

Private Letter Ruling 9544011, IRC Section 42

Date: August 1, 1995

Dear \*\*\*

This ruling letter responds to your letter dated May 24, 1995, and subsequent correspondence submitted on behalf of Partnership 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, under the authority of the exception for the acquisition of certain federally- assisted buildings provided in section 42(d)(6)(A)(i).

Partnership was organized as a State A limited partnership for the purposes of acquiring, developing, owning and operating an apartment complex (the Project) located in City B. The general partner of Partnership is Corp M with a b percent partnership interest, and the limited partner is N having a c percent partnership interest. Partnership is under the audit jurisdiction of the District Director in City C.

The Project consists of d residential apartment units housed in e residential buildings and an additional building housing the office and laundry room. Of the d residential apartments f are one-bedroom units, b are two bedroom units, and g are three-bedroom units. The Project was placed in service on or about t1 by the former owner (Seller), a limited partnership, and there have been no nonqualified substantial improvements to the buildings in the Project since that time. Federal assistance for the Project was provided by a loan from the Farmers Home Association (FmHA), under section 515 of the Housing Act of 1949. You represent that the Project has a history of financial distress and that the mortgage is currently in default. The FmHA has stopped short of foreclosure as the result of an agreement by Partnership to acquire the Project from Seller.

On t2, Partnership entered into an option to purchase the Project from Seller. Consideration will be the assumption of a nonrecourse note at an amount equal to the appraised value of the Project. This is expected to be approximately \$h. As part of this acquisition Partnership will be required to provide additional rehabilitation funds of \$i and the FmHA will loan an additional amount for rehabilitation to Partnership of approximately \$j. All costs overruns are required to be paid by Partnership. This amount exceeds the minimum rehabilitation expenditure requirements of section 542(e)(3).

Partnership applied for and received a t3 allocation of the State A low-income housing tax credit dollar amount from the State A housing credit agency (Agency). This allocation includes the 30- percent present value tax credit on the eligible basis of the acquisition costs and the 70-percent present value tax credit on the estimated rehabilitation costs. The State A housing credit dollar amount was approved by Agency through a tentative allocation issued on t4. A copy of the Agency letter approving the allocation was submitted with this request for ruling. Since the interval between t1 and t2 is less than 10 years, Partnership fails to meet the 10-year holding period requirement of section

42(d)(2)(B)(ii) for existing buildings. As federal funds are at risk, Partnership has submitted this request for a waiver of the holding period requirement under the authority of the exception granted by section 542(d)(6)(A)(i).

In a letter dated t5 the National Office of the Internal Revenue Service was informed that the Project is a "troubled project" by the National Office of FmHA. A copy of the letter is attached to the request for this letter ruling.

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

(1) The acquisition of the buildings in the Project is by purchase (as defined under section 179(d)(2) and as further restricted by section 42(d)(2)(D)(iii)(I));

(2) Partnership acquired the buildings in the Project for the purpose of providing affordable housing to qualified low- income households;

(3) On t4, Partnership received a tentative commitment for an allocation of the low-income housing credit dollar amount from Agency in order that it be in compliance with the limitation of section 42(h);

(4) The buildings 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)) with respect to Partnership at the time the buildings were last placed in service;

(5) As of t5, the buildings in the Project were "federally- assisted buildings" as defined in section 42(d)(6)(B)(iii) and section 1.42-2(c)(1) of the Income Tax Regulations;

(6) As of t5, federal mortgage funds with respect to the Project were at risk within the meaning of section 1.42-2(c)(2);

(7) There have been no nonqualified substantial improvements to the buildings in the Project since they were last placed in service;

(8) To the best of knowledge of Partnership and its representative, no prior owner of the Project was allowed a low-income housing credit under section 42 for the Project;

(9) All terms and conditions of section 42 and related sections, including substantial rehabilitation in excess of the minimum provided by section 42(d)(3), will be met except for the 10-year holding period requirement provided by section 42(d)(2)(B)(ii). Partnership asks that this requirement be waived under the authority granted the Secretary of the Treasury under section 42(d)(6)(A)(i);

(10) This application for the waiver is timely filed as it is within 12 months after the acquisition of the Project.

For an existing building to qualify for the 30-percent present value housing tax credit section 42(d)(2)(B)(ii) requires there be a period of at least 10 years between the date of the building's acquisition by the taxpayer and the later of:

1. The date the building was last placed in service, or
2. The date of most recent nonqualified substantial improvement of the building.

Section 42(d)(6)(A)(i) 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 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 the FmHA.

Section 42(d)(6)(B) defines the term "federally-assisted building" as including any building that is substantially assisted, financed, or operated under (i) section 8 of the United States Housing Act of 1937, (ii) sections 221(d)(3) or 236 of the National Housing Act, or (iii) section 515 of the Housing Act of 1949, as such Acts are in effect on the date of enactment of Tax Reform Act of 1986 (October 22, 1986).

Section 1.42-2 of the regulations contains requirements that must be satisfied to permit the waiver referred to in section 42(d)(6)(A)(i). You have represented that Partnership is in compliance with these requirements.

Based on the above facts and Partnership's representations, we have determined that the buildings in the Project are federally- assisted building, within the meaning of section 42(d)(6)(B)(iii), and that federal funds are at risk under section 42(d)(6)(A)(i). Therefore, we rule as follows:

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

No opinion is expressed or implied regarding whether Partnership'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 Partnership that requested it. Section 6120(j)(3) provides that it may not be used or cited as precedent. A copy of this letter should be filed with the federal income tax return 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 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)