Democrats are proposing a renters tax credit. Would it help or hurt renters?

It's become a key component of Democratic housing plans, but experts say it could drive rents up further

Jeff Andrews

June 24, 2019

The growing affordable housing crisis has reached such a peak that it's pushing housing issues into the conversation surrounding the 2020 election. It marks the first time in recent memory that presidential candidates have had to come up with policy prescriptions for the rent being "too damn high."

While only four of the 20-odd candidates running in the Democratic primary have released concrete proposals on housing, three of those four—Senator Cory Booker, Senator Kamala Harris, and former HUD Secretary Julián Castro—have proposed what would amount to a new entitlement aimed at giving cost-burdened renters a breather: a renters tax credit.

The renters tax credit would give taxpayers a credit worth any amount in rent that they pay over 30 percent of their income (paying more than 30 percent of your income in rent is the standard definition of being a cost-burdened renter). So, if 30 percent of your income is $15,000, and you pay $18,000 in rent, the federal government would give you a tax credit of $3,000.

The Booker, Harris, and Castro plans each come with differing conditions and qualifications to the subsidy: Booker's plan caps the subsidy at the fair market rent of the renter's zip code. Castro's plan takes a zip code's fair market rent "into account" while also limiting the subsidy to families making between 50 and 100 percent of the area median income.

Harris's Rent Relief Act, which she introduced in 2018, caps eligible taxpayers at 150 percent of fair market rent, and the higher the person's income is, the less the credit covers of the portion of rent above 30 percent of income. If, for example, someone makes $25,000, the credit covers 100 percent of rent above 30 percent of their income; if they make between $75,000 and $100,000, it covers 25 percent of rent above 30 percent of their income.

No professional studies have been done to estimate the cost of each of these proposals. Booker's campaign, citing "Columbia University researchers," says 25,599,000 families would benefit from his tax credit at a median credit of $4,800. A grossly simplistic estimate of his plan's cost would be to multiply these two numbers together, which comes out to $122 billion annually. That's three times as much as the federal government spends on the mortgage-interest deduction and four times more than it spends on existing rental voucher programs.

A renters tax credit would be considered a demand-side subsidy. Renters—or the demand for housing—would have more money to rent the supply of housing from landlords. But is boosting demand for housing the policy prescription needed in today's expensive rental market?

Affordable housing experts Curbed spoke with say no. The problem according to them is that there's limited supply of housing, particularly in high-cost urban cities where the number of available empty lots for development are scarce, like New York, San Francisco, and Los Angeles. Because these cities are among the most attractive job markets in the country, demand for housing there is already strong, and adding to that demand could have the opposite of its intended effect.

"Throwing money at demand-side subsidies when you have constraints on supply can actually make the problem worse, because you're just going to drive up prices that much further," says Jenny Schuetz, a researcher at the Brookings Institution. "It's a misguided approach to the problem to think that you can just give people more money."

Schuetz believes that a better rental subsidy would be to just increase funding for existing housing voucher programs that are run out of the Department of Housing and Urban Development. She accedes, though, that a tax credit might be more politically attractive because it would be administered through the Department of Treasury and wouldn't require Congress to dole out an additional appropriation.

Timing of reimbursement for a renters tax credit is also an issue. A tax refund at the end of the year doesn't do much to help someone living paycheck to paycheck and needs relief from rent now. There can be problems even if the credit is dispersed monthly. If someone underestimates their income for the month, they may have to pay back part of their subsidy. Or, if they overestimate their income, they may not get enough of a subsidy.

Either way, a renters tax credit or an increase in housing voucher funding should be accompanied by policy that addresses the supply-side issue. Booker's plan ties $16 billion in federal transportation funds to a requirement that local jurisdictions reforming their zoning laws to allow more housing to be built. Castro's plan ties Community Development Block Grants and Home Investment Partnership money to reforming zoning practices. Harris's plan is basically the renters tax credit and that's it, meaning her plan would increase demand at a time when it's already high, without addressing the problem of low supply.

In a time of political hyper-polarization in the U.S., there's a rare consensus on both the left and right that local zoning restrictions are playing an outsized role in driving up rents in urban cities. Chris Edwards, a researcher at the Cato Institute, a conservative think-tank, points to cost inflation in health care and higher education as an example of what could happen if an enormous demand-side subsidy were enacted without addressing supply constraints as well.

He also believes that the ultimate beneficiaries of the subsidy would be landlords, not renters, which is often a complaint about the mortgage-interest deduction, which is designed to subsidize homebuyers but is often accused of lining the pockets of the real estate industry.

“The bad incentives here are obvious,” says Edwards. “If this refundable credit covers the rent above a certain dollar value the individual becomes insensitive to increases in his or her rent, which gives the landlords incentive to increase the rent because hey it’s the taxpayer footing the bill. It’s a cost inflation problem. I just don’t think this makes sense.”