Community Developments

Comptroller of the Currency
Administrator of National Banks

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TAX CREDITS 101

The Low Income Housing Tax Credit Program (LIHTC) is now the single largest federal initiative to stimulate the production of affordable rental housing. Investments in LIHTCs will provide dollar-for-dollar offsets to the bank's federal income tax liability. Moreover, investments in LIHTCs are a qualified investment for banks under the OCC's Part 24 regulation. Listed below is an example of *sources and use of funds proforma* and *equity calculation* for a typical tax credit investment.

Source of Funds	
Construction/Permanent Mortgage	1,800,000
Municipal Soft Second Mortgage	600,000
State Soft Second Mortgage	900,000
Equity – Sale of LIHTCs	3,700,000
Total:	7,000,000

Use of Funds	
Construction Costs	5,300,000
Professional Fees	300,000
Carrying Costs	500,000
Other Expenses	400,000
Developer Fee	500,000
Total:	7,000,000

Equity Calculation	
Annual Tax Credits Awarded	493,400
Ten Year Benefits	*10
Total Value of Tax Credits	4,934,000
Bank is 99% Limited Partner	*.99
Value of Credits to Bank	4,884,660
Bank Purchases Credits at $.7575	*.7575
Equity Invested in Project:	3,700,000

In this example, the $3.7 million of equity invested (found in the sources of funds column) resulted from the developer's sale of tax credits to the bank. These credits were received by the developer from the state allocating agency. The equity calculation column illustrates how this $3.7 million equity figure is derived. The annual tax credit allocation of $493,400 is available to the bank for ten years, which results in a total value for the credits of $4,934,000. However, the bank is a 99 percent limited partner in the project, so its stream of tax credits equals $4,884,660 (.99 x $4,934,000). The bank then purchases the tax credits at a discounted value 75.75 percent resulting in equity to the project of $3,700,000. (It should be noted that the discounted value of the tax credits at 75.75 percent cited in this example will vary in the marketplace based on supply and demand). In addition to the 10-year stream of tax credits, most properties will also sustain losses from operations, which are passed through to the limited partner investor. These losses will further reduce the investor's taxable income and increase the internal rate of return.