Low Income Housing Tax Credit Program Information

The low-income housing tax credit was enacted by Congress to encourage new construction and rehabilitation of existing rental housing for low-income households and to increase the amount of affordable rental housing for households whose income is at or below specified income levels. In establishing the tax credit incentive, Congress recognized that a private sector developer may not receive enough rental income from a low-income housing project to: 1) cover the costs of developing and operating the project, and 2) provide a return to investors sufficient to attract the equity investment needed for development. More specifically, the LIHTC is a dollar-for-dollar reduction in tax liability to the owner of a qualified low-income housing development for the acquisition, rehabilitation (“rehab”), or construction of low-income rental housing units. To qualify for tax credits, a development must meet a number of conditions set forth in Section 42 of the Internal Revenue Code (IRC). In particular, the development must provide low-income housing units that meet certain occupancy and rent requirements. After the state allocates tax credits to developers, the developers typically sell the credits to private investors. The private investors use the tax credits to offset taxes otherwise owed on their tax returns. The money private investors pay for the credits is paid into the projects as equity financing. This equity financing is used to fill the gap between the development costs for a project and the nontax credit financing sources, such as mortgages, that could be expected to be repaid from rental income. For a LIHTC project, a minimum of 20% of the units must be occupied by households with incomes at or below 50% of the area median gross income (AMGI), as adjusted for family size; or a minimum of 40% of the units must be occupied by households, with incomes at or below 60% of the AMGI, adjusted for family size. The owner must irrevocably elect to comply with either the 20-50 or the 40-60 tests. The gross rent charged for a low-income unit may not exceed 30% of the household’s income. The LIHTC program requires that these rent restrictions remain in place for 30 years.