# 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 3 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. LIHTC units are typically required to remain affordable for income-eligible households for at least 30 years, with some exceptions after 15 years. Some states require or incentivize longer affordability periods. 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). Developers now have an "income averaging" option to serve households up to 80% of AMI, so long as the average income across units in the development remains at 60% of AMI.

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 the Department of Housing and Urban Development (HUD), more than 44% of LIHTC households report incomes at or below 30% of AMI and 32% report incomes between 31% and 50% of AMI (HUD, 2018). In a national sample of LIHTC households, O'Regan and Horn (2013) observed that 28% of LIHTC households with incomes at or below 30% of AMI and 11% of those with incomes between 31% and 50% were severely cost-burdened, devoting more than half of their income to housing costs. Approximately 70% of LIHTC households with incomes at or below 30% AMI received some form of additional rental assistance. Among LIHTC households with income at or below 30% of AMI who did not receive rental assistance, 58% reported severe cost-burdens.

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 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.

NLIHC's 2018 report, "Balancing Priorities: Preservation and Neighborhood Opportunity in the Low-Income Housing Tax Credit Program Beyond Year 30," found that more than 486,000 LIHTC units will reach the end of their affordability and income-eligibility restrictions by 2030. A number of these units are at risk of being lost from the affordable housing stock. The report examines the neighborhood quality of these units and discusses the difficult preservation decisions that stakeholders will have to make.

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