

Massachusetts Housing Investment Corporation

Cost Certifications and Tax Credits

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LIHTC Overview

Eligible Basis

Cost to acquire, rehab, develop approve LIHTC project.
Land, syndication cost, and certain amortizable cost not eligible
Allocable share of Interest, legal, acquisition costs eligible
May elect to reduce eligible basis by amount of ineligible financing

X

Qualified Occupancy %

% of qualified units to total units at end of each month
lower of calculation based upon area or units
first year - occupied as of the last day of the month after BIN in service for 1 full month

=

Qualified Basis

Must meet Minimum Set Aside to be a LIHTC project
20-50 or 40-60

X

High Cost Development %

Multiplying of up to 130% if high development cost area
dependent upon census tracts

X

Credit %

Percentage to yield 4% or 9%
9% - new construction or rehab
4% - acquisition or federal funds

=

LIHTC \$\$\$\$\$

credit for each of 10 years
actually getting 150% of a 15 year credit accelerated over 10 years
additions to qualified basis after 1st year get 2/3rds credit over 15yrs
may elect to defer start of credit period to second year

Books and Records

- **Communication**
- **Accrual basis of accounting**
- **Recording of predevelopment costs**
- **General ledger chart of accounts is consistent with the sources and application of funds**
- **Allocation of development costs**
- **Development and operating activity is consolidated**
- **Permanent file documents**

CPA Documents

- Offering memorandum/Letter of understanding/Property fact sheet – document describing the project in detail, such as, name, location, financing, funding, required reserves, etc. used to establish understanding among developer, syndicator and investor)
- Tax opinion and Tax credit application
- LIHTC initial allocation and carryover allocation letters
- Complete Financial forecast
- Partnership/LLC agreement (Original and Amended)
- Development fee agreement
- Purchase and sale agreement (acquisition of land/property) and acquisition settlement sheet
- Financing agreements: mortgages and notes payable; mortgage commitment letter including construction financing; soft debt notes and agreements

CPA Documents - Continued

- Government grants, if applicable
- Land use restriction agreement/regulatory agreement
- Architect Agreements
- Construction contract and copies of approved change orders
- Cost of commercial space
- Site improvements
- Furniture, fixtures and equipment
- Summary trial balance including development and operations on an accrual basis
- Pre-development costs are recorded gross
- Confirmations (Legal, contractor, Architect, etc...)

CPA Documents - Continued

- Non-cash activity is recorded
- General ledger detail including development and operations
- Allocation of development costs detailing capitalized versus expensed and methodology used to allocate costs
- Unit Information - unit basis and square footage basis
- Development payable detail listing
- Invoices available as requested
- Requisitions – available as requested
- Detail draws schedule for all sources of funds including date, amount received and accrued interest, if any.

Eligible Basis

- What is Eligible basis?
- Eligible basis includes
 - Building Acquisition
 - Local Impact Fees
 - Construction Costs
 - Soft costs: architect, legal, permitting, clerk of the works, survey, etc.
 - Refrigerators, stoves, air conditioners
 - Parking lots, roads "closely associated" with use of the building
 - Grading and landscaping "closely associated" with the use of the building
 - Capitalized interest including amortization of loan costs
 - Developer Fees
 - Amenities (swimming pool/recreational facilities)

Eligible Basis - Continued

- Eligible basis does not include
 - Cost of land
 - Loan costs and fees (unless related to construction loans)
 - State Housing Compliance Fees
 - Marketing/Advertising
 - Operating expenses during construction
 - Reserves required by lender
 - Parking, roads, grading, and not integral to the building
 - Landscaping not adjacent to the building (trees along property line not eligible)

Eligible Basis - Continued

- Rent-up costs
 - Organization and syndication costs
 - Development fees allocable to land acquisition and other in-eligible project costs
 - Construction Contingency (contingency should be reclassified by client to actual natural category)
-
- Ineligible financing
 - Allocation among 4% and 9% cost
 - Source and Uses of Funds
 - Bridging Schedule

Cost Cert Bridging Schedule

ACCOUNT NAME	INVESTOR FORECAST	TRIAL BALANCE	DIFFERENCE	ACQUISITION BASIS	BUILDING	SITE IMPR.	FURN. & FIXT.	AMORTIZE/ EXPENSE	NONDED.	ELIGIBLE COSTS	
ACQUISITION - LAND	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,000	0	
ACQUISITION - STRUCTURE	2,460,000	2,460,000	-	2,460,000	-	-	-	-	-	0	
CONSTRUCTION CONTRACT	5,861,820	6,037,128	(175,308)	-	5,958,091	31,324	47,713	-	-	6,037,128	
LAND IMPROVEMENTS	31,324	-	31,324	-	0	-	-	-	-	0	
PERSONAL PROPERTY	47,713	-	47,713	-	0	-	-	-	-	0	
BUILDERS BOND PREMIUM	50,000	42,761	7,239	-	42,761	-	-	-	-	42,761	
ENGINEERING FOUNDATION / DRILLING	651,267	637,415	13,852	-	637,415	-	-	-	-	637,415	
ARCHITECT	440,000	429,574	10,426	-	429,574	-	-	-	-	429,574	
SURVEY & PERMITS	7,500	16,821	(9,321)	-	16,821	-	-	-	-	16,821	
OTHER COMMITMENT FEES	98,500	90,000	8,500	-	49,700	-	-	40,300	-	49,700	
GEOTECHNICAL	-	65,871	(65,871)	-	65,871	-	-	-	-	65,871	
CONSTRUCTION LOAN INTEREST	408,889	-	408,889	-	0	-	-	-	-	0	
BUYOUT OF SPONSOR 1% INTEREST	30,000	426,151	(396,151)	-	230,693	-	-	195,458	-	230,693	
ACCRUED INTEREST FROM INTERIM LOAN	41,693	-	41,693	-	0	-	-	-	-	0	
CONSTRUCTION LOAN EXPENSES	17,000	-	17,000	-	0	-	-	-	-	0	
CONSTRUCTION LOAN FINANCING FEE	31,000	29,250	1,750	-	29,250	-	-	-	-	29,250	
SOFT DEBT INTEREST	-	-	0	-	0	-	-	-	-	0	
DHCD TAX CREDIT AGENCY FEES	27,864	27,864	0	-	0	-	-	27,864	-	0	
INSURANCE	50,000	39,905	10,095	-	24,493	-	-	15,412	-	24,493	
LEGAL FEES	159,500	199,481	(39,981)	-	124,194	-	-	36,630	38,657	124,194	
AUDIT/COST CERT	-	39,660	(39,660)	-	29,160	-	-	10,500	-	29,160	
PERMANENT LOAN FINANCING FEE	68,000	-	68,000	-	0	-	-	-	-	0	
RELOCATION	810,000	642,364	167,636	-	642,364	-	-	-	-	642,364	
INTERIM OPERATING	81,000	-	81,000	-	0	-	-	-	-	0	
MARKETING & RENT UP	45,995	90,502	(44,507)	-	0	-	-	90,502	-	0	
INSPECTING ENGINEERING	-	15,450	(15,450)	-	15,450	-	-	-	-	15,450	
CONSTRUCTION MANAGEMENT	-	-	0	-	0	-	-	-	-	0	
ENVIRONMENTAL ENGINEER	-	62,650	(62,650)	-	62,650	-	-	-	-	62,650	
SOFT COST CONTINGENCY	-	-	0	-	0	-	-	-	-	0	
OTHER ELIGIBLE	50,000	69,704	(19,704)	-	69,704	-	-	-	-	69,704	
DEVELOPMENT CONSULTING	-	-	0	-	0	-	-	-	-	0	
HISTORIC CONSULTING	-	30,000	(30,000)	-	30,000	-	-	-	-	30,000	
REAL ESTATE TAXES	11,000	45,000	(34,000)	-	20,000	-	-	25,000	-	20,000	
TITLE & RECORDING	22,000	36,153	(14,153)	30,128	0	-	-	-	6,026	0	
APPRAISAL	-	18,500	(18,500)	15,417	0	-	-	-	3,083	0	
INITIAL OPERATING RESERVE	-	-	0	-	0	-	-	-	0	0	
WORKING CAPITAL RESERVE	-	140,996	(140,996)	-	0	-	-	-	140,996	0	
OPERATING RESERVE	258,640	259,446	(806)	-	0	-	-	-	259,446	0	
DEVELOPER FEE	859,648	859,648	0	-	859,648	-	-	-	-	859,648	
	\$ 13,100,353	\$ 13,312,294	\$ (211,941)	\$ 2,505,545	\$ 9,337,839	\$ 31,324	\$ 47,713	\$ -	\$ 441,666	\$ 948,208	\$ 9,416,876

LP EQUITY	\$ 8,191,000	\$ 8,301,000	0
MHP LOAN	1,900,000	1,800,000	
HOME FUNDERS/MHP	450,000	450,000	
STATE (DHCD) HOME	581,694	550,000	
CITY (DND) HOME	645,967	469,775	
SPONSOR LOAN - NHT	806,250	750,000	
SPONSOR LOAN - MA HTC	483,750	450,000	
ACCRUED INTEREST ON SOFT DEBT	41,693	43,519	
DHCD - CBH LOAN	0	448,000	
SPONSOR LOAN	0	50,000	
	0	0	
	0	0	
	\$ 13,100,354	\$ 13,312,294	

Calculation of Federal Historic Tax Credit	
Eligible Depreciable Basis	\$ 9,416,876
Less: Site Improvements	(31,324)
Less: Personal Property	(47,713)
ITC Eligible Real Property Basis	9,337,839
Historic Credit Percentage	20.00%
Historic Rehabilitation Tax Credit	\$ 1,867,568
Per Forecast	1,900,248

TB Reconciliation	
CIP per TB	\$ 12,953,996
Interim Operating	(42,144)
Initial Operating Reserve	259,446
Other Reserves	140,996
Other	0
	\$ 13,312,294

	Acquisition	Rehab	Total
Basis	2,505,545	9,416,876	11,922,421
Less: Commercial	0	0	0
Less: Historic TC	0	(1,867,568)	(1,867,568)
Less: Fed. Grants	0	(448,000)	(448,000)
Eligible Basis	2,505,545	7,101,308	9,606,853
Low Income %	100.00%	100.00%	100.00%
Hard to Dev. Step-Up	100.00%	130.00%	100.00%
Credit Rate - 12/04	0.00%	8.08%	
Calc. Credit	0	745,921	745,921
Per Forecast		619,200	619,200
Basis Excess / (shortfall)	0	1,206,411	1,206,411

TAX CREDIT RATE WAS LOCKED: DECEMBER 2005

Cost Savings
50% dnd

ABC LP
(a Massachusetts Limited Liability Company)
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS
October 31, 2006

<u>APPLICATIONS</u>	<u>Land</u>	<u>Building Shell</u>	<u>Rehabilitation/ Construction Costs</u>	<u>Amortized & Expensed Costs</u>	<u>Non- Deductible Costs</u>	<u>Totals</u>
Acquisition: Land	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ 500,000
Acquisition: Building	-	2,460,000	-	-	-	2,460,000
SUBTOTAL ACQUISITION	500,000	2,460,000	-	-	-	2,960,000
Direct Construction	-	-	6,037,128	-	-	6,037,128
Construction Contingency	-	-	-	-	-	-
Other Direct Construction	-	-	637,415	-	-	637,415
SUBTOTAL CONSTRUCTION	-	-	6,674,543	-	-	6,674,543
General Development Costs	-	-	-	-	-	-
Architecture and Engineering	-	-	495,445	-	-	495,445
Surveys and Permits	-	-	16,821	-	-	16,821
Environmental Engineer	-	-	62,650	-	-	62,650
Appraisal	3,083	15,417	-	-	-	18,500
Insurance	-	-	24,493	15,412	-	39,905
Legal	-	-	124,194	36,630	38,657	199,481
Title and Recording	6,026	30,127	-	-	-	36,153
Accounting and Cost Certification	-	-	29,160	10,500	-	39,660
Real Estate Tax	-	-	20,000	25,000	-	45,000
Inspection Fees	-	-	15,450	-	-	15,450
Construction Loan Interest	-	-	230,693	195,458	-	426,151
Relocation	-	-	642,364	-	-	642,364
Historic Consulting	-	-	30,000	-	-	30,000
Other Costs	-	-	69,704	-	-	69,704
Marketing and Rent Up	-	-	-	90,502	-	90,502
Construction Loan Fees	-	-	78,950	40,300	-	119,250
Bond Premium	-	-	42,761	-	-	42,761
DHCD Tax Credit	-	-	-	27,864	-	27,864
Working Capital Reserve	-	-	-	-	140,996	140,996
Initial Operating Reserve	-	-	-	-	259,446	259,446
SUBTOTAL GENERAL DEVELOPMENT COSTS	9,109	45,544	1,882,685	441,666	439,099	2,818,103
Development Fee	-	-	859,648	-	-	859,648
TOTAL APPLICATIONS OF FUNDS	\$ 509,109	\$ 2,505,544	\$ 9,416,876	\$ 441,666	\$ 439,099	\$ 13,312,294

<u>SOURCES</u>	
Investor Partner Capital Contributions	\$ 8,301,000
MHP Loan	1,800,000
HOME Funders / MHP Loan	450,000
DHCD Loan	550,000
DHCD - CBH Loan	448,000
DND Loan	469,775
NHT Loan	750,000
HTC Loan	450,000
Sponsor Loan - Utility Rebate	50,000
Accrued Interest	43,519
TOTAL SOURCES OF FUNDS	\$ 13,312,294

The accompanying notes are an integral part of these schedules.

ABC LP
(a Massachusetts Limited Liability Company)
CALCULATION OF ELIGIBLE LOW INCOME CREDIT BASIS
October 31, 2006

	<u>Total</u>	<u>Acquisition</u>	<u>Rehabilitation</u>
Total Depreciable Costs	\$ 11,922,420	\$ 2,505,544	\$ 9,416,876
Less: Costs Allocated to Commercial Space	<u>-</u>	<u>-</u>	<u>-</u>
Total Depreciable Residential Costs	11,922,420	2,505,544	9,416,876
Less: 20% Historic Rehabilitation Credit - Basis Reduction	(1,867,568)	-	(1,867,568)
Less: Nonqualified Sources of Financing	<u>(448,000)</u>	<u>-</u>	<u>(448,000)</u>
Subtotal: Eligible Basis	9,606,852	2,505,544	7,101,308
Hard To Develop Area Multiplier (130%)	<u></u>	<u>100%</u>	<u>130%</u>
Eligible Low Income Credit Basis	11,737,244	2,505,544	9,231,700
Qualified Low Income Occupancy Percentage	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Qualified Low Income Housing Tax Credit Basis	11,737,244	2,505,544	9,231,700
Low Income Housing Tax Credit Rate	<u>-</u>	<u>-</u>	<u>8.08%</u>
Low Income Housing Tax Credit	<u>\$ 745,921</u>	<u>\$ -</u>	<u>\$ 745,921</u>
Low Income Housing Tax Credit Reservation	<u>\$ 619,200</u>	<u>\$ -</u>	<u>\$ 619,200</u>

ABC LP
(a Massachusetts Limited Liability Company)
October 31, 2006

Schedule A - Anticipated receipts and related disbursements of development funds are as follows:

In accordance with obligations entered between the developer, the investor member and the Company, the managing partner believes that the following schedule depicts the anticipated receipts and related disbursements of development funds subsequent to the the filed date of this report.

	Total Per Cost Certification	Total Paid/ Received to Date	Total To be Paid/ Received
Sources			
Investor Partner Capital Contributions	\$ 8,301,000	\$ 1,225,650	\$ 7,075,350
MHP Loan	1,800,000	-	1,800,000
HOME Funders / MHP Loan	450,000	-	450,000
DHCD Loan	550,000	495,000	55,000
DHCD - CBH Loan	448,000	-	448,000
DND Loan	469,775	549,694	(79,919) *
NHT Loan	750,000	675,000	75,000
HTC Loan	450,000	-	450,000
Sponsor Loan - Utiliy Rebate	50,000	-	50,000
Accrued Interest	43,519	-	43,519
Total Sources	\$ 13,312,294	\$ 2,945,344	\$ 10,366,950
Uses			
Development Fee	\$ 859,648	\$ 150,832	\$ 708,816
Other Project Costs	12,452,646	2,794,512	9,658,134
Total Project Uses	\$ 13,312,294	\$ 2,945,344	\$ 10,366,950

* - Anticipated reimbursement due to cost savings (see note 5)

ABC LP
(a Massachusetts Limited Liability Company)
October 31, 2006

Schedule B - Uses of Developemnt Fee and Interest

Pursuant to the contract entered into between the developer and the investor partner and the Company, the managing member believes that the following schedule depicts the required uses of the developemnt fee and interest.

Total Developer Overhead, Fee and Interest	\$	859,648
Less:		
Advance to Partnership/LLC	\$	-
General Partner/Managing Member Capital Requirement		-
Development Fee Note paid from Operating Cash Flow and Residuals		-
3rd Party Escrows		
Net WORTH Escrows		-
Operating Reserve		-
Other		-
		<hr/>
Total Restricted Developemnt Fees		-
Total Unrestricted Funds to be Received by Developer	\$	<hr/> <hr/> 859,648

Form 8609

- IRS form which evidences final allocation of LIHTC to the project
- Part I is submitted to allocating agency (DHCD, etc.) with cost certification
- Signed by DHCD after cost certification is reviewed and approved
- Part II is completed with preparation of tax return
- Schedule A calculates the tax credit earned for the year (rent-up and occupancy are essential on this – responsibility of management)

Form **8609**
(Rev. December 2006)
Department of the Treasury
Internal Revenue Service

Low-Income Housing Credit Allocation and Certification

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	D Employer identification number of agency
TIN ▶	E Building identification number (BIN)

1a Date of allocation ▶	b Maximum housing credit dollar amount allowable	1b
2 Maximum applicable credit percentage allowable		2 %
3a Maximum qualified basis		3a
b if the eligible basis used in the computation of line 3a was increased, check the applicable box and enter the percentage to which the eligible basis was increased (see instructions)		3b %
<input type="checkbox"/> Building located in the Gulf Opportunity (GO) Zone, Rita GO Zone, or Wilma GO Zone		
<input type="checkbox"/> Section 42(d)(5)(C) high cost area provisions		
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 <input type="checkbox"/> Newly constructed and federally subsidized	b <input type="checkbox"/> Newly constructed and not federally subsidized	c <input type="checkbox"/> Existing building
d <input type="checkbox"/> Sec. 42(e) rehabilitation expenditures federally subsidized	e <input type="checkbox"/> Sec. 42(e) rehabilitation expenditures not federally subsidized	
f <input type="checkbox"/> Not federally subsidized by reason of 40-50 rule under sec. 42(i)(2)(E)	g <input type="checkbox"/> 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)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
9a If box 6a or box 6d is checked, do you elect to reduce eligible basis under section 42(i)(2)(B)?	<input type="checkbox"/> Yes <input type="checkbox"/> 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)?	<input type="checkbox"/> Yes <input type="checkbox"/> 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)) ▶	<input type="checkbox"/> Yes <input type="checkbox"/> No
b Elect not to treat large partnership as taxpayer (section 42(j)(5))	<input type="checkbox"/> Yes
c Elect minimum set-aside requirement (section 42(g)) (see instructions) <input type="checkbox"/> 20-50 <input type="checkbox"/> 40-60	<input type="checkbox"/> 25-60 (N.Y.C. only)
d Elect deep rent skewed project (section 142(d)(4)(B)) (see instructions)	<input type="checkbox"/> 15-40

Under penalties of perjury, I declare that the above building continues to qualify as a part of a qualified low-income housing project and meets the requirements of Internal Revenue Code section 42. I have examined this form and 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)	Tax year	

BKA For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Form **8609** (Rev. 12-2006)

Initial Year Credit Calculation

- Calculating the low income occupancy percentage for the initial year
 - Calculation must be performed on a building-by-building basis
 - Units vs. square footage
- Initial year credit calculation is as follows:
 - Eligible basis of building x tax credit percentage x low income occupancy percentage
- The tax credit is calculated monthly in the first year of the compliance period
 - In year 11, the project earns the leftover credits from the first year

Annual Statement for Low-Income Housing Credit

► File with owner's federal income tax return.

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 <input type="checkbox"/> section 42(e) rehabilitation expenditures <input type="checkbox"/>		
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	18	

General Instructions

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

Note. Some of the line numbers on the December 1988, March 1991, and November 2003 revisions of Form 8609, Low-Income Housing Credit Allocation Certification, and December 2005 and December 2006 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. After 2004, 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.

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.

Rent-Up Example

Partnership Name: ABC Limited Partnership
 First Year Rent up Schedule: The lower of Units or Square Foot
 Year: 12/31/2006

BIN: MA-03-00101
 Building 100% Low Income
 Total Sq Ft of Building: 41,750
 Total Units: 40

Month	Qualified Units	SQ FT of Qualified Units	% Qualified Units	% SQ FT of Qualified Units	Lower of 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%

Weighed Average of the lower of the Units or Sq Ft: 50.09%

Initial Year Tax Credit Issues

- A building must be placed in service an entire month to commence claiming tax credits.
 - If a building is acquired on any day except the first day of the month, credits can not be taken until the following month
- A Project can't necessarily capitalize 100% of interest, taxes and insurance into rehabilitation basis. These costs can only be capitalized through the end of the quarter in which the rehabilitation activity ends (on a building by building basis).
- In a "rehab-around" (with qualified tenant in-place) pick a placed in service date that is most advantageous.
 - You may pick any date to be the "placed in service date" (not necessarily when rehab activity ends) after the "minimum expenditure test" (greater if 10% of adjusted basis or \$3,000/unit) is met.
 - Select a placed in service date with the highest credit rate, if rate was not locked.

Initial Year Tax Credit Issues - Continued

- In order to take credits as of the acquisition date, tenants must be qualified as of that date.
- Reserves must be backed out of acquisition basis if they are part of the acquisition price (especially an issue with HUD or state agency projects).
- Tenants must be re-qualified when they move to another building
- If a qualified tenant moves from the Project, tax credits may be taken on the unit which has been vacated. The Project may continue taking tax credits after the unit is occupied to the extent the unit is occupied by a qualified tenant.
- If a qualified tenant moves from one unit to another, only one unit (the unit they ultimately reside in) becomes qualified.

Initial Year Tax Credit Issues – Continued

- There needs to be communication between development and property management staff to maximize credits.
 - Target contractor to focus on buildings that have the fewest number of market rate tenants.
 - Target lease up activity to fill up an entire building first.
 - Consider moving market rate tenants to other buildings.
- Operating activity should be reviewed when preparing the cost certification. There may be capitalizable costs paid for out of operations which could be used to increase the tax credit basis.

Occupancy Issues & Lease UP

- Minimum set-aside requirement
 - 40-60 rule
 - 20-50 rule
- Client must meet set-aside requirements by year end or project will not qualify for that year's tax credits (deferral)
- Set aside requirements apply throughout the compliance period (15 years)

Maximizing Tax Credits

- Rent new buildings quickly
 - Rent new units as early as practical means more qualified occupancy in the first year
 - Pre-leasing units can reduce the gap between completion and occupancy
 - Tax credits follow *occupancy*

Maximizing Tax Credits - continued

- Deferring credits on Partially Full Buildings
 - Deferral delays the set-aside requirements
 - Deferral avoids potential two-thirds issues
 - The decision to defer is made on the tax return
 - It is usually a building-by-building decision
 - Client may defer only for the year that the building is placed in service
 - If client defers, you ignore any credits the building would have earned; the credit calculation begins again the next year

Conclusion

- The cost certification is required to determine the tax credit basis for the project
- The ultimate goal is to ensure that your project delivers the tax credit return purchased by your investor
- Responsible parties: developers, management agent, tax advisor, accountant, general partner, investor
- The cost certification impacts both the client and the investors
- First year rent-up is crucial
- Good records are invaluable
- Plan early