

**SOUTH CAROLINA STATE
HOUSING FINANCE AND DEVELOPMENT
AUTHORITY**

**Low-Income Housing Tax
Credit Program**

Compliance Monitoring Manual

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Preface

This manual is designed to summarize the statutes, regulations, and program rules that govern the management of Low-Income Housing Tax Credit (“LIHTC”) developments. It provides broad guidelines for property owners and managers about how they can operate their properties in compliance with these rules. The staff of the South Carolina State Housing Finance and Development Authority (“Authority”) uses the manual as a program guide for administering its compliance monitoring procedures. We hope the manual will be a useful source of information for owners, developers, management companies, and on-site management personnel, but please note that this manual is to be used as a supplement to the actual laws and regulations. Sometimes, questions that arise in managing an LIHTC property can be answered adequately only by referring to the statutes and regulations themselves.

The laws and regulations governing the LIHTC program as well as the interpretation of these laws can and do change. Owners and managers should keep abreast of all changes in the Internal Revenue Code and the Code of Federal Regulations that may affect their properties. This may require consulting qualified legal and tax professionals for advice.

Section 1.42-5(g) states that "Compliance with the requirements of section 42 is the responsibility of the Owner of the building for which the credit is allowable." The Authority's monitoring efforts DO NOT relieve the property owner from his duty to obey all program rules. THE AUTHORITY'S OBLIGATION TO MONITOR FOR COMPLIANCE WITH THE REQUIREMENTS OF SECTION 42 DOES NOT MAKE THE AUTHORITY LIABLE FOR AN OWNER'S NONCOMPLIANCE.

INTRODUCTION

Legislative Authority

In 1986, Congress enacted the Low-Income Housing Tax Credit Program (the "LIHTC"). The Internal Revenue Service (the "IRS") of the Treasury Department of (the "Treasury") is responsible for interpreting the statutes regulating the LIHTC. The LIHTC is governed by Section 42 of the Internal Revenue Code. These statutes require each state to designate a "housing credit agency" to allocate the tax credits. The South Carolina State Housing Finance and Development Authority (the "Authority") was designated as the Housing Credit Agency to administer the Low Income Housing Tax Credit program in South Carolina on August 12, 1987 by Executive Order 87-25.

The 1990 Amendment to Section 42 of the Internal Revenue Code required that States begin monitoring LIHTC developments for compliance with program rules.

The Authority's procedures for Compliance Monitoring have been established to conform with all currently applicable federal statutes and regulations. Statutory or regulatory change may require that these procedures be revised from time to time.

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SECTION 1

OWNER'S RESPONSIBILITIES

Each property owner or developer has chosen to participate in the LIHTC program to take advantage of the tax benefits it provides. In exchange for these tax benefits, the owner must meet requirements that are designed to make sure the housing development will benefit a chosen class of low income tenants. A description of these program requirements is as follows.

A. *Source of Program Requirements*

Section 42 of Internal Revenue Service, IRS Regulations found in 26 CFR Section 1.42, IRS Revenue Rulings and Revenue Procedures, additional program rules prescribed by the Authority, representations in a development's application, and provisions included in the Agreement as to Restrictive Covenants all regulate how low-income housing properties are to be operated. For the entire compliance period, owners are obligated to provide the Authority with required reporting documents and any other information requested in relation to the property, the tenants and units in the property, and documentation filed with the Service for the purpose of claiming the tax credits.

B. *Compliance Period*

Developments which received LIHTC allocations after January 1, 1990 must comply with eligibility requirements for a minimum compliance period of fifteen (15) years and an extended use period of an additional fifteen (15) year period stipulated by a recorded Agreement As To Restrictive Covenants. Developments which received allocations from 1987 through 1989 are only subject to a fifteen (15) year compliance period.

C. *Property Management*

The owner or developer is responsible for ensuring that the low-income housing development is properly managed and maintained. He must make certain that the on-site management team understands and complies with all appropriate rules, regulations and policies that govern LIHTC developments and he must keep the development well maintained so that units are suitable for occupancy.

If the management company or owner determines that a development is not in compliance with LIHTC requirements, they should notify the Compliance Monitoring staff of the Authority immediately. Most noncompliance issues are correctable and the Authority will work with managers and owners to remedy noncompliance within a reasonable amount of time.

Because the owner is ultimately responsible for a development's compliance with program rules, the Authority may direct correspondence about noncompliance and corrections to the owner as well as the management company.

D. Progress Reports and Notice of Project Changes

It is the responsibility of the owner or developer to keep the Authority informed throughout all phases of development, rent-up and operation. This includes the construction phase during which owners are responsible for sending the Authority progress reports, notice of the scheduled placed-in-service date, and notice of any major changes in the development's costs, financing, syndication, unit types, and completion schedule. The Low-Income Housing Program Manual (provided to developers who are interested in applying for tax credits) describes the required progress reports. Until all buildings in a development have placed-in-service, progress reports (other than Quarterly Recordkeeping Reports, which should be sent to the compliance monitoring staff) and change notices should be directed to the Authority's Tax Credit Program staff. After that time, reports and notices should be addressed to the Compliance Monitoring staff.

E. Transfer of Ownership

It is the owner's responsibility to notify the Authority of any change in management or ownership of the developments. If the ownership of any building (or any interest therein) which has received a tax credit allocation is transferred by the owner, a bond must be posted in accordance with Internal Revenue Code Section 42(j)(6). Owners are advised to seek legal counsel regarding this requirement before transferring any building or ownership interest in a building.

F. Compliance Monitoring Fees

Property owners must pay the Authority an annual compliance monitoring fee of **\$25.00** for each LIHTC unit contained in each building. Initial compliance monitoring fees must be paid to the Authority within 30 days of the date on which the building is placed in service. In each of the following years throughout the remainder of the 15 year compliance period and the extended use period, fees are due on or before the first day of February. A late fee of **10% of the balance due or \$50.00** (whichever amount is greater) will be assessed for any fees not received within thirty (30) days of the due. Interest accrues daily at the rate of 20% on the entire unpaid balance, including late fees, for fees received more than 60 days after the due date. A **\$20.00** fee will be assessed for any checks that are returned to the Authority due to insufficient funds. **Owners and developers should take note that participation in Authority programs requires a certification of good standing with the Authority. Failing to pay fees will bar any further participation in the programs administered by the Authority.** The Authority reserves the right to make adjustments in the amount of the annual compliance monitoring fee as it deems necessary to defray the cost of compliance monitoring.

The Authority will mail property owners billing statements for these monitoring fees. Checks should be made payable to the S. C. State Housing Finance and Development Authority and should contain the Authority ID number. If payment is for more than one development or year, list all applicable information on the method of payment. Please mail payment to the Housing Development Division, S.C. State Housing Finance & Development Authority, 919 Bluff Road, Columbia, SC 29201.

G. Recordkeeping

Federal statutes and regulations require property owners to keep records for each building within a development. The Authority prescribes how records are to be prepared and maintained. If an owner or management company wants to use its own version of the Household Income Certification (HIC-1), Tenant Income Verification (TIV-1), Income Verification Section 8 (IVS-8), and Asset Addendum (AA-1), the forms must be reviewed and approved by the Authority beforehand.

These records must include, but are not limited to, the following:

1. Applications for residency of all low income households from first year of credit period to present;
2. Annual Household Income Certifications (HIC-1) for each affordable unit;
3. **Third-party** income verifications (TIV-1) and other supporting documentation for each Certification;
4. Documentation showing that full-time students are qualified to live in a LIHTC development (for more information, see Section 3C - Student Tenants);
5. Executed leases showing the rent charged for each LIHTC unit;
6. Documentation of applicable utility allowances;
7. Quarterly Recordkeeping Reports (QRR-2); these reports must be submitted to the Authority for each calendar quarter from the time of initial occupancy until the development achieves 100% occupancy or until the end of the first year of the credit period (the first year that credits are claimed). After that time, the development must still complete and keep Quarterly Recordkeeping Reports, but does not need to keep them on-site and does not need to submit them to the Authority.
8. Records which show the character and use of any nonresidential portion of the development included in the development's eligible basis under Section 42(d) for example, (i) tenant facilities that are available on a comparable basis to all tenants and for which no separate fee is charged for use of the facilities or (ii) facilities reasonably required by the developments;
9. Copies of any executed IRS Forms 8609, Schedules A, and Forms 8586, or other applicable documentation filed with the Service for the purpose of claiming the LIHTC.

NOTE: If a building (or development) is sold or otherwise transferred by the owner, the new owner should obtain from the old owner all information related to the first year of the credit period so that he will be able to substantiate all tax credits claimed.

H. Record Retention

The records listed above must be retained by the owner for at least 6 years after the due date (with extensions) for filing the federal income tax return for that year. **The records for the first year of the credit period, however, must be retained for at least 6 years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building**

I. Certification and Review

It is the responsibility of the owner to certify to the Authority at least annually during the compliance period that, for the preceding 12 month period, the development met the requirements of Section 42 of the Internal Revenue Code. This requirement is satisfied by completing an Annual Owner's Certification (Section 5, Exhibit B, AOC-1). These Certifications must be made under oath and are subject to the penalties of perjury.

Annual Owner's Certifications are due on February 1st of each year following the first year of the credit period and must cover the preceding calendar year, or any portion of the preceding calendar year for which tax credits were claimed.

Example 1: Development A places-in-service on June 1, 1998 and elects to claim tax credits for 1998 (1998 is the first year of the credit period). The initial AOC-1 is due on February 1, 1999, and will cover the period June 1, 1998 through December 31, 1998.

Example 2: Development B places-in-service on June 1, 1998, and elects to claim tax credits beginning in 1999 (1999 is the first year of the credit period). The initial AOC-1 is due on February 1, 2000, and will cover the period January 1, 1999 through December 31, 1999.

These certifications state that for the preceding calendar year -

1. the development met the requirements of the 20-50 test under Section 42(g)(1)(A), or the 40-60 test under Section 42(g)(1)(B) depending on which set-aside test was selected for the development; and if applicable to the development, the 15-40 test under Sections 42(g)(4) and 26 CFR 1.42(d)(4)(B) for "deep rent skewed" developments;
2. if the owner elected additional set-asides to earn ranking points according to the State Qualified Allocation Plan, the development met those set-asides also;
3. whether or not there was a change in the applicable fraction (as defined in Section 42(c)(1)(B)) of any building in the development, and if so, a description of the changes;
4. the owner has received an annual income certification from each low-income household, and has collected documentation which supports the accuracy of that certification; or, in the case of tenants receiving Section 8 housing assistance payments, the statement from a public housing authority described in Form IVS-8 (Section 5, Exhibit F);

5. each affordable unit in the development was rent-restricted in the manner required by Section 42(g)(2);
6. all units in the development were for use by the general public and used on a nontransient basis (except for transitional housing for the homeless under Section 42(i)(3)(B)(iii) or single-room occupancy units rented on a month-to-month basis under Section 42(I)(3)(B)(iv));
7. each building in the development was suitable for occupancy according to local or Statewide health, safety and building codes and was not issued any report of violation(s) by the local or State building code inspectors, or, in the absence of such codes, that each building and each of its units met basic LIHTC requirements similar to those contained in HUD's Housing Quality Standards of the Section 8 Program. If a report of violations was issued for any building in the development, a copy of the report must be attached to the AOC-1 form;
8. there was no change in the eligible basis (as defined in Section 42(d)) of any building in the development, or if there was a change, the nature of the change (for example, a common area has become commercial space, or a fee is now charged for a tenant facility formerly provided without charge);
9. all tenant facilities included in the eligible basis under Section 42(d) of any building in the development, such as swimming pools, other recreational facilities, and parking areas, were provided on a comparable basis without charge to all tenants in the building;
10. if a LIHTC unit in the development became vacant during the year, that reasonable attempts were or are being made to rent that unit or the next available unit of comparable or smaller size to tenants having a qualified income before any units in the development were or will be rented to tenants not having a qualifying income;
11. if the income of tenants of an affordable unit in the development increased above the limit allowed in Section 42(g)(2)(D)(ii), the next available unit of comparable or smaller size in the building was rented to tenants having a qualifying income;
12. an extended use housing commitment as described in Section 42(h)(6) was in effect (for buildings receiving tax credit allocations after 1989);

SECTION 2

THE AUTHORITY'S COMPLIANCE MONITORING ACTIVITIES

This Section briefly describes the Authority's monitoring program. These compliance monitoring procedures may be changed as the Authority deems necessary or as required by the Internal Revenue Code, IRS Regulations, Revenue Rulings, and Revenue Procedures.

A. *Conducting Compliance Monitoring Briefings*

Owners, managers, and any other personnel who are directly involved in the management of a housing development and do not have previous experience with the LIHTC program may be required to attend a basic, educational Monitoring Briefing before the Authority releases Forms 8609 allocating the placed-in-service tax credits. The Authority also reserves the right to require management personnel to attend briefings at any time during the compliance period if the property's compliance efforts are deficient or if staff changes occur. The Authority will conduct briefings on request and sometimes holds briefings/training sessions as needed for any interested parties at various locations throughout the State.

The purpose of the briefing is to provide instruction on the following:

- Federal regulations for determining eligibility of low-income tenants;
- Authority procedures for determining eligibility of low-income tenants;
- Specific information which must be obtained from a prospective tenant through the rental application;
- Income and Rent Limits;
- Income Verifications;
- Annual Income and Asset Verification
- Authority Required Forms and or Documentation; and
- Such other topics which the Authority or the representatives of the development may deem necessary to the proper management of the development as a successful LIHTC participant.

B. *Performing a Management Reviews and on-site building inspections*

In order to meet its monitoring obligations to the IRS, the Authority inspects a specified percentage of the State's LIHTC properties each year. These periodic inspections include a management review and unit inspections. Management reviews consist of examining selected tenant records and certifications. Tenant chosen for a record review will be

selected at random by the Authority's monitoring officer at the time of the review. On-site building inspections involve physically checking buildings and dwelling units for compliance with applicable housing quality standards. The condition and general appearance of the development will be taken into consideration by the Authority also.

The Authority also reserves the right, under the provisions of Section 42 of the Internal Revenue Code and Regulation 1.42-5, to perform management reviews and/or unit inspections of LIHTC developments at any time during the compliance period.

Property owners will be notified in writing prior to the arrival of the monitoring officer. On-site management staff must notify tenants in writing at least 72 hours before the scheduled review that their units may be inspected. The owner (or the owner's representative, usually the property manager) must be present to ensure access to records and units to be inspected. After finishing their review, the monitoring officer will prepare a report of their findings.

C. *Generating necessary Authority Discrepancy Reports (Findings Letters and IRS Forms 8823)*

The Authority will provide written notice via Certified Mail to the owner if it does not receive or review the required documentation or if it discovers that the development is not in compliance with the requirements of Section 42. If the inspection reveals no deficiencies, the Authority will notify the owner that no evidence of noncompliance was discovered.

If reviews and inspections indicate that a LIHTC property is not in compliance with program rules, the Authority will issue the owner a detailed discrepancy report. Some noncompliance situations are correctable, others are not. If the noncompliance issues are correctable, the Authority may grant the owner a period of time in which to correct the discrepancies. Curing deficiencies usually involves obtaining missing documentation or making repairs to the dwelling units. Problems which threaten the health and safety of residents must be corrected within 48 hours. Other problems must be corrected within a reasonable period of time which cannot exceed 90 days. The owner must respond to the Authority's findings and must address all discrepancies individually and indicate the manner in which the corrections were made.

The Authority may grant an extensions beyond the ninety (90) day correction period only for judicially caused delays in the eviction of non-qualified tenants. Such an extension may not exceed six months.

The Authority must report all noncompliance, whether it is corrected or not, to the IRS within 45 days of the end of the correction period. Noncompliance that was corrected during the cure period is reported as corrected. Any documentation submitted by the owner addressing noncompliance which is received after the end of the established cure period will be maintained in the Authority's files and will be available for review by representatives of the IRS upon request. The Authority will not amend Forms 8823 to report that noncompliance was corrected after the end of the established cure period.

Any change in either the applicable fraction or the eligible basis which results in a decrease in the qualified basis of the development under Section 42(c)(1)(A) is noncompliance and must be reported to the Service. LIHTC buildings (or any interest

therein) which are sold or otherwise transferred by the owner must also be reported to the Service.

All decisions concerning whether audits will be performed and whether previously claimed tax credits will be recaptured due to noncompliance are made by the IRS. The Authority does not make recommendations to the IRS and does not otherwise participate in making decisions about audits and recapture.

The Authority is required to retain its inspection reports, Annual Owner's Certifications, and other monitoring records for a period of 3 years from the end of the calendar year in which the Authority has received or generated the certifications or reports. Records of noncompliance are retained for a period of 6 years beyond date when the Authority files a Form 8823 with the IRS.

Though the Authority currently performs all of its own monitoring duties, it may subcontract monitoring work to outside agents. If, in the future, the Authority does subcontract its monitoring duties, it will notify a development's owner if a contracted compliance monitoring agent is assigned to monitor his property.

D. Reporting Permanent Noncompliance

Owners who intend to remove buildings from the LIHTC Program should notify the Authority immediately. Permanent noncompliance must be reported to the IRS as described above. All decisions as to whether or not tax credits previously claimed are subject to recapture as a result of permanent noncompliance will be made by the Service and not by the Authority.

*NOTE: The Authority's monitoring procedures are designed to test a sampling of tenant records and dwelling units for compliance. A successful management review and unit inspection does not mean that the project has completely satisfied all of the program rules since undetected noncompliance may still exist. **Property owners and their managers are completely and solely responsible for keeping their projects in compliance with the law and the Authority is not responsible if they fail to do so.***

SECTION 3

QUALIFYING APPLICANTS

1. *Initial Interview*

On-site managers of a LIHTC development should tell applicants early in their initial visit that there are maximum income limits which determine who may live in these dwelling units. Managers should explain to prospective tenants that the total anticipated income of **everyone** who will occupy the unit must be disclosed on a Household Income Certification form (Section 5, Exhibit C, HIC-1) and will be verified before they can move in. Applicants should be told that this income-disclosing and verifying process will be repeated at least annually for as long as they live in the development. It may be useful to explain to applicants that all information they provide is considered confidential and will be handled accordingly.

B. *The Application for Residency*

Before allowing anyone to move into low-income units, the management must obtain from prospective tenants an application for residency that discloses enough information to determine whether or not the applicant household will qualify under the program rules. The application for residency should include:

- The name and age of **each** person who will occupy the unit (legal name should be given just as it will appear on the lease and Household Income Certifications (HIC-1)); and
- All sources and amounts of current and anticipated annual income expected to be derived during the twelve (12) month certification period (including total assets and asset income); and
- The signature of the head of household and all occupants over age 18 and the date the application was completed

If an applicant desires, an unborn child may be counted as a resident for income-qualification purposes. Management personnel should document the tenant file if the applicant is visibly pregnant or should verify pregnancy by requesting that the tenant obtain a letter from her physician stating that she is under their care for the duration of her pregnancy.

C. *Student Tenants*

Households consisting of students and at least one non-student are eligible for residency as long as they are income-qualified.

However, if **ALL** the prospective occupants in a household are full-time students, they **MAY NOT** be considered qualified tenants unless:

1. At least one student is enrolled in a Federal, State, or Local government job training program similar to those operated under the Job Training Partnership Act , or
2. At least one student is receiving TANF assistance payments or Foster Care and Adoption Assistance payments funded under Title IV of the Social Security Act, or

3. All adult occupants are married and file a joint tax return, or
4. The household consists of a single parent (who is not someone else's dependent) and their children, who are that parent's dependents (as defined in Section 152 of the Internal Revenue Code, meaning that the children must be claimed as dependents on the resident parent's income tax return)

A full-time student is defined as any individual who attends an educational institution (First Grade through graduate school) which maintains a regular faculty and curriculum and has a regularly enrolled body of students in attendance at the place where its educational activities are regularly conducted. A full time student must be enrolled in school for at least five months of the year in which the application is submitted. The student must also meet the institution's requirements for full-time status.

D. Zero (0) Income Applicants

The LIHTC program does not set a minimum amount of income necessary for applicants to qualify for residency. However, residents should have regular, verifiable means of paying their rent, so the housing project management may want to create their own guidelines for minimum income. Some applicants for LIHTC housing may receive rental assistance from a Federal or State agency which allows them to rent a LIHTC unit even if they do not earn sufficient income. **Project management personnel may not refuse to rent to a tenant who is otherwise income-qualified because he is the holder of a Section 8 Rental Assistance voucher or certificate.** Refusing to rent to Section 8 participants is an event of noncompliance with the LIHTC program guidelines also.

E. The Lease

All LIHTC units must be rented under a written lease with a minimum term of six months. Owner's should protect themselves from tenant fraud in their lease. The lease should include:

- Provisions stating that tenants who intentionally misstate household size or income or otherwise attempt to mislead the owner as to the tenant's qualifications to occupy a low income unit will be evicted;
- Provisions stating that failure to provide required certifications, sources of income, and permission for income to be verified are grounds for eviction;
- Provisions stating that any change in the household composition must be reported to the owner;
- Provisions stating that the owner, the owner's representative, staff of the Authority and representatives of the Service reserve the right to enter the unit to inspect the physical conditions of such unit;
- If the unit will be occupied by more than one adult (18 years or older) tenant, the lease should be in the name of **all the adult tenants**, and should be signed by each adult tenant.

The owner or manager of a LIHTC property may make their own choices on whether or not to renew expiring leases. Lease agreements often contain provisions addressing lease renewals. Unless the lease obligates an owner or manager to continue renewing an existing tenant's lease, the tenant has no entitlement to continue living in a specific development or dwelling unit just because he is income-qualified under LIHTC program rules.

F. Verifying Income

All regular sources of income, including income derived from assets valued at \$5,000.00 or more, must be verified by a third party. If third party verification is not possible, consult Section 3(G)(5) - Sources of Verification for alternative method of income verification.

Tax returns are generally not a preferred form of earned income verification because they are self-reported documents, prepared and submitted to the IRS by the applicants. **They are not "third party" sources of verification data.** Also, much of the income that is considered for LIHTC program qualification purposes is not taxable income which must be reported on income tax returns.

Management must receive all third party income verifications before preparing a Household Income Certification (HIC-1) and before allowing a tenant to move in. Verification documents must be retained for at least 6 years after the due date (with extensions) for filing the federal income tax return for that year. However, **all income verification and certification records for the first year of the credit period** must be retained for at least 6 years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building.

For units receiving Section 8 rental assistance, the verification requirement is satisfied if the Public Housing Authority ("PHA") provides the building owner with a statement that declares "the gross annual income of the tenants in the unit does not exceed the applicable income limit under Section 42(g) of the Internal Revenue Code." The IVS8-1 Form may be used to satisfy this requirement. Owners may have the PHA contact the Program Management staff of the Authority if more information is needed. Income of Section 8 assistance recipients can also be verified in the usual way (by contacting employers, etc.) and requesting that they complete TIV-1 forms. When the tenant household has no income, IVS-8 will be the only verification document.

1. Effective Period for Verifications

Income verifications are valid for 90 days from the date of the third party's signature. In the case of computer print-outs, the 90 day period begins on the date that the report is printed, not the effective date listed on the print-out.

***Example:** Employer signed Tenant Income Verification (TIV-1) Form on April 1, 1999 Household Income Certification (HIC-1) Form and Lease must be signed by July 1, 1999 (90 days from the date that the verification form was signed)*

2. Methods of Verification

a. Written Verification

Written third party verification of income is required. Managers may use the Tenant Income Verification form provided (Section 5, Exhibit D, TIV-1), or an alternate form approved by the Authority. Requests for income or asset verification must:

1. State the reason for the request;
2. Include a release statement signed and dated by the applicant;
3. Provide a section for the employer or another third-party source to state the applicant's current anticipated gross annual income or rate of pay, number of hours worked, and frequency of pay (Bonuses, tips, and commissions must be included);
4. Provide spaces for the verifying person's signature, name, job title, phone number, and the date the verification form was signed.

b. Verification Transmittal and Receipt

1. Tenants or applicants should be asked to sign two copies of each verification form. The second copy can be used if the first request form is not returned in a timely manner.
2. Income verification requests must be sent directly to and from the source, *not through the applicant*. Including a self-addressed, stamped envelope with the request for verification often helps the recipient respond quickly.
3. All income verifications must be date stamped as they are received. The on-site manager may also keep the canceled, stamped envelope in which the verification was received in the tenant file as proof of the date the verification form was mailed.

c. Faxed verification

Recipients may reply to a request for income or asset verification by fax. The Authority accepts faxes as written verification if they are completely legible, date-stamped, and include the signature, name, job title, and phone number of the person making the verification and date that the form was signed.

d. Verbal Verification

When written verification is not possible prior to move-in, direct contact with the source is acceptable to the Authority as a last resort and must be confirmed by written verification within 10 working days.

The conversation must be documented in the applicant's file including all the information that would be included in a written verification. The name, title, and phone number of the contact person providing the information, the name of the on-site management representative accepting the information and the date must be included in the files.

3. Differences in Reported Income

Management should give the applicant or tenant the opportunity to explain any significant differences between the amounts reported on the application/certification and amounts reported on third-party verifications. The file should be documented to explain the difference. If the amount of income which is verified exceeds the maximum allowable household income, applicants may not be permitted to move in.

4. Calculating Annual Income

Verified income must be converted to annual amounts by using the following calculations:

- a. to annualize full-time employment, multiply;
 - hourly wages by 2080
 - weekly wages by 52
 - bi-weekly amounts by 26
 - semi-monthly amounts by 24
 - monthly amounts by 12
- b. to annualize other income, multiply:
 - hourly wages by the number of hours the family member expects to work annually
 - average weekly amounts by the number of weeks the family members expects to work
 - other periodic amounts (monthly, bi-weekly, etc.) by the number of periods the family member expects to work
- c. annual wages should always reflect a full 12 month period, regardless of the pay schedule. For example, if a school teacher earns a gross annual salary of \$25,000, the \$25,000 should be used as annual salary whether the teacher is paid over a nine month period or throughout the year

G. Household Income Certification Guidelines

a) Certification Procedure

After all of the income and asset information has been obtained and computed, the management personnel must prepare a Household Income Certification (Section 5, Exhibit C, HIC-1). The form is a legal document which, when fully executed, satisfies the income certification requirement of the Code. The completed HIC-1 form and lease agreement must be executed by all adult household members before they move in.

The following guidelines for certifying household income apply:

- Management should instruct all adult household members to sign the HIC-1 exactly as the name appears on the form.
- The HIC-1 should be executed on or before the date of move-in.
- **No one** may live in a designated unit in the development unless he/she is income certified and under lease. **THERE ARE NO PERMISSIBLE EXCEPTIONS TO THIS RULE.**
- HIC-1 forms must also be executed (signed and dated) by the Owner or Owner's representative.

When properly executed, the RHS 1944-8 form (Tenant Certification) may also be used to document projected income for tax credit certifications; an executed HIC-1 is not required. Management must be aware that various low-income housing programs define

income differently, so if the RHS 1944-8 certification form is used, it should contain all information necessary to calculate household income as defined under the LIHTC rules.

NOTE: A unit may not be counted as a set-aside unit unless the household has been properly certified.

2. Annual Income

As defined in 24 CFR Section 5.609, annual income is the anticipated total income from all sources received by the head of the household and spouse (even if temporarily absent) and by each additional member of the family, including all net income derived from assets, for the 12 months period following the effective date of certification of income, exclusive of certain types of income.

a. Annual Income Includes:

1. the full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services; and
2. the net income from operation of a business or profession; and
3. the interest, dividends, and other net income of any kind from real or personal property; and
4. the full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts; including a lump-sum payment for the delayed start of a periodic payment (excluding lump-sum payments for the delayed start of periodic payments for SSI and Social Security benefits); and
5. payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay; and
6. welfare assistance; and
7. periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling; and
8. all regular pay, special pay and allowances of a member of the Armed Forces (Do NOT include hazardous duty pay).

b. Annual Income Excludes:

1. earned (employment) income of members of the household including foster children that are under 18 years of age. Head of household and spouse may never be considered minors. (Unearned incomes such as social security payments received on behalf of minors **must** be included as income); and
2. income associated with persons that live in the unit but are not household members. For example, this would include; and

- a. payments received for care of foster children and or foster adults (usually individuals with disabilities, unrelated to the tenant family) who are unable to live alone; and
 - b. income of live-in attendants.
3. special pay to a family member in the military who is exposed to hostile fire; and
4. lump sum additions to family assets such as inheritances, insurance payment (including payment under health and accidents), insurance and workmen's compensation, capital gains and settlement for personal or property losses; and
5. temporary, nonrecurring or sporadic income (including gifts); and
6. amounts received by the family in the form of refunds or rebates, under state or local law for property taxes paid on the dwelling unit; and
7. lump-sum payments or prospective monthly amounts or the deferred start of SSI and Social Security benefits; and
8. amounts received under training programs funded by HUD:
 - a. Amount received by a person with disabilities that are disregarded for a limited time for purposes of SSI eligibility and benefits because they are set aside for use under a Plan to Attain Self - Sufficiency (PASS);
 - b. Amount received by a participant in other publicly assisted program which are specifically for or in reimbursement of out of pocket expenses incurred (special equipment, clothing, transportation, child care, etc.);
 - c. Residents service stipend in an amount (not to exceed \$200 per month);
 - d. State or local employment training program and training of a family member as resident management staff;
9. amounts received by the family, that are specifically for, or in reimbursement of, the cost of medical expenses for any family member; and
10. any other amounts specifically excluded by any other Federal statute for consideration as income for purposes of determining income eligibility or benefits under a category of assistance programs that includes assistance under the United States Housing Act of 1937; and
11. adoption assistance payments in excess of \$480 a month per adopted child; and
12. earning in excess of \$480 for each full time student, 18 years old or older (excluding the head of household and spouse); and
13. reparation payments paid by a foreign government pursuant to a claims filed under the laws of the government by persons who were persecuted during the Nazi era; and

14. the full amount of student financial assistance paid directly to the student or to the education institution; and
15. home care payments paid by a state agency to families that have developmentally disabled children or adult family members living at home to offset cost of services and equipment needed for the developmentally disabled family member.

3. Sources of Verification

Sources of Verification given under each type of income are listed in order of preference.

a. Employment Income

1. Tenant Income Verification (TIV-1) form (Section 5, Exhibit D) completed by the employer or a statement from the employer on company letterhead; or
2. a copy of the most recent income tax returns signed by the applicant providing the amount of income, including income from tips and other gratuities. This form of verification alone may not be acceptable as income certification. Because of the uncertain nature of the source of income, additional information may be required to fulfill requirements needed to certify an applicant as eligible; or
3. a copy of the tenant's most recent W-2 Forms.

b. Self-Employment Income

1. Accountant's or bookkeeper's statement of net income; or
2. Financial statement(s) of the business along with an affidavit or notarized statement from the applicant forecasting the anticipated income for the twelve (12) months following certification; or
3. The applicant's most recent income tax return along with a notarized statement. This form of income verification alone may not be acceptable as income certification. Year-to-date income verification, can be used to supplement other methods of certification.

c. Social Security, Pensions, Supplemental Security Income (SSI), Disability Income

1. A Tenant Income Verification form (TIV-1) or benefit print-out completed by the agency providing the benefits; or
2. An award or benefit notification letter prepared and signed by the authorizing agency, date within 90 days of the certification date. Since checks or bank deposit slips show only net amount remaining after deducting SSI, Medicare or state health insurance, they may be used only when award letters cannot be obtained. Any withholdings must be verified and included in annual income.

d. Unemployment Compensation

1. A verification form completed by the unemployment compensation agency; or
2. Records from the unemployment office stating payment dates and amounts.

e. Alimony or Child Support Payments

1. A copy of a separation or settlement agreement, divorce decree, or support order stating the amount and type of support payment schedule. If the document is not dated within the 90-day time frame, obtain a notarized statement from the applicant stating that the amount of child support currently received is the same as stated in the agreement, decree, or order; or
- b) A notarized affidavit from the person paying support; or
- c) A copy of the latest check and documentation of how often the check is received; or
- d) As a last alternative, the applicant's notarized statement of the amount of child support being received, including a written explanation detailing why a, b, and c above cannot be provided.

f. Recurring Contributions and Gifts

1. Notarized affidavit signed by the person providing the assistance giving the purpose, dates, and value of the gifts; or
2. A letter from a bank, attorney or a trustee providing required verification; or
3. As a last alternative, the applicant's notarized affidavit giving the same information, including a written explanation detailing why (1) or (2) above cannot be provided.

g. Unemployed Applicants

1. The income of unemployed applicants with regular income from any source, such as Social Security, pension, recurring gifts, etc., must be verified as described previously; or
2. If the applicant is unemployed with no regular verifiable income from any source and intends to live from assets only, an Asset Addendum to the Tenant Income Certification (AA-1) must be submitted along with the application. The applicant may not be certified as qualified by use of this form alone. An asset analysis must be included with the application to determine the applicant's actual income. (For more information on verifying asset income, see Section 3(G)(4) - Assets and Section 3(G)(4)(c) - Determining the Value of Assets);

4. Assets

See Section 5, Exhibit E, Asset Addendum to the Household Income Certification (AA-1)

Assets are items of value, other than necessary personal items, and are considered along with verified income in determining the eligibility of a household. The Authority does not require third party verification of assets having a value of less than \$5,000, but of assets valued at \$5,000 or more must be verified by third parties (for example, the amount of money held in a savings account may be verified by the bank). The asset information (total value and income to be derived) must be obtained at the time of application. The applicant must certify that this information is correct by executing the Asset Addendum to the Household Income Certification (AA-1). **Asset information must be collected on ALL family members.**

If a household claims to have zero (0) assets, and have sold no assets for less than fair market value during the two year period proceeding the execution of the HIC-1, they must certify this information by inserting (0) in the "Income derived from assets" blanks for ALL family members on the HIC-1 and signing and dating the form in the spaces provided. **An executed AA-1 is not required.**

a. Assets Include:

1. cash held in savings and checking accounts, safety deposit boxes, homes, etc; and
2. the principal value of any trust available to the household. (Do not include irrevocable trusts or trusts that no family member can control. An example of an irrevocable trust is a trust fund established for a son or daughter, prior to the parent's death where the benefactor receives only the interest from the trust during his/her lifetime and cannot withdraw the principal); and
3. the current market value less any unpaid balance on any loans secured by the property and any reasonable costs that would be incurred in selling the asset such as prepayment penalties or broker fees; and
4. stocks, bonds, treasury bills, certificates of deposit, money market funds, etc; and
5. Individual Retirement (IRA) and Keogh Accounts; and
6. retirement and pension funds; and
7. while the person is employed, include only amounts the family can withdraw without retiring or terminating employment; and
8. at retirement or termination of employment, if benefits will be received in a lump sum, include the benefits in net family assets. If benefits are paid in periodic payments, include the benefits in annual income; and
9. lump sum receipts should include inheritances, capital gains, one-time lottery winnings, settlements on insurance and other claims. (DO NOT include lump sum receipts that must be counted as income); and
10. personal property held as an investment such as gems, jewelry, coin collections, antique cars, paintings, etc; and
11. assets owned by more than one person should be prorated according to the percentage of ownership; and
12. cash value of life insurance policies.

b. Assets Do Not Include:

1. necessary personal property (i.e., clothing, furniture, automobiles, etc.); and
2. vehicles specially equipped for the handicapped; and

3. interest in Indian Trust Land; and
4. equity in a cooperative unit in which the family lives; and
5. assets that are part of an active business. (The exception does not include rental of properties that are held as investments and not a main occupation.); and
6. term life insurance policies (i.e., where there is no cash value); and
7. assets held in the applicant's name, but which are actually owned by someone else, such as:
 - a. assets and any earned income that is accrued or paid to the benefit of someone else; or
 - b. a situation wherein another person is responsible for income taxes incurred on income generated by the assets; or
 - c. if the applicant is responsible for disbursing someone else's money, such as in the case of having the Power of Attorney, but the money is not his/hers and no benefit is received; and
8. assets that are not accessible to the applicant and provide no income to the applicant.

c. Determining the Value of Assets

When computing the value of assets, owners must use the cash value of the assets, which is the amount the applicant(s) would receive if the assets were converted to cash. Expenses which may be deducted include:

- Penalties for withdrawing funds before maturity; and
- Broker/legal fees assessed to sell or convert the asset to cash; and
- Settlement costs for real estate transactions.

1. Sale or Disposition of Assets by Applicants

At the time of application, it must be determined if the applicant has disposed of any assets for less than fair market value at any time within two years prior to the effective date of the HIC-1.

If the fair market value of the disposed assets exceeds the gross amount that the household received by more than \$1,000, then include as assets the whole difference between the cash value and the amount received. If the difference is less than \$1,000, do not count it.

DO NOT consider assets disposed of for less than fair market value as a result of a foreclosure, bankruptcy, divorce, or marital property division.

Do consider assets put into trust and business assets disposed of for less than fair market value. (Business assets are excluded from net family assets only while they are part of an active business.)

2. Determining Asset Income for Applicants

If the asset value is \$5,000 or less, add the amount of income to be derived to the total verified income. When assets exceed \$5,000, add the **greater** of 1) the actual annual income to be derived from these assets, or 2) a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD, to the total verified income. *The combined total income cannot exceed the applicable income limits.*

NOTE - As of 3/1/99-the current HUD passbook savings rate was 2.00%. However, this rate is subject to change at any time based on current passbook savings rates in the State of South Carolina. Managers may verify the current rate by contacting the Loan Management Division of HUD at (803) 765-5671.

H. General Recertification Requirements

1. Annual Recertification

Owners must verify the income of tenants occupying set-aside units at least annually. If recertifications are not completed within 12 months of the last certification date, the Authority may report this to the IRS as noncompliance. The annual recertification process is identical to initial certification. Owners must re-verify income of those tenants in set-aside units who plan to remain in that unit for another lease term, or any portion thereof, and have a new HIC-1 executed together with updated supporting documentation.

Management should:

- a. approximately ninety (90) days before the lease expiration, notify the tenants in writing that recertification is due and schedule an appointment for an interview;
- b. interview tenants to obtain current information on anticipated income, assets, and family composition for the ensuing certification year, and have tenants sign the necessary verification form(s) giving permission for release of the information requested;
- c. obtain third-party verification of the tenant's income;
- d. complete the HIC-1, have adult household members sign and date where indicated; and
- e. sign and date the HIC-1 where indicated.

2. Rehabilitation Projects and Acquisition/Rehab Projects

When a development that is currently participating in another low-income program chooses to apply for tax credits under the LIHTC program also (often this is done to help finance a rehabilitation project), all existing residents must meet tax credit program qualifications just as if they were moving in for the first time. No one “automatically” qualifies for residency in a tax credit development. The owner may place a renovated building in service once he has

spent at least \$6000 per unit (as required by the State QAP) and the units are ready for occupancy. Documentaion of a tenant's eligibility under LIHTC program rules must be dated within 90 days of his unit's placed-in-service date or of his move-in date, whichever is later.

Qualifying residents is even more complicated when a development becomes an acquisition and rehabilitation project receiving tax credits. Sometimes tax credit allocations for acquisition and allocations for rehabilitation must be treated as separate projects; if so, tenants must qualify for BOTH phases as if they were moving in. The project's management staff should explain to their residents that they will need to be re-qualified for residency and that the process may need to be done more than once. If the property management staff performs income verifications and certifications within 90 days of BOTH the acquisition placed-in-service date and the rehab placed-in-service date (or move-in date, whichever is later), this process can be done just once.

I. Change in Household Composition

1. In General

LIHTC Program rules do not require that households report changes to the property owner or manager. Properly prepared lease agreements impose this obligation on the tenant households, so any reporting procedures described in the lease agreement should be followed and the tenant file should be documented accordingly.

2. Adding a New Tenant to a Resident Household

If an additional tenant is planning to move into an existing household, the new tenant, not the whole household, must apply for residency. The on-site manager must certify and verify his income, add it to the existing certified, verified income of the household, and make sure the new household still meets the LIHTC income requirements. If it does, the new tenant may move in.

3. Interim Re-Certifications

Except when adding a new tenant to an existing household, the Authority does not require management to recertify a household due to a change in household composition or income before the annual recertification date in order to comply with LIHTC program rules. However, some LIHTC developments that also participate in other low income housing programs will have to recertify a household in order to comply with the other program's requirements.

b. Tax Credit Units Which Receive Federal Rental Assistance

In the case of a unit which receives rental assistance payments from a Federal agency, a change in household composition or income may require an interim recertification by the agency that is providing the assistance. Owners of these units should recertify tenants simultaneously with the annual recertification completed by the provider of the rental assistance payments.

EXAMPLE 1: Section 8 Rental Assistance

Unit A receives Section 8 rental assistance. Tenant A is certified and enters a lease on June 1, 1999. Tenant A wishes to move another person into the unit on September 1, 1999. The Public Housing Authority (PHA) which is providing the rental assistance is required to complete an Interim Recertification that reflects the new character of the unit. However, the anniversary date for the rental assistance payments contract remains June 1, and the PHA will recertify the unit as of that date regardless of the number of Interim Recertifications that take place during the contract year.

Therefore, owners of tax credit units that are receiving Section 8 rental assistance payments should document the unit file to reflect the change in household composition, but may wait until the anniversary date (June 1) to recertify the household so that any future recertifications for tax credit purposes and Section 8 are due at the same time.

EXAMPLE 2: Rural Economic & Community Development (RECD) Rental Assistance

Unit B receives RECD rental assistance. Tenant B is certified and enters a lease on June 1, 1999. Tenant B wishes to move another person into the unit on September 1, 1999. The RECD office which is providing the rental assistance is required to recertify the unit as of September 1, 1999 to reflect the change in household composition. For purposes of the RECD program, this date now becomes the annual recertification date.

Therefore, the owners of tax credit units that are receiving RECD rental assistance payments should recertify the unit for tax credit program purposes at the same time as their RECD certification so that future recertifications for both programs are due at the same time.

J. Transferring Tenants

If existing tenants wish to transfer to a new low-income unit in the same building where they currently live, they do not need to be recertified. If they wish to transfer to a unit in another building, the tenants must be treated exactly as prospective tenants moving in for the first time and all application, certification and verification procedures must be completed for their household.

Management should never transfer over-income tenants into another low-income unit.

K. Overincome Tenants

If the income of the tenant(s) in a unit qualifies as being affordable when such tenant(s) initially occupy a unit in the development, an increase in the tenant(s) income of up to one hundred forty percent (140%) of the applicable limit (adjusted for family size) will not result in disqualification. At annual recertification, in the event that the low income tenant(s) income increases to a level more than 140 percent of the applicable limit, the next available unit of comparable or smaller size

in the building must be rented to a qualified affordable tenant before any market rate unit of comparable or smaller size is rented. The over-income unit may still be counted as a affordable unit as long as it remains rent-restricted.

Example:

The maximum income limit for a two person family in Credit County is \$10,000. The Setters, a family of two with an annual income of \$8,000, move into a low income unit in Dogwood Bark Apartments, a LIHTC developments in Credit County.

Multiply 1.4 times the current applicable income limit adjusted to family size.
 $\$10,000 \times 1.4 = \$14,000$

As long as the Setter's income does not exceed \$14,000, they may be counted as eligible tenants and the unit remains qualified. In the event that the income of the Setter's exceeds \$14,000, the next unit of equal or smaller size in the building must be rented to a qualified family. The Setter's unit may still be counted as a designated unit as long as the rent does not exceed the maximum gross rent allowed under the LIHTC program.

SECTION 4

MINIMUM SET-ASIDES, DETERMINING INCOME AND RENT LIMITS

A. LIHTC Minimum Set-Aside Requirements

When applying for an allocation of tax credits, the developer must choose one of two minimum set-aside requirements that must be obeyed during the compliance period. Set-asides obligate the property owner to rent a certain percentage of the dwelling units to households of a specified income level. Once the developer chooses which of the Internal Revenue Code set-asides to use, his choice is irrevocable. The minimum set-asides are as follows:

20/50 -- 20 percent or more of the residential units in such developments are both rent-restricted and occupied by individuals whose income is 50 percent or less of area median gross income, or;

40/60 -- 40 percent or more of the residential units in such developments are both rent-restricted and occupied by individuals whose income is 60 percent or less of area median gross income.

To earn more ranking points in the competitive process of applying for tax credits, owners may select additional set-asides that are more stringent than the 40/60 and 20/50 set-asides. If chosen, these optional set-asides will be described in the project's Agreement as to Restrictive Covenants.

1. Deep Rent Skewed Election

In addition to the basic minimum set-aside, a developer can also choose to follow a set-aside for "deep rent skewed" developments. This set-aside provides that, in addition to the 40/60 or 20/50 set-aside, the owner will also reserve 15 percent or more of the residential units as rent-restricted and occupied by individuals whose income is 40 percent or less of area median gross income. In exchange for making this election, tenant household incomes can increase to 170% of the limit before they become over-income tenants. For more information on other requirements for "deep rent skewed" developments, consult your tax attorney.

2. Deadline for Meeting Set-Asides

The selected set-aside must be met by the end of the first year of the credit period (the end of the first tax year for which the owner chooses to claim tax credits). If management fails to meet the minimum set-aside by this time, the development can only receive a substantially reduced amount of credits for the entire compliance period.

A unit must be rented to a low-income household before it can be considered a low-income unit and counted toward meeting the minimum set-aside. Units that are vacant and have never been rented to a low-income household have "no character" and do not count toward the set-aside.

Management should not attempt to move existing low-income residents to previously unrented units in order to make those units count toward the minimum set-aside. This “unit swapping” practice is monitored and will not benefit the development because first year credits are calculated based on monthly occupancy rates.

B. Resident Manager's Unit

A LIHTC development may include a resident manager's unit in two different ways:

1. The manager must be income qualified, pay the regular rent charged to other qualifying tenants (or recognize free/reduced rent as in-kind income as required by the Internal Revenue Code), and must meet any other waiting list selection criteria adopted by the project; or
2. The project owner may request that the Authority allow him to designate a full-time resident manager's unit which is to be treated as a common area of the property (not an income-producing unit). This unit is not considered when calculating the applicable fraction, so the resident manager does not need to be income-qualified.

A development which placed-in-service after September 9, 1992 must report designation of a manager's unit (see B(2) above) on the owner's tax returns, so management should consult their tax attorney or accountant for advice and instructions in how to do so.

C. Vacated Units

If a low-income household moves out of a unit, the unit can still be counted as a low-income vacant unit as long as the next available unit of equal or smaller size in the development is rented to a low-income tenant.

D. LIHTC Income Limits & Calculations

Every year, The Department of Housing & Urban Development (HUD) publishes median income information for South Carolina by county or metropolitan statistical area (MSA) of the State. An amendment to the 1987 Housing and Community Development Act established a minimum income limit based on the State's Nonmetro median family income level. This provision had the effect of increasing income limits in a number of South Carolina counties. HUD may also adjust income limits for a small number of counties with unusually high or low housing costs in relationship to income. HUD's Low Income level is 80% of the median income based on family size. **DO NOT USE the Low Income (80%) numbers for tax credit purposes.** The **Very Low Income** figures are 50% of the median income based on family size. These figures may be used as tax credit income limits for properties using the 20/50 set-aside. Multiply the very low income figures by 1.2 to compute the 60% income limits for properties using the 40/60 set-aside.

Annual HUD Section 8 Existing Income Limits must be used to compute the gross rent limits. To obtain annual Section 8 Income Limits, the owner/agent may visit the HUDUSER web site, www.huduser.org, or call the HUD office at 1-800-245-2691, or write to:

Department of Housing and Urban Development
Assisted Housing Management Branch

Strom Thurmond Federal Building
 1835 Assembly Street
 Columbia, SC 29201

NOTE: The sample median income limits used for the following examples are based on HUD's 1999 information and will change in following years. The examples given in this section are for the purpose of guiding the owner/agent through the mathematical formulas used to calculate the maximum income limits and maximum allowable gross rents.

Here is an example of how to compute 60% income limits using HUD's 1999 Income Schedule for Lee County:

1999 Lee County Median Family Income = \$28,500.00

Number of Persons	1	2	3	4	5	6	7	8
Very Low Income (50%)	\$13,600	\$15,500	\$17,450	\$19,400	\$20,950	\$22,500	\$24,050	\$25,600
Multiplied x	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Income (60%)	\$16,320	\$18,600	\$20,940	\$23,280	\$25,140	\$27,000	\$28,860	\$30,720

NOTE: The Department of Housing and Urban Development rounds to the nearest \$50.00 when computing the 50% income limits, but the Authority does NOT round to the nearest \$50.00 when computing the 60% income limits.

E. LIHTC Rent Requirements, Utility Allowances

Gross rent must include an allowance for utilities if they are paid **by the tenant**. Gross rent **does not** include utility allowances paid under Section 8 of the U.S. Housing Act of 1937 or any comparable rental assistance program.

Gross rent does not include any fees for a supportive service which is paid to the owner of the unit (on the basis of the low-income status of the tenant of the unit) by any governmental program of assistance (or by an organization described in Section 501 (c)(3) of the Internal Revenue Code and exempt from tax under Section 501 (a) of the Internal Revenue Code) if such program (or organization) provides assistance for rent and the amount of assistance provided for rent is not separable from the amount of assistance provided for supportive services. All other fees for supportive services must be included in the gross rent.

1. Utility Allowances

A utility allowance is an estimate of the monthly cost of a tenant's utilities, other than telephone and cable, which are not included in the rent and are paid directly to the service provider by the tenant. To calculate the maximum amount of rent an LIHTC property may charge tenants, the utility allowance is subtracted from the maximum rent limit applicable to the particular household.

a. Where to Obtain Utility Allowances

i. Rural Development, HUD, and Section 8 Assisted Properties

Rural Development ("RD") approved utility allowances must be to calculated maximum net rent for any building which is RD assisted or occupied by any tenant receiving RD Assistance (even if the building is occupied by one or more tenants who receive HUD assistance).

HUD approved utility allowances must be used for any buildings whose rents and utility allowances are reviewed annually by HUD.

For **units** occupied by a household receiving HUD rental assistance payments (generally Section 8 Certificates or Vouchers) the owner must use the applicable Public Housing Authority's utility allowances established for the Section 8 Existing Housing Assistance Program. This Section 8 allowance DOES NOT apply to all units in the building unless all units are occupied by Section 8 assisted tenants.

ii. Non-assisted Properties

If the developments is not regulated by HUD or RD, the owner must use either the applicable PHA utility allowance or estimates from the local utility provider. An interested party may obtain a utility cost estimate for similar units in the area from the local utility provider. The obtainer of such an estimate must retain the original document which has been signed and dated by the utility provider, and send copies to the building owner (where the initiating party is not the owner) and the Authority (where the initiating party is not the Authority). Copies of the utility estimate must be available for inspection on-site at the development. The owner of the building must make copies of the utility company estimate available to the tenants in the building also. New utility allowances must be used to compute rent on rent-restricted units due 90 days after the date of the estimate.

b. Updating Utility Allowances

Utility allowances allowances must be updated at least annually to ensure that the tenant's gross monthly rent does not exceed the LIHTC gross rent limits. The property owner or manager may choose to verify utility allowances with each initial move-in or recertification.

2. Gross Rent Floor Designation

Because area median income changes every year, it could decrease and trigger a reduction in the amount of rent a tax credit property could charge. To eliminate the financing and budgetary uncertainties a project might otherwise face due to decreasing area median income, the LIHTC program creates a rent “floor” (minimum rent level) for projects that received an initial allocation of credits after 1989. The “floor” rent amount is the maximum allowable gross rent as of the floor designation’s effective date.

a. When Does the Floor Take Effect

It takes effect on the date that an allocation of tax credits is made to the building unless the Owner elects to have the rent floor take effect on the date that the building is placed-in-service. For the gross rent floor to take effect on the building's placed-in-service date, the building owner must forward an executed Gross Rent Floor Designation (available from the Authority upon request) to the Authority's offices before the placed-in-service date.

Owners of buildings financed with tax exempt bonds are subject to different rules and should refer to Revenue Procedure 94-57.

3. Maximum Rent Calculation

a. Family Size Rent Calculations (1987-1989)

Properties which received tax credit allocations between January 1, 1987 and December 31, 1989 whose owner's did NOT elect to use the "number of bedrooms" method of calculating maximum rent may charge tenants a maximum gross rent of thirty percent (30%) of the annual median income limit adjusted for family size for the county in which the development is located.

Example Calculations:

20/50 Set-Aside Election

1999 York County Median Family Income = \$54,500.00

Rent Calculation for Very Low Income level (50%):

Number of Persons	1	2	3	4	5	6	7	8
Very Low Income (50%)	\$18,500	\$21,150	\$23,800	\$26,450	\$28,550	\$30,700	\$32,800	\$34,900
Multiplied x	.30	.30	.30	.30	.30	.30	.30	.30
Equals	\$5,550	\$6,345	\$7,140	\$7,935	\$8,565	\$9,210	\$9,840	\$10,470
Divided by	12	12	12	12	12	12	12	12
Maximum Gross Rent	\$462.50	\$528.75	\$595.00	\$661.25	\$713.75	\$767.50	\$820.00	\$872.50
Rounded to	\$463	\$529	\$595	\$661	\$714	\$768	\$820	\$873

40/60 Set-Aside Election

1999 York County Median Family Income = \$54,500.00

Rent Calculation for 60% Income level:

Number of Persons	1	2	3	4	5	6	7	8
Income (50%)	\$18,500	\$21,150	\$23,800	\$26,450	\$28,550	\$30,700	\$32,800	\$34,900
Multiplied x	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Income (60%)	\$22,200	\$25,380	\$28,560	\$31,740	\$34,260	\$36,840	\$39,360	\$41,880
Multiplied x	.30	.30	.30	.30	.30	.30	.30	.30
Equals	\$6,660	\$7,614	\$8,568	\$9,522	\$10,278	\$11,052	\$11,808	\$12,564
Divided by	12	12	12	12	12	12	12	12
Maximum Gross Rent	\$555.00	\$634.50	\$714.00	\$793.50	\$856.50	\$921.00	\$984.00	\$1047.00
Rounded to	\$555	\$635	\$714	\$794	\$857	\$921	\$984	\$1047

b. Bedroom Size Rent Calculations (1990 - Forward)

For developments receiving an allocation of Low Income Housing Tax Credits from January 1, 1990 forward, the maximum gross rents are computed based on the number of bedrooms in the

unit. Units with no separate bedroom are treated as being occupied by one (1) person; larger units are treated as being occupied by 1.5 persons per each separate bedroom (see chart below). 1987 through 1989 LIHTC owners who **DID ELECT** to use the "number of bedrooms formula and filed a Notice Of Election form (NOE-1) with the IRS and the Authority by February 7, 1994 calculate their maximum rent this way also.

0 Bedroom Unit = 1.0 person income
1 Bedroom Unit = 1.5 person income
2 Bedroom Unit = 3.0 person income
3 Bedroom Unit = 4.5 person income
4 Bedroom Unit = 6.0 person income

The example on the following page demonstrates how to calculate maximum rents using the number of bedrooms method based on HUD's 1999 Income Limits for Lee County:

20/50 Set-Aside Election**40/60****Set-Aside Election**Rent Calculation for 50% Income:RentCalculation for 60% Income:

Number of Bedrooms	1	Number of Bedrooms	3
Assumed Number of residents	1.5	Assumed Number of residents	4.5
Very Low Income (50%) for 1 person household	\$13,600	Very Low Income (50%) for 4 person household	\$19,400
Add: Very Low Income for 2 person household	\$15,500	Add: Very Low Income for 5 person household	\$20,950
Equals	\$29,100	Equals	\$40,350
Divided by	2	Divided by	2
Equals	\$14,550	Equals	\$20,175
--	--	Multiply by	1.2
--	--	Equals	\$24,210
Multiply by	.30	Multiply by	.30
Equals	\$4,365	Equals	\$7,263
Divide by	12	Divide by	12
Maximum Gross Rent	\$363.75	Maximum Gross Rent	\$605.25
Rounded to	\$364	Rounded to	\$605

Section 5

Forms

Exhibit A	Quarterly Recordkeeping Report (QRR-2)
Exhibit B	Annual Owner's Certification (AOC-1)
Exhibit C	Household Income Certification (HIC-1)
Exhibit D	Tenant Income Verification Form (TIV-1)
Exhibit E	Asset Addendum to Tenant Income Certification (AA-1)
Exhibit F	Income Verification - Section 8 (IVS8-1)
Exhibit G	Flowchart - Qualifying the Applicant

*****TIMESAVER TIP*****

For each form, fill in the information that will not change throughout the compliance period. (Authority ID number, Development Name, BIN numbers, placed-in-service date, end date for the first year of the credit period, etc.) Then, make copies of the partially completed forms. Now you will not need to fill in this information for each reporting period.

EXHIBIT A

Quarterly Recordkeeping Report (QRR-2)

Purpose of Report

Under the Recordkeeping and Record Retention provisions of 26 CFR Section 1.42-5, the owner of a low-income housing project is required to retain certain information for each unit of every qualified low-income building in the project. This information includes specific data on each unit as well as vacancy information for unoccupied units; form QRR-2 contains the required information. Failure to record this information is a direct violation of Section 1.42-5(2)(b)(1) and will be reported to the IRS as noncompliance.

This report will also be used to monitor the minimum set-aside and applicable fraction from the development's initial rent-up through the end of the first year of the Credit Period (the first year that credits will be claimed for the buildings). It may be used to monitor changes in occupancy, rent and income qualifications, and as an indicator that the "next available unit" rules are being followed by the project Owner. For more information regarding the "next available unit" rules, consult **Section 3(K) - Over-Income Tenants** and **Section 4(C) - Vacated Units**.

Reporting Procedures - Form QRR-2

- The QRR-2 must be completed on a quarterly basis.
- A copy of the QRR-2 for each calendar quarter must be kept on-site or in a central location where it will be available for review during any on-site inspections.
- A copy of the QRR-2 must be submitted to the Authority for all calendar quarters beginning with the date that any building in the project is placed-in-service and ending with the last calendar quarter of the first year of the Credit Period.
- QRR-2s which are submitted to the Authority are due within 30 days from the last date of the quarter covered by the report.
- Page QRR-2.D is only required for QRR-2s which are submitted to the Authority's offices.

The calendar quarters are January through March, April through June, July through September, and October through December.

Example 1

The chart below gives the dates covered by the QRR-2's to be submitted and the due dates for Boardwalk Manor Apartments which places-in-service on June 1, 1999 elects 1999 as the first year of the credit period.

<u>QRR-2 Submissions</u>	<u>Dates Covered by QRR-2</u>	<u>Due Date of QRR-2</u>
1	6/1/99 - 6/30/99	7/30/99
2	7/1/99 - 9/30/99	10/30/99
3	10/1/99 - 12/31/99	1/30/2000

Example 2

The chart below gives the dates covered by the QRR-2s to be submitted and the due dates for Summer Hills Apartments which places-in-service on June 1, 1999 and elects 2000 as the first year of the credit period.

<u>QRR-2 Submissions</u>	<u>Dates Covered by QRR-2</u>	<u>Due Date of QRR-2</u>
1	6/1/99 - 6/30/99	7/30/99
2	7/1/99 - 9/30/99	10/30/99
3	10/1/99 - 12/31/99	1/30/2000
4	1/1/99 - 3/31/99	4/30/2000
5	4/1/99 - 6/30/99	7/30/2000
6	7/1/99 - 9/30/99	10/30/2000
7	10/1/99 - 12/31/99	1/30/2001

Failure to Provide Completed QRR-2s

The data listed on the QRR-2s is required by the Internal Revenue Code. If QRR-2s are not available during any on-site inspection or are not submitted in accordance with Authority policy, the Authority may submit a Form 8823 (Report of Noncompliance) to the IRS

Retention Requirements

The QRR-2 forms for the first year of the credit period must be retained for at least six (6) years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building. For the remaining years of the compliance period, this information must be kept for at least 6 years after the due date (with extensions) for filing the federal income tax return for the last year of the extended use period (see **Section 1(B) – Compliance Period**).

Instructions - Form QRR-2

A Form QRR-2 must be completed for **each** LIHTC project. Please note that Form QRR-2 consists of four pages (QRR-2.A, QRR-2.B, QRR-2.C, and QRR-2.D). However, it may be necessary to use more than one copy of pages B and C to compile information for a given quarter. In this case, be sure to fill in the blanks in the upper right hand corner of each page showing current page number and the total number of pages in the report for the given quarter.

In order to comply with the Federal Regulations concerning Compliance Monitoring, all blanks on Page A of the QRR-2 must be completed. If a blank is not applicable, please specify with "N/A". Most of the blanks on the form are self-explanatory; others are explained below.

Page 1 (QRR-2.A):

Authority ID#: _____

This is the five digit tracking number assigned by the Authority to the development.

First Year of Credit Period: _____

Give the first year for which the Owner will claim low-income housing tax credits for the development.

Gross Rent Method: # of persons, # of bedrooms

Contract Rent

Insert the total amount of rent collected for the unit each month, including any rental assistance payments.

Tenant Paid Rent

Insert the amount of rent that the household is responsible for paying each month. Do not include any rental assistance that is paid on behalf of the tenant.

Gross Rent

Insert the sum of the TENANT PAID RENT plus the UTILITY ALLOWANCE. This is the gross rent which must meet the applicable gross rent limit of the Internal Revenue Code.

QRR-2.C - Next Available Unit ("NAU") Table

The NAU Table is used to show that the Owner has followed the next available unit rules when low-income units were vacated and/or the gross anticipated household income for an initially qualifying family has exceeded 140% of the applicable income limit. For more information on these rules, **Section 3(K) - Over-Income Tenants** and **Section 4(C) - Vacated Units**.

Insert the applicable information for any low-income unit which was vacated or any qualified unit in which the gross anticipated household income has exceeded 140% of the applicable income limit for the unit **during the quarter covered by the report**.

"NAU" Trigger

If the "next available unit" rule was triggered by an increase of the household's gross anticipated household income, insert "I".

If the "next available unit" rule was triggered by a low-income unit vacancy, insert "V".

Date Unit Over-income / Vacated

For over-income units, insert the date that the Owner / management agent became aware that the unit was over-income.

For low-income vacancies, insert the date that the unit was vacated by the qualified household.

Date Next Available Unit Rented

For over-income units, insert the date that the next available unit of equal or smaller size in the BUILDING was rented.

For vacated low-income units, insert the date that the next available unit of equal or smaller size in the DEVELOPMENT was rented.

QRR-2.D - Management Information:

This page is only required for QRR-2s submitted to the Authority. It is not required for QRR-2s which are maintained at the property for on-site inspections. All blanks should be completed. If a blank is not applicable, insert "N/A".

**LOW-INCOME HOUSING TAX CREDIT PROGRAM
QUARTERLY RECORDKEEPING REPORT**

Page _____ of _____

NOTE: This page to be completed and sent to AUTHORITY offices with QRR-2 from development. Placed-In-Service date through the end of the first year of the Credit Period. This page is not required for on-site retention of QRR-2 for remainder of Compliance Period.

Authority ID #: _____ Development Name: _____ Date submitted: _____

MANAGEMENT INFORMATION

Please furnish current information on the management company for the Development as follows:

Name: _____ Contact Person: _____
Address: _____ Contact Phone #: _____
_____ On-Site Manager, if applicable: _____
Phone #: _____ Fax #: _____ On-Site Telephone #: _____ On-Site Fax #: _____

[] Check here if any of the above information has changed since submission of last Quarterly Recordkeeping Report.

CERTIFICATION

Under penalty of perjury, the undersigned hereby certifies that the information presented herein is true and correct to the best of his or her knowledge and belief.

Report submitted by: _____
Owner/Management Agent

By: _____
Typed or printed Date: _____ Signature _____

Owner Address: _____ Title _____
_____ Owner Telephone #: _____
_____ Owner Fax #: _____

[] Check here if any of the above information has changed since submission of last Quarterly Recordkeeping Report.

EXHIBIT B

Annual Owner's Certification (AOC-1)

In accordance with IRS regulations, each year the owner must submit to the Authority an Annual Owner's Certification (Form AOC-1). The initial AOC-1 is due on February 1st of the year following the first year of the credit period (the first year that credits are claimed) and will cover the preceding calendar year, or any portion of the preceding calendar year for which tax credits were claimed.

For every year thereafter, this report must be submitted no later than February 1st for the preceding calendar year throughout the compliance period. If the Certification is not received in the Authority's offices by this date each year, the Development will be reported to the IRS for noncompliance.

Instructions

NOTE: Owners should first make a copy of the AOC-1 included with the manual so that the document can be submitted in following years. The SCSHFDA does NOT send out blank copies of the AOC-1 to be completed each year.

Most blanks on this form are self-explanatory. Others are explained below:

AUTHORITY ID#:

This is the five digit tracking number assigned to the development by the Authority. It is very important to include this number to guarantee timely and accurate recording by the Authority. This number may be obtained by calling the Compliance Monitoring staff. It is also given on the first line of all mailing labels affixed to correspondence from the Authority.

CERTIFICATION DATES: From ___/___/___ **Through** ___/___/___

Insert the dates (month, day, year) covered by the AOC-1. This period will be the preceding calendar year or any portion of the preceding calendar year for which tax credits were claimed.

Question 1

The minimum set-aside is contained in the development's application for a tax credit allocation, the IRS Form 8609, and in the restrictive covenants for developments which received allocations since 1989.

If the development met its minimum set-aside, enter **Yes**.

If the development **did not meet** its minimum set-aside, enter **No**.

Circle A or B to indicate the applicable set-aside.

Question 2

Under the State Qualified Allocation Plan, a developer or owner may earn extra ranking points in the competitive process by electing to set aside more units than required by their federal minimum set-aside and/or by electing to a target a specified number of units to residents earning less than the income level required by the federal minimum set-aside. If your property made such election, please answer Question 2, indicating **Yes** if the development met the additional set asides or **No** if it did not. If your property did not make such an election, indicate **N/A**.

Question 3

If there was **no change** in the development applicable fraction, enter **No**.

If there **was a change** in the development applicable fraction, enter **Yes** and give an explanation in the space provided. If more room is needed, attach an additional page.

Question 4

If Household Income Certifications, FmHA 1944-8s, or other income certifications approved by the LIHTC staff of the Authority and supporting documentation **have been obtained** for all tenant's in the past year, enter **Yes**.

If Household Income Certifications or approved substitute and supporting documentation **have not been obtained** for all tenant's in the past year, enter **No**.

Question 5

If the rent for LIHTC units **is under** the applicable maximum rent limit, enter **Yes**.

If the rent for any LIHTC unit(s) **is above** the applicable maximum rent limit, enter **No**.

Question 6

If the low-income units in the development **are** for use by the general public on a nontransient basis and are under a minimum six-month lease, enter **Yes**.

If the low-income units in the development **are not** for use by the general public and/or used on a transient basis, enter **No**.

Question 7

If the low-income units **are suitable** for occupancy taking into consideration local health, safety, and building codes and/or meet basic standards similar to section 8 Housing Quality Standards, enter **Yes**.

If the low income units **are not suitable** for occupancy taking into consideration local health, safety, and building codes and/or basic standards similar to section 8 Housing Quality Standards, enter **No**.

Question 8

If there **has been no change** in the eligible basis of any building in the development, enter **No**.

If there **has been a change** in the eligible basis of any building in the development, enter **Yes** and **give a description of the change(s) in the space provided**. If more space is needed, attach a separate page.

Question 9

If **all** tenant facilities included in the eligible basis of the development **are** provided on a comparable basis to all tenants in the development **without** a separate charge, enter **Yes**.

If **any** tenant facilities included in the eligible basis of the development **are not** provided on a comparable basis to all tenant's and/or **there is a separate charge**, enter **No**.

Question 10

If reasonable attempts **were made** to rent vacant low-income units to qualified tenants, enter **Yes**.

If reasonable attempts **were not made** to rent vacant low-income units to qualified tenants, enter **No**.

Owner's should be able to show receipts for ads, flyers, etc. if requested by the Authority.

Question 11

If **no** units of comparable or smaller size were rented to tenants not having a qualifying income while a low-income unit was vacant, enter **No**.

If units of comparable or smaller size were rented to tenants not having a qualifying income while a low-income unit was vacant, enter **Yes**.

Question 12

If the income of any tenants in low-income units **did not exceed** 140% of the applicable income limit during the certification period, enter **No**.

If the income of any tenants in low-income units **did exceed** 140% of the applicable income limit during the certification period, enter **Yes**.

Question 13

If the answer to question 12 is **No**, enter **N/A**.

If the answer to question 12 is **Yes**, and the next available unit of comparable or smaller size **was rented** to qualified low-income tenants, enter **Yes**.

If the answer to question 12 is **Yes**, and the next available unit of comparable or smaller size **was not rented** to qualified low-income tenants, enter **No**.

Question 14

If the development was allocated credits in **1987, 1988, or 1989**, enter **N/A**. (The development ID# will begin with **87, 88, or 89**.)

If the development was allocated credits in 1990 or later, and Restrictive Covenants **were recorded** on the property which bind the property for low-income use for a minimum of 15 additional years following the compliance period, enter **Yes**.

If the development was allocated credits in 1990 or later, and Restrictive Covenants **were not recorded** on the property which bind the property for low-income use for a minimum of 15 additional years following the compliance period, enter **No**.

Question 15

If this development **is financed** with Rural Housing Service funds, tax-exempt bond funds, **or receives** any form of RHS assistance, enter **Yes**.

If this development **is not financed** with RHS funds, tax-exempt bond funds, **and/or does not receive** any form of RHS assistance, enter **No**.

Question 16

If the answer to **Question 15** is **No**, enter **N/A**.

If the answer to **Question 15** is **Yes**, and the development **is in compliance** with the requirements set forth by the Rural Housing Service or those of the agencies issuing the bonds for financing, enter **Yes**.

If the answer to **Question 15** is **Yes**, and the development **is not in compliance** with the requirements set forth by the RHS or those of the agencies issuing the bonds for financing, enter **No**.

Certifications must be notarized on the date that they are signed. If dates do not match, the AOC-1 is invalid and will not be accepted.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
LOW INCOME HOUSING TAX CREDIT PROGRAM

ANNUAL OWNER'S CERTIFICATION

AUTHORITY ID# _____ *
DEVELOPMENT NAME: _____

DEVELOPMENT ADDRESS: _____

COUNTY: _____

[] CHECK HERE IF THE DEVELOPMENT HAS BEEN SOLD SINCE THE LAST ANNUAL OWNER'S CERTIFICATION.

DATE SUBMITTED: ___/___/___ CERTIFICATION DATES: From ___/___/___ to ___/___/___

The following certifications are made pursuant to section 42 of the Internal Revenue Code of 1986, as amended (the "Code"), and as required by the Department of the Treasury in 26 CFR Part 1.42-5:

YES/NO

1. _____ Has the development met the requirements of its minimum set-aside election
(Circle one):
a. the 20/50 test under section 42(g)(1)(A) of the Code? or
b. the 40/60 test under section 42(g)(1)(B) of the Code?
2. _____ Has the development met the requirements of any optional set-asides that were elected in its applications for tax credit allocations?
3. _____ Was there a change in the applicable fraction (as defined in section 42(c)(1)(B)) of any building in the development? If YES, please give the nature of the changes.

4. _____ Has an annual Household Income Certification (HIC-1) or other SCSHFDA approved income certification and supporting documentation been received from each low-income tenant in the development?
5. _____ Is each low-income unit in the development rent-restricted under section 42(g)(2) of the Code?
6. _____ Are all units in the development for use by the general public and are they used on a nontransient basis? (Nontransient basis not applicable to Single Room Occupancy units.)
7. _____ Has each building in the development suitable for occupancy taking into account local health, safety, and building codes? Attach any notices of violations issued by a local or state building inspector that were issued on any unit or building during this certification period.
8. _____ Has there been a change in the eligible basis (as defined in section 42(d) of the Code) of any building in the development? If YES, please give the nature of the changes.

9. _____ Are all tenant facilities included under section 42(d) of the Code of any building in the development (such as swimming pools, recreation facilities, parking lots, etc.) provided on a comparable basis to all tenants in the building(s) without a separate charge?
10. _____ Were reasonable attempts made to rent any unit to tenants having a qualifying income when any low-income unit in the development became vacant during the year?
11. _____ Were any units of comparable or smaller size rented to tenants not having a qualifying income while a low-income unit was vacant?
12. _____ Did the income of any tenants of units increase above one hundred forty percent (140%) of the applicable income limit allowed in Section 42 of the Code?
13. _____ If the answer to question #11 is YES, was the next available unit of comparable or smaller size leased to tenants having a qualifying income?
14. _____ Was an extended use housing commitment as described in Section 42(h)(6) in effect for buildings subject to section 7108(c)(1) of the Revenue Reconciliation Act of 1989? (Restrictive Covenants are not required for 1987, 1988, and 1989 allocations)
15. _____ Is this development financed with RHS 515 funds, tax-exempt bond funds, TRUST FUND and/or HOME or does it receive any form of RHS rent assistance?
16. _____ If the answer to question #14 is YES, is the development in compliance with the requirements set forth by the Rural Housing Service or those of the agencies issuing the bonds for financing?

THIS CERTIFICATION IS MADE UNDER THE PENALTY OF PERJURY.

 (Owner Name)

 (Signature)

 (Title of signing Partner or Officer if Owner is not an individual)

SWORN to before me this _____ day of _____, 19_____.

 Notary Signature

Notary Public for _____

My Commission Expires:_____

Owner Contact Person:_____

Owner Contact Phone:_____

EXHIBIT C

Annual Household Income Certification (HIC-1)

Instructions

For information concerning tenant income eligibility, see **Section 3 – Qualifying Applicants** of this manual.

The purpose of the HIC-1 is to satisfy the annual income certification requirement of section 1.42-5(b)(1)(vi) of the Internal Revenue Code. It also satisfies the certification requirement of the S. C. Housing Trust Fund

The HIC-1 is a *legal* document which is to be prepared by the Owner or management company personnel after the required verification of income and asset information has been obtained. The HIC-1, along with supporting documentation, is the key document for qualifying applicants.

NOTE: Copies of all applications and verifications used to determine tenant income eligibility must be included in the unit file.

1. Management should instruct the prospective resident(s) to sign the HIC-1 exactly as their name(s) appears on the form.
2. Verifications of current anticipated income for each person occupying the unit must be provided not more than 90 days before occupancy/possession of the unit and execution of any HIC-1. The Authority policy prefers that the HIC-1 be executed on the date of move-in along with the lease.
3. A unit may not be counted as a set-aside unit unless all adult members of the household are certified and under lease.

Instructions for Completing the HIC-1

Instructions for preparing and executing the HIC-1 are outlined below following the numbers for each section of the HIC-1.

1. List Authority ID#, development name, number of bedrooms in unit, unit letter/number, building address, city and county.
2. Fill in the effective date for this certification (the beginning date for the certification period) and the household's move-in date
3. List full names of each person who will occupy the unit, relationship, ages, and answer "Yes" or "No" to the full-time student question.

If all of the adult occupants are full-time students, check the applicable box indicating their qualification to occupy a LIHTC unit. For more information concerning student tenants, see **Section 3(C) - Student Tenants**, of this manual.

4. In the boxes, list each person who will occupy the unit (same as list in number 2), check “yes” if employed or “no” if unemployed, and list the individual sources of income in the applicable boxes. For each person, total the column and list their anticipated gross annual income on bottom line. Total the bottom row of the chart to get the Total anticipated gross income for the household.
5. The applicant's application and verification(s) of income must be included in the unit file and provide the back-up documentation necessary for all sources and amounts of income listed in this section. If form IVS8-1 is used to verify household income, it is not necessary to verify any figure other than Total anticipated gross income.
6. **All** tenants in the household who hold assets must complete an Asset Addendum to the Household Income Certification (Section 6, Exhibit E, AA-1). Household assets valued at \$5,000 or more must be verified. Verification documents must be included in the unit file. If a household claims zero (0) assets, this information should be reflected for ALL family members on the HIC-1.

If the total income from all sources (including assets) exceeds the low-income limits, the household may not be counted as a low-income household.

ANNUAL HOUSEHOLD INCOME CERTIFICATION

FOR

LOW INCOME HOUSING TAX CREDIT PROGRAM

S. C. HOUSING TRUST FUND

The undersigned hereby certifies that:

1. This Annual Household Income Certification is declared in connection with the undersigned's application for residency and submission of supporting documentation of income for occupancy:

AUTHORITY ID#: _____ EFFECTIVE DATE of Certification _____

DEVELOPMENT NAME: _____

NUMBER OF BEDROOMS IN UNIT: _____ (must be filled in) MOVE-IN DATE _____

Unit letter/Number Building Address

City

County

2. All the occupants of said unit, their relationship (if any), their ages, their status as full-time students (for this purpose, a student is any individual who has been or will be, a full-time student at an educational institution with regular facilities, including training programs, other than correspondence school during five months of the year for which this Annual Household Income Certification is submitted), are as follows:

OCCUPANT'S NAME (First, Middle Initial, Last)	RELATIONSHIP	AGE	FULL-TIME STUDENT
--	--------------	-----	----------------------

1. _____	\ <u>Head of Household</u>	_____	_____
----------	----------------------------	-------	-------

2. _____	_____	_____	_____
----------	-------	-------	-------

3. _____	_____	_____	_____
----------	-------	-------	-------

4. _____	_____	_____	_____
----------	-------	-------	-------

5. _____	_____	_____	_____
----------	-------	-------	-------

6. _____	_____	_____	_____
----------	-------	-------	-------

7. _____	_____	_____	_____
----------	-------	-------	-------

If all adult occupants of the unit will be full-time students, indicate below the condition of qualification. Documentation to support qualification MUST be included in tenant file.

- Single-parent with child, neither are claimed as a dependent of another individual for income-tax purposes
- Full-time student receiving TANF assistance payments (or Title IV Foster Care/Adoption assistance)
- Full-time student enrolled in the Job Training Partnership Act or similar program
- Full-time student married and filing a joint tax return

3. Annual income is the anticipated total income from all sources received by the Household (even if temporarily absent) and by each additional member of the Household, including all net income derived from assets for the 12-month period following the effective date of certification of income. Certain types of income are excluded from this amount. If you have questions concerning the exclusion of any income, please ask the Owner or leasing agent who is responsible for obtaining this HIC-1 from you.

For each Household member, give name, employment status, and anticipated annual income.

Name					
Employed	? yes ? no				
Wages, salary, Overtime pay					
Commissions, fees, bonuses					
Other pay for Personal services					
Net income from business					
Interest or Dividends					
Social Security or Insurance/ Annuities					
Income from Assets (attach Form AA-1)					
Other income					
TOTAL					

TOTAL ANTICIPATED GROSS ANNUAL HOUSEHOLD INCOME: \$ _____
 (Total of all Columns above, or Income shown on IVS8-1)

CONTRACT RENT:
 \$ _____
 (Full Amount of Rent Collected for Unit including Rental Assistance)

TENANT PAID RENT:
 \$ _____

UTILITY ALLOWANCE:
 \$ _____

GROSS RENT: (Tenant Paid Rent Including Utility Allowance)
 \$ _____

4(a). TENANT STATEMENT - . I/We certify that the statements made and all information herein are true and complete to the best of my/our knowledge and belief and are given under THE PENALTY OF PERJURY.

I/We have provided for each resident all anticipated annual income and other information necessary to satisfy the requirements of tenancy. I/We have also provided the Owner with permission to obtain acceptable verifications of current anticipated income for each person occupying the unit not more than 120 days prior to move-in .

I/We agree that the household income, household composition and other eligibility requirements shall be deemed substantial and material obligations of this tenancy; that I/We will comply with all rules with respect thereto of the Owner, the Internal Revenue Service, the Authority (Housing Credit Agency), and the Management Company, and that failure or refusal to comply with a request for information with respect thereto shall be deemed a violation of a substantial obligation of this tenancy. I/We will assist the Owner, the Authority (Housing Credit Agency), Management Company, and Internal Revenue Service in obtaining any information or documents required to verify the statements certified herein. I/We agree that at least annually, and for every other required certification, I/We will will execute a SCSHFDA Annual Household Income Certification (Form HIC-1) form and will provide the Owner with permission to obtain acceptable verifications of current anticipated income for each person occupying the unit.

I/We agree to terminate the lease for _____ Unit Number/Letter _____ and, to vacate the unit in the event Development Name Development Address that I/We are found to have misstated household size or income or otherwise attempted to misrepresent my/our eligibility to qualify as a low income tenant(s) for purposes of the Low-Income Housing Tax Credit Program and/or the S. C. Housing Trust Fund.

4(b). This Annual Household Income Certification is to be made part of the lease entered into by the Landlord and the Resident(s).

SIGNATURE

DATE

____/____/____
____/____/____
____/____/____
____/____/____
____/____/____

(Signature and date of execution of each person 18 years of age or older or considered by law to be an adult or emancipated minor named in Paragraph 2.)

5. OWNER/OWNER’S REPRESENTATIVE STATEMENT

Under the PENALTY OF PERJURY, I certify that I have obtained and will maintain on file documents verifying the accuracy of statements made in this Household Income Certification by the members of this household as to their income and eligibility to be treated as a qualifying household under the Low Income Housing Tax Credit program rules described in Section 42 of the Internal Revenue Code and in the S.C. State Housing Finance and Development Authority Low Income Housing Tax Credit Compliance Manual, and/or, when applicable, S.C. Code Ann. §31-13-400 through –470 and the S. C. Housing Trust Fund Compliance rules.

_____/_____/_____
Signature of Owner/Owner's representative

Type or Print Name of Owner/Owner's representative

EXHIBIT D

Tenant Income Verification (TIV-1)

Instructions

The Tenant Income Verification form (TIV-1) may be used to verify anticipated gross annual income of all prospective tenants. The TIV-1 form must be completed by the applicant's employer or agency providing income, and must contain earnings statements showing the applicant's anticipated gross income or benefits for the coming year. Owner's may use another form of their choice as long as it provides all of the information requested on the TIV-1.

TIV-1s are valid for 90 days from the date of the verifying party's signature. This signature must also be dated no more than 90 days before the date of initial certification or any subsequent recertifications. TIV-1s or other income verifications documents that are more than 90 days old may NOT be used to support any income certifications.

NOTE: Cancelled stamped envelopes may also be kept in the tenant file as proof of the date when verifications were received.

Tenant Income Verification

TO:

FROM:

_____ has applied for residency in/is a resident of unit _____ of _____, a Low Income Housing Tax Credit development. As part of our processing, we must obtain verification of his/her household's anticipated gross annual income.

Permission by: _____ (Applicant's Signature) _____ (Date)

Please complete the section below and return this form in the enclosed self-addressed, stamped envelope or fax it back to my office at _____. Thank you in advance for your prompt attention.

Sincerely, _____
Apartment Manager

The Following portion is to be Completed By Employer / Benefit Provider

Anticipated Gross Income for the Next Twelve Months

Hourly \$ _____ Weekly \$ _____ No. hours/week _____

Bi Weekly \$ _____ Monthly \$ _____

Overtime: Average per: Day \$ _____ Week \$ _____ or Month \$ _____

-OR-

Total anticipated gross annual income for the next twelve (12) months (including tips, bonuses or overtime if applicable) \$ _____.

Verifying Party's Signature

Date

Title

Telephone Number

EXHIBIT E

The Asset Addendum To Tenant Income Certification (AA-1)

Instructions

For complete information on assets to be counted or exempted, consult Section 3(G) of the Compliance Monitoring Manual.

Assets are items of value, other than necessary personal items, and are considered along with verified income in determining the eligibility of a household. The Authority does not require third party verification of assets having a value of less than \$5,000, however, third party verification of assets valued at \$5,000 or more is required. Asset income is documented by a copy of Federal tax returns with attached 1099 forms. The asset information (total value and income to be derived) must be obtained at the time of application. The applicant will affirm that this information is correct by the execution of the Asset Addendum to the Household Income Certification (AA-1).

If a tenant claims to have zero (0) assets, and has not disposed of any assets for less than fair market value within the last two years, an AA-1 is not necessary. HOWEVER, the HIC-1 MUST reflect zero asset income for ALL family members and be properly executed.

When computing the value of assets, owners must use the cash value of the assets, which is the amount the applicant(s) would receive if the assets were converted to cash.

After all of the asset information has been obtained and computed, it must be attached to a completed Form HIC-1.

LOW INCOME HOUSING TAX CREDIT PROGRAM
ASSET ADDENDUM TO HOUSEHOLD INCOME CERTIFICATION

This development has received an allocation from the federal Low-Income Housing Tax Credit Program administered through the Authority. In order to properly qualify for the credit, the income of certain applicants for residency in the development must be certified. To comply with this requirement, the following asset information must be obtained. This information will be used for qualification purposes only and will be kept in strict confidentiality.

Assets include cash held in savings and/or checking accounts, trust funds, equity in real estate and other capital investments, stocks, bonds, Treasury bills, certificates of deposit, money market funds, IRA accounts, retirement and pension funds, lump sum receipts (i.e. lottery winnings, insurance settlements, etc.), and personal property held as an investment (i.e. gem or coin collections, paintings, antique cars, etc.) Do **NOT** include necessary personal property such as furniture, automobiles, and clothing.

It must also be determined if the applicant has disposed of any asset for less than fair market value at any time within two years prior to the effective date of the HIC-1. Do **NOT** include assets disposed of as a result of foreclosure, bankruptcy, or a divorce or separation settlement.

If the applicant has sold any asset for less than fair market value within two years prior to the effective date of the HIC-1, complete Lines (1), (2), and (3). If not, go to Line (4).

(1) FAIR MARKET VALUE OF ASSET(S) **DISPOSED OF**:
\$ _____

(2) AMOUNT RECEIVED FOR ASSET(S):
\$ _____

(3) Subtract Line (2) from Line (1).
\$ _____

If Line (3) is GREATER than \$1,000.00, insert the amount of Line (3) on Line (5).
If Line (3) is LESS than \$1,000.00, then do not count it as an asset.

(4) TOTAL VALUE OF ASSETS CURRENTLY HELD:
\$ _____

(5) AMOUNT FROM DISPOSAL OF ASSET(S):
\$ _____

Add Line (4) and Line (5), insert amount on Line (6).

(6) **TOTAL VALUE OF ASSETS** :
\$ _____

(7) ANNUAL INCOME DERIVED FROM ASSETS:
\$ _____

If Line (6) is less than \$5,000.00, insert the amount of Line (7) on Line (10).
If Line (6) exceeds \$5,000.00, complete Lines (8) and (9).

(8) Write in the current HUD passbook savings rate.

(9) Multiply Line (6) by Line (8).
\$ _____

Insert the GREATER amount of Line (7) or Line (9) on Line (10).

(10) **TOTAL ANNUAL INCOME DERIVED FROM ASSETS:** \$ _____

THE ABOVE FIGURES ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE. THIS DOCUMENT IS SIGNED UNDER PENALTY OF PERJURY.

Resident

Date

EXHIBIT F

Income Verification - Section 8 Tenants (IVS8-1)

Instructions

In the case of a tenant receiving housing assistance payments under Section 8, 26 CFR Section 1.42-5(b)(vii) provides that the property owner's income-verifying obligations will be satisfied if the public housing authority (PHA) providing the assistance provides the owner with a statement declaring that the tenant's income does not exceed the applicable income limit under Section 42(g) of the Internal Revenue Code, as amended. The IVS8-1, when properly executed, satisfies the supporting verification requirement. Annual household income certifications are still required.

You may ask the PHA to verify a specific amount of income also. **This is not necessary to satisfy your income-verifying duties** under the IRS Regulations, but it is a desirable practice since both the PHA and the LIHTC property owner can be more certain that their tenants have accurately disclosed the amount of household income.

The owner should address the IVS8-1 to the applicable PHA, include a return address, complete the statement giving the reason for the request, provide the number of occupants, number of bedrooms, and whether this is a move-in or recertification. **The owner MUST provide the income limit applicable under Section 42(g).** The owner MAY also state the applicant's reported income.

The Head of Household must sign the form giving the PHA permission to release the information.

If the PHA representative should have any questions regarding the use of this form, they should contact our offices for further guidance.

**INCOME VERIFICATION
FOR TENANTS WITH SECTION 8 CERTIFICATES OR VOUCHERS**

TO:

FROM:

_____ has applied for residency in/is a resident of unit _____ of _____, a Low Income Housing Tax Credit development. As part of our processing, we must obtain verification of his/her household's anticipated gross annual income.

Number occupants: _____ Number bedrooms: _____
 Move-in Recertification

Permission by: _____ _____
(Applicant's Signature) (Date)

Under section 42(g) of the Internal Revenue Code (as amended) and the Low Income Housing Tax Credit Program, the anticipated gross annual household income for the above referenced household cannot exceed \$ _____, the applicable income limit for this unit. The applicant has reported an anticipated annual household income of \$ _____.

Please complete the section below and return this form in the enclosed self-addressed, stamped envelope or fax it back to my office at _____. Thank you in advance for your prompt attention.

Sincerely, _____
Apartment Manager

The following is to be completed by the public housing authority:

The combined anticipated gross annual household income of the tenants in the above referenced unit does not exceed the applicable income limit under section 42(g) of the Internal Revenue Code, as amended.

Anticipated Gross Annual Income stated above ___ agrees / ___ does not agree with our records.

(Signature) (Date) (Phone #)

(Printed Name) (Title)

The Low Income Housing Tax Credit Program is a federal low-income rental housing program governed by the Internal Revenue Service. Section 42 of the Internal Revenue Code requires owners to determine annually the income eligibility of all tenants occupying tax credit units.

FLOWCHART – QUALIFYING THE APPLICANT

