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# GAP FINANCING

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# HUD Releases 2024 Income Limits, Continue Steady Increase

THOMAS STAGG, CPA, NOVOGRADAC

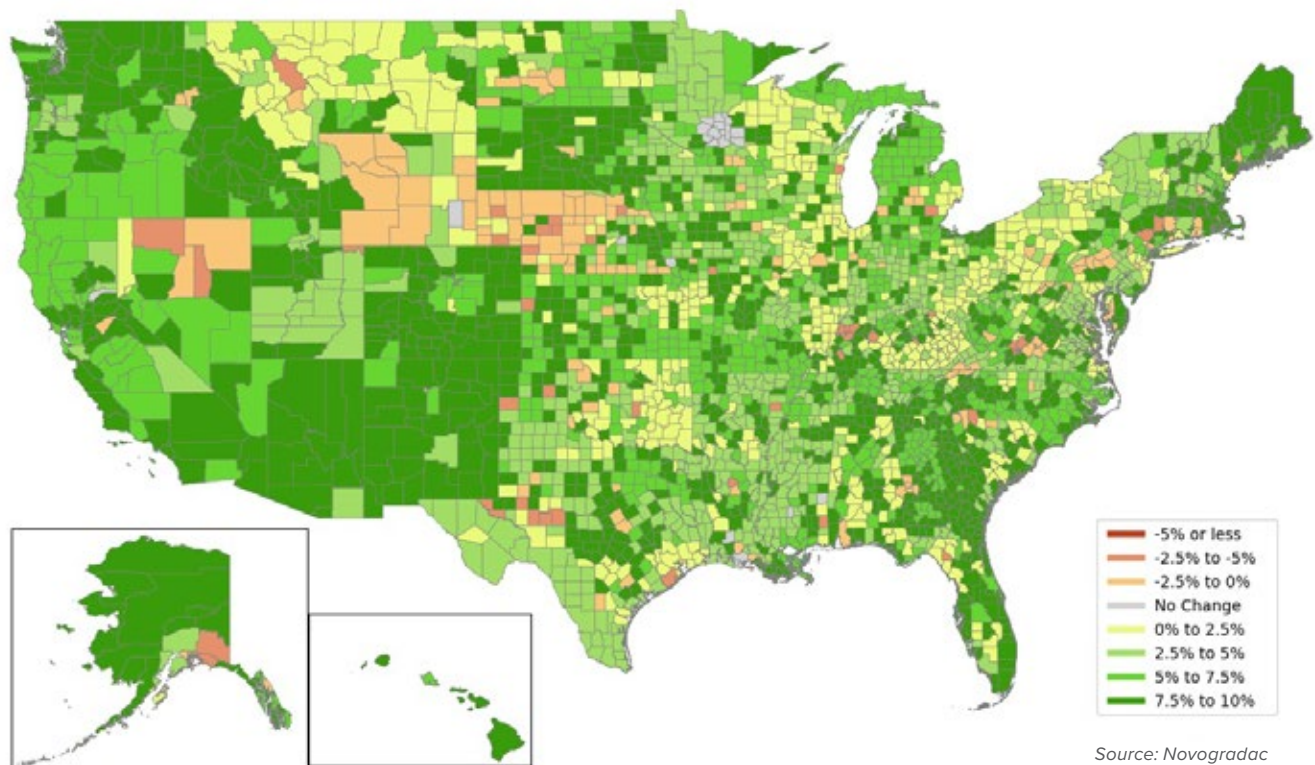
The U.S. Department of Housing and Urban Development (HUD) issued April 1 the fiscal year (FY) 2024 income limits. The income limits are used by HUD programs such as Section 8. HUD also released a set of income limits specific to Multi Family Tax Subsidy Projects (MTSP) that is used for properties financed by low-income housing tax credits (LIHTCs) and tax-exempt bonds.

The upward trend in recent years continued, with most areas having an increase in income limits. Although the average increase across all counties was just under 6%, there was an increase in the number of areas that had decreases. Around 6% of counties had a decrease in their income limits. See the accompanying map that reflects the change in HUD-Published Very Low-Income Limits from 2023 to 2024.

## Decreasing Income Limits

Once a LIHTC development is in service, its income limits and gross rent limits are held harmless for decreases in HUD's income limits. Therefore, a decrease in income limits for existing homes is treated the same as flat income limits as the limits will stay the same as the prior year. However, depending on the magnitude of

## Change in HUD-Published Very Low-Income Limits from 2023 to 2024



Source: Novogradac

the decrease, it could take a few years before the income limits rise above the held-harmless amount.

New projects are not afforded the same hold harmless and are required to use the income limits in effect when they are placed in service. Therefore, if a project is in an area that had a decrease in its limits, the lower limits are used for income qualifying tenants. For rent, property owners can use the greater of the new lower limits or the gross rent floor. It is important to note that the new income limits were released and effective April 1, but Revenue Ruling 94-57 allows 45 days to implement the new limits. Therefore if a property is placed in service within 45 days after the release of the income limits, the property owner would be able to use the higher 2023 limits to establish the hold-harmless amount.

## Income Limit Caps

HUD modified its cap policy beginning with the 2024 income limits. HUD has had a cap on income limit increases for its Very Low Income (VLI) limit since 2010 but for FY 2024 HUD changed its methodology to include a ceiling component of the cap. Starting with 2024, VLI will never be able to increase by greater than 10%. Looking at the history of the existing cap without the ceiling, since HUD implemented the cap in 2010 there have been three years (2018, 2019 and 2022) where the cap was greater than 10%.

However, the 10% ceiling is especially meaningful this year because without the ceiling the cap would have been

14.8% for FY 2024, meaning the cap is almost 5% lower this year than it would have been in previous years.

The Cape Coral-Fort Myers, Florida, metropolitan statistical area (MSA) illustrates how the ceiling works. If HUD did not institute the 10% ceiling, the four-person 50% income limit for this area would have increased to \$48,800. However, due to the 10% ceiling, the income limit is \$46,800.

For FY 2024, about 20% of areas are capped at 10%. If HUD had continued to use a cap of 14.8%, Novogradac calculates that around 9% of areas would have been capped. Therefore, slightly more than 12% of areas fall between the new 10% ceiling and the old cap of 14.8% without the ceiling. Said another way, the new ceiling caps about 20% of all counties, but if HUD had stuck with the old method, only about 9% of areas would have been capped.

## Conclusion

Income limits continue to have a steady increase for 2024. However, developers should pay close attention to areas where they have new projects under development for decreasing income limits. ❖

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