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Revised August 1, 2006

RENT CHANGES IN HOUSING BILL WILL HELP MANY TENANTS

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On June 14, 2006 the House Financial Services Committee passed H.R. 5443, the Section 8 Voucher Reform Act (SEVRA). The bill would alter the rules for setting rents for tenants in public housing and project-based Section 8 units, as well as for voucher holders.[1] The full House will likely consider the bill in the fall; some or all of SEVRA's provisions could also be included in end-of-year appropriations legislation.

Most importantly, SEVRA rejects an Administration proposal to let housing agencies set rents essentially at any level.[2] Instead, it would retain the "Brooke rule," which sets rents at 30 percent of a tenant's income. In addition, SEVRA would:

- **Replace complicated work deductions with a simple earnings deduction.** SEVRA would eliminate two work-related deductions (the child care deduction and one-time earned income disregard) that benefit relatively small numbers of tenants. Instead, it would deduct 10 percent of all earnings from the income used to set rent levels, a change that would cut rents for most working tenants.

- **Increase the standard deduction for the elderly and people with disabilities while reducing medical deductions.** The standard deduction for these households would rise from $400 to $750. At the same time, SEVRA would scale back the medical deductions available to the elderly and people with disabilities, who would only be allowed to deduct medical costs that exceed 10 percent of their income (the current threshold is 3 percent of income). This latter change would raise rents for some households, but the majority of tenants who are elderly or have disabilities would gain more from the increase in the standard deduction than they would lose from the change in the medical deduction.

- **Reduce the frequency of income reviews.** Housing agencies and owners would have to

[1] The bill also contains other, mainly positive changes to the voucher program, and one potentially harmful change: an expansion of the number of agencies HUD could exempt from most public housing and voucher rules through the "Moving to Work" demonstration. See Barbara Sard and Will Fischer, "Bipartisan Bill in House Would Make Marked Improvements in Housing Voucher Program, but Bill's Waiver Provision Raises Concerns," http://www.cbpp.org/5-30-06hous.htm.

[2] The appendix to this analysis (available at http://www.cbpp.org/7-27-06hous-app.pdf) provides a detailed comparison of rent provisions in current law, SEVRA, and the Administration proposal.

conduct income recertifications for people on fixed incomes (like Social Security or SSI) only once every three years, instead of the current minimum of once each year. The bill would also end mid-year recertifications for small income changes. In addition, SEVRA would set rents for working tenants based on their income in the previous year rather than the current one, giving tenants an extra year before increases in their incomes translate into higher rents.

- **End assistance to individuals whose assets or incomes exceed prescribed limits.** SEVRA would end housing assistance for households with more than $100,000 in assets. It also would require housing agencies to make tenants whose incomes exceed the program limit (80 percent of the local median income) leave public housing and project-based Section 8 units. Together, these changes would affect fewer than 1 percent of tenants, but they could cause hardship for some.

It is important to recognize that some tenants would be worse off under SEVRA than under the current system. But the non-partisan Congressional Budget Office (CBO) has found that the bill would *reduce* average rents, and other data indicate that most tenants would see their rent drop.[3] SEVRA also would make it easier for tenants, agencies, and owners to calculate rents.

It is worth noting that the bill could change as it works its way through Congress. CBO's analysis found that SEVRA would raise federal costs if the federal government gave agencies and owners additional funding to cover the rent revenues that would be lost. Congress probably will seek to modify the bill to minimize those additional federal costs, and these modifications could raise rents. Even if some such changes are made, SEVRA could still leave tenants ahead, on average — but this obviously depends on what those changes are.

Changes in Income Deductions Used to Calculate Rent

SEVRA's biggest effects on tenant rents would stem from the changes it would make in the amounts housing agencies and owners deduct from a household's income to calculate its rent. SEVRA would change all of the income deductions now used in the housing assistance programs.

Work-Related Deductions

SEVRA would replace the existing one-time earned income disregard (EID) and child care deduction with a deduction of 10 percent of all earnings for all working households.

- Under SEVRA, working households that do not benefit from the EID or child care deduction would see rent reductions of up to 10 percent (because 10 percent of their earnings would not be counted when calculating their rent).

- Some households that would otherwise have benefited from the current EID would temporarily experience higher rents as a result of SEVRA. (The EID is available to working public housing tenants and people with disabilities who have Section 8 voucher assistance, if they experience income increases and meet other qualifications. It applies to rent calculations

[3] CBO's analysis is available at http://www.cbo.gov/ftpdocs/73xx/doc7362/hr5443.pdf.

for up to 24 months in a 4-year period.) But much of this effect would be offset by the use of prior-year earnings to set rents, discussed below. And because SEVRA's 10 percent deduction, unlike the EID, has no time limit, even many households that would be better off under the current EID in the short term would be better off under the new policy over a longer period.

- Households that have high child care costs, do not receive subsidies to reimburse those costs, and are fortunate enough to receive the current child care deduction (which is administered somewhat inconsistently by housing agencies and owners) would experience significant rent increases under SEVRA.

CBO estimates that 30 percent of housing assistance tenants have earnings but only about 5 percent benefit from the child care deduction. The number of households that receive the current EID is not available, but CBO reports that "over $10 million" of income is deducted per year as a result of the EID — a very small amount compared to the approximately $2 billion that would be deducted under SEVRA's 10 percent deduction. These figures indicate that many more tenants would benefit from SEVRA's changes in work deductions than would be harmed.

Standard Deduction for Minors and Other Dependents

SEVRA would increase slightly the amount of income deducted for each dependent, from $480 to $500, and adjust the deduction based on inflation over time. The latter change would be important over the long term: the dependent deduction has lost about half of its value to inflation since it was first set in 1984.[4]

Deductions for the Elderly and People with Disabilities

SEVRA would increase the standard deduction for households whose head (or the spouse of the head) is elderly or has a disability from $400 to $750 and adjust that deduction for inflation in later years. On the other hand, SEVRA would scale back the deduction for medical and disability expenses for these same elderly and disabled households. Only expenses exceeding 10 percent of the household's income could be deducted, instead of expenses above 3 percent of income as is currently the case.[5]

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[4] Under SEVRA, only income "received from all sources by" household members who are 18 or older would be included in the rent calculation. This language could potentially be interpreted to exclude all income of minors (including SSI and Social Security survivor's benefits), but this almost certainly was not the committee's intent. More likely, the language would be interpreted under most circumstances to exclude only the earned income of minors, as under current law.

[5] The bill would eliminate the deduction for disability-related expenses that allow someone to work in a household that is not considered "elderly" or "disabled" by HUD's definition — that is, where someone other than the household head or the head's spouse has a disability. This harmful change, which would cause substantial rent increases for a small group of tenants, appears to have been a technical mistake that likely will be corrected as the bill moves forward.

When these changes are looked at together:

- All elderly and disabled households with incomes below $5,000 would experience rent reductions under SEVRA, of up to $9 a month.
- Households with higher incomes would see their rents fall by up to $9 a month if they now deduct few or no medical expenses.
- Households with incomes above $5,000 that now take substantial medical deductions would experience rent increases because the drop in their medical deduction would outweigh the increase in their standard deduction. But there would be a limit to how much their rents could rise, because they would still be able to deduct expenses that are greater than 10 percent of their income. For a household with an annual income of $10,000, rents could rise by up to $9 a month, while a household with an income of $20,000 could see an increase of up to $26 a month.[6]

The available data indicate that a substantial majority of elderly and disabled households fall into the first two of the above three categories — the groups that would receive modest rent reductions. A further benefit of SEVRA is that fewer households would be required to submit receipts and other documentation to verify medical and disability expenses.

Changes in Rent Calculation Procedures

SEVRA would make several significant changes in the procedures housing agencies and owners use to determine tenants' income:

- **Less frequent recertifications for households on fixed incomes.** Currently, housing agencies and subsidized owners must conduct income reviews every year for all tenants, including those who receive most or all of their income from Social Security or SSI and consequently are unlikely to experience much income variation from one year to the next. SEVRA would allow agencies to review the incomes of tenants with fixed incomes (including private pensions and certain other periodic payments along with Social Security and SSI) every *three* years. In the intervening two years, rents would increase slightly based on the rate of inflation. The main effect of this change would be to reduce the burden that recertification places on tenants with fixed incomes, as well as on agencies and owners.
- **Use of prior-year income to set rents.** Currently, rents are based on a tenant's anticipated income in the period that the rent will cover (usually the coming 12 months). For tenants with earned income, SEVRA would require agencies to base rents on a tenant's actual income in the previous year. SEVRA also would allow agencies to set rents based on prior-year income for tenants with unearned income. Use of prior-year income would cause tenants to face somewhat higher rents if their current income is lower than in the previous year, but they would have access to a rent adjustment for income drops of more than $1,500. Otherwise, the use of prior-year incomes should generally help tenants, because an increase in their income would not

[6] See the Appendix for examples of how rent calculations would change under SEVRA for different types of households.

cause an increase in their rent until a year later. This policy change also may reduce tenants' income verification burdens, as tenants could use tax returns and W-2 forms more readily to document their income.

- **Fewer interim recertifications.** Housing agencies and owners currently are required to conduct interim recertifications between annual reviews at the request of any tenant whose income drops by any amount, and can choose to require recertifications any time a tenant's income increases. Under SEVRA, recertifications would be conducted only for increases in annual unearned income exceeding $1,500 and for drops in income of at least $1,500.

    - If an agency or owner currently conducts recertifications for all increases in incomes, tenants whose earnings increase — or whose unearned income increases by less than $1,500 — would pay less rent as a result of this SEVRA provision than under the current system. Such added income would not be considered until the next annual recertification.

    - Tenants whose annual income drops by less than $1,500 generally would pay more under this SEVRA provision than under the current system. Depending on how the provision is implemented, the $1,500 threshold for interim recertifications could expose some tenants to significant hardship until their income loss totals $1,500 (or until their next annual recertification, if that comes sooner).[7] On the other hand, as with the reduction in recertifications for fixed-income households, the changes would mean that tenants would have to participate in fewer recertifications.

- **Fewer verification requirements.** SEVRA contains a number of provisions to make it easier for tenants to document their incomes and expenses for agencies and owners. In addition to the above-mentioned changes in deductions and recertifications, the bill would allow agencies and owners to calculate rents based on income levels verified by other government agencies (such as social services agencies) without re-verifying the income themselves.

Changes in Eligibility Rules

SEVRA adds two new rules that would end assistance to a small number of tenants:

- **Asset test.** SEVRA would make households ineligible for housing assistance if they have more than $100,000 in assets or own a home (of any value) that is available for them to live in.[8]

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[7] SEVRA does not specify whether a household must have experienced an actual income decline of $1,500 to trigger a recertification, or whether a change in monthly income that would add up to a $1,500 reduction over the course of a full year — that is, a change of $125 in a month — would be sufficient. Under the second interpretation, the $1,500 recertification threshold would never cause a household's rent to be more than $38 a month higher than it would be under the current system, so few households would experience hardship as a result. Because the bill is ambiguous on this point, HUD (or housing agencies and owners) would likely determine how it would be implemented.

[8] The bill's current language explicitly excludes equity in homes assisted with homeownership vouchers from counting toward the $100,000 asset limit, but does not exempt homeownership voucher tenants (or residents with an ownership interest in limited equity co-operatives assisted with Section 8) from the separate ban on tenants owning a home of any value. If left unchanged, the effect would be to terminate assistance for many current housing assistance tenants and

Currently, there is no limit on the amount of assets a person may have and receive housing assistance, although income from assets is taken into account in determining tenants' rents. CBO estimates that the $100,000 asset limit will cause about 8,000 households to lose assistance. Because the $100,000 limit is high, though, this change would only affect tenants who have substantial resources available to them (although some affected households that rely on their assets to supplement limited retirement or disability benefits could nonetheless struggle to afford housing without assistance). The subsidies lost by these tenants would go to generally needier households on the waiting list for assistance.

- **Over-income tenants.** Currently, residents of privately-owned subsidized housing and public housing can continue to live in their units under some circumstances even after their incomes rise above the income eligibility limit (80 percent of the local median income). SEVRA would require housing agencies and owners to force these "over-income" tenants to leave their homes and terminate any assistance they received.[9] CBO estimates that about 19,000 households would be affected. While the change would only affect persons who are relatively well off, it would still cause some hardship, particularly in cases where a family loses assistance because of a temporary increase in income.[10]

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destroy the voucher homeownership program. This effect was not intended, and it is likely that the bill will be modified to protect tenants who receive homeownership assistance through Section 8.

[9] The change would also end assistance to voucher holders with incomes over 80 percent of median. But even under current law few voucher holders with incomes that high are eligible for assistance, because the rent they would pay based on 30 percent of their income would usually be higher than the voucher payment standard.

[10] Because it would terminate higher-income tenants who pay relatively high rents and replace them with lower-income tenants, this change would have a considerable cost — more than $70 million in the first year, according to CBO. As a result, there is some possibility the change will be scaled back in order to reduce the bill's cost.

Appendix: Impact of Rent Changes on Sample Tenants

Working Families

Example #1

Monthly earned income: $1,000
2 children, no child care deduction, no earned income disregard.

Under Existing Rules:
Adjusted income = Gross income ($1,000) – Dependent deductions (($480 x 2)/12) = $920
Rent = $276

Under SEVRA:
Adjusted income = Gross income ($1,000) – Dependent deductions (($500 x 2)/12 – Earnings deduction ($1000 x 10%) = $817
Rent = $245

Impact of SEVRA on rent: $31 reduction[11]

Example #2

Monthly earned income: $1,000
2 children, $300 per month child care deduction, no earned income disregard.

Under Existing Rules:
Adjusted income = Gross income ($1,000) – Dependent deductions (($480 x 2)/12) – Child care deduction ($300) = $620
Rent = $186

Under SEVRA:
Adjusted income = Gross income ($1,000) – Dependent deductions (($500 x 2)/12 – Earnings deduction ($1000 x 10%) = $817
Rent = $245

Impact of SEVRA on rent: $59 increase

[11] The changes SEVRA would make in the process for determining tenant incomes could have some additional effects on rent payments — beyond the effects of the deduction changes shown in these examples — depending on how a tenant's income changes over time. For example, SEVRA would provide an additional benefit to a working household with lower earnings (or no earnings at all) in the previous year because of the use of prior year earnings to set rents. This and other changes in the income certification process are discussed in the body of the paper.

Elderly and People with Disabilities

Example #3

Monthly income: $750
Elderly or disabled household, no dependents, no unreimbursed medical expenses.

Under Existing Rules:
Adjusted income = Gross income ($750) - Elderly/disabled deduction ($400/12) = $717
Rent = $215

Under SEVRA:
Adjusted income = Gross income ($750) - Elderly/disabled deduction ($750/12) = $688
Rent = $206

Impact of SEVRA on rent: $9 reduction

Example #4

Monthly income: $750
Elderly or disabled household, no dependents, $200/month unreimbursed medical expenses.

Under Existing Rules:
Adjusted income = Gross income ($750) - Elderly/disabled deduction ($400/12) - Medical expense deduction with 3 percent threshold ($178) = $539
Rent = $162

Under SEVRA:
Adjusted income = Gross income ($750) - Elderly/disabled deduction ($750/12) - Medical expense deduction with 10 percent threshold ($125) = $563
Rent = $169

Impact of SEVRA on rent: $7 increase