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This Failed Tax Subsidy Should Have Been Ditched. Instead, Congress Expanded It.

Adam Michel and Skomantas Pocius

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Hidden among the budget-busting provisions of the last omnibus spending bill is an example of the swamp at its worst. It's a renewal of a failed tax credit program that purports to subsidize low-income renters while mostly benefiting wealthy investors.

The low-income housing tax credit is one of those federal programs that sounds on its face like a productive way to help those who need it most. The reality? It fails on every measurable margin, and Congress just expanded the program for four years.

Before the omnibus expansion, $8 billion in tax credits were issued each year. That number will rise significantly as the new federal spending bill expands the credit by $2.8 billion over the next 10 years.

The housing credit aims to create more affordable rental housing by subsidizing new housing projects that set aside up to 40 percent of the units for low-income applicants at reduced rates. The credit would cover as much as 70 percent of the cost of these projects.

Lawmakers intend this credit to benefit tenants in the form of lower rents, but as Cato Institute scholars Chris Edwards and Vanessa Brown Calder note, "investors, developers, and financial companies gain most of the benefits."

This credit is rife with abuse. Some of the largest low-income housing developers exploit the program by inflating construction costs to maximize their subsidy. Developers often get away with the fraud because the IRS performs "limited analysis of compliance," according to a report by the Government Accountability Office.

The credit also breeds corruption. It is not uncommon for state and local officials responsible for choosing the projects that are eligible for the credit to receive bribes and campaign contributions. Reports indicate that the California state treasurer helped award tens of millions of credits to developers who donated over $100,000 to his campaign.

The housing credit also sits at the heart of one of the largest corruption racketsin Dallas. “Fourteen people were convicted of bribery, extortion, and related crime,” write Edwards and Calder.

In addition to the corruption and abuse, the tax credit’s complexity undermines the intended benefits. Low-income tenants ultimately receive only about a quarter of the subsidy value. A specialized tax credit industry of investors, lawyers, and accountants capture most of the $8 billion each year.

The program is so inefficient that when credit-fueled projects are complete, they generally cost 20 percent more to build than comparable market housing.

Expanding such a corrupt and inefficient program does a disservice to taxpayers and low-income renters alike. There are better ways to support communities in need of more affordable housing.

Zoning reforms are the most effective way to expand the housing supply and lower rental prices. Current zoning policies in most large cities drive up housing costs due to strict rules and regulations that effectively prohibit new construction. Without new construction, housing costs rise and people are quickly priced out of the market.

Reforms to make it easier to build new and expanded housing developments of any type would go a long way toward relieving the current upward pressure on rent in America’s cities.

Spending billions a year through complex tax schemes, on the other hand, hasn’t alleviated the need for low-income housing. In many parts of the country, the problem has only gotten worse.

Expanding a broken system of tax credits to benefit narrow business interests signals that Congress intends to continue the same old approach of feeding the swamp while neglecting communities in need.

Low-income housing tax credits clearly aren’t working, and it’s time to change course.