

119TH CONGRESS
1ST SESSION

S. 1686

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

IN THE SENATE OF THE UNITED STATES

MAY 8, 2025

Mr. YOUNG (for himself, Mr. WARNER, Mrs. HYDE-SMITH, Mr. WYDEN, Mr. CRAMER, Mr. KAINE, Mr. SCOTT of South Carolina, and Mr. COONS) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

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

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

6 **SEC. 2. FINDINGS AND SENSE OF CONGRESS.**

7 (a) FINDINGS.—Congress finds the following:

8 (1) Experts have determined that it could take
9 nearly a decade to address the housing shortage in

1 the United States, in large part due to increasing
2 housing prices and insufficient supply.

3 (2) The housing supply shortage disproportion-
4 ately impacts low-income and distressed commu-
5 nities.

6 (3) Homeownership is a primary source of
7 household wealth and neighborhood stability. Many
8 distressed communities have low rates of homeown-
9 ership and lack quality, affordable starter homes,
10 while many individuals who own their homes have
11 difficulty securing financing for home repairs and
12 improvements.

13 (4) Housing construction in distressed commu-
14 nities is prevented by the value gap, the difference
15 between the cost to develop a home and the sale
16 price of the home.

17 (5) The Neighborhood Homes Investment Act
18 can close these financing gaps to increase housing
19 development and rehabilitation in distressed commu-
20 nities.

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

- 1 (1) revitalizes distressed communities in rural
- 2 and urban geographies;
- 3 (2) minimizes application burdens on small
- 4 businesses applying for such credit; and
- 5 (3) is consistent with the Fair Housing Act of
- 6 1968 (42 U.S.C. 3601 et seq.).

7 **SEC. 3. NEIGHBORHOOD HOMES CREDIT.**

8 (a) IN GENERAL.—Subpart D of part IV of sub-

9 chapter A of chapter 1 of the Internal Revenue Code of

10 1986 is amended by inserting after section 42 the fol-

11 lowing new section:

12 **“SEC. 42A. NEIGHBORHOOD HOMES CREDIT.**

13 “(a) ALLOWANCE OF CREDIT.—For purposes of sec-

14 tion 38, the neighborhood homes credit determined under

15 this section for the taxable year is, with respect to each

16 qualified residence sold by the taxpayer during such tax-

17 able year in an affordable sale, the lesser of—

18 “(1) an amount equal to—

19 “(A) the excess (if any) of—

20 “(i) the reasonable development costs

21 paid or incurred by the taxpayer with re-

22 spect to such qualified residence, over

23 “(ii) the sale price of such qualified

24 residence (reduced by any reasonable ex-

1 penses paid or incurred by the taxpayer in
2 connection with such sale), or

3 “(B) if the neighborhood homes credit
4 agency determines it is necessary to ensure fi-
5 nancial feasibility, an amount not to exceed 120
6 percent of the amount under subparagraph (A),

7 “(2) 40 percent of the eligible development
8 costs paid or incurred by the taxpayer with respect
9 to such qualified residence, or

10 “(3) 32 percent of the national median sale
11 price for new homes (as determined pursuant to the
12 most recent census data available as of the date on
13 which the neighborhood homes credit agency makes
14 an allocation for the qualified project).

15 “(b) DEVELOPMENT COSTS.—For purposes of this
16 section—

17 “(1) REASONABLE DEVELOPMENT COSTS.—

18 “(A) IN GENERAL.—The term ‘reasonable
19 development costs’ means amounts paid or in-
20 curred for the acquisition of buildings and land,
21 construction, substantial rehabilitation, demoli-
22 tion of structures, or environmental remedi-
23 ation, to the extent that the neighborhood
24 homes credit agency determines that such
25 amounts meet the standards specified pursuant

1 to subsection (f)(1)(D) (as of the date on which
 2 construction or substantial rehabilitation is sub-
 3 stantially complete, as determined by such
 4 agency) and are necessary to ensure the finan-
 5 cial feasibility of such qualified residence.

6 “(B) CONSIDERATIONS IN MAKING DETER-
 7 MINATION.—In making the determination under
 8 subparagraph (A), the neighborhood homes
 9 credit agency shall consider—

10 “(i) the sources and uses of funds and
 11 the total financing,

12 “(ii) any proceeds or receipts gen-
 13 erated or expected to be generated by rea-
 14 son of tax benefits, and

15 “(iii) the reasonableness of the devel-
 16 opmental costs and fees.

17 “(2) ELIGIBLE DEVELOPMENT COSTS.—The
 18 term ‘eligible development costs’ means the amount
 19 which would be reasonable development costs if the
 20 amounts taken into account as paid or incurred for
 21 the acquisition of buildings and land did not exceed
 22 75 percent of such costs determined without regard
 23 to any amount paid or incurred for the acquisition
 24 of buildings and land.

1 “(3) SUBSTANTIAL REHABILITATION.—The
 2 term ‘substantial rehabilitation’ means amounts paid
 3 or incurred for rehabilitation of a qualified residence
 4 if such amounts exceed the greater of—

5 “(A) \$25,000, or

6 “(B) 20 percent of the amounts paid or in-
 7 curred by the taxpayer for the acquisition of
 8 buildings and land with respect to such quali-
 9 fied residence.

10 “(4) CONSTRUCTION AND REHABILITATION
 11 ONLY AFTER ALLOCATION TAKEN INTO ACCOUNT.—

12 “(A) IN GENERAL.—The terms ‘reasonable
 13 development costs’ and ‘eligible development
 14 costs’ shall not include any amount paid or in-
 15 curred before the date on which an allocation is
 16 made to the taxpayer under subsection (e) with
 17 respect to the qualified project of which the
 18 qualified residence is part unless such amount
 19 is paid or incurred for the acquisition of build-
 20 ings or land.

21 “(B) LAND AND BUILDING ACQUISITION
 22 COSTS.—Amounts paid or incurred for the ac-
 23 quisition of buildings or land shall be included
 24 under paragraph (A) only if paid or incurred
 25 not more than 3 years before the date on which

1 the allocation referred to in subparagraph (A)
 2 is made. If the taxpayer acquired any building
 3 or land from an entity (or any related party to
 4 such entity) that holds an ownership interest in
 5 the taxpayer, then such entity must also have
 6 acquired such property within such 3-year pe-
 7 riod, and the acquisition cost included under
 8 subparagraph (A) with respect to the taxpayer
 9 shall not exceed the amount such entity paid or
 10 incurred to acquire such property.

11 “(c) QUALIFIED RESIDENCE.—For purposes of this
 12 section—

13 “(1) IN GENERAL.—The term ‘qualified resi-
 14 dence’ means a residence that—

15 “(A) is real property (constructed on-site
 16 or manufactured off-site) affixed on a perma-
 17 nent foundation,

18 “(B) is—

19 “(i) a house which is comprised of 4
 20 or fewer residential units,

21 “(ii) a condominium unit, or

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

1 “(C) is part of a qualified project with re-
 2 spect to which the neighborhood homes credit
 3 agency has made an allocation under subsection
 4 (e), and

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

7 “(2) QUALIFIED CENSUS TRACT.—

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

10 “(i) which—

11 “(I) has a median family income
 12 which does not exceed 80 percent of
 13 the median family income for the ap-
 14 plicable area,

15 “(II) has a poverty rate that is
 16 not less than 130 percent of the pov-
 17 erty rate of the applicable area, and

18 “(III) has a median value for
 19 owner-occupied homes that does not
 20 exceed the median value for owner-oc-
 21 cupied homes in the applicable area,

22 “(ii) which—

23 “(I) is located in a city which has
 24 a population of not less than 50,000
 25 and such city has a poverty rate that

1 is not less than 150 percent of the
2 poverty rate of the applicable area,

3 “(II) has a median family income
4 which does not exceed the median
5 family income for the applicable area,
6 and

7 “(III) has a median value for
8 owner-occupied homes that does not
9 exceed 80 percent of the median value
10 for owner-occupied homes in the ap-
11 plicable area,

12 “(iii) which—

13 “(I) is located in a nonmetropoli-
14 tan county,

15 “(II) has a median family income
16 which does not exceed the median
17 family income for the applicable area,
18 and

19 “(III) has been designated by a
20 neighborhood homes credit agency
21 under this clause,

22 “(iv) which is not otherwise a quali-
23 fied census tract and is located in a dis-
24 aster area (as defined in section
25 7508A(d)(3)), but only with respect to

1 credits allocated in any period during
 2 which the President of the United States
 3 has determined that such area warrants in-
 4 dividual or individual and public assistance
 5 by the Federal Government under the Rob-
 6 ert T. Stafford Disaster Relief and Emer-
 7 gency Assistance Act, or

8 “(v) which is not otherwise a qualified
 9 census tract and is identified by the neigh-
 10 borhood homes credit agency, through
 11 methodologies detailed in the qualified allo-
 12 cation plan, as having a shortage of afford-
 13 able owner-occupied homes.

14 “(B) APPLICABLE AREA.—The term ‘appli-
 15 cable area’ means—

16 “(i) in the case of a metropolitan cen-
 17 sus tract, the metropolitan area in which
 18 such census tract is located, and

19 “(ii) in the case of a census tract
 20 other than a census tract described in
 21 clause (i), the State.

22 “(d) AFFORDABLE SALE.—For purposes of this sec-
 23 tion—

24 “(1) IN GENERAL.—The term ‘affordable sale’
 25 means a sale to a qualified homeowner of a qualified

1 residence that the neighborhood homes credit agency
2 certifies as meeting the standards promulgated
3 under subsection (f)(1)(D) for a price that does not
4 exceed—

5 “(A) in the case of any qualified residence
6 not described in subparagraph (B), (C), or (D),
7 the amount equal to the product of 4 multiplied
8 by the median family income for the applicable
9 area (as determined pursuant to the most re-
10 cent census data available as of the date of the
11 contract for such sale),

12 “(B) in the case of a house comprised of
13 2 residential units, 125 percent of the amount
14 described in subparagraph (A),

15 “(C) in the case of a house comprised of
16 3 residential units, 150 percent of the amount
17 described in subparagraph (A), or

18 “(D) in the case of a house comprised of
19 4 residential units, 175 percent of the amount
20 described in subparagraph (A).

21 “(2) QUALIFIED HOMEOWNER.—The term
22 ‘qualified homeowner’ means, with respect to a
23 qualified residence, an individual—

1 “(A) who owns and uses such qualified res-
 2 idence as the principal residence of such indi-
 3 vidual, and

4 “(B) whose family income (determined as
 5 of the date that a binding contract for the af-
 6 fordable sale of such residence is entered into)
 7 is 140 percent or less of the median family in-
 8 come for the applicable area in which the quali-
 9 fied residence is located.

10 “(e) CREDIT CEILING AND ALLOCATIONS.—

11 “(1) CREDIT LIMITED BASED ON ALLOCATIONS
 12 TO QUALIFIED PROJECTS.—

13 “(A) IN GENERAL.—The credit allowed
 14 under subsection (a) to any taxpayer for any
 15 taxable year with respect to one or more quali-
 16 fied residences which are part of the same
 17 qualified project shall not exceed the excess (if
 18 any) of—

19 “(i) the amount allocated by the
 20 neighborhood homes credit agency under
 21 this paragraph to such taxpayer with re-
 22 spect to such qualified project, over

23 “(ii) the aggregate amount of credit
 24 allowed under subsection (a) to such tax-
 25 payer with respect to qualified residences

1 which are a part of such qualified project
2 for all prior taxable years.

3 “(B) DEADLINE FOR COMPLETION.—No
4 credit shall be allowed under subsection (a)
5 with respect to any qualified residence unless
6 the affordable sale of such residence is during
7 the 5-year period beginning on the date of the
8 allocation to the qualified project of which such
9 residence is a part (or, in the case of a qualified
10 residence to which subsection (i) applies, the re-
11 habilitation of such residence is completed dur-
12 ing such 5-year period).

13 “(2) LIMITATIONS ON ALLOCATIONS TO QUALI-
14 FIED PROJECTS.—

15 “(A) ALLOCATIONS LIMITED BY STATE
16 NEIGHBORHOOD HOMES CREDIT CEILING.—The
17 aggregate amount allocated to taxpayers with
18 respect to qualified projects by the neighbor-
19 hood homes credit agency of any State for any
20 calendar year shall not exceed the State neigh-
21 borhood homes credit amount of such State for
22 such calendar year.

23 “(B) SET-ASIDE FOR CERTAIN PROJECTS
24 INVOLVING QUALIFIED NONPROFIT ORGANIZA-
25 TIONS.—Rules similar to the rules of section

1 42(h)(5) shall apply for purposes of this sec-
 2 tion.

3 “(3) DETERMINATION OF STATE NEIGHBOR-
 4 HOOD HOMES CREDIT CEILING.—

5 “(A) IN GENERAL.—The State neighbor-
 6 hood homes credit amount for a State for a cal-
 7 endar year is an amount equal to the sum of—

8 “(i) the greater of—

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

12 “(II) \$12,000,000, and

13 “(ii) any amount previously allocated
 14 to any taxpayer with respect to any quali-
 15 fied project by the neighborhood homes
 16 credit agency of such State which can no
 17 longer be allocated to any qualified resi-
 18 dence because the 5-year period described
 19 in paragraph (1)(B) expires during cal-
 20 endar year.

21 “(B) 3-YEAR CARRYFORWARD OF UNUSED
 22 LIMITATION.—The State neighborhood homes
 23 credit amount for a State for a calendar year
 24 shall be increased by the excess (if any) of the
 25 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—

1 “(i) are located in census tracts de-
2 scribed in subsection (c)(2)(A)(iii),
3 (c)(2)(A)(iv), (i)(5), or

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

7 “(C) subject to paragraph (2), in addition
8 to any allocation described in subparagraph
9 (B), allocates not more than 20 percent of
10 amounts allocated in the previous year (or for
11 allocations made in the first allocation year
12 under this section, not more than 20 percent of
13 the neighborhood homes credit ceiling for such
14 year) to projects with respect to qualified resi-
15 dences which are located in any census tract de-
16 scribed in subsection (c)(2)(A)(v), except that,
17 with respect to any qualified residence located
18 within such census tract which is sold to a
19 qualified homeowner, subsection (d)(2) shall be
20 applied by substituting ‘120 percent’ for ‘140
21 percent’,

22 “(D) promulgates standards with respect
23 to reasonable qualified development costs and
24 fees,

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

6 “(F) in the case of any neighborhood
7 homes credit agency which makes an allocation
8 to a qualified project which includes any quali-
9 fied residence to which subsection (i) applies,
10 promulgates standards with respect to pro-
11 tecting the owners of such residences, including
12 the capacity of such owners to pay rehabilita-
13 tion costs not covered by the credit provided by
14 this section and providing for the disclosure to
15 such owners of their rights and responsibilities
16 with respect to the rehabilitation of such resi-
17 dences,

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

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

1 “(ii) with respect to each qualified
2 residence completed in the preceding cal-
3 endar year—

4 “(I) the census tract in which
5 such qualified residence is located,

6 “(II) with respect to the qualified
7 project that includes such qualified
8 residence, the year in which such
9 project received an allocation under
10 this section,

11 “(III) whether such qualified res-
12 idence was new, substantially rehabili-
13 tated and sold to a qualified home-
14 owner, or substantially rehabilitated
15 pursuant to subsection (i),

16 “(IV) the eligible development
17 costs of such qualified residence,

18 “(V) the amount of the neighbor-
19 hood homes credit with respect to
20 such qualified residence,

21 “(VI) the sales price of such
22 qualified residence, if applicable, and

23 “(VII) the family income of the
24 qualified homeowner (expressed as a
25 percentage of the applicable area me-

1 dian family income for the location of
2 the qualified residence), and

3 “(iii) such other information as the
4 Secretary may require,

5 “(H) makes available to the general public
6 a written explanation for any allocation of a
7 neighborhood homes credit dollar amount which
8 is not made in accordance with established pri-
9 orities and selection criteria of the neighbor-
10 hood homes credit agency, and

11 “(I) provides educational outreach on ap-
12 plication and compliance requirements, includ-
13 ing for small residential builders and remod-
14 elers.

15 “(2) ALTERNATIVE FOR CERTAIN STATES.—

16 “(A) IN GENERAL.—In the case of any
17 State which, for a calendar year, is an applica-
18 ble State (as defined in subparagraph (B)), in
19 lieu of the requirements under subparagraphs
20 (B) and (C) of paragraph (1), the neighborhood
21 homes credit agency of the State may elect to
22 allocate not more than 40 percent of amounts
23 allocated in the previous year (or for allocations
24 made in the first allocation year under this sec-
25 tion, not more than 40 percent of the neighbor-

hood 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,

1 “(iii) the capability and prior perform-
2 ance of the project sponsor, and

3 “(iv) the likelihood the project will re-
4 sult in long-term homeownership,

5 “(B) has been made available for public
6 comment,

7 “(C) as determined by the neighborhood
8 homes credit agency, is likely to result in the
9 selection of highly qualified applicants while
10 also minimizing, to the extent practicable, appli-
11 cation costs and barriers to entry for small resi-
12 dential builders and re-modelers, and

13 “(D) provides a procedure that the neigh-
14 borhood homes credit agency (or any agent or
15 contractor of such agency) shall follow for pur-
16 poses of—

17 “(i) identifying noncompliance with
18 any provisions of this section, and

19 “(ii) notifying the Internal Revenue
20 Service of any such noncompliance of
21 which the agency becomes aware.

22 “(g) REPAYMENT.—

23 “(1) IN GENERAL.—

24 “(A) SOLD DURING 5-YEAR PERIOD.—If a
25 qualified residence is sold during the 5-year pe-

riod 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

1 part of a qualified project for an amount such agen-
 2 cy deems necessary to ensure potential repayment
 3 pursuant to paragraph (1)(A).

4 “(4) WAIVER.—

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

10 “(B) HARDSHIP.—For purposes of sub-
 11 paragraph (A), with respect to the seller, a
 12 hardship may include—

13 “(i) divorce,

14 “(ii) disability,

15 “(iii) illness, or

16 “(iv) any other hardship identified by
 17 the neighborhood homes credit agency for
 18 purposes of this paragraph.

19 “(h) OTHER DEFINITIONS AND SPECIAL RULES.—

20 For purposes of this section—

21 “(1) NEIGHBORHOOD HOMES CREDIT AGEN-
 22 CY.—The term ‘neighborhood homes credit agency’
 23 means the agency designated by the governor of a
 24 State as the neighborhood homes credit agency of
 25 the State.

1 “(2) QUALIFIED PROJECT.—The term ‘qualified
2 project’ means a project that a neighborhood homes
3 credit agency certifies will build or substantially re-
4 habilitate one or more qualified residences.

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

8 “(4) POSSESSIONS TREATED AS STATES.—The
9 term ‘State’ includes the District of Columbia and
10 the possessions of the United States.

11 “(5) SPECIAL RULES RELATED TO CONDOMIN-
12 IUMS AND COOPERATIVE HOUSING CORPORATIONS.—

13 “(A) DETERMINATION OF DEVELOPMENT
14 COSTS.—In the case of a qualified residence de-
15 scribed in clause (ii) or (iii) of subsection
16 (c)(1)(A), the reasonable development costs and
17 eligible development costs of such qualified resi-
18 dence shall be an amount equal to such costs,
19 respectively, of the entire condominium or coop-
20 erative housing property in which such qualified
21 residence is located, multiplied by a fraction—

22 “(i) the numerator of which is the
23 total floor space of such qualified resi-
24 dence, and

1 “(ii) the denominator of which is the
 2 total floor space of all residences within
 3 such property.

4 “(B) TENANT-STOCKHOLDERS OF COOPER-
 5 ATIVE HOUSING CORPORATIONS TREATED AS
 6 OWNERS.—In the case of a cooperative housing
 7 corporation (as such term is defined in section
 8 216(b)), a tenant-stockholder shall be treated
 9 as owning the house or apartment which such
 10 person is entitled to occupy.

11 “(6) RELATED PARTY SALES NOT TREATED AS
 12 AFFORDABLE SALES.—

13 “(A) IN GENERAL.—A sale between related
 14 persons shall not be treated as an affordable
 15 sale.

16 “(B) RELATED PERSONS.—For purposes
 17 of this paragraph, a person (in this subpara-
 18 graph referred to as the ‘related person’) is re-
 19 lated to any person if the related person bears
 20 a relationship to such person specified in sec-
 21 tion 267(b) or 707(b)(1), or the related person
 22 and such person are engaged in trades or busi-
 23 nesses under common control (within the mean-
 24 ing of subsections (a) and (b) of section 52).
 25 For purposes of the preceding sentence, in ap-

plying 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.

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

6 “(8) REPORT.—

7 “(A) IN GENERAL.—The Secretary shall
 8 annually issue a report, to be made available to
 9 the public, which contains the information sub-
 10 mitted pursuant to subsection (f)(1)(G).

11 “(B) DE-IDENTIFICATION.—The Secretary
 12 shall ensure that any information made public
 13 pursuant to subparagraph (A) excludes any in-
 14 formation that would allow for the identification
 15 of qualified homeowners.

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

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

22 “(B) clause (iii) of such subsection, and

23 “(C) subsection (i)(5)(A).

24 “(10) DENIAL OF DEDUCTIONS IF CONVERTED
 25 TO RENTAL HOUSING.—If, during the 5-year period

1 beginning immediately after the affordable sale of a
 2 qualified residence referred to in subsection (a), an
 3 individual who owns a qualified residence (whether
 4 or not such individual was the purchaser in such af-
 5 fordable sale) fails to use such qualified residence as
 6 such individual's principal residence for any period
 7 of time, no deduction shall be allowed for expenses
 8 paid or incurred by such individual with respect to
 9 renting, during such period of time, such qualified
 10 residence.

11 “(i) APPLICATION OF CREDIT WITH RESPECT TO
 12 OWNER-OCCUPIED REHABILITATIONS.—

13 “(1) IN GENERAL.—In the case of a qualified
 14 rehabilitation by the taxpayer of any qualified resi-
 15 dence which is owned (as of the date that the writ-
 16 ten binding contract referred to in paragraph (3) is
 17 entered into) by a specified homeowner, the rules of
 18 paragraphs (2) through (7) shall apply.

19 “(2) ALTERNATIVE CREDIT DETERMINATION.—

20 In the case of any qualified residence described in
 21 paragraph (1), the neighborhood homes credit deter-
 22 mined under subsection (a) with respect to such res-
 23 idence shall (in lieu of any credit otherwise deter-
 24 mined under subsection (a) with respect to such res-
 25 idence) 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 rehabilita-

1 tion or reconstruction exceeds the dollar
2 amount in effect under subsection (b)(3)(A).

3 “(B) APPLICATION OF LIMITATION TO EX-
4 PENSES PAID OR INCURRED AFTER ALLOCA-
5 TION.—A rule similar to the rule of section
6 (b)(4) shall apply for purposes of this sub-
7 section.

8 “(4) SPECIFIED HOMEOWNER.—For purposes
9 of this subsection, the term ‘specified homeowner’
10 means, with respect to a qualified residence, an indi-
11 vidual—

12 “(A) who owns and uses such qualified res-
13 idence as the principal residence of such indi-
14 vidual as of the date that the written binding
15 contract referred to in paragraph (3) is entered
16 into, and

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

22 “(5) ADDITIONAL CENSUS TRACTS IN WHICH
23 OWNER-OCCUPIED RESIDENCES MAY BE LOCATED.—
24 In the case of any qualified residence described in

1 paragraph (1), the term ‘qualified census tract’ in-
 2 cludes any census tract which—

3 “(A) meets the requirements of subsection
 4 (c)(2)(A)(i) without regard to subclause (III)
 5 thereof, and

6 “(B) is designated by the neighborhood
 7 homes credit agency for purposes of this para-
 8 graph.

9 “(6) MODIFICATION OF REPAYMENT REQUIRE-
 10 MENT.—In the case of any qualified residence de-
 11 scribed in paragraph (1), subsection (g) shall be ap-
 12 plied by beginning the 5-year period otherwise de-
 13 scribed therein on the date on which the qualified
 14 homeowner acquired such residence.

15 “(7) RELATED PARTIES.—Paragraph (1) shall
 16 not apply if the taxpayer is the owner of the quali-
 17 fied residence described in paragraph (1) or is re-
 18 lated (within the meaning of subsection (h)(6)(B))
 19 to such owner.

20 “(8) PYRRHOTITE REMEDIATION.—The require-
 21 ment of subsection (c)(1)(D) shall not apply to a
 22 qualified rehabilitation under this subsection of a
 23 qualified residence that is documented by an engi-
 24 neer’s report and core testing to have a foundation

1 that is adversely impacted by pyrrhotite or other
2 iron sulfide minerals.

3 “(j) REGULATIONS.—The Secretary shall prescribe
4 such regulations as may be necessary or appropriate to
5 carry out the purposes of this section, including regula-
6 tions that prevent avoidance of the rules, and abuse of
7 the purposes, of this section.”.

8 (b) CREDIT ALLOWED AS PART OF GENERAL BUSI-
9 NESS CREDIT.—Section 38(b) of the Internal Revenue
10 Code of 1986 is amended by striking “plus” at the end
11 of paragraph (40), by striking the period at the end of
12 paragraph (41) and inserting “, plus”, and by adding at
13 the end the following new paragraph:

14 “(42) the neighborhood homes credit deter-
15 mined under section 42A(a).”.

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

21 “(iv) the credit determined under sec-
22 tion 42A,”.

23 (d) BASIS ADJUSTMENTS.—

24 (1) ENERGY EFFICIENT HOME IMPROVEMENT
25 CREDIT.—Section 25C(g) of the Internal Revenue

1 Code of 1986 is amended by adding after the first
 2 sentence the following new sentence: “This sub-
 3 section shall not apply for purposes of determining
 4 the eligible development costs or adjusted basis of
 5 any building under section 42A.”.

6 (2) RESIDENTIAL CLEAN ENERGY CREDIT.—
 7 Section 25D(f) of such Code is amended by adding
 8 after the first sentence the following new sentence:
 9 “This subsection shall not apply for purposes of de-
 10 termining the eligible development costs or adjusted
 11 basis of any building under section 42A.”.

12 (3) NEW ENERGY EFFICIENT HOME CREDIT.—
 13 Section 45L(e) of such Code is amended by inserting
 14 “or for purposes of determining the eligible develop-
 15 ment costs or adjusted basis of any building under
 16 section 42A” after “section 42”.

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

21 **“SEC. 139J. STATE ENERGY SUBSIDIES FOR QUALIFIED**
 22 **RESIDENCES.**

23 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
 24 come shall not include the value of any subsidy provided
 25 to a taxpayer (whether directly or indirectly) by any State

1 energy office (as defined in section 124(a) of the Energy
 2 Policy Act of 2005 (42 U.S.C. 15821(a))) for purposes
 3 of any energy improvements made to a qualified residence
 4 (as defined in section 42A(c)(1)).”.

5 (f) CONFORMING AMENDMENTS.—

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

10 (2) The table of sections for subpart D of part
 11 IV of subchapter A of chapter 1 of such Code is
 12 amended by inserting after the item relating to sec-
 13 tion 42 the following new item:

“Sec. 42A. Neighborhood homes credit.”.

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

“Sec. 139J. State energy subsidies for qualified residences.”.

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

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