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# GLOSSARY OF LIHTC TERMS

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Connecticut Housing Finance  
Authority

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## GLOSSARY

**9% Credits:** The 70 percent subsidy, or 9 percent tax credit, supports new construction without any additional federal subsidies. Tax credits are equal to 9 percent of qualified costs each year for 10 years. For example, in a rehabilitation project with \$100,000 in qualified costs, tax credits can equal \$90,000 over 10 years.. The 9% credits are competitive and are subject to certain selection criteria and housing priorities as set forth in the Qualified Allocation Plan (“QAP”).

**4% Credits:** The 30 percent subsidy, which is also known as the so-called automatic 4 percent tax credit, covers new construction that uses additional subsidies, or the acquisition cost of existing buildings. Tax credits are equal to approximately 4 percent of qualified costs each year for 10 years. For example, in a project with \$100,000 in qualified costs, tax credits can equal \$40,000 over 10 years. Projects financed through tax-exempt private-activity bonds, serving families with incomes below 60 percent of the area median income, and meet other eligibility criteria qualify automatically for the 4 percent LIHTC.

**20/50 Set-aside:** Qualified low-income building with at least 20 percent of the units are both rent restricted and occupied by tenants whose income is less than or equal to 50 percent of area median gross income.

**40/60 Set-aside:** A Qualified low-income building with at least 40 percent of the units are both rent restricted and are occupied by tenants whose income is less than or equal to 60 percent of area median gross income.

**140% Rule:** If, upon recertification, a low-income tenant's income is greater than one hundred and forty (140%) percent of the applicable income limit adjusted for family size, the unit will continue to be counted toward satisfaction of the required set-aside, providing the unit continues to be rent-restricted and the next available unit of comparable or smaller size in the project is rented to a qualified low-income household.

**Additional Review:** That process required when an owner submits information to the Authority or it's “Authorized Delegate” past the deadline imposed in Section 1.42-5 (e) (4) of the Compliance Regulations and in the “Authorized Delegate’s” ‘Forwarding of Non-compliance Letter’ and after submission of IRS Form 8823 (Low-Income Housing Credit Agencies Report of Non-compliance) by the Authority to the Internal Revenue Service.

**Annual Household Income:** Gross income of all persons who intend to permanently reside in a unit. The annual income is defined as income as of the date of occupancy for the next twelve (12) months.

**Annual Income:** Total gross income anticipated to be received by a tenant from all sources including assets for the next twelve (12) months.

**Annual Income Certification:** Document by which the tenant certifies his/her income for the purpose of determining whether the tenant will be considered low-income according to the provisions of the LIHTC.

**Annual Inspection:** A review of a project made annually by the Agency or its agent which includes an examination of records, a review of operating procedures and a physical inspection.

**Annual Tax Credit:** To calculate the maximum annual tax credit for which a project is eligible, multiply the qualified basis by the applicable tax credit percentage. However, the actual tax credit

award cannot exceed the amount the Authority determines is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the credit period.

**Applicable Fraction:** The lesser of the unit fraction and the floor space fraction. The unit fraction is calculated by dividing the number of low-income units in a building by the total units in the building. The floor space fraction is calculated by dividing the total floor space of the low-income units in a building by the total floor space of the residential units in the building. The Tax Code refers to this low-income occupancy percentage as the Applicable Fraction.

**Applicable Tax Credit Percentage:** The amount of tax credit available to a project depends upon its development and financing characteristics. Specifically, a 30 percent present value tax credit (NPV) applies to new construction and substantial rehabilitation expenditures that are federally subsidized, as well as to the acquisition of eligible existing buildings, regardless of the financing source. A 70 percent NPV applies to new construction and substantial rehabilitation expenditures treated as a new building that is not federally subsidized. Consequently, a single project may receive two different tax credits. For example, a project might receive a 30 percent NPV for the acquisition of an existing building and a 70 percent NPV for the expenditures incurred for the rehabilitation of that building if it is financed without a federal subsidy. In these circumstances, the tax credit must be calculated separately for these separate project components. For further information, refer to the Code.

**Basis Boost:** An increase in the building's eligible tax credit basis. Proposed developments located in a Qualified Census Tract ("QCT")/Difficult Development Area ("DDA") will receive a thirty (30) percent boost. A thirty (30) percent basis boost may also be applicable to development proposals located on former industrial, commercial buildings if the proposal is for a residential adaptive reuse with environmental remediation and is not located in a QCT. The applicant must demonstrate the basis boost is necessary to achieve financial feasibility.

**Brownfield:** Any abandoned or underutilized site where redevelopment and reuse has not occurred due to the presence or potential presence of pollution in the buildings, soil or groundwater that requires remediation before or in conjunction with the restoration, redevelopment and reuse of the property (CGS §32-99kk(1)).

**Carryover Allocation Agreement:** In accordance with the Code, an allocation agreement which allows 24 months to place the units in-service and the issuance of Form 8609.

**Capital Needs Assessment:** A physical assessment and evaluation of all building components not to be replaced during the renovation of a building completed within 6 months of application. For additional information, refer to the Standards.

**Certification Year:** The twelfth (12<sup>th</sup>) month time period beginning on the date the unit is first occupied and each twelve (12) month period commencing on the same date thereafter.

**Completion Date:** The specified date a project is completed and ready for occupancy.

**Compliance:** The act of meeting the requirements and conditions specified under the law and the LIHTC Program requirements.

**Compliance Period:** The compliance period is the 15-year period over which a project must continue to satisfy the various LIHTC requirements in order to avoid tax credit recapture. The compliance period begins with the first taxable year of the credit period.

**Compliance Training Conference:** A meeting held by the Agency with the owner and

management company representatives within 120 days of receipt of the LIHTC Allocation Agreement to review federal law and Agency policies, and the reporting procedures for the LIHTC Program.

**Construction Costs:** Broadly speaking, these include all costs incurred in bringing a building to completion, excluding land acquisition, finance or sales costs.

**Credit Period:** The credit period is the 10-year period over which the LIHTC is claimed. This period generally begins on the date a property is placed in service, but a taxpayer may elect to start the credit period as of the beginning of the year following the year the LIHTC property is placed in service.

**Cure Period:** A reasonable time (determined by the Agency) for an owner to correct any violations as a result of non-compliance.

**Depreciable Costs:** Development costs incurred in connection with a capital asset subject to a loss of value brought about by age, physical deterioration or functional or economic obsolescence.

**Development Costs:** Costs incurred for the purpose of preparing raw land for the construction of buildings or the rehabilitation of existing buildings. Development costs may include planning, oversight, relocation, demolition, construction or rehabilitation, equipment, interest and carrying charges, on-site streets and utilities, any contingency reserve, insurance premiums and all other costs necessary to develop the housing project.

**Developer/Sponsor Resources:** Investment by the owner exclusive of a developer's fee and tax credit equity. Examples are: cash, loan by sponsor/developer and land contribution.

**Effective Term of Verification:** A period of time not to exceed one hundred and twenty (120) days. A verification is valid for ninety (90) days and may be updated orally for an additional thirty (30) days. Verification must be within the effective term at the time of the tenant's income certification.

**Effective Gross Income:** The stabilized income a property is expected to generate after a vacancy.

**Eligible Basis:** For new construction, eligible basis is the cost of construction determined at the first year of the credit period. For substantial rehabilitation, eligible basis is the sum of all rehabilitation costs aggregated over twenty (24) months. For an existing building, eligible basis is the cost of acquiring the building. Refer to the Code.

**Eligible Existing Building:** A taxpayer may normally receive a 30 Percent Value Credit for the acquisition of an existing building if it satisfies three tests as outlined in the Code.

**Employment Income:** Wages, salaries, tips, bonuses, overtime pay or other compensation for personal services from a job.

**Extended Low-Income Housing Commitment ("ELIHC"):** The agreement between the Agency and the owner restricting the use of the project during the term of the Low-Income Housing Tax Credit compliance period.

**Extended Use Period:** Is the period beginning on the first day of the initial 15-year compliance period and ends on the later of (i) the date specified by the Authority in the ELIHC, or (ii) the date which is 15 years after the close of the initial compliance period.

**Federally Subsidized or Federally Subsidized Building:** A building is generally deemed to be federally subsidized if the construction or rehabilitation is financed directly or indirectly with

tax-exempt bond proceeds or a federal loan with below market rate interest. A taxpayer may elect to subtract the amount of this federal subsidy from the eligible basis of a building in order to qualify for the 70 percent NPV for the remaining eligible basis. A building is not federally subsidized if the tax-exempt financing or below market federal loan is used only for construction financing and this financing is replaced by non-subsidized financing before the building is placed-in-service.

**First Year of the Credit Period:** This is either the year a building is placed in service, or, at the owner's option, the following year.

**Gross Annual Income:** The adjusted annual income as calculated in conformance with Section 8 of the U.S. Housing Act of 1937 and according to the most recent regulations of HUD.

**Gross Rent:** Maximum rent the project owner can charge for rent.

**Growth Areas:** Areas that provide high priority and affirmative support for new urban growth that occurs outside of Regional Centers, in specified areas capable of supporting large-scale, mixed-use development and densities in close relationship to the Urban Regional Centers.

**Hard Costs:** All construction costs, inclusive of CSI Masterformat 1995 Construction Divisions 2 through 16, contractor's general requirements, overhead and profit, building permits and fees and bond premium. Hard costs do not include construction contingency.

**High-performance Building Envelope:** Building thermal envelope air-sealed per Standards, and insulated as follows (including continuous insulation): basement walls: R-20, exterior walls/attic kneewalls: R-29, rim joists/floors over unheated spaces/cantilevered floors: R-40 (use the maximum thickness allowed by floor framing), uninhabited attic floors and flat/low-sloped roofs: R-58, cathedral ceilings/roofs: R-48 and existing flat/low-sloped roofs to be replaced: R-29. For additional information refer to the Standards.

**Household:** The individual, family or group of individuals living together as a unit.

**Imputed Income:** The estimated earning potential of assets held by a tenant using the potential earning rate established by HUD. The current rate is provided by the Agency in its instructions to the Annual Income Certification.

**Income Limits:** Maximum incomes established by HUD and published by the Agency for projects giving the maximum income limits per unit for very low-income (twenty-five [25%] percent, low-income (fifty (50%) percent or sixty (60%) percent of median) units. These limits will be adjusted periodically by the Agency based on median income figures provided by HUD.

**Ineligible Person:** One or more persons, or a family who apply for residency in a rent-restricted low-income unit and whose combined income exceeds the income limitation that was selected by the owner (i.e., fifty percent (50%) or sixty percent (60%) of median) or someone living in a set-aside unit who is not certified or under lease.

**Initial Compliance:** The twelve (12) month period, commencing with the date the building is placed in service, in which the minimum set-aside must be met to receive the tax credits. Note: Projects consisting of multiple buildings with phased completion must meet the set-aside requirements on a building-by-building basis within the twelve (12) months commencing on the individual date each building is placed in service.

**Intermediary Costs:** Those costs associated with third-party services relating to project development (e.g., architect/engineer/appraiser/historic consultant, etc.).

**LIHTC 8823 Guide:** Instructions for completing form 8823 and guidelines for determining non-compliance and reporting dispositions.

**Management Company:** A firm selected by the owner to oversee the operation and management of the project and who accepts compliance responsibility.

**Maximum Allowable Rent Calculation:** The maximum allowable rent calculation includes costs to be paid by the tenant for utilities inclusive of heat, electricity, air conditioning, water, sewer, oil or gas where applicable. (Does not include cable television or telephone service.)

**Maximum Chargeable Rent (Net Rent):** Gross rent less utility allowance paid by the tenant. Note: Charge for Amenities: If the tenant facility is included in "eligible basis" under Section 42(d), it must be provided as a comparable amenity to all residential rental units in the building without charge. IRC Sec. 42 (d) (4) (B) (Treasury Regulation §1-42-5 5 (c) (1) (vii)).

**Median Income:** A determination made through statistical methods establishing a middle point for determining income limits. Median is the amount that divides the distribution into two equal groups: one group having income above the median; one group having income below the median.

**Minimum Set-Aside:** A minimum portion of units in a project to be "set-aside" as rent-restricted units for tenants in a targeted income group (50% or 60% of area median income).

**Monitoring Agent:** The Agency responsible for monitoring the compliance with the terms and conditions specified under the law and the LIHTC Program.

**Neighborhood Conservation Areas:** Areas that support maintenance of stable, developed neighborhoods and communities, as well as intensification of development when supportive of community stability and consistent with the capacity of available urban services as defined in the C&D Policies Plan.

**Net Operating Income:** The difference between effective gross income and expenses, including taxes and insurance. The term refers to net income before depreciation and debt service.

**Non-Amortizing Assistance:** Sources of funds which are not subject to installment payments over a specific time period (e.g., grants, deferred loans, cash donations, appraised value of land donation, etc.).

**Non-compliance Letter:** Letter sent by the Agency to the owner, management company, and IRS noting areas of non-compliance.

**Non-Qualified Unit:** Are units in a LIHTC development which will be rented to individuals whose incomes exceed 60% of the Area Median Income. The costs to acquire, build or rehabilitate these units are not includable in the qualified basis calculation.

**Obsolete:** Property that is unable to be used to adequately perform the function for which it was intended due to a substantial loss in value resulting from factors such as: overcapacity, changes in technology, deficiencies, or inadequacies in design or marketability, other similar factors that affect the property itself or the property's relationship with other surrounding property.

**Operating Expenses:** All expenses of a property with the exception of real estate taxes, depreciation, interest and amortization.

**Operating Reserves:** Funds which are set aside and utilized to maintain the balance between income and expenses in order to maintain an acceptable debt service coverage ratio.

**Outline Specification Form:** The Authority's form located in the CHFA/DECD Consolidated

Application.

**Owner or Developer:** Any individual, association, corporation, joint venture or partnership which is a sponsor of a LIHTC project.

**Personal Property Considered as Assets:** Property held as an investment (such as gems, jewelry, coin collections, antique cars, etc.). Necessary items (such as clothing, furniture, cars, etc.) are not considered as assets.

**PILOT:** Payment in lieu of taxes agreement.

**Placed-In-Service (“PIS”):** The placed-in-service date for a new or existing building is the date on which the building is ready and available for its specifically assigned function. This is usually the date the first unit in the building is certified as suitable for occupancy under state or local law. Substantial rehabilitation expenditures are treated as placed-in-service at the close of any 24-month period elected by the owner over which the minimum expenditures are aggregated.

**Preliminary Drawings:** Drawing information shall include Title Sheet; Site Plans showing proposed site layout, parking, building location and rough grading; building plans, unit floor plans and exterior elevations. For additional information refer to the Standards.

**Private Resources:** Development funds from sources other than the federal government, state, public agencies and local municipalities.

**Public Resources:** Development funds from sources, such as the federal government, state, public agencies and local municipalities.

**Qualified Basis:** The product of the eligible costs times the fractional portion of a building occupied by low-income tenants.

**Qualified Census Tract or Difficult Development Area:** Those areas designated by the Secretary of HUD which are eligible for the amount of credit calculated to be greater by increasing the eligible basis by 130 percent. See definition for Basis Boost.

**Qualified Households:** Individuals and families who, at the time each such individual or family first occupies a unit in the development, are of low income, having annual income not exceeding fifty (50%) or sixty (60%) percent of area median gross income (depending on the set-aside chosen), adjusted for family size, within the meaning of the Code and the Treasury Regulations.

**Qualified Low-Income Housing Project:** Any project for residential rental property if the project meets the 20-50 or the 40-60 Set-Aside, whichever is elected by the taxpayer. Any such election, once made, is irrevocable.

**Qualified Low-Income Building:** Any building that is part of a qualified low-income housing project at all times during the period beginning on the first day in the compliance period on which such building is part of such a project and ending on the last day of the compliance period with respect to such building (Section 42(c)(2)(A) of the Code).

**Qualified Non-profit Organization:** An organization described in IRC Section 501(c)(3) or 501(c)(4) of the Code that is exempt from federal income tax under Section 501(a) of the Code.

**Qualified Rent:** Gross rent as defined in Section 42(g)(2)(B) of the Code, not greater than thirty (30%) percent of the imputed income limitation applicable to a particular unit within the meaning of Section 42(g)(2)(C) of the Code, as adjusted annually.

**Qualified Unit:** Any unit in a building if: such unit is rent-restricted (as defined in subsection (g)(2) of IRS Section 42). The individuals occupying such unit meet the income limitation applicable under subsection 42 (g)(1) for the project of which such building is a part, and the unit is suitable for occupancy and used other than on a transient basis.

**Regional Center(s):** Areas with the highest priority for affirmatively supporting rehabilitation and further development toward revitalization of the economic, social and physical environment of urban centers as defined in the most recent, approved C&D Policies Plan.

**Renewable Energy/Low Impact Design:** Energy which comes from natural resources such as sunlight and geothermal heat which are naturally replenished. For additional information refer to the Standards.

**Replacement Reserve:** A cash reserve for the future replacement of fixed assets.

**Rehabilitation:** Rehabilitation may include renovating and converting an existing non-residential or commercial structure for residential use. When the newly-constructed units are located on sites where blighted multifamily housing units previously existed, and when the number of newly-constructed units does not increase the overall housing density of the area of the proposed site, these units will be considered as rehabilitation. For Substantial or Moderate rehabilitation refer to the Standards

**Rural Housing Service:** RHS. Section 8 of the U.S. Housing Act of 1937, as Amended: Regulations used in defining and determining income as required under Section 103(b)(4)(A) of the Internal Revenue Code of 1954, as amended.

**Rural Community Centers:** Clusters in locally designated centers in rural communities with relatively higher intensity land uses for residential, shopping, employment and public facilities and services.

**Smart Growth:** As defined in the C&D Policies Plan.

**Soft Costs:** Architectural, engineering, legal fees, etc., as distinguished from land and construction costs.

**Tax Credit:** Under the Code, a tax credit is a dollar-for-dollar reduction in the tax liability or tax bill of the property owner or investor. The use of tax credits can be limited, for example, by the application of the passive loss provisions, the alternative minimum tax and limits on the use of general business credits.

**Tax Credit Syndication:** Owners of an LIHTC project may sell (syndicate) the tax credits to investors, for example, limited partners, who contribute equity for the project in return for the use of the tax credit and other tax benefits generated by the project. The project developer usually retains an ownership interest in the project, for example, serving as the general partner. The investors are usually not involved in the management of the project, but will be concerned that the project is maintained in compliance with the Plan, application process Procedures, the Code and any tax credit regulations promulgated thereunder. If not, they may be subject to recapture and penalties.

**Tenant Files:** Complete and accurate records pertaining to each dwelling unit containing: the application for each tenant, verification of income and assets of each tenant, Annual Income Certification, utility schedules, rent records, lease and lease addendum. Any authorized representative of the Agency or the Department of Treasury may be permitted access to these files upon receipt by project owner or management company of prior written notice of not less than two (2) calendar days.

**Total Development Resources:** TDR: All development funding sources exclusive of tax credit equity. Funds distributed by the Authority as a result of the Tax Credit Assistance Program, the Tax Credit Exchange Program, or any other federal program funds allocated to the Authority in an effort to support the state tax credit allocation process, will be considered tax credit equity for the purpose of this Plan. Also excluded from TDR are net rental income and/or cash from operations, deferred/pledged developer fees and rental subsidy reserve funds.

**Transit Oriented Development:** Transit oriented developments as defined in the June Special Session, Public Act No. 07-7 of the Connecticut General Assembly Transit Oriented Development means “the development of residential, commercial and employment centers within one-half mile or walking distance of public transportation facilities, including rail and bus rapid transit services, that meet transit supportive standards for land uses, built environment densities and walkable environments, in order to facilitate and encourage the use of those services. This requirement may include any form of public transportation, provided that activities contiguous to the project include appropriate transportation improvements, i.e. bus shelters, bus pull offs, bus schedule coordination, etc.”

For the purposes of scoring applications in accordance with the QAP, walking distance is defined as one-quarter mile.

**Utility Allowance:** The amount of utilities for a particular unit set by a utility allowance schedule which is published either by HUD, Rural Development or the Public Housing Authority, or a letter from the utility company which states the rates (See IRS Notice 89-6).

**Regulated Use:** Applies to those developments that are covered under use restrictions and regulatory agreements for affordable housing. For the purposes of preservation, priority is given to those developments that are in need of preservation and have use restrictions that are about to expire.

**Vacancy Rate:** The percentage loss from gross rental income due to vacancy and collection losses.

**Verification:** Information from a third party which is collected in order to corroborate the accuracy of information about income provided by applicants to a project.

**Verification Request Form:** The form used by management to request verification of income from the source of the income or assets. The form must state the purpose of the request, include a release statement by the applicant/resident and request the frequency and amount of pay or interest.