



Frequently Asked Questions The Eligible Basis

Question One

We are planning to build a new property by raising equity through the syndication of low income housing tax credits. There is an old building on the site we've selected that we plan to tear down. Because we need to tear the building down in order to build our property, can we include demolition costs in eligible basis?

Answer One

No. The cost of demolishing an old building cannot be included in the eligible basis for a new LIHTC building built on the same site. Demolition activities are considered land preparation activities necessary to build any new building. As such, the IRS will not allow you to include demolition costs in eligible basis.

Question Two

My company is rehabilitating an existing property using equity raised through the syndication of low income housing tax credits. We are updating the property's community room by installing air-conditioning, purchasing new furniture, installing a working kitchen and a big screen television. We plan on including the costs of the community room in eligible basis and to charge rent for its use. We believe this is OK because of what we read about being able to include community service facilities in eligible basis since 2000. Are we correct?

Answer Two

I don't think you're correct. From your description, you plan on having a community room but not a community service facility. Residents typically use a community room for birthday parties, anniversary parties and general recreation activities. A community room may include a computer network and exercise equipment. However, if you include the cost of a community room in eligible basis, you may not charge rent for its use. You may charge a refundable cleaning deposit but not rent.

In 2000, Congress passed legislation approving the inclusion of a community service facility in eligible basis only for properties located in a qualified census tract (QCT). You may charge the residents and the surrounding community for services you provide that are needed by and affordable to households with income no greater than 60% of AMI. Examples of services provided include job counseling, job skill development, drug counseling and parenting skills. In 2004, the IRS said a police sub station could be seen as a community service facility.

Question Three

For the first time we are rehabilitating a property using both low income housing tax credits and historic tax credits. Someone told me that using historic tax credits may reduce the amount of credits we can generate through the LIHTC program. How could that be true? There are items we will be able to include in eligible basis for the LIHTC program that we cannot include in eligible basis for the historic credits.

Answer Three

Unfortunately, what you've heard is true. The IRS considers historic credits to be a federal grant. An owner must reduce eligible basis by the size of a federal grant used in the development or operation of a LIHTC property.

You probably have both acquisition and rehabilitation LIHTC credits. Your historic credits will have no impact on the size of your acquisition credit. However, you must reduce the eligible basis for your LIHTC rehabilitation credits by the size of your historic tax credit. Remember, reduce your eligible basis for your rehab credits by the size of your historic tax credits; not by the amount of equity you raise through the syndication of your historic credits.

For help in answering your questions relating to determining eligible basis, call Liz at (202) 316-0532 or send an email to Liz@lizbramletconsulting.com.