COMMUNITY REVITALIZATION

The Low-Income Housing Tax Credit (Housing Credit)

The Housing Credit is a powerful instrument for revitalizing economically distressed urban, rural, and suburban communities. In designing the program, Congress prioritized community revitalization by providing a “basis boost” to developments in so-called qualified census tracts (QCTs)—areas that have high poverty levels—and by requiring states to prioritize development in QCTs that have adopted a concerted revitalization plan.

Research confirms the Housing Credit’s strong positive impact on low-income communities. Stanford researchers have found that Housing Credit development “revitalizes low-income neighborhoods, increasing house prices 6.5 percent, lowering crime rates, and attracting racially and income diverse populations.” The same study found that when this housing is built in low-income areas there is an aggregate welfare benefit to society of $115 million.[1] Several other studies have found similar positive outcomes—lower crime and higher property values.

States must balance the need for Housing Credit development in low-income areas in need of community revitalization with needs for more affordable homes in areas that already have access to opportunities. In practice, the Housing Credit supports new construction about equally in high-poverty and low-poverty neighborhoods. Another important role for the Housing Credit is the rehabilitation of older housing, including properties built with federal government support decades ago, which tend to be concentrated in neighborhoods with more multifamily housing and lower incomes.

The *Affordable Housing Credit Improvement Act* (*AHCIA*), S. 1557 & H.R. 3238

Provisions to support Affordable Housing Development

The *AHCIA* includes several provisions that make it easier to finance affordable housing through the Housing Credit, which would contribute to the revitalization of economically distressed urban, rural, and suburban communities nationwide.

Expand the Number of Neighborhoods that Qualify for the QCT Basis Boost. Current law caps the number of areas that qualify as QCTs in metro areas. The AHCIA would remove the population cap so that more low-income areas could benefit from the basis boost.

Expand the Housing Credit. The Housing Credit is over-subscribed, meaning far more potential developments are submitted to receive Housing Credits than are available. Increasing the annual Housing Credit allocation by 50 percent, phased in over two years, would finance an additional 232,500 affordable rental homes over 2023-32, providing more housing for low-income individuals and families.

Lower the Bond Financing Threshold for Receiving 4 percent Housing Credits. This provision will allow states to use their bond authority more efficiently and would free up funds for more housing developments.

Increase the amount of Housing Credits for developments serving extremely low-income (ELI) tenants.* Developing housing affordable to ELI tenants requires significant additional subsidy because the expected rents will be too low to pay off much debt on the property. These properties often also include critically needed supportive services, adding to the cost of the development. Providing additional Housing Credits for ELI properties (if needed for financial feasibility) would allow the Housing Credit to serve more ELI persons. **ELI households make at or below the greater of 30 percent of Area Median Income or the Federal Poverty Line.*

[1] Diamond, R., & McQuade, T. (2017). “Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low Income Property Development.” Stanford, CA: Stanford University, Graduate School of Business. http://web.stanford.edu/~diamondr/LIHTC_spillovers.pdf