In Fiscal Year 2013, HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit program a more flexible and nimble tool for the creation and preservation of affordable housing.

The nation needs an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. Also important is ensuring that the supply of rental housing enables communities to build their own “geographies of opportunity” – places that effectively connect people and families to jobs, transportation, quality public schools, and other key community assets. HUD is working with its partners to expand the supply of affordable rental housing and the capital needed to increase the supply through a diverse array of initiatives, including the Low Income Housing Tax Credit program.

BACKGROUND

The Low Income Housing Tax Credit (LIHTC) is the primary tool of the Federal Government for developing and rehabilitating affordable rental housing. A permanent provision in the Internal Revenue Code creates the LIHTC program, which is administered by State agencies with the assistance of guidance from the Treasury Department and the Internal Revenue Service. LIHTCs attract capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties. Specifically, investors may earn a 10-year stream of tax credits by making an upfront equity investment to build or rehabilitate affordable rental units. In exchange for receiving tax credits, investors and investor developers must agree to restrict a minimum portion of units to tenants having no more than 60% of area median income adjusted for household size (AMI). (In some cases incomes must be no more than 50% of AMI.) The developer must also limit rents for all of the low-income units to no more than 30% of the income limits for the units. Thus, the LIHTC rent restriction in the Internal Revenue Code generally conforms to the HOME program’s rent and income targeting requirements.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generated $2.7 billion in State, local, and Federal revenues. In Fiscal Year 2013, as part of a broader effort to align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to identify ways to make the LIHTC program a more flexible and nimble tool for the creation and preservation of affordable housing. By allowing greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, the LIHTC program is anticipated to continue to enable the creation of affordable housing in markets where it is needed the most.

Specifically, the revenue provisions of the Administration’s Fiscal Year 2013 budget enhance two revenue proposals that were in the Fiscal Year 2012 budget and introduce two new proposals:

- An Income Averaging proposal would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an average income no greater than 60 percent of AMI, with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer’s entitlement to LIHTCs.
In the context of preserving, recapitalizing, and rehabilitating existing federally assisted affordable housing, a *Basis Boost* proposal would provide a second mechanism for earning “4 percent” LIHTCs and would give an extra, up-to-30-percent increase in qualified basis for certain projects that receive “4 percent” LIHTCs, either because they are at least half financed with tax exempt-bonds or because they employed the new mechanism.

A proposal concerning *LIHTCs earned by Real Estate Investment Trusts (REITs)* is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT’s LIHTCs.

A *Victims of Domestic Violence* proposal would bar LIHTC buildings from discriminating against victims of actual or threatened domestic violence and would clarify that occupancy restrictions or preferences for such victims are an allowable exception to the general-public-use requirement.