nerej
EST 1963 CELEBRATING 55 YEARS

A primer on low income housing tax credits

March 07, 2013 - Front Section

The low income housing tax credit provides tax incentives to rehabilitate and develop affordable rental housing. Developers compete for the tax credits through an application process administered by state housing authorities.

There are two types of low income housing tax credits. The 4% credit is available for the rehabilitation of housing and new construction financed by tax-exempt bonds. This credit is taken annually over a ten-year period. The credit rate fluctuates at around 4% and is designed to provide a subsidy generally equal to 30% of the project's basis at present value.

The 9% credit is generally available for only new construction. Similar to the 4% credit, it is taken over a ten-year period. This rate fluctuates for the purpose of providing a subsidiary of approximately 70% of the project's basis at present value.

The federal government allocates low income housing tax credits to each state based upon population. In turn, the various state housing authorities make the credits available to projects within their state. Once a housing authority allocates credits to a developer for a specific project, the developer has several years to complete the proposed project. The credits may not be claimed until the project is finished and the building is occupied.

To qualify for credits, a project must meet certain tenant income and rent requirements. To satisfy the tenant income requirement, the developer must ensure that either 20% of the units are occupied by individuals with income of 50% or less of the area's median gross income, or 40% of the units are occupied by individuals with income of 60% or less of the area's median gross income. Rents may not exceed 30% of the elected 50% or 60% area median gross income, depending upon the percentage elected by the developer.

John Varella is an attorney with Lourie & Cutler, Boston, Mass.