Appendix 2: Method Used to Estimate Cost and Impact of a Renters’ Credit

This appendix describes the method we used to estimate the cost and impact of a renters’ credit, both under our proposal for a capped credit and under the three alternative, uncapped credit designs described in Appendix 1. All of these estimates rely mainly on data from the 2011 American Community Survey (ACS).

Credit Calculation

Our estimates assume that the renters’ credit would not cover tenant-paid utility costs, and that the “rent” used to calculate the credit would be the lower of (1) the actual rent excluding tenant-paid utilities or (2) 85 percent of a Fair Market Rent established by HUD. As discussed in the paper, we are proposing that states be permitted to include tenant-paid utilities in the credit calculations, in which case rents would be capped at 100 percent of the Fair Market Rent. If states opted to do this it would increase the cost of the uncapped credits and the per-household cost of the capped credit.

Under our proposal, credits would be calculated using FMRs for units with a given number of bedrooms for the metropolitan zip code or non-metropolitan county in which the rental unit is located. The ACS microdata we used to estimate credit amounts, however, do not identify which county or zip code a household lives in. The most specific geographic identifiers in the data are Public-Use Microdata Sample Areas (PUMAs), which contain multiple zip codes and often cross county lines.

We estimated FMRs for PUMAs in metropolitan areas by multiplying the fortieth percentile 2012 FMR for the Core-Based Statistical Area (CBSA) by a ratio equal to the median rent in the PUMA divided by the median rent in the CBSA (up to a maximum ratio of 150 percent). This is comparable to the approach HUD uses to set zip-code level Small Area FMRs, under which HUD multiplies the CBSA FMR by the ratio of the zip-code median rent divided by the CBSA median rent and capped at 150 percent. For PUMAs in rural areas, we calculated an average of HUD’s actual county-level 2012 FMRs weighted by the number of renter households in each county located in the PUMA according to five-year ACS data covering the period from 2006 to 2010. In cases where counties were split across multiple PUMAs, we used household data from the Missouri Census Data Center’s MABLE/Geocorr2010 online application version 1.1 to assign weights to portions of counties in particular PUMAs. For all geographic areas we made adjustments for unit size before using the FMRs to cap credits for individual households.

For the capped credit, we counted as income all sources of cash income reported in the ACS, since under our proposal states would determine income under the broad definition used in the Section 8 program. As discussed in Appendix 1, the three uncapped credits would be calculated on the tenant’s tax return using an income definition already in use in the tax code: the modified adjusted gross income established for health care premium credits.

This definition of modified adjusted gross income excludes benefits under Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and General Assistance (GA) and child support payments. The ACS does not distinguish income from TANF, GA, or child support, however, so our estimates for the uncapped credits exclude income from SSI (by far the largest of the four income sources among poor and near-poor households) but not the other three sources. As a result, the actual costs under those credits would be somewhat higher than we estimate. For all
four alternatives, the estimates use all sources of cash income to determine whether a household’s income falls below 150 percent of the poverty line.

For all of the credits, we assumed that the cost of the credit would be equal to the rent reduction under the formula. As discussed in the paper, states would have the option to set credits somewhat higher, perhaps up to 110 percent of the rent reduction.

**Allocation, Targeting, and Participation**

For the capped credit, our estimates assume that credits would be allocated among states using the per capita formula shown in Appendix 3a. We used the Internal Revenue Service (IRS) April 2013 resident population figures to estimate the state dollar allocation based on the per capita formula used for the Low Income Housing Tax Credit, including the small state minimum allocation. We then applied the state’s national share to the capped amount of $5 billion. The number of households assisted under the per capita credit is the dollar allocation divided by the annualized average cost of the credit in each state.

In each state, we assumed that 75 percent of recipients would have incomes below the higher of 30 percent of the local median income or the poverty line, and the remaining 25 percent would have incomes between that level and the higher of 60 percent of the local median income and 150 percent of the poverty line. This follows the requirements we proposed for income targeting at the time households first receive credits.

Under both the capped and uncapped credits we assumed that households qualifying for credits of $25 or less per month would not participate. For the uncapped credit we assumed that 75 percent of households qualifying for credits of $25 or more would claim them. This results in a take-up rate somewhat below the current rate for the EITC.

The ACS data (and therefore our estimates) do not include families that are currently homeless or doubled up but would rent their own unit if a renters’ credit were available. To the extent that this occurred, it would add to the cost and number of households assisted under the uncapped credits and could also increase per-household costs under a capped credit.

**Comparison with Voucher Costs**

Our estimate of the average cost of a capped credit ($4,268) is well below the average annual cost of a voucher subsidy ($7,746 based on 2012 calendar year data). This largely reflects three design changes we have proposed to simplify administration of a tax-side renters’ credit:

1. The renters’ credit estimates assume that tenant-paid utilities would not be included in rental costs, while the Section 8 voucher program includes tenant-paid utilities in rent.
2. The renters’ credit estimates cap rents at 85 percent of the SAFMR, while voucher program rents are capped using a local payment standard typically set between 90 and 110 percent of the FMR for the metropolitan area or rural county. As noted we lowered the percentage to 85 percent to be consistent with the exclusion of utilities. In addition, the use of FMRs for zip codes (approximated by PUMAs in our analysis) rather than metropolitan areas lowers costs because low-income families (including voucher holders) tend to live in areas with rents below
the metropolitan average. If the renters’ credit enabled some households to move to higher-rent areas, per-household costs would be somewhat higher.

3. The renters’ credit estimates use total household income, while the voucher program applies several deductions (including itemized deductions for certain medical and child care expenditures and standard deductions for dependents and for households where the head or spouse is elderly or has a disability) to income before calculating a family’s contribution toward rent. These deductions reduce the amount voucher holders pay toward their rent and therefore increase voucher subsidy costs.

In addition, per-household renters’ credit costs are lower than voucher costs because a smaller share of the recipients of renters’ credits in our analysis are located in high-cost states, compared to the share of Section 8 voucher holders in those states. This difference in the distribution of assisted families is due to the formula we used in this analysis to set the funding allocations to each state, which allocates credits on a per capita basis. Per-household costs for the renters’ credit would be higher if credits were allocated based on the number of renter households in the state or using either of the need-based alternatives we examined. (The state allocations under each of these formulas are shown in Appendix 3a.)