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CERTIFIED PUBLIC ACCOUNTANTS

June 4, 2008

The Hon. Charles M. Calderon
California State Assembly
Committee on Revenue and Taxation
State Capitol
P.O. Box 942849
Sacramento, CA 94149-0058

Dear Chairman Calderon,

Novogradac & Company LLP, a national certified public accounting and consulting firm headquartered in San Francisco, Calif., is pleased to support Senate Bill 585. As amended, this measure would permit the bifurcation of state and federal low-income housing tax credits, increasing the value of the California low-income housing tax credit. Beginning on January 1, 2009 and ending on January 1, 2016, SB 585 would allow tax credits to be allocated to partners based upon the terms of the partnership agreement, regardless of each partner's ownership interest in the property. This unusual accommodation is appropriate to low-income housing tax credits that are applied for and awarded by the state. These are not credits available by right to a class of taxpayers, and the bill highlights this unique distinction.

The state and federal Low-Income Housing Tax Credit Programs support the development, rehabilitation, and preservation of affordable rental housing for low-income Californians. These tax credits represent the largest funding source for affordable housing in California, and they are the most important single source of funds for units that are affordable to very low and extremely low-income households.

The California Tax Credit Allocation Committee (CTCAC) awards these tax credits to affordable housing developers through a very competitive process. The developers in turn seek private equity investment for the project from corporations and others with tax liabilities in exchange for the tax credits. The housing units financed with tax credits remain affordable for 55 years.

Under current state law, the state and federal tax credits awarded to a particular project must be used jointly by a single taxpayer. While some investors have both federal and California state tax liabilities, many potential investors do not.

Some investors have federal tax exposure, but not a California tax liability. Other investors desire a California tax credit against earnings here, but do not have a federal tax liability due to losses in other states or other federal tax offsets. Allowing different investors to receive one of the credits, rather than both, would enlarge the pool of prospective affordable housing investors and increase the demand for and value of the state credits.

The availability of the California state low-income housing tax credit has played a critical role in the construction and rehabilitation of affordable housing projects for lower income persons in many parts of the state. Allowing different partners within a property-owning partnership to separately claim, or "bifurcate," the state and federal credits could result in better credit pricing for the California state tax credit by enlarging the pool of taxpayers who may invest to receive the credits.

Without bifurcation, some major investment corporations with no California tax liability are unable to invest in a property that has an allocation of both federal and state housing tax credits. Similarly, other investors with significant California tax liabilities may be unwilling to invest in properties with federal tax credits because they cannot anticipate having at least 10 years of federal tax liability. Bifurcation would result in greater flexibility, encourage more competition, and would likely result in a modest but material improvement in the amount of private capital raised for each dollar of California state tax credits allocated to affordable housing properties.

Very Truly Yours
Novogradac & Company LLP

by Michael J. Novogradac

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