

# FY 2025 Multifamily Tax Subsidy Project Income Limits

## I. OVERVIEW

### What are Multifamily Tax Subsidy Projects?

These are projects financed with tax exempt housing bonds issued to provide qualified residential rental development under section 142 of the Internal Revenue Code (IRC) and low-income housing projects funded with tax credits authorized under section 42 of the IRC, both of which are subject to HUD-determined income limits. Collectively, HUD refers to these projects as Multifamily Tax Subsidy Projects (MTSPs). This set of projects excludes qualified mortgage bonds issued under section 143 of the Code.<sup>1</sup> Separate income limits are issued for MTSPs as required by provisions in the Housing and Economic Recovery Act of 2008.

### History of the Use of HUD Income Limits for MTSPs

Section 142(d)(2)(B) of the IRC, which is cross referenced in section 42(g)(4) of the IRC, links the income determinations of MTSPs to HUD income limits: *“The income of individuals and area median gross income shall be determined by the Secretary in a manner consistent with determinations of lower income families under section 8 of the United State Housing Act of 1937.”* IRS Revenue Ruling 89-24<sup>2</sup> links MTSP 60 percent income limits to HUD very low-income limits. Specifically, it states:

*The income limits applicable to qualified residential rental projects and to qualified low-income housing projects are required to be made in a manner consistent with determinations of lower income families under section 8 of the United States Housing Act of 1937. With respect to the 20-50 requirement of sections 142(d)(1)(A) and 42(g)(1)(A) of the Code [IRC], 20 percent or more of the applicable units must be occupied by individuals or families having incomes equal to or less than the income limit for a “very low-income” family of the same size. With respect to the 40-60 requirement of sections 142(d)(1)(B) and 42(g)(1)(B), 40 percent of the applicable units must be occupied by individuals or families having incomes equal to 120 percent or less of the income limit for a very low-income family of the same size.*

The “income limit for a ‘very low-income’ family” is the Section 8 very low-income limit (VLIL) produced by HUD annually. Prior to fiscal year (FY) 2010, HUD had held its VLILs harmless – that

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<sup>1</sup> The relevant portions of section 142 are provided in attachment 1. The relevant portions of section 42 are provided in attachment 2.

<sup>2</sup> IRS Revenue Ruling 89-24 is provided in its entirety in attachment 3.



is, HUD did not allow income limits to decline in accord with underlying data – primarily because of their use by MTSPs. Allowing income limits to fall when median family incomes fall would put the financial stability of MTSPs at risk. However, MTSP owners and managers found it difficult to operate in areas where income limits had not increased in several years and sought statutory change in program income limit calculations. These changes were implemented as part of the Housing and Economic Recovery Act of 2008 (HERA).

### Income Limits for MTSPs Under HERA<sup>3</sup>

Subpart (E) of Section 142(d)(2), as added by section 3009a of HERA provides for immediate holding harmless of “area median gross income” for MTSPs. HUD has determined that the legislative intent of this addition is to cause applicable MTSP income limits based on HUD’s VLIL to be statutorily held harmless since MTSPs use income limits in determining tenant eligibility and for setting maximum rental rates. Beginning with the FY 2010 Income Limits, HUD no longer holds its Section 8 income limits harmless. HUD published a *Federal Register* notice, dated May 17, 2010, to officially notify the public of this change.

In addition, HERA creates a special class of MTSPs labeled “HUD hold-harmless impacted project(s)” (Impacted MTSPs) for which an additional set of income limits are required. An Impacted MTSP is defined as “any project with respect to which area median gross income was determined under subparagraph (B) for calendar year 2007 or 2008 if such determination would have been less but for the HUD hold harmless policy.” Income limits for these projects are the greater of the regular MTSP income limits or the FY 2008 VLIL times the growth in median incomes between the current year and FY 2008.<sup>4</sup>

### Changes to Income Limits for Income Averaging and Trending

Section 103 of Division T of the Consolidated Appropriations Act of 2018, Public Law No. 115-141, 132 Stat. 348 added a third minimum set-aside test, the average income test for low-income housing credit projects.

The income limits are calculated in accord with IRS Revenue Ruling 2020-4, pages 6 and 7. Beginning with the FY 2019 MTSP income limits, HUD has posted MTSP Income Averaging Limits Summary on its annual MTSP page: <https://www.huduser.gov/portal/datasets/mtsp.html>. This system provides the income averaging limits (20%, 30%, 40%, 50%, 60%, 70%, 80%) based on the Multifamily Tax Subsidy Project (MTSP) Income Limits for any area of the country selected by the user.

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<sup>3</sup> The relevant portions of HERA are provided in attachment 4.

<sup>4</sup> Legislation specifies that the FY 2008 income limit should be added to, not multiplied by, the growth rate in median income. However, it cannot be the intent of Congress to add a growth rate to a value so HUD is assuming multiplication in its implementation of the legislation.

### Per Capita Wages Inflation

HUD used the 2023 American Community Survey (ACS) and Puerto Rico Community Survey (PRCS) median family income data (as opposed to household income data) as the basis of FY 2025 Income Limits for all areas of geography, except for the U.S. Virgin Islands and Guam, American Samoa, and the Northern Mariana Islands (the Pacific Islands). In the past, HUD has used the Consumer Price Index (CPI) forecast published by the Congressional Budget Office (CBO) to bring the ACS and PRCS data forward from the year of the ACS to the current fiscal year. For FY 2025 and going forward, HUD will use an inflation factor based on the most recent projected change in national per capita wages published by the CBO. The inflation factor, representing the projected change in national per capita wages from CY 2023 through FY 2025, is approximately 1.08 (an 8 percent increase). HUD found that the new approach would have significantly improved the accuracy of earlier MFI calculations. For FY 2025, CBO has produced a wages and salaries forecast of 47,460, which divided by the annual 2023 value of 43,920 is 1.08 (an increase of 8 percent). For more information, please see [An Evaluation of HUD's Accuracy in Calculating Income Limits](#).

### Geographic Definitions

HUD calculates median family incomes and income limits for metropolitan areas, which comprise one or more counties or county-equivalents, and individual nonmetropolitan counties. In determining the definitions of metropolitan areas, HUD uses the delineations of metropolitan statistical areas found in Office of Management and Budget (OMB) Bulletin No. 23-01, issued July 21, 2023, as its starting point for the first time. The 2023 delineations are the most recent incorporated into American Community Survey (ACS) data described below. In many cases, HUD has split metropolitan statistical areas into smaller subareas, which HUD designates as “HUD Metropolitan Fair Market Rent Areas (HMFAs).” HUD also groups independent cities in Virginia with their larger containing counties, in cases where the city and county are both non-metropolitan.

The geographic definitions of areas used for calculating median family incomes and income limits generally matches those used in HUD’s calculation of Fair Market Rents (FMR). However, HUD has incorporated the changes to the geographic definitions of areas described above for the FY 2025 income limits that were not part of the FY 2025 FMRs, including the change to planning regions in Connecticut mentioned in footnote 1, as the ACS 2023 data were not yet available at the time of FY 2025 FMR calculation. Note that while all areas in Connecticut use median family income data from the latest metropolitan statistical area definitions, some towns within metropolitan areas may have different income limits following the application of cap and floors on the allowed year to year change in income limit values. This is also true for several municipios in Puerto Rico newly added to the HUD Non-metro Puerto Rico FMR area. In these cases, the towns have been retitled as ‘Exception Areas’ and assigned their own HUD area code.



## II. INCOME LIMIT CALCULATIONS FOR MTSPs

### Income Limits

The initial 50 percent income limit for each Non-Impacted MTSP is the Section 8 VLIL. In subsequent years, the income limit for each MTSP may not decline and will be the highest Section 8 VLIL obtained throughout the project's qualifying period. For FY 2025, the MTSP 50 percent income limit for existing projects is equal to the maximum of either the HUD Section 8 VLIL for FY 2025 or the HUD Section 8 VLIL in place for FY2024, as expressed below:

$$\text{MTSP\_VLIL}_{2025} = \max(\text{VLIL}_{2025}, \text{MTSP\_VLIL}_{2024})^5$$

The 60 percent income limit for MTSPs is calculated by multiplying the MTSP VLIL by 1.2:

$$\text{MTSP\_60}_{2025} = \text{MTSP\_VLIL}_{2025} * 1.2$$

HUD has eliminated its traditional hold-harmless provision for Section 8 income limits. But each Non-Impacted MTSP's income limit will be the highest Section 8 income limit achieved during the project's qualifying period. Therefore, each MTSP's income limit going forward will depend on the path of income limits in its individual area and the year the initial income limit was determined. HUD will publish sufficient historical data on income limits for such determinations to be made, but they will need to be done on a project-by-project basis.

### Income Limits for HERA-Defined HUD Impacted Projects

The Very Low-Income Limit for Impacted MTSPs is equal to the maximum of the Non-Impacted FY2024 VLIL for Impacted Projects or the HUD Section 8 VLIL for FY 2008 times the ratio of the median family income in FY 2025 to the median family income in FY 2008. By including last year's MTSP VLIL for Impacted Projects in the area, this ensures implementation of the statutory hold harmless found in subpart (E) of Section 142(d)(2), as added by section 3009a of HERA. This adjustment ensures that Impacted MTSPs will have increases should the change in the current median family estimate to FY 2008 estimate be larger than the increase from last year's (FY 2024) income limits.<sup>6</sup>

$$\text{MTSP\_VLIL\_Impacted}_{2025} = \max(\text{MTSP\_VLIL\_Impacted}_{2024}, \text{VLIL}_{2008} * (\text{MFI}_{2025} / \text{MFI}_{2008}))$$

The 60 percent income limit merely multiplies the very low-income limit for MTSPs, as determined in the previous step by 1.2.

<sup>5</sup>Attachment 5 provides full details about the calculation of VLIL. Full detailed documentation for each area can be found at <http://www.huduser.org/portal/datasets/mtsp.html>.

<sup>6</sup> Both the FY 2025 MTSP regular and special 50 percent income limits are rounded up to the nearest \$50 in accordance with the methodology currently in place for calculating very low-income limits (50 percent income limits) for HUD's Section 8 program.

$$\text{MTSP\_60\_Impacted}_{2025} = \text{MTSP\_VLIL\_Impacted}_{2025} * 1.2$$

## Attachment 1

Sec. 142. Exempt facility bond

*[TITLE 26, Subtitle A, CHAPTER 1, Subchapter B, Part IV, Subpart A, Sec. 142]*

STATUTE

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(d) Qualified residential rental project

For purposes of this section -

(1) In general

The term "qualified residential rental project" means any project for residential rental property if, at all times during the qualified project period, such project meets the requirements of subparagraph (A) or (B), whichever is elected by the issuer at the time of the issuance of the issue with respect to such project:

(A) 20-50 test

The project meets the requirements of this subparagraph if 20 percent or more of the residential units in such project are occupied by individuals whose income is 50 percent or less of area median gross income.

(B) 40-60 test

The project meets the requirements of this subparagraph if 40 percent or more of the residential units in such project are occupied by individuals whose income is 60 percent or less of area median gross income. For purposes of this paragraph, any property shall not be treated as failing to be residential rental property merely because part of the building in which such property is located is used for purposes other than residential rental purposes.

(2) Definitions and special rules

For purposes of this subsection -

(A) Qualified project period

The term "qualified project period" means the period beginning on the 1st day on which 10 percent of the residential units in the project are occupied and ending on the latest of -

(i) the date which is 15 years after the date on which 50 percent of the residential units in the project are occupied,

(ii) the 1st day on which no tax-exempt private activity bond issued with respect to the project is outstanding, or

(iii) the date on which any assistance provided with respect to the project under section 8 of the United States Housing Act of 1937 terminates.

(B) Income of individuals; area median gross income

The income of individuals and area median gross income shall be determined by the Secretary in a manner consistent with determinations of lower income families and area median gross income under section 8 of the United States Housing Act of 1937 (or, if such program is terminated, under such program as in effect immediately before such termination).

Determinations under the preceding sentence shall include adjustments for family size. Section 7872(g) shall not apply in determining the income of individuals under this subparagraph.

(3) Current income determinations

For purposes of this subsection -

(A) In general

The determination of whether the income of a resident of a unit in a project exceeds the applicable income limit shall be made at least annually on the basis of the current income of the resident.

(B) Continuing resident's income may increase above the applicable limit

If the income of a resident of a unit in a project did not exceed the applicable income limit upon commencement of such resident's occupancy of such unit (or as of any prior determination under subparagraph (A)), the income of such resident shall be treated as continuing to not exceed the applicable income limit. The preceding sentence shall cease to apply to any resident whose income as of the most recent determination under subparagraph (A) exceeds 140 percent of the applicable income limit if after such determination, but before the next determination, any residential unit of comparable or smaller size in the same project is occupied by a new resident whose income exceeds the applicable income limit.

(4) Special rule in case of deep rent skewing

(A) In general

In the case of any project described in subparagraph (B), the 2d sentence of subparagraph (B) of paragraph (3) shall be applied by substituting -

(i) "170 percent" for "140 percent", and

(ii) "any low-income unit in the same project is occupied by a new resident whose income exceeds 40 percent of area median gross income" for "any residential unit of comparable or smaller size in the same project is occupied by a new resident whose income exceeds the applicable income limit".

(B) Deep rent skewed project

A project is described in this subparagraph if the owner of the project elects to have this paragraph apply and, at all times during the qualified project period, such project meets the requirements of clauses (i), (ii), and (iii):

(i) The project meets the requirements of this clause if 15 percent or more of the low-income units in the project are occupied by individuals whose income is 40 percent or less of area median gross income.

(ii) The project meets the requirements of this clause if the gross rent with respect to each low-income unit in the project does not exceed 30 percent of the applicable income limit which applies to individuals occupying the unit.

(iii) The project meets the requirements of this clause if the gross rent with respect to each low-income unit in the project does not exceed 1/2 of the average gross rent with respect to units of comparable size which are not occupied by individuals who meet the applicable income limit.

(C) Definitions applicable to subparagraph (B)

For purposes of subparagraph (B) -

(i) Low-income unit

The term "low-income unit" means any unit which is required to be occupied by individuals who meet the applicable income limit.

(ii) Gross rent

The term "gross rent" includes -

(I) any payment under section 8 of the United States Housing Act of 1937, and

(II) any utility allowance determined by the Secretary after taking into account such determinations under such section 8.

(5) Applicable income limit

For purposes of paragraphs (3) and (4), the term "applicable income limit" means -

(A) the limitation under subparagraph (A) or (B) of paragraph (1) which applies to the project,  
or





(B) in the case of a unit to which paragraph (4)(B)(i) applies, the limitation which applies to such unit.

(6) Special rule for certain high cost housing area

In the case of a project located in a city having 5 boroughs and a population in excess of 5,000,000, subparagraph (B) of paragraph (1) shall be applied by substituting "25 percent" for "40 percent".

(7) Certification to Secretary

The operator of any project with respect to which an election was made under this subsection shall submit to the Secretary (at such time and in such manner as the Secretary shall prescribe) an annual certification as to whether such project continues to meet the requirements of this subsection. Any failure to comply with the provisions of the preceding sentence shall not affect the tax-exempt status of any bond but shall subject the operator to penalty, as provided in section 6652(j).

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## Attachment 2

### Sec. 42. Low-income housing credit

*[TITLE 26, Subtitle A, CHAPTER 1, Subchapter A, PART IV, Subpart D, Sec. 42]*

#### STATUTE

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#### g) Qualified low-income housing project

For purposes of this section -

##### (1) In general

The term "qualified low-income housing project" means any project for residential rental property if the project meets the requirements of subparagraph (A) or (B) whichever is elected by the taxpayer:

##### (A) 20-50 test

The project meets the requirements of this subparagraph if 20 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 50 percent or less of area median gross income.

##### (B) 40-60 test

The project meets the requirements of this subparagraph if 40 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 60 percent or less of area median gross income. Any election under this paragraph, once made, shall be irrevocable. For purposes of this paragraph, any property shall not be treated as failing to be residential rental property merely because part of the building in which such property is located is used for purposes other than residential rental purposes.

##### (2) Rent-restricted units

##### (A) In general

For purposes of paragraph (1), a residential unit is rent-restricted if the gross rent with respect to such unit does not exceed 30 percent of the imputed income limitation applicable to such unit. For purposes of the preceding sentence, the amount of the income limitation under paragraph (1) applicable for any period shall not be less than such limitation applicable for the earliest period the building (which contains the unit) was included in the determination of whether the project is a qualified low-income housing project.

##### (B) Gross rent

For purposes of subparagraph (A), gross rent -

(i) does not include any payment under section 8 of the United States Housing Act of 1937 or any comparable rental assistance program (with respect to such unit or occupants thereof),

(ii) includes any utility allowance determined by the Secretary after taking into account such determinations under section 8 of the United States Housing Act of 1937,

(iii) does not include any fee for a supportive service which is paid to the owner of the unit (on the basis of the low-income status of the tenant of the unit) by any governmental program of assistance (or by an organization described in section 501(c)(3) and exempt from tax under section 501(a)) if such program (or organization) provides assistance for rent and the amount of assistance provided for rent is not separable from the amount of assistance provided for supportive services, and

(iv) does not include any rental payment to the owner of the unit to the extent such owner pays an equivalent amount to the Farmers' Home Administration under section 515 of the Housing Act of 1949. For purposes of clause (iii), the term "supportive service" means any service provided under a planned program of services designed to enable residents of a residential rental property to remain independent and avoid placement in a hospital, nursing home, or intermediate care facility for the mentally or physically handicapped. In the case of a single-room occupancy unit or a building described in subsection (i)(3)(B)(iii), such term includes any service provided to assist tenants in locating and retaining permanent housing.

(C) Imputed income limitation applicable to unit

For purposes of this paragraph, the imputed income limitation applicable to a unit is the income limitation which would apply under paragraph (1) to individuals occupying the unit if the number of individuals occupying the unit were as follows:

(i) In the case of a unit which does not have a separate bedroom, 1 individual.

(ii) In the case of a unit which has 1 or more separate bedrooms, 1.5 individuals for each separate bedroom. In the case of a project with respect to which a credit is allowable by reason of this section and for which financing is provided by a bond described in section 142(a)(7), the imputed income limitation shall apply in lieu of the otherwise applicable income limitation for purposes of applying section 142(d)(4)(B)(ii).

(D) Treatment of units occupied by individuals whose incomes rise above limit

(i) In general

Except as provided in clause (ii), notwithstanding an increase in the income of the occupants of a low-income unit above the income limitation applicable under paragraph (1), such unit shall



continue to be treated as a low-income unit if the income of such occupants initially met such income limitation and such unit continues to be rent-restricted.

(ii) Next available unit must be rented to low-income tenant if income rises above 140 percent of income limit

If the income of the occupants of the unit increases above 140 percent of the income limitation applicable under paragraph (1), clause (i) shall cease to apply to such unit if any residential rental unit in the building (of a size comparable to, or smaller than, such unit) is occupied by a new resident whose income exceeds such income limitation. In the case of a project described in section 142(d)(4)(B), the preceding sentence shall be applied by substituting "170 percent" for "140 percent" and by substituting "any low-income unit in the building is occupied by a new resident whose income exceeds 40 percent of area median gross income" for "any residential unit in the building (of a size comparable to, or smaller than, such unit) is occupied by a new resident whose income exceeds such income limitation".

(E) Units where Federal rental assistance is reduced as tenant's income increases

If the gross rent with respect to a residential unit exceeds the limitation under subparagraph (A) by reason of the fact that the income of the occupants thereof exceeds the income limitation applicable under paragraph (1), such unit shall, nevertheless, be treated as a rent-restricted unit for purposes of paragraph (1) if -

(i) a Federal rental assistance payment described in subparagraph (B)(i) is made with respect to such unit or its occupants, and

(ii) the sum of such payment and the gross rent with respect to such unit does not exceed the sum of the amount of such payment which would be made and the gross rent which would be payable with respect to such unit if -

(I) the income of the occupants thereof did not exceed the income limitation applicable under paragraph (1), and

(II) such units were rent-restricted within the meaning of subparagraph (A). The preceding sentence shall apply to any unit only if the result described in clause (ii) is required by Federal statute as of the date of the enactment of this subparagraph and as of the date the Federal rental assistance payment is made.

(3) Date for meeting requirements

(A) In general

Except as otherwise provided in this paragraph, a building shall be treated as a qualified low-



income building only if the project (of which such building is a part) meets the requirements of paragraph (1) not later than the close of the 1st year of the credit period for such building.

(B) Buildings which rely on later buildings for qualification

(i) In general

In determining whether a building (hereinafter in this subparagraph referred to as the "prior building") is a qualified low-income building, the taxpayer may take into account 1 or more additional buildings placed in service during the 12-month period described in subparagraph (A) with respect to the prior building only if the taxpayer elects to apply clause (ii) with respect to each additional building taken into account.

(ii) Treatment of elected buildings

In the case of a building which the taxpayer elects to take into account under clause (i), the period under subparagraph (A) for such building shall end at the close of the 12-month period applicable to the prior building.

(iii) Date prior building is treated as placed in service

For purposes of determining the credit period and the compliance period for the prior building, the prior building shall be treated for purposes of this section as placed in service on the most recent date any additional building elected by the taxpayer (with respect to such prior building) was placed in service.

(C) Special rule

A building -

(i) other than the 1st building placed in service as part of a project, and

(ii) other than a building which is placed in service during the 12-month period described in subparagraph (A) with respect to a prior building which becomes a qualified low-income building, shall in no event be treated as a qualified low-income building unless the project is a qualified low-income housing project (without regard to such building) on the date such building is placed in service.

(D) Projects with more than 1 building must be identified

For purposes of this section, a project shall be treated as consisting of only 1 building unless, before the close of the 1st calendar year in the project period (as defined in subsection (h)(1)(F)(ii)), each building which is (or will be) part of such project is identified in such form and manner as the Secretary may provide.

(4) Certain rules made applicable

Paragraphs (2) (other than subparagraph (A) thereof), (3), (4), (5), (6), and (7) of section 142(d),



and section 6652(j), shall apply for purposes of determining whether any project is a qualified low-income housing project and whether any unit is a low-income unit; except that, in applying such provisions for such purposes, the term "gross rent" shall have the meaning given such term by paragraph (2)(B) of this subsection.

(5) Election to treat building after compliance period as not part of a project

For purposes of this section, the taxpayer may elect to treat any building as not part of a qualified low-income housing project for any period beginning after the compliance period for such building.

(6) Special rule where de minimis equity contribution

Property shall not be treated as failing to be residential rental property for purposes of this section merely because the occupant of a residential unit in the project pays (on a voluntary basis) to the lessor a de minimis amount to be held toward the purchase by such occupant of a residential unit in such project if -

(A) all amounts so paid are refunded to the occupant on the cessation of his occupancy of a unit in the project, and

(B) the purchase of the unit is not permitted until after the close of the compliance period with respect to the building in which the unit is located. Any amount paid to the lessor as described in the preceding sentence shall be included in gross rent under paragraph (2) for purposes of determining whether the unit is rent- restricted.

(7) Scattered site projects

Buildings which would (but for their lack of proximity) be treated as a project for purposes of this section shall be so treated if all of the dwelling units in each of the buildings are rent- restricted (within the meaning of paragraph (2)) residential rental units.

(8) Waiver of certain de minimis errors and recertifications

On application by the taxpayer, the Secretary may waive -

(A) any recapture under subsection (j) in the case of any de minimis error in complying with paragraph (1), or

(B) any annual recertification of tenant income for purposes of this subsection, if the entire building is occupied by low-income tenants.

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## Attachment 3

IRS Revenue Ruling 89-24

Rev. Rul. 89-24

1989-1 C.B. 24, 1989-9 I.R.B. 5.

Internal Revenue Service

Revenue Ruling

EXEMPT FACILITY BONDS; LOW-INCOME HOUSING CREDIT

Published: February 27, 1989

Section 142. - Exempt Facility Bond

(Also Sections 42, 103, 6652; 1.42-1T, 1.103-8.)

Exempt facility bonds; low-income housing credit. Guidance is provided for computing the income limits applicable to exempt facility bonds issued to provide for qualified residential rental projects under section 142 of the Code and to low-income housing credits under section 42.

This Revenue Ruling provides the manner in which properly to compute the income limits applicable both to exempt facility bonds issued to provide for qualified residential rental projects under section 142 of the Internal Revenue Code and to low-income housing credits under section 42.

### LAW

Section 1301 of the Tax Reform Act of 1986, 1986-3 (Vol. I) C.B. 524 (the Act), revised the income limits applicable to exempt facility bonds issued to provide for multifamily residential rental projects. COMPARE section 142(d) and former section 103(b)(4)(A) of the Code. In general, in order for interest on an exempt facility bond issued to provide for a multifamily residential rental project to be tax-exempt, the project must meet the income limit requirement of section 142(d)(1) of the Code. Under section 142(d)(1), a 'qualified residential rental project' is defined to include only residential rental projects where, either (A) 20 percent or more of the residential units in the project are occupied by individuals whose income is 50 percent or less of the area median gross income (the 20-50 requirement), or (B) 40 percent or more of the residential units in the project are occupied by individuals whose income is 60 percent or less of the area median gross income (the 40-60 requirement), whichever is elected by the issuer of the bonds providing for such project.



Section 142(d)(4) of the Code provides that, in the case of a deep rent skewed project, 15 percent or more of the low-income units must be occupied by individuals whose income is 40 percent or less of the area median gross income.

Section 142(d)(2) of the Code provides that the income of individuals and the area median gross income shall be determined by the Secretary in a manner consistent with determinations of lower income facilities and area median gross income under section 8 of the United States Housing Act of 1937 or, if such program is terminated, under such program as in effect immediately before such termination. Determinations under the preceding sentence shall include adjustments for family size.

Section 252 of the Act enacted section 42 of the Code, which provides a new federal income tax credit that may be claimed by owners of residential rental projects providing low-income housing. Section 42(a) provides that the amount of the credit shall be based on an applicable percentage of the qualified basis of each qualified low-income building. Section 42(c)(2) defines the term 'qualified low-income building' to mean, in part, any building that at all times during the compliance period with respect to such building is part of a qualified low-income housing project.

Section 42(g)(1) provides that the term 'qualified low-income housing project' means any project for residential rental property if, either (A) 20 percent or more of the units in the project are both rent-restricted and occupied by individuals whose income is 50 percent or less of the area median gross income, or (B) 40 percent or more of the units in the project are both rent restricted and occupied by individuals whose income is 60 percent or less of the area median gross income, whichever is elected by the taxpayer.

Section 42(g)(4) of the Code provides in part, that paragraph (2) (other than subparagraph (A)) and paragraph (4) of section 142(d) shall apply for purposes of determining whether any project is a qualified low-income housing project and whether any unit is a low-income unit.

#### ANALYSIS AND HOLDING

The income limits applicable to qualified residential rental projects and to qualified low-income housing projects are required to be made in a manner consistent with determinations of lower income families under section 8 of the United States Housing Act of 1937. With respect to the 20-50 requirement of sections 142(d)(1)(A) and 42(g)(1)(A) of the Code, 20 percent or more of the applicable units must be occupied by individuals or families having incomes equal to or less than the income limit for a 'very low-income' family of the same size. With respect to the 40-60 requirement of sections 142(d)(1)(B) and 42(g)(1)(B), 40 percent of the applicable units must be





occupied by individuals or families having incomes equal to 120 percent or less of the income limit for a very low-income family of the same size.

With respect to certain deep rent skewed projects, as described in section 142(d)(4), the determination of whether 15 percent of the low-income units are occupied by individuals having incomes equal to 40 percent or less of the area median gross income shall be made by determining whether 15 percent of such units are occupied by individuals or families having incomes equal to or less than 80 percent of the income limit for a very low-income family of the same size.

The income limits for very low-income families are computed and listed, according to family size, by the Department of Housing and Urban Development (HUD) for every Metropolitan Statistical Area, Primary Metropolitan Statistical Area, and nonmetropolitan county of the United States and Puerto Rico. HUD also releases income limits for the possessions of Guam and the Virgin Islands.

A list of income limits released by HUD may be relied upon until 30 days after the Internal Revenue Service publishes an announcement or notice in the Internal Revenue Bulletin indicating that HUD has released updated income limits.

#### DRAFTING INFORMATION

The principal author of this revenue ruling is Mark Scott of the Office of Assistant Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling, contact Mr. Scott on (202) 566-4336 (not a toll-free call).

Rev. Rul. 89-24, 1989-1 C.B. 24, 1989-9 I.R.B. 5.



## Attachment 4

### Housing and Economic Recovery Act of 2008

#### Section 3009: HOLD HARMLESS FOR REDUCTIONS IN AREA MEDIAN GROSS INCOME

In general- Paragraph (2) of section 142(d), as amended by section 3008 by adding at the end the following new subparagraph:

#### HOLD HARMLESS FOR REDUCTIONS IN AREA MEDIAN GROSS INCOME-

IN GENERAL – Any determination of area median gross income under subparagraph (B) with respect to any project for any calendar year after 2008 shall not be less than the area median gross income determined under such subparagraph with respect to such project for the calendar year preceding the calendar year for which such determination is made.

SPECIAL RULE FOR CERTAIN CENSUS CHANGES- In the case of a HUD hold harmless impacted project, the area median gross income with respect to such project for any calendar year after 2008 (hereafter in this clause referred to as the current calendar year) shall be the greater of the amount determined without regard to this clause or the sum of—

The area median gross income determined under the HUD hold harmless policy with respect to such project for calendar year 2008, plus

Any increase in the area median gross income determined under subparagraph (B) (determined without regard to the HUD hold harmless policy and this subparagraph) with respect to such project for the current calendar year over the area median gross income (as so determined) with respect to such project for calendar year 2008.

HUD HOLD HARMLESS POLICY- The term ‘HUD hold harmless policy’ means the regulations under which a policy similar to the rules of clause (i) applied to prevent a change in the method of determining area median gross income from resulting in a reduction in the area median gross income determined with respect to certain projects in calendar years 2007 and 2008.

HUD HOLD HARMLESS IMPACTED PROJECT- The term ‘HUD hold harmless impacted project’ means any project with respect to which area median gross income was determined under subparagraph (B) for calendar year 2007 or 2008 if such determination would have been less but for the HUD hold harmless policy’.

Effective Date- The amendment made by this section shall apply to determinations of area median gross income for calendar years after 2008.

## Attachment 5

### HUD Procedure for Estimating FY 2025 Very Low-Income Limits

#### Very Low-Income Limits

There are currently several legislated income limit standards (e.g., 30%, extremely low-income limits, 50%, 60%, 80%, 95%, 120%) that were intended to have progressive relationships. To ensure that this occurs, HUD has used the very low-income limits as the basis for deriving other income limits, unless the relevant statutory language has no references or relationship to low- and very low-income limits, as defined by the U.S. Housing Act of 1937. If this were not done, for instance, HUD low-income limits would be less than very low-income limits in areas where very low-income limits had been adjusted upward by more than 60 percent because of unusually low area MFIs relative to the FMRs.

HUD calculates very low-income limits using a set of formulae as follows. The first step in calculating very low-income limits is to calculate a four-person income limit equal to 50 percent of the area median family income. HUD then adjusts this estimate if it is outside formula constraints.

Specifically, HUD calculates the very low-income limit for a four-person family as follows:

- (1) HUD calculates and sets 50 percent of the area median family income as the preliminary four-person family income limit;
- (2) HUD increases the four-person very low-income limit if it would otherwise be less than the amount at which 35 percent of it equals 85 percent of the annualized two-bedroom FMR. This adjusts income limits upward for areas where rental housing costs are unusually high in relation to the median family income;
- (3) HUD reduces the four-person very low-income limit to the greater of 80 percent of the U.S. median family income level, or the amount at which 30 percent of a four-person family's income equals 100 percent of the two-bedroom FMR. This adjusts income limits downward for areas of unusually high median family incomes;
- (4) HUD increases the four-person income limit if it is less than 50 percent of the

relevant state nonmetropolitan median family income level;<sup>7</sup> and

(5) HUD increases the four-person income limit if it is less than 95 percent of last year's very low-income limit and reduces to the greater of 105 percent of last year's very low-income limit or to a level representing twice the rate of change in the unadjusted national median family income estimate if that amount would be larger than five percent with an absolute cap of 10 percent. For 2025, the annualized change is measured by the ACS from 2022 to 2023. Twice this change is approximately 9.2 percent, which is greater than the five percent and less than the ten percent absolute cap. So, for FY 2025, the income limits "cap" is 9.2 percent.

HUD uses FMRs to calculate high and low housing cost areas.

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<sup>7</sup> Under a Housing and Community Development Act of 1987 amendment, nonmetropolitan area income limits should never be set lower than the State nonmetropolitan median family income level. In implementing this provision, HUD used its discretion to apply this policy to metropolitan areas as well. Doing so avoids the anomaly of assigning higher income limits to a nonmetropolitan county than are assigned to a metropolitan area where the median family income is less than the State non-metro level but above the level for the non-metro county.

