



Cannon Heyman & Weiss, LLP

Law Practice Concentrating in Affordable Housing and Community Development Law

OVERVIEW: FEDERAL LOW-INCOME HOUSING TAX CREDIT (“LIHTC”)

- **What is the LIHTC?**

- The LIHTC was created to encourage the development of affordable rental housing for low-income residents.
- Owners of qualified projects may claim the LIHTC that provides for a dollar-for-dollar reduction in owners’ federal income tax liability.
- For-profit equity investors receive an attractive rate of return on their investment while increasing the supply of affordable rental housing.
- The credit program is administered by individual state housing agencies and the Internal Revenue Service, with each state receiving a fixed allocation of credits per year, based on population.

- **What properties and projects are eligible for benefits under LIHTC?**

- The credit can be utilized to rehabilitate existing properties or can be used for new construction projects.
- Projects that qualify for the credit must be predominantly residential and must comply with low-income occupancy thresholds.
- Properties must operate under the rent and income restrictions for 30 years or longer, pursuant to written agreements with the agency issuing the tax credits.
- Federal law requires that each state’s qualified allocation plan (“QAP”) give priority to projects that serve the lowest income families, and that 10 percent of each state’s annual housing tax credit allocation be set aside for projects owned by nonprofit organizations.

- **What is the amount of tax credits available under LIHTC?**

- The credit awarded per project is calculated based on the overall costs of development and the number of qualified low-income units.
- New construction and substantial rehabilitation projects are eligible to apply for and receive tax credit annually for ten years equal to approximately 9% of a building’s qualified basis.
- Existing buildings are eligible to apply for and receive tax credit annually for ten years equal to 4% of a building’s qualified basis.
- Projects utilizing tax exempt bonds are eligible for 4% “as of right” credits and need not make a complete application to receive LIHTC.

- **What is the application process for LIHTC?**

- The Sponsor of the proposed development must obtain site control of the property in order to be eligible to make an application for LIHTC on behalf of a to-be-formed entity.
- The application for low-income housing tax credits is submitted to the respective state housing agency and evaluated based on the criteria set forth in the respective state’s QAP.

The content contained within this summary should not be construed as legal advice, and readers should not act upon information contained herein in the absence of professional counsel.

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