

# HOUSING BOND REPORT

A MONTHLY PUBLICATION ON THE LOW-INCOME HOUSING TAX-EXEMPT BOND INDUSTRY

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## Tennessee Governor Announces New Housing Tax Credit Program

*By Alex Ruiz, Staff Writer, Novogradac & Company LLP*

Gov. Phil Bredesen announced a new housing initiative at the 2005 Governor's Housing Summit on October 11. The Community Investment Tax Credit (CITC) is a new credit that will be administered by the Tennessee Housing Development Agency (THDA) in cooperation with the Tennessee Department of Revenue. The program allows any financial institution a credit against both its franchise and excise tax obligations when investing in at least one of several eligible low-income housing activities.

"Affordable housing is essential to the future economic growth and stability of our cities, our counties and our state," Bredesen said. "I am committed to doing everything possible to encourage its development."

Janice Myrick, executive director of THDA, says she is excited about the new tax credit initiative that was designed in partnership with the state's Department of Revenue to help create affordable housing opportunities for more people across the state. THDA administers more than \$450 million in funding each year for single and multi-family housing programs across the state.

"Governor Bredesen has always provided programs for the creation of affordable housing," said THDA's board chairman, Eddie Latimer. "The Franchise Tax Credit program that his administration created is an excellent funding program to aid in meeting the housing needs of Tennessee's workforce and lowest income citizens."

On June 22, 2005, Bredesen signed into law S.B. 2310, which allows a tax credit equal to 5 percent of a qualified loan or qualified long-term investment or an amount equal to 10 percent of a qualified low-rate loan, grant or contribution. The Department of Revenue will award the tax credits to the financial institutions. The eligible housing entity will be required to maintain records as requested by THDA to ensure that affordable housing opportunities are being provided.

Eligible activities include:

1. Activities that create or preserve affordable housing for low-income Tennesseans. Low-income Tennesseans are defined as those who are at or below 80 percent of the area median income (AMI) adjusted for family size.
2. Activities that assist low-income Tennesseans in obtaining safe and affordable housing.
3. Activities that build the capacity of an eligible not-for-profit organization to provide housing opportunities for low-income Tennesseans.
4. Any other low-income housing related activity approved by the THDA executive director and the commissioner of revenue.

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Identified eligible housing entities include:

1. Tennessee based not-for-profit organizations with an Internal Revenue Code 501 (c)(3) status
2. Public housing authorities (PHAs)
3. Development districts
4. The Tennessee Housing Development Agency (TDHA)

Participating financial institutions will receive tax credits for extending the following to eligible housing entities:

1. Qualified loans defined as a loan at least 2 percent below the prime rate
2. Qualified low-rate loans defined as a loan at least 4 percent below the prime rate
3. Qualified long term investments extending for a period of more than five years
4. Grants or contributions

Tax credits may be available to financial institutions retroactively for funds extended to eligible housing organizations for eligible activities from the date the bill was signed into law, June 22, 2005. The law allows any unused credit to be carried forward 15 years after the tax year in which the credit originated.

## Certification and Review Process

THDA will certify the financial institution's contribution as being eligible for the tax credit by confirming that the receiving organization along with the housing related activities being funded are in compliance with those identified in legislation. An initial review of the housing related activity will be conducted upon submission of the application packet. THDA says the vast majority of subsequent reviews will be done via desk audits of scheduled progress reports submitted to THDA by the recipient agency. THDA will conduct the reviews until the housing related activity is completed.

Upon receipt of the certification of contribution from THDA, the state Department of Revenue will calculate the tax credits to be awarded to the financial institution. In the event that the recipient agency does not accomplish the funded activity, the financial institution will bear no fault and will retain the awarded tax credits. THDA has established decertification criteria for agencies failing to accomplish funded activities.

## Decertification

Failure to comply with the terms of the CITC program will cause the qualifying organization to be deemed ineligible to participate in the Community Investment Tax Credit Program for up to 36 months from the

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date of non-compliance. The qualifying organization will be granted an opportunity to cure findings prior to decertification.

For more information regarding THDA and this new program, visit [www.state.tn.us/thda](http://www.state.tn.us/thda). ❖

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