

# Income Averaging Minimum Set-Aside for the Low-Income Housing Tax Credit Program

## Frequently Asked Questions

June 20, 2018

Q1. What is income averaging?

A1. The Consolidated Appropriations Act of 2018 establishes income averaging as a new minimum set-aside election for new LIHTC developments. It allows LIHTC Qualified Units to serve households earning as much as 80% of Area Median Income (AMI) so long as the average income limit of the Qualified Units is 60% or less of AMI. At least 40% of the units in a development must be Qualified Units.

Q2. How does income averaging work?

A2. Designated income levels for the Qualified Units may be set at 10% increments between 20% and 80% of AMI. The average of these designations must be 60% or less.

Q3. Must the exact tenant income be determined before selecting the income averaging set-aside option?

A3. No, income averaging is calculated on the unit designations only, not on the actual tenant income.

Q4. How is the rent limit determined if income averaging is utilized?

A4. Income averaging applies to the rent limit as well. Rent limits continue to be 30% of the designated income level. For example, the rent limit on an 80% unit is 30% of 80% of AMI, and the rent limit on a 40% unit is 30% of 40% of AMI. Rent limits for all Connecticut municipalities can be found in an Excel workbook on CHFA's website. On the first tab, select the municipality that the property is located in, and the correct FMR area will be displayed. Select the tab for the FMR area to display the rent limits for that area.

Q5. How does income averaging apply to tax-exempt bond financed 4% LIHTC deals?

A5. No change was made to the Internal Revenue Code Section 142 which covers tax-exempt bonds. 4% LIHTC deals may select income averaging as a set-aside election for tax credits as long as the development also meets one of the minimum set-asides required in order to use tax-exempt bonds (20% of the units designated at 50% AMI or 40% of the units designated at 60% of AMI). Units with income levels above 50% or 60%, as applicable, do not count for purposes of bond compliance.

Q6. How will developers communicate their intention to utilize the income averaging set-aside on a brand new application?

A6. The CHFA/DOH Consolidated Application will be revised to include a check box for applicants to indicate which set-aside is contemplated in the application. The Rental Income exhibit will also be revised to allow selection of AMI bands in 10% increments between 20% and 80%. The revised ConApp will be available prior to the 9% LIHTC round submission due date.

Q7. Can developers utilize the income averaging set-aside for applications submitted prior to the revision of the ConApp either in conjunction with CHAMP 12 or as a one-off application not part of a competitive round?

A7. Yes, a stand-alone Rental Income Calculation Worksheet for Income Averaging can be found on CHFA's website along with instructions on how to complete it. Proposed rent structures remain subject to final acceptance by CHFA.

Q8. Can developers request the use of income averaging on applications that have already been approved by CHFA's Board of Directors, have already received a 9% LIHTC award, or have already initial closed?

A8. Yes, CHFA will consider requests to modify any application that has already been approved by the CHFA Board or has already received a 9% LIHTC award but not yet initial closed. CHFA will consider requests to modify applications that have already achieved initial closing if the 8609 forms have not yet been executed. Developers must be able to demonstrate that the proposed changes to any application meet the conditions set forth in the document titled *CHFA Guidelines for Utilizing the Income Averaging Minimum Set-Aside for Applications Under Consideration or Already Approved*. Changes will be accepted at CHFA's sole discretion. Applicants must notify Debbie Alter of their intention to utilize the income averaging minimum set aside and she will provide instruction on how to proceed. Debbie can be reached at 860-571-4234 or [deborah.alter@chfa.org](mailto:deborah.alter@chfa.org).

Q9. Can income averaging be used for developments that have already completed 8609 forms and final closed?

A9. No, once the 8609 is executed, the set-aside election is final.

Q10. Can income averaging be used for a development seeking a resyndication of LIHTCs?

A10. Applicants must keep in mind that a new set-aside election does not terminate the obligations under the prior ELIHC. Income averaging may not be a helpful tool for resyndications unless the resyndications will include additional Qualified Units.