Fact Sheet

AARP Public Policy Institute

Low-Income Housing Tax Credits: Meeting The Demand For Affordable Rental Housing

The Low-Income Housing Tax Credit (LIHTC) is the federal government's primary vehicle for producing affordable rental housing. The LIHTC program provides states and local housing agencies with nearly $5 billion in annual budget authority to create affordable housing options for low-income households. Since its enactment in 1986, the LIHTC program has generated more than 1.6 million affordable apartment units for low-income families, older adults, individuals with disabilities, and the homeless.

Introduction

The Low-Income Housing Tax Credit (LIHTC) is the federal government's primary vehicle for producing affordable rental housing. It provides $5 billion in annual budget authority to state and local housing agencies to help produce new and rehabilitated rental housing for low-income households. Enacted as part of the 1986 Tax Reform Act, the LIHTC has generated more than 1.6 million housing units, offering affordable rent to low-income families, older adults, individuals with disabilities, and the homeless.[1]

How the LIHTC Works

The LIHTC encourages the private market to invest in affordable housing. State Housing Finance Agencies (SHAs) award tax credits to developers for the acquisition, rehabilitation, or new construction of affordable rental housing. To raise capital, developers offer the tax credits to investors. The capital that the developer receives from the investor in exchange for tax credits reduces the property's mortgage and enables the developer to accept rents that comply with the program's rent requirement.

In exchange for providing capital to the developer to finance affordable rental housing, investors receive a dollar-for-dollar reduction in their federal tax liability. Investors claim the tax credits in equal installments over a 10-year period to offset taxes owed on their tax returns. The incentive provided through the LIHTC is critical because rental income and returns from investment in affordable housing are not always enough to cover project costs.

Developers Must Meet Eligibility Requirements

To qualify for tax credits, developers are required, at a minimum, to rent 40 percent of their units to tenants with incomes equal to or less than 60 percent of the area median income, or to rent 20 percent of their units to tenants with incomes equal to or less than 50 percent of the area median income. Most LIHTC properties rent more than 80 percent of their units to low-income tenants.[2] For projects built in or after 1990, the minimum required units must remain at the above levels for at least 30 years. Projects built before 1990 must comply with affordability requirements for 15 years. The rent on LIHTC units may not exceed 30 percent of the tenant's qualifying income.

The Internal Revenue Service (IRS) and SHAs jointly administer the LIHTC. The IRS issues an annual allocation of tax credit authority to SHAs using a formula that includes a credit ceiling. Although in 1986 Congress imposed a credit ceiling of $1.25 per state population, it later modified the program and indexed the credit ceiling to inflation.

The LIHTC and the Economic Crisis

To address the current housing crisis and increase the affordability and accessibility of housing units, Congress passed the Housing and Economic Recovery Act of 2008 (HERA), which temporarily raised the LIHTC in each state to $2.20 multiplied by the state population or $2,325,000 for two years.[3]

However, even with HERA, states still faced major challenges as demand for tax credits among investors declined, making it difficult for developers to find the capital to build affordable housing and complete current projects. To address this concern, the 2009 American Recovery and Reinvestment Act created the Exchange and Tax Credit Assistance Program (TCAP).

The goal of TCAP is to fill the financing gaps caused by the credit markets and assist with completing stalled projects. TCAP allocated $2.25 billion in grants to SHAs for capital investments in the LIHTC program (see table 1).

Table 1: The Exchange and Tax Credit Assistance Program Allocations by State ($ millions)

State	Funding	State	Funding
AK	5.49	MT	7.81
AL	31.9	NC	52.1
AR	20.4	ND	4.86
AZ	32.3	NE	11.3
CA	326	NH	8.26
CO	27.3	NJ	61.2
CT	26.1	NM	13.8
DC	11.6	NV	15.1
DE	6.60	NY	252
FL	101	OH	83.4
GA	54.4	OK	25.7
HI	9.86	OR	27.3
IA	18.9	PA	95.0
ID	8.75	PR	42.6
IL	94.6	RI	11.9
IN	38.0	SC	25.3
KS	17.1	SD	5.40
KY	31.6	TN	39.0
LA	39.3	TX	148
MA	59.6	UT	11.6
MD	31.7	VA	44.2
ME	10.6	VT	5.41
MI	63.9	WA	43.0
MN	28.4	WI	35.5
MO	38.6	WV	16.5
MS	21.8	WY	4.84

Source: National Housing Trust

Characteristics of Projects and Residents

Property Characteristics

According to the Department of Housing and Urban Development (HUD), more than 16,754 projects and 1.2 million LIHTC units were placed in service from 1995 to 2006 (see figure 1).[4]

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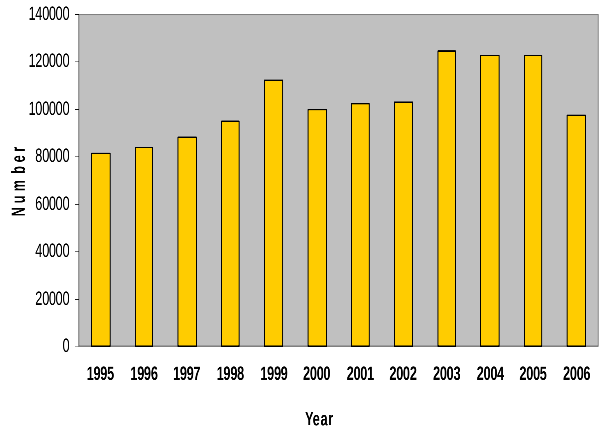
Figure 1: Low-Income Housing Tax Credit Units Placed in Service by Year



Source: HUD Low-Income Housing Tax Credit Database, 1995-2006

Approximately one-third of the projects had a nonprofit sponsor.[5] Half of LIHTC properties were located in central cities, and nearly two-fifths were in suburbs. In addition, 64 percent of these properties were new construction. Rehabilitation of an existing structure took place in 35 percent of the projects, while a combination of new construction and rehabilitation took place in only a small fraction of LIHTC properties.

Resident Characteristics

In comparison to general or rental units, LIHTC units are highly concentrated in high-poverty areas and are more likely to be located in neighborhoods with a high proportion of minorities or female-headed households.[6]

Many households receive additional rental assistance to enable them to pay 30 percent of their qualifying income to live in their LIHTC units. For example, residents receiving tenant-based rental subsidies through the Housing Choice Voucher Program occupied 47 percent of LIHTC properties placed in service from 1995 through 2006.[7]

The LIHTC and Older Renters (Age 65+)

The 2007 American Housing Survey (AHS) indicates a median household income for older renters of $15,130. Analyses of data from the 2007 AHS indicate that roughly 70 percent of older renter households incurred “excessive expenditures” for housing (monthly housing costs in excess of 30 percent of income).

As a result of low incomes and high costs for housing, there is a high demand for affordable housing among older renters. Although approximately 28 percent of LIHTC properties are intended primarily for older persons,[8] the supply of LIHTC units is insufficient to meet the demand. Consequently, older persons encounter long waiting lists and low vacancy rates for LIHTC units.[9]

Conclusion

As the population ages and some LIHTC properties approach the end of their 30-year affordability requirement, the program must consider ways to address the increasing need for affordable rental housing, particularly for older adults who overwhelmingly prefer to age and receive services in the community. To meet the needs of older adults, Congress should modify the LIHTC to provide greater flexibility in the development of housing projects with supportive services and incentives that encourage the creation of affordable housing in neighborhoods located near transit and other important amenities.

States can also make structural modifications in the LIHTC program by incorporating meaningful requirements that address housing accessibility and visitability features within the state Qualified Allocation Plan. Such an approach would award tax credits to projects that integrate accessible and affordable housing and adequate transportation. These elements are critical to creating livable communities that support the dignity and independence of residents who wish to age in place.

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[1] Overview of the Low Income Housing Tax Credit. Available at http://www.huduser.org/datasets/lihtc.html.

[2] AARP Public Policy Institute. *Serving the Affordable Housing Needs of Older Low-Income Renters: A Survey of Low-Income Housing Tax Credit Properties* (Washington, DC: AARP, 2002).

[3] HUD. Updating *the Low-Income Housing Tax Credit Database: Projects Placed in Service through 2006* (Washington, DC: January 2009).

[4] Ibid.

[5] Federal law requires that state agencies award 10 percent of LIHTC allocations to nonprofit sponsors.

[6] HUD. *Updating the Low-Income Housing Tax Credit Database: Projects Placed in Service through 2006* (Washington, DC: January 2009).

[7] Ibid.

[8] Ibid.

[9] AARP Public Policy Institute. *Serving the Affordable Housing Needs of Older Low-Income Renters: A Survey of Low-Income Housing Tax Credit Properties* (Washington, DC: AARP, 2002).