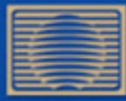

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GOP’s Tax Reform Framework Should Eliminate Flawed Low-Income Housing Tax Credit

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October 10, 2017

The framework for tax reform released by Congress and the Trump Administration contains some promising provisions, such as moving to a territorial corporate tax system, reducing corporate tax rates, and limiting some of the deductions that distort the tax code. Unfortunately, the Low Income Housing Tax Credit (LIHTC) is explicitly mentioned as remaining in place.

With all due respect to the tax writers, the LIHTC is not an effective way to help the poor. Most of its benefits flow to developers and investors, instead of the low-income families that are supposed to benefit. Further, the program has suffered from poor oversight and enforcement. Back in 2008, Harvard professor and Manhattan Institute senior fellow Edward L. Glaeser recommended the program’s elimination.

Created by the Tax Reform Act of 1986, the LIHTC allocates funding to states, based on a per-resident formula. Housing finance authorities then allocate tax credits to developers of qualified projects and are responsible for oversight. The credits are supposed to defray the costs of building new units or rehabilitating existing ones. To qualify, developers have to allocate a share of the units for people below a certain income threshold, and cap the rent they can charge on those units at a threshold based on the area’s median income. Through these requirements, the LIHTC is intended to induce greater supply of affordable housing to low-income households.

But the majority of the associated savings do not end up flowing to these low-income people. Data from the National Council of State Housing Agencies reveals that only 9 percent of the tenants in new units in 2014 were from the lowest income category. A study by University of Oklahoma professor Gregory S. Burge in *Real Estate Economics* found that rent savings only accounted for 35 percent of the tax credit costs. While data limitations limit his ability to estimate the extent to which the benefits flow to developers and investors, he suggests that the program “may partially act as a wealth transfer to recipient developers and project owners, rather than conferring benefits concentrated to low-income families.”

In addition, the construction induced by these credits is merely crowding out development that would have taken place anyway. As noted by Vanessa Brown Calder and Chris Edwards of the Cato Institute, multiple studies have found that in some cases the entirety of associated construction is offset by reduced private development.

A 2015 investigation from the Government Accountability Office found that oversight of the program "has been minimal" to the extent that "IRS cannot determine the extent of noncompliance and other issues" at housing finance authorities.

The result of the lack of oversight? Fewer units at higher cost. According to an investigation by NPR and PBS' Frontline, the LIHTC program led to the production of more than 70,000 units in 1997, but fewer than 59,000 new units in 2014, even as the inflation-adjusted cost of the program increased by 65 percent.

Another concern with the minimal program oversight is the potential for fraud and abuse. Last year the Justice Department sentenced seven people for their role in a $36 million scheme centered on wringing more money from federal programs such as LIHTC. While in this instance the perpetrators were caught, much fraud and abuse goes undetected, wasting resources and diverting them from their intended purposes.

The tax framework could be further improved if the flawed LIHTC were not continued. With an estimated cost of about $9 billion per year, the LIHTC is a costly, ineffective program that should be ended when policymakers iron out tax reform's details.