

CARRYOVER ALLOCATION INSTRUCTIONS
for
Low Income Housing Tax Credit Program

Any project that has received a Reservation of tax credit must obtain a Carryover Allocation or the Reservation will become null and void. A Carryover Allocation “guarantees” the credit to the program for two years, provided that all requirements of the Carryover Allocation are met in a timely manner.

MSHDA SUBMISSION REQUIREMENTS

To be eligible to receive a Carryover Allocation, the following requirements must be met and submitted to the Authority:

- 1.) Proof that the taxpayer that will be issued the credit is the owner of the land or depreciable real property that is expected to be part of the project. This may include:
 - a. recorded deed,
 - b. title insurance policy,
 - c. copy of a recorded memorandum of land contract, or
 - d. written legal opinion of an attorney, based on the attorney’s title search, that the taxpayer is the owner of the property.
- 2.) A Statement of Carryover Allocation must be prepared and signed attesting that more than 10% of the project’s reasonably anticipated basis has been incurred by the taxpayer (see attached example). The 10% may include the taxpayer’s adjusted basis in land or depreciable real property that is expected to be part of the project, even though these amounts are not generally includible in eligible basis.
- 3.) Submit an independent accountant’s report regarding the costs incurred. A form outlining “agreed upon procedures” for this purpose is included with these instructions.

The above submissions are due December 1 for projects that received an allocation of credit prior to July 1. Projects that received an allocation on or after July 1 will be given six months from the date of allocation to incur more than 10% of the project’s reasonably anticipated basis and to provide documentation of such to the Authority as well as the other required verifications.

FAILURE TO SUBMIT THE REQUIRED DOCUMENTATION BY THE DUE DATE WILL RESULT IN A LOSS OF CREDIT TO THE PROJECT.

IRS CARRYOVER REGULATIONS

The internal Revenue Service published the following Regulations regarding Carryover Allocations of Low Income Housing Tax Credit in IRS Regulation 1.42-6:

- 1.) Any portion of the adjusted basis of land or depreciable real property that is **not** reasonably expected to be part of the project for which the Carryover Allocation is issued **cannot** be included in the carryover allocation basis.
- 2.) Any increase in eligible basis that results from the project’s location in a qualified census tract or difficult development area cannot be included in determining carryover allocation basis or reasonably expected basis.

Carryover Allocation Instructions
Page 2

- 3.) Only amounts that are treated as **paid** or **incurred** under the method of accounting normally used by the taxpayer are includible in carryover allocation basis.
- 4.) A fee may be included in carryover allocation basis provided:
 - a. the fee is reasonable;
 - b. the taxpayer is legally obligated to pay the fee;
 - c. the fee is capitalized as part of the taxpayer's basis in land or depreciable real property that is expected to be part of the project;
 - d. the fee is not paid (or to be paid) by the taxpayer to itself; and
 - e. if the fee is paid (or to be paid) by the taxpayer to a related person, and the taxpayer uses the cash method of accounting, the taxpayer can properly accrue the fee under the accrual method of accounting.

STATEMENT of CARRYOVER ALLOCATION

The purpose of the Statement is to obtain the owner's certification of total project related costs incurred, as well as the project's anticipated total costs through the expected completion date.

- The total actual costs incurred must be reported using the owner's method of accounting (cash or accrual). The Statement should contain a list of cost categories for actual accumulated costs incurred, and expected total costs through the expected completion date. The categories listed on the attached Statement are a sample listing of cost categories and are not intended to be all-inclusive.
- The Statement also requires determination of the total reasonably expected basis. Examples of categories that should be deducted from the total development cost in calculating the total reasonably expected basis include, but are not limited to the following:

Working Capital/Rent-up Reserve
Finance Fees
Organizational Costs
Personal Property
Application and Compliance Fees
Marketing/Rent-up

CERTIFICATION by CERTIFIED PUBLIC ACCOUNTANT

Upon completion of the Statement, the owner must contract with an independent certified public accountant (CPA) to attest to the assertions made by the owner on the Statement. This attestation must conform with the Standards for Attestation Engagements, and must be submitted to the Michigan State Housing Development Authority on the CPA's letterhead.

Carryover Allocation Instructions

Page 3

Ē The Statements on Standards for Attestation Engagements define an attestation engagement as one in which "a practitioner is engaged to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party." The types of engagements defined by the standards include an examination, a review, and agreed-upon procedures.

Ē The owner may elect to have a CPA perform an **examination**, a **review**, or an **agreed upon procedures engagement**. If the owner elects an agreed-upon procedures engagement, these procedures must include the following:

1. Obtain and review a copy of the ownership entity's projection of actual total development costs expected to be included in its total reasonably expected basis through the completion of the project as reported in its application for Carryover Allocation to MSHDA.
2. Obtain and review copies of invoices, closing statements and other supporting documentation for costs incurred.
3. Review county records of the property to verify that the entity to whom the allocation will be made is the record title holder of the property.
4. Rely upon invoice copies, closing statements and other documentation of costs incurred together with inquiries of the owner's management to substantiate the validity and timing of actual costs recorded.
5. Review the total actual costs incurred to determine that these costs were incurred by the legal entity which will receive the Carryover Allocation.
6. Prove the mathematical accuracy of the amounts included under the captions "Actual Costs Paid Through", "Actual Accumulated costs Incurred Through" and "Anticipated Total Costs Through Expected Completion Date" on the Statement of Carryover Allocation. Also prove the mathematical accuracy of the amount of the total Reasonably Expected Basis on the Statement of Carryover Allocation.
7. Prove the actual costs incurred as a percentage of total reasonably expected basis on the Statement of Carryover Allocation.
8. Review the items and amounts included in the computation of the 10 percent carryover rule for compliance with the Internal Revenue Code (IRC) Section 42(h)(1)(E) and Internal Revenue Service (IRS) Regulation 1.42-6.

MSHDA will use the Statement of Carryover Allocation and the related report issued by the CPA to determine if the partnership meets the requirements for a Carryover Allocation, and thus the validity of the Carryover Allocation Agreement between the owner and MSHDA. The report is a matter of public record and its distribution is not limited.

Example of an Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the owner(s) of _____ (insert development name) and the Michigan State Housing Development Authority (MSHDA).

We have performed the procedures enumerated below, which were agreed to by MSHDA and the owner(s) of _____ (insert development name), solely to assist you in evaluating the accompanying Statement of Carryover Allocation of _____ (insert development name) (prepared in accordance with the criteria specified therein) for the year ended _____ (insert date costs incurred). This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are summarized as follows:

- 1) We obtained and reviewed a copy of the partnership's projection of actual total development costs expected to be included in its total reasonably expected basis through the completion of the project as reported in its Application for Carryover Allocation to MSHDA.
- 2) We obtained and reviewed copies of invoices, closing statements and other supporting documentation for costs incurred through _____ (insert date).
- 3) We reviewed county records of the building site to verify that the partnership was listed as owner of the property.
- 4) We relied upon invoice copies, closing statements and other documentation of costs incurred together with inquiries of the partnership's management to substantiate the validity and timing of actual costs recorded.
- 5) We reviewed the total actual costs incurred through _____ (insert date), to determine that these costs were incurred by the legal entity which received the Carryover Allocation.
- 6) We proved the mathematical accuracy of the amounts included under the captions "Actual Costs Paid Through", "Actual Accumulated Costs Incurred Through" and "Anticipated Total Costs Through Expected Completion Date" on the Statement of Carryover Allocation. We also proved the mathematical accuracy of the amount of the Total Reasonably Expected Basis on the Statement of Carryover Allocation.

- 7) We proved the actual costs incurred as a percentage of total reasonably expected basis on the Statement of Carryover Allocation.
- 8) We reviewed the items and amounts included in the computation of the 10 percent carryover rule for compliance with the Internal Revenue Code (IRC) Section 42(h)(1)(E) and Internal Revenue Service (IRS) Regulation 1.42-6.

We were not engaged to, and did not perform, an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Carryover Allocation of _____ (insert development name). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of MSHDA and the owner(s) of _____ (insert development name) and should not be used by those who did not participate in determining the procedures. However, this report is a mater of public record and its distribution is not limited.

Signature

Date

Name of Signatory (typed or printed)

Independent Accounting Firm (name)

STATEMENT OF CARRYOVER ALLOCATION

Comparison of
 Actual Costs incurred through _____ (insert date costs incurred)
 To
 Anticipated Costs through the Expected Completion Date

Name of Project: _____

Name of Owner: _____

Expected Project Completion Date: _____

<u>Cost Category</u>	<u>Costs Paid + Costs Incurred</u>	<u>Anticipated Total Costs Through Expected Completion Date</u>
Land		
Land Purchase	\$	\$
Closing/Title & Recording		
Real Estate Expenses		
Other Land Related Expenses		
Building Acquisition		
Existing Structures		
Demolition (Exterior)		
Other, Describe:		
Site Work		
On Site		
Off Site Improvement		
Other, Describe:		
New Construction/Rehab		
New Structures		
Rehabilitation		
Garages/Carports		
Laundry Facilities		
Accessory Building		
Pool		
General Requirements		
Builder Overhead		
Builder Profit	\$	\$

Construction Contingency	\$	\$
Other, Describe:		
Professional Fees		
Design Architect		
Supervisory Architect		
Real Estate Attorney		
Engineer/Survey		
Tap Fees/Soil Borings		
Permits and Fees		
Other, Describe:		
Interim Construction Costs		
Hazard Insurance		
Liability Insurance		
Interest		
Loan Origination Fee		
Loan Enhancement		
Title & Recording Taxes		
Other, Describe:		
Permanent Financing		
Bond Premium		
Credit Report		
Loan Origination Fee		
Loan Credit Enhancement		
Title & Recording Taxes		
Legal Fees		
Other, Describe:		
Other Costs		
Feasibility Study		
Market Study		
Environmental Study		
Tax Credit Fees		
Compliance Fees	\$	\$

Marketing/Rent-up	\$	\$
Cost Certification		
Bridge Loan Expenses (During Construction)		
Other, Describe:		
Syndication Costs		
Organizational		
Bridge Loan		
Tax Opinion		
PV Adjustment		
Other, Describe:		
Developer		
Developer Overhead		
Developer Fee		
Consultant Fee		
Project Reserves		
Rent Up Reserves		
Operating Reserves		
Replacement Reserves		
Other, Describe:		
TOTAL	\$	\$

Computation of actual costs incurred through _____ (insert date) as a percentage of the total reasonably expected basis:

Total Development Costs	\$
-less-	
Project Reserves	
Permanent Financing Fees	
Syndication Costs	
Personal Property	
Application and Compliance Fees	
Marketing/Rent-Up	
Total Reasonably Expected Basis	\$

Total Actual Costs Incurred Through _____ (insert date) _____ %
 Total Reasonably Expected Basis

I, the undersigned, certify that

- the actual costs paid and incurred through _____ (insert date) contained herein are true and correct to the best of my knowledge; and
- the total actual costs paid and incurred through _____ (insert date) were incurred by the project owner and are accounted for under the owner's specified method of accounting; and
- the percentage of actual costs incurred as a percentage of the total reasonably expected basis exceeds the minimum 10 percent required by Internal Revenue Code Section 42(h)(1)(E) and Internal Revenue Service (IRS) Regulation 1.42-6; and
- the project owner has complied with Internal Revenue Code Section 42(h)(1)(E) and Internal Revenue Service (IRS) Regulation 1.42-6 in its determination of the total reasonably expected basis of the project and the preparation of this statement.

 Name of Project Owner

 Signature of Authorized Representative

 Title of Authorized Representative (printed or typed)