

Form NC-478H- Low Income Housing

The credit for low-income housing awarded a federal credit allocation before January 1, 2003 is taken in five equal installments beginning with the first taxable year in which the federal credit is taken. The federal credit is the total allowed during the 10-year federal credit period plus the disallowed first year credit allowed in the 11th year. The total federal credit is calculated based on the qualified basis as of the end of the first year of the credit period and is not recalculated to reflect subsequent increases in the basis. Any unused portion of the credit may be carried forward for five succeeding years. **Important.** The credit for low-income housing awarded a federal credit allocation on or after January 1, 2003 is considerably different from the credit for low-income housing awarded a federal credit allocation before January 1, 2003. (For detailed information on the credit effective for allocations awarded after January 1, 2003, see the "2002 Tax Law Changes" available from the Department's website.)

The following instructions for completing Part 1 and Part 2 of Form NC-478H apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 4.

Part 1. Business Information. (The information requested in Part 1 is for each location at which low-income housing that qualifies for the federal credit was placed in service in North Carolina during 2004. If you invested in property at more than one location in 2004, complete a separate Form NC-478H for each location.)

Street Address and County of Building. Enter the street address and county where the property is located for which a potential credit is claimed.

Tier and Status Information. Fill in all applicable circles related to the location's tier and status. To be eligible for the credit, a taxpayer must not only qualify for a federal credit but must also meet any of the following conditions:

1. The property must be located in a Tier 1 or Tier 2 area.
2. The property must be located in a Tier 3 or 4 area and 40% of its residential units must be both rent-restricted and occupied by individuals whose income is 50% or less of the area's median gross income.
3. The property must be located in a Tier 5 area and 40% of its residential units must be both rent-restricted and occupied by individuals whose income is 35% or less of the area's median gross income.

Part 2. Computation of Eligible Credit Amount for Low-Income Housing Awarded a Federal Credit Allocation Before January 1, 2003 for which Federal Credits are First Claimed in 2004. (The information requested in Part 2 is for each location at which low-income housing that qualifies for a federal credit was placed in service in North Carolina during 2004. If you invested in property at more than one location in 2004, complete a separate Form NC-478H for each location.)

- Line 1.** Enter the maximum housing credit dollar amount allowable from Federal Form 8609, Line 1b. (Also attach Federal Forms 8609-Schedule A, 8586, and if recapture, Form 8611.)
- Line 2.** Multiply Line 1 by the number 10. This is the maximum amount of federal credit allowed for investing in low-income housing at a single location in 2004.
- Line 3.** Enter the applicable percentage for this location from the following table:

Hurricane	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
75%	75%	75%	25%	25%	25%

Line 4. Multiply Line 2 by Line 3.

Line 5. Divide Line 4 by the number 5.

Line 6. Enter the amount of the first year modified percentage under Section 42(f)(2)(A) of the Internal Revenue Code.

Line 7. Multiply Line 7 by Line 5. This is the 1st installment for investing in low-income housing at this location starting in tax year 2004.

Line 8. Enter the amount from Line 5. This is the 2nd, 3rd, 4th and 5th year installment amount for investing in low-income housing at this location starting in tax year 2005.

Line 9. Subtract Line 7 from Line 5. This is the 6th installment for investing in low-income housing at this location starting in tax year 2009.

Line 10. Enter the amount from Line 4. **This is the amount of eligible credit for investing in low-income housing in North Carolina in 2004.** Enter the total eligible credit amount for investing in low-income housing in 2004 for ALL locations in the Credit History Table. (See Part 4, 2004 Column, Eligible Credit Amount.)

Part 3. Computation of Amount Eligible To Be Taken in 2004. (The information requested for Part 3 is a cumulative total for all locations and should be entered only once on the last Form NC-478H filed.)

Line 11. Enter the 2004 eligible installment amount. (From Part 2, Line 7.)

Line 12. Enter the 2003 eligible installment amount. (See 2003 Form NC-478H, Part 2, Line 7.)

Line 13. Enter the 2002 eligible installment amount. (See 2002 Form NC-478H, Part 2, Line 8.)

Line 14. Enter the 2001 eligible installment amount. (See 2001 Form NC-478H, Part 1, Line 8.)

Line 15. Enter the 2000 eligible installment amount. (See 2000 Form NC-478H, Part 1, Line 8.)

Line 16. Enter the portion of eligible installment amounts not taken for tax years 2000 through 2003.

Line 17. Add Lines 11 through 16. **This is the amount of eligible credit available to take for investing in low-income housing in 2004.** (Carry amount to Form NC-478, Line 8.)

Part 4. Housing Credit History Table. (The information requested for Part 4 is a cumulative total for all locations and should be entered only once on the last Form NC-478H filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)

Eligible Credit Amount In the 2004 column, enter the total eligible credit amount for investing in low-income housing in tax year 2004. (From Part 2, Line 10.) In the 2000 through 2003 columns, enter the total eligible credit amount as calculated on the prior year's Form NC-478H.

Installments Taken in 2004 In the 2000 through 2004 columns, enter the amount of credit actually taken in tax year 2004. The amount of credit taken includes the amount of current year's installment plus any portion of a prior year's carryforward utilized in 2004.

Carryforwards Taken If any portion of a prior year's installment is utilized in tax year 2004, enter the amount of carryforward taken in the applicable column. (**Important.** Carryforwards taken do not include the amount of current year's installment taken. Carryforwards taken should only be entered if in 2004 a portion of a prior year's installment is utilized.)

Carryforwards To Take In Future If an installment is not fully utilized in tax year 2004, enter the amount not taken as a carryforward to take in the future. (**Important.** Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2004 a portion of a current installment can not be utilized due to the 50% of tax limitation.)

Expired Installments If an installment expires, enter the amount of expired credit in the applicable column. Generally, a credit for investing in low-income housing expires or is forfeited if the taxpayer becomes ineligible for the federal credit. If the taxpayer is required to recapture all or part of the federal credit claimed, it becomes liable for all past taxes avoided as a result of the credit plus accrued interest.

Pass-through entities. S corporations claiming the credit against income tax complete Parts 1 and 2 as one taxpayer, then allocate the amounts from Part 2, Lines 7, 8, and 9 among the shareholders. Complete Parts 3 and 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 16, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 2, Lines 7, 8, and 9 among the partners. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 3, Line 16, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 2, Lines 7, 8, and 9 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount that is allocated to the fiduciary.

Allocation of credit by a pass-through entity. A pass-through entity may allocate the credit among any of its owners in its discretion as long as the owner's adjusted basis in the pass-through entity at the end of the taxable year in which the federal credit is first claimed is at least forty percent of the amount of credit allocated to that owner. A pass-through entity and its owners must include with their tax returns for every taxable year in which an allocated credit is claimed a statement of the allocation made by the pass-through entity and the allocation that would have been required under the general method of allocating credits based on percentage ownership.

Forfeiture for change in ownership. An owner of a pass-through entity that has qualified for the tax credit for low-income housing forfeits a portion of the credit if the owner disposes of more than one-third of its interest in the pass-through entity within five years from the date the federal credit is first claimed. Forfeiture is not required if the change in ownership results from either the death of the owner or a merger, consolidation, or similar transaction requiring approval of the pass-through entity's owners and the pass-through entity does not receive cash or tangible property in

the merger, consolidation, or other similar transaction. For detailed information on how to determine the amount of credit forfeited, please refer to the *Franchise Tax and Corporate Income Tax Rules and Bulletins*.