

Private Letter Ruling 9031007, IRC Section 42

Date: May 2, 1990

Dear \*\*\*

This letter responds to your letter of February 8, 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 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 acquisition of the Project under the authority of the exception provided in section 42(d)(6)(A)(i).

You have submitted the following relevant representations for consideration:

Partnership 1 is a State P limited partnership with K, L, and M as the general partners. The Project consists of a apartment units housed in b buildings, located in City N and formerly placed in service by Partnership 2 in t1. Partnership 2 made improvements to the Project in t2. The Project is subsidized with financing issued by the United States Department of Housing and Urban Development (HUD) under sections 236 and 241 of the National Housing Act, and receives rental subsidies for all of its apartment units pursuant to section 8 of the United States Housing Act of 1937.

On t3, Partnership 2 entered into an agreement to sell the Project to Corp Q, acting as intermediate purchaser and again for City N. Concurrently, Corp Q agreed to sell the property to Partnership 1. The two purchase agreements were contingent upon Partnership 1 receiving a federal low-income housing tax credit allocation from the Committee for t4. The allocation was not received because of prior allocation grants by the Committee; therefore the time for completing the transaction has been extended to t5. Partnership 1 is presently applying for a federal tax credit allocation for t6.

In connection with the acquisition, Partnership 1 has filed an Application with the City O Area Office of HUD. As part of the Application approval process, HUD will require substantial rehabilitation to the Project exceeding \$c per unit. 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.

Partnership 1 expects to pay a total of \$d for the Project. This amount includes the approximate outstanding mortgage balance, \$e, the base cash payment, \$f, plus a residual payment, \$g. The residual payment shall be the difference between \$d and the sum of \$e plus \$f. The mortgage balance, \$e, is the sum of mortgages held by the mortgagees, the Agency and Corp R. Presently, Partnership 2 is the mortgagor. Partnership 1 will assume the mortgage indebtedness of Partnership 2 on closing.

Relative to the Project, you certify and/or represent that:

1. the acquisition of the Project will be by purchase as defined in section 179(d)(2) of the Code.
2. 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;
3. as of t2, the b buildings were "federally-assisted buildings" as defined in section 1.42-2T(c)(1) of the Temporary Income Tax Regulations;
4. as of t2, federal mortgage funds with respect to the Project were at risk within the meaning of section 1.42-2T(c)(2) of the temporary regulations;
5. there have been no nonqualified substantial improvements to the a units since they were last improved and placed in service; and
6. no prior owner of the a units was allowed a low-income housing credit under section 42 of the Code for the buildings.

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 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 Farmers' Home Administration, or

(ii) to avert a claim against a federal mortgage insurance fund (of such Department or 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. You have stipulated that Partnership 1 is in compliance with these requirements.

We have examined your representations and have determined that the b 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 HUD 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 mortgages, and that the requirements of section 1.42-2T of the temporary regulations have been satisfied.

Based on your letter dated February 8, 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. Additionally, no opinion is expressed or implied regarding Partnership 2's representations concerning charitable contributions and the allocation of low income housing credits to Partnership 1 based on property appraisals obtained by Partnership 2.

This ruling is directed only to the taxpayer 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 Partnership 1 for the taxable year in which the transaction covered by this ruling is consummated.

In accordance with the power of attorney submitted with the ruling request, we are sending a copy of this letter to your authorized representative. We are also sending a copy of this letter to HUD in accordance with that agency's request.

Sincerely yours,

James F. Ranson

Chief, Branch 5

Office of the Assistant Chief Counsel

(Passthroughs & Special Industries)