Neighborhood Homes Investment Act

INCLUDED IN PRESIDENT BIDEN'S AMERICAN JOBS PLAN

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NEIGHBORHOOD HOMES INVESTMENT ACT

- S. 98 Introduced by Senators Cardin (D-MD) and Portman (R-OH) on 1/28/2021
- Co-sponsored by Senators Brown (D-OH), Coons (D-DE), Young (R-IN) Scott (R-SC) Stabenow (D-MI) and Moran (R-KS) Baldwin (D-WI) Graham (R-SC) Sinema (D-AZ)
- Referred to the Senate Finance Committee

https://www.congress.gov/bill/117th-congress/senate-bill/98/cosponsors?searchResultViewType=expanded

- H.R. 2143
- Introduced by Representative Higgins (D-NY-26)

https://www.congress.gov/bill/117th-congress/house-bill/2143/cosponsors?r=41&s=1&searchResultViewType=expanded

NEIGHBORHOOD HOMES CREDIT ACT (S. 98)

- Amends Subpart D of part IV of chapter 1 of the internal revenue Code by inserting new Sec. 42A
- Creates a new federal income tax credit for each ”qualified residence” in a “qualified project” that experiences a “qualified completion”

ALLOWANCE OF CREDIT

- Allowance of credit for each qualified residence that is part of a qualified project:

  1. Affordable Sale (with respect to the seller)

     The excess of the qualified development cost over the sale price of the home

  2. Other Qualified Completion Event (with respect to the taxpayer other than the owner of the qualified residence)

     The excess of the qualified development cost over the amount received as payment for the rehabilitation

DEFINITIONS

Qualified Residence: a single-family home containing 4 or fewer residential units; a condominium unit; or a house or an apartment owned by a cooperative housing corporation (as defined by section 216(b))

Affordable Sale: a sale to a qualified homeowner of a qualified residence that the neighborhood homes credit agency certifies as meeting the standards it promulgates, for a price that does not exceed:

1. for a home with 1 res. unit, 4 x the applicable area median gross income
2. for a home with 2 res. units, 125% of 4 x the applicable area median gross income
3. for a home with 3 res. units, 150% of 4 x the applicable area median gross income, or
4. for a home with 4 res. units, 175% of 4 x the applicable area median gross income

DEFINITIONS

Substantial Rehabilitation: rehabilitation efforts involving qualified development costs that are not less than the greater of $20,000 or 20% of the cost of acquiring buildings and land.

Qualified Completion Event:

1. in the case of a qualified residence that is built or substantially rehabilitated as part of a qualified project and sold, **an affordable sale**, or
2. in the case of a qualified residence that is substantially rehabilitated as part of a qualified project and owned by the same qualified homeowner throughout the rehab, **the completion of the rehab** (as determined by the neighborhood homes credit agency) to the standards it promulgates

DEFINITIONS

Qualified Homeowner: an individual

1. who owns and uses the qualified residence as their principal residence, and
2. whose income is 140% or less of the applicable area median gross income for the location of the qualified residence.

Ownership: for purposes of a cooperative housing corporation, a tenant-stockholder is treated as owning the house or apartment that the person is entitled to occupy

DEFINITIONS

Income: is determined in accordance with section 143(f)(2) and 143(f)(4)

1. in the case of a qualified residence that is built or substantially rehabilitated as part of a qualified project and sold, the income of the taxpayer is determined **at the time a binding contract for purchase is made**
2. in the case of a qualified residence that is occupied by a qualified homeowner and intended to be substantially rehabilitated as part of a qualified project, the income of the taxpayer is determined **at the time a binding contract to undertake the rehabilitation is made**

Neighborhood Homes Credit Agency: the agency designated by the governor of a State as the neighborhood homes credit agency of the State

DEFINITIONS

- **Qualified Development Cost** means, with respect to a qualified residence, so much of the allowable development cost as the neighborhood homes credit agency certifies meets the standards it promulgates
- **Allowable Development Cost** means:
  a. the cost of construction, substantial rehabilitation, demolition of any structure, and environmental remediation, and
  b. in the case of an affordable sale, so much of the cost of acquiring buildings and land as does not exceed 75% of the costs of construction, substantial rehabilitation, demolition and environmental remediation.

DEFINITIONS

- **Condominium and Cooperative Housing Units**—the allowable development cost is the total allowable development cost of the entire condominium or cooperative housing property in which the qualified residence is located, multiplied by a fraction—

  a. the numerator of which is the total floor space of the qualified residence, and

  b. the denominator of which is the total floor space of all residences within the property.

DEFINITIONS

- **Qualified Project** means a project that—

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

  b. is designated by the agency as a qualified project and is allocated credits before the building or substantial rehabilitation begins.

DEFINITIONS

- **Qualified Census Tract** means a census tract with:

  a. a median gross income which does not exceed 80% of the applicable area median gross income,

  b. a poverty rate that is not less than 130% of the applicable area poverty rate, and

  c. a median value for owner-occupied homes that does not exceed applicable area median value for owner-occupied homes,

  which is located in a city with a population of not less than 50,000 and a poverty rate that is not less than 150% of the applicable area poverty rate, and which has:

  a. a median gross income which does not exceed the applicable area median gross income, and

  b. a median value for owner-occupied homes that does not exceed 80 percent of the applicable area median value for owner-occupied homes, **OR**

DEFINITONS

which is located in a nonmetropolitan county and which has:

a. a median gross income which does not exceed the applicable area median gross income, and

b. been designated by a neighborhood homes credit agency.

- **Additional Census Tracts for Substantial Rehabilitation**

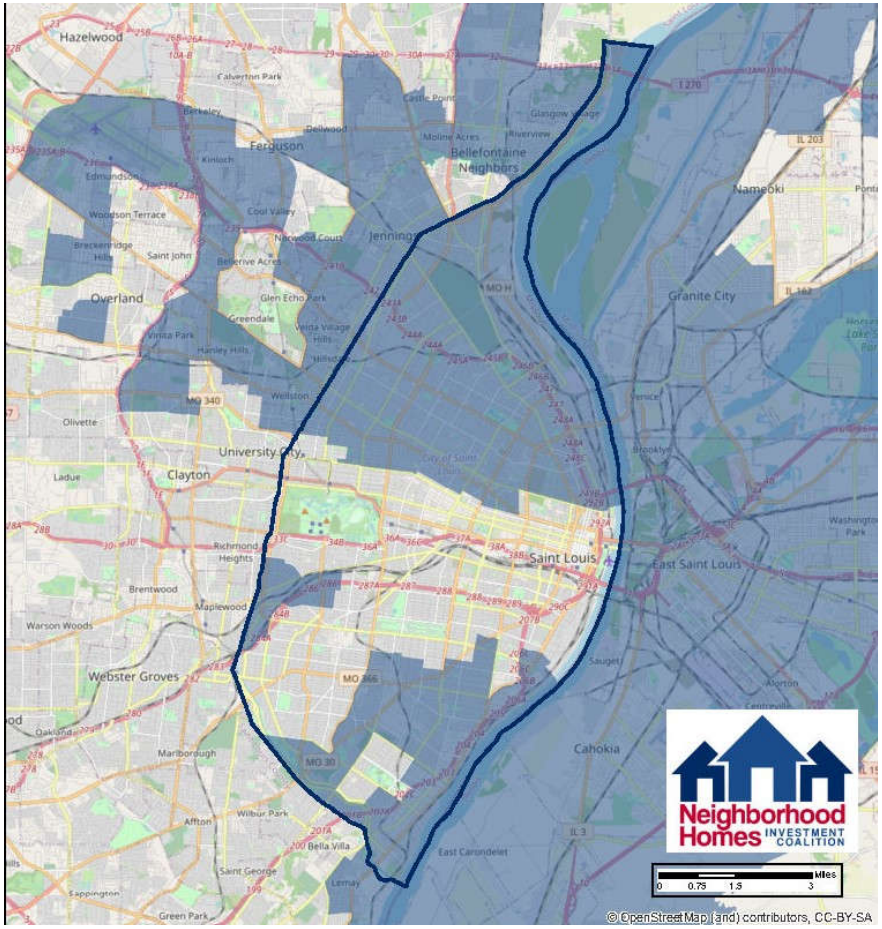
In the case of a qualified residence that is intended for substantial rehabilitation, the term ‘qualified census tract’ includes a census tract with:

a. a median gross income which does not exceed 80% of the applicable area median gross income,

b. a poverty rate that is not less than 130% of the applicable area poverty rate,

c. **BUT DOES NOT** need to have a median value for owner-occupied homes that does not exceed applicable area median value for owner-occupied homes

NHIA-Eligible Census Tracts—St. Louis Area



ALLOCATION

Responsibilities of Neighborhood Homes Credit Agencies:

1. allocates pursuant to a **qualified allocation plan**,
2. allocates not more than 20% of such amount for the previous year to projects in nonmetropolitan counties or to "Additional Census Tracts for Substantial Rehabilitation" as defined in section (e)(2)
3. promulgates **standards for reasonable qualified development costs** and fees,
4. promulgates **standards for construction quality**

ALLOCATION

Qualified Allocation Plan: any plan which

1. sets forth the selection criteria to be used to prioritize qualified projects for allocations of State neighborhood homes credit dollar amounts, including:
   a. the need for new or substantially rehabilitated owner-occupied homes in the area addressed by the project,
   b. the expected contribution of the project to neighborhood stability and revitalization,
   c. the capability of the project sponsor, and
   d. the likelihood the project will result in long-term homeownership,
2. has been made available for public comment, and

ALLOCATION

State Neighborhood Homes Credit Ceiling: for a calendar year is the greater of:

1. $6 multiplied by the State population, or
2. $8,000,000

(For Missouri, that would be about $37 million and for Illinois that would be about $75 million)

Portion of State Credit Ceiling for Certain Projects Involving Qualified Non-Profit Organizations: rules similar to the rules of section 42(h)(5) to apply

Qualified Allocation Plan:

3. provides a procedure that the neighborhood homes credit agency (or any agent or contractor of such agency) shall follow for purposes of—
   a. identifying noncompliance with any provisions of section 42A, and
   b. notifying the Internal Revenue Service of any such noncompliance of which the agency becomes aware

ALLOCATION

1. **Amount:** the amount of credit allowance for a qualified residence cannot exceed 35% of the lesser of:
   a. The qualified development cost, or
   b. 80% of the national median sales price for new homes (as determined by census data)

2. **Allocations:** the amount of credit allocated to a qualified residence that is part of a qualified project cannot exceed the excess of:

- the amount allocated to the project by the "neighborhood homes credit agency",
- the amount the agency determines at the time of the qualified completion event is necessary to ensure the financial feasibility of the project, or
- in the case of a qualified completion event that occurs more than 5-years after the allocation date, $0

OVER

- the Allowance of Credit amounts determined for "Affordable Sale" and "Other Qualified Completion Events"

ALLOCATION

3. **Financial Feasibility:** for the purposes of 2 above, the neighborhood homes credit agency shall consider:

    a. the sources and uses of funds and the total financing planned for the qualified project,

    b. any proceeds or receipts expected to be generated by reason of tax benefits,

    c. the percentage of the amount allocated to such project under this section used for project costs other than the cost of intermediaries, and

    d. the reasonableness of the developmental costs and fees of the qualified project

OTHER PROVISIONS

- **Inflation Adjustments:** in calendar years after 2022, the dollar amounts will be increased by a cost-of-living adjustment
- **Limitations on Carryback:** Section 39 of the Code is amended by adding a new subsection:

  "(e) NO CARRYBACK OF NEIGHBORHOOD HOMES CREDIT BEFORE EFFECTIVE DATE. No amount of the unused credit attributable to section 42A may be taken into account under section 38(a)(3) for any taxable year beginning before the date of the enactment of this subsection.''.

REPAYMENT

- If a qualified residence is sold within 5 years of the qualified completion event, the seller must make a repayment to the neighborhood homes credit agency
- The neighborhood homes credit agency must use repayments only for purposes of qualified projects
- **Repayment Amount:** 50% of the gain from the resale, reduced by 20% for each year of the 5-year repayment period
- **Liens for Repayment Amounts:** neighborhood homes credit agencies must place a lien on each qualified residence that is built or rehabilitated as part of a qualified project for an amount the agency deems necessary to ensure potential repayment

REPAYMENT

- **Waiver:** the neighborhood homes credit agency may waive the required repayment in the case of a homeowner experiencing a hardship
- **Denial of Deductions if Converted to Rental Housing:** If, during the 5-year period after the qualified completion event, an individual who owns a qualified residence fails to use the qualified residence as their principal residence for any period of time, no deduction will be allowed for expenses paid or incurred by the individual with respect to renting the qualified residence during that period of time.