Low-Income Housing Tax Credit (LIHTC)

How the program works

The federal government funds the program.

- The Department of the Treasury issues tax credits to the states and requires that the housing built by this program remain affordable for low-income families for at least 30 years.
- In 2011, each state received a minimum of $2,465,000 and a maximum of $2.15 for each resident in the state. Since 2003, this amount has been adjusted annually for inflation.

But the states largely shape what housing gets built.

- States control the type of housing, the location and other characteristics to best serve their residents.
- State agencies write regulations (called qualified allocation plans or QAPs) describing the selection criteria that governs the competition.
- Then they review developers' plans and decide who best meets the criteria and wins the tax credits.

Developers get funds toward construction.

- State agencies award the housing tax credits to housing developers.
- Enterprise and other companies, called "syndicators," create funds comprised of multiple investors to pool capital.
- Syndicators then sell that investment capital to developers in exchange for the credits.
- With the financing obtained from syndicators and investors, developers can borrow less money to fund construction, reducing the cost of the development.
- The lowered development costs allows for reduced rent for low-income tenants.

Low-income renters get an affordable home.

- These apartments must be rented only to families whose income is at or less than 60 percent of the area median.
- And the rent for these apartments cannot be more than 30 percent of that amount.

Investors get a 10-year tax credit.

- By purchasing the tax credits, investors get an equity stake in the development and 10 years worth of tax credits based on the cost of constructing or rehabilitating the apartments.
- They also get a return on their investment for providing the capital to finance the housing.

Why we need it

- These tax credits build 9 out of every 10 of America's apartments for low-income families.
- They have helped finance more than 2 million apartments since 1986.
- For most of this decade they helped finance 120,000 apartments annually.

Why it works

- State agencies put each development through three separate, rigorous evaluations to make sure it receives only enough tax credits to make it affordable as low-income housing for at least 30 years.
- The majority of these apartments are dedicated to low-income use for longer than 30 years—many are permanently dedicated.
- The private sector has a stake in making these apartments work, so they can continue to claim tax credits and keep a strong return on their investment.
- This imposes a private-sector discipline on these apartments, from site selection to compliance monitoring—under threat of severe tax penalty—that brings an unprecedented departure from previous federal housing programs.