

## INTRODUCTION TO TAX CREDIT MANAGEMENT

**W**elcome to tax credit management. You're probably eager to know what tax credit management is all about. You can apply much of your experience in conventional site management to tax credit site management—for example, you may already have experience dealing with households, handling finances, communicating with owners and contractors, and maintaining good files.

But managing a tax credit site also means keeping the site in compliance with the low-income housing tax credit program, so the owner keeps all of its tax credits. This means that you must become familiar with a number of requirements specific to the tax credit program.

We'll teach you about the tax credit program as you manage sites with us, send you to seminars taught by tax credit compliance professionals, and give you tax credit management guides to read. But before you begin, we think you'll find it useful to get a general understanding of how tax credit management differs from conventional site management. So we've put together this summary to explain those differences. Once you've had some training, you can refer back to this overview to see where a particular rule or concept fits in.

Here are eight basic ways that tax credit management differs from conventional site management:

### **1. Management Must Work Toward Compliance**

To make investments in low-income housing attractive, the IRS offers tax credits to owners of sites that meet certain requirements. But the owner must agree to maintain compliance with these tax credit program requirements for 15 years. If a site fails to meet a requirement of the program and management fails to take steps to correct the problem within a reasonable time, the state housing agency will report the noncompliance to the IRS, and the owner may lose its credits. It is the manager's job to avoid this. So tax credit management requires you to become familiar with the law and rules governing the tax credit program and work to keep the site in compliance with them.

### **2. Some Residents Must Be Low-Income**

A tax credit site must qualify as a low-income housing project. This means that the site must set a minimum number of units aside for low-income residents. Because of this, special rules apply when we fill vacancies at the site. These rules apply not only when low-income families move out. They can apply to vacancies in units that have never been low-income if a household at the site loses its low-income status.

### **3. Management Calculates and Verifies Household Income to Determine Eligibility**

We determine whether a household is low-income by first calculating its income based on federal rules. We then compare the income the household can expect to earn for the upcoming year to government income limits for that household size. Income includes all earnings, whether from a job or another source. We then verify household income with the income source, which

usually means contacting employers or government agencies. Finally, each household must certify that the income information it provided is accurate. If you are assigned to a site whose units are all designated low-income, you will not need to recertify income annually. However, if your site has some market-rate units, we must get new verifications and have households verify their incomes once a year.

### **4. Low-Income Households Pay Restricted Rents**

We must charge low-income households restricted rents so that they can afford the units. The tax credit law tells how to calculate the restricted rent, which is based on the number of bedrooms in the unit and the applicable income limit.

### **5. Special Occupancy Rules Apply**

When renting low-income units, there are special requirements to consider, because not all households that meet the income restrictions are eligible. For example, if all the residents of a household are full-time students, the household does not qualify for the tax credit program unless it falls into an exception. Another restriction prohibits low-income units from being used on a transient basis. But we must be sure not to do anything that discourages eligible households from renting our low-income units. To comply with this requirement, you need to be familiar with fair housing rules.

### **6. Tax Credit Sites Must Meet Certain Physical Requirements**

All low-income units must be suitable for occupancy, which means complying with local health, safety, and building codes. Even vacant units must comply. The state housing agency inspects every site regularly. So we need to do our own inspections of our sites to make sure that they're in good shape.

### **7. The Tax Credit Program Requires Additional Record Keeping to Stay in Compliance**

We must keep files on each low-income unit to document our compliance with the tax credit program. The IRS requires us to keep certain documents for at least six years after the 15-year compliance period is over. This means keeping some records for at least 21 years.

### **8. Tax Credit Sites Often Get Assistance from Other Affordable Housing Programs**

Some of our sites may receive affordable housing financing from such sources as the HOME Investment Partnership (HOME), the Section 8 program, and Community Development Block Grants. If the site where you work gets assistance from one of these programs, you'll need to become familiar with—and comply with—that program's requirements. In addition, you'll need to understand how the different programs overlap. If programs overlap and requirements differ, you must comply with the more restrictive requirements.