# LIHTC Basics

## An Overview of the Low-Income Housing Tax Credit Program



**Mark Shelburne**
Novogradac & Company LLP
mark.shelburne@novoco.com
(919) 889-2596

# Really Basic Basics

What is the Housing Credit?

Technically: IRC Section 42 plus IRS guidance

Practically: America's last affordable rental housing production program of any scale

~3 million apartments since 1986, +90k annually

Important percentage of all multifamily construction

# Really Basic Basics

Capital subsidy, as opposed to operating (Section 8)

Units are for <60% AMI rental, no owner occupancy

Buildings take any form, also for rehabilitation

Corporations invest equity, which reduces financing

Lower debt service allows affordable rents

Investors benefit by a credit against tax liability

# Really Basic Basics

Projects are owned by a LLC or partnership, developers and investors are the members/partners

Administered by state agencies, rules are in the qualified allocation plan (QAP)

Units must comply with requirements regarding:

- household *I*ncome,
- the *R*ent charged, and
- *S*uitability of the property

for at least 30 years.

# Components of the Calculation

Math involves four separate components:

- which development costs, or ***eligible basis***
- when the basis receives a 30% ***boost***
- only units following IRS restrictions, the ***applicable fraction***
- product is qualified basis, which is multiplied by the ***tax credit percentage*** for the maximum potential allocation

# Components of the Calculation

1) eligible basis
2) x boost, if available
3) x applicable fraction

   = qualified basis

and then

4) qualified basis x tax credit percentage, **9%**

   = max Housing Credits

# Effect of Noncompliance

Equity "price" is premised on investor

- reducing its taxes by the full allocation
- receiving full amount each year for a decade

Not maintaining eligible basis or applicable fraction means won't happen

Partnership agreement creates a substantial financial incentive

Could include calling a guarantee

# Tax Credit Transaction

Pass Through Entity – LLC or limited partnership

Credits allocated to this entity which then allocates the credits (and losses typically) to its investor member or limited partner

Developer is general partner or managing member, earns up-front fee depending on various factors

Bank or other institution is investor/LP

# Qualified Allocation Plan and Applications

Allocation criteria fall into three main components:

1. Set-asides split the jurisdiction's resource (new vs. rehab, geographic areas, population)
2. Thresholds are fundamental requirements
3. Preferences pick eligible apps in a set-aside

Applications take 100s of hours and cost >$50K

Tremendously complicated and competitive