

Private Letter Ruling 9012011, IRC Section 42

Reference(s): Code Sec. 42;

Service Waives 10-Year Holding Period Requirement.

A partnership proposes acquiring a troubled low-cost housing project from another partnership. Under the proposal, the acquiring partnership will assume the owner's outstanding mortgage from the Farmer's Home Administration in addition to providing sufficient consideration to reinstate reserve accounts and pay several of the project's outstanding obligations.

The Service has waived the 10-year holding requirement under section 42(d)(2)(B)(ii), holding that the proposed transfer was necessary to avert foreclosure. However, the Service did not rule on whether the costs of acquisition and rehabilitation would qualify for the low-income housing credit under section 42.

Full Text:

Date: December 15, 1989

Dear \*\*\*

This letter responds to your letter of November 13, 1989, and subsequent correspondence submitted on behalf of Partnership 1, in which you, as a general partner of Partnership 1, ask for a private letter ruling that will waive for the Project the 10-year holding period requirement for federally-assisted low-income housing projects in section 42(d)(2)(B)(ii) of the Internal Revenue Code with respect to the proposed acquisition of the Project under the authority of the exception provided in section 42(d)(6)(A)(i) of the Code.

The following relevant representations have been submitted for consideration:

The Project consists of a apartment units housed in b buildings, located in City N and formerly placed in service by the current owner, Partnership 2, on t1. Federal assistance for the Project was provided by the Farmer's Home Administration (FmHA) under section 515 of the Housing Act of 1949.

On t2, through the efforts of its general partners, M and Corp O, Partnership 1 entered into a binding contract to acquire the Project. The total amount of consideration to be paid for the Project is \$c which includes the assumption of an FmHA mortgage of \$d and a contribution of \$e. The contribution represents the amount necessary to reinstate reserve accounts, pay past due taxes and pay other Project-related obligations. You have certified that the acquisition is to be by purchase as defined in section 179(d)(2) of the Code.

The Project is subject to an outstanding mortgage of approximately \$d. The present mortgagor is Partnership 2 and FmHA is the mortgagee. Partnership 1 will assume that mortgage on closing.

Partnership 1 has been informed that the Project is a "troubled project" by the National Office of FmHA Multiple Family Housing Servicing and Property Management Division. Such certification has also been furnished to the Internal Revenue Service.

You have made the following representations with respect to the Project.

(1) The a units in the Project were not previously placed in service by Partnership 1, or by a person who was a related person (as defined in section 42(d)(2)(D)(iii)(ii) of the Code) with respect to Partnership 1 at the time the buildings were last placed in service;

(2) As of t2, the a units were "federally-assisted buildings" as defined in section 1.42-2T(c)(l) of the Temporary Income Tax Regulations.

(3) As of t2, federal mortgage funds with respect to the Project were at risk within the meaning of the temporary regulations;

(4) There have been no nonqualified substantial improvements to the a units since they were last placed in service.

(5) No prior owner of the a units was allowed a low-income housing credit under section 42 of the Code for the building.

In connection with the proposed claim for the credit, you represent that all terms and conditions of section 42 and related sections of the Code will be met except for the 10-year holding period requirement provided by section 42(d)(2)(b)(ii), and Partnership 1 asks that this requirement be waived under the authority granted the Secretary of the Treasury by section 42(d)(6)(A)(i).

Section 42(d) of the Code provides rules for determining the eligible basis of a new or existing building, a factor used in computing the amount of credit earned. In the case of an existing building that meets certain requirements, the eligible basis consists of the building's acquisition cost plus rehabilitation expenditures incurred within a limited period of time.

Section 42(d)(2)(B)(ii), however, requires that as of the date the building is acquired by the taxpayer at least 10 years must have elapsed since the later of the date the building was last placed in service or the date of the most recent nonqualified substantial improvement of the building.

Section 42(d)(6)(A) of the Code provides an exception to the 10- year holding period requirement of section 42(d)(2)(B)(ii) to the effect that on application by the taxpayer, the Secretary may value this requirement with respect to any federally-assisted building if the

Secretary (after consultation with the appropriate federal official) determines that such waiver is necessary --

(i) to avert an assignment of the mortgage secured by property in the project (of which such building is a part) to the Department of Housing and Urban Development (HUD) or to the Farmer's Home Administration.

(ii) to avert a claim against a federal mortgage insurance fund (of such Department of Administration) with respect to a mortgage that is so secured.

Section 42(d)(6)(B)(iii) of the Code defines the term "federally-assisted building" as including any building that is substantially assisted, financed, or operated under section 8 of the United States Housing Act of 1937, section 221(d)(3) or 236 of the National housing Act of 1934, or section 515 of the Housing Act of 1949.

Section 1.42-2T of the temporary regulations contains requirements that must be satisfied to permit the waiver referred to in section 42(d)(6)(A) of the Code. Partnership 1 has stipulated that it is in compliance with these requirements.

We have examined your representations and have determined that the buildings in the Project are federally-assisted buildings within the meaning of section 42(d)(6)(B)(iii) of the Code, and that the Project's transfer to Partnership 1 was approved by FmHA to avert foreclosure due to delinquencies and shortages in project accounts or to Partnership 2's noncompliance with the terms and conditions of the real estate mortgage, and that the requirements of section 1.42-2T of the temporary regulations have been satisfied.

Based on your letter dated November 13, 1989, and subsequent correspondence, we rule as follows:

The 10-year holding period requirement under section 42(d)(2)(B)(ii) of the Code is waived with respect to Partnership 1's proposed acquisition of the Project.

No opinion is expressed or implied regarding whether Partnership 1's costs of acquisition and rehabilitation of the buildings in the Project will qualify otherwise for the low-income housing credit under section 42 of the Code.

This ruling is directed only to Partnership 1 who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent. A copy of this letter should be filed with the income tax return of each partner in Partnership 1 for the taxable year in which the transaction covered by this ruling is consummated.

We are sending a copy of this letter to the FmHA in accordance with that agency's request.

Sincerely yours,  
James F. Ranson

Chief, Branch 5  
Office of the Assistant Chief Counsel  
(Passthroughs & Special Industries)