OUR VISION
OUR VISION IS TO MAKE ATLANTA THE MOST ECONOMICALLY DYNAMIC AND COMPETITIVE CITY IN THE WORLD.

OUR MISSION
TO ADVANCE ATLANTA’S GLOBAL COMPETITIVENESS BY GROWING A STRONG ECONOMY, BUILDING VIBRANT COMMUNITIES AND INCREASING ECONOMIC PROSPERITY FOR ALL ATLANTANS.
ALL OF US WORKING TOWARDS ECONOMIC PROSPERITY
WHAT IS THE TAX CREDIT PROGRAM?

• A housing subsidy program for rental housing
• Created within Section 42 of the Internal Revenue Code
• Administered by each state’s housing finance agency
• $2.75625 per person allocated to each state
  • ($3,166,875.40 for small population states)
WHAT DO TAX CREDITS FINANCE?

NEW CONSTRUCTION AND REHAB PROJECTS

ACQUISITION (IN SOME CASES)

HOUSING FOR FAMILIES, TENANTS WITH SPECIAL NEEDS, 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
THRESHOLD ELECTIONS – WHO CAN LIVE THERE?

- 40/60 election
- 20/50 election
- Income Averaging – allows for units up to 80% in exchange for units at 40% AMI and below

RENT RESTRICTED – HOW MUCH CAN TENANTS PAY?

- Rent and utilities are limited to 30% of the threshold income
- Allowable rent based on size of unit
Families must earn less than the threshold income

- Based on HUD median income data and 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>Net Income from Operations</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Tax Deductions</td>
<td>none</td>
<td>(300,000)</td>
<td>none</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>1,000,000</td>
<td>700,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Tax Liability:</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>Low-Income Housing Tax Credits</td>
<td>none</td>
<td>none</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Net Tax Liability</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><strong>Net Income from Operations</strong></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>
</tr>
<tr>
<td><strong>Taxable Income</strong></td>
<td>1,000,000</td>
<td>700,000</td>
</tr>
<tr>
<td><strong>Tax Liability:</strong></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><strong>Net Tax Liability</strong></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

• 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
THE TAX CREDIT INVESTMENT PROCESS

Federal Government Allocates Credits to States

State Housing Agencies Allocate Credits to Housing Development

Residential Rental Development

For Qualified Residents (incomes are 50 - 60% of area median income)

LIMITED PARTNERSHIP

CORPORATE INVESTORS
PROPERTY
LEVEL
INVESTMENT

Investor

$ 

Equity Fund

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

$ 

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

New Construction/Rehab
- 9% New Construction/Rehab Credit - 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 July 31, 2008)

Tax Exempt Bonds
- Eligible for 4% credits
  - No allocation 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
  - Bond must stay in place until at lease one month after completion

Acquisition Credit
- 4% Acquisition Credit – used when purchasing an existing building that qualifies
  - Substantial rehab
  - 10 year rule, if applicable, with exceptions
  - No basis boost
Eligible Basis
X
Applicable Fraction
X
Basis Boost (if applicable)
=
Qualified Basis
Qualified Basis \times Tax Credit Rate = Annual Tax Credits
Computing Tax Credits:
Total Tax Credits

Annual Tax Credits × 10 (Years) = Total Tax Credits
Computing Tax Credit Equity

Total Tax Credits \times \text{Pay Price (Cents per dollar)} = \text{Equity}
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 percent 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
• **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 July 30, 2008
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 includes the following:

- Impact Fees
- Onsite Roads, sidewalks, and parking lots
  - Offsite if adjacent, functionally related and owner maintained
- Cost of Utility Hookup
- Landscaping, if adjacent to building
- Final grading of building site
• Excludes:
  • Initial grading
  • Landscaping not adjacent to building

• Includes:
  • Common area
  • Full time manager’s unit
  • Community space
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
Amount included in basis limited to:

- Projects placed in service after July 30, 2008
  - 25% of first $15 million of eligible basis
  - 10% of remaining eligible basis

- Projects placed in service before July 31, 2008
  - 10% of eligible basis