

Section 42

A Guide to Understanding Section 42

What is Section 42?

Section 42 refers to that section of the tax code that provides tax credits to investors who build affordable housing. Investors receive a reduction in their tax liability in return for providing affordable housing to people with fixed or lower incomes.

How does Section 42 differ from other rent assistance programs like Section 8?

Residents who live in Section 42 apartments must be income and program eligible similar to residents who live in rental assistance apartments. One difference is that rent that a Section 42 resident pays is capped at a fixed amount. In rental assistance programs like Section 8 the residents' rents are based on 30 percent of household income with the remaining adjusted portion subsidized by the government. Section 42 is not a subsidized rent program.

How do I determine if I am eligible for a Section 42 tax credit apartment?

You will be asked to complete forms that will list information about your income, family size and family assets. Those factors determine your program eligibility.

What are assets?

Assets are those variables other than personal items that must be considered when determining family income. Examples include savings accounts, certificates of deposit, IRAs, 401Ks, life insurance policies, money markets, mutual funds, stocks and bonds. Personal items like your car, furniture, etc. are not considered.

What is compliance?

Compliance means that you fit all the guidelines necessary to live in a Section 42 apartment.

Who determines the maximum income levels?

Income levels are determined by the Department of Housing and Urban Development (HUD) for each county or metropolitan statistical area.

How is my maximum income level determined?

Your maximum income level is based on the number of people in your household and its combined gross income.

What is counted as income?

All income is counted including income on your assets like checking accounts, savings accounts, lump sum settlements, profits from sale of real estate, etc.

How is rent determined?

Rent maximums are determined by HUD based on median county income. Your rent is determined by the owner, based on these HUD guidelines less an established utility allowance. Rents are established at or below comparable market levels.

Can I take a credit on my tax return?

The tax credit is for the owners of the building – not your personal tax return. Your state may, however, have rent or homestead credits for which you may be eligible.

Do I have to verify my income every year?

Yes. Every year you must recertify your income and family size before will be offered a new lease. There is a maximum allowable income for your apartment home. If your family exceeds this amount by 140 percent you may have to pay the market rate rent price or find alternative housing.

Can someone else live with me?

The apartment must be rented to you and the persons identified on your rental application. Section 42 guidelines require that you immediately notify the owner/manager in writing if there are any changes in family composition. You may be required to complete the certification process again based on any new information.

Why are some units in my building not income restricted?

Many owners choose to develop mixed-income housing, in which not all apartments have income restrictions on them. These units may be priced at higher "market" rents.

If my income qualifies do I get an apartment?

Not necessarily. It means that the owner/manager may further process your application using standard and consistent screening policies and procedures.

How do I apply?

The manager/leasing agent will be happy to provide you with the necessary forms. Your rental agent is happy to assist you in the process.