
Mississippi's Annual Affordable Housing Conference 2024
Road Trip
HOME
HOUSING OPPORTUNITIES
MAPPED FOR EVERYONE
April 17-19
Beau Rivage
Biloxi, MS


Road Trip
HOME
HOUSING OPPORTUNITIES
MAPPED FOR EVERYONE
Housing Tax Credit
BASICS
for Developers

AGENDA

Overview of the LIHTC Program
- History
- Definitions

General LIHTC Structure
- Types of LIHTCs
- Tax Credit Calculation
- Program "Players"
  - Example LIHTC Deal

LIHTC Timeline

Program Rules
- Compliance
- Avoiding Recapture

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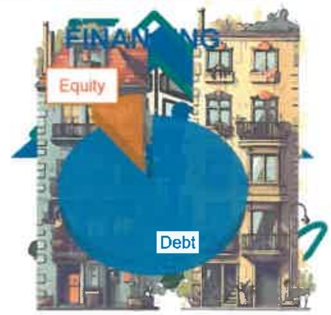
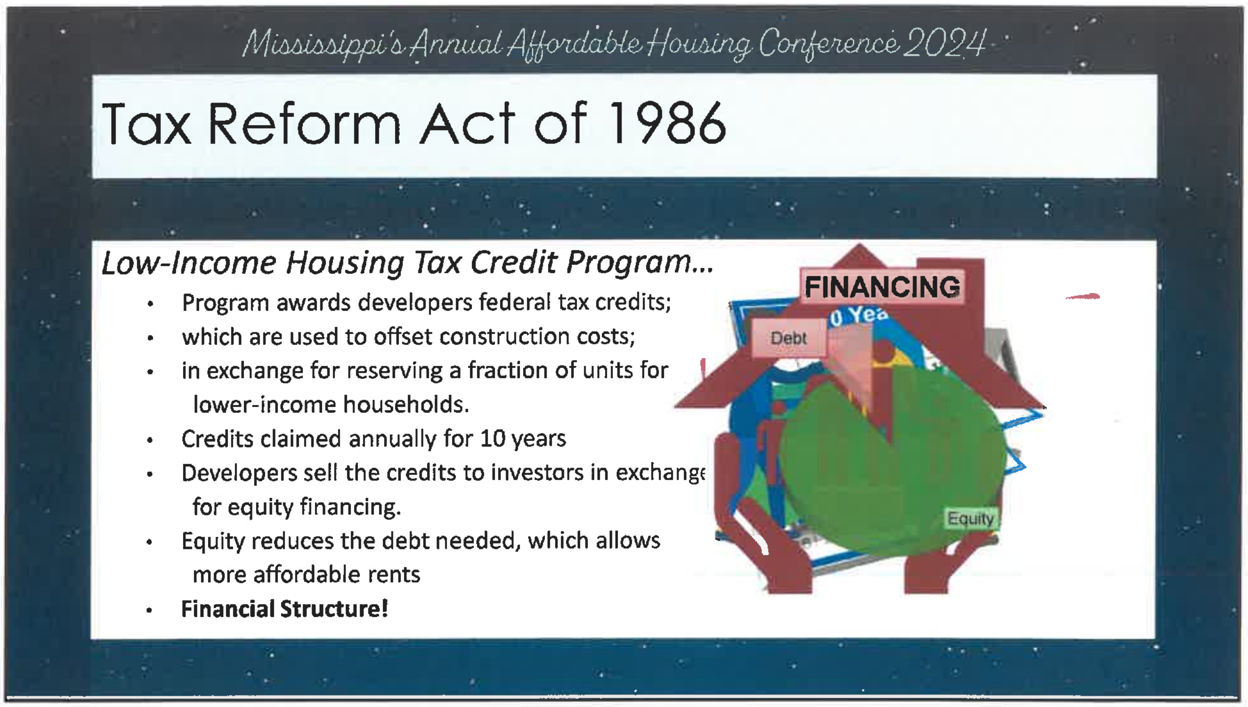
Pre- Tax Reform Act of 1986

Building Affordable Housing…

- Taxpayers would pay the Uncle Sam
- Uncle Sam would build housing
- Housing would rent to low-income tenants
- RD/HUD – Provide Rental Assistance
- Housing inventory deteriorates



- Financial Structure



Credit amounts allocated to a project are based on construction costs incurred and begins when units are occupied by low-income families.
Most types of housing can be developed with the LIHTC, but must be residential and rental.

Definitions

- Tax Credit
  - A dollar for dollar deduction against the tax liability of an individual or corporation

	Credit	Deduction
Gross Income		
Less Deduction		
Adjusted Income		
Taxes @ 21%		
Less Housing Credits		
Taxes Owed		

Definitions

- Eligible Basis *(How much it costs?)*
  - Development costs *minus* – land, building acquisition costs, syndication, organization, or permanent financing cost.
    - Includes soft costs that exist because of the development
      - Architectural fees
      - Engineering fees
      - Developer fees
- Basis Boost – Depending on *location*, eligible basis can be increased by 30%
    - Difficult Development Area (DDA)
    - Qualified Census Tract (QCT)
- Applicable Fraction - *Percentage of the building that is treated as low-income use and eligible for the LIHTC (use the lesser of the unit fraction or the floor space fraction).*

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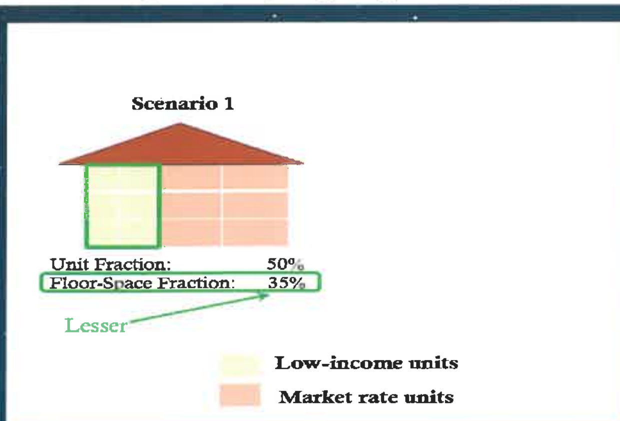
Definitions

Applicable Fraction - *% of units or square footage set aside for LI use*



Definitions

- **Qualified Basis** *(How much of what was spent went towards low-income use?)*
  - Eligible Basis multiplied by the applicable fraction
    - EB x BB (*if appliable*) x AF = QB

8 LI Units / 10 Total Units
Costs: $3,000,000
DDA? No
QCT? No

EB: $3,000,000
BB: -----
AF: 80%
QB: $2,400,000

10 LI Units / 10 Total Units
Costs: $4,000,000
DDA? Yes
QCT? No

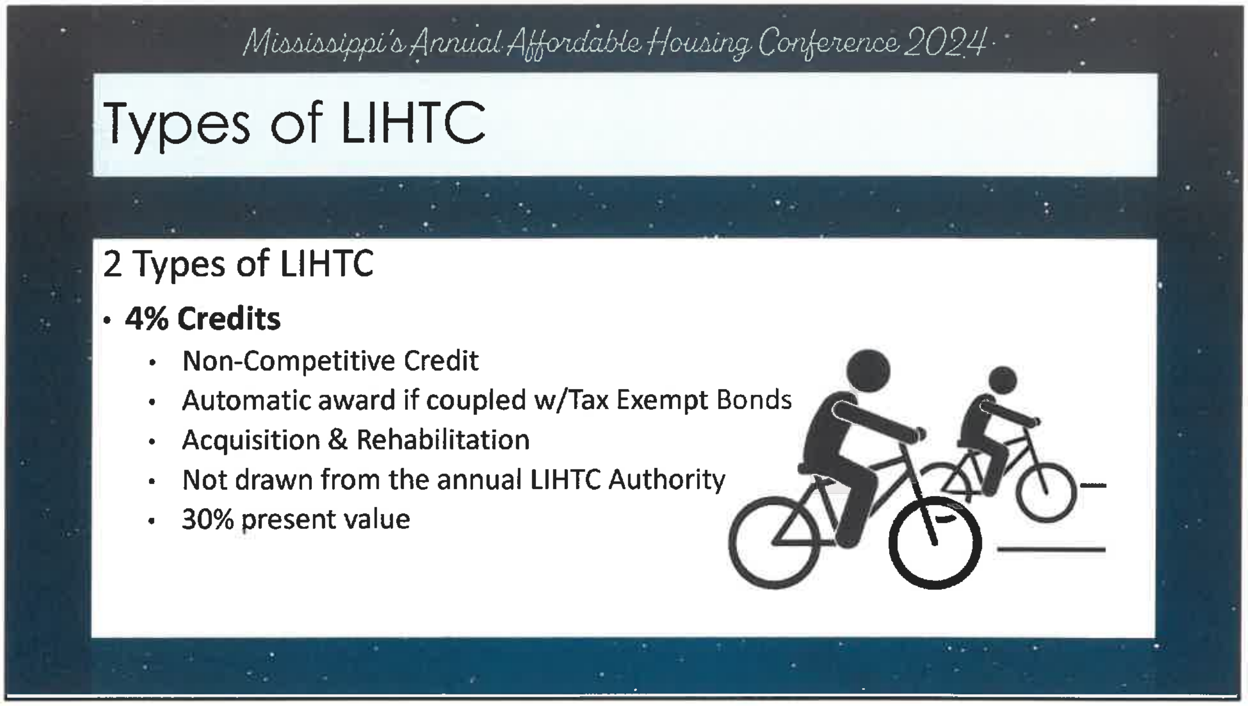
EB: $4,000,000
BB: 30%
Adj EB $5,200,000
AF: 100%
QB: $5,200,000

Types of LIHTC

Types of LIHTC

2 Types of LIHTC

- **9% Credits**
  - Competitive Credit
  - Annual LIHTC allocation authority
  - New Construction & Rehabilitation
  - 70% present value



Automatically qualify for LIHTC credits.

Bonds must pay for 50% or more of the total depreciable costs (land + eligible basis + commercial + off-site + ineligible site work + any other ineligible depreciable costs).

Interest is charged on the bond issuance.

- Letter of credit or other enhancement provide guaranty to issuer.

- Tax exempt bond holders do not pay tax on interest income.

Tax Credit Calcuations

Computing Tax Credits

8 LI Units / 10 Total Units

Costs:	$3,000,000
DDA?	No
QCT?	No
Eligible Basis:	$3,000,000
Basis Boost:	-----
Applicable Fraction:	80%
Qualified Basis:	$2,400,000
Tax Credit Rate	9%
Annual Tax Credits	$216,000
x 10 Years	
Total Tax Credits	**$2,160,000**

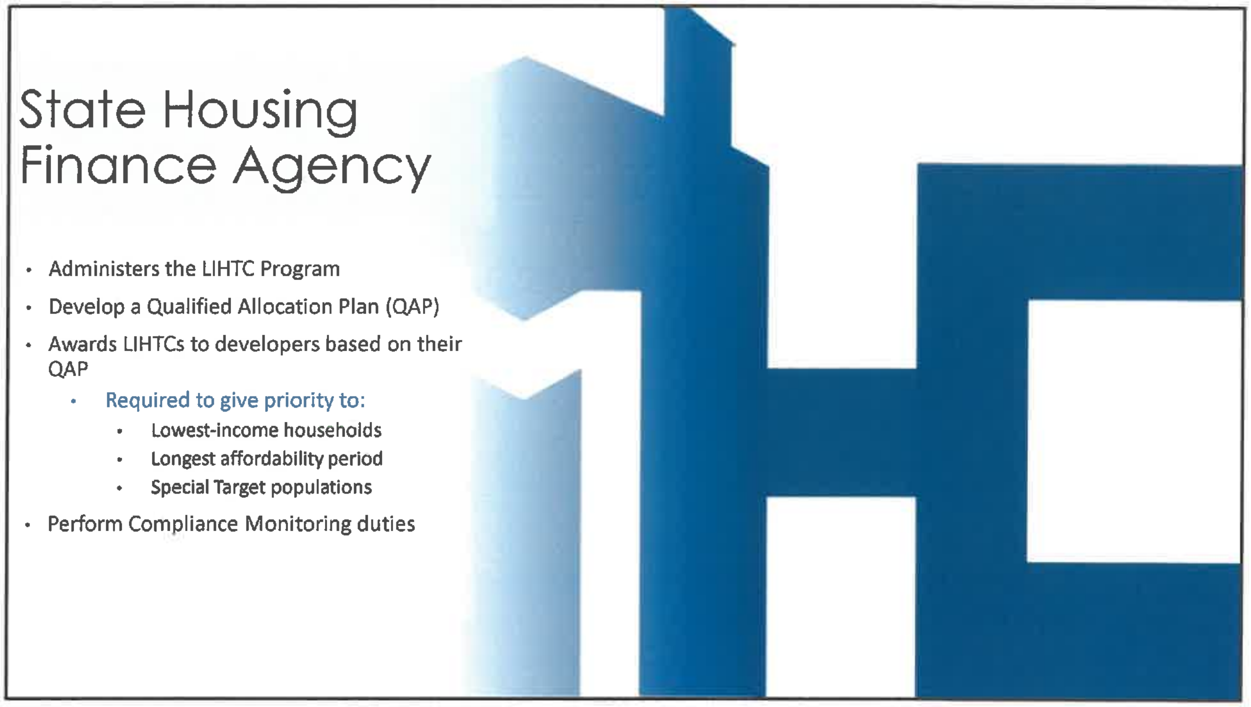
10 LI Units / 10 Total Units

Costs:	$4,000,000
DDA?	Yes
QCT?	No
Eligible Basis	$4,000,000
Basis Boost	30%
Adj Eligible Basis	$5,200,000
Applicable Fraction	100%
Qualified Basis:	$5,200,000
Tax Credit Rate:	9%
Annual Tax Credits	$468,000
X 10 Years	
Total Tax Credits	**$4,680,000**

Program "Players"

Internal Revenue Service

- Oversees implementation of the program
- Allocates LIHTCs to each state according to its population
    - 2024 LIHTC Credit Authority: $2.90/person
    - Mississippi population: **2,939,690**
    - 2024 MS Credit Authority: **$8,525,101**
- Recapture Credits due to noncompliance



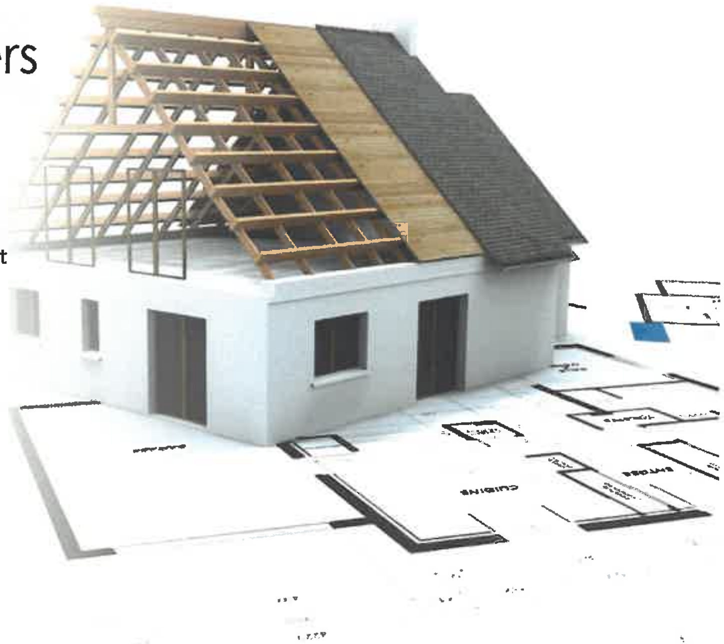
QAP is essentially the bible when it comes to how the LIHTC program is administered in a particular state.
In addition the performing the compliance monitoring duties, the state hfa also corresponds with the IRS regarding the status of the developments in the program

- 10% of credits set aside fo non-profits
- Take into account energy efficiency and historic nature of projects
- Consider financial feasibility
- Limit credits to amount necessary

Developers/Owners

- "General Partner"
- Responsible for overseeing the development of the Project
- Oversee the rent-up
- Responsible for credit delivery (compliance)

- Benefit of Developers
  - Fees:
    - Developer Fee
    - Management Fee *(is applicable)*
    - Incentive Leasing Fee
- Potential for cash flow



- 0.1% General Partner (GP) / Managing Member
  - Manages affairs of the partnership – i.e. a Redwood Housing Entity

- # Fees
  - Developer Fee - one-time fee typically not to exceed 15%

of total costs

- Management Fee - monthly fee typically between 5% and 7%
- Incentive Leasing Fee - % of cash flow during rent-up

Stream of tax losses created primarily by non-cash deductions such as depreciation and amortization

Fees

✓Asset management fee

Potential for cash flow

Internal rate of return - the rate of return that would make the present value of future cash flows plus the final market value of an investment equal the current market price of the investment

Contractors

Profits – 6%

Overhead – 2%

General Requirements - 6%

Other Players

Syndicators

- Help bridge the gap between various parties to affordable housing transactions
- Works with both the General Partner (developer) and the Limited Partner (investor)
- Collects a fee for overseeing the investment transaction

CPAs

- Projections / Budgets
- 10% Test Certifications
- Cost Certifications
- Annual Audits and Tax Returns

- Projections
- Structuring
- Real Estate Consulting
- 10% Carryover Letter
- Cost Certification Fee
- Annual Audit and Tax Return
- Compliance - i.e. Break-Even Analysis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State Agency
Investor
Syndicator
Tax Liability
Limited Partner
Dynasty
$
$
Developer
Co-Developer
Partnership Agreement
$
Tax Liability
Partnership
General Partners

Partnership Agreement

- Establishes Roles of each member of the partnership
  - Developer: deliver credits
  - Investor: invest capital
  - Syndicator: Asset management
- Establishes Credit Pricing
  - How much per tax credit dollar
    - Average: $0.87
- Timeline for Capital Installments (Equity payments)
  - 50% Completion
  - Place In Service
  - Lease-Up
  - Issuance of IRS Form 8609
- Penalties
  - Noncompliance

Limited Partnership

Sets forth roles, responsibilities and compensation of partners.

0.1% General Partner (GP) / Managing Member

Manages affairs of the partnership – i.e. a Redwood Housing Entity.

- 99.9% Limited Partner (LP) / Investor Member (Equity Fund)
  - Invests in exchange for tax benefits, providing cash to the development in exchange for tax benefits to investors. (i.e. Raymond James, Boston Financial, Regions, etc.)

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Tax Credit Equity Calcuations

Computing Equity

8 LI Units / 10 Total Units	
Costs:	$3,000,000
DDA?	No
QCT?	No
Eligible Basis:	$3,000,000
Basis Boost:	——
Applicable Fraction:	80%
Qualified Basis:	$2,400,000
Tax Credit Rate	9%
Annual Tax Credits x 10 Years	$216,000
Total Tax Credits	$2,160,000
Price per $	**$0.87**
TC Equity	**$1,879,200**

10 LI Units / 10 Total Units	
Costs:	$4,000,000
DDA?	Yes
QCT?	No
Eligible Basis	$4,000,000
Basis Boost	30%
Adj Eligible Basis	$5,200,000
Applicable Fraction	100%
Qualified Basis:	$5,200,000
Tax Credit Rate:	9%
Annual Tax Credits X 10 Years	$468,000
Total Tax Credits	$4,680,000
Price per $	**$0.83**
TC Equity	**$3,884,400**

Annual Credit Calculation (9%)

Total Development Budget	**$7,815,048**
Ineligible costs	**(680,711)**
Applicable Fraction	**100%**
QCT/DDA Basis Boost	**130%**
Applicable Rate	**9%**
Annual Reserved Tax Credits	**$662,579**

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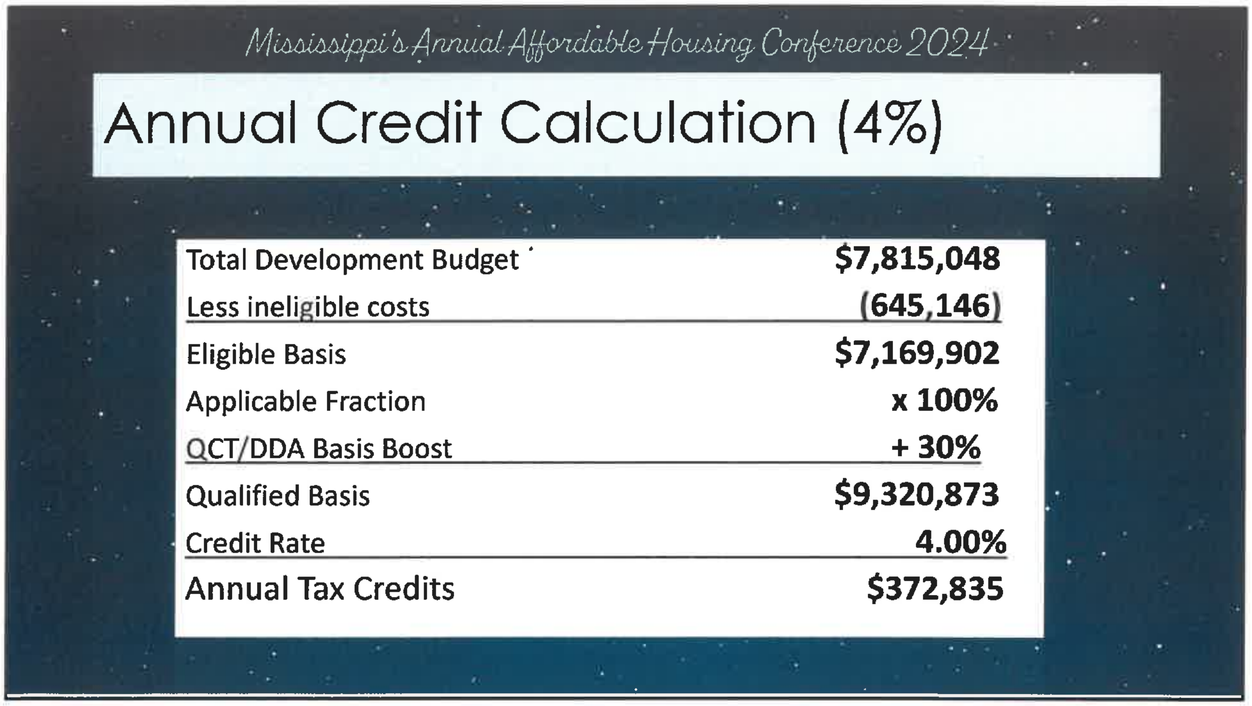
Tax Credit Equity Calculation (9%)

Annual Tax Credits	**$662,579**
Credit Period	**x 10**
Total Tax Credits	**$6,625,790**
Price paid	**x $0.87**
Equity	**$5,764,437.30**

Equity represents 74% of development costs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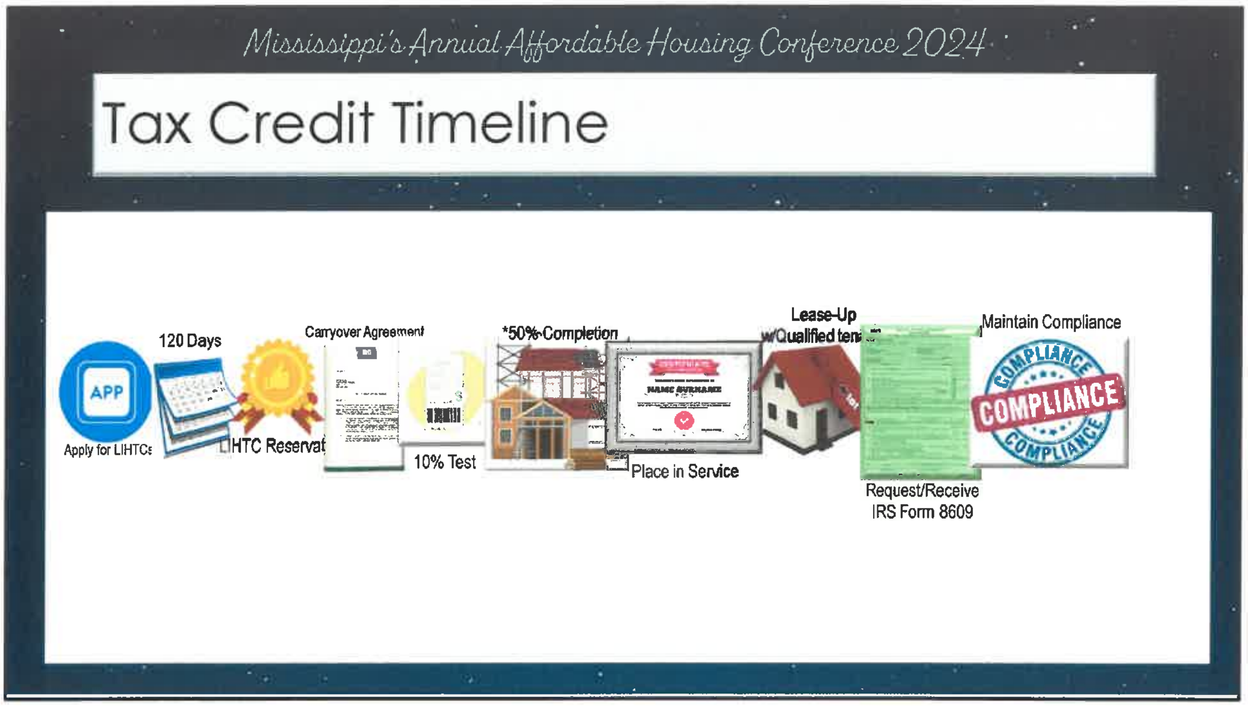
Annual Credit Calculation (4%)
Total Development Budget $7,815,048
Less ineligible costs (645,146)
Eligible Basis $7,169,902
Applicable Fraction x 100%
QCT/DDA Basis Boost + 30%
Qualified Basis $9,320,873
Credit Rate 4.00%
Annual Tax Credits $372,835

Tax Credit Equity Calculation (4%)

Annual Tax Credits	**$372,835**
Credit Period	**x 10**
Total Tax Credits	**$3,728,350**
Price paid	**x $0.85**
Equity	**$3,169,098**

Equity represents approximately 40% of development costs



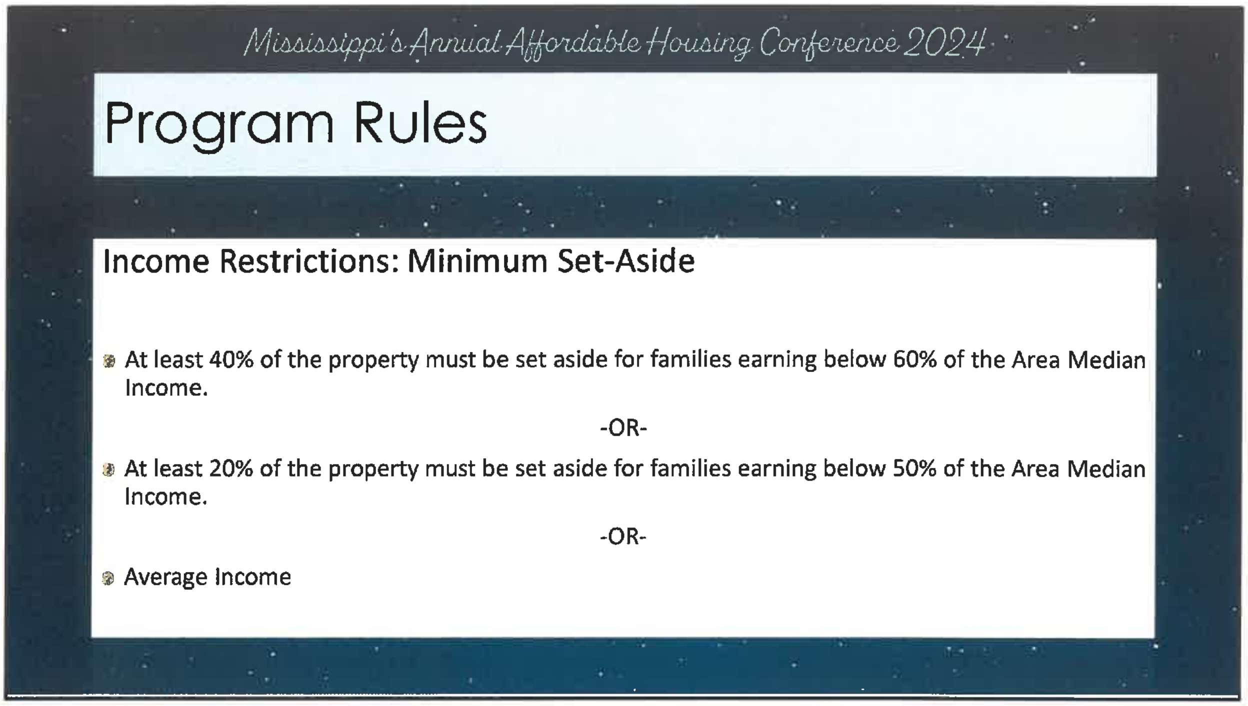
- Developer/Owner submits application to state allocating agency
- If meets criteria and scores well enough, a reservation is awarded
- The tax code requires that the project be placed in service by the end of award year
- That's crazy…so a Carryover Request Document is sent.
- This give you a year to meet the 10% test

- You have funding from the lender and investor
- You've built a beautiful development anyone would be proud to call home
- You get your Certificates of Occupancy
- Behind the scenes you've had your management company working on lease-up with tenants ready to move in
- You submit your Placed in Service Package to the State Agency

Program Rules

Unit Restrictions

- Don't rent LIHTC units to people who make too much money
- Don't charge low income families too much rent
- Families must earn less than 60% (or 50% depending on minimum set aside) of area median income
  - Based on HUD median income data, adjusted for family size
- Threshold Elections
  - 20/50 minimum set aside- 20% of units must be rented to 50% AMI
  - 40/60 minimum set aside- 40% of units must be rented to 60% AMI
  - Average Income Election
- Rent Restricted – How much can tenants pay?
  - Rents and utilities – limited to 30% of threshold income
  - Allowable rent based on size of unit
- Program requires a 15-year compliance period, but can be extended to obtain more tax credits



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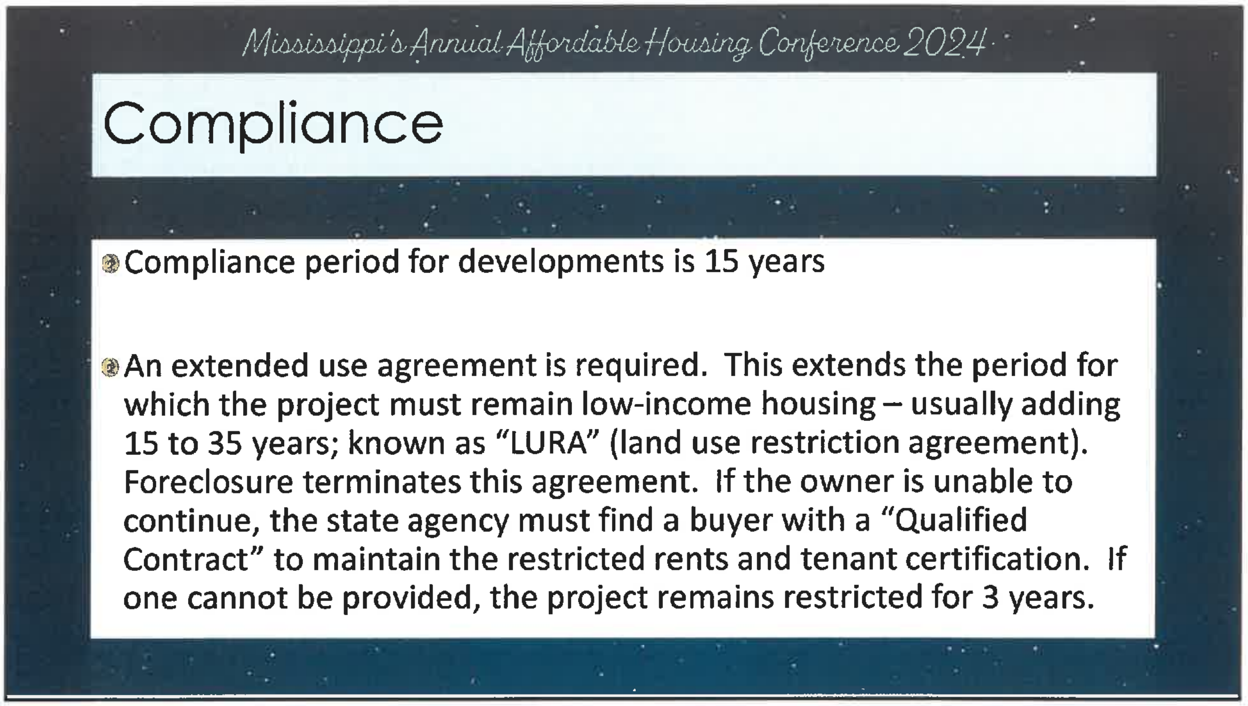
Program Rules
Income Restrictions: Minimum Set-Aside
At least 40% of the property must be set aside for families earning below 60% of the Area Median Income.
-OR-
At least 20% of the property must be set aside for families earning below 50% of the Area Median Income.
-OR-
Average Income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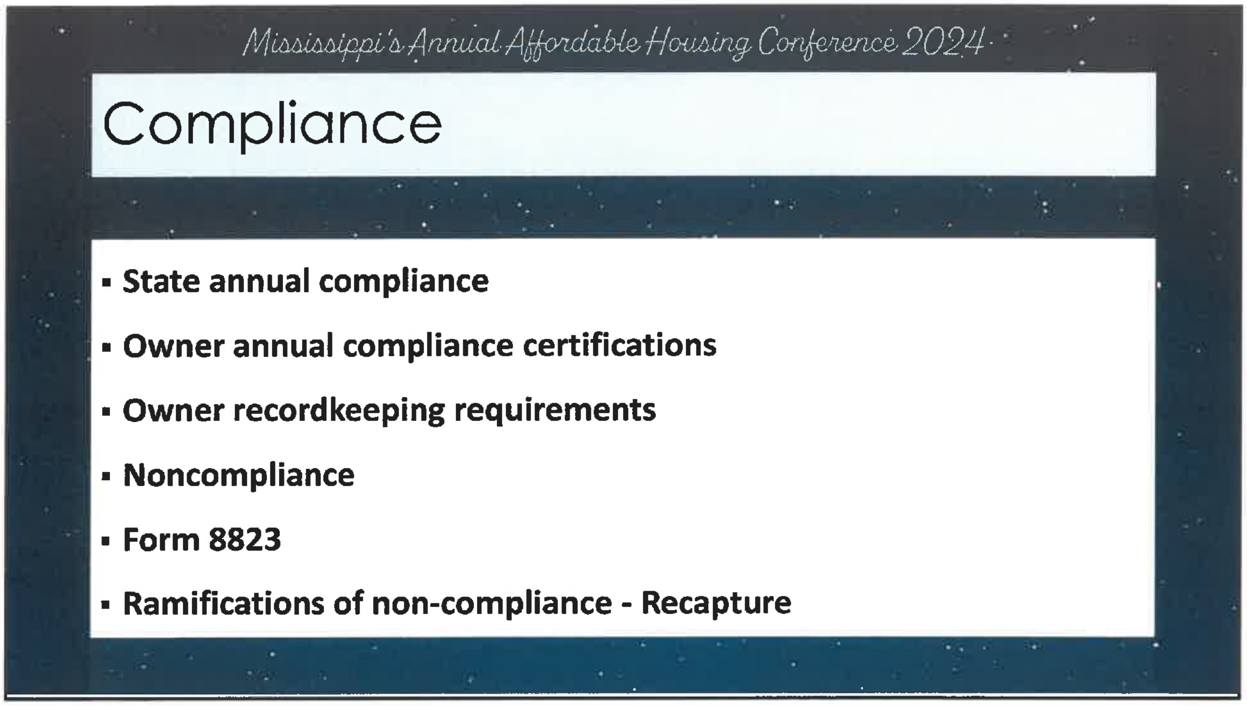
Compliance
Compliance period for developments is 15 years
An extended use agreement is required. This extends the period for which the project must remain low-income housing – usually adding 15 to 35 years; known as "LURA" (land use restriction agreement). Foreclosure terminates this agreement. If the owner is unable to continue, the state agency must find a buyer with a "Qualified Contract" to maintain the restricted rents and tenant certification. If one cannot be provided, the project remains restricted for 3 years.



- Failure to meet minimum set-aside requirement by deadline.

- Violation of vacant unit rule

- Violation of 140% rule

- Tenant over income limit

Ineligible students

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