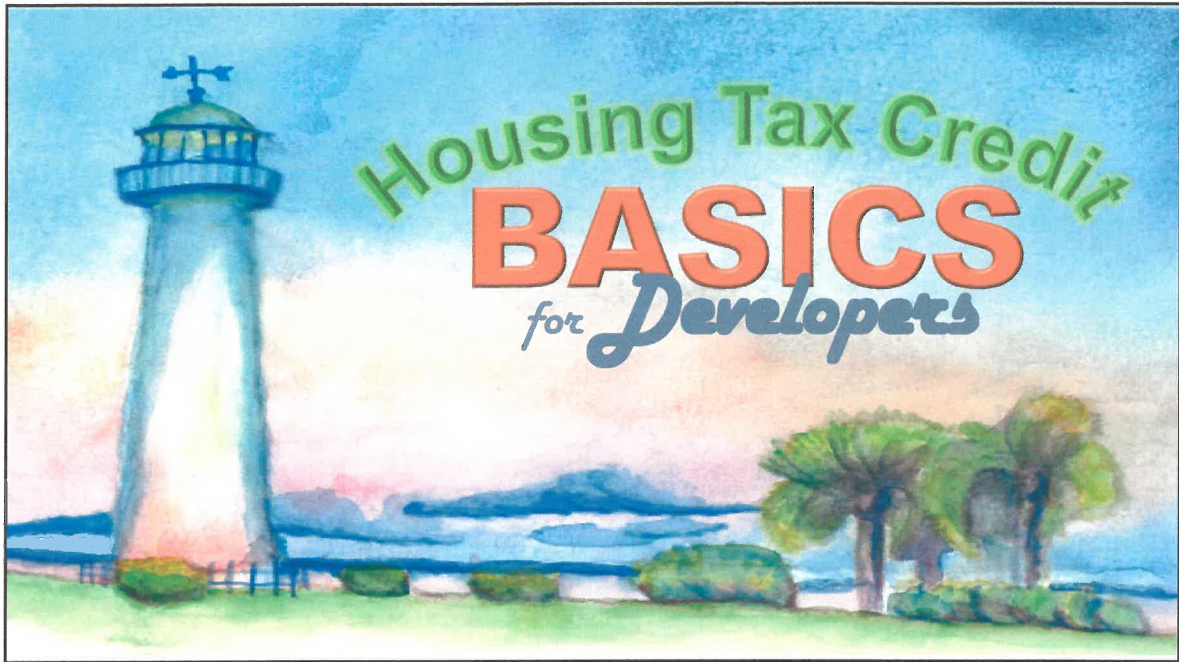


*Coasting Home*

April 2-4, 2025 | Beau Rivage | Biloxi, MS



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# AGENDA

## Overview of the LIHTC Program

- History
- Definitions

## General LIHTC Structure

- Types of LIHTCs
- Tax Credit Calculation
- Program Players
  - Example LIHTC Deal

## LIHTC Timeline

## Program Rules

- Compliance
- Avoiding Recapture



## Pre- Tax Reform Act of 1986

### *Building Affordable Housing...*

Taxpayers would pay Uncle Sam  
Uncle Sam would build housing  
Housing would rent to low-income tenants  
RD/HUD – Provide Rental Assistance  
Housing inventory deteriorates

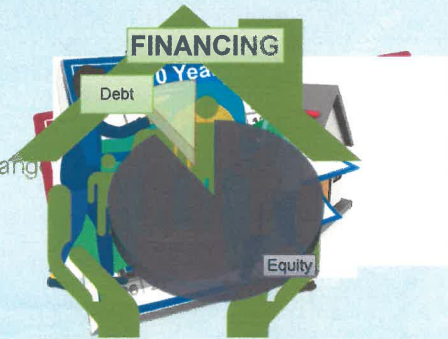
#### Financial Structure



# Tax Reform Act of 1986

## Low-Income Housing Tax Credit Program...

- Awards developers federal tax credits;
- which are used to offset construction costs;
- in exchange for reserving a fraction of units for lower-income households.
- Tax credits claimed annually for **10 years**
- Developers **sell** the credits to investors in exchange for **equity financing**.
- **Equity** reduces the debt needed, which allows more affordable rents
- **Financial Structure!**



Credit amounts allocated to a project are based on construction costs incurred and begins when units are occupied by low-income families.  
Most types of housing can be developed with the LIHTC, but must be residential and rental.

# Definitions

## Tax Credit

A dollar-for-dollar deduction against the tax liability of an individual or corporation

	<u>Credit</u>	<u>Deduction</u>
Gross Income		
Less Deduction		
Adjusted Income		
Taxes @ 21%		
Less Housing Credits		
Taxes Owed		

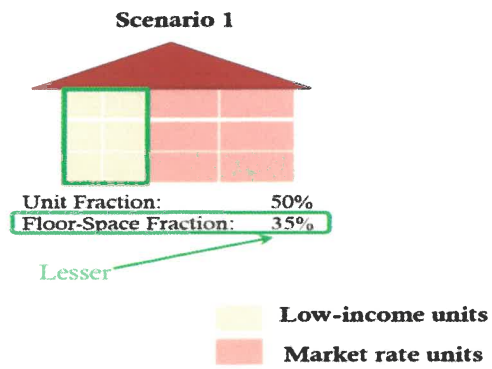


# Definitions

- **Eligible Basis** (*How much it costs?*)
  - Development costs minus – land, building acquisition costs, syndication, organization, or permanent financing cost.
    - Includes soft costs that exist because of the development
      - Architectural fees
      - Engineering fees
      - Developer fees
- **Basis Boost** – Depending on *location*, eligible basis can be increased by 30%
  - Difficult Development Area (DDA)
  - Qualified Census Tract (QCT)
- **Applicable Fraction** - Percentage of the building that is treated as low-income use and eligible for the LIHTC (*use the lesser of the unit fraction or the floor space fraction*).

# Definitions

**Applicable Fraction** - % of units or square footage set aside for LI use





## Definitions

- **Qualified Basis** *(How much of what was spent went towards low-income use?)*

- Eligible Basis multiplied by the applicable fraction

- $EB \times BB \text{ (if applicable)} \times AF = QB$

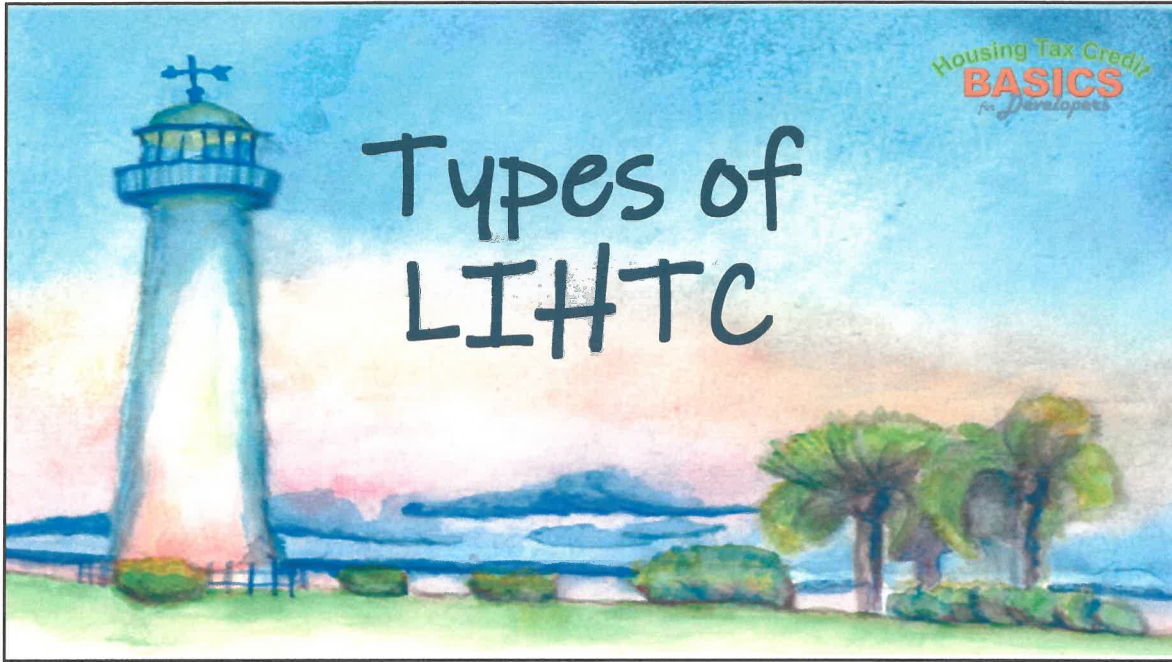
8 LI Units / 10 Total Units  
Costs: \$3,000,000  
DDA? No  
QCT? No

EB: \$3,000,000  
BB: -----  
AF: 80%  
QB: \$2,400,000



10 LI Units / 10 Total Units  
Costs: \$4,000,000  
DDA? Yes  
QCT? No

EB: \$4,000,000  
BB: 30%  
Adj EB \$5,200,000  
AF: 100%  
QB: \$5,200,000



# Types of LIHTC



## 9% Credits

Competitive Credit  
Annual LIHTC allocation authority  
New Construction & Rehabilitation  
70% present value



## Types of LIHTC

### 4% Credits

Non-Competitive Credit  
Automatic award if coupled w/Tax Exempt Bonds  
Acquisition & Rehabilitation  
Not drawn from the annual LIHTC Authority  
30% present value



- ❖ Automatically qualify for LIHTC credits.
- ❖ Bonds must pay for 50% or more of the total depreciable costs (land + eligible basis + commercial + off-site + ineligible site work + any other ineligible depreciable costs).
- ❖ Interest is charged on the bond issuance.

- ◆ Letter of credit or other enhancement provide guaranty to issuer.
- ◆ Tax exempt bond holders do not pay tax on interest income.

# Tax Credit Calculations

## Computing 9% Tax Credits

8 LI Units / 10 Total Units  
 Costs: \$3,000,000  
 DDA? No  
 QCT? No

Eligible Basis: \$3,000,000  
 Basis Boost: -----  
 Applicable Fraction: 80%  
 Qualified Basis: \$2,400,000  
 Tax Credit Rate: 9%  
 Annual Tax Credits \$216,000  
 x 10 Years

**Total Tax Credits \$2,160,000**



10 LI Units / 10 Total Units  
 Costs: \$4,000,000  
 DDA? Yes  
 QCT? No

Eligible Basis \$4,000,000  
 Basis Boost 30%  
 Adj Eligible Basis \$5,200,000  
 Applicable Fraction 100%  
 Qualified Basis: \$5,200,000  
 Tax Credit Rate: 9%  
 Annual Tax Credits \$468,000  
 X 10 Years  
**Total Tax Credits \$4,680,000**



# Tax Credit Calculations

## Computing 4% Tax Credits

12 LI Units / 12 Total Units  
 Costs: \$5,000,000  
 DDA? Yes  
 QCT? No

Eligible Basis \$5,000,000  
 Basis Boost: 30%  
 Adj Eligible Basis: \$6,500,000  
 Applicable Fraction: 100%  
 Qualified Basis: \$6,500,000  
 Tax Credit Rate 4%  
 Annual Tax Credits \$260,000  
 x 10 Years  
**Total Tax Credits \$2,600,000**



12 LI Units / 15 Total Units  
 Costs: \$7,000,000  
 DDA? Yes  
 QCT? No

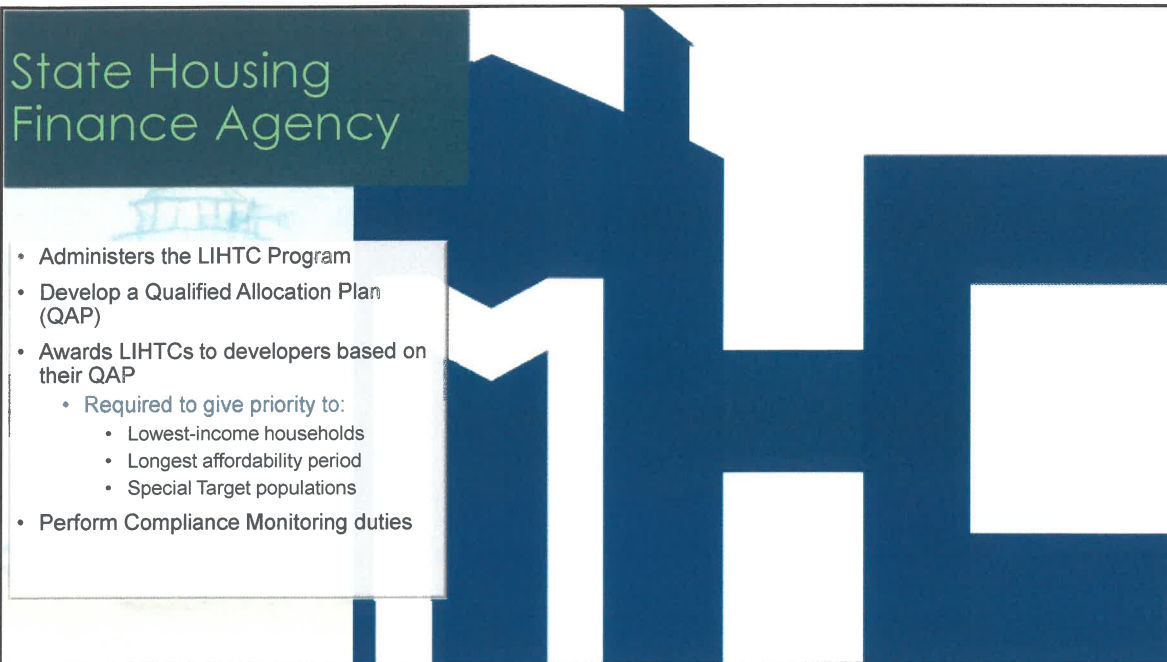
Eligible Basis \$7,000,000  
 Basis Boost 30%  
 Adj Eligible Basis \$9,100,000  
 Applicable Fraction 80%  
 Qualified Basis: \$7,280,000  
 Tax Credit Rate: 4%  
 Annual Tax Credits \$291,200  
 x 10 Years  
**Total Tax Credits \$2,912,000**



## Internal Revenue Service

- Oversees implementation of the program
- Allocates LIHTCs to each state according to its population
  - 2025 LIHTC Per Capita: \$3/person
  - Mississippi population: **2,939,690**
  - 2025 MS Credit Authority: **\$8,819,070**
- Recapture Credits due to noncompliance





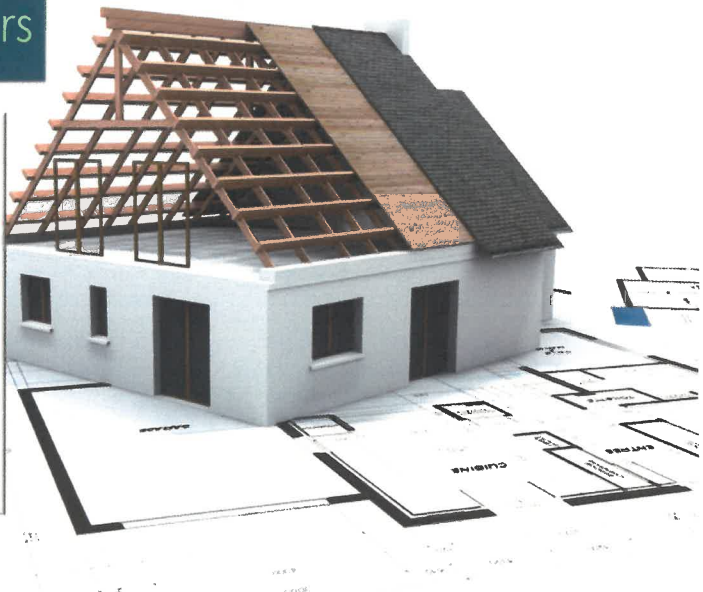
QAP is essentially the bible when it comes to how the LIHTC program is administered in a particular state.

In addition to performing the compliance monitoring duties, the state hfa also corresponds with the IRS regarding the status of the developments in the program

- 10% of credits set aside for non-profits
- Take into account energy efficiency and historic nature of projects
- Consider financial feasibility
- Limit credits to amount necessary

## Developers/Owners

- “General Partner”
- Responsible for overseeing the development of the Project
- Oversee the rent-up
- Responsible for credit delivery (compliance)
- Benefit of Developers
  - Fees:
    - Developer Fee
    - Management Fee (*is applicable*)
    - Incentive Leasing Fee
- Potential for cash flow



## ❖ 0.1% General Partner (GP) / Managing Member

- ❖ Manages affairs of the partnership – i.e. a Redwood Housing Entity

## ❖ Fees

- ✓ Developer Fee - one-time fee typically not to exceed 15%


of total costs

- ✓ Management Fee - monthly fee typically between 5% and 7%
- ✓ Incentive Leasing Fee - % of cash flow during rent-up



## Investors

- Equity providers
- "Limited Partner"
- Satisfies local area housing needs
- Satisfies Community Reinvestment Act (CRA) Requirements
  - Prevents discrimination against low or moderate income neighborhoods
  - Financial institutions not in compliance with the CRA can have their applications for future mergers denied.
- Fees
  - Asset management Fee
- Potential for cash flow



Stream of tax losses created primarily by non-cash deductions such as depreciation and amortization

Fees

✓ Asset management fee

Potential for cash flow

Internal rate of return - the rate of return that would make the

present value of future cash flows  
plus the final market value of an  
investment equal the current  
market price of the investment

## Lenders

- Construction Financing
- Permanent Financing
  - MHC requires 10% permanent debt
- Loan Fees
- Interest Income
- Meets **CRA** requirements



## Contractors

Ensure timely completion of construction

- 50% Completion (15-months)
- Place In Service Deadline (12/31 of 2<sup>nd</sup> year)

Profits – 6%

Overhead – 2%

General Requirements - 6%



## Other Players

### Syndicators

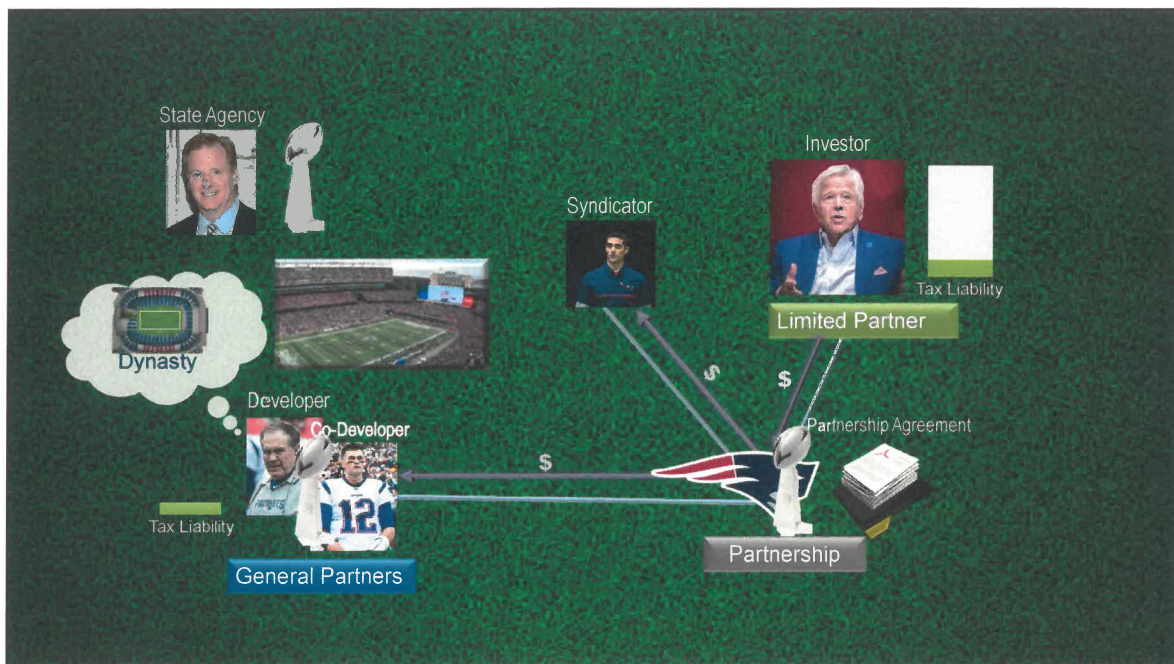
- Help bridge the gap between various parties to affordable housing transactions
- Works with both the General Partner (developer) and the Limited Partner (investor)
- Collects a fee for overseeing the investment transaction

### CPAs

- Projections / Budgets
- 10% Test Certifications
- Cost Certifications
- Annual Audits and Tax Returns



- ❖ Projections
- ❖ Structuring
- ❖ Real Estate Consulting
- ❖ 10% Carryover Letter
- ❖ Cost Certification Fee
- ❖ Annual Audit and Tax Return
- ❖ Compliance - i.e. Break-Even Analysis







## ❖ Limited Partnership

- ❖ Sets forth roles, responsibilities and compensation of partners.

## ❖ 0.1% General Partner (GP) / Managing Member

- ❖ Manages affairs of the partnership – i.e. a Redwood Housing Entity.

- ◆ 99.9% Limited Partner (LP) / Investor Member (Equity Fund)

- ◆ Invests in exchange for tax benefits, providing cash to the development in exchange for tax benefits to investors. (i.e. Raymond James, Boston Financial, Regions, etc.)

# Tax Credit Equity Calculations

## Computing Equity

### 10 LI Units / 10 Total Units

Costs: \$3,000,000  
DDA? No  
QCT? No

Eligible Basis: \$3,000,000  
Basis Boost: -----  
Applicable Fraction: 100%  
Qualified Basis: \$3,000,000  
Tax Credit Rate: 9%  
Annual Tax Credits  
x 10 Years  
Total Tax Credits \$2,700,000  
Price per \$ \$0.87  
TC Equity \$2,349,000

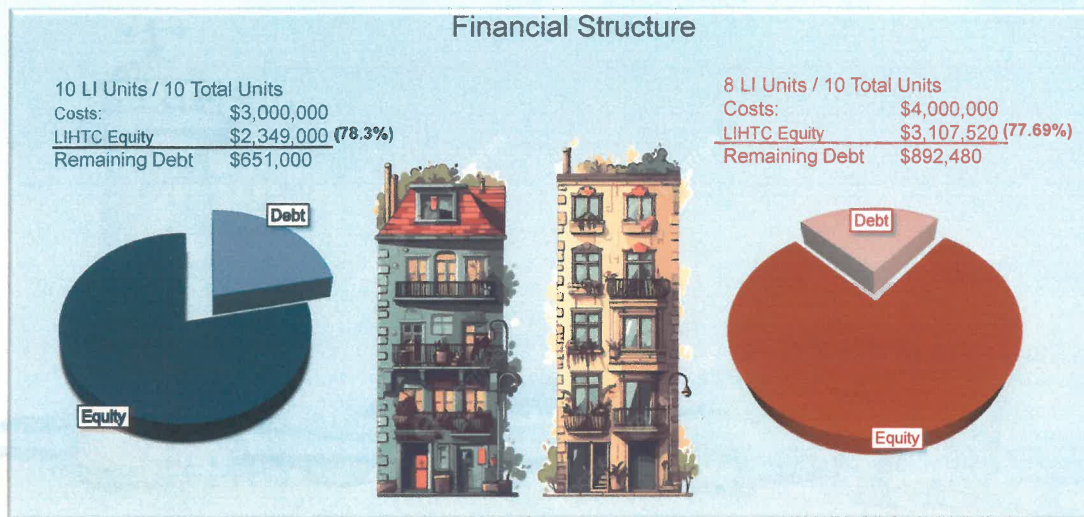


### 8 LI Units / 10 Total Units

Costs: \$4,000,000  
DDA? Yes  
QCT? No

Eligible Basis \$4,000,000  
Basis Boost 30%  
Adj Eligible Basis \$5,200,000  
Applicable Fraction 80%  
Qualified Basis: \$4,160,000  
Tax Credit Rate: 9%  
Annual Tax Credits \$374,400  
x 10 Years  
Total Tax Credits \$3,744,000  
Price per \$ \$0.83  
TC Equity \$3,107,520

# Tax Credit Equity Calculations



## Annual Credit Calculation (9%)

Total Development Budget	<b>\$7,815,048</b>
Ineligible costs	<b>(680,711)</b>
Applicable Fraction	<b>100%</b>
QCT/DDA Basis Boost	<b>0%</b>
Applicable Rate	<b>9%</b>
Annual Reserved Tax Credits	<b>\$642,090</b>

## Tax Credit Equity Calculation (9%)

Annual Tax Credits	\$642,090
Credit Period	x 10
Total Tax Credits	\$6,420,900
Price paid	x \$0.87
Equity	<b>\$5,586,183</b>

Equity represents **71.4%** of development costs



## Annual Credit Calculation (4%)

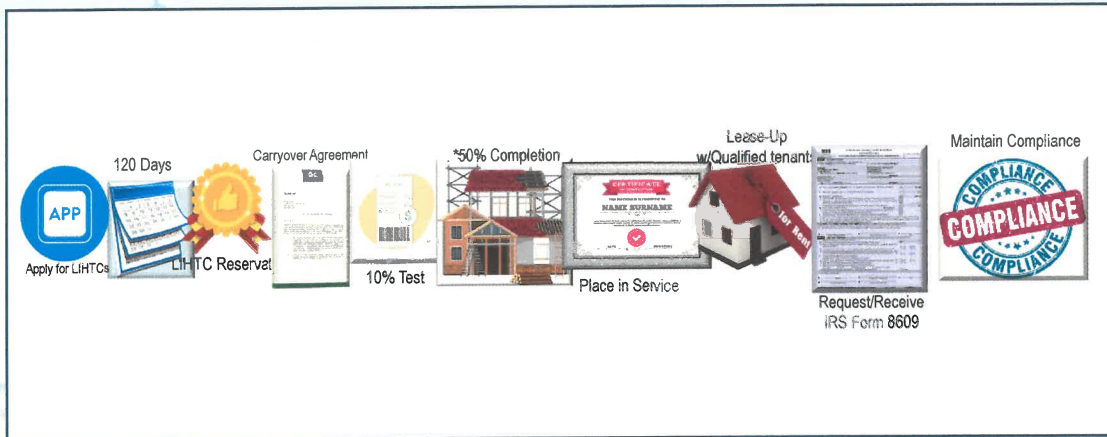
Total Development Budget	<b>\$7,815,048</b>
Less ineligible costs	<u>(645,146)</u>
Eligible Basis	\$7,169,902
Applicable Fraction	100%
QCT/DDA Basis Boost	<u>+ 30%</u>
Qualified Basis	<b>\$9,320,873</b>
Credit Rate	<u>4.00%</u>
Annual Tax Credits	<b>\$372,835</b>

## Tax Credit Equity Calculation (4%)

Annual Tax Credits	<b>\$372,835</b>
Credit Period	x 10
Total Tax Credits	<b>\$3,728,350</b>
Price paid	x \$0.85
Equity	<b>\$3,169,098</b>

Equity represents approximately **40%** of development costs

## Tax Credit Timeline



- ❖ Developer/Owner submits application to state allocating agency
- ❖ If meets criteria and scores well enough, a reservation is awarded
- ❖ The tax code requires that the project be placed in service by the end of award year
- ❖ That's crazy...so a Carryover Request Document is sent.
- ❖ This give you a year to meet the 10% test

- ◆ You have funding from the lender and investor
- ◆ You've built a beautiful development anyone would be proud to call home
- ◆ You get your Certificates of Occupancy
- ◆ Behind the scenes you've had your management company working on lease-up with tenants ready to move in
- ◆ You submit your Placed in Service Package to the State Agency

# Program Rules

## Unit Restrictions

- Don't rent LIHTC units to people who make too much money
- Don't charge low income families too much rent
- Families must earn less than 60% (or 50% depending on minimum set aside) of area median income
  - Based on HUD median income data, adjusted for family size
- Threshold Elections
  - 20/50 minimum set aside- 20% of units must be rented to 50% AMI
  - 40/60 minimum set aside- 40% of units must be rented to 60% AMI
  - Average Income Election
- Rent Restricted – How much can tenants pay?
  - Rents and utilities – limited to 30% of threshold income
  - Allowable rent based on size of unit
- Program requires a 15-year compliance period, but can be extended to increase chances of getting awarded.

## Program Rules

### Income Restrictions: Minimum Set-Aside

- At least 40% of the property must be set aside for families earning below 60% of the Area Median Income.
- OR-
- At least 20% of the property must be set aside for families earning below 50% of the Area Median Income.
- OR-
- Average Income

## Compliance

- Compliance period for developments is 15 years
- An extended use agreement is required. This extends the period for which the project must remain low-income housing – usually adding 15 to 35 years; known as “LURA” (land use restriction agreement). Foreclosure terminates this agreement. If the owner is unable to continue, the state agency must find a buyer with a “Qualified Contract” to maintain the restricted rents and tenant certification. If one cannot be provided, the project remains restricted for 3 years.



## Compliance

- State annual compliance
- Owner annual compliance certifications
- Owner recordkeeping requirements
- Noncompliance
- Form 8823
- Ramifications of non-compliance - Recapture

- ❖ Failure to meet minimum set-aside requirement by deadline.
- ❖ Violation of vacant unit rule
- ❖ Violation of 140% rule
- ❖ Tenant over income limit

## ❖ Ineligible students



## MISSISSIPPI HOME CORPORATION

### Tax Credits Department

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