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S.F. No. 33 – Class 4d(1) – Low Income Rental Housing; Income-Averaging

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SF 33 clarifies how income-averaging is allowed under Minnesota’s Class 4d(1) low-income rental property tax classification. The Consolidated Appropriations Act of 2018 established income-averaging as a third set-aside for qualified low-income housing projects under section 42(g) of the Internal Revenue Code (IRC). Income-averaging allows units to serve households earning as much as 80% AMI provided that the average income/rent limit in the property is 60% or less of AMI. Property owners who elect to use the income-averaging measure must commit to having at least 40% of the units rent and income-restricted.

Under Minnesota’s Class 4d(1) classification, a property qualifies for Class 4d(1) if at least 20% of the total units in the rental property meet one of the following:

1. Project-based Section 8;
2. Receiving low-income housing tax credits under IRC section 42(g) ;
3. Receiving rental assistance through Rural Housing Service of USDA; or
4. Rent and income restrictions are required by state, federal, or a local unit of government.

Minnesota’s Class 4d(1) statute further provides that the restrictions must require: (1) assisted units to be occupied by residents whose household income at the time of initial occupancy not exceed 60% of the greater of area or state median income, adjusted for family size; and (2) rents for units not exceed 30% of 60% of the greater of area or state median income, adjusted for family size.

Since income-averaging is allowed under clause (2) – those units receiving low-income housing tax credits under section 42(g) – SF 33 clarifies that the restrictions required under clause (4) relate only to units subject to rent and income restrictions under the terms of financial assistance provided by the federal, state, or local unit of government.

Effective beginning with assessment year 2026.