

## Limits on Housing Credit Use

The amount of Housing Credits that may be claimed during each year of the credit period is subject to the rules of general business credit and passive loss restrictions. These rules limit the amount of annual credit individuals may claim. Many corporations, however, are not subject to the restrictions and may use larger amounts of Housing Credits.

Before applying for a Housing Credit allocation, developing a project, or investing in a low income housing tax credit project, it is recommended that a qualified accountant and/or legal counsel be consulted.

## Tax-Exempt Bond Financing

Projects which have 50 percent or more of the eligible basis of buildings and land financed by tax-exempt bonds may receive a 30 percent PVC if they qualify under the program regulations and meet the requirements of the NDHFA Allocation Plan. Credits received by these projects are in addition to North Dakota's annual allocation authority.

## Using Housing Credits with HUD Programs

Proposed projects using both Housing Credits and HUD assistance may be subject to a Federal Subsidy Review. This is to ensure that no more assistance than necessary is provided to a project which receives HUD subsidies. Under this process, projects are subject to subsidy layering guidelines established by HUD.

## Housing Credit Calculation Examples

(1) A 24-unit project at a cost of \$1,500,000 with conventional financing and with all of the apartments for low-income tenants (70% PVC):

Total Development Costs	\$ 1,500,000
Less Land & Federal Grants	<u>(100,000)</u>
Eligible Basis	\$ 1,400,000
Applicable Fraction (Low-Income Units Divided by Total Units: 24/24)	<u>x 100%</u>
Qualified Basis (Eligible Basis x Applicable Fraction)	\$ 1,400,000
Applicable Housing Credit Percentage (In this example, 70% PVC or 9% annually)	<u>x 9.0%</u>
Maximum Annual Housing Credit** (Qualified Basis x Applicable Housing Credit Percentage)	\$ 126,000
<b>Total Housing Credit over 10-year Credit Period</b>	<b>\$ 1,260,000</b>
Estimated Equity from Syndication of Credits (\$1,260,000 x \$.80)	\$1,008,000

(2) A 24-unit project at a cost of \$1,500,000 with a federal financing subsidy and all of the apartments reserved for low-income tenants (30% PVC):

Total Development Costs	\$ 1,500,000
Less Land & Federal Grants	<u>(100,000)</u>
Eligible Basis	\$ 1,400,000
Applicable Fraction (Low-Income Units Divided by Total Units: 24/24)	<u>x 100%</u>
Qualified Basis (Eligible Basis x Applicable Fraction)	\$ 1,400,000
Applicable Housing Credit Percentage (In this example, 30% PVC or 3.75%* annually)	<u>x 3.75%</u>
Maximum Annual Housing Credit** (Qualified Basis x Applicable Housing Credit Percentage)	\$ 52,500
<b>Total Housing Credit over 10-year Credit Period</b>	<b>\$ 525,000</b>
Estimated Equity from Syndication of Credits (\$525,000 x \$.80)	\$420,000

\*Actual percentage will vary depending upon monthly rate published by the IRS. Once the rate is chosen it remains constant throughout the credit period.

\*\*Actual amount of Housing Credit awarded could be less based upon NDHFA analysis of project.

## For More Information

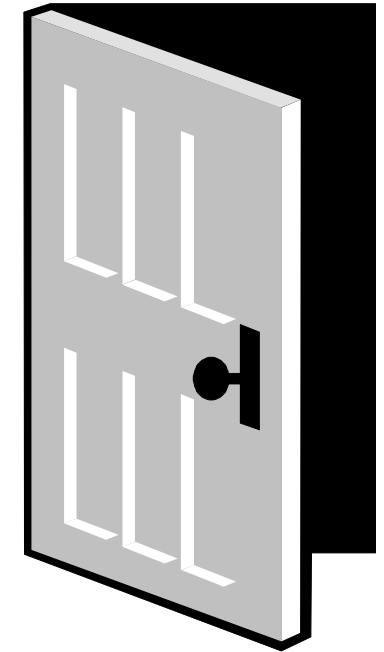
Interested parties may contact NDHFA for additional information and an application.

Inquiries can be sent to:

North Dakota Housing Finance Agency  
1500 East Capitol Avenue  
PO Box 1535  
Bismarck, ND 58502-1535

Ph: (701) 328-8080  
(800) 292-8621 (Toll Free Nationwide)  
(800) 366-6888 (TTY)

[www.ndhfa.org](http://www.ndhfa.org) or [info@ndhfa.org](mailto:info@ndhfa.org)



Open the Door to  
**Affordable Housing**  
with the  
**Low Income Housing  
Tax Credit**

NDHFA makes no representation concerning any tax consequences resulting from Housing Credit allocations and accepts no responsibility for any adverse consequences to the owner under the Internal Revenue Code. Compliance with the law and regulations is, and will remain, the owner's responsibility.

The laws and regulations governing the Low Income Housing Tax Credit are complex. This brochure contains only general information. It is not comprehensive and should not be relied upon as an authoritative work.

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Equal Housing  
Opportunity



North Dakota  
Housing Finance Agency

## History and Purpose

The 1986 Tax Reform Act created the Low Income Housing Tax Credit (Housing Credit) as an incentive to encourage the construction and rehabilitation of rental housing for lower income households. Individuals, corporations, L.L.C.s, partnerships and other legal entities may benefit from the Housing Credit, subject to applicable restrictions.

Beginning in 2002, each state may allocate housing credits in an amount not to exceed the greater of \$1.90 per resident or \$2 million, adjusted for inflation. The North Dakota Housing Finance Agency (NDHFA) administers North Dakota's allocation.

## How the Housing Credit Works

The Housing Credit offers a reduction in federal income tax liability to owners of rental housing projects who are willing to set aside a minimum portion of the project units for households earning 60 percent or less of area median gross income. Developers of Housing Credit projects typically syndicate or form limited partnerships, involving investors who are willing to provide equity capital in return for the economic benefits (including Housing Credits) generated by the project.

The amount of Housing Credit an owner receives is determined at the time the Housing Credit is allocated. The Housing Credit amount is based on several factors including depreciable development costs, type of project (new construction, rehabilitation or acquisition), percentage of housing units designated for low income use, the allocating agency's evaluation and project financing.

Housing Credits may be claimed annually for a ten-year period. In order to claim Housing Credits, the owner must comply with governing rules and regulations (Section 42 of the Internal Revenue Code) throughout the applicable compliance period.

## Eligible Projects

Types of rental housing projects that qualify under the Housing Credit guidelines include: new construction, substantial rehabilitation and acquisition of existing properties that will be substantially rehabilitated. The size of the project can vary from a detached, single-family home being used as a rental unit to a large apartment complex.

In order to be eligible for the Housing Credit, housing projects must meet the following conditions:

1. The project must be:
  - ◆ In conformance with the NDHFA Allocation Plan.
  - ◆ A permanent residential structure that can be occupied on a year-round, nontransient basis.
  - ◆ In compliance with applicable federal, state and local building and health codes.
  - ◆ Subject to an extended, low-income housing commitment.
  - ◆ Advertised to the public as required by federal, state and local fair housing laws and statutes.
2. The project must have either:
  - ◆ A minimum of 20 percent of the units rent restricted and available to tenants whose income does not exceed 50 percent of the area median gross income, or
  - ◆ A minimum of 40 percent of the units rent restricted and available to tenants whose income does not exceed 60 percent of the area median gross income. Income limits are defined annually by the US Department of Housing and Urban Development (HUD) based on family size and project location.

3. The project's low-income unit gross rents, including tenant-paid utilities, may not exceed 30 percent of qualifying income limitations. Maximum gross rents allowed under the program vary by area and the number of bedrooms in a unit. These rents are based upon the annual income limits published by HUD.
4. The project must be maintained as low income housing for an initial 15-year compliance period and be subject to an extended use period of 15 additional years or more, depending upon the owner's commitment. The extended use period provides for termination, contingent upon a sales provision outlined in the Tax Code.

## Housing Credit Allocation

Prior to allocating Housing Credits, each state is required to develop an Allocation Plan which provides a competitive process for awarding Housing Credits to projects addressing the state's low-income housing needs. The plan, which is reviewed and updated each year, also includes other selection criteria, including federally mandated requirements.

Federal regulations require that at least 10 percent of each state's Housing Credit be set aside for qualified nonprofit organizations that are tax-exempt under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code. Providing low-income housing must be one of the organizational purposes of the qualified nonprofit. The nonprofit also must have ownership and materially participate in the development and management of the project during the applicable compliance period.

## Maximum Housing Credit Eligibility

The maximum annual Housing Credit available to a project is calculated using an annual Housing Credit percentage which provides a "present value" of either 30 or 70 percent of the qualified costs of the low-income units in a project.

Project costs eligible for a 30 percent present value credit (PVC) include: qualified acquisition costs of projects that will be substantially rehabilitated; and qualified costs of new construction and substantial rehabilitation projects that will be financed with tax-exempt bonds.

Project costs eligible for 70 percent PVC include costs of new construction and substantial rehabilitation that have no federal financing subsidies.

Over the 10-year credit period, the annual rate for 30 percent PVC is approximately 4 percent; the annual rate for 70 percent PVC is 9 percent. The maximum annual Housing Credit amount is determined by multiplying the applicable annual percentage rate (approximately 4 or 9 percent) by the eligible development, acquisition and rehabilitation costs attributable to the designated low-income units in the project.

