Primer

9% Low-Income Housing Tax Credit Process

Step 1

The low-income housing tax credit —LIHTC— is the government's primary program for building affordable housing.

Here's how it works…

Step 2

The **IRS** has a pool of tax credits that it divvies up every year among **58 state and local housing finance agencies**, based on population size.

Step 3

Let's say you're a developer and you want to build an apartment building with units designated for low-income people. To decrease rents, you'll need help to offset your costs. That's where those tax credits come in.

Step 4

First, you go to your **housing finance agency** to request money to build. You promise to:

- Offer a certain amount of low-income units and keep it that way for at least 30 years.
- Meet the housing agency's requirements. For example, you might set aside accessible units for handicap individuals.

Step 5

If your application is approved, the housing agency gives **about 70 percent of your allowable cost in tax credits**, which your **investor** can claim for 10 years once the building is completed.

Step 6

But tax credits are dollar for dollar reduction in tax liability for owners (just a promise that you won't have to pay as much at tax time) and are not very useful for buying concrete or labor.

Step 7

To solve that problem, you can sell your credits for cash to an **investor** — often, a big bank. Many developers use **syndicators** (who are like brokers) to help connect with investors.

Step 8

Investing in LIHTC buildings helps banks meet their obligations under the Community Reinvestment Act, which requires banks to invest in the poorer communities where they do business.

Step 9

When the project is complete, the **investor** owns the majority of the building and gets 10 years of tax benefits. Because taxpayers subsidized the building, the rents on the low-income units are cheaper than market rate.

Step 10

For more information visit our website at:

www.vhdllc.us