THE LOW INCOME HOUSING TAX CREDIT PROGRAM (LIHTC)

NATIONAL LOW INCOME HOUSING COALITION

The LIHTC program is the largest federal program for the production and preservation of affordable rental housing, having contributed to the financing of nearly 2.4 million rental units. LIHTC is designed to encourage private individuals and corporations to invest in affordable housing by providing a tax credit over a 10-year period: a dollar-for-dollar reduction in federal taxes owed on other income. The Internal Revenue Service (IRS) allocates housing tax credits to each state's designated agency, usually a state housing finance agency, which in turn allocates credits to developers through a competitive process. The developers sell the tax credits to investors who provide funding for an eligible rental housing project and use the LIHTC to reduce their federal tax liability. The infusion of equity reduces the amount of money a developer has to borrow and pay interest on, thereby reducing the level of rent that needs to be charged.

Each state must produce a Qualified Allocation Plan (QAP) that outlines how these tax credits will be distributed. Federal law requires that the QAP include preferences for developments that serve the lowest income households and are structured to remain affordable for the longest amount of time. Developers can choose to either set aside 20% of the units for households with income at or below 50% of area median income (AMI) (20-50 rule), or 40% of the units for households with income at or below 60% of AMI (40-60 rule).

The rents in LIHTC units are not based on 30% of tenant income as they are in traditional HUD programs. Rather, rents are set at 30% of either 50% or 60% of AMI, whichever income limit was selected for the development when the credits were allocated. Thus it is likely that households with incomes below 50% or 60% of AMI will pay more than 30% of their income on rent and utility costs, which means they will have a housing cost burden. These cost burdens can be mitigated only if the tenants have some type of rental assistance or if the development includes some units set aside at lower rent levels.

According to a 2012 report from New York University's Furman Center for Real Estate and Urban Policy, 43% of LIHTC units were occupied by extremely low income (ELI) households, and 37% of units were occupied by very low income households (VLI). However, roughly 70% of ELI households in LIHTC units received additional rental subsidies, including housing choice vouchers (HVCs). Furthermore, 51% of all ELI households in LIHTC units were cost burdened. Among ELI households without additional rental subsidy, 86% faced a housing cost burden. Only 8% of ELI households in LIHTC homes were neither cost burdened nor in receipt of additional housing assistance.

NLIHC undertook the Alignment Project in 2012 to gain a better understanding of how existing federal housing resources are being used and to learn how those resources might be better aligned with the need for housing among ELI households. Within this study, NLIHC examined to what degree housing subsidized by the LIHTC program serves ELI households. The central finding of the study is that the LIHTC program does serve ELI households, but rarely on its own. In most cases, ELI households are able to afford LIHTC units if they are also tenant-based voucher recipients or if there are project-based vouchers attached to LIHTC-assisted units.

The study also found that cross-subsidization is an important strategy used by many developers committed to inclusive properties that serve ELI households. This strategy incorporates units affordable to ELI households into projects containing other units occupied by households with a broader

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mix of incomes. The rents paid by higher income households supplement the overall operating expenses of the project, compensating for the lower rents that ELI households can afford.

Based on the findings from the Alignment Project study, NLIHC makes the following policy recommendations:

Income Averaging in LIHTC. NLIHC's 2015-2016 Policy Agenda now includes a proposal to change the federal LIHTC statute to provide for a third income targeting criterion to allow developers to better utilize cross subsidization. This option would require that at least 40% of the units in a project would have to be occupied by residents with incomes that average no more than 60% of AMI, with at least 30% of the units rent restricted and occupied by tenants with incomes at or below 30% AMI. No rent-restricted units would include households with incomes above 80% of AMI. For purposes of computing the average, any unit with an income limit that is less than 20% of AMI would be treated as having a 20% limit. Rents would be based on 30% of the income limit in that unit, i.e., the rent in a 20% AMI unit would be 30% of 20% of AMI.

Basis Boost in LIHTC. NLIHC has also adopted a second policy position regarding LIHTC to change the federal LIHTC statute to provide a 50% basis boost for properties that use NLIHC's proposed new third criterion of income averaging.

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