



CHACE

Campaign for Housing and
Civic Engagement

Issue Brief

Low Income Housing
Tax Credit

A Successful Tool for Increasing the Supply of Affordable Homes

The Low Income Housing Tax Credit is the largest, longest standing federal program that is focused on the creation and preservation of affordable rental housing.

What is It?

The **Low Income Housing Tax Credit Program (LIHTC)** was created by the 1986 tax reform act and has been the key federal rental housing program for over 30 years. The program provides a subsidy to for profit and non-profit developers of affordable rental housing. Generally, housing assisted through LIHTC must have rents that are affordable to households with incomes less than 60%.

The LIHTC program **can be used to build new housing or to rehabilitate** and preserve older apartment buildings. While the program itself does not provide a “deep subsidy” that allows it to serve extremely low income households, the program does require owners and managers to accept households with Section 8 housing vouchers.

How it Works

The LIHTC is **unique among affordable housing programs** in that it is built on a model where **private investors** provide equity to affordable rental housing projects in return for federal tax credits. One of the elements of this program that has contributed to its success and longevity is the fact that it brings private market discipline to the development and operation of affordable housing. With the equity investment generated by the tax credits, developers need to borrow less money to support the costs of the project and are therefore able to charge lower rents.

The program is administered by the Virginia Housing Development Authority which publishes an annual plan that guides the programs priorities. VHDA has a once a year competition for credits that is typically oversubscribed by three requests to everyone that can be funded.

The LIHTC program has two components. The 9% credit program is competitive and administered by VHDA. The 4% credit program is not competitive and is connected to tax exempt, private activity bonds that also provide the debt financing to the project. VHDA, as well as any housing authority or industrial development agency can be a conduit for the 4% program.

Impact

The LIHTC program has had a profound impact in the State over the past 30 years. Since 1996, over **88,000 affordable apartment homes** have been constructed or rehabilitated. The total development cost of this housing has been nearly \$16 billion. The economic impact of this program in **District 1** is described in the chart below, one of which is that this housing contributes over \$1 billion every year to local economies across the state.

Economic Impact of New Construction and Rehabilitated Units*			
<i>Short Term</i>		<i>Long Term</i>	
Estimated Job Creation	19,514	Estimated Jobs Supported	1,993
Estimated Gross Fiscal Revenues	\$35,076,317	Estimated Gross Fiscal Revenues**	\$18,980,566
Estimated Local Economic Growth	\$1,208,534,874	Estimated Local Economic Growth	\$98,625,422

Calculations made using the Residential Construction Economic Impact Calculators in Housing Virginia's Sourcebook (<http://www.housingvirginia.org/sourcebook/>)

*Estimates of economic impact are based on new construction and acquisition rehab cost, local median rents, local median home values, local tax rates, and RIMS II input-output multipliers. Estimated Fiscal Revenues are based on fees and taxes in the city of Fredericksburg. Job Creation and Local Economic Growth are regional estimates.

** Estimated Fiscal Revenues in the long term is an estimation of annual real property taxes (real estate taxes). Therefore, the long term fiscal revenue shown above is an estimate of taxes to be collected on the development in a single year at 2012 local tax rate.

Please Support the LIHTC

The LIHTC program has been the beneficiary of several important improvements through Congressional action over the past several years. The volume of the program has been temporarily increased by 12.5% each year for the next four years. An income averaging feature has been added that allows some homes to serve families up to 80% AMI as long as they are balanced by families at 30% AMI. This provision provides a better income mix as well as the opportunity to serve extremely low income families.

Several additional changes are proposed in pending legislation including a proposal to “fix” the 4% credit at that level, rather than let it float based on current interest rates. The 9% credit has already been “fixed” and similar action on the 4% program would help produce more housing.

SUPPORT THE LIHTC PROGRAM AT CURRENT FUNDING LEVELS

SUPPORT BENEFICIAL PROGRAM CHANGES THAT IMPROVE EFFECTIVENESS

... Stable homes build strong communities ...

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