AFFORDABLE RENTAL HOUSING A.C.T.I.O.N.
A Call To Invest in Our Neighborhoods

# Housing Credit Frequently Asked Questions

**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. Since President Reagan signed it into law in 1986, the Housing Credit has been highly successful, financing the development of virtually all affordable apartments while creating approximately 95,000 jobs across the country each year. Over the course of the program's history, the Housing Credit has financed the construction and preservation of more than 2.6 million affordable rental homes nationwide.

**Why do we need the Housing Credit or affordable housing at all?**

America faces a growing affordable rental housing crisis. According to the June 2013 "State of the Nation's Housing" report from the Harvard Joint Center on Housing Studies (JCHS), nearly half of all renters—about 20 million households—are "rent burdened," meaning they pay over 30 percent of their income in rent. Nearly a quarter—over 10 million households – are "severely rent burdened," meaning they pay more than half their income in rent. In 2011, there were only 30 available and affordable apartments for every 100 extremely low-income households in the United States, representing a need for over 8 million affordable homes. And only one in four households eligible for federal housing assistance actually receives it. This leaves low-income families with too little left for food, transportation and other expenses.

The Housing Credit is virtually the only source of capital to address the widening gap between the number of affordable apartments and the low-income renters in need of housing. Without it, affordable housing is fundamentally uneconomic to produce. 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 construction of safe and decent affordable housing impossible without a subsidy.

**How does the Housing Credit work?**

The federal government issues Housing Credits to states based on their populations. Each year, states establish credit allocation plans under broad federal guidelines that identify their affordable housing priorities. Through a highly competitive process, which is transparent and open to public scrutiny, Housing Credits are then awarded to developers based on how well their proposed projects meet the housing needs of the state. Developers use the Housing Credits to raise equity capital from investors, which reduces the debt that would otherwise be required to build the property. The lower debt enables a Housing Credit property to offer apartments to low-income residents at an affordable rent. The demand for Housing Credits from investors is very strong, making the program very cost effective.

Either twenty percent of the apartments in a Housing Credit property must be targeted to residents at or below 50 percent of the area median income (AMI) where the property is located, or forty percent of the apartments must be targeted to residents at or below 60 percent of AMI, with adjustments for family size – though in practice, 100 percent of apartments are targeted to low-income tenants in most Housing Credit properties. Residents then pay 30 percent of their qualifying income as rent.

If the property maintains compliance with the program, investors utilize the Housing Credits on the property to reduce their federal income tax liability each year over a period of 10 years. The credits on the property are subject to recapture by the IRS if the property does not remain in compliance with the tenant income and rent targeting for the first 15 years, meaning taxpayers can get their money back if, in very rare instances, something goes wrong. States are required to monitor compliance with program rules and habitability for at least 15 years. After that, the property is subject to continued affordable restrictions enforceable by the states for another 15 years under deed restrictions (though many states impose even longer affordability requirements).

**Why doesn't the government provide funding directly?**

There is unique value in the Housing Credit being located in the tax code because there is a high degree of accountability. Unlike in a direct funding program, private investors – not the federal government – provide all the equity up front and bear the financial risk.

The federal government allows credits only after properties are built and occupied by income-eligible residents at affordable rents. And in the extremely rare instances when a property falls out of compliance, the credits can be recaptured so taxpayers get their money back. This means the private sector aggressively monitors compliance and performance to avoid recapture of the credits.

**Why not move to a pure voucher system? Are demand-side subsidies more efficient than supply-side subsidies?**

Vouchers are a demand-based rental housing subsidy because they reduce the cost of housing for renters, while the Housing Credit is a supply-side rental housing subsidy because it increases the supply of affordable apartments. Given the scope of the affordable housing crisis and the differences in local housing markets, both approaches are essential.

Demand-side efforts like Housing Choice Vouchers are most effective in areas where housing costs are already relatively low, making vouchers more readily accepted. But in the many areas where costs are so high that it's difficult to find an apartment that's affordable even with a voucher, supply-side solutions like the Housing Credit are needed – indeed, the two are often used together to bring down the cost of an apartment to make it affordable to even the lowest-income households.

Supply-side efforts also have the added benefits of bringing revitalization, income and tax revenue to the neighborhoods in which they're located, and keeping costs low and predictable even in the face of inflation and rising rental costs.

**What does the Housing Credit cost?**

According to the congressional Joint Committee on Taxation (JCT), the Housing Credit cost $6 billion in lost revenue in FY2012.

**How do states ensure that developments are not over-subsidized?**

Each state is required by the tax code to provide only enough subsidies to ensure financial feasibility for the life of the property. States underwrite Housing Credit applications at three different stages of the development process to ensure they provide no more Housing Credit than necessary to each development.

Since the project cannot be awarded more Housing Credits if construction goes over budget, the developer is highly motivated to keep development costs in check. State housing finance agencies impose limitations on the fees that builders and developers may receive on the construction of a Housing Credit property. In addition, states have an incentive to minimize the amount of Housing Credit per development to maximize the number of rental homes they can finance with the limited amount of credit authority they receive each year.