

# A Primer on Utilizing Low Income Housing Tax Credits

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3:45 – 5:00 P.M.

# Today's presenters

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# Tax credit 101

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# Program overview

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- > The Low Income Housing Tax Credit (LIHTC) program is the primary vehicle for the development of affordable multifamily housing in the United States
- > Created in 1986 – Section 42 of the IRS Code
- > Federal program to create and preserve affordable housing, stimulate private investment, create jobs and revitalize communities
- > Administered by the Internal Revenue Service (IRS) in partnership with states

# Program overview (continued)

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- > States are awarded an allocation of LIHTCs each year based on per capita
- > State tax credit administrators are typically the housing finance agencies
- > Each state creates a Qualified Allocation Plan detailing the criterion for the awarding of LIHTCs to developments
- > The tax credit administrator for New Jersey is the New Jersey Housing and Mortgage Finance Agency

# LIHTC calculation

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- > There are four components to the calculation of Low Income Housing Tax Credits:
  - Qualified low income building
  - Eligible basis
  - Applicable fraction (low income occupancy percentage)
  - Credit percentage

# Qualified low income building

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- > Occupied with at least:
  - 20 percent of residents at 50 percent of Area Median Income (AMI) adjusted for family size; or
  - 40 percent of residents at 60 percent of AMI adjusted for family size
- > 15 year initial compliance period, but must maintain affordability for at least 30 years, some states require longer

# Eligible basis

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- > Primarily the equivalent of the depreciable basis of the building
- > Excludes:
  - Land costs
  - Commercial property
  - Federal grants
  - Historic tax credits



# Applicable fraction

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- > Equivalent to the number of units rented to low income residents divided by the total number of units in the property
- > In the majority of LIHTC developments, the applicable fraction is 100 percent

# Credit percentage

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- > Nine percent credit – competitive, each state receives an allocation. NJ has \$25,000,000 available in 2017 (Applications were due on May 2, 2017)
- > Four percent credit – tax exempt financing and acquisition cost of property
- > Was recalculated monthly to achieve equivalent of 70 percent or 30 percent present value to 1987
- > Nine percent now permanent; four percent still recalculated, currently 3.24 percent
- > Credits are received each year over a 10 year period

# DDAs and QCTs

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- > Difficult to Develop Areas (DDAs) and Qualified Census Tracts (QCTs) are determined annually by HUD
- > If in a DDA or QCT, the eligible basis receives a 30 percent boost.

# Example development

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- > We're going to look at a three story building for senior occupancy
- > Located in an urban center and a QCT
- > There are 55 units

Cost Categories	Costs	Basis
Construction Costs	\$ 10,675,000	\$ 9,825,000
Fees	515,000	500,000
Misc. Development Charges	245,000	95,000
Construction & Financing Charges	120,000	120,000
Permanent Financing	25,000	0
Land & Building Purchase	2,160,000	0
Reserves	170,000	0
Developers Fee	1,590,000	1,590,000
Syndication Fees	285,000	215,000
Other	60,000	0
Total Development Cost	\$ 15,845,000	
Eligible Basis		\$12,345,000

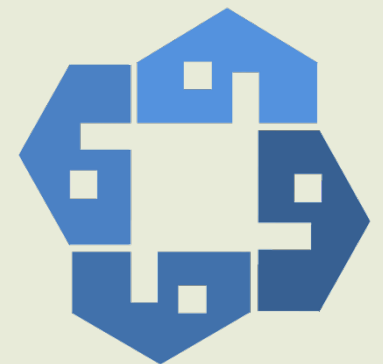
# LIHTCS and Investment

Eligible Basis	\$ 12,345,000
Basis Boost	130.00%
Total Eligible Basis	\$ 16,048,500
Applicable Fraction	100.00%
Total Qualified Basis	\$ 16,048,500
Applicable Percentage	9.00%
Total Tax Credits	\$ 1,444,365
Amount Investor is willing to pay	\$ 0.98
Total Investment from Investor (Limited Partner)	\$ 14,154,777

# Developer's perspective

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Ed Truscelli – Princeton Community Housing



# Development considerations

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- > Risks/rewards
- > Getting your team in place
- > Zoning and site selection
- > Stakeholder support/NIMBY
- > Operational considerations
- > Financing



# Investor's perspective

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Costas Paleologos – PNC Real Estate



# Death by taxes

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- > Guarantees: Completion, operating and recapture
- > Liquidity: Guarantor must have minimum liquidity
- > Long-term estimations: Negative trending and keeping the deal above water through the compliance period
- > Surplus cash flow: 1.15 DSCR with debt; 1.07 Income to Expense Ratio for deal with no hard debt
- > Experienced development team required

# Consultant's perspective

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Dave Evans – Baker Tilly



# Putting the deal together

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- > Timing: Construction completion vs. funding availability
- > Program requirements (QAP): Threshold requirements; ranking criteria; and fees
- > Feasibility: Does the deal work?
- > Financing: Mortgage debt and need for other funding

# Tax professional's perspective

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Wayne Schiferl – Baker Tilly



# Tax considerations

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- > Income and loss allocations
- > Cash flow allocations
- > Audit and tax return timing
- > Depreciation and Cost Segregation
- > Capital account maintenance and monitoring
- > Exit strategies

# Questions?

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THANK YOU!