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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 only about one in four eligible low-income renters receives any federal housing assistance, due to funding limitations.

Congress could better balance housing policy — and tax policy in the housing area — by shifting a modest portion of savings from reform of homeownership or other tax expenditures (once deficit reduction goals have been met) to a new 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 affordable housing development, but generally does not on its own make rents affordable to the poorest families. 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/topics/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. As with LIHTC, each state's share of the credits would be set using a per-capita formula with a minimum allocation for small states. A national cap of $5 billion would allow states to use the Renters' Credit to assist about 1.2 million families.

- **Allocation of credits by states.** States would allocate credits based on criteria in an allocation plan, which 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 or reduce homelessness, or target families participating in state TANF programs for whom lack of stable, affordable housing is a barrier to work. States could be required to allocate 15 percent of credits to non-profit organizations.

- **Income eligibility.** Initial eligibility would be limited to families with income at or below the higher of 60 percent of the local median income or 150 percent of the poverty line, with 75 percent of the credits targeted on extremely low-income families with income below 30 percent of the local median or the poverty line.

- **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, a bank or other entity holding the mortgage on the property could claim the credit, in exchange for a reduction in the owner's mortgage payments. This would allow the credit to be used in properties owned by non-profits or other owners that do not owe taxes themselves, and by small property owners who are reluctant to be responsible for claiming the credit directly.

  Owners and lenders could benefit from the credit promptly by reducing quarterly estimated taxes or withholding. Renters' Credits would be exempt from passive credit restrictions, and could be carried forward against future tax liability for up to 20 years and back against prior-year liability for up to five years. Credits would be taxable and subject to recapture if owners do not comply with rent limits and other requirements.

- **Types of allocations.** States could distribute credits in three ways:

  - *Tenant-based.* States could issue families credit certificates that they could use to rent a unit of their choice in the private market.

  - *Project-based.* States could allocate credits to specific developments. This could include fixed allocations for periods of up to 15 years, which would help states use the credits to support affordable housing development (including in combination with LIHTC).

  - *Lender-based.* States could allocate credits to lenders, which could enter into agreements to reduce mortgage payments for building owners who rent to eligible families at reduced rents.

  Project-based and lender-based credits could be used in no more than 40 percent of the units in a property, with exceptions for small buildings and those that previously had federal rental assistance for a larger number of units.

- **Tenant rents.** Families assisted with the credit generally would pay 30 percent of their income for rent. In addition, if the total rent for the unit exceeds a cap set by the state within 25 percent of the HUD-determined Small Area Fair Market Rent for the zip code or rural county, the family would pay the excess. States could require tenants to be responsible for their own utility costs. On average, the credit would lower participants' rent payments by about $400 a month.

- **Credit amount.** States would set the credit amount as a percentage (no greater than 110 percent) of the rent reduction the owner provides — that is, of the gap between 30 percent of the family's income and the lower of the rent cap or the total rent.

- **Administrative costs.** States that administer the credit would carry out (or delegate or contract out) certain administrative tasks, including selecting credit recipients, determining families' incomes, issuing credit eligibility certificates 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.