



## Affordable Housing Credit Improvement Act

### EXECUTIVE SUMMARY

The Affordable Housing Credit Improvement Act (H.R.3238/S.1557) is a bipartisan bill that strengthens the Low-Income Housing Tax Credit (LIHTC) to increase investment in affordable housing and build 2 million new homes across the country over the next decade, while supporting nearly 3 million jobs and adding \$120 billion in additional tax revenue and more than \$346 billion in wages and business income. This bill currently has 220 House and 34 Senate cosponsors.

LIHTC is a federal tax credit created by President Reagan and Congress in the Tax Reform Act of 1986 designed to encourage private sector investment in the new construction and rehabilitation of rental housing to low-income households. Without LIHTC, there would be virtually no private investment in affordable housing since it is fundamentally uneconomic to build housing that very low-income people can afford. Since 1986, LIHTC has financed the development of nearly 4 million homes.

Each year, state housing finance agencies allocate LIHTCs to developers through a competitive application process. The amount of credit allocated is based on the state's population and is subject to a per capita cap set by the federal government. Developers who receive LIHTCs sell them to investors, typically large corporations or financial institutions, in exchange for equity investment in their affordable housing projects. These investors then use the credits to offset their federal tax liability over a 10-year period. Developers use the equity generated from the sale of LIHTCs to finance the construction or rehabilitation of affordable housing projects. These projects must meet certain criteria, including rent restrictions and income targeting, to ensure that they serve low-income households.

The LIHTC program offers two main types of tax credits: 4% and 9%. The 4% LIHTC provides a lower rate of tax credits annually, typically requiring additional financing sources like tax-exempt bonds, while the 9% LIHTC offers a higher rate of tax credits, making projects easier to finance and more financially feasible. Over 10 years, developers receive annual tax credits equal to 4% or 9% of the project's costs each year. The Affordable Housing Credit Improvement Act makes the following improvements to the Low-Income Housing Tax Credit (LIHTC):

- Increases LIHTC allocations by 50% over 2 years to help meet the vast and growing need for affordable housing.
- Restores a 12.5% cap increase for 9% LIHTCs that expired in 2021.
- Lowers the threshold of Private Activity Bond (PAB) financing – from 50% to 25% – required to trigger the maximum amount of 4% LIHTCs. With the lower PAB threshold, states can issue more tax-exempt bonds for affordable housing projects.

### POLICY RECOMMENDATIONS

Address the nation's shortage of affordable housing by protecting, expanding and strengthening the Low-Income Housing Tax Credit (LIHTC).

### REQUEST

NLBMDA is asking House and Senate lawmakers to cosponsor and pass the Affordable Housing Credit Improvement Act (H.R.3238/S.1557).

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