

## **Neighborhood Stabilization and Minimization of Tax Liability**

This Section is general, basic Mixed-Finance guidance. It includes finance structures that have been successful in the past.

Benefits that are GRANTED to a for-profit entity are considered taxable income. Non-profit ownership entities that receive grant funds should not have tax liability. For-profit entities that receive benefit from this grant will encounter tax liability for grant funds received.

There are several methods of transferring funds from the grantee to the Developer and for-profit private property owners (grant beneficiaries). A real estate accountant or tax accountant should be included as part of the HOPE VI Main Street affordable housing project development team.

Funds can flow through the grantee to a Developer or beneficiary as grant funds or as loan funds. Grant funds do not increase the "Basis" that is used to determine the amount of Tax Credits that the Developer can obtain from the State. Loan funds, on the other hand, do increase the Basis. Since the funds are in the form of a loan, they are not immediately considered income. The funds are controlled through loan documents, as opposed to grant income. This delays tax liability.

Loan documents from the grantee to the Developer or private property owner may also be structured to include forgiveness of the loan over time in return for implementation of local Use Restrictions beyond those stated in the HOPE VI Main Street statute, i.e., those limited to the initial residents. As an example, a loan of \$200,000 to a property owner for HOPE VI Main Street project rehabilitation may be forgiven by the grantee at the rate of \$20,000 each year for 10 years, provided that local affordable housing Use Restrictions remain in place for those 10 years. After 10 years, the loan to the property owner is paid in full through implementation of these Use Restrictions. Sample documents for similar loan structures are available on HUD's HOPE VI Main Street website at <http://www.hud.gov/mainstreet/>.

For the sale of homeownership units by the initial third-party low-income homeowner, as well as the sale of the privately owned rental properties, the grantee may elect to structure rehabilitation or purchase-subsidy loans to share sale proceeds with the seller at a decreasing rate. This is called "Equity Sharing." As an example, if a grantee provides a \$100,000 loan to a rehabilitated property or homeownership unit, the grantee may include a provision in the loan that states if the property is sold within the first year of the loan, the grantee may elect to recover 80% of the loan amount. The loan terms may also call for sliding scales, for example 60% of sale proceeds may be recovered if the sale takes place within the second year of the loan; etc., until all proceeds are retained by the seller after a 5 year loan term. Equity sharing prevents private owners from receiving excessive profit by "flipping" HOPE VI Main Street project buildings that are subsidized and protects the grantee from the appearance of a conflict of interest with the property owners. It simultaneously provides a large financial incentive for the owners to hold their properties and stabilize the neighborhood.