Primer

9% Low-Income Housing Tax Credit Process



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

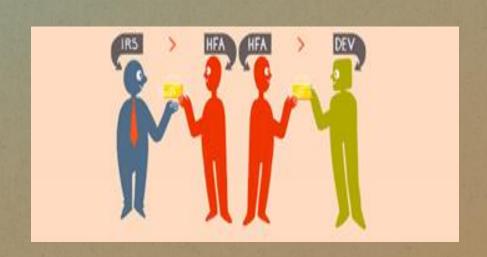
Here's how it works...



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.



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.

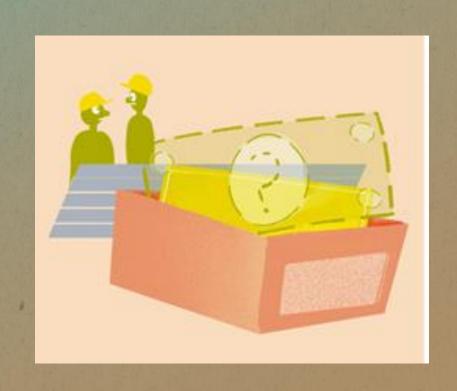


First, you go to your housing finance agency to request money to build. You promise to:

- Offer a certain amount of lowincome 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.



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.



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.



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.



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.



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.



For more information visit our website at:

www.vhdllc.us