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**TO:** The Honorable Detroit City Council

**FROM:** David Whitaker, Director   
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**RE:** How Low-Income Housing Tax Credits benefit Detroiters

**DATE:** February 23, 2024

Councilmember Coleman A. Young, II requested LPD provide a report on how Low-Income Housing Tax Credits (LIHTC) benefit Detroiters. The following is our response to this request.

The Low-Income Housing Tax Credit (LIHTC) program is the federal government's primary policy tool for the development of affordable housing. The program created under the Tax Reform Act of 1986 incentivizes the development of affordable housing by awarding tax credits to housing developers to offset the cost of constructing rental housing in exchange for agreeing to reserve a certain fraction of rent-restricted units for lower-income households. <sup>1</sup>

As of 2021, the U.S. had a shortage of 6.8 million affordable housing units available to renters of extremely low incomes. The Low-Income Housing Tax Credit plays a major role in filling this gap. LIHTC is the most effective tool to increase affordable housing and it has helped thousands of individuals and families attain safe, affordable housing. <sup>2</sup>

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<sup>1</sup> Congressional Research Service, Mark Keightley an Introduction to the low-income housing tax credit, (updated April 26, 2023)

<sup>2</sup> What the New LIHTC Fixed Rate Floor Means for Affordable Housing [www.wealthmanagement.com/multifamily/what-new-lihtc-fixed-rate-floor-mean...](http://www.wealthmanagement.com/multifamily/what-new-lihtc-fixed-rate-floor-mean...)

Low Income Housing Tax Credit program is not the only source of funds for affordable rental housing in the country, but it is the largest. In many areas where the market is dominated by single family homes, LIHTC helps increase the supply of multifamily affordable housing. <sup>3</sup>

The Housing Tax Credit Program is designed to provide a source of equity financing for the development of affordable housing, maximize the number of affordable units added to the state's housing supply, and ensure that the state's affordable housing supply is well maintained and operated, serving as a credit to the communities in which affordable housing is constructed and operated. <sup>4</sup>

LIHTC provides state and local agencies with the authority to distribute around \$9 billion annually in federal tax credits. For every dollar of tax credit received, developers can reduce a dollar's worth of their federal income tax owed. The amount of tax credits available to each developer is determined by the number of low-income housing units the developer plans to build.

A LIHTC housing project must agree to rent to tenants whose average income is below the area's median income, and this commitment must be maintained for a period of 15 years. To be eligible for low-income housing properties, applicants must find an eligible tax credit property, and typically need to earn an income of less than 60% of the area median income (AMI). Most kinds of properties (single-family, multi-family, apartment complexes, and townhouses) can qualify for the LIHTC credit.<sup>5</sup>

Today the program funds tens of thousands of new apartments every year for tenants with low and moderate income, and it has supported the construction or rehabilitation of nearly 3 million units since its creation. <sup>6</sup>

It is a well-known fact that there is an affordable housing shortage in the United States. The effects of this housing crisis are more severe in urban areas. While AMI plays a crucial role in determining affordable housing eligibility, it plays an even more significant role in Detroit's affordable housing market.

As the eligibility for regulated affordable housing is based on income and regulated housing programs are designed to serve households based on certain income benchmarks relative to AMI, "Low-income" is defined by the U.S. Department of Housing and Urban Development (HUD) based on the area median income, or AMI. HUD calculates AMI as the median, or middle, income for a household in your metropolitan area. Because HUD's definition accounts for housing in the larger region, AMI is not defined within city boundaries. In the Detroit-Warren-Livonia metropolitan area, the AMI for a 2-person household in 2020 was \$62,800.<sup>7</sup>

- **low-income** household: income of 80% AMI (\$50,240) or less
- **very low-income** household: income of 50% AMI (\$31,400) or less
- **extremely low-income** household: income of 30% AMI (\$18,840)

Owners or developers of projects receiving the LIHTC agree to meet an income test for tenants and a gross rent test. There are three ways to meet the income test:

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<sup>3</sup> [URBAN WIRE](#), LIHTC Provides Much-Needed Affordable Housing, But Not Enough to Address Today's Market Demand  
Yonah Freemark, Corianne Payton Scally Display Date July, 11, 2023

<sup>4</sup> Low-income Housing Tax Credits for Dummies By: Sandra Date: January 2, 2023

<sup>5</sup> Low-Income Housing Tax Credit (LITHC): How It Works By JULIA KAGAN Updated November 21, 2023  
Reviewed by JANET BERRY-JOHNSON Fact checked by KATRINA MUNICHELLO

<sup>6</sup> [URBAN WIRE](#), LIHTC Provides Much-Needed Affordable Housing, But Not Enough to Address Today's Market Demand  
Yonah Freemark, Corianne Payton Scally Display Date July, 11, 2023

<sup>7</sup> Who is eligible? | City of Detroit (detroitmi.gov)

1. At least 20 percent of the project's units are occupied by tenants with an income of 50 percent or less of area median income adjusted for family size AMI.
2. At least 40 percent of the units are occupied by tenants with an income of 60 percent or less of AMI.
3. At least 40 percent of the units are occupied by tenants with income averaging no more than 60 percent of AMI, and no units are occupied by tenants with income greater than 80 percent of AMI.

The gross rent test requires that rents do not exceed 30 percent of either 50 or 60 percent of AMI, depending upon the share of tax credit rental units in the project. All LIHTC projects must comply with the income and rent tests for 15 years or credits are recaptured. In addition, an extended compliance period (30 years in total) is generally imposed.<sup>8</sup>

However, some aspects of the program still tend to present difficulties for the population of low and extremely low-income individuals and families in Detroit who want and need affordable housing. The LIHTC program has a built-in expiration after which the units could lose their affordable status. When this occurs, units that were once identified as affordable could now become market rate, requiring renters to seek alternative housing. Because of this, local communities must exercise the foresight to plan for ways they can maintain affordable housing units in development projects and communities after credits have expired.

In addition, and perhaps more importantly, is the effect of Detroit's unique economic situation and status as the poorest large city in America. The AMI for a two-person family within the city of Detroit is \$45,797.<sup>9</sup> This figure is significantly lower than the regional AMI of \$62,800 used by the federal government when establishing low-income housing guidelines and eligibility requirements. Using the Detroit only AMI, income eligibility would appear as follows:

- **low-income** household: income of 80% AMI (\$36,637) or less
- **very low-income** household: income of 50% AMI (\$22,298) or less
- **extremely low-income** household: income of 30% AMI (\$13,739) or less

The problem is that if developers are using the federal regional guidelines, there is a distinct possibility that eligible LIHTC units could be filled by individuals on the higher end of the eligible income scale. Thus, preventing the families and individuals with the absolute lowest income in Detroit from being able to occupy affordable housing units in these developments.

Nevertheless, Detroiters still benefit greatly from LIHTC. In the city of Detroit, projects receiving LIHTC increase the overall supply of affordable housing by encouraging developers to build and rehabilitate affordable housing units, providing more options for low-income individuals and families. These projects typically offer rental rates that are below market rate, making them more affordable for low-income tenants and helping alleviate the burden of housing costs on individuals with limited financial resources.

Further, requirements that properties must meet certain standards regarding safety, quality, and accessibility make tenants living in LIHTC housing more likely to reside in units that are well-maintained and meet basic living requirements. In addition, LIHTC projects can contribute to community revitalization efforts by providing affordable housing options in areas that need redevelopment. While at

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<sup>8</sup> TAX POLICY CENTER, URBAN INSTITUTE AND BROOKINGS INSTITUTION, BRIEFING BOOK, KEY ELEMENTS OF THE U.S. TAX SYSTEM

<sup>9</sup> Income: Trends, Analysis, and Key Findings By [Neilsberg Research](#) Updated Jan 11, 2024

the same time, reducing disparities in housing opportunities, leading to more inclusive communities and improvements in neighborhood amenities, services, and the overall quality of life for residents.

It is important to note, LIHTC is only one tool. The program is not a cure-all. It has proven to be an effective means to create affordable housing units, however it must be used in conjunction with other programs to assist low-income renters. Although in Detroit, the program does not always touch those with the greatest need. Overall, LIHTC plays a crucial role in addressing the affordable housing crisis and improving the living conditions of low-income individuals and families in Detroit and around the country.