

LIHC MONTHLY REPORT

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Bush Proposes Single-Family Tax Credit Modeled on LIHC

By Jennifer A. Hurley, Staff Writer

As part of his detailed fiscal year 2002 budget blueprint, President George W. Bush (R) has proposed a single-family tax credit modeled on the low-income housing tax credit (LIHC) program.

Intended to promote the development of affordable single-family housing in low-income urban and rural neighborhoods, the proposal would provide each state with \$1.75 per capita in tax credit dollars in 2002, with an index for inflation. The goal of the single-family credit, according to Bush's proposal, is to improve the quality of life in economically distressed neighborhoods by offering incentives for developers to build decent, affordable owner-occupied housing.

"The credit will bring some investment to inner city areas where there hasn't been much single-family development," said Jim Thatcher, legislative and policy associate at the National Council of State Housing Agencies (NCSHA), a Washington D.C.-based trade organization. "In general, it adds a new financing mechanism for helping areas that haven't seen much attention."

How It Works

Tax credits would be available to single-family housing units—including units in condominiums or cooperatives—located in a census tract with a median income equal to 80 percent or less than the area median income (AMI). Eligible homebuyers must have incomes equal to 80 percent or less than the AMI, according to Bush's proposal. As with the LIHC program, state or local housing agencies would be responsible for allocating single-family tax credits.

The proposal also stipulates that the present value of the credit, determined on the date of sale, cannot exceed 50 percent of the cost of construction or rehabilitation. The developer or investor partnership owning the property would be eligible to claim credits over a five-year period, immediately prior to selling the home to a qualified buyer. Eligible costs of individual units within a condominium or cooperative would be determined using rules similar to those of the LIHC program, as stated by Bush's proposal.

Single-family housing tax credits could be recaptured in the event that the homebuyer or subsequent buyer sold the property to a nonqualified buyer within three years of the date of the initial sale of the unit. The proposal defines the recapture tax as the lesser of 80 percent of the gain upon resale or a recapture amount equal to the value

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Single-Family

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of the credits allocated to the housing unit being resold, reduced by 1/36th of that value for each month between the initial sale and the sale to a nonqualified buyer.

Differences

The single-family tax credit differs from the LIHC program in that it may only be viable for large-scale developers. "Developers would not have enough tax liability to make use of the credit themselves, so syndicators are likely to be involved," explained Thatcher. "For developers to want to sell the credits to investors, there's an assumption that they'll be developing a large scale of properties."

Bush campaigned on the promise of creating a single-family tax credit, but did not include it in his \$1.6 trillion tax cut plan. Consequently, Republican legislators may not introduce the legislation until late in the session, after the details of Bush's tax cut have been resolved, a housing lobbyist told the *LIHC Monthly Report*. However, Sen. Robert Torricelli (D-N.J.) is expected to introduce legislation shortly after the spring recess that includes a similar tax credit for developers of affordable single-family housing.

Industry Reaction

Many affordable housing advocates commend the single-family tax credit as another valuable resource for affordable housing development. "The credit lowers the cost to build, and that will lower the cost to buyers," said Tony Freedman, a partner at Hawkins Delafield & Wood, a Washington, D.C., law firm that specializes in affordable housing.

However, some low-income housing advocates argue that the single-family credit would not help those people with the greatest housing needs, due to its proposed eligible income level of 80 percent or less of the AMI.

[The single-family tax credit] may be politically smart, but it doesn't serve the needs of those with acute housing problems," said Sheila Crowley, executive director of the National Low-Income Housing Coalition, a non-profit affordable housing advocacy group. "It is not a comprehensive housing policy, but a small measure in the face of a large problem."

Despite such objections, policy experts predict that the single-family tax credit will earn support from both Republicans and Democrats in coming months. "I don't see why [the credit] shouldn't receive bipartisan support since it promotes homeownership for low-income individuals," commented a spokesperson from the National Association of Home Builders (NAHB), a trade group that actively supports the single-family tax credit.

Affordable housing practitioners also said that the new credit would complement the existing LIHC program. "There is great need for single-family and multi-family affordable housing," a Washington, D.C. policy expert told the *LIHC Monthly Report*. "The investor market is strong enough to support both." ❖

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