



# An Introduction to the Housing Tax Credit Program

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## What is the Housing Tax Credit Program

**1986** Congress through the Tax Reform Act, enacted Section 42 of the Internal Revenue Code.

- Section 42 created the Low Income Housing Tax Credit (LIHTC) to provide incentives to the private sector to invest in affordable housing.
- Credit is a dollar-for-dollar tax reduction and based on the cost of construction or rehabilitation
- The Tax Credit program is 33 years old and is the oldest (longest lived) supply side housing program. More than 2.5 million units have been built under this program nationally.
- At the Federal level, the program has very few requirements that must be met, but it does require that states set up an agency for administering the program and the majority of program requirements are at the state level.

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## Federal Affordability Requirements

- **40%** of the units @ rents based on **60%** Area Median Income (AMI), or
- **20%** of the units @ rents based on **50%** AMI
  - **NEW:** With the new Income Averaging passed by Congress in March 2018, a development can get tax credits on units with rents based at or below **80% AMI**; however, the average throughout the development cannot be greater than **60%**.
- Must keep project affordable for at least 30 years (some states may require longer). In Texas, extra points are awarded to 9% HTC developments for keeping the housing affordable for 40 years.
- Credits are only awarded on the units that meet the long term affordability test. Although Market Rate units are allowed, no tax credits are available for these units.

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## What Can Be Built?

Housing Types – can be multiple types (both new construction and rehab) but must meet the definition of “qualified residential rental property”

- ✓ Multifamily Rental, e.g., family, workforce housing
- ✓ Senior Rental (age 55+)
- ✓ Single Room Occupancy (SROs) for Homeless



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