Low-Income Housing Tax Credits Overview

ANJANETTE SCOTT LLC

Disclaimer

Real estate finance is based on various methods that are complex. This training does not constitute legal or financial advice. Everyone should seek legal and financial counsel for their particular situations. This is an overview and does not discuss every detail of the program.

Tax Credits-Equity

- Low-Income Housing Tax Credits-IRS program that gives investors federal income tax breaks for providing cash for affordable housing (not a loan).
- Managed by each state-California Tax Credit Allocation Committee in CA
- State tax credits-program that gives investors state tax breaks against investor's California income. Supplements Federal tax credits
- Federal Tax credits are taken over 10 years; State credits over 4 years

Tax Credits in Exchange for Cash

- Developers apply for tax credits through the state
- Amount of tax credits is based on estimated cost of project
- Sell tax credits to investors who give them equity to build the project
- Investors get tax breaks
- Investors determine the price of tax credits based on their tax situation, Community Reinvestment Acts needs, social goals

Calculating Tax Credit Equity

- $25M tax credits ($2.5M per year for 10 years)
- $.95 per credit
- $23.75M tax credit equity

4% vs 9% Tax Credits

- 4% and 9% are the percentages used to determine the amount of credits
- 9% more credits so there is a lot of competition
- 4% credits are tied to the Tax-Exempt Bond program and are managed by the California Debt Limit Allocation Committee

Tax Credits Impact on Taxes

- Tax credit investors have ownership in project
- Tax deduction-lowers taxable income
- Tax credit- lowers tax bill
- Tax credit investors get both

Tax Credits Impact on Taxes, Con't

Deductions (like Schedule A or business write-offs on personal taxes)

Gross Income: $1,000,000

Deductible Expenses: $600,000

-Medical

-Charitable donations

-Wages

-Utilities

Taxable Income: $400,000

Taxes: $150,000

Tax Credit: $100,000

Taxes: $50,000

Tax Credits Impact on Taxes, Con't

Deductions from income

-Operating loss

-Loan Interest

-Depreciation

Tax Credits: Annual Federal tax credits per year plus CA's state tax credits if they operate in CA

Tax Credits Impact on Taxes, Con't

LIHTC Tax Credit Investor

Year 1

Revenue =$35M

Deductions from project = $3M

Taxable Income =$32M

Taxes =$8M

Tax Credit =$2.5M

Taxes =$5.5M

How Projects Are Scored

- Pools/set asides are funds that are allocated to reward projects to achieve certain housing goals.
- Pools/set asides have less competition and give applicants a higher chance of getting funded.
- Geographic scoring allocates scores to projects within the same region. Default if the project doesn't get award in a pool/set aside

Set Asides/Pools

9%

- Nonprofit (homeless priority)
- Rural includes Native American
- Special-Needs
- At-Risk

4%

- Rehabilitation
- Black Indigenous People of Color (BIPOC)
- New Construction (Extremely Low/Very Low-Income, Homeless, Mixed-Income)
- Special Needs
- Rural

9% Geographic Areas

- Los Angeles (no competition at State level)
- Balance of Los Angeles
- Central Valley
- San Diego
- Inland Empire

9% Geographic Areas con't

- East Bay (Alameda and Contra Costa Counties)
- Orange County
- South and West Bay (San Mateo, Santa Clara)
- Capital Region(El Dorado, Placer)
- Central Coast
- Northern Region
- San Francisco County (no competition at State level)

4% Geographic Areas

- Los Angeles
- Coastal Region
- Balance of Los Angeles
- Bay Area (Alameda, Contra Costa, Marin, SF, San Mateo, Santa Clara, Santa Cruz)
- Inland Region
- Northern Region

9% Tie Breaker

- Critical to getting tax credits because many projects get all of the points in main scoring categories
- Calculation uses public (soft) financing (more funding gives a better the score)
- Score is higher if the project asks for less tax credits

Obtaining tax credits

- State gives developers 180/194 days to start construction
- When project is complete, developers submit a completion package to the State
- State determines final credit amount and provides the tax form which investors file with their taxes
- Any delays or changes in project's cost affects the amount of tax credits and equity