Low Income Housing Tax Credits FAQ

What are low income housing tax credits?

Low income housing tax credits (often abbreviated as "LIHTC" and pronounced "lie-tec") have been the federal government's primary tool for producing and preserving affordable rental housing since the program's creation as part of the 1986 Tax Reform Act (IRC Section 42). Private investors, like insurance companies and banks, buy the credits to use as an offset against their future federal tax liabilities. Since these private dollars come into a project as equity, and reduce the amount of debt that must be financed and repaid, it enables developers to keep rents affordable over the long term. For the first 15 years a project is operated, the developer and investor own the project in a limited partnership. The partnership must adhere to strict requirements regarding income eligibility of tenants and affordable rent levels.

Although regulated by the Treasury Department, state housing finance agencies administer and monitor the LIHTC program. In Virginia, this is the Virginia Housing Development Authority (VHDA). Each summer VHDA establishes funding parameters and priorities for the next year's LIHTC projects in its Qualified Allocation Plan (QAP). States receive allocations of LIHTC on a per capita basis ($2.35/person).

How do tax credits work?

There are two types of low income housing tax credits, informally called 9 % and 4% credits. 9% credits typically fund 70% or more of all eligible development costs, exclusive of land and some other costs and fees, like some site work and infrastructure costs. 9% credits are awarded competitively, using criteria established by VHDA in the QAP. VHDA makes 9% credits available once a year and development applications are due in early March. The application is designed to assess a project's strengths and its readiness to move forward if funded. Points are assigned for providing various design characteristics and amenities, and addressing preferences and priorities outlined in the QAP. Examples of current priorities include green building systems and energy efficient design, quality materials, accessibility, deep affordability and provision of rental subsidies, family-sized units --2+ bedrooms, local/city support, and special populations served – ID/DD, etc. VHDA ranks the projects and awards tax credits to top-scoring projects in various "pools" (Northern VA, new construction, local housing authority, etc.). Typically, a project that receives credits must be built or rehabilitated within two calendar years of receiving an award. Costs not covered by tax credits must be financed with other hard or soft debt. Most LIHTC new construction projects include LIHTCs, conventional/first trust mortgage debt and City financial support, usually in the form of a residual receipts loan.

4% credits are not competitive, but developments must meet a threshold score to receive tax credits. These credits fund about 40% of a development's eligible costs so a greater portion of the project's cost must be funded with hard and soft debt.

Tax credits are sold to investors, either directly or through syndicators. The price at which $1 of LIHTC is sold varies, depending on the project and the real estate market. In the Northern Virginia market, where there is a high affordable housing need, and a large delta between market rate rents and affordable rents, $1 of future tax offset may be purchased for as much as $1.05 - $1.15.

Who lives in LIHTC-funded housing? How much are rents?

LIHTC housing is targeted to be affordable to households with incomes at or below 60% of the Area Median Income (AMI). In 2016 the Washington Metro region AMI for a 4 person household is nearly $109,000. Households served by LIHTC housing cannot exceed the 60% AMI levels below. Applicable LIHTC rents are also shown. Some residents who live in LIHTC housing use housing choice (Section 8) vouchers.

2016 LIHTC Household Income (by size)	1-Person	2-Person	3-Person	4-Person
60% AMI	$45,660	$52,140	$58,680	$65,160

2016 LIHTC Rents	Efficiency	1-bedroom	2-bedroom	3-bedroom
60% AMI*	$1,141	$1,222	$1,467	$1,694

How long is LIHTC-funded housing affordable? Who owns it?

Tax credit projects are highly monitored for compliance with all IRS requirements. After the initial 15 year compliance period, the developer typically buys out the investor's interest. Many developers, especially nonprofits, continue to own and operate the projects as affordable rental housing for 30 - 60 years. In Alexandria, nonprofit organizations, ARHA and private entities have all developed LIHTC housing. Some local examples of LIHTC-funded rental housing include Alexandria Crossing at Old Dominion and West Glebe; Beverly Park; Braddock, Whiting and Reynolds; Chatham Square (rental); Elbert Avenue; Jackson Crossing; Old Town Commons (rental); Pendleton Park; Quaker Hill; The Station at Potomac Yard; Alexandria Station; Arbelo and Longview; Brent Place; Fields of Alexandria; Fields of Old Town; Lynhaven Apartments; ParcView; and Potomac West. Upcoming LIHTC projects include the St. James Plaza and the Gateway at King & Beauregard.

For more information

On June 2 at 7PM (Room 2000, City Hall), the Alexandria Housing Affordability Advisory Committee (AHAAC) has scheduled an educational session regarding the Virginia LIHTC program, including a "Tax Credit 101" style staff presentation as well as a panel discussion among three local nonprofit developers with extensive experience in tax credit development, finance and compliance.