MIDDLE INCOME HOUSING TAX CREDIT DISCUSSION DRAFT

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Federal housing policy is outdated and reflects an era where soldiers came home from the war with an expectation of buying a home with a white picket fence. Today, many middle class Americans need help finding affordable homes to rent. Buying a home – especially after recently entering the workforce – is just a “pipe dream” financially for many. Federal housing policy should be updated to provide American families with more affordable rental opportunities. Such an update would allow these families to climb the economic ladder and accumulate savings to buy a first home and solidify their footing in the middle class.

We propose a middle-income housing tax credit (MIHTC). The proposal is based on the Low-Income Housing Tax Credit (LIHTC), the federal government's highly successful program for encouraging the development and rehabilitation of affordable rental housing for low-income families. Continuing where the LIHTC leaves off, we propose a new tax credit (a new Section 42A) aimed at developers – and administered by states – to encourage the building of affordable rental housing for middle-income Americans. Just as with LIHTC, states are not obligated to participate in the program.

How the credit works. Under the bill, the federal government would allocate tax credits to the states based on population. For 2017, the allocation would be $1 per capita with a $1.14 million small state minimum. State housing authorities would then allocate the tax credits to developers through a competitive process. The tax credits would be provided to developers over a 15-year compliance period. The credit amount would equal 50 percent of the present value of the qualifying costs, or 5 percent a year on an undiscounted basis. However, state housing authorities would only allocate so much credit as makes a housing project feasible.

What construction projects would qualify. To qualify for the credit, a rental property would need to meet two affordability standards: 1) a property would have to include a minimum percentage of affordable units; and 2) rents for those units could not exceed maximum amounts based on average incomes in the area. Specifically, at least 60 percent of the property’s units must be occupied by individuals with incomes of 100 percent or less of Area Median Gross Income (AMGI). Furthermore, tenants’ rents must not exceed 30 percent of 100% of AMGI. The affordability restrictions would remain in place for up to an additional 15 years after the compliance period. Credits are discontinued to the developer if a project fails to meet these income/rent requirements.

Safeguarding low-income affordable housing. While geared to incentivizing the construction of affordable housing for middle-income families, the discussion draft also includes protections for low-income affordable housing. A state’s unused MIHTC credits would go back into the state’s LIHTC allocation and then back to the national LIHTC allocation pool if not used by the state. The discussion draft also contains a Sense of the Senate that Congress pass the Cantwell-Hatch “Affordable Housing Credit Improvement Act”. The Act would increase the annual per capita LIHTC allocation and small state minimum by 50 percent, phased in over 5 years.