Financing Progress

LANCASTER POLLARD

TAX CREDITS FOR AFFORDABLE HOUSING

About the LIHTC Program

The low-income housing tax credit (LIHTC) program was created by the 1986 Tax Reform Act to encourage private investment for the purchase, construction and rehabilitation of low-income housing projects. The LIHTC program has become one of the most important federal initiatives supporting affordable housing for low-income families. The program allows state Housing Finance Agencies (HFAs) to allocate an average of approximately $5 billion in annual tax credits to eligible constituents. It has been responsible for the development of roughly 1,300 projects and 90,000 units each year. The program is often implemented in coordination with HUD/FHA/USDA mortgage insurance programs, tax-exempt bond financings, HOME funds, Community Development Block Grants (CDBG), Federal Home Loan Bank (FHLB) programs and other state and local loan programs to complete the financing package.

LIHTCs provide for-profit affordable housing owners a dollar-for-dollar reduction of federal income tax liability over a 10-year period for renting housing units to low-income individuals or families. Nonprofit organizations that wish to develop housing also may benefit from the tax credit program by reducing their reliance on debt and increasing available equity for the project. In this scenario, a for-profit partnership is created to own the property and receive the tax credits, while the nonprofit maintains day-to-day oversight of operations. Then, private investors are sought to provide equity for development costs in exchange for the opportunity to “own” the project and receive the tax benefits.

Qualified Low-Income Properties

In order for a property to be eligible for tax credits, a property must meet certain operating criteria. Only residential rental buildings are eligible for LIHTCs. The owner of the property must set aside a percentage of housing units for residents who earn less than the area median income (AMI). Specifically:

- At least 20% of the units for residents earning at most 50% of AMI, or
- At least 40% of the units for residents earning at most 60% of AMI.

Also, buildings must be rented on a non-discriminatory basis and meet all local health, housing and safety codes. Although tax credits are only granted for 10 years, owners must follow these regulations for a compliance period of 15 years from the year the first tax credits are offered. Failure to comply with any of the criteria can have significant financial and legal implications for the owners.

Amount of Tax Credit Allocation

Most states base the amount of tax credits an individual project receives on its “qualified basis.” The qualified basis of a project is the calculation of its cost adjusted for its percentage of low-income units. The qualified basis is then multiplied by the federal tax credit rate to determine the maximum allowable tax credit allocation for a project. Buildings located in certain HUD designated “difficult to develop” areas and “qualified census tracts” are eligible to earn an additional 30% in tax credits.

To learn more about the benefits of low-income housing tax credits, please call Lancaster Pollard Mortgage Company at (614) 224-8804.