How the Low-Income Housing Tax Credit Works

The Treasury Department allocates Low-Income Housing Tax Credits (Housing Credits) and Private Activity Bonds (PABs) to states based on population size.

- In 2021, each state will receive a Housing Credit allocation of either $3,245,625 or $2.81 per capita, whichever amount is greater. Since 2003, this amount has been adjusted annually for inflation, and in 2018 Congress enacted a temporary 12.5 percent expansion of the Housing Credit for four years (2018-2021).
- Each state will also receive a PAB allocation of either $324,995,000 or $110 per capita, whichever is greater.

State agencies award Housing Credits based on their affordable housing priorities.

- There are two separate types of Housing Credits. The “9 percent” Housing Credit is available for new construction and substantial rehabilitation and comes from the Housing Credit allocation. The “4 percent” Housing Credit is available for acquisitions and new development or rehabilitation and is available to developments in which at least 50 percent of the financing comes from PABs.
- States establish priorities for awarding credits through Qualified Allocation Plans. Because the Housing Credit is highly oversubscribed, and in an increasing number of states PABs are oversubscribed as well, states administer competitive processes to determine which developments to finance.
- The amount of Housing Credits a development receives is based on eligible project costs multiplied by the 9 or 4 percent Housing Credit rate, over the course of ten years.
- State agencies put each development through three separate, rigorous evaluations to ensure it receives only enough tax credits to be financially feasible and provide affordable housing to low-income households for at least 30 years.

Developers receive equity to finance the development of affordable rental homes.

- Once state agencies award Housing Credits to developers, generally “syndicators” create funds of pooled investor capital, which they trade to developers in exchange for Housing Credits.
- The investor-provided equity allows developers to borrow less money to cover the costs of construction, reducing the total cost of the development to the developer.
- The lowered development costs allow the developers to charge rents that are affordable for low-income tenants.

Investors receive a 10-year stream of tax credits.

- Housing Credit investors receive 10 years’ worth of tax credits based on the eligible costs of constructing or rehabilitating the apartments, as well as an equity stake in the development that provides additional tax benefits, such as depreciation. Many investors also receive credit for the investments under the Community Reinvestment Act.
- Investors must ensure that the development remains affordable and in compliance for 15 years to claim and keep the tax credits. The next 15 years of compliance are overseen by state agencies, with some states requiring even longer affordability periods.

Low-income renters are provided safe, decent, and affordable homes.

- Housing Credit apartments must be rented to households whose income is no more than 60 percent of the area median income (AMI), unless the development uses the income averaging option, which allows Housing Credit-qualified apartments to serve families earning up to 80 percent AMI, as long as the average income limit of the property does not exceed 60 percent AMI.
- The rent for Housing Credit apartments cannot be more than 30 percent of the income limit for that apartment.