

Policy Brief

LIHTC FACTSHEET



LOW INCOME HOUSING TAX CREDITS (LIHTC)

The Low Income Housing Tax Credits (LIHTC) Program is based on Section 42 of the Internal Revenue Code, which was enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing. The program is an indirect Federal subsidy used to finance the development of affordable rental housing for low-income households.

Many local housing and community development agencies are effectively using these tax credits to increase the supply of affordable housing in their communities. Federal housing tax credits are awarded to developers of qualified projects. Developers then sell these credits to investors to raise capital (or equity) for their projects, which reduces the debt that the developer would otherwise have to borrow. Because the debt is lower, a tax credit property can in turn offer lower, more affordable rents.

Developers typically sell LIHTCs to investors for a price somewhat below one dollar for each dollar of tax credit. Provided the property maintains compliance with the program requirements, investors receive a dollar-for-dollar credit against their Federal tax liability each year over a period of 10 years. The amount of the annual credit is based on the amount invested in the affordable housing.

There are two types of LIHTCs. “9 percent” credits, which state agencies can allocate to developments in amounts up to a ceiling that Congress set for each state. And “4 percent” credits which are used together with the proceeds of tax-exempt bonds issued to support affordable housing development and, rather than being subject to a ceiling, are available to all developers that receive allocations of such bonds from the state.

As a result of the credit market meltdown, the program was severely disrupted when the corporate investors on which the program relied upon, primarily large national banks and Fannie Mae and Freddie Mac, swung from profitability to loss - and could no longer use tax credits. Demand for LIHTCs plummeted. As a result, the demand and price of LIHTCs fell, creating funding gaps in development projects that had received tax credit allocations but had not yet sold them.

Thousands of projects and tens of thousands of units that would have otherwise been bought or rehabilitated stalled. **It is important to recognize that the LIHTC crisis is due to a drop in investor demand in the wake of the worst financial crisis since the Great Depression, not with the performance of the program to date in delivering affordable housing at a very low loss rate.**

OVER 16,000 CALIFORNIA JOBS & 12,000 AFFORDABLE HOMES AT RISK

Thirty-nine California developers from SCANPH and other affordable home organizations responded to a survey conducted early in 2010 - by the California Housing Partnership Corporation, and helped identify 155 LIHTC allocated developments with a total of 12,703 affordable homes and units that could begin construction in 2010.

Using job creation ratios provided by the National Association of Home Builders, the developments translated into 16,814 potential LIHTC-related jobs in California. Because not all California LIHTC developers were able to respond, actual numbers of LIHTC apartments and jobs for 2010 could be higher by as much as 50%.

WHAT NEEDS TO BE DONE

Strengthening the LIHTC program would be an effective job producer for California. LIHTC improvement measures that would help include: Extending and expanding the temporary 9% Tax Credit Exchange Program to include 4% Tax Credits and California State Credits; Increasing the Housing Credit carry back period to 5 years for new housing and qualifying existing housing; and, Expanding the Housing Credit investor base by permitting Subchapter S, LLCs, and closely-held corporations to purchase LIHTCs.