Statutory Issue Paper No. 125

Accounting for Low-Income Housing Tax Credit Property Investments

STATUS
Finalized December 6, 2004

Original SSAP and Current Authoritative Guidance: SSAP No. 48 and SSAP No. 93

Type of Issue:
Common Area

SUMMARY OF ISSUE:

1. SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies (SSAP No. 48) prescribes accounting treatment for the valuation of Limited Liability Companies. However, current statutory accounting principles do not specifically address accounting for th

7. Subject to adoption of a Statement of Statutory Accounting Principles on this topic federal, LIHTC investments held by reporting entities will meet the definition of an asset as specified in SSAP No. 4—Assets and Nonadmitted Assets and are admissible assets to the extent that they comply with the requirements of this issue paper.

8. The modifications to EITF 94-1 are as follows:

a.

h. EITF 85-16: Leveraged Leases (EITF 85-16) is adopted for purposes of statutory accounting in SSAP No. 22—Leases (SSAP No. 22). This issue paper does not intend to readdress the conclusions reached in SSAP No. 22.

i. SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities and SSAP No. 88—Investments in Subsidiary, Controlled, and Affiliated Entities, a Replacement of SSAP No. 46 should be utilized to account for investments that qualify as subsidiary, controlled or affiliated entities.

j. The impairment guidance contained in this issue paper shall be followed.

k. For statutory accounting purposes, deferred taxes are not reported as a component of income from continuing operations in the income statement; rather, deferred taxes are recognized as a separate component of gains and losses in unassigned funds (surplus).

9. Additional funding that does not result in additional federal tax credits for the investor shall be expensed as a component of net investment income. In the event for a reporting entity obtains additional federal tax credits occurs for a LIHTC investment, the following shall be applied:

a. If additional tax credits are allocated without additional funding, the additional tax credits shall not be afforded any value; rather, the tax benefit is only recognized when realized.

b. If additional funding directly related to the additional tax credits is required, the provisions of this issue paper shall be followed as if the additional funding were a new investment in LIHTC properties.

10. An investment amortized to residual value in accordance with paragraph 8.a. of this issue paper shall not be revalued under any other method during or subsequent to the amortization period, other than as in this issue paper.

11. Changes in estimated losses shall be accounted for in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors as a change in estimate and included as a component of net investment income.

12. This issue paper shall be interpreted by INT 02-07: Definition of Phrase "Other Than Temporary." The remaining Interpretations of SSAP No. 48 are deemed not applicable.

Impairment

13. Reporting entities with investments in LIHTC properties shall complete and document an impairment analysis at each reporting period. If it is determined that an impairment exists, the book value of the LIHTC investment shall be compared to the present value of future federal tax benefits discounted at a risk free rate of return, i.e., the rate on U.Ss be compared toan j /TT0 fh0iwrnaletimaal fT66 T* (Ir

15. In a multi-tiered partnership, whereby one limited partnership exists only to hold interests in other

by the operational activities occurring at the operational level of the entity (i.e. generally considered to be the “property” level for investments in more traditional equity real estate deals). Rather, the value of an LIHTC is directly tied to the remaining stream of federal tax benefits (credits

c. The investor is a limited partner in the affordable housing project for both legal and tax purposes and the investor's liability is limited to its capital investment.

Under the effective yield method, the investor recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the investor. The effective yield is the internal rate of return on the investment, based on the cost of the investment and the guaranteed tax credits allocated to the investor. Any expected residual value of the in of the equity method to investments in limited partnerships. [Note: See Topic No. D-46 in Appendix D.]

Interpretation 46, which was issued in January 2003, addresses consolidation by business enterprises of variable interest entities, which may include some limited partnerships. Interpretation 46 requires a variable interest entity to be consolidated by an enterprise if that enterprise will absorb a majority of the entity's expected losses or is entitled to receive a majority of the entity's expected residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when

Appendix A – Low-Income Housing Tax Credit Property Investments
A Limited Partnership Investment in an Affordable Housing Project Accounted for Using the Amortized Cost Method (modified to include tax benefits):

This appendix is based on EITF 94-1 “Schedule 3 Cost Method with Amortization with modifications to include tax benefits.

Terms:
Date of Investment: January 1, 20X1
Purchase Price of Investment: $100,000

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.
2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).
3. The investor made a $100,000 investment for a 5 percent limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.
4. The partnership finances the project cost of $4,000,000 with 50 percent equity and 50 percent debt.
5. The annual tax credit allocation (equal to 8 percent of the project's der a 5eu

Beginning Investment Balance	Tax Credits	Tax Depreciation	Tax Loss Benefit	Total Tax Benefits	Amortization