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PROPOSAL FOR A FEDERAL RENTERS' TAX CREDIT
Submitted to the House Committee on Ways and Means Tax Reform Working Groups on Real Estate and Income and Tax Distribution

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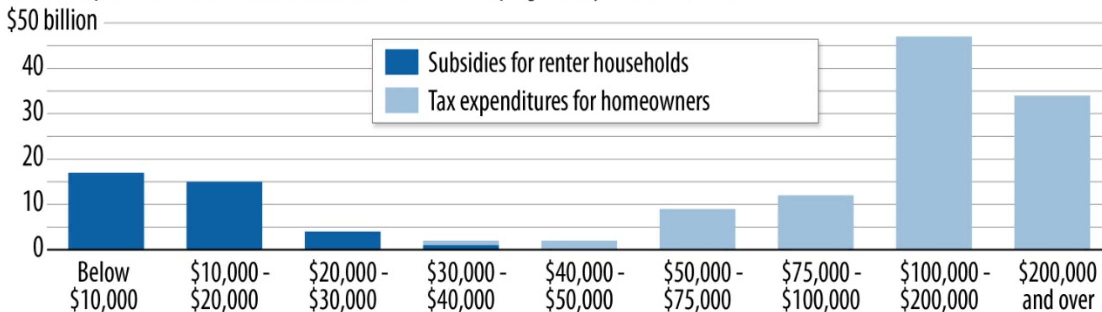
The majority of federal housing expenditures — counting both tax subsidies and direct appropriations — subsidize homeownership, with the bulk of the benefits going to higher-income households. Low-income renters, however, are far more likely to pay a very high share of their income for housing and face other serious housing-related problems. Rigorous research has shown that rental assistance sharply reduces homelessness and housing instability — conditions that have a major long-term impact on children's health and development. Yet only about one in four eligible low-income renters receives any federal housing assistance, due to funding limitations.

More Than Half of All Housing Spending Benefits Households with Incomes Above $100,000

Federal expenditures for rental and homeowner assistance programs by income for 2010



Source: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2011 – 2015*, Table 3, and CBPP analysis of HUD program data, Census data on households in each income group, and the OMB public budget database.

Notes: Tax expenditures include the mortgage interest and property tax deductions; income figures are for tax filing units. Rental subsidies include total outlays for the Housing Choice Voucher, Section 8 Project-Based, Public Housing, Housing for the Elderly (Section 202), and Housing for People with Disabilities (Section 811) programs; income figures are for households. Data on the income of beneficiaries of various federal housing expenditures are available only for these programs, which represent somewhat more than half of homeownership and rental spending.

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Congress could better balance housing policy — and tax policy in the housing area — by shifting a modest portion of savings from reform of homeownership or other tax expenditures (once deficit reduction goals have been met) to a new credit helping low-income renters offset high housing costs. CBPP has developed a proposal for a renters' credit, which would complement existing

programs such as the Low-Income Housing Tax Credit (which subsidizes development of affordable housing but is rarely sufficient to push rents down to levels poor families can afford) and Section 8 vouchers (which are highly effective but meet only a fraction of the need). The proposed credit is described in detail at http://www.cbpp.org/rentercredit and would have these key features:

- **Credit caps:** The proposal would authorize states to allocate a capped amount of credits, subject to federal income eligibility rules and state policy preferences. This would allow the credit to be delivered at a relatively modest budgetary cost, but still provide subsidies large enough to help even the poorest families afford housing. We estimate that with a national cap of $5 billion states could use the renters' credit to assist about 1.2 million families.

- **Income eligibility:** Initial eligibility would be limited to families with income at or below the higher of 60 percent of the local median income or 150 percent of the poverty line, with 75 percent of the credits targeted on "extremely low-income" renters with income below 30 percent of the local median or the poverty line. (On average nationally 30 percent of median is roughly equivalent to the poverty line, but there is substantial local variation.)

- **Claiming the credit:** An owner that rents to an eligible family at a reduced rent could claim the credit on its taxes. The owner could benefit from the credit promptly by reducing quarterly estimated taxes or withholding. Alternatively, a bank or other entity holding the mortgage on the property could claim the credit, in exchange for a reduction in the owner's mortgage payments. This would allow the credit to be used in properties owned by non-profits or other owners that do not owe taxes themselves, and by small property owners who are reluctant to be responsible for claiming the tax credit directly.

- **Distribution:** States could distribute credits in three ways:

    - *Tenant-based:* States could issue families credit certificates that they could use to rent a unit of their choice in the private market.

    - *Project-based:* States could allocate credits to specific developments, either in combination with the Low-Income Housing Tax Credit or separately.

    - *Lender-based:* States could allocate credits to lenders, which could enter into agreements to reduce mortgage payments for building owners who rent to eligible families at reduced rents.

  States could opt to use credits in conjunction with other state programs or to accomplish particular state goals. For example, states could subsidize supportive housing arrangements that could lower state Medicaid costs or reduce homelessness, or target families participating in state TANF programs for whom lack of stable, affordable housing is a barrier to work. States also would have flexibility to decide what policies are established to ensure that credits are used only in decent quality units.

- **Tenant rents:** Families assisted with the credit generally would pay 30 percent of their income for rent. In addition, if the total rent for the unit exceeds a cap based on the HUD-determined Small Area Fair Market Rent for the zip code or rural county, the family would pay the excess.

- **Credit amount:** States would determine the credit amount as a percentage (no greater than 100 percent) of the rent reduction the owner provides — that is, of the gap between 30 percent of the family's income and the lower of the rent cap or the total rent.

- **Administrative costs:** States that administer the credit would carry out (or delegate or contract out) certain administrative tasks, including selecting credit recipients, determining families' incomes, issuing credit eligibility certificates, and providing end-of-year verification of the credit amount. States could pay the resulting costs from their own revenues, charge fees to participating owners and banks, or, if permitted by Congress, use funds from the federal HOME or Community Development Block Grant programs outside of the administrative caps in those programs. States that do not wish to administer the renters' credit could opt out, in which case their credits would be reallocated to other governmental entities in the state or to other states.