



**Idaho Housing
and Finance**
ASSOCIATION

Your Key to Housing Opportunities

Housing

Tax

Credit

Investing in Your Community

www.ihfa.org

Examples of Housing Tax Credit Calculation

(1) A developer constructs a 30-unit building at a cost of \$1,500,000 with conventional financing and reserves 12 apartments for low-income tenants (70 percent present value credit "PVC"):

Total Development Costs	\$ 1,500,000
Less Land, Federal Grants and Nonbasis Items	<u>(\$ 100,000)</u>
Eligible Basis	\$ 1,400,000
Applicable Fraction (lesser of % of affordable units or floor space) (low-income units divided by total residential units: 12/30)	<u>x 40%</u>
Qualified Basis (Eligible Basis x applicable fraction)	\$ 560,000
Applicable Housing Tax Credit Percentage (In this example, 70% PVC or 9% annually)	<u>x 9%</u>
Maximum Annual Housing Tax Credit (Qualified Basis x Applicable Tax Credit Percentage)	\$ 50,400
Total Housing Tax Credit Over 10-Year Credit Period	<u>\$ 504,000</u>

(2) A developer constructs a 30-unit building at a cost of \$1,500,000 with a federal financing subsidy and reserves all apartments for low-income tenants (30 percent present value credit):

Total Development Costs	\$ 1,500,000
Less Land, Federal Grants and Nonbasis Items	<u>(\$ 100,000)</u>
Eligible Basis	\$ 1,400,000
Applicable Fraction (lesser of % of affordable units or floor space) (low-income units divided by total residential units: 30/30)	<u>x 100%</u>
Qualified Basis (Eligible Basis x Applicable Fraction)	\$ 1,400,000
Applicable Housing Tax Credit Percentage (In this example, 30% PVC or 4% annually)	<u>x 4%</u>
Maximum Annual Housing Tax Credit (Qualified Basis x Applicable Tax Credit Percentage)	\$ 56,000
Total Housing Tax Credit Over 10-Year Credit Period	<u>\$ 560,000</u>

Limits on Use of Housing Tax Credits

The amount of Housing Tax Credit that may be claimed during each credit period year is subject to the rules of general business credit, passive loss restrictions and alternative minimum tax provisions. These rules limit the amount of annual credit individuals may claim. Many corporations, however, may not be subject to the restrictions and may use larger amounts of Housing Tax Credits.

Before applying for a Housing Tax Credit allocation, planning a development or investing in a Housing Tax Credit development, it is recommended that a qualified tax accountant and/or legal counsel be consulted. IHFA makes no representation concerning any tax consequences resulting from Housing Tax Credit allocations and accepts no responsibility for any adverse consequences to the owner under the Internal Revenue Code. Compliance with the law and regulations is and will remain the owner's responsibility.

Tax-Exempt Bond Financing

Developments that have 50 percent or more of the aggregate basis of buildings and land financed by tax-exempt bonds may receive a

30 percent present value credit if they qualify under the program regulations and meet the requirements of the state's Qualified Allocation Plan. Credits received by these developments do not reduce the state's annual allocation authority.

Using Housing Tax Credits with HUD Programs

Housing Tax Credit developments using HUD assistance may be subject to Section 102(d) of the HUD Reform Act or Section 911 of the Housing and Community Development Act. Under the Acts, HUD or IHFA is required to certify that no more assistance than necessary is provided to a development when taking Housing Tax Credit benefits into account. This certification process may require a HUD review, and developments are subject to subsidy layering guidelines established by HUD.

Developers planning to combine HUD assistance and Housing Tax Credits should determine if the certification process is applicable to their development. HUD Notice H 90-17 includes a list of HUD actions and assistance programs requiring the certification process.



Housing Tax Credit

History and Purpose

The 1986 Tax Reform Act created the Low-Income Housing Tax Credit as an incentive to encourage the construction and rehabilitation of rental housing for lower-income households. Individuals, corporations, partnerships and other legal entities may benefit from the Housing Tax Credit, subject to applicable restrictions.

Annually, the U.S. Department of Treasury allocates Housing Tax Credits to each state. Federal law limits the annual per capita tax credit issued to each state. The Idaho Housing and Finance Association administers the Housing Tax Credit program on behalf of Idaho.

How the Tax Credit Works

Housing Tax Credits offer direct federal income tax savings to owners of rental housing developments who are willing to set aside a minimum portion of the development's units for households earning 60 percent or less of gross area median income. Developers of tax credit developments typically syndicate or form limited partnerships involving investors who are willing to provide equity capital in return for the economic benefits (including tax credits) generated by the development.

The amount of Housing Tax Credit an owner receives is determined at the time the tax credit is allocated. The Housing Tax Credit amount is based on several factors including depreciable development costs, type of development (new construction, rehabilitation or acquisition), percentage of housing units designated for low-income use, the allocating agency's evaluation and development financing.

Housing Tax Credits may be claimed annually for a 10-year period. In order to claim the tax credit, the owner must comply with governing rules and regulations (Section 42 of the Internal Revenue Code as amended) throughout the applicable compliance period.

Eligible Projects

All types of rental housing developments qualify under the Housing Tax Credit guidelines: new construction, substantial rehabilitation and acquisition of existing properties that will be substantially rehabilitated.

In order to be eligible for the Housing Tax Credit, developments must meet the following conditions:

1. The development must:

- Be located in Idaho.
- Be a permanent residential structure that is habitable

on a year-round, nontransient basis.

- Be subject to an extended low-income housing commitment.
- Be available to the general public.
- Be in compliance with all applicable local, state and federal laws applicable to the housing development, **including the Fair Housing Laws** as they pertain to handicapped accessibility and adaptability.

2. The development must also have either:

- A minimum of 20 percent of the units rent restricted and available to tenants whose incomes do not exceed 50 percent of the area gross median income, or
- A minimum of 40 percent of the units rent restricted and available to tenants whose incomes do not exceed 60 percent of the area gross median income.

Income limits are defined annually by the U.S. Department of Housing and Urban Development based on family size and

decreases, the maximum qualifying income allowances increase or decrease accordingly.

3. The development's low-income units must have gross rents, including allowances for tenant-paid utilities, that do not exceed 30 percent of qualifying income limitations. Maximum gross rents allowed under the program vary by area and the number of bedrooms in a unit. These rents are based upon the annual income limits published by HUD.
4. The development must be maintained as affordable housing for an initial 15-year compliance period and be subject to an extended use period of 15 additional years or more, depending upon the owner's commitment. The extended use period provides for termination contingent upon a sales provision outlined in the Tax Code. Termination is subject to a three-year decontrol period.

Housing Tax Credit Allocation

Prior to allocating Housing Tax Credits, each state is required to develop a Qualified Allocation Plan. Idaho's Allocation Plan provides a competitive process for awarding tax credits to developments that address the state's affordable housing needs. The Plan also includes other selection criteria, including federally mandated regulations.

Federal regulations require that at least 10 percent of a state's Housing Tax Credit be set aside for qualified nonprofit organizations that are tax-exempt under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code. Providing affordable housing must be one of the organizational purposes of the qualified nonprofit, and among other things, must also have ownership and materially participate in the construction and management of the development during the applicable compliance period.

Maximum Housing Tax Credit Eligibility

The maximum annual Housing Tax Credit available to a development is calculated using an annual tax credit percentage. That percentage provides a "present value" of either 30 or 70 percent of the low-income units' qualified costs.

Development costs eligible for a 30 percent present value credit include:

- Qualified acquisition costs of developments that will be substantially rehabilitated.
- Qualified costs of new construction and substantial rehabilitation developments that will be financed with tax-exempt bonds or subsidized federal loans.

Development costs eligible for a 70 percent present value credit include qualified costs of new construction and substantial rehabilitation that have no federal financing subsidies, subject to some exceptions.

Over the 10-year credit period, the annual rate for a 30 percent present value credit is approximately 4 percent; the annual rate for a 70 percent present value credit is approximately 9 percent. Maximum Housing Tax Credit eligibility is determined by multiplying the applicable annual percentage rate (approximately 4 or 9 percent) by the eligible development, acquisition, and rehabilitation costs attributable to the designated affordable units in the development.

Application

Interested developers are invited to phone the IHFA Multifamily Finance staff for further information. Application forms are also available by contacting IHFA or checking out our Web site at www.ihfa.org.

The Idaho Housing and Finance Association, a financial services and housing business organization, provides funding for affordable housing in Idaho communities where it is most needed and when it is economically feasible. IHFA is not a state agency under Idaho law, and uses no state funds or state employees to support its operations.



Your Key to Housing Opportunities

Housing Tax Credit

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