Proposal for a New Federal Renters’ Tax Credit

Center on Budget and Policy Priorities
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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

<table>
<thead>
<tr>
<th>Annual Cost</th>
<th>Number of Families Assisted</th>
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<tbody>
<tr>
<td>$3 billion</td>
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<tr>
<td>$6 billion</td>
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<tr>
<td>$24 billion</td>
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