

**SB 873 (Beall)**  
**Allowing the Sale of State Low Income Housing Tax Credits**  
**Fact Sheet**

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**ISSUE**

This bill seeks to increase the impact of the state's existing low-income housing tax credit with no fiscal impact to the state by structuring the credits in a way that is not subject to federal taxation.

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**BACKGROUND**

Congress enacted the federal Low Income Housing Tax Credit (LIHTC) program in 1986 to provide the private market with an incentive to invest in affordable housing. The Legislature directed the California Tax Credit Allocation Committee (CTCAC) to award LIHTCs to developers of qualified projects in the state. The developers, who do not have sufficient tax liability to use the credits themselves, in turn seek equity investment for the project from corporations and others with tax liabilities in exchange for the tax credits. Under current law, the investors must become owners of the property to claim the credits. The equity the investors provide typically reduces the debt that the developer would otherwise have to borrow, allowing owners to offer lower, more affordable rents.

In response to the high cost of developing housing in California, the Legislature in 1987 authorized a state low-income housing tax credit program to leverage the federal credit program. Unfortunately, state taxes are deductible from federal taxes, meaning that investors claiming the state LIHTC must then pay taxes on their higher federal income. With the federal corporate tax rate at 35%, this means that investors claiming state LIHTC's generally pay no more than 65 cents for each dollar. In other words, for every dollar the state invests in this critical program, the federal government currently takes 35 cents.

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**THIS BILL**

SB 873 substantially increases the value of the state's investment in the LIHTC program by allowing a developer who receives an award of state LIHTCs to sell the credits to an investor without requiring the investor to be part of the ownership entity (typically a limited partnership). Effectively, the bill allows the developer to convert the state LIHTC, which is currently taxed by the federal government as income to the investor/owner, into an asset subject only to capital gains taxation. Because the capital gain is minimal in this context, investors will pay significantly closer to one dollar for each dollar of credit. While the proceeds from the sale of the state LIHTCs sold in this manner would still be income to the

developer, a non-profit developer is exempt from income taxation and could therefore sell the state LIHTCs to an investor without the loss of value that currently occurs in the sale of state credits.

SB 873 will significantly increase the value of state LIHTCs and therefore the public benefit because it will largely eliminate the federal tax impacts associated with investors claiming state credits. The bill greatly increases the efficiency of the program and allows many more affordable housing units to be built for the same level of state tax expenditure. In other words, this bill gives the state a bigger bang for its buck.

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**STATUS/VOTES**

Introduced January 14, 2016

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**SUPPORT**

California State Treasurer John Chiang (Co-Sponsor)  
California Housing Partnership Corporation (Co-Sponsor)

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**OPPOSITION**

None received.

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**FOR MORE INFORMATION**

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