Learn about the 2022 qualified census tract (QCT) and difficult development area (DDA) designations and what they mean for low-income housing tax credit developers and properties. In this week's Tax Credit Tuesday podcast, Michael Novogradac, CPA, Novogradac partner Jim Kroger, CPA, and Novogradac manager Sun-Ae Woo, CPA, discuss observations about the 2022 designations and how the COVID-19 pandemic may have affected those designations. They also discuss action items for developers depending on how the 2022 designation will affect their properties.

Summaries of each topic:

1. Observations about 2022 QCT and DDA changes (7:42-20:19)
2. Action items for LIHTC developers (20:20-39:11)

Episode Transcript

[00:00:11] **Michael Novogradac, CPA**: Hello, I'm Michael Novogradac and this is Tax Credit Tuesday. This is the Tuesday, Nov. 23rd, 2021 podcast. If you're a low-income housing tax credit developer, investor or underwriter, this week's podcast is for you.

Today's podcast covers an important tax provision that many developers of affordable rental housing rely on to make their low-income housing tax credit development financially feasible. I'm referring to that 30% eligible basis boosts for developments located in difficult development areas or DDAs and qualified census tracts or QCTs. DDAs and QCTs are geographic areas that are determined by HUD.

And if your low-income housing tax credit development is in a DDA or QCT, you can increase your eligible basis by up to 30%. As for new construction and rehabilitation costs, I note that the basis boost does not apply to acquisition costs. The increased eligible base generated by the boost generally allows for a correspondingly larger LIHTC allocation.

In turn, that larger tax credit allocation increases the amount of tax credit equity a developer can raise from investors and ultimately more tax credit equity is often needed to make an otherwise financially infeasible development feasible. Now, DDAs and QCTs are subject to change every calendar year. And just this last September, HUD did announce the 2022 designations.

This happens every year. And some areas that are eligible for that 30% boost in the current year, in this situation, 2021, end up not being eligible in that subsequent year, 2022. Similarly, some areas not eligible in 2021 will be eligible in 2022. And then of course there's also areas that not that they're not eligible for a 30% boost in either year and then there are those that are eligible in both years because they were in and that didn't change.

So I will note that for 9% allocated transactions, the state does have the ability--the development could be in a QCT or DDA as such, in many situations, these changes in DDAs aren't as relevant for 9 % transactions.

That is not the case for a private activity bond-financed transactions, the so-called 4% credits. So these issues are particularly at height or peak for private activity bond-financed low-income housing tax credit transactions. Given the recent change in September and that we're approaching year end, as these are calendar-year designations, today's discussion is particularly timely for low-income housing tax credit developers, investors and underwriters.

Joining me in today's discussion are two Novogradac experts on DDAs and QCTs, my partner Jim Kroger and Novogradac manager Sun-Ae Woo. Both of them have been helping LIHTC developer clients navigate what the 2022 QCT and DDA designations released in September mean for the developers and more, most importantly for their properties.

And they're here on the podcast today to provide insight on the HUD and IRS rules, as well as the agency requirements with respect to these new designations. Now we're going to start by highlighting Jim and Sun-Ae's observations about the 2022 designations and how the COVID-19 pandemic may have affected those destinations within.

And this is the most critical part of the podcast. We're going to discuss action items for developers depending on how the 2022 designation affected their properties. There is a general rule, whether the given property falls into one of three categories that probably currently is in a designated QCT or DDA, and it's going to lose its designation in 2022.

And that's certainly the area that most of our clients get most focused on because they have properties that are financially feasible while they're at a DDA. They're concerned about losing the DDA status one year and want to know what steps to take to preserve it. Now, similarly, you can have property that's in an area that's not currently a QCT or DDA that will become one in 2022 and there are steps you're going to want to be aware of. Then of course, there's a third category where there's no change. And this third category really has two sub-categories. Either there's no change because you weren't in a QCT in 2021 and won't be in one next year, 2022, or you're in a QCT in 2021. And there's no change.

We're going to discuss the various action steps in each of these scenarios. So as you can tell, there's a lot to cover and this is fairly technical. So if you're ready, let's get started.

2022 QCT and DDA Changes

So Jim and Sun-Ae, welcome to Tax Credit Tuesday. It's great to have you both. And I do want to hear from each of you, what your observations are about the 2022 designations. Every year as we get the HUD designations, it's always interesting to look at what changed, you know, what QCTs fell in and out what difficult development areas fell in and out.

But before we do that, I do want to talk about the process by which the the Department of Housing and Urban Development, HUD determines DDAs and QCTs. And we don't have time to delve that deeply in all HUD's calculations. But I do think it's important for our listeners, be they developers, investors, underwriters and the like, to have a basic understanding as to how does HUD determine DDAs that QCTs.

And what basic data is used now, for starters for our listeners, I will note that HUD does separately calculate qualified census tracts or QCTs and separately calculates difficult development areas or DDAs. And to start with the calculation, HUD has to rate the areas based on their levels of distress in a census tract or other factors that make a particular area difficult to develop. HUD then limits the DDA and QCT designations such that they only capture 20% the national population and HUD does do this on both metro and non-metro areas separately, well, for these two areas.

It's also important to remind my listeners of the change back in 2016. It is a while ago. Now it doesn't seem like it was that long ago, but it is five-plus years ago. There was a change for metro difficult development areas in 2016, that the concept of a metro difficult development area switched from countywide boundaries to smaller areas known by the acronym, ZCTA. And you're probably thinking what's a ZCTA? That's the acronym.

Z C T A for a zip code tabulation areas. And now you have where they've also been referred to a smaller DDAs and they're ZCTA areas. And I will note that a ZCTA is not necessarily the same as a current ZIP code, and that's very, very important for developers and others to realize. So of all of that is background.

It's coming to get our guests to participate here. So Sun-Ae, if you could describe the sources of data that are used to calculate DDAs and QCTs starting with DDAs, but I know for our listeners, one of the reasons why I think it's important to know the sources of the data is so that, you know the definitions that are in place for 2022 to reflect data that's obviously older than 2022.

[00:08:09] **Sun-Ae Woo, CPA**: OK. Thank you, Mike. So for the DDAs, HUD designates areas where cost of construction is high compared to area median gross income, which is referred to as AMGI. HUD uses the fair market rent, which is referred to as FMR, divided by AMGI limits and sorts the ratio of FMR to 60% rent limit, from the highest to the lowest separately for metropolitan and non-metropolitan areas and designates the top 20% of the national population as DDAs.

And for QCTs, QCTs are areas where either 50% or more of the households have an income less than 60% of the AMGI for such year. Or have a poverty rate of at least 25%. Based on the rankings of these areas with income ratio and poverty rate with areas meeting both income and poverty criteria being placed on the top of the list, HUD designates the top 20% of the population of that metropolitan or non-metropolitan area as QCT.

[00:09:19] **Jim Kroger, CPA**: This is Jim jumping in here just to clarify. So you have to, on the QCT, it's a two-part test. Right. And you have to be satisfying both of those tests. So they it's a complicated process that HUD goes through looking at both lists, making sure you're on both 50% or more of the households have an income less than 60% AMGI and the poverty rate of at least 25%. And you satisfy both of those conditions.

[00:09:59] **Sun-Ae Woo, CPA**: You can meet either one of them, not both.

[00:09:59] **Jim Kroger, CPA**: So either way, either one gets you on the list,

[00:10:04] **Sun-Ae Woo, CPA**: If you satisfy both criteria you're being placed on top of the list when HUD ranks them.

[00:10:07] **Jim Kroger, CPA**: OK. So you're on the list, right? But you're ranked higher if you

[00:10:10] **Sun-Ae Woo, CPA**: You're ranked higher, if you meet both.

[00:10:11] **Jim Kroger, CPA**: Right. And then they, and then they marched down. And so I guess your top 20%, you may have an area that only meets one, but you're more likely to get into that 20% cut. Top 20%. You'll be closer to the top if you meet both. Right? Right. OK.

[00:10:30] **Michael Novogradac, CPA**: OK. In terms of the data here, for purposes of DDAs and QCTs, and what's the most recent data year–and don't go into all the details.

We don't have time in the podcast to go into all the details, but just from a standpoint, it's 2022 determination. They'd released it in September 2021. Obviously, they don't have 2021 data yet, so they can't use that. So what's the most recent data that's been used these calculations?

[00:10:58] **Sun-Ae Woo, CPA**: So for the data source for both DDAs and QCTs, such as FMRs, income limits and poverty rates are primarily from 2014 through 2019.

[00:11:11] **Michael Novogradac, CPA**: That's good. That's good. That's enough. We can, there's a lot of stuff in the 2014 to 2019, but the point being that it's not 2020 data. And it's some 2019 data at the end of 2018 or earlier data. And I'd like to share that with listeners, just because sometimes I look at certain areas, I think they should or shouldn't be in. And those areas, as you know, in a future year, 2023 or 2024 might make their way in and other areas might make the way out as that data makes its way through the process that HUD goes through.

[00:11:44] **Jim Kroger, CPA**: Right. So HUD's definitely using trailing data, but they do trend that data forward. Do they try to trend it forward to 2022 is what we're doing here with DDAs and QCTs.

So they have to trend forward a few years for a lot of this data that the cutoff is back in 18 or 19 and they, and they did account for, forgot the pandemic in 2020, 2021. And they did account for that in their trending factors. But that's sort of the area where I think the pandemic was having an effect here on the DDAs and QCTs.

[00:12:20] **Michael Novogradac, CPA**: Right. Got it. Anything else you wanted to say on that before we talk a little bit but more about the census?

[00:12:26] **Jim Kroger, CPA**: I think that's a good summary today. I know there's, as Mike said, there's a lot of data behind all this and you know, just one other item that HUD considers is when they're going through these data sources and you dig deeper. You see why do they have, you know, four or five different data sources? Well, if they had a year where the reply on the American Community Survey was unreliable, so they just didn't get enough responses from households, then they will consider that that data's not good and they go to another set of data. So it's a very dynamic process when they go through all this.

[00:13:00] **Michael Novogradac, CPA**: We do have clients engage us as with respect to a particular area or census tract as to whether or not it's likely that the area will move in terms of being in a QCT or not. So we can never generally can't say for sure, but we do have clients that will ask us to do some calculations, just to say, what's the likelihood of there being a change?

So in terms of this census data, every 10 years there is a detailed census taken. When will that 2020 census data affected the determinations with DDAs and QCTs?

[00:13:38] **Jim Kroger, CPA**: Right. Good, good question. So the 2020 census data is not used yet for the 2022 DDAs and QCTs, but HUD has told us that it's likely to be used for 2023.

That's a that's a year away when those get published in September of 2022, we'll likely see the 2020 census affecting the 2023 DDS and QCTs, primarily with population.

[00:14:08] **Michael Novogradac, CPA**: How's it going to say? I think that's particularly notable because oftentimes when you're doing that more detailed, 10-year census, you see more dramatic shifts in some of the determinations. So that's something that is always worthy of noting.

[00:14:22] **Jim Kroger, CPA**: Great. I agree, especially with the census tracts, right? Mike, those are them that there's a reason they're called census tracts because it is the decennial census every 10 years that will dramatically affect those census tracts. So you're right, we're going to see some big changes in 2023. So we should do another podcast a year from now to address all of those big changes that will be coming through with population as well. That that is going to be another big change. We'll see from the 2020 census.

[00:14:53] **Michael Novogradac, CPA**: So does, in terms of getting back to the here and now at the 2021 changes or the 2022 changes from 2021, I don't think HUD actually provides any map or lists that actually shows the areas that were lost or gained , you just have to compare across the years. Is that right?

[00:15:10] **Jim Kroger, CPA**: Right. They, they have their two maps. You can look at the two maps that they have for 2021 and 2022. And you can, there's a box you can click to toggle between the two years. And if you zoom in an area, you'll see the changes for a particular metropolitan area. You zoom out too far, you get to a national level, the, the areas aren't available to be seen.

So you have to kind of zoom in pretty close into areas that you're looking at, but the change that the areas that changed don't show up, you have to visually look for them as you're toggling back and forth and HUD does not have a list of those changes either.

And we have a map that will be released in December showing the changes.

[00:15:57] **Michael Novogradac, CPA**: Right? Thank you for that. That's a very helpful overview and I would encourage listeners to go to our website in December when we get all the updated DDA, QCT designations uploaded.

[00:16:12] **Jim Kroger, CPA**: One other point on the changes is, you will occasionally see areas gained and areas lost.

That might just be because something changed with a QCT. They sometimes have ZIP codes that will change from year to year. And so we'll, we'll show it as an area lost. And, and an area gained just because the numbers changed. So it's something you, you still have to look at your map and, you know, every developer has to look at their site closely and think about what's really going on with this DDA or QCT.

[00:16:49] **Michael Novogradac, CPA**: Thank you for that. Now let's dive into HUD's designations of DDAs and QCTs for 2022. And let's start with DDAs and I'd like to get each of your top-level observations about DDA changes from 2021, 2022. And Sun-Ae I'll let, I'll let you start.

[00:17:07] **Sun-Ae Woo, CPA**: OK. So one very basic observation is the methodology has not changed from 2021. However, the source data such as FMRs, income limits and poverty rates used to designate DDAs and QCTs are updated each year. So due to annual updates in these data sources, there have been significant changes in areas designated as DDAs and QCTs. So for metropolitan areas, there were 313 small area DDAs also known as ZCTAs designations, that's about an 11% decrease and 324 ZCTAs gained the DDA designations in 2022. That's about a 13% increase. So there was a net increase of 11 ZCTA areas, only 2%. What the total count of 2,789 ZCTAs does for 2022 designation.

[00:18:10] **Michael Novogradac, CPA**: Let me just actually emphasize there before you continue with non-metropolitan areas that, you know, basically there was a 13% of the areas, roughly speaking, fell out and roughly 13% came back in. So when it came back in, it is a notable percentage change in terms of metropolitan areas at that lane, an alert for all of our listeners that it's something you definitely need to be paying attention to? But continue with non-metropolitan areas.

[00:18:36] **Sun-Ae Woo, CPA**: So four non-metropolitan areas, 53 counties lost their, DDA designations, which is about 15% decrease.

And 65 counties gained DDA designations, which is about 22% increase. So there was a net increase of 12 counties, which is 7% with a total count of 362 counties for 2022 designations. So, as we mentioned earlier, due to the 20% national population cap, the total number of DDA designation is close to last year.

However, the number of areas that gained or lost the designation is significant. So we recommend the developers to look into these changes every year.

[00:19:25] **Michael Novogradac, CPA**: Great, thank you for that on the DDAs. Now let's turn to QCTs and give you a top-level observations.

[00:19:32] **Sun-Ae Woo, CPA**: So for QCT is 1,288 tracts lost designations, which is about a 9% decrease and 943 tracks gained designations, which of about a 7% increase.

So there was a net increase of 345 tracts, which is 2%. With a total count of 14,036 tracks for 2022 designations. So similar to DDA designations due to the 20% population cap, the total number of QCTs is close to the prior year. However, if you just look at the number of areas that gained or lost, the QCT designation is very significant.

Action Items for LIHTC Developers

[00:20:20] **Michael Novogradac, CPA**: Great. Thank you for that. Now let's get to that central part of the podcast here and that has to do with a items for developers, and it's not just action items for developers of tax credit property. It's also a due diligence, action item for underwriters and sponsors and investors in transactions where they've made financial commitments.

So, as I mentioned in the intro, when I think about a low-income housing tax credit development, that's going to fall into one of three categories or scenarios when it comes to QCTs and DDAs. And the first category that development's location will undergo no change. Meaning either the area was a QCT or DDA. It's going to remain so or it's not and will be or was not in one. And will stay, not at one. The second category is for developments that fall into or gain designation in 2022 that are currently doing that third category, those that fall out. And that's certainly the area where we get the most inquiries and clients, because they have transactions that they're in the process of developing it's in their development pipeline and they were counting on that DDA or QCT.

So most low-income housing tax credit developers do have a portfolio of these properties. So it's likely a given developer has multiple properties that fall into each of these categories I've outlined. And our recommended action item will be specific each situation. But Jim start with what you would think is a simple scenario.

Developers need to be doing or thinking about if their development is not a undergoing a QCT or DDA change in that they're not in one now and won't be in one next year or they are in one now and will be in one next year.

[00:22:13] **Jim Kroger, CPA**: All right. Let's take this scenario if you are in a DDA or QCT in 2021 and also in 2022. So that, that developer might, and I'll say he's in the development timeline, he's got a 9% allocation or he's got a bond allocation with 4% credits.

He may look at that and say, I'm good. I've got the 130% boost, which he does for ’21 and said it has changed in ’22. So things are looking good. So I would say don't get too comfortable. Make sure you're still toeing the line and that you are meeting all the usual federal and state deadlines to carry out over allocation, the 10% test, all the rules and regulations, because if there's delays in the development, things change, something happens and you get to the end of 2022, you haven't met certain deadlines and all of a sudden you notice the areas dropped out in 2023 as a DDA or QCT.

And if you lose the allocation, the 9% allocation, and you never know, you never locked in with the state, you've got to get a new allocation, but you might lose that 130%. So I wouldn't get too comfortable. If, if things haven't changed, if you're not a DDA or QCT in ’21 or ’22 and your project works, you know, it's probably a good idea to just push ahead and get the project out.

Yeah, look at the pros and cons of that, but I don't think you want to just wait until the project is potentially going to fall into a QCT or DDA in 2023. Although there will be big changes we expect in that year, but you know, that's a choice developers have to make, too. They want to push ahead without it, if the project currently works.

So should they try to wait to see if they can pick up that 30% and also go to your state? Like you mentioned, is there discretion available to be a DDA for certain projects? And every state applies that federal discretion that the IRS allows, they're going to apply it differently. If you're special needs, now there may be other ways to get that 30% boost.

[00:24:22] **Michael Novogradac, CPA**: That's a good point about the state discretion. And I just emphasize that's for 9% transactions is not for private-activity bond transactions. There are efforts to try to enact that discretion at 30% boost for 4% private activity bond financed transactions. But that's not been enacted yet and the Build Back Better plan does not include that at this time, but that bill is going to the Senate and maybe the Senate get that introduced, but for now don't count on it.

So let's go to the more common scenario, where we get the most questions and it makes sense. It's the one where you get the most questions. And that's what I was putting as the second scenario where a developer is in an area that's a DDA or QCT today, 2021. That's going to fall out in 2022. And they're coming to you Sun-Ae and saying, how do I preserve that designation?

So if you could, Sun-Ae, tell us, share with our listeners, what developers can do to preserve that designation.

[00:25:30] **Sun-Ae Woo, CPA**: The answer depends on your development's timeline. And if it's a 9% project in a 2021 DDA or QCT and had credits allocated in 2021, then it qualifies for the 130% boost. And if it's a 4% project and it's 2021 DDA where QCT and have the bonds issued in 2021, that it also qualifies for the 130% boost.

So the 2022 designations apply to properties either receiving 9% allocation or using tax exempt, bonds issued and buildings placed in service on or after Jan. 1st, 2022. So, however, if a project was not successful with getting 9% credits allocated in 2021 or getting bonds issued in 2021, that's when the projects are faced with potentially losing the DDA or QCT status.

However, HUD does provide relief and the ability to lock in the status for DDA and QCT. So for 9% project to preserve the status, the LIHTC allocating agency must receive a complete application prior to Dec. 31, 2021, and make the tax credit allocation within 730 days after the application is submitted.

Again, the key here for 9% project is that the tax credit allocation must be made within 730 days after the application is submitted.

[00:27:04] **Jim Kroger, CPA**: That was a pretty long time. You got two years, you got till the end of 2023, roughly, depending on when you got that complete application submitted, you know, sometime in December of 2021.

[00:27:16] **Sun-Ae Woo, CPA**: Yeah. And for 4% project to preserve the status, it also must submit a complete application. However, the submission is to the bond issuing agency, as opposed to the LIHTC allocating agency. And in some states, the bond issuing agency may be different from LIHTC allocating agency and subsequent to the submitting the application, the applicant must either place the building and service or the bonds must be issued within 730 days of the application being submitted to the bond issuing agency. So the key here for the 4% project is to get the bonds issued or the buildings need to be placed in service within the 730-day window. And the complete application means that no more than de minimis clarification of the application is require for the agency to make a decision about the allocation of credits or bonds requested and the application.

[00:28:21] **Jim Kroger, CPA**: Oh, so Sun-Ae, you know, both those rules are very good to have for the 9% of the 4%.

You got two years on both of those to either get the 9% allocation for the 9% or get the bonds issued or placed in service on the 4%. But I'm thinking, even though that's a long time, the 9% credit is oversubscribed in many states. It's very competitive. So if I am going that route and I think, oh, I can just lock it in with a complete application, that's true. But what if you submit your project in 2022 and you don't get funded and you apply again in 2023, you don't get funded. Then you decide to switch to the 4% route because the 9% that hasn't been successful. And you say, well, I've got the DDA, QCT locked because I submitted the complete application.

That's only true for the 9%. So you would not have locked it in for the 4%. So I think a good strategy here is to lock it in for both. Submit to the 9%. If the state allows this to dual track, you know, you're just doing it to lock and then submit a 4% and then you've locked it in for both. And now you've got the option over the next two years to go either out, maybe. Most states don't really let you do a track when you're applying for the 9% of the 4%.

You know, you can do it initially, maybe just to lock it in and then you just pick one and see if you're successful with one. If you're not, you switched to the other. So I think people should consider locking in for both, you know, this, this coming month here in December 2021, it's they're losing their status.

[00:30:07] **Michael Novogradac, CPA**: That's a great point, Jim, because you definitely want to be preserving options. And you may not know right now exactly what your competitive outlook is on a 9% competition as opposed to a bond competition and you haven't decided yet, then you you're probably left with no choice but to do that.

[00:30:28] **Jim Kroger, CPA**: And check with the state agency on deadlines.

I don't California, Dec. 11th. So

[00:30:34] **Michael Novogradac, CPA**: Let's get back to the state rules. Because I did want to get to our third category. And for our listeners, we're talking now about federal rules. And then we will talk about the state rule, because as with all things low-income housing tax credit related, you have to comply with all federal rules and you also have to comply with all the states.

So you have to ensure that whatever you're doing is meeting both sensitive requirements. The state can't override the federal rules. And then generally the state, the federal rules do provide a lot of latitude to states in terms of putting in additional requirements. But I wanted to ask you Jim, about the third area, and that's the developer is working on the development that's not in a DDA or QCT this year, but will be in 2020. What should they be thinking about?

[00:31:27] **Jim Kroger, CPA**: Right. If you have a development that has the 9% allocation and, and has a bond allocation on 4% credits and the project works with without the boost, and you're going to get the boost potentially next year, but the only way to get that boost next year, you have to give back the 9% allocation, give back the bonds.

I'd be very cautious with that. So, you know, technically that could be challenged because you've already been allocated. So are you stuck without the boost? As I mentioned, 9% are oversubscribed, so giving back the allocation and trying to get it next year when you would qualify for the boost, that's risky.

You may not be successful just because you were successful in '21. Things change in many states with each competition round. So you got to weigh the pros and cons when you're in that situation. Know, obviously if you haven't submitted yet and you're not in a DDA or QCT, but you will be next year, you know, clearly wait, don't rush to submit your application now.

And there's an interesting situation with bond projects, if you're actually allocated in 2021, but the bonds haven't been issued yet, and you're going to be in a DDA-QCT in 2022. I think it's possible to actually get that 130% boost, even though the bonds are allocated. Technically when you read the IRS language on effective dates and the HUD language, you would qualify for the boosts, but the state may look at that and say, "Hey, we already underwrote you and allocated you bonds."

Why would you need this boost? Maybe your costs went up in the, in the time period between 2021 and 2022. But you know, something to think about definitely on 4% so that you might have that situation. Why would you need this boost? Maybe your costs went up in the time period between 2021 and 2022. But you know, something to think about definitely on 4% so that you might have that situation.

[00:33:14] **Michael Novogradac, CPA**: And then Jim, would you agree that generally this situation is most impactful on bond transactions. Since for 9% transactions, the state has the ability to designate you a difficult development area, being in a difficult development area. So you can get that the state wants you to have the 30%. You can get it for the 9% in most situations, but on the private activity bond transaction, that's not the case. And you know, this 30%–going into a 30% area–can be quite significant in terms of feasibility of a bond deal.

[00:33:46] **Jim Kroger, CPA**: Yeah, I agree. There, there there's no state relief on the 4% side, like there was on the 9% side where states have the discretion on the 9% to give that 30% boost. I know in California, they do have a 12-month grace period for projects that lost DDA or QCT status, they can be considered a DDA over the next 12 months, which is great. If you didn't get your application considered complete by the end of this year, you didn't lock it in, you have 12 months, but it's actually better to lock it in because that's a two-year grace period. So I would do that first. If you don't get that done, then you can go to the next step in California, at least, and maybe some other states to get to get relief.

[00:34:34] **Michael Novogradac, CPA**: Now let's talk about the state-level rules and Jim if you could touch all on some of the ways in which the state rules are more restricted or put additional requirements that our listeners should be aware of. And obviously you can't cover all 50 states and the possessions, all you can do is just alert listeners to the fact that they need to look to their state.

[00:34:56] **Jim Kroger, CPA**: Right. I mentioned briefly that complete applications are going to be different for each state and some states may want that in November. Some may say early December, most will not let you go and submit that application on New Year's Eve and say, Hey, I need to know now today, is it complete? They, if they need some time to review the application, so check your state agencies in the case of the 9%, it's the credit agency, and the 4%, it's actually the bond issuer that you need to make sure that they are available before the end of the year to look at your application and deem it complete before the end of the year. And you should get that in writing from the credit allocating agency or in the case of the 4%, the bond issuer.

[00:35:49] **Michael Novogradac, CPA**: Great. Thank you for that, Jim. And maybe in closing, Sun-Ae, you and Jim, you as well, give any other recommendation reminders that you want to give to developers who are trying to preserve their eligible basis boost.

[00:36:06] **Sun-Ae Woo, CPA**: Yeah. So we want to remind the listeners that when you look at the DDA metro list, make sure to use the ZCTAs, whereas non-metro count–where non-metro is county-based as a Mike mentioned earlier.

So because ZCTA is not the same as the ZIP codes, so we would say don't fall into the trap of using ZIP codes. And the best approach to the status is to go into the HUD mapping tool and to see if your property qualifies as DDA or QCT. And then the DDA use the ZCTA displayed on the HUD mapping tool and then use that number to check against the HUD's list.

So make sure to check both, to make sure that you are either in DDA or QCT.

[00:36:55] **Jim Kroger, CPA**: And at one point on that, I was looking at the HUD map yesterday and assigned areas, San Francisco, that was qualified ZCTA. And there's also a census tract and the two of them overlapped. So in that case, developers, they'll get a 30% bump with either the ZCTA or the QCT, but I would consider that project a QCT. There's additional advantages to being a QCT over DDA. They both get the 30% bump, but the QCT also qualifies for certain things like a community service facility, or there could be allocation priorities with the state for a community revitalization area that only QCT qualify for. So other considerations, when you're, when you're looking at a situation where you're on both lists.

[00:37:48] **Michael Novogradac, CPA**: Great. Thank you for that.

[00:37:49] **Jim Kroger, CPA**: And what else was I thinking? I mean, I think every state's different. So, you know, there's, we, we've got six weeks to go here until the end of the year. So people need to think about this now and not wait until the middle of December.

[00:38:04] **Michael Novogradac, CPA**: Exactly. And I would just say, emphasize again, follow all the state rules, make sure you understand what your state's requiring, but also make sure that you're following federal rules. You need to follow both because that's of critical important. So thank you, Jim and Sun-Ae, I really appreciate you joining the podcast today.

Please stay around because I do want you to participate in the Off-Mike portion of the podcast. But before we get to that, before I give my more formal closing for our listeners to stay on for that, but I encourage you to stay on for the Off-Mike section. I wonder if each of you would share your email addresses.

So those that are listening, have potential to reach out to you.

[00:38:50] **Sun-Ae Woo, CPA**: My email address is Sun-Ae.Woo@novoco.com.

[00:39:03] **Jim Kroger, CPA**: And mine is Jim.Kroger@novoco.com.

[00:39:11] **Michael Novogradac, CPA**: Right. Thank you. And for our listeners, I will also include their contact information in the show notes, which will be posted at www.novoco.com/podcast. So, as I mentioned, thank you, both, please stick around for the Off-Mike portion.

To our listeners, I would like to encourage you to tune into next week's podcast. My guests will be my partner, Tom Boman, and Novogradac principal Reza Karim. We're going to discuss tax planning opportunities that help individuals address the limitation on their ability to deduct state and local taxes or SALT.

And that's of course the deducting their state and local taxes against the federal income to lower their federal income taxes. There's currently a $10,000 cap on this deduction that was enacted as part of the Republican tax bill at the end of 2017. However, if state and local taxes are incurred by a business as opposed to by an individual, then that state and local tax deduction becomes a business expense.

And by being a business expense, it does reduce business income. That's allocated an individual and it's a way to get a federal tax deduction for the payment of state and local taxes. We're going to discuss various tax strategies next week as to how individuals can qualify and convert their state and local individual taxes and business taxes.

We're also going to talk about some of the proposals by House and Senate Democrats, to lift and raise this deduction limitation. You can be sure you're notified of that episode and each week's episode by following or subscribing to the Tax Credit Tuesday podcast. Go to www.novoco.com/podcast, where you can subscribe to as well as stream the show on our website, you can also follow us. Subscribe to Tax Credit Tuesday on iTunes, Spotify, Google Podcast, Stitcher and Radio Public.

Additional Resources

Email

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Web Resources

2022 QCTs and DDAs

Novogradac QCT and DDA Mapping Tool