

# The Basics of Low Income Housing Tax Credits



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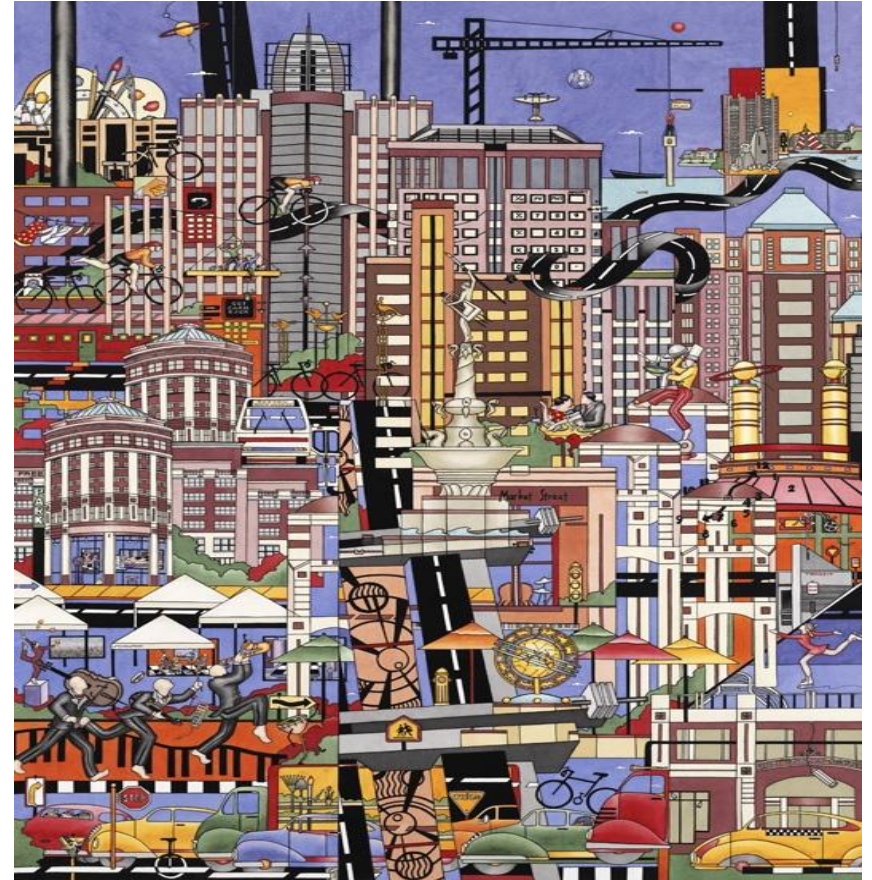
# Low Income Housing Tax Credit Program

What is it?

Why was it created?

What does it do?

How does it work?



# A Little Background

- Tax Reform Act of 1986
- Congressional intent
- A part of the Internal Revenue Code
- Section 42
- Program administered by state housing finance agencies based on per capita (\$2.30) 2015 allocation
- Qualified Allocation Plans
- Extremely competitive (March 4, 2016)

# LIHTC Program

- The purpose is to provide investor equity into affordable/workforce housing
- Resident eligibility is income based
- An investor receives a CREDIT or a dollar for dollar tax reduction on federal taxes
- Investor may be single entity or pool of investors



# Credit Types

- 9% Tax Credits  
Taxable financing
- 4% Tax Credit  
30% present value  
Tax exempt financing or Federal Grants  
Not subject to State Cap (threshold)  
50% (building and land) Test
- The Reality  
9% and 4% float as per applicable rate



# Acquisition of Existing Structures

- 9% credit for rehabilitation subject to special requirements
- 4% credit for acquisition for buildings meeting requirements

## Ownership Structure

- Owners are Limited Partnerships consisting of General Partner and Limited Partner
- LP normally has 99.9% interest and contributes equity
- GP normally has .01% interest and oversees operations

# Some Program Requirements

- Tax credits are claimed over a 10 year period
- Operating restrictions in place for 30 years governed by IRC 42 and a Regulatory Agreement
- Most have “Extended Use Agreements”
- Many have additional local extensions
- Construction standards
- Energy efficiency requirements
- 42m letter

# Typical Developments

- Meant to be permanent rental housing
- Residential singles developments and transitional housing okay under with special requirements
- Nursing homes, mobile home parks, dorms, and hospitals are NOT eligible





# Other Considerations

- Fair Housing accessibility requirements apply
- Local codes and other state and federal codes apply
- LIHTC developments must meet many requirements in operating and compliance
- ***Significant*** penalties for non compliance
- Typically used with other gap financing programs

# Income and Rent Requirements

- Either 20% of units at 50% AMI or 40% at 60% AMI apply at initial occupancy
- Most projects are 100% eligible
  - Mixed Use and income becoming commonplace
- Rents are set at 30% of income but dependent on actual income
- Annual recertification require
- Restrictions on student occupancy

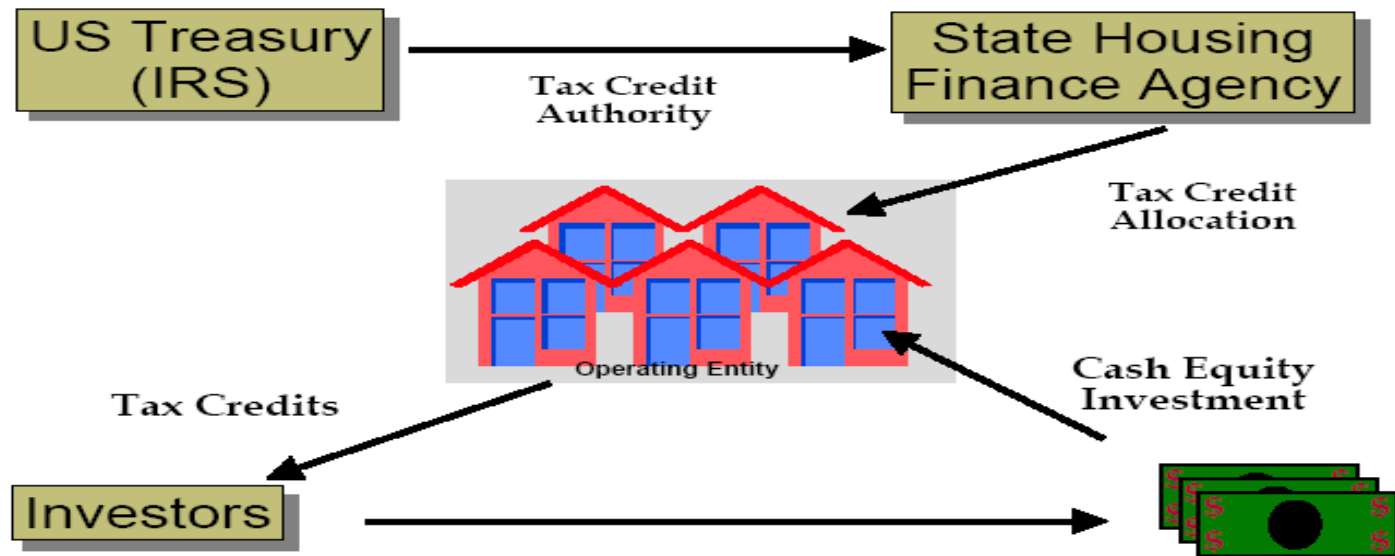
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# How To Calculate Credits

- Based on “Eligible Basis Calculation”
- Not the same as Total Development Cost
- In simple terms, eligible basis is all costs MINUS non depreciable items
- Subject to “basis boost” of 130%
- Examples of costs not eligible include
  - Land and land associated costs
  - Certain reserves
  - Costs of syndication
  - Financing costs

# LIHTC Diagram

## How LIHTC Credits Flow...



# 9% & 4% Calculation Formula

Eligible basis x percent qualified units x applicable percentage x 10 years = total tax credit

Total tax credit x investor per dollar rate  
= project equity



# 9% & 4% Calculation Example

- $\$5,000,000 \times 100\% \times 9\% \times 10 \text{ years}$   
= \$4,500,000 in credits X  
.90 X .999 = \$4,045,950
- $\$5,000,000 \times 100\% \times 4\% \times 10 \text{ years}$   
= \$2,000,000 in credits X  
.90 X .999 = \$1,798,200

# Allocator Issues

- Equity rates vary in many markets  
Investor and market driven
- Difficulty in obtaining private financing with land use restrictions  
Metro Washington viewed as favorable investment market
- Cost of NOVA projects becoming a focus  
Incomes stagnant but expenses rising

# Jordan Manor, AHC Inc. Arlington, Va

