Rev. Rul. 88-6, 1988-1 CB 3, IRC Sec(s). 42

Section 42(a) of the Internal Revenue Code, which was added by section 252 of the Tax Reform Act of 1986, 1986-3 (Vol. 1) C.B. 106, provides that the amount of the low-income housing credit determined under section 42 for any tax year in the credit period is an amount equal to the “applicable percentage” of the qualified basis of each qualified low-income building. Section 42(f)(1) defines the term “credit period” with respect to any building as the period of 10 tax years beginning with the tax year in which the building is placed in service or, at the election of the taxpayer, the succeeding tax year.

In the case of any qualified low-income building placed in service by the taxpayer after 1987, section 42(b)(2)(A) of the Code provides that the term “applicable percentage” means the appropriate percentage prescribed by the Secretary for the month in which the building is placed in service. Section 42(b)(2)(B) provides that the percentages prescribed by the Secretary for any month shall be percentages that will yield, over a 10-year period, amounts of credit that have a present value equal to (i) 70 percent of the qualified basis of new buildings that are not federally subsidized for the tax year, and (ii) 30 percent of the qualified basis of existing buildings and new buildings that are federally subsidized for the tax year.

Under section 42(b)(2)(C) of the Code, the present value under subparagraph (B) of section 42(b)(2) is determined (i) as of the last day of the first year of the 10-year period referred to in section 42(b)(2)(B), (ii) by using a discount rate equal to 72 percent of the average of the federal mid-term rate and the federal long-term rate applicable under section 1274(d)(1) to the month in which the building was placed in service and compounded annually, and (iii) by assuming that the credit allowable under section 42 for any year is received on the last day of such year.

The formula used to calculate the appropriate percentages for the 70- percent and 30-percent present value credits is shown in Table 1.

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                              Table 1

                Calculation of the Appropriate Percentage

Let:

    AFRM = mid-term applicable federal rate with an annual
                      period for compounding, expressed as a percent

    AFRL = long-term applicable federal rate with an annual
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period for compounding, expressed as a percent i = (1.0 - 0.28) X ([AFRM + AFRL] ÷ 200)

PV = 1.0 + ([1.0 - (1.0 ÷ [1.0 + i]9)] ÷ i)

If AP70 stands for the appropriate percentage for the 70-percent present value credit and AP30 stands for the appropriate percentage for the 30-percent present value credit, then, to express AP70 and AP30 as percents:

AP70 = 70 ÷ PV

and

AP30 = 30 ÷ PV

The model on the basis of which the above computations are made assumes 10 equal annual credit amounts. The legislative history contemplates that such a pattern of credits is to be used for these computations. *See generally* S. Rep. No. 313, 99th Cong., 2d Sess. 759-60 (1986), 1986-3 (Vol. 3) C.B. 759-60. Thus, the computations yield the same appropriate percentages for all buildings placed in service in a given month, regardless of whether taxpayers make the election under section 42(f)(1) of the Code to defer the credit period and regardless of the extent to which section 42(f)(2) causes the credit amounts actually received to deviate from the model described above.

The appropriate percentages determined under section 42(b)(2) of the Code for buildings that are placed in service in January 1988 are as follows:

9.15%	for the 70-percent present value credit.
3.92%	for the 30-perecent present value credit.

Because the computation of the monthly appropriate percentages is based in part on an average of the long-term and mid-term applicable federal rates, for months after January 1988 the monthly appropriate percentages for the 70- percent and 30-percent present value credits will be published in the monthly revenue ruling containing the applicable federal rates.