I

119TH CONGRESS
1ST SESSION

H. R. 2854

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

IN THE HOUSE OF REPRESENTATIVES

APRIL 10, 2025

Mr. KELLY of Pennsylvania (for himself, Mr. LARSON of Connecticut, Mr. CAREY, Ms. SEWELL, Mr. BUCHANAN, Mr. DAVIS of Illinois, Mrs. MILLER of West Virginia, Mr. PANETTA, Mr. FEENSTRA, Mr. KUSTOFF, Ms. MALLIOTAKIS, and Mr. MORAN) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

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

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

SECTION 1. SHORT TITLE.

This Act may be cited as the ‘‘Neighborhood Homes Investment Act’’.

SEC. 2. FINDINGS AND SENSE OF CONGRESS.

(a) FINDINGS.—Congress finds the following:

(1) Experts have determined that it could take nearly a decade to address the housing shortage in the United States, in large part due to increasing housing prices and insufficient supply.

(2) The housing supply shortage disproportionately impacts low-income and distressed communities.

(3) Homeownership is a primary source of household wealth and neighborhood stability. Many distressed communities have low rates of homeownership and lack quality, affordable starter homes, while many individuals who own their homes have difficulty securing financing for home repairs and improvements.

(4) Housing construction in distressed communities is prevented by the value gap, the difference between the cost to develop a home and the sale price of the home.

(5) The Neighborhood Homes Investment Act can close these financing gaps to increase housing development and rehabilitation in distressed communities.

(b) SENSE OF CONGRESS.—It is the sense of Congress that the neighborhood homes credit (as added under section 3 of this Act) should be an activity administered in a manner which—

(1) revitalizes distressed communities in rural and urban geographies;

(2) minimizes application burdens on small businesses applying for such credit; and

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

SEC. 3. NEIGHBORHOOD HOMES CREDIT.

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

"SEC. 42A. NEIGHBORHOOD HOMES CREDIT.

"(a) ALLOWANCE OF CREDIT.—For purposes of section 38, the neighborhood homes credit determined under this section for the taxable year is, with respect to each qualified residence sold by the taxpayer during such taxable year in an affordable sale, the lesser of—

"(1) an amount equal to—

"(A) the excess (if any) of—

"(i) the reasonable development costs paid or incurred by the taxpayer with respect to such qualified residence, over "(ii) the sale price of such qualified residence (reduced by any reasonable expenses paid or incurred by the taxpayer in connection with such sale), or

"(B) if the neighborhood homes credit agency determines it is necessary to ensure financial feasibility, an amount not to exceed 120 percent of the amount under subparagraph (A),

"(2) 40 percent of the eligible development costs paid or incurred by the taxpayer with respect to such qualified residence, or

"(3) 32 percent of the national median sale price for new homes (as determined pursuant to the most recent census data available as of the date on which the neighborhood homes credit agency makes an allocation for the qualified project).

"(b) DEVELOPMENT COSTS.—For purposes of this section—

"(1) REASONABLE DEVELOPMENT COSTS.—

"(A) IN GENERAL.—The term 'reasonable development costs' means amounts paid or incurred for the acquisition of buildings and land, construction, substantial rehabilitation, demolition of structures, or environmental remediation, to the extent that the neighborhood homes credit agency determines that such amounts meet the standards specified pursuant to subsection (f)(1)(D) (as of the date on which construction or substantial rehabilitation is substantially complete, as determined by such agency) and are necessary to ensure the financial feasibility of such qualified residence.

"(B) CONSIDERATIONS IN MAKING DETERMINATION.—In making the determination under subparagraph (A), the neighborhood homes credit agency shall consider—

"(i) the sources and uses of funds and the total financing,

"(ii) any proceeds or receipts generated or expected to be generated by reason of tax benefits, and

"(iii) the reasonableness of the developmental costs and fees.

"(2) ELIGIBLE DEVELOPMENT COSTS.—The term 'eligible development costs' means the amount which would be reasonable development costs if the amounts taken into account as paid or incurred for the acquisition of buildings and land did not exceed 75 percent of such costs determined without regard to any amount paid or incurred for the acquisition of buildings and land.

"(3) SUBSTANTIAL REHABILITATION.—The term 'substantial rehabilitation' means amounts paid or incurred for rehabilitation of a qualified residence if such amounts exceed the greater of—

"(A) $25,000, or

"(B) 20 percent of the amounts paid or incurred by the taxpayer for the acquisition of buildings and land with respect to such qualified residence.

"(4) CONSTRUCTION AND REHABILITATION ONLY AFTER ALLOCATION TAKEN INTO ACCOUNT.—

"(A) IN GENERAL.—The terms 'reasonable development costs' and 'eligible development costs' shall not include any amount paid or incurred before the date on which an allocation is made to the taxpayer under subsection (e) with respect to the qualified project of which the qualified residence is part unless such amount is paid or incurred for the acquisition of buildings or land.

"(B) LAND AND BUILDING ACQUISITION COSTS.—Amounts paid or incurred for the acquisition of buildings or land shall be included under paragraph (A) only if paid or incurred not more than 3 years before the date on which the allocation referred to in subparagraph (A) is made. If the taxpayer acquired any building or land from an entity (or any related party to such entity) that holds an ownership interest in the taxpayer, then such entity must also have acquired such property within such 3-year period, and the acquisition cost included under subparagraph (A) with respect to the taxpayer shall not exceed the amount such entity paid or incurred to acquire such property.

"(c) QUALIFIED RESIDENCE.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified residence' means a residence that—

"(A) is real property (constructed on-site or manufactured off-site) affixed on a permanent foundation,

"(B) is—

"(i) a house which is comprised of 4 or fewer residential units,

"(ii) a condominium unit, or

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

"(C) is part of a qualified project with respect to which the neighborhood homes credit agency has made an allocation under subsection (e), and

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

"(2) QUALIFIED CENSUS TRACT.—

"(A) IN GENERAL.—The term 'qualified census tract' means a census tract—

"(i) which—

"(I) has a median family income which does not exceed 80 percent of the median family income for the applicable area,

"(II) has a poverty rate that is not less than 130 percent of the poverty rate of the applicable area, and

"(III) has a median value for owner-occupied homes that does not exceed the median value for owner-occupied homes in the applicable area,

"(ii) which—

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

"(II) has a median family income which does not exceed the median family income for the applicable area, and

"(III) has a median value for owner-occupied homes that does not exceed 80 percent of the median value for owner-occupied homes in the applicable area,

"(iii) which—

"(I) is located in a nonmetropolitan county,

"(II) has a median family income which does not exceed the median family income for the applicable area, and

"(III) has been designated by a neighborhood homes credit agency under this clause, "(iv) which is not otherwise a qualified census tract and is located in a disaster area (as defined in section 7508A(d)(3)), but only with respect to credits allocated in any period during which the President of the United States has determined that such area warrants individual or individual and public assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, or

"(v) which is not otherwise a qualified census tract and is identified by the neighborhood homes credit agency, through methodologies detailed in the qualified allocation plan, as having a shortage of affordable owner-occupied homes.

"(B) APPLICABLE AREA.—The term 'applicable area' means—

"(i) in the case of a metropolitan census tract, the metropolitan area in which such census tract is located, and

"(ii) in the case of a census tract other than a census tract described in clause (i), the State.

"(d) AFFORDABLE SALE.—For purposes of this section—

"(1) IN GENERAL.—The term 'affordable sale' means a sale to a qualified homeowner of a qualified residence that the neighborhood homes credit agency certifies as meeting the standards promulgated under subsection (f)(1)(D) for a price that does not exceed—

"(A) in the case of any qualified residence not described in subparagraph (B), (C), or (D), the amount equal to the product of 4 multiplied by the median family income for the applicable area (as determined pursuant to the most recent census data available as of the date of the contract for such sale),

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

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

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

"(2) QUALIFIED HOMEOWNER.—The term 'qualified homeowner' means, with respect to a qualified residence, an individual—

"(A) who owns and uses such qualified residence as the principal residence of such individual, and

"(B) whose family income (determined as of the date that a binding contract for the affordable sale of such residence is entered into) is 140 percent or less of the median family income for the applicable area in which the qualified residence is located.

"(e) CREDIT CEILING AND ALLOCATIONS.—

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

"(A) IN GENERAL.—The credit allowed under subsection (a) to any taxpayer for any taxable year with respect to one or more qualified residences which are part of the same qualified project shall not exceed the excess (if any) of—

"(i) the amount allocated by the neighborhood homes credit agency under this paragraph to such taxpayer with respect to such qualified project, over "(ii) the aggregate amount of credit allowed under subsection (a) to such taxpayer with respect to qualified residences which are a part of such qualified project for all prior taxable years.

"(B) DEADLINE FOR COMPLETION.—No credit shall be allowed under subsection (a) with respect to any qualified residence unless the affordable sale of such residence is during the 5-year period beginning on the date of the allocation to the qualified project of which such residence is a part (or, in the case of a qualified residence to which subsection (i) applies, the rehabilitation of such residence is completed during such 5-year period).

"(2) LIMITATIONS ON ALLOCATIONS TO QUALIFIED PROJECTS.—

"(A) ALLOCATIONS LIMITED BY STATE NEIGHBORHOOD HOMES CREDIT CEILING.—The aggregate amount allocated to taxpayers with respect to qualified projects by the neighborhood homes credit agency of any State for any calendar year shall not exceed the State neighborhood homes credit amount of such State for such calendar year.

"(B) SET-ASIDE FOR CERTAIN PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—Rules similar to the rules of section 42(h)(5) shall apply for purposes of this section.

"(3) DETERMINATION OF STATE NEIGHBORHOOD HOMES CREDIT CEILING.—

"(A) IN GENERAL.—The State neighborhood homes credit amount for a State for a calendar year is an amount equal to the sum of—

"(i) the greater of—

"(I) the product of $9, multiplied by the State population (determined in accordance with section 146(j)), or

"(II) $12,000,000, and

"(ii) any amount previously allocated to any taxpayer with respect to any qualified project by the neighborhood homes credit agency of such State which can no longer be allocated to any qualified residence because the 5-year period described in paragraph (1)(B) expires during calendar year.

"(B) 3-YEAR CARRYFORWARD OF UNUSED LIMITATION.—The State neighborhood homes credit amount for a State for a calendar year shall be increased by the excess (if any) of the State neighborhood homes credit amount for such State for the preceding calendar year over the aggregate amount allocated by the neighborhood homes credit agency of such State during such preceding calendar year. Any amount carried forward under the preceding sentence shall not be carried past the third calendar year after the calendar year in which such credit amount originally arose, determined on a first-in, first-out basis.

"(f) RESPONSIBILITIES OF NEIGHBORHOOD HOMES CREDIT AGENCIES.—

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

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

"(B) subject to paragraph (2), allocates not more than 20 percent of amounts allocated in the previous year (or for allocations made in the first allocation year under this section, not more than 20 percent of the neighborhood homes credit ceiling for such year) to projects with respect to qualified residences which—

"(i) are located in census tracts described in subsection (c)(2)(A)(iii), (c)(2)(A)(iv), (i)(5), or

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

"(C) subject to paragraph (2), in addition to any allocation described in subparagraph (B), allocates not more than 20 percent of amounts allocated in the previous year (or for allocations made in the first allocation year under this section, not more than 20 percent of the neighborhood homes credit ceiling for such year) to projects with respect to qualified residences which are located in any census tract described in subsection (c)(2)(A)(v), except that, with respect to any qualified residence located within such census tract which is sold to a qualified homeowner, subsection (d)(2) shall be applied by substituting '120 percent' for '140 percent', "(D) promulgates standards with respect to reasonable qualified development costs and fees,

"(E) promulgates standards with respect to construction quality which are consistent with building codes or other standards required by the State or local jurisdiction in which the project is located,

"(F) in the case of any neighborhood homes credit agency which makes an allocation to a qualified project which includes any qualified residence to which subsection (i) applies, promulgates standards with respect to protecting the owners of such residences, including the capacity of such owners to pay rehabilitation costs not covered by the credit provided by this section and providing for the disclosure to such owners of their rights and responsibilities with respect to the rehabilitation of such residences,

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

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

"(ii) with respect to each qualified residence completed in the preceding calendar year—

"(I) the census tract in which such qualified residence is located,

"(II) with respect to the qualified project that includes such qualified residence, the year in which such project received an allocation under this section,

"(III) whether such qualified residence was new, substantially rehabilitated and sold to a qualified homeowner, or substantially rehabilitated pursuant to subsection (i),

"(IV) the eligible development costs of such qualified residence,

"(V) the amount of the neighborhood homes credit with respect to such qualified residence,

"(VI) the sales price of such qualified residence, if applicable, and

"(VII) the family income of the qualified homeowner (expressed as a percentage of the applicable area median family income for the location of the qualified residence), and

"(iii) such other information as the Secretary may require,

"(H) makes available to the general public a written explanation for any allocation of a neighborhood homes credit dollar amount which is not made in accordance with established priorities and selection criteria of the neighborhood homes credit agency, and

"(I) provide educational outreach on application and compliance requirements, including for small residential builders and remodelers.

"(2) ALTERNATIVE FOR CERTAIN STATES.—

"(A) IN GENERAL.—In the case of any State which, for a calendar year, is an applicable State (as defined in subparagraph (B)), in lieu of the requirements under subparagraphs (B) and (C) of paragraph (1), the neighborhood homes credit agency of the State may elect to allocate not more than 40 percent of amounts allocated in the previous year (or for allocations made in the first allocation year under this section, not more than 40 percent of the neighborhood homes credit ceiling for such year) to projects with respect to qualified residences which are described in either subparagraph (B) or (C) of paragraph (1).

"(B) APPLICABLE STATE.—For purposes of this paragraph, the term 'applicable State' means a State which, for purposes of the determining the amount under subsection (e)(3)(A)(i) for the calendar year with respect to such State, received the amount described in subclause (II) of such subsection.

"(3) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term 'qualified allocation plan' means any plan which—

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

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

"(ii) the expected contribution of the project to neighborhood stability and revitalization, including the impact on neighborhood residents,

"(iii) the capability and prior performance of the project sponsor, and

"(iv) the likelihood the project will result in long-term homeownership,

"(B) has been made available for public comment,

"(C) as determined by the neighborhood homes credit agency, is likely to result in the selection of highly qualified applicants while also minimizing, to the extent practicable, application costs and barriers to entry for small residential builders and re-modelers, and

"(D) provides a procedure that the neighborhood homes credit agency (or any agent or contractor of such agency) shall follow for purposes of—

"(i) identifying noncompliance with any provisions of this section, and

"(ii) notifying the Internal Revenue Service of any such noncompliance of which the agency becomes aware.

"(g) REPAYMENT.—

"(1) IN GENERAL.—

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

"(B) USE OF REPAYMENTS.—A neighborhood homes credit agency shall use any amount received pursuant to subparagraph (A) only for purposes of qualified projects.

"(2) REPAYMENT AMOUNT.—For purposes of paragraph (1)(A)—

"(A) IN GENERAL.—The repayment amount is an amount equal to the applicable percentage of the gain from the sale to which the repayment relates.

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage is 50 percent, reduced by 10 percentage points for each year of the 5-year period referred to in paragraph (1)(A) which ends before the date of such sale.

"(3) LIEN FOR REPAYMENT AMOUNT.—A neighborhood homes credit agency receiving an allocation under this section shall place a lien on each qualified residence that is built or rehabilitated as part of a qualified project for an amount such agency deems necessary to ensure potential repayment pursuant to paragraph (1)(A).

"(4) WAIVER.—

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

"(B) HARDSHIP.—For purposes of subparagraph (A), with respect to the seller, a hardship may include—

"(i) divorce,

"(ii) disability,

"(iii) illness, or

"(iv) any other hardship identified by the neighborhood homes credit agency for purposes of this paragraph.

"(h) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) NEIGHBORHOOD HOMES CREDIT AGENCY.—The term 'neighborhood homes credit agency' means the agency designated by the governor of a

State as the neighborhood homes credit agency of the State.

"(2) QUALIFIED PROJECT.—The term 'qualified project' means a project that a neighborhood homes credit agency certifies will build or substantially rehabilitate one or more qualified residences.

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

"(4) POSSESSIONS TREATED AS STATES.—The term 'State' includes the District of Columbia and the possessions of the United States.

"(5) SPECIAL RULES RELATED TO CONDOMINIUMS AND COOPERATIVE HOUSING CORPORATIONS.—

"(A) DETERMINATION OF DEVELOPMENT COSTS.—In the case of a qualified residence described in clause (ii) or (iii) of subsection (c)(1)(A), the reasonable development costs and eligible development costs of such qualified residence shall be an amount equal to such costs, respectively, of the entire condominium or cooperative housing property in which such qualified residence is located, multiplied by a fraction—

"(i) the numerator of which is the total floor space of such qualified residence, and

"(ii) the denominator of which is the total floor space of all residences within such property.

"(B) TENANT-STOCKHOLDERS OF COOPERATIVE HOUSING CORPORATIONS TREATED AS OWNERS.—In the case of a cooperative housing corporation (as such term is defined in section 216(b)), a tenant-stockholder shall be treated as owning the house or apartment which such person is entitled to occupy.

"(6) RELATED PARTY SALES NOT TREATED AS AFFORDABLE SALES.—

"(A) IN GENERAL.—A sale between related persons shall not be treated as an affordable sale.

"(B) RELATED PERSONS.—For purposes of this paragraph, a person (in this subparagraph referred to as the 'related person') is related to any person if the related person bears a relationship to such person specified in section 267(b) or 707(b)(1), or the related person and such person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52). For purposes of the preceding sentence, in applying section 267(b) or 707(b)(1), ‘10 percent’ shall be substituted for ‘50 percent’.

“(7) INFLATION ADJUSTMENT.—

“(A) IN GENERAL.—In the case of a calendar year after 2025, 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 2024’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

“(B) ROUNDING.—

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

“(ii) In the case of the dollar amount in subsection (e)(3)(A)(i)(I), any increase under paragraph (1) which is not a multiple of $0.01 shall be rounded to the nearest multiple of $0.01.

"(iii) In the case of the dollar amount in subsection (e)(3)(A)(i)(II), any increase under paragraph (1) which is not a multiple of $100,000 shall be rounded to the nearest multiple of $100,000.

"(8) REPORT.—

"(A) IN GENERAL.—The Secretary shall annually issue a report, to be made available to the public, which contains the information submitted pursuant to subsection (f)(1)(G).

"(B) DE-IDENTIFICATION.—The Secretary shall ensure that any information made public pursuant to subparagraph (A) excludes any information that would allow for the identification of qualified homeowners.

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

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

"(B) clause (iii) of such subsection, and

"(C) subsection (i)(5)(A).

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

"(i) APPLICATION OF CREDIT WITH RESPECT TO OWNER-OCCUPIED REHABILITATIONS.—

"(1) IN GENERAL.—In the case of a qualified rehabilitation by the taxpayer of any qualified residence which is owned (as of the date that the written binding contract referred to in paragraph (3) is entered into) by a specified homeowner, the rules of paragraphs (2) through (7) shall apply.

"(2) ALTERNATIVE CREDIT DETERMINATION.—In the case of any qualified residence described in paragraph (1), the neighborhood homes credit determined under subsection (a) with respect to such residence shall (in lieu of any credit otherwise determined under subsection (a) with respect to such residence) be allowed in the taxable year during which the qualified rehabilitation is completed (as determined by the neighborhood homes credit agency) and shall be equal to the least of—

"(A) the excess (if any) of—

"(i) the amounts paid or incurred by the taxpayer for the qualified rehabilitation of the qualified residence to the extent that such amounts are certified by the neighborhood homes credit agency (at the time of the completion of such rehabilitation) as meeting the standards specified pursuant to subsection (f)(1)(D), over

"(ii) any amounts paid to such taxpayer for such rehabilitation,

"(B) 50 percent of the amounts described in subparagraph (A)(i), or

"(C) $50,000.

"(3) QUALIFIED REHABILITATION.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'qualified rehabilitation' means a rehabilitation or reconstruction performed pursuant to a written binding contract between the taxpayer and the specified homeowner if the amount paid or incurred by the taxpayer in the performance of such rehabilitation or reconstruction exceeds the dollar amount in effect under subsection (b)(3)(A).

"(B) APPLICATION OF LIMITATION TO EXPENSES PAID OR INCURRED AFTER ALLOCATION.—A rule similar to the rule of section (b)(4) shall apply for purposes of this subsection.

"(4) SPECIFIED HOMEOWNER.—For purposes of this subsection, the term 'specified homeowner' means, with respect to a qualified residence, an individual—

"(A) who owns and uses such qualified residence as the principal residence of such individual as of the date that the written binding contract referred to in paragraph (3) is entered into, and

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

"(5) ADDITIONAL CENSUS TRACTS IN WHICH OWNER-OCCUPIED RESIDENCES MAY BE LOCATED.—In the case of any qualified residence described in paragraph (1), the term 'qualified census tract' includes any census tract which—

"(A) meets the requirements of subsection (c)(2)(A)(i) without regard to subclause (III) thereof, and

"(B) is designated by the neighborhood homes credit agency for purposes of this paragraph.

"(6) MODIFICATION OF REPAYMENT REQUIREMENT.—In the case of any qualified residence described in paragraph (1), subsection (g) shall be applied by beginning the 5-year period otherwise described therein on the date on which the qualified homeowner acquired such residence.

"(7) RELATED PARTIES.—Paragraph (1) shall not apply if the taxpayer is the owner of the qualified residence described in paragraph (1) or is related (within the meaning of subsection (h)(6)(B)) to such owner.

"(8) PYRRHOTITE REMEDIATION.—The requirement of subsection (c)(1)(D) shall not apply to a qualified rehabilitation under this subsection of a qualified residence that is documented by an engineer's report and core testing to have a foundation that is adversely impacted by pyrrhotite or other iron sulfide minerals.

"(j) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations that prevent avoidance of the rules, and abuse of the purposes, of this section.".

(b) CREDIT ALLOWED AS PART OF GENERAL BUSINESS CREDIT.—Section 38(b) of the Internal Revenue Code of 1986 is amended by striking "plus" at the end of paragraph (40), by striking the period at the end of paragraph (41) and inserting ", plus", and by adding at the end the following new paragraph:

"(42) the neighborhood homes credit determined under section 42A(a).".

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

"(iv) the credit determined under section 42A,".

(d) BASIS ADJUSTMENTS.—

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

(2) RESIDENTIAL CLEAN ENERGY CREDIT.—Section 25D(f) of such Code is amended by adding after the first sentence the following new sentence: ''This subsection shall not apply for purposes of determining the eligible development costs or adjusted basis of any building under section 42A.''.

(3) NEW ENERGY EFFICIENT HOME CREDIT.—Section 45L(e) of such Code is amended by inserting ''or for purposes of determining the eligible development costs or adjusted basis of any building under section 42A'' after ''section 42''.

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

"SEC. 139J. STATE ENERGY SUBSIDIES FOR QUALIFIED RESIDENCES.

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

(f) CONFORMING AMENDMENTS.—

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

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 42 the following new item:

"Sec. 42A. Neighborhood homes credit.".

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

"Sec. 139J. State energy subsidies for qualified residences.".

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

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