HOW THE LOW-INCOME HOUSING TAX CREDIT WORKS

The Treasury Department gives states the authority to allocate Housing Credits and Housing Bonds based on population size.

- In 2019, each state will receive an allocation of either $3,166,875 or a maximum of $2.76 per capita – whichever amount is greater. Since 2003, this amount has been adjusted annually for inflation, and in 2018 Congress enacted a temporary 12.5 percent expansion of the Housing Credit for four years (2018-2021).

States determine which types of affordable rental housing gets built, who gets served, and where those projects are located.

- There are two separate Housing Credit rates, dependent on the nature of the construction project: the ”9 percent” Housing Credit for new construction and substantial rehabilitation, and the ”4 percent” Housing Credit for acquisitions and new development or rehabilitation in conjunction with private activity bonds (PABs).

- **9 Percent Housing Credit**
  - States agencies write annual regulations (called Qualified Allocation Plans or QAPs) describing the selection criteria they will use in determining what kinds of developments receive 9 percent Housing Credit allocations.
  - States review applications, and developers with the best projects are awarded Housing Credits. The amount of Housing Credits a development receives is based on eligible project costs multiplied by the Housing Credit rate.

- **4 Percent Housing Credit**
  - States can choose to allocate a portion of their PAB authority to issue multifamily Housing Bonds, of which developers apply to receive.
  - If an affordable housing development is financed with at least 50 percent Housing Bonds, the development is eligible to receive the 4 percent Housing Credit.
  - Like the 9 percent Housing Credit, the amount of 4 percent Housing Credit authority a bond-financed property is eligible to receive is based on project costs multiplied by the Housing Credit rate.

- State agencies put each development through three separate, rigorous evaluations to make sure the project receives only enough tax credits to make it affordable to low-income families for at least 30 years.

Developers receive equity toward constructing affordable rental homes.

- Once state agencies award the Housing Credits to developers, “syndicators” create funds made up of pooled investor capital, which they trade to developers in exchange for Housing Credits.
- With the financing obtained from syndicators and investors, developers can borrow less money to cover the costs of construction, reducing the cost of the development.
- The lowered development costs allow for reduced rent for low-income tenants without needing any ongoing subsidy.

Low-income renters get an affordable place to live.

- Housing Credit apartments must be rented to families whose income is no more than 60 percent of the area median income (AMI), unless developers choose the income averaging option, which allows Housing Credit-qualified apartments to serve families earning up to 80 percent AMI, as long as the average income/rent limit of the property does not exceed 60 percent AMI.
- The rent for these apartments cannot be more than 30 percent of the income limit at that property.

Investors receive a 10-year tax credit.

- By purchasing the Housing Credits, investors get an equity stake in the development and 10 years’ worth of tax credits based on the cost of constructing or rehabilitating the apartments. Investors also get a return on their investment for providing the capital to finance the housing.
- In order to continue to claim tax credits and keep a strong return on their investment, investors must ensure that the project remains affordable and in compliance.