WNC C·R·E·D·I·T FACTS

JULY/AUGUST 1999

Update on Tax Credit Cap Increase

On Wednesday, July 14, the House Ways and Means Committee approved an increase in the housing tax credit. The vote came as an amendment to H.R. 2488, The Financial Freedom Act (House Republican tax package). The Senate Finance Committee is expected to begin its work on a similar bill this week. Representative Nancy Johnson (R-CT) offered the actual amendment that would increase the per capita limitation on the credit by 10 cents per year each year for the next five years, or from $1.25 to $1.75 overall. The increase would become effective after December 31, 1999. The bill also calls for a "level playing field" by eliminating any preference in the code requiring states to more favorably consider selecting properties developed by tax exempt organizations. The accelerated phase-in of the cap on the mortgage revenue bond was also included in H.R. 2488. Under this provision, the bond cap would increase in each state to the greater of $75 per capita or $225 million. Unfortunately, the President has threatened to veto the bill, but that will depend on whatever compromises can be reached between the House, Senate and Clinton Administration.

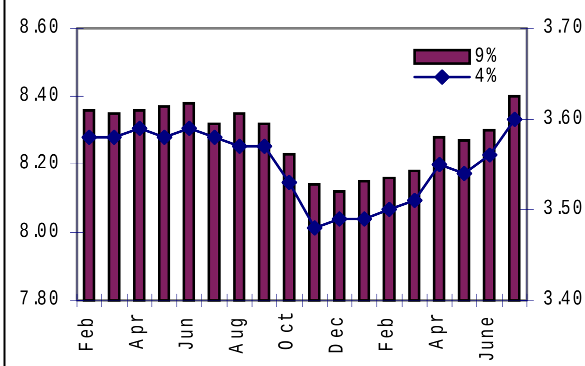
WNC Closes 51st Tax Credit Fund

Following on the heels of its 50th tax credit fund that closed at $37 million in April, WNC closed its 51st tax credit fund in June at $20.5 million. This latest fund is also WNC's 15th public fund designed for individual and small corporate investors. The fund has acquired approximately 75% of its portfolio including 10 properties in 5 states and will be acquiring the remaining 25% in the coming weeks. WNC also offers separate funds to large institutional investors and expects to close its next institutional fund, its 52nd fund overall, this summer.

"Show Me" the Credits

WNC recently increased its portfolio in the "Show Me" state to 22 properties, showing that long-term relationships are alive and well. Teaming up with repeat developers in the state of Missouri over the last several years, WNC has acquired properties utilizing a combination of federal and state tax credits along with state sponsored low-interest rate financing. The Missouri tax credits are awarded permanent

18 Month Trailing AFR



AFR for July 1999

9% Credits	8.40%
4% Credits	3.60%

financing. The Missouri tax credits are awarded with federal credits to allow these projects to gain additional equity that, in turn, lowers the need for permanent debt. The structure makes difficult projects feasible by keeping debt service, and rents, to a minimum.

IRS Releases Final Audit Guide

The long-awaited final IRS audit guide for Section 42 properties has been released. The guide provides instructions and advice to IRS revenue agents for conducting audits of federal income tax returns claiming the low-income housing tax credits, including partnership returns, and for pursuing leads to determine if an audit is warranted. The final guide is very similar to the draft guidelines in circulation for over a year. As anticipated, the final guide can put a portion of a developer fee at risk. Like the draft guidelines (see March '99 issue of **WNC Credit Facts**), the final guide focuses heavily on development fees. Specifically, it looks at which development activities should or should not be included in the development fee and, ultimately, included in basis. Activities attributed to the acquisition of land will not be included in basis. The guide devotes an entire chapter to development fees and soft costs. It provides guidelines regarding activities included in the development fee and activities characterized as land acquisition. Developers should look closely at the new guidelines to ensure that those activities they perform for a development fee (pursuant to a development fee agreement) can in fact be included in basis. To obtain information on how to order the new guidelines, call Don Nichols in **WNC's Atlanta office at 800-699-8008**.

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