An Introduction to the Low-Income Housing Tax Credit

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12/28/2015 (CRS) -- The low-income housing tax credit (LIHTC) program is one of the federal government's primary policy tools for encouraging the development and rehabilitation of affordable rental housing. These non-refundable federal housing tax credits are awarded to developers of qualified rental projects via a competitive application process administered by state housing finance authorities. Developers typically sell their tax credits to outside investors in exchange for equity. Selling the tax credits reduces the debt developers would otherwise have to incur and the equity they would otherwise have to contribute. With lower financing costs, tax credit properties can potentially offer lower, more affordable rents. The LIHTC is estimated to cost the government an average of approximately $8.6 billion annually.

The LIHTC program was originally designed to provide a 30% subsidy for rehabilitated rental housing via the so-called 4% credit, and a 70% subsidy for newly constructed rental housing via the so-called 9% credit. To ensure that the 30% or 70% subsidies were achieved, the U.S. Department of the Treasury designed a formula for determining the effective 4% and 9% LIHTC rates. The formula depended in part on current market interest rates that fluctuate over time. These fluctuations caused the LIHTC rates to change over time, and typically have resulted in effective LIHTCs below the 4% and 9% thresholds.

The Housing and Economic Recovery Act of 2008 (P.L. 110-289) temporarily changed the credit rate formula used for new construction. The act effectively placed a floor equal to 9% on the new construction tax credit rate. The 9% credit rate floor originally only applied to new construction placed in service before December 31, 2013. The 4% tax credit rate that is applied to rehabilitation construction or new construction jointly financed with tax-exempt bonds remained unaltered by the act. The Tax Increase Prevention Act of 2014 (P.L. 113-295) extended the 9% credit floor for one year. Most recently, Division Q of P.L. 114-113— the Protecting Americans from Tax Hikes Act (or "PATH" Act) permanently extended the 9% floor. Thus, new construction receives a credit rate equal to the greater of the rate determined under the original Treasury formula, or 9%. The 4% credit was left unaltered.

This report will be updated as warranted by legislative changes.

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