TAX CREDIT TRAINING
The Tax Credit Program

- A housing subsidy program for rental housing

- Created within Section 42 of the Internal Revenue Code
  - Modified by 2008 and 2009 Legislation

- Administered by each state’s housing finance agency
The Tax Credit Program

- Each state receives an amount of credits annually in tax credits to allocate to projects
  - $1.75 per capita in 2003, inflated annually
  - $2.00 in 2008 ("published rate")
    - Increased to $2.20 by 2008 legislation
    - Similar increase for 2009
  - Returned to published rate after 2009
    - 2010: $2.10  2013: $2.25  2016: $2.35
    - 2011: $2.15  2014: $2.30  2017: $2.35
    - 2012: $2.20  2015: $2.30
What Do Tax Credits Finance?

- New construction and rehab projects
- Acquisition in some cases
- Housing for families, special needs tenants, single room occupancy and the elderly
- Urban, rural and suburban locations
- Additional tax incentives for projects in high-cost or difficult-to-develop areas
How Do Housing Tax Credits Work?

- Rental units with tenants earning no more than 60% of area median income
- Investors earn dollar-for-dollar credits against their federal tax liability
- Investors also get tax benefits from losses
- Generally, tax credits are received over the first 10 years of operation
- Some tax credits are recaptured by the IRS if the project does not comply for 15 years
Unit Restrictions

- **Threshold Elections – Who can live there?**
  40/60 election
  20/50 election
  All tax credit units must be within election parameters

- **Rent Restricted – How much can tenants pay?**
  Rents and utilities – limited to 30% of threshold income
  Allowable rent based on size of unit
Tenant Income Restrictions

Families must earn less than threshold income

- Based on HUD median income data, adjusted for family size

- Next Available Unit Rule
## Tax Credits vs. Tax Deductions

<table>
<thead>
<tr>
<th></th>
<th>No Tax Credit/No Deduction</th>
<th>Deduction</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income from Operations</strong></td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Tax Deductions</strong></td>
<td>none</td>
<td>(300,000)</td>
<td>none</td>
</tr>
<tr>
<td><strong>Taxable Income</strong></td>
<td>1,000,000</td>
<td>700,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Tax Liability:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax at 40% tax rate</strong></td>
<td>$ 400,000</td>
<td>280,000</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Low-Income Housing Tax Credits</strong></td>
<td>none</td>
<td>none</td>
<td>(300,000)</td>
</tr>
<tr>
<td><strong>Net Tax Liability</strong></td>
<td>$ 400,000</td>
<td>$ 280,000</td>
<td>$ 100,000</td>
</tr>
</tbody>
</table>
## Tax Credits vs. Tax Deductions

<table>
<thead>
<tr>
<th></th>
<th>No Tax Credit/ No Deduction</th>
<th>Additional Deductions and Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income from Operations</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Tax Deductions</td>
<td>none</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>1,000,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Tax Liability:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax at 40% tax rate</td>
<td>$ 400,000</td>
<td>280,000</td>
</tr>
<tr>
<td>Low-Income Housing Tax Credits</td>
<td>none</td>
<td>300,000</td>
</tr>
<tr>
<td>Net Tax Liability</td>
<td>$ 400,000</td>
<td>($ 20,000)</td>
</tr>
</tbody>
</table>
Limited partnership structure

- General partner owns just 0.01%, but controls and operates the project
- Passive limited partner invests equity in return for 99.99% ownership
Structure – Tax Credit Syndication

- Sale to Investor Limited Partner of most of the tax credits and tax losses maximizes investor equity

- More investor equity reduces other financing needs and helps project development

- L.P. is a passive investor, and gets its return almost exclusively from the tax credits and losses
Federal Government Allocates Credits to States

State Housing Agencies Allocate Credits to Housing Development

Residential Rental Development

For Qualified Residents (incomes are 50 - 80% of area median income)

TAX CREDIT

Limited Partnership

Corporate Investors
Investor

$\rightarrow$

Equity Fund

LP = Investor(s) 99.99%
GP = Enterprise 0.01%

$\rightarrow$

Project

LP = Equity Fund 99.99%
GP = Developer/Sponsor 0.01%
The Parties in a Tax Credit Syndication

- **Development Team**
  - Developer
  - General contractor
  - Architect
  - Attorney
  - Accountant
  - Property manager
  - Consultants

- **Lenders**
  - Construction lender
  - Permanent lenders
  - Lender attorneys

- **State Housing Finance Agency**

- **Syndicator**
  - Underwriter
  - Fund manager
  - Attorney
Types of Tax Credits

- 9% Credit
- 4% Credit
Types of Tax Credits: New Construction/Rehab

- **9% New Construction/ Rehab Credit** - the standard kind of tax credit

- **4% New Construction/ Rehab Credit** - used when project is financed by tax-exempt bonds (and subsidized federal financing if placed in service before 07/31/08)
Basis Boost – Increase tax credit basis by 30% if project is in
- a “qualified census tract” (QCT)
- a “difficult to develop area” (DDA) or
- A state designated difficult development area
  - Does not apply to tax-exempt financed projects
  - Applies if building or project is placed in service after 07/30/08
Types of Tax Credits

Actual Credit rates published monthly

March 2017:
7.56%* and 3.24%

*For 9% credit projects, legislation allows buildings placed in service after 07/30/08 to use minimum rate of 9%
Use of Tax-Exempt Bonds and 9% Credits

- **General Rule:**
  - Eligible for 4% Credit

- **Exceptions:**
  - Reduce Basis by amount of tax-exempt bond financing
  - AFR rate does not allow for use of 9% credit
Tax Exempt Bonds

- Eligible for 4% credits
  - No allocation of credits needed
  - No carryover allocation required
    - No 10% Test

- 50% Test: Bond amount must exceed 50% of depreciable basis plus land
  - Construction period bond financing
  - Bonds must stay in place until at least one month after completion
Types of Tax Credits: Acquisition Credit

- **4% Acquisition Credit** – used when you purchase an existing building that qualifies
  - Substantial rehab
  - 10 year rule, if applicable
  - Exceptions
  - No basis boost
Computing Acquisition Basis

- Cost of purchasing building can qualify, including acquisition-related costs, only if:
  - building is substantially rehabilitated
  - building meets requirements of 10-year rule

- No basis boost is permitted for a project’s acquisition basis

- If not 100% low-income, only low-income percentage of cost can qualify
Computing Basis to Calculate Credits

- **Eligible Basis** - Depreciable basis of residential rental housing eligible for tax credits

- **Qualified Basis** - Adjust Eligible Basis for non-income qualified tenants, using “Applicable Fraction” (the % of units qualifying for credits)
Lesser of:

- The number of qualifying rent-paying residential units over the total number of rent-paying residential units or
- The square footage of qualifying rent-paying residential units over the total square footage of rent-paying residential units
## Eligible Basis – Excludes the following:

- land and land-related costs
- building acquisition and related costs
- historic tax credits taken on residential part of project
- fees and costs related to permanent loan financing
- syndication-related costs
- tax credit fees
- reserves
- post-construction working capital
- federal grants
- non-residential costs
Eligible Basis

- Excludes:
  - Initial grading
  - Landscaping not adjacent to building

- Includes:
  - Common area
  - Full time manager’s unit
  - Community service facility
Eligible Basis

- Includes
  - Impact Fees
  - Onsite Roads, sidewalks and parking lots
    - Offsite if adjacent, functionally related
  - Cost of Utility Hookup
  - Landscaping if adjacent to building
  - Final grading of building site
Community Service Facility

- Space used to provide services that will
  - improve the quality of life for community residents, and
  - be appropriate and helpful to individuals in the area of the project

- Examples: day care center, medical clinic, Meals on Wheels

- Included in eligible basis if:
  - Project located in a Qualified Census Tract
  - Designed to serve families earning less than 60% AMI
Community Service Facility

- Amount included in basis limited to:
  - Projects placed in service after 07/30/08
    - 25% of first $15 million of eligible basis
    - 10% of remaining eligible basis
Structuring the Project

- Step 1: Estimate tax credit basis
- Step 2: Estimate tax credits generated using both the 9% and 4% rates
- Step 3: Estimate investor equity
Eligible Basis
  \times
Applicable Fraction
  \times
Basis Boost (if applicable)
  =
Qualified Basis
Qualified Basis
\times
\text{Tax Credit Rate}
=
\text{Annual Tax Credits}
Computing Tax Credits: Total Tax Credits

Annual Tax Credits
X
10 (Years)
=
Total Tax Credits
Total Tax Credits
X
Pay Price (Cents per dollar)
=
Equity
## Computing Annual Tax Credits

- **Total Development Budget**: $9,632,000
- **Less ineligible costs**: 1,062,500
- **Eligible Basis**: $8,569,500
- **Applicable Fraction**: x 100%
- **QCT/DDA Basis Boost**: x 130%
- **Qualified Basis**: $11,140,350
Computing Annual Tax Credits: 9% Credit

- Qualified Basis: $11,140,350
- Applicable Rate (March 2017)***: \( x \) 9%
- Annual Tax Credits: $1,002,632
Computing Total Tax Credits and the Equity Raise: 9% Credits

- Annual Tax Credits $ 1,002,632
- 10 Years x 10 years
- Total Tax Credits $ 10,026,320
- Price Paid x $0.90
- Equity $ 9,023,688

Equity represents 93.7% of development costs
Computing Annual Tax Credits: 4% Credit

- **Qualified Basis**: $11,140,350
- **Applicable Rate (March 2017)**: 3.24%
- **Annual Tax Credits**: $360,947
Computing Total Tax Credits and the Equity Raise: 4% Credits

- Annual Tax Credits $360,947
- 10 Years x 10 years
- Total Tax Credits $3,609,473
- Price Paid $0.90
- Equity $3,248,526

Equity represents 33.7% of total development costs
Structuring a Sample Project

- Step 1: Estimate tax credit basis
- Step 2: Estimate tax credits generated
- Step 3: Estimate investor equity
- Step 4: Estimate first mortgage amount
- Step 5: Estimate the funding gap
- Step 6: Fill the gap with a combination of other funds
Sample Project - Step 1: ESTIMATE TAX CREDIT BASIS

<table>
<thead>
<tr>
<th>DEVELOPMENT BUDGET</th>
<th>TOTAL</th>
<th>9% N.C./Rehab Credit Basis</th>
<th>4% Acquis. Credit Basis</th>
<th>Non-Deprec./Amort./Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Cost - Land, Bldg, Legal, Title &amp; Recording</td>
<td>505,000</td>
<td>404,000</td>
<td>101,000</td>
<td></td>
</tr>
<tr>
<td>Construction &amp; Hard Cost Contingency</td>
<td>6,600,000</td>
<td>6,600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soft Cost Contingency</td>
<td>65,000</td>
<td>32,500</td>
<td></td>
<td>32,500</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>110,000</td>
<td>110,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arch, Permits, Survey, Appraisal, Environmental</td>
<td>252,000</td>
<td>252,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constr. Loan Legal, Fees &amp; Insp.</td>
<td>90,000</td>
<td>90,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constr. Loan Interest</td>
<td>200,000</td>
<td>180,000</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>R.E Taxes &amp; Insurance during Construction</td>
<td>75,000</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developer Fee</td>
<td>1,180,000</td>
<td>1,180,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title and Recording</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title &amp; Recording - Acquisition - Building</td>
<td>40,000</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Record Constr. &amp; Perm Loan - Review Docs.</td>
<td>40,000</td>
<td>20,000</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Sponsor Legal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review Acquisition Docs. - Building</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review Constr. &amp; Perm Loan Docs.</td>
<td>40,000</td>
<td>20,000</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Cost Certification and Audit</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing Costs</td>
<td>45,000</td>
<td>45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perm. Loan Legal &amp; Origina. Fees</td>
<td>35,000</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Syndication Fund Legal</td>
<td>20,000</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Credit Reservation &amp; Monitoring Fee</td>
<td>130,000</td>
<td>130,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent-Up Reserve &amp; Operating Reserve</td>
<td>185,000</td>
<td>185,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL COSTS</strong></td>
<td><strong>$9,632,000</strong></td>
<td><strong>$8,569,500</strong></td>
<td><strong>$454,000</strong></td>
<td><strong>$608,500</strong></td>
</tr>
</tbody>
</table>
### Sample Project - Step 2: ESTIMATE TAX CREDITS GENERATED

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rehabilitation Credit Basis:</strong></td>
<td>$8,569,500</td>
</tr>
<tr>
<td>Applicable Fraction (% resident rental units income qualified)</td>
<td>100%</td>
</tr>
<tr>
<td>Basis Boost - If QCT or DDA, 130%, Otherwise 100% **</td>
<td>130%</td>
</tr>
<tr>
<td>Qualified Basis (Adj. For Applicable Fraction &amp; Basis Boost)</td>
<td>11,140,350</td>
</tr>
<tr>
<td>Rehabilitation Tax Credit Rate</td>
<td>9.00%</td>
</tr>
<tr>
<td>Annual Rehab Tax Credits</td>
<td>$1,002,632</td>
</tr>
<tr>
<td><strong>Acquisition Credit Basis:</strong></td>
<td>$454,000</td>
</tr>
<tr>
<td>Acquisition Tax Credit Rate</td>
<td>3.24%</td>
</tr>
<tr>
<td>Annual Acquisition Tax Credits</td>
<td>$14,710</td>
</tr>
</tbody>
</table>

**QCT - building is in a "qualified census tract"; DDA is a "difficult to develop area".**
## Sample Project - Step 3: ESTIMATE INVESTOR EQUITY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Rehab Tax Credits</td>
<td>$1,002,632</td>
</tr>
<tr>
<td>Annual Acquisition Tax Credits</td>
<td>$14,710</td>
</tr>
<tr>
<td>Total Annual LIHTC's</td>
<td>$1,017,341</td>
</tr>
<tr>
<td>Tax Credit Period</td>
<td>10</td>
</tr>
<tr>
<td>LIHTC's over Ten Years</td>
<td>$10,173,410</td>
</tr>
<tr>
<td>Est. Tax Credit Raise (&quot;Cents on the T.C. Dollar&quot;) for LIHTC's</td>
<td>$0.80</td>
</tr>
<tr>
<td>L.P. EQUITY from LIHTC's</td>
<td>$8,138,728</td>
</tr>
</tbody>
</table>
# Sample Project - Step 4: ESTIMATE FIRST MORTGAGE AMOUNT

## BASIC OPERATING PRO FORMA:

<table>
<thead>
<tr>
<th>Type</th>
<th>Units</th>
<th>Gross Rents</th>
<th>Utility Allowance</th>
<th>Net Rents</th>
<th>Rents Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-BR</td>
<td>50</td>
<td>$474</td>
<td>$66</td>
<td>$408</td>
<td>$244,800</td>
</tr>
<tr>
<td>2-BR</td>
<td>50</td>
<td>$592</td>
<td>$75</td>
<td>$517</td>
<td>$310,200</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td>$555,000</td>
</tr>
</tbody>
</table>

**Gross Potential Income**

```
555,000
```

**Less: Vacancy at**

```
7.00% (38,850)
```

**Effective Gross Income**

```
516,150
```

**Less: Expenses per unit per annum ("pupa") at**

```
100 $3,800 (380,000)
```

**Less: Replacement Reserves pupa at**

```
100 $250 (25,000)
```

**Net Operating Income**

```
111,150
```

**Divide by Required Debt Coverage Ratio**

```
1.15 96,652
```

**Available for Debt Service**

```
6,652
```

**Divide by Debt Constant**

```
0.0955 $1,012,067
```

**First Mortgage Amount**

```
$1,012,067
```
## Basic Operating Pro Forma:

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Development Costs</td>
<td>$9,632,000</td>
</tr>
<tr>
<td>Less: Estimated Equity (Step 3)</td>
<td>8,138,728</td>
</tr>
<tr>
<td>Less: Estimated First Mortgage (Step 4)</td>
<td>1,012,067</td>
</tr>
<tr>
<td>Gap Remaining</td>
<td>$481,205</td>
</tr>
</tbody>
</table>
### Sample Project - Step 6: FILL THE GAP WITH SOME COMBINATION OF:

<table>
<thead>
<tr>
<th>Government Sources:</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Mortgage Debt</td>
<td></td>
</tr>
<tr>
<td>HOME</td>
<td></td>
</tr>
<tr>
<td>CDBG</td>
<td></td>
</tr>
<tr>
<td>Other Federal Programs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Sources:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Better First Mortgage Terms</td>
<td></td>
</tr>
<tr>
<td>FHLB Affordable Housing Program</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project/Developer Sources:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Developer Fee</td>
<td></td>
</tr>
<tr>
<td>Reduce Acquisition Cost</td>
<td></td>
</tr>
<tr>
<td>General Partner Loan or Equity</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

Total GAP Funding
Sources of Funding to Fill the Gap

- HOME, CDBG funds
- AHP Funds
- ARRA Funds – TCAP and Exchange
- Other Local Funds
- Deferred Development Fee
- Cost Savings (development or acquisition)
- Modification of First Mortgage Terms
- Income or Expense Modifications
Placing a Project in Service

- Project must be “placed in service” by the end of the second year following the Allocation Year

Example:
- Credits allocated in 2016
- Carryover met in 2017
- All buildings in project must be placed in service by December 31, 2018
Placing a Project in Service

- **New Construction**
  - When first unit is ready
  - Certificate of Occupancy

- **Rehabilitation – more flexibility**
  - No earlier than the date when the rehab equals the greater of:
    - $6,700 per unit (2017 level, amount inflated annually) or
    - 20% of acquisition price
“Hard” Debt:
  Must pay, conventional bank debt
  Generally amortizing

“Soft” Debt:
  Generally from governmental agencies
  Cash flow contingent or accruing
  Repayable

Grants: not repayable
Grants

- Grants – funds that are not repayable or cannot be repayable under reasonable assumptions
  - Outright grants
  - Forgivable loans
  - Cannot be repaid at maturity

- Tax treatment
  - Income recognition
  - Potential basis reduction if federal funds
Federal Grants

- Development Grants – funds that are used directly or indirectly to fund development costs
  - Basis must be reduced
  - Could flow through GP as a loan
    - At the AFR, if 9% deal PIS prior to 07/31/08
    - Lower rate allowed if after 07/31/08
    - Caution – reallocation and residual test issues
Federal Grants

- Operating Grants – funds that support the operations of the project
  - Building PIS after 07/30/08:
    - No basis reduction
    - Income must be recognized
  - Building PIS before 07/31/08:
    - Reduction of eligible basis
    - Income must be recognized
    - Exceptions for Sec. 8, Sec. 9, Shelter plus care
Special Situations

- **Historic Tax Credits**
  - Add value to a deal, but rigid procedures and approvals are involved.
  - Eligible basis for LIHTC reduced by the amount of the historic credit

- **Energy Credits and Green Subsidies**
  - Credits for energy efficient appliances, solar energy property and other environmentally beneficial enhancements to project

- Special needs deals have structuring issues related to the length and strength of subsidies
Federal Energy Credits
Federal Energy Credits

- Solar
- Fuel Cells
- Small Wind Turbines
- Geothermal Systems
- Microturbines
- Combined Heat and Power
- Energy Efficient Home Credit – 45L Credits
Federal Energy Credits

- To qualify for credit, original use of the equipment must begin with the taxpayer, or the system must be constructed by the taxpayer.

- The credit is generated in the year the qualifying property is placed in service.

- These are federal credits, but many states have similar programs for some types of energy-saving property.
Solar Energy Credit

- Includes equipment that uses solar energy to generate electricity to heat or cool or provide hot water or fiber-optic lighting for use in a structure.

- Credit is equal to 30% of eligible costs, with no maximum credit for systems under construction begins by 12/31/19.

- After 2019, rates decrease and will remain at 10% after 2021.

- Can be combined with other credits or be used alone.
Fuel Cells Credit

- Fuel cells are devices that generate electricity by a chemical reaction. The device carries electrically charged particles from one electrode to another and to a catalyst that makes that electricity usable as energy.

- Credit is equal to 30% of eligible costs, with no maximum credit, but limited based on the energy it produces.

- Available for eligible systems placed in service on or before December 31, 2016. Currently expired.
A wind turbine is a device that converts kinetic energy from the wind into electrical power.

Eligible small wind property includes wind turbines up to 100 KW in capacity.

Credit is equal to 30% of eligible costs, with no maximum credit.

Available for eligible systems placed in service on or before December 31, 2016. Currently expired.
Examples of Wind Turbines

Wind Turbines

Home Wind Turbine

Corkscrew shaped Wind Turbine at Progressive Field in Cleveland, Ohio
Microturbines

- Eligible property includes wind turbines with up to 2 megawatts in capacity that have an electricity-only generation efficiency of 26% or higher.
- Credit is equal to 10% of eligible costs, with no maximum credit.
- Available for eligible systems placed in service on or before December 31, 2016. Currently expired.
Geothermal Systems

- Eligible geothermal energy property includes geothermal heat pumps and equipment used to produce, distribute or use energy derived from a geothermal deposit.

- The credit is equal to 10% of expenditures, with no maximum credit limit stated. The credit can be combined with other credits.

- This credit has no stated expiration date and is to remain at the 10% rate. However, geothermal heat pumps will not qualify for credit if placed in service after 2016, so has expired.
Geothermal Systems
Combined Heat and Power

- Eligible property generally includes systems up to 50 MW in capacity that exceed 60% energy efficiency, but there are limitations and reductions for larger systems. A reduced credit is available for less efficient systems.

- Credit is equal to 10% of eligible costs, with no maximum credit.

- Available for eligible systems placed in service on or before December 31, 2016. Currently expired.
Energy Efficient Home Credit (45L)

- Credit for newly constructed or rehabilitated housing that meets certain energy-saving standards.
  - A unit’s energy consumption must be at least 50% less than a similar unit.
  - Generally results in higher costs.

- Applies to owner-occupied or rental housing units.

- Credit equals $2,000 per housing unit.

- Can be claimed by investor or be specially allocated to the developer.

- Must have been constructed by and acquired from contractor by 12/31/16. Credit currently expired.
Tax Reform

- Tax reform is a top priority for Congress and the Administration
- House is currently working to translate tax reform blueprint into legislation, expected this spring
  - Blueprint would eliminate most tax expenditures in order to lower top corporate tax rates from 35 to 20%
  - The House tax reform blueprint was silent on the Housing Credit and Housing Bonds
- Administration proposed lowering top corporate rates even further to 15%, but no details yet
- Senate will not release tax reform proposal until summer (or later)
The Impact of Tax Reform

- Potential Threats to key programs
  - Elimination or substantial reduction
  - Efficacy undermined by reforms
    - E.g. eliminate 4% credit, lengthen credit period
    - Efficacy undermined by other changes in tax reform
      - E.g. lower corporate tax rate, changes to depreciation

- Potential Opportunities
  - Expansion and extension
  - Efficacy enhanced by reforms
Senators Maria Cantwell (D-WA) and Orrin Hatch (R-UT) introduced the Affordable Housing Credit Improvement Act (S. 548) in March 2017 to expand and strengthen the Housing Credit.
The Affordable Housing Credit Improvement Act would:

- Increase the annual LIHTC allocation by 50 percent, phased in over five years
- Enact close to two dozen provisions to strengthen LIHTC
  - Make the financing of affordable housing more predictable and streamlined
    - Minimum 4% rate
  - Facilitate LIHTC development in challenging markets like rural and Native American communities
- Increase the Housing Credit’s ability to serve extremely low-income tenants
  - Income averaging, basis boost for ELI households
- Support the preservation of existing affordable housing
Housing Credit Legislation

- Reps. Pat Tiberi (R-OH) and Richard Neal (D-MA) will soon introduce legislation in the House of Representatives to strengthen the Housing Credit

- The legislation will include nearly all of the provisions from the Cantwell-Hatch bill, but not the 50% cap increase
The ACTION Campaign is a coalition of nearly 2,000 national, state and local organizations and businesses calling on Congress to protect, expand and strengthen the Housing Credit.

Priorities for 2017:

- Protecting LIHTC and Housing Bonds in tax reform and ensuring that the programs maintain their viability
- Expanding of the LIHTC to meet housing needs
- Strengthening LIHTC to make the program more streamlined, flexible

www.rentalhousingaction.org
Energy Credit

- No clear guidance or predictions on how energy credits will fare under tax reform.
- No specific plan for renewal or permanency of expiring credits.
- Certain provisions may be extended, but a general extenders bill seen as unlikely in light of potential tax reform.
- Solar credits remain in place, but the rate is scheduled to decrease after 2019. This may be addressed later, but not as urgent since it is not an expiring provision.
- Tax Reform proposals support Research and Development Credits. Energy incentives could be incorporated as Research and Development efforts.