NATIONAL LOW INCOME HOUSING COALITION

MIDDLE-INCOME HOUSING TAX CREDIT: WASTEFUL AND MISGUIDED

As Congress debates a federal tax legislation, Senators Ron Wyden (D-OR) and Dan Sullivan (R-AK) have proposed creating a new federal tax credit – known as the "Middle Income Housing Tax Credit" or "Workforce Housing Tax Credit" – to incentivize developers to build market-rate apartments affordable to households earning up to 100% of the Area Median Income (AMI).

NLIHC OPPOSES THE CREATION OF A FEDERAL MIDDLE INCOME HOUSING TAX CREDIT (MIHTC) AS A MISGUIDED AND WASTEFUL USE OF SCARCE FEDERAL RESOURCES. WHY?

- **Very few middle-income renters face significant housing challenges.** Of all households paying at least half of their income on rent, only 1% have middle incomes; the vast majority (90%) have extremely low incomes or very low incomes and would not benefit from MIHTC.
- **In most communities, the private sector can – and does – meet the housing needs of middle-income renters without any government subsidies.** The housing needs of middle-income renters are largely met in most areas of the country. Affordability issues for middle-income renters with incomes above 80% of AMI are local and concentrated in high-cost pockets of the country where new housing development has not kept pace with the growth in demand. In most communities nationwide, MIHTC would give tax breaks to developers for housing that the market is already providing.
- **Congress can achieve the same results without any subsidies.** In locations where there is any shortage of homes affordable to middle-income renters, the most cost-effective solution is to reform local zoning and land use regulations that restrict housing supply and increase costs. By encouraging communities to reduce costly regulations that drive up housing costs, Congress can allow the private sector to build more homes affordable to middle-income renters without any subsidies.
- **Scarce federal resources should be targeted to serve households with the greatest needs who cannot be served by the private sector unless federal subsidies are invested.** The shortage of affordable housing nationwide primarily stems from the shortage for extremely low-income renters. Diverting resources away from where it is needed most only exacerbates the housing and homelessness crisis.

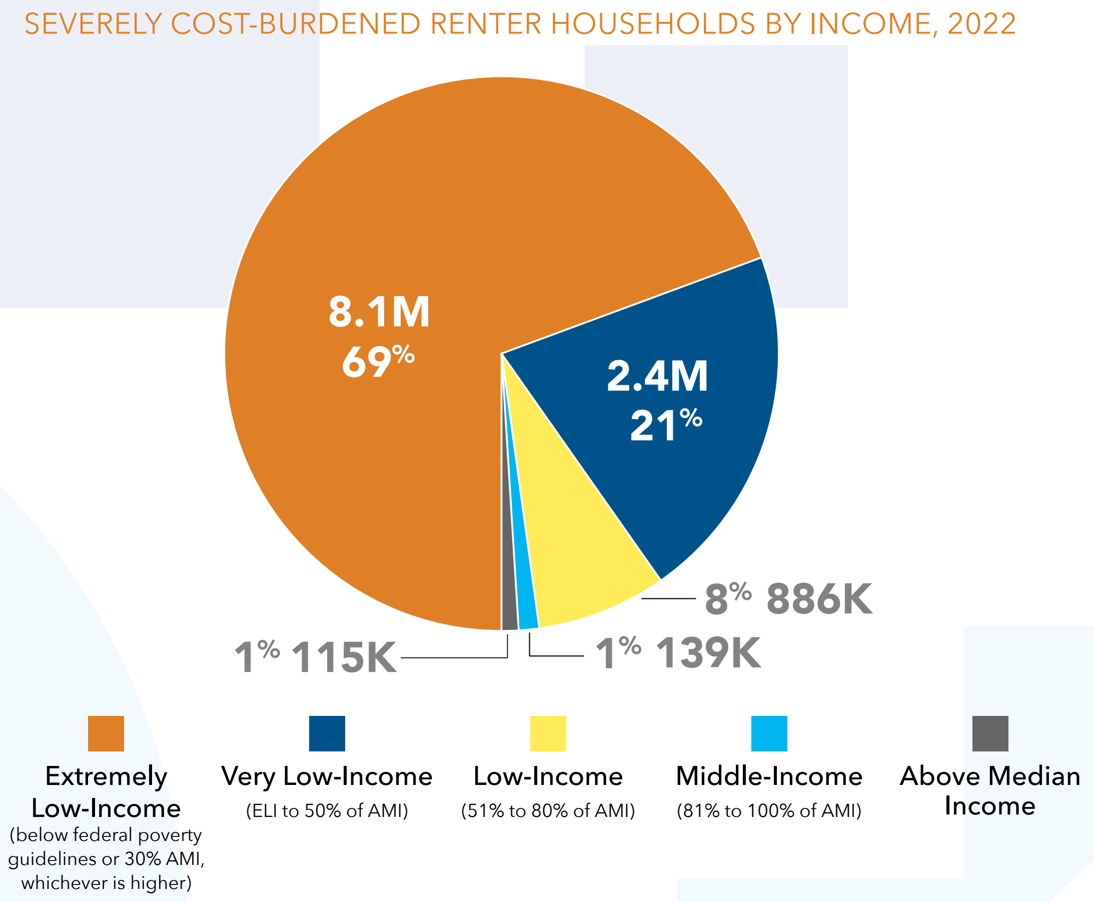
MIHTC IS AN UNNECESSARY, INEFFICIENT USE OF FEDERAL RESOURCES FOR SEVERAL REASONS:

1. Very few middle-income renters face significant housing challenges.

Nationwide, 11.7 million renter households are severely housing cost-burdened, spending at least half of their income on housing costs. Of these households, only 1% - or about 139,000 households nationwide – have middle incomes and would benefit from MIHTC (see Figure 1).

In comparison, 90% of severely cost-burdened households – over 10 million households – have extremely low incomes or very low incomes and would not benefit from MIHTC, despite their urgent housing needs.

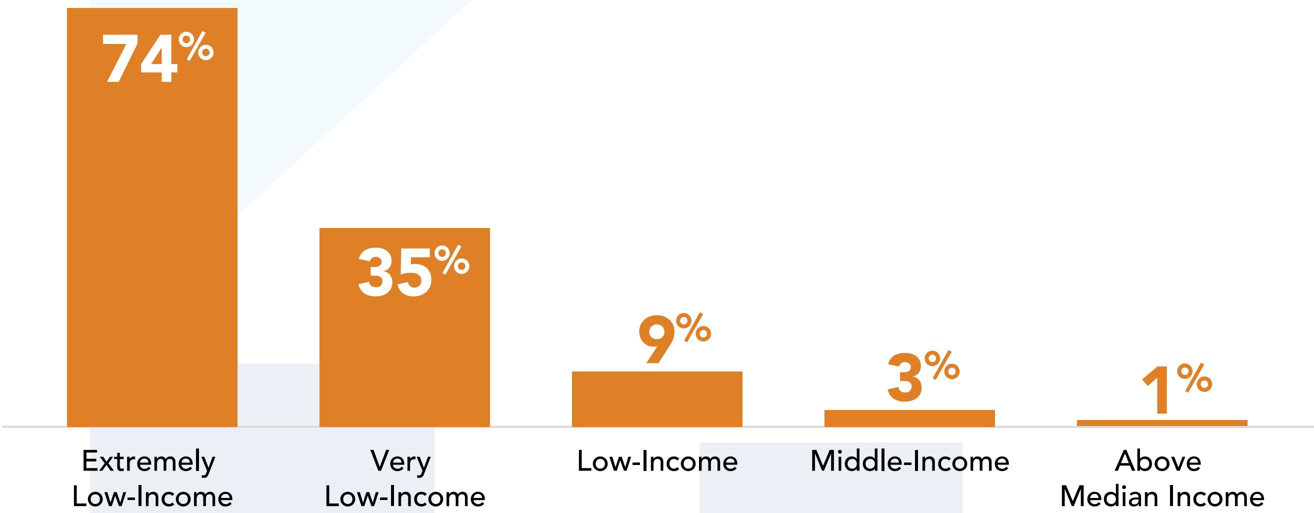
FIGURE 1: EXTREMELY LOW-INCOME RENTERS MAKE UP MAJORITY OF SEVERELY COST-BURDENED RENTERS



Overall, just 3% of middle-income renters are severely cost-burdened, compared to 74% of extremely low-income renters (see Figure 2). Even when middle-income renters are severely cost-burdened, they have more income left over to meet their other expenses than severely cost-burdened renters with the lowest incomes. Extremely low-income renters, on the other hand, are forced to make impossible tradeoffs between paying rent and putting nutritious food on their table or buying needed medications. These households are often one unexpected expense or emergency away from falling behind on rent and facing eviction, or in worst cases, homelessness.

FIGURE 2: EXTREMELY LOW-INCOME HOUSEHOLDS DISPROPORTIONATELY EXPERIENCE SEVERE HOUSING COST BURDENS

RENTER HOUSEHOLDS WITH SEVERE HOUSING COST BURDENS BY INCOME, 2022



MIHTC would divert scarce resources to create a program that would serve less than 139,000 middle income households nationwide who are severely housing cost burdened, while providing minimal benefit to the 11.5 million low-income families who pay more than half their income on rent.

2. **In most communities, the private sector can – and does – meet the housing needs of middle-income renters without any government subsidies.**

Acute affordability challenges for middle-income renters appear to be concentrated in a small number of metropolitan areas. For example, Los Angeles, Miami, and New York City account for approximately 24% of middle-income renter households in the top 50 metropolitan areas, but 45% of middle-income renter households with severe cost burdens.

More generally, the national scale of middle-income housing affordability challenges is relatively small. There are only four states and seven metro areas in which more than 5% of middle-income households are severely cost-burdened: Nevada, Florida, California, and South Dakota; and Miami-Fort Lauderdale-Pompano Beach, FL, Las Vegas-Henderson-Paradise, NV, Riverside-San Bernardino-Ontario, CA, Los Angeles-Long Beach-Anaheim, CA, San Diego-Chula Vista-Carlsbad, CA, Tampa-St. Petersburg-Clearwater, FL, New York-Newark-Jersey City, NY-NJ-PA.

In comparison, in all 50 states and the District of Columbia, more than half of ELI renter households are severely cost-burdened, spending over half of their already limited income on rent. Across all states, the share of ELI households who are severely cost-burdened ranges from 51% (South Dakota) to 86% (Nevada). Nationwide, 74% of ELI renter households are severely cost-burdened.

See Appendices A and B for a full list of states and metropolitan areas, their number of affordable and available units per 100 renter households by income group; and the proportion of renters with severe cost burdens by income group.

3. Congress can serve middle-income households without any additional subsidies.

In the small number of housing markets where there is any sort of shortage of homes affordable to middle-income renters, the most cost-effective solution is to reform local zoning and land use regulations that restrict housing supply and increase the cost of development. Rather than creating a new federal tax credit to incentivize the private market to build market-rate homes it can already provide without a federal subsidy, Congress should encourage states and communities to reduce costly regulations that prevent housing from being built. In doing so, Congress can help facilitate the private sector construction of more homes affordable to middle income renters, without additional subsidies.

NLIHC has endorsed and urges Congress to enact the following bills, which would incentivize state and local zoning reforms that encourage the construction of low- and middle-income housing:

Legislation	Bill # (118th Congress)	Purpose
"Yes In My Backyard (YIMBY) Act"	S.1688/H.R. 3507	Require recipients of HUD's Community Development Block Grant (CDBG) to report periodically on how they are removing discriminatory land use policies and promoting inclusive and affordable housing
"Build More Housing Near Transit Act"	S. 3216/H.R. 6199	Encourage the construction of low- and middle-income housing in transit-served, walkable locations
"Housing Supply and Affordability Act"	S. 3684/H.R. 7132	Provide grants to states, localities, and tribes to support local efforts to increase housing supply and encourage the elimination of barriers to housing supply
"Housing Supply and Innovation Framework Act"	H.R. 10351	Require HUD to convene an expert task force to develop best practices on zoning and land use reform for state and local officials working to address their housing supply shortages
"Reducing Regulatory Barriers to Housing Act"	S. 4460/H.R. 8604	Empower state and local governments to proactively address the affordable housing crisis by directing HUD's Office of Policy and Research to provide technical assistance on zoning and land use, creating new grant programs, and developing standardized models and best practices for local governments
"Yes In God's Backyard Act"	S. 3910	Reduce barriers to developing housing on land owned by faith-based organizations and colleges

Communities can also make use of existing flexibilities in the Low-Income Housing Tax Credit (LIHTC) program, which typically builds homes affordable to households earning 60% of AMI. In 2022, the IRS released updated "Average Income Test" regulations to allow developments financed by LIHTC to serve families with incomes up to 80% of AMI, as long as the average income across the entire development remains at 60% of AMI. The Average Income Test allows developers more flexibility to serve households with relatively higher incomes, while also ensuring that the lowest-income households may also benefit.

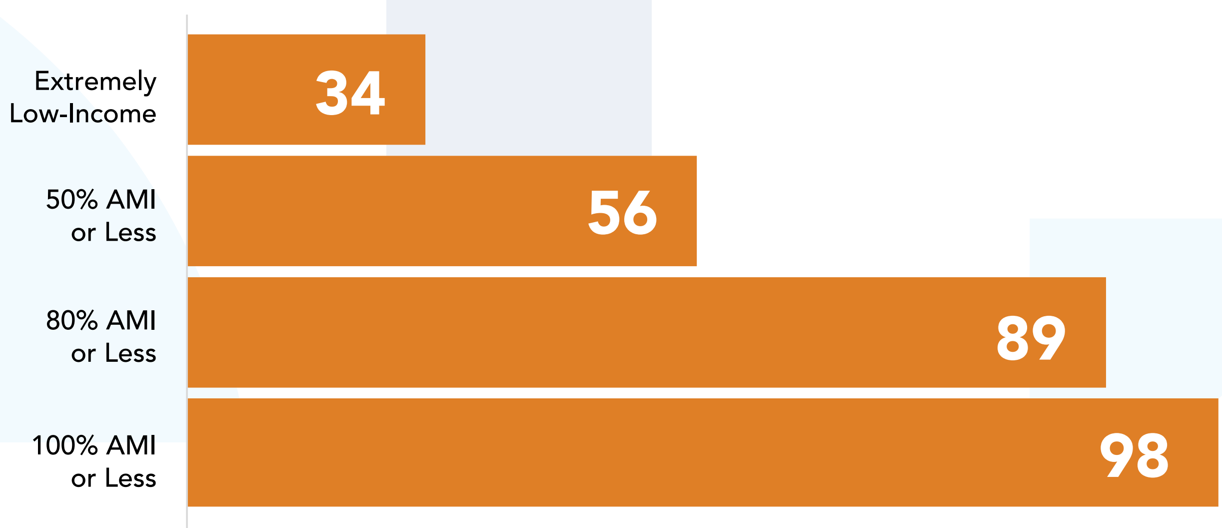
4. **Scarce federal resources should be targeted to where they will have the greatest impact: serving households with the greatest needs, who cannot be served by the private sector without federal subsidies.**

A primary cause of the nation's affordable housing and homelessness crisis is the severe shortage of homes affordable and available to extremely low-income households. Diverting scarce federal resources away from where it is needed most only exacerbates the housing and homelessness crisis.

Nationwide, there are 98 affordable and available units for households with incomes up to 100% of AMI. In comparison, for extremely low-income households, there are only 34 affordable and available units for every 100 households (see Figure 3).

FIGURE 3: THE RELATIVE SUPPLY OF AFFORDABLE AND AVAILABLE RENTAL HOMES INCREASES WITH INCOME

AFFORDABLE AND AVAILABLE RENTAL HOMES PER 100 RENTER HOUSEHOLDS, 2022



SOURCE: 2022 ACS PUMS.

The private market can – when unrestricted by local zoning rules – build and maintain housing affordable to middle-income households without federal subsidies. In contrast, without federal subsidies, the private market cannot reliably build, operate, and maintain housing with rents low enough to be affordable for extremely low-income families and individuals.

TARGETED SOLUTIONS ADDRESS THE ROOT CAUSE OF THE AFFORDABLE HOUSING CRISIS

To address the affordable housing and homelessness crisis, Congress must invest in targeted, proven solutions at scale. These solutions include:

- Bridging the gap between incomes and housing costs by ensuring rental assistance is universally available to every eligible household.
- Building and preserving housing supply that is affordable to people with the lowest incomes through investments in the national Housing Trust Fund and public housing.
- Creating permanent tools to help stabilize families in crisis.
- Strengthening and enforcing renter protections.

In any tax package, Congress should pair any expansion of LIHTC with reforms to better serve households with the greatest needs, including extremely low-income households and renters in rural and Tribal communities.

For more information, contact NLIHC senior policy analyst Libby O'Neill at eoneill@nlihc.org.

APPENDIX A: STATE COMPARISONS

	Affordable and Available Units per 100 Households at or below Threshold				Share of Severely Cost-Burdened Renter Households by Income (Those who spend greater than 50% of their income on rent)			
State	At or below ELI	At or below 50% AMI	At or below 8 0% AMI	At or below 100% AMI	At or below ELI	> ELI to 50% AMI	51% to 80% AMI	81% to 100% AMI
Alabama	50	74	102	105	80%	15%	5%	0%
Alaska	25	70	99	102	85%	13%	2%	0%
Arizona	24	40	81	98	61%	26%	10%	2%
Arkansas	50	75	104	104	82%	13%	3%	1%
California	24	35	68	85	59%	25%	13%	2%
Colorado	27	44	91	101	63%	28%	7%	1%
Connecticut	34	62	94	99	77%	18%	4%	1%
Delaware	36	58	95	100	74%	20%	5%	1%
District of Columbia	33	62	95	104	80%	14%	4%	1%
Florida	25	35	69	89	54%	26%	15%	3%
Georgia	34	54	93	104	69%	23%	7%	1%
Hawaii	34	39	73	88	55%	29%	13%	1%
Idaho	42	64	89	101	61%	27%	10%	0%
Illinois	36	67	96	100	77%	17%	4%	1%
Indiana	34	70	101	103	81%	15%	3%	0%
Iowa	42	87	104	104	83%	14%	2%	0%
Kansas	41	75	103	104	75%	18%	5%	2%
Kentucky	47	72	100	103	83%	14%	3%	0%
Louisiana	41	57	96	104	77%	16%	6%	0%
Maine	51	68	97	99	71%	22%	3%	2%
Maryland	32	59	97	101	74%	20%	5%	1%
Massachusetts	46	58	88	97	71%	21%	7%	1%
Michigan	37	66	99	102	76%	18%	4%	1%
Minnesota	34	68	97	100	73%	20%	5%	1%
Mississippi	55	69	101	106	82%	13%	4%	0%
Missouri	42	78	101	104	79%	16%	4%	1%
Montana	42	71	93	97	68%	20%	9%	1%
Nebraska	33	74	100	101	86%	13%	1%	0%
Nevada	14	27	72	95	56%	26%	14%	3%
New Hampshire	38	66	99	103	73%	22%	3%	1%
New Jersey	30	46	87	97	68%	25%	5%	1%
New Mexico	40	55	96	101	75%	17%	5%	0%
New York	34	53	83	94	72%	18%	7%	1%
North Carolina	44	66	99	106	71%	19%	7%	1%
North Dakota	47	98	109	108	93%	5%	1%	1%
Ohio	40	76	99	101	80%	15%	4%	1%
Oklahoma	42	68	101	104	76%	15%	6%	1%
Oregon	26	44	89	98	64%	26%	8%	1%
Pennsylvania	41	69	97	101	77%	17%	4%	1%
Rhode Island	51	65	96	100	76%	20%	4%	0%
South Carolina	41	65	96	104	71%	19%	8%	1%
South Dakota	57	91	103	105	75%	10%	9%	3%
Tennessee	42	63	94	102	71%	21%	7%	1%
Texas	25	45	92	103	69%	22%	7%	1%
Utah	31	57	96	104	67%	25%	7%	1%
Vermont	30	60	91	97	67%	29%	4%	0%
Virginia	30	54	95	101	73%	20%	5%	1%
Washington	28	43	91	99	67%	26%	6%	1%
West Virginia	53	75	104	106	84%	13%	2%	1%
Wisconsin	34	80	99	101	78%	17%	4%	1%
Wyoming	51	88	105	105	81%	14%	4%	0%
USA Totals	34	56	89	98	69%	21%	8%	1%

Source: 2022 ACS PUMS.

APPENDIX B: METROPOLITAN COMPARISONS

	Affordable and Available Units per 100 Households at or below Threshold				Share of Severely Cost-Burdened Renter Households by Income (Those who spend greater than 50% of their income on rent)			
Metro Area	At or below ELI	At or below 50% AMI	At or below 80% AMI	At or below 100% AMI	At or below ELI	> ELI to 50% AMI	51% to 80% AMI	81% to 100% AMI
Atlanta-Sandy Springs-Alpharetta, GA	25	44	90	104	64%	27%	8%	1%
Austin-Round Rock-Georgetown, TX	21	46	95	101	71%	21%	7%	1%
Baltimore-Columbia-Towson, MD	33	57	94	100	72%	20%	7%	0%
Boston-Cambridge-Newton, MA-NH	46	56	87	97	71%	21%	6%	1%
Buffalo-Cheektowaga, NY	37	72	98	100	78%	17%	3%	1%
Charlotte-Concord-Gastonia, NC-SC	35	55	95	105	63%	28%	7%	1%
Chicago-Naperville-Elgin, IL-IN-WI	29	58	93	98	75%	18%	5%	1%
Cincinnati, OH-KY-IN	41	76	98	101	80%	15%	4%	1%
Cleveland-Elyria, OH	38	77	98	100	81%	14%	4%	1%
Columbus, OH	26	62	99	103	71%	21%	6%	1%
Dallas-Fort Worth-Arlington, TX	17	40	91	104	64%	27%	8%	1%
Denver-Aurora-Lakewood, CO	27	41	92	103	65%	28%	5%	1%
Detroit-Warren-Dearborn, MI	32	63	98	102	79%	15%	4%	1%
Hartford-East Hartford-Middletown, CT	34	70	98	100	82%	14%	3%	1%
Houston-The Woodlands-Sugar Land, TX	15	40	91	103	69%	23%	6%	1%
Indianapolis-Carmel-Anderson, IN	23	67	100	103	79%	16%	3%	1%
Jacksonville, FL	29	47	87	102	61%	25%	11%	1%
Kansas City, MO-KS	36	66	99	103	72%	20%	6%	1%
Las Vegas-Henderson-Paradise, NV	13	23	67	93	56%	26%	14%	3%
Los Angeles-Long Beach-Anaheim, CA	21	27	55	75	54%	26%	14%	3%
Louisville/Jefferson County, KY-IN	31	70	99	102	81%	13%	4%	1%
Memphis, TN-MS-AR	36	59	95	103	68%	20%	11%	0%
Miami-Fort Lauderdale-Pompano Beach, FL	23	25	50	74	48%	27%	17%	4%
Milwaukee-Waukesha, WI	30	75	97	100	72%	23%	4%	1%
Minneapolis-St. Paul-Bloomington, MN-WI	28	61	96	101	72%	23%	4%	1%
Nashville-Davidson--Murfreesboro--Franklin, TN	36	53	91	102	64%	26%	8%	1%
New Orleans-Metairie, LA	29	43	93	104	72%	21%	6%	0%
New York-Newark-Jersey City, NY-NJ-PA	32	46	80	93	69%	21%	8%	1%
Oklahoma City, OK	33	66	103	105	77%	18%	4%	1%
Orlando-Kissimmee-Sanford, FL	18	24	61	88	51%	30%	17%	2%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	34	61	93	101	75%	19%	4%	1%
Phoenix-Mesa-Chandler, AZ	19	34	77	98	58%	27%	11%	2%
Pittsburgh, PA	49	84	105	106	84%	12%	2%	1%
Portland-Vancouver-Hillsboro, OR-WA	25	39	91	100	64%	28%	7%	1%
Providence-Warwick, RI-MA	49	66	96	100	76%	20%	4%	0%
Raleigh-Cary, NC	37	74	121	123	69%	25%	5%	1%
Richmond, VA	24	60	96	101	73%	2`%	5%	0%
Riverside-San Bernardino-Ontario, CA	21	34	66	82	51%	21%	16%	3%
Rochester, NY	35	68	97	101	78%	18%	3%	0%
Sacramento-Roseville-Folsom, CA	23	38	79	96	61%	26%	11%	1%
San Antonio-New Braunfels, TX	28	37	89	104	63%	26%	10%	1%
San Diego-Chula Vista-Carlsbad, CA	20	27	64	84	55%	27%	14%	3%
San Francisco-Oakland-Berkeley, CA	32	48	85	96	72%	19%	7%	1%
San Jose-Sunnyvale-Santa Clara, CA	33	48	87	100	73%	18%	7%	1%
Seattle-Tacoma-Bellevue, WA	26	39	90	99	67%	26%	5%	1%
St. Louis, MO-IL	35	80	100	102	83%	12%	4%	1%
Tampa-St. Petersburg-Clearwater, FL	21	36	74	94	58%	24%	15%	2%
Tucson, AZ	24	45	92	101	66%	27%	6%	1%
Virginia Beach-Norfolk-Newport News, VA-NC	26	43	89	101	66%	25%	7%	1%
Washington-Arlington-Alexandria, DC-VA-MD-WV	26	53	96	102	76%	18%	4%	1%

Source: 2022 ACS PUMS