2018 Low-Income Housing Tax Credit Income Limits and Maximum Rents

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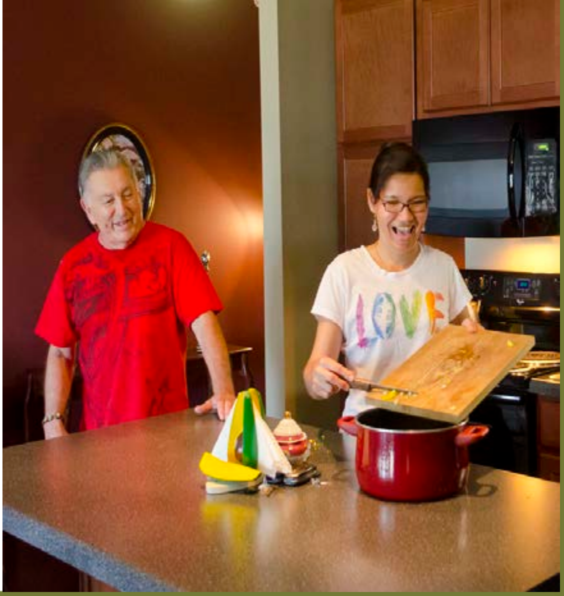
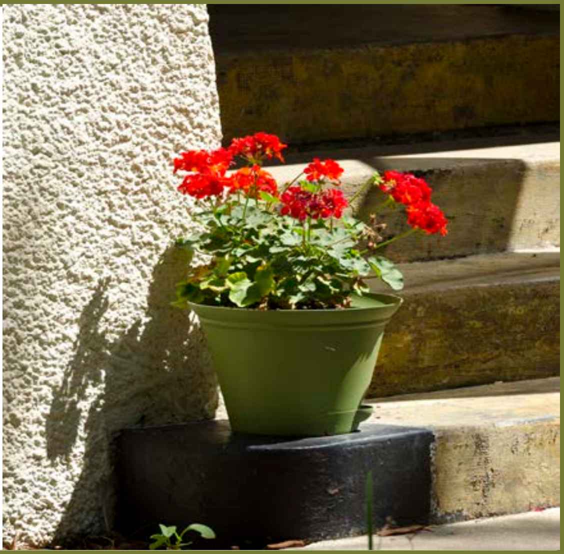
A Basic Introduction to Implementation





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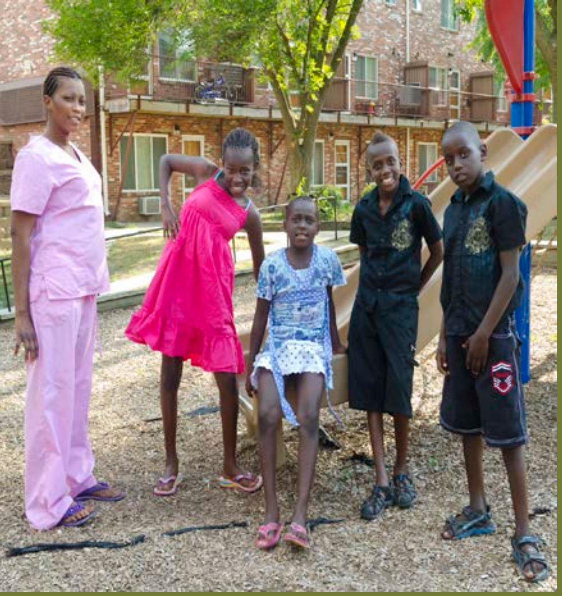
INTRODUCTION

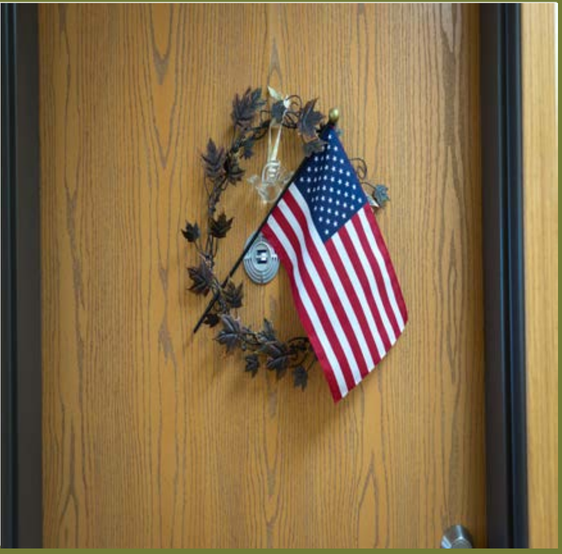
On March 30, 2018 HUD published the 2018 Income Limits with an effective date of **April 1, 2018**. As per Revenue Ruling 94-57, Housing Credit income limits must be implemented on the effective date or 45 days from the publication date, whichever is LATER. This means this year's limits must be implemented no later than **May 16, 2018**.

The following is a brief outline I've prepared on the implementation of the LIHTC income limits and some things to keep in mind as you are doing so.

Please feel free to contact me if you have any questions!

Julie E. Noland
Director of Compliance





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INTRODUCTION

Q: Why did HUD make changes to the way income and rent limits were calculated beginning in 2010?

A: In order to implement the requirements of the HERA 2008 rules which became effective in 2010.

History:

Prior to HERA, HUD held the LIHTC income limits steady, preventing them from declining even if their formulas resulted in income limits that were less than those in effect the previous year.

This allowed LIHTC projects to at least MAINTAIN both the income and maximum rents without regard to the what was happening with the economy.

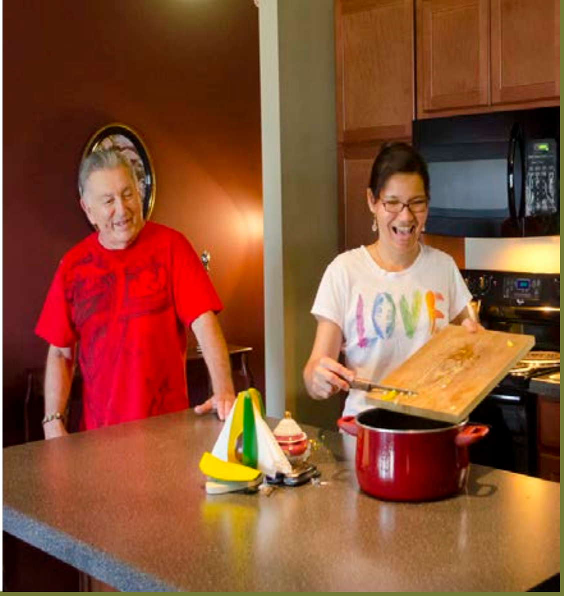
HUD stopped holding their income limits harmless in 2010 – allowing them to fluctuate with the local economy as required by HERA.

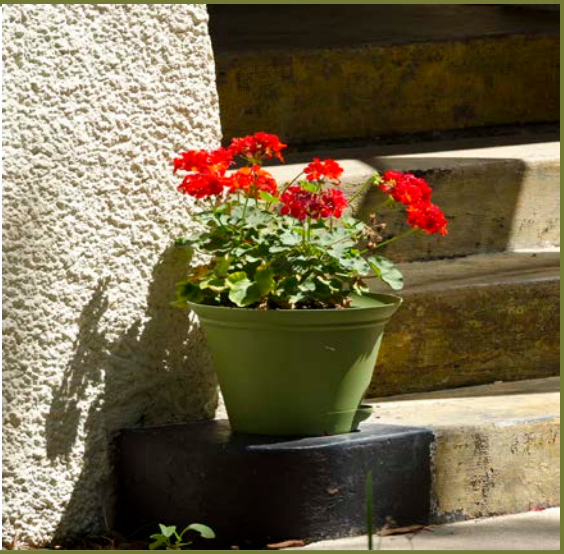
HOLD HARMLESS

Q: What did the end of Hold Harmless mean for Multi-Family Housing Projects?

A: Projects are no longer guaranteed that income and rent limits will remain favorable despite what is happening in the economy.

HUD recognizes the impact this could have on many LIHTC projects' bottom line and has put 5% cap on how much income limits can change (increase or decrease) in one year.





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PROGRAMS IMPACTED

Q: What housing programs were affected by this change?

A:

- Section 8 program, public housing, Section 236, 202/811 PRAC, HOME, CDBG – all use HUD income limits as the basis of their income calculations.
- RD program limits are issued by Rural Development (but are based on HUD limits)
- LIHTC and Private Activity Bond Cap projects rents are also derived from the HUD income limits.

But. . .

HERA to the rescue! (?)

HERA'S IMPACTED ON RENTS

Q: How has HERA helped LIHTC projects maintain their ability to rent to a wide range of income limits AND maximize their rents?

A: HERA made statutory changes to how income limits are calculated for LIHTC and bond-financed projects. HERA protected owners from rent decreases each year and established a new system for owners to hold their income limits and rents harmless which was put into effect in 2010.

See Section 3009(a)(E) of the Housing and Economic Recovery Act of 2008 (Public Law 110-289)

But…

Can the average person make heads or tails of these "statutory changes"?

Single Building vs. Multiple Building **MTSP** **Gross Rent Floor Election Date** **Impacted vs. Non-Impacted**

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BUILDING TYPES

Q: What is the difference between a "Single Building" and a "Multiple Building" Project?

A: The Owner executed 8609 for each "BIN" (building ID # -assigned by IFA during the allocation process) in a project defines the type of project.

Line 8b: Multiple building (Y) or single building project (N) for each BIN.

If "Y" is checked: Each building is considered "Placed in Service" on the same date as the first building for which an executed 8609 was executed by the Owner for that particular collection of buildings. *(See 8609 Instructions)*.

5 buildings, 1PIS date – 1 Project

If "N" is checked: each building is either individually "Placed in Service" (PIS) or grouped together in any configuration of the Owner's choosing. *(See 8609 Instructions)*

6 buildings; 6 PIS dates = 6 Projects or

2 groups of 3 buildings; 2 PIS dates = 2 Projects

MTSP

Q: What is a MTSP and how do I know whether my Project is impacted or not?

A: ***Definition- MTSP:*** *A Multi-Family tax subsidy project (MTSP)* is a project financed through the LIHTC and/or tax-exempt bond programs. This is HUD's special name for projects financed through the LIHTC or Private Activity Bond Cap (PABC) programs.

Definition –Impacted MTSP: *Projects are considered "impacted" if the project's income limits as determined in either 2007 or 2008 were under HUD's hold-harmless policy and the project was Placed in Service (PIS) prior to 01/01/09.*

So . . .

by definition a non-impacted MTSP was Placed in Service after **12/31/08.**

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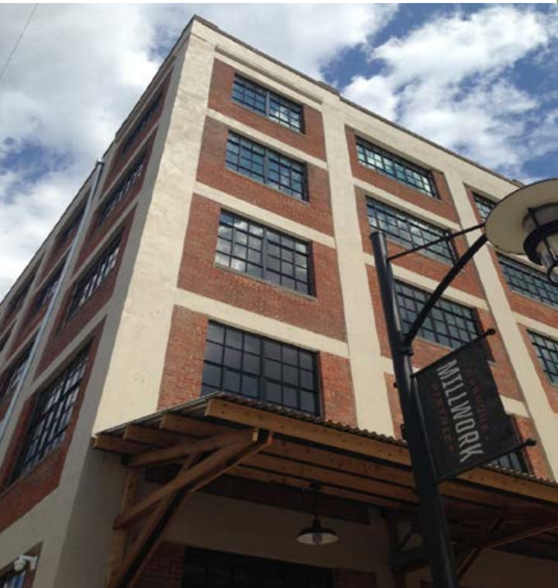

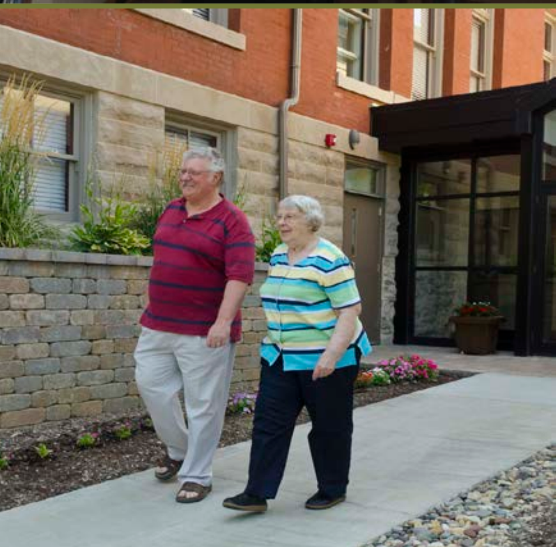

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IMPACTED VS NON-IMPACTED PROJECTS

- A “single building project” qualifies as impacted only if the building was PIS ***on or before*** 12/31/08. This is defined on Line 8b of each building’s 8609 form.

- A “multi-building project” qualifies as impacted only if at least one building included in the project was PIS ***on or before*** 12/31/08. This is defined on Line 8b of each building’s 8609 form.

- For an acquisition/rehab project, the Owner places the acquisition credits in service when a building is acquired and then places the rehab credits in service for each building when completing its rehabilitation activities. A project qualifies as Impacted if it’s ***acquisition credits*** were in service before 12/31/08.

- ***NOTE:*** *If a developer re-syndicates an existing project, it becomes a non-impacted MTSP and rents may decrease (as there is a new PIS date.)*

IMPACTED VS NON-IMPACTED PROJECTS

IMPACTED MTSP PROJECTS

If your Project was Placed in Service PRIOR to 01/01/09:

- The Owner should use the HERA-Special income limits HUD publishes for the project's county. Please note: There may not always be HERA Special limits set for your county each year (remember, income limits now fluctuate with the economy.)

- If there are no HERA-Special income limits posted for the county and the project was Placed in Service prior to 01/01/2009, the Owner would use the current MTSP income limits.

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Impacted MTSP Projects: Example

Example #1: Impacted MTSP

4 buildings, multiple building election

PIS date all building **5/15/2005** – 40/60

Location: **Polk** County IA

Household:

Household of 3 –want 2 bedroom Apt.

Verified household income: $40,600

•Can use HERA Special Income & Rent Limits as PIS <01/01/2009

•Maximum income for 3 person at 60%: $44,520

•Maximum Rent for 2 bedroom: $1,113

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IMPACTED VS NON-IMPACTED PROJECTS

NON-IMPACTED MTSP PROJECTS

If your project was Placed in Service on or after 01/01/2009 AND before 04/1/2018:

- The project is not eligible to use the HERA Special income limits, but the rent and income limits may have been subject to HERA general "Hold Harmless "policy; the income limits provided by HUD will advise for each county how the income limits were determined for 2017.

- The HUD website will provide you with this information.

https://www.huduser.gov/portal/datasets/mtsp.html#2018

IMPACTED VS NON-IMPACTED PROJECTS

NON-IMPACTED MTSP PROJECTS (cont.)

If your project was Placed in Service on or after 01/01/2009 AND before 04/1/2018:

- For 2018 HUD continues to provide a chart (under the heading, “Determination of Maximum Income Limits”) which shows which year’s income limits you would use, depending upon your project’s Placed in Service date.
- In this screen shot you can see that all projects in Plymouth County should be using the 2015 2018 income limit data (depending on the PIS date of the Project.

Determination of Maximum Income Limits

The following table outlines the maximum set of Income Limits for existing projects within Plymouth County, IA HUD Metro FMR Area to use based on the projects Placed in Service Date:

Plymouth County, IA HUD Metro FMR Area	
Vintage of Maximum Income Limits	
Placed In Service Date	Maximum Income Limits
On or before 12/31/2008	FY2015
1/1/2009 to 5/13/2010	FY2015
5/14/2010 to 5/31/2011	FY2015
6/1/2011 to 11/30/2011	FY2015
12/01/2011 to 12/10/2012	FY2015
12/11/2012 to 12/17/2013	FY2015
12/18/2013 to 3/05/2015	FY2015
3/06/2015 to 3/27/2016	FY2015
3/28/2016 to 4/13/2017	FY2018
4/14/2017 to 3/31/2018	FY2018
4/01/2018 to Present	FY2018

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IMPACTED VS NON-IMPACTED PROJECTS

NON-IMPACTED MTSP PROJECTS

A best practice might be to create a table of your own for each project. Here is an example:

Polk County, Iowa									
Historical Review of Maximum Income Limits at 50%									
Placed In Service Date	Income Limit Year	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
On or before 12/31/2008	(Use HERA Special)								
1/1/2009 to 5/13/2010	2009	25,100	28,700	32,250	35,850	38,700	41,600	44,450	47,300
5/14/2010 to 5/31/2011	2010	25,650	29,300	32,950	36,600	39,550	42,500	45,400	48,350
6/1/2011 to 11/30/2011	2011	26,100	29,800	33,550	37,250	40,250	43,250	46,200	49,200
12/01/2011 to 12/10/2012	2012	26,450	30,200	34,000	37,750	40,800	43,800	46,850	49,850
12/11/2012 to 12/17/2013	2013	25,550	29,200	32,850	36,450	39,400	42,300	45,200	48,150
12/18/2013 to 3/05/2015	2014	26,250	30,000	33,750	37,450	40,450	43,450	46,450	49,450
3/06/2015 to 3/28/2016	2015	26,250	30,000	33,750	37,500	40,500	43,500	46,500	49,500
3/29/2016 to 4/14/2017	2016	26,950	30,800	34,650	38,450	41,550	44,650	47,700	50,800
4/15/2017 to 3/31/2018	2017	28,800	32,900	37,000	41,100	44,400	47,700	51,000	54,300
4/1/2018 to Present	2018*	**27,900**	**31,850**	**35,850**	**39,800**	**43,000**	**46,200**	**49,400**	**52,550**

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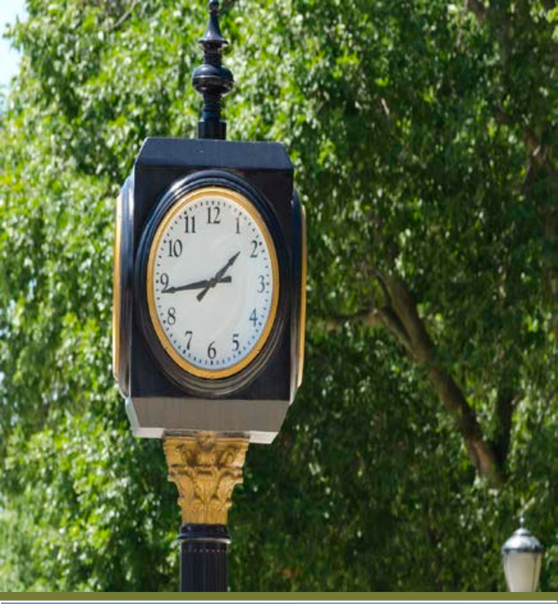
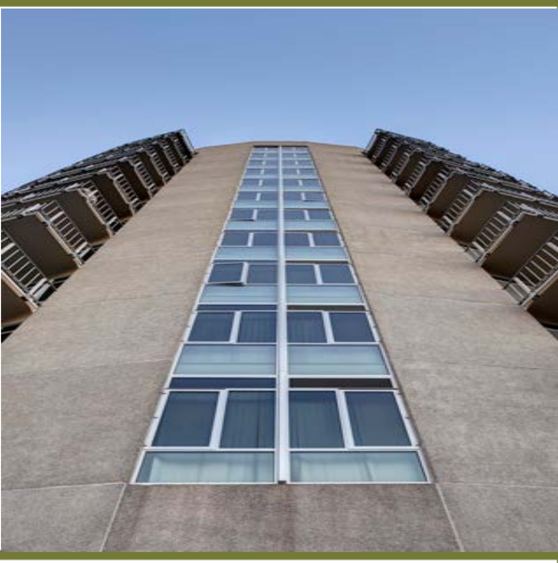
*From this example you can see that the 2018 limits are LOWER than the 2018 limits. In the case you would be able to use the “Vintage Income Limits” from 2017 per HUD *(See the 2018 Income & Rent Limits document)*





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Non-Impacted Projects: Examples

Example #2: Non-Impacted project, but hold harmless policy invoked

2 buildings, Multiple building election

Building #1 -PIS date **12/28/2017** – 40/60

Building #2 -PIS date **4/5/2018** -40/60

Location: Polk County IA

The two buildings are part of a multi-project building so the PIS to use would be **12/27/2017** when determining which dataset to use.

Household:
Household of 3
Want: 2 bedroom Apt.
Verified household income: $44,000

NON-IMPACTED PROJECTS – EXAMPLE

Example #2 (cont.)

- **Buildings #1 and #2: Not eligible for HERA Special Limits PIS >12/31/08**
- **Polk County income limits held harmless in 2018. (See text to the right →)**
- **2017 limits put into use as higher than 2018.**

Section 3009(a)(E)(i) of the Housing and Economic Recovery Act of 2008 (Public Law 110-289) provides a general "hold-harmless" policy for Multi-Family tax subsidy projects after calendar year 2008.

Based on HUD's estimate of Median Household Income for FY2018, this "hold-harmless" policy was invoked for FY2018 MTSP Income Limits in **Polk County**.

	2017	2018
Maximum Income for 3 person at 60%:	$44,400	$43,020
Maximum Rent for 2 bedroom Unit:	$1,110	$1,075

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IMPACTED VS. NON-IMPACTED PROJECTS – EXAMPLE

Example #3: Impacted MTSP project

- 2 buildings, Single building election
- 40/60 Minimum Set-Aside
- 1st building PIS date of 12/15/2008
  2nd building PIS date of 01/25/2009
- Location: Polk County IA

HERA Special Limits from 2017 for Polk County would be used to determine correct dataset to use.

Household:

- Household of 4
- Wants a 3 bedroom Apt.
- Verified household income: $48,390

Polk County 2018	
Placed in Service Date	**Maximum Income Limits**
On or before 12/31/2008	FY2017 HERA Special
1/1/2009 to 5/13/2010	FY2017
5/14/2010 to 5/31/2011	FY2017
5/14/2010 to 5/31/2011	FY2017
12/01/2011 to 12/10/2012	FY2017
12/11/2012 to 12/17/2013	FY2017
12/18/2013 to 3/05/2015	FY2017
3/06/2015 to 03/28/2016	FY2017
03/29/2016 to 04/14/2017	FY2017
04/15/2017 to 3/30/2018	FY2017
4/1/2018 to Present	FY2018

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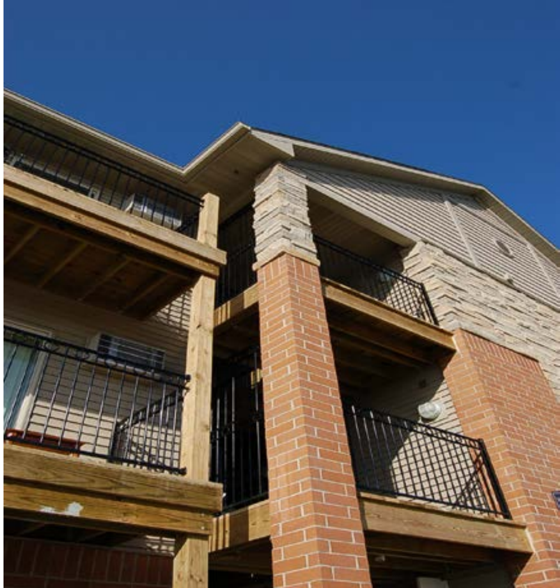

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IMPACTED VS NON-IMPACTED PROJECTS – EXAMPLE

Example #3- cont.

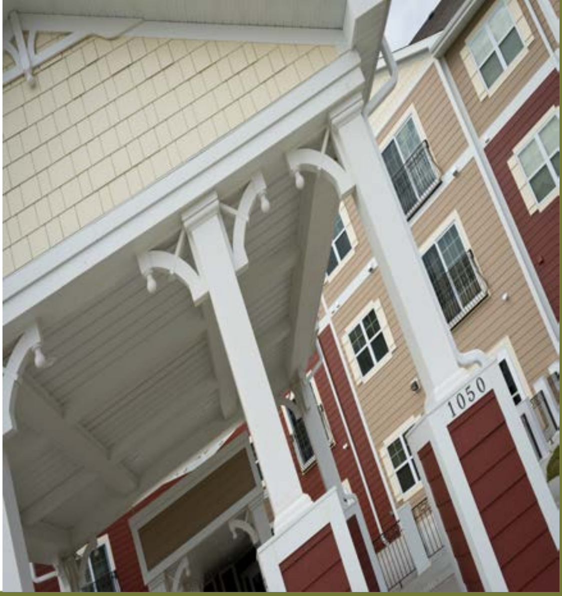
•**Impacted –For Building 1:** Use 2017 HERA Special Income & Rent Limits as the building PIS is <01/01/09 *(note: these are the same limits as 2018 – because of the held harmless provisions.)*

HERA Special Limits -Polk	2017	2018
Maximum Income for 4 person at 60%:	$49,440	$49,440
Maximum Rent for 3 Bedroom Unit:	$1,285	$1,285

- **But: Unit vacancy in Building 2 only,** PIS date of <u>01/25/2009</u> **Non-Impacted -** No HERA special, regular MTSP limits. Use the 2017 MTSP Limits as they are higher than the 2018 limits:

MTSP Limits–Polk	2017	2018
Maximum Income for 4 person at 60%:	$49,320	$47,760
	$1,282	$1,242

In this case the household <u>*would NOT*</u> Qualify for an LIHTC unit in building 2, even going back to the 2017 limits.



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IMPACTED VS NON-IMPACTED PROJECTS

NON-IMPACTED (OR FUTURE) MTSP PROJECT

If a project was PIS ***On or after*** 04/01/2018 the project is not eligible to use the HERA Special income limits,

But. . .

The income limits for each non-Impacted project will not decline and will be held harmless at the highest level attained since being Placed in Service.

As long as the income limits for a county do not decline, all non-impacted projects in the county will use the same income limits.

- **The 2018 MTSP limits are a good example of this point; 87% of all Iowa counties will use the 2018 limits as they increased substantially across the board.**

IMPACTED VS NON-IMPACTED

SUMMARY

Impacted MTSP

- Project Placed in Service Prior to 01/01/2009
- 2018 HERA Special Income Limits and Rents
- Use HERA Special Limits if available in your County, if not, use MTSP Limits

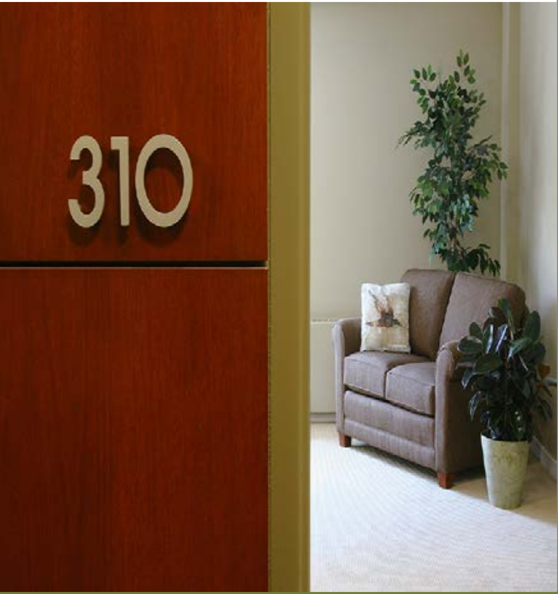
Non-Impacted MTSP #1

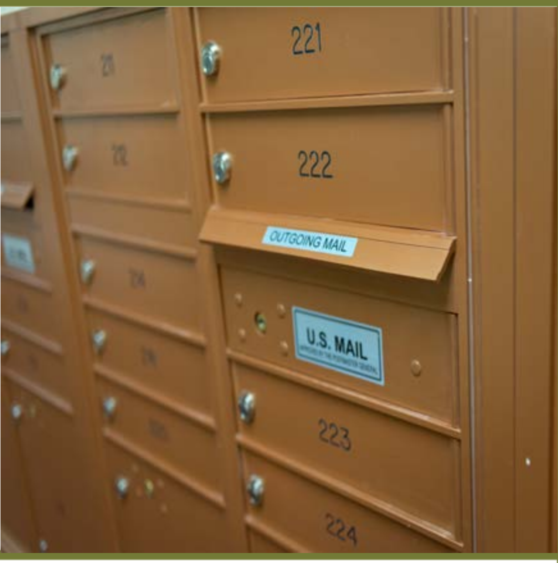
- Project Placed in Service After 12/31/2008 ***but prior*** to 04/01/2018
- Hold Harmless Provisions may apply (Check limits since PIS to determine which set to use)
- Use MTSP Income Limits and Rents as determined by HUD based upon the PIS Date.

Non-Impacted MTSP #2

- Projects Placed in Service On or After 04/01/2018
- Hold Harmless Provisions will not apply
- Used MTSP Income Limits and Rents as determined by HUD based upon the PIS Date*

* If you believe that the rents calculated using the appropriate income limits are less than those established by the project's gross rent floor, please contact IFA for assistance.





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Q: How does HERA impact how maximum rents are calculated?

A: HERA did not address changes to the rules for how maximum allowable rents are calculated for an LIHTC project.

- IFA publishes the county by county charts and our software has calculated rents based upon HUD published limits . These charts are posted on the IFA Compliance Web Page back to 2004.

- Our chart includes incomes and rents calculated for 30%, 40%, 50%, 60% and 80% households as well as the 140% income limits to be used at recertification for both HERA Special & MTSP Projects.

Remember to subtract the utility allowance to calculate the maximum household rent for all types of projects!

GROSS RENT FLOOR ELECTION

What is Gross Rent Floor Election (GRF)?

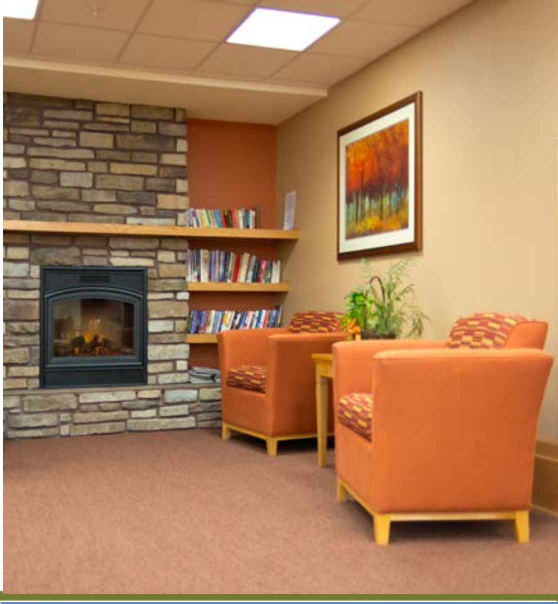
A: Revenue Procedure 94-57 established the concept of a rent floor for every LIHTC project that received its credit allocation after 1989.

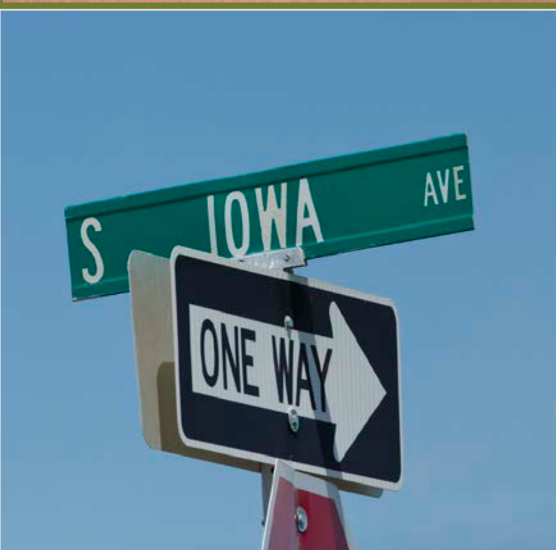
- Rev Proc 94-57 protected Owners from rent decreases below a certain level even if income limits for the area continued to decline

- The GRF takes effect either on the date that IFA initially allocated a credit dollar amount to a building (the effective date of the carryover agreement); or, if the Owner elects at carryover to calculate the GRF using the PIS date instead.

- For bond-financed projects, the date that IFA initially issued the letter of determination (the reservation letter) would be used.

But. . . HERA seems to nullify Rev Proc 94-57 as a new rent floor is established for a project every time HUD issues new, higher MTSP income limits for a county or metro area. There are still times when the GRF can affect properties. . .





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GROSS RENT FLOOR ELECTION

This likely impacts a very small segment of projects nationwide. But let's look at a project in Black Hawk County:

The Owner receives the carryover allocation in 2017 and establishes the GRF at that time as 05/30/2018 when they executed the project's carryover agreement.

- The Owner placed the project in service on 05/20/2018 and would be subject to the 2018 limits;
- **However, the 2017 income/rent limits that were in effect on 05/30/2018 are *higher* than the 2018 limits.**
- The Owner would be allowed to use the 2017 maximum rent limits (because of the election to established the GRF at carryover rather than PIS) **but would have to use the 2018 income limits to determine household eligibility.**

Contact IFA if you think this situation may apply to your project and we'll help you figure it out!

HERA AND THE 140% RULE

HERA did not address changes to the rules for how an Owner re-certifies a Household who is over-income. Same rules apply as always.

IFA publishes the county by county charts which include the 140% income calculations for both HERA and MTSP Limits.

Remember, if a household's income has risen above 140% of their income limit (in units not held to State Agency Covenants), the Owner protects their tax credits by implementing the next available unit rule!

In units that are used to satisfy the project's agency covenants, you can not use the 140% limits and any units over the mandated income limits would invoke the State Next Available Unit Rule and would be considered temporarily out of compliance. Contact your Compliance Officer if you have any questions about this rule.

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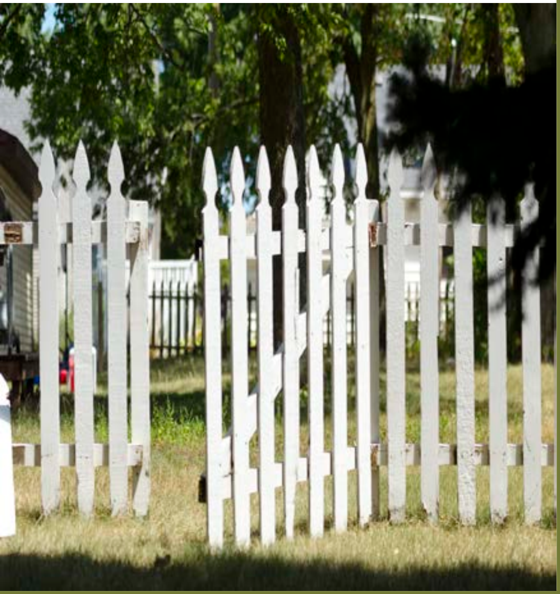

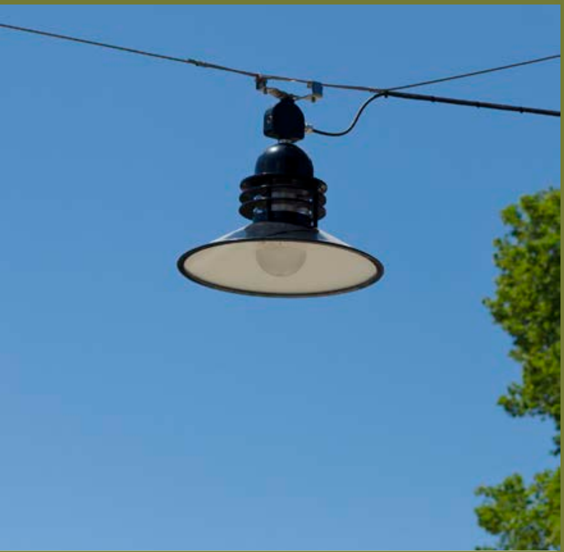

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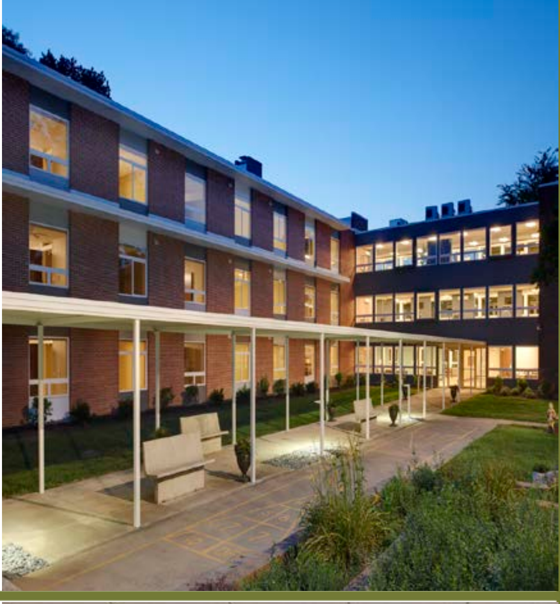
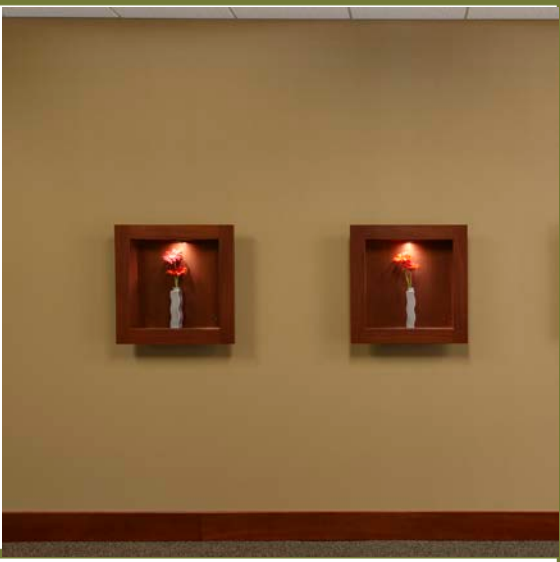
EXTREMELY LOW-INCOME UNITS

Many of projects have agreed to agency covenants (as found in the project's LURA) whereby the owner will rent to households at the 30%, 40% or 50% of AGMI limits for a specific number of units in their projects.

Beginning in 2015 it was noted that the 30% income limits and maximum rents were often **higher** than the 40%, and sometimes even closer to the 50% limits. This is apparent when you are qualifying households with four or more household members and for rents in units with four or more bedrooms.

This is due to language contained in the Consolidated Appropriations Act of 2014 which built upon earlier legislation that worked to establish a new income standard based on 30% of median Household income.





EXTREMELY LOW-INCOME UNITS

The 2014 legislation further modified earlier work to ensure that these income limits would not fall below the poverty guidelines determined for each Household size.

Specifically, extremely low-income families are defined to be very low-income families whose incomes are:

The greater of the Poverty Guidelines as published by the Dept. of Health and Human Services

OR

The 30% income limits calculated by HUD.

- The extremely low income limits therefore are first calculated as 30/50ths (60 percent) of the Section 8 very low-income limits.
- They are then compared to the appropriate poverty guideline and if the poverty guideline is higher, that value is chosen.
- If the poverty guideline is above the very low-income limit at a given household size, the extremely low-income limit is set at the very low-income limit because the definition of extremely low-income limits caps them at the very low-income levels.

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EXTREMELY LOW-INCOME UNITS

Example: 30% Limits are Higher than the 40% limits for 5+ person households.

2018 MTSP Income Limits & Maximum Rents – Adair County

Income Limits	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7 Persons	8 Persons
30%	14,250	16,460	20,780	25,100	29,420	33,740	38,060	42,380
40%	19,000	21,720	24,440	27,120	29,320	31,480	33,640	35,800
50%	23,750	27,150	30,550	33,900	36,650	39,350	42,050	44,750
60%	28,500	32,580	36,660	40,680	43,980	47,220	50,460	53,700

Rents	0 Bdrm.	1 Bdrm.	2 Bdrm.	3 Bdrm.	4 Bdrm.
30%	356	383	519	681	843
40%	475	509	611	705	787
50%	593	636	763	881	983
60%	712	763	916	1,058	1,180

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TRAINING & OTHER RESOURCES

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Liz Bramlet Consulting, LLC Liz Bramlet, President Washington, D.C Phone: (800) 784 -1009 www.lizbramletconsulting.com	Spectrum Seminars, Inc. 545 Shore Road Cape Elizabeth, Maine 04107 Phone 207.767.8000 www.SpectrumSeminars.com	The TheoPro Group 21150 West Capitol Drive, Suite 5 Penwaukee, WI 53072 Phone 877.783.1133 www.icomply42.com
National Center for Housing Management 12021 Sunset Hills Rd, Suite 210 Reston, VA 20190 Phone 800.368.5625 www.NCHM.org	Quadel Consulting Corporation 1200 G. Street, N.W., Suite 200 Washington, DC 20005 Phone 202.789.2500 or 800.987.2581 www.Quadel.com	Zeffert & Associates 2321 Weldon Parkway St. Louis, MO 63145 Phone: 314-514-7755 www.zeffert.com
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