

More houses or more welfare? Low Income Housing Tax Credits

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De Montfort University

Leicester

Some people can't afford decent housing

Why?

1. They are too poor
2. The housing is too expensive
3. The housing is too decent

What to do

A Make them less poor

B Make the housing cheaper

C Make the housing less decent

Usually C is rightly rejected

More money or more cheap housing?

So A, Make them less poor

How:

- (i) Give people more money generally
- (ii) Give people more money for housing – housing allowances – or housing benefit or more housing related universal credit

But:

With (i) they may spend the extra on something other than housing – so what?

And with (ii) more demand raises prices and rents – in a market system the price impacts are likely to be more significant than the quantity impacts

More cheap housing

How to get more cheap housing:

- (a) Subsidise
- (b) Incentivise

With (a) give funds to councils and housing associations and say “build more houses”

With (b) provide tax breaks and a range of incentives to all sorts of housing suppliers

Conditional incentives

Incentives for housing providers if they:

1. provide good quality housing
 2. provide it at sub-market rents or prices
 3. allocate it to households on low incomes
- Call these ‘conditional object incentives’
 - Call the housing so provided ‘social’

Conditional object incentives

- Conditional object incentives have been used widely in western Europe to support social housing for decades.
- They have also been used extensively in the USA where they provide housing that is social (it is allocated socially and not by market forces) but is not called social. In the USA the incentives take the form of LIHTCs.

LIHTCs in the USA

- LIHTCs = Low Income Housing Tax Credits
- What are they?
- What do they do?
- What have they achieved?

LIHTC: income related construction incentives

- They are essentially construction subsidies obtained by developers provided that at least
 - 40% of units go to low income households whose income is less than 60% of the area medianOR
 - 20% of units go to low income households whose income is less than 60% of the area median
- And rents are held below market levels (maximum rent is 30% of eligible income)

LIHTC: Federal scheme with local discretion

- Operated since 1986
- Federal Government allocates quotas to each state
- Each state allocates according to a 'Qualified Allocation Plan'
- Competition for LIHTCs

LIHTC: affordable housing without public sector risk

- Helped build, renovate and/or preserve more than 2.5 million affordable housing rental units
- LIHTCs account for nearly 90% of all affordable housing created in the USA today
- Investors assume development and operating risk when they invest in LIHTC properties and only get to claim the tax credits if the buildings are maintained in compliance with programme requirements

LIHTC time limited support

- Tax Credits for 10 years
- Schemes must remain in low income occupancy for at least 15 years
- Tax Credits are sold onto investors

LIHTC: may need supplementary support

- LIHTCs have a strong record in terms of housing quality and financial stability and creating new housing
- However, extremely low income households cannot afford the rents unless they have a housing voucher or the developer is able to obtain additional capital and operating subsidies

LIHTC: efficiency plus political support

- Efficiency gains from competitive allocation
- Do not involve direct public expenditure; their exchequer cost is indirect, through tax concessions
- Tax concession to housing that has to conform to specific quality, allocation and rent standards
- Specifics can be tied to local decisions that are made about the allocation of a nationally financed policy instrument
- Additional housing that results from LIHTC may be privately owned but it might also be owned or managed by other sorts of organisations, including housing associations
- Lots of support across the political spectrum

More houses and more welfare?

- Linking tax incentives (for production) with regulations (for quality, access and affordability) can result in more affordable dwellings within an essentially market system
- But other support (welfare?) might be used with more houses to support decent housing for the lowest income households

More to come

- CCHR ESRC project with Places for People will examine in depth ideas from USA and Europe that incentivise affordable housing production
- Could such incentives work in the UK?

<http://housingsupply.our.dmu.ac.uk>