The Low-Income Housing Tax Credit

Local Initiatives Support Corporation

The Low-Income Housing Tax Credit (the Housing Credit) stimulates investment in affordable housing in underserved inner-city and rural communities and in higher cost suburban communities across the nation. It provides low-income families with a safe and decent place to live and, by lessening their rent burdens, frees up additional income that can be spent on other necessities or put into savings for education or homeownership. The Housing Credit is also a vital community and economic development tool, creating jobs and catalyzing redevelopment in struggling communities.

What is the Low-Income Housing Tax Credit?

» The Housing Credit is the single most important federal resource available to support the development and rehabilitation of affordable housing – currently financing about 90 percent of all new affordable housing development.

» How the credit works:
- Federal tax credits are allocated to state housing finance agencies by a formula based on population.
- Each state agency establishes its affordable housing priorities and developers compete for an award of tax credits based on how well their projects satisfy the state's housing needs.
- Developers receiving an award use the tax credits to raise equity capital from investors in their developments.
- The tax credits are claimed over a 10-year period but the property must be maintained as affordable housing for a minimum of 30 years.
- Because tax credits can be recaptured for any noncompliance, investors maintain close supervision over the properties to ensure their long-term viability and compliance with IRS and state allocating agency requirements.


Encanto Pointe, Phoenix, Arizona.

» Units funded by the Housing Credit must be affordable for people earning no more than 60 percent of the area median income (AMI), although most residents have far lower incomes.

» Eligible residents can be charged a maximum of 30 percent of their qualifying income in rent. Qualifying income is typically 50 to 60 percent of AMI.

What are the outcomes?

» Since its inception, the Housing Credit has spurred the development of more than **2.7 million quality homes** for working families, seniors, disabled veterans, and people at risk of homelessness.

» Each year, the Housing Credit finances about **100,000 units** of affordable housing and creates approximately **95,000 jobs** in the construction and property management industries.

» Housing Credit properties outperform market-rate housing properties, with occupancy rates topping 96 percent and a cumulative **foreclosure rate of just 0.62 percent**.

» The units tend to be occupied by very low-income families, with 42 percent of the units occupied by families making less than 30 percent of AMI; and 80 percent of the units occupied by families making less than 50 percent of AMI.

What has been LISC's involvement?

» In 1987, LISC created National Equity Fund, Inc. (NEF) to attract investor capital to Housing Credit properties. NEF provides technical assistance, structures and closes these investments, and provides asset management services.

» NEF places approximately **$600 - $800 million annually** into tax credit properties. Since inception, it has invested more than **$11 billion** in **140,000** affordable rental residences.

» NEF has established dedicated pools of funding to finance housing that is linked to healthcare services, housing for homeless veterans, and housing for victims of natural disasters.

» A sample of Housing Credit properties supported by NEF includes:

- **Parksdale Village II, located in the agrarian Central Valley of California**, is an overdue and welcome alternative to the typical run-down, overcrowded housing that most low-income farm workers have endured. The development contains **49 energy-efficient multifamily residences** targeted to households whose incomes range from 30 to 60 percent of AMI.

- **Encanto Pointe, located in Phoenix, Arizona**, is home to chronically homeless community members, including veterans and in particular Native American veterans. It is a modern energy-efficient complex that sets the standard for future developments in its Phoenix neighborhood. Its sponsor, Native American Connections, applied the Housing First model to this **54-unit** community serving the homeless. Housing First is based on the belief that helping people access permanent affordable housing is central to creating effective supporting services programs.

What can Congress do?

» Protect and expand the current LIHTC program.

- In the debates over tax reform, Congress must ensure that the Housing Credit is not scaled back or eliminated in an effort to lower overall tax rates.

- Congress should consider the findings of the Bipartisan Policy Center's Housing Commission, which called for an expansion of the Housing Credit by 50 percent over current allocation levels.

» Create fixed rates for the 9 percent and 4 percent credits by co-sponsoring H.R. 1142 and S. 1193.

- There are two types of Housing Credits used to finance affordable housing, both taken over a 10-year credit allowance period: (i) the "9 percent credit", which covers 70 percent of the costs (on a present value basis) of construction and rehabilitation; and (ii) the "4 percent credit", which covers 30 percent of project acquisition costs (on a present value basis).

- These actual credit rates are based on a formula that is set monthly and tied to U.S. Treasury's borrowing rates, which are at historic lows.

- Lower Treasury borrowing rates reduce the tax credit rates, which results in less equity available for properties making development more difficult, especially for properties that target the lowest income populations.

- The Housing and Economic Recovery Act of 2008 set a temporary floor of 9 percent for the "70 percent present value credit," which has been extended for all allocations through 2014. This provision should be made permanent and a flat 4 percent credit rate should apply to the 30 percent present value acquisition credit.

LISC is a national non-profit housing and community development intermediary with offices in 30 different cities and a national rural network of 66 organizations. For more information about the LIHTC, please contact Matt Josephs at mjosephs@lisc.org.