

INDEPENDENCE
TAX CREDIT PLUS III

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. III (the "Partnership") for the quarter ended June 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.

Should you have any questions concerning your investment in this Partnership, please 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 L.L.C.

Consolidated Balance Sheets

	June 30, 2007 <u>(Unaudited)</u>	March 31, 2007 <u>(Audited)</u>
ASSETS		
Property and equipment - at cost, less accumulated depreciation of \$27,608,704 and \$26,947,693, respectively	\$ 56,818,946	\$ 57,470,569
Cash and cash equivalents	1,008,581	686,353
Cash held in escrow	5,628,591	5,496,614
Deferred costs, less accumulated amortization of \$588,463 and \$572,521, respectively	746,638	762,580
Other assets	<u>652,544</u>	<u>795,047</u>
Total assets	<u>\$ 64,855,300</u>	<u>\$ 65,211,163</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Liabilities:		
Mortgage notes payable	\$ 43,394,134	\$ 43,529,500
Accounts payable	803,786	606,118
Accrued interest payable	8,917,189	8,592,177
Security deposits payable	438,502	495,940
Due to local general partners and affiliates	1,871,956	1,976,765
Due to general partner and affiliates	<u>5,550,729</u>	<u>5,430,585</u>
Total liabilities	<u>60,976,296</u>	<u>60,631,085</u>
Minority interest	<u>203,173</u>	<u>429,202</u>
Commitments and contingencies (Note 3)		
Partners' capital (deficit):		
Limited partners (43,440 BACs issued and outstanding)	4,025,201	4,495,496
General partner	<u>(349,370)</u>	<u>(344,620)</u>
Total partners' capital (deficit)	<u>3,675,831</u>	<u>4,150,876</u>
Total liabilities and partners' capital (deficit)	<u>\$ 64,855,300</u>	<u>\$ 65,211,163</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	\$ 1,861,863	\$ 1,778,865
Other income	<u>134,324</u>	<u>30,522</u>
Total revenues	<u>1,996,187</u>	<u>1,809,387</u>
Expenses		
General and administrative	528,757	521,378
General and administrative-related parties (Note 2)	186,762	192,620
Repairs and maintenance	355,305	341,221
Operating	323,274	290,919
Taxes	86,788	80,996
Insurance	134,026	136,220
Financial, principally interest	405,396	396,238
Depreciation and amortization	<u>676,953</u>	<u>669,831</u>
Total expenses	<u>2,697,261</u>	<u>2,629,423</u>
Net loss before minority interest	(701,074)	(820,036)
Minority interest in loss of subsidiary partnerships	<u>226,029</u>	<u>68,382</u>
Net loss	<u>\$ (475,045)</u>	<u>\$ (751,654)</u>
Limited Partners Share:		
Net loss -limited partners	<u>\$ (470,295)</u>	<u>\$ (744,137)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>
Net loss per BAC	<u>\$ (10.83)</u>	<u>\$ (17.13)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Partners' Capital
(Deficit)
(Unaudited)

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>
Partners' capital (deficit) – April 1, 2007	\$ 4,150,876	\$ 4,495,496	\$ (344,620)
Net loss – three months ended June 30, 2007	<u>(475,045)</u>	<u>(470,295)</u>	<u>(4,750)</u>
Partners' capital (deficit) – June 30, 2007	<u>\$ 3,675,831</u>	<u>\$ 4,025,201</u>	<u>\$ (349,370)</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 loss	\$ (475,045)	\$ (751,654)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	676,953	669,831
Minority interest in loss of subsidiaries	(226,029)	(68,382)
Increase in accounts payable	197,668	186,513
Increase in accrued interest payable	325,012	236,196
(Decrease) increase in security deposit payable	(57,438)	52,839
(Increase) decrease in cash held in escrow	(133,962)	73,302
Decrease in other assets	142,503	45,533
(Decrease) increase in due to local general partners and affiliates	(17,887)	19,517
Increase due to general partner and affiliates	<u>120,144</u>	<u>106,232</u>
Total adjustments	<u>1,026,964</u>	<u>1,321,581</u>
Net cash provided by operating activities	<u>551,919</u>	<u>569,927</u>
Cash flows from investing activities:		
Purchase of property and equipment	(9,388)	(3,949)
Decrease (increase) in cash held in escrow	1,985	(210,386)
Decrease in due to local general partners and affiliates	<u>(84,824)</u>	<u>-</u>
Net cash used in investing activities	<u>(92,227)</u>	<u>(214,335)</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:		
Repayments of mortgage notes	(135,366)	(111,286)
Decrease in due to local general partners and affiliates	<u>(2,098)</u>	<u>-</u>
Net cash used in financing activities	<u>(137,464)</u>	<u>(111,286)</u>
Net increase in cash and cash equivalents	322,228	244,306
Cash and cash equivalents at beginning of period	<u>686,353</u>	<u>619,313</u>
Cash and cash equivalents at end of period	<u>\$ 1,008,581</u>	<u>\$ 863,619</u>

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. III (the "Partnership") and twenty other limited partnerships ("subsidiary partnerships", "subsidiaries" or "Local Partnerships") owning apartment complexes that are eligible for the federal low-income housing tax credit ("Tax Credit"). The general partner of the Partnership is Related Independence Associates III 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 Partnerships, to remove the general partner of the 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, 2007. All subsidiaries have fiscal quarters ending March 31, 2007. 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 from and cash distributions to the minority interest partners.

Losses attributable to minority interests which exceed the minority interests' investment in a subsidiary have been charged to the Partnership. Such losses aggregated approximately \$4,000 and \$4,000 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 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 June 30, 2007 and 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.

Note 2 - Related Party Transactions

An affiliate of the General Partner has a .01% interest as a special limited partner, in each of the Local Partnerships.

The costs incurred 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)	\$ 86,500	\$ 74,984
Expense reimbursement (b)	23,695	37,150
Local administrative fee (c)	<u>15,000</u>	<u>15,000</u>
Total general and administrative-General Partner	<u>125,195</u>	<u>127,134</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners (d)	<u>61,567</u>	<u>65,486</u>
Total general and administrative-related parties	<u>\$ 186,762</u>	<u>\$ 192,620</u>

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 \$3,319,000 and \$3,233,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, respectively. Without the General Partner's continued allowance of 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 allow the accrual without payment of these amounts but is under no obligation to continue to do so.

(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 III 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 Local Partnerships amounted to \$121,321 and \$120,209 for the three months ended June 30, 2007 and 2006, respectively. Of these fees, \$61,567 and \$65,486 were incurred to affiliates of the subsidiary partnerships' general partners.

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

Note 3 - Commitments and Contingencies

a) Leases

Savannah Park Housing L.P. ("Tobias"), one of the subsidiary partnerships, is leasing the land on which its apartment complex is located for a term of 50 years, which commenced in August 1996, with monthly rent payments of \$1,449. As of June 30, 2007, the lease agreement was current. Estimated aggregate future minimum payments due under the term of the lease were \$845,733 as of March 31, 2007.

b) 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.

c) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective limited partnership agreements of the Local Partnerships and/or 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 from surplus cash flow.

d) Other

The Partnership and holders of Beneficial Assignment Certificates ("BACs") began to recognize Tax Credits with respect to a property when the period 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) 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. Tax Credits not recognized in the first three years will be recognized in the 11th through 13th years. The Partnership generated \$3,164,434, \$4,614,216 and \$5,580,448 in Tax Credits during 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

The Partnership has invested all of its net proceeds in twenty Local Partnerships of which approximately \$135,000 remains to be paid to the Local Partnerships (including approximately \$130,000 being held in escrow).

Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

The Partnership disclosed 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 rental revenues, which are fully utilized at the property level.

For the three months ended June 30, 2007, cash and cash equivalents of the Partnership and its twenty consolidated Local Partnerships increased approximately (\$322,000). This increase was due to net cash provided by operating activities (\$552,000) and a decrease in cash held in escrow relating to investing activities (\$2,000) which exceeded purchases of property and equipment (\$9,000), a net decrease in due to local general partners and affiliates relating to investing and financing activities (\$87,000) and repayment of mortgage notes (\$135,000). Included in the adjustments to reconcile the net loss to net cash provided by operating activities is depreciation and amortization in the amount of approximately (\$677,000).

During the three months ended June 30, 2007, the Partnership received \$300 in distributions from operations of the Local Partnerships. Management anticipates receiving distributions from operations in the future, although not to a level sufficient to permit providing cash distributions to the BACs holders. These distributions will be set aside as working capital reserves and although likely not sufficient to cover all Partnership expenses, will be used to meet the operating expenses of the Partnership.

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

Total expenses for the three months ended June 30, 2007 and 2006, excluding depreciation and amortization, interest and general and administrative-related parties, totaled \$1,428,150 and \$1,370,734, respectively.

Accounts payable as of June 30, 2007 and March 31, 2007, were \$803,786 and \$606,118, 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 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.

Accrued interest payable as of June 30, 2007 and March 31, 2007, was \$8,917,189 and \$8,592,177, 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 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.

Security deposits payable are offset by cash held in security deposits, which are included in "Cash held in escrow" on the consolidated balance sheets.

Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$3,319,000 and \$3,233,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, respectively. Without the General Partner's continued allowance of 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 allow the accrual without payment of these amounts but is under no obligation to continue to do so.

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

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 subsidiary 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 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.

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 invested the proceeds of its offering in twenty Local Partnerships, all of which have their Tax Credits fully 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 the ten-year 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.

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 prepara-

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

tion 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 in its 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, 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 June 30, 2007, the Partnership has recorded approximately \$1,403,000 as a loss on impairment of assets or reduction to estimated fair value of one Local Partnership.

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. Through June 30, 2007, the Partnership has not recorded or classified any property and equipment as held for sale.

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

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

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 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 months ended June 30, 2007 and 2006 consisted primarily of the results of the Partnership's investment in 20 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 by approximately 5% for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to an increase in subsidy income at one Local Partnership and an increase in rental rates at the other Local Partnerships.

Other income increased approximately \$104,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to insurance claim proceeds received at one Local Partnership and an increase in interest income from switching to new interest bearing accounts at a second Local Partnership.

Total expenses, excluding operating, remained fairly consistent with an increase of approximately 2% for the three months ended June 30, 2007 as compared to the corresponding period in 2006.

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

Operating expense increased approximately \$32,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to increases in heat, gas and electric charges at two Local Partnerships and an underaccrual in utilities expense at a third Local Partnership offset by a water and sewer credit received at a fourth Local Partnership.

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 10% 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 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 III L.P., the general partner of the Partnership, and its general partner, Related Independence Associates III Inc., 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 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.

INDEPENDENCE TAX CREDIT PLUS L.P. III

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