

APPLICABLE FRACTION REQUIREMENT QUIZ

QUESTION #1

You manage a tax credit site that has three buildings on it. The site owner elected to meet one minimum set-aside for all three buildings combined. How must you meet the applicable fraction requirement?

- a. You must meet one applicable fraction for all three buildings combined.
- b. You must meet an applicable fraction for each building separately.
- c. The owner must tell you whether to meet one applicable fraction for all three buildings combined or one applicable fraction for each building separately.
- d. You don't have to worry about the applicable fraction requirement, because you manage a multi-building site.

QUESTION #2

Which of the following statements about the "first-year fraction" is incorrect?

- a. The first-year fraction is always the fraction the owner tells

the site manager to meet in the first year, so that the owner can claim all the credits it was allocated.

- b. The first-year fraction is the applicable fraction in the first year of the credit period.
- c. If the second year's applicable fraction is lower than the first-year fraction, the owner's credits might be at risk.
- d. If the second year's applicable fraction is greater than the first-year fraction, the owner might be entitled to claim addition credits.

QUESTION #3

After the initial lease-up, the applicable fraction for a certain year is determined only on the last day of that year. True or false?

- a. True.
- b. False.

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APPLICABLE FRACTION REQUIREMENT QUIZ (continued)

QUESTION #4

You manage a single-building tax credit site that Jane owns. You tell Jane that the building's first-year fraction is 100 percent. Jane asks whether this means she can claim 100 percent of the tax credits she was allocated for the first year in that same first year. You should tell Jane that:

- a. She's automatically entitled to claim 100 percent of the credits she was allocated for the first year in that same first year, because the building's first-year fraction is 100 percent.
- b. The amount of credits she's entitled to claim for the first year in that same first year is based on the prorated fraction—and Jane should give you this information.
- c. She may claim 100 percent of the credits she was allocated for the first year in that same first year only if you continue to comply with the applicable fraction requirement for the rest of the 15-year compliance period.
- d. None of the above.

ANSWERS AND EXPLANATIONS

Scoring: Each correct answer = 25 pts. Total score = 100%.

QUESTION #1

Correct answer: b

Reason: The applicable fraction is always met on a per-building basis. So you must meet a separate applicable fraction for each of the three buildings at the tax credit site.

Wrong answers explained:

- a. Although the owner elected to meet one minimum set-aside for all three buildings combined, you must meet a separate applicable fraction for each building. Unlike the minimum set-aside requirement, the applicable fraction is a building rule and therefore must always be met on a per-building basis.
- c. Although the owner has a choice with the minimum set-aside requirement, it can't choose how it wants to meet the application fraction requirement. The tax credit law requires all owners to meet a separate applicable fraction for each of their buildings.
- d. Although the applicable fraction is a building rule, it applies to multi-building tax credit sites. At these sites, you must meet a separate applicable fraction for each building.

QUESTION #2

Correct answer: a

Reason: For a building's first-year fraction, the owners must choose a target that, if met, will entitle the owner to claim all the credits it was allocated for the building. Although management must aim for the owner's target, the first-year fraction could in fact be higher or lower than the target.

Wrong answers explained:

- b. The first-year fraction is simply the name for the applicable fraction that you must meet for a building in the first year of its credit period.
- c. The owner's credits may be at risk if the second year's applicable fraction is lower than the first-year fraction. This can happen if, for instance, you meet the owner's target for the first-year fraction, but your applicable fraction for the second year falls short.
- d. If your first-year fraction falls short of the owner's target,

but you meet a higher applicable fraction in the second year (meeting the required full applicable fraction), the owner may become entitled to claim more credits than in Year 1.

QUESTION #3

Correct answer: a

Reason: For each building at a tax credit site, the applicable fraction is determined on the last day of the year. The first-year fraction, for instance, is determined on the last day of the first year of the credit period. For purposes of calculating the applicable fraction, variances throughout the year do not have an effect.

QUESTION #4

Correct answer: b

Reason: Credits are not based on the applicable fraction. If your building's first-year fraction is 100 percent, it means that all of its units were occupied by qualified low-income households on the last day of the first year of the credit period. It does not necessarily mean that Jane can claim all the credits she was allocated for the first year in that same first year.

To determine how many first-year credits she may claim in the first year, Jane must calculate the "prorated fraction," which takes into account the percentage of the building's units rented to low-income households during each month of the first year. Jane should be able to claim the rest of her first-year credits after the credit period ends.

Wrong answers explained:

- a. The first-year fraction is not for determining how many first-year credits an owner may actually claim in the first year of the credit period. Jane's building's first-year fraction being 100 percent means only that Jane is entitled to claim 100 percent of the credits she was allocated for the first year—but not necessarily all in the first year.
- c. The applicable fraction requirement is a requirement that owners and managers must meet during each year of a building's 15-year compliance period. Whether you comply with the applicable fraction for that long does not determine the amount of credits Jane may claim during the first year.
- d. This answer is incorrect for the same reason that answer b is correct.