

Private Letter Ruling 9431010, IRC Section 42

The Service has waived the 10-year holding period requirement under section 42(d)(2)(B)(ii) for a nonprofit corporation's acquisition of apartments it intends to rehabilitate to provide affordable housing to qualified low-income households. The corporation will acquire the housing project from a receiver of an insured depository institution in default under section 42(d)(6)(D).

Date: May 2, 1994

Dear \*\*\*

This letter responds to your letter of February 24, 1994, and subsequent correspondence submitted on behalf of Owner requesting a private letter ruling that will waive for the Project the 10-year holding period requirement for existing buildings of section 42(d)(2)(B)(ii) of the Internal Revenue Code with respect to the acquisition of the Project from an insured financial institution in default or receiver or conservator thereof under the exception provided in section 42(d)(6)(D).

Owner has made the following representations.

Owner is a State Q nonprofit corporation with M as its executive director. Owner is under the examination jurisdiction of the District Director in City O.

The Project consists of b apartment units housed in c buildings, located in City N. These buildings were last placed in service on t1, the date that the Association foreclosed on the Project and on which Agency 1 became the conservator of the Association. Agency 2 became conservator for the Association on t2 and became receiver for the Association on t3. The Association is an insured depository institution in default as defined in <sup>U</sup>3 of the Federal Deposit Insurance Act (Act).

On t4, Owner purchased the Project from Agency 2 for \$d. Owner represents that it acquired the Project for the purpose of providing affordable housing to qualified low-income households and has received from Agency 3 a t5 allocation of housing credit dollar amount of \$e under section 42(h) of the Code. The allocation includes the 30-percent present value tax credit on the eligible basis of the acquisition costs for the buildings, and the 70-percent present value tax credit on new rehabilitation costs. The housing tax credits were approved by Agency 3 through a carryover allocation issued on t6. Owner estimates that rehabilitation costs will approximate \$f per apartment unit for each building.

In anticipation of receiving the waiver and the issuance of IRS Forms 8609 by Agency 3, Owner will make good faith efforts to market the apartments to qualified low-income households after rehabilitation. The Project presently has qualified low-income families benefiting from the rent-restricted rents as stated in the HUD income tables. No present

tenants will be displaced or asked to move as a result of receiving the waiver and the low-income housing tax credit allocation.

On t7, L, an attorney from Agency 2's National Office, submitted a letter to this office stating that Agency 2 is the receiver for the Association, an institution in default as defined in section 3 of the Federal Deposit Insurance Act (Act).

Owner has made the following additional representations and certifications with respect to the Project:

1. The acquisition of the Project is by purchase (as defined in section 179(d)(2), as applicable under section 42(d)(2)(D)(iii)(I));
2. The buildings in the Project were not previously placed in service by Owner, or by a person who was a related person (as defined in section 42(d)(2)(D)(iii)(II)) with respect to Owner as of the time the Project was last placed in service;
3. Owner has obtained a letter from Agency 2 dated t7 stating that it is the receiver for the Association;
4. As of the earlier of the time of acquisition of the Project or the time of the application for the waiver, the Project is being acquired from an insured depository institution in default (as defined in section 3 of the Act), or from a receiver or conservator of such an institution (as defined in section 42(d)(6)(D));
5. To the best of the knowledge of Owner and Owner's representatives, there have been no nonqualified substantial improvements to the buildings in the Project since they were last placed in service;
6. To the best of the knowledge of Owner and Owner's representatives, no prior owner of the Project was allowed a low- income housing tax credit under section 42 for the Project;
7. All terms and conditions of section 42 and related sections, including substantial rehabilitation of a minimum of \$3,000 per apartment unit, will be met, except for the 10-year holding period requirement provided by section 42(d)(2)(B)(ii), and Owner asks that this requirement be waived under the authority granted the Secretary of the Treasury by section 42(d)(6)(D); and
8. The date of the purchase of the Project will be after the date of enactment of the Revenue Reconciliation Act of 1989, (December 19, 1989) and therefore, the purchase complies with the effective date of section 42(d)(6)(D).

Section 42(d) provides rules for determining the eligible basis of a new or existing building, a factor used in computing the amount of credit earned. Section 42(d)(2)(B)(ii), however, requires that as of the date the building is acquired by the taxpayer at least 10

years was last placed in service or the date of the most recent nonqualified substantial improvement of the building.

Section 42(d)(6)(D) 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 building if the Secretary (after consultation with the appropriate federal official) determines that the building is being acquired from an insured depository institution in default (as defined in section 3 of the Act) or from a receiver or conservator of such an institution.

Based upon the Owner's representations, and the letter dated t7 from Agency 2 stating that Owner acquired the Project from a receiver of an insured depository institution in default under section 42(d)(6)(D), we rule that the 10-year holding period requirement of section 42(d)(2)(B)(ii) is waived with respect to the Owner's acquisition of the Project.

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

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) provides that it may not be used or cited as precedent. Temporary or final regulations pertaining to one or more of the issues addressed in this ruling have not yet been adopted. Therefore, this ruling may be modified or revoked if the adopted temporary or final regulations are inconsistent with any conclusion in the ruling. See section 11.04 of Rev. Proc. 94-1, 1994-1 I.R.B. 10, 39. However, when the criteria in section 11.05 of Rev. Proc. 94-1 are satisfied, a ruling is not revoked or modified retroactively, except in rare or unusual circumstances.

A copy of this letter should be filed with the federal income tax returns for Owner for the taxable year in which the transaction covered by this ruling is consummated.

Sincerely yours,

JAMES RANSON

Chief, Branch 5

Office of the Assistant Chief Counsel

(Passthroughs & Special Industries)