Housing Credit FAQ

What is the Housing Credit?

The Low Income Housing Tax Credit (Housing Credit) is a federal tax credit created by President Reagan and Congress in the Tax Reform Act of 1986 designed to encourage private sector investment in the new construction, acquisition, and rehabilitation of rental housing affordable to low-income households. Over the last three decades, the Housing Credit has become the most successful affordable rental housing production program in history.

The Housing Credit offers a dollar-for-dollar reduction in a taxpayer's income tax liability in return for making a long-term investment in affordable rental housing. State agencies award Housing Credits to developers, who then sell the Credits to private investors in exchange for funding for the construction and rehabilitation of affordable housing. These funds allow developers to borrow less money and pass through the savings in lower rents for low-income tenants. Investors, in turn, receive a 10-year tax credit based on the cost of constructing or rehabilitating apartments that cannot be rented to anyone whose income exceeds 60 percent of area median income (AMI).

The program allows states to allocate Housing Credits to developments they select pursuant to qualified allocation plans (QAPs) they develop that identify the type, location, and other characteristics of affordable housing needed throughout the state. The QAPs must describe the criteria agencies will apply in allocating the Credit and are subject to review after a public hearing and comment process. In this way, the Housing Credit empowers states to respond to the housing needs, priorities, and challenges they consider most important.

There are two components of the Housing Credit program: the "9 percent" Credit and the "4 percent" Credit. Each state's 9 percent Housing Credit allocation is subject to a volume cap based on its population that limits the availability of the Credit in each state. In 2018, the state Credit cap is $2.40 times the state's population, with a state minimum of $2,765,000.[1] Volume cap figures are published by the IRS on an annual basis.

The 4 percent component of the program can only be triggered by the use of **tax-exempt private activity multifamily Housing Bonds**. Housing Bonds and the 4 percent Housing Credit finance approximately 50 percent of Housing Credit rental homes every year. Because multifamily Housing Bonds are limited by the Private Activity Bond volume cap, the 4 percent Credit is not subject to the Housing Credit volume cap. Not only do Housing Bonds make possible the production of substantial numbers of new Housing Credit properties, but they are essential to state efforts to preserve affordable housing.

[1] United States Department of Treasury, Internal Revenue Service, *Revenue Procedure 2017-58. Subject to change due to changes in the inflation factor enacted under H.R. 1, the Tax Cuts and Jobs Act*

Whom does the Housing Credit serve?

Congress designed the Housing Credit program to serve low-income working households earning 60 percent of AMI or less, with direction to serve the lowest income households possible. In practice, state well exceed this statutory requirement, reaching families with incomes much lower than the program's income limits. According to HUD data on Housing Credit resident demographics, nearly half (48 percent) of all households living in Housing Credit apartments are extremely low-income, meaning they earn 30 percent of AMI or less.[2] Another 34 percent of residents are very low-income, meaning they earn more than 30 percent, but less than 50 percent of AMI.[3]

The flexibility of the Housing Credit has made it an attractive tool for meeting housing needs across rural, urban, and suburban areas. It finances housing for low-income families with children, seniors, veterans, members of Native American tribes, and people with disabilities. The Housing Credit has been instrumental in the production of permanent supportive housing for persons experiencing homelessness, those recovering from opioid additions, and other special needs populations.

Why is the Housing Credit necessary?

The Housing Credit is necessary because our nation faces an affordable housing crisis, which is growing more and more critical. Increased demand for rental housing in recent years has caused rents to rise dramatically. By the end of 2014, rents were on average 15.2 percent higher than they were just five years earlier[4]. According to HUD's Worst Case Housing Needs report, 8.19 million very low-income renter households had worst case housing needs in 2015—meaning they did not receive government housing assistance and payed more than half of their income for rent, live in severely inadequate conditions, or both—a 49 percent increase in just 10 years.[5]

Between 2000 and 2013, the rental housing shortfall for extremely low-income (ELI) renters—measured as the gap between the number of ELI renters and the number of units available and affordable to those households—grew by 55 percent.[6] As of 2014, 10.4 million ELI renters competed for only 3.2 million available and affordable units.[7] Renter households who are unable to find an affordable apartment are forced to pay a significant portion of their income for housing—often more than half their income—leaving little money left over for other critical necessities like food, transportation, childcare, healthcare, and utilities.

The Housing Credit is an efficient and effective tool for providing affordable housing to the people who need it most. The Credit accounts for the vast majority of the country's new rental housing affordable to low-income people, creating affordable housing opportunities for the millions of families in our country today who otherwise pay an excessive portion of their income for housing, live in substandard and

[2] U.S. Department of Housing and Urban Development, *Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units* 2014.
[3] U.S. Department of Housing and Urban Development, *Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units* 2014.
[4] U.S. Department of Housing and Urban Development, *Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units* 2014.
[5] U.S. Department of Housing and Urban Development, *Worst Case Housing Needs* 2017.
[6] Urban Institute, *The Housing Affordability Gap for Extremely Low-Income Renters in 2013* 2015.
[7] National Low Income Housing Coalition, *The Affordable Housing Gap Analysis* 2016.

overcrowded conditions, or face homelessness. Our nation also relies on the program more and more to preserve the existing affordable housing stock that is often desperately in need of recapitalization.

How much housing has been developed because of the Housing Credit?

By providing an incentive for private sector investment, the Housing Credit has financed roughly 3 million apartments for low-income households, adding approximately 100,000 units to the inventory each year.[8]

What does the Housing Credit cost?

According to the Joint Committee on Taxation, the Housing Credit will cost approximately $45.1 billion over the five year period from 2016 to 2020. For FY 2018, its estimated cost is $8.6 billion.[9] The cost of the Housing Credit represents less than 6 percent of all affordable and non-affordable housing-related federal tax expenditures.

Who administers the Housing Credit?

The Housing Credit is typically administered by state Housing Finance Agencies (HFAs), state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics, such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor. The Housing Credit, in addition to tax-exempt housing bonds and the HOME program, is at the center of HFA affordable housing activity.

Who oversees the Housing Credit's administration?

The U.S. Treasury through the Internal Revenue Service (IRS) oversees the Housing Credit program and issues program guidance and regulations. In addition to IRS oversight, state level administration and private sector due diligence—under threat of severe tax penalty for noncompliance—are hallmarks of the Housing Credit program and have eliminated the need for extensive federal involvement and bureaucratic regulations. This oversight system represents an unprecedented departure from previous federal housing programs and is an essential element of the program's success.

What is the Housing Credit's economic impact?

The Housing Credit is a vital tool for local economic growth. The National Association of Home Builders estimates that in a typical year, the program supports approximately $3.5 billion in federal, state, and local taxes; $9.1 billion in economic income from wages and business income; and 95,700 jobs across various U.S. industries.[10]

[8] National Council of State Housing Agencies *State HFA Factbook: NCSHA Annual Survey Results* 2016.
[9] Joint Committee on Taxation, *Estimate of Federal Tax Expenditures for Fiscal Years* 2016-2020.
[10] National Association of Home Builders, *Eye on Housing, The Economic Impact of the Affordable Housing Credit* 2014.

Does the Housing Credit leverage other funding?

A unique feature of the Housing Credit is its ability to leverage private equity, which investors contribute upfront in exchange for a credit against their future tax liability. In addition, virtually every state combines the Housing Credit with other federal and state housing subsidies to make housing affordable to ELI families, the elderly, and special needs populations. Approximately 50 percent of Housing Credit apartments are financed using tax-exempt multifamily Housing Bonds annually, allowing them to achieve a lower interest rate on project debt than would otherwise be available.

Would the private sector finance affordable housing without an incentive like the Housing Credit?

No. Unlike many other tax expenditures, which subsidize activity that would occur at some level without a tax benefit, virtually no affordable rental housing development would occur without the Housing Credit. It simply costs too much to build housing to rent it at rates low-income people can afford absent an incentive such as the Credit. In addition to attracting private sector equity, the Housing Credit encourages lenders to finance affordable housing developments when they may be otherwise disinclined to do so.

Doesn't the Housing Credit just enable corporate investors to reduce their tax liability?

The Housing Credit is a purchased tax benefit, and substantially all of the net economic benefit of the program goes to low-income families, not corporations. Investors must pay for the Credit; they do not receive it for activities in which they would otherwise engage absent the Credit. In contrast to other corporate tax expenditures, corporations are only the intermediaries that enable private resources to be used to deliver affordable rental housing to low-income and special needs populations, housing which would not be built without the Credit.

How well do Housing Credit properties perform?

With strong state agency underwriting, strict compliance enforcement, and due diligence from the private sector, the inventory of Housing Credit properties overall has an outstanding performance track record according to all commonly used real estate metrics. Only 0.66 percent of Housing Credit developments have ever resulted in foreclosure, an unparalleled record compared to market rate multifamily properties and other real estate assets.[11] States underwrite Housing Credit properties with a slim profit margin, careful not to over-subsidize any particular project. The nationwide median debt coverage ratio across Housing Credit properties in 2014 was 1.33—high enough so that the majority of properties can cover operating costs without relying on emergency reserves, while keeping rents at a level affordable to most residents and not providing an excessive boon to investors.[12]

[11] CohnReznick, *Low-Income Housing Credit Program at Year 30: A Recent Investment Performance* 2015.
[12] CohnReznick, *Low-Income Housing Credit Program at Year 30: A Recent Investment Performance* 2015.

In addition to affordable housing, what other benefits does the program provide?

In addition to providing shelter, safe, sustainable, and affordable rental housing opportunities lead to improved child well-being, enhanced educational achievement, improved health outcomes, increased employment access, proximity to transportation options, community revitalization, and reduced dependence on emergency services and institutional care.

How did tax reform impact the Housing Credit?

Last year, Congress passed the Tax Cuts and Jobs Act, comprehensively reforming the nation's tax code. The Housing Credit was one of two corporate tax credits explicitly preserved in the *Unified Framework for Fixing Our Broken Tax Code*, which Republican Congressional and Administration leaders put forward to guide the tax reform process. Tax reform legislation introduced by both chambers of Congress retained the Housing Credit itself, but the House initially proposed eliminating the tax-exemption for all private activity bonds, including Housing Bonds, which are responsible for roughly 50 percent of Housing Credit production through the 4 percent program. In the end however, Congress maintained both the Housing Credit and tax-exempt private activity bonds in the final tax reform bill enacted in December, 2017.

While Congress did not directly modify the Housing Credit or Housing Bond programs in tax reform, other changes in the tax system are already indirectly impacting on the Housing Credit, reducing its production potential. In particular, the 21 percent corporate tax rate lowers the pricing investors are willing to pay for the Credit, and the change to the inflation factor will reduce the amount of available Credit authority in future years. Taken together, these two provisions will reduce Housing Credit equity by approximately 14 percent, which equates to a loss of as many as 235,000 homes over 10 years. Furthermore, the tax bill's base erosion anti-abuse tax is likely to make Housing Credit investment less attractive to certain investors who have long participated in the Credit program. These investors are unlikely to invest in the Credit in the future and could even divest from their current Credit investments.

How can Congress strengthen the Housing Credit program?

Despite the Housing Credit's successes, the unmet need for affordable rental housing continues to far outstrip the available resources. This imbalance between demand and supply has become even more pronounced in recent years as the overall number of renters has increased and incomes have stagnated. Moreover, as the federally subsidized affordable stock ages, we have become more and more dependent on the Housing Credit to meet preservation needs in addition to financing new construction.

Congress has the opportunity to build on what works by expanding the Housing Credit and providing states more flexibility so that they can maximize their resources. NCSHA recommends that Congress increase Housing Credit authority by at least 50 percent. Increased programmatic flexibility to target existing resources to those properties that need them most for financial feasibility would also make this strong program even more effective. These changes, embodied in the Affordable Housing Credit Improvement Act (S. 548/H.R. 1661), are even more crucial now to make up for the negative impact tax reform will have on the Housing Credit program.