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HOUSING MATTERS

Strengthening The Housing Tax Credit

Calling On Congress: Passing The Tax Extender Bill Well Worth It

BY SUSAN GITTELMAN
SPECIAL TO BANKER & TRADESMAN

What lies ahead in Congress is a mandate of extensive tax reform that, unless we are vigilant, could undermine even this most productive of programs.

In our high-cost region of the country, there is always room for creating more modestly priced housing, as housing prices and rents continue to be beyond the range of so many working families.


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The paramount tool for creating this housing is the Low Income Housing Tax Credit (LIHTC). Across the country, more than 90 percent of below-market-rate housing has been produced with a boost from this tax credit.

The federal Low Income Housing Tax Credit, since its inception in 1986, has created more than 2.7 million homes. It is estimated to have created more than 3 million jobs. With a track record of almost 30 years of success, it has uniquely shaped the affordable housing landscape in this country.

"In many respects, it's a perfect model," said David Gasson of Boston Capital, which is a major investor in low income housing tax credits. The program produces good-quality housing, stimulates the private sector, includes elements of competition to keep costs to the government down, and allows states control over what kind of housing is built and where.

And Congress has an opportunity to strengthen the buying power of this valuable – this essential – program when it comes back into session later in the year, by enacting a fixed-floor rate for these investments.

Since they were created, housing tax credits have been allocated to each state based on its population, which the states in turn award to applicants that they believe have the best proposals for building new or rehabilitating existing buildings.

Those credits are then allocated to developers, who sell them to companies, banks or others who owe federal taxes. The nonprofit or for-profit housing developers can generate equity that allows them to produce new homes for families, seniors, veterans and those in need of affordable housing.

In this way the federal government induces needed housing production without having to build and manage this housing itself.

Committing To The Numbers

There are two types of LIHTCs, one commonly known as the 9 percent credit, which is used for new construction housing developments, and one commonly known as the 4 percent credit, which is used for the rehabilitation of existing housing.

Although at one time these rates were fixed, the formula for these tax credits has changed over time based on the Applicable Federal Rate, which means it has floated at rates significantly below the 9 percent and 4 percent rates. With interest rates at historic lows in recent years, this lower rate has resulted in less equity being available to these developments. As a direct result of this reduction in resources, less of this housing is being produced overall.

At its peak, the LIHTC was credited with producing about 115,000 housing units a year. Now the figure has dropped to around 85,000 annually.

Passage of the so-called Tax Extender provision, which is now being considered in Congress, would again encourage more of the needed construction and rehabilitation of housing, especially in urban areas of the country, by fixing these rates once again at no less than 9 percent and 4 percent, respectively.

Harvard University's Joint Center for Housing Studies estimates there is currently a shortage of 8 million apartments in the United States today.

"The LIHTC is and has for many years been the nation's most successful low-income housing production tool," said Emily Cadik, a senior policy analyst at Enterprise Communities, a national affordable housing and community development group that is leading a coalition to restore a minimum credit level.

Truly, the LIHTC has a proven track record. In Congress, it has enjoyed bipartisan support and even survived vigorous efforts at tax reform.

But it would be ill advised to take its future for granted. While it is a highly efficient mechanism for producing housing, it currently costs the federal government about $600 million a year – while leveraging approximately $9 billion annually in investment.

But what lies ahead in Congress is a mandate of extensive tax reform that, unless we are vigilant, could undermine even this most productive of programs.

Whatever their differences on other issues, Republicans and Democrats should stay committed to the low income housing tax credit, including fixing the floor rate of these credits now to leverage more equity and to ensure the feasibility of more developments. There is a pipeline of exceptional housing ready to go, and communities are desperate for these resources. With Congress's help, we can make a big difference. ■

Susan Gittelman is executive director of B'nai B'rith Housing, a nonprofit, nonsectarian developer and operator of affordable and mixed-income housing serving families and elders in communities of Greater Boston.