

Fact Sheet

Low-Income Housing Tax Credits: Meeting the Demand for Affordable Rental Housing

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Introduction

The Low-Income Housing Tax Credit (LIHTC) is the federal government's primary vehicle for producing affordable rental housing. It provides \$8 billion in annual budget authority to state and local housing agencies to help produce new and rehabilitated rental housing for low-income households. The LIHTC has generated over 3 million housing units since its inception.¹

How the LIHTC Works

The LIHTC encourages the private market to invest in affordable housing. State housing finance agencies (HFAs) award tax credits to developers for the acquisition, rehabilitation, or new construction of affordable rental housing. To raise capital, developers offer the tax credits to investors. The capital that the developer receives from the investor in exchange for tax credits reduces the property's mortgage and enables the developer to accept rents that comply with the program's rent requirement.

In exchange for providing capital to the developer to finance affordable rental housing, investors receive a dollar-for-dollar reduction in their federal tax liability. Investors claim the tax credits in equal installments over a 10-year period to offset taxes owed on their tax returns. The incentive provided through the LIHTC is critical because rental income and returns from investment in affordable housing are not always enough to cover project costs.

Developers Must Meet Eligibility Requirements

To qualify for tax credits, developers are required to rent, at a minimum, 40 percent of their units to tenants with incomes equal to or less than 60 percent of the area median income, or to rent 20 percent of their units to tenants with incomes equal to or less than 50 percent of the area median income. Most LIHTC properties rent more than 80 percent of their units to low-income tenants. For projects built in or after 1990, the minimum required units must remain at the above levels for at

Low-Income Housing Tax Credits encourage private investment in affordable housing options for low-income households. In the 30 years since its enactment, the program has resulted in more than 3 million affordable apartment units, benefiting low-income families, older adults, individuals with disabilities, and the homeless.



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least 30 years. Projects built before 1990 must comply with affordability requirements for 15 years. The rent on LIHTC units may not exceed 30 percent of the tenant's qualifying income.

The Internal Revenue Service (IRS) and HFAs jointly administer the LIHTC. The IRS issues an annual allocation of tax credit authority to HFAs using a formula that includes a credit ceiling. Although Congress initially imposed a fixed credit ceiling of \$1.25 per state population, it later modified the program and indexed the credit ceiling to inflation.

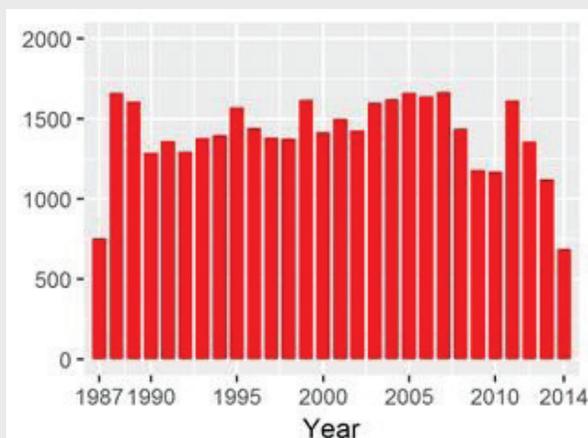
Characteristics of Projects and Residents

Property Characteristics

According to the U.S. Department of Housing and Urban Development (HUD) LIHTC database, 39,201 projects and 3 million LIHTC units were reported and confirmed as placed in service from 1987 to 2014 (figure 1).² More were likely in place however, since states are not required to report all developments to HUD, and some projects do not record the year they were placed in service.

Approximately 18 percent of projects have a nonprofit sponsor, with state agencies required to award these sponsors at least 10 percent of LIHTC allocations. By location, 42 percent of LIHTC properties are located in central cities, and

FIGURE 1
LIHTC Units Completed, by Year



Source: U.S. Department of Housing and Urban Development, "Low Income Housing Tax Credits," <http://www.huduser.org/datasets/lihtc.html>.

30 percent are in suburbs. In addition, 54 percent of these properties were new construction.

Resident Characteristics and Older-Adult Segment

LIHTC units tend to be concentrated in high-poverty areas. Of low-income, housing cost-burdened households—that is, those paying more than 30 percent of their income toward housing—30 percent are ages 62 and over.³ As a result of low incomes and high costs for housing, there is demand for affordable housing among older renters. Approximately 16 percent of LIHTC properties are intended primarily for older persons, a limited supply of LIHTC units to meet demand. Consequently, older persons may encounter long waiting lists and low vacancy rates for LIHTC units.

Continuing Support for LIHTC

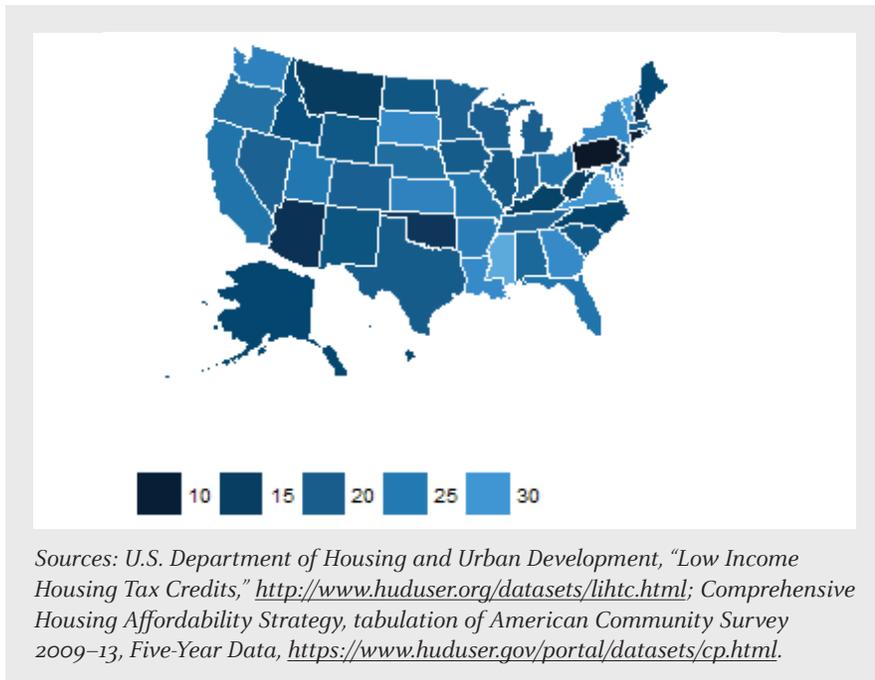
To address the housing crisis associated with the Great Recession, Congress passed the Housing and Economic Recovery Act of 2008, temporarily increasing the dollar amount of LIHTCs available in each state to stimulate additional affordable development. Additionally, with demand for tax credits among investors declining, the 2009 American Recovery and Reinvestment Act created the Exchange and Tax Credit Assistance Program (TCAP) to fill financing gaps. TCAP allocated \$2.25 billion in grants to HFAs for capital investments in the LIHTC program.

Nevertheless, today states still face major challenges, as indicated by the variation in LIHTCs per state (figure 2). In response to continuing demand the Affordable Housing Credit Improvement Act of 2016 was introduced in the Senate to expand LIHTCs by 50 percent. The Bipartisan Policy Center estimates that this expansion over its current funding level would help preserve or construct an additional 400,000 affordable rental units over 10 years.⁴

Current Shortcomings and Needs Going Forward

As the population ages and some LIHTC properties approach the end of their 30-year affordability requirement, the program must consider ways to address the increasing need for affordable rental

FIGURE 2
LIHTC Units by State, per 1,000 Occupied Housing Units



housing, particularly for older adults who overwhelmingly prefer to age and receive services in the community. Closing the affordable-rental gap should be a top policy priority. To meet the needs of older adults, Congress should modify the LIHTC to provide greater flexibility in the development of housing projects with supportive services and incentives that encourage the creation of affordable housing in neighborhoods located near transit and other important amenities.

Congress should also increase the annual allocation to meet the need for affordable rental housing. The allocation should be sufficiently increased to create a net growth in affordable housing units from LIHTC and preservation efforts.

States can also make structural modifications in the LIHTC program by incorporating meaningful requirements that address housing accessibility within Qualified Allocation Plans. Universal design and visitability refer to features that enable living or visiting by those with any level of mobility. The elements of universal design allow housing to be used by people of all ages and abilities without adaptation or specialized design.⁵ Such an approach would award tax credits to projects that integrate accessible and affordable housing and adequate transportation. These elements are critical to creating livable communities that support the dignity and independence of residents who wish to age in their homes and communities.

- 1 U.S. Department of Housing and Urban Development, “Low Income Housing Tax Credits,” <http://www.huduser.org/datasets/lihtc.html>.
- 2 Ibid.
- 3 Comprehensive Housing Affordability Strategy, tabulation of American Community Survey 2009–13, Five-Year Data, <https://www.huduser.gov/portal/datasets/cp.html>.
- 4 Bipartisan Policy Center. *Housing America’s Future: New Directions for National Policy*, (Washington, DC: Bipartisan Policy Center. February 2013). Accessed at http://cdn.bipartisanpolicy.org/wp-content/uploads/sites/default/files/BPC_Housing%20Report_web_0.pdf.
- 5 For more information of accessibility and visitability, please see “Expanding Implementation of Universal Design and Visitability Features in the Housing Stock,” <http://www.aarp.org/livable-communities/act/housing/info-12-2012/aarp-fact-sheet-expanding-implementation.html>.

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