



TAX CREDITS TO HOMEOWNERSHIP

Traditional Homeownership Programs

- Fee land
- Realtor
- Must qualify / good credit
- Bank financing
- Market pricing
- Foreclosure risk



Tribal Homeownership Programs

- Trust land / fee land
- Limited market
- Limited financing options
- May need to qualify and have good credit
- Foreclosure risk (maybe)



Tax Credits to Homeownership

- Trust land / fee land
- TDHE or Tribe involvement in policies / procedures
- Reduced costs
- May work on qualification and credit repair over time
- Little or no foreclosure risk

Tax Credits Explained

- IRS Program
- Apply through the state allocating agency
- Generates tax credits for investors
- Dollar for Dollar reduction in tax liability
- Average incomes and rents of 60% of Area Median Income
- Rental or Rent to Own
- Typically funds 80% or more of project costs



Tax Credits Explained

Tax and Credits

Standard Deduction for—

- People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
- All others:
 - Single or Married filing separately, \$6,200
 - Married filing jointly or Qualifying widow(er), \$12,400
 - Head of household, \$9,100

38	Amount from line 37 (adjusted gross income)	38	
39a	Check <input type="checkbox"/> You were born before January 2, 1950, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1950, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a <input type="checkbox"/>		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	
41	Subtract line 40 from line 38	41	
42	Exemptions. If line 38 is \$152,525 or less, multiply \$3,950 by the number on line 6d. Otherwise, see instructions	42	
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	
45	Alternative minimum tax (see instructions). Attach Form 6251	45	
46	Excess advance premium tax credit repayment. Attach Form 8962	46	
47	Add lines 44, 45, and 46	47	
48	Foreign tax credit. Attach Form 1116 if required	48	
49	Credit for child and dependent care expenses. Attach Form 2441	49	
50	Education credits from Form 8863, line 19	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credits. Attach Form 5695	53	
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
55	Add lines 48 through 54. These are your total credits	55	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	



LIHTC – How does it Work?

- Developers compete for tax credits through their state allocating agency
- Investors purchase the credits and provide equity for the construction of the project
- The project is built with a limited amount of NAHASDA and/or other Tribal debt
- Allows for more units for less money and more units over less time

LIHTC – How does it Work?

- Tribal construction loan = total dev. cost (TDC) less investor equity
- Investor equity = annual credits x 10 x price per credit (i.e. \$0.80 - \$0.83)
- Tribal loan will typically consist of NAHASDA or other Tribal funds
- A developer' s fee is paid (typically to the tribe or housing authority) for completing the various tasks necessary to bring the project to fruition
- Other gap financing sources may be available

Fun with Numbers – LIHTC Development

	<u>Your Project</u>	<u>TC Project</u>	<u>Difference</u>
Cost	\$ 4,500,000	\$ 5,675,000	
Less: Ineligible Costs		\$ (200,000)	
Equals: Basis		\$ 5,475,000	
Basis Boost		\$ 7,117,500	
Times: Credit Rate (9%) x 10		\$ 6,405,750	
Cost from above	\$ 4,500,000	\$ 5,675,000	\$ 1,175,000
Less Investor Equity @ \$0.80	\$ -	\$ (5,124,600)	\$ (5,124,600)
Less AHP or ICDBG			\$ -
Equals: Tribal Contribution	\$ 4,500,000	\$ 550,400	\$ (3,949,600)
Less: Developer Fee (15%)	\$ -	\$ (675,000)	\$ (675,000)
Equals: Final Cost	\$ 4,500,000	\$ (124,600)	\$ (4,624,600)
# of units	\$ 30	\$ 30	
Cost/Unit	\$ 150,000	\$ (4,153)	\$ (154,153)

Fun with Numbers – Individual Mortgage

- Purchase Price for a House - \$150,000
- Less: Down Payment Assistance - \$ 15,000
- Total Financing Needed - \$135,000

- Payment assuming 30-year term/amortization and 4.5% interest rate - ~\$836 per month

- Total paid for the house in year 30 - ~\$300,000

- Do you really own the home?

Tax Credits to Homeownership

- Must be rental for first 15 years
- Tenants must initially income qualify
- Income may increase over time
- Year 15
 - Conversion to Homeownership
 - Keep in Rental Stock

Homeownership Considerations

- TDHE or Tribe's policies
- Allocating Agency criteria
- Must be affordable
- Tenants ability to convert to homeownership
- Financing homeownership conversion

Example of Best Practices

- Reward existing good tenants
- Develop a homeownership waiting list
- Develop policies at the beginning of the project
- Orientation about the LIHTC to homeownership
- Annual status report to tenants wanting to be homebuyers
- Homeownership training
- Incentives

Case Study – Lac Courte Oreilles Housing Authority

Incentive Credits – used to reduce the final price of the home at the end of the 15-year rental period

- 100 credits monthly for on-time rent payments
- 100 credits for each successful inspection
- 100 credits for completing annual re-certifications on time

Case Study – Lac Courte Oreilles Housing Authority

Purchase Price for Houses

2 Bedroom :	\$26,250
3 Bedroom:	\$27,562
4 Bedroom:	\$28,940

Case Study – Lac Courte Oreilles Housing Authority

Perfect tenant residing in unit for 15 years

On-time rent:	18,000
Successful inspections:	3,400
On-time re-certifications:	<u>1,500</u>
Total credits:	22,900

Case Study – Lac Courte Oreilles Housing Authority

Net purchase price for the perfect tenant

2 Bedroom:	$\$26,250 - 22,900 = \$3,350$
3 Bedroom:	$\$27,562 - 22,900 = \$4,662$
4 Bedroom:	$\$28,940 - 22,900 = \$6,040$

Case Study – Lac Courte Oreilles Housing Authority

Tenant with late rent payments 33% of the time

On-time rent:	12,000
Successful inspections:	3,400
On-time re-certifications:	<u>1,500</u>
Total credits:	16,900

Case Study – Lac Courte Oreilles Housing Authority

Net purchase price for the not so perfect tenant

2 Bedroom:	$\$26,250 - 16,900 = \$ 9,350$
3 Bedroom:	$\$27,562 - 16,900 = \$10,662$
4 Bedroom:	$\$28,940 - 16,900 = \$12,040$

Case Study – Lac Courte Oreilles Housing Authority

Incentive credits are a win-win situation

- Rewards tenants for good behavior
- Helps LCO stay in compliance with tax credit program



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