Rental Housing Programs for the Lowest-Income Households: Renters' Tax Credit

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The federal government provided about $85 billion in housing tax benefits in fiscal year 2018, according to the Joint Committee on Taxation (JCT). However, more than four-fifths of that amount went toward tax subsidies for homeowners (these JCT figures do not count substantial added federal tax benefits from the deduction of state and local property taxes). Moreover, these subsidies mainly benefit higher-income homeowners, even though low-income renters are much more likely to struggle to afford housing. Policymakers could help rebalance housing tax policy and address pressing needs for affordable housing by establishing a tax credit to help low-income renters afford housing.

Federal rental assistance programs like Housing Choice Vouchers and public housing are highly effective at making rent affordable to the lowest-income families, but only reach about one-in-four eligible households due to inadequate funding. Caps on domestic discretionary appropriations, the budget category that includes federal rental assistance, will make it very difficult to expand these programs enough to address the unmet need for assistance. A renters' credit would be funded through the tax code, so it would not be subject to spending caps. As a result, the renters' credit offers an important opportunity in a challenging budget and political environment to help more of the nation's most vulnerable families and individuals keep a roof over their heads.

A renters' credit would also complement the existing Low-Income Housing Tax Credit (LIHTC), which effectively supports affordable housing development but rarely reduces rents to levels that extremely low-income families can afford unless they also have a voucher or other rental assistance.

RENTERS' CREDIT DESIGN OPTIONS

A renters' credit could be designed in several different ways. A credit could be claimed directly by an eligible tenant on his or her tax return or by the owner of a rental unit in exchange for reducing the tenant's rent. A tenant-claimed credit would be simpler in some respects, but it would also pose major challenges. For a tenant-claimed credit to reach the poorest families it would need to be refundable; that is, the federal government would have to make payments to cover the amount of the credit that exceeds the household's tax liability. However, this approach could make the enactment of the credit significantly more difficult politically. A renters' credit would be far more effective if it were provided on a monthly basis, since low-income families pay rent every month, and it would be difficult to deliver a tenant-claimed renters' credit on a monthly basis since the Internal Revenue Service does not currently make monthly refund payments under the individual income tax.

An owner-claimed credit, by contrast, would not need to be refundable (especially if the owner were permitted to transfer the credit to an outside investor or lender). It would be straightforward to provide monthly rent reductions through an owner-claimed credit. The owner would be required to reduce the family's rent each month and the credit would be delivered by lowering the owner's required quarterly estimated tax payments.

In addition, a renters' credit could be an entitlement for all eligible renters or a capped credit that would be allocated by states (just as states allocate LIHTC to selected developments). An uncapped entitlement renters' credit would have the advantage of reducing housing costs for all or nearly all low-income renters. However, in a tight budget environment it would be difficult to obtain the tens of billions of dollars needed to fund an entitlement credit with per-household benefits large enough to make housing affordable to even the lowest-income families. On the other hand, if an entitlement credit were kept small because of budget constraints, it would not be sufficient to enable extremely low-income households to afford decent housing and consequently would be much less effective in reducing homelessness, evictions, and other housing-related hardship. A state-administered credit allocated to a limited number of extremely low-income families could provide sufficient help to enable those families to afford housing at a more modest overall cost.

A state-administered capped credit would have other advantages as well. It would give states rental assistance resources that they could coordinate with other state-administered low-income programs in a way that would be difficult under existing rental assistance programs (which are mainly locally administered). For example, states could use the renters' credit to make LIHTC developments affordable to poor households, help families participating in state Temporary Assistance for Needy Families programs for whom lack of stable housing is a barrier to work, provide supportive housing to families at risk of having their children placed in foster care, and enable Medicaid-eligible elderly people or people with disabilities to live in service-enriched developments rather than nursing homes or other institutions. States would also be well positioned to use renters' credits to help poor families access low poverty neighborhoods with good schools and low crime or help them remain in neighborhoods where higher-income households are moving in and low-income residents are at risk of displacement.

RENTERS' CREDIT PROPOSALS

The Center on Budget and Policy Priorities (CBPP) has proposed the establishment of a capped state-administered renters' credit. Under the CBPP proposal, states would receive an amount of credits each year set by a federal formula. States would allocate the credits to developments to make housing affordable to extremely low-income families. Families in units assisted by the renters' credit would pay 30% of their income for rent and utilities. The owner would receive a federal tax credit based on the rent reductions it provides and could opt to pass the credit on to an outside investor or lender who provides resources to keep rent prices in the development low. If such a credit were capped so that it had a fully phased-in cost of $6 billion a year, it could enable about 720,000 extremely low-income families to live in decent, stable, affordable homes.

In 2016, the University of California at Berkeley's Terner Center for Housing Innovation issued a report presenting three renters' tax credit options. One of these would provide a tenant-claimed entitlement credit sufficient to reduce all renters' housing costs by up to 30% of their incomes, at an estimated cost of $76 billion per year. The second would provide a shallower tenant-claimed entitlement credit at an annual cost of $41 billion. The third is a "composite option" that would include a $5 billion capped, owner-claimed credit for extremely low-income families similar to that proposed by CBPP, and a smaller tenant-claimed credit for other renters costing $38 billion.

The idea of a federal renters' credit has received growing attention in recent years. The Bipartisan Policy Center, Center for American Progress, Urban Institute, Enterprise Community Partners, Center for Global Policy Solutions, Prosperity Now, Mortgage Bankers Association, and others have highlighted a renters' credit as a promising strategy to address poverty, homelessness, and high rent burdens. Legislation to establish a renters' credit has been introduced in the last three sessions of Congress, including multiple bills during the 2017-2018 session. Representative Barbara Lee's (D-CA) "Pathways Out of Poverty Act" proposed a capped, state-administered renters' credit, and Senator Dean Heller's (R-NV) "Seniors Affordable Housing Tax Credit Act" proposed a similar credit targeted toward elderly households. In addition, Senators Cory Booker (D-NJ) and Kamala Harris (D-CA) and Representatives Joseph Crowley (D-NY), Scott Peters (D-CA), and James Clyburn (D-SC) each introduced bills to establish a tenant-claimed credit for all income-eligible renters with high cost burdens. Representative Keith Ellison's (D-MN) "Common Sense Housing Investment Act" proposed a renters' credit as one use for savings generated by the reform of the mortgage interest deduction.

STATE RENTERS' CREDITS

Renters' tax credits can be instituted at the state as well as the federal levels. More than 20 states provide tax credits to help renters afford housing. Most of these credits are provided as part of a "circuit breaker" tax credit designed to provide relief from property tax burdens (circuit breakers often include benefits for renters in addition to homeowners, since renters pay for property taxes indirectly through higher rent). State renters' and circuit breaker credits are usually shallow, rarely providing more than a few hundred dollars per year.

Advocates could work at the state level to establish credits to help renters afford housing. In states where credits already exist, advocates could seek to improve them by increasing the amount, making credits refundable (if they are not already), and providing credits through periodic payments rather than in a single lump sum. Advocates could also consider supporting the establishment of state owner-claimed renters' credits like the federal CBPP proposal described above.

FORECAST FOR 2019

In 2019, a federal renters' credit could be incorporated into tax legislation to better match federal housing tax benefits to the most pressing housing needs or into an infrastructure package to support the development of housing affordable to the lowest-income families. Even if the credit is not enacted during the current Congress, ensuring that it is part of the debate could increase the chances that it will be enacted in the future.

FOR MORE INFORMATION

Center on Budget and Policy Priorities renters' credit webpage, http://www.cbpp.org/topics/renters-credit.

Carol Galante, Carolina Reid, and Nathaniel Decker, *The FAIR Tax Credit: A Proposal for a Federal Assistance in Rental Credit to Support Low-Income Renters*, Terner Center for Housing Innovation, University of California, Berkeley, October 7, 2016, http://ternercenter.berkeley.edu/fair-tax-credit.

Institute on Taxation and Economic Policy, *State Tax Codes as Poverty Fighting Tools: 2018 Update on Four Key Policies in All 50 States,* Institute on Taxation and Economic Policy, September 17, 2018, https://itep.org/state-tax-codes-as-poverty-fighting-tools-2018/.