

Low Income Housing Tax Credits

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Tax Credit Investors

- Taxpayers become majority owners of the project
- Contribute equity to affordable rental housing
- Credits are part of a bundle of tax benefits for investors

Tax Credits continued

- Two types of federal tax credits:
 - 70% PV credits (referred to as 9% credits)
 - 30% PV credits (referred to as 4% credits)
- Percentages are calculated from "basis"
- Currently 7.5% and 3.2% respectively

Federal 9% Tax Credits

- Federal law allows \$2.30 per person in annual credits. This equals \$88.5 million in 2015.
- Federal credits are taken each year for 10 years, so the real value of 2015 credits is \$885 million.

Federal 9% Tax Credits

- Competitive:
 - 173 applications received in 2014
 - 83 projects funded in 2014
- Two rounds annually:
 - Applications typically due: March and July
 - Awards: June and September

9% Credit Example

- \$13 million project costs
- \$10 million in basis (excluding land, etc.)
- $\$10 \text{ million} \times 7.5\% = \$750,000$ in annual federal credit
- Credit taken in each of 10 years for \$7.5 million total

4% Credit Example

- \$13 million project costs
- \$10 million in basis (excluding land, etc.)
- $\$10 \text{ million} \times 3.2\% = \$320,000$ in annual federal credit
- Credit taken in each of 10 years for \$3.2 million total

Credits “Sold” to Investors

- Credits \neq equity
- Pricing is what the investor will pay for a dollar of credit against their tax liability
- Pricing occurs in the capital market
- Varies by location and project type

9% Credit Example

- \$13 million project costs
- \$10 million in basis (excluding land, etc.)
- $\$10 \text{ million} \times 7.5\% = \$750,000$ in annual federal credit, \$7.5 million total
- At \$1.05 per dollar of credit, could generate \$7.875 million today

State Tax Credits

- State law allows \$70 million in tax credits each year, indexed for inflation. This equals \$86.9 million for 2015
- State credits are one-time amounts taken over four years
- Pricing is close to 65 cents

State Credits

- Meant to help projects outside of:
 - Qualified Census Tracts (QCTs), and
 - Difficult to Develop Areas (DDAs)
- Increases allocation to all regions

State Credits

- As a result of AB 952 (Atkins) of 2013, state credits may also support special needs housing projects in DDAs

Lack of Gap Funding is a Barrier

- In our 4% credit example, project costs were \$13 million and the credit proceeds were \$3.2 million
- The gap equals \$9.8 million
- Higher rents can close some of this
- Public funding needed to close remainder

Opportunity to Access More Federal Resources

- California has unused Private Activity Bond Cap
- If used for rental housing, 4% credits are automatic and unlimited
- Closing the gap draws down more federal 4% tax credits