Rental Assistance Demonstration (RAD)

FACT SHEET #13

RAD and Low-Income Tax Credits

HUD created Rental Assistance Demonstration (RAD) to bring needed funding to repair and maintain public housing. One of the common funding sources used in RAD conversions is known as Low-Income Housing Tax Credits, often called LIHTC (pronounced lie-tec) or just "tax credits."

What Are Low-Income Housing Tax Credits (LIHTC) or "Tax Credits"?

The Low-Income Housing Tax Credit (LIHTC) program provides a financial incentive, through tax breaks, for investors to pay for the construction and/or rehabilitation of affordable rental housing for low-income households.

State housing agencies award the credits to developers of affordable rental housing through a competitive process. Developers generally sell the credits to private investors. This money provides funding to support construction or rehabilitation of affordable housing. Once the housing is rented, investors can begin to claim the credit on their taxes as long as the property follows the rules of the LIHTC program.

Generally, projects that receive LIHTC funding must have rents that are affordable to people earning 60% of the "Area Median Income" or less. Because of the income restrictions, LIHTC often works well with HUD-assisted housing where most residents earn less than the income limits allowed under LIHTC.

How Will Low-Income Housing Tax Credits Affect the Property Ownership and Management?

Under RAD, generally, the public housing authority (PHA) will own the property directly or through a related non-profit. However, under the tax credit program a for-profit company, will be the primary owner of the building. The investor generally owns 99% of the building and is a "silent" partner who leaves the running of the building to a "general partner," which could be the PHA, a nonprofit, or another affordable housing operator who technically owns a very small share of the property but has control over major decisions.

HUD requires that in these cases the PHA or an approved non-profit must maintain an interest (some ownership) in the property. The PHA or non-profit can preserve an interest in the building by serving as the general partner so that they continue to manage the building. Another common way that a PHA or non-profit can maintain oversight is for the PHA to continue to own the land to ensure that the property continues to be used as affordable housing and that the PHA or non-profit remains invested in the property for the long-term.

While the LIHTC program requires the property to be affordable for a certain period, HUD requires the property to remain affordable permanently, so your housing affordability will not be impacted by the LIHTC program.

How Will Low-Income Housing Tax Credits Affect My Rent as a RAD Tenant?

Tax credits will not affect your rent. Your rent will be based on Section 8 rules and you will continue to pay 30% of your income on rent and utilities.

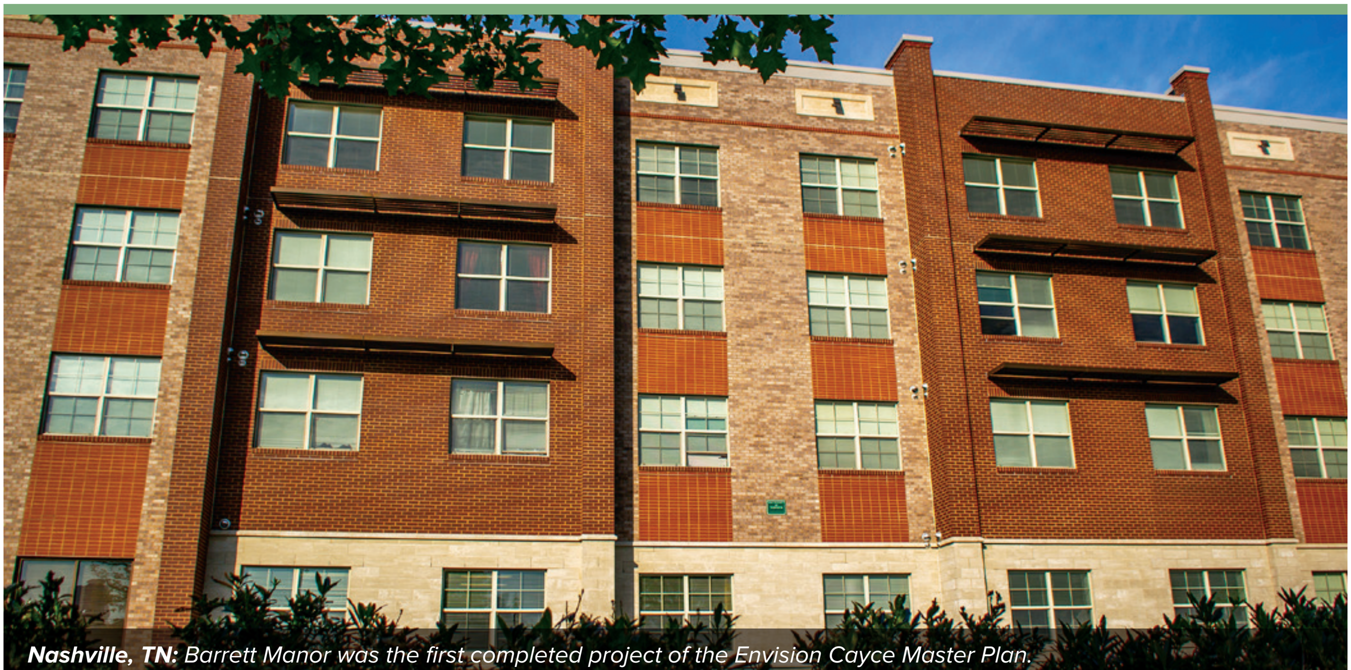
The fact that the building has tax credits (and potentially other financing) in addition to Section 8 will not affect your rent. When Section 8 and LIHTC work together, residents pay rents based on the Section 8 program.

How Will Tax Credits Impact Me as a Resident?

The only differences that you are likely to notice because of tax credits will be your lease and your recertification.

Lease: Your lease will include some language that is specific to the tax credit program. You should review this information, along with the rest of the lease, and ask any questions that you have. No features of the LIHTC program may reduce your rights as a resident of Section 8.

Recertification: As with Section 8 (or public housing) the tax credit program requires resident incomes to be recertified annually at each property. However, the information that is requested of you might be different. Each year, the property owners or the managers will work with residents to complete the recertification process. This recertification cannot be used to deny you your right to return to a RAD project.



Nashville, TN: *Barrett Manor was the first completed project of the Envision Cayce Master Plan.*