

INDEPENDENCE
TAX CREDIT PLUS

QUARTERLY
REPORT

Ended
June 30, 2007

August 2007

Message to Our BACsholders:

We are pleased to present the Quarterly Report for Independence Tax Credit Plus L.P. (the "Partnership") for the quarter ended June 30, 2007.

On July 9, 2007 the Partnership entered into a purchase and sale agreement to sell its limited partnership interest in Hampden Hall Associates. The closing is expected to occur early next year. However, no assurance can be given that the sale will actually occur.

The General Partner continues to research opportunities to liquidate the remaining assets in the portfolio. We will, of course, keep you apprised of all developments in future reports.

If you have any questions with respect to your investment, please do not hesitate to contact Denise Bernstein of the Partnership's Investor Services department at 1-800-600-6422, ext. 6451.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert L. Levy". The signature is written in a cursive, flowing style.

Robert L. Levy
Chief Financial Officer
Related Independence Associates, Inc.

Consolidated Balance Sheets

	<u>June 30,</u> <u>2007</u>	<u>March 31,</u> <u>2007</u>
	(Unaudited)	(Audited)
ASSETS		
Operating Assets		
Property and equipment, at cost, net of accumulated depreciation of \$72,244,864 and \$70,978,449, respectively	\$ 99,210,405	\$ 100,261,936
Cash and cash equivalents	3,818,524	2,240,570
Cash held in escrow	12,297,457	12,717,862
Deferred costs, net of accumulated amortization of \$1,923,726 and \$1,890,663, respectively	1,126,168	1,159,231
Other assets	<u>1,748,830</u>	<u>3,643,901</u>
Total operating assets	<u>118,201,384</u>	<u>120,023,500</u>
Assets from discontinued operations (Note 5)		
Property and equipment held for sale, net of accumulated depreciation of \$2,176,541 and \$5,491,064, respectively	4,101,026	10,374,639
Net assets held for sale	<u>248,916</u>	<u>546,794</u>
Total assets from discontinued operations	<u>4,349,942</u>	<u>10,921,433</u>
Total assets	<u>\$ 122,551,326</u>	<u>\$ 130,944,933</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets (continued)

	June 30, 2007 <u>(Unaudited)</u>	March 31, 2007 <u>(Audited)</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Operating Liabilities		
Mortgage notes payable	\$ 74,547,313	\$ 75,276,001
Accounts payable	4,850,414	6,591,153
Accrued interest payable	10,576,077	10,368,890
Security deposits payable	712,091	690,426
Due to local general partners and affiliates	11,475,114	11,475,587
Due to general partners and affiliates	<u>16,110,259</u>	<u>16,194,617</u>
Total operating liabilities	<u>118,271,268</u>	<u>120,596,674</u>
Liabilities from discontinued operations (Note 5)		
Mortgage notes payable of assets held for sale	3,301,545	9,675,961
Net liabilities held for sale (including minority interest)	<u>1,087,528</u>	<u>783,817</u>
Total liabilities from discontinued operations	<u>4,389,073</u>	<u>10,459,778</u>
Total liabilities	<u>122,660,341</u>	<u>131,056,452</u>
Minority interests	<u>5,627,854</u>	<u>5,690,316</u>
Commitments and contingencies (Note 6)		
Partners' capital (deficit)		
Limited partners (76,786 BACs issued and outstanding)	(4,996,627)	(5,060,943)
General partners	<u>(740,242)</u>	<u>(740,892)</u>
Total partners' capital (deficit)	<u>(5,736,869)</u>	<u>(5,801,835)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 122,551,326</u>	<u>\$ 130,944,933</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Revenues		
Rental income	\$ 5,315,386	\$ 5,140,645
Other income	<u>302,845</u>	<u>382,330</u>
Total revenues	<u>5,618,231</u>	<u>5,522,975</u>
Expenses		
General and administrative	1,376,150	1,145,923
General and administrative-related parties (Note 2)	543,017	527,779
Repairs and maintenance	1,175,834	1,165,824
Operating	865,167	891,378
Taxes	400,884	378,686
Insurance	393,748	372,727
Financial, principally interest	1,012,778	1,038,319
Depreciation and amortization	<u>1,299,478</u>	<u>1,308,628</u>
Total expenses from operations	<u>7,067,056</u>	<u>6,829,264</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations (continued)
(Unaudited)

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Loss from operations before minority interest	(1,448,825)	(1,306,289)
Minority interest in loss of subsidiaries from operations	<u>4,461</u>	<u>6,934</u>
Loss from operations	(1,444,364)	(1,299,355)
Discontinued operations:		
Income (loss) from discontinued operations (Note 5)	<u>1,509,330</u>	<u>(160,652)</u>
Net income (loss)	<u>\$ 64,966</u>	<u>\$ (1,460,007)</u>
Number of BACs outstanding	<u>76,786</u>	<u>76,786</u>
Loss from operations – limited partners	\$ (1,429,921)	\$ (1,286,361)
Income (loss) from discontinued operations – limited partners	<u>1,494,237</u>	<u>(159,046)</u>
Net income (loss) – limited partners	<u>\$ 64,316</u>	<u>\$ (1,445,407)</u>
Loss from operations per BAC	\$ (18.62)	\$ (16.75)
Income (loss) from discontinued operations per BAC	<u>19.46</u>	<u>(2.07)</u>
Net income (loss) per BAC	<u>\$ 0.84</u>	<u>\$ (18.82)</u>

* Reclassified to conform to current period's presentation.

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Partners' Deficit
(Unaudited)

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>
Partners' deficit – April 1, 2007	\$ (5,801,835)	\$ (5,060,943)	\$ (740,892)
Net income	<u>64,966</u>	<u>64,316</u>	<u>650</u>
Partners' deficit – June 30, 2007	<u>\$ (5,736,869)</u>	<u>\$ (4,996,627)</u>	<u>\$ (740,242)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

*Increase (decrease) in Cash and Cash Equivalents
(Unaudited)*

	Three Months Ended	
	June 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income (loss)	\$ <u>64,966</u>	\$ <u>(1,460,007)</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of properties	(2,021,693)	0
Depreciation and amortization	1,398,119	1,406,628
Minority interest in income (loss) of subsidiaries	442,675	(6,934)
(Decrease) increase in due to general partner and affiliates	(84,358)	691,964
Increase (decrease) in accounts payable	119,867	(475,230)
Increase in accrued interest payable	216,671	1,240,487
Increase in security deposit payable	40,351	6,324
Increase in other assets	(4,910)	(94,310)
Decrease in cash held in escrow	<u>356,075</u>	<u>72,225</u>
Total adjustments	<u>462,797</u>	<u>2,841,154</u>
Net cash provided by operating activities	<u>527,763</u>	<u>1,381,147</u>
Cash flows from investing activities:		
Increase in property and equipment	(219,884)	(92,823)
Proceeds from sales	2,023,209	0
(Decrease) increase in due to local general partners and affiliates	<u>(473)</u>	<u>143,583</u>
Net cash provided by investing activities	<u>1,802,852</u>	<u>50,760</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (continued)
Increase (decrease) in Cash and Cash Equivalents
(Unaudited)

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from financing activities:		
Repayment of mortgage notes	(738,506)	(934,644)
Decrease in capitalization of consolidated subsidiaries attributable to minority interest	<u>(58,001)</u>	<u>(143,805)</u>
Net cash used in financing activities	<u>(796,507)</u>	<u>(1,078,449)</u>
Net increase in cash and cash equivalents	1,534,108	353,458
Cash and cash equivalents at beginning of period	<u>2,372,168</u>	<u>1,652,353</u>
Cash and cash equivalents at end of period**	<u>\$ 3,906,276</u>	<u>\$ 2,005,811</u>
Summarized below are the components of the gain on sale of properties:		
Proceeds from sale of properties	\$ 2,023,209	\$ 0
Property and equipment, net of accumulated depreciation	(6,157,368)	0
Other assets	(2,010,782)	0
Cash held in escrow	(178,570)	0
Deferred costs	(51,595)	0
Mortgage notes payable	6,364,598	0
Accounts payable and other liabilities	2,058,001	0
Due to local general partners and affiliates	(25,800)	0

** Cash and cash equivalents at end of period, includes cash and cash equivalents from discontinued operations of \$87,752 and \$0, respectively.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2007 (Unaudited)

Note 1 - General

The consolidated financial statements include the accounts of Independence Tax Credit Plus L.P. (the "Partnership") and twenty-eight other limited partnerships ("subsidiary partnerships", "subsidiaries" or "Local Partnerships") owning leveraged apartment complexes ("Properties") that are eligible for the low-income housing tax credit ("Tax Credit"). The general partner of the Partnership is Related Independence Associates L.P., a Delaware limited partnership (the "General Partner"). Through the rights of the Partnership and/or an affiliate of the General Partner, which affiliate has a contractual obligation to act on behalf of the Partnership to remove the general partner of the subsidiary local partnerships and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships.

For financial reporting purposes, the Partnership's fiscal quarter ends June 30. All subsidiaries have fiscal quarters ending March 31. Accounts of the subsidiaries have been adjusted for intercompany transactions from April 1 through June 30. The Partnership's fiscal quarter ends June 30 in order to allow adequate time for the subsidiaries' financial statements to be prepared and consolidated.

All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation.

Increases (decreases) in the capitalization of consolidated subsidiaries attributable to minority interest arise from cash contributions and cash distributions to the minority interest partners.

Losses attributable to minority interest which exceed the minority interests' investment in a subsidiary have been charged to the Partnership. Such losses aggregated approximately \$0 and \$10,000 for the three months ended June 30, 2007 and 2006, respectively. The Partnership's investment in each subsidiary is equal to the respective subsidiary's partners' equity less minority interest capital, if any. In consolidation, all subsidiary partnership losses are included in the Partnership's capital account except for losses allocated to minority interest capital.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted or condensed. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

Partnership's Annual Report on Form 10-K for the period ended March 31, 2007.

The books and records of the Partnership are maintained on the accrual basis of accounting in accordance with GAAP. In the opinion of the General Partner, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Partnership as of June 30, 2007, the results of operations and its cash flows for the three months ended June 30, 2007 and 2006. However, the operating results for the three months ended June 30, 2007 may not be indicative of the results for the year.

Rental income is earned primarily under standard residential operating leases and is typically due the first day of each month, but can vary by property due to the terms of the tenant leases. Rental income is recognized when earned and charged to tenants' accounts receivable if not received by the due date. Rental payments received in advance of the due date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

Other revenues are recorded when earned and consist of the following items: Interest income earned on cash and cash equivalent balances and cash held in escrow balances, income from forfeited security deposits, late charges, laundry and vending income and other rental related items.

Note 2 - Related Party Transactions

An affiliate of the General Partner, Independence SLP L.P., has either a 0.1% or 1% interest as a special limited partner in each of the Local Partnerships. An affiliate of the General Partner also has a minority interest in certain Local Partnerships.

As of June 30, 2007 and March 31, 2007, the Partnership owes an affiliate of the General Partner approximately \$6,188,000 and \$6,187,000, respectively, for operating advances. These advances are non-interest bearing and have no set repayment terms. The Partnership has advanced these monies to two Local Partnerships to fund their operations.

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

The General Partner and its affiliates perform services for the Partnership. The costs incurred from operations to related parties for the three months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Partnership management fees (a)	\$ 220,000	\$ 220,000
Expense reimbursement (b)	31,837	44,527
Property management fees incurred to affiliates of the General Partner (d)	44,468	36,289
Local administrative fee (c)	<u>12,375</u>	<u>12,750</u>
Total general and administrative-General Partner	<u>308,680</u>	<u>313,566</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners (d)	<u>234,337</u>	<u>214,213</u>
Total general and administrative-related parties	<u>\$ 543,017</u>	<u>\$ 527,779</u>

* Reclassified for comparative purpose.

The General Partner and its affiliates perform services for the Partnership. The costs incurred from discontinued operations to related parties for the three months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Local administrative fee (c)	\$ <u>1,250</u>	\$ <u>1,250</u>
Total general and administrative-General Partner	<u>1,250</u>	<u>1,250</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners (d)	<u>24,756</u>	<u>13,192</u>
Total general and administrative-related parties	<u>\$ 26,006</u>	<u>\$ 14,442</u>

* Reclassified for comparative purpose.

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

(a) The General Partner is entitled to receive a partnership management fee, after payment of all Partnership expenses, which together with the annual local administrative fees will not exceed a maximum of 0.5% per annum of invested assets (as defined in the Partnership's Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement")), for administering the affairs of the Partnership. Subject to the foregoing limitation, the partnership management fee will be determined by the General Partner in its sole discretion based upon its review of the Partnership's investments. Unpaid partnership management fees for any year have been accrued without interest and will be payable only to the extent of available funds after the Partnership has made distributions to the limited partners of sale or refinancing proceeds equal to their original capital contributions plus a 10% priority return thereon (to the extent not theretofore paid out of cash flow). Partnership management fees owed to the General Partner amounting to approximately \$8,579,000 and \$8,359,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007.

(b) The Partnership reimburses the General Partner and its affiliates for actual Partnership operating expenses incurred by the General Partner and its affiliates on the Partnership's behalf. The amount of reimbursement from the Partnership is limited by the provisions of the Partnership Agreement. Another affiliate of the General Partner performs asset monitoring for the Partnership. These services include site visits and evaluations of the subsidiary partnerships' performance. Expense reimbursements owed to the General Partner and its affiliates amounting to approximately \$1,676,000 and \$1,644,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, respectively.

(c) Independence SLP L.P. is entitled to receive a local administrative fee of up to \$2,500 per year from each subsidiary partnership.

(d) Property management fees incurred by subsidiary partnerships amounted to \$360,161 and \$338,279 for the three months ended June 30, 2007 and 2006, respectively. Of these fees \$259,093 and \$227,405 were incurred to affiliates of general partners of the Local Partnership ("Local General Partners") which includes \$24,756 and \$13,192 of these fees relating to discontinued operations. In addition \$44,468 and \$36,289 were incurred to affiliates of the Partnership.

Pursuant to the Partnership Agreement and the partnership agreements of the Local Partnerships (the "Local Partnership Agreements"), the General

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

Partner and Independence SLP L.P. received their prorata share of profits, losses and tax credits.

Note 3 – Sale of Property

The Partnership is currently in the process of disposing of its investments. As of June 30, 2007, the Partnership sold the limited partnership interest in one Local Partnership. In addition, one Local Partnership entered into a purchase and sales agreement to sell its property and related assets and liabilities. Subsequently, the Partnership entered into an agreement to sell its limited partnership interest in another Local Partnership.

On March 29, 2007, the Partnership sold its limited partnership interest in P.S. 157 Associates, L.P. (“P.S. 157”) to the Local General Partner for a sales price of \$1,996,490. The Partnership received proceeds of \$1,996,490 and approximately \$27,000 in cash reserves from this sale. The sale resulted in a gain of approximately \$2,022,000 net of its capital basis in the Local Partnership of approximately \$2,000 at the date of the sale and the \$2,023,209 cash received from the sale. The sale resulted in the liquidation of P.S. 157.

Note 4 – Asset Held for Sale

On March 6, 2007, Homestead Apartments Associates Ltd. (“Homestead”) entered into a purchase and sale agreement to sell the property and the related assets and liabilities to an unaffiliated third party purchaser for a sales price of \$4,600,000. The sales documents have been executed and the initial deposit funds are being held in escrow. No assurance can be given that the sale will actually occur. The closing is expected to occur in the quarter ending June 30, 2008. Homestead is being held as an asset held for sale as of June 30, 2007. As of March 31, 2007, Homestead had property and equipment, at cost, of approximately \$6,236,000, accumulated depreciation of approximately \$2,158,000 and mortgage debt of approximately \$3,302,000.

Note 5 – Discontinued Operations

The following table summarizes the financial position of the Local Partnerships that are classified as discontinued operations because the respective Local Partnerships were classified as assets held for sale. As of June

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

30, 2007 and March 31, 2007, respectively, P.S. 157 and Homestead were classified as discontinued operations in the consolidated financial statements.

Consolidated Balance Sheets:

	<u>June 30,</u> <u>2007</u>	<u>March 31,</u> <u>2007</u>
Assets		
Property and equipment – less accumulated depreciation of \$2,176,541 and \$5,491,064, respectively	\$ 4,101,026	\$ 10,374,639
Cash and cash equivalents	87,752	131,598
Cash held in escrow	120,633	234,873
Deferred costs, net of accumulated amortization of \$76,597 and \$99,201, respectively	5,224	34,215
Other assets	<u>35,307</u>	<u>146,108</u>
Total assets	<u>\$ 4,349,942</u>	<u>\$ 10,921,433</u>
Liabilities		
Mortgage notes payable	\$ 3,301,545	\$ 9,675,961
Accounts payable	81,708	204,937
Accrued interest payable	501,596	492,112
Security deposit payable	52,231	107,711
Due to local general partners and affiliates	414,493	388,693
Due to general partners and affiliates	37,500	37,500
Minority interest	-	(447,136)
Total liabilities	<u>\$ 4,389,073</u>	<u>\$ 10,459,778</u>

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the three months ended June 30, 2007, P.S. 157, which was sold during the current year, and Homestead, which was classified as an asset held for sale, were both classified as discontinued operations in the consolidated financial statements. For the three months ended June 30, 2006, in order to present comparable results to the three months ended June 30, 2007, P.S. 157 and

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

Homestead were classified as discontinued operations in the consolidated financial statements.

Consolidated Statements of Discontinued Operations:

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006</u>
Revenues		
Rental income	\$ 441,736	\$ 415,604
Other	11,407	9,149
Gain on sale of property	<u>2,021,693</u>	<u>-</u>
Total revenue	<u>2,474,836</u>	<u>424,753</u>
Expenses		
General and administrative	116,095	65,314
General and administrative-related parties (Note 2)	26,006	14,442
Repairs and maintenance	40,751	180,568
Operating and other	105,824	91,853
Real estate taxes	19,298	24,196
Insurance	32,886	27,907
Interest	78,869	83,125
Depreciation and amortization	<u>98,641</u>	<u>98,000</u>
Total expenses	<u>518,370</u>	<u>585,405</u>
Income (loss) from discontinued operations before minority interest	<u>1,956,466</u>	<u>(160,652)</u>
Minority interest in income of subsidiaries from discontinued operations	<u>(447,136)</u>	<u>-</u>
Income (loss) from discontinued operations	\$ <u>1,509,330</u>	\$ <u>(160,652)</u>
Income (loss) – limited partners from discontinued operations	\$ <u>1,494,237</u>	\$ <u>(159,046)</u>
Number of BACs outstanding	<u>76,786</u>	<u>76,786</u>
Income (loss) from discontinued operations	\$ <u>19.46</u>	\$ <u>(2.07)</u>

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

Cash flows from Discontinued Operations:

	Three Months Ended June 30,	
	2007	2006
Net cash (used in) provided by operating activities	\$ (3,025,247)	\$ 446,763
Net cash provided by investing activities	\$ 2,103,920	\$ 35,093
Net cash used in financing activities	\$ (32,422)	\$ (111,435)

Note 6 - Commitments and Contingencies

a) Subsidiary Partnerships – Going Concern

Creative Choice Homes II LTD. (“Opa-Locka”)

Opa-Locka is in default on its third and fourth mortgage notes, which were incurred to affiliates of the Local General Partner. The Local General Partner has not sent a notice of default with respect to the notes as of the year ended March 31, 2007 and will be unable to call the notes until the first and second mortgage notes, which are current, are paid in full. The Partnership’s investment in Opa-Locka at June 30, 2007 and March 31, 2007 was approximately \$1,277,000 and \$1,358,000, respectively, and the minority interest balance was \$0 for both periods. Opa-Locka had net losses of approximately \$81,000 and \$1,614,000 for their three months ended March 31, 2007 and year ended December 31, 2006, respectively.

Opa-Locka has also continued to incur significant operating losses. This condition raises substantial doubt about Opa-Locka’s ability to continue as a going concern. The ability for Opa-Locka to continue as a going concern is based on the Local General Partner’s continuing ability to fund operating losses. This condition is alleviated in part by the fact that the property has had positive operating cash flow for the past several years. The financial statements do not include any adjustments that might be necessary if Opa-Locka is unable to continue as a going concern.

In October 2005, Opa-Locka suffered property damage and business interruption due to a severe hurricane. Opa-Locka contracted to complete

Notes to Consolidated Financial Statements (continued)
June 30, 2007 (Unaudited)

repairs and renovations of the buildings damaged for a cost of \$7,500,000. Opa-Locka expects to be reimbursed by insurance proceeds in the amount of approximately \$6,721,538. As of December 2006, \$4,000,000 of insurance proceeds have been received by the mortgage company which is acting as administrator and trustee of the funds. A balance of \$3,688,957 remains payable to the construction company as of December 31, 2006 related to the rehabilitation.

The above circumstances have called into question the recoverability of the carrying amounts of the building. As a result, pursuant to Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), an impairment loss of \$1,164,864 was recognized on the building and improvements during the year ended March 31, 2007.

b) Uninsured Cash and Cash Equivalents

The Partnership maintains its cash and cash equivalents in various banks. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation up to \$100,000.

c) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective partnership agreements of the Local Partnerships and the U.S. Department of Housing and Urban Development ("HUD") based on operating results and a percentage of the owner's equity contribution. Such cash distributions are typically made for surplus cash flow.

d) Other

The Partnership is subject to the risks incident to potential losses arising from the management and ownership of improved real estate. The Partnership can also be affected by poor economic conditions generally; however, no more than 21% of the properties are located in any single state. There are also substantial risks associated with owning properties receiving government assistance; for example, the possibility that Congress may not appropriate funds to enable HUD to make rental assistance payments. HUD also restricts annual cash distributions to partners based on operating results and a percentage of the owner's equity contribution. The Partnership cannot sell or substantially liquidate its investments in subsidiary partnerships during the period that the subsidy agreements are

Notes to Consolidated Financial Statements (continued) **June 30, 2007** (Unaudited)

in existence without HUD's approval. Furthermore, there may not be market demand for apartments at full market rents when the rental assistance contracts expire.

The Partnership and BACs holders began to recognize Tax Credits with respect to an Apartment Complex when the Credit Period for such Apartment Complex commenced. Because of the time required for the acquisition, completion and rent-up of Apartment Complexes, the amount of Tax Credits per BAC gradually increased over the first three years of the Partnership. Tax Credits not recognized in the first three years will be recognized in the 11th through 13th years. The Partnership generated \$17,573, \$17,573 and \$1,051,548 Tax Credits during the 2006, 2005 and 2004 tax years, respectively.

Note 7 – Subsequent Event

On July 9, 2007, the Partnership entered into a purchase and sales agreement to sell its limited partnership interest in Hampden Hall Associates, L.P. ("Hampden Hall") for a sales price of approximately \$955,000. The sales documents have been executed and the initial deposit funds are being held in escrow. The closing is expected to take place in the quarter ending March 31, 2008. No assurance can be given that the sale will actually occur. As of March 31, 2007, Hampden Hall had property and equipment, at cost, of approximately \$7,532,000, accumulated depreciation of approximately \$3,637,000 and mortgage debt of approximately \$2,054,000. As of June 30, 2007, the minority interest in equity totaled approximately \$1,057,000.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(Summarized from Form 10-Q as filed with the Securities and Exchange Commission. A copy is available upon written request)

Liquidity and Capital Resources

The Partnership's capital was originally invested in 28 Local Partnerships. As of June 30, 2007, the limited partnership interest in one Local Partnership was sold. For a discussion of this sale, see Item 1, Note 3. In addition, as of June 30, 2007, one Local Partnership has entered into a purchase and sales agreement to sell its property and related assets and

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

liabilities (see Item 1, Note 4). Approximately \$8,600 of the purchase price remains to be paid to the Local Partnerships (all of which is held in escrow). Subsequently, the Partnership entered into an agreement to sell its limited partnership interest in another Local Partnership.

Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

Tabular disclosure of Contractual Obligations

The Partnership discloses in Item 7 of the Partnership's Annual Report on Form 10-K for the year ended March 31, 2007, the Partnership's commitments to make future payments under its debt agreements and other contractual obligations. There are no material changes to such disclosure or amounts as of June 30, 2007.

Short-Term

The Partnership's primary source of funds is cash distributions from the operations of the Local Partnerships and sales proceeds and distributions. These cash distributions, which remain immaterial, are available to meet obligations of the Partnership.

Cash distributions received from the operations of the Local Partnerships remain immaterial. Distributions from operations of approximately \$53,000 and \$21,000 were received during the three months ended June 30, 2007 and 2006, respectively. Additionally, during the three months ended June 30, 2007, the Partnership received approximately \$2,023,000 of proceeds from sales. Management expects that the distributions received from the Local Partnerships will increase, although not to a level sufficient to permit providing cash distributions to BACs holders except in connection with the liquidation of the Partnership's investments. In any event, the General Partner does not expect the Partnership to make distributions sufficient to return to investors their original capital. These distributions and the deferral of fees by the General Partner referred to below, will be used to meet the operating expenses of the Partnership.

Cash and cash equivalents of the Partnership and its consolidated subsidiary partnerships increased approximately (\$1,534,000) during the three months ended June 30, 2007, due to net cash provided by operating activities (\$528,000) and proceeds from sale of property (\$2,023,000) which exceeded acquisitions of property and equipment (\$220,000), repayments of mortgage notes (\$739,000) and a decrease in capitalization of consoli-

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

dated subsidiaries attributable to minority interest (\$58,000). Included in the adjustments to reconcile the net loss to net cash provided by operating activities are gain on sale of properties (\$2,022,000) and depreciation and amortization (\$1,398,000).

Total expenses from operations for the three months ended June 30, 2007 and 2006, excluding depreciation and amortization, interest and general and administrative-related parties, totaled \$4,211,783 and \$3,954,538, respectively.

Accounts payable as of June 30, 2007 and March 31, 2007 was \$4,850,414 and \$6,591,153, respectively. Accounts payable are short term liabilities which are expected to be paid from operating cash flows, working capital balances at the Local Partnership level, Local General Partner advances and in certain circumstances advances from the Partnership. Because the provisions of the secondary loans defer the payment of accrued interest of the respective Local Partnerships, the Partnership believes it (and the applicable Local Partnerships except as noted in Item 1, Note 6) has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term. In addition, accounts payable from discontinued operations, as of June 30, 2007 and March 31, 2007, totaled \$81,708 and \$204,937, respectively.

Accrued interest payable as of June 30, 2007 and March 31, 2007 was \$10,576,077 and \$10,368,890, respectively. Accrued interest payable represents the accrued interest on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount) and which have been accumulating since the Partnership's investment in the respective Local Partnership will be made from future refinancings or sales proceeds of the respective Local Partnerships. In addition, each Local Partnership's mortgage notes are collateralized by the land and buildings of the respective Local Partnership, and are without further recourse to the Partnership. In addition, accrued interest payable from discontinued operations, as of June 30, 2007 and March 31, 2007, totaled \$501,596 and \$492,112, respectively.

The working capital reserve at June 30, 2007 was approximately \$1,728,000.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The Partnership is not expected to have access to additional sources of financing.

Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$8,579,000 and \$8,359,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, respectively. Without the General Partner's advances and continued accrual without payment of certain fees and expense reimbursements, the Partnership will not be in a position to meet its obligations. The General Partner has continued to advance and allow the accrual without payment of these amounts but is under no obligation to continue to do so.

For a discussion of contingencies affecting certain Local Partnerships, see Item 1, Note 3. Since the maximum loss the Partnership would be liable for is its net investment in the Local Partnerships, the resolution of any existing contingency is not anticipated to impact future results of operations, liquidity or financial condition in a material way. However, the Partnership's loss of its investment in a Local Partnership will eliminate the ability to generate future Tax Credits from such Local Partnership and may also result in recapture of Tax Credits if the investment is lost before the expiration of the compliance period.

The Local Partnerships are impacted by inflation in several ways. Inflation allows for increases in rental rates generally to reflect the impact of higher operating and replacement costs. Furthermore, inflation generally does not impact the fixed long-term financing under which real property investments were purchased. Inflation also affects the Local Partnerships adversely by increasing operating costs, such as fuel, utilities, and labor. Since revenues from sales of assets are driven by market conditions, inflation has little impact on sales.

Management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed, that will or are likely to impact liquidity in a material way. Management believes the only impact would be from laws that have not yet been adopted. The portfolio is diversified by the location of the Properties around the United States so that if one area of the country is experiencing downturns in the economy, the remaining Properties in the portfolio may be experiencing upswings. However, the geographic diversification of the portfolio may not protect against a general downturn in the national economy. The Partnership has fully invested the proceeds of its offering in 28 Local Partnerships, all of

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

which fully have their Tax Credits in place. The Tax Credits are attached to the property for a period of ten years ("Credit Period"), and are transferable with the Property during the remainder of the ten year period. As of the tax year ended December 31, 2006, 26 of 28 Local Partnerships have completed their Credit Period. If trends in the real estate market warranted the sale of a Property, the remaining Tax Credits would transfer to the new owner, thereby adding value to the Property on the market. However, such value declines each year and is not included in the financial statement carrying amount. The Credit Periods are scheduled to expire at various times through December 31, 2010 with respect to the Local Partnerships depending upon when the Credit Period commenced.

Critical Accounting Policies

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Partnership's accounting policies included in Item 8, Note 2 to the consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2007.

Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the Properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings. The Partnership complies with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations and sale of the property on an undiscounted basis is below depreciated cost.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

At that time, Property investments themselves are reduced to estimated fair value (generally using discounted cash flows) when the Property is considered to be impaired and the depreciated cost exceeds estimated fair value.

A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations and sale of the Property on an undiscounted basis are below depreciated cost. At that time Property investments themselves are reduced to estimated fair value (generally using discounted cash flows). Through June 30, 2007, the Partnership has recorded \$1,665,000 as an aggregate loss on impairment of assets or reduction to estimated fair value.

At the time management commits to a plan to dispose of assets, said assets are adjusted to the lower of carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. Property and equipment that are held for sale are included in discontinued operations. There is one asset classified as property and equipment-held for sale as of June 30, 2007 (see Note 4 in Item 1).

Revenue Recognition

Rental income is earned primarily under standard residential operating leases and is typically due the first day of each month, but can vary by Property due to the terms of the tenant leases. Rental income is recognized when earned and charged to tenants' accounts receivable if not received by the due date. Rental payments received in advance of the due date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

Other revenues are recorded when earned and consist of the following items: Interest income earned on cash and cash equivalent balances and cash held in escrow balances, income from forfeited security deposits, late charges, laundry and vending income and other rental related items.

Income Taxes

The Partnership is not required to provide for, or pay, any federal income taxes. Net income or loss generated by the Partnership is passed through to the partners and is required to be reported by them. The Partnership may be subject to state and local taxes in jurisdictions in which it oper-

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

ates. For income tax purposes, the Partnership has a fiscal year ending December 31.

Results of Operations

The Partnership's results of operations for the three months ended June 30, 2007 and 2006, consisted primarily of the results of the Partnership's investment in Local Partnerships. The following discussion excludes the Partnership's results of its discontinued operations which are not reflected below.

Rental income remained fairly consistent with an increase of approximately 3% for the three months ended June 30, 2007 as compared to the corresponding period in 2006.

Other income decreased approximately \$79,000 for the three months ended June 30, 2007, as compared to the corresponding period in 2006, primarily due to the receipt of insurance proceeds in 2006 resulting from a fire in 2005 at one Local Partnership offset by an increase in interest earned on insurance proceeds at a second Local Partnership and an increase in tenant charges at a third Local Partnership.

Total expenses, excluding general and administrative, remained fairly consistent with an increase of less than 1% for the three months ended June 30, 2007 as compared to the corresponding period in 2006.

General and administrative increased approximately \$230,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to an increase in legal fees at two Local Partnerships, an increase in bad debt expense at a third Local Partnership, an increase in janitorial salaries and management fee expense at a fourth Local Partnership and an increase in payroll and professional fees at a fifth Local Partnership.

Quantitative and Qualitative Disclosures about Market Risk

Mortgage notes are payable in aggregate monthly installments including principal and interest at rates varying from 0% to 9% per annum. The Partnership does not believe there is a material risk associated with the various interest rates associated with the mortgage notes as the majority of the Local Partnership mortgage notes have fixed rates. The Partnership currently discloses in Item 8, Note 3 to the consolidated financial statements in the Partnership's Annual Report on Form 10-K for the year

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ended March 31, 2007, the fair value of the mortgage notes payable. There are no material changes to such disclosure or amounts as of June 30, 2007.

The Partnership does not have any other market risk sensitive instruments.

Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* The Chief Executive Officer and the Chief Financial Officer of Related Independence Associates Inc., the general partner of the General Partner of the Partnership, have evaluated the effectiveness of the Partnership's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of such period, the Partnership's disclosure controls and procedures are effective.

(b) *Changes in Internal Control over Financial Reporting.* There have not been any changes in the Partnership's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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