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Low Income Housing Tax Credit

The Low-Income Housing Tax Credit is a credit against federal income tax liability each year for 10 years for owners of and investors in affordable rental housing. The amount of tax credits is based on reasonable costs of development, as determined by THDA, and the number of qualified affordable units.

The tax credit rate is approximately 4% for acquisition costs, approximately 9% for rehabilitation and new construction costs, but only 4% if the development has federal subsidies or tax-exempt financing (the actual credit rate is based on prevailing Treasury interest rates to provide a "present value" of 30% for acquisition costs and 70% for rehabilitation / new construction costs over 10 years). The acquisition credit can only be earned if there is a minimum amount of spending on rehabilitation and, with certain exceptions, if ownership has not changed in the previous 10 years. The effective tax credit rate can be 30% higher in low-income neighborhoods or high cost areas.

The annual credit amount is the lesser of (i) the tax credit rate multiplied by eligible costs for the number of low-income units or (ii) the amount determined by THDA to be needed to fill the gap between appropriate financing achievable and reasonable development costs. In all cases, tenant incomes and rents must be below stated maximums. Non-depreciable costs, such as land, and the amount of any grant are excluded from eligible costs. THDA also determines the amount of tax credits to be awarded based on its evaluation of submitted applications.

To be eligible, a development must have a minimum of either 20% of its units occupied by households with incomes no greater than 50% of area median income or 40% of its units occupied by households with incomes no greater than 60% of area median income. Income limits are adjusted for household size. Maximum rents are established for each size of unit, not to exceed 30% of the area maximum income for specified household sizes (utilities are considered part of rent if paid by the tenant). All requirements of the relevant qualified allocation plan developed by THDA and approved by the Governor must also be met.

Compliance: Developments must remain income and rent restricted for as long as 30 years. Tenants of low income are protected against eviction or large rent increases under certain circumstances. Land use restrictive covenants must be recorded against the property to insure that the property stays income- and rent-restricted and otherwise in compliance with federal tax code and relevant qualified allocation plan requirements.

Limit on tax credit volume: States can allocate tax credits equal to a total of $2.20 per resident each year. For Tennessee, this provides approximately $13 million in tax credits each year. Only the first year of tax credits counts against the state allocation. Developments with tax-exempt financing can receive tax credits outside of the state allocation limit. At least 10% of total credits in each state can only be allocated to non-profit organizations.

THDA allocates tax credits to eligible developments through a competitive process or through a non-competitive process in conjunction with use of tax-exempt financing, all subject to the relevant qualified allocation plan.

For more information, visit THDA’s web site at www.thda.org.

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