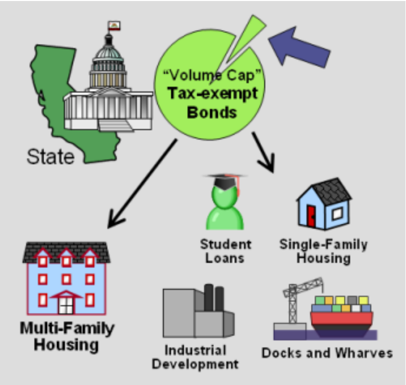
affordable housing action spolight

Understanding and Utilizing 4% Tax Credits

WHAT ARE THEY AND HOW DO THEY WORK?

The low-income housing tax credit (LIHTC) Program is a critical resource for funding affordable housing.There are two types of credits – 4% and 9% tax credits. The 9% credits are distributed on a per capita basis to states and provide a larger portion of subsidy for an affordable housing project than the 4% credits, accounting for approximately 70% of total development costs compared to approximately 30% of the costs for 4% credits. The 4% credits are more readily available than 9% credits and less competitive, though entities interested in using them to rehabilitate or construct new multi-family rental housing must still apply for the funds. While 4% credits are less competitive, they often require several more sources of assistance or subsidy to close the funding gap.



Tax-Exempt Bond Approved Uses

One main funding source used in conjunction with 4% tax credits are multi-family housing revenue bonds. Each state is allowed to issue a certain amount of private activity bonds, which is known as the volume cap.

WHAT ARE THE BENEFITS?

- Supply is much larger than the demand, creating little to no competition.
- Projects can be more efficient when combining several properties into one application, otherwise known as doing a "portfolio transaction"
- More flexible than 9% tax credits -- 4% credits can be used for rehabilitation *and* acquisition costs
- Can be a good source of funding to combine with redevelopment of public housing through the Rental Assistance Demonstration program

(1) Tax-Exempt Housing Bond Basics. http://www.ipedconference.com/powerpoints/Tax-Exempt_Housing_Bond_Basics.pdf
(2) Interview with Michael Rodgers, DHIC. September 26, 2018.

Best Practices for Local Governments to Incentivize the Use of 4% Tax Credits

Allocate Public Resources

Invest public resources to provide necessary additional subsidy, land, or other development costs

1. Provide gap financing
2. Discount or transfer publicly-owned land
3. Invest in public infrastructure and prepare the area for private investment

Facilitate Private Investment

Encourage private action by reducing development barriers

4. Rezone areas for multi-family housing
5. Reduce red tape and streamline approvals for affordable housing developments

Examples in the Triangle Region

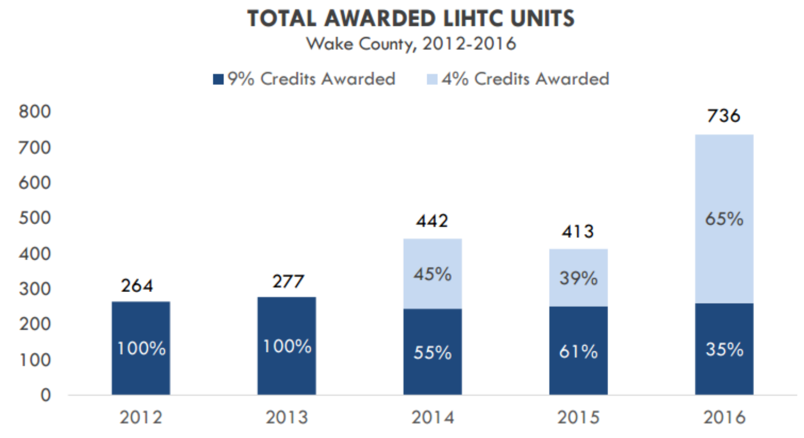
In the Triangle there has been low usage of the 4% tax credit allocation. Between 2005-2013, only 22% of the total allocated tax credit projects in the Triangle were 4% projects, while peer regions 4% projects average 52% of the total allocated projects.

City of Raleigh, Wake County

Raleigh has successfully utilized the 4% tax credit, which was highlighted as a key focus within the City's Affordable Housing Improvement Plan 2016-2020.

The City cites their ability to assist with gap financing as key to their success. City Council approved one cent increase on the tax rate in 2016, which has generated over $6 million to assist with gap financing for their projects.

Wake County also supports the use of 4% tax credits. As shown in the Wake County Housing Plan, the use of 4% tax credits has increased by almost two-thirds between 2014-2016.



(3) University of North Carolina - Chapel Hill School of Government Blog. "4% LIHTC Use in North Carolina's Triangle Region." https://ced.sog.unc.edu/4-lihtc-use-in-north-carolinas-triangle-region/
(4) Information obtained from Larry Jarvis, Director of Housing and Neighborhoods Department for the City of Raleigh.