

## Dear Congress: Please Protect the Low-Income Housing Tax Credit

*Our membership of apartment managers and owners have the very important responsibility of preserving and advancing quality affordable rental housing for over two million residents. Created in the Tax Reform Act of 1986 and signed into law by President Ronald Reagan, the Low-Income Housing Tax Credit (LIHTC) program is the primary source of federal funding used to construct new affordable apartments. The Housing and Economic Recovery Act of 2008 (HERA) then enacted a temporary provision which created a fixed floor rate for new construction at no less than 9 percent. The LIHTC benefits low-income families and local communities by providing rent-restricted and income-restricted units. NAHMA strongly urges Congress to retain the LIHTC as part of any comprehensive tax reform legislation in the 114<sup>th</sup> Congress. Both the 9 percent LIHTC credit for new construction and the 4 percent LIHTC credit for acquisition and rehabilitation (preservation) must be preserved.*

## How Can Representatives/Senators Support NAHMA?

1. Write the House Ways and Means and Senate Finance Committees' Chairs and Ranking Members in support of NAHMA's LIHTC priorities as they pursue tax reform proposals and that the LIHTC be preserved in any comprehensive tax reform legislation.
2. Cosponsor legislation such as H.R. 1142 which seeks to make permanent the 9 percent LIHTC credit for new construction and the 4 percent LIHTC credit for preservation.

	House Ways and Means Committee	Senate Finance Committee
<b>Tax Writing Committees</b>	<p>Chair Paul Ryan (R-WI)</p> <p>Ranking Member Sander Levin (D-MI)</p>	<p>Chair Orrin Hatch (R-UT)</p> <p>Ranking Member Ron Wyden (D-OR)</p>

## Low-Income Housing Tax Credit FACT SHEET

### Portfolio Quick Facts

- The LIHTC currently produces approximately 75,000 new apartment homes annually, and has produced more than 2 million affordable rental units since its inception.
- Average household income is 60% of the area median income (AMI)
- LIHTC units are rent-restricted and income-restricted for a minimum of 30 years after project completion.
- HUD estimates almost 39,094 projects and nearly 2,458,000 units were placed in service under the LIHTC program from 1987 to 2012.
- The National Association of Home Builders estimates the program adds approximately 96,000 full time jobs per year across all U.S. industries.
  - NAHB estimates that after the LIHTC units are complete and occupied, 30 jobs remain in retail trade, eating and drinking establishments, local government, and in the health, education and social service sectors.

## History

Created by the Tax Reform Act of 1986, the LIHTC program provides State LIHTC-allocating agencies with nearly \$8 billion in low-income housing tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. A HUD report explained its history:

"Under the LIHTC program, the states were authorized to issue federal tax credits for the acquisition, rehabilitation, or new construction of affordable rental housing. The credits can be used by property owners to offset taxes on other income, and are generally sold to outside investors to raise initial development funds for a project...LIHTC investors claim credits to offset taxes otherwise owed for each year of a 10-year period...."<sup>1</sup>

## A Successful Private-Public Partnership

The LIHTC allows private equity to be raised at a lower cost, which makes it possible to operate these projects successfully with affordable rents. State agencies allocate credits and monitor properties to ensure regulatory compliance. Additionally, investors who buy the credits add private sector oversight during the initial 15-year federal compliance period. The Internal Revenue Service can recapture the credits for non-compliance.

## Challenges facing the LIHTC program

The Tax Increase Prevention Act, 2014 (P.L.113-295) extended certain provisions of the U.S. Tax Code which expired at the end of 2013, including an extension of the 9 percent minimum credit rate for the LIHTC. However, this bill does not include the establishment of a 4 percent minimum credit rate for rehabilitation, and the extensions granted applied only till the end of 2014. If Congress fails to pass legislation which permanently establishes the 9 percent and 4 percent, property owners and managers will be subject to a "floating rate" system wherein a present-value formula based on the federal cost of borrowing is employed. As a result, the floating rate for LIHTCs is often more than a full percentage point below 9 percent fixed rate under the floating rate system.

## Legislative intervention

In the 114<sup>th</sup> Congress, lawmakers must pass legislation which will permanently establish the 9 percent minimum rate and create the 4 percent minimum credit rate. Several bills were introduced in the previous Congressional session which would have achieved this important goal. Senator Maria Cantwell's (D-WA) S.1442 and Representative Pat Tiberi's (R-OH) H.R. 4717 sought to permanently establish these rates, but neither was enacted despite strong bipartisan support. Representative Tiberi has reintroduced his legislation (H.R. 1142) for the 114<sup>th</sup> Congress, and NAHMA strongly urges lawmakers to pass this bill.

Furthermore, NAHMA supports proposals from the Obama Administration's fiscal year 2016 Budget Request which would:

- Add preservation of federally assisted affordable housing to the selection criterion that States must include in their Qualified Allocation Plans (QAPs).
- Allow States to convert a portion of their private activity bonds into LIHTCs.

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<sup>1</sup> *Assessment of the Economic and Social Characteristics of LIHTC Residents and Neighborhoods, Final Report*. Prepared by Abt Associates Inc. for the U.S. Department of Housing and Urban Development, Office of Policy Development and Research; February 28, 2000.