

INDEPENDENCE

TAX CREDIT PLUS II

**QUARTERLY
REPORT**

**Ended
September 30, 2007**

November 2007

Message to Our BACsholders:

We are pleased to present the Quarterly Report for Independence Tax Credit Plus L.P. II for the quarter ended September 30, 2007.

Detailed information on the Partnership's overall performance is reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report. We urge you to read that section for a complete update on the financial condition of the Partnership.

The General Partners have begun to research opportunities available to liquidate the Partnership's portfolio. Partnership assets must be held for 15 years so as not to recapture any tax credits. As such, 2008 is the first year sales may occur. There are 15 assets in the Partnership's portfolio and it may take 3 years to fully liquidate the Partnership. We will, of course keep you apprised of transactions in future reports.

Although the Partnership no longer generates tax credits, you will receive a Schedule K-1 form every year until all assets are liquidated and the Partnership is terminated. The 2007 Schedule K-1 will be mailed on or about March 15, 2008 and it will also be accessible online via our website. Please go to www.centerline.com and click on "K-1 Tax Information for Investors", then click on the Partnership in which you are an investor. You will be asked to provide your taxpayer identification number and your six-digit investor number. If you do not know your six-digit investor number, have recently changed your mailing address or have questions concerning your investment, please contact Denise Bernstein of the Partnership's Corporate Communications Department at 1-800-600-6422, ext. 6451.

Very truly yours,



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

Consolidated Balance Sheets

	September 30, 2007 <u>(Unaudited)</u>	March 31, 2007 <u>(Audited)</u>
ASSETS		
Property and equipment at cost, net of accumulated depreciation of \$40,819,860 and \$39,185,607, respectively	\$ 67,647,441	\$ 69,010,904
Cash and cash equivalents	961,673	975,857
Cash held in escrow	3,857,302	3,885,537
Deferred costs, net of accumulated amortization of \$256,372 and \$239,249, respectively	220,396	237,519
Other assets	<u>958,089</u>	<u>461,643</u>
Total assets	<u>\$ 73,644,901</u>	<u>\$ 74,571,460</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets (continued)

	September 30, 2007 <u>(Unaudited)</u>	March 31, 2007 <u>(Audited)</u>
LIABILITIES AND PARTNERS' DEFICIT		
Liabilities:		
Mortgage notes payable	\$ 57,372,297	\$ 58,026,401
Accounts payable	1,166,106	867,153
Security deposit payable	425,663	424,592
Accrued interest	19,830,510	18,649,353
Due to local general partners and affiliates	3,210,939	3,013,722
Due to general partner and affiliates	<u>5,048,697</u>	<u>4,762,629</u>
Total liabilities	<u>87,054,212</u>	<u>85,743,850</u>
Minority interest	<u>(1,266,205)</u>	<u>(1,261,438)</u>
Commitments and contingencies (Note 3)		
Partners' deficit:		
Limited partners (58,928 BACs issued and outstanding)	(11,497,725)	(9,287,893)
General partner	<u>(645,381)</u>	<u>(623,059)</u>
Total partners' deficit	<u>(12,143,106)</u>	<u>(9,910,952)</u>
Total liabilities and partners' deficit	<u>\$ 73,644,901</u>	<u>\$ 74,571,460</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Revenues				
Rental income	\$ 2,594,936	\$ 2,368,814	\$ 5,241,185	\$ 4,797,403
Other income	<u>81,953</u>	<u>85,330</u>	<u>167,108</u>	<u>859,952</u>
Total revenues	<u>2,676,889</u>	<u>2,454,144</u>	<u>5,408,293</u>	<u>5,657,355</u>
Expenses				
General and administrative	572,222	562,978	1,252,811	1,185,117
General and administrative-related parties (Note 2)	263,104	252,228	542,427	517,018
Repairs and maintenance	711,649	540,513	1,345,600	1,119,263
Operating	363,008	304,328	755,881	694,156
Taxes	184,463	175,506	367,508	365,954
Insurance	179,324	182,986	363,654	376,643
Financial	679,402	677,170	1,365,958	1,375,119
Depreciation and amortization	<u>824,660</u>	<u>883,999</u>	<u>1,651,376</u>	<u>1,708,892</u>
Total expenses	<u>3,777,832</u>	<u>3,579,708</u>	<u>7,645,215</u>	<u>7,342,162</u>
Loss before minority interest	(1,100,943)	(1,125,564)	(2,236,922)	(1,684,807)
Minority interest in loss of subsidiary partnerships	<u>2,018</u>	<u>3,435</u>	<u>4,768</u>	<u>479</u>
Net loss	<u>\$ (1,098,925)</u>	<u>\$ (1,122,129)</u>	<u>\$ (2,232,154)</u>	<u>\$ (1,684,328)</u>
Net loss-limited partners	<u>\$ (1,087,936)</u>	<u>\$ (1,110,908)</u>	<u>\$ (2,209,832)</u>	<u>\$ (1,667,485)</u>
Number of BACs outstanding	<u>58,928</u>	<u>58,928</u>	<u>58,928</u>	<u>58,928</u>
Net loss per BAC	<u>\$ (18.46)</u>	<u>\$ (18.85)</u>	<u>\$ (37.50)</u>	<u>\$ (28.30)</u>

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	\$ (9,910,952)	\$ (9,287,893)	\$ (623,059)
Net loss	<u>(2,232,154)</u>	<u>(2,209,832)</u>	<u>(22,322)</u>
Partners' deficit – September 30, 2007	<u><u>\$ (12,143,106)</u></u>	<u><u>\$ (11,497,725)</u></u>	<u><u>\$ (645,381)</u></u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended September 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net loss	\$ (2,232,154)	\$ (1,684,328)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,651,376	1,708,892
Minority interest in loss of subsidiaries	(4,768)	(479)
Increase (decrease) in accounts payable	298,953	(179,373)
Increase in security deposit payable	1,071	7,169
Increase in accrued interest	1,181,157	812,144
Decrease (increase) in cash held in escrow	188,406	(41,258)
(Increase) decrease in other assets	(496,446)	125,747
Increase in due to local general partners and affiliates	445	14,908
Decrease in due to local general partners and affiliates	(23,961)	(27,704)
Increase in due to general partner and affiliates	286,068	250,557
Total adjustments	<u>3,082,301</u>	<u>2,670,603</u>
Net cash provided by operating activities	<u>850,147</u>	<u>986,275</u>
Cash flows from investing activities:		
Improvements to property and equipment	(270,790)	0
Increase in cash held in escrow	(160,171)	(706,771)
Increase in due to local general partners and affiliates	<u>220,733</u>	<u>5,421</u>
Net cash used in investing activities	<u>(210,228)</u>	<u>(701,350)</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended September 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from financing activities:		
Principal payments of mortgage notes	(654,103)	(309,835)
Increase in deferred costs	<u>0</u>	<u>(15,000)</u>
Net cash used in financing activities	<u>(654,103)</u>	<u>(324,835)</u>
Net decrease in cash and cash equivalents	(14,184)	(39,910)
Cash and cash equivalents at beginning of period	<u>975,857</u>	<u>1,061,848</u>
Cash and cash equivalents at end of period	<u>\$ 961,673</u>	<u>\$ 1,021,938</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

September 30, 2007 (Unaudited)

Note 1 - General

The consolidated financial statements include the accounts of Independence Tax Credit Plus L.P. II (the "Partnership") and fifteen other limited partnerships ("subsidiary partnerships", "subsidiaries" or "Local Partnerships") owning leveraged apartment complexes that are eligible for the low-income housing 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 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 September 30. The Partnership's fiscal quarter ends September 30, in order to allow adequate time for the subsidiary partnerships' financial statements to be prepared and consolidated. All subsidiaries have fiscal quarters ending June 30. Accounts of the subsidiary partnerships have been adjusted for intercompany transactions from July 1 through September 30.

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 from and cash distributions to the minority interest partners.

Losses attributable to minority interests which exceed the minority interests' investment in a subsidiary partnership have been charged to the Partnership. Such losses aggregated approximately \$8,000 and \$6,000 and \$14,000 and \$12,000 for the three and six months ended September 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. Losses attributable to minority interests which exceed the minority interests' investment in a subsidiary partnership have been charged to the Partnership. In consolidation, all subsidiary partnership losses are included in the Partnership's capital account except for losses allocated to minority interest capital.

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

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 Partnership’s Annual Report on Form 10-K for the year 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 of the Partnership, 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 September 30, 2007, the results of operations for the three and six months ended September 30, 2007 and 2006, and its cash flows for the six months ended September 30, 2007 and 2006, respectively. However, the operating results for the six months ended September 30, 2007 may not be indicative of the results for the year.

Note 2 - Related Party Transactions

An affiliate of the General Partner has a 0.01% interest as a special limited partner in each of the Local Partnerships.

The costs incurred to related parties for the three and six months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Partnership management fees (a)	\$ 136,500	\$ 136,500	\$ 273,000	\$ 273,000
Expense reimbursement (b)	36,624	28,963	88,882	70,263
Local administrative fee (c)	<u>9,875</u>	<u>8,000</u>	<u>19,750</u>	<u>16,000</u>
Total general and administrative- General Partner	<u>182,999</u>	<u>173,463</u>	<u>381,632</u>	<u>359,263</u>
Property management fees incurred to affiliates of the subsidiary partner- ships' general partners (d)	<u>80,105</u>	<u>78,765</u>	<u>160,795</u>	<u>157,755</u>
Total general and administrative- related parties	<u>\$ 263,104</u>	<u>\$ 252,228</u>	<u>\$ 542,427</u>	<u>\$ 517,018</u>

Notes to Consolidated Financial Statements (continued)
September 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 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 from working capital reserves or 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 \$4,574,000 and \$4,301,000 were accrued and unpaid as of September 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 would not be in a position to meet its obligations.

(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.

(c) Independence SLP L.P., a special limited partner of the subsidiary partnerships, is entitled to receive a local administrative fee of up to \$5,000 per year from each subsidiary partnership.

(d) Property management fees incurred by the Local Partnerships amounted to \$190,321 and \$164,154 and \$368,248 and \$339,720 for the three and six months ended September 30, 2007 and 2006, respectively. Of these fees, \$80,105 and \$78,765 and \$160,795 and \$157,755, respectively, were incurred to affiliates of the subsidiary partnerships' general partners.

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

Note 3 - Commitments and Contingencies

a) Subsidiary Partnerships – Going Concern

Creative Choice Homes VI Ltd. (“Creative Choice”)

Creative Choice incurred a net loss of \$45,108 for the six months ended June 30, 2007. During 2006, the local general partner funded \$115,250 to cover operating costs. Also, Creative Choice is in default of all of its mortgages. These factors create an uncertainty about Creative Choice’s ability to continue as a going concern. The ability of Creative Choice to continue as a going concern is dependent on the local general partner’s ability and willingness to continue funding operating losses. The Partnership’s investment in Creative Choice at September 30, 2007 and March 31, 2007 was reduced to zero as a result of prior years’ losses and the minority interest balance was \$0 at each date. Creative Choice’s net loss (income) after minority interest amounted to approximately \$45,000 and \$(521,000) for the six months ended September 30, 2007 and 2006, respectively.

During the year ended December 31, 2005, the property incurred hurricane damage. The total cost to bring the units back into service was approximately \$1,800,000. Creative Choice has contracted with Naimisha Construction, a related party, for \$1,600,000 to complete the repairs and renovations of the buildings damaged. During 2005, emergency insurance proceeds had been received by Creative Choice to offset the cost of immediate repair work. In 2006, Washington Mutual, the mortgage holder, received the remaining balance of the insurance proceeds and acted as trustee of the funds. Creative Choice was reimbursed by insurance proceeds in the amount of \$1,433,817. As of September 30, 2007, all hurricane repairs and renovations had been completed and a balance of approximately \$684,000 remains payable to Naimisha Construction.

Creative Choice also suffered fire damage on June 20, 2006 affecting nine of its units. At the time of the fire, the units were out of service due to the damage caused by the hurricane. These nine units remain out of service at September 30, 2007. The estimate of the cost of the damage is \$733,586. Creative Choice expects insurance proceeds in the amount of \$596,000 of which 10% is due to the insurance adjuster. As of September 30, 2007, \$140,000 of insurance proceeds had been received to cover the cost of immediate repair work and securing the location. Naimisha Construction, a related party, has been contracted to complete the repairs for

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

\$673,889. As of September 30, 2007, approximately \$394,000 remains payable to Naimisha Construction.

The above circumstances called into question the recoverability of the carrying amounts of the building. As a result, during the year ended December 31, 2006, pursuant to SFAS No. 144, an impairment loss of \$603,733 was recognized on the building and improvements.

b) **Subsidiary Partnerships – Other**

Mansion Court Associates (“Mansion Court”)

Mansion Court had a net loss of \$42,980 for the six months ended June 30, 2007. Mansion Court has been experiencing declining physical conditions due to cash and staffing shortages resulting from increasing drug related violence in the neighborhood. The Local General Partner is deferring management fees, reimbursement of payroll and has funded additional shortfalls. The Partnership’s investment in Mansion Court at September 30, 2007 and March 31, 2007 was reduced to zero as a result of prior years’ losses and the minority interest balance was \$0 at each date. Mansion Court’s net loss after minority interest amounted to approximately \$43,000 and \$49,000 for the six months ended September 30, 2007 and 2006, respectively.

During the year ended December 31, 2006, in accordance with SFAS No. 144, the Partnership deemed the building of Mansion Court Associates impaired and wrote it down to its fair value of approximately \$906,000, which resulted in a loss on impairment of approximately \$1,342,000. Fair value was obtained from an appraisal after indications that the carrying value of the assets were not recoverable, evidenced by a history of net operating losses over the past few years.

c) **Uninsured Cash and Cash Equivalents**

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

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

d) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective agreements of limited partnership of the Local Partnerships and/or the U.S. Department of Housing and Urban Development.

e) Other

The Partnership and Beneficial Assignment Certificates (“BACs”) holders began to recognize the low-income housing credit (“Tax Credit”) with respect to an apartment complex (“Property”) when the periods of the Partnership’s entitlement to claim Tax Credits (for each Property, generally ten years from the date of investment or, if later, the date the Property is placed in service) (“Credit Period”) for such Property commenced. Because of the time required for the acquisition, completion and rent-up of Properties, the amount of Tax Credits per BAC gradually increased over the first three years of the Partnership’s existence. Tax Credits not recognized in the first three years will be recognized in the 11th through 13th years. The Partnership generated \$2,525,244, \$4,827,456 and \$8,384,145 of Tax Credits during each of the 2006, 2005 and 2004 tax years, respectively.

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

As of September 30, 2007, the Partnership has invested all of its net proceeds in fifteen Local Partnerships. Approximately \$282,000 of the purchase price remains to be paid to the Local Partnerships (including approximately \$24,000 being held in escrow at the Partnership level).

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

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

contractual obligations. There are no material changes to such disclosure or amounts as of September 30, 2007.

Short-Term

The Partnership's primary sources of funds include working capital reserves, interest earned on working capital reserves and distributions received from the Local Partnerships. However, none of these sources provides a material amount of funds.

For the six months ended September 30, 2007, cash and cash equivalents of the Partnership and its fifteen consolidated Local Partnerships decreased approximately (\$14,000). This decrease was due to principal payments of mortgage notes (\$654,000), an increase in cash held in escrow relating to investing activities (\$160,000) and improvements to property and equipment (\$271,000), which exceeded cash provided by operating activities (\$850,000) and an increase in due to local general partners and affiliates relating to investing activities (\$221,000). Included in the adjustments to reconcile the net loss to net cash provided by operating activities is depreciation and amortization (\$1,651,000).

At September 30, 2007, there was approximately \$249,000 in the working capital reserves at the Partnership level. For the six months ended September 30, 2007, the Partnership received approximately \$109,000 in distributions, including \$48,000 received from refinancing proceeds at one Local Partnership. Management anticipates receiving additional distributions in the future, although not to a level sufficient to return to the limited partners their original investments. These distributions, if any, as well as the working capital reserves referred to above and the deferral of fees by the General Partner referred to below, will be used to meet the operating expenses of the Partnership.

Total expenses for the three and six months ended September 30, 2007 and 2006, excluding depreciation and amortization, interest and general and administrative-related parties, totaled \$2,010,666 and \$1,766,311 and \$4,085,454 and \$3,741,133, respectively.

Accounts payable as of September 30, 2007 and March 31, 2007 were \$1,166,106 and \$867,153, 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. The Partnership believes it (and the applicable Local Partnerships) has

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

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.

Security deposits payable are offset by cash held in security deposits, which are included in "Cash held in escrow" on the financial statements.

Accrued interest payable as of September 30, 2007 and March 31, 2007 was \$19,830,510 and \$18,649,353, 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 which has 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.

Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$4,574,000 and \$4,301,000 were accrued and unpaid as of September 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.

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 respective Local Partnerships, the resolution of the existing contingencies 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 15-year period commencing at the beginning of the Credit Period.

The Local Partnerships are impacted by inflation in several ways. Inflation allows for increases in rental rates generally to reflect the impact of

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

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.

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 fifteen Local Partnerships, all of which fully have their Tax Credits in place. The Tax Credits are attached to the Property for a period of ten years, and are transferable with the Property during the remainder of such ten-year period. If the General Partner determined that a sale of the Partnership's investment in a Property is warranted, 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, 2007 with respect to the Local Partnerships depending upon when the Credit Period commenced.

Critical Accounting Policies

The preparation of consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates considered critical by the Partnership. 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 in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2007.

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

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 are below depreciated cost. At that time, Property investments themselves are reduced to estimated fair value (generally using discounted cash flows).

Through September 30, 2007, the Partnership has recorded approximately \$5,871,000 as an aggregate loss on impairment of assets.

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

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

may be subject to state and local taxes in jurisdictions in which it operates. 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 and six months ended September 30, 2007 and 2006, consisted primarily of the results of the Partnership's investment in fifteen consolidated Local Partnerships. The majority of Local Partnership income continues to be in the form of rental income with the corresponding expenses being divided among operations, depreciation and mortgage interest.

Rental income increased approximately 9% for both the three and six months ended September 30, 2007 as compared to the corresponding periods in 2006, primarily due to increased occupancy at three Local Partnerships including units damaged by hurricane at one Local Partnership, and a HUD approved rent increase at one additional Local Partnership.

Other income decreased approximately \$693,000 for the six months ended September 30, 2007 as compared to the corresponding period in 2006, primarily due to the non-recurring insurance proceeds received for hurricane damages at one Local Partnership in 2006.

Total expenses, excluding repairs and maintenance and operating, remained fairly consistent with a decrease of approximately 1% for the three months and an increase of less than 1% for the six months ended September 30, 2007 as compared to the corresponding periods in 2006.

Repairs and maintenance increased approximately \$171,000 and \$226,000 for the three and six months ended September 30, 2007 as compared to the corresponding periods in 2006, primarily due to an increase in salaries and wages at one Local Partnership, an increase in repair contracts at a second, third and fourth Local Partnerships, increases in grounds contracts and carpet and floor repairs at a fifth Local Partnership and increases in appliance purchases and drywall repairs at a sixth Local Partnership.

Operating expense increased approximately \$59,000 and \$62,000 for the three and six months ended September 30, 2007 as compared to the corresponding periods in 2006, primarily due to increases in water and sewer

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

costs at two Local Partnerships and increases in gas costs at a third and fourth Local Partnership.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Partnership has mortgage notes that are payable in aggregate monthly installments including principal and interest at rates varying from 0% to 9.05% 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 disclosed in Item 8, Note 3 to the consolidated financial statements in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2007, the fair value of the mortgage notes payable. There are no material changes to such disclosure or amounts as of September 30, 2007.

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

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* The Chief Executive Officer and the Chief Financial Officer of Related Independence Associates L.P., 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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