

# Low-Income Housing Tax Credit

“The **Low-Income Housing Tax Credit** program is widely regarded as the most successful affordable housing production and preservation program in the nation’s history.”

*Joint Center for Housing Studies at  
Harvard University, 2009*

Affordable Rental Housing A.C.T.I.O.N.  
*Spring 2013*

# Agenda

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Affordable Housing Needs  
Affordable Housing Priorities  
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LIHTC – Why It Should Be Preserved

# LIHTC Timeline

1980s



**1986**

Tax Reform Act of 1986 creates low-income housing tax credit (LIHTC) designed to replace inefficient, poorly targeted incentives



**1989**

Program extended temporarily and significantly strengthened by, among other changes, empowering states to allocate credits according to their housing needs priorities and to underwrite transactions to ensure credits are limited to amounts necessary to achieve the financial feasibility and long-term viability of the developments

1990s



**1993**

LIHTC is made a permanent part of the Internal Revenue Code, with strong bipartisan support

2000s



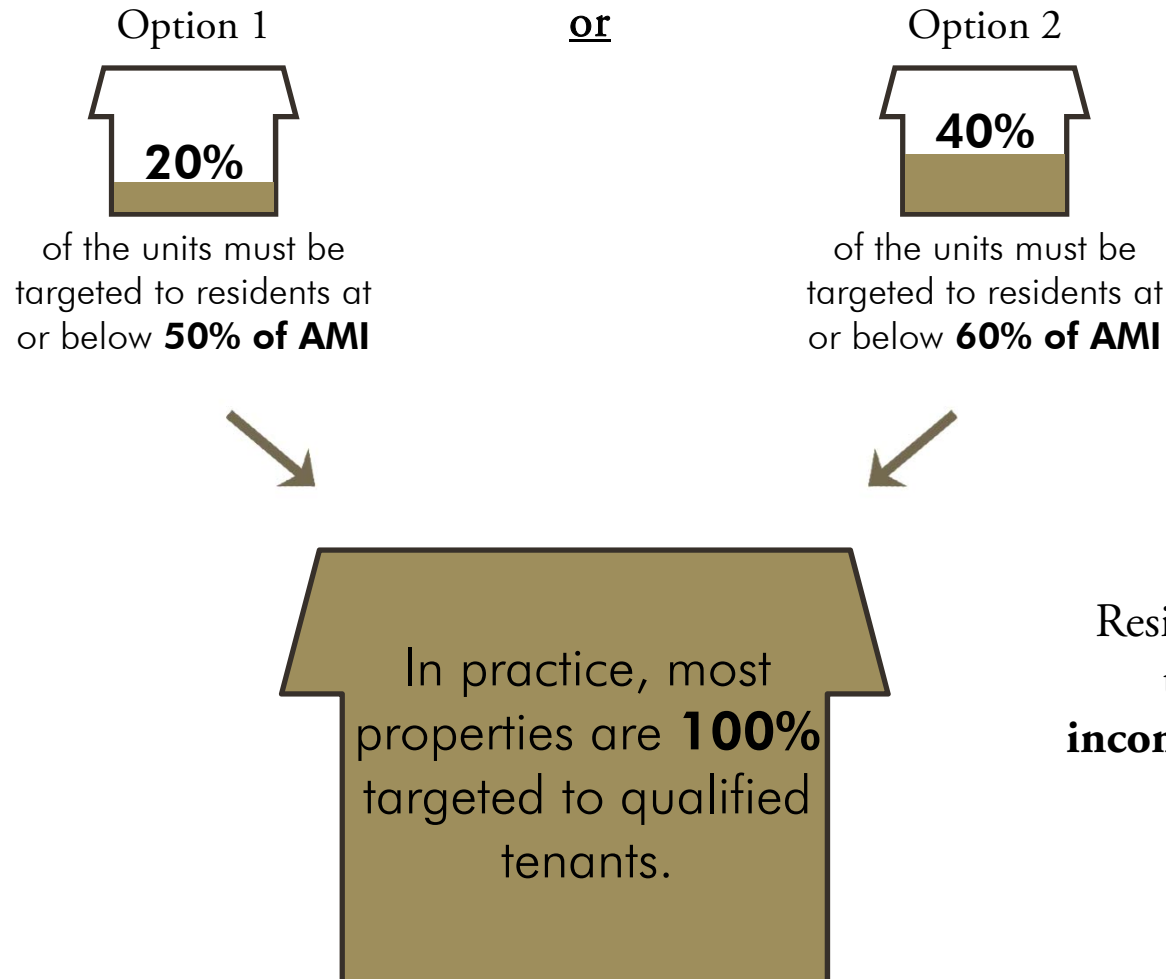
**2000**

Per capita allocation authority for LIHTC is increased by 40% and indexed for inflation, again with huge bipartisan support; 86% of House members and 81% of senators cosponsored legislation proposing this expansion

**2008**

Program is further strengthened to give states increased flexibility to reach difficult-to-serve populations and places

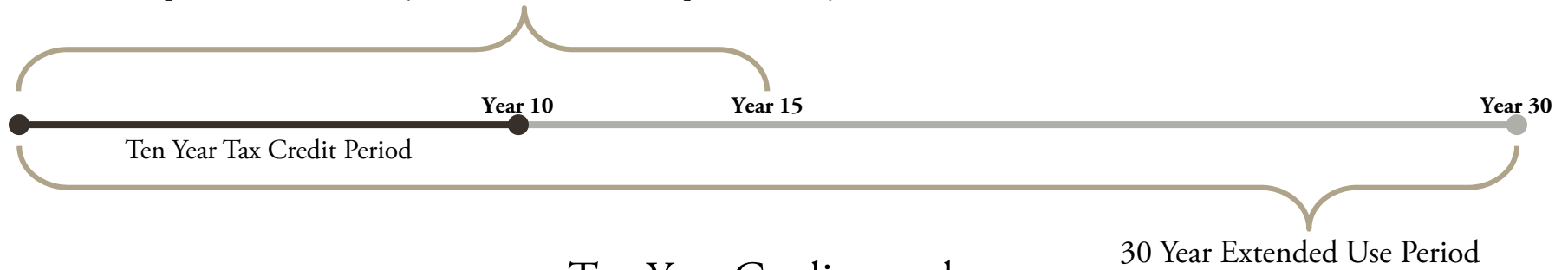
# Program Basics



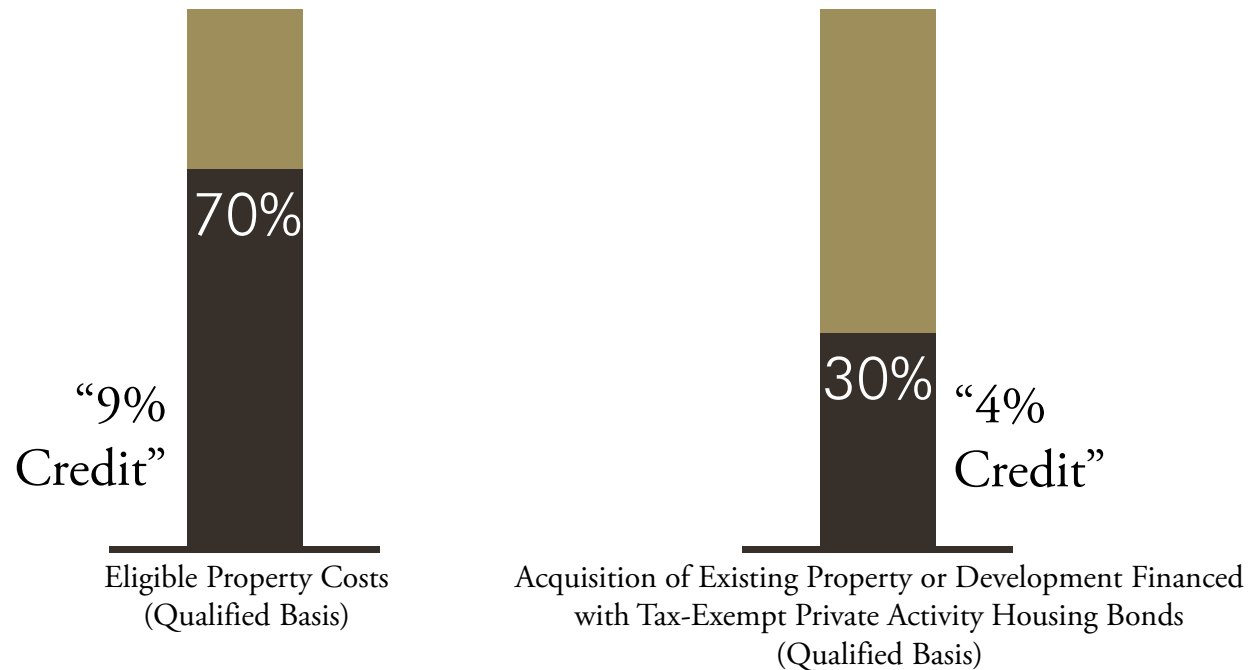
Residents pay rent that is no more than **30 percent of qualifying income** established for the property at the time of allocation.

# Program Basics

Developments must remain affordable and subject to IRS compliance rules for 15 years, but states require that affordability restrictions remain in place for 30 years or more.



Ten Year Credit equals  
(on a present value basis) either:

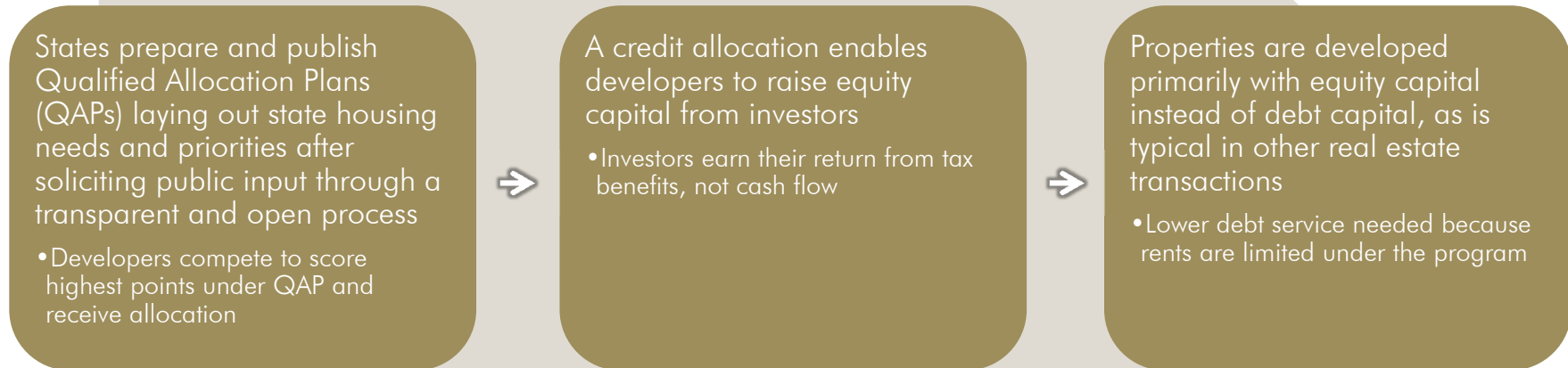


# Program Basics

States receive tax credits annually based on population with a small state minimum.

In 2013, the per capita amount is \$2.25 and small state minimum is \$2,590,000.

Credits allocated to bond-financed developments are not subject to the annual state Credit cap, but the bonds are subject to the private activity bond cap.



# Affordable Housing Needs

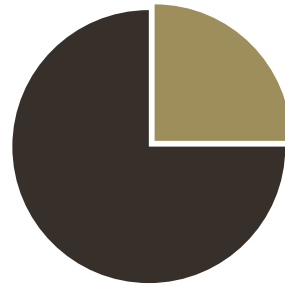
Many factors have exacerbated the affordable housing crisis:

Increased demands for rental units

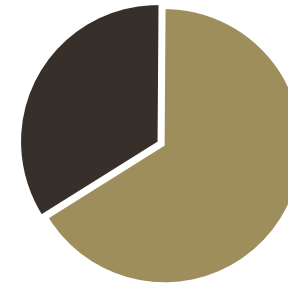
National economic weakness

Years of stagnating income at the low-end of the economic spectrum

...leading to high rent burdens:



One quarter of all renters pay half of their income in rent.



Nearly two-thirds of extremely low-income (ELI) renters (those with incomes at or below 30% of AMI) pay half of their income or more in rent.



For every 100 ELI households, there are only about 36 affordable homes available.

# Affordable Housing Needs

Nationally, the gap between the number of available affordable rental homes and ELI households that need them is more than **6.5 million homes**.

Yet, only **one in four** households eligible for federal housing assistance receives it.

State allocating agencies, on average, receive applications annually for **more than twice as much Housing Credit as they have available**, while demands increase on the program to serve more and more needs, including preservation of federally assisted housing.

The Bipartisan Policy Center Housing Commission recently recommended annual Housing Credit authority be increased by **50 percent** to address these unmet needs.



# Affordable Housing Priorities

States go through an annual public process to identify their affordable housing needs but are required under the program to give preference to certain developments:

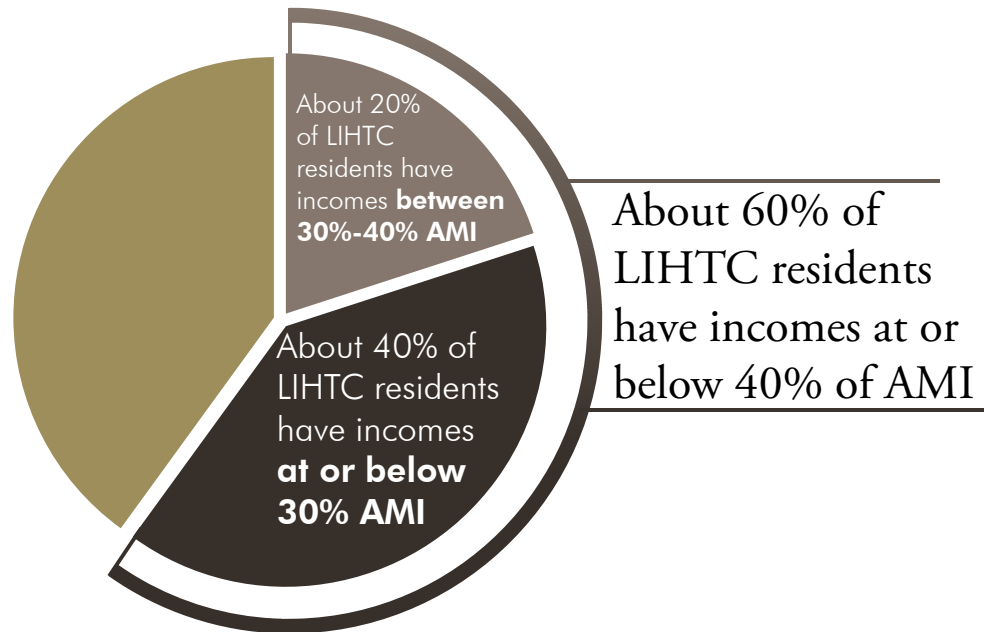
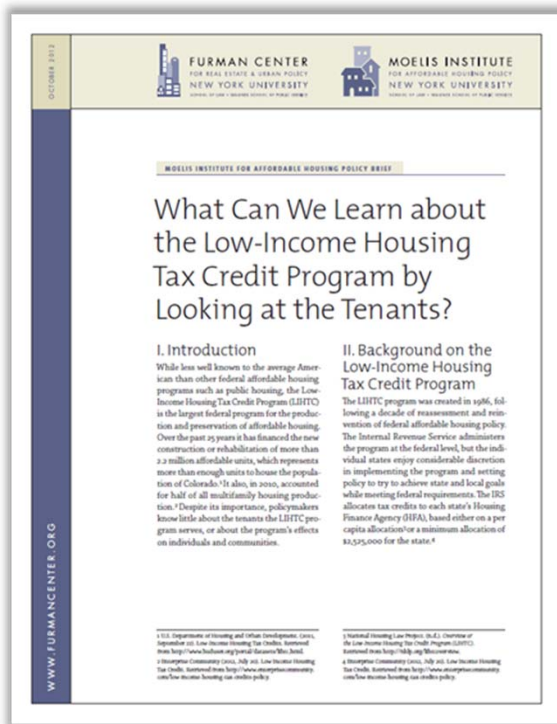
serving the lowest  
income tenants;

obligated to serve  
qualified tenants for  
the longest period of  
time; and

located in qualified  
census tracts and the  
development of which  
contributes to a  
concerted community  
revitalization plan.

# LIHTC Program Performance

While LIHTC requires targeting to households with incomes of 60% of AMI or less, according to a recent study by NYU, the federal preferences have been effective in encouraging the program to reach further down the income scale where need is greatest.



Approximately **one third** of LIHTC residents are charged rents that are at **least 20% below** the maximum allowable rent.

# LIHTC Program Economic Contribution

Since the program was created, it has made possible the development of more than **2.5 million rental homes**.

Each year, about **100,000 new rental homes** are developed or preserved under the program.

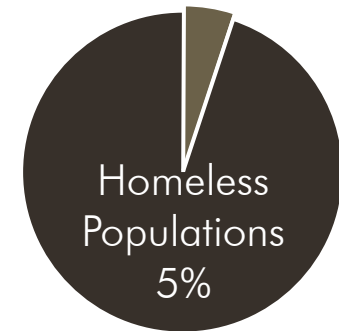
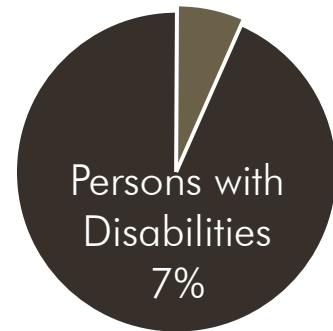
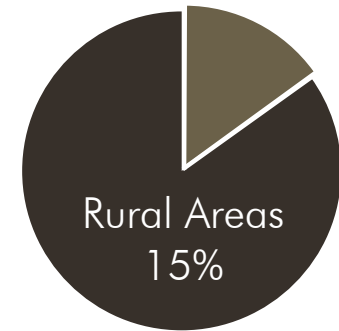
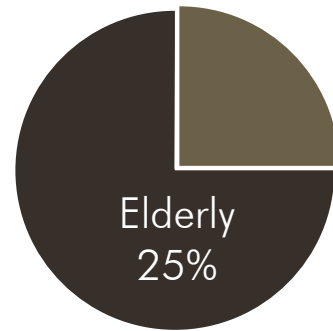
Each year, about **95,000 new full-time jobs** are created by the program.

This produces **\$7.1 billion annually** of local income through wages for workers and profits for small businesses, and about **\$2.8 billion** in taxes and other revenues for local governments.

# LIHTC Production

## Percent of LIHTC Units Serving Particular Populations

The LIHTC serves the full spectrum of housing need, including housing for **families, seniors, people with special needs, and the homeless**, in all geographic areas, including **urban, suburban, and rural areas**. States tailor their allocation plans to respond to their specific needs, such as **housing homeless veterans, revitalizing neighborhoods, and providing supportive housing for those with special needs**. These plans often target allocations to housing for specific groups, including those shown to the right.



# LIHTC Keys to Success

## FEDERAL FRAMEWORK

Equity capital is contributed up-front to develop properties but Credits are received over ten years and properties generally remain affordable for 30 years or more.

Owners are subject to Credit recapture for program violations and for foreclosure throughout 15-year compliance period.

As a result, cumulative foreclosure rate is less than 1%, far lower than any other real estate asset type, because private sector is incentivized to remain in compliance and avoid Credit recapture.

## STATE ADMINISTRATION

States award Credits, based on local housing needs, pursuant to an annual allocation plan prepared with public input.

States determine the minimum amount of Credit necessary for financial feasibility and long-term viability.

Decision making is open and transparent.

States continually monitor for program compliance and have authority to enforce rules with deed restrictions.

## PRIVATE SECTOR

The program harnesses private sector investment capital and business discipline.

Credits are not earned until the project is completed, in operation, and housing qualified residents; thus the risk is borne by the private sector, not government.

Private sector aggressively monitors ongoing property compliance and performance to avoid recapture events and ensure Credits will continue to be earned.

# LIHTC – Why It Should be Preserved

Unlike most other tax expenditures – which largely subsidize activity that would occur at some level without the tax support – there would be **virtually no affordable housing development** without the LIHTC.

The reason is that the construction of affordable multifamily housing, rented to lower income families at controlled rents is **fundamentally uneconomic** without a subsidy.

Housing would not be built or preserved but for the capital contributed because of LIHTC; it is **the key financing source in almost all affordable rental housing development**.

According to the Joint Center for Housing Studies at Harvard, “to develop new apartments affordable to renter households with incomes equivalent to the full-time minimum wage, the construction costs would have to be 28% of the current average.”

If there were no LIHTC, the 100,000 affordable rental homes and 95,000 jobs created annually would be **eliminated**.

# Strengthening the LIHTC

Congress should make permanent the fixed 9 percent Credit rate, which it enacted for five years in 2008 and recently extended through 2013. Congress should also establish a fixed Credit rate for 4 percent Credits allocated under the state Credit cap. Creating a permanent fixed rate system would create certainty for owners and investors, simplify state administration, and streamline the development of affordable rental housing. Minimum rates would not increase the amount of credits authorized through each state; they would merely allow states to allocate more credits to individual developments.

Since LIHTCs are provided over a ten year period, IRS uses discount rates based on the federal cost of borrowing to calculate what the annual Credit rate should be to add up to 70 percent or 30 percent over a ten year period.

LIHTC rates are calculated monthly. For April 2013, IRS calculates the 70 percent Credit at 7.43% and the 30 percent Credit at 3.19%. These low rates reduce the amount of Credit allocated to properties and thereby reduce the amount of equity capital in LIHTC development, which increases pressure on operating costs.

Fixing the rates permanently would restore the value of the Credit at little cost and allow states to better meet their housing needs.