

# HOW TAX CREDITS CAN MAKE RENT AFFORDABLE

## Background

- Rents have risen faster than incomes, even renters who are working full-time and earning modest wages are facing cost burdens. Too many families simply do not have housing options at a price they can afford in, or near to, the communities where they can find work.
- More than one-third of U.S. households rent their homes, meaning that over 100 million Americans live in rental housing. And many landlords are dependent on monthly payments to support themselves, along with their employees if they own businesses.
- The federal government provided nearly \$80 billion in housing tax benefits in the fiscal year 2020, with most of those dollars benefitting higher income homeowners.<sup>1</sup> This does not include tax credits through capital gains sales of home, homestead tax credit property tax credit, first time homebuyers' assistance.
- Housing Choice Vouchers and public housing, while a highly effective tool in making rent affordable, only reaches about one in four households.
- More than twenty states provide tax credits to help renters afford housing but has limited impact in helping a low-income household as it provides only a few hundred dollars per year.

## Housing Costs Can Be Efficiently and Equitably Addressed for Low-Income Households Using the Tax Code

- The tax code has proven to be an effective means of increasing the supply of affordable housing through the Low-Income Housing Tax Credit,<sup>2</sup> and the Child Tax Credit as a way to lift families out of poverty.
- An eligible tenant could directly claim a credit monthly, like how the IRS was able to deliver Child Tax Credits monthly.
- Families that receive assistance to help pay rent are far less likely to experience homelessness and housing instability, problems that do long-term harm to children's health and development.

1. Will Fischer, "Rental Housing Programs for the Lowest Income Households: Renters' Tax Credit" Center on Budget and Policies Priorities [https://nlihc.org/sites/default/files/AG-2021/04-19\\_Rental-Housing-Programs-Renters-Tax-Credit.pdf](https://nlihc.org/sites/default/files/AG-2021/04-19_Rental-Housing-Programs-Renters-Tax-Credit.pdf)

2. Bipartisan Policy Center Housing Commission, "Housing America's Future: New Directions for National Policy," February 2013, p. 95, <http://bipartisanpolicy.org/library/housing-americas-future-new-directions-national-policy/>; Carol Galante, Carolina Reid, and Nathaniel Decker, "The FAIR Tax Credit: A Proposal for a Federal Assistance in Rental Credit to Support Low-Income Renters," Turner Center for Housing Innovation, University of California, Berkeley, October 7, 2016, [http://turnercenter.berkeley.edu/uploads/FAIR\\_Credit.pdf](http://turnercenter.berkeley.edu/uploads/FAIR_Credit.pdf)

# HOW TAX CREDITS CAN MAKE RENT AFFORDABLE CONT.

- Tax credits to low-income renters have the potential to increase housing affordability and stability, address racial segregation and isolation from opportunity, and increase access to opportunity-rich neighborhoods and place-based resources.
- For example (see potential models below) the renters tax credit would give taxpayers a credit worth any amount in rent that they pay over 30 percent of their income (paying more than 30 percent of your income in rent is the standard definition of being a cost-burdened renter). So, if 30 percent of your income is \$15,000, and you pay \$18,000 in rent, the federal government would give you a tax credit of \$3,000.
- A credit could also be through the owner of the property (see below in potential models), where the owner's required estimated tax payments would be lowered as they reduce the monthly rent for the tenant. Tenants become a tax credit for their landlords.

## Maximum Impact

- Make the credit available to most working families by allowing the credit for families up to \$100,000 (or \$125,000 in high-cost areas).
- Help families more easily afford rent in high-cost areas by adjusting credit value based on Small Area Fair Market Rent.
- The Renters' Tax Credit is a one solution *in addition to* the much needed fully funded public housing and housing choice voucher program. It is an **AND**, not an **OR**.
- Cultivating and marketing this tax credit to property owners can loosen the tight housing market that low-income households face.
- A refundable renter's tax credit would help people with lower incomes more than tax deductions and could reduce economic inequality.
- A renters' tax credit should be accompanied by policies that addresses the supply-side issue, such as policies that require local jurisdictions to reform their zoning laws to allow more housing to be built by tying it Community Development Block Grants and Home Investment Partnership funding.

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## Potential Models

### Refundable Renters Tax Credit (RTC)

Using a similar tool that the U.S. utilized to disseminate millions of stimulus checks: a refundable renter's tax credit (RTC). People who rent their primary home and do not own a home on the side will be able to claim the RTC every month on the rent they pay. To target the tax credit at low-income renters, it would be capped at 40% of the monthly income each family or household earned last year. Borrowing also from the design of the stimulus checks, the credit would phase out above \$75,000 in income if you are single, or \$150,000 if you are married, but would be larger for families with children.

### Decent, Safe, Affordable Housing for All (DASH) Act

Unveiled in August 2021 by Senator Ron Wyden (D-OR) it takes the form of a tax credit for landlords renting to tenants with low incomes. To qualify, a tenant must be below the federal poverty line or earn less than 30 percent of the area median income. These tenants would pay at most 30 percent of their incomes in rent. In return, landlords who sign a binding contract with reduced rent would receive a tax credit worth 110-120 percent of the difference between the rent they charge and the market rate for a similar unit. The comparable rents would be based on one of two measures produced by the Department of Housing and Urban Development, the Small Area Fair Market Rate (SAFMR) in metropolitan areas and the Fair Market Rate (FMR) elsewhere. Landlords would therefore be financially incentivized to house lower-income tenants without fear of not getting paid.

### Tenants Become Tax Credits for Landlords

People with incomes under 30% of median or 200% of poverty (this income level could be set higher) would be eligible to receive this subsidy. They would be provided a certificate- (needs to determine through who- IRS, HRA, County updated annually). They would be able to rent any unit within 120% of FMR in the community.

Landlords would be able to charge residents, with this subsidy, 30% of tenants' monthly income for rent, the landlord would then receive a tax credit for remainder of the rent (up to 120% of FMR.) An additional \$1,000 bonus tax credit may be available/ tenant if tenant is housed for one year. Additional bonuses may be provided for landlords that provide second chances to people with issues in their tenancy, credit records and/or have been involved with criminal justice system. Landlords would file the id number of tenant's certificate, on their taxes (they would be required to maintain a copy of tenant's certification form). As long as landlords maintain their unit in accordance with standards set by their community and/or State the unit is eligible.



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## Rent Reduction Model

This model provides a credit, directly to residents through their tax returns, valued at between 12 and 33 percent of the rent or SAFMR to all renter families making less than 80 percent of area median income. The Rent Reduction model will provide some support to nearly all residents making less than 80 percent of area median income. The credit will be uncapped, refundable, and be provided directly to residents, requiring no additional actions on the part of landlords.

## Composite Model

The Composite model builds off the Rent Reduction option by directing additional assistance to extremely low-income families. As with the Rent Reduction model, all families earning less than 80 percent of area median income would receive a credit that ranges between 12 and 33 percent. However, because this option leaves extremely low-income populations still facing rent burdens due to the lower level of assistance, it also includes a Voucher-like Targeted Component that provides a larger amount of assistance to address severe cost burdens among extremely low-income families.

Recognizing that it is harder to reach extremely low-income families through the tax code, this credit would be provided to landlords, who would pass on the benefit of the credit to their tenants. Landlords would claim the credit in exchange for charging their tenants lower rents. Landlords would be required to income-certify their tenants and could be subject to regular property quality inspections. To be compensated for the additional administrative burden, landlords would be provided a modest credit premium in addition to the deduction in rent they provided their residents. While delivery through landlords is not ideal, matching the timing of benefits to the timing of rent is particularly important to the extremely low-income population, and delivering the credit to landlords is a ready means of providing monthly benefits to renters.

## About National Coalition for the Homeless

The National Coalition for the Homeless is a national network of people who are currently experiencing or who have experienced homelessness, activists and advocates, community-based and faith-based service providers, and others committed to a single mission: To end and prevent homelessness while ensuring the immediate needs of those experiencing homelessness are met and their civil rights are respected and protected. Contact NCH with questions: Donald Whitehead, Executive Director, [dwhitehead@nationalhomeless.org](mailto:dwhitehead@nationalhomeless.org).