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Community Development Committee

Meeting date: August 6, 2012,

ADVISORY INFORMATION	
Date:	**July 31, 2012**
Subject:	**Low Income Housing Tax Credits and Affordable Housing Finance**
District(s), Member(s):	**All**
Policy/Legal Reference:	**None**
Staff Prepared/Presented:	**Beth Reetz (651-602-1060) and Kasey Kier, Minnesota Housing Finance Agency**
Division/Department:	**Community Development/Housing and Livable Communities**

Proposed Action

None. Information Only

Background

As an informational item and at the request of the Community Development Committee, Kasey Kier, Minnesota Housing Finance's tax credit allocation manager and coordinator of the multi-housing consolidated application/Request for Proposal process will provide an overview of the tax credit allocation process and policy as well as the process used by developers to compete for the MHFA's affordable housing finance resources.

The Low Income Housing Tax Credit (LIHTC) is a dollar for dollar tax credit for affordable housing investments. It was created under the Tax Reform Act of 1986 and provides incentives for the utilization of private equity in the development of affordable housing for low income Americans. LIHTC is the principal federal subsidy contained within the tax law for acquisition/substantial rehabilitation and new construction of low income housing. The credits are also commonly called Section 42 credits in reference to the applicable section of the Internal Revenue Code. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in federal income tax. Changes in the 1986 Tax Reform Act greatly reduced the value of tax credits and deductions to individual taxpayers and therefore almost all investors in LIHTC are corporations.

The program is administered at the state level by the state housing finance agencies with each getting a fixed allocation of credits based on population. Each state agency has discretion in determining which projects to award credits by setting priorities and specific housing goals through the state's Qualified Allocation Plan (QAP).

The LIHTC provides funding for the development costs of low income housing by allowing an investor to take a federal tax credit equal to a percentage of the cost incurred for development of low-income units in a rental housing project. Development capital is raised by "syndicating" the credit to an investor, or group of investors. To take advantage of the LIHTC, a developer will typically propose a project to the state housing finance agency, seek and win a competitive allocation of tax credits, complete the project, certify the costs, and rent up the project to low income renters. Simultaneously, an investor will be found that will make a "capital contribution" to the partnership that owns the project in exchange for being "allocated" the entity's LIHTCs over a ten year period.