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FEDERAL FORM 1065 REQUIREMENTS

Documents due by February 15, 2020, where a draft is required:
- **DRAFT** Federal Form 1065 in its entirety, including all schedules, depreciation calculations and supplemental information
- Tax trial balance, CPA Tax Journal Entries and Tax Basis Capital Accounts to support draft Federal Form 1065 numbers
- Qualified Occupancy Summary (QOS) as of 12/31/2019 (if less than 100% qualified at 12/31/2017)
- If this is the 1st year of the credit stream, please be sure to include a credit calculation, as well as the QOS
- Completed 8609s (for building placed in service during the current year)

*Remember:* Our review is required before you direct your CPA to issue the FINAL.

Documents due by March 1, 2020,* where a draft is *not* required:
- **FINAL** Federal Form 1065, including all schedules, depreciation calculations and supplemental information.
- Tax trial balance and CPA Tax Journal Entries to support numbers.

*If submission of Final Return is not possible by March 1, 2020, please submit a draft and provide a list of open items in the comments section next to the corresponding document.

Additional information available on our website at:
www.enterprisecommunity.com/financing-and-development/asset-management/reporting
- Financial Statement and Federal Form 1065 Preparation Guides
- Limited Partnerships required to submit draft audit and tax return.
- Frequently Asked Questions.

Document Submission

All tax returns are required to be submitted through our Financial Reporting Portal (www.e360community.com). In addition, we request that a trial balance, CPA journal entries and the taxable depreciation schedule be uploaded using the proper Work Papers (WP) designation. All CPA firms and sponsors should have received registration information to access our Financial Reporting Portal for LIHTC Financial Reporting. If you have not registered or received the information to do so, please contact us at financialreporting@enterprisecommunity.com.

Should you have any questions or concerns about the above, please contact your Asset Manager/Accounting Manager or e-mail us at financialreporting@enterprisecommunity.com.
Financial Reporting Portal


For those deals that have had their audit requirement waived, but have a Mini-Audit requirement instead, we ask that you use the “Mini-Audit” upload option. For more information regarding the mini-audit requirements, please refer to our Financial Statement Prep Guide.

Bonus Depreciation Discussion

Projects eligible for bonus depreciation of $10,000 or less should elect to take the allowable amount. If construction completed during the calendar year reporting period, follow the guidelines in the Limited Partnership Agreement (specifically Exhibit H – Projections).

As a reminder, projects not taking bonus depreciation are required by the IRS to explicitly opt out (see the Elections section for a sample).

If you have further questions, please contact your regional accounting manager directly to discuss.

Information posted on our Financial Reporting Portal

Accountants can find the following information at our Financial Reporting Portal www.e360community.com

- Financial Statement and Tax Return deadline requirements for all partnerships. If the name of the partnership you are auditing is not on the list, please contact your regional accounting manager directly.
- Limited Partner Capital Contribution by operating partnership as of December 31, 2019. Confirmations will no longer be done on an individual basis. If your partnership is not listed, assume that all limited partner capital contributions have been made.
- Financial statement and tax preparation guide for the 2019 reporting year.
2019 TAX RETURN PREPARATION GUIDE

**Legislative & Miscellaneous Updates**

Final Tangible Property Regulations

- Established safe harbor capitalization rules.
  - Rules are applied based on whether the equity has “applicable financial statements” (“AFS”) and those without.
  - De minimis rule for Entities with AFS may deduct costs of an entity by item or invoice up to $5,000.
  - De minimis rule for Entities without AFS may deduct $500 per item.
  - Written capitalization policies must be established for the financial statement purposes by January 1, 2016.
- Established routine maintenance safe harbor.
- Established supply and materials deduction.
- A building and its structural components are now one asset for disposition purposes.

Tax Cuts and Job Act (TCAJA): 163(j) Interest Expense Limitations

- We ask that our partners work with their auditors to present opt in and opt out analyses and **work with Enterprise to** determine, for our investors, the best course of action for those partnerships that are not currently utilizing 40 years depreciation.


- Restricted Cash is effective for non-public entities for annual reporting periods beginning after December 15, 2018. This guidance requires that a statement of cash flows explain the change during the year in the total of cash, cash equivalents and amounts generally described as restricted cash equivalents. Therefore, amounts generally described as restricted cash/cash equivalents should be included with cash/cash equivalents when reconciling the beginning and end of year total amounts shown on the statement of cash flows. **Enterprise has no real preference as to this presentation as long as the relevant information has been included.**
FORM 8609

Form 8609 is issued by the State Housing Credit Agency to allow partnerships to obtain housing tax credits and to certify other necessary information. The Partnership must obtain at least one Form 8609 for each building beginning the year credits are claimed. On December 27, 2005, the Internal Revenue Service (IRS) issued revised Forms 8609, 8609-A and 8586 and changed the filing requirements. The 8609 must be signed by the General Partner and filed once with the IRS in Bensalem, PA. The 8609-A is still filed annually with the partnership return throughout the 15 year compliance period.

Where to file Form 8609:

Department of the Treasury
Internal Revenue Service Center
Philadelphia, PA 19255-0549

All buildings which have been or will be allocated low-income housing tax credits must obtain building identification numbers (BIN) from the Housing Credit Agency. Your LIHTC partnerships are required to apply for a building identification number (BIN #). If you are filing for your initial tax credits, please provide a copy of the completed 8609 along with a Qualified Occupancy Summary, and send the schedule to Enterprise with the partnership’s tax return. Do not attach the schedule to the tax return. If you have any questions on how to complete part II of the 8609, please contact Candy Felix, Technical Accounting Manager. Do not file the 8609’s with the IRS until you have received approval from Enterprise.

NOTE

It is Enterprise’s policy that the tax return should not be filed with the IRS until 8609s have been received. If 8609s are not received by the due date of April 15th, an extension should be filed. If however the 8609s are not received by the extension period deadline, the return should be filed without claiming low income tax credits. Once the 8609s are subsequently received the return should be amended to include calculated credits.
2019 TAX RETURN PREPARATION GUIDE

PARTNERSHIPS SYNDICATED AFTER 1986 (LIHTC DEALS) – CONTINUED

FORM 8586- "LOW-INCOME HOUSING CREDIT"

The General Partner with the partnership tax return, beginning in the first year of the credit period, must file form 8586 annually with their corresponding 8609-A’s. Only one Form 8586 should be completed summarizing all of the 8609-A amounts.

FORM 8609-A – ANNUAL STATEMENT FOR LOW-INCOME HOUSING CREDIT

This form needs to be completed on an annual basis for each 8609. Separate 8609-A’s should be completed for same Building Identification Number (BIN) where Acquisition/Rehabilitation credits exist. See below for calculating the first year credit.

FIRST-YEAR CREDIT CALCULATION

When computing the first year of tax credits, the amount the CPA should use is the total eligible basis at the end of that tax year. The calculated credits cannot exceed the State approved annual tax credits. This provides for more tax credits in year 1 as opposed to more in year 11. Eligible basis for each 8609 should be multiplied by the applicable fraction for the first year. See attached Qualified Occupancy Summary for calculating the first applicable fraction. Each year thereafter the maximum housing credit dollar amount allowable will be used.

ALTERNATIVE MINIMUM TAX AND LOW INCOME HOUSING TAX CREDIT

Low income tax credit buildings and rehabilitation expenditures placed in service after 2007 may use LIHTC to offset AMT tax liability. Credits should be designated on the K-1 as 15d.

10% TEST

In order to qualify for a carryover allocation, the developer's basis in the property at the end of the year or six months from allocation (whichever is later) in which the allocation is received must be at least 10 percent of the amount that the project's basis is reasonably expected to be at the end of the second year following the allocation year. Basis consists of the project's depreciable costs, including building acquisition costs and any nonresidential space, whether or not they are included in eligible basis, and land that is functionally related and subordinate to the building. Syndication costs, reserves and permanent financing costs or fees are not included. Costs incurred in a year prior to the allocation year can also be counted.
PARTNERSHIPS SYNDICATED AFTER 1986 (LIHTC DEALS) - CONTINUED

CAPITAL CONTRIBUTIONS

Capital contributions from partners are recorded on the cash basis, not the accrual basis. The entire investment limited partners’ equity should NOT be recorded in year one.

A list of limited partner capital contributions will be accessible by January 15, 2020. The 12/31/18 Operating Partnership Capital Contributions list can only be found on the Financial Reporting Portal www.e360community.com.

Method of calculating capitalized interest:

- New construction - capitalize interest up to the day the units are placed in service or available for occupancy on a building-by-building basis.
- Rehabilitation around tenants - begin capitalizing interest when units are out of service. Then capitalize interest up to the day the units are placed in service or available for occupancy on a building-by-building basis.

HISTORIC TAX CREDITS

Historic tax credits are taken in the year the building is placed in service (i.e. upon receipt of certificate of occupancy). They are based on real property building basis excluding personal property, site work, acquisition costs and costs to build new buildings. Both the depreciable building basis and partners’ capital accounts should be reduced by the amount of the historic credit for tax purposes. The basis of qualified historic rehabilitation expenditures should be put on line 15c of Schedule K and the partners’ Schedule K-1’s line 15e. A footnote should explain that the expenditures qualify for the 20% historic rehabilitation tax credits. Historic rehabilitation credits (basis x 20%) reduce the eligible basis for low-income housing credits, depreciable basis and the limited partners’ capital account.

The IRS has authorized the use of Historic Tax Credits for Qualified Rehabilitation Expenditures incurred in 2008 as an offset AMT liability.

See IRS Form 3468 instructions.

SYNDICATION-RELATED FEES

Syndication costs are incurred for the packaging of the investment unit (the operating partnership), and the promotion of it by the promoter/syndicator. It is not uncommon for these costs to be paid for by the Limited Partner directly to an outside vendor. These costs are solely assigned to the Limited Partner as a reduction of capital and should not be allocated to the General partner or expensed to the partnership. Please refer to the projections for details.
GRANTS

Amounts received from federal, state or local government that do not have to be repaid are considered to be grants. Grants generally must be recognized as income.

- A federal grant includes any grant funded in whole or in part by the Federal Government, i.e., UDAG, HoDAG, CDBG.
- In Letter Ruling 8813024, the IRS ruled that a recipient of a Federal Grant, such as a local government could make those funds available to a developer as a market rate loan, so that the funds would neither be treated as a federal subsidy nor a grant.

For projects placed in service before 7/31/08

For tax credit calculation purposes, the eligible basis of a project must be reduced by any direct or indirect federal grants used to fund costs included in such eligible basis and operations of the project. Federal grants received after the start of the compliance period will also reduce the eligible basis.

For projects placed in service after 7/31/08

For tax credit calculation purposes, the eligible basis of a project should not be reduced by any direct or indirect federal grants or operating subsidies used to fund ongoing operations or cash flow needs of the project. Federal grants received after the start of the compliance period will not reduce the eligible basis.
FEDERALLY SUBSIDIZED FINANCING

Tax exempt bonds are always federally subsidized even if they have a market rate of interest. The only fix if you are trying to use the 9% credit is to exclude the amount of the tax exempt bond from eligible basis. Below market federal financing –

- CDBG loans are not considered federally subsidized financing so they can have below market interest rates and not taint the 9% credit.
- HOME loans are generally federally subsidized financing. A special rule from the 1993 Act allows HOME loans to have a below market rate and 9% credits if at least 40% of the units are rented to tenants with incomes less than 50% of area median income. The catch is that you can not get the 130% eligible basis increase too.
- Fixes to get the 9% credit include putting a market rate of interest on federal loans. The interest need not all be paid currently but unpaid interest must compound. There also must be some reasonable expectation that the interest can be paid at sale or refinancing.
- Federal funds can always be excluded from eligible basis.

The use of federal subsidies in the acquisition of a building, whether a prior loan assumed by the newcomer or a new subsidy loan to aid in the acquisition, will not reduce the credit for the subsequent rehabilitation work on the building from a 70% credit to a 30% credit. The rehabilitation element is treated separately from the acquisition element. Whenever possible, federal subsidies (and federal grants) should be used for acquisition costs rather than rehabilitation costs so as to maximize the amount of eligible tax credits.
AMORTIZATION

The American Jobs Creation Act of 2004 enacted a new set of rules regarding the amortization of organizational and start-up costs incurred after October 22, 2004. A taxpayer can elect a current deduction for a limited amount (up to $5,000) of organizational expenses for an organization in the tax year in which the trade or business begins. However, this $5,000 amount is reduced (but not below zero) by the amount by which the cumulative cost of organizational expenditures exceeds $50,000. A taxpayer makes an election, under Code Section 709(b) for partnerships, with respect to any organizational expenses.

*If a valid election is not made, organizational costs are not currently deductible or amortizable.

Specifically, if a taxpayer makes an election (under Code Section 709(b)) with respect to any organizational expenses, the taxpayer is allowed a deduction for the tax year in which the organization begins business in an amount equal to the lesser of:

- The amount of organizational expenses with respect to the organization; or
- $5,000, reduced (but not below zero) by the amount by which the cumulative organizational expenses exceed $50,000.

The remainder of the organizational expenses is deductible ratably over a 180-month period beginning with the month in which the organization begins business.

START-UP COSTS

An identical set of rules apply to start-up costs. Separate $5,000 and $50,000 limitations apply.

ELECTIONS

It is Enterprise’s policy that the following elections are to be made on the initial partnership return or when applicable:

- Real Estate Taxes (IRC Section 461(C))
- Bonus Depreciation (IRC Section 168(K))
- Optional Adjustment to Basis of Partnership Property (IRC Section 754)
- De Minimus Safe Harbor Rule

Enterprise may request an IRC Section 754 election at the behest of our upper tier investors. It will not be required/requested each year, however due to investor changes within our funds the request might be made. Please reference the Limited Partnership Agreement Exhibit A-8 for required elections.
PARTNERSHIPS SYNDICATED AFTER 1986 (LIHTC DEALS) – CONTINUED

DEPRECIATION

Real Property

Completely fill out Form 4562 or attach a detailed schedule. **Contact us for your project’s Enterprise Underwriting Pro-forma. This underwriting model will guide you on the correct tax depreciable life. The underwriting model is also included as an exhibit to your Partnership Agreement.** In addition, see section on **Non Profit Partner (Tax Exempt Use Property)** for other possible depreciable lives. The mid-month convention applies to real property. One half month of depreciation is allowed for the month the property is placed in service. For example, if a project with a depreciable base of $1,000,000 is placed in service May 1, the first year’s depreciation would be $1,000,000/27.5 x 7.5/12 $22,727. If the same project was placed in service May 30, the result would be the same— $1,000,000/27.5 x 7.5/12 = $22,727.

**Residential Personal Property Cost Recovery**

The Affordable Housing Industry has generally depreciated all furniture, fixtures, kitchen appliances and most equipment associated with an apartment property over a 7-year life for regular tax and for alternative minimum tax (AMT).

Based on recent informal discussions with the IRS, our accountants believe it is permissible to depreciate certain property, including furniture and fixtures used in an apartment property over a 5-year period. As a result, items such as refrigerators, stoves, dishwashers, etc. can now be depreciated over a 5-year life for regular tax and for AMT.

This position is principally based upon Revenue Ruling 95-52 which states that in addition to leasing space from a lessor, a tenant is also considered to be leasing consumer durable property, which is viewed as a separate business activity. As a separate business activity for purposes of depreciation, the leasing of consumer durable property comes under Asset Class 57.0, Distributive Trades and Services, under Revenue Procedure 87-56.

For personal property placed in service after 1998, a five-year recovery period is used, if it relates to residential real estate. Personal property related to commercial space should use a seven-year recovery period.

The following costs have a five-year recovery period:

- Removable appliances (not central climate control system equipment or water heaters)
- Draperies, blinds and shades, if they would be reusable if removed
- Carpeting if its removal would not destroy the underlying floor
- Vinyl flooring, if its removal would be easy and not destroy the underlying floor
DEPRECIATION - CONTINUED

- common area furnishings
- office furnishings
- photocopy equipment
- computers
- exit signs
- security systems (not fire protection system, sprinkler system, smoke detectors, or fire escapes)
- outdoor security lighting (not parking lot lighting)
- decorative lighting and sconces (not light fixtures for central lighting)
- outdoor decorative lighting, such as lighting signs
- telephone systems
- corridor handrails (not bathroom or stairway)
- conference or meeting room movable partitions
- raised floors to accommodate wiring in computer rooms

Personal property for projects placed in service after December 31, 1986 has a five-year recovery period and must use the 200% declining balance method to calculate depreciation. Generally, personal property follows a mid-year convention. One half year of depreciation is allowed on property placed in service any time during the year. If more than 40% of the personal property is placed in service in the last quarter of the year, it is necessary to use the mid-quarter convention. Property is depreciated based on the quarter that it was placed in service.

Please note: The election to expense certain depreciable business assets (Section 179) is not available for furnishings in residential real estate. Please depreciate all personal property over the applicable recovery period.

Land Improvements Cost Recovery

The following costs have a fifteen-year recovery period:

- roads and sidewalks
- concrete work (curb and gutter)
- fencing
- landscaping (including, but not limited to, trees and shrubs) around the building which would be destroyed if the building were replaced
- decorative walls which are part of the landscaping
- parking lot (resurfacing it later is deducted as an expense)
- initial parking lot striping (re-striping it later is deducted as an expense)
- street lights and signs
- signs which identify the property; provide directions; parking lot lighting (not outdoor security lighting)
- playground equipment
PARTNERSHIPS SYNDICATED AFTER 1986 (LIHTC DEALS) – CONTINUED

DEPRECIATION - CONTINUED

- basketball court and backboard
- tennis courts
- swimming pools
- jogging trails
- flag pole
- wastewater treatment plant and lift station to handle raw sewage
- interest expense capitalized and related to any of the above costs
- site preparation (rough and fine grading)

Major rough grading to remove a hill or mountain so the site may be built upon does not qualify as a 15-year land improvement and is a non-depreciable land cost

- civil engineering: the specific part attributable to items recoverable over 15 years
- site preparation (rough grading)
- landscape architecture or consulting

The costs of improvements that permanently increase the value of the land are not recoverable, such as soil remediation and razing of buildings. If existing developments were razed, the cost of improvements would be recoverable. An example would be the need to fill retention ponds, the placement of which is unique to the layout of the development, when a new development with a new building configuration is erected. Recoverable or non recoverable categorization of costs determines credit eligibility.

Recovery of costs of sanitary sewer system and water utility/distribution system, including the sewer system outside the building

The following costs have a twenty-year recovery period:

- fire hydrants
- manhole rings & covers
- water meter
- gate valves
- flushing hydrants
- cast iron fittings
- valve boxes
- air release valves
- tapping sleeves
- PVC water pipe (outside)
- PVC sewer pipe (outside)
- PVC sewer fittings
PARTNERSHIPS SYNDICATED AFTER 1986 (LIHTC DEALS) – CONTINUED

De Minimis Safe Harbor Rule

The IRS has issued their final Tangible Property Regulations (TPRs) dealing with the tax treatment of amounts paid to acquire, produce, or improve tangible property, which is defined as both real and personal property. Taxpayers will need to apply these regulations to determine whether they can deduct expenditures as repairs and maintenance or must capitalize and depreciate them over IRS mandated asset lives. The TPRs take effect for tax years beginning on or after January 1, 2016, therefore our partnership returns need to be in compliance with the TPRs with the filing of your 2019 Federal income tax returns and should be reflected as such via Form 3115 or choosing the “de minimis safe harbor” safe harbor election. Please ensure that tax preparer is aware of the final TPRs and determines the proper treatment or possible adjustments (for prior years) accordingly.

NONPROFIT PARTNER (TAX-EXEMPT USE PROPERTY)

The following outlines the rules pertaining to tax exempt use property and the impact such designation would have on depreciation expense and the eligibility for the historic rehabilitation tax credit.

IRC Section 168(h)(6)(A)(i) states any property which (but for this subparagraph) is not tax exempt use property is owned by a partnership which has both a tax-exempt entity and a person who is not a tax-exempt entity as partners and (ii) any allocation to the tax-exempt entity of partnership items is not a qualified allocation, an amount equal to such tax-exempt entity’s proportionate share of such property shall be treated as tax-exempt use property.

IRC Section 168(h)(6)(B) defines a qualified allocation as any allocation to a tax-exempt entity which is consistent with such entity’s being allocated the same distributive share of each item of income, gain, loss, deduction, credit, and basis and such share remains the same during the entire period the entity is a partner in the partnership.

This means a non-qualified allocation would occur if the tax-exempt entity were to receive, or be entitled to receive, a differing allocation of any item described in the previous paragraph. In general, if a tax-exempt entity, or tax-exempt controlled entity, is a partner in a partnership, its proportionate share of the property, equal to its highest share of income, gain, loss, deduction, credit, or basis, would be classified a tax-exempt use property and would have to be depreciated over a 40 year period.

An example of this would be if the tax-exempt entity were entitled to a 1% distributive share of all income and losses but had a 50% interest in annual cash flow and or sales proceeds. This would not be considered a qualified allocation and would result in 50% of the partnership depreciable costs being considered tax-exempt use property and therefore, subject to the alternative depreciation system (i.e. 40 years vs. 27.5 years). In addition, please note that tax-exempt use property is not eligible for the historic rehabilitation tax credits.
Two potential solutions are available for this issue. The first is to make sure the tax-exempt entity only has qualified allocations. The second is to eliminate the tax-exempt entities involvement by having it establish a for-profit entity and having this new entity act as the general partner of the limited partnership. The for-profit subsidiary would have to make an election described in IRC Section 68(h)(6)(F)(ii) to treat any gain on disposition as unrelated business taxable income. A copy of the election should be attached to the non-profit’s 990 tax return.

Example:

- .5% Non-Profit General Partner (GP)
- .5% For-Profit GP
- 99%LP
- Income, loss, deduction, credit, and basis shares distributive in accordance with the ratios
- residual distribution of Partnerships assets upon dissolution of 50% to GP and 50% to LP

Calculation:

Using the above facts, the Non-Profit GP has ½ of 50%, which equals 25%.

Therefore, 25% of the building basis is subject to the alternative depreciation system using 40 years and 75% at 27.5 years, which results in an average life of 33½ years. The same methodology is used for personal property.
PASS AND INTEREST CREDIT SUBSIDIES - RHS PROPERTIES

To avoid delays due to RHS mortgage confirms, you may want to confirm the November balance.

Most Rural Housing Service (RHS), previously Farmers’ Home Administration, loans were converted to the Predetermined Amortization Schedule System ("PASS") in May 1985. Partnerships that use PASS receive an Interest Credit Subsidy, which is used to offset the market rate of interest on the mortgage. The subsidy, in effect, reduces the partnership’s debt service payments to those necessary to fully amortize the loan at a 1% interest rate. The amount of the credit subsidy is the difference between debt service for amortization at the actual rate on the mortgage and debt service at 1% plus the "overage." Overage is the amount by which the actual rents paid by the tenants exceed the total "basic rent." Basic rent is the rent, which must be charged to amortize the mortgage at 1%, pay operating expenses, fund reserves and provide a limited return on owners’ equity.

ADMISSION OF THE INVESTMENT LIMITED PARTNER

An admission of the investment limited partner into an operating partnership does not cause a termination of the partnership under Treasury regulation 1.708-1. As a result the operating partnership should continue in full effect and no section 754 election would be required.

ALLOCATION OF CREDITS AND LOSSES IN MONTH OF ADMISSION

Credits

Partnership credits should be allocated to the investment partnership beginning in the month that the investment partnership is admitted to the operating partnership. The operating partnership agreement provides for allocation of a full month of credits in the month of admission. For example if the investment partnership is admitted on October 23, it will be allocated credits as of October 1.

Losses

Partnership losses should be allocated to the investment partnership beginning on the day that the investment partnership is admitted to the operating partnership.
OTHER CONSIDERATIONS

ALLOCATION OF NONRECOVERY AND RECOVERY LIABILITIES

There are two types of debt; recourse and nonrecourse. Nonrecovery loans are allocated to all partners (general and limited) based on their profit-sharing ratios. Examples of nonrecovery loans include mortgages on the property, acquisition notes and purchase money notes and all accrued interest on these notes and loans. Qualified nonrecovery financing generally includes financing that is secured by real property placed in service after December 31, 1986 and that is loaned or guaranteed by a Federal, state or local government or that is borrowed from a qualified person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association.

Recourse liabilities, which represent all other liabilities, are allocated solely to the general partners based on their loss-sharing ratios. The improper allocation of recourse and nonrecovery debt on the K-1’s will cause a misstatement of tax basis to a specific partner, which may result in loss limitations.

The "Nonrecovery" line on the K-1 should include the partner’s share of all nonrecovery debt on real property placed in service before January 1, 1987. The "Other" line should include the partner’s share of recourse liabilities. The "Qualified nonrecovery financing" line should include the partner’s share of qualified nonrecovery financing. Debt included as qualified nonrecovery should not also be included on the nonrecovery line.

SECTION 704(b)

Final regulations for Section 704(b), Determination of Distributive Share and temporary regulations of Section 752, Treatment of Certain Liabilities have been issued by the Internal Revenue Service. The rules prescribed under Section 704(b) limit the losses allocated to limited partners to their capital contribution plus their share of minimum gain. Minimum gain is the excess of non-recovery liabilities which are secured by the partnership property over the adjusted tax basis of the property. The adjusted basis includes land, net depreciable property, and replacement reserves, if so indicated in the debt agreement. If a loss allocation to the limited partner would cause his capital account to be more negative than his share of minimum gain then a reallocation of losses may be necessary.

If the general partner or a party related to the general partner has made any guarantees on any non-recovery mortgages and there is minimum gain, a loss reallocation may be necessary.

CONTACT Enterprise IF EITHER ONE OF THESE OCCUR.
2019 TAX RETURN PREPARATION GUIDE

ELECTIONS
Optional Adjustment to Basis of Partnership Property

The partnership elects under IRC Section 754 and Regulation 1.754-1, to adjust the basis of partnership property under IRC Section 734(B) and 743(B) with respect to a distribution of property to a partner or a transfer of an interest in a partnership.

Partnership name:
Partnership address:

Partnership EIN:
Year End:

________________________
General Partner signature

Computation of adjustment to basis for transferee partner:

Transferee Name:
Transferee TIN:

Amount paid by transferee

Liabilities assumed by transferee

Sub-total

Less:

Transferor's capital account
Liabilities received from transferor

Sub-total

Adjustment to basis - IRC Section 743(b)  

========
ELECTION TO NOT CLAIM ADDITIONAL DEPRECIATION

PURSUANT TO IRC SECTION 168(K)(7), THE TAXPAYER HEREBY ELECTS TO NOT CLAIM THE ADDITIONAL DEPRECIATION DEDUCTION FOR THE FOLLOWING CLASSES OF PROPERTY IN THE TAX YEAR ENDED 12/31/2019.

ALL ASSETS IN THE 5, 7, AND 15 YEAR CLASSES.
ELECTIONS – CONTINUED

Election to Depreciate MACRS Property With the
Alternative Depreciation System (ADS) Pursuant
to IRC Sec. 168(g)(7)

Legal Name:
Address:

Employer Identification Number:

For the Year Ending:

hersby Elects, pursuant to IRC Sec. 168(g)(7), to depreciate the following
property placed in service during the tax year ending_______
_____, by way of the alternative depreciation system (ADS):

Nonresidential Real and/or Residential Rental Property:

The property is a residential building consisting of rental
units.

See attached Form 4562.
2019 TAX RETURN PREPARATION GUIDE

ELECTIONS - CONTINUED

Revocation
IRC Section 461(c)

Election to Ratably Accrue Real Property Taxes

Partnership Name: 

Partnership EIN: 

Year End: 

Pursuant to IRC Section 461(c), the partnership hereby elects to accrue real property taxes.

Trade or business to which this election applies:

All

Method of accounting used for the above:

Accrual

The period under local law to which the real property taxes relate:

<table>
<thead>
<tr>
<th>Period Under</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1 - 6/30</td>
<td>CA, CT, MD, MA, NV, NY, NC, OK, OR, WV</td>
</tr>
<tr>
<td>4/1 -</td>
<td>ME, NH</td>
</tr>
<tr>
<td>3/31</td>
<td>AL, DC</td>
</tr>
<tr>
<td>10/1 - 9/30</td>
<td>VA, PA, DE</td>
</tr>
</tbody>
</table>
Enterprise uses a Unit Tracking Sheet to track a partnerships Qualified Occupancy. Please contact Lisa Ciano, our Asset Stabilization, Business Systems & Compliance Manager at lciano@enterprisecommunity.com for more information and instructions regarding the use of the Unit Tracking Sheet for new partnerships.
704(b) Worksheet

**Calculation of minimum gain:**

a) Total qualified non-recourse debt
b) Tax basis of assets securing the debt (see below)
c) Minimum Gain (line a-b), if zero or less use zero
d) Increase(Decrease) in year, line c(2) - c(1)

Line a) The qualified non-recourse debt should be NONRELATED.

<table>
<thead>
<tr>
<th></th>
<th>1 Beg of Year</th>
<th>2 End of Year</th>
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</thead>
<tbody>
<tr>
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</tbody>
</table>

**Calculation of Limited Partner's Capital Balance:**

1) Beginning Tax Capital Balance  
2) Current year allocated tax income/(loss)  
3) Syndication Costs (enter as a negative amount)  
4) Contributions  
5) Distributions (enter as a negative amount)  
Ending Tax Capital Balance

<table>
<thead>
<tr>
<th></th>
<th>Limited Partner</th>
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</tbody>
</table>

If ending capital account is negative reallocation of tax loss may be necessary. Submit to Enterprise for 704(b) review

**Calculation of Cash Flow**

**ADD BACK:**

- Tax Depreciation Expense  
- Tax Amortization Expense  
- Deferred Interest Expense

**ADD OR SUBTRACT:**

- Other noncash items on income statement (e.g., + casualty loss; - COD income, insurance proceeds)

**RESULTING CASH FLOW**

<p>| |</p>
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</tbody>
</table>

(Interest that is permanently deferred and not payable until called)

If resulting cash flow is negative reallocation of tax loss may be necessary. Submit to Enterprise for 704(b) review
CONTACT INFORMATION

**Tax & Regional Accounting**

Sunil Gupta – **Vice President** – *Tax & Regional Accounting, Central Operations*
Email: sgupta@enterprisecommunity.com
Phone: 410.772.2601

Clint Baldeo, CPA - **Regional Accounting Manager, New York City** – *Tax & Regional Accounting*
Email: cbaldeo@enterprisecommunity.com
Phone: 410.772.5291

Erica Maxwell – **Sr. Regional Accounting Manager, East and Central** – *Tax & Regional Accounting*
Email: emaxwell@enterprisecommunity.com
Phone: 410.772.2788

Monica Spillane, CPA – **Sr. Regional Accounting Manager, West** – *Tax & Regional Accounting*
Email: mspillane@enterprisecommunity.com
Phone: 410.772.2694

Candida Felix, CPA – **Director, Technical and Development Accounting** - *Technical Accounting Management*
Email: cfelix@enterprisecommunity.com
Phone: 410.772.5222

General Financial Reporting Questions – [financialreporting@enterprisecommunity.com](mailto:financialreporting@enterprisecommunity.com)

**Limited Partner Capital Confirmations for CPAs**
Limited partner capital contribution can be viewed on our secured Financial Reporting Portal using the following link: [https://eprise.force.com/e360/ENT_Community_Login_Frm](https://eprise.force.com/e360/ENT_Community_Login_Frm)

**Investor Service Fee (ISF) Confirmations for CPAs**
Investor Service Fee inquiries can be submitted to ISF Questions Mailbox using the following email address: [isfquestions@enterprisecommunity.com](mailto:isfquestions@enterprisecommunity.com). Please allow 48 business hours for a response.
FREQUENTLY ASKED QUESTIONS

Q. Are we required to complete an audit and tax return?
   A. Yes, however there may be times (very rare) when an Audit or Tax Return can be waived or not considered necessary. If you feel that this may apply to your property, please consult with your Regional Accounting Manager immediately.

Q. What is the due date?
   A. Drafts are due by February 15 and Finals are due by March 1 only where a draft was not required. Do Not issue the final if a draft was required until comments have been provided by Enterprise. Please see the Audit and Tax Return Requirements on our website http://reporting.enterprisecommunity.com/.

Q. Will I always be required to submit drafts?
   A. No, at certain points within the life of the operating partnership the Tax and Regional Accounting Team will notify you that the draft requirement has been waived and the due date would be extended to March 1.

Q. In what format should the documents be sent?
   A. Documents should be submitted in pdf form through our secure Financial Reporting Portal at: www.e360community.com.

Q. Will our audit or tax return be used by anyone else?
   A. Yes, by the fund auditors; which is why it is necessary to provide a Component Auditor Letter and specific workpapers which may be requested by them.

Q. Should the audit reflect all of the Capital Contributions that we expect to receive?
   A. No, only contributions actually received (cash basis) should be recorded.

Q. How should costs paid by Enterprise on behalf of the LP be recorded?
   A. Typically, these would be recorded as a reduction of the Limited Partner’s equity account, but this should be verified through review of the underwriting Projections.

Q. What disclosures related to SFAS No. 144 – Impairment Analysis are required?
   A. The footnotes to the financial statements should include a statement that impairment was assessed as of December 31 and the result of this assessment.

Q. What is the appropriate depreciable life for fixed assets?
   A. The depreciable life for GAAP using the straight line method is forty years (PIS before January 1st 2019) and thirty years (PIS after December 31st 2017) for building, fifteen years for land improvements and five years for Furniture Fixtures and Equipment. Please refer to the projections for Tax Purposes. Consult directly with the Regional Accounting Manager should you have any questions.
RESOURCES

Equity Fund Audit Firm
CohnReznick  www.cohnreznick.com

Accounting, Tax, and Federal Organizations
AICPA (American Institute of CPAs)  www.AICPA.org
MACPA (MD Assoc. of CPAs)  www.MACPA.org
AAA (American Accounting Association)  www.aaahq.org
American Tax Association  www.aaahq/ata/
IRS (Internal Revenue Service)  www.irs.gov
Listing & web link to your state
Assoc. of CPAs  www.AICPA.org/states/info/index.htm
National Low Income Housing Coalition  www.nlihc.org
National Council of State Housing Agencies  www.ncsha.org
National Housing and Rehab Association  www.housingonline.com
National Housing Institute  www nhi.org
National Multi-Housing Council  www.nmhc.org
Office of Housing and Urban Development  www.hud.gov

Other Web Sites
IRS Forms & Instructions  www.irs.gov/formspubs/index.html