

MIDDLE-INCOME HOUSING TAX CREDIT: WASTEFUL AND MISGUIDED

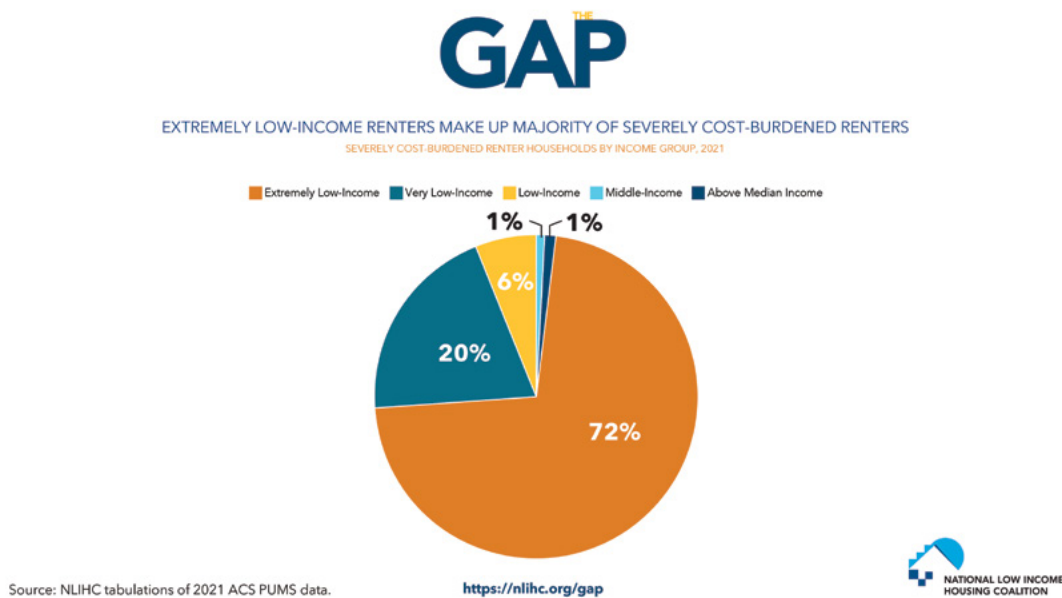


In March 2023, Senator Ron Wyden (D-OR) reintroduced the “Decent, Affordable, Safe Housing for All (DASH) Act” ([S.680](#)), which includes a proposal to create a Middle-Income Housing Tax Credit (MIHTC), a new federal tax credit to incentivize developers to build and preserve market rate rental housing that is affordable to families earning between 60% and 100% of the Area Median Income (AMI).

The Middle-Income Housing Tax Credit would be a misguided and wasteful use of scarce federal housing resources. The shortage of affordable rental homes is concentrated among extremely low-income (ELI) households - those whose incomes are 30% or less of area median income (AMI), or below the federal poverty line - not those with middle incomes near or at 100% of AMI. Any new federal investments in housing should be targeted to serve those with the greatest and clearest needs, who are most at risk of housing instability and homelessness.

Additional federal investments in housing construction for middle-income households is unnecessary, and would be a poor use of federal resources for several reasons:

- 1. Just 1% of severely housing cost-burdened households are middle-income. Most severely cost-burdened households (72%) have extremely low incomes and would not be served by MIHTC.**



Nationwide, just 2% of middle-income renters (those with incomes between 80% and 100% of AMI) are severely housing cost burdened, defined as spending more than 50% of their income on rent and utilities. Comparatively, 73% of the nation’s 11 million ELI households are severely housing cost burdened. Similar trends are reflected in every state and Congressional district in the country.

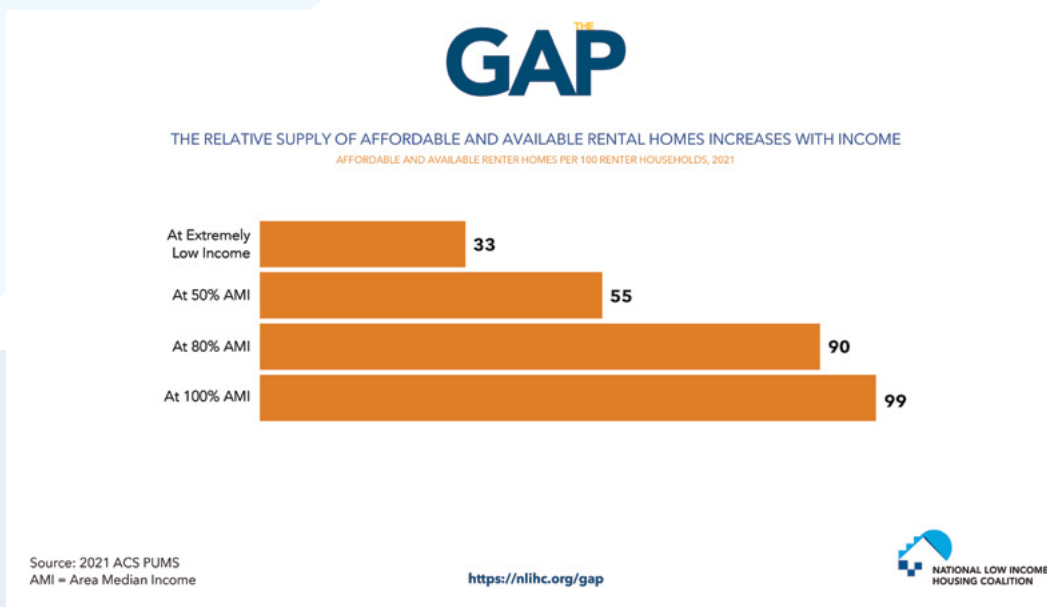
MIHTC would divert scarce resources to create a program that would serve less than 100,000 middle-income renters nationwide who are severely housing cost burdened, while providing minimal benefit to the 11 million low-income families who pay more than half their income on rent.

- 2. Nationwide, there is an adequate supply of rental homes that are affordable and available to middle income households, compared to a severe shortage for ELI households.**

There is a national shortage of 7.3 million affordable, available rental homes for the nation’s 11 million ELI renter households. There are only 33 affordable and available rental homes for every 100 ELI

households, compared to 99 homes affordable and available for every 100 renters with incomes at or below 100% of area median income (AMI).

Notably, the shortages are cumulative, so the apparent shortage of housing for renters with incomes above 50% of AMI can actually be explained by the significant shortage of affordable and available rental homes for those with incomes below 50% of AMI



The severe shortage of homes affordable and available to extremely low income households stems from a market failure – without federal subsidies, the private market cannot reliably build, operate, and maintain housing with rents low enough for extremely low-income families and individuals. Federal investments in the national Housing Trust Fund and [reforms to the Low Income Housing Tax Credit](#) are needed to build deeply affordable homes, and Housing Choice Vouchers are needed to bridge the gap between housing costs and income for the lowest income renters in existing apartments.

In contrast, the private market can – when unrestricted by local zoning rules – build and maintain housing affordable to middle-income households without federal subsidies.

3. MIHTC would not address the underlying causes of the housing crisis.

The primary cause of the nation’s housing and homelessness crisis is the severe shortage of rental homes affordable and available to ELI renters. Millions of ELI households struggle to remain housed, always one financial shock away from falling behind on rent and being threatened with eviction, and in the worst cases, homelessness. Because of the housing crisis, [more than half a million people](#) in America experience homelessness on any given night, and millions more are at risk.

MIHTC would not help those households most impacted by the housing crisis, and it would do nothing to stop those most at-risk from experiencing homelessness. Instead of diverting scarce resources to higher-income households, Congress should target federal investments to address the underlying causes of homelessness and housing instability – the severe shortage of affordable, available homes for ELI renters.

4. There are better – more cost-effective – ways to serve middle income households.

Middle-income families face high rents in a small number of communities, but rather than creating a new federal tax credit to incentivize the private market to build homes that it can already provide without a federal subsidy, Congress should look at other reforms that would more effectively and efficiently utilize federal dollars. For example, Congress should pass legislation incentivizing or requiring local and state governments to address restrictive zoning and land use policies that prevent the private sector from building homes and drive up the costs for all renters. Housing supply issues for

middle income households can be better addressed by land-use reforms and improved zoning laws, such as those in the bipartisan “Yes In My Backyard (YIMBY) Act” ([S.1688/H.R.3507](#)).

Additionally, in 2022 the IRS released updated “[average income test](#)” regulations, which allows developments supported by the Low Income Housing Tax Credit (LIHTC) to serve families with incomes up to 80% of AMI, as long as the average income across the entire development remains at 60% of AMI. The Average Income Test allows developers more flexibility to serve households with relatively higher incomes, while also ensuring that the lowest-income households may benefit.

Instead of creating a new, wasteful tax program to serve middle income households, Congress should make investments in existing programs that target federal funding to those with the most urgent affordable housing needs, like the national Housing Trust Fund, and incentivize or require local and state governments to address restrictive zoning and land use policies that prevent the private sector from building homes and drive up the costs for all renters. Additionally, reforms to LIHTC so that it better serves ELI households - like those proposed in the “Affordable Housing Credit Improvement Act” ([S.1557/H.R.3238](#)) - would go much farther in addressing the affordable housing crisis.

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