HOUSING TAX CREDITS

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OUR VISION

OUR VISION IS TO MAKE ATLANTA THE MOST ECONOMICALLY DYNAMIC AND COMPETITIVE CITY IN THE WORLD.

OUR MISSION

TO ADVANCE ATLANTA’S **GLOBAL COMPETITIVENESS** BY GROWING A **STRONG ECONOMY**, BUILDING **VIBRANT COMMUNITIES** AND INCREASING ECONOMIC **PROSPERITY** FOR ALL ATLANTANS.

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- LEGAL
- FINANCE
- MARKETING
- OPERATIONS

ECONOMIC DEVELOPMENT

- BUSINESS ATTRACTION
- BUSINESS RETENTION & EXPANSION
- SMALL BUSINESS FINANCE
- INNOVATION & ENTREPRENEURSHIP
- CREATIVE INDUSTRIES

COMMUNITY DEVELOPMENT

- HOUSING INITIATIVES
- COMMERCIAL CORRIDOR DEVELOPMENT
- NEIGHBORHOOD REVITALIZATION
- TAX ALLOCATION DISTRICTS

ALL OF US WORKING TOWARDS ECONOMIC PROSPERITY

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WHAT IS THE TAX CREDIT PROGRAM?

- A housing subsidy program for rental housing
- Created within Section 42 of the Internal Revenue Code
  - Modified by 2008, 2009, 2017, 2018 Legislation
- Administered by each state’s housing finance agency
- $2.75625 per person allocated to each state
  - ($3,166,875.40 for small population states)

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WHAT DO TAX CREDITS FINANCE?

NEW CONSTRUCTION AND REHAB PROJECTS

***ACQUISITION** (IN SOME CASES)*

HOUSING FOR FAMILIES, TENANTS WITH SPECIAL NEEDS, SINGLE ROOM OCCUPANCY, AND THE ELDERLY

URBAN, RURAL, AND SUBURBAN LOCATIONS

ADDITIONAL TAX INCENTIVES FOR PROJECTS IN HIGH-COST OR DIFFICULT-TO-DEVELOP AREAS

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HOW DO HOUSING TAX CREDITS WORK?

- Rental units with tenants earning no more than 60% of area median income
- Investors earn dollar-for-dollar credits against their federal tax liability
- Investors also get tax benefits from losses
- Generally, tax credits are received over the first 10 years of operation
- Some tax credits are recaptured by the IRS if the project does not comply for 15 years

UNIT RESTRICTIONS

THRESHOLD ELECTIONS – WHO CAN LIVE THERE?

- 40/60 election
- 20/50 election
- Income Averaging – allows for units up to 80% in exchange for units at 40% AMI and below

RENT RESTRICTED – HOW MUCH CAN TENANTS PAY?

- Rent and utilities are limited to 30% of the threshold income
- Allowable rent based on size of unit

TENANT INCOME RESTRICTIONS

Families must earn less than the threshold income

- Based on HUD median income data and adjusted for family size
- Next Available Unit Rule

TAX CREDITS VS TAX DEDUCTIONS

	No Tax Credit/ No Deduction	Deduction	Tax Credit
Net Income from Operations	1,000,000	1,000,000	1,000,000
Tax Deductions	none	(300,000)	none
Taxable Income	1,000,000	700,000	1,000,000
Tax Liability: **Tax at 40% tax rate**	**$ 400,000**	**280,000**	400,000
Low-Income Housing Tax Credits	none	none	**(300,000)**
Net Tax Liability	**$ 400,000**	**$ 280,000**	**$ 100,000**

TAX CREDITS VS TAX DEDUCTIONS

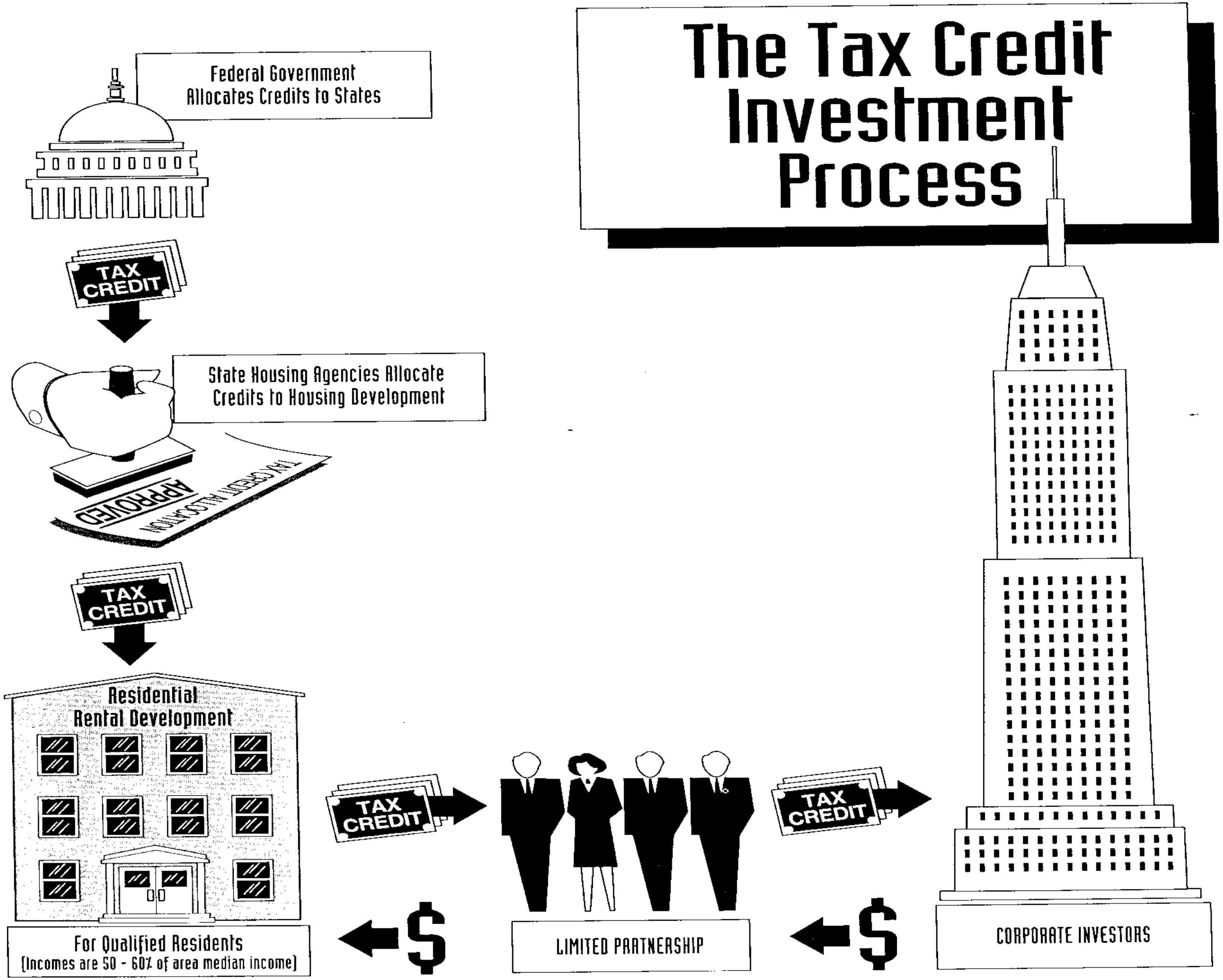
	No Tax Credit/ No Deduction	Additional Deductions and Credits
Net Income from Operations	1,000,000	1,000,000
Tax Deductions	none	(300,000)
Taxable Income	1,000,000	700,000
Tax Liability: **Tax at 40% tax rate**	**$ 400,000**	**280,000**
Low-Income Housing Tax Credits	none	**300,000**
Net Tax Liability	**$ 400,000**	**($ 20,000)**

STRUCTURE – TAX CREDIT SYDICATION

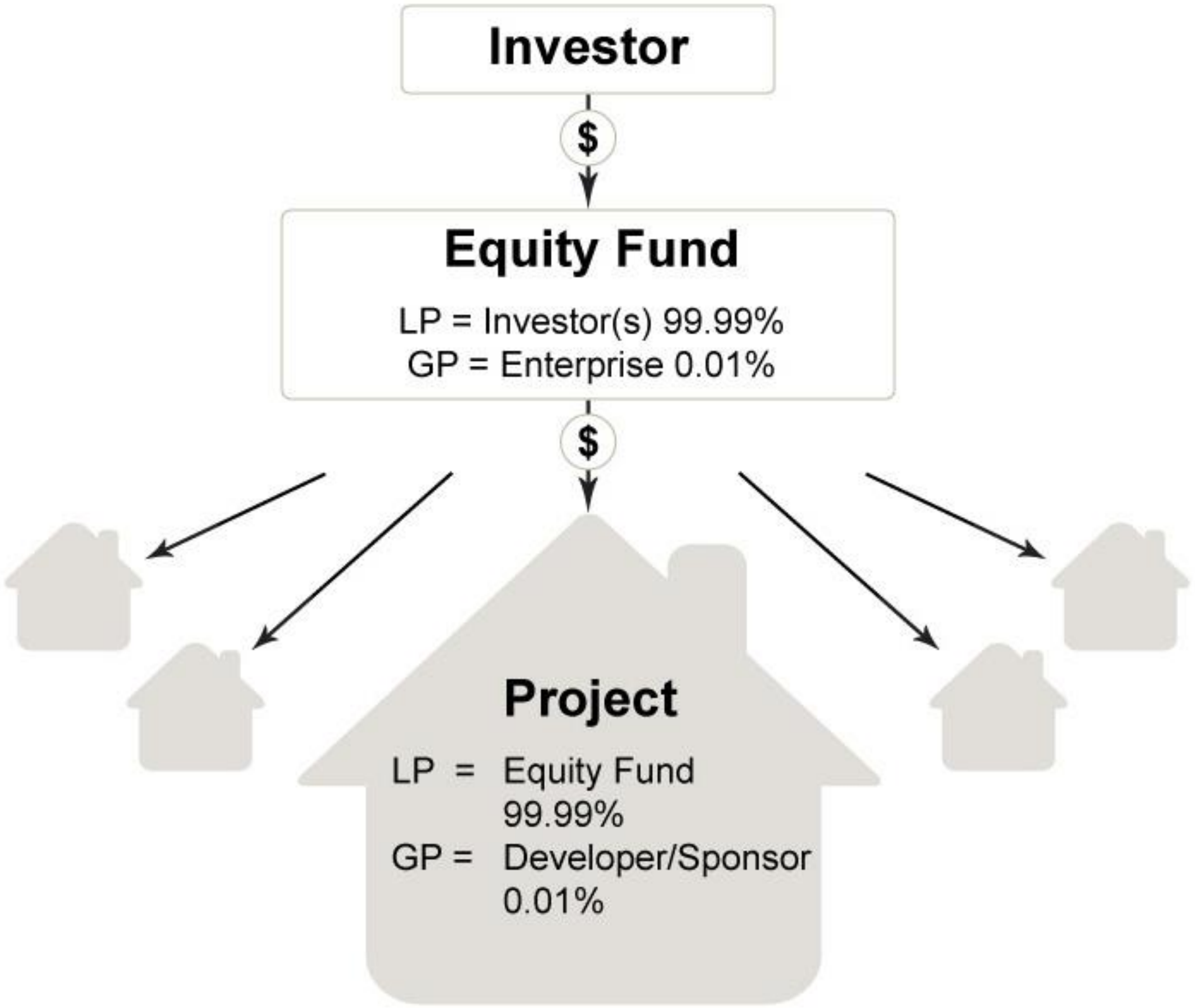
LIMITED PARTNERSHIP STRUCTURE

- General partner owns just 0.01%, but controls and operates the project
- Passive limited partner invests equity in return for 99.99% ownership
- Sale to Investor Limited Partner of most of the tax credits and tax losses maximizes investor equity
- More investor equity reduces other financing needs and helps project development
- L.P. is a passive investor, and gets its return almost exclusively from the tax credits and losses

THE TAX CREDIT INVESTMENT PROCESS



PROPERTY LEVEL INVESTMENT



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THE PARTIES IN A TAX CREDIT SYNDICATION

- Developer
- General contractor
- Architect
- Attorney
- Accountant
- Property manager
- Consultants

- Construction lender
- Permanent lenders
- Lender attorneys

- Underwriter
- Fund Manager
- Attorney

TYPES OF TAX CREDITS

New Construction/Rehab

- **9% New Construction/Rehab Credit** - Standard kind of tax credit
- **4% New Construction/Rehab Credit -** Used when project is financed by tax-exempt bonds (and subsidized federal financing if placed in service before July 31, 2008)

Tax Exempt Bonds

- Eligible for 4% credits
  - No allocation credits needed
  - No carryover allocation required
    - No 10% Test
- 50 Test - Bond amount must exceed 50% of depreciable basis plus land
  - Construction period bond financing
  - Bond must stay in place until at lease one month after completion

Acquisition Credit

- 4% Acquisition Credit – used when purchasing an existing building the qualifies
  - Substantial rehab
  - 10 year rule, if applicable, with exceptions
  - No basis boost

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THANK YOU

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APPENDIX

COMPUTING TAX CREDITS: BASIS

Eligible Basis

X

Applicable Fraction

X

Basis Boost (if applicable)

=

Qualified Basis

COMPUTING TAX CREDITS: ANNUAL TAX CREDITS

Qualified Basis

X

Tax Credit Rate

=

Annual Tax Credits

COMPUTING TAX CREDITS:
TOTAL TAX CREDITS

Annual Tax Credits

X

10 (Years)

=

Total Tax Credits

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COMPUTING TAX CREDIT EQUITY

Total Tax Credits

X

Pay Price (Cents per dollar)

=

Equity

COMPUTING BASIS TO CALCULATE CREDITS

- **Eligible Basis** – Depreciable basis of residential rental housing eligible for tax credits

- **Qualified Basis** – Adjust Eligible Basis for non-income qualified tenants, using "**Applicable Fraction**" (the percent of units qualifying for credits)

APPLICABLE FRACTION

Lesser of:

- The number of qualifying rent-paying residential units over the total number of rent-paying residential units

    or

- The square footage of qualifying rent-paying residential units over the total square footage of rent-paying residential units

COMPUTING BASIS TO CALCULATE CREDITS

- **Basis Boost** – Increase tax credit basis by 30% if project is in
  - A "qualified census tract" (QCT)
  - A "difficult to develop area" (DDA) or
  - A state designated difficult development area
    - Does not apply to tax-exempt financed projects
    - Applies if building or project is placed in service after July 30, 2008

ELIGIBLE BASIS

Eligible basis excludes the following:

- Land and land-related costs
- Building acquisition and related costs
- Historic tax credits taken on residential part of project
- Fees and costs related to permanent loan financing
- Syndication-related costs
- Tax credit fees
- Reserves
- Post-construction working capital
- Federal grants
- Non-residential costs

ELIGIBLE BASIS

Eligible basis includes the following:

- Impact Fees
- Onsite Roads, sidewalks, and parking lots
  - Offsite if adjacent, functionally related and owner maintained
- Cost of Utility Hookup
- Landscaping, if adjacent to building
- Final grading of building site

ELIGIBLE BASIS

- Excludes:
  - Initial grading
  - Landscaping not adjacent to building

- Includes:
  - Common area
  - Full time manager’s unit
  - Community space

COMMUNITY SERVICE FACILITY

- Space used to provide services that will:
  - Improve the quality of life for community residents, *and*
  - Be appropriate and helpful to individuals in the area of the project
- Examples: day care center, medical clinic, Meals On Wheels
- Included in eligible basis if:
  - Project located in a qualified census tract
  - Designed to serve families earning less than 60% AMI

COMMUNITY SERVICE FACILITY

Amount included in basis limited to:

- Projects placed in service after July 30, 2008
  - 25% of first $15 million of eligible basis
  - 10% of remaining eligible basis

- Projects placed in service before July 31, 2008
  - 10% of eligible basis