

RESEARCH BRIEF | MAY 2017

# The Effects of the Low-Income Housing Tax Credit (LIHTC)

The Low-Income Housing Tax Credit (LIHTC) Program is the largest federal subsidy for the development and preservation of affordable housing. Since it was established by the Tax Reform Act of 1986, LIHTC has financed the development and preservation of more than 2.1 million units in over 28,000 developments across the country.<sup>1</sup> LIHTC is currently the federal government's primary subsidy for the new construction and preservation of affordable housing, and is projected to cost (in tax revenue forgone) \$7.9 billion in 2016. As federal tax reform looms, however, there is growing uncertainty surrounding the future of LIHTC.

Given the bipartisan support for reform and even expansion of the LIHTC, the credit itself may survive any tax reform efforts.<sup>2</sup> However, the President's current tax reform proposal to lower the corporate tax rate to 15 percent from 35 percent may render the tax credit much less valuable as a mechanism for financing affordable housing going forward.<sup>3</sup> In short, a lower tax rate lowers the value of tax losses, such as depreciation, that are passed through to the investors, driving down the price they are willing to pay for the credits. According to recent news, the uncertainty over the future corporate tax rate has already led to a slowdown in closings on LIHTC developments and a decrease in the price that investors are willing to pay even today for the credits.<sup>4</sup>

In contemplation of debate about these possible changes, this brief explores what we know about who LIHTC serves and what research has shown about the impact of the program.

1 The dataset includes 28,448 projects and 2,151,369 units placed in service between 1995 and 2014. The average number of units per property and the distribution of property size are both calculated based on the 28,321 properties with a known number of units, and not the full universe of 28,448 properties. The database contains missing data for number of units (0.5%), qualifying ratio percentage of tax credit units (7.4%), and bedroom count (13.5%). Totals may not sum to 100 percent because of rounding.

2 The Affordable Housing Credit Improvement Act of 2017 (S. 548), also referred to as the Cantwell-Hatch bill, has been introduced and has bipartisan support in the U.S. Senate. A version of the Act has been introduced in the U.S. House of Representatives that does not include expansion of the program.

3 Bender, Michael C., Richard Rubin, and Nick Timiraos. 2017. "Trump Wants Tax Plan to Cut Corporate Rate to 15%." *Wall Street Journal*, April 24, sec. Politics. <https://www.wsj.com/articles/trump-wants-tax-plan-to-cut-corporate-rate-to-15-1493057898>.

4 Capps, Kriston. 2017. "Tax Reform Hasn't Started Yet, but Affordable Housing Is Already Taking a Hit." *CityLab*. Accessed May 1. <http://www.citylab.com/housing/2017/01/uncertainty-over-tax-reform-is-already-hurting-affordable-housing/514235/>.



## Research on the People LIHTC Houses

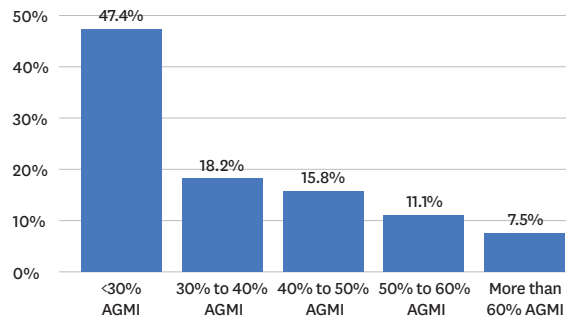
The Department of Housing and Urban Development (HUD) recently released *Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units as of December 31, 2014*. HUD's analysis highlights a few key facts:

### Almost half of tenants in LIHTC units are extremely low income, with annual household incomes below the federal poverty level.

The maximum allowable income to be considered eligible for a LIHTC unit is sixty percent of the area median income (AMI) for the metropolitan area. Nearly half (47%) of LIHTC households have annual incomes of less than thirty percent of the area median gross income (AMGI).<sup>5</sup>

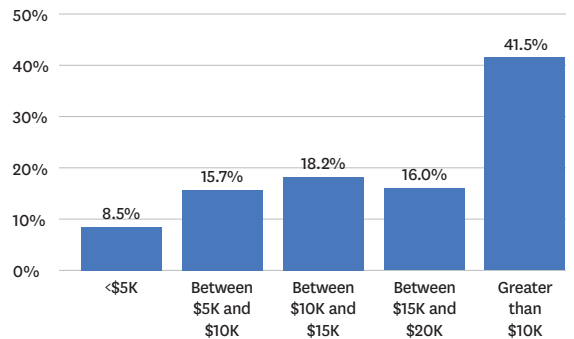
While tenants in LIHTC developments tend to have higher incomes than households using other types of rental subsidy, 60 percent of tenants in LIHTC units have household incomes of less than \$20,000 annually. The median household income for a LIHTC household is \$17,152; well below the federal poverty level for a family of four in 2017.<sup>6</sup>

**Figure 1: Distribution of Total Household Annual Income as Percentage of Derived Area Median Gross Income (AMGI) of LIHTC Tenants, U.S.**



Sources: U.S. Department of Housing and Urban Development (HUD), NYU Furman Center

**Figure 2: Distribution of Annual Household Income of LIHTC Tenants, U.S.**



Sources: U.S. Department of Housing and Urban Development (HUD), NYU Furman Center

## Research on the Impacts of LIHTC Development

### New evidence suggests that LIHTC development revitalizes low-income neighborhoods.

In the 2016 study titled, *Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low Income Property Development*, authors Rebecca Diamond and Timothy McQuade, estimate the effects properties financed by the Low Income Housing Tax Credit have on neighborhoods. The authors find that whether LIHTC development revitalizes or depresses neighborhoods critically depends on the initial state of the

<sup>5</sup> "Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units as of December 31, 2014 | HUD USER." 2017. Accessed April 19. <https://www.huduser.gov/portal/publications/LIHTCTenantReport-2014.html>.

<sup>6</sup> The federal poverty level for a family of four was \$24,600 in 2017. "Federal Poverty Level (FPL)—HealthCare.gov Glossary." 2017. <https://www.healthcare.gov/glossary/federal-poverty-level-fpl/>. Texas reported household income for less than 20 percent of households, and the District of Columbia and Guam reported income for less than one-half of households. Does not include tenant data from the New York City Department of Housing Preservation & Development.



neighborhoods. In higher-income, less diverse neighborhoods (median incomes above \$54,000 and minority population below 50%), LIHTC developments cause housing prices to decline slightly and attract lower-income households, but leave the rates of property and violent crime unaffected. In lower-income neighborhoods (those with median incomes below \$24,000), LIHTC development increases housing prices, lowers crime rates, and attracts more racially and economically diverse populations. According to the authors' estimates, the benefits to lower-income neighborhoods significantly outweigh the cost to higher-income neighborhoods. They conclude, that "[a]ffordable housing development acts like a place-based policy and can revitalize low-income communities."

**There is little evidence that LIHTC developments affect the overall concentration of poverty.**

The NYU Furman Center's 2016 study, *Poverty Concentration and the Low Income Housing Tax Credit*, by Ingrid Gould Ellen, Keren M. Horn, and Katherine O'Regan, examines the effects that the siting of LIHTC developments, and the tenant composition of those developments, have on poverty concentration. The paper finds little evidence that LIHTC developments are affecting overall concentrations of poverty. However, the paper also shows that poor LIHTC tenants live disproportionately in developments in high-poverty neighborhoods, suggesting that policymakers interested in using the LIHTC to deconcentrate poverty should pay attention not only to siting decisions but also to the policy levers that shape tenant selection.

**Tenants living in LIHTC developments have access to slightly better schools than households receiving other forms of housing assistance.**

The NYU Furman Center's 2012 study, *Do Federally Assisted Households Have Access to High Performing Public Schools*, by Ingrid Gould Ellen and Keren M. Horn, uses household data to explore whether housing assistance "has the potential to break the cycle of poverty through breaking the link between poor households and low performing schools." The authors find that assisted households as a whole are more likely to live near lower-performing schools. However, the median school near households living in LIHTC developments is ranked slightly higher and has a lower poverty rate than the median school nearest to all households living below the federal poverty line. Still, 23% of LIHTC households live near low-performing schools.

**Low-income housing development brings with it significant reductions in crime.**

The 2016 study titled, *Low-Income Housing Development and Crime*, by Matthew Freedman and Emily Owens, explores the effect LIHTC developments have on crime. The structure of the LIHTC encourages developers to build low-income housing in the poorest census tracts, referred to as Qualified Census Tracts (QCTs). The authors use a two-step method to isolate the causal relationship between LIHTC developments and falling crime rates. The authors find that "[l]ow-income housing development, and the associated revitalization of neighborhoods, brings with it significant reductions in violent crime that are measurable at the county level."

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**The NYU Furman Center advances research and debate on housing, neighborhoods, and urban policy.**