Low Income Housing Tax Credits

In a Nutshell

Low-Income Housing Tax Credits provides a federal tax credit to investors developing affordable housing. Low-Income Housing Tax Credits require developers to set aside a minimum amount of units for low-income residents. Tax credits are applied each year for 10 years to the owner of the development. Many units developed serve very low- to extremely low-income residents.

The "How To"

Federal and state housing tax credits generate equity for developers to incentivize development of low-income housing units. The IRS allocates tax credits to each state's Housing Finance Agency. For more information, please see Missouri Housing Development Commission and Illinois Housing Development Authority LIHTC programs. State agencies allocate LIHTC through a competitive process. This process aims to serve the lowest income families and continue to offer low prices for the longest period of time.

LIHTC income limits are based upon the HUD's area median income standard. Area median income (AMI) standards are the following for household earnings:

- Extremely Low-Income for households earning at or below 30% AMI
- Very Low-Income for households earning between 30% to 50% AMI
- Low-income for households earning no higher than 80% AMI

Developers using LIHTC must choose between two low-income unit requirements: the 20/50 rule or the 40/60 rule.

- 20/50 minimum set-aside: At least 20% of total residential units must be rented out to low-income households earning 50% or less of the gross area median income.
- 40/60 minimum set-aside: At least 40% of total residential units must be rented out to low-income households earning less than or equal to 60% of the gross area median income.

Planning & Zoning

Federal law requires that 40% of new public housing entrants and 75% of section 8 voucher recipients must be extremely low-income. The maximum chargeable rents are set at 30% of either 50% or 60% of the AMI.

The Internal Revenue Service administers the LIHTC program. IRS regulations for the federal tax credit program are found in Section 42 of the Code 1986, as amended. Individual states can implement the LIHTC programs to their discretion. For more information, please see Missouri's Revised Statutes for Chapter 135 Tax Relief; or Illinois Administrative Code, Title 47, Chapter II.

Dollars & Cents

According to Peter Lawrence, Sr. Director, Public Policy & Government Affairs at Enterprise Community Partners, LIHTC has leveraged more than $75 billion in private investment capital since its inception. This has resulted in critical financing for the development of more than 2.5 million affordable rental homes. The program annually supports 95,000 jobs and finances approximately 90 percent of all affordable rental housing.

Discover More

US Bank Community Development Corporation utilizes LIHTC for new construction or renovation projects for families, seniors, residents of public housing, and those with Section 8 tenants. US Bank Community Development Corporation provides two types of LIHTCs, a 9% tax credit or a 4% tax credit. In addition to LIHTC, Historic Tax Credits and Renewable Energy Tax Credits may be used. The 9% tax credit supports new construction projects that use other subsidies or rehab projects. The cost of building acquisition may be covered, as well. Applications must be sent to the state housing agency. The 4% tax credit covers new construction projects without the help of other federal subsidies. The partnership must apply for tax-exempt bonds.

Partnerships may be required to hold onto the LIHTC for an extended period of time, such as a 10-15 year period. Low-income households may pay up to 30% of their income on rent. Households may earn a maximum of 60% of area median income for the county in which they live in, as determined by HUD.

20/50 minimum set-aside: 20% of total residential units must be rented out to low-income households earning less than 50% of the gross area median income.

40/60 minimum set-aside: 40% of total residential units must be rented out to low-income households earning less than 60% of the gross area median income.

In the fall of 2011, Development Strategies was commissioned to conduct a housing study of St. Louis County by the Office of Community Development The focus of the study is on affordable housing and the role it can play in addressing anti-poverty efforts. Specifically, this study documents and evaluates home foreclosures and affordable rental housing in St. Louis County.

Case Studies

Renaissance at Grand Place

Address

1001 North Compton - St. Louis , MO 63106

Description

In 2008, McCormack Baron Salazar, St. Louis based for-profit developer revitalized 10 blocks in Midtown St. Louis. The redevelopment includes 815 mixed-income housing units (515 rental units and 300 for-sale units). The St. Louis Housing Authority owns the area. McCormack Baron Ragan, a non-profit, manages the Renaissance Place at Grand. Prior to the Renaissance stood the 40-year old Blumeyer Public Housing Complex. Find out more about the Renaissance at Grand Place. US Bank Community Development

Corporation was involved with the issuing of a portion of the tax credits.

Cost

$37 million of tax credits were applied. Tax credits included Low-Incoming Housing Tax Credits, New Market Tax Credits, and Renewable Energy Tax Credit.