Biden's Affordable Housing Tax Incentives Draw Tepid Response

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By Jonathan Curry

Democratic presidential candidate Joe Biden's new plan to boost homeownership among low-income groups calls for billions in new tax incentives, but it is raising concerns that its impact might not be worth the cost.

According to the Biden campaign, housing should be a right, not a privilege, and minority communities disproportionately lack access to affordable housing. In response, Biden has proposed $640 billion worth of plans to ensure access to affordable housing, including a revival of the expired tax credit for first-time homebuyers and a new tax credit for renters.

Dubbed the "first down payment tax credit" by the campaign, one of the new incentives would establish a permanent refundable tax credit of up to $15,000, similar to the temporary credit for first-time homebuyers that was enacted in 2008 as part of the Housing and Economic Recovery Act but ended in 2010. The credit could also be advanced, allowing homebuyers to receive its benefits at the time of purchase, rather than waiting until the following return filing season.

Biden also proposes to set aside $5 billion annually for a new renter's tax credit aimed at capping rent and utilities at 30 percent of income for low-income families. The credit would be designed to cover the gap between those families eligible for section 8 vouchers and those whose incomes push them above the section 8 voucher threshold but who still struggle to pay housing costs, according to the campaign.

The proposal resembles Democratic efforts in Congress to pass similar legislation, like the Rent Relief Act (H.R. 3670). Biden's campaign has also endorsed the Neighborhood Homes Investment Act (H.R. 3316), which would provide a tax credit to developers to help finance the building or rehabilitation of homes in low-income neighborhoods.

In addition, Biden borrowed a proposal from the Obama administration's tax policy playbook. The plan calls for funneling more funds — $10 billion — into the low-income housing tax credit (LIHTC) program and cites reforms to the program listed in the fiscal 2017 Treasury green book. That proposal called for several changes, including allowing the private activity bond cap to be converted into LIHTCs to promote the building of more affordable housing projects and encouraging LIHTC-supported developments to support more mixed-income tenants.

The Right: He's Wrong

Chris Edwards of the Cato Institute wasn't impressed with Biden's proposed solutions to the problem of affordable housing.

According to Edwards, Biden’s proposals fail to address the root causes of high housing costs, which he said are typically the fault of local governments’ restrictive zoning codes or costly building regulations. “The federal government should not be trying to put a Band-Aid on locally caused problems,” he told *Tax Notes*.

Edwards also took aim at Biden’s proposed expansion of the LIHTC program, which he said ultimately benefits banks and developers, not low-income tenants. He said that developers benefiting from the program have been found to have engaged in “large-scale fraud . . . so Biden’s proposal amounts to classic crony capitalism.”

For Edwards, the proposals could have the perverse effect of setting up problems for the future. Encouraging low-income families to move into houses they can't otherwise afford risks repeating the mistakes that led to the 2008 recession, he said. “That is a very misguided policy,” he added.

Erica D. York of the Tax Foundation was similarly critical of Biden’s proposals, arguing that their approach “completely misses the root cause of why housing prices are so high.”

“New tax credits would be costly, further distort the housing market, and fail to deliver the intended relief to renters and homebuyers,” York said. “It would be better to focus on the root causes of high housing prices.”

The appropriate way to lower housing costs is simply to increase the housing supply, according to York, which, she noted, the Biden campaign proposes. The campaign calls for allotting $100 billion to construct and upgrade affordable housing, separate from the $10 billion set aside for expanding the LIHTC.

However, York argued against using the tax code for this purpose, and the LIHTC expansion in particular, contending that investors and developers have been shown to capture most of the benefits of housing tax incentive programs, rather than renters.

“The connection between new federal subsidies and prices does not generally move in the direction of affordability,” York said.

A 2018 report on the LIHTC by the Urban Institute acknowledges that the LIHTC program suffers from gaps in data quality that make it difficult to evaluate some aspects of its effectiveness or to address its shortcomings. Nevertheless, the report credits the LIHTC program with being “the longest running . . . national program to consistently produce affordable rental units” and praises it for playing a “crucial role in the redevelopment of public housing into mixed-income communities.”

For now, the report says, the LIHTC is the only major funding source for producing affordable rental housing, and while it merits scrutiny to ensure its effectiveness, in the areas where it falls short, “we should seek improvements and explore other options for expanding the supply of affordable rental housing.”

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