Key Features of a Federal Renters’ Tax Credit

The majority of federal housing expenditures — counting both tax subsidies and direct appropriations — subsidize homeownership, with the bulk of the benefits going to higher-income households. Low-income renters, however, are far more likely to pay a very high share of their income for housing and face other serious housing-related problems. Rigorous research has shown that rental assistance sharply reduces homelessness and housing instability — conditions that have a major long-term impact on children’s health and development. Yet three out of four eligible low-income renters do not receive any federal housing assistance, due to funding limitations.

Congress could better balance housing policy — and tax policy in the housing area — by establishing a new tax credit helping low-income renters offset high housing costs. The renters’ credit would complement the existing Low-Income Housing Tax Credit (LIHTC), which has proven highly effective in supporting construction and rehabilitation of affordable housing, but generally does not on its own make units affordable to the poorest families — who usually cannot afford rents adequate to cover the ongoing costs of operating housing (such as maintenance, insurance, and utilities). The renters’ credit would reduce rents to levels extremely low-income families can afford in LIHTC developments and other buildings. The proposed credit is described in detail at http://www.cbpp.org/research/housing/renters-credit and would have these key features:

- **Credit caps.** The proposal would authorize states to allocate a capped amount of credits, subject to federal income eligibility rules and state policy preferences. This would allow the credit to be delivered at a limited budgetary cost, but still provide subsidies large enough to help even the poorest families afford housing. Each state’s share of the credits would be set based on its population with a minimum allocation for small states. We estimate that a credit with an annual cost of $6 billion once fully phased in could assist about 720,000 households.

- **Allocation of credits by states.** States would allocate credits to developments for renewable periods of up to 15 years, based on criteria in an allocation plan that could be part of the state’s LIHTC Qualified Allocation Plan. States could opt to use credits in conjunction with other state programs or to accomplish particular state goals. For example, states could subsidize supportive housing arrangements that could lower state Medicaid costs and reduce homelessness and unnecessary institutionalization, or seek to improve educational outcomes by providing stable, affordable housing near high-performing schools for families with children. States could be required to allocate 15 percent of credits to non-profit organizations.
• **Income eligibility.** Initial eligibility would be limited to extremely low-income families, defined as those with income below the higher of the poverty line or 30 percent of the local median income.

• **Mixed-income housing.** In each development, the share of units with renters’ credits would be limited to the greater of 25 units or 40 percent of the units, unless the development previously had federal rental assistance for a larger number of units.

• **Claiming the credit.** An owner that rents to an eligible family at a reduced rent could claim the credit — which would be non-refundable — on its taxes. Alternatively, an owner could transfer the credit to any entity that is in the business of financing residential rental property, in exchange for resources to cover the cost of lowering rents to affordable levels. This would allow the credit to be used in properties owned by non-profits or other owners that do not owe taxes themselves.

• **Tenant rents.** Families assisted with the credit generally would pay 30 percent of their income for rent and utilities.

• **Credit amount.** States would set the credit amount as a percentage of the rent reduction the owner provides — that is, of the gap between 30 percent of the family’s income and the total rent. States could set the credit percentage modestly above 100 percent to offset the cost to owners of responsibilities such as verifying tenant incomes or to encourage owners of certain types of properties (such as those in high-opportunity neighborhoods) to participate. The total rent the credit could cover could not exceed a cap set by the state within 25 percent of the HUD-determined Fair Market Rent for the zip code or rural county.

• **State administrative costs.** States that administer the credit would carry out (or delegate or contract out) certain administrative tasks, including establishing policies to ensure that units assisted through the renters’ credit are of decent quality and providing end-of-year verification of the credit amount. States could pay the resulting costs from their own revenues or charge fees to participating owners and lenders. States that do not wish to administer the renters’ credit could opt out.