Funding affordable housing

LOW INCOME HOUSING TAX CREDITS IN THE USA AND THEIR POTENTIAL IN THE UK

Research report launch



Friday 11 July 2014 10.30am-12noon

at CIH London Office 236 Grays Inn Road, London WC1X 8HB

This new research, undertaken by UK housing association development director Vic O'Brien, looks at a funding system that could be employed to increase the supply of affordable housing in the UK without relying on grant – private investment in affordable housing supported by tax credits.

A SUMMARY OF THE REPORT AND ITS FINDINGS



Vic O'BrienDevelopment Director
GreenSquare Group

WITH RESPONSES FROM AN EXPERT PANEL COMPRISING:



Stuart RopkeAssistant Director Policy and Research
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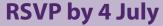


Gavin SmartDirector of Policy and Practice
Chartered Institute of Housing



Piers WilliamsonChief Executive
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FOLLOWED BY A QUESTION & ANSWER SESSION.



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For further information about this launch event, please contact GreenSquare on 01249 466007.





With thanks to the Winston Churchill Memorial Trust for their support and funding to make this study tour possible.

LOW INCOME HOUSING TAX CREDITS (LIHTC) IN THE USA AND THEIR POTENTIAL IN THE UK

This new research, undertaken by UK housing association development director Vic O'Brien, looks at a funding system that could be employed to increase the supply of affordable housing in the UK without relying on grant – private investment in affordable housing supported by tax credits.

The US LIHTC system works by corporations investing funds into affordable housing projects and receiving tax credits over 10 years, which creates a return on investment. The tax credits essentially result in affordable housing projects receiving 'first loss' private equity investment equivalent to 50-60% of the project costs without the need to support repayments for this investment from the net rental stream of the project.

Tax credits are given on condition that the investor ensures that the property remains 'compliant' to a strict set of rules; is regulated by the State for 15 years; and remains as affordable housing for a further 15 years. LIHTC investors must have Federal tax liability to utilise the tax credits in order that the tax credits generate a return on investment.

The US LIHTC system has given rise to the development of an ecosystem of developers, syndicators, State bodies, and investors who operate according to LIHTC industry norms in the way they structure legal and financial agreements.

The allocation of tax credits is controlled by Congress, which determines an annual amount of tax credits per head of population per state and a national tax credit limit. States produce Qualified Allocation Plans (QAPs) annually which lay out the criteria by which states will determine the location, sustainability, quality standard etc. – and on which they will assess project bids from developers.

The US LIHTC system was created in 1986 and is generally seen as the most successful US housing programme over the last 30 years. It is supported by a wide spectrum of politicians.









If a LIHTC system was introduced in the UK it would result in HM Treasury foregoing tax revenue. However, it would also result in the creation of tax revenue from the resulting development activity and from the ongoing management of the completed homes. It may also encourage the payment of additional tax revenue that some large companies are presently holding in tax avoidance schemes.

A UK LIHTC system could be designed so that tax credits were employed to create permanent affordable housing, rather than affordable housing with a 30-year restriction as produced under the US LIHTC system. The distribution of tax credits through State Housing Finance Agencies that issue QAPs and seek bids from developers, resonates closely with the way in which the HCA operates in issuing a prospectus and seeking bids against its investment criteria. The HCA could adopt a central co-ordinating role within a UK LIHTC system if it were to be established.

