

UNDERSTANDING SECTION 42

What is Section 42?

Section 42 refers to that section of the tax code which provide tax credits to investors who build affordable housing. Investors receive a reduction I their tax liability in return for providing affordable housing to people with fixed or lower incomes.

How does Section 42 differ from other rent assistance programs, like section 8?

The residents who live in Section 42 units must be income and program eligible similar to residents who live in rental assistance developments. However, the rent that a Section 42 resident will pay is capped at a fixed amount and includes utilities that are the resident's responsibility. In rental assistance programs such as Section 8, the resident's rent is based on 30% of his/her income and the remaining adjusted portion is subsidized by the government. The Section 42 Program is not a subsidized rental program.

How do I determine if I am eligible for a Section 42 tax credit unit?

You will be asked to complete forms which will request information regarding your income, family size and financial assets. These factors will determine your eligibility for this program.

What are assets?

Assets are those valuables other than personal items which must be considered when determining family income. Examples are savings accounts, certificate of deposits, stocks and bonds. Personal items like your car, furniture, etc. are not included.

What is compliance?

Compliance means that you fit all the guidelines necessary to live in a Section 42 apartment.

Who determines the maximum income levels?

Your maximum income level is based on the number of people in your family and the combined gross income.

What is counted as income?

All income is counted, including income on your assets such as checking accounts, savings accounts, lump sum settlements, profits from the sale of real estate, etc.

UNDERSTANDING SECTION 42

If my income qualifies, do I get an apartment?

No, it means that the owner/manager may further process your application by using standard screening policies and procedures

How is rent determined?

Rents are determined by HUD based on the median county income. Your rent is determined by the owner, based on HUD guidelines minus a pre-determined unity allowance.

Do I have to verify my income every year?

Yes, every year you must re-certify your income and family size before you are offered a new lease. There is a maximum allowable income for your apartment home. If you exceed this amount by more than 140%, you may have to seek alternative living arrangements.

Can someone else live with me?

The apartment is being rented to you and the people who were identified on the rental application. The Section 42 guidelines require that you immediately notify the owner/manager in writing if there are any changes in the family composition. You may be required to complete the certification process again based on this new information.

Can I take a credit on my tax return?

The tax credit applies to the owners of the building and not to your personal income taxes. However, your State may have rent or homestead credits for which you may be eligible.

Why are some of the units in my building not income restricted?

Many owners choose to develop mixed-income housing. Therefore, all units in the building may not be available as income eligible units. Some units may be priced at market rent rates.

How do I apply?

The Owner/Manager will provide you with the necessary forms. Your rental agent will be happy to assist you in the application process.

The Tax Reform Act of 1986 created the Low-Income Housing Tax Credit (LIHCT). The program regulations are under Section 42 of the Internal Revenue Code. Congress intended that the credit would encourage development of affordable housing by construction of new units or rehabilitation of existing units.

In order for a property to qualify for LIHCT, owners must keep the units affordable for a specific number of years.