



# Low-Income Housing Tax Credits 101



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# INTRODUCTION



Elizabeth Harriger, CPA,  
HCCP

Partner

Director of Affordable Housing  
Services



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# FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, Bloomsburg, and Philadelphia.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



Affordable Housing



Construction



Employee Benefit Plans



Family-Owned Business



Healthcare



Manufacturing & Distribution



Nonprofits



# AFFORDABLE HOUSING SERVICES

McKonly & Asbury is a recognized leader in providing audit, tax, and consulting services to owners, developers, and property management organizations.

- Financial Statement Audits, Reviews and Compilations
- Tax Return Preparation
- 10% Tests
- 50% Tests
- Development Cost Certifications
- LIHTC Consulting
- Agreed-Upon Procedures
- Property compliance consulting

Learn more at: [macpas.com/industries/affordable-housing](https://macpas.com/industries/affordable-housing)

# LIHTC PROGRAM

- Created by the 1986 tax act
- Credits received over 10 years
- 15-year compliance period
- 30-year extended use period
- 9% and 4% credits
- Credit is calculated based on the eligible basis of the property



# PLAYERS

- Tax Credit Allocating State Agency (PHFA)
- Owner/Developer
- Housing Consultant
- Investor
- Contractor
- Architect
- Management Agent
- Attorney
- Accountant



# LOW-INCOME HOUSING TAX CREDITS

- Ownership entity (typically a for-profit limited partnership) of affordable housing development is awarded LIHTC from TCAA
- Limited partnership sells credits to investors who contribute equity to the entity
- Investors receive credits, ownership position, and tax benefits



# TYPICAL FUNDING MIX

- Investor equity
- Additional Sources of Financing
  - Federal Home Loan Bank (FHLB)
  - HOME
  - State Housing Tax Credits
  - PHARE
  - TCAA
  - Deferred Developer's Fee





# TYPICAL FUNDING MIX (CONT'D)

- Tax exempt financing
  - Automatic receipt of 4% credits without allocation
  - Must meet threshold criteria



# TAX CREDIT PROCESS

- Identify an area with a need for Affordable Housing
- Property Identification
- Submit tax credit application to TCAA
- Receive a reservation of tax credits from TCAA



# TAX CREDIT PROCESS (CONT'D)

- Carryover allocation
- Equity closing
- Construction
- 10% Test
- Construction completion
- Cost certification
- 8609(s) issued



# IDENTIFY AREA WITH A NEED

## ■ Factors

- Need for housing
- Community support
- Political support
- Tenant population interest
- Compatible with surrounding uses
- Consistent with local growth planning



# IDENTIFY AREA WITH A NEED (CONT'D)

- Factors (cont'd)
  - Economic benefits to the residents and/or surrounding area
  - Neighborhood Characteristics
    - Schools/healthcare facilities
    - Retail/grocery stores
    - Places of worship
    - Transportation



# PROPERTY IDENTIFICATION

- Purchase or long-term land lease
- Land
- Vacant building
- Existing residential
- Community Impact
- Mixed use properties-minimum required number of affordable units



# SUBMIT TAX CREDIT APPLICATION

- Some items to consider
  - Each state's Qualified Allocation Plan discusses "preferences" and "set asides" to meet TCAA's goals
  - Market study
  - Appraisal



# SUBMIT TAX CREDIT APPLICATION (CONT'D)

- Some items to consider (cont'd)
  - Phase I Environmental Study
  - Architectural plans
  - Development team
  - Financial projection
  - Construction cost estimate
  - Equity partner
  - Ranking criteria





# TAX CREDIT RESERVATION

- TCAA scores applications
- Top ranked applications receive credits



# CARRYOVER ALLOCATION

- Generally, a development must be placed in service in the year that the LIHTC is awarded by TCAA.
- A carryover allocation can extend the placed in service date to the end of the second calendar year after the year that a carryover allocation is made.



# CLOSING

- Property
  - Obtain ownership of property
- Financing
  - Receive funds
- Equity
  - Execute partnership agreement
  - Receive funds



# 10% TEST

- Satisfying the 10% test rule: 10% of the reasonably expected basis in the project must be incurred no later than one year after a project receives an LIHTC reservation
- To obtain the extended time for placing a project in service, the project must receive a valid carryover allocation agreement and satisfy the 10% test timely
- CPA certification required



# CONSTRUCTION

- Average construction period is 9-18 months
- Equity typically paid in using draw requests, up to a total specified amount



# CONSTRUCTION COMPLETION

- Certificate of occupancy issued
- Cost certification due within timeframe set by TCAA after last building in development is placed in service
- Lease up begins



# DEVELOPMENT COST CERTIFICATION

- What is a development cost certification and why is one necessary?
  - Accounting for total development costs
  - Process used by TCAA to establish eligible basis
  - Required by the IRS
- CPA Certification Required



# 8609 ISSUED

- TCAA issues an IRS form 8609 for each building in the development that is eligible for LIHTC
- 8609 must have Part II completed and be signed by the owner
- 8609 must be filed with an IRS clearinghouse and, if required, the TCAA





**Low-Income Housing Credit Allocation  
and Certification**

▶ Go to [www.irs.gov/Form8609](http://www.irs.gov/Form8609) for instructions and the latest information.

**Part I Allocation of Credit**

Check if:  Addition to Qualified Basis  Amended Form

<b>A</b> Address of building (do not use P.O. box) (see instructions)		<b>B</b> Name and address of housing credit agency	
<b>C</b> Name, address, and TIN of building owner receiving allocation		<b>D</b> Employer identification number of agency	
TIN ▶		<b>E</b> Building identification number (BIN)	

<b>1a</b> Date of allocation ▶	<b>b</b> Maximum housing credit dollar amount allowable	<b>1b</b>	
<b>2</b> Maximum applicable credit percentage allowable (see instructions)		<b>2</b>	%
<b>3a</b> Maximum qualified basis		<b>3a</b>	
<b>b</b> Check here <input type="checkbox"/> if the eligible basis used in the computation of line 3a was increased under the high-cost area provisions of section 42(d)(5)(B). Enter the percentage to which the eligible basis was increased (see instructions)		<b>3b</b>	1 %
<b>4</b> Percentage of the aggregate basis financed by tax-exempt bonds. (If zero, enter -0-)		<b>4</b>	%
<b>5a</b> Date building placed in service	<b>b</b> Check here <input type="checkbox"/> if the date of allocation on line 1a is in calendar year 2021 or 2022 and the building is located in a qualified disaster zone (see instructions).		
<b>6</b> Check the boxes that describe the allocation for the building (check those that apply):			
<b>a</b> <input type="checkbox"/> Newly constructed and federally subsidized <b>b</b> <input type="checkbox"/> Newly constructed and <b>not</b> federally subsidized <b>c</b> <input type="checkbox"/> Existing building			
<b>d</b> <input type="checkbox"/> Sec. 42(e) rehabilitation expenditures federally subsidized <b>e</b> <input type="checkbox"/> Sec. 42(e) rehabilitation expenditures <b>not</b> federally subsidized			
<b>f</b> <input type="checkbox"/> Allocation subject to nonprofit set-aside under sec. 42(h)(5)			

**Signature of Authorized Housing Credit Agency Official—Completed by Housing Credit Agency Only**

Under penalties of perjury, I declare that the allocation made is in compliance with the requirements of section 42 of the Internal Revenue Code, and that I have examined this form and to the best of my knowledge and belief, the information is true, correct, and complete.

Signature of authorized official	Name (please type or print)	Date
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**Part II First-Year Certification—Completed by Building Owners with respect to the First Year of the Credit Period**

<b>7</b> Eligible basis of building (see instructions)	<b>7</b>	
<b>8a</b> Original qualified basis of the building at close of first year of credit period	<b>8a</b>	
<b>b</b> Are you treating this building as part of a multiple building project for purposes of section 42 (see instructions)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>9a</b> If box 6a or box 6d is checked, do you elect to reduce eligible basis under section 42(i)(2)(B)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>b</b> For market-rate units above the average quality standards of low-income units in the building, do you elect to reduce eligible basis by disproportionate costs of non-low-income units under section 42(d)(3)(B)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>10</b> Check the appropriate box for each election.		
<b>Caution:</b> Once made, the following elections are irrevocable.		
<b>a</b> Elect to begin credit period the first year after the building is placed in service (section 42(f)(1))	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>b</b> Elect <b>not</b> to treat large partnership as taxpayer (section 42(j)(5))	<input type="checkbox"/> Yes	
<b>c</b> Elect minimum set-aside requirement (section 42(g)) (see instructions):		
<input type="checkbox"/> 20-50 <input type="checkbox"/> 40-60 <input type="checkbox"/> Average income <input type="checkbox"/> 25-60 (N.Y.C. only)		
<b>d</b> Elect deep rent skewed project (section 142(d)(4)(B)) (see instructions)	<input type="checkbox"/> 15-40	

Under penalties of perjury, I declare that I have examined this form and accompanying attachments, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature	Taxpayer identification number	Date
Name (please type or print)	First year of the credit period	



# CALCULATING THE CREDITS

- Amount of credits based on:
  - Cost of construction or rehabilitation
  - % of qualified low-income units
  - Tax credit percentage



# CALCULATING THE CREDITS (CONT'D)

## ■ Eligible basis

- Includes most depreciable costs
- Excludes:
  - Land (and associated costs)
  - Off-site improvements
  - Building demolition
  - Tax credit fees
  - Rent up expenses
  - Permanent financing fees



# CALCULATING THE CREDITS (CONT'D)

## ■ Eligible basis

- Excludes:
  - Reserves
  - Organizational fees
  - Syndication fees
  - Compliance monitoring fee
  - Relocation expenses
  - Cost certification



# CALCULATING THE CREDITS (CONT'D)

- High-cost area (up to 130% basis boost)
  - Difficult Development Area or Qualified Census Tract
  - TCAA decision
- Applicable fraction
  - Percentage of building that is treated as low-income - lesser of the unit fraction or the floor space fraction



# CALCULATING THE CREDITS (CONT'D)

- Unit fraction
  - 50 low-income units
  - 60 total units
  - Unit fraction = 83%
- Floor space fraction
  - 60,000 low-income square footage
  - 70,000 total square footage
  - Floor space fraction = 86%



# CALCULATING THE CREDITS (CONT'D)

- Applicable percentage
  - The credit percentage that a qualified low-income housing project is eligible for



# CALCULATING THE CREDITS (CONT'D)

	Example 1
Eligible basis	\$8,000,000
High-cost area	<u>100%</u>
Total eligible basis	\$8,000,000
Applicable fraction	<u>100%</u>
Qualified basis	\$8,000,000
Applicable percentage	<u>9.00%</u>
Maximum credits	\$ 720,000





# CALCULATING THE CREDITS (CONT'D)

	Example 2
Eligible basis	\$8,000,000
High-cost area	<u>130%</u>
Total eligible basis	\$10,400,000
Applicable fraction	<u>100%</u>
Qualified basis	\$10,400,000
Applicable percentage	<u>9.00%</u>
Maximum credits	\$936,000



# CALCULATING THE CREDITS (CONT'D)

	Example 2
LIHTC awarded	\$936,000
10 years	<u>x 10</u>
Total credits	\$9,360,000
LP percentage	<u>99.99%</u>
LP credits	\$9,359,064
Equity pay-in rate	<u>.95</u>
LP Equity	\$8,891,111



# CALCULATING THE CREDITS (CONT'D)

	Example 3
Eligible basis	\$8,000,000
High-cost area	<u>100%</u>
Total eligible basis	\$8,000,000
Applicable fraction	<u>83%</u>
Qualified basis	\$6,640,000
Applicable percentage	<u>9.00%</u>
Maximum credits	\$597,600



# CALCULATING THE CREDITS (CONT'D)

	Example 3
LIHTC awarded	\$597,600
10 years	<u>x 10</u>
Total credits	\$5,976,000
LP percentage	<u>99.99%</u>
LP credits	\$5,975,402
Equity pay-in rate	<u>.95</u>
LP Equity	\$5,676,632



# CONTACT INFORMATION



Elizabeth Harriger, CPA,  
HCCP  
Partner

[eharriger@macpas.com](mailto:eharriger@macpas.com)

717-972-5729



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# JULY 25 WEBINAR

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Financial Statement Essentials**



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