

federal low income housing tax credit program



overview



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low income housing tax credit (lihtc)

- The Low Income Housing Tax Credit program (LIHTC) was created by Congress in 1986 as Section 42 of the Federal Tax Reform Act. Its purpose is to encourage the construction and rehabilitation of low income rental housing by providing a federal income tax credit as an incentive to investors. Both individual and corporate investors may receive ten years of tax credits in return for investing equity capital into the development of eligible housing projects.
- The Colorado Housing and Finance Authority is the designated state allocating agency for Colorado, and is responsible for designing and implementing the program in Colorado.

basic program requirements

LIHTC projects must include:

- Income restrictions
- Rent restrictions
- Extended-use requirements

income restrictions

Minimum requirements:

- At least 40 percent of the property must be set aside for families earning below 60 percent of Area Median Income (AMI), or
- At least 20 percent of the property must be set aside for families earning below 50 percent of the AMI

For Example:

| Denver County | Family of Four Household | One Person Household |
|----------------|--------------------------|----------------------|
| 50 percent AMI | \$35,900 | \$25,150 |
| 60 percent AMI | \$43,080 | \$30,180 |

rent restrictions

Rents are restricted by income group, bedroom size, and AMI

For example:

| Denver County | 1 bedroom | 2 bedroom | 3 bedroom | 4 bedroom |
|----------------|-----------|-----------|-----------|-----------|
| 40 percent AMI | \$503 | \$646 | \$746 | \$833 |
| 50 percent AMI | \$673 | \$807 | \$933 | \$1,041 |
| 60 percent AMI | \$807 | \$969 | \$1,119 | \$1,249 |

(Rents must include utility costs)

extended use requirements

All developments must maintain the rent and income requirements through a 15-year compliance period and a 15-year extended-use period, for a total of 30 years. The requirements are enforced through a Land Use Restriction Agreement that is recorded against the property.

types of lihtc

- Competitive 9 percent credit
 - Available for new construction and substantial rehabilitation
- Competitive 4 percent credit
 - Available for the acquisition of existing building(s). There must be a substantial rehabilitation component of the development.
- Non-competitive 4 percent credit
 - Available for new construction or acq/rehab for developments financed with Private Activity Bonds

[Note: Beginning July 30, 2008, the 9 percent credit's actual "applicable percentage rate (APR)" is the higher of the current month's APR or 9 percent until December 31, 2013. The 4 percent credit's actual "applicable percentage rate" used to calculate the credit amount fluctuates monthly and is based on current interest rates.]

computing the credit amount

- **Eligible basis** includes depreciable assets:
 - Development costs minus land, off-site work, federal grants or other credits, fees and costs related to permanent financing, tax credit syndication costs, and reserves
- **Applicable fraction** – the percent of the total units or residential square footage, which ever is lower, set aside for low income residents
- **Qualified basis** – the eligible basis adjusted by the applicable fraction
- **APR** – The 9 percent credit is is the higher of the current APR or 9 percent until December 31, 2013. The 4 percent credit's actual APR is established monthly by the IRS. These rates are used with the qualified basis number to determine the actual credit amount for which a development is eligible.

| Eligible Basis | (x) Applicable Fraction | (=) Total Qualified Basis | (x) Applicable Percentage Rate | (=) Annual Tax Credit |
|--|-------------------------|---------------------------|--------------------------------|-----------------------|
| \$9,000,000 | 100% | \$9,000,000 | 9.00% | \$810,000 |
| (all units are income and rent restricted) | | | | |

This annual credit, sold to investors with federal tax liability, could generate up to \$5.67 million in equity to help finance the development.

application process

For the competitive credit, see the Allocation Plan for the application deadlines.

For the non-competitive credit, applications are accepted throughout the year, except for the month of December.

The Colorado Housing and Finance Authority does not discriminate on the basis of disability in admission or access to the operation of its programs, services, activities or its own employment practices. Requests for reasonable accommodation, the provision of auxiliary aids or any complaints alleging violation of this nondiscrimination policy should be directed to Pamela McClune, Nondiscrimination Coordinator, 303.297.7366, TDD 303.297.7305, CHFA, 1981 Blake Street, Denver, CO 80202-1272, available weekdays, 8:00am to 5:00pm.

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