



It's Time to End The Low-Income Housing Tax Credit

TOPLINE: The One Big Beautiful Bill (OB BB) Act, as passed by the U.S. House of Representatives, significantly expands one of the most wasteful federal housing programs: the Low-Income Housing Tax Credit (LIHTC). As scholars on the [left](#) and the [right](#) have repeatedly found, project-based housing assistance like LIHTC results in higher housing costs (as much as [\\$1M per unit in CA!](#)) despite [not increasing](#) the total number of low-income homes available. The LIHTC can result in taxpayers covering nearly all the development costs of privately owned affordable housing developments.

BACKGROUND: The federal government allocates LIHTCs to states on a per capita basis for distribution to developers to defray low-income housing construction or rehabilitation costs. LIHTCs substantially boost the profitability of some developments.

Two Varieties Of LIHTC:

- **9% LIHTC:** a competitively awarded subsidy equal to 9% of the eligible development costs multiplied by the percentage of low-income units. Applied each year for 10 years, this credit can easily cover the majority of some development project costs.
- **4% LIHTC:** a non-competitively awarded subsidy applied annually for 10 years equal to 4% of the eligible development costs multiplied by the percentage of low-income units. Only developments with a minimum threshold of financing from tax-exempt bonds qualify for the 4% LIHTC. Because this credit is applied each year for 10 years, it can easily cover more than one-third of some development project costs.

CHANGES IN OB BB:

Increases Allocations To Each State For The 9% LIHTC:

- The OB BB increases the per capita state allocation ceiling by 12.5% through 2029.
- This will result in additional real estate developments receiving this subsidy.

Lowers the Tax-Exempt Bond-Financing Threshold for the 4% LIHTC:

- Currently, 50% of a project must be financed with tax-exempt private activity bonds to qualify for this LIHTC.
- The OB BB dramatically lowers this threshold to just 25% for obligations issued after December 31, 2025, and before January 1, 2030. As a result, more projects will qualify for the 4% LIHTC.

Designates Tribal and Rural Areas As Difficult Development Areas (DDAs)

- DDAs automatically receive a 30% cost-basis boost for local LIHTC projects.

BOTTOMLINE: LIHTC subsidies inflate housing costs, pad the pockets of favored real estate investors at the expense of taxpayers, and disincentivize families from earning more income. Instead of expanding LIHTC, Congress should eliminate it.

Yet if Congress is intent on spending more money on low-income housing subsidies, lawmakers would be better off diverting LIHTC funding to voucher-based assistance like the Section 8 Housing Choice Voucher Program, which is less distortive of the market.

