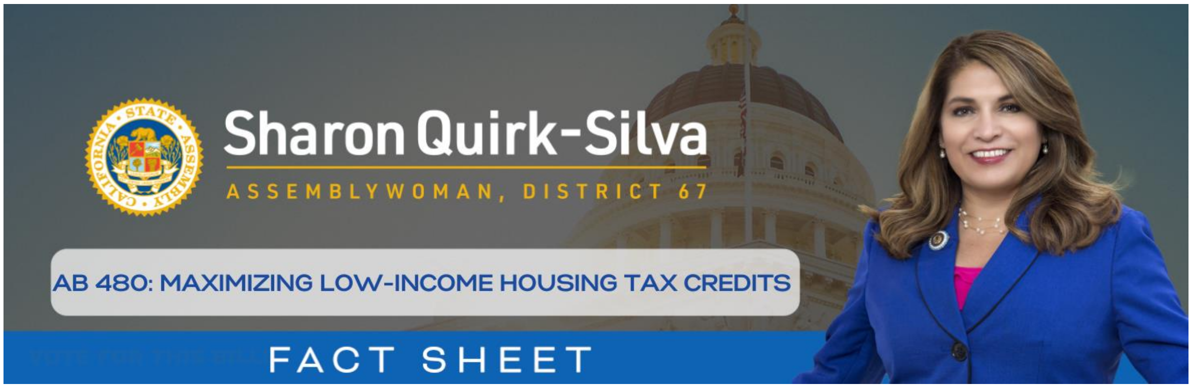

Summary

AB 480 increases the impact of Low-Income Housing Tax Credits (Housing Credits) by allowing developers to switch from ***allocated*** to ***certificated state credits*** after award. Because private investor pay more for certificated state credits, this change assists the state in building much needed affordable housing.

Background

Housing Credits serve as the primary funding tool for affordable rental housing. While most credits come from the federal government, California supplements them with state Housing Credits to stretch federal funding further and increase affordable housing production.

Affordable housing developers do not claim these credits directly. Instead, they sell the credits to corporate investors with significant state tax liability. Traditionally, investors had to own a share of the property to claim the credits, so developers and investors formed limited partnerships. In this model, the credits are known as "***allocated***" credits.

In 2016, SB 837 allowed for the "certification" of state Housing Credits, and AB 101 in 2019 made this authority permanent. "***Certificated credits***" allow investors to buy the credits outright without needing an ownership stake in the property. The key difference lies in how the IRS treats them. ***Certificated credits*** function like a gift card in that they directly pay state taxes and do not affect federal tax liability. ***Allocated credits***, on the other hand, act like a store coupon, where they reduce state tax liability, which in turn increases the investor's federal tax burden since state taxes are deductible from federal taxes. Because ***certificated credits*** do not trigger this federal tax impact, investors pay more for them, bringing in additional private investment for affordable housing projects.

The law originally required developers to choose between allocated and certificated credits at the time of application, with no option to switch later. If a developer selected certificated credits but could not secure a minimum price, they could revert to allocated credits. Later amendments allowed developers to revoke the certification election after receiving an award from the Tax Credit Allocation Committee (TCAC).

Current law prevents developers from switching from allocated to certificated credits after the award, even if doing so would generate more funding for affordable housing. This restriction leaves money on the table. The concern was that developers might overestimate their credit needs by initially using allocated credits with a lower pricing assumption. However, TCAC discourages this practice through its tiebreaker process and conducts a final feasibility analysis after construction, reducing any excess credit awards.

Solution

AB 480 allows affordable housing developers to switch from allocated to certificated state credits after receiving an award. This change ensures that developers can maximize the value of Housing Credits, bringing more private investment into affordable housing projects.

Support

- California Housing Partnership (Sponsor)
- California Housing Consortium (Sponsor)

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