

# Statutory Issue Paper No. 125

## Accounting for Low-Income Housing Tax Credit Property Investments

### STATUS

Finalized December 6, 2004

**Original SSAP and Current Authoritative Guidance: SSAP No. 48 and SSAP No. 93**

### Type of Issue:

Common Area

### SUMMARY OF ISSUE:

1. *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) prescribes accounting treatment for the valuation of Limited Liability Companies. However, current statutory accounting principles do not specifically address accounting for the unique manner in which federal Low-Income Housing Tax Credit Property (LIHTC) investments provide a return of investment. Due to the fact that most of these investments are structured as limited partnerships, the majority of these investments fall within the current guidance prescribed by SSAP No. 48. LIHTC investments provide a return on investment in a unique manner, which is not fully recognized under current statutory accounting in SSAP No. 48.
2. Generally accepted accounting principles (GAAP) guidance for federal LIHTC investments is addressed in *Emerging Issues Task Force (EITF) 94-1: Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects* (EITF 94-1). EITF 94-1 is listed as not applicable to statutory accounting in *Issue Paper No. 99—Nonapplicable GAAP Pronouncements* (Issue Paper No. 99).
3. The purpose of this issue paper is to provide statutory accounting principles for LIHTC by reconsidering the applicability of EITF 94-1 as appropriate statutory accounting treatment and the development of an accounting model for federal LIHTC investments that is consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).
4. Some states have enacted laws that create programs by which transferable state tax credits are granted to entities under certain specified conditions (e.g., an entity makes an investment in a particular industry). Investments in transferable state tax credits are not within the scope of this issue paper.

### RECOMMENDED CONCLUSION

5. This issue paper supersedes paragraph 1 of SSAP No. 48, as follows:
  1. This statement establishes statutory accounting principles for investments in joint ventures, partnerships, and limited liability companies. This statement does not address the accounting for investments in partnerships and limited liability companies that invest in federal Low-Income Housing Tax Credit Properties as discussed in *Issue Paper No. 125—Accounting for Low-Income Housing Tax Credit Property Investments*.
6. This issue paper modifies Issue Paper No. 99 to remove the reference to EITF 94-1 and in turn, adopts EITF 94-1 with certain modifications.

7. Subject to adoption of a Statement of Statutory Accounting Principles on this topic federal, LIHTC investments held by reporting entities will meet the definition of an asset as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this issue paper.
8. The modifications to EITF 94-1 are as follows:
- a. LIHTC investments (regardless of whether they are guaranteed) shall be initially recorded at cost and carried at amortized cost unless considered impaired as discussed in paragraphs 13-16. The amortized cost method utilized shall be similar to the amortized cost method discussed in EITF 94-1, with a modification to include federal tax benefits during the holding period because the primary value of the LIHTC is derived during the property holding period (typically 15 years). An illustration has been in Appendix A to this statement. A reporting entity investor using the cost method shall amortize any excess of the carrying amount of the investment over its estimated residual value during the periods in which federal tax credits are allocated to the investor. The estimated residual value used in determining the amount to be amortized is the estimated residual value at the end of the last period in which federal tax credits are allocated to the investor and should not reflect anticipated inflation. Annual amortization should be based on the proportion of federal tax credits received in the current year to total estimated federal tax credits to be allocated to the investor.
  - b. All LIHTC investments in which an investor is a partner or limited partner in affordable housing project for both legal and tax purposes and the investor's liability is limited to its capital investment shall follow the accounting guidance of this issue paper.
  - c. Federal tax credits shall be recognized in the income statement as an offset to federal taxes in the tax reporting year in which the tax credit is utilized in accordance with *SSAP No. 10—Income Taxes* (SSAP No. 10).
  - d. Tax benefits received, other than tax credits, shall be accounted for pursuant to SSAP No. 10. Amortization shall be reported as a component of net investment income.
  - e. *AICPA Statement of Position 78-9, Accounting for Investments in Real Estate Ventures* (SOP 78-9) is rejected for purposes of statutory accounting in SSAP No. 48. This issue paper does not intend to establish SOP 78-9 as applicable to statutory accounting.
  - f. *FASB Interpretation No. 46, Consolidation of Variable Interest Entities* (FIN 46) is rejected for purposes of statutory accounting in *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3). This issue paper does not intend to establish FIN 46 as applicable to statutory accounting.
  - g. Many LIHTC investments require future equity contributions by the investor (equity contributions), that may be contingent on a variety of conditions, such as such as receiving representations, contract performance, meeting occupancy requirements, etc. If the commitment by the investor to provide equity contributions meets the definition of a liability as defined in *SSAP No. 5—Liabilities Contingencies and Impairments of Assets* a liability shall be recorded. If the commitment to provide equity contributions does not meet the definition of a liability, the contingent commitment shall be disclosed in the notes to the financial statements with other contingent commitments.

- h. *EITF 85-16: Leveraged Leases* (EITF 85-16) is adopted for purposes of statutory accounting in *SSAP No. 22—Leases* (SSAP No. 22). This issue paper does not intend to readdress the conclusions reached in SSAP No. 22.
  - i. *SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities* and *SSAP No. 88—Investments in Subsidiary, Controlled, and Affiliated Entities, a Replacement of SSAP No. 46* should be utilized to account for investments that qualify as subsidiary, controlled or affiliated entities.
  - j. The impairment guidance contained in this issue paper shall be followed.
  - k. For statutory accounting purposes, deferred taxes are not reported as a component of income from continuing operations in the income statement; rather, deferred taxes are recognized as a separate component of gains and losses in unassigned funds (surplus).
9. Additional funding that does not result in additional federal tax credits for the investor shall be expensed as a component of net investment income. In the event for a reporting entity obtains additional federal tax credits occurs for a LIHTC investment, the following shall be applied:
- a. If additional tax credits are allocated without additional funding, the additional tax credits shall not be afforded any value; rather, the tax benefit is only recognized when realized.
  - b. If additional funding directly related to the additional tax credits is required, the provisions of this issue paper shall be followed as if the additional funding were a new investment in LIHTC properties.
10. An investment amortized to residual value in accordance with paragraph 8.a. of this issue paper shall not be revalued under any other method during or subsequent to the amortization period, other than as in this issue paper.
11. Changes in estimated losses shall be accounted for in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors* as a change in estimate and included as a component of net investment income.
12. This issue paper shall be interpreted by *INT 02-07: Definition of Phrase “Other Than Temporary.”* The remaining Interpretations of SSAP No. 48 are deemed not applicable.

### **Impairment**

13. Reporting entities with investments in LIHTC properties shall complete and document an impairment analysis at each reporting period. If it is determined that an impairment exists, the book value of the LIHTC investment shall be compared to the present value of future federal tax benefits discounted at a risk free rate of return, i.e., the rate on U.S. Treasury obligations of a similar duration, and the investment shall be written down if the book value is higher. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in fair value.
14. Among other things, an impairment shall be considered to have occurred if it is probable that future federal tax benefits will not be received as expected. For purposes of determining impairment, future federal tax benefits consist of both estimated tax losses and anticipated tax credits. Loan default or a reasonable probability of credit recapture would signify that tax benefits would not be received as expected.

15. In a multi-tiered partnership, whereby one limited partnership exists only to hold interests in other limited partnerships that are each invested in different developments, the impairment should be determined at the lowest tier. The partnership that holds the assets in which the impairment is determined to exist will be adjusted to a new cost basis representing the lower of book value or the present value of future federal tax benefits discounted at a risk free rate of interest. This new cost basis and related realized loss shall be recognized by the holder of a LIHTC investments.

16. It should be noted that a foreclosure of a single property within an LIHTC investment fund only affects the loss of federal tax credits on a proportional basis. For example, a foreclosure of one property in a six property fund generating equal levels of credits would only eliminate 1/6 of the credits, thereby, only affecting 1/6 of the LIHTC investment fund value to the individual investors.

### **Audited Financial Statements**

17. The reporting entity's return and book value of an LIHTC investment is reliant upon maintaining federal tax credit eligibility and not its share of the equity as reported on a financial statement. As such, a reporting entity shall monitor the federal tax credit eligibility of an LIHTC investment through requiring either audited GAAP or audited tax basis financial statements. In the event an audited GAAP or audited tax basis financial statement is not obtained, the asset shall be nonadmitted.

### **Effective Date and Transition**

18. Upon adoption of this issue paper, the NAIC will release a Statement of Statutory Accounting Principle (SSAP) for comment. The SSAP will contain the adopted Summary Conclusion of this issue paper. Users of the Accounting Practices and Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC. It is expected that the SSAP will contain an effective date of years ending on or after December 31, 2005. A change resulting from the adoption of the finalized SSAP shall be accounted for as a change in accounting principle in accordance with SSAP No. 3.

### **DISCUSSION**

19. The purpose of this issue paper is to address the unique manner in which LIHTC investments provide a return on investment by reconsidering the applicability of EITF 94-1 as appropriate statutory accounting treatment and the development of an accounting model for LIHTC investments that is consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy.

20. SSAP No. 48 prescribes accounting treatment for the valuation of limited liability companies. Most of these investments are structured as limited partnerships, and, the majority of these investments fall within the guidance prescribed by SSAP No. 48. LIHTC investments provide a return on investment in a unique manner, which is not fully recognized under current statutory accounting in SSAP No. 48. Currently, such treatment would generally lead to a valuation based on the audited generally accepted accounting principles (GAAP) equity of the limited partnership and; consequently, its underlying real estate investment. However, this treatment does not recognize the value of the federal tax credits (a direct offset to federal income taxes) and the pass through of federal tax losses to the investor. Resale valuation of these investments is based on the present value of the future stream of federal tax credits and deductible losses, and not the market value of the underlying real estate.

21. Current guidance under SSAP No. 48 would require that the equity accounting approach be used to account for investments in LIHTC structured in the form of investments in limited partnerships. One of the implicit assumptions behind the equity methodology is that the operating activities of the entity are reflective of the value being created by the entity. However, this assumption is contrary to how a LIHTC investment provides investment return. The market value of an LIHTC investment is generally unaffected

by the operational activities occurring at the operational level of the entity (i.e. generally considered to be the “property” level for investments in more traditional equity real estate deals). Rather, the value of an LIHTC is directly tied to the remaining stream of federal tax benefits (credits and tax losses) available to LIHTC investors. Investments in LIHTC investments, and the related pricing to the investors, are driven primarily by the level of federal tax credits and tax losses that are projected to be produced by the LIHTC during its “credit-producing life.”

22. This critical element of value is typically known with a high degree of certainty before the deal is marketed to potential investors. The degree of certainty regarding projected federal tax credits and tax losses, coupled with market rate returns and below market risk when compared to alternative investments, are what attract investors to an LIHTC investment. Likewise, there is an active secondary market for LIHTC deals. As with primary market transactions, pricing is driven by the remaining federal tax credit and deductible loss streams in the LIHTC investment at resale. Structurally, these investments are typically owned by multiple investors with varying interests in a top tier limited partnership, which in turn holds direct interests in the operating limited partnerships within a single LIHTC investment fund. In other words, a single investor may hold a 15% interest in the “fund” level partnership, which in turn owns 99% interests in 10 operating level limited partnerships. Although, not technically guaranteed as contemplated in EITF 94-1, investment risk in LIHTC’s has proven to be historically low, typically reflecting a default experience similar to that of secured commercial mortgages versus the higher loss rate typically associated with equity real estate investments.

23. The proportional amortized cost method discussed in EITF 94-1 is in line with the Statutory Accounting Concepts of Conservatism and Recognition because the primary value of the LIHTC is derived during the property holding period (typically 15 years). In contrast, GAAP basis financial statements for the limited partnership generally utilize a 40-year depreciation life, which ultimately is picked up by the investor when applying the GAAP equity method.

24. The proportional amortized cost approach results in an investment balance at the end of each accounting period that is more indicative of the liquidation value at that point in time than does the equity method. An impairment analysis should also be made when facts and circumstances indicate an impairment has occurred as well as at the end of each accounting period. If it is probable that the future federal tax benefits will not be received as expected, then an impairment exists, and, the investment should be written down to the lower of fair value or the present value of future federal tax benefits discounted at a risk free rate of return. Since write-down adjustments would be based on actual property level foreclosure or loss of qualification due to occupancy levels or other compliance issues with tax code provisions within an LIHTC fund, subjectivity with respect to the timing and the amount of the write-down would be eliminated. An impairment shall be recorded as a realized loss and the investment written down to the new cost basis.

25. In summary, application of the equity method of accounting for LIHTC investments is inappropriate because the value of the asset is independent from the value of the real estate. Investment balances provided by this methodology are not necessarily reflective of the value that would be received if the assets were to be liquidated. Therefore, the adoption of the proportional cost amortization approach outlined in EITF 94-1 is recommended. This approach leads to a more realistic valuation of the investment and takes into account the fact that the primary value to the investor dissipates to zero when the federal tax credits are no longer available.

## RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

### Statutory Accounting

26. *SSAP No. 22—Leases* provides the following adoption of EITF 85-16 in the relevant literature section of the SSAP.

## Relevant Literature

26. This statement rejects FAS 13, as amended and interpreted, except for certain of the guidance on operating leases, sale-leaseback transactions and leveraged leases (i.e., paragraphs 15, 16.(b., c., d.), 19.(a., b.), 23.(b., c.), 36, 37, 38.b., 39.c. and, 42-47). A complete list of all FASB Statements, Interpretations and Technical Bulletins adopted and rejected in this statement is as follows:

- a. FASB Statement No. 13, Accounting for Leases, [paragraphs 15, 16.(b., c., d.), 19.(a., b.), 23.(b., c.), 36, 37, 38.b., 39.c., 42-47 adopted; all other paragraphs rejected];
- aa. FASB Emerging Issues Task Force No. 85-16, Leveraged Leases [adopted in its entirety]

27. *SSAP No. 48—Investments in Joint Ventures, Partnerships and Limited Liability Companies* provides the following inclusion of limited liability companies in the scope paragraph.

## SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investments in joint ventures, partnerships, and limited liability companies.

**Generally Accepted Accounting Principles**

28. EITF 94-1: Accounting for Tax Benefits from Investments in Affordable Housing Projects provides the following guidance regarding the valuation of

## EITF 94-1 ISSUE

The Revenue Reconciliation Act of 1993, enacted in August 1993, retroactively extended and made permanent the affordable housing credit, which had expired after June 30, 1992. Investors in entities operating qualified affordable housing projects receive tax benefits in the form of tax deductions from operating losses and tax credits. The tax credits are allowable on the tax return each year over a 10-year period as a result of renting a sufficient number of units to qualifying tenants and are subject to restrictions on gross rentals paid by those tenants. These credits are subject to recapture over a 15-year period starting with the first year tax credits are earned. Corporate investors generally purchase an interest in a limited partnership that operates the qualified affordable housing projects.

The issue is how an entity that invests in a qualified affordable housing project through a limited partnership should account for its investment.

## EITF 94-1 DISCUSSION

The Task Force reached a consensus that immediate recognition at the time the investment is purchased of the entire benefit of the tax credits to be received during the term of a limited partnership investment in a qualified affordable housing project is not appropriate (that is, affordable housing credits should not be recognized in the financial statements prior to their inclusion in the investor's tax return).

The Task Force reached a consensus that an entity that invests in a qualified affordable housing project through a limited partnership investment may elect to account for the investment using the effective yield method (described in the following two paragraphs) provided all of the following conditions are met:

- a. The availability (but not necessarily the realization) of the tax credits allocable to the investor is guaranteed by a creditworthy entity through a letter of credit, a tax indemnity agreement, or another similar arrangement.
- b. The investor's projected yield based solely on the cash flows from the guaranteed tax credits is positive.

- c. The investor is a limited partner in the affordable housing project for both legal and tax purposes and the investor's liability is limited to its capital investment.

Under the effective yield method, the investor recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the investor. The effective yield is the internal rate of return on the investment, based on the cost of the investment and the guaranteed tax credits allocated to the investor. Any expected residual value of the investment should be excluded from the effective yield calculation. Cash received from operations of the limited partnership or sale of the property, if any, should be included in earnings when realized or realizable.

Under the effective yield method, the tax credit allocated, net of the amortization of the investment in the limited partnership, is recognized in the income statement as a component of income taxes attributable to continuing operations. Any other tax benefits received should be accounted for pursuant to Statement 109.

For a limited partnership investment in a qualified affordable housing project not accounted for using the effective yield method, the Task Force reached a consensus that the investment should be accounted for in accordance with SOP 78-9. (In accounting for such an investment under SOP 78-9, the consensuses in this Issue that are not related to the effective yield method should be applied.) The Task Force observed that SOP 78-9 generally requires use of the equity method of accounting for limited partnership investments unless the limited partner's interest is so minor as to give the partner virtually no influence over partnership operating and financial policies. [Note: See STATUS section.] The Task Force also noted that the AICPA's Accounting Standards Executive Committee is reconsidering the guidance in SOP 78-9 in its project titled, "Accounting for Investors' Interests in Unconsolidated Real Estate Joint Ventures."

The Task Force also reached a consensus that an investor using the cost method should amortize any excess of the carrying amount of the investment over its estimated residual value during the periods in which tax credits are allocated to the investor. The estimated residual value used in determining the amount to be amortized is the estimated residual value at the end of the last period in which tax credits are allocated to the investor and should not reflect anticipated inflation. Annual amortization should be based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the investor.

The Task Force reached a consensus that a limited partnership investment in a qualified affordable housing project should be reviewed periodically for impairment.

The Task Force reached a consensus that a liability should be recognized for delayed equity contributions that are unconditional and legally binding. A liability also should be recognized for equity contributions that are contingent upon a future event when that contingent event becomes probable. The Task Force observed that Statement 5, Issue No. 85-16, "Leveraged Leases," and Concepts Statement 6 provide additional guidance on the accounting for delayed equity contributions.

The Task Force observed that the decision to apply the effective yield method of accounting would be an accounting policy decision rather than a decision to be applied to individual investments that qualify for use of the effective yield method. The SEC Observer commented that the SEC staff believes that it would be inappropriate to extend the effective yield method of accounting to analogous situations.

Exhibit 94-1A illustrates the application of the consensuses in this Issue to a limited partnership investment in an affordable housing project accounted for using the cost, equity, and effective yield methods.

#### EITF 94-1 STATUS

The SEC Observer at the May 18-19, 1995 meeting discussed a related issue in an announcement. The announcement addresses the SEC staff's position concerning the application

of the equity method to investments in limited partnerships. [Note: See Topic No. D-46 in Appendix D.]

Interpretation 46, which was issued in January 2003, addresses consolidation by business enterprises of variable interest entities, which may include some limited partnerships. Interpretation 46 requires a variable interest entity to be consolidated by an enterprise if that enterprise will absorb a majority of the entity's expected losses or is entitled to receive a majority of the entity's expected residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established.

FSP FIN 46-6 deferred the effective date for applying the provisions of Interpretation 46 for:

1. Interests held by a public entity in variable interest entities created before February 1, 2003, if the public entity has not issued financial statements reporting that interest in accordance with Interpretation 46. The application of Interpretation 46 to those interests is deferred until the end of the first period ending after December 15, 2003.
  2. Nonregistered investment companies accounting for their investments in accordance with the specialized accounting guidance in the investment company Guide.
- No further EITF discussion is planned.

See Appendix A to this issue paper for illustration of the amortized cost method (modified to include tax benefits).

#### EITF 85-16: Leveraged Leases

##### EITF 85-16 (B) DISCUSSION

The Task Force reached a consensus that the type of recourse debt resulting from the delayed equity investment does not contradict the notion of nonrecourse under paragraph 42.c. of Statement 13 and, therefore, does not preclude leveraged lease accounting as long as other requirements of leveraged lease accounting are met. The Task Force also agreed that the lessor's related obligation should be recorded as a liability at present value at the inception of the lease. The Task Force agreed that recognition of the liability would increase the lessor's net investment on which the lessor bases its pattern of income recognition. It was noted that while the increase to the net investment results in an increase in income, it tends to be offset by the accrual of interest on the liability.

#### **RELEVANT LITERATURE**

##### Statutory Accounting

- *SSAP No. 3—Accounting Changes and Corrections of Errors*
- *SSAP No. 48—Investments in Joint Ventures, Partnerships and Limited Liability Companies*

##### Generally Accepted Accounting Principles

- *EITF 94-1: Accounting for Tax Benefits from Investments in Affordable Housing Projects*
- *AICPA Statement of Position 78-9, Accounting for Investments in Real Estate Ventures*
- *FASB Interpretation No. 46, Consolidation of Variable Interest Entities*
- *EITF 85-16: Leveraged Leases*

##### State Regulations

- No additional guidance obtained from state statutes or regulations.

##### Other Sources:

- Internal Revenue Code Section 42-Low-Income Housing Credit



**Appendix A – Low-Income Housing Tax Credit Property Investments**

A Limited Partnership Investment in an Affordable Housing Project Accounted for Using the Amortized Cost Method (modified to include tax benefits):

This appendix is based on EITF 94-1 “Schedule 3 Cost Method with Amortization with modifications to include tax benefits.

**Terms:**

Date of Investment: January 1, 20X1

Purchase Price of Investment: \$100,000

**Assumptions:**

1. All cash flows (except initial investment) occur at the end of each year.
2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).
3. The investor made a \$100,000 investment for a 5 percent limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.
4. The partnership finances the project cost of \$4,000,000 with 50 percent equity and 50 percent debt.
5. The annual tax credit allocation (equal to 8 percent of the project's original cost) will be received for a period of 10 years.
6. The investor's tax rate is 35 percent.
7. For simplicity, the project will operate with break-even pretax cash flows including debt service during the first 15 years of operations.
8. The project's taxable and book loss will be equal to depreciation expense.
9. The investor will maintain the investment for 15 years (so there will be no recapture of tax credits).
10. The investor expects that the estimated residual value of the investment will be zero.

Year	Beginning Investment Balance	Tax Credits	Tax Depreciation	Tax Loss Benefit	Total Tax Benefits	Amortization	Ending Investment Balance
	1	2	3	4	5	6	7
0							100,000
1	100,000	16,000	7,273	2,546	18,546	9,358	90,642
2	90,642	16,000	7,273	2,546	18,546	9,358	81,285
3	81,285	16,000	7,273	2,546	18,546	9,358	71,927
4	71,927	16,000	7,273	2,546	18,546	9,358	62,569
5	62,569	16,000	7,273	2,546	18,546	9,358	53,212
6	53,212	16,000	7,273	2,546	18,546	9,358	43,854
7	43,854	16,000	7,273	2,546	18,546	9,358	34,496
8	34,496	16,000	7,273	2,546	18,546	9,358	25,139
9	25,139	16,000	7,273	2,546	18,546	9,358	15,781
10	15,781	16,000	7,273	2,546	18,546	9,358	6,423
11	6,423		7,273	2,546	2,546	1,285	5,139
12	5,139		7,273	2,546	2,546	1,285	3,854
13	3,854		7,273	2,546	2,546	1,285	2,569
14	2,569		7,273	2,546	2,546	1,285	1,285
15	1,285		7,273	2,546	2,546	1,285	-
<b>Total</b>		<b>160,000</b>	<b>109,095</b>	<b>38,190</b>	<b>198,190</b>	<b>100,000</b>	

1. Beginning-of-year investment for a 5 percent limited partnership interest in the project.
2. 8 percent tax credit on \$200,000 tax basis of the underlying assets.
3. Tax Loss = Tax Depreciation (assumption 7) - \$200,000 tax basis of the underlying assets using the straight-line method over 27.5 years.
4. Column (3) × 35% tax rate).
5. Column (2) + column (4)
6. Proportional amortization - \$100,000 x column 5 / column 5 total
7. Beginning-of-year investment for a 5 percent limited partnership interest in the project (column 1) net of amortization in column 6.