

LOW-INCOME HOUSING TAX CREDIT FREQUENTLY ASKED QUESTIONS

HOW THE HOUSING CREDIT WORKS

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 for low-income families. Since President Reagan signed it into law in 1986, the Housing Credit has financed the construction and preservation of more than 3 million affordable homes nationwide, at a rate of nearly 100,000 per year. Today it produces virtually all new affordable housing and is our primary tool for preserving existing affordable housing.

How does the Housing Credit work?

The federal government issues Housing Credits to states based on their populations. Each year, state allocating agencies establish criteria for awarding credits (known as a Qualified Allocation Plan, or QAP) that address the state's local housing needs and goals, under broad federal guidelines and subject to public comment. Developers submit applications for credits through a highly competitive process; each year, allocating agencies receive applications requesting two to three times more Housing Credits than the agencies have to allocate. Housing Credits are then awarded to developers based on how well their proposed projects meet the locally established criteria.

Developers exchange the Housing Credits, which will flow over a period of ten years, for up-front 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.

Only once the property is constructed, meets all federal requirements and is occupied by income-eligible tenants can the developer begin claiming credits. In the rare case that a property falls out of compliance at any time over the next fifteen years, credits are subject to recapture. The private sector, not taxpayers, bear the financial risk. The property is also subject to continued affordability restrictions enforced by the states for at least another 15 years, though many states impose even longer affordability requirements.

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

Housing Bonds provide critical financing to more than 40 percent of all Housing Credit developments, and are especially integral to the preservation of existing affordable housing, which is an important policy goal that complements new construction.

When a certain threshold of Housing Bond financing is used in a development, state agencies may provide Housing Credit authority that does not count against the state's annual allocated Housing Credit cap for the acquisition and rehabilitation of the property. However, bond-financed Housing 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.

Who does the Housing Credit serve?

The Housing Credit supports low-income families, veterans, people with disabilities and seniors in rural, suburban and urban communities. The original Housing Credit standard required apartments to be rented to families whose income is no more than 60 percent of the area median income (AMI). In 2018, the Consolidated Appropriations Act included a provision allowing families earning up to 80 percent of AMI to rent Housing Credit apartments, as long as the average income/rent limit of the property does not exceed 60 percent AMI. In practice, many Housing Credit developments serve much lower-income tenants. The GAO finds Housing Credit renters on average earn 37 percent of AMI. Over four in five Housing Credit tenants (82 percent) are very low-income, meaning they have household incomes at or below 50 percent of AMI, and nearly half of Housing Credit tenants (47.7 percent), are extremely low-income, with household incomes below 30 percent of AMI.

How do states provide oversight and prevent against fraud?

As directed by Congress, state allocating agencies take the lead on oversight and work with the IRS to monitor project compliance. State agencies regularly conduct extensive reviews of Housing Credit developments to inspect their physical and financial condition, certify their occupancy by qualified low-income residents, and ensure overall compliance with federal rules. State agencies also underwrite transactions to make sure that costs are reasonable and that the amount of Housing Credits awarded is the minimum needed to complete the project. [A 2017 GAO study](#) of state agencies' administration of the program found that states often go above and beyond the compliance monitoring responsibilities required of them by law. Multiple parties – both public and private – scrutinize each transaction from beginning to end, providing independent checks and balances, and tenants have full enforcement rights as well.

There is no evidence of widespread fraud in the Housing Credit program. Out of 40,000 properties developed, few isolated cases have been found and the violators have been reprovved swiftly. The record of states monitoring for compliance is strong and the affordable housing industry supports all efforts to investigate and vigorously prosecute any violations.

PROPOSALS TO STRENGTHEN AND EXPAND THE HOUSING CREDIT

What is the Affordable Housing Credit Improvement Act?

The Affordable Housing Credit Improvement Act is bipartisan legislation that would make numerous modifications to strengthen the Housing Credit by providing states with additional flexibility, making the financing of affordable housing more predictable and streamlined, facilitating Housing Credit development in challenging markets like rural and Native American communities, increasing the Housing Credit's ability to serve extremely low-income tenants, and supporting the preservation of existing affordable housing. It was introduced in the Senate (S. 1703) by Senators Maria Cantwell (D-WA), Todd Young (R-IN), Ron Wyden (D-OR), and Johnny Isakson (R-GA), and in the House (H.R. 3077) by Representatives Suzan DelBene (D-WA), Kenny Marchant (R-TX), Don Beyer (D-VA), and Jackie Walorski (R-IN). Read a summary of the [House and Senate bills](#), identical companion bills.



Is there enough developer demand to absorb a significant increase in Housing Credits?

In 2015 – the most recent year for which data is available – state Housing Credit allocating agencies received applications requesting more than twice their available Housing Credit authority. Many more potential applications for worthy developments are not submitted in light of the program’s intense competition, suggesting the demand may be even broader.

What does the Housing Credit cost? What would it cost to expand it by 50 percent?

According to the congressional Joint Committee on Taxation (JCT), the Housing Credit currently costs roughly \$9 billion per year in foregone revenue, which includes the cost of credits that have been issued in prior years. A 50 percent expansion of the Housing Credit phased in over five years was previously estimated to cost roughly \$4 billion over the next ten years; however, we are expecting a new JCT score.

THE NEED FOR THE HOUSING CREDIT

Why does the federal government need to invest in affordable housing?

America faces a severe and growing shortage of affordable rental housing. According to the June 2018 “State of the Nation’s Housing” report from the Harvard Joint Center on Housing Studies (JCHS), more than a quarter of all renters—11 million households – are “severely rent burdened,” meaning they pay more than half of their income in rent. This creates financial instability and puts households at risk of eviction and homelessness in the face of unforeseen expenses. Fewer than one in four households eligible for federal housing assistance actually receives it, and there are scarce affordable options available in the private market.

The rental housing crisis will likely grow. 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. According to [estimates from Enterprise Community Partners and JCHS](#), the number of severely rent burdened will rise by 11 percent to 13.1 million in 2025, up from 11.8 million in 2015.

If there is so much demand for affordable housing, why doesn’t the private sector provide it?

The economics of rental housing development make it financially infeasible to build safe and decent affordable housing without a subsidy such as the Housing Credit. The Housing Credit enables developers to raise equity capital from investors, which reduces the debt on properties, enabling lower rents. [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.

Why do we need to build affordable housing – can we just use vouchers?

The Housing Credit is often creatively combined with resources from several programs, including vouchers, to create better outcomes than is possible with just one affordable housing tool. Vouchers are one of the primary vehicles for providing affordable housing choices to extremely low-income families, especially in low-cost housing markets. However, vouchers are not a replacement for the Housing Credit, which expands or preserves the affordable housing stock as a long-term community asset. Likewise, the Housing Credit, as a capital subsidy, cannot on its own ensure apartments are affordable to the very lowest income renters. Housing Credits and vouchers are often used



together to address complementary issues: the Housing Credit to bring down the cost of the unit on a long-term basis, and the voucher to enable that already low-cost unit to be more affordable to the lowest income tenants.

There are several rental housing market challenges that the Housing Credit is uniquely positioned to address, such as expanding supply in tight markets, producing housing for households with special needs, providing affordable housing options in areas experiencing job growth, recapitalizing and preserving aging properties, and revitalizing low-income communities. The Housing Credit also enables voucher holders to access a broader array of housing options. As it is, many voucher holders are unable to find available units or a landlord who will accept their voucher. This problem has exacerbated in recent years as demand for rental housing has increased while vacancy rates have declined and rents have skyrocketed.

How does the Housing Credit impact surrounding neighborhoods?

The Housing Credit supports economic growth in communities and surrounding neighborhoods in a number of ways. The National Association of Home Builders (NAHB) estimates the Housing Credit adds \$9.1 billion in income to the economy and generates approximately \$3.5 billion in federal, state, and local taxes each year. Housing Credit development also supports jobs – roughly 1,130 for every 1,000 Housing Credit apartments developed, according to NAHB. This amounts to roughly 96,000 jobs per year, and more than 3.25 million since the program was created in 1986, across a diverse range of industries, including the manufacturing of lighting and heating equipment, lumber, concrete, and other products, as well as jobs in transportation, engineering, law, and real estate.

Conversely, a lack of affordable housing negatively impacts economies. [Research](#) shows that high rent burdens have priced out many workers from the most productive cities, resulting in 13.5 percent foregone GDP growth, a loss of roughly \$1.95 trillion, between 1964 and 2009.

Housing Credit development also positively impacts neighborhoods in need of renewal. About one-third of Housing Credit properties help revitalize distressed communities. [Stanford University](#) research shows Housing Credit investments improve property values and reduce poverty, crime, and racial and economic isolation, generating a variety of socioeconomic opportunities for Housing Credit tenants and neighborhood residents.