Low-Income Housing Tax Credits

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The Record: Since 1987, over 108,000 rental housing units for seniors, the disabled, and working families have been financed with federal tax credits and $470 million in state low income housing tax credits.

These credits have leveraged $3 billion in private and public funds, creating over 100,000 jobs, while providing teachers, secretaries, and average working people with housing that otherwise would not have been built. 21% of the units have been for seniors, 56% for families, and the remainder for the disabled, AIDS patients, single mothers and other low-income households. 55 of 58 California counties have received tax credit allocations.

The Program: In 1986, Congress created the federal low income housing tax credit to encourage private investment in the acquisition, rehab and construction of low income rental housing.

Because high housing costs in California make it difficult, even with federal credits, to produce affordable rental housing, the Legislature in 1987 created a state low income housing tax credit program to supplement the federal credit.

The state credit is essentially identical to the federal credit, both are allocated by the Tax Credit Allocation Committee and state credits are only available to projects receiving federal credits. 20% of federal credits are reserved for rural areas, and 10% for non-profit sponsors. To compete for the credit, rental housing developments have to reserve units at affordable rents to households at or below 46% of area median income. The targeted units must be reserved for the target population for 55 years.

There is a cap of about $40 million annually on the amount of federal credits allocated to California. The state ceiling was $35 million per year until two years ago and had never been increased for inflation. The state ceiling was permanently raised to $50 million per year by AB 1626 (Torlakson), signed into law by Governor Davis in February of 2000.

The federal tax credit provides a subsidy over ten years towards the cost of producing a unit. Developers sell these tax benefits to investors for their present market value to provide up-front capital to build the units. Intense competition for credits has increased their yield of equity from 54 cents on the dollar in '93, to about 70 cents today. State credits provide a subsidy over four years but the present value is similarly discounted. Even with combined state and federal credits, additional subsidies are usually needed to make developments financially feasible.

Credits can be used to fund the hard and soft costs (excluding land costs) of the acquisition, rehabilitation or new construction of rental housing. Projects which do not receive other federal subsidies receive a federal credit of 9% per year for 10 years and a state credit of 30% over 4 years (high cost areas and qualified census tracts get increased federal credits). Projects with a federal subsidy receive a 4% federal credit each year for 10 years and a 13% state credit over 4 years.

The Need: Competition for federal and state tax credits is intense. In 1996 only 107 of 271 (39%) applicants received an allocation of credits. This compares to 1993 when 70% of applicants received allocations. The demand for state credits has increased exponentially in recent years-$22 million in state credits were allocated in 1990; by 1994 the demand was over $80 million; in 1995, $125 million; and in 1999, $254 million.

By stretching federal credits further and freeing up local subsidies, an additional $15 million in state credits would create housing for 675 families, leverage $49.5 million in other housing funds, create 1,665 jobs, generate $118.5 million in new business activity, and create $5.85 million in state and local tax revenue.