

Low-Income Housing Tax Credits (LIHTCs)

- Introduced in Tax Reform Act of 1986
- Intended to encourage investment in low-income rental housing
- Principal federal subsidy for low-income housing
- Annual credit for 10 years

LIHTCs Generate Cash to Pay for the Project

- Developers can raise \$.80-.90 in equity for every \$1.00 of LIHTCs
- LIHTC equity may pay for as much as 80% of project cost
- Makes it possible to build high quality housing with affordable rents

Three Threshold Criteria

1. Incomes of Occupants
2. Rent Restrictions
3. State Agency Approval

Who Counts as Low-Income?

- 20% of units must be **occupied** by tenants with incomes below 50% of area median income (AMI)

- - - **OR** - - -


- 40% of units must be **occupied** by tenants with incomes below 60% of AMI

Rent Restrictions

- All units receiving LIHTCs have rent restrictions
- Restrictions based on number of bedrooms and imputed household size
- Imputed household size equals number of bedrooms x 1.5 persons per bedroom (one person for a 0-bedroom unit)
- Rent cannot exceed 30% of income qualifier (either 50 or 60% of median) for the assumed household size
- Maximum rent includes all utilities except telephone

Computation For Two-Bedroom Unit

- Imputed household size is 2×1.5 persons/bedroom = three-person household
- Median income for three-person household is \$51,150
- 60% of median is $.60 \times \$51,150 = \$30,690$ or \$2,557 per month
- Maximum two-bedroom rent is 30% of \$2,557 per month, or \$767 per month
- If utility allowance for two-bedroom unit is \$75 per month, maximum contract rent is $\$767 - \$75 = \$692$ per month

- 
- Income qualification is based on the individual household's income. Must be below threshold for that household size.
 - Rent is based not on tenant's household size or income but on threshold for imputed household size

LIHTC Projects Must Remain Low-income On A Long-term Basis

- Rent and income restrictions are in force for a minimum of 15 years (compliance period)
- Additional 15-year extended use obligation

State Agency Approval

- LIHTCs are administered by states
- State agency allocates credits
 - Creates own allocation plan
 - Underwrites projects
 - Monitors projects
- At least 10% set aside for projects sponsored by non-profit organizations

LIHTC's Are An Investment Tax Credit

- You get a credit for spending money on eligible costs
- Landscaping is an eligible cost

Two Kinds of LIHTCs

- 70% present value (9% credit)
- 30% present value (4% credit)
- Actual credit percentage changes monthly, currently 7.92% and 3.40%
- Receive “9”% credit on all improvement costs not funded with a subsidized loan or tax-exempt financing (“bad money”)

OR

- Receive “4”% credit on all improvement costs, regardless of financing source
- Also sometimes receive “4”% credit on the building portion of acquisition on a rehabilitation project

New Construction/ Substantial Rehabilitation

- Annual credit for 10 years
 - Receive 9% credit on basis items (improvement costs)
- OR**
- Receive 4% credit on all basis items
- RD 515 projects and tax-exempt bond projects

Spending on Landscaping Can Generate LIHTC's and Equity for Project

\$50,000 Landscaping expense

x .0792

\$ 3,960 LIHTC's per year

x 10 Years

\$39,600 Total LIHTC's

x \$.85 Credit Price

\$33,600 Investor Equity

In A Qualified Census Tract or Difficult Development Area

\$50,000	Landscaping
<u>x 1.3</u>	Basis Increase
\$65,000	Basis
<u>x .0792</u>	
\$ 5,148	Annual LIHTC's
<u>x 10</u>	Years
\$51,480	Total LIHTC's
<u>x \$.85</u>	Credit Price
\$43,758	Equity

Improvement Basis (9% or 4% Credit)

INCLUDE:

- Construction and supervision
- Architectural, engineering, design fees
- Construction financing costs (fees, appraisals, interest)
- Developer fees
- Permits and inspection fees
- Performance bonds
- Furnishings
- Environmental assessment
- Development consulting fees
- Property taxes and insurance
- Landscaping

4% Credit Project in Qualified Census Tract

\$50,000 Landscaping

X 1.3

\$65,000 Basis

x .034

\$ 2,210 LIHTC per year

x 10 Years

\$22,100 Total LIHTC's

x \$.85 Credit Price

\$18,785 Equity