Orlando Sentinel

House tax plan: Good for affordable housing

Vanessa Brown Calder

November 16, 2017

The U.S. House of Representatives and Senate's tax reform plans dropped this month, and affordable-housing advocates described the former as the "worst-case scenario" and "devastating for affordable housing." But unless you've been following federal affordable housing policy closely, it may be hard to understand why.

Affordable-housing advocates are mainly concerned about the House's proposal to eliminate private activity bonds. These bonds are frequently paired with low-income housing tax credits to provide equity for qualifying housing projects.

Without the bonds, developers will not be able to utilize one version of the low-income housing tax credit. As a result, advocates have decided the affordable housing sky is falling.

But there is reason to be more upbeat. For one thing, the LIHTC program isn't what supporters make it out to be. The program is arguably one of the least-efficient housing subsidy programs overseen by the federal government.

Research suggests a majority of LIHTC benefits go to developers and intermediaries, rather than low-income tenants. In one study, Economist Gregory Burge found evidencethat only one-third of the value of LIHTC benefits low-income tenants. That leaves two-thirds of the benefit for developers, lawyers, accountants and financiers involved in the process.

There are other issues, too. For example, LIHTC housing seems to displace private-market housing that would be been built without taxpayers' help. A 2010 study indicates "nearly 100 percent of LIHTC development is offset by a reduction in the number of newly built unsubsidized rental units." That is a problem because it means taxpayers are paying for something that would exist even in the absence of a subsidy.

The LIHTC program also has abysmal oversight, described in two different reports as "minimal" by the Government Accountability Office, a federal watchdog agency. In a Senate hearing earlier this year, the GAO auditor said the "IRS and no one else in the federal government really has an idea of what's going on." The IRS has audited only 13 percent of the local groups administering the program.

This lack of oversight leads to corruption and fraud. For example, NPR detailed a string of LIHTC corruption cases in Florida earlier this year that included a major LIHTC developer stealing $34 million from 14 different projects before getting caught.

It would be nice if this were an anomaly. Yet the Assistant U.S. Attorney investigating the cases told NPR he "know[s] that this fraud doesn't just reside in South Florida. There's too much money involved, and based upon other information that we've looked at, this fraud exists in other jurisdictions."

But there is an even more important reason to approve of a reduction in the scope of the LIHTC program: LIHTC serves as a distraction from the crux of the housing affordability problem. In most states, zoning and land-use planning drive up housing costs. For example, I find that increasing land-use regulation is associated with increasing home prices in 44 states in my recent report "Zoning, Land-Use Planning, and Housing Affordability."

But don't take my word for it. Economists Edward Glaeser and Joseph Gyuorko have estimated the cost of housing is 30 percent to 50 percent higher in certain major cities as a result of the regulatory tax associated with zoning regulation. And restrictive zoning and land-use regulation is associated with fewer multifamily housing developments in U.S. cities.

Because inefficient programs like the LIHTC exist, policymakers, lobbyists and housing advocates can go on pretending that spending more money on housing subsidies will resolve housing affordability problems for once and for all.

Local policymakers won't be able to continue living under such an illusion if Congress eliminates private activity bonds and reduces the LIHTC as a consequence. With fewer inefficient subsidies to point at, citizens and policymakers will have to get serious about reforming costly regulation. Eliminating private activity bonds is the first step, and we may have the House tax plan to thank for it.

Vanessa Brown Calder is a policy analyst at the Cato Institute.