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

### Form 1040 (2014)

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

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**Tribally Chartered & TERO Certified**

[Image: RTHAWK Housing Alliance]
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

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

<table>
<thead>
<tr>
<th>Bedroom</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Bedroom</td>
<td>$26,250</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>$27,562</td>
</tr>
<tr>
<td>4 Bedroom</td>
<td>$28,940</td>
</tr>
</tbody>
</table>
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: 1,500
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: 1,500
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