# MIDDLE INCOME HOUSING TAX CREDIT

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America faces an affordable housing crisis. Over a quarter of renter households spend more than half their income on rent. This leaves these renters with too little for other necessities like food, medical care, and transportation. Tools like the Low Income Housing Tax Credit (LIHTC), created in 1986, have helped finance 3 million affordable homes, assisting 7 million households. LIHTC is a critically important federal policy, encouraging the production of affordable housing for low-income families.

Increasingly though, even middle income individuals and families are unable to pay the rent and still make ends meet. Nearly 30 percent of middle-income renters in Oregon fork over more than 30 percent of their income to keep a roof over their heads. When every penny goes into the rent check, many Americans can't even dream of saving for a down payment on a first home, paying for college, or building a nest egg for retirement. Affordable housing is therefore key to climbing the ladder of economic mobility in Oregon and nationwide.

**Building on a proven model – a middle-income housing tax credit (MIHTC)**. The proposal is based on LIHTC, the federal government's highly successful program for encouraging the development and rehabilitation of affordable rental housing for low-income families. Continuing where LIHTC leaves off, we propose a new tax credit (created in a new Section 42A) aimed at developers – and administered by states – to encourage the building of affordable rental housing for middle-income Americans. Just as with LIHTC, states are not obligated to participate in the program.

**How the credit works.** Under the bill, the federal government would allocate tax credits to the states based on population. For 2019, the allocation would be $1 per capita with a $1.14 million small state minimum. An additional 5 cents per capita above this allocation would be reserved for middle-income housing developed in rural areas. State housing authorities would then allocate the tax credits to developers through a competitive process. The tax credits would be provided to developers over a 15-year compliance period. The credit amount would equal 50 percent of the present value of the qualifying costs, or 5 percent a year on an undiscounted basis. However, state housing authorities would only allocate so much credit as makes a housing project feasible.

**What construction projects would qualify.** To qualify for the credit, a rental property would need to meet two affordability standards: 1) a property would have to include a minimum percentage of affordable units; and 2) rents for those units could not exceed maximum amounts based on average incomes in the area. Specifically, at least 60 percent of the property's units must be occupied by individuals with incomes of 100 percent or less of Area Median Gross Income (AMGI). Furthermore, tenants' rents must not exceed 30 percent of 100% of AMGI. The affordability restrictions would remain in place for up to 15 years after the compliance period. Credits are discontinued to the developer if a project fails to meet these income/rent requirements.

**Safeguarding low-income affordable housing.** While geared to incentivizing the construction of affordable housing for middle-income families, the bill also includes protections for low-income affordable housing. *A state's unused MIHTC allocation would get added to the state's existing LIHTC allocation after one year*. If still unused after a second year, the state's MIHTC allocation would go back to the national LIHTC allocation pool. The bill also contains a Sense of the Senate that Congress pass the Cantwell-Hatch "Affordable Housing Credit Improvement Act". The Act would increase the annual per capita LIHTC allocation and small state minimum by 50 percent and set a floor under the 4% LIHTC credit, among other provisions.