.E.
23 Mortgage Licensing Act of 2008 (12 U.S.C.
24 5102)) which—

1 “(i) does not exceed the conforming
2 loan limit (as defined in subsection (b)(2)),

3 “(ii) was originated by a registered
4 loan originator or State-licensed loan origi-
5 nator (as defined in section 1503 of the
6 S.A.F.E. Mortgage Licensing Act of 2008
7 (12 U.S.C. 5102)) who is not, with respect
8 to the taxpayer—

9 “(I) a person specified in section
10 267(b), or

11 “(II) a partnership described in
12 section 707(b), and

13 “(iii) does not require a down pay-
14 ment in an amount which is greater than
15 the amount equal to—

16 “(I) 20 percent of the purchase
17 price of the residence, minus

18 “(II) the amount of the credit al-
19 lowable to the taxpayer under sub-
20 section (a) to which the election under
21 paragraph (1) applies.

22 “(3) APPLICATION OF LIMITATION BASED ON
23 MODIFIED ADJUSTED GROSS INCOME.—

24 “(A) IN GENERAL.—

1 “(i) PRIOR TAXABLE YEAR.—For pur-
2 poses of this subsection, any reduction in
3 the amount allowable as a credit under
4 subsection (a) pursuant to subsection
5 (b)(3) shall be determined based on the
6 modified adjusted gross income of the tax-
7 payer for the taxable year described in
8 subparagraph (D)(ii) of such subsection.

9 “(ii) INDIVIDUALS WHO WERE NOT
10 MARRIED IN PRIOR TAXABLE YEAR.—For
11 purposes of clause (i), in the case of two
12 individuals who are married during the
13 taxable year in which the residence is pur-
14 chased but were not married with respect
15 to the taxable year described in such
16 clause, rules similar to the rules under
17 subsection (b)(5)(B) shall apply.

18 “(B) LOWER INCOME IN TAXABLE YEAR IN
19 WHICH RESIDENCE IS PURCHASED.—

20 “(i) IN GENERAL.—If—

21 “(I) the taxpayer has made an
22 election under paragraph (1),

23 “(II) a reduction described in
24 subparagraph (A) is applicable with

1 respect to the amount allowable as a
2 credit under subsection (a), and

3 “(III) the modified adjusted
4 gross income of the taxpayer for the
5 taxable year described in clause (i) of
6 subsection (b)(3)(D) is less than the
7 modified adjusted gross income of the
8 taxpayer for the taxable year de-
9 scribed in clause (ii) of such section,
10 notwithstanding the application of para-
11 graph (1), there shall be a credit allowed
12 to the taxpayer against the tax imposed by
13 this subtitle for the taxable year described
14 in clause (i) of such subsection equal to the
15 amount described in clause (ii).

16 “(ii) DIFFERENCE IN CREDIT
17 AMOUNTS.—The amount described in this
18 clause is equal to—

19 “(I) the amount allowable as a
20 credit under subsection (a), as re-
21 duced pursuant to subsection (b)(3)
22 based on the modified adjusted gross
23 income of the taxpayer for the taxable
24 year described in clause (i) of sub-
25 section (b)(3)(D), minus

1 “(II) the amount of the payment
2 made by the eligible entity pursuant
3 to paragraph (2)(A)(i)(V).

4 “(4) REPORTING.—

5 “(A) IN GENERAL.—In the case of a tax-
6 payer that has made an election under para-
7 graph (1), not later than 3 days after the clos-
8 ing date for the purchase of the residence, the
9 eligible entity shall report to the Secretary (in
10 such manner as the Secretary may prescribe)
11 the following:

12 “(i) The name and taxpayer identi-
13 fication number of the taxpayer.

14 “(ii) The amount of the credit allowed
15 under subsection (a) to which the election
16 under paragraph (1) applied.

17 “(B) INFORMATION PROVIDED TO TAX-
18 PAYER.—At such time, and in such form and
19 manner, as the Secretary may prescribe, the eli-
20 gible entity shall provide the information de-
21 scribed in subparagraph (A) to the taxpayer.

22 “(5) ONLINE PORTAL.—The Secretary shall es-
23 tablish an online portal which permits—

24 “(A) a taxpayer to—

1 “(i) determine the amount of the
2 credit allowable under subsection (a) and
3 the amount of such credit to which para-
4 graph (1) may apply, and

5 “(ii) elect the application of this sub-
6 section with respect to the purchase of a
7 residence, and

8 “(B) an eligible entity to—

9 “(i) verify the amount of the credit al-
10 lowable under subsection (a) with respect
11 to the taxpayer and the amount of such
12 credit to which paragraph (1) may apply,
13 and

14 “(ii) comply with the requirements
15 under paragraph (4).

16 “(h) REGULATIONS AND GUIDANCE.—The Secretary
17 shall prescribe such regulations or other guidance as may
18 be necessary or appropriate to carry out the purposes of
19 this section, including rules for the application of sub-
20 section (d) in the case of a residence purchased by 2 or
21 more individuals who are not married.”.

22 (b) CONFORMING AMENDMENT RELATING TO BASIS
23 ADJUSTMENT.—Subsection (a) of section 1016 of the In-
24 ternal Revenue Code of 1986, as amended by section 212,
25 is amended—

1 (1) by redesignating paragraphs (38) and (39)
2 as paragraphs (39) and (40), respectively, and

3 (2) by inserting after paragraph (37) the fol-
4 lowing new paragraph:

5 “(38) to the extent provided in section 36(e),”.

6 (c) CONFORMING AMENDMENT.—Section 26(b)(2) of
7 the Internal Revenue Code of 1986 is amended by striking
8 subparagraph (W) and by redesignating subparagraphs
9 (X), (Y), and (Z) as subparagraphs (W), (X), and (Y),
10 respectively.

11 (d) CLERICAL AMENDMENT.—The item relating to
12 section 36 in the table of sections for subpart C of part
13 IV of subchapter A of chapter 1 of the Internal Revenue
14 Code of 1986 is amended to read as follows:

“Sec. 36. First-time homebuyer refundable credit.”.

15 (e) AUTHORITY TO TREAT CLAIM OF CREDIT AS
16 ERROR, ETC.—Subparagraph (N) of section 6213(g)(2) of
17 the Internal Revenue Code of 1986 is amended to read
18 as follows:

19 “(N) in the case of a return claiming the
20 credit under section 36—

21 “(i) the omission of a social security
22 number required under section 36(f)(1)(A),

23 “(ii) the inclusion of a social security
24 number so required if—

1 “(I) the claim of the credit on
2 the return reflects the treatment of
3 such individual as being of an age dif-
4 ferent from the individual’s age based
5 on such social security number, or

6 “(II) except as provided in sec-
7 tion 36(c)(1)(B), such social security
8 number has been included (other than
9 as a dependent for purposes of section
10 151) on a return for any previous tax-
11 able year claiming any credit or de-
12 duction described in section
13 36(c)(1)(A)(i),

14 “(iii) the omission of any other re-
15 quired information or documentation de-
16 scribed in section 36(f)(1), including the
17 inclusion of a post office box instead of a
18 street address for the purchased residence,

19 “(iv) the inclusion of any information
20 or documentation described in clause (iii)
21 if such information or documentation does
22 not support a valid claim for the credit, or

23 “(v) a claim of such credit for a tax-
24 able year with respect to the purchase of

1 a residence made after the last day of such
2 taxable year,”.

3 (f) IRS RECORDKEEPING.—Notwithstanding the lim-
4 itations on assessment and collection under section 6501
5 of the Internal Revenue Code of 1986, the Commissioner
6 of Internal Revenue shall maintain records of returns and
7 return information (as defined in section 6103(b)(2) of
8 such Code) of any taxpayer claiming the credit under sec-
9 tion 36 of such Code (as amended by this section) for the
10 taxable year in which such credit is claimed and suc-
11 ceeding taxable years in the individual master files of the
12 Internal Revenue Service.

13 (g) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2026.

16 **SEC. 215. LOSSES FROM THE SALE OF PRINCIPAL RESI-**
17 **DENCES.**

18 (a) ALLOWANCE OF LOSS.—

19 (1) IN GENERAL.—Section 165(c) of the Inter-
20 nal Revenue Code of 1986 is amended by striking
21 “and” at the end of paragraph (2), by striking the
22 period at the end of paragraph (3) and inserting “;
23 and”, and by adding at the end the following new
24 paragraph:

25 “(4) any—

1 “(A) qualified principal residence loss, and

2 “(B) any qualified principal residence loss
3 carryforward (as determined under section
4 1212(b)(3)).”.

5 (2) DEFINITIONS AND LIMITATIONS.—Section
6 165 of such Code is amended by redesignating sub-
7 section (m) as subsection (n) and by inserting after
8 subsection (l) the following new subsection:

9 “(m) RULES RELATED TO QUALIFIED PRINCIPAL
10 RESIDENCE LOSSES.—

11 “(1) QUALIFIED PRINCIPAL RESIDENCE
12 LOSS.—For purposes of subsection (c)(4)—

13 “(A) IN GENERAL.—The term ‘qualified
14 principal residence loss’ means any loss from
15 the sale or exchange of a residence of the tax-
16 payer located in the United States if, during
17 the 5-year period ending on the date such resi-
18 dence is sold or exchanged, such property has
19 been owned and used by the taxpayer as the
20 taxpayer’s principal residence (within the mean-
21 ing of section 121) for periods aggregating 2
22 years or more.

23 “(B) APPLICATION TO ONLY 1 SALE OR
24 EXCHANGE EVERY 2 YEARS.—Rules similar to

1 the rules of section 121(b)(3) shall apply for
2 purposes of this paragraph.

3 “(C) EXCLUSION OF LOSS ALLOCATED TO
4 NONQUALIFIED USE.—

5 “(i) IN GENERAL.—Paragraph (1)
6 shall not apply to so much of the loss from
7 the sale or exchange of property as is allo-
8 cated to periods of nonqualified use (as de-
9 fined in section 121(b)(5)(C)).

10 “(ii) ALLOCATION RULES.—For pur-
11 poses of this clause, loss shall be attrib-
12 utable to periods of nonqualified use under
13 the principles of section 121(b)(5)(B).

14 “(D) TAXPAYERS FAILING TO MEET CER-
15 TAIN REQUIREMENTS.—Rules similar to the
16 rules of section 121(c) shall apply for purposes
17 of this paragraph (determined by substituting
18 ‘section 165(m)(2)’ for ‘paragraph (1) or (2) of
19 subsection (b), whichever is applicable’ in para-
20 graph (1) thereof).

21 “(E) SPECIAL RULES.—

22 “(i) IN GENERAL.—Rules similar to
23 the rules of paragraphs (1), (2), (3), (4),
24 (5) (applied without regard to the phrase
25 ‘destruction, theft’ in subparagraph (A)

1 thereof), (7), (8), (9), (10), and (12) of
2 section 121(d) shall apply for purposes of
3 this paragraph.

4 “(F) EXPATRIATES.—Rules similar to the
5 rules of subsection (e) of section 121 shall
6 apply for purposes of this paragraph.

7 “(2) DOLLAR LIMITATION.—The amount of any
8 qualified principal residence loss shall not exceed
9 \$100,000 (\$50,000 in the case of a married indi-
10 vidual filing a separate return).

11 “(3) INCOME LIMITATION.—

12 “(A) IN GENERAL.—The amount of quali-
13 fied principal residence loss (determined after
14 application of paragraph (2) and without regard
15 to this paragraph) shall be reduced (but not
16 below zero) by the amount which bears the
17 same ratio to such loss (as so determined) as—

18 “(i) the excess of—

19 “(I) the taxpayer’s modified ad-
20 justed gross income for such taxable
21 year, over

22 “(II) \$200,000 (50 percent of
23 such amount in the case of a married
24 individual filing a separate return),
25 bears to

1 “(ii) \$50,000 (50 percent of such
2 amount in the case of a married individual
3 filing a separate return).

4 “(B) MODIFIED ADJUSTED GROSS IN-
5 COME.—For purposes of this paragraph, the
6 term ‘modified adjusted gross income’ means
7 the adjusted gross income of the taxpayer for
8 the taxable year determined without regard to
9 subsection (c)(4) and increased by any amount
10 excluded from gross income under section 911,
11 931, or 933.”.

12 (3) COORDINATION WITH EXCLUSION FOR
13 GAIN.—

14 (A) IN GENERAL.—Section 121(b)(3) of
15 such Code is amended by inserting “or section
16 165(c)(4)” after “subsection (a)”.

17 (B) CONFORMING AMENDMENT.—Section
18 121(c)(1)(B)(i)(II) of such Code is amended by
19 inserting “or section 165(c)(4)” after “sub-
20 section (a)”.

21 (4) APPLICATION OF RULES LIMITING
22 LOSSES.—

23 (A) IN GENERAL.—Section 1211 of such
24 Code is amended by adding at the end the fol-
25 lowing new subsection:

1 “(c) SPECIAL RULES FOR TAXPAYERS WITH QUALI-
2 FIED PRINCIPAL RESIDENCE LOSS.—

3 “(1) IN GENERAL.—In the case of a taxpayer
4 (other than a corporation) which has a qualified
5 principal residence loss for any taxable year—

6 “(A) this subsection shall be applied before
7 subsection (b), and

8 “(B) such loss shall be allowed only to the
9 extent of the sum of—

10 “(i) gains from sales or exchanges of
11 capital assets during such taxable year,
12 plus

13 “(ii) if such loss exceeds such gains,
14 the amount of such excess.

15 “(2) COORDINATION WITH SUBSECTION (b).—In
16 applying subsection (b) to any taxable year to which
17 this subsection applies—

18 “(A) qualified principal residence losses
19 shall not be taken into account, and

20 “(B) gains from sales or exchanges of cap-
21 ital assets during such taxable year taken into
22 account under such subsection shall be reduced
23 by the amount of such gains taken into account
24 under paragraph (1)(B)(i).

1 “(3) QUALIFIED PRINCIPAL RESIDENCE
 2 LOSS.—For purposes of this paragraph, the term
 3 ‘qualified principal residence loss’ means, with re-
 4 spect to any taxable year, any loss allowed for such
 5 taxable year by reason of section 165(c)(4) (includ-
 6 ing any qualified principal residence loss
 7 carryforward taken into account for such taxable
 8 year under subparagraph (B) thereof).”.

9 (B) CARRYFORWARDS.—Section 1212(b)
 10 of such Code is amended is amended by adding
 11 at the end the following new paragraph:

12 “(3) SPECIAL RULE FOR QUALIFIED PRINCIPAL
 13 RESIDENCE LOSSES.—

14 “(A) IN GENERAL.—For purposes of sec-
 15 tion 165(c)(4)(B), the amount of qualified prin-
 16 cipal residence loss carryforward determined
 17 under this paragraph is the excess (if any) of—

18 “(i) the excess determined under sec-
 19 tion 1211(c)(1)(B)(ii) for the taxable year,
 20 over

21 “(ii) taxable income (computed with-
 22 out regard to any loss allowed with respect
 23 to such excess or any amount or deduction
 24 described in paragraph (2)(B)).

1 “(B) COORDINATION WITH OTHER CAP-
2 ITAL LOSSES.—For purposes of this sub-
3 section—

4 “(i) a qualified principal residence loss
5 (as defined in section 1211(c)(3)) shall not
6 be taken into account for purposes of para-
7 graph (1) or (2), and

8 “(ii) taxable income for purposes of
9 paragraph (2)(B) shall be computed after
10 the allowance for any qualified personal
11 residence loss (as so defined).”.

12 (b) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to sales in taxable years beginning
14 after the date of the enactment of this Act.

15 **SEC. 216. REPEAL OF LIMITATION ON PERSONAL CASUALTY**
16 **LOSS DEDUCTION.**

17 (a) IN GENERAL.—Section 165(h) of the Internal
18 Revenue Code of 1986 is amended by striking paragraph
19 (5).

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to taxable years beginning after
22 the date of the enactment of this Act.

1 **SEC. 217. PERMANENT EXCLUSION FROM GROSS INCOME**
2 **OF DISCHARGE OF QUALIFIED PRINCIPAL**
3 **RESIDENCE INDEBTEDNESS.**

4 (a) IN GENERAL.—Section 108(a)(1)(E) of the Inter-
5 nal Revenue Code of 1986 is amended by striking “which
6 is discharged” and all that follows through “evidenced in
7 writing before January 1, 2026”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to discharges of indebtedness after
10 December 31, 2025.

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