2016 NH&RA Fall Forum

November 1-2

The Langham, Boston, MA

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HTC 50(d) REGULATIONS

- Definition of IRS 50(d) income
  - Historical background
  - Pre-guidance 50(d) income reporting

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HTC 50(d) REGULATIONS

- Where is 50(d) Applicable?
  - Rehabilitation tax credit utilizing the master lease pass-through structure (HTC)
  - Energy Tax credits utilizing the master lease pass-through structure (ITC)
- 50(d) is NOT applicable to pure LIHTC or NMTC transactions
- 50(d) is NOT applicable in the absence of a master lease pass-through

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HTC 50(d) REGULATIONS

Review of the temporary and proposed Reg. §1.50-1T

- Overview of the basic rules of the regulations
  - Regulations apply to property placed in service on or after September 19, 2016
  - 50(d) income is recognized at the partner level and does NOT increase basis or capital account

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HTC 50(d) REGULATIONS

Implication of Regulations on transaction pricing and transaction structures

- Effect on deal "pricing"
  - Deals closed but not in service
  - Deals in service
  - Effect of ability to utilize capital losses at time of exit
  - Tweaking structures to preserve pricing
  - Use single tier?

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Single Tier vs. Lease Pass Through

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Development Budget

	Budget	QRE	Other
Acquisition	500,000		500,000
Construction	4,500,000	4,500,000	
Soft Costs	650,000	325,000	325,000
Developer Fee			
Reserves	250,000		250,000
Total	5,900,000	4,825,000	1,075,000

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Single Tier

Assumptions

Tax Credit			965,000
Tax Equity	$	0.83	800,950
Priority Return & Cash Flow (Annual)		3.0%	24,029
Put Value		5.0%	40,048
Capital Account after Basis Reduction			(164,050)
Distributions			(120,143)
Gain / (Loss) on Exit			284,193
Exit (Tax) / Benefit		35.0%	(99,467)

Tax Equity	800,950
Cash Flow	(120,143)
Put Option	(40,048)
Exit Tax Paid	(99,467)
Net to Project	**541,293**

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Lease Pass Through

Assumptions

Tax Credit		965,000
Tax Equity	$ 0.83	800,950
Priority Return & Cash Flow (Annual)	3.0%	24,029
Put Value	5.0%	40,048
Distributions		(120,143)
Capital Account Balance at Exit		640,760
Exit (Tax) / Benefit	35.0%	224,266
50(d) Income Balance at Exit		789,545
Tax Due on 50(d) Income Balance at Exit		276,341

NOTE: Residential Property

NOTE: Zero discount rate

Tax Equity	800,950
Cash Flow	(120,143)
Put Option	(40,048)
Future 50(d) Liability Paid	(276,341)
Net to Project	**364,419**
Compared to Single Tier	(176,874)

Future 50(d) Tax Exposure

Discount Rate	NPV
10.0%	$108,416
8.0%	$126,330
6.0%	$149,500
4.0%	$179,977
2.0%	$220,767
0.0%	$276,341

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Investor Benefits

Investor Benefits - Single Tier

	Equity	Credits	Priority Return / Cash Flow	Put Option	Exit Benefit	Total
Year 1	(320,380)					(320,380)
Year 2	(480,570)	965,000	24,029			508,459
Year 3			24,029			24,029
Year 4			24,029			24,029
Year 5			24,029			24,029
Year 6			24,029	40,048	-	64,076
	(800,950)	965,000	120,143	40,048	-	**324,240**

Investor Benefits - Lease Pass Through

	Equity	Credits	Priority Return / Cash Flow	Put Option	Exit Benefit	Total
Year 1	(320,380)					(320,380)
Year 2	(480,570)	965,000	24,029			508,459
Year 3			24,029			24,029
Year 4			24,029			24,029
Year 5			24,029			24,029
Year 6			24,029	40,048	224,266	288,342
	(800,950)	965,000	120,143	40,048	224,266	**548,506**

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