



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, D.C, 20224

SMALL BUSINESS/SELF-EMPLOYED DIVISION

SEP 19 2001

MEMORANDUM FOR SMALL BUSINESS/SELF EMPLOYED COMPLIANCE
AREA DIRECTORS

INDUSTRY DIRECTORS, COMPLIANCE
LARGE AND MID-SIZED BUSINESS DIVISION

DIRECTOR, CENTRALIZED WORKLOAD
SELECTION AND DELIVERY
SMALL BUSINESS/SELF-EMPLOYED COMPLIANCE

DIRECTOR, STRATEGY, RESEARCH AND
PROGRAM PLANNING
LARGE AND MID-SIZED BUSINESS DIVISION

FROM: Martha Sullivan
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Large and Mid-Sized Business Division

SUBJECT: Mandatory Examinations of Returns Claiming Low Income
Housing Credits (IBC 42) or Rehabilitation Tax Credits (IRC 47)

This memorandum is issued as notification that examinations of assigned returns claiming Low Income Housing or Rehabilitation tax credits are mandatory case work and should be worked in an expeditious manner.

Low Income Housing Credits (LIHC)

Codified as section 42. of the Internal Revenue Code, the Low Income Housing Credit program provides tax incentives try equity investors, thus subsidizing the costs of developing/operating below-market rental properties. The program is co-administered with state-level housing agencies responsible for monitoring LIHC properties for compliance with the requirements of Section 42; i.e., health and safety standards, rent callings, tenant qualifications, and record keeping. They perform desk audit% Inspect housing, and review tenant files located at the property site. When noncompliance is identified, the state agencies notify the IRS using Form 8823, Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition.

New procedures have been implemented to timely and routinely identify egregious cases of noncompliance based on the information returns filed by the state housing agencies. We anticipate sending a small (less than 400), but continuous, stream of returns to the field to be audited. The majority of the work will be partnership entities **and the files will include case building.** **An audit technique guide is available and** technical assistance will be provided as needed on a case-by-case basis. These audits are mandatory and should be worked by agents with expertise in this market segment.

Rehabilitation Credit

Codified as section 47 of the Internal Revenue Code, the Rehabilitation tax credit provides tax incentives for the preservation of historical buildings and the rehabilitation of non-historic older buildings. The program is co-administered with the National Park Service, which evaluates properties for historic significance and certifies the completed restorations are acceptable.

The National Park Service is upgrading their data collection and will be providing the Service with more complete information. The additional data will allow us to identify egregious cases where taxpayers are claiming credit without NPS certification. We anticipate sending less than 100 returns to the field to be audited. An audit technique guide is available and technical assistance will be provided as needed on a case-by-case basis. These audits are mandatory and should be worked by agents with expertise in this market segment.

If you have any questions, please call Grace Robertson, of my staff, at 202-283-2516.

Attachment; Form 8823