

1996 Low-Income Housing Credit

3521

Attach to your California tax return.

Table with 2 columns: Name(s) as shown on return, Social security or California corporation number; Building identification no. (BIN), Federal employer identification number (FEIN)

Part I Computation of the Credit

- 1 Has the eligible basis of any project or building decreased since you received form FTB 3521A from the California Tax Credit Allocation Committee?
2 Current year credit for 1996. See instructions
3 Enter any flow-through housing credits from other entities below. See instructions.

Table with 6 columns: If you are a, Current year housing credits from, (a) Name of entity passing through the credit, (b) Identification Numbers - Calif. Corporation, FEIN, etc., (c) Building Identification Number (BIN), (d) Total Amount of Flow-through Credits

- Total flow-through housing credits. Add the amounts in column (d)
4 Current year low-income housing credit. Add line 2 and line 3
5 Enter the amount of credit on line 4 that is from passive activities. If none of the amount on line 4 is from passive activities, enter -0-
6 Subtract line 5 from line 4
7 Enter the allowable credit from passive activities. See instructions.
8 Low-income housing credit carryover from prior years.
9 Add line 6 through line 8.

10 Banks and corporations only: Amount allocated to affiliated banks and corporations:

Table with 3 columns: Name of Bank or Corporation, California Corporation Number, Amount of Credit Allocated

- Total amount of low-income housing credit allocated. If you are not a bank or corporation enter -0-
11 Total available low-income housing credit. Subtract line 10 from line 9. See instructions

Caution: Your credit may be limited. See instructions for line 11.

Part II Computation of Carryover

- 12 Amount of low-income housing credit claimed on the current year tax return
13 Carryover to future years. Subtract line 12 from line 11.

Part III Recomputation of Basis. Complete this part only if the basis in the building has decreased.

Table with 4 columns: (a) Building 1, (b) Building 2, (c) Totals, and rows 14-20 for various building attributes like date placed in service, BIN, eligible basis, etc.

Instructions for Form FTB 3521

Low-Income Housing Credit

General Instructions

Important News

In general, California did not conform its law to changes made to the Internal Revenue Code (IRC) by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66). California legislation did adopt specific provisions of the 1993 and 1996 federal changes and these provisions are specifically identified when appropriate. All other references in these instructions are to the IRC as it existed on January 1, 1993.

You are no longer required to attach form FTB 3521A, Certificate of Final Award of California Low-Income Housing Tax Credits, to your return. However, the certificate must be available to the Franchise Tax Board upon request.

A Purpose

Use form FTB 3521 to figure this credit if you are an owner of a residential rental project providing low-income housing.

This form is also used to claim a credit that was:

- Allocated from an affiliated bank or corporation; and
- Passed through from S corporations, estates, trusts, limited liability companies taxed as partnerships, and partnerships.

An affiliated bank or corporation is defined in the Revenue and Taxation Code (R&TC) Section 25110(b)(1), except substitute 100% for "more than 50%" and voting common stock for voting stock.

For S corporations, fiduciaries, limited liability companies taxed as partnerships, and partnerships, complete form FTB 3521 to figure the credit to pass through to shareholders, beneficiaries, members or partners and attach it to Form 100S, Form 541, Form 568 or Form 565.

Under IRC Section 42(a), as adopted by California, the low-income housing credit for any year is the applicable percentage of the qualified basis of each qualified low-income building. See R&TC Sections 17058 and 23610.5.

B California and Federal Differences

1. California Tax Credit Allocation Committee authorization. This Committee must authorize the amount of the credit allocated to any low-income housing project. California requires that the credit be allocated based on a project's need for the credit for economic viability.

The low-income housing project must be located in California and must either:

- Have been allocated a federal low-income housing credit; or
- Qualify for the credit under IRC Section 42(h)(4)(B), which provides for the special rule where 50% or more of the building is financed with exempt bonds subject to volume cap.

The Committee must certify to the owner the amount of the state credit to which the owner is entitled each year. To apply for the certificate, write or call:

CALIFORNIA TAX CREDIT
ALLOCATION COMMITTEE
915 CAPITOL MALL ROOM 485
SACRAMENTO CA 95814
(916) 654-6340

2. Applicable percentage. For new and existing buildings placed in service during the period after 1987 and before 1990, and for a new building not federally subsidized that receives an allocation after 1989, the applicable percentage is:

- For the first three years, the percentage prescribed by the Secretary of the Treasury for such buildings; and
- For the fourth year, the difference between 30% and the sum of the applicable percentages for the first three years.

For a new building that is federally subsidized or an existing building that is "at risk of conversion" that receives an allocation after 1989, the applicable percentage is:

- For the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized; and
- For the fourth year, the difference between 13% and the sum of the applicable percentages for the first three years.

The credit percentage will be adjusted monthly to reflect the present value at the time the building is placed in service. See the revenue ruling published monthly by the IRS dealing with applicable federal interest rates.

3. Credit period. California uses a four-year period instead of the ten-year period allowed under federal law. California does not apply the federal special rule for the first year of the credit period under IRC Section 42(f)(2).

4. Accelerated credit election. Unlike the federal law, California law contains no provision for acceleration of the credit. See R&TC Sections 17058(p) and 23610.5(p).

5. Compliance period. The compliance period (during which a housing project remains subject to the set-aside and rent requirements that qualified it for the low-income housing credit) is 30 consecutive years, instead of the 15-year period allowed under federal law. This period begins with the first year of the credit period.

6. Recapture of credit. Unlike the federal law, California law contains no provision for recapture of the credit. See R&TC Sections 17058(i) and 23610.5(i).

C Basis

Generally, the eligible basis of a building for its entire 30-year compliance period is figured as of the date it is placed in service. For housing projects consisting of two or more buildings, figure the credit separately for each building.

For new buildings, the eligible basis is generally the cost of construction.

For existing buildings, the eligible basis is the cost of acquisition plus any rehabilitation expenses incurred before the close of the first year of the credit period. The owner must have acquired the building by purchase from an unrelated person, and it must have been at least 10 years since the building was last placed in service or substantially improved.

When figuring the eligible basis of a new or existing building, do not include the cost of land. Also, you must reduce the basis by the amount of any federal grants received and by any basis allocable to units that are not low-income units and that are above the average quality standard of the low-income units in the building.

Residential rental property may qualify for the credit even though part of the building in which the residential units are located is used for commercial use. To figure the eligible basis of such property, do not include the cost of the nonresidential rental property. You may generally include the basis of common areas or tenant facilities, such as swimming pools or parking areas.

Specific Line Instructions

Part I

Line 2 – The available credit for the year is the lesser of:

- The amount designated on form FTB 3521A; or
- The amount computed in Part III, line 20.

S corporations only: Multiply the appropriate amount above by (.33) and enter the result on line 2.

If form FTB 3521 is completed by a flow-through entity (S corporation, estate or trust, limited liability company taxed as a partnership or partnership), the entity must attach a separate schedule to the form that shows each shareholder's, beneficiary's, member's or partner's name, identification number, their amount of flow-through credit and the corresponding building identification number.

Line 3 – If you have flow-through credit(s) from S corporations, estates, trusts, limited liability companies taxed as partnerships or partnerships, or if you were allocated a credit from an affiliate bank or corporation, add them together and enter the total on line 3. If you have flow-through credits from more than one of each type of entity, you must attach a schedule showing the separate entities from which the credit(s) flowed through to you.

Line 7 – If any part of the amount on line 4 is from a passive activity, you must complete form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, to determine your allowable credit. Complete form FTB 3801-CR or form FTB 3802 before completing the rest of this form.

Caution: You may not claim the credit on any building for which there has been allowed any relief from the passive loss rules under Section 502 of the Tax Reform Act of 1986.

Line 11 – The amount of this credit you may claim on your tax return may be limited. Refer to the credit instructions in your tax booklet to see if there are any limitations on the amount of credit you may claim. These instructions explain how to claim this credit on your tax return. You must use credit code number **172** to claim this credit.

The credit cannot reduce the minimum tax (corporations, limited partnerships, limited liability partnerships, limited liability companies and S corporations), the alternative minimum tax (corporations, fiduciaries and individuals), the built-in gains tax (S corporations) or the excess net passive income tax (S corporations).

S corporations may claim only one-third of the credit against the 1.5% tax. In addition, 100% of this credit may be passed through to the shareholders.

If the available credit for the current year exceeds the tax, you may carry over any unused credit to succeeding years. Use Part II to figure your carryover.

Part III

Use Part III only if the eligible basis decreased on a project or building.

Line 17 – Only the portion of the basis attributable to the low-income rental units in the building at the close of the year qualifies for the credit. This is the lesser of:

- The percentage of low-income units to all residential rental units (the "unit percentage"); or
- The percentage of floor space of the low-income units to the floor space of all residential rental units (the "floor space percentage").

Low-income units are units occupied by qualifying tenants, while residential rental units are all units, whether or not occupied.