

Private Letter Ruling 9022027, IRC Section 42

Date: February 28, 1990

Dear \*\*\*

This is in response to your letters dated June 20, 1989, and October 30, 1989, asking, on behalf of Partnership, for a private letter ruling that will waive for the Project the 10-year holding period requirement for federally-assisted low-income housing in section 42(d)(2)(B)(ii) of the Internal Revenue Code, under the authority of the exception provided by section 42(d)(6)(A)(i).

The Project consists of a buildings of a frame construction housing b two bedroom apartment units. The buildings are situated on one tract of land located in City N. The units were last placed in service by the current owner, M, on t1, and federal assistance for the Project was provided by a loan from the Farmers' Home Administration (FmHA) under section 515 of the Housing Act of 1949. On t2, the outstanding balance on this loan was \$c with FmHA as the mortgagee.

Partnership is a State A limited partnership that is being formed by Corp O to acquire the Project. On t3, Corp O entered into a binding contract to acquire the Project from M and Partnership proposes to place the units in service as low-income rental housing. The consideration to be paid by Partnership for the Project consists of the assumption of the outstanding mortgage of \$c, with the FmHA as mortgagee, as well as a promissory note of \$d plus accrued interest, from t4, on the note. You have represented that the acquisition of the Project is to be by purchase as defined in section 179(d)(2) of the Code. However, as M previously placed the apartments in service on t1, the proposed acquisition fails to meet the 10-year holding period requirement of section 42(d)(2)(B)(ii) and is the cause for this request for ruling.

Partnership has been informed that the Project is a "troubled project" by the National Office of FmHA and has attached the required documentation to the request for ruling.

Partnership has made the following representations with respect to the Project:

- (1) The units in the Project were not previously placed in service by Partnership 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 at the time the buildings were last placed in service;
- (2) As of t5, the buildings were "federally-assisted buildings" as defined in section 1.42-2T(c)(1) of the Temporary Income Tax Regulations.
- (3) As of t5, federal mortgage funds with respect to the Project were at risk within the meaning of section 1.42-2T(c)(2);

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

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

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 asks that this requirement be waived under the authority granted the Secretary of 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)(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 of 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 waive 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 or to the Farmer's Home Administration;

(ii) to avert a claim against a federal mortgage insurance fund (of such Department or Administration) with respect to a mortgage which 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, or section 515 of the Housing Act of 1949.

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

After examining the representations submitted, we 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 the Project's transfer to Partnership was approved by the National Office

of FmHA. In addition, the requirements of section 1.42-2T of the temporary regulations have been satisfied.

Based on the above representations as submitted in your letters dated June 20, 1989, and October 30, 1989, 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's proposed acquisition of the Project.

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

This ruling is directed only to Partnership 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 federal income tax returns for Partnership and the respective partners for the taxable year in which the transaction covered by this ruling is consummated.

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

Sincerely yours,

James F. Ranson

Chief, Branch 5

Office of the Assistant Chief Counsel

(Passthroughs and Special Industries)