

The MA Housing Donation Tax Credit: Enhance State LIHTC to Leverage Federal Benefits & Reduce State Costs

Problem: Massachusetts needs thousands more affordable housing units to meet the needs of its current residents, and to ensure its economy can continue to grow. And thousands of our existing affordable housing units are at risk of losing their affordability, either to market conversion or to physical deterioration.

Proposal: Expand the existing State Low Income Housing Tax Credit (SLIHTC) and add authority to allow a portion of the SLIHTC to be deployed as a **Donation Tax Credit (DTC)**, which would leverage the federal charitable deduction on qualifying transactions and stretch the state's limited SLIHTC dollars further.

The DTC would promote the creation or preservation of affordable housing by providing a credit against Massachusetts income tax liability for property owners who donate existing housing properties – or other structures for conversion to housing - to qualified nonprofits who commit to long-term affordability.

The DTC, in combination with the federal charitable deduction, can make donation economically competitive with a cash sale, from owner's perspective. Transfer of certain priority categories of housing could be promoted with a 'credit boost' (an increase in the amount of credit per dollar of donated value) to enhance the DTC's value relative to potential sale proceeds. As part of the SLIHTC, the DTC would be a 'certificated credit' that can be used by donors – or sold to a third party that has MA tax liability.

Key Benefits: The DTC would be a targeted enhancement to the existing SLIHTC, which drives private investment in affordable housing. But for qualifying transfers, the DTC has benefits over the SLIHTC:

- **Federal Resource:** Because DTC-qualifying donors can also claim the federal charitable deduction, the value of the DTC is “boosted” by 40% without additional cost to the state (see illustration), reducing SLIHTC need by importing a federal benefit that would not otherwise be used.
- **Mixed Income:** The value of the federal charitable deduction is based on the entire donated value of a property, not just the low-income units, which further boosts the power of the DTC – and could make it a powerful tool for bringing existing, unrestricted properties into the affordable housing stock.
- **Affordability:** Because the DTC's tax benefits replace purchase price that would otherwise need to be paid in cash, the preserved properties have resources available for other uses (including deeper affordability or renovations) than a project preserved solely with cash proceeds from grants or loans.

Precedents: Both Illinois and Missouri have successful, longstanding DTC programs. The Illinois program, for example, has made possible the creation or preservation of nearly 18,000 housing units since 2001, catalyzing development activity worth nearly \$3.3 billion. The Massachusetts SLIHTC is itself an extremely successful precedent – and the DTC would be an enhanced and more targeted variant of the SLIHTC. Mass. already has two donation credit programs that operate under the same principles, targeting CDCs and land conservation.

Resource Levels: The legislature should adopt Rep. Honan's proposal to increase SLIHTC program's annual authority, and could define a maximum annual DTC exposure within the overall SLIHTC authority. A project's maximum credit eligibility would be 50% of donated value, based on an independent appraisal ordered by DHCD or its designee (perhaps MassHousing, which has appraisal expertise), but DHCD would have discretion to select projects for funding and to award only as much as it judged necessary for financial viability, up to a per project cap (consistent with existing SLIHTC rules).

Supporters: In addition to the Preservation of Affordable Housing (POAH), the following organizations have endorsed this proposal: Coalition of Occupied Homes in Foreclosure; Madison Park Development Corporation; Massachusetts Association of Community Development Corporations; Massachusetts Senior Action Council; Regional Housing Network of Massachusetts; and The Community Builders.

MA Donation Tax Credit Illustration: Leveraging Federal Benefit for MA Budget Savings

The proposed Massachusetts Donation Tax Credit would reduce the state's cost to create or preserve affordable housing units by leveraging the existing federal charitable deduction, freeing limited resources to support more affordable units.

Owner Impact: For most owners, the after-tax proceeds from a sale are greater than the value of the charitable deduction – but the proposed state DTC would tip the balance in favor of donation for many owners. For a corporate owner of a typical 100-apartment property, the DTC makes donation preferable to a cash sale:

Cash Sale		Donation	
Property Value	\$ 10,000,000	Property Value	\$ 10,000,000
Less Existing Debt & Sale Costs	\$ (6,300,000)	Donated Value (value net of debt)	\$ 4,000,000
Sale Proceeds (value net of debt, sale costs)	\$ 3,700,000	State Donation Credit - Net Value to Donor	\$ 1,206,000
Capital Gain (value net of basis, costs)	\$ 6,700,000	Federal Tax Deduction	\$ 1,608,000
Tax on Gain	\$ (2,693,400)	Tax on Partial Sale	\$ (1,688,400)
Net Benefit After Tax	\$ 1,006,600	Net Benefit After Tax	\$ 1,125,600

State Budget Impact: The donation approach is significantly cheaper for the state because eliminating the cash sale price reduces the overall funding need – which, for affordable housing transactions, means a dollar-for-dollar reduction in state-funded gap financing. For this typical 100-unit property, the DTC would reduce the state's cost by 40%, compared to the cost to preserve the same property in a cash sale:

Cash Sale:	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Uses of Funds</th> </tr> </thead> <tbody> <tr> <td>Acquisition</td> <td style="text-align: right;">\$ 10,000,000</td> </tr> <tr> <td>Pay off Mortgage</td> <td style="text-align: right;">\$ 6,000,000</td> </tr> <tr> <td>Cash to Seller</td> <td style="text-align: right;">\$ 4,000,000</td> </tr> <tr> <td>Renovations</td> <td style="text-align: right;">\$ 3,000,000</td> </tr> <tr> <td>Other Costs</td> <td style="text-align: right;">\$ 2,295,000</td> </tr> <tr> <td>Total Uses</td> <td style="text-align: right;">\$ 15,295,000</td> </tr> </tbody> </table>	Uses of Funds		Acquisition	\$ 10,000,000	Pay off Mortgage	\$ 6,000,000	Cash to Seller	\$ 4,000,000	Renovations	\$ 3,000,000	Other Costs	\$ 2,295,000	Total Uses	\$ 15,295,000	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Sources of Funds</th> </tr> </thead> <tbody> <tr> <td>New First Mortgage</td> <td style="text-align: right;">\$ 8,000,000</td> </tr> <tr> <td>Federal LIHTC Equity</td> <td style="text-align: right;">\$ 3,879,189</td> </tr> <tr> <td>State Gap Funds</td> <td style="text-align: right;">\$ 3,415,811</td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;">\$ 15,295,000</td> </tr> </tbody> </table>	Sources of Funds		New First Mortgage	\$ 8,000,000	Federal LIHTC Equity	\$ 3,879,189	State Gap Funds	\$ 3,415,811	Total Sources	\$ 15,295,000		
Uses of Funds																												
Acquisition	\$ 10,000,000																											
Pay off Mortgage	\$ 6,000,000																											
Cash to Seller	\$ 4,000,000																											
Renovations	\$ 3,000,000																											
Other Costs	\$ 2,295,000																											
Total Uses	\$ 15,295,000																											
Sources of Funds																												
New First Mortgage	\$ 8,000,000																											
Federal LIHTC Equity	\$ 3,879,189																											
State Gap Funds	\$ 3,415,811																											
Total Sources	\$ 15,295,000																											
Donation:	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Uses of Funds</th> </tr> </thead> <tbody> <tr> <td>Acquisition</td> <td style="text-align: right;">\$ 10,000,000</td> </tr> <tr> <td>Pay off Mortgage</td> <td style="text-align: right;">\$ 6,000,000</td> </tr> <tr> <td>Donated Value</td> <td style="text-align: right;">\$ 4,000,000</td> </tr> <tr> <td>Renovations</td> <td style="text-align: right;">\$ 3,000,000</td> </tr> <tr> <td>Other Costs</td> <td style="text-align: right;">\$ 2,295,000</td> </tr> <tr> <td>Total Uses</td> <td style="text-align: right;">\$ 11,295,000</td> </tr> </tbody> </table>	Uses of Funds		Acquisition	\$ 10,000,000	Pay off Mortgage	\$ 6,000,000	Donated Value	\$ 4,000,000	Renovations	\$ 3,000,000	Other Costs	\$ 2,295,000	Total Uses	\$ 11,295,000	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Sources of Funds</th> </tr> </thead> <tbody> <tr> <td>New First Mortgage</td> <td style="text-align: right;">\$ 8,000,000</td> </tr> <tr> <td>Federal LIHTC Equity</td> <td style="text-align: right;">\$ 3,879,189</td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;">\$ 11,879,189</td> </tr> <tr> <td style="padding-top: 10px;">State Donation Credit</td> <td style="text-align: right; padding-top: 10px;">\$ 2,000,000</td> </tr> <tr> <td></td> <td style="text-align: right;"><i>(50% of donated value)</i></td> </tr> </tbody> </table>	Sources of Funds		New First Mortgage	\$ 8,000,000	Federal LIHTC Equity	\$ 3,879,189	Total Sources	\$ 11,879,189	State Donation Credit	\$ 2,000,000		<i>(50% of donated value)</i>
Uses of Funds																												
Acquisition	\$ 10,000,000																											
Pay off Mortgage	\$ 6,000,000																											
Donated Value	\$ 4,000,000																											
Renovations	\$ 3,000,000																											
Other Costs	\$ 2,295,000																											
Total Uses	\$ 11,295,000																											
Sources of Funds																												
New First Mortgage	\$ 8,000,000																											
Federal LIHTC Equity	\$ 3,879,189																											
Total Sources	\$ 11,879,189																											
State Donation Credit	\$ 2,000,000																											
	<i>(50% of donated value)</i>																											

Federal Impact: For the typical property described above, the state budget bears more than 60% of the burden of the transaction – the federal government collects more in capital gains tax than it commits in housing tax credits. By contrast the donation approach, which leverages the federal charitable deduction, allocates nearly 70% of the burden to the federal government:

	Cash Sale	Donation
Federal Tax Collected	\$ 2,157,400	\$ 1,077,000
Federal Charitable Deduction	\$ -	\$ (1,320,000)
Federal Housing Credit (10-year total)	\$ (3,879,577)	\$ (3,879,577)
Net Federal Budget Impact	\$ (1,722,177)	\$ (4,122,577)
State Tax Collected	\$ 536,000	\$ 120,000
State Gap Funds or DTC	\$ (3,415,811)	\$ (2,000,000)
Net State Budget Impact	\$ (2,879,811)	\$ (1,880,000)
Federal Share of Overall Cost	37%	69%
State Share of Overall Cost	63%	31%