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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6565-N-02]

Statutorily Mandated Designation of Difficult Development Areas and Qualified Census Tracts for 2027

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD.

ACTION: Notice.

SUMMARY: This document designates "Difficult Development Areas" (DDAs) and "Qualified Census Tracts" (QCTs) for purposes of the Low-Income Housing Tax Credit (LIHTC). The United States Department of Housing and Urban Development (HUD) makes new DDA and QCT designations annually.

ADDRESSES: *Copies Available Electronically:* This notice and additional information about DDAs and QCTs, including the lists of DDAs and QCTs, are available electronically on the Internet at https://www.huduser.gov/portal/datasets/qct.html.

FOR FURTHER INFORMATION CONTACT: For questions on how areas are designated and on geographic definitions, contact Richard Duckworth, Economist, Public Finance and Regulatory Analysis Division, Office of Policy Development and Research, Department of Housing and Urban Development, 451 7th Street SW, Room 8216, Washington, DC 20410-6000; telephone number 202-402-3685, or send an email to Richard.Duckworth@hud.gov. For specific legal questions pertaining to Internal Revenue Code (IRC) Section 42, Office of the Associate Chief Counsel, Passthroughs and Special Industries, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC 20224; telephone number 202-317-4137. For questions about the "HUBZone" program, contact the Office of Government Contracting and Business Development, U.S. Small Business Administration, 409 Third Street, SW, Suite 8800, Washington, DC 20416; telephone number 1-866-443-4110, or send an email to certifications@sba.gov. Additional copies of this notice are available through HUD User at, toll-free, 800-245-2691 for a small fee to cover duplication and mailing costs. HUD welcomes and is

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SUPPLEMENTARY INFORMATION:

I. This Notice

Under IRC Section 42(d)(5)(B)(iii)(I)[1], for purposes of the LIHTC, the Secretary of HUD must designate DDAs, which are areas with high construction, land, and utility costs relative to area median gross income (AMGI). This notice designates DDAs for each of the 50 states, the District of Columbia, Puerto Rico, American Samoa, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands. HUD makes the designations of DDAs in this notice based on modified Fiscal Year (FY) 2026 Small Area Fair Market Rents (Small Area FMRs, SAFMRs), FY 2026 nonmetropolitan county FMRs, FY 2026 income limits, and 2020 Census population counts, as explained below.

Similarly, under IRC Section 42(d)(5)(B)(ii)(I), the Secretary of HUD must designate QCTs, which are areas where either 50 percent or more of the households have an income less than 60 percent of the AMGI or have a poverty rate of at least 25 percent. This notice designates QCTs based on new income and poverty data released in the American Community Survey (ACS). Specifically, HUD relies on the most recent three sets of ACS data to ensure that anomalous estimates, due to sampling error, do not affect the QCT status of tracts.

II. Data Used to Designate DDAs

HUD uses data from the 2020 Census on total population of metropolitan areas, metropolitan ZIP Code Tabulation Areas (ZCTAs), and nonmetropolitan areas in the designation of DDAs. The Office of Management and Budget (OMB) published updated metropolitan areas

[1] 26 U.S.C. 42(d)(5)(B)(iii)(I),

in OMB Bulletin No. 23-01 on July 21, 2023.[2] FY 2026 FMRs and FY 2026 income limits HUD uses to designate DDAs are based on these metropolitan statistical area (MSA) definitions, with modifications to account for substantial differences in rental housing markets (and, in some cases, median family income levels) within MSAs. HUD calculates Small Area FMRs for the ZCTAs, or portions of ZCTAs within the metropolitan areas defined by OMB Bulletin 23-01.

III. Data HUD Uses to Designate QCTs

HUD uses data from the 2020 Census on total population of census tracts, metropolitan areas, and the nonmetropolitan parts of states in the designation of QCTs. The FY 2026 income limits HUD uses to designate QCTs are based on these MSA definitions with modifications to account for substantial differences in rental housing markets (and in some cases median family income levels) within MSAs. In this QCT designation, HUD uses the OMB metropolitan area definitions published in OMB Bulletin No. 23-01, without modification, for purposes of evaluating how many census tracts can be designated under the population cap but uses the HUD-modified definitions and their associated area median family incomes for determining QCT eligibility.

Because the 2020 Decennial Census did not include questions on respondent household income, HUD uses ACS data to designate QCTs. The ACS tabulates data collected over 5 years to provide estimates of socioeconomic variables for small areas containing fewer than 65,000 persons, such as census tracts. Due to sample-related anomalies in estimates from year to year, HUD uses three sets of ACS tabulations to minimize the effect of anomalous estimates on QCT status.

IV. Background

The U.S. Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) are authorized to interpret and enforce the provisions of IRC Section 42 (26 U.S.C. 42). In order to assist in understanding HUD's mandated designation of DDAs and QCTs for use in

[2] Available at: https://www.whitehouse.gov/wp-content/uploads/2023/07/OMB-Bulletin-23-01.pdf.

administering IRC Section 42, a summary of the section is provided below. The following summary does not purport to bind Treasury or the IRS in any way, nor does it purport to bind HUD, since HUD has authority to interpret or administer the IRC only in instances where it receives explicit statutory delegation.

V. Summary of the Low-Income Housing Tax Credit

A. Determining Eligibility

The LIHTC is a tax incentive intended to increase the availability of low-income rental housing. IRC Section 42 provides an income tax credit to certain owners of newly constructed or substantially rehabilitated low-income rental housing projects. The dollar amount of the LIHTC available for allocation by each state (credit ceiling) is limited by population. Section 42 allows each state a credit ceiling based on a statutory formula indicated at IRC Section 42(h)(3). States may carry forward unallocated credits derived from the credit ceiling for one year; however, to the extent such unallocated credits are not used by then, the credits go into a national pool to be allocated to qualified states as additional credit. State and local housing agencies allocate the state's credit ceiling among low-income housing buildings whose owners have applied for the credit. Besides IRC Section 42 credits derived from the credit ceiling, states may also provide IRC Section 42 credits to owners of buildings based on the percentage of certain building costs financed by tax-exempt bond proceeds. Credits provided based on the use of tax-exempt bond proceeds do not reduce the credits available from the credit ceiling. *See* IRC Section 42(h)(4).

The credits allocated to a building are based on the cost of units placed in service as low-income units under particular minimum occupancy and maximum rent criteria. Prior to the enactment of the Consolidated Appropriations Act, 2018 (the 2018 Act), Public Law 115-141, under IRC Section 42(g), a building was required to meet one of two tests to be eligible for the LIHTC; either: (1) 20 percent of the units must be rent-restricted and occupied by tenants with incomes no higher than 50 percent of AMGI, or (2) 40 percent of the units must be rent-restricted

and occupied by tenants with incomes no higher than 60 percent of AMGI. A unit is "rent-restricted" if the gross rent, including an allowance for tenant-paid utilities, does not exceed 30 percent of the imputed income limitation (i.e., 50 percent or 60 percent of AMGI) applicable to that unit. The rent and occupancy thresholds remain in effect for at least 15 years, and building owners are required to enter into agreements to maintain the low-income character of the building for at least an additional 15 years.

The 2018 Act added a third test, the average income test. *See* IRC Section 42(g)(1) as amended by Public Law 115-141, Division T, Section 103(a) (March 23, 2018). A building meets the minimum requirements of the average income test if 40 percent or more (25 percent or more in the case of a project located in a high-cost housing area as described in IRC Section 142(d)(6)) of the residential units in such project are both rent-restricted and occupied by individuals whose income does not exceed the imputed income limitation designated by the taxpayer with respect to the respective unit. The taxpayer designates the imputed income limitation for each unit. The designated imputed income limitation of any unit is determined in 10-percentage-point increments, and may be designated as 20, 30, 40, 50, 60, 70, or 80 percent of AMGI. The average of the imputed income limitations designated must not exceed 60 percent of AMGI. *See* IRC Section 42(g)(1)(C).

B. Calculating the LIHTC

The LIHTC reduces income tax liability dollar-for-dollar. It is taken annually for a term of 10 years and is intended to yield a present value of either: (1) 70 percent of the "qualified basis" for new construction or substantial rehabilitation expenditures that are not federally subsidized (as defined in IRC Section 42(i)(2)), or (2) 30 percent of the qualified basis for the cost of acquiring certain existing buildings or projects that are federally subsidized. The tax credit rates are determined monthly under procedures specified in IRC Section 42 and cannot be less than 9 percent for new buildings that are not federally subsidized, and cannot be less than 4 percent for buildings that are federally subsidized. Individuals can use the credits up to a

deduction equivalent of $25,000 (the actual maximum amount of credit that an individual can claim depends on the individual's marginal tax rate). For buildings placed in service after December 31, 2007, individuals can use the credits against the alternative minimum tax. Corporations, other than S or personal service corporations, can use the credits against ordinary income tax, and, for buildings placed in service after December 31, 2007, against the alternative minimum tax. These corporations also can deduct losses from the project.

The qualified basis represents the product of the building's "applicable fraction" and its "eligible basis." The applicable fraction is based on the number of low-income units in the building as a percentage of the total number of units, or based on the floor space of low-income units as a percentage of the total floor space of residential units in the building. The eligible basis is the adjusted basis attributable to acquisition, rehabilitation, or new construction costs (depending on the type of LIHTC involved). These costs include amounts chargeable to a capital account that are incurred prior to the end of the first taxable year in which the qualified low-income building is placed in service or, at the election of the taxpayer, the end of the succeeding taxable year. In the case of buildings located in designated DDAs or designated QCTs, or for credits awarded from the state's per capita allocation, to buildings designated by the state agency, eligible basis may be increased up to 130 percent from what it would otherwise be. This means that the available credits also may be increased by up to 30 percent. For example, if a 70 percent credit is available, it effectively could be increased to as much as 91 percent (70 percent x 130 percent).

C. Defining Difficult Development Areas (DDAs) and Qualified Census Tracts (QCTs)

As stated above, IRC Section 42 defines a DDA as an area designated by the Secretary of HUD that has high construction, land, and utility costs relative to the AMGI. All designated DDAs in metropolitan areas (taken together) may not contain more than 20 percent of the aggregate population of all metropolitan areas, and all designated areas not in metropolitan areas

may not contain more than 20 percent of the aggregate population of all nonmetropolitan areas. *See* IRC Section 42(d)(5)(B)(iii).

Similarly, IRC Section 42 defines a QCT as an area designated by the Secretary of HUD where, for the most recent year for which census data are available on household income in such tract, either 50 percent or more of the households in the tract have an income which is less than 60 percent of the AMGI or the tract's poverty rate is at least 25 percent. All designated QCTs in a single metropolitan area or nonmetropolitan area (taken together) may not contain more than 20 percent of the population of that metropolitan or nonmetropolitan area. Thus, unlike the restriction on DDA designations, QCTs are restricted by the total population of each individual area as opposed to the aggregate population across all metropolitan areas and nonmetropolitan areas. *See* IRC Section 42(d)(5)(B)(ii).

IRC Section 42(d)(5)(B)(v) allows states to award an increase in basis up to 30 percent to buildings located outside of federally designated DDAs and QCTs if the increase is necessary to make the building financially feasible. This state discretion applies only to buildings allocated credits under the state housing credit ceiling and is not permitted for buildings receiving credits in connection with tax-exempt bonds. Rules for such designations shall be set forth in the LIHTC-allocating agencies' qualified allocation plans (QAPs). *See* IRC Section 42(m).

VI. Explanation of HUD Designation Method

A. 2027 Difficult Development Areas

In developing the 2027 list of DDAs, as required by IRC Section 42(d)(5)(B)(iii), HUD compared housing costs with incomes. HUD used 2020 Census population for ZCTAs, and nonmetropolitan areas, and the MSA definitions, as published in OMB Bulletin 23-01 on July 21, 2023. In keeping with past practice of basing the coming year's DDA designations on data from the preceding year, the basis for these comparisons is the FY 2026 HUD income limits for very low-income households (very low-income limits, or VLILs), which are based on 50 percent of AMGI, and modified FMRs based on the FY 2026 FMRs used for the Housing Choice

Voucher (HCV) program. For metropolitan DDAs, HUD used Small Area FMRs based on three annual releases of ACS data, to compensate for statistical anomalies which affect estimates for some ZCTAs. For nonmetropolitan DDAs, HUD used the FY 2026 FMRs published on August 22, 2025, and effective on October 1, 2025 (90 FR 41096), as updated by the April 21, 2026, publication effective May 21, 2026 (91 FR 21301).

In formulating the FY 2026 FMRs and VLILs, HUD modified the current OMB definitions of MSAs to account for differences in rents among areas within each current MSA that were in different FMR areas under definitions used in prior years. HUD formed these "HUD Metro FMR Areas" (HMFAs) in cases where one or more of the parts of newly defined MSAs were previously in separate FMR areas. All counties added to metropolitan areas are treated as HMFAs with rents and incomes based on their own county data, where available. All HMFAs are contained entirely within MSAs. (Complete details on HUD's process for determining FY 2026 FMR areas and FMRs are available at https://www.huduser.gov/portal/datasets/fmr.html#2026. Complete details on HUD's process for determining FY 2026 income limits are available at https://www.huduser.gov/portal/datasets/il.html#2026).

HUD's unit of analysis for designating metropolitan DDAs consists of ZCTAs, whose Small Area FMRs are compared to metropolitan VLILs. For purposes of computing VLILs in metropolitan areas, HUD considers entire MSAs in cases where these were not broken up into HMFAs; and HMFAs within the MSAs that were broken up for such purposes. Hereafter in this notice, the unit of analysis for designating metropolitan DDAs will be called the ZCTA, and the unit of analysis for nonmetropolitan DDAs will be the nonmetropolitan county or county equivalent area. The procedure used in making the DDA designations follows:

1. *Calculate FMR-to-Income Ratios.* For each metropolitan ZCTA and each nonmetropolitan county, HUD calculated a ratio of housing costs to income. HUD used a modified FY 2026 two-bedroom Small Area FMR for ZCTAs, a modified FY 2026 two-

bedroom FMR for nonmetropolitan counties, and the FY 2026 four-person VLIL for this calculation.

The modified FY 2026 two-bedroom Small Area FMRs for ZCTAs differ from the FY 2026 Small Area FMRs in four ways. First, HUD did not limit the Small Area FMR to 150 percent of its metropolitan area FMR. Second, HUD did not limit annual decreases in Small Area FMRs to ten percent, which was first applied in the FY 2018 FMR calculations. Third, HUD adjusted the Small Area FMRs in New York City using the New York City Housing and Vacancy Survey, which is conducted by the U.S. Census Bureau, to adjust for the effect of local rent control and stabilization regulations. No other jurisdictions have provided HUD with data that could be used to adjust Small Area FMRs for rent control or stabilization regulations.[3] Finally, the Small Area FMRs are not limited to the State nonmetropolitan minimum FMR.

The FY 2026 two-bedroom FMR for nonmetropolitan counties was modified only by removing the state nonmetropolitan minimum FMR.

The numerator of the ratio, representing the development cost of housing, was the area's modified FY 2026 FMR, or modified Small Area FMR in metropolitan areas. In general, the FMR is based on the 40th-percentile gross rent paid by recent movers to live in a standard quality two-bedroom rental unit.

The denominator of the ratio, representing the maximum income of eligible tenants, was the monthly LIHTC income-based rent limit, which was calculated as 1/12 of 30 percent of 120 percent of the area's 4-person VLIL (where the VLIL was rounded to the nearest $50).

2. *Sort Areas by Ratio and Exclude Unsuitable Areas.* The ratios of the FMR, or Small Area FMR, to the LIHTC income-based rent limit were arrayed in descending order, separately, for ZCTAs and for nonmetropolitan counties. ZCTAs with populations less than 100 were

[3] HUD encourages other jurisdictions with rent control laws that affect rents paid by recent movers into existing units to contact HUD about what data might be provided or collected to adjust Small Area FMRs in those jurisdictions.

excluded in order to avoid designating areas unsuitable for residential development, such as ZCTAs containing airports.

3. *Select Areas with Highest Ratios and Exclude QCTs.* The DDAs are those areas with the highest ratios that cumulatively comprise 20 percent of the 2020 population of all metropolitan areas and all nonmetropolitan areas. For purposes of applying this population cap, HUD excluded the population in areas designated as 2027 QCTs. Thus, an area can be designated as a QCT or DDA, but not both.

B. Application of Population Caps to DDA Determinations

In identifying DDAs, HUD applied caps, or limitations, as noted above. The cumulative population of metropolitan DDAs cannot exceed 20 percent of the cumulative population of all metropolitan areas, and the cumulative population of nonmetropolitan DDAs cannot exceed 20 percent of the cumulative population of all nonmetropolitan areas.

In applying these caps, HUD established procedures to deal with small overruns of the caps. The remainder of this section explains those procedures. In general, HUD stops selecting areas when it is impossible to choose another area without exceeding the applicable cap. The only exceptions to this policy are when the next eligible excluded area contains either a large absolute population or a large percentage of the total population, or the next excluded area's ranking ratio, as described above, was identical (to four decimal places) to the last area selected, and its inclusion resulted in only a minor overrun of the cap. Thus, for both the designated metropolitan and nonmetropolitan DDAs, there may be minimal overruns of the cap. HUD believes the designation of additional areas in the above examples of minimal overruns is consistent with the intent of the IRC. As long as the apparent excess is small due to measurement errors, some latitude is justifiable, because it is impossible to determine whether the 20 percent cap has been exceeded. Despite the care and effort involved in a Decennial Census, the Census Bureau and all users of the data recognize that the population counts for a given area and for the entire country are not precise. Therefore, the extent of the measurement

error is unknown. There can be errors in both the numerator and denominator of the ratio of populations used in applying a 20 percent cap. In circumstances where a strict application of a 20 percent cap results in an anomalous situation, recognition of the unavoidable imprecision in the census data justifies accepting small variances above the 20 percent limit.

B. Qualified Census Tracts

In developing the list of QCTs, HUD used 2020 Census 100-percent count data on total population, total households, and population in households; the median household income and poverty rate as estimated in the 2018-2022 , 2019-2023 and 2020-2024 ACS tabulations; the FY 2026 Very Low-Income Limits (VLILs) computed at the HMFA level to determine tract eligibility; and the MSA definitions published in OMB Bulletin No. 23-01 on July 21, 2023, for determining how many eligible tracts can be designated under the statutory 20 percent population cap.

HUD uses the HMFA-level AMGIs to determine QCT eligibility because the statute, specifically IRC Section 42(d)(5)(B)(iv)(II), refers to the same section of the IRC that defines income for purposes of tenant eligibility and unit maximum rent, specifically IRC Section 42(g)(4). By rule, the IRS sets these income limits according to HUD's VLILs, which, starting in FY 2006 and thereafter, are established at the HMFA level. HUD uses the entire MSA to determine how many eligible tracts can be designated under the 20 percent population cap as required by the statute (IRC Section 42(d)(5)(B)(ii)(III)), which states that MSAs should be treated as singular areas.

HUD determined the QCTs as follows:

1. *Calculate 60 percent AMGI.* To be eligible to be designated a QCT, a census tract must have 50 percent of its households with incomes below 60 percent of AMGI or have a poverty rate of 25 percent or more. Due to potential statistical anomalies in the ACS 5-year estimates, one of these conditions must be met in at least 2 of the 3 ACS 5-year tabulations for a tract to be considered eligible for QCT designation. HUD calculates 60 percent of AMGI by

multiplying by a factor of 1.2 the HMFA or nonmetropolitan county FY 2026 VLIL adjusted for inflation to match the ACS estimates, which are adjusted to the value of the dollar in the last year of the 5-year group.

2. *Determine Whether Census Tracts Have Less than 50 percent of Households Below 60 percent AMGI.* For each census tract, whether or not 50 percent of households have incomes below the 60 percent income standard (income criterion) was determined by: (a) calculating the average household size of the census tract, (b) adjusting the income standard to match the average household size, and (c) comparing the average-household-size-adjusted income standard to the median household income for the tract reported in each of the three years of ACS tabulations (2018-2022 , 2019-2023 and 2020-2024). HUD did not consider estimates of median household income to be statistically reliable unless the margin of error was less than half of the estimate (or a Margin of Error Ratio, MoER, of 50 percent or less). If at least two of the three estimates were not statistically reliable by this measure, HUD determined the tract to be ineligible under the income criterion due to lack of consistently reliable median income statistics across the three ACS tabulations. Since 50 percent of households in a tract have incomes above and below the tract median household income, if the tract median household income is less than the average-household-size-adjusted income standard for the tract, then more than 50 percent of households have incomes below the standard.

3. *Estimate Poverty Rate.* For each census tract, HUD determined the poverty rate in each of the three releases of ACS tabulations (2018-2022, 2019-2023 and 2020-2024) by dividing the population with incomes below the poverty line by the population for whom poverty status has been determined. As with the evaluation of tracts under the income criterion, HUD applies a data quality standard for evaluating ACS poverty rate data in designating the 2027 QCTs. HUD did not consider estimates of the poverty rate to be statistically reliable unless both the population for whom poverty status has been determined and the number of persons below poverty had MoERs of less than 50 percent of the respective estimates. If at least two of the

three poverty rate estimates were not statistically reliable, HUD determined the tract to be ineligible under the poverty rate criterion due to lack of reliable poverty statistics across the ACS tabulations.

4. *Designate QCTs Where 20 percent or Less of Population Resides in Eligible Census Tracts.* QCTs are those census tracts in which 50 percent or more of the households meet the income criterion in at least two of the three years evaluated, or 25 percent or more of the population is in poverty in at least two of the three years evaluated, such that the population of all census tracts that satisfy either one or both of these criteria does not exceed 20 percent of the total population of the respective area.

5. *Designate QCTs Where More than 20 percent of Population Resides in Eligible Census Tracts.* In areas where more than 20 percent of the population resides in eligible census tracts, census tracts are designated as QCTs in accordance with the following procedure:

a. The statistically reliable income and poverty criteria are each averaged over the three ACS tabulations (2018-2022, 2019-2023 and 2020-2024). Statistically reliable values that did not exceed the income and poverty rate thresholds were included in the average.

b. Eligible tracts are placed in one of two groups based on the averaged values of the income and poverty criteria. The first group includes tracts that satisfy both the income and poverty criteria for QCTs for at least two of the three evaluation years; a different pair of years may be used to meet each criterion. The second group includes tracts that satisfy either the income criterion in at least two of the three years, or the poverty criterion in at least two of three years, but not both. A tract must qualify by at least one of the criteria in at least two of the three evaluation years to be eligible.

c. HUD ranked tracts in the first group from highest to lowest by the average of the ratios of the tract average-household-size-adjusted income limit to the median household income. Then, HUD ranked tracts in the first group from highest to lowest by the average of the poverty rates. HUD averaged the two ranks to yield a combined rank. HUD then sorted the tracts on the

combined rank, with the census tract with the highest combined rank being placed at the top of the sorted list. In the event of a tie, HUD ranked more populous tracts above less populous ones.

d. HUD ranked tracts in the second group from highest to lowest by the average of the ratios of the tract average-household-size-adjusted income limit to the median household income. Then, HUD ranked tracts in the second group from highest to lowest by the average of the poverty rates. HUD then averaged the two ranks to yield a combined rank. HUD then sorted the tracts on the combined rank, with the census tract with the highest combined rank being placed at the top of the sorted list. In the event of a tie, HUD ranked more populous tracts above less populous ones.

e. HUD stacked the ranked first group on top of the ranked second group to yield a single, concatenated, ranked list of eligible census tracts.

f. Working down the single, concatenated, ranked list of eligible tracts, HUD identified census tracts as designated until the designation of an additional tract would cause the 20 percent limit to be exceeded. If HUD does not designate a census tract because doing so would raise the percentage above 20 percent, HUD then considers subsequent eligible census tracts to determine whether one or more eligible census tract(s) with smaller population(s) could be designated without exceeding the 20 percent limit.

C. Exceptions to OMB Definitions of MSAs and Other Geographic Matters

As stated in OMB Bulletin 23-01, defining metropolitan areas:

> "OMB establishes and maintains the delineations of Core Based Statistical Areas solely for statistical purposes. ... OMB does not take into account or attempt to anticipate any non-statistical uses that may be made of the delineations[.] … In cases where ... an agency elects to use the Core Based Statistical Area definitions in non-statistical programs, it is that agency's responsibility to ensure that the delineations are appropriate for such use. … [A]n agency using the statistical delineations in a non-statistical program may modify

the delineations; however, such potential modification would apply only to the purposes of that program. In such cases, any deviations from the Core Based Statistical Areas delineated by OMB should be clearly identified as such, in order to avoid confusion."

Following OMB guidance, HUD's estimation procedure for the FMRs and income limits incorporates the OMB definitions of metropolitan Core-Based Statistical Areas (CBSAs) based on the CBSA standards, but makes adjustments to the definitions, in order to separate subparts of these areas in cases where counties were added to an existing or newly defined metropolitan area. In CBSAs where HUD establishes subareas, it is HUD's view that the geographic extent of the housing markets is not the same as the geographic extent of the CBSAs.

In the New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), HUD defines HMFAs according to county subdivisions or minor civil divisions (MCDs), rather than county or county-equivalent boundaries. However, since no part of an HMFA is outside an OMB-defined, county-based MSA, all New England nonmetropolitan counties are kept intact for purposes of designating Nonmetropolitan DDAs.[4]

VII. Future Designations

HUD designates DDAs annually as updated HUD income limit and FMR data are made public. HUD designates QCTs annually as new income and poverty rate data are released.

A. Effective Date

The 2027 lists of QCTs and DDAs are effective:

(1) for allocations of credit after December 31, 2026; or

(2) for purposes of IRC Section 42(h)(4), if the bonds are issued and the building is placed in service after December 31, 2026.

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[4] In five of the six New England states, metropolitan and nonmetropolitan areas comprise towns instead of counties. The sixth, Connecticut, officially changed their county-equivalent geographic units from towns to planning regions (see 87 FR 34235). This change was incorporated for the first time in the 2023 American Community Survey (ACS) data and the FY2025 HUD income limits. For more information on the effect of the Connecticut geography change on HUD's Income Limits, see: https://www.huduser.gov/portal/datasets/il.html#faq_2025.

If an area is not on a subsequent list of QCTs or DDAs, the 2027 lists are effective for the area if:

(1) the allocation of credit to an applicant is made no later than the end of the 730-day period after the applicant submits a complete application to the LIHTC-allocating agency, and the submission is made before the effective date of the subsequent lists; or

(2) for purposes of IRC Section 42(h)(4), if:

(a) the bonds are issued or the building is placed in service no later than the end of the 730-day period after the applicant submits a complete application to the bond-issuing agency, and

(b) the submission is made before the effective date of the subsequent lists, provided that both the issuance of the bonds and the placement in service of the building occur after the application is submitted.

An application is deemed to be submitted on the date it is filed if the application is determined to be complete by the credit-allocating or bond-issuing agency. A "complete application" means that no more than de minimis clarification of the application is required for the agency to make a decision about the allocation of tax credits or issuance of bonds requested in the application.

In the case of a "multiphase project," the DDA or QCT status of the site of the project that applies for all phases of the project is that which applied when the project received its first allocation of LIHTC. For purposes of IRC Section 42(h)(4), the DDA or QCT status of the site of the project that applies for all phases of the project is that which applied when the first of the following occurred: (a) the building(s) in the first phase was (were) placed in service, or (b) the bonds were issued.

For purposes of this notice, a "multiphase project" is defined as a set of buildings to be constructed or rehabilitated under the rules of the LIHTC and meeting the following criteria:

(1) the multiphase composition of the project (i.e., total number of buildings and phases in the project, with a description of how many buildings are to be built in each phase and when each phase is to be completed, and any other information required by the agency) is made known by the applicant in the first application of credit for any building in the project, and that the applicant identifies the buildings in the project for which credit is (or will be) sought;

(2) the aggregate amount of LIHTC applied for on behalf of, or that would eventually be allocated to, the buildings on the site exceeds the one-year limitation on credits per applicant, as defined in the QAP of the LIHTC-allocating agency, or the annual per-capita credit authority of the LIHTC allocating agency, and is the reason the applicant must request multiple allocations over 2 or more years; and

(3) all applications for LIHTC for buildings on the site are made in immediately consecutive years.

Members of the public are hereby reminded that the Secretary of Housing and Urban Development, or the Secretary's designee, has legal authority to designate DDAs and QCTs, by publishing lists of geographic entities as defined by, in the case of DDAs, the Census Bureau, the several states and the governments of the insular areas of the United States and, in the case of QCTs, by the Census Bureau; and to establish the effective dates of such lists. The Secretary of the Treasury, through the IRS thereof, has sole legal authority to interpret, and to determine and enforce compliance with the IRC and associated regulations, including *Federal Register* notices published by HUD for purposes of designating DDAs and QCTs. Representations made by any other entity as to the content of HUD notices designating DDAs and QCTs that do not precisely match the language published by HUD should not be relied upon by taxpayers in determining what actions are necessary to comply with HUD notices.

B. Interpretive Examples of Effective Date

For the convenience of readers of this notice, interpretive examples are provided below to illustrate the consequences of the effective date in areas that gain or lose QCT or DDA status. The examples covering DDAs are equally applicable to QCT designations.

(Case A) Project A is located in a 2027 DDA that is NOT a designated DDA in 2028 or 2029. A complete application for tax credits for Project A is filed with the allocating agency on November 15, 2027. Credits are allocated to Project A on October 30, 2029. Project A is eligible for the increase in basis accorded a project in a 2027 DDA because the application was filed BEFORE January 1, 2028 (the assumed effective date for the 2028 DDA lists), and because tax credits were allocated no later than the end of the 730-day period after the filing of the complete application for an allocation of tax credits.

(Case B) Project B is located in a 2027 DDA that is NOT a designated DDA in 2028 or 2029. A complete application for tax credits for Project B is filed with the allocating agency on December 1, 2027. Credits are allocated to Project B on March 30, 2030. Project B is NOT eligible for the increase in basis accorded a project in a 2027 DDA because, although the application for an allocation of tax credits was filed BEFORE January 1, 2028 (the assumed effective date of the 2028 DDA lists), the tax credits were allocated later than the end of the 730-day period after the filing of the complete application.

(Case C) Project C is located in a 2027 DDA that was not a DDA in 2026. Project C was placed in service on November 15, 2026. A complete application for tax-exempt bond financing for Project C is filed with the bond-issuing agency on January 15, 2027. The tax-exempt bonds that will support the permanent financing of Project C are issued on September 30, 2027. Project C is NOT eligible for the increase in basis otherwise accorded a project in a 2027 DDA, because the project was placed in service BEFORE January 1, 2027.

(Case D) Project D is located in an area that is a DDA in 2027 but is NOT a DDA in 2028 or 2029. A complete application for tax-exempt bond financing for Project D is filed with the bond-issuing agency on October 30, 2027. Tax-exempt bonds are issued for Project D on

April 30, 2029, but Project D is not placed in service until January 30, 2030. Project D is eligible for the increase in basis available to projects located in 2027 DDAs because: (1) one of the two events necessary for triggering the effective date for buildings described in Section 42(h)(4)(B) of the IRC (the two events being tax-exempt bonds issued and buildings placed in service) took place on April 30, 2029, within the 730-day period after a complete application for tax-exempt bond financing was filed, (2) the application was filed during a time when the location of Project D was in a DDA, and (3) both the issuance of the tax-exempt bonds and placement in service of Project D occurred after the application was submitted.

(Case E) Project E is a multiphase project located in a 2027 DDA that is NOT a designated DDA or QCT in 2028. The first phase of Project E received an allocation of credits in 2027, pursuant to an application filed March 15, 2027, which describes the multiphase composition of the project. An application for tax credits for the second phase of Project E is filed with the allocating agency by the same entity on March 15, 2028. The second phase of Project E is located on a contiguous site. Credits are allocated to the second phase of Project E on October 30, 2028. The aggregate amount of credits allocated to the two phases of Project E exceeds the amount of credits that may be allocated to an applicant in one year under the allocating agency's QAP and is the reason that applications were made in multiple phases. The second phase of Project E is, therefore, eligible for the increase in basis afforded a project in a 2027 DDA, because it meets all of the conditions to be a part of a multiphase project.

(Case F) Project F is a multiphase project located in a 2027 DDA that is NOT a designated DDA in 2028 or 2029. The first phase of Project F received an allocation of credits in 2027, pursuant to an application filed March 15, 2027, which does not describe the multiphase composition of the project. An application for tax credits for the second phase of Project F is filed with the allocating agency by the same entity on March 15, 2029. Credits are allocated to the second phase of Project F on October 30, 2029. The aggregate amount of credits allocated to the two phases of Project F exceeds the amount of credits that may be allocated to an applicant in

one year under the allocating agency's QAP. The second phase of Project F is, therefore, NOT eligible for the increase in basis accorded a project in a 2027 DDA, since it does not meet all of the conditions for a multiphase project, as defined in this notice. The original application for credits for the first phase did not describe the multiphase composition of the project. Also, the application for credits for the second phase of Project F was not made in the year immediately following the first phase application year.

(Case G) Project G is located in an area that is NOT a DDA in 2027 or 2029, but is in a DDA in 2028. A complete application for tax-exempt bond financing for Project G is filed with the bond-issuing agency on October 30, 2027. Project G is placed in service on November 15, 2028 and the bonds are issued on February 20, 2029. Property G is eligible for the increase in basis available to projects located in 2028 DDAs because one of the two necessary actions (the two events being tax-exempt bonds issued and buildings placed in service) occur when the property is in a DDA and both events occur after January 1, 2028, the assumed effective date of the 2028 DDAs.

VIII. Findings and Certifications

A. Environmental Impact

This notice involves the statutorily required establishment of fiscal requirements or procedures that are related to rate and cost determinations and do not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6) of HUD's regulations, this notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. § 4321, *et seq.*).

B. Federalism Impact

Executive Order 13132 (entitled "Federalism") prohibits an agency from publishing any policy document that has federalism implications if the document either imposes substantial

direct compliance costs on state and local governments and is not required by statute, or the document preempts state law, unless the agency meets the consultation and funding requirements of section 6 of the executive order. This notice merely designates DDAs and QCTs as required under IRC Section 42, as amended, for the use by political subdivisions of the states in allocating the LIHTC. This notice also details the technical methods used in making such designations. As a result, this notice is not subject to review under the order.

Reid Wilson,
Deputy Chief of Staff to the Secretary, Performing the Delegable Duties of the Principal Deputy Assistant Secretary for Policy Development and Research.
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