Proposal for a New Federal Renters' Tax Credit

Center on Budget and Policy Priorities

June 7, 2017

Overview of CBPP Renters' Credit Proposal

- Congress would authorize states to allocate federal tax credits to make housing affordable for extremely low-income renters

- Families assisted with credits would pay 30 percent of their income for rent and utilities and property owners would receive a tax credit in exchange

- Credit would complement LIHTC and existing rental assistance programs such as Housing Choice Vouchers

- Main changes since 2012-13:
  - Solely project-based
  - Broadly transferable

Capped Allocation to States with Credit Claimed by Owners

- Capped allocation:
  - Can be deeply targeted and effective for lowest-income families at a more limited cost than an entitlement
  - State role has administrative and policy advantages
- Claimed by owners:
  - Largely solves monthly payment problem
  - Avoids refundability and increase in new filers

Eligibility and Preferences

- **Eligibility** up to higher of 30% of AMI or 100% of federal poverty line

- **Preferences** determined by states, to enable coordination with other funding streams and further state priorities

States Could Use Credit to Achieve Key Policy Goals

For example, states could target credits to:

- End or sharply reduce homelessness among veterans and individuals with severe health needs
- Prevent placement of children in foster care
- Support work by providing stable housing to jobless or underemployed workers in TANF and other employment programs
- Improve educational outcomes by providing families with children stable housing near high-performing schools
- Provide affordable housing for elderly people and people with disabilities who would otherwise be at risk of placement in nursing homes

Income Mixing and Resident Choice

- No more than 40% of units in a project could be assisted through renters' credit, with limited exceptions (such as small properties or those that previously received other federal project-based subsidies)

- Residents who have lived in a renters' credit unit for a year would get preference for admission to units in other renters' credit developments and receive information on those developments

Tenant Rent

- Families would pay 30% of prior year gross income for rent and utilities (using USHA income definition)
- Owners would determine families' income annually (or every three years for fixed-income families)
- At state option, adjustments could be made during year for significant changes in tenant income

Credit Amount

- Credit would be based on the gap between tenant payment and rent, capped at the SAFMR/FMR (with state flexibility to raise or lower cap by 25%)
- States could set the credit up to 110% of this gap (and up to 120% for family projects in high-opportunity areas)
- Flexible credit rate would allow states to balance goals of encouraging owner participation and offsetting administrative costs against serving as many families as possible

Claiming the Credit

- Owners of developments that have a renters' credit allocation and comply with requirements could claim credit each year of credit period

- As with LIHTC, owner could enter partnership with an entity that would invest in exchange for stake in property and right to claim credit

- Alternatively owner could transfer credits to any entity in business of financing rental housing in exchange for resources to lower rents, *without* also transferring stake in ownership

Long-Term Affordability

- States could allocate credits annually with long-term contract to renew allocations each year
- Alternatively states could allocate credits for up to 15 years, with credit allocations based on projected market rents and conservatively low estimates of tenant incomes
  - Credit allocation would not vary year to year, but owners would be required to report actual rent revenues each year and follow procedures to avoid windfalls or shortfalls
  - If tenant rents are *above* estimate, excess would be paid into reserve to offset any later shortfalls
  - If tenant rents are *below* estimate, owner could (1) draw on reserve, (2) request more credits or other resources from state, and (3) temporarily convert renters' credit units to market rents on turnover

Administrative Costs

- No direct federal funding for administrative costs
- States could charge fees to owners and take the fees into consideration in setting credit rates
- Well-targeted credits could reduce state costs related to institutionalization, chronic health problems, child welfare, etc.

Impact of Fully Phased-In Credit

Annual Cost	Number of Families Assisted
$3 billion	360,000
$6 billion	720,000
$12 billion	1,450,000
$24 billion	2,900,000