Low-Income Housing Tax Credit
Frequently Asked Questions

What is the Low-Income Housing Tax Credit (Housing Credit)?

The Housing Credit provides the private sector with an incentive to invest in affordable rental housing. Since President Reagan signed it into law in 1986, the Housing Credit has financed the construction and preservation of virtually all affordable apartments – more than 2.8 million nationwide, at a rate of nearly 100,000 per year. The development of these homes supports approximately 96,000 jobs across the country annually, while generating $3.5 billion in federal, state and local taxes and $9.1 billion in economic income.

Why do we need to invest in affordable housing at all?

America faces a growing affordable rental housing crisis. According to the June 2015 "State of the Nation's Housing" report from the Harvard Joint Center on Housing Studies (JCHS), more than a quarter of all renters—over 11 million households – are "severely rent burdened," meaning they pay more than half their income in rent. In 2014, there were only 31 available and affordable apartments for every 100 extremely low-income households in the United States, representing a need for over 8 million affordable homes. And less than one in four households eligible for federal housing assistance actually receives it.

The rental housing crisis isn't going anyway any time soon. Analysts expect an average of over 400,000 new households – many of whom will be low-income – to enter the rental housing market each year over the next decade. However, the rental housing industry develops less than this number of new rental units each year, and mostly on the higher end of the market. Meanwhile, hundreds of thousands of affordable units are lost each year to price increases or obsolescence.

Couldn't we build affordable housing without the Housing Credit?

It is fundamentally uneconomic to build safe and decent apartments that are affordable to low-income households without a subsidy. According to JCHS, "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" – essentially making the financing impossible. The Housing Credit enables developers to raise equity capital from investors, which reduces the debt on properties, enabling lower rents.

How does the Housing Credit work?

The federal government issues Housing Credits to states based on their populations. Each year, states establish credit allocation plans under broad federal guidelines that identify their affordable housing priorities. Through a highly competitive process, which is transparent and open to public scrutiny, Housing Credits are then awarded to developers based on how well their proposed projects meet the housing needs of the state. Developers use the Housing Credits to raise equity capital from investors, which reduces the debt that would otherwise be required to build the property and makes it possible to offer apartments to low-income residents at an affordable rent.

Either twenty percent of the apartments in a Housing Credit property must be targeted to residents at or below 50 percent of area median income (AMI), or forty percent of the apartments must be targeted to residents at or below 60 percent of AMI. In practice, though, 100 percent of apartments are targeted to low-income tenants in most Housing Credit properties. Residents pay 30 percent of the income threshold as rent.

If the property maintains compliance with the program, the investors can claim Housing Credits to reduce their federal income tax liability over ten years. The credits on the property are subject to recapture by the IRS if the property does not remain in compliance for the first 15 years, meaning taxpayers can get their money back in the very rare instance that something goes wrong. After that, the property is subject to continued affordable restrictions enforceable by the states for another 15 years under deed restrictions, though many states impose even longer affordability requirements.

What are Tax-Exempt Multifamily Housing Bonds (Housing Bonds)?

Housing Bonds are an essential tool for preserving affordable housing using the Housing Credit. State housing finance agencies (HFAs) may provide 4 percent Housing Credit authority to qualified multifamily tax-exempt bond-financed development, which does not count against the state's annual Housing Credit cap. However, bond-financed 4 percent credit developments must still comply with the state's allocation plan established in the QAP and with all other applicable Housing Credit program rules, including those related to income targeting and the affordability period.

Housing Bonds used in conjunction with acquisition Housing Credits are responsible for financing more than 40 percent of annual Housing Credit production, providing affordable homes to over 1 million families since 1986.

Why doesn't the government provide funding directly?

There is unique value in the Housing Credit being located in the tax code because there is a high degree of accountability. Unlike in a direct funding program, private investors – not the federal government – provide all the equity up front and bear the financial risk.

Housing Credits can only be claimed after properties are built and occupied by income-eligible residents at affordable rents. Because tax credits can be recaptured, the private sector aggressively monitors compliance.

How do states ensure that developments are not over-subsidized?

Each state is required by the tax code to provide only enough subsidies to ensure financial feasibility, and underwrite Housing Credit applications at three different stages of the development process to ensure they provide no more Housing Credit than necessary to each development. Many HFAs also impose limitations on the fees that builders and developers may receive on the construction of a Housing Credit property. In addition, states have incentives to minimize the amount of Housing Credit awarded per development to maximize the number of homes they can finance with their limited amount of credit authority.

What does the Housing Credit cost?

According to the congressional Joint Committee on Taxation (JCT), the Housing Credit cost $7.6 billion in lost revenue in FY2015.