So You Want to Be a LIHTC Developer: Tax Considerations When Partnering with Nonprofit Developers

Developers, investors, syndicators, property managers and more know there are plenty of upsides to partnering with nonprofit organizations to develop and manage low-income housing tax credit properties. In this week’s episode of Tax Credit Tuesday, Michael Novogradac, CPA, and Lance Smith, CPA, discuss four key tax considerations for anyone considering partnering with a nonprofit developer to build affordable housing. The pair discuss a vital piece of information regarding tax-exempt use property and the importance of material participation by a nonprofit developer and then conclude with a discussion of programs and subsidies possible when partnering with nonprofit partners, including potential access to grant funding.

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Transcript

Introduction

[00:00:11] Michael Novogradac, CPA: Hello, I'm Michael Novogradac and this is Tax Credit Tuesday. This is the June 13th, 2023, podcast.

In this week's episode, my guest and I will discuss four important tax considerations when partnering with nonprofit developers of affordable rental housing. The issues we will cover today are of vital importance for developers, syndicators and, most notably, tax credit investors in low-income housing tax credit properties.

So you're probably thinking what are the four key considerations? By the way, if you have a fifth or sixth one, please send an email to CPAs@Novoco.com.

So the first of my four is the concept of tax-exempt use property. That comes into play when you're partnering with a nonprofit organization. We'll discuss the adverse effects of partnership property being considered tax-exempt use property and, most importantly, we'll discuss how to avoid such a classification.

Now the second of my four is the importance of ensuring that a nonprofit partner materially participates in the development and operation of a tax credit property if the ownership entity received a tax credit allocation from the statutorily mandated 10% nonprofit set aside.

My third issue relates to other nonprofit participation requirements that may be present in a tax credit property partnership when other subsidies are being received by a development by virtue of the participation of a nonprofit. And the classic example of that in California is the welfare exemption or the reduction in real property taxes.

And then my fourth issue that we'll wrap up with is a discussion of the role nonprofits often play in low-income housing tax credit developments that are benefiting from grant proceeds.

Now we're fortunate today to have joining me to discuss these issues my partner, Lance Smith. He's in Novogradac's Petaluma, California, office. Now, this is Lance's first appearance on Tax Credit Tuesday. I'm super excited to have him joining us here today. Lance, no surprise here, works with nonprofits. He manages audits, completes tax returns, and provides other attestation and consulting services to nonprofits and for-profits and partnerships in the affordable housing industry, including those partnerships that are subject to the auditing requirements of the U.S. Department of Housing and Urban Development.

And we do have a lot to cover today. So if you're ready, let's get started.
So, Lance, welcome to your first Tax Credit Tuesday podcast.

[Lance Smith, CPA: Thank you, Mike. Thank you for having me.]

**Tax-Exempt Use Property**

**Michael Novogradac, CPA:** Well, I'm really excited to have you joining us today, and as I mentioned in the introduction, I want to discuss four key issues that you need to be mindful of when a partnership's developing a low-income housing tax credit property with a nonprofit partner. And as I just said a few moments ago, the first one is the concept of tax-exempt use property. The second one is the material participation standards when you're receiving a low-income housing tax credit allocation from the nonprofit set aside. The third are the potential for additional participation standards when receiving other subsidies connected to nonprofit participation. And the fourth is the role nonprofits play in maximizing the net economic benefits of cash grants.

So, let's begin with the first of the four. So, if you could explain the rule about tax-exempt use property that comes into play when property is owned by a partnership that as a tax-exempt partner.

[Lance Smith, CPA: OK, so well first, since a nonprofit is generally exempt from the income tax, there's an incentive when they're partnering with a for-profit, let's shift the depreciation over to the for-profit so that they can get the benefits of that. And the nonprofit doesn't care about getting the income.

To reduce that benefit, Congress created this tax-exempt use property concept. So property treated as tax-exempt use has longer depreciable lives and is not eligible for bonus depreciation and other similar benefits. It doesn't apply if all the partnership allocations are straight up, but if there are any shifting of interest between the for-profit and the nonprofit, then you have the creation of this tax-exempt use property. As an alternative that the tax code provides an option for the nonprofit to use a blocker corporation to avoid the creation of this tax-exempt use property.

**Michael Novogradac, CPA:** Thank you for that. In terms of a general sort of overview and the depreciable lives can be notably longer if it's tax-exempt use property, as you point out, the expensing doesn't apply. The expensing of the partnership property, at least a portion of the property given that description of phasing out at the beginning of this year. And obviously tax credit investors like tax losses, and the sooner they get them the more valuable the investment is. And so, there's a strong desire to avoid tax-exempt use property and get the maximum depreciation in most cases.

But as a practical matter, the notion of straight-up allocations instead of allocations being those where there's no variation during the life of the partnership those are not very common in the LIHTC space. Maybe you could explain to the listeners why straight-up allocations don't occur very often.
[00:05:52] **Lance Smith, CPA:** Right. Well, the nonprofit general partner is generally fine getting 0.01% of the operations through the normal operating life of the project. But particularly, they're going to want access to the tail-end cash flow. That's where the big money is. And that often will generally have a flip in those allocations in order to be able to benefit from that, thus creating that shift. They're not straight allocations any longer, and therefore we have tax-exempt use property that begins at the beginning of the project, not at the end. And therefore, we've got this issue of slower depreciation and that the investor does not want.

[00:06:31] **Michael Novogradac, CPA:** So thank you for that, Lance. I appreciate that you focused on the fact that during the operating phase, there can be essentially, quote "straight-up allocations" in the sense that the nonprofit has 0.01% sharing interest in various items of income loss, cash flow, and the rest. And that to accept that there's cashflow in such that can set of management fees and other features to allow the nonprofit to get slightly more than 0.01% of the cash flow.

You know, that being said, when it comes time to, once you get past Year 15, or at least once you get past, you know, Year 11, there'll be a desire for there to be potentially some flips in the ratios. And sometimes clients will come and say, well, that flip happens at the end, so maybe it shouldn't be treated as tax-exempt use property now. But that's generally the way the rule works.

So as a way to allow there to be this flip at the end and avoid tax-exempt use property, you mentioned the concept of a blocker corporation. And in essence, a blocker corporation is creating this taxable entity between the tax-exempt and the property partnership, so it's treated as if there isn't a tax-exempt entity in the partnership because of this taxable entity. So maybe you could describe a little bit more about how this approach gets implemented.

[00:07:55] **Lance Smith, CPA:** OK. A typical project, the general partner developer is going to create an LLC, wholly owned by that developer to serve as a general partner, as a single member-use entity in that LIHTC partnership. As the LLC is wholly owned, it's disregarded, generally disregarded for tax filing allowing the owner to essentially be treated as that general partner.

The nonprofit can use this LLC and by making what is known as a 168(h)(6) election the nonprofit, that LLC can be treated as a distinct entity for tax purposes and treated as a for-profit corporation, which is therefore not subjected to the tax-exempt use property rules.

[00:08:38] **Michael Novogradac, CPA:** And why is it called a 168(h)(6) election?

[00:08:42] **Lance Smith, CPA:** That is the section of the code–

[00:08:45] **Michael Novogradac, CPA:** That allows that election.

So, it's easy to say, make a 168(h)(6) election. Maybe you could describe for the clients a little bit more about what it means to make that election.
Lance Smith, CPA: It’s a multi-step process to be able to get to that election and it is made by the LLC. It’s a distinction I think some, I think consider it’s still elected by the partnership, but it is not a partnership election. This is the election by that single-member LLC owned by the nonprofit. The problem I see is that this election is included in the partnership agreement, the requirement is included in the partnership agreement, the syndicator and the partnership agreement is drawn up, but when it comes down to implementation that communication does not always get to the people that need to carry it out.

So again, the syndicator often has oversight of all the various elections that go into the partnership and can approve the draft tax return when it comes through and make sure that that's all fine, but they're not seeing the actual entity that is making this election. So if the assets of the partnership are placed in service before this election is in place, then those assets can't take advantage of this benefit and would still be subject to the tax-exempt use rules.

Now the election does need to be timely filed as well. And as I mentioned, there are multiple steps to get there. And if the accountant that’s supposed to do those steps doesn’t know it exists, it's kind of difficult for them to be able to do that timely.

So a potential example I could share on could be is say you've got an acquisition/rehab project closes near the end of the year with the investor and they have the intent of taking the bonus depreciation. So we claim maybe Dec. 31. I’ve seen those closed Dec. 31. They get that bonus depreciation for the full year. They’re very excited over that. Therefore, that entity, that should be the LLC that's filing this corporate return has a due date of April 15 to be able to file that time of the election.

If that election is not filed by that date or extended at least that return becomes late. Now, you’re no longer having the ability of making this election timely for that year. Of course, you can always make it in a subsequent year, but it's too late for the partnership to claim intended bonus depreciation that was projected in the partnership agreement.

So, curing a late election can be done but it is very complicated and likely results in the need for private-letter ruling from the IRS, which is definitely a costly and a time-consuming process.

Michael Novogradac, CPA: So, you mentioned the election. I’m glad that you point out that it – and I always get nervous when I read tax opinions and partnership agreements where they talk about the various requirements that the partnership needs to comply with to make sure that other parties are aware of what they’re committing to and what assumptions are in the tax opinions that need to make your way through to those that are managing the transaction to ensure that they’re made.

And you're really pointing out that in the area of this 168(h)(6) election, that issue really appears because, as I think you were pointing out, correct me if I’m wrong, that, you know, generally speaking, when a general partner, be it a for-profit or nonprofit, will have a single member disregarded into the
LLC from an asset protection and liability limitation perspective and the rest, and generally it'll be a disregarded entity, but when you want to make this 168(h)(6) election, you want that general partner, single-member LLC, to be treated as a separate entity that's taxable by virtue the 168(h)(6) election. And it's all happening outside the partnership. And you know, if you're an investor or you're a syndicator, you need to get some confirmation or in some ways document that that's being done on a timely basis.

So, what advice do you have for the nonprofit developers themselves to ensure that this is being followed through on or for the for-profit developer who's joint venturing with the nonprofit to make sure the nonprofit's doing this? And, ultimately, how syndicators and investors can ensure that this blocker corporation structure is properly and timely implemented.

[00:13:07] Lance Smith, CPA: Yeah, this definitely puts a lot of burden on the nonprofit to be aware of what they're getting involved with. So, the first thing I have to look at for the nonprofit's perspective is, is the election even needed? If the investor may not be as driven for the accelerated depreciation, it may not have any value to them and they're not paying extra equity for it, what would be the benefit of even making the election and creating that burden for the nonprofit of having a taxable entity that they file tax returns for every year of the life of this project?

So, first, is it even needed? Second make sure that you have the right people involved or who are, that are informed as soon as possible after the finalization of a partnership agreement. The nonprofit, as soon as they get a copy of that agreement, they should be bringing in the accountant and say, hey, what do we need to do with this? Particularly if they're not the same people, the accountants that are preparing the partnership return, which may happen if an informed good accountant can make sure filings are properly and timely filed. If they aren't even aware of it, then that's not going to happen.

One thing that syndicators can do, definitely and add oversight requiring that proof of election as you mentioned, and one option is potentially including that in the benchmarks within the partnership agreement for the capital contributions making sure it's early enough that that election is done before that placed in service, all the fixed assets are.

That's the critical date. It has to be before the fixed assets are placed in service. Otherwise, you lose that benefit of whatever assets are placed in service.

So, I would definitely say the nonprofit needs to understand what they're committing to. There is value that is being created to the investor and which in turn can be turned around into more equity into the partnership, which then benefits the nonprofit by having more sources to fund the project.

But it does create a taxable entity that generates taxable income that the nonprofit will have to handle during the life of the partnership. And that nonprofit may also be potentially subject to unrelated
business taxable income, particularly in that final year when liquidation occurs, and a large gain may come out.

It’s a difficult challenge that nonprofits are not always thinking about. They’re not thinking about taxable income. It's like, "we're tax exempt." This is a case where they do need to pay attention to it.

[00:15:36] **Michael Novogradac, CPA:** I’m glad that you had mentioned that, and we don’t have time to go into this during the course of the podcast, but I encourage listeners to reach out to you because the nonprofit does have to evaluate what the benefit of the creating of the taxable entity generates in terms of additional equity upfront versus what the consequences are of potentially of tax liability down the road.

And theoretically there's this present-value calculation need to be running and the rest to ensure that it's of value and then also be aware of structural alternatives to address the potential for taxable income inside that entity and followed by unrelated business taxable income.

And once again, we don’t have time to unpack. There’s a lot embedded in the words we just shared. But I’d encourage listeners to reach out to Lance to get more detail to ensure that you're thinking – you're beginning with the end in mind. And if there’s one thing I’ve found over the last 20-plus years of working in the low-income housing tax credit space, the first 10-plus years, not so much, but the more recent 20 such years – and yes, I have been practicing this area for over 30 years – is this whole concept of, at the beginning, planning for what's going to happen post-Year 15.

You know, way back in the day, not much thought was given to what's going to happen at the end of Year 15. And now a lot of thought, for a lot of reasons, is given to that.

But that's our first issue. I don't know if you wanted to say anything more on that topic, Lance.

[00:17:05] **Lance Smith, CPA:** I think it's good just being aware again when you're putting the partnership agreement off. I wonder sometimes that that language just kind of puts in there a standard language and nobody's really thinking about it, about the pros and cons of being able to do it. It definitely serves a good purpose, but you want to make sure you're getting the benefits out of it.

**Material Participation**

[00:17:22] **Michael Novogradac, CPA:** No. Great. So, the next area that I want to discuss in the episode is the material participation standard when a low-income housing tax credit partnership received a tax credit allocation from the 10% nonprofit set aside.

And this is something that I have seen, you know, occur periodically after, you know, a few years into the transaction and someone raises this issue as to whether or not the nonprofit has satisfied the material participation standards because the allocation was based upon the 10% nonprofit set aside.
And I’ve also seen it come up in the course of an IRS audit, which is not the place you want this issue to come up.

So Lance, if you could maybe share an overview. There’s a lot embedded in the limited words I just used. Maybe you could unpack the issue that I’m describing here.

[00:18:15] Lance Smith, CPA: OK, so Section 42 provides special treatment for nonprofits in the form of a special set aside that could be equivalent to about 10% of the allocation for each state needs to be allocated to a set aside for nonprofits use. Now, it’s noted that that doesn’t mean that if nonprofits claim it, then it could still be open.

But there’s still that set aside is required to be there. As far as Section 42 is concerned, what does that mean for the nonprofit? The nonprofit needs to be materially participating in the partnership specifically the language used is materially participate as regular, continuous and substantial involvement in the development and operations of the activity.

So it needs to be involved heavily within the operations and development to be considered treated. They don't want this nonprofit: "Yeah, we've got them on the side here."

[00:19:18] Michael Novogradac, CPA: I think that’s important to point out that it is regular, continuous and substantial. So, it’s those three adjectives that you have to be monitoring, and it's both development and operations as you noted.

And that’s the area where I’ve seen it kind of come up. It’s been during the operating phase. Someone will raise the issue and during operations, you obviously can monitor this from that point forward, but you can’t retroactively you know, put in regular, continuously substantial during development, so it’s important that this be something that everyone’s aware of from the very beginning. And I want to ask you a bit about state standards, but do you want to say anything more about the federal?

[00:20:04] Lance Smith, CPA: Those are the key areas. Again, making sure that the three criteria that's specifically referenced and that's all. I think I mentioned under 469(h) is the direction, another tax code. We seem like tax codes.

[00:20:19] Michael Novogradac, CPA: Yes, we do. Yes, we do. So, you mentioned the second – oh, go ahead.

[00:20:25] Lance Smith, CPA: It is the material participation. It's regular, continuous and substantial involvement.

[00:20:31] Michael Novogradac, CPA: Now we have this Section 469(h), that’s a federal standard. And you know, all allocations coming from nonprofit set asides, the nonprofit, a nonprofit estimate that requirement and theoretically that standard's universal across all LIHTC developments that need to
qualify. There’s a federal standard if you will. There’s not a tremendous amount of guidance on that federal standard, but there is that federal standard that applies that you want to be documenting.

However, each partnership that receives an allocation from the nonprofit set aside also needs to ensure that they’re satisfying any credit-allocating agency definitions and material participation.

And this is something that’s universally true within low-income housing tax credit property partnerships. There’s always a federal requirement or set of federal requirements that you have to satisfy. The states can’t override a federal requirement. However, states can provide additional requirements, which means in the area of this material participation standard, in addition to meeting the federal requirements for material participation, you know, a property partnership also has to know what the credit allocating agency requirements are for material participation because they may have requirements that are inconsistent, that are not – they can’t be inconsistent with federal requirements, but they might be more onerous than federal requirements.

So, what advice do you have in this regard to helping ensure that the credit allocating agency requirements are met as well?

[00:22:09] Lance Smith, CPA: It’s important to be able to see what those state requirements specifically are. Each state agency will put out what their regulations are and know, understand how they vary state by state that you’re involved with.

I know of a case of a developer that moved into a new state, didn’t recognize all the nonprofit participation requirements in that state. And it was quite a bit of work for them to resolve the issues in order to become compliant with that.

Some more examples of participation that can be put out there to determine the right to vote in all the major decisions managing the limited partnership, conducting annual physical inspections and maybe performing substantial management duties such as renting the property participating, hiring personnel, executing contracts and monitoring compliance.

[00:23:02] Michael Novogradac, CPA: And do you have any tips to ensure that those requirements are being satisfied?

[00:23:08] Lance Smith, CPA: Get it documented first. What are the requirements the partnerships and perhaps even including that in the partnership agreement; what the responsibilities are, the managing general partner the nonprofit that is going to be carrying those responsibilities out. And perhaps even having an annual checklist that may help to ensure the process is ongoing for the full length of the partnership.

[00:23:33] Michael Novogradac, CPA: No, I definitely am a fan of checklists and I did read "Checklist Manifesto" and I would encourage that to listeners that have not read the book. It definitely
can show how valuable checklist can be. So, I definitely would concur with you in terms of having an annual checklist on that.

I also think your point about having it be in the partnership agreement, I mean, the partners’ agreement actually document that it is a nonprofit set aside. As a consequence, this is the rights that the nonprofit or the rule that the nonprofit’s agreeing to play in the development is super important.

But you know, so we talk about the nonprofit set aside, this 10% set aside, this material participation standard that has a federal requirement that all have to satisfy and then it can be additional credit-allocating agency requirements. And I say credit-allocating agency. Generally speaking, they’re states, but it could be a possession, could be a city, one of two cities, so I just try to use credit-allocating agency to be a little bit more accurate. But it doesn’t necessarily flow off the tongue as easily as state credit-allocating agency.

Programs and Subsidies Possible with Nonprofit Partners
But let’s turn to other potential programs or subsidies that a partnership can potentially qualify for if they have a nonprofit partner. And these programs often have, similar to the material participation standard, some minimum participation standards for the nonprofit. And I was wondering thoughts you had about what listeners should know about that and what comes to my mind, being in California, based in California, is the welfare exemption where a property with participation of a nonprofit can qualify for can eliminate real property taxes.

[00:25:20] Lance Smith, CPA: Certainly, each state is different in what other benefits that they’re providing for the incentives that they have for having that nonprofit involved. But California is a strong example with its welfare exemption. This is providing relief from property taxes, which can be quite large in California.


[00:25:38] Lance Smith, CPA: So, having that qualified nonprofit managing general partner in there can provide that property tax relief.

Lowering the property taxes certainly has the benefit of then reducing operating costs. Lower operating costs will then allow a larger, potentially a larger permanent loan more stabilization on the project, and even maybe for the nonprofit’s incentive, make a difficult project to actually become feasible.

A lot of nonprofits are very mission driven and they want to make sure that they get the most they can and so that project that’s not quite there, now that it becomes feasible due to the lower operating costs. Material compliance, though, that material participation is still essential to stay compliant with these rules, though.
And I would just encourage listeners to be looking at the guidance that gets released with respect to, say, the welfare exemption. What level of engagement does the nonprofit need to ensure that it’s having?

And then the same thing goes with, you know, other property tax abatement and just other benefits that partnerships might be having by virtue of having a nonprofit partner.

Grant Funding

So, I wanted to move on to the last of the four areas, and that has to do with grant funding. And if you could explain to the listeners why partnerships generally don’t want to receive a grant directly and the role that nonprofits can play when affordable housing developments have the opportunity to benefit from cash grants.

Glad you asked. It is not uncommon for partnerships to have funding gaps and struggling to fill, to obtain all their sources. This is nothing new in the industry.

No, it’s not.

We're constantly looking for how to close that gap. Grants are a good way of being able to do that. However, grants coming into the partnership would be taxable to the partnership. The partnership does not want to then turn over a third of potentially of that grant income over to turn it into taxes and therefore not be able to only get two-thirds of the benefit.

The nonprofit can step into this role as an exempt organization to accept grants. Nonprofits love grants. They'll take them all the time. And then they'll be able to use that. It's not taxable to them but they can use those funds now, 100% of the funds, loan it to the partnership and then the partnership can fill that gap that they're looking to close.

So, thank you for that. And there's all sorts of nuances when you have grants and can you make the grant to the nonprofit. The nonprofit making the loan to the partnership and the rest? And obviously we don’t have time to go into all those nuances here. And there's both the legal, there's legal restrictions and what cash grant proceeds can and can't be used for and the rest, so it's important that you consult with your attorney to ensure that the grant's being structured properly.

But just from a pure tax perspective, from a maybe a tax accountant's perspective what are some of the issues from a tax perspective that a partnership and a nonprofit need to consider when grant funds are coming in as a loan to a partnership from a nonprofit?
[00:29:03] **Lance Smith, CPA:** First it’s important to consider the partnership’s long-term ability to pay that soft debt financing. If there’s no feasibility of doing it, what kind of loan is it really? So, they want to have some type of economic substance to be able to show the feasibility of that.

The other factor is to watch for is with related-party debt. If the general partner is making this loan, it becomes a related-party debt. This could cause issues unintended consequences that may even potentially reallocate the credits. And certainly, this nonprofit does not want reallocated credits. That’s a whole can of worms that can open up there. So, we want to make sure that it’s properly structured when the loan is made.

[00:29:50] **Michael Novogradac, CPA:** This is one I get. This is like one of so many issues that get addressed when you run a project pro forma over the 15-plus years for low-income housing tax credit partnership. So, I’m glad that you mentioned that and it’s something that you need to make sure the soft debt financing can be repaid at the end of 15 years, except it’s not able to be make payments on during the 15-year period.

Then, as you point out, you’re solving the grant issue by having it be potentially related-party debt, and then the related-party debt could end up even posing problems with respect to loss allocations, and then you end up having to look at that issue and solve that. So, it’s definitely, you know, not as simple as “we’ll just make it a loan” and get interest rate issues and things of that nature, which, once again, we could do a whole podcast on these sort of structuring questions.

And the purpose of this podcast is really to raise the issues that we’re raising and then give listeners a chance to say, OK, this is an issue. I need to address it and then reach out to, hopefully someone at Novogradac hopefully you, Lance, they can reach out to you to help with that issue.

**Additional Resources**

But if in terms of that, maybe to wrap up, if you could share with listeners who want to know more about the various topics we’ve discovered here, what advice you have. I know one, one bit of advice is, you’re going to say is, "call me." Beyond them calling you, what other advice do you have?

[00:31:19] **Lance Smith, CPA:** Yeah, certainly call me. The good news – we bring up some of these potential pitfalls. The good news is there are solutions to being able to work with these various pitfalls. We don’t have to just suffer through them all. There are good ways of being able to address them. These are good things available. But there’s a risk. And as long as you have the right people working on it, we can get to the right answers you’re looking for. So, certainly Novogradac is a great place to be able to find those answers. Maybe a little biased there, but definitely call me.

Look for more resources: Attending the Novogradac 2023 Housing Tax Credit Bond Conference set for Sept. 28-29 at The Four Seasons in New Orleans.
Also visit the Notes from Novogradac blog where we delve below the headlines on some issues, including a recent post I wrote about the partnering with nonprofit developers. There's also an article that on that theme in the May edition of our magazine, the Novogradac Journal of Tax Credits. You can subscribe to that by visiting our website to learn more.

**Exit**

[00:32:26] **Michael Novogradac, CPA:** So, thank you for those added resources, Lance. I might even also toss in there, we do have our Low-Income Housing Tax Credit Working Group and I would encourage listeners to join our Low-Income Housing Tax Credit Working Group as a way to stay abreast of issues like this, as well as a much broader range of low-income housing tax credit development, and operation issues.

I will include your contact information in today's show notes, Lance, so those who can't find, can't find a way to get your phone number, at least I'll have your email so they can email you. But Lance is in our Petaluma office, so he is easy to reach. And Lance, please stick around for the Off-Mike Section where I get to ask you for some recommendations in different areas and words of wisdom.

And to our listeners, please tune in to next week's episode. We're going to discuss ways to avoid budgetary pitfalls and surprises with your historic tax credit development. We're finding many historic tax credit developer-clients are reaching out to us at Novogradac and they're requesting updates to the financial models. And this is because of – this isn't much of a newsflash – changes in project costs. We're not talking lower project costs. We're talking increases in project costs due to inflation and the rest, as well as changes to sources of financing, as well as changes to other nonproject cost-related uses.

And they're coming to us for updating their financial models because they're aware how, if they fail to accurately forecast or budget sources and uses, then down the line they can face some pretty significant problems. And that's why my guest and Novogradac partner Dave Graff is going to join me next week because he, particularly, is seeing a growing demand for his budget-analysis services.

So next week, Dave, and I'll discuss some common budgetary pitfalls and how to avoid them. And I would note that even if you're not involved in historic tax credits, most of what we talk about from a budgeting perspective and a forecast perspective would apply to low-income housing tax credit transactions, renewable energy transactions, new market tax credit financings, so it'll definitely have a number of themes that are of value across the various tax incentives we work, including opportunity zones.

And also, if you do have any questions you think we should cover in that episode, please email me at CPAs@Novoco.com.
**Off-Mike Section**

So now I’m pleased to turn to our Off-Mike Section, Lance. These questions are a little bit easier and they don’t have quite as many right and wrong answer aspects to them.

And I wanted to start a question that I love asking guests, and since this is your first guest appearance on Tax Credit Tuesday, I know I haven’t asked you this before. What professional advice would you give to someone starting their career as a CPA?

[00:35:23] **Lance Smith, CPA:** I have to start with the mantra that I give. My staff are tired of hearing it, I think. And I even give, just about every interview that I have, first get the CPA exam out of the way.

[00:35:41] **Lance Smith, CPA:** My mantra: It’s an academic test. Your study skills are coming out of school are as good as or bad as they’re ever going to be. They’re never going to improve from what you have coming out of school. So the idea that you’re going to come back and somehow take a year or two studying and being ready to take the exam is not going to happen.

Alternatively, I think for someone in any career, I would say, it still a CPA, is I would say you need to make yourself valuable. If you can make yourself valuable then you have the attention of everyone, someone paying you for your time and services, either through a salary or a product you may be selling give them a reason to be happy to do so. And if you do, then they’re going to want more of it.

[00:36:39] **Michael Novogradac, CPA:** No, I like those two. I love that you’re pointing out to get the CPA exam out of the way. It sounds like such a given and since I did it so many years ago, it’s not one of mine, but when you mentioned how your test-taking skills are as good as they’re probably ever going to be, I definitely remember taking the exam. I was actually working at Arthur Anderson at the time my first busy season and studying for the exam at the same time. And I definitely was finding my test taking skills waning.

And, on the one hand, it was sort of embarrassing to think that I had developed test-taking skills to the level I developed them because it’s not necessarily a life skill that’s all that useful other than you know, performing on an exam. But I definitely found I’m waning in a very short period of time and I can’t even imagine if I had waited a few years, how much more they would’ve deteriorated.

And your point about making yourself valuable, is, you know, obviously what Novogradac is all about, you know, creating our niche areas in areas where we have tremendous expertise so it’s valuable for clients to come to us.
So those are a great two. And if I was to round out that, I'd probably, my third one would probably be network. And you know, initially as you're doing all those sorts of things, you really don't think that much about networking. But you know, you have to start to build your network. And as you expand your network, you know nothing but good can come from it.

Absolutely and Petaluma's a smaller office, but I still strongly encourage everyone in the office, they need to be talking to the other office people. Because we're a firm, not an office. I do not want to be just our office. There's so many resources within the firm. They should be talking to their equivalent peers and having open dialogue on that.

Yes. So, my second question, I only have two for you, is what part of your job do you enjoy the most? And just like when I ask someone what their favorite podcast is, they can't say Tax Credit Tuesday. So, when I ask you what part of your job do you enjoy the most? You can't say appearing on a podcast with my managing partner.

Oh, no. I just took away the answer you were prepared to answer with, and now you've got to have to scramble.

[00:39:01] Lance Smith, CPA: Well, I have to take a moment there to think now that definitely that was not on the tip of my tongue. Sorry, Mike.

But strangely, as accountants we get labeled for, for not doing this. But I think what I love most about the job is the people. I have to say, I have a great team. I love who I've got working with me. I have great clients. I love what they do, and I have great partners that I work with. I mean, there's so many resources that I can find. The other partners, I enjoy interacting with them. Looking forward to our advance coming up here just to be able to have face time. We've got a great, great bunch of people that I'm involved with.

Behind the scenes the number crunching is good, but I consider one of the highlights of being able to actually attend one of the client open houses. That is very fulfilling to be able to tour a new project, see how happy the tenants are to show off. They're ecstatic to be able to show off their apartment and share their story. They have a place now. They're home. They're safe. And it's just exciting to see the change in their story.

So often, I say, it just reinforces that often-stated motto that you have, that you shared of doing well by doing good.

[00:40:29] Michael Novogradac, CPA: That is very well said. Very well said. And when you mentioned, you mentioned the grand openings, groundbreakings and the rest, you know, that is something that is so rewarding, so rewarding. And when you said that, what jumped into my mind is there was a grand opening that I attended to the kind of the, you know, the formal sort of grand
opening. It already – obviously tenants had already sort of moved in and I remember hearing these. People up there speaking and all the rest, and they were say, what they were saying was interesting and all the rest, but as they were standing up on the podium and different people were sharing their thanks and their appreciation and the rest, I saw it in the background out of one of the units, these couple of young children go running down the steps. They go to the top lot. And then they’re there playing on the, and I was just like, it was just to see them there, you know, in such a wonderful setting and see them be able to go out in their backyard and play on the top lot and all the rest.

That was just so rewarding. And I get goosebumps even talking about it now when I remember that. And for all that people were saying during the grand opening, all the rest, the image that presented itself with those children was super powerful and shows you what, how valuable all the work that we do is.

So, thank you for that, Lance. I appreciate you joining me on the podcast today. And to our listeners, I’m Mike Novogradac. Thanks for listening.
Additional Resources

Email
Lance Smith

Notes from Novogradac
May 22: Novogradac 2023 Affordable Housing Conference Panel Discusses the Nuances of Being, Working with a Nonprofit Development Partner

Conferences
Novogradac 2023 Housing Tax Credit and Bonds Conference

Working Groups
LIHTC Working Group

Novogradac Journal of Tax Credits
Partnering with a Nonprofit for a LIHTC Development

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