TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Low Income Housing Tax Credit (LIHTC) program
Audit Report # 17-004

Executive Summary

The Office of Internal Audit (OIA) reviewed the LIHTC program administered by TDHCA, from the application process through the issuance of the Form 8609 that investors receive to take credits against their tax liabilities. Based on the fieldwork performed, OIA concludes that the Low Income Housing Tax Credit Program processes are generally performed accurately and according to applicable rules; However, the following opportunities for improvement were identified.

Findings

- Our audit indicated that opportunity for improvement exists within The Multifamily Finance Division to strengthen and improve its internal policies and procedures, and to achieve a higher standard of consistency as it relates to Standard Operating Procedures (SOP) and filing procedure.

Recommendations

- The Division should develop Standard Operating Procedures (SOPs)
- Management should implement a filing system that includes consistent sub-files and verification of posted information.

Response:	**Responsible Area:**
Management agreed with our recommendations. Detailed responses are included in the body of the audit report.	MultiFamily Division Director

Objective, Scope and Methodology

Based upon our risk assessment and other factors, we selected the LIHTC Program, specifically the application process and the issuance of tax credits, for detailed testing and analytical procedures. This audit was identified in the Fiscal Year 2017 Annual Audit Plan and included the objectives to evaluate and explain the LIHTC Program and to evaluate the administrative and internal control procedures related to the program.

The audit covered activities and processes in place during the period of September 1, 2015, through February 28, 2017, with emphasis on identification of requirements of the LIHTC Program and internal controls related to the tax credit program. We selected and reviewed a random sample from 2016 allocation records. We also reviewed the IRS form 8610 that was submitted to the Internal Revenue Service ("IRS") to report allocation activity for 2016 allocation for the period, along with 9 of the 8609 forms that were issued to investors and submitted to the IRS . OIA summarized the results in the Report # 17-004 that follows.

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit

6/5/2017
Date Signed

June 5th, 2017

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RE: REVIEW OF THE LOW-INCOME HOUSING TAX CREDIT ("LIHTC") PROGRAM

TO: Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "Review of the LIHTC Program." This audit was identified in the Fiscal Year 2017 Annual Audit Plan and included the objectives to evaluate and explain the LIHTC Program and to evaluate the administrative and internal control procedures related to the program.

A- AUDIT SCOPE AND METHODOLOGY

The audit covered activities and processes in place during the period of September 1, 2015, through February 28, 2017, with emphasis on identification of requirements of the LIHTC Program and internal controls related to the tax credit program. Based upon our risk assessment and other factors, we selected the LIHTC Program, specifically the application process and the issuance of tax credits, for detailed testing and analytical procedures. Due to the complexity of the LIHTC Program, two of the analytical procedures were to reconcile the requirements of the U. S. Internal Revenue Code to the Texas Administrative Code ("TAC") for Fiscal Year 2016, and second to reconcile the TAC to the Multifamily Finance Division ("MFD") Review Checklist for 9% LIHTC applications. The audit was conducted in accordance with applicable audit standards including the *International Standards for the Professional Practice of Internal Auditing.*

We reviewed the LIHTC program administered by TDHCA, from the application process through the issuance of the Form 8609 that investors receive to take credits against their tax liabilities. We selected and reviewed a random sample from 2016 allocation records. We also reviewed the IRS form 8610 that was submitted to the Internal Revenue Service ("IRS") to report allocation activity for 2016 allocation for the period along with 9 of the 8609 forms that were issued to investors and submitted to the IRS. In addition, we visited several properties that were financed by tax credits issued by TDHCA. We found that the tax credit program is well run and achieves the purpose of facilitating affordable housing.

B-Introduction

The TDHCA LIHTC Program is one of the primary means of directing private capital toward the development and preservation of affordable rental housing for low-income households. Tax credits are awarded to eligible participants to offset a portion of their federal tax liability in exchange for the production or preservation of affordable rental housing. Investors in qualified affordable multifamily residential developments can use the LIHTCs as a dollar-for-dollar reduction of their federal income tax liability. There are two types of Tax Credits: Competitive (9%) and Non-Competitive (4%).

The 9% Housing Tax Credit is highly competitive and awarded based on a Regional Allocation Formula ("RAF") with additional set asides for developments at risk of losing affordability and subsidy, developments financed through USDA, and those with nonprofit organizations in control positions in their ownership structures. Applications are scored and ranked within their region, each region including urban and rural sub regions, or set-aside in accordance with applicable state and federal laws, chiefly the Qualified Allocation Plan ("QAP").

The Non-Competitive (4%) Housing Tax Credit program is coupled with the Multifamily Bond Program when the bonds finance at least 50% of the cost of the land and buildings in the Development. There are a variety of bond issuers in the State (including TDHCA) from which to select, with some limitations on the location of the development.

The tax credit program is jointly administered by the U. S. Department of the Treasury and TDHCA. TDHCA is responsible for identifying the state's housing needs, allocating credit to qualifying projects that meet the state's QAP criteria, monitoring the operation of developments that were awarded housing tax credits for ongoing compliance with Internal Revenue Code ("IRC") §42, and reporting any noncompliance to the IRS. The IRS compliance responsibilities include processing information submitted by state agencies and developers and evaluating noncompliance for tax audit purposes. TDHCA, through its Compliance Monitoring Division, monitors properties and when it identifies uncorrected noncompliance with federal requirements, it reports this to the IRS using IRS Form 8823. Allocation of Low-Income Housing Credits submitted by the state agencies are reconciled and processed by the IRS. Forms 8609 submitted by developers are matched to the state agencies' submissions and processed by the IRS.

C-Financial Analysis

The IRC §42 Low Income Housing Credit Program was enacted by Congress as part of the Tax Reform Act of 1986 to encourage new construction and rehabilitation of existing buildings used to provide low-income rental housing for households with income at or below specified income levels. This program provides tax incentives for investors to make equity investments. In exchange for funding for projects, investors receive tax credits and other tax benefits associated with ownership of the project, such as losses and depreciation. Credits are claimed over a ten year period. The other tax benefits remain available as long as the ownership structure continues. These tax benefits, plus the possibility of cash proceeds from the eventual sale of the project, represent the investors' return on investment.

Most of TDHCA's housing activities are financed by federal tax credit allocations. In 2016 the federal government allocated tax credits for TDHCA amounting to $63,356,000, which can be redeemed for each of ten years, producing potential credits of $633,560,000. Tax credits are typically redeemed starting two years from the date of awards as described further below. One advantage of the tax credit program that benefits the state is that the equity generated by the credits to finance housing development activity does not require appropriation of state funds. At the federal level, the cost of building is deferred until after construction, at the time when tax credits are redeemed / claimed.

As part of our financial analysis of the program, we conducted various analytical procedures as reasonableness tests [1]. These tests included comparing tax credits awarded, as computed from TDHCA records, to an estimate of tax credits redeemed / claimed by investors, as computed from Government Accountability Office ("GAO") records that were available for 2014. We also compared estimates of the Internal Rate of Return ("IRR") on tax credit deals to other financial products. We conducted these analytical procedures to facilitate understanding of the costs and benefits of the program.

We compared the credits awarded estimate from 2016 ($63,356,000 * 10) or $633,560,000, as computed from TDHCA records, to an estimate of tax credits claimed, that we computed from GAO records. The cost to the federal government is in the form of forgone tax revenue when the tax credits are redeemed. A 2015 federal GAO report stated that the LIHTC program on a national basis "cost an estimated $8 billion in forgone revenue in 2014." (GAO-15-330) Texas had approximately 8.433 percent of the population that year, so $674.6 million for 2014 would be a reasonable estimate of tax credits redeemed attributable to Texas LIHTC projects. By comparison federal expenditures in Texas, in fiscal year 2014, for the Medicaid Cluster was $19.38 billion, for the SNAP Cluster (food stamps) was $5.6 billion, and for the School Breakfast Program and National School Lunch Program the amounts were $514.4 million and $1.47 billion, respectively. This information is presented to provide context.

Each year TDHCA receives an allotment of tax credits from the federal government. These are awarded by TDHCA to organizations that compete for them by developing project proposals which are scored as described in the "Testing of Applications" section of this report.

The investors in the projects include Limited Liability Partnerships ("LLPs"), or other go-between entities that are able to make the benefits associated with the credits available to their investors. The return on investment comes in the form of future reductions in taxes which flow through the entity to the individual investors.

The tax credits amount to 9% of the eligible costs (not including land costs), or "basis," of the building project. Historically in certain areas known as qualified census tracts ("QCTs",) characterized by high levels of poverty, and in difficult to develop areas ("DDAs"), TDCHA was able to provide a 30% basis boost, allowing an investor to obtain and claim credits based on 130% of their computed basis in the development. Following the enactment of the Housing and Economic Recovery act of 2008, TDHCA is granted discretion to utilize a "basis boost" for other areas for the 9% transactions. The example below is a representation of the return on a $2 million eligible basis.

[1] A reasonableness test is an auditing procedure that examines the validity of accounting information. For example, an auditor could compare a reported ending inventory balance to the amount of storage space in a company's warehouse, to see if the reported amount of inventory could fit in there. Or, a reported receivable balance is compare to the trend line of receivables for the past few years to see if the balance is reasonable. Another reasonableness test is to compare a company's gross margin percentage to the same percentage for other companies in the same industry.

Table 1

LIHTC Example	If using Conventional financing (9% LIHTC)
Total Development Costs	$2,200,000
Less ineligible costs, including land	-$200,000
Eligible Basis (Total LIHTC eligible costs)	$2,000,000
Application Fraction	100%
Qualified basis (Eligible basis X Applicable fraction)	$2,000,000
Applicable percentage (AFR)	9%
Annual credit before basis boost	$180,000
Basis boosts (30%)	$2,600,000
Annual credit after basis boost	$234,000
Total Credit (Annual Credit * 10)	$2,340,000

In this example, the internal rate of return ("IRR") to the tax credit investor is 2.141 % on the $2 million eligible basis, assuming that the project will receive the tax credits, or Form 8609, two years from the date the project starts (See Appendix A). This analysis only covers the return on investment based on the tax credit. For the purpose of context as to what the investors are getting for their money there are other benefits that accrue to the owners. The one-year Treasury bill (T-bill) rate on 3/8/2017 was 1.03%. A year before that it was .66%. The before interest tax rate on the 10-year T-bill was 2.42% as of 2/21/2017. Similar investment alternatives may be relevant to tax-credit market. The private sector investment firms that manage the tax credit syndication process develop proprietary IRR models which they use to determine the price at which they will invest in tax credit assisted developments which they syndicate to the ultimate passive investors. The price at which credits syndicate is typically expressed in terms of the price paid for a dollar of credits, *e.g.,* $.92 or $1.02. Over the life of the LIHTC program this price has fluctuated significantly , drifting as low as $.60 in the economic crisis of 2008 to as high as $1.10 in recent years. It is currently undergoing some uncertainty as the possibility of federal tax reform legislation and the prospect of a lower marginal tax rate have posed IRR modeling challenges to syndicators. The competition for the tax credits is robust, and there is a well developed system for awarding the credits. This information and the information on IRR is presented for the context of reasonableness as to the return to investors.

D-Administration and Information system controls over LIHTC program

The LIHTC program basically follows TDHCA administrative policies and procedures. This includes the basics of human resource management and information technology management. Some administrative policies would need to be division-specific to align with best practices. For example, appendix D indicates Standard Operating Procedures ("SOPs") that were not available at the time of our audit.

As part of audit planning, we utilized a standard internal control questionnaire. According to management of the MFD the preparation of SOPs was in progress at that time. SOPs are important because they facilitate communication, provide consistency and quality control, help increase productivity, facilitate cross training, are utilized in the employee performance evaluation process, support peer accountability and coaching, help create a safer work environment, and provide staff with the consistent guidance to do things right.

Finding Item Number	Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
17-004.01	The division should develop a Standard Operating Procedures (SOP)	December 29, 2017	Marni Holloway

Management respond

The Multifamily Finance Division accepts this finding and will update the Division's Standard Operating Procedures (SOP) prior to December 29, 2017

E-REA's role in LIHTC program

The Real Estate Analysis ("REA") Division is responsible for analyzing the feasibility of proposed multifamily housing activities and preparing a credit underwriting analysis report that will be used by the Executive Award Review Advisory Committee ("EARAC" in making award recommendations and the TDHCA Governing Board in decision making with the goal of assisting as many Texans as possible by providing no more financing than necessary based on an independent analysis of the development's feasibility.

After the initial selection process by MFD the REA Division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments.

F-Testing of Applications

For the time period 2016, Internal Audit randomly selected a sample of LIHTC applications received during this period. The sample included three applications that were recommended for approval and three applications that were not recommended for approval by the TDHCA Governing Board. The items selected were the first five percent of applicable applications returned on the random sample generation.
Each application was tested to verify:

- application was received by end of day on March 1, 2016;
- scoring points on review checklist were properly carried forward to all proper documentation;
- application fee was properly computed and payment was received by end of day on March 1, 2016;
- multifamily staff properly followed the procedures for collecting application fees;
- commitment fee was properly paid by the due date;
- proper execution of Set-Aside and Region Allocations, Review Checklist, Scoring Notice, and Commitment Notice;

- proper calculations of credits to be awarded; and
- appropriate documentation was uploaded to the TDHCA web site.

Our testing did not find any errors related to the attributes above. We did note however that there were various filing errors which we have communicated to management.

Applications that were not recommended for Board approval and award either did not score high enough or there were no available funds remaining in the applicable category or set-aside.

We analyzed the Review Checklist by comparing it to the Texas Administrative Code (TAC) to assure completeness. The Review Checklist included all appropriate TAC attributes.

Finding Item Number	Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
17-004.02	Management should implement a filing system that includes consistent sub-files and verification of posted information	December 29, 2017	Marni Holloway

Management respond

The Multifamily finance Division accepts this finding and will include a management sampling process in the SOP as described above. Due to the volume of documents included in application files and limited resources available to perform reviews, a sample of priority applications only will be performed periodically during the Competitive LIHTC cycle starting in 2018. Files will be reviewed for accuracy & legibility of documents added by staff during the review process.

G-Building and Construction of the Low-Income Housing

After the tax credits are awarded the developers have until the end of the second year following award to complete the construction of the building project and have it placed in service (for the 9% tax credit).

As part of our audit, we wanted to view the end product of the tax credit activity. We visited four tax-credit properties that had been financed by TDHCA-issued tax credits, without any pre-set criteria in mind but rather just to observe the conditions of the buildings. We drove by the buildings and through the parking areas, but did not go inside any of the buildings. We went in the middle of the day.

The first place we visited was next to a community center. From the outside the building seemed well maintained. Teenagers were playing basketball at the Middle School next to the property. The second site visited was in the older part of the city we were in. We communicated what we observed to TDHCA management. Our third visit was to a complex of apparently well-kept two-story buildings. The units were very compact. The last complex we toured was on the east side of town. There was a long driveway leading up to the apartments, and the road was very bumpy and the ground was uneven.

H-Cost Certification and Department's issuance of IRS form 8609

After completing the project (which has different deadlines depending on whether it is a 4% or 9% Tax Credit Property) the developers submit a packet to TDHCA that includes a certified report by an Independent auditor who has reviewed the developer's eligible costs and financial records. Asset management is responsible for reviewing the Cost Certification packet and making recommendations to the Department's Executive Director for final approval.

A copy of the signed IRS form 8609 for each building is forwarded to Multifamily Finance division (MF), and the original is sent to the developer. Each year TDHCA prepares a Form 8610 for the IRS. This form reports all of the tax credits that were awarded for the year, which will be carried forward. The time between the award and the issuance of an 8609, the actual tax credit, varies. The 8609s are only issued after the buildings are in service and the costs have been certified. TDHCA does not track the forms 8609s after that.

I-Annual reporting to IRS (IRS form 8610)

IRC §42 requires state agencies to submit annual reports to the IRS identifying the annual credit amount allocated to each building for the year, sufficient information to identify each building and the developer with respect thereto, and other information needed for the administration of the program.

The annual report is made by submitting IRS Form 8610, annual Low-Income Housing Credit Agencies Report, along with copies of the Forms 8609 issued that year and Schedule A (Form 8610), documenting credit carryover allocations, to the IRS by February 28th of the following year. (Appendix B)

J-Testing of IRS Forms

MFD's records indicated that during 2016 TDHCA approved and issued 8609s for fifty eight of 9% tax credit properties and three for the 4% tax credit. We reviewed and tested a total of nine forms, which included six from 9% tax credit and all of 4% tax credits, for compliance with applicable rules and regulations in regard to the approval process. We found that the Asset Management Division, in conjunction with MFD and Compliance Monitoring Division, has followed all the applicable steps and requirements prior to issuing IRS form 8609 in the selected sample. The requirements included completion of the project within the set time frame as stated in the Carryover letter, receiving a certified report from independent auditors in regard to the developer's financial records and costs, and clearance by Compliance Monitoring Division through their physical inspection of the property.

K-Role of Compliance Monitoring division during Compliance period and issuance of IRS form 8823 when applicable

Treas. Reg § 1.4-5 provides authority for the state agency to report to the IRS that a building is no longer in compliance with the IRC §42 program on Form 8823 (Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition).

The Compliance Monitoring Division at TDHCA has an important role in the LIHTC program, and is tasked with physical inspection of every property prior to approval and issuance of IRS form 8609. It is responsible for monitoring the property throughout the compliance period once every three years. Compliance Division is also tasked with submitting IRS form 8823 in case of property's non-compliance during the fifteen year compliance period.

L-Tracking of Tax Credit

The Form 8609, that TDHCA issues, will include a BIN number that is the unique identifier, for tax purposes, for a building. Once the building is built, and cost and basis have been verified, TDHCA issues the Form 8609 to the applicant. At the end of the year, copies of all original 8609s for that year are sent to the IRS.

TDHCA prepares a Form 8610 for the IRS. This form reports all of the tax credits that were awarded for a year, which will be carried forward. The time between the award and the issuance of an 8609, the actual tax credit, varies. The 8609s are only issued after the buildings are ready to be occupied and the costs have been certified.

Once the Form 8609 is issued by TDHCA to the applicant, a syndicator will then distribute shares of the tax credits to Limited Liability Partnerships (LLPs).

OIA consulted with TDHCA's outside legal counsel on various issues related to this audit. TDHCA may want to consider discussing with the staff of the Texas State Securities Board whether the information contained in 8609 forms are relevant to any laws enforced, or actions regulated, by the TSSB.

M-Registration and tracking of Syndicators

This was the first comprehensive internal audit of the LIHTC at TDHCA.

At the federal level, several Governmental Accountability Office ("GAO") reports have been issued recently, which highlight the complexity of the program. Senator Chuck Grassley said on March 2, 2017, "The fact that the GAO needed to issue a separate explanation of the role of syndicators shows you just how complex this program has become." The reports were critical of communication between HUD and the IRS. Further reports by the GAO are forthcoming.

OIA extends our sincere appreciation to management and staff of the Multifamily Finance and Asset Management Divisions for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

cc: Tim Irvine, Executive Director
Marni Holloway, Director of Multifamily Finance
Raquel Morales, Director of Asset Management

Appendix A

CALCULATE STUFF (/)
www.calculatestuff.com

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IRR Calculator

Initial Investment

$	2000000.00

Cash Flow

Year 1 - $	0
Year 2 - $	0
Year 3 - $	234000
Year 4 - $	234000
Year 5 - $	234000
Year 6 - $	234000
Year 7 - $	234000
Year 8 - $	234000
Year 9 - $	234000
Year 10 - $	234000
Year 11 - $	234000
Year 12 - $	234000

Add Year | Calculate

(https://www.facebook.com/sharer/sharer.php?u=https://www.calculatestuff.com/financial/irr-calculator)

(https://twitter.com/intent/tweet?text=https://www.calculatestuff.com/financial/irr-calculator)

(https://plus.google.com/share?url=https://www.calculatestuff.com/financial/irr-calculator)

2.141%

Internal Rate of Return

Latest Calculators

Straight Line Depreciation Calculator (/business/straight-line-depreciation-calculator)

Age Calculator (/miscellaneous/age-calculator)

Percent To Decimal Calculator (/conversions/percent-to-decimal-calculator)

Decimal To Percent Calculator (/conversions/decimal-to-percent-calculator)

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Compound Interest Calculator (/financial/compound-interest-calculator)

Ovulation Calculator (/health/ovulation-calculator)

Resources

Calculator Widgets (/widgets)

Car Finance Tools (/apps/car-finance-tools)

FAQ (/faq)

Appendix B

SCHEDULE A (Form 8610)
(Rev. January 2016)
Department of the Treasury
Internal Revenue Service

Carryover Allocation of Low-Income Housing Credit

▶ Attach to Form 8610.
▶ Information about Schedule A (Form 8610) and its instructions is at *www.irs.gov/form8610.*

OMB No. 1545-0990

Name of housing credit agency		Employer identification number of agency
Address of housing credit agency	Check box if housing credit agency granted carryover allocation relief under Rev. Proc. 2014-49 . . . ▶ ☐	Check box if amended carryover allocation . . . ▶ ☐
1a Name of **building owner** receiving carryover allocation	**2** Taxpayer identification number of **building owner** (include dash or dashes)	FOR IRS USE ONLY
1b Address of **building owner** receiving carryover allocation		

3a Check if the carryover allocation is: ▶ ☐ building based or ▶ ☐ project based

b If the carryover allocation is subject to the nonprofit set-aside under section 42(h)(5), you must check "Yes." Otherwise, you must check "No" . . . . ☐ Yes ☐ No

4 Date of carryover allocation ▶ ____________

5	Amount of carryover allocation	**5**	
6	If a binding agreement (see instructions) was entered into, enter the maximum applicable credit percentage for:		
a	Acquisition cost	**6a**	%
b	Rehabilitation expenses	**6b**	%
c	New construction expenses	**6c**	%

General Instructions

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

Purpose of Form

State housing credit agencies use Schedule A (Form 8610) to report carryover allocations.

Major Disaster Declarations

If a housing credit agency has granted any project relief for carryover allocations discussed in section 6 of Rev. Proc. 2014-49, 2014-37 I.R.B. 535, the agency must attach to Form 8610 a copy of the Schedule A (Form 8610) for the projects for which it has approved relief. These attached copies of Schedule A (Form 8610) must have the box checked that indicates the housing credit agency granted carryover allocation relief under Rev. Proc. 2014-49. The housing credit agency should only include Schedules A (Form 8610) for projects receiving approval of the carryover allocation relief since the agency last filed Form 8610. The information from these particular Schedules A (Form 8610) is not included on any line in Part I or Part II of Form 8610.

Specific Instructions

Line 4

Enter the date of allocation. This is the date the authorized official of the state housing agency signs and dates the carryover allocation document.

Line 5

Enter the amount of carryover allocation. If you checked the "building based" box on line 3a, enter the amount of credit allocated to the building under section 42(h)(1)(E). If you checked the "project based" box on line 3a, enter the amount of credit allocated to all the buildings in the project under section 42(h)(1)(F).

Lines 6a, b, and c

Complete these lines only if both of the following apply.

- There is a binding agreement between the housing credit agency and the building owner for a specific housing credit dollar amount.
- An election is made to use an applicable percentage for a month other than the month in which the property is placed in service.

See Regulations sections 1.42-6 and 1.42-8 for requirements that must be met.

The applicable percentage cannot be less than 9% for any building that (1) is not federally subsidized and (2) is placed in service after July 30, 2008. See section 42(b)(2) and Notice 2008-106, 2008-49 I.R.B. 1239.

Form **8609**
(Rev. December 2016)
Department of the Treasury
Internal Revenue Service

Low-Income Housing Credit Allocation and Certification

▶ **Information about Form 8609 and its separate instructions is at *www.irs.gov/form8609*.**

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 ☐ 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