

## 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 "2003 - 2004 Technical Bulletins" available from the Department's website.)*

The following instructions for completing Part 1 and Part 2 of 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. Qualifying 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 2007. If you invested in property at more than one location in 2007, complete a separate 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 one 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 Credit Amount for Low-Income Housing Awarded a Federal Credit Allocation Before January 1, 2003 for which Federal Credits are First Claimed in 2007.** *(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 2007. If you invested in property at more than one location in 2007, complete a separate 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, 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 2007.

**Line 3.** Enter the applicable percentage for this location from the following table:

Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
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 5 by Line 6. This is the 1st installment for investing in low-income housing at this location starting in tax year 2007.

**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 2007.

**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 2012.

**Line 10.** Enter the amount from Line 4. **This is the amount of credit for investing in low-income housing in N.C. in 2007.** Enter the total credit amount for investing in low-income housing in 2007 for **ALL** locations in the Credit History Table. *(See Part 4, 2007 Column, Credit Amount.)*

**Part 3. Computation of Amount To Be Taken in 2007.** *(The information requested for Part 3 is a cumulative total for all locations and should be entered only once on the last NC-478H filed.)*

**Line 11.** Enter the 2007 installment amount. *(From Part 2, Line 7)*

**Line 12.** Enter the 2006 installment amount. *(From 2006 NC-478H, Part 2, Line 8)*

**Line 13.** Enter the 2005 installment amount. *(From 2005 NC-478H, Part 2, Line 8)*

**Line 14.** Enter the 2004 installment amount. *(From 2004 NC-478H, Part 2, Line 8)*

**Line 15.** Enter the 2003 installment amount. *(From 2003 NC-478H, Part 2, Line 8)*

**Line 16.** Enter the 2002 installment amount. *(From 2002 NC-478H, Part 2, Line 9)*

**Line 17.** Enter the portion of installment amounts not taken for tax years 2000 through 2006.

**Line 18.** Add Lines 11 through 17. **This is the amount of credit to take in 2007 for investing in low-income housing.** *(Carry amount to Line 8 of NC-478.)*

**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.)*

**Credit Amount** In the 2007 column, enter the total credit amount for investing in low-income housing in tax year

2007. (Add Part 2, Line 10 from all locations.) In the 2002 through 2006 columns, enter the total credit amount as calculated on the prior year's NC-478H.

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.

**Installments** In the 2002 through 2007 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year's installment utilized during the tax year plus any unused portion of a prior year's carryforward taken in that tax year. (For more information on the Credit History Table, see the detailed example.)

**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.

**Carryforwards Taken** If any portion of a prior year's installment is taken in tax year 2007, enter the amount 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 2007 a portion of a prior years' installment is utilized.)

**Carryforwards To Take In Future** If an installment is not fully utilized in tax year 2007, 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 2007 a portion of a current year's 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 17, 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 17, 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.