LIHTC for Regular People

What is the “LIHTC” and “CRA” stuff anyway? LIHTC stands for Low Income Housing Tax Credit. It is a program through which developers are given tax credits to help fund projects for affordable housing. CRA stands for Community Reinvestment Act. It is a law that requires banks to invest in their local communities. Both are federal programs that help create affordable housing.

What do “9 percent” and “4 percent” credits mean? 9 percent credits are given to developers who agree to make affordable housing units available for 30 years at a cost below market rate. 4 percent credits are given to developers who agree to maintain the affordability of the units for 30 years, but only for units that do not come with other subsidies.

How do developers turn tax credits into affordable housing? Developers who get credits of either kind generally partner with other investors. They use the credits to reduce their federal tax liability each year. The investors use their money to help fund the project, which they use to reduce their federal tax liability each year. Both the investors and the general partner could sell to a third party, who would still be bound by the restrictions.

How might I find out what year my building’s affordability expires and what the restrictions are? The affordability restrictions for the LIHTC program end 30 years after the building is placed in service. You can look up your building here.

Who oversees owners of LIHTC properties? The IRS administers the LIHTC program. You do not have to have a particular immigration status, income, or assets to rent a unit in a LIHTC building. However, most LIHTC developments have other sources of financing as well, and some of those restrictions and good cause protections, for at least 30 years.

What are the enforcement mechanisms? Since the IRS hasn’t created any enforcement mechanisms of its own beyond credit recapture, after the violations regarding eligibility, rent, or conditions to the IRS during the first 15 years. The owners could refinance the development with more tax credits, or other funding with the 4 percent credits if at least 50 percent of its funding comes from tax-exempt private revenues go to maintain and operate the project. Since rents are restricted, profit margins are thin and most other real estate tax benefits.

How do I find out what year my building’s affordability expires and what the restrictions are? The LIHTC program rules are complicated, so it’s best to work with someone who knows the rules. However, most LIHTC developments have other sources of financing as well, and some of those restrictions and good cause protections, for at least 30 years.