

104TH CONGRESS  
1ST SESSION

# S. 973

To amend the Internal Revenue Code of 1986 to provide for the tax treatment of residential ground rents, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

JUNE 27 (legislative day, JUNE 19), 1995

Mr. INOUE introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide for the tax treatment of residential ground rents, 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. MORTGAGE INTEREST DEDUCTION FOR QUALI-**  
4 **FIED NON-REDEEMABLE GROUND RENTS.**

5 (a) IN GENERAL.—Section 163(c) of the Internal  
6 Revenue Code of 1986 is amended to read as follows:

7 “(c) GROUND RENTS.—For purposes of this subtitle,  
8 any annual or periodic rental under a redeemable ground  
9 rent (excluding amounts in redemption thereof) or a quali-

1 fied non-redeemable ground rent shall be treated as inter-  
2 est on an indebtedness secured by a mortgage.”

3 (b) TREATMENT OF QUALIFIED NON-REDEEMABLE  
4 GROUND RENTS.—

5 (1) IN GENERAL.—Subsections (a), (b), and (d)  
6 of section 1055 of the Internal Revenue Code of  
7 1986 (relating to redeemable ground rents) are  
8 amended by inserting “or qualified non-redeemable”  
9 after “redeemable” each place it appears.

10 (2) DEFINITION.—Section 1055 of such Code is  
11 amended by redesignating subsection (d) as sub-  
12 section (e) and by inserting after subsection (c) the  
13 following new subsection:

14 “(d) QUALIFIED NON-REDEEMABLE GROUND  
15 RENT.—For purposes of this subtitle, the term ‘qualified  
16 non-redeemable ground rent’ means a ground rent with  
17 respect to which—

18 “(1) there is a lease of land which is for a term  
19 in excess of 15 years,

20 “(2) no portion of any payment is allocable to  
21 the use of any property other than the land surface,

22 “(3) the lessor’s interest in the land is pri-  
23 marily a security interest to protect the rental pay-  
24 ments to which the lessor is entitled under the lease,  
25 and

1           “(4) the leased property must be used as the  
2 taxpayer’s principal residence (within the meaning of  
3 section 1034).”

4           (3) CONFORMING AMENDMENTS.—

5           (A) The heading for section 1055 of such  
6 Code is amended by striking “**REDEEMABLE**”.

7           (B) The item relating to section 1055 in  
8 the table of sections for part IV of subchapter  
9 O of chapter 1 of subtitle A of such Code is  
10 amended by striking “Redeemable ground” and  
11 inserting “Ground”.

12          (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall take effect on the date of the enactment  
14 of this Act, with respect to taxable years ending after such  
15 date.

16 **SEC. 2. CREDIT FOR TRANSACTION COSTS ON THE TRANS-**  
17 **FER OF LAND SUBJECT TO CERTAIN GROUND**  
18 **RENTS.**

19          (a) IN GENERAL.—Subpart B of part IV of sub-  
20 chapter A of chapter 1 of the Internal Revenue Code of  
21 1986 (relating to foreign tax credit, etc.) is amended by  
22 inserting after section 30 the following new section:

23 **“SEC. 30A. CREDIT FOR TRANSACTION COSTS.**

24          “(a) ALLOWANCE OF CREDIT.—

1           “(1) IN GENERAL.—At the election of the tax-  
2           payer, there shall be allowed as a credit against the  
3           tax imposed by this chapter for the taxable year an  
4           amount equal to the transaction costs relating to  
5           any sale or exchange of land subject to ground rents  
6           with respect to which immediately after and for at  
7           least 1 year prior to such sale or exchange—

8                   “(A) the transferee is the lessee who owns  
9                   a dwelling unit on the land being transferred,  
10                  and

11                  “(B) the transferor is the lessor.

12           “(2) CREDIT ALLOWED TO BOTH TRANSFEROR  
13           AND TRANSFEE.—The credit allowed under para-  
14           graph (1) shall be allowed to both the transferor and  
15           the transferee.

16           “(b) LIMITATIONS.—

17                   “(1) LIMITATION PER DWELLING UNIT.—The  
18                   amount of the credit allowed to a taxpayer under  
19                   subsection (a) for any taxable year shall not exceed  
20                   the lesser of—

21                           “(A) \$5,000 per dwelling unit, or

22                           “(B) 10 percent of the sale price of the  
23                   land.

24                   “(2) LIMITATION BASED ON TAXABLE IN-  
25                   COME.—The amount of the credit allowed to a tax-

1 payer under subsection (a) for any taxable year shall  
2 not exceed the sum of—

3 “(A) 20 percent of the regular tax for the  
4 taxable year reduced by the sum of the credits  
5 allowable under subpart A and sections 27, 28,  
6 29, and 30, plus

7 “(B) the alternative minimum tax imposed  
8 by section 55.

9 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
10 poses of this section—

11 “(1) TRANSACTION COSTS.—

12 “(A) IN GENERAL.—The term ‘transaction  
13 costs’ means any expenditure directly associated  
14 with a transaction, the purpose of which is to  
15 convey to the lessee, by the lessor, land subject  
16 to ground rents.

17 “(B) SPECIFIC EXPENDITURES.—Such  
18 term includes closing costs, attorney fees, sur-  
19 veys and appraisals, and telephone, office, and  
20 travel expenses incurred in negotiations with re-  
21 spect to such transaction.

22 “(C) LOST RENTS NOT INCLUDED.—Such  
23 term does not include lost rents due to the pre-  
24 mature termination of an existing lease.

1           “(2) DWELLING UNIT.—A dwelling unit shall  
2 include any structure or portion of any structure  
3 which serves as the principal residence (within the  
4 meaning of section 1034) for the lessee.

5           “(3) REDUCTION IN BASIS.—The basis of prop-  
6 erty acquired in a transaction to which this section  
7 applies shall be reduced by the amount of credit al-  
8 lowed under subsection (a).

9           “(4) ELECTION.—This section shall apply to  
10 any taxpayer for the taxable year only if such tax-  
11 payer elects to have this section so apply.

12           “(d) CARRYOVER OF CREDIT.—

13           “(1) CARRYOVER PERIOD.—If the credit al-  
14 lowed to the taxpayer under subsection (a) for any  
15 taxable year exceeds the amount of the limitation  
16 imposed by subsection (b)(2) for such taxable year  
17 (hereafter in this subsection referred to as the ‘un-  
18 used credit year’), such excess shall be a carryover  
19 to each of the 5 succeeding taxable years.

20           “(2) AMOUNT CARRIED TO EACH YEAR.—

21           “(A) ENTIRE AMOUNT CARRIED TO FIRST  
22 YEAR.—The entire amount of the unused credit  
23 for an unused credit year shall be carried to the  
24 earliest of the 5 taxable years to which (by rea-

1 son of paragraph (1)) such credit may be car-  
2 ried.

3 “(B) AMOUNT CARRIED TO OTHER 4  
4 YEARS.—The amount of unused credit for the  
5 unused credit year shall be carried to each of  
6 the remaining 4 taxable years to the extent that  
7 such unused credit may not be taken into ac-  
8 count for a prior taxable year because of the  
9 limitation imposed by subsection (b)(2).

10 “(e) TERMINATION.—This section shall not apply to  
11 any transaction cost paid or incurred in taxable years be-  
12 ginning after December 31, 1999.”

13 (b) CLERICAL AMENDMENT.—The table of sections  
14 for such subpart B is amended by inserting after the item  
15 relating to section 30 the following new item:

“Sec. 30A. Credit for transaction costs on the transfer of land  
subject to certain ground rents.”

16 (c) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to expenditures paid or incurred  
18 in taxable years beginning after December 31, 1994.

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