Low Income Housing Tax Credits

What are Low Income Housing Tax Credits?

The Low Income Housing Tax Credit ("LIHTC") program was established by Congress as part of the Tax Reform Act of 1986. Unlike previous programs that provided rent subsidies directly to tenants (such as Section 8 assistance), the LIHTC program encourages private-sector development of affordable multifamily housing by awarding federal tax credits to qualified projects.

LIHTC awards provide a dollar-for-dollar reduction of federal tax liability each year for a period of ten years. Project sponsors that receive a LIHTC award generally sell these future tax credit benefits to third-party investors, thereby raising equity for their projects and reducing the need for debt financing. This allows the sponsor to charge rents at a level that is considered "affordable" based upon the area median income for the project location.

Today, nearly all affordable housing development in the United States is created through the LIHTC program.

How are Tax Credits Awarded?

Federal housing tax credits are allocated to each state annually on a per capita basis. Each state's tax credit allocation is managed by a designated agency – such as a state housing finance agency ("HFA") — which awards the credits through a competitive application process. This allows each state to tailor the award process to address its own specific housing needs. The tax credit award process is highly competitive, with applications often exceeding successful recipients by a ratio of 3:1 or more.

Brookside Garden Apartments, Greenville, SC

The Laurels, Lake Junaluska, North Carolina

Which Projects are Eligible for LIHTC Awards?

To be considered eligible for low income housing tax credits, a proposed project must:

- Be a residential rental property;
- Meet specific requirements regarding the minimum number of units that will have rents that are affordable to residents earning less than 50-60% of the area median income; and
- Maintain the rent and income restrictions for 30 years or longer.

Tax credits may be awarded for new construction or acquisition/rehabilitation projects, and may be combined with other sources of funding such as state or historic rehabilitation tax credits, bond financing and other government programs.

Why are CICCAR Loans Important?

Developing affordable multifamily housing is a complex process. LIHTC projects require several years to complete from initial concept to lease-up, and financing is often obtained from a number of different public agency and private sector sources.

As a lending consortium, CICCAR provides a competitively priced, long-term permanent financing source for developers, while offering its members attractive lending opportunities that also provide positive lending test credit under the Community Reinvestment Act.

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