The **Low-Income Housing Tax Credit (LIHTC)** is a federal program designed to encourage private investment in affordable rental housing for low-income households. It was created by the **Tax Reform Act of 1986** and is administered by the **Internal Revenue Service (IRS)** in partnership with state housing agencies.

How LIHTC Works

1. **Allocation of Tax Credits**
    - The federal government distributes tax credits to state housing finance agencies.
    - States then allocate these credits to developers of qualified affordable housing projects based on local needs.
2. **Developers Use Credits to Raise Capital**
    - Developers who receive LIHTCs sell them to private investors (e.g., banks, corporations) in exchange for equity financing.
    - This reduces the amount of debt needed, allowing developers to charge lower rents.
3. **Investors Benefit from Tax Credits**
    - Investors receive **a dollar-for-dollar reduction in federal tax liability** over a 10-year period.
    - The return on investment comes from tax savings rather than rental income.

Types of LIHTC

- **9% Credit**: Covers up to 70% of a project's construction cost. It is highly competitive and typically used for new construction.
- **4% Credit**: Covers up to 30% of costs, often used for rehabilitation or projects financed with tax-exempt bonds.

Affordability Requirements

- At least **20% of units must be rented to households earning 50% or less** of the area median income (AMI), or
- At least **40% of units must be rented to households earning 60% or less** of the AMI.
- Rents are capped at 30% of the household's income.

Key Benefits

- Encourages private sector involvement in affordable housing.
- Increases the supply of rental units for low-income families.
- Reduces financial risk for developers.
- Provides tax benefits to investors.

LIHTC is the largest federal program supporting affordable rental housing and has contributed to the creation of **over 3 million units** since its inception.

The **Low-Income Housing Tax Credit (LIHTC)** program costs the federal government approximately **$10 to $12 billion per year** in forgone tax revenue. This estimate varies based on the number of credits allocated, investor participation, and other economic factors.

Breakdown of Costs:

1. **Annual Tax Credit Allocations**
    - The federal government allocates **9% and 4% LIHTCs** to states.
    - Each year, states receive 9% LIHTCs based on a formula set by Congress (e.g., a per-capita allocation).
    - 4% LIHTCs are automatically awarded to projects using tax-exempt bonds.
2. **Revenue Loss from Tax Credits**
    - Investors claim the credits over a **10-year period**, reducing their tax liability.
    - The total federal revenue loss accumulates as more LIHTC projects are developed and investors claim credits.
3. **Estimated Long-Term Costs**
    - Over a 10-year budget window, LIHTC is projected to cost **over $100 billion**, according to estimates from the **Joint Committee on Taxation (JCT)** and the **Congressional Budget Office (CBO)**.

Context in the Federal Budget

- LIHTC is one of the **largest federal housing subsidy programs**, alongside **Housing Choice Vouchers (Section 8)** and **Public Housing funding**.
- Unlike direct spending programs, LIHTC operates through the **tax code**, making it a **tax expenditure** rather than a direct outlay.

Despite its cost, LIHTC is a **cornerstone of affordable housing policy**, leveraging private investment to produce and preserve low-income rental housing across the U.S.

The federal government allocates **Low-Income Housing Tax Credits (LIHTCs)** each year based on statutory formulas. In **2024**, the allocation was approximately **$13 billion** in total tax credits.

Annual LIHTC Allocation Formula

1. **9% LIHTC Allocation** (Competitive)
    - States receive an annual allocation based on population:
        - **$2.75 per capita** (adjusted for inflation).
        - Minimum small-state allocation: **$3.36 million** in 2024.
    - This results in about **$1.5 to $2 billion** in **9% credits annually**.
2. **4% LIHTC Allocation** (Non-Competitive)
    - Tied to tax-exempt private activity bonds.
    - No fixed cap, but depends on how many bonds are issued by states.
    - Generates **$10+ billion in 4% credits annually**.

Total LIHTC Issuance per Year

- Combined, the **annual issuance of tax credits is around $13 billion**, but the **federal revenue cost is spread over 10 years** as investors claim the credits.
- Over a decade, LIHTC contributes to an estimated **$100+ billion in tax expenditures** for affordable housing development.

The **Low-Income Housing Tax Credit (LIHTC)** program allocates federal tax credits to each state annually, primarily based on population. Here's how the allocations are determined and how they vary by state:

Allocation Formula

1. **Per Capita Allocation**:
   - Each state receives an allocation calculated by multiplying its population by a per capita rate. For example, in 2023, this rate was **$2.75 per resident**.
2. **Small State Minimum**:
   - To ensure smaller states receive adequate funding, there's a minimum allocation threshold. In 2023, this "small state minimum" was **$3,185,000**.

Both the per capita rate and the small state minimum are adjusted annually for inflation.

State-by-State Allocations

Allocations vary based on each state's population. For instance, in 2023:

- **California**: With the largest population, California received the highest allocation, totaling approximately **$110 million**.
- **Wyoming**: As one of the least populous states, Wyoming received the small state minimum of **$3,185,000**.

These figures illustrate the range of allocations, with more populous states receiving larger amounts due to the per capita formula, while less populous states benefit from the minimum allocation to support their affordable housing needs.

Administration and Allocation Process

Each state administers its LIHTC program through designated agencies, typically housing finance authorities. These agencies are responsible for:

- Developing a **Qualified Allocation Plan (QAP)** that outlines the criteria and process for awarding tax credits within the state.
- Evaluating and selecting projects that meet the state's affordable housing priorities and LIHTC requirements.
- Ensuring compliance with federal and state regulations throughout the development and operational phases of LIHTC-funded projects.