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# INTRODUCTION TO LOW INCOME HOUSING TAX CREDITS

Utah Housing Corporation

# Low Income Housing Tax Credits

- The LIHTC Program was created by the 1986 Tax Reform Act.

- The Internal Revenue Service and Utah Housing Corporation jointly administer the LIHTC program in Utah.

- Tax credits *are not* an operating subsidy, but provide a subsidy for the construction of affordable rental units serving tenants at or below 60% of area median income.

## Qualified Allocation Plan

UHC must establish an annual Qualified Allocation Plan (QAP) which explains the criteria it will use to make awards of housing credit.

On an annual basis the QAP is revised.

- Public input meetings →
- Staff revisions →
- Approval of UHC's Board of Trustees →
- Approval and signature of the Governor.

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Some of the scoring elements in UHC’s QAP include:

- Set aside units for Special Needs populations;
- Transit oriented development;
- Development in rural targeted areas;
- LEED Certification or Enterprise Green Certification;
- Historic character of a building (acquisition/rehabs);
- Rent targeting stratification; and
- Mixed income (affordable and market rate).

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## Two Types of Housing Credit

**9% credit**

- The IRS issues an annual allocation of tax credit authority to each state determined by a formula based on the current statewide population.

Population x $2.15 = 2012 annual authority
(Currently approximately $5,985,000 for Utah)

- Developers **must compete** for this limited resource.

**4% credit**

- Noncompetitive allocations, automatically approved as long as the proposed project meets the threshold requirements of the QAP.
- Used in conjunction with other federal funds (bonds).

## Long Term Affordability

- The Internal Revenue Code requires an initial compliance period of 15 years, beginning upon completion of construction.

- For an additional period of up to 84 years UHC maintains a deed restriction on the property requiring its use for affordable rental housing.

- Throughout the entire period of affordability, UHC monitors, audits, and inspects the property to ensure compliance.

## The Role of the Investor

Once a project receives an award of housing credit it must sell those credits to generate equity for the affordable housing development.

- The investor purchases each dollar of credit at a discount. In Utah today an average price is approximately $0.85 per dollar of credit. Therefore an award of annual credit in the amount of $600,000 would result in equity of $5,100,000.

$600,000 x 10 years = $6,000,000 of tax credits
$6,000,000 x $0.85 = $5,100,000 of cash to the development

- The investor now has $6,000,000 of credits which it purchased for $5,100,000. It may apply these credits against its tax liability over a 10 year credit period.

## Typical LIHTC Ownership Structure

Limited Partnership / Limited Liability Company

- General Partner / Managing Member
  - .01% Ownership Interest
  - Manages the business of the company

- Limited Partner / Investor Member
  - 99.99% Ownership Interest
  - Purchases tax benefits (credits and losses) in exchange for cash (equity) to the project

- After a 15 year compliance period, the LP / LLC dissolves leaving the asset in the hands of a single owner.

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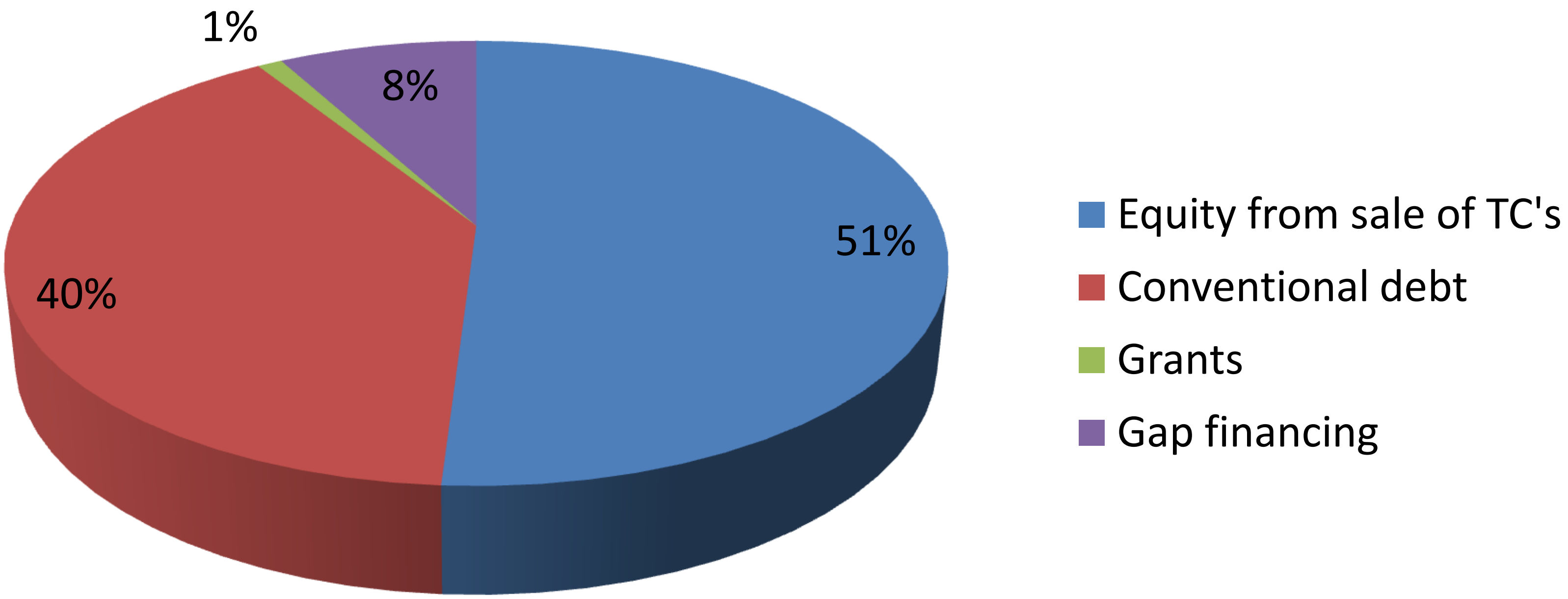
# Tax Credits Bring Cash (Equity) to the Deal

## Typical Sources of Financing



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# Snapshot of UHC LIHTC Properties

- 399 projects
- 18,697 LIHTC units
- 21,647 total units
- 155 small projects (25 or fewer units) or 39% of all projects
- 56 Senior projects or 14% of all projects
- 106 Acquisition/rehabilitation projects or 26% of all projects
- 6 Chronically homeless projects (100% chronically homeless) for a total of 446 units
- Approximately 950 additional set aside units for homeless/near homeless