Massachusetts Housing Investment Corporation

LOW INCOME HOUSING TAX CREDIT

TAX RETURN & AUDIT PREPARATION GUIDE

FOR THE YEAR ENDED 12/31/23

Prepared by:
MASSACHUSETTS HOUSING INVESTMENT CORPORATION
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MASSACHUSETTS HOUSING INVESTMENT CORPORATION

TABLE OF CONTENTS

TAB 1

Audited Financial Statements

<u>Submission Deadlines for Projects with 10/31 Year-End's</u>:

<u>Draft Copy</u> **Monday, January 1, 2024**

<u>Final Copy</u> **The <u>later</u> of Monday January 15, 2023** **Or** **Within eight (8) calendar days of the date MHIC issues it's "Go final" letter.**

<u>Submission Deadlines for Projects with 12/31 Year-End's:</u>

<u>Draft Copy</u> **Friday March 1, 2023**

<u>Final Copy</u> **The <u>later</u> of Friday March 15, 2023** **Or** **Within eight (8) calendar days of the date MHIC issues it's "Go final" letter.**

Remit Audit information as follows:

AUDITS

DRAFT and FINAL audits MUST be uploaded to the MHIC portal. Accounting firms will register in advance and will receive instructions for using the portal. Hard copy documents are no longer accepted.

MHIC Secure Portal Website: https://www.mhic.com/portal
Each audit firm must register for access to the MHIC portal. Please send the name and email address of your main contact person for tax and audit submissions to Scott Backman at MHIC. We will then send you an invitation to register for the tax & audit portal.

If you have any questions regarding the portal please contact Scott Backman at backman@mhic.com (617) 850-1054 or Cameron Rockett at rockett@mhic.com (617) 850-1041.

*** Incomplete drafts do not constitute a timely delivery**

<u>Component auditor letters will be sent to the lower tier accountants to be signed and returned to the upper tier accountant prior to the final issuance of the audit.</u> Final audits should be sent to the MHIC portal. MHIC will forward the audits to the appropriate upper tier auditor.

MHIC Document Portal Instructions

Tax and Audit Module

2023

MHIC has a secure internet portal for the Audit and Tax season, set up to receive all of your draft and final tax returns, audits and work papers. It meets the Mass. Privacy Law as well as the security concerns of our customers and partners.

Instructions: This document contains directions for how to navigate and use the Tax and Audit Module of the MHIC Secure Document Portal. The Secure Document Portal is located at https://www.mhic.com/portal.

- **Step 1: Register for access to the Document Portal**.

Registration for the Portal is by Invite Only. Users will receive an email from webserver@mhic.com with a Unique Registration Invitation ID and directions to the registration page in the Portal.

- Following the link, users fill in open fields, and must use a secure password including at least 1 uppercase letter, 1 number and be at least 8 characters long. Once registration is complete, users log into the Portal via the Portal's main page.

- **Step 2**: **Using the Document Portal**.

- On logging in, Users will see a Welcome page with 3 or more menu options on the left side of the page. The Welcome page will have any notifications users need to be aware of. The left menu items transfer users to the different sections of the Portal: [Home] takes users to the Welcome Screen. [Profile] takes users to the Profile Screen where you can change your password. [Group Administration] takes Administrators to a management screen where they can invite other users to the Portal. [Investors] takes users to the module that displays Investor related documents that have been uploaded to the Portal. **[Tax & Audit - *]** takes users to the module that allows Accountants to upload documents to the Portal.

- On the left side of the page, users will see a list of functionality they have access to:
  Group Administration: Users that have Administrative access to invite other users to the Document Portal.
  Tax & Audit Lower-Tier Group: Users that have access to Upload and View Lower-Tier Documents.
  Tax & Audit Upper-Tier Group: Users that have access to Upload and View Upper-Tier Documents and view Lower-Tier Documents.
  Profile: To Change User password.

- **Group Administrator:** Manages the Users in your group or company. Each audit firm will identify a Group Administrator who will invite the other Users in their firm who need to upload documents to the MHIC portal.

- **Please provide the name and contact information of your firm's administrator, including phone and email address, to Scott Backman (backman@mhic.com) at MHIC..**

- To invite other Users into the Document Portal, enter the user's email address, chose a Role and click **'Invite User'. The Portal will send that user an invitation from** webserver@mhic.com **with directions on** how to register for the Portal. Users can be given either 'Member' or 'Administrator' Role.

  Administrators can also switch users between 'Member' and 'Administrator' Roles. Click 'Promote' or 'Demote' next to the user and their role will be changed to 'Member' or 'Administrator' accordingly.
  Only Administrators can invite new users, or change status of current users in the Portal.

- **Lower-Tier Group: Upload and View Documents**
  The page is divided into three sections. The upper 'Lower-Tier Documents' area displays the Projects and documents the users are allowed to work with. The lower 'New Document' area uploads documents to the Portal. The 'Document Versions' area appears when a document in selected in the 'Lower-Tier Documents' area.

- Uploading Documents: To add a document, users scroll down to the 'New Document' area and select what Project and Document Type they are uploading for. They then pick either Draft or Final. The Document Portal recognizes one 'Final' for each Document Type, so old 'Finals' are changed into 'Old Finals' whenever a 'Final' is uploaded. A comment for each document can then be entered. The user then clicks 'Browse' to locate the document they want to upload and then clicks 'Upload Document' to upload the document. The Portal accepts pdf documents up to 10mb. As the documents are being uploaded, a progress bar is displayed, and a status field lets the users know what the Portal is doing. The Document Portal will send an email to the Asset Manager and Upper-Tier Accountant for that Project with confirmation that the document was uploaded.

- Downloading documents: Once documents are uploaded, users can click on the documents in the 'Lower-Tier Documents' section to see the corresponding documents that are stored on the Portal. Once a document is selected, the 'Document Versions' area appears and displays a list of the document's versions. Users can click on individual versions to download a copy of that document. To download a document, right click on the name of document then select Copy from the drop down menu. Then paste the copy of the document wherever you want to save it on your own computer system.

- **Upper-Tier Group: Upload and View Documents**
  The page is divided into three sections. The upper 'Upper-Tier Documents' area displays the Projects and documents the users are allowed to work with. The lower 'New Document' area uploads documents to the Portal. The 'Document Versions' area appears when a document in selected in the 'Upper -Tier Documents' area.

- To add a document, users scroll down to the 'New Document' area and select what Fund and Document Type they are uploading for. They then pick either Draft or Final. The Document Portal recognizes **one 'Final' for each Document Type, so old 'Finals' are changed into 'Old Finals' whenever a 'Final' is** uploaded. A comment for each document can then be entered. The user then clicks 'Browse' to locate the document they want to upload and then clicks 'Upload Document' to upload the document. The Portal accepts pdf documents up to 10mb. As the documents are being uploaded, a progress bar is displayed, and a status field lets the users know what the Portal is doing.

Once documents are uploaded, users can click on the documents in the 'Upper -Tier Documents' section to see the corresponding documents that are stored on the Portal. Once a document is selected, the 'Document Versions' area appears and displays a list of the document's versions. Users can click on individual versions to download a copy of that document.

The Document Portal will send an email to the MHIC Finance department for that Fund with confirmation that the document was uploaded.

User Profile: Manage Individual User Account
Users use this page to change their password. Users enter their old Password, and then their new Password and the system will update their registered password.

If user's password is forgotten, the user can request a new password from the system. They enter their email address instead of log in, and the system will email them a new password. They can then change their password in the User Profile section after log in.

If you have questions or issues, please Scott Backman at backman@mhic.com (617) 850-1054 or Cameron Rockett at rockett@mhic.com (617) 850-1041.

Asset Management Department Contact List

Name	Title	Email	Phone
Scott Backman	Director of Asset Management	backman@mhic.com	(617) 850-1054
Melissa Chapman	Senior Asset Management Officer	chapman@mhic.com	(617) 850-1006
Kristen C. Duffy	Senior Asset Management Officer	duffy@mhic.com	(617) 850-1026
David A. Mastroianni	Senior Asset Management Officer	mastroianni@mhic.com	(617) 850-1058
Henry A. Terrones	Asset Management Officer	terrones@mhic.com	(617) 850-1050
Cameron Rockett	Asset Management Analyst	rockett@mhic.com	(617)-850-1041

HELPFUL ACRONYMS

ADA	Americans with Disabilities Act
AFR	Applicable Federal Rate
AHT	Affordable Housing Trust
AUL	Activity & Use Limitation (form 1075)
AUR	Available Unit Rule
BIN	Building Identification Number
BOY	Beginning of Year
CDBG	Community Development Block Grant
CEDAC	Community Economic Development Assistance Corp.
CHDO	Community Housing Development Organization
CY	Current Year
DHCD	Department of Housing & Community Development
DND	Department of Neighborhood Development (Boston)
EOCD	Executive Office of Community Development (Now DHCD)
EOY	End of Year
FASB	Financial Accounting Standards Board
FMR	Fair Market Rent
FNMA	Federal National Mortgage Association (FANNIE MAE)
FREDDIE MAC	Federal Home Loan Mortgage Corp.
GAAP	Generally Accepted Accounting Principles
GAFC	Group Adult Foster Care
HAP	Housing Assistance Payment (HUD Section 8 program)
HFA	Housing Finance Agency
HH	High HOME
HIF	Housing Innovation Funds
HOME	Housing Development & Loan Program
HQS	Housing Quality Standards
HSF	Housing Stabilization Fund
HUD	Department of Housing and Urban Development
LH	Low HOME
LIHTC	Low Income Housing Tax Credit
LISC	Local Initiative Support Corp.
LURA	Land Use Restriction Agreement
MDFA	Mass. Development Finance Agency
MEFA	Mass. Health & Educational Facilities Agency
MHFA	Mass Housing (formerly Mass. Housing Finance Agency)
MHP	Massachusetts Housing Partnership
MRVP	Massachusetts Rental Voucher Program
MSA	Minimum Set Aside
MSA/PMSA	Metropolitan Statistical Area/Primary Metropolitan Statistical Area
NMTC	New Markets Tax Credit Program
PBA	Project Based Assistance
PHA	Public Housing Authority
PJ	Participating Jurisdiction
PY	Prior Year
QBTS	Qualified Basis Tracking Sheet
QCT	Qualified Census Tract
RA	Reasonable Accommodations
RFP	Request for Proposal
SAS	Statement on Auditing Standards
SRO	Single Room Occupancy
SSI	Supplemental Security Income
TANF	Temporary Aid to Needy Families
T CAP	Tax Credit Assistance Program
TCEX	Tax Credit Exchange Program
TIC	Tenant Income Certification
8609	(IRS Form) LIHTC Allocation Certification
8611	(IRS Form) LIHTC Agencies Report of Recapture of Low-Income Housing Credit
8823	(IRS Form) LIHTC Agencies Report of Noncompliance or Building Disposition

Low Income Housing Tax Credit (LIHTC) Developments by Fund

MHEF XI LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XI	20-2095810
Project Name	Asset Manager
Brunswick-Holborn II LP	Henry Terrones
Columbia Wood Two LP	Henry Terrones
MHEF XII LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XII	20-4394414
Project Name	Asset Manager
Dudley Village North	Henry Terrones
The TILL Building	Kristen Duffy

MHEF XIII LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XIII	20-8456119
Project Name	Asset Manager
Asher's Path	Henry Terrones
Irving Square	Melissa Chapman
Bridle Path	Henry Terrones
Church Street School	David Mastroianni

MHEF XIV	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XIV	26-1392968
Project Name	Asset Manager
Church Street School	David Mastroianni
Schoolhouse Brookledge Cummins	Melissa Chapman
Lithgow Apartments	Kristen Duffy
Canal Bluffs	Henry Terrones
Sanford Apartments	Melissa Chapman
West Barnstable Communities	Henry Terrones

MHEF XVI	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XVI	26-4151691
Project Name	Asset Manager
Fairways at LeBaron Hills	Melissa Chapman
Schoolhouse Kenilworth Williams	Melissa Chapman

MHEF XVII LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number – MHEF XVII	27-0401645
Project Name	Asset Manager
ACDC Fort Street	Henry Terrones
Bloomfield Gardens	Henry Terrones
Shillman House	Scott Backman
Steven's Corner	Melissa Chapman
MHEF XVIII LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XVIII	27-3330543
Project Name	Asset Manager
Cromwell Court Apartments	David Mastroianni
Kilby Gardner Hammond	Kristen Duffy
Sitkowski School	Melissa Chapman
UE Apartments	Kristen Duffy
Unity Place	Melissa Chapman
Whitney Building	Henry Terrones
Winter Gardens (Quincy)	Henry Terrones
MHEF XIX LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number – MHEF XIX	45-3855997
Project Name	Asset Manager
Austin Corridor II	Kristen Duffy
Franklin Sq. House	David Mastroianni
LBB Apartments	Kristen Duffy
LCW 108 Newbury St.	Scott Backman
Olympia Oaks	David Mastroianni
Peter's Grove	David Mastroianni
Station Lofts	Melissa Chapman

MHEF XX LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number	46-1506561
Project Name	Asset Manager
Sitkowski School	Melissa Chapman
Cross Town LLC	Cameron Rockett
Kenmore Abbey	David Mastroianni
Edmands House	Henry Terrones
Tremont Village	Henry Terrones
Founder's Court	David Mastroianni
Olympia Oaks	David Mastroianni
MHEF XXI LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number	46-5013460
Project Name	Asset Manager
Putnam Square	Kristen Duffy
Haverhill Veteran's Housing	Melissa Chapman
Bishop Allen Apartments	Kristen Duffy
Commonwealth & Glenville	Kristen Duffy
Cortes Street II	Cameron Rockett
TND Homes I	Henry Terrones
Kenwyn-Quadrangle	David Mastroianni
Cranberry-Carpenter	Cameron Rockett
MHIC-WF I LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number	47-1958715
Project Name	Asset Manager
Mandela Preservation LLC	David Mastroianni
MHIC-WF II LLC	
Upper tier accountant	Daniel Dennis & Comp.
Tax ID Number	47-4550254
Project Name	Asset Manager
Cottage Brook	Henry Terrones

MHEF East Boston Savings Bank Fund I	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number	81-3523904
Project Name	Asset Manager
Coppersmith Village	Melissa Chapman
Olmsted Green	Henry Terrones

MHEF XXVI LLC	
Upper tier accountant	Daniel Dennis & Company
Tax ID Number – MHEF XXVI	84-4497695
Project Name	Asset Manager
92 Grand St.	Kristen Duffy
191 – 195 Bowdoin St	Henry Terrones
BC Baystate Place	David Mastroianni
Haywood House	Kristen Duffy
Sanderson Place	Henry Terrones
Worcester Courthouse Loft	Henry Terrones
Yarmouth Gardens	Scott Backman

MHEF XXII LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number - MHEF XXII	47-3226055
Project Name	Asset Manager
Auburn Court I	Kristen Duffy
Briston Arms	David Mastroianni
Chestnut Crossing	Cameron Rockett
Coppersmith Village	Melissa Chapman
Lenox School House	Melissa Chapman
Live 155	David Mastroianni
Lyman School	Cameron Rockett
Mass Mills III	Henry Terrones
Nuestra Casas	Kristen Duffy
Tribune Apartments	David Mastroianni
Quincy Tower	David Mastroianni
Port Landing	Melissa Chapman
MHEF XXIII	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XXIII	81-3313135
Project Name	Asset Manager
Quincy Tower	David Mastroianni
St. James Commons	Henry Terrones
Walker Park	Kristen Duffy
Abby's House	Kristen Duffy
98 Essex St.	Melissa Chapman
Burbank Gardens	Henry Terrones
E. Henry Twiggs	Cameron Rockett
Blanchard School	Henry Terrones
MHEF XXIV	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number – MHEF XXIV	82-2981358
Project Name	Asset Manager
Bedford Village	David Mastroianni
Carter School	Henry Terrones
Chestnut Crossing	Cameron Rockett
Granite Lena Park Apartment	Melissa Chapman
Library Commons	David Mastroianni
MacArthur Terrace	Kristen Duffy
Moseley School	Melissa Chapman
Sergeant House	Kristen Duffy
MHEF XXV LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number – MHEF XXV	83-3239593
Project Name	Asset Manager
270 Huntington Avenue	Scott Backman
S.C. Hamilton	Henry Terrones
Dudley Terrace DBEDC	Henry Terrones
Glen Brook Way Phase I	Kristen Duffy
Granite Lena Park Apts	Melissa Chapman
Worcester Courthouse Loft	Henry Terrones
Yarmouth Gardens	Scott Backman

MHEF 481 Corp. Fund	
Upper tier accountant	Cohn Reznick
Tax ID Number	26-4151535
Project Name	Asset Manager
Cady Brook Apartments	David Mastroianni
Acre High School	Melissa Chapman
Cumberland Homes	David Mastroianni
Fairways at LeBaron Hills	Melissa Chapman
Putnam Place	Kristen Duffy
Union Crossing Residential	Scott Backman

MHEF 481 Corp Fund II	
Upper tier accountant	Cohn Reznick
Tax ID Number	45-2602388
Project Name	Asset Manager
BC Conway Court	David Mastroianni
BC Jaclen Tower	David Mastroianni
BC Summerhill Glenn	David Mastroianni
BC Wilkins Glen	David Mastroianni
Pilot Grove	Henry Terrones
Central Annex	David Mastroianni
225 Centre Street LIHTC	Scott Backman
Old Middletown High Apts.	David Mastroianni

MHEF 481 Corp Fund III	
Upper tier accountant	Cohn Reznick
Tax ID Number	82-2554987
Project Name	Asset Manager
Central Building	Kristen Duffy
Concord Highlands	Kristen Duffy
Washington Westminster	Kristen Duffy

MHEF Eastern Fund I LLC	
Upper tier accountant	Daniel Dennis & Company
Tax ID Number	47-4807121
Project Name	Asset Manager
98 Essex Street	Melissa Chapman
Harborlight House Re-Syndication	Melissa Chapman

MHEF Eastern Fund II LLC	
Upper tier accountant	Daniel Dennis & Company
Tax ID Number	84-4743529
Project Name	Asset Manager
Whittier 2 Preservation Assoc. LP	Kristen Duffy

Citizens-MHEF Highland Glen Investor LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number	82-1882942
Project Name	Asset Manager
Highland Glen	David Mastroianni

Citizens - MHEF Equity Fund II LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number	85-2840096
Project Name	Asset Manager
Holtzer Park	Kristen Duffy

MHEF XXVII LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number MHEF XXVII	86-1348414
Project Name	Asset Manager
BC Baystate Place	David Mastroianni
Copley Gardens	Henry Terrones
Leyland Street Senior Housing	Kristen Duffy
McElwain School Apartments	Melissa Chapman
Roadway Apartments	Kristen Duffy
Windrush Commons	David Mastroianni

Cambridge Savings Bank	
Capital Sq. Arlington	Melissa Chapman
St. Joseph's Hall	Kristen Duffy
Chapman Arms	Kristen Duffy
Brighton Allston Apts.	Kristen Duffy
Old High School Commons	Henry Terrones
Elm Place	Henry Terrones
Central House	Cameron Rockett
Franklin Square House	David Mastroianni

MHEF PB Fund I	
Upper tier accountant	Cohn Reznick
Tax ID Number	82-3351743
Project Name	Asset Manager
E. Henry Twiggs	Cameron Rockett
Library Commons	David Mastroianni

Institution for Savings	
Project Name	Asset Manager
Turtle Creek Housing	Melissa Chapman
Holcroft Park Homes I	Melissa Chapman
Holcroft Park Homes II	Melissa Chapman
Turtle Creek	Melissa Chapman
Salem Point Apartments	Melissa Chapman
Boston Street Crossing	Melissa Chapman
Cabot Housing	Melissa Chapman

Brookline Bank	
Project Name	Asset Manager
Central House	Cameron Rockett
Elm Place	Kristen Duffy
Capital Sq. Arlington	Melissa Chapman
2Life Shillman House	Scott Backman
Franklin Square House	David Mastroianni
Kenmore Abbey	David Mastroianni
Bishop Allen Apartments	Henry Terrones
Brighton Allston Apts.	Kristen Duffy

Enterprise Bank	
Project Name	Asset Manager
Old High School Commons	Henry Terrones

MHEF PUB Fund I LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number	47-5442484
Project Name	Asset Manager
Billings Forge	David Mastroianni

MHEF Boston Private Fund I	
Upper tier accountant	Daniel Dennis & Company
Tax ID Number	84-4725241
Project Name	Asset Manager
Whittier 2 Preservation	Kristen Duffy

Rockland MHEF Fund LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number	45-1495639
Project Name	Asset Manager
Cromwell Court	David Mastroianni

RTC LIHTC Investments LLC	
Upper tier accountant	
Tax ID Number	04-1083467
Project Name	Asset Manager
Commonwealth and Glenville	Kristen Duffy
Olmstead Green	Kristen Duffy

MHEF Eastern Fund IV LLC	
Upper tier accountant	Daniel Dennis & Company
Tax ID Number	88-4099524
Project Name	Asset Manager
Island Parkside Phase 2	Scott Backman

MHEF Rockland Fund II LLC	
Upper tier accountant	Daniel Dennis & Company
Tax ID Number	88-1372276
Project Name	Asset Manager
Broad Street Housing	Kristen Duffy

MHEF XXVIII LLC	
Upper Tier Accountant	Daniel Dennis & Co.
Tax ID Number	88-1278806
Project Name	Asset Manager
East Gables	Kristen Duffy
Edith Johnson Tower	David Mastroianni
Voces De Esperanza 2	Henry Terrones
Sussman House Apartments	Kristen Duffy
Agawam Village	Melissa Chapman
Fitchburg Arts Community	Henry Terrones
Van Der Heyden	David Mastroianni

Middlesex Savings Bank	
Project Name	Asset Manager
Bedford Village & 447 Concord	Henry Terrones
Old High School Commons	Henry Terrones

MHEF Eastern Fund III LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number	85-1660937
Project Name	Asset Manager
Parcel 25 Phase 2	David Mastroianni

MHEF Citizens Equity Fund LLC	
Upper tier accountant	Cohn Reznick
Tax ID Number	46-3790280
Project Name	Asset Manager
Grace Church	David Mastroianni
Jackson Commons	Kristen Duffy

Avidia Bank	
Upper tier accountant	
Tax ID Number	04-3395834
Project Name	Asset Manager
Carter School	Henry Terrones
Peters Grove	David Mastroianni
Whitney Building	Henry Terrones

MHEF Boston Private Fund II LLC	
Upper tier accountant	Daniel Dennis & Co.
Tax ID Number	85-1631848
Project Name	Asset Manager
Parcel 25 Phase 2	David Mastroianni

MHEF SVB Fund I LLC	
Upper tier accountant	Daniel Dennis & Co
Tax ID Number	87-4071300
Project Name	Asset Manager
1599 Columbus Ave	Kristen Duffy
25 Sixth Street	Kristen Duffy
Simon C. Fireman Expansion	Kristen Duffy

<table>
<tr><th colspan="2">UPPER TIER ACCOUNTANTS</th></tr>
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</table>

Balance Sheet Information
See preferred Balance Sheet Statement format. (Attached)
Note: ***When prior year numbers are available, accountant must present in comparison format.***

Income and Expense Statement
See preferred Income and Expense Statement format. (Attached)
Note: ***When prior year numbers are available, accountant must present in comparison format.***

Statement of Cash Flows (see example)

Audited Financial Statements- Notes
Provide a separate reconciliation of financial statement income to taxable income if it is not already included in the notes to the financial statements. (See example)

****** IMPORTANT ******

- ***Include terms of all outstanding debt principal, year-end balance, total accrued interest and expense interest amounts and list in priority.***
- ***Note reserve amounts separately including where held and the type of reserve account. Note whether Operating reserve balance satisfies the minimum balance required by the Partnership/Operating Agreement. If operating reserve is underfunded per the partnership/ operating agreement, provide the shortfall amount).***
- ***Please ask if you have questions.***
- ***Note any and all related party transactions and include general project information such as: number of LIHTC units, date tax credits began, deficit guaranty etc. (see example)***

Statement of Partners' Equity
Identify MHEF partnership equity separately

Management Letter or AU-C sec 265 Letter
Please provide MHIC with audit management letter or AU-C sec 265 letter, if applicable.

SAMPLE
Independent Auditors' Report

To the Partners of
ABC Limited Partnership

Opinion

We have audited the financial statements of ABC Limited Partnership (the Partnership) which comprise the balance sheets as of December 31, 20XX and 20YY, and the related statements of operations, changes in partners' equity (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 20XX and 20YY, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Partnership and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has adopted ASU No. XXXX-XX, *[Name of new ASU]*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Partnership's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Partnership's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Supplemental Data

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *[identify accompanying supplementary information]* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

City, State
Date

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)

Balance Sheets

As of December 31, 20XX and 20YY

Current Assets		20XX		20YY
Cash and cash equivalents	$		$	
Tenant accounts receivable				
Other accounts receivable				
Other prepaid expenses				
Total current assets		-		-
Tenant Security Deposits				
Tenant security deposits				
Restricted Deposits and Funded Reserves				
Replacement reserve				
Real estate tax and insurance escrow				
Operating deficit reserve				
Other reserves				
Total restricted deposits and funded reserves		-		-
Fixed Assets				
Land				
Building				
Furnishings				
Total fixed assets		-		-
Less: accumulated depreciation				
Total net fixed assets		-		-
Other Assets				
Tax credit monitoring fees, net accumulated amortization $XX				
Total other assets		-		-
Total long-term assets		-		-
Total Assets	$	-	$	-

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Balance Sheets - Continued

As of December 31, 20XX and 20YY

Current Liabilities	20XX	20YY
Current maturities of long-term debt	$	$
Accounts payable		
Accrued management fees		
Accrued interest payable		
Accrued real estate taxes		
Miscellaneous accrued expenses		
Ground lease, current portion		
Prepaid rent		
Total current liabilities	-	-
Tenant Security Deposits		
Tenant security deposits - liability		
Long-Term Liabilities		
Mortgage payable, net of current maturities Less unamortized deferred financing costs		
Due to general partner		
Due to related parties		
Development fee payable		
Ground lease, net of current portion		
Asset management fee		
Incentive management fee		
Total long-term liabilities	-	-
Other Liabilities	-	-
Total liabilities	-	-
Partners' Equity		
Partners' equity		
Total Liabilities and Partners' Equity	$ -	$ -

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Statements of Operations

For the Years Ended December 31, 20XX and 20YY

		20XX		20YY
Gross Income				
Rental income				
Apartments	$		$	
Less vacancies				
		-		-
Commercial				
Less vacancies				
		-		-
Parking and other revenue				
Total rental income		-		-
Financial revenue				
Interest income				
Other revenue		-		-
Total financial revenue		-		-
Total gross income		-		-
Rental Operating Expenses				
Administrative		-		-
Management fee expense		-		-
Utilities		-		-
Operating and maintenance		-		-
Taxes and insurance		-		-
Interest on mortgage payable				
Other interest				
Depreciation and amortization				
Total rental operating expenses		-		-
Net Operating (Loss) Income		-		-
Entity Expenses				
Investor service fee				
Incentive management fee				
Asset management fee				
Partnership management fee				
Total entity expenses		-		-
Net (Loss) Income	$	-	$	-

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Statements of Changes in Partners' Equity

For the Years Ended December 31, 20XX and 20YY

	Managing General Partner	Special Limited Partner	Investor Limited Partner	Total
Partners' equity, December 31, 20WW	$ -	$ -	$ -	$ -
Capital contributions	-	-	-	-
Net income	-	-	-	-
Partners' equity, December 31, 20XX	-	-	-	-
Capital contributions				
Net income	-	-	-	-
Partners' equity, December 31, 20YY	$ -	$ -	$ -	$ -
Profit & loss percentages	0.01%	0.00%	99.99%	100%

Note: All limited partners must be identified and disclosed

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Statements of Cash Flows

For the Years Ended December 31, 20XX and 20YY

Cash Flows from Operating Activities	20XX	20YY
Net (Loss) Income	$ -	$ -
Adjustments to reconcile net loss to net cash provided		
by operating activities:		
Depreciation		-
Amortization of financing fees charged as interest expense		
Decrease (increase) in assets		
Tenant accounts receivable		
Accounts receivable - other		
Prepaid property insurance		
Other prepaid expenses		
Tenant security deposits - asset		
Increase (decrease) in liabilities		
Accounts payable		
Government overage payable		
Accrued management fees		
Accrued interest payable		
Accrued real estate taxes		
Miscellaneous accrued expenses		
Prepaid rent		
Tenant security deposits - liability		
Net Cash (Used in) Provided by Operating Activities	-	-
Cash Flows from Investing Activities		
Purchase of fixed assets		
Proceeds from sale of fixed assets		
Net Cash (Used in) Provided by Investing Activities	-	-

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Statements of Cash Flows-Continued

For the Years Ended December 31, 20XX and 20YY

Cash Flows from Financing Activities		
Proceeds from loans from general partners		
Mortgage proceeds		
Loan proceeds from related parties		
Loan repayments to related parties		
Principal payments on mortgage		
Capital contributions		
Partners' distributions		
Net Cash (Used in) Provided by Financing Activities	-	-
Net (Decrease) Increase in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents and Restricted Cash - Beginning	-	
Cash and Cash Equivalents and Restricted Cash - Ending	$ -	$ -
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Balance Sheet:		
Cash and Cash Equivalents	$	$
Restricted Cash		
Total Cash, Cash Equivalents and Restricted Cash Shown in the Balance Sheet	$	$
Supplement Disclosure of Cash Flow Information		
Cash paid during the year for interest	$	$

<u>Non-Cash Investing and Financing Activities:</u> See Note X

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by ABC Limited Partnership (the Partnership) in the preparation of the financial statements:

(a) Nature of Operations

ABC Limited Partnership is a Massachusetts limited partnership formed to acquire, rehabilitate, own, maintain and operate XXX units (the Project) of low and moderate income housing located in CITY, Massachusetts. The Partnership acquired the Project for the purpose of rehabilitating it in order to receive an allocation of Low Income Housing Tax Credits under Section 42 of the Internal Revenue Code.

The Partnership operates under a Regulatory Agreement with AGENCY OR AGENCIES, which governs rental charges and operating methods.

Each building of the Project has qualified and been allocated Low Income Housing Tax Credits pursuant to Internal Revenue Code Section 42, which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provisions of these regulations during each of fifteen consecutive years in order to continue to qualify to receive the Low Income Housing Tax Credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken Low Income Housing Tax Credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the limited partners.

The Partnership has received a reservation of LIHTC, under Section 42 of the Internal Revenue Code, in the annual amount of $XXXXX for ten years from the XXXXX. The credits commenced in XXXX and end in XXXX.

(b) Organization

The Partnership consists of one general partner, ABC, LLC, with a .01% share, one investor limited partner, XYZ, LLC, with a 99.98% share and one special limited partner, SLP, Inc., with a .01% tax credit interest in the Partnership and may inherit the title as general partner under bankruptcy or other complications. Except as otherwise specified in the partnership agreement, all items of income, expense, gain, loss, tax credits, tax preferences and cash are allocated to the partners based on those percentages.

(c) Rental Income

The Partnership receives rental income from apartments, which are reserved for people with low, very low and extremely low income. Rental income is recognized as the rentals become due. Rental payments received in advance are deferred until earned. All leases between the Company and the tenants of the Property are operating leases.

(c) Reclassification

Certain amounts in the 20XX financial statements have been reclassified to conform to the 20YY presentation.

(d) Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

(e) Capitalization and Depreciation

Land, building, furniture, fixtures and improvements are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the Statements of Operations.

The Partnership computes depreciation using the straight-line method over the following estimated lives:

Building and improvements	XX years

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 20XX or 20YY.

(1) Summary of Significant Accounting Policies

(f) Amortization

Deferring financing costs relating to the permanent loan are amortized over the term of the loan using the effective yield method, as required by the accounting principles generally accepted in the United States of America. Unamortized deferred financing costs are presented as a deduction from the carrying value of the mortgage note payable. Amortization expense on deferred financing costs has been included in interest expense on the statement of operations.

Tax credit fees are amortized over the 15-year Low Income Tax Credit Compliance period, using the straight-line method. For the years ended December 31, 20XX and 20YY, amortization expense was $XXXX. As of December 31, 20XX and 20YY, accumulated amortization was $XXXX and $XXXX respectively. Estimated annual amortization of tax credit fees over each of the next five years through 202X is $XXXX.

(g) Advertising Costs

The Partnership expenses advertising costs when they are incurred. Advertising expense amounted to $XXXX and $XXXX for the years ended December 31, 20XX and 20YY, respectively. (OR - Advertising expense was immaterial for the years ended December 31, 20XX and 20YY)

(h) Income Taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure. Income tax returns filed by the Partnership are subject to exanimation by the Internal Revenue Service for a period of three years.

(i) Cash and Cash Equivalents and Restricted Deposits and Funded Reserves

The Partnership considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Partnership maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are secured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Partnership has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances as of December 31, 20XX and 20YY.

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)

Notes to Financial Statements

December 31, 20XX and 20YY

(1) Summary of Significant Accounting Policies

[OR – IF SIGNIFICANT CONCENTRATION OF CREDIT RISK EXISTS]:
The Partnership maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are secured by the Federal Deposit Insurance Corporation (FDIC). Cash and deposit balances maintained with ABC Bank and XYZ Bank amounted to $XXX and $XXX, respectively, as of December 31, 20XX. Cash and deposit balances maintained with ABC Bank and XYZ Bank amounted to $XXX and $XXX, respectively as of December 31, 20YY. The Partnership did not maintain cash balances in excess of FDIC limits in any other financial institution as of December 31, 20XX and 20YY.

(j) Accounting Estimates

In preparing the Partnership's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Accounts Receivable

The Partnership carries its accounts receivable from tenants at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Partnership evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. As of December 31, 20XX and 20YY, respectively, management has determined that any allowance would be immaterial.

OR

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

(l) Distributions

The payment of any compensation or distributions of income or other assets to any of its officers, directors or partners is approved by AGENCY in accordance with the Partnership's Regulatory Agreement. Allowable distributions are calculated by AGENCY based upon its computation of the Project's surplus cash position. During the years ended December 31, 20XX and 20YY, respectively, there were no distributions made.

(m) Below Market Loans

Section 42 of the Internal Revenue Code governs the administration of Low Income Housing Tax Credits (LIHTC), a tax incentive created to foster a legislated public policy directive of the United States to create low income housing. The Partnership was formed in order to create low income housing in order to generate LIHTC. Other governmental entities, having a similar agenda to foster low income housing, have lent money to the Partnership at advantageous terms. The Partnership has not discounted these below market loans as they were made at arm's length and to preserve the integrity of costs eligible for tax credit under Section 42.

(n) Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance in *Topic 840, Leases*. The FASB subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842;* ASU 2018-10, *Codification Improvements to Topic 842, Leases;* ASU 2018-11, *Leases (Topic 842): Targeted Improvements;* ASU 2018-20, *Narrow-scope Improvements for Lessors;* and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-to-use (ROU) assets and lease liabilities on the balance sheet for operating leases.

The Partnership adopted the leasing standards effective January 1, 2023, using the modified retrospective approach with January 1, 2023 as the initial date of application. The Partnership elected to use all available practical expedients provided in the transition guidance. These allowed the Partnership to not reassess the identification, classification and initial direct costs of lessor agreements and to use hindsight in lessee and lessor agreements for determining lease term and right-of-use asset impairment. As of January 1, 2023, adoption of Topic 842 did not result in any change to beginning partners' equity or any material adjustments to balance sheet accounts related to lessor accounting, but it did result in an increase in operating lease ROU assets of $xx,xxx, an increase in current and long-term lease liabilities of $xx,xxx and $xx,xxx, respectively, related to lessee accounting.

(1) Summary of Significant Accounting Policies - continued

[***The below fair value measurements notes should be disclosed for financial instruments evaluated on a recurring basis and a non-recurring basis. If the partnership has non-recurring fair value measurements, it should be broken into two notes, one for recurring assessments and one for non-recurring assessments]***

p) Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

<u>Recurring Fair Value Measurements</u>
U.S. GAAP requires that certain assets and liabilities be recorded at fair value on a recurring basis. The Partnership had no assets and liabilities that were recognized or disclosed at fair value on a recurring basis under the above fair value hierarchy as of December 31, 20XX and 20YY.

***Note: Although disclosure of transfers for Level 1 and Level 2 are no longer required, the amounts of any transfers into or out of Level 3 and the reasons for such transfers is required to be disclosed. (Transfers into Level 3 should be disclosed and discussed separately from transfers out of Level 3.)**

OR

<u>Recurring Fair Value Measurements</u>
In accordance with U.S. GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Partnership's assets that are adjusted to fair value on a recurring basis are investments in equity and debt securities classified as trading. The Partnership currently has no liabilities that are adjusted to fair value on a recurring basis.

***Note: Although disclosure of transfers for Level 1 and Level 2 are no longer required, the amounts of any transfers into or out of Level 3 and the reasons for such transfers is required to be disclosed. (Transfers into Level 3 should be disclosed and discussed separately from transfers out of Level 3.)**

(1) Summary of Significant Accounting Policies - continued

(p) Fair Value Measurements - Continued

The following tables present the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of December 31, 20XX and December 31, 20YY.

	Fair Value Measurements on a Recurring Basis as of December 31, 20XX			
	Level 1	Level 2	Level 3	Total
Investments	$ 950,000	$ -	$ -	$ 950,000
	$ 950,000	$ -	$ -	$ 950,000

	Fair Value Measurements on a Recurring Basis as of December 31, 20YY			
	Level 1	Level 2	Level 3	Total
Investments	$ 950,000	$ -	$ -	$ 950,000
	$ 950,000	$ -	$ -	$ 950,000

<u>*Nonrecurring Fair Value Measurements*</u>
In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Partnership records assets and liabilities at fair value on a nonrecurring basis as required by U.S. GAAP. The Partnership had no assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 20XX and 20YY. OR The following table presents the fair value hierarchy for those assets [and liabilities] measured at fair value on a nonrecurring basis as of December 31, 20XX.

	Fair Value Measurements on a Nonrecurring Basis			
	Level 1	Level 2	Level 3	Total
Long-lived assets held and used	$ -	$ 50,000	$ -	$ 50,000
Goodwill	-	25,000	-	25,000
	$ -	$ 75,000	$ 20,000	$ 95,000

[If comparative – add same schedule and data for 20YY

(2) Partners' Capital Contributions

In accordance with the partnership agreement, the investor limited partner has agreed to make capital contributions of $XXXXX, payable in seven installments. As of December 31, 20XX, the investor limited partner has made seven installments totaling $XXXX. The capital contributions are based on certain assumptions, including the objective of achieving an Internal Rate of Return of 7.25%, and may be adjusted for changes in the performance of the Project and the delivery of tax credits affecting the Internal Rate of Return, except that no adjustment will be made for delivery of LIHTC, per agreement with the investment partner to hold the Partnership harmless.

The partnership has two general partners, NAME and NAME. As of December 31, 20XX and 20YY, each general partner have made capital contributions of $XXXX.

(3) Restricted Deposits and Funded Reserves

(a) Mortgage Escrow Deposits - Taxes and Insurance

The Partnership has a tax and insurance escrow account which is required by the AGENCY/ mortgage agreement. The Partnership is required to make periodic payments to the escrow account and make all payments for taxes and insurance payments with disbursements from this account. Funds are held by BANK/AGENCY. During 20XX and 20YY, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 20XX and 20YY, respectively. During 20XX and 20YY, the account paid bank fees of $XX and $XX, respectively. As of December 31, 20XX and 20YY, the balance was $XXXX and $XXXX, respectively.

(b) Working Capital / Equity Escrow

The Partnership has a Working Capital / Equity Escrow account as required by the AGENCY Regulatory Agreement. The escrow funds are held by AGENCY and can only be drawn upon with permission of AGENCY. The funds can only be used in accordance with the Good Faith and Working Capital Escrow and Disbursement Agreement. During 20XX and 20YY, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 20XX and 20YY, respectively. During 20XX and 20YY, the account paid bank fees of $XX and $XX, respectively. As of December 31, 20XX and 20YY, the balance was $XXXX and $XXXX, respectively.

(3) Restricted Deposits and Funded Reserves - continued

(c) Replacement Reserve

In accordance with the AGENCY Regulatory Agreement, the Partnership is required to maintain a reserve for significant repairs and replacements. The reserve funds are held by AGENCY/Financial Institution and can only be drawn upon with permission of AGENCY. During 20XX and 20YY, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 20XX and 20YY, respectively. During 20XX and 20YY, the account paid bank fees of $XX and $XX, respectively. As of December 31, 20XX and 20YY, the balance was $XXXX and $XXXX, respectively. Deposits were made in accordance with the Partnership Agreement (OR state shortfall amount).

(d) Operating Reserve

In accordance with the AGENCY/Financial Institution Regulatory Agreement, the Partnership is required to maintain a reserve for operating short falls. The reserve funds are held by AGENCY/Financial Institution and can only be drawn upon with permission of AGENCY. During 20XX and 20YY, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 20XX and 20YY, respectively. During 20XX and 20YY, the account paid bank fees of $XX and $XX, respectively. As of December 31, 20XX and 20YY, the balance was $XXXX and $XXXX, respectively. **Operating reserve balance satisfies the minimum balance required by the Partnership/Operating Agreement (or if operating reserve is underfunded per the partnership/operating agreement, provide the shortfall amount).**

(e) Residual Receipts

In accordance with the AGENCY/Financial Institution Regulatory Agreement, any “surplus cash”, after distributions permitted by the Regulatory Agreement, shall be considered Residual Receipts and shall be deposited into escrow. The escrow funds are held by AGENCY and can only be drawn upon with permission of AGENCY. During 20XX and 20YY, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 20XX and 20YY, respectively. During 20XX and 20YY, the account paid bank fees of $XX and $XX, respectively. As of December 31, 20XX and 20YY, the balance was $XXXX and $XXXX, respectively.

(4) Long-term Debt

(a) First Mortgage

The first AGENCY/Financial Institution mortgage note is payable in monthly installments of $XXX with an effective interest of X.X% and a stated interest rate of X.X%. Final payment is due July 2042. The apartment complex is pledged as collateral for the mortgage. For the years ended December 31, 20XX and 20YY, interest expense totaled $XXXX and $XXXX, respectively. The accrued interest balance at December 31, 20XX and 20YY amounted to $XXXX and $XXXX, respectively. The principal balance at December 31, 20XX and 20YY amounted to $XXXX and $XXXX, respectively.

As of December 31, 20XX and 20YY, the outstanding principal balance of the mortgage payable less unamortized deferred financing costs was $XXXX and $XXXX, respectively. As of December 31, 20XX and 20YY, unamortized deferred financing costs of $XXXX and $XXXX, respectively, consist of financing costs of $XXXX less accumulated amortization of $XXXX and $XXXX, respectively. The effective interest rate is approximately XX% over the life of the loan. During the year ended December 31, 20XX and 20YY, amortization expense incurred was $XXXX and $XXXX, respectively, and was included in interest on first mortgage payable in the statements of operations.

(b) Second Mortgage

The second AGENCY mortgage note is payable in monthly installments of $XXX with an effective interest of X.X% and a stated interest rate of X.X%. Final payment is due July 2042. The apartment complex is pledged as collateral for the mortgage. For the years ended December 31, 20XX and 20YY, interest expense totaled $XXXX and $XXXX, respectively. The accrued interest balance at December 31, 20XX and 20YY amounted to $XXXX and $XXXX, respectively. The principal balance at December 31, 20XX and 20YY amounted to $XXXX and $XXXX, respectively.

(c) Development and Acquisition Fees

The Partnership has a Development Agreement with an affiliate of the General Partner for services performed during the rehabilitation of the Project. The development and acquisition fee of $XXXX is included in the basis of the building at December 31, 20XX and 20YY. Development and acquisition fees are payable as follows; $XXXX is paid from capital contributions while $XXXX is deferred and paid in accordance with the Partnership Agreement. For the years ended December 31, 20XX and 20YY, interest expense totaled $XXXX and $XXXX, respectively. The accrued interest balance at December 31, 20XX and 20YY amounted to $XXXX and $XXXX, respectively. As of December 31, 20XX and 20YY, the amount of development and acquisition fees to be paid was $XXXX and $XXXX, respectively.

(4) Long-term Debt - continued

The following are the minimum required principal payments on the mortgages:

Year Ended	
20XX	$ XXXXX
20XX +1	XXXXX
20XX +2	XXXXX
20XX +3	XXXXX
20XX +4	XXXXX
Thereafter	XXXXX
Total	**XXXXX**
Less current portion	**XXXXX**
Long term portion	**XXXXX**

(d) Debt Issuance Costs

Debt issuance costs of $XX,000 have been recorded as a reduction of the carrying value of the related debt and are being amortized and recorded as interest expense using the effective interest method. The effective interest rate on the loan approximates X%. For the years ended December 31, 2017 and 2016 amortization included in interest expense totaled $XXX and $XXX, respectively. Accumulated amortization at December 31, 20XX and 20YY was $XXX and $XXX, respectively.

(5) Transactions with Affiliates and Related Parties

(a) Asset Management Fee

An asset management fee of $XXXX was incurred in the years ended December 31, 20XX and 20YY to a company whose ownership is common to the limited partner for services to be rendered in reporting to the investor limited partners. The investment limited partner holds a 99.98% interest in the Partnership. Asset management fees of $XXXX were outstanding as of December 31, 20XX and 20YY. Please note whether fee is allowed to accrue or is payable only to the extent of cash flow.

(b) Supervisory Management Fee

The Partnership shall pay to the General Partner, yearly, a non-cumulative, supervisory management fee from available cash flow as determined by the Partnership Agreement. The Partnership incurred no supervisory management fees during the years ended December 31, 20XX or 20YY.

(5) Transactions with Affiliates and Related Parties - continued

(c) Investor Service Fee

The Partnership shall pay to NAME, an affiliate of the investor limited partner, yearly, a fee for services rendered in reporting to the investor limited partner. Investor service fees of $XXXX and $XXXX were incurred for the years ended December 31, 20XX or 20YY, respectively.

(d) Partnership Management Fee

The Partnership shall pay a non-cumulative, partnership management fee of $XXXX per year payable to the General Partner from available cash flow. The Partnership incurred no partnership management fees during the years ended December 31, 20XX or 20YY.

(e) Due From Affiliate

Due from affiliate represents non-interest bearing advances from the general partner for acquisition expenses. Advances due from the affiliate amounted to $XXXX and $XXXX at December 31, 20XX and 20YY, respectively.

(6) Distributions

Per the partnership agreement, to the extent of cash flows, the following are distribution priorities:

(a) Net Cash Flow is defined as the sum of gross revenues plus amounts properly withdrawn from the operating reserve and expended during such period, less the sum of project expenses, and debt service.
Net cash flow shall be applied prior to Distributable Net Cash Flow as set forth in the Partnership/ Operating Agreement (typically section 7.03)

(b) Distributable cash flow is defined in the partnership agreement as the sum of all cash receipts less cash disbursements for operating activities and replacement reserve funding, including the annual investor service fee.

Distributable cash flow is payable annually, .XX% to the general partner and XX.XX% to the limited partner.

Gain, if any, from a sale or exchange or other disposition of the property owned by the Partnership is allocable as follows:

(a) To all partners pro rata in proportion to and to the extent of their respective positive capital account balances.

(b) The remainder of such gain, if any, XX% to the limited partner and XX% to the general partner.

Loss, if any, from a sale or exchange or other disposition of the property is allocated .XX% to the general partner and XX.XX% to the limited partner.

During 20XX, $XXXXX was distributed to the partners.

Cash flow of $XXX is available for distribution based on 20XX operations.

(7) Statement of Cash Flows

[If not shown on the face of the statements of cash flows: The following table provides a reconciliation of cash, cash equivalents and restricted deposits and funded reserves reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows:

		2022		2021	
Cash and cash equivalents	$	-	$	202,664	
Restricted deposits and funded reserves		-		114,259	
Total cash, cash equivalents and restricted deposits and funded reserves shown in the statements of cash flows	$	0	$	316,923	See Note 3

for the detail of restricted deposits and funded reserves.

(8) Ground Lease

ABC owns the land upon which the Project is located. The Partnership (Tenant) has entered into a long term lease with ABC (Landlord) that terminates on December 31, 20XX. The base rent is $XXX,XXX. The Partnership has made base rental payments of $XXX and has financed the remainder of the base rent with ABC by way of a note for $XXX,XXX, bearing interest at XX%, compounded annually (see Note 5b). The present value of the ground lease has been capitalized and will be amortized over the life of the lease. Amortization expense for the ground lease amounted to $XXX for the years ended December 31, 20XX and 20YY, respectively.

(9) Obligations of the General Partner

The partnership agreement sets forth various obligations of the general partner as follows:

(a) Operating Deficits

The general partner will make additional capital contributions to fund operating deficits in excess of funds available in the operating reserve prior to the development obligation date, as defined in the partnership agreement. Subsequent to the development obligation date, any advances from the general partner to meet Project expenses are treated as Project expense loans and will bear no interest. Project expense loans will not exceed $XXX. As of December 31, 20XX and 20YY, no advances were made.

(b) Development Guaranty

The general partner guarantees to the Partnership and the investor limited partner the completion of the construction of the Project and guarantee of payment.

(11) Current Vulnerability Due to Certain Concentrations

The Partnership's sole asset is the XXX unit building located in CITY, Massachusetts. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, AGENCY/AGENCIES. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by or passed through the AGENCY/AGENCIES. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

(12) Commitments and Contingencies

The Partnership's LIHTC are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest.

(13)Subsequent Events

Subsequent Events [if no material subsequent events]

The Partnership has performed an evaluation of subsequent events through [audit report date], which is the date the Partnership's financial statements were available to be issued. No material subsequent events have occurred since December 31, 20XX that required recognition or disclosure in these financial statements.

Or

Subsequent Events

The Partnership has performed an evaluation of subsequent events through [audit report date], which is the date the Partnership's financial statements were available to be issued. No material subsequent events, other than the items disclosed below, have occurred since December 31, 20XX that required recognition or disclosure in these financial statements.

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Schedule of Other Revenues and Expenses

As of December 31, 20XXand 20YY

Other Revenue	20XX	20YY
Laundry and vending	$ -	$ -
NSF and late charges		
Damages and cleaning fees		
Other		
Total Other Revenue	**$ -**	**$ -**
Expenses		
Administrative Expenses		
Advertising	$ -	$ -
Other renting expenses		
Office salaries		
Office supplies		
Management fee		
Manager and superintendent salaries		
Legal expenses		
Audit and tax preparation fee		
Bookkeeping fees/accounting services		
Telephone and answering services		
Bad debts		
Miscellaneous		
Total Administrative Expenses	**$ -**	**$ -**
Operating and Maintenance		
Janitor and cleaning payroll, contracts and supplies	$ -	$ -
Superintendents salary		
Garbage and trash removal		
Security payroll, contracts and supplies		
Grounds contract		
Repairs payroll, contract and supplies		
Laundry expense		
Total Operating and Maintenance	**$ -**	**$ -**
Taxes and Insurance		
Real estate taxes	$ -	$ -
Payroll taxes		
Property and liability insurance		
Workman’s' compensation insurance		
Health insurance and other employee benefits		
Taxes - other		
Total Taxes and Insurance	**$ -**	**$ -**
Utilities Expense		
Electricity	$ -	$ -
Water		
Gas		
Sewer		
Total Utilities Expense	**$ -**	**$ -**

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Supplemental Schedule of Restricted Deposit and Funded Reserve Activity

	20XX	20XX
Mortgage Escrow Deposits - Taxes and Insurance		
Balance at beginning of year	$ -	$ -
Deposits	-	-
Interest	-	-
Withdrawals	-	-
Balance at end of year	$ -	$ -
Working Capital / Equity Escrow		
Balance at beginning of year	$ -	$ -
Deposits	-	-
Interest	-	-
Withdrawals	-	-
Balance at end of year	$ -	$ -
Replacement Reserve		
Balance at beginning of year	$ -	$ -
Deposits	-	-
Interest	-	-
Withdrawals	-	-
Balance at end of year	$ -	$ -
Operating Reserve		
Balance at beginning of year	$ -	$ -
Deposits	-	-
Interest	-	-
Withdrawals	-	-
Balance at end of year	$ -	$ -
Residual Receipts		
Balance at beginning of year	$ -	$ -
Deposits	-	-
Interest	-	-
Withdrawals	-	-
Balance at end of year	$ -	$ -

FINANCIAL STATEMENT REPORTING/ACCOUNTING ISSUES

- Material tenants accounts receivable
- Escrow/Reserve activity detail not reconciled to third party statements
- Land included with building
- Tax basis asset lives used for GAAP basis depreciation
- Financing Fees Amortization – effective interest method
- Construction payables included with accounts payable
- Accruals - real estate taxes, utilities, management fee, etc. not properly recorded
- Entity fees – calculation of incentive fees, asset management fees, investor service fees, etc. not performed and/or recorded
- Inclusion of entity expenses with operating expenses
- Development Fee/interest – non-accrual
- Soft Debt – non- accrual of interest
- Debt not reconciled to third party statements
- Failure to record non-cash activity
- Disclosure of Guarantee

TAB 2

EXHIBIT A

Work papers and other information should be prepared for review by your accountant. This information may also be requested by the upper tier auditor during his/her review of your draft statements/tax returns.

Work papers and other items **required** for **all first and second** year deals and may be requested by the upper tier accountant for review of the preliminary draft audited financial statements.

a. Working trial balance and financial statement grouping sheets.
b. Bank reconciliations and related statements and confirmations.
   If no confirmations, please document how tested.
c. Detail accounts receivable aging schedule including all A/R in excess of 90 days.
d. Mortgage escrows and replacement reserves. If no confirmations, please document how tested.
e. Fixed assets and fixed asset additions along with related depreciation (including calculations for asset impairment if applicable).
f. Deferred costs and related amortization.
g. Mortgage and loans payable along with related interest and confirmations.
   If no confirmations, please document how tested.
h. Partners equity showing changes in limited partner and general partner equity.
i. Revenue and expense analytical review.
j. Legal work papers and letter(s), if applicable
k. Management representation letter
l. Compliance testing work papers, if applicable.
m. Management letter or SAS 265 Letter, if any. **Required for all deals**

Work papers and other item should be completed for review with the preliminary draft federal and state tax returns.

a. Book to tax conversions. (See Exhibit C)
b. Fixed asset and depreciation schedule for MACRS, Alternative Minimum Tax (AMT) and ACE depreciation methods.
c. Classification of loans - Recourse/Non-recourse.
d. Annual State Agency Section 42 compliance monitoring form, if applicable.
e. Details of any special tax allocations (profit - loss - credits - liabilities).
f. Minimum gain analysis 704(b) identifying each non-recourse debt.
g. Copy of tax credit monitoring agency report, if applicable
h. Form 8823, if applicable

Important information required for first and second year deals.

a. Form 8609 executed by the state with part 2 section completed (first year elections) and form 8609-A.
b. Worksheet for 8609-A
c. Lease up/qualified occupancy schedule. (See example that follows)
d. Cost Certification
e. Form 8832 if General Partner/Managing member is required by operating agreement to elect to be classified as a corporation for tax purposes, and is required to make an election pursuant to Code Section 168(h)(6)(F)(ii) to not be treated as a "tax-exempt entity".

EXHIBIT B

NAME: XYZ Limited Partners
DATE:

BOOK TO TAX RECONCILIATION

			Partners' Equity (Deficit)	Net Income (Loss)
Per Financials			2,000,000	(1,600,000)
Prepaid Rent	BOY	(22,000)		
Prepaid Rent	EOY	25,000	25,000	3,000
Allowance for Bad Debts	BOY	0		
Allowance for Bad Debts	EOY	15,000	15,000	15,000
Accumulated Depreciation – PY	Book	175,000		
Accumulated Depreciation – PY	Tax	(155,000)	20,000	
Depreciation – CY	Book	1,300,000		
Depreciation – CY	Tax	(1,100,000)	200,000	200,000
Contributions Receivable				
Amortization – CY	Book	100,000		
Amortization – CY	Tax	(115,000)	(15,000)	(15,000)
Accumulated Amortization – PY	Book	12,000		
Accumulated Amortization - PY	Tax	(2,000)	10,000	
Write off Construction Period interest & taxes related to the building basis				
Syndication Costs Classified as an Asset for tax purposes			0	
Other GAAP/Tax Differences				
Accrued Int. Adj.	BOY	0		
Accrued Int. Adj.	EOY	0	0	0
Tax Basis Totals			2,255,000	(1,397,000)

TAX CAPITAL BOY	300,000	Sec 754 depreciation	
CY CONTRIBUTIONS(DISTRIBUTIONS)	3,352,000	Guarantee payment	
NET INCOME(LOSS)	(1,397,000)		
TAX CAPITAL EOY	2,255,000	BALANCE M-1/M3	(1,397,000)

Partnership Name_____________________________________
Year______________________

QUALIFIED OCCUPANCY SUMMARY
For Stabilized Project

Bin. #	Address	LI Units Current EOY Occupied	LI Units Current EOY Qual. Vacant	Market Empty Unqual.	Total Units Bin	Total Check	% Applicable Fraction	LI Sq Ftg. Current EOY Occupied	LI Sq Ftg. Current EOY Qual. Vacant	Market Empty Unqual.	Total Sq. Ftg BIN.	Total Check	% Applicable Fraction	% Current Year Lower Unit/Sq.Ftg	Prior Year Applicable Fraction	EOFY Applicable Fraction
MA-99-00502	101 First Street, Utopia, MA 02111	97	3	0	100	TRUE	**100.00%**	89650	2850	0	92500	TRUE	**100.00%**	100.00%		
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				
						TRUE						TRUE				

Note: Manager unit (not management office) should not be included in either the total or the the occupied units.

A qualified Low income unit has a tenant that meets the requirements and may include tenants that are subject to the 140% rule

A qualified vacant unit is a unit in which a qualified low income originally qualified the unit but the unit is now empty. The unit is actively being marketed and is suitable for occupancy.

Market units have tenants that are over income and are paying market rates

To move between input cells, click on an input cell and then press TAB

Empty units have never been rented or had market tenants a prior tenants.

Unqualified Units are units with tenants that were originally over income

Input cells

Prepared By:_________________________
Signature

____

(This document is available in Microsoft Excel format on the MHIC Website at: www.mhic.com)

Partnership Name: ABC Limited Partnership					
First Year Rent up Schedule: The lower of Units or Square Foot					
Year: 12/31/2022					
BIN:	MA-03-00101				
Building 100% Low Income					
Total Sq Ft of Building:	41,750				
Total Units:	40				
				%	%
		SQ FT of	**%**	**SQ FT of**	**Lower of**
Month	**Qualified Units**	**Qualified Units**	**Qualified Units**	**Qualified Units**	**Units/Sq FT**
Jan	-	-	-	-	-
Feb	-	-	-	-	-
Mar	-	-	-	-	-
April	10	8,750	25.00%	20.96%	20.96%
May	16	16,250	40.00%	38.92%	38.92%
June	25	27,000	62.50%	64.67%	62.50%
July	25	27,000	62.50%	64.67%	62.50%
Aug	25	27,000	62.50%	64.67%	62.50%
Sept	30	30,750	75.00%	73.65%	73.65%
Oct	34	35,750	85.00%	85.63%	85.00%
Nov	38	39,750	95.00%	95.21%	95.00%
Dec	40	41,750	100.00%	100.00%	100.00%
				Weighted Average of the lower of the Units or Sq Ft:	50.09%

TAB 3

Tax Return

Submission Deadlines: <u>Submission Deadlines for Projects with 10/31 Year-End's</u>:

Draft Copy **Monday, January 1, 2024**

The <u>later</u> of Monday January 15, 2023 **Or** **Within eight (8) calendar days of the date MHIC issues it's "Go final" letter.**

<u>Submission Deadlines for Projects with 12/31 Year-End's:</u>

Draft Copy **Friday March 1, 2023**

The <u>later</u> of Friday March 15, 2023 **Or** **Within eight (8) calendar days of the date MHIC issues it's "Go final" letter.**

Remit the Tax information as follows:

Tax Returns
DRAFT and FINAL tax returns must be uploaded to the MHIC portal. Accounting firms will register in advance and will receive instructions for using the portal.
Hard copy documents are not accepted.

MHIC Secure Portal Website: https://www.mhic.com
Each audit firm must register for access to the MHIC portal. Please send the name and email address of your main contact person for tax and audit submissions to Scott Backman at MHIC. We will then send you an invitation to register for the tax & audit portal.

If you have any questions regarding the portal please contact Scott Backman at backman@mhic.com (617) 850-1054 or Cameron Rockett at rockett@mhic.com (617) 850-1041

* Incomplete drafts do not constitute a timely delivery

Final tax returns must be submitted electronically to the MHIC portal in two separate files. Please submit the final federal and state tax returns together in a single file. MHIC must also receive in a single file, a copy of both federal and state E File forms (Form 8453-P for Federal & Form 8453P for State) signed by the General Partner or Limited Liability Member.

INTRODUCTION

The Massachusetts Housing Investment Corporation ("MHIC") is distributing this partnership tax return preparation guide to assist accounting firms that prepare tax returns for operating partnerships which are part of the Massachusetts Housing Equity Fund Limited Partnerships and have Low Income Housing Tax Credits.

Low income housing tax credits are claimed by filing Form 8609 with the tax return. Form 8609 is divided into two parts.

Part I indicates the maximum annual credit amount that can be claimed by the Partnership during the tax credit compliance period. The credit amount is allocated by the State Allocating Agency. Part I of Form 8609 is completed by the taxpayer but is submitted to the State Allocating Agency for approval. the State Allocating Agency will send back to the taxpayer an approved Form 8609 by signing the signature line on Part I.

Part II of the Form 8609 the taxpayer certifies the eligible basis of the building and makes various elections concerning the project. MHIC and its fund accountants must review the first year elections prior to the one-time filing of the 8609s. Part II is completed only for the first year of the credit period. The taxpayer then files a copy of the approved Form 8609 with elections to:

Department of the Treasury

Internal Revenue Service Center

Philadelphia, PA 19255-0549

Please be advised that low income housing credit partnerships should have received a Building Identification Number (BIN) for EACH BUILDING.

No tax returns with low income housing tax credits should be filed until MHIC has the opportunity to review and comment regarding the completion of Part II of Form 8609 as well as the credit calculations.

Please contact MHIC with any questions concerning this manual or tax return preparation.

Information Required for the Preparation of Tax Returns and Schedule K-1

Tax Credit Calculation

Provide backup documentation for the calculation for the amount of tax credit reported on Schedule A. Annual Statement that is attached to Form 8609, Low-Income Housing Credit Allocation Certification.

Filing of Tax Returns

Do not file the Partnership tax returns with the IRS and Massachusetts Department of Revenue until you receive authorization from Massachusetts Housing Investment Corporation.

Limited Partnership Elections and Tax Return Preparation Reminders

In addition, the following are reminders for preparing a complete and accurate partnership tax return:

1. The accrual method of accounting should be used for all Limited Partnerships
2. Syndication expenses may not be amortized under current law.
3. Legal fees in relation to the acquisition or disposition of any capital assets should not be deducted as a current period expense, but rather capitalized over the life of the underlying asset, such as the building.
4. Fees paid for mortgages and other debt should be capitalized over the term of the loan, not over the term of the underlying asset.
5. Qualified Occupancy Summary should accompany tax return draft to MHIC (See example) DO NOT FILE WITH FINAL TAX RETURN.

MASSACHUSETTS HOUSING EQUITY FUND
TAX RETURN PREPARATION GUIDE FOR OPERATING PARTNERSHIPS

Table of contents

The IRS Form 8609 is used to obtain the final housing credit allocation from the allocating agency (DHCD, MassHousing, or MDFA). To obtain the approved Form 8609, signed by the allocating agency, the General Partner and the Project Accountant submit the Cost Certification to the allocating agency. The agency reviews and approves the cost certification and then issues the signed 8609's for each BIN or building in the project.

I. LOW INCOME HOUSING TAX CREDIT ALLOCATION PROCEDURE

1.01 Form 8609 Part I-Allocation of Credit

Form 8609 is used to obtain the final housing credit allocation from the Department of Housing and Community Development (DHCD), or from Mass Development Finance Agency or, Mass Housing in the case of a Bond deal). --A - The Partnership will file Form 8609-A and 8586 with the Partnership return.

Form 8609—Building Owners

Form 8609 is no longer attached to the building owner's tax return for each year of the 15-year compliance period. Instead, the building owner will make a one-time submission of the appropriate revision of Form 8609 to the Low-Income Housing Credit Unit at the IRS Philadelphia, PA. This one-time submission must take place by the due date (including extensions) of the first tax return with which the building owner is filing Form 8609-A. This one-time submission must be made even if the building owner has filed Form 8609 with a prior tax return.

The procedures are explained in detail on the instructions to May 2018 revision of Form 8609. Follow the submission instructions set forth in the July 2018 revision that correspond with the revision date found on the Form 8609 that the housing credit agency sent to you. The May 2018 revision of Form 8609 (including instructions) is attached as Example 1.All buildings which have been or will be allocated low-income housing tax credits must obtain a building identification number (BIN) from the State Allocating Agency. BIN numbers are generally assigned when the State Allocating Agency issues the Carryover Allocation. Otherwise, the BIN number is assigned when the State Allocating Agency makes the allocation.

If more than one type of credit is claimed (i.e. rehabilitation and acquisition) then two 8609's must be obtained for each building. The two 8609's will have the same BIN. For buildings placed in service after July 30, 2008 and before January 1, 2015 the rate is not less than 9%, except Bond deals.

1.02 Calculating Qualified Occupancy

Please prepare the Qualified Occupancy Summary *(See Attachments)*, and send to MHIC with the Partnership's tax return. Do not attach the Qualified Occupancy Summary to the tax return. A building's monthly occupancy is used to calculate the "Applicable Fraction". During the first year of the credit period, the Applicable Fraction is based on the lower of units or square foot on a month by month average. <u>After the first credit year, the Applicable Fraction is equal to the qualified low income occupancy on the last day of the taxable year.</u> Any credit not claimed during the first credit year because of the application of the first year adjustment may be claimed in the eleventh year.

Once a unit has been occupied by a qualified low-income tenant and credits have been claimed with respect to that unit, then the unit must continue to be occupied by, or remain available for, low-income tenants for fifteen years. *(See Form 8586 for further information)* It is important to note that the determination of whether a tenant qualifies is made on an ongoing basis, both with regard to the tenant's gross income and the qualifying area income. An originally qualified low-income person is treated as continuing to be such as long as his or her income does not increase to a level more than 40% above the otherwise applicable income limit. If an originally qualified low-income person's income does increase to a level more than 40% above the applicable income limit, the unit may cease to qualify as occupied by a low-income person. Provided that each residential rental unit (that is comparable in size or smaller) that becomes vacant is rented to tenants satisfying the applicable income requirement until the project is again in compliance, no penalty is assessed. Therefore, 100% low-income projects should not be tainted by the income increases of its tenants, provided such tenants were qualified upon their initial leasing of the unit.

1.03 Carryover Allocations

Most buildings will have received a Carryover Allocation from the State Allocating Agency. All buildings which have received a Carryover Allocation must be placed in service by the end of the second calendar year following the year of allocation. For example, if a building has received a 2021 Carryover Allocation, the building must be placed in service by December 31, 2023. Form 8609 must be obtained or filed with the State Allocating Agency in the first year credits are claimed. If the building has not received a Carryover Allocation, the credit allocation is received from the State Allocating Agency on Form 8609 the year the building is placed in service.

1.04 Bond Financed Projects

Projects that are financed by tax exempt bonds issued after 1986 may not need a credit allocation from the State Allocating Agency if the bonds finance at least 70% of the eligible basis and land. For projects financed by bonds issued after 1989, tax exempt bonds must finance at least 50% of the eligible basis and land. *(See instructions for Form 8609)*

1.05 Form 8609 Part II - First Year Certification

To Be Completed by Building Owner Only for First Year Credit is Claimed

Line 7 - Eligible basis of building

Enter the eligible basis of the building (do not include land). This number should reflect only the basis attributable to the type of credit being claimed (i.e., only acquisition costs if acquisition credits are being claimed). Do not include costs of any non-residential (commercial) property. (*For further information see instructions for Form 8609 and Schedule A (Form 8609) Line 1*

Line 8a - Original qualified basis at close of first year of credit period

Multiply line 7 times the percentage of (the lower of square footage or qualified low-income units) at the end of the tax year and enter in this box. This will be the "End of Year Low Income Percentage" calculated on the Qualified Occupancy Summary. For example, if at the end of the first year 5 of 10 units are occupied by qualified tenants and 1 unit is vacant but was last occupied by a qualified tenant, and 5,900 of the 10,000 square feet are qualified, the low-income percentage is 59%. Line 8b - Is the building part of a multiple building project?

If you have more than one building and you will meet the minimum set aside test by aggregating the low-income units in all buildings in the project then check “YES”. Please note, as required per the instruction of the 8609, an attachment is needed to identify each building which is considered part of the multiple building project. Know the consequences if you check “NO”. If “NO” is checked, then you must meet the minimum set aside in each BIN/Building.

Line 9a - If both, 6(a) or 6(d) is checked, do you elect to reduce eligible basis under section 42(i) (2) (B)

If box 6(a) or 6(d) is checked, you must determine if the eligible basis has been reduced by the federal subsidy. This is generally noted in the cost certification. If the eligible basis has been reduced by the federal subsidy then you should check “YES”. Unless this is a Bond deal you should then receive 9% credits. If the basis is not reduced by the federal subsidy you should check “NO”. You will then receive 4% credits. Please check with MHIC to ensure you are completing this line correctly. Please note the definition of what is considered federally subsidized has been changed by the new tax legislation.

Line 9b - Do you elect to reduce eligible basis by disproportionate costs of non low- income units (Section 42(d) (3))

This box should generally be left blank unless otherwise informed by MHIC.

Line 10a - Elect to begin credit period the first year after the building is placed in service (Section 42(f) (c)(1)

The decision to elect to defer the credit for one year should be made by the General Partner in conjunction with MHIC. The tax return should not be filed before MHIC approves the credit calculation and election. If the property was not fully rented to qualified low-income tenants prior to the end of the year, the eligible full credit basis is limited to the portion of the building occupied by low-income tenants at year end. *Note:* Units which were formerly occupied by qualified tenants but are vacant at year end may still be eligible. The remaining unqualified portion of the building will only be eligible for two thirds of the annual credit percentage over the remaining compliance period. Due to the "time value of money" concept, this may not be advantageous to the partners.

Line 10b - Elect not to treat large partnership as taxpayer (Section 42(j) (5)

This box should be checked "YES" for Private Placement Partnerships and left blank for Public Fund Partnerships.

Line 10c - Elect minimum set aside requirement (Section 42(g))

The low income housing credit can only be claimed for residential rental projects that meet the minimum set aside requirements in one of the ways listed below. <u>This election is irrevocable and must be complied with throughout the 15 year compliance period.</u> The election determines the maximum income levels for low-income tenants and the minimum portion of the project that must be rented to qualifying tenants.

20-50 Test:

20% or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 50% or less of the area gross median income, or

40-60 Test:

40% or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 60% or less of area median gross income.

Average Income Test:

Forty percent (40%) or more (25% or more in the case of a project described in section 142(d) (6)) of the residential units in the project must be both rent restricted and occupied by individuals whose income does not exceed the imputed income limitation designated by the taxpayer with respect to the respective unit. The average of the imputed income limitations designated must not be more than 60% of the area median gross income. The designated imputed income limitation of a unit can only be 20%, 30%, 40%, 50%, 60%, 70%, or 80% of the area median gross income.

This election is noted in the carryover allocation. As a standard practice, most MHIC associated operating partnerships should elect to use the 40-60 test.Use of the Average Income set aside requires prior approval by MHIC.

Line 10d - Elect deep-rent skewed project (Section 142(d)(41)(B)

This box should generally be left blank unless otherwise informed by MHIC.

1.06 Recapture

The property must comply with all eligibility requirements for a period of fifteen years beginning on the first day of the credit period. There are generally three situations in which failure to comply may result in recapture. The accelerated portion of credits (if any) claimed in previous years is subject to recapture. The taxpayer could be liable for interest on the recaptured amount.

CREDITS MUST BE RECAPTURED IF:

1. …the qualified basis of the building decreases after the first year. The qualified basis, which depends on the portion of the building occupied by qualified low-income tenants, is determined as of the last day of the taxable year the property is placed in service or the following year if the taxpayer postpones the credit period by making the election on Line 10a of Part II of Form 8609.
2. …interest in a building during the fifteen year compliance period is sold. Please note that posting a bond is no longer required, however, the building must remain in service for the remaining compliance period. If the building does not remain in compliance recapture will be calculated.

   The new owner of the building is eligible to continue to receive the credits as if the new owner were the original owner, using the same eligible basis and credit percentages as used by the original owner. The new owner "steps into the shoes" of the original owner for eligible basis and tax credit purposes. The new owner will determine its own depreciable basis.
3. …the building no longer meets the minimum set-aside requirements.

1.07 Signature Section

A copy of Form 8609 must be signed by the General Partner/Managing Member for the initial year in which tax credits are taken by the Project and filed with the IRS center in Philadelphia (See IRS T.D. 9228). The compliance period begins the first year credits are claimed. Include GP tax ID # on the form.

1.08 Annual Statement – 8609-A

8609-A is the annual statement used to compute the annual credit amount to enter on Form 8586. This schedule must be completed <u>each year credits are claimed as well as for the remaining years of the 15 year compliance period</u>, and must be filed with the federal income tax return.

Line 1 Eligible basis of building

Enter amount from Form 8609 Line 7.

Line 2 - Low Income portion

(This is the smaller of either the credit percentage or the floor-space percentage.) Enter the qualified low-income percentage for the building. In year 1 of the credit period, this should be the Average Low Income Unit Percentage for the year. *(See Qualified Occupancy Summary)* After the first year, the percentage is determined as of the last day of the year. If the percentage increased from the percentage as of the last day of the 1st year of the credit period, line 7 must be completed. If the percentage is less, there may be recapture. Show percentage carried out to 4 decimal places (i.e., 75% = .7500).

Line 3 - Qualified basis of low income building

Multiply line 1 by line 2.

Line 4 - Part-year adjustment

Leave blank, unless you acquired or disposed of the building during the year. If so, see IRS instructions.

Line 5 - Credit Percentage

Enter the credit percentage reflected on Form 8609, Part I, Line 2. For buildings placed in service prior to July 30, 2008, the credit rate will be the rate for the month the building is placed in service, unless the rate has been locked in pursuant to a binding agreement or as part of the Carryover Allocation. If the rate has been locked in, the agreed-upon rate will apply. For buildings placed in service after July 30, 2008, will be 9%, except Bond deals.

Line 6

Multiply line 3 or line 4 by the percentage on line 5.

Line 7 - Additions to qualified basis, if any

Leave blank unless the qualified basis increased from the basis at the end of the 1st year of the credit period due to an increase in the number of units rented to qualified low-income tenants. If so, see IRS instructions.

Line 8 – Part year adjustment

Leave blank unless you have an amount on line 7 and you purchased or disposed of the building during the year. If so, see IRS instructions.

Line 9 - Credit percentage

Leave blank unless you have entered an amount on line 7. If so, take 1/3 of the percentage on line 5 carried out to 4 decimal places (i.e., 3.04% - .0304) and enter it here.

Lines 10 - 12

Leave blank unless you have entered an amount on line 7. If so, see IRS instructions.

Line 13 - Credit for building before line 14 reduction

Subtract line 12 from line 6.

Line 14 - Disallowed credit due to Federal grants

Leave blank unless you have received a federal grant which was not already deducted from the amount on line 1. If so, you must compute the credit applicable to the grant and enter here (see IRS instructions).

Line 15 - Credit allowed for building tax year

Subtract line 14 from line 13.

Line 16 - Taxpayer's proportionate share or credit for the year

If the partnership owns 100% of the building, enter the lesser of the amount on line 15 or the maximum credit from Form 8609, Part I, Line 1b. Otherwise, see IRS instructions. IN NO CASE IS THE AMOUNT ENTERED ON LINE 16 TO EXCEED THE AMOUNT ON FORM 8609, PART I, and LINE 1B.

Line 17 - Pro rata reduction for the increased credit in prior year

Only applicable if the taxpayer elected to accelerate its credit in the first tax year ending on or after October 25, 1990.

Line 18 - Taxpayer's credit for tax years after the election year

Subtract line 17 from Line 16.

1.09 Form 8586 - Low-Income Housing Credit

Form 8586 must be filed annually by the building owner with the partnership tax return, beginning in the first year of the credit period. Only one Form 8586 should be completed. Form 8586 is to be completed at the partnership level.

Part I Buildings Placed in Service Before January 1, 2008 and Part II Buildings placed in Service After December 31, 2007 -

To be completed at the partnership level and this should correspond with either Line 15a or Line 15c of a partners K-1.

Line 1 - Number of Forms 8609 attached

Enter the number of Form(s) 8609-A attached.

Line 2 - Has there been a decrease in the qualified basis of any building(s) since the close of the preceding tax year?

Check "YES" if there has been a decrease in the qualified basis from the prior year. If there has been a decrease in the qualified basis from the prior year, enter the BIN number for each building that had a decrease in qualified basis. Form 8611 must be completed for each building to calculate the recapture.

Please don't file Form 8611 without checking with MHIC first.

Line 3 - Current year credit

Enter the sum of the amounts reflected on line 18 of the entire attached Schedule A -Form(s) 8609.

Line 4 - Credits from flow through entities

Leave blank, unless credits are being claimed from other flow-through entities. If so, insert such amounts from the applicable schedule K-1(s) you received from each entity.

Line 5 - Total current year credit available

Add lines 4 and 5.

Line 6 - Total current year credit

This is the amount to be allocated and reflected on the Partners' Schedule K-1s. If Section 42(J)(5) applies (the requirements which requires partnerships with 35 or more partners to be treated as the taxpayer for purposes of recapture) then the amounts to be allocated to the partners will be reflected on 15a. Please note due to the new tax legislation line numbers on schedule k-1 may change to accommodate information necessary to disclose buildings placed in service after July 30, 2008.

Part II – Buildings Placed in Service after 2007

Intentionally left blank

II. PARTNERSHIP TAX RETURN AND ACCOUNTING ISSUES

2.01 Capital Contributions

The investment limited partners' capital contributions should be recorded in the year paid. Do not record unpaid capital contributions as a receivable for tax purposes.

2.02 Historic Tax Credits

Tax reform legislation passed in December 2017 changed when the credit is claimed and provides a transition rule. The legislation now requires taxpayers take the 20 percent credit spread out over five years beginning in the year they placed the building into service. The law eliminated the 10 percent rehabilitation credit for pre-1936 buildings.

A transition rule provides relief to owners of either a certified historic structure or a pre-1936 building by allowing owners to use the prior law if the project meets these conditions:

- The taxpayer owned or leased the building on January 1, 2018, and the taxpayer continues to own or lease the building after that date.
- The 24- or 60-month period selected by the taxpayer for the substantial rehabilitation test begins by June 20, 2018.
- Taxpayers use Form 3468, Investment Credit, to claim the rehabilitation tax credit and a variety of other investment credits. Form 3468 instructions have detailed requirements for completing the form.

Historic tax credits are based on real property building rehabilitation basis, excluding acquisition cost, personal property, site work, and costs to build new buildings. Both the depreciable building basis and partners' capital accounts should be reduced by the amount of the historic credit. The credit should be reported on line 11g of Form 3468 Investment Credit, unless the property met some exception. Historic rehabilitation credits *(Basis x Credit Percentage)* reduce the eligible basis for low-income housing credits.

2.03 Tax Treatment of Development and Syndication Related Fees

Most partnerships have development fees and interest associated with those fees.

For tax purposes these fees are treated as follows:

(a) Development Fee and Related Note

The principal portion of the development fee and related note is added to the building basis and depreciated.

(b) Development Fee Interest

Interest on the development fee note is deducted as it is accrued if the developer is an unrelated party. If the developer is a related party, the interest deduction is based on the developer's method of accounting. If the developer is on the cash method of accounting, then interest is deducted when paid. If the developer is on the accrual method of accounting, interest is deducted as it is accrued.

(c) Tax Credit Adjusters

In certain cases the total agreed upon capital contribution of the investment limited partners will change due to a lower than projected credit production. If this situation arises MHIC should be contacted.

(d) Syndication Fees

Fees paid to a Syndicator for raising equity are not tax deductible. The fees reduce the Partners' capital account on Schedule K-1, line J and should be listed as a reduction on Form 1065, Schedule M-2, and line 7.

(e) Tax Credit Fees

Agency fees incurred relative to the tax credit application and underwriting are capitalized. Tax credit monitoring fees incurred during the construction period are amortized during the tax credit compliance period.

2.04 Depreciation

(a) Real Property

Completely fill out Form 4562 or attach a detailed schedule. The mid-month convention applies to real property. One half month of depreciation is allowed for the month the property is placed in service. For example, if a project with a depreciable base of $1,000,000 is placed in service May 1, the first year's depreciation would be $1,000,000/27.5 x 7.5/12 = $22,727. If the same project was placed in service May 30, the result would be the same--$1,000,000/27.5 x 7.5/12 = $22,727.
Please note, if the project had a reduction of basis for historic tax credits, then you need to reduce the depreciable basis by the basis reduction for federal purposes. For State purposes you do not therefore depreciation for State purposes will be greater.

(b) Personal Property

Personal property for projects has a five year recovery period and 200% declining balance method of depreciation. Generally, personal property follows a mid-year convention. One half year of depreciation is allowed on property placed in service any time during the year. However, if more than 40% of the personal property is placed in service in the last quarter of the year, it is necessary to use the mid-quarter convention. Property is then depreciated based on which quarter that it was placed in service. Personal property includes appliances, shades, blinds and carpeting.

III. OTHER CONSIDERATIONS

3.01 Admission of the Investment Limited Partner

The Tax Cuts and Jobs Act eliminates the technical termination rules under IRC Section 708, thus a partnership is terminated only if no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership. The admission of the Investment Limited Partner into the Operating Partnership no longer causes a termination of the partnership under Treasury regulation 1.708-(B)1(b). As a result of the admission, the Operating Partnership should continue in full effect and no section 754 election would be required. Please note that if the project has historic tax credits, the investor receiving the historic tax credits must be admitted prior to the date the building is placed in service.

3.02 Allocation of Nonrecourse and Recourse Liabilities

There are two types of debt: recourse and nonrecourse.

Nonrecourse loans are generally allocated to all partners (general and limited) based on their profit-sharing ratios. Examples of nonrecourse loans include mortgages on the property, acquisition notes and purchase money notes and all accrued interest on these notes and loans for which no one is personally liable. Qualified nonrecourse financing generally includes financing that is secured by real property and that is loaned or guaranteed by a Federal, state or local government or that is borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association.

The "Nonrecourse" line on the K-1 should include the Partner's share of all nonrecourse debt on real property. The "Qualified Nonrecourse Financing" line should include the Partner's share of qualified nonrecourse financing. Debt included as qualified nonrecourse should not also be included on the nonrecourse line.

Recourse liabilities, which represent all other liabilities, are allocated solely to the general partners based on their loss-sharing ratios unless the liabilities are recourse to the limited partner. The improper allocation of recourse and nonrecourse debt on the K-1's will cause a misstatement of tax basis to a specific partner, which may result in loss limitations. The "Other" line on the K-1 should include the Partner's share of recourse liabilities.

3.03 Allocation of Credits and Losses in Month of Admission

Partnership credits and losses should be allocated to the Investment Partnership beginning in the month that the Investment Partnership is admitted to the Operating Partnership. The Operating Partnership Agreement provides for allocation of a full month of credits and losses in the month of admission under the assumption that the Investment Partnership will be admitted on the fifteenth day or earlier of the month. For example, if the Investment Partnership is admitted on October 12, it will be allocated credits and losses as of October 1. If the Investment Partnership is admitted after the 15th of the month, MHIC should be contacted.

3.04 Tax Shelter Registration Number

Rules in effect prior to October 23 2004, required tax shelters to be registered with the IRS on or before the day any interest in the shelter is first offered for sale. Tax shelters are investments from which a person could reasonably infer, from the representations made or to be made, that the tax benefits of investing in the shelter exceed the amount of the investment by a ratio of two to one. After 10-23-04, the tax shelter registration became mute when IRC Section 6111 was changed to require disclosure of reportable transactions rather than the registration of tax shelters.

IV. 704 (b) MINIMUM GAIN TEST

Minimum gain is the excess of nonrecourse liabilities which are secured by the partnership property over the adjusted tax basis of the property. The adjusted basis includes land, net depreciable property, and replacement or operating reserves secured by the mortgage. If a loss allocation to the limited partner would cause its capital account to be more negative than its share of minimum gain, a reallocation of losses may be necessary. ***CONTACT MHIC IF THIS SITUATION OCCURS.***

If the General Partner has made any guarantees on any nonrecourse mortgages and there is minimum gain, a loss reallocation may be necessary. ***CONTACT MHIC IF THIS SITUATION OCCURS.***

The Internal Revenue Service has issued final regulations for Section 704(b), <u>Determination of Distributive Share</u> and temporary regulations of Section 752, <u>Treatment of Certain Liabilities</u> have been issued. The rules prescribed under Section 704(b) limit the losses allocated to limited partners to their capital contribution plus their share of minimum gain.

<u>Please provide a copy of your minimum gain schedule with the submission of the draft tax return.</u>

The following exercise should be completed in order to highlight a potential 704(b) problem.

OPERATING PARTNERSHIP

Section 704(b) ALLOCATION TEST

PARTNERSHIP NAME ______________________________

PARTNER (ILP) NAME ______________________________

Prepared by Date ______________________________ Date ____________

NOTE: 704b TEST IS NOT NECESSARY IF NET ILP ALLOCATION IS A GAIN

			200X		200Y
1.	ILP% PROFIT SHARE	(Schd. K-1)			
2.	NONRECOURSE DEBT	(Schd. L)			
3.	ACCRUED INTEREST ON NR DEBT	(Schd. L)			
4.	BUILDING & OTHER DEPR. ASSETS	(Schd. L)			
5.	ACCUMULATED DEPRECIATION	(Schd. L)			
6.	LAND	(Schd. L)			
7.	REPLACEMENT RESERVES			****	
8.	ILP BEGINNING CAPITAL	(Schd. K-1)			
9.	ILP RENTAL LOSS AND OTHER DEDUCTIONS	(Schd. K-1)			
10.	ILP INTEREST AND OTHER INCOME AMOUNTS	(Schd. K-1)			

TEST 1 (CUMULATIVE TEST) **704b ISSUE = ILP Minimum Gain < Zero**

If a 704b issue occurs a loss reallocation may be required {See Test 2 below}

TOTAL MINIMUM GAIN	-	-	-	(Lines 2+3+5) - (Lines 4+6+7)
ILP MINIMUM GAIN	-	-	-	(Total Minimum Gain * ILP %)

ILP MINIMUM GAIN + CAPITAL	-	-	(ILP Minimum Gain) + (Lines 8+9+10)

Minimum gain cannot go below zero.

TEST 2	(CURRENT YEAR TEST)	**704b ISSUE = (NR Deduction + 2006 Net Loss) < Zero**	
NON-RECOURSE DEDUCTION ALLOWED -		-	('05 Total Min. Gain) - ('04 Total Min. Gain)
201X RENTAL LOSS AND OTHER DEDUCTIONS -		-	(Line 9)

If the Non-Recourse Deduction Allowed is greater than zero, there is no 704b issue.

IF THERE ARE INSUFFICIENT NON-RECOURSE DEDUCTIONS TO SUPPORT ALLOCATED LOSS - CONSIDER "PREEMPTIVE" REALLOCATION

TAX ALLOCATIONS

NORMAL ALLOCATIONS

- Allocations must have **substantial economic effect** (IRC §704(b)). Stated another way is that tax allocation must be a manner consistent with the actual economics of the partnership.
- The capital account of a limited partner/LLC member in a Real Estate partnership can go no further negative than his/her/its share of partnership **minimum gain** will bring them back to zero.
- Minimum gain is the excess of nonrecourse liabilities secured by partnership property over the adjusted basis of the collateral property.

PREEMPTIVE REALLOCATIONS

The change in minimum gain from beginning to end in a tax year is the nonrecourse deduction of a partnership. Complementarily, the difference between the net loss for the year and the nonrecourse deduction is the recourse deduction.

Under the safe harbor economic effect rules, a partner cannot be allocated a recourse deduction that would result in the partner's capital account becoming negative, if that partner does not have an obligation to restore its negative capital account.

In certain highly capitalized real estate partnerships, initially there is no minimum gain because the basis of assets far exceeds the nonrecourse liabilities. There will be no minimum gain until depreciation on the assets decreases the basis on the asset and/or deferred interest on soft debt adds to the nonrecourse liabilities in amount sufficient to have nonrecourse liabilities exceed the basis of assets.

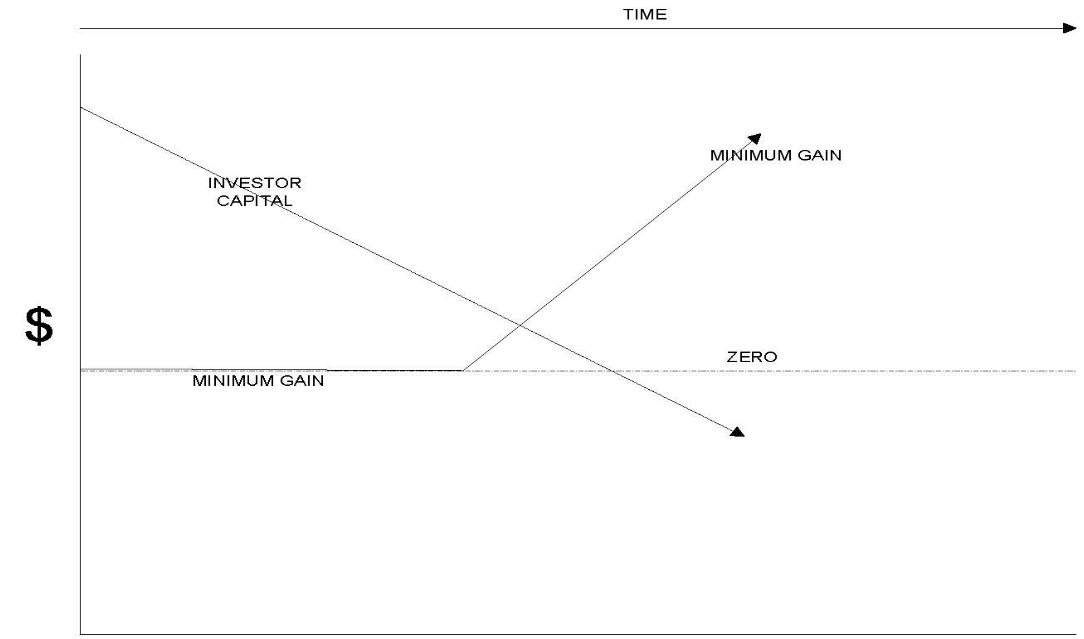
Until that time, there are by definition no nonrecourse deductions. All partnership losses are, therefore, recourse deductions.

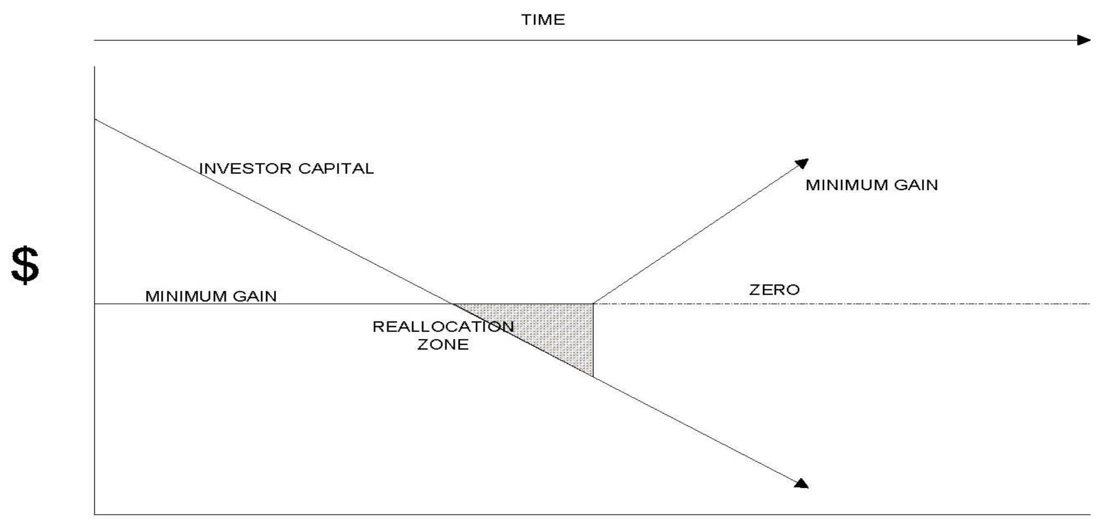
The danger comes when the recourse deductions allocated to the investor “burn through” the investor’s capital account faster than the gap between assets and nonrecourse liabilities closes.

IRS Regulations provide that Low-Income Housing Tax Credits, in any given year, be allocated in the same manner that depreciation expense is allocated. Assuming a situation where there is still no minimum gain, if a loss allocation would bring an investor’s capital account negative, that loss, the included depreciation, and the corresponding tax credit would have to be reallocated away from the investor.

The key to avoiding this situation is managing the “burn.” Depreciation and deferred interest accruals add to minimum gain or close the debt/basis gap. But depreciation deferred interest and cash operating losses “burn” through the investor’s capital account. The simple solution here to preserve the integrity of the credit allocation is not to allocate cash losses to the investor. The investor’s capital contribution primarily paid for development. There was never the intent for the investor’s equity to fund operations. There is no intent for the investor to fund in the future any operating deficits. Therefore, there is no economic effect in allocating a cash operating loss to the investor. It can only serve to jeopardize the allocation of further tax credit.

MANAGE THE BURN





V. 163 (J) ANALYSIS - BUSINESS INTEREST EXPENSE LIMITATION

For projects that did not make the 163(j) election in a previously filed return, please upload to our Tax & Audit Portal, an analysis of the 163(j) election for the project showing the impact of making the election versus not making the election on taxable loss. Please provide this information in advance of the tax return submissions so that MHIC and its upper tier accountants can confer with you on this election decision to avoid revision of returns

Guidance for Preparation of IRS Schedules K-2 and K-3

Lower tier projects need to prepare IRS Schedule K-2 and IRS Schedule K-3 as part of their tax return files. These Schedules are needed by our investors to meet their various tax filing requirements.

While each lower tier project may have unique circumstances, we believe the following parts of the forms need to be completed:

- Part I – Partnership's Other Current Year International Information
- Part II – Foreign Tax Credit Limitation
- Part III – Other Information for Preparation of Form 1116 or 1118
- Part IV – Information on Partners' Section 250 Deduction with Respect to Foreign-Derived Intangible Income (FDII)
- Part IX – Partners' Information for Base Erosion and Anti-Abuse Tax (Section 59A)
- Part X – Foreign Partners' Character and Source of Income and Deductions

We have attached a sample completed IRS Schedule K-2 to use as a guide.

SCHEDULE K-2 (Form 1065)

Department of the Treasury Internal Revenue Service

Partners' Distributive Share Items - International

Attach to Form 1065.

Go to www.irs.gov/Form1065 for instructions and the latest information.

OMB No. 1545-0123

2021

Name of partnership: XYZ LIMITED PARTNERSHIP

Employer identification number (EIN): **-********

A Is the partnership a withholding foreign partnership? Yes ☐ ☒ No If "Yes," enter your WP-EIN

B Is the partnership (including the home office or any branch) a qualified derivatives dealer? Yes ☐ ☒ No If "Yes," enter your QI-EIN

C Check to indicate the parts of Schedule K-2 that apply.

		Yes	No
1 Does Part I apply? If "Yes," complete and attach Part I	1	X	
2 Does Part II apply? If "Yes," complete and attach Part II	2	X	
3 Does Part III apply? If "Yes," complete and attach Part III	3	X	
4 Does Part IV apply? If "Yes," complete and attach Part IV	4	X	
5 Does Part V apply? If "Yes," complete and attach Part V	5		X
6 Does Part VI apply? If "Yes," complete and attach Part VI	6		X
7 Does Part VII apply? If "Yes," complete and attach Part VII	7		X
8 Does Part VIII apply? If "Yes," complete and attach Part VIII	8		X
9 Does Part IX apply? If "Yes," complete and attach Part IX	9	X	
10 Does Part X apply? If "Yes," complete and attach Part X	10	X	
11 Does Part XI apply? If "Yes," complete and attach Part XI	11		X
12 Reserved for future use	12		

Part I Partnership's Other Current Year International Information

Check box(es) for additional specified attachments. See instructions.

- ☐ 1. Gain on personal property sale
- ☐ 2. Foreign oil and gas taxes
- ☐ 3. Splitter arrangements
- ☐ 4. Foreign tax translation
- ☐ 5. High-taxed income
- ☐ 6. Section 267A disallowed deduction
- ☐ 7. Form 8858 information
- ☐ 8. Form 5471 information
- ☒ 9. Other forms
- ☐ 10. Partner loan transactions
- ☐ 11. Dual consolidated loss
- ☐ 12. Other international items (attach description and statement)

Part II Foreign Tax Credit Limitation

Section 1 - Gross Income

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code)	(f) Sourced by partner	(g) Total
1 Sales							
A							
B							
C							
2 Gross income from performance of services							
A							
B							
C							
3 Gross rental real estate income							
A US	509,854.	0.	0.	0.	0.	0.	509,854.
B							
C							
4 Other gross rental income							
A							
B							
C							

For Paperwork Reduction Act Notice, see the Instructions for Form 1065.

124141 09-13-21 LHA

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN **-*******

Part II Foreign Tax Credit Limitation *(continued)*

Section 1 - Gross Income *(continued)*

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code)	(f) Sourced by partner	(g) Total
5 Guaranteed payments							
6 Interest income							
A US	59.	0.	0.	0.	0.	0.	59.
B C							
7 Ordinary dividends (exclude amount on line 8)							
A							
B C							
8 Qualified dividends							
A							
B C							
9 Reserved for future use							
10 Royalties and license fees							
A							
B C							
11 Net short-term capital gain							
A							
B C							
12 Net long-term capital gain							
A							
B C							
13 Collectibles (28%) gain							
A US							
B C							
14 Unrecaptured section 1250 gain							
A							
B C							

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN **-*******

Part II Foreign Tax Credit Limitation *(continued)*

Section 1 - Gross Income *(continued)*

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code)	(f) Sourced by partner	(g) Total
15 Net section 1231 gain							
A							
B							
C							
16 Section 986(c) gain							
17 Section 987 gain							
18 Section 988 gain							
19 Section 951(a) inclusions							
A							
B							
C							
20 Other income (see instructions)							
A							
B							
C							
21 Reserved for future use							
A							
B							
C							
22 Reserved for future use							
A							
B							
C							
23 Reserved for future use							
A							
B							
C							
24 Total gross income (combine lines 1 through 23)	509,913.						509,913.
A US	509,913.	0.	0.	0.	0.	0.	509,913.
B							
C							

124143 09-13-21

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN **-*******

Part II Foreign Tax Credit Limitation *(continued)*

Section 2 - Deductions

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code)	(f) Sourced by partner	(g) Total
25 Expenses allocable to sales income							
26 Expenses allocable to gross income from performances of services							
27 Net short-term capital loss							
28 Net long-term capital loss							
29 Collectibles loss							
30 Net section 1231 loss							
31 Other losses							
32 Research & experimental (R&E) expenses							
A SIC code							
B SIC code							
C SIC code							
33 Allocable rental expenses - depreciation, depletion, and amortization	291,167.						291,167.
34 Allocable rental expenses - other than depreciation, depletion, and amortization	343,058.						343,058.
35 Allocable royalty and licensing expenses - depreciation, depletion, and amortization							
36 Allocable royalty and licensing expenses - other than depreciation, depletion, and amortization							
37 Depreciation not included on line 33 or 35							
38 Charitable contributions							
39 Interest expense specifically allocable under Regulations section 1.861-10(e)							
40 Other interest expense specifically allocable under Regulations section 1.861-10T	319,677.						319,677.
41 Other interest expense - business							
42 Other interest expense - investment							
43 Other interest expense - passive activity							
44 Section 59(e)(2) expenditures, excluding R&E expenses on line 32							
45 Foreign taxes not creditable but deductible							

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN
-*****

Part II Foreign Tax Credit Limitation (continued) Section

2 - Deductions (continued)

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code)	(f) Sourced by partner	(g) Total
46 Section 986(c) loss							
47 Section 987 loss							
48 Section 988 loss							
49 Other allocable deductions (see instructions)							
50 Other apportioned share of deductions (see instructions)							
51 Reserved for future use							
52 Reserved for future use							
53 Reserved for future use							
54 Total deductions (combine lines 25 through 53)	953,902.						953,902.
55 Net income (loss) (subtract line 54 from line 24)	-443,989.						-443,989.

Part III Other Information for Preparation of Form 1116 or 1118 Section

1 - R&E Expenses Apportionment Factors

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code) (country code)	(f) Sourced by partner	(g) Total
1 Gross receipts by SIC code A SIC code 651	509,913.	0.	0.	0.	0.	0.	509,913.
B SIC code							
C SIC code							
D SIC code							
E SIC code							
F SIC code							

2 Exclusive apportionment with respect to total R&E expenses entered on Part II, line 32. Enter the following.

A R&E expense with respect to activity performed in the United States

(i) SIC code	2A(i)	
(ii) SIC code	2A(ii)	
(iii) SIC code	2A(iii)	
B R&E expense with respect to activity performed outside the United States (i) SIC code	2B(i)	
(ii) SIC code	2B(ii)	
(iii) SIC code	2B(iii)	

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN
-*****

Part III Other Information for Preparation of Form 1116 or 1118 *(continued)*

Section 2 - Interest Expense Apportionment Factors

Description	(a) U.S. source	Foreign Source (b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code__________) (country code)	(f) Sourced by partner	(g) Total
1 Total average value of assets	6,195,126.						6,195,126.
2 Sections 734(b) and 743(b) adjustment to assets - average value							
3 Assets attracting directly allocable interest expense under Regulations section 1.861-10(e)							
4 Other assets attracting directly. allocable interest expense under Regulations section 1.861-10T	4,544,640.						4,544,640.
5 Assets excluded from apportionment formula							
6a Total assets used for apportionment (subtract the sum of lines 3, 4, and 5 from the sum of lines 1 and 2)	1,650,486.						1,650,486.
b c Assets attracting business interest expense	1,650,486						1,650,486
d Assets attracting investment interest expense							
Assets attracting passive activity interest expense							
7 Basis in stock of 10%-owned noncontrolled foreign corporations (see attachment)							
8 Basis in stock of CFCs (see attachment)							

Section 3 - Foreign-Derived Intangible Income (FDII) Deduction Apportionment Factors

Description	(a) U.S. source	Foreign Source (b) Passive category income	(c) General category income	(d) Other (category code__________) (country code)	(e) Sourced by partner	(f) Total
1 Foreign-derived gross receipts	509,913.					509,913.
2 Cost of goods sold						
3 Partnership deductions allocable to foreign-derived gross receipts						
4 Other partnership deductions apportioned to foreign-derived gross receipts						

Name of partnership

EIN **-*******

Part III Other Information for Preparation of Form 1116 or 1118 *(continued)*

Section 4 - Foreign Taxes

Description	(a) Type of tax	(b) Section 951A category income		(c) Foreign branch category income		
		U.S.	Foreign	U.S.	Foreign	Partner
1 Direct (section 901 or 903) foreign taxes: ☐ Paid ☐ Accrued						
A						
B						
C						
D						
E						
F						
2 Reduction of taxes (total)						
A Taxes on foreign mineral income						
B Reserved for future use						
C International boycott provisions						
D Failure-to-file penalties						
E Taxes with respect to splitter arrangements						
F Taxes on foreign corporate distributions						
G Other						
3 Foreign tax redeterminations						
A Related tax year ▶ Date tax paid ▶						
B Related tax year ▶ Date tax paid ▶						
C Related tax year ▶ Date tax paid ▶						
4 Reserved for future use						
5 Reserved for future use						
6 Reserved for future use						

Name of partnership

EIN **-*******

Part III Other Information for Preparation of Form 1116 or 1118 *(continued)*

Section 4 - Foreign Taxes *(continued)*

	(d) Passive category income			(e) General category income			(f) Other (category code)	(g) Total
	U.S.	Foreign	Partner	U.S.	Foreign	Partner		
1								
A B								
C D								
E F								
2								
A B								
C D								
E F G								
3								
A B								
C								
4								
5								
6								

Section 5 - Other Tax Information

Description	(a) U.S. source	Foreign Source					(g) Sourced by partner	(h) Total
		(b) Section 951A category income	(c) Foreign branch category income	(d) Passive category income	(e) General category income	(f) Other (category code__________) (country code)		
1 Section 743(b) positive income adjustment								
2 Section 743(b) negative income adjustment								
3 Reserved for future use								
4 Reserved for future use								

Name of partnership: XYZ LIMITED PARTNERSHIP

EIN: **-*******

Part IV Information on Partners' Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII)

Section 1 - Information To Determine Deduction Eligible Income (DEI) and Qualified Business Asset Investment (QBAI) on Form 8993

1	Net income (loss)	1	-443,989.
2a	DEI gross receipts	2a	509,913.
b	DEI cost of goods sold (COGS)	2b	
c	DEI properly allocated and apportioned deductions	2c	953,902.
3	Section 951(a) inclusions	3	
4	CFC dividends	4	
5	Financial services income	5	
6	Domestic oil and gas extraction income	6	
7	Foreign branch income	7	
8	Partnership QBAI	8	4,548,805.

Section 2 - Information To Determine Foreign-Derived Deduction Eligible Income on Form 8993 (see instructions)

	(a) Foreign-derived income from all sales of general property	(b) Foreign-derived income from all sales of intangible property	(c) Foreign-derived income from all services	(d) Total (add columns (a) through (c))
9 Gross receipts				
10 COGS				
11 Allocable deductions				
12 Other apportioned deductions			12	

Section 3 - Other Information for Preparation of Form 8993

	DEI	FDDEI	Total
13 Interest deductions			
A Interest expense specifically allocable under Regulations section 1.861-10(e)			
B Other interest expense specifically allocable under Regulations section 1.861-10T	319,677.		319,677.
C Other interest expense			
14 Interest expense apportionment factors			
A Total average value of assets	6,195,126.		6,195,126.
B Sections 734(b) and 743(b) adjustment to assets - average value			
C Assets attracting directly allocable interest expense under Regulations section 1.861-10(e)			
D Other assets attracting directly allocable interest expense under Regulations section 1.861-10T	4,544,640.		4,544,640.
E Assets excluded from apportionment formula			
F Total assets used for apportionment (the sum of lines 14C, 14D, and 14E subtracted from the sum of lines 14A and 14B)	1,650,486.		1,650,486.
15 R&E expenses apportionment factors			
Gross receipts by SIC code			
A SIC code 651	509,913.		509,913.
B SIC code			
C SIC code			

16 R&E expenses by SIC code		
A SIC code______	16A	
B SIC code______	16B	
C SIC code	16C	

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN
-*****

Part VIII Partnership's Interest in Foreign Corporation Income (Section 960)

A Enter EIN or reference ID number of controlled foreign corporation

B Separate category (enter code- see instructions)

C If PAS was entered on line B, enter the applicable grouping under Regulations section 1.904-4(c). See instructions

D Check the box and attach a statement if there is more than one source country for a line. See instructions

E If U.S. source, check the box and complete a separate Part VIII

F If FORI or FOGEI, check the box and attach a separate Part VIII

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	(i) Country code	(ii) Partnership's share of net income	(iii) Partnership's share of average asset value	(iv) Reserved for future use
1 Subpart F income groups				
a Dividends, interest, rents, royalties, and annuities (total)				
(1) Unit				
(2) Unit				
b Net gain from certain property transactions (total)				
(1) Unit				
(2) Unit				
c Net gain from commodities transactions (total)				
(1) Unit				
(2) Unit				
d Net foreign currency gain (total)				
(1) Unit				
(2) Unit				
e Income equivalent to interest (total)				
(1) Unit				
(2) Unit				
f Foreign base company sales income (total)				
(1) Unit				
(2) Unit				
g Foreign base company services income (total)				
(1) Unit				
(2) Unit				
h Full inclusion foreign base company income (total)				
(1) Unit				
(2) Unit				
i Insurance income (total)				
(1) Unit				
(2) Unit				
j International boycott income (total)				
k Bribes, kickbacks, and other payments (total)				
l Section 901(j) (total)				

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN **-*******

Part VIII Partnership's Interest in Foreign Corporation Income (Section 960) *(continued)*

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	(i) Country code	(ii) Partnership's share of net income	(iii) Partnership's share of average asset value	(iv) Reserved for future use
2 Recaptured subpart F income				
3 Tested income group (total)				
(1) Unit				
(2) Unit				
4 Residual income group (total)				
(1) Unit				
(2) Unit				
5 Total ▶				

Part IX Partners' Information for Base Erosion and Anti-Abuse Tax (Section 59A) Section 1 - Applicable Taxpayer (see instructions)

Description	(a) Total	(b) Total ECI gross receipts	(c) Total non-ECI gross receipts
1 Gross receipts for section 59A(e)	509,913.	509,913.	
2 Gross receipts for the first preceding year	505,002.	505,002.	
3 Gross receipts for the second preceding year	494,279.	494,279.	
4 Gross receipts for the third preceding year	476,231.	476,231.	
5 Amounts included in the denominator of the base erosion percentage as described in Regulations section 1.59A-2(e)(3)	953,902.		

Section 2 - Base Erosion Payments and Base Erosion Tax Benefits (see instructions)

Description	(a) Total	(b) Total base erosion payments	(c) Total base erosion tax benefits
6 Reserved for future use			
7 Reserved for future use			
8 Purchase or creations of property rights for intangibles (patents, trademarks, etc.)			
9 Rents, royalties, and license fees			
10 a Compensation/consideration paid for services not excepted by section 59A(d)(5)			
b Compensation/consideration paid for services excepted by section 59A(d)(5)			
11 Interest expense	319,677.		
12 Payments for the purchase of tangible personal property	16,660.		
13 Premiums and/or other considerations paid or accrued for insurance and reinsurance as covered by sections 59A(d)(3) and 59A(c)(2)(A)(iii)			
14 a Nonqualified derivative payments			
b Qualified derivative payments excepted by section 59A(h)			
15 Payments reducing gross receipts made to surrogate foreign corporation			
16 Other payments-specify ▶			
17 Base erosion tax benefits related to payments reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at the 30% (0.30) statutory withholding tax rate			

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN **-*******

Part IX Partners' Information for Base Erosion and Anti-Abuse Tax (Section 59A) *(continued)*

Section 2 - Base Erosion Payments and Base Erosion Tax Benefits (see instructions) *(continued)*

	(a) Total	(b) Total base erosion payments	(c) Total base erosion tax benefits
18 Portion of base erosion tax benefits reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at reduced withholding rate pursuant to income tax treaty. Multiply ratio of percentage withheld divided by 30% (0.30) times tax benefit. See instructions			
19 Total base erosion tax benefits (subtract the sum of lines 17 and 18 from the sum of lines 8 through 16)			
20 Reserved for future use			
21 Reserved for future use			
22 Reserved for future use			

Part X Foreign Partners' Character and Source of Income and Deductions

Section 1 - Gross Income

Description	(a) Total	(b) Partner determination	Partnership Determination				
			ECI		Non-ECI		
			(c) U.S. source	(d) Foreign source	(e) U.S. source (FDAP)	(f) U.S. source (other)	(g) Foreign source
1 Ordinary business income (gross)							
2 Gross rental real estate income	509,854.		509,854.				
3 Other gross rental income							
4 Guaranteed payments for services							
5 Guaranteed payments for use of capital							
6 Interest income	59.		59.				
7 Dividends							
8 Dividend equivalents							
9 Royalties and license fees							
10 Net short-term capital gain							
11 Net long-term capital gain							
12 Collectibles (28%) gain							
13 Unrecaptured section 1250 gain							
14 Net section 1231 gain							
15 Reserved for future use							
16 Reserved for future use							
17 Reserved for future use							
18 Reserved for future use							
19 Reserved for future use							
20 Other income (loss) not included on lines 1 through 19							
21 Gross income (sum of lines 1 through 20)	509,913.		509,913.				

Name of partnership
XYZ LIMITED PARTNERSHIP

EIN **-*******

Part X Foreign Partners' Character and Source of Income and Deductions *(continued)*

Section 2 - Deductions, Losses, and Net Income

Description	(a) Total	(b) Partner determination	Partnership Determination				
			ECI		Non-ECI		
			(c) U.S. source	(d) Foreign source	(e) U.S. source (FDAP)	(f) U.S. source (other)	(g) Foreign source
1 Expenses related to ordinary business income (gross)							
2 Research and experimental expenses							
3 Expenses from rental real estate	634,225.		634,225.				
4 Expenses from other rental activities							
5 Royalty and licensing expenses							
6 Section 179 deduction							
7 Interest expense on U.S.-booked liabilities							
8 Interest expense directly allocable under Regulations sections 1.882-5(a)(1)(ii)(B) and 1.861-10T	319,677.		319,677.				
9 Other interest expense							
10 Section 59(e)(2) expenditures							
11 Net short-term capital loss							
12 Net long-term capital loss							
13 Collectibles loss							
14 Net section 1231 loss							
15 Other losses							
16 Charitable contributions							
17 Other							
18 Other							
19 Reserved for future use							
20 Reserved for future use							
21 Reserved for future use							
22 Reserved for future use							
23 Reserved for future use							
24 Total (sum of lines 1 through 23)	953,902.		953,902.				
25 Net income (loss) (line 21 (Section 1) minus line 24 (Section 2))	-443,989.						

Part X Foreign Partners' Character and Source of Income and Deductions *(continued)*

Section 3 - Allocation and Apportionment Methods for Deductions

1 Gross income

a	Gross ECI	509,913.
b	Worldwide gross income	509,913.

2 Assets

a	Average U.S. assets (inside basis)	6,195,126.
b	Worldwide assets	6,195,126.

3 Liabilities

a	U.S.-booked liabilities of partnership	8,006,435.
b	Directly allocated partnership indebtedness	7,650,171.

4 Personnel

a	Personnel of U.S. trade or business	
b	Worldwide personnel	

5 Gross receipts from sales or services by SIC code

	(i) SIC code	(ii) ECI	(ii) Worldwide
a	651	509,913.	509,913.
b			

6 Reserved for future use

	(i)	(ii)
a		
b		

7 Other allocation and apportionment key

	(i) Key/Factor
a	
b	

8 Other allocation and apportionment key

	(i) Key/Factor
a	
b	

Section 4 - Reserved for Future Use

	Reserved	(a) Reserved	(b) Reserved
1	Reserved for future use		
2	Reserved for future use		
3	Reserved for future use		
4	Reserved for future use		
5	Reserved for future use		
6	Reserved for future use		
7	Reserved for future use		
8	Reserved for future use		
9	Reserved for future use		
10	Reserved for future use		

TAB 4

VI. Elections

Electing Real property trade or business in a particular year

Any partnership making the election under 163(j) needs to provide a statement as follows:

Section 1.163(j)-9

Taxpayer Name: ______________________
Taxpayer Address: ______________________
Taxpayers EIN: ______________________

Description of Electing Trade or Business **NAICS Code**

Bonus Depreciation

All properties are to elect out of bonus depreciation unless directed by MHIC's asset management or if a property projection have been modeled as such depreciation.

<u>Repair Regulation Elections</u>

All properties should include the following election on an annual basis:

Section 1.263(a)-1(f) De Minimis Safe Harbor Election

For all properties that have a new asset in the current tax year, the partnership should be making this election:

Section 1.263(a)-3(n) Election

<u>Properties should not make the following election before consulting with the MHIC Asset Manager:</u>

Section 266 Election, Capitalization of Carrying Charges Other than Interest

Below are two elections we prefer to be included in each tax return, if applicable:

Election to Ratably Accrue Real Estate Property Taxes
IRC Section 461(c)

Taxpayer Name: ______________________
Taxpayer ID Number: ______________________
Year-end: ______________________

Section 461(c) Election
In Accordance with IRC Sec. 461(c) and Reg. 1.461-1(c)(3), taxpayer hereby elects to ratably accrue real property taxes starting with the tax year-ended ____________. The following information is provided in accordance with Reg. 1.461-1(c)(3)(i):

a. The election applies to all the trade and business or investment activities involving rental real estate.
b. The accrual method of accounting is used by the taxpayer.
c. The property tax year to which the taxes relate are the current tax year.
d. The computation of the estimated tax deduction is ratably based on last assessment.

Election to adopt Recurring Item Exception to Economic Performance Requirements
IRC Section 461

Taxpayer Name: ______________________
Taxpayer ID Number: ______________________
Year-end: ______________________

Section 461 Election
In Accordance with IRC Sec. 461 and related Regulation and announcements, taxpayer hereby elects to adopt the recurring item exception with respect to all types of liabilities items and expenses incurred in its trade or business.

The taxpayer has liabilities and expenses which are recurring in nature and are treated by the taxpayer on a consistent basis from year to year. If its accrual in the year before economic performance results in more proper matching against income, than if it were accrued in the year of the economic performance.

Form **8609**

(Rev. May 2018)

Department of the Treasury Internal Revenue Service

Low-Income Housing Credit Allocation and Certification

▶ Go to *www.irs.gov/Form8609* for instructions and the latest information.

OMB No. 1545-0988

Part I **Allocation of Credit**

Check if: ☐ Addition to Qualified Basis ☐ Amended Form

A Address of **building** (do not use P.O. box) (see instructions)

B Name and address of **housing credit agency**

C Name, address, and TIN of **building owner** receiving allocation

TIN ▶

D Employer identification number of agency

E Building identification number (BIN)

1a	Date of allocation ▶ ______ **b** Maximum housing credit dollar amount allowable	1b	
2	Maximum applicable credit percentage allowable (see instructions)	2	%
3a	Maximum qualified basis	3a	
b	Check here ▶ ☐ if the eligible basis used in the computation of line 3a was increased under the high-cost area provisions of section 42(d)(5)(B). Enter the percentage to which the eligible basis was increased (see instructions)	3b	1 ___ %
4	Percentage of the aggregate basis financed by tax-exempt bonds. (If zero, enter -0-.)	4	%
5	Date building placed in service ▶ ______		

6 Check the boxes that describe the allocation for the building (check those that apply):

a ☐ Newly constructed and federally subsidized **b** ☐ Newly constructed and **not** federally subsidized **c** ☐ Existing building

d ☐ Sec. 42(e) rehabilitation expenditures federally subsidized **e** ☐ Sec. 42(e) rehabilitation expenditures **not** federally subsidized

f ☐ Allocation subject to nonprofit set-aside under sec. 42(h)(5)

Signature of Authorized Housing Credit Agency Official—Completed by Housing Credit Agency Only

Under penalties of perjury, I declare that the allocation made is in compliance with the requirements of section 42 of the Internal Revenue Code, and that I have examined this form and to the best of my knowledge and belief, the information is true, correct, and complete.

▶ ______ Signature of authorized official ▶ ______ Name (please type or print) ▶ ______ Date

Part II **First-Year Certification**—Completed by Building Owners with respect to the First Year of the Credit Period

7	Eligible basis of building (see instructions)	7	
8a	Original qualified basis of the building at close of first year of credit period	8a	
b	Are you treating this building as part of a multiple building project for purposes of section 42 (see instructions)?	☐ Yes	☐ No
9a	If box 6a or box 6d is checked, do you elect to reduce eligible basis under section 42(i)(2)(B)?	☐ Yes	☐ No
b	For market-rate units above the average quality standards of low-income units in the building, do you elect to reduce eligible basis by disproportionate costs of non-low-income units under section 42(d)(3)(B)? ▶	☐ Yes	☐ No

10 Check the appropriate box for each election.

Caution: Once made, the following elections are irrevocable.

a Elect to begin credit period the first year after the building is placed in service (section 42(f)(1)) ▶ ☐ Yes ☐ No

b Elect **not** to treat large partnership as taxpayer (section 42(j)(5)) ▶ ☐ Yes

c Elect minimum set-aside requirement (section 42(g)) (see instructions):

☐ 20-50 ☐ 40-60 ☐ Average income ☐ 25-60 (N.Y.C. only)

d Elect deep rent skewed project (section 142(d)(4)(B)) (see instructions) ☐ 15-40

Under penalties of perjury, I declare that I have examined this form and accompanying attachments, and to the best of my knowledge and belief, they are true, correct, and complete.

▶ ______ Signature ▶ ______ Taxpayer identification number ▶ ______ Date

▶ ______ Name (please type or print) ▶ ______ First year of the credit period

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63981U Form **8609** (Rev. 05-2018)

Instructions for Form 8609

Department of the Treasury
Internal Revenue Service

(Rev. July 2018)

Low-Income Housing Credit Allocation and Certification

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8609 and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form8609*.

What's New

Average income test. An average income election has been added to the section 42(g)(1) minimum set-aside requirements by the Consolidated Appropriations Act of 2018 (P.L. 115-141). See *Line 10c* and *Line 10d*, later, for details.

Reminder

The 9% minimum applicable percentage of section 42(b)(2) has been made permanent for certain buildings placed in service after July 30, 2008. For details, see the instructions for Part I.

General Instructions

Purpose of Form

Owners of residential low-income rental buildings are allowed a low-income housing credit for each qualified building over a 10-year credit period. Form 8609 can be used to obtain a housing credit allocation from the housing credit agency. A separate Form 8609 must be issued for each building in a multiple building project. Form 8609 is also used to certify certain information.

Housing credit agency. This is any state or local agency authorized to make low-income housing credit allocations within its jurisdiction.

Building identification number (BIN). This number is assigned by the housing credit agency. The BIN initially assigned to a building must be used for any allocation of credit to the building that requires a separate Form 8609 (see *Multiple Forms 8609*, later). For example, rehabilitation expenditures treated as a separate new building shouldn't have a separate BIN if the building already has one. Use the number first assigned to the building.

Allocation of credit. For an owner to claim a low-income housing credit on a building (except as explained under *Tax-exempt bonds*, later), the housing credit agency must make an allocation of the credit by the close of the calendar year in which the building is placed in service, unless:

1. The allocation is the result of an advance binding commitment by the housing credit agency made not later than the close of the calendar year in which the building is placed in service (see section 42(h)(1)(C));

2. The allocation relates to an increase in qualified basis (see section 42(h)(1)(D));

3. The allocation is made for a building placed in service no later than the second calendar year following the calendar year in which the allocation is made if the building is part of a project in which the taxpayer's basis is more than 10% of the project's reasonably expected basis as of the end of that second calendar year; or

4. The allocation is made for a project that includes more than one building if:

a. The allocation is made during the project period,

b. The allocation applies only to buildings placed in service during or after the calendar year in which the allocation is made, and

c. Each building in the project to which the allocation applies is identified by a separate building identification number (BIN).

Regarding (3) and (4) (carryover allocations) see sections 42(h)(1)(E) and 42(h)(1)(F) and Regulations section 1.42-6.

The agency can only make an allocation to a building located within its geographical jurisdiction. Once an allocation is made, the credit is allowable for all years during the 10-year credit period. A separate Form 8609 must be completed for each building to which an allocation of credit is made.

Multiple Forms 8609. Allocations of credit in separate calendar years require separate Forms 8609. Also, when a building receives separate allocations for acquisition of an existing building and for rehabilitation expenditures, a separate Form 8609 must be completed for each credit allocation.

Tax-exempt bonds. No housing credit allocation is required for any portion of the eligible basis of a qualified low-income building that is financed with tax-exempt bonds taken into account for purposes of the volume cap under section 146 if principal payments on the financing are applied within a reasonable period to redeem obligations the proceeds of which were used to provide the financing, or the financing is refunded as described in section 146(i)(6). An allocation isn't needed when 50% or more of the aggregate basis of the building and the land on which the building is located (defined below) is financed with tax-exempt bonds described in the preceding sentence. However, the owner must still get a Form 8609 from the appropriate housing credit agency (with the applicable items completed, including an assigned BIN).

Land on which the building is located. This includes only land that is functionally related and subordinate to the qualified low-income building. (See Regulations sections 1.103-8(a)(3) and 1.103-8(b)(4)(iii) for the meaning of "functionally related and subordinate.")

Filing Requirement

Housing credit agency. Complete and sign Part I of Form 8609 and make copies of the form. Submit a copy with Form 8610, Annual Low-Income Housing Credit Agencies Report, and keep a copy for the records. The agency must send the original, signed Form 8609 (including instructions) to the building owner.

Form **8586**

(Rev. December 2016)
Department of the Treasury
Internal Revenue Service (99)

Low-Income Housing Credit

► Attach to your tax return.
► Information about Form 8586 and its instructions is at *www.irs.gov/form8586*.

OMB No. 1545-0984

Attachment Sequence No. **36a**

Name(s) shown on return | Identifying number

Part I Buildings Placed in Service Before 2008

1 Number of Forms 8609-A attached for buildings placed in service before 2008 . . . ► ________

2 Has there been a decrease in the qualified basis of any buildings accounted for on line 1 since the close of the preceding tax year? ☐ **Yes** ☐ **No** If "Yes," enter the building identification numbers (BINs) of the buildings that had a decreased basis. If you need more space, attach a schedule.

(i) ________ (ii) ________ (iii) ________ (iv) ________

3	Current year credit from attached Form(s) 8609-A for buildings placed in service before 2008 (see instructions)	3	
4	Low-income housing credit for buildings placed in service before 2008 from partnerships, S corporations, estates, and trusts	4	
5	Add lines 3 and 4. Estates and trusts, go to line 6. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 1d, column (c)	5	
6	Amount allocated to beneficiaries of the estate or trust (see instructions)	6	
7	Estates and trusts, subtract line 6 from line 5. Report this amount on Form 3800, Part III, line 1d, column (c)	7	

Part II Buildings Placed in Service After 2007

8 Number of Forms 8609-A attached for buildings placed in service after 2007 . . . ► ________

9 Has there been a decrease in the qualified basis of any buildings accounted for on line 8 since the close of the preceding tax year? ☐ **Yes** ☐ **No** If "Yes," enter the building identification numbers (BINs) of the buildings that had a decreased basis. If you need more space, attach a schedule.

(i) ________ (ii) ________ (iii) ________ (iv) ________

10	Current year credit from attached Form(s) 8609-A for buildings placed in service after 2007 (see instructions)	10	
11	Low-income housing credit for buildings placed in service after 2007 from partnerships, S corporations, estates, and trusts.	11	
12	Add lines 10 and 11. Estates and trusts, go to line 13. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 4d, column (c)	12	
13	Amount allocated to beneficiaries of the estate or trust (see instructions)	13	
14	Estates and trusts, subtract line 13 from line 12. Report this amount on Form 3800, Part III, line 4d, column (c)	14	

For Paperwork Reduction Act Notice, see General Instructions. Cat. No. 63987I Form **8586** (Rev. 12-2016)

Form **8609-A**
(Rev. December 2008)
Department of the Treasury
Internal Revenue Service

Annual Statement for Low-Income Housing Credit

▶ File with owner's federal income tax return.
▶ See separate instructions.

OMB No. 1545-0988
Attachment Sequence No. **36**

Name(s) shown on return | **Identifying number**

Part I Compliance Information

		Yes	No
A	Building identification number (BIN) ▶		
B	This Form 8609-A is for (check the box) ▶ a newly constructed or existing building ☐ section 42(e) rehabilitation expenditures ☐		
C	Do you have in your records the original Form 8609 (or a copy thereof) signed and issued by the housing credit agency for the building in **A**? If "No," see the instructions and stop here—do not go to Part II.		
D	Did the building in **A** qualify as a part of a qualified low-income housing project and meet the requirements of section 42 as of the end of the tax year for which this form is being filed? If "No," see the instructions and stop here—do not go to Part II.		
E	Was there a decrease in the qualified basis of the building in **A** for the tax year for which this form is being filed? If "Yes," see the instructions. If "No," and the entire credit has been claimed in prior tax years, stop here—do not go to Part II.		

Part II Computation of Credit

1	Eligible basis of building	**1**	
2	Low-income portion (smaller of unit fraction or floor space fraction) (if first year of the credit period, see instructions)	**2**	.
3	Qualified basis of low-income building. Multiply line 1 by line 2 (see instructions for exceptions)	**3**	
4	Part-year adjustment for disposition or acquisition during the tax year	**4**	
5	Credit percentage	**5**	.
6	Multiply line 3 or line 4 by the percentage on line 5	**6**	
7	Additions to qualified basis, if any	**7**	
8	Part-year adjustment for disposition or acquisition during the tax year	**8**	
9	Credit percentage. Enter one-third of the percentage on line 5	**9**	.
10	Multiply line 7 or line 8 by the percentage on line 9	**10**	
11	Section 42(f)(3)(B) modification	**11**	
12	Add lines 10 and 11	**12**	
13	Credit for building before line 14 reduction. Subtract line 12 from line 6	**13**	
14	Disallowed credit due to federal grants (see instructions)	**14**	
15	Credit allowed for building for tax year. Subtract line 14 from line 13, but do not enter more than the amount shown on Form 8609, Part I, line 1b	**15**	
16	Taxpayer's proportionate share of credit for the year (see instructions)	**16**	
17	Adjustments for deferred first-year credit (see instructions)	**17**	
18	Taxpayer's credit. Combine lines 16 and 17. Enter here and on Form 8586 (see instructions)	**18**	

For Paperwork Reduction Act Notice, see separate instructions. Cat No. 38841T **Form 8609-A (Rev. 12-2008)**

Instructions for Form 8609-A

Department of the Treasury
Internal Revenue Service

(Rev. December 2008)

Annual Statement for Low-Income Housing Credit

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

What's New

If you disposed of a building or a certain interest therein, it is no longer necessary in certain circumstances to file Form 8693, Low-Income Housing Credit Disposition Bond, to prevent recapture of the low-income housing credit. If you have already filed Form 8693, you can make an election to discontinue the maintenance of the established account. See *Recapture and building dispositions* for details.

The method used to calculate basis reductions for certain buildings has changed. See *Basis reductions for buildings placed in service after July 30, 2008*, for details.

The method used to calculate the disallowed credit due to federal grants has changed for buildings placed in service after July 30, 2008. See the instructions for line 14 for details.

For buildings placed in service after December 31, 2007, the credit is no longer limited by the alternative minimum tax rules. Form 8586, Low-Income Housing Credit, has been revised to reflect this change. See the instructions for line 18 for information on reporting the credit on Form 8586.

Note. Some of the line numbers on the March 1991 and November 2003 revisions of Form 8609, Low-Income Housing Credit Allocation Certification, and December 2005, December 2006, December 2007, and December 2008 revisions of Form 8609, Low-Income Housing Credit Allocation and Certification, differ from other revisions. In these cases, the line references are shown in parentheses in these instructions.

Purpose of Form

Form 8609-A is filed by a building owner to report compliance with the low-income housing provisions and calculate the low-income housing credit. Form 8609-A must be filed by the building owner for each year of the 15-year compliance period. File one Form 8609-A for the allocation(s) for the acquisition of an existing building and a separate Form 8609-A for the allocation(s) for rehabilitation expenditures.

If the building owner is a partnership, S corporation, estate, or trust (pass-through entity), the entity will complete Form 8609 and Form 8609-A. The entity will attach Form 8609-A to its tax return. If you are a partner, shareholder, or beneficiary in the pass-through entity that owns the building, file only Form 8586, Low-Income Housing Credit, to claim the credit using the information that the entity furnishes you on Schedule K-1.

Recapture of Credit

If the qualified basis of the building has decreased from the qualified basis at the close of the previous tax year, you may have to recapture parts of the credits allowed in previous years. See Form 8611, Recapture of Low-Income Housing Credit.

Recapture and building dispositions. The disposition of a building, or an interest therein, will generate the recapture of the credit. You can prevent the recapture if you follow the procedures below, relative to the date of the disposition of the building or the interest therein.

Building dispositions before July 31, 2008. Disposing of a building or an interest therein during the tax year will generate credit recapture, unless you timely post a satisfactory bond or pledge eligible U.S. Treasury securities as collateral. For details on the rules for posting or pledging, see Rev. Rul. 90-60, 1990-2 C.B. 3, and Rev. Proc. 99-11, 1991-1 C.B. 275.

Note. You may discontinue maintaining a bond or pledging eligible U.S. Treasury securities by making the election described in Rev. Proc. 2008-60, 2008-43 I.R.B. 1006, and if it is reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period. See Rev. Proc. 2008-60 for the details on making the election.

Building dispositions after July 30, 2008. Disposing of a building or an interest therein will generate a credit recapture, unless it is reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period.

See section 42(j) for more information.

Sale of Building

Upon a change of ownership, the seller should give the new owner a copy of the Form 8609 (Parts I and II complete). This form allows the new owner to substantiate the credit.

Specific Instructions

Part I—Compliance Information

Item A. Enter the building identification number (BIN) from Part I, item E of Form 8609.

Item B. You need to file one Form 8609-A for a newly constructed or existing building. You need to file a separate Form 8609-A for section 42(e) rehabilitation expenditures because such expenditures are treated as creating a new building.

Item C. In order to claim the credit, you must have an original, signed Form 8609 (or copy thereof) issued by a housing credit agency assigning a BIN for the building. This applies even if no allocation is required (as in the case of a building financed with tax-exempt bonds). Check "Yes" to certify that you have the required Form 8609 in your records.

CAUTION *Any building owner claiming a credit without receiving a completed Form 8609 that is signed and dated by an authorized official of the housing credit agency and submitting the completed Form 8609 (Part I and Part II) to the IRS is subject to having the credit disallowed.*

Item D. If "No," stop here and see Form 8611 to find out if you have to recapture part of the credit allowed in prior years.

Item E. If "Yes," see the instructions for line 2 to figure the reduced qualified basis. Also, see Form 8611 to find out if you have to recapture part of the credit allowed in prior years.

If "No," and the entire credit has been claimed in prior tax years (generally this can occur after the 11th year for which the credit has been claimed for the building), do not complete Part II.

Part II—Computation of Credit

Line 1. Generally, the eligible basis of a building for its entire 15-year compliance period is the amount of eligible basis entered on Form 8609, line 7b (Part II, line 1b, on the 1991 revision; line 7 on the 2003, 2005, 2006, 2007, and 2008 revisions).

Basis increases for buildings in certain high-cost areas. In order to increase the credit for buildings in certain high-cost areas, the housing credit agency may increase the eligible basis of buildings located in these areas (after adjustments, if any, for federal subsidies and grants). The agency may make this increase under the high cost area provisions of section 42(d)(5)(B). For buildings placed in service before July 31, 2008, the high cost area provisions under former section 42(d)(5)(C) apply.

Gulf Opportunity (GO) Zone, Rita GO Zone, and Wilma GO Zone. The housing credit agency may increase the eligible basis of buildings in these specific zones if the buildings receive allocations in 2006, 2007, or 2008 and the buildings are placed in service during the period beginning on January 1, 2006, and ending on December 31, 2010. See section 1400N(c)(3) for more information. See Pub. 4492, *Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma*, for a list of the counties and parishes in these specific zones.

Note. This increase cannot cause the credit on line 15 to exceed the credit amount allocated on line 1b, Part I, of Form 8609.

Basis reductions for buildings placed in service before July 31, 2008. The amount of eligible basis entered on Form

Cat. No. 52335U

8609 does not include the cost of land or the amount of any federal grant received for the building during the first year of the credit period. Do not reduce the eligible basis on line 1 by the amounts of any federal grants received after the first year of the credit period. The calculation for line 14 will reduce the credit by the amount of any federal grants received during the compliance period that did not reduce the eligible basis during the first year of the credit period.

For more details on determining eligible basis, see the instructions for Form 8609, line 7b (Part II, line 1b, on the 1991 revision; line 7 on the 2003, 2005, 2006, 2007, and 2008 revisions).

Basis reductions for buildings placed in service after July 30, 2008. The amount of eligible basis entered on Form 8609 does not include the cost of land or the amount of any costs financed with the proceeds of a federally funded grant. Do not reduce the eligible basis on line 1 by the amounts of any federal grants received after the first year of the credit period. The calculation for line 14 will reduce the credit for any costs financed with the proceeds of a federal grant.

For more details on determining eligible basis, see the instructions for Form 8609, line 7, 2008 revision.

Line 2. Only the portion of the basis on line 1 attributable to the low-income rental units in the building at the close of the tax year qualifies for the credit. This is the smaller of the fractional amount of low-income units to all residential rental units (the "unit fraction") or the fractional amount of floor space of the low-income units to the floor space of all residential rental units (the "floor space fraction"). This fraction must be shown on line 2 as a decimal carried out to at least four places (for example, $^{50}/_{100}$ = .5000). Low-income units are units occupied by qualifying tenants, while residential rental units are all units, whether or not occupied.

Generally, a unit is not treated as a low-income unit unless it is suitable for occupancy, used other than on a transient basis, and occupied by qualifying tenants. Section 42(i)(3) provides for certain exceptions (for example, units that provide transitional housing for the homeless may qualify as low-income units). See section 42(i)(3) for more details. Also see section 42(g)(2)(D) regarding the available unit rule and Regulations section 1.42-5(c)(1)(ix) regarding the vacant unit rule.

If you dispose of the building, or your entire interest in the building, before the close of the tax year, the low-income portion must be determined on the date you disposed of the building. If you dispose of less than your entire interest in the building, the low-income portion must be determined at the close of the tax year.

First-year modified percentage. For the first year of the credit period, you must use a modified percentage on line 2 to reflect the average portion of a 12-month period that the units in a building were occupied by low-income individuals. Figure the low-income portion as of the end of each full month that the building was in service during the year. Add these percentages together and divide by 12. Enter the result on line 2. For example, if a building was in service for the last 3 full months of your tax year, and was half occupied by low-income tenants as of the end of each of those 3 months, then assuming the smaller fractional amount was the unit fraction, you would enter .1250 on line 2 ([.5 + .5 + .5] ÷ 12 = .1250).

This first year adjustment does not affect the amount of qualified basis on which the credit is claimed in the next 9 tax years. In general, the credit is claimed in those years by reference to the qualified basis at the close of each tax year.

Because the first year credit is not determined solely by reference to the qualified basis at the close of the year, any reduction in credit resulting from the application of the first year adjustment may be claimed in the 11th year. See the instructions for line 17.

Line 3. Generally, multiply line 1 by line 2 to figure the portion of the eligible basis of the building attributable to the low-income residential rental units.

Imputed qualified basis of zero. However, the qualified basis of the building (line 3) is zero if any of the following conditions apply.

- The minimum set-aside requirement elected for the project on Form 8609, line 10c (Part II, line 5c, on the 1991 revision), is not met, or the entire building is out of compliance with the requirements under section 42.
- The deep rent skewed test (15-40 test) elected for the project on Form 8609, line 10d (Part II, line 5d, on the 1991 revision), is violated. The 15-40 test is not an additional test for satisfying the minimum set-aside requirements of section 42(g)(1). The 15-40 test is an election that relates to the determination of a low-income tenant's income. If this test is elected, at least 15% of all low-income units in the project must be occupied at all times during the compliance period by tenants whose income is 40% or less of the area median gross income (or, when applicable, national nonmetropolitan median gross income or national non-metropolitan median income).
- You disposed of the building or your entire interest therein during the tax year and did not follow the procedures (described earlier under *Recapture and building dispositions*) to prevent recapture. In addition to using an imputed basis of zero on line 3, you may have to recapture a portion of credits previously taken. File Form 8611 to figure and report the recaptured amount. This paragraph affects only those taxpayers who dispose of the building or their entire interest therein. Those acquiring the building (or any interest therein) are not affected and, if the minimum set-aside requirements are otherwise satisfied, they may take a credit for the fraction of the year the building is owned by them.

Note. If the qualified basis of the building is zero, or if the building has an imputed qualified basis of zero, you may not claim a credit for the building for the tax year. You must enter zero on lines 3 and 16, and skip lines 4 through 15, 17, and 18.

At-risk limitation for individuals and closely held corporations. The basis of property may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who has other than a creditor interest in the property. See section 42(k).

Line 4. If you owned the building (or an interest therein) for the entire year, enter zero on line 4 and go to line 5.

Disposal of building or interest therein. If you disposed of a building or your entire interest therein during the tax year and you followed the procedures (described earlier under *Recapture and building dispositions*) to continue to claim the credit, you may claim a credit based only on the number of days during the tax year for which you owned the building or an interest therein.

Similarly, if you previously had no interest in the building, but you acquired the building or an interest therein during the tax year, you may claim a credit based only on the number of days during the tax year for which you owned the building or an interest therein.

The owner who has owned the building for the longest period during the month in which the change in ownership occurs is deemed to have owned the building for that month. If the seller and new owner have owned the building for the same amount of time during the month of disposition, the seller is deemed to have owned the building for that month.

Example. Both the buyer and the seller are calendar-year taxpayers. The sale takes place on May 25 of a 365-day calendar year. The qualified basis of the low-income building is $20,000. The seller and buyer will each complete a separate Form 8609-A, and enter $20,000 on line 3.

In this situation, the seller is deemed to have owned the building for all 31 days of May. Therefore, the seller owned the building for 151 days of the 365-day tax year, and the buyer owned the building for the remaining 214 days. The seller will multiply $20,000 by 151/365 to get $8,274. The seller will enter $8,274 on line 4 of his Form 8609-A. The buyer will multiply $20,000 by 214/365 to get $11,726. The buyer will enter $11,726 on line 4 of her Form 8609-A.

Pass-through entities. If the building is owned by a pass-through entity, the entity does not need to make any adjustment on line 4, unless the entity either disposes of the building or its entire interest therein, or acquires the building or an interest therein during the tax year (and the entity previously had no interest in the building). Do not make an adjustment on line 4 for changes in the interests of the members of the pass-through entity during the tax year. Instead, the entity must reflect these changes in the amount of credit it passes through to its members.

Line 5. If the agency has made an allocation on Form 8609, enter on line 5 the credit percentage shown on Form 8609, Part I, line 2. This percentage must be shown on line 5 as a decimal carried out to at least four places (for example, 8.13% would be shown on line 5 as .0813).

Buildings placed in service before July 31, 2008. If you were allocated a 70% present value credit percentage for a building that was not federally subsidized (as defined on the date the building was placed in service) and the building later receives a federal subsidy, your credit percentage is reduced to the 30% present value credit that was in effect during the month the building was placed in service or for the month elected under former section 42(b)(2)(A)(ii), whichever applies. The 30% present value credit applies to the building for the year the federal subsidy was received and for the remainder of the compliance period, whether or not the federal subsidy is repaid. For the definition of federal subsidy that was in effect before July 31, 2008, see section 42(i)(2) (as in effect before July 31, 2008).

Buildings placed in service after July 30, 2008. If you were allocated a 70% present value credit percentage for a building that was not federally subsidized (as defined on the date the building was placed in service) and the building later receives a federal subsidy, your credit percentage is reduced to the 30% present value credit that was in effect during the month the building was placed in service or for the month elected under section 42(b)(1)[(A)](ii), whichever applies. The 30% present value credit applies to the building for the year the federal subsidy was received and for the remainder of the compliance period, whether or not the federal subsidy is repaid. For the definition of federal subsidy that was in effect after July 30, 2008, see section 42(i)(2) (as in effect after July 30, 2008).

Line 6. If you owned the building, or had an interest therein, for the entire tax year, multiply line 3 by line 5. If you had no ownership interest in the building for a portion of the tax year, multiply line 4 by line 5.

Lines 7 Through 12

If you are not claiming a credit for additions to qualified basis on line 7, skip lines 7 through 12 and go to line 13.

CAUTION *You may claim a credit for an addition to qualified basis only if the credit amounts have been allocated by the housing credit agency to cover these additions.*

Line 7. An addition to qualified basis results when there is an increase in the number of low-income units or an increase in the floor space of the low-income units over that which existed at the close of the first year of the credit period (before application of the modified percentage calculation). Credits for an addition to qualified basis are claimed at the reduced credit percentage of two-thirds of the credit percentage (expressed as a decimal carried out to at least four places) on line 5 through the end of the 15-year compliance period.

If you are claiming a credit for additions to qualified basis, you must subtract the original qualified basis of the building at the close of the first year of the credit period (see Form 8609, line 8a (Part II, line 2a, on the 1991 revision)) from the building's qualified basis entered on line 3. Enter the result on line 7. If the result is zero or less, skip lines 8 through 12 and enter the credit from line 6 on line 13.

Line 8. The determinations and calculations you make on line 8 follow the instructions for line 4. Therefore, if you owned the building (or an interest therein) for the entire year, enter zero on line 8 and go to line 9.

Disposal of building or interest therein. If you disposed of a building or your entire interest therein during the tax year, see *Disposal of building or interest therein* in the line 4 instructions; and, wherever line 3 and line 4 are referenced, substitute line 7 and line 8, respectively.

Pass-through entities. If the building is owned by a pass-through entity, see *Pass-through entities* in the line 4 instructions; and, wherever line 4 is referenced, substitute line 8 instead.

Line 9. The credit for additions to the building's qualified basis is determined using two-thirds of the credit percentage allowable for the building's original qualified basis. Therefore, one-third of the credit percentage (expressed as a decimal carried out to at least four places) on line 5 is not allowed. Enter on line 9 one-third of the amount shown on line 5. This amount must be reported on line 9 as a decimal carried out to at least four places (for example, if the credit percentage entered on line 5 is .0813, one-third of that percentage would be expressed as .0271). See section 42(f)(3).

Line 10. If you owned the building, or had an interest therein, for the entire tax year, multiply line 7 by line 9. If you had no ownership interest in the building for a portion of the tax year, multiply line 8 by line 9.

Line 11. Additions to qualified basis must be adjusted to reflect the average portion of the year that the low-income units relating to the increase were occupied. This adjustment is required if the increase in qualified basis of the building exceeds the qualified basis (including additions to qualified basis) of the building in any prior taxable year. To determine this adjustment amount, complete the worksheet on page 4.

Line 14. The eligible basis on line 1 must be reduced by federal grants received. If a reduction does not apply because this is the first year of the credit period (line 1 already reflects the reduction or noninclusion of a federal grant), or no federal grant was received, enter zero on line 14. Otherwise, follow the instructions that apply for the date the building was placed in service.

Buildings placed in service before July 31, 2008. Reduce the eligible basis on line 1 by the amount of any federal grant for the building, or the operation thereof, received during the 15-year compliance period.

Buildings placed in service after July 30, 2008. Reduce the eligible basis on line 1 by the amount of any costs financed by the proceeds of a federal grant.

Regardless of the date the building was placed in service, figure the reduction as follows.

Step 1. Divide the total amount of all federal grants received for the building during the compliance period that did not already reduce the amount of the eligible basis (reported on line 1) by the eligible basis on line 1 of this Form 8609-A. Enter the result as a decimal carried out to at least four places.

Note. If the eligible basis on line 1 of this Form 8609-A was increased by a percentage allowable under section 42(d)(5)(B) (former section 42(d)(5)(C) for buildings placed in service before July 31, 2008), and the increased percentage is reflected on line 3b of Form 8609, then increase the total amount of all federal grants in Step 1 by this percentage increase and divide this amount by the eligible basis on line 1 of this Form 8609-A. For example, if the percentage increase is 130% and all federal grants total $11,000, multiply $11,000 by 1.3000 and divide the result ($14,300) by the eligible basis on line 1.

Step 2. Multiply the decimal amount determined in Step 1 by the credit on line 13. Enter this result on line 14.

Line 16. To determine the amount to enter on line 16, see the information that follows in *1, 2, 3,* and *Special rules.*

1. If the building is owned completely by one taxpayer, enter the line 15 credit (after adjustment for any applicable special rule below) on line 16.
2. If the building is owned by more than one taxpayer, and those taxpayers are not members of a pass-through entity, then the line 15 credit (after adjustment for any applicable special rule below) must be distributed according to each taxpayer's respective ownership interest in the building. For example, if a building is owned by individuals A and B (60% by A and 40% by B), each would complete a separate Part II as follows. Lines 1 through 15 would be the same for each, assuming no part-year adjustments are necessary. However, A would enter 60% of line 15 on line 16, and B would enter 40% of line 15 on line 16. Therefore, enter on line 16 your share of the line 15 credit for the building that relates to your interest in the building. If your interest increases or decreases during the tax year, the change must be taken into account in determining your share of the line 15 credit.

Note. The aggregate credit claimed by the owners of the building cannot exceed the line 15 credit amount for the building.

3. If a pass-through entity is completing Form 8609-A as the sole owner of the building, enter the line 15 credit (after adjustment for any applicable special rule below) on line 16.

Special rules. If a taxpayer is subject to recapture upon the disposition of a building or interest therein because the taxpayer did not follow the procedures (described earlier under *Recapture and building dispositions*) to prevent recapture, no credit is allowed to the taxpayer for that percentage of the interest disposed of by the taxpayer. (However, see *De minimis recapture rule,* later.) The credit allowed to the taxpayer for the tax year is determined by reference to the taxpayer's remaining interest in the building at the close of the tax year. For example, assume that a taxpayer owns 100% of a building for 273 days in a 365-day calendar tax year, and 40% of the building for the remaining 92 days in the tax year (the taxpayer disposed of a 60% interest on the last day of September). If the taxpayer does not follow the procedures to prevent recapture, the taxpayer's credit on line 16 would be based on 40% of the line 15 credit for the building. Similarly, although a taxpayer might not be subject to recapture upon a disposition of a *de minimis* portion (explained later) of the taxpayer's interest in the building, no credit is allowed to the taxpayer for the percentage of the interest disposed of by the taxpayer. The credit allowed to the taxpayer for the tax year is determined by reference to the taxpayer's remaining interest in the building at the close of the tax year.

If the taxpayer follows the procedures to prevent recapture, the taxpayer is allowed credit for the year both with respect to the ownership interest disposed of by the taxpayer and the interest retained by the taxpayer. For example, again assume that a taxpayer owns 100% of a building for the first 273 days in a 365-day calendar tax year and 40% of the building for the last 92 days of the year. After following procedures, the taxpayer's credit on line 16 would be based upon 273/365 of 100% (or 74.79%) of the line 15 credit for the building plus 92/365 of 40% (or 10.08%) of the line 15 credit amount.

If a taxpayer follows the procedures to prevent recapture upon the disposition of the building or upon a disposition of the taxpayer's entire interest in the building, the taxpayer's line 16 credit amount is determined by multiplying the line 15 credit amount by the percentage interest in the building disposed of by the taxpayer. For example, if a building is owned by individuals A and B (60% by A and 40% by B) and on the last day of the fifth month of the tax year, C buys A's 60% interest in the building and A follows the procedures, then A would enter 60% of line 15 on line 16. (Lines 4 and 8 have already taken into account the 5 months of the tax year that A held an interest in the building.)

***De minimis* recapture rule.** For administrative purposes, the Service has adopted a *de minimis* rule that applies to partners in partnerships (other than partnerships to which section 42(j)(5)(B) applies) owning interests in qualified low-income buildings. The rule allows a partner to elect to avoid or defer recapture resulting from a disposition of interest in a partnership without posting bond (in a situation where it was necessary to post bond to avoid or defer recapture) until the partner has disposed of more than $33\frac{1}{3}$% of the partner's greatest total interest in the qualified low-income building through the partnership. See Rev. Rul. 90-60, 1990-2 C.B. 3, for more information on the *de minimis* rule.

Upon application by the building owner, the IRS may waive any recapture of the low-income housing credit for any *de minimis* error in complying with the minimum set-aside requirements.

Line 17. The first-year credit may have been reduced based on the number of full months the building was in service. The deferred balance of the credit for the first year is allowed in the 11th year. Include it on line 17 as a **positive** amount.

For example, see the example under *First-year modified percentage,* earlier. If this is the 11th year, enter .8750 times the eligible basis of the building (line 1) times the credit percentage (line 5). The factor .8750 is 1.0000 minus .1250, the modified percentage figured for year one in the example.

Line 18. For buildings placed in service after December 31, 2007, the credit is no longer limited by the alternative minimum tax rules. The amount on line 18 will be reported on Form 8586 as follows.

Credit for buildings placed in service before January 1, 2008. Report this amount on line 3 of Form 8586.

Credit for buildings placed in service after December 31, 2007. Report this amount on line 10 of Form 8586.

Paperwork Reduction Act Notice. We ask for the information on these forms to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is:

Recordkeeping	7 hr., 38 min.
Learning about the law or the form	1 hr., 47 min.
Preparing and sending the form to the IRS	1 hr., 59 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service at the address listed in the instructions for the tax return with which this form is filed.

Line 11 Worksheet (Keep for Your Records)

1	Enter the qualified basis of the building from line 3 of this tax year's Form 8609-A	1	
2	Multiply the amount on line 1 of the previous year's Form 8609-A by the amount on line 2 of that Form 8609-A	2	
3	Increased qualified basis. Subtract line 2 above from line 1 above. But if line 2 above is more than zero but less than the original qualified basis of the building entered on Form 8609, line 8a (Part II, line 2a on the 1991 revision), then enter the amount from line 7 of this Form 8609-A instead **Note.** *If line 3 above is zero or less, do not complete the rest of this worksheet. Instead, enter -0- on line 11 of Form 8609-A and go to line 12.*	3	
4	Modified percentage. For each month during the tax year, figure the increase, if any, in the low-income portion of the building for that month over the low-income portion of the building at the close of the previous tax year (the amount on line 2 of the previous tax year's Form 8609-A). For example, if the previous tax year's low-income portion of .5000 remained at .5000 for the first 9 months of this tax year and then increased to .7500 for October, November, and December, then subtract .5000 from .7500 to get an increase of .2500 for each month. Add these amounts together, divide by 12, and enter the result. (This amount must be shown as a decimal carried out to at least four places (for example, .2500 + .2500 + .2500 = .7500, divided by 12 = .0625.))	4	
5	Increased qualified basis entitled to reduced credit. Multiply line 4 above by Form 8609-A, line 1	5	
6	Increased qualified basis not entitled to reduced credit. Subtract line 5 above from line 3 above	6	
7	Line 11 modification. Multiply line 6 above by two-thirds of the amount on line 5 of Form 8609-A. Enter the result here and on line 11 of Form 8609-A	7	

Form **8611**
(Rev. December 2019)
Department of the Treasury
Internal Revenue Service

Recapture of Low-Income Housing Credit

▶ **Attach to your return.**

▶ **Go to *www.irs.gov/Form8611* for instructions and the latest information.**

Note: Complete a separate Form 8611 for each building to which recapture applies.

OMB No. 1545-1035

Attachment Sequence No. **90**

A Name(s) shown on return		**B Identifying number**
C Address of building (as shown on Form 8609)	**D** Building identification number (BIN)	**E** Date placed in service (from Form 8609)
F If building is financed in whole or part with tax-exempt bonds, see instructions and furnish: **(1)** Issuer's name		**(2)** Date of issue
(3) Name of issue		**(4)** CUSIP number

Note: Skip lines 1–7 and go to line 8 if recapture is passed through from a flow-through entity (partnership, S corporation, estate, or trust). However, section 42(j)(5) partnerships must complete lines 1 through 7.

1	Enter total credits reported on Form 8586 in prior years for this building	**1**	
2	Credits included on line 1 attributable to additions to qualified basis (see instructions)	**2**	
3	Credits subject to recapture. Subtract line 2 from line 1	**3**	
4	Credit recapture percentage (see instructions)	**4**	.
5	Accelerated portion of credit. Multiply line 3 by line 4	**5**	
6	Percentage decrease in qualified basis. Express as a decimal amount carried out to at least 3 places (see instructions)	**6**	.
7	Amount of accelerated portion recaptured (see instructions if prior recapture on building). Multiply line 5 by line 6. Section 42(j)(5) partnerships, go to line 16. All other flow-through entities enter the result here and enter each recipient's share in the appropriate box of Schedule K-1. Generally, flow-through entities will stop here. (**Note:** An estate or trust enters on line 8 only its share of recapture amount attributable to the credit amount reported on its Form 8586.)	**7**	
8	Enter recapture amount from flow-through entity (see **Note** above)	**8**	
9	Enter the unused portion of the accelerated amount from line 7 (see instructions)	**9**	
10	Net recapture. Subtract line 9 from line 7 or line 8. If less than zero, enter -0-	**10**	
11	Enter interest on the line 10 recapture amount (see instructions)	**11**	
12	Total amount subject to recapture. Add lines 10 and 11	**12**	
13	Unused credits attributable to this building reduced by the accelerated portion included on line 9 (see instructions)	**13**	
14	**Recapture tax.** Subtract line 13 from line 12. If zero or less, enter -0-. Enter the result here and on the appropriate line of your tax return (see instructions). If more than one Form 8611 is filed, add the line 14 amounts from all forms and enter the total on the appropriate line of your return	**14**	
15	**Carryforward of the low-income housing credit attributable to this building.** Subtract line 12 from line 13. If zero or less, enter -0- (see instructions)	**15**	

Only Section 42(j)(5) partnerships need to complete lines 16 and 17.

16	Enter interest on the line 7 recapture amount (see instructions)	**16**	
17	Total recapture. Add lines 7 and 16 (see instructions)	**17**	

For Paperwork Reduction Act Notice, see instructions. Cat. No. 63983Q Form **8611** (Rev. 12-2019)