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FASB Issues Guidance for Housing Tax Credit Investments.

The Financial Accounting Standards Board on January 15 released final guidance designed to improve the accounting for investments in affordable housing projects that qualify for the low-income housing tax credit (LIHTC) and to provide banks with a better approach for communicating investment performance.

Accounting Standards Update (ASU) No. 2014-01, "Investments — Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects," allows a reporting entity to account for an investment in a qualified affordable housing project using the proportional amortization method when specific conditions are met.

ASU 2014-01 directs entities to amortize the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the investor, and to recognize the net investment performance amortization in the income statement as a component of income taxes.

The guidance also notes that if the conditions for the proportional amortization method are not met, the investment should be accounted for as an equity method investment or cost method investment in accordance with Accounting Standards Codification Topic 970, "Real Estate — General."

According to FASB, the amendments in ASU 2014-01 should enable more entities to qualify for the proportional amortization method to account for affordable housing project investments than the number of entities that currently qualify for the effective yield method. After releasing the initial proposal, FASB's Emerging Issues Task Force decided to change the method of accounting provided in the guidance from the effective yield method to the proportional amortization method.

In a June 17 letter submitted to FASB, the American Bankers Association expressed support for the board's proposal, saying that the presentation of all components of the net return from LIHTC investments within income taxes will improve financial reporting. Under current accounting requirements, some components of the net return could be included within investment income and other components could be included within income taxes, the association said.

The association said that both financial statement users and management will be well served by the new guidance because a company's income tax disclosures will have a clearer connection to the amounts reported as income tax expense in the financial statements.

Michael L. Gullette of the American Bankers Association told Tax Analysts that the new FASB guidance should help reflect what a bank is hoping to accomplish with its tax credit investment by better portraying the entity's return on investment.

However, Gullette was unconvinced that the accounting changes would result in improvements to the business of affordable housing development, adding that LIHTC investing activity is largely dependent on current economic conditions and the tax environment.

Gullette said the association was also concerned about expanding the scope of the guidance to include other tax credit investments that could be accounted for in the same manner as the eligible LIHTC investments. He said that while banks can invest in similar tax credit partnerships, such as renewable energy and historic rehabilitation tax credit investments, the related incentives can also involve significant profit motives.

Despite those concerns, Gullette supported FASB's decision to perform additional research on the applicability of the guidance on LIHTC investments for other types of tax credit investments.

ASU 2014-01 will be effective for the annual and interim reporting periods of public entities beginning after December 15, 2014, and for the annual periods of all other entities beginning after that date. The standard requires retrospective application to all periods presented, and early adoption will also be permitted.

http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176163741058.)

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