An Introduction to the Low-Income Housing Tax Credit

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SUMMARY

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An Introduction to the Low-Income Housing Tax Credit

The low-income housing tax credit (LIHTC) program is the federal government's primary policy tool for encouraging the development and rehabilitation of affordable rental housing. The program awards developers federal tax credits to offset construction costs in exchange for agreeing to reserve a certain fraction of units that are rent-restricted and for lower-income households. The credits are claimed over a 10-year period. Developers need upfront financing to complete construction so they will usually sell their tax credits to outside investors (e.g., corporations, financial institutions) in exchange for equity financing. The equity reduces the financing developers would otherwise have to secure and allows tax credit properties to offer more affordable rents. The LIHTC is estimated to cost the government an average of approximately $9.8 billion annually.

The 2018 Consolidated Appropriations Act (P.L. 115-141) made two changes to the LIHTC program. First, the act increased the amount of credits available to states each year by 12.5% for years 2018 through 2021. This modification appeared to be in response to concerns over the effects of P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act (TCJA). The changes made by TCJA did not directly alter the LIHTC program; however, the act reduced corporate taxes, which had the potential to reduce demand for LIHTCs. Second, the act modified the so-called "income test," which determines the maximum income an LIHTC tenant may have. Previously, each individual tenant was required to have an income below one of two threshold options (either 50% or 60% of area median gross income [AMI], depending on an election made by the property owner). With the modification, property owners may use a third income test option that allows them to average the income of tenants when determining whether the income restriction is satisfied, but no tenant may have an income in excess of 80% of AMI.

Most recently, to assist certain areas of California that were affected by natural disasters in 2017 and 2018, the Further Consolidated Appropriations Act, 2020 (P.L. 116-94) increased California's 2020 LIHTC allocation by the lesser of the state's 2020 LIHTC allocations to buildings located in qualified 2017 and 2018 California disaster areas, or 50% of the state's combined 2017 and 2018 total LIHTC allocations.

There have also been a number of bills introduced in the 116th Congress that would make targeted changes to the LIHTC program. These proposals include H.R. 4984, H.R. 4865 and S. 767, H.R. 4689, H.R. 3479 and S. 1956, and H.R. 3478. Broader changes to the program have been proposed by the Affordable Housing Credit Improvement Act of 2019 (H.R. 3077/S. 1703).

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Overview

The low-income housing tax credit (LIHTC) program, which was created by the Tax Reform Act of 1986 (P.L. 99-514), is the federal government's primary policy tool for the development of affordable rental housing. LIHTCs are awarded to developers to offset the cost of constructing rental housing in exchange for agreeing to reserve a fraction of rent-restricted units for lower-income households. Though a federal tax incentive, the program is primarily administered by state housing finance agencies (HFAs) that award tax credits to developers. Developers may claim the tax credits in equal amounts over 10 years once a property is "placed in service," which means it is completed and available to be rented. Due to the need for upfront financing to complete construction, developers typically sell the 10-year stream of tax credits to outside investors (e.g., corporations, financial institutions) in exchange for equity financing. The equity that is raised reduces the amount of debt and other funding that would otherwise be required. With lower financing costs, it becomes financially feasible for tax credit properties to charge lower rents, and thus, potentially expand the supply of affordable rental housing. The LIHTC program is estimated to cost the government an average of $9.8 billion annually.[1]

Types of Credits

There are two types of LIHTCs available to developers. The so-called 9% credit is generally reserved for new construction and is intended to deliver up to a 70% subsidy. The so-called 4% credit is typically used for rehabilitation projects utilizing at least 50% in federally tax-exempt bond financing and is designed to deliver up to a 30% subsidy. This report will also refer to the 4% credit as the "rehabilitation tax credit" and the 9% credit as the "new construction tax credit" to facilitate the discussion.[2] The 30% and 70% subsidy levels are computed as the present value of the 10-year stream of tax credits divided by the development's qualified basis (roughly the cost of construction excluding land).[3] It is the *subsidy levels* (30% or 70%) and not the *credit rates* (4% or 9%) that are explicitly specified in the Internal Revenue Code (IRC).[4]

The U.S. Department of the Treasury uses a formula to determine each month the credit rates that will produce the 30% and 70% subsidies. The formula depends on three factors: the credit period length, the desired subsidy level, and the current interest rate. The credit period length and the subsidy levels are fixed in the formula by law, while the interest rate changes over time according

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[1] Computed as the average estimated tax expenditure associated with the program between 2019 and 2023. U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022*, committee print, December 18, 2019, JCX-55-18.

[2] These labels represent generalizations about the use of the 4% and 9% credits and are a helpful way to think about the two different types of credits. The 9% credit is also commonly referred to as the "competitive credit" because awards of 9% credits are drawn from a state's annual LIHTC allocation authority and developers must compete for an award. The 4% credit is also commonly referred to as the "non-competitive credit" or "automatic credit" because developers do not have to compete for an award if at least 50% of the development is financed with tax-exempt bond financing; they are automatically awarded 4% tax credits. These 4% tax credits are not drawn from a state's annual LIHTC allocation authority.

[3] The present value concept allows for the comparison of dollar amounts that are received at different points in time since, for example, a dollar received today has a different value than a dollar received in five years because of the opportunity to earn a return on investments. Effectively, a dollar received today and a dollar received in five years are in different currencies. The present value calculation converts dollar amounts received at different points in time into a common currency—today's dollars.

[4] IRC §42(b).

to market conditions. Given the current interest rate, the Treasury's formula determines the LIHTC rate that delivers the desired subsidy level.[5]

Because two different subsidy levels are possible, the formula produces two different tax credit rates—the nominal 4% credit rate to ensure the 30% rehabilitation subsidy, and the nominal 9% credit rate to ensure the 70% subsidy for new construction. Once the effective credit rate has been determined, it is multiplied by the development's qualified basis to obtain the amount of LIHTCs a project will receive each year for 10 years. The credit rate stays constant throughout the 10-year period for a given development, but varies across LIHTC developments depending on when construction occurred and the prevailing interest rate at that time.

The rehabilitation and new construction tax credits have ordinarily not been 4% and 9%. The Tax Reform Act of 1986 (P.L. 99-514) specified that buildings placed in service in 1987 were to receive exactly a 4% or 9% credit rate. Buildings placed in service after 1987 were to receive the credit rate that delivered the 30% and 70% subsidies as determined by Treasury's formula. The rehabilitation credit rate has been below 4% every month since January 1988.[6] The new construction credit rate had similarly been below its nominal 9% rate every month since January 1991 until the Housing and Economic Recovery Act of 2008 (HERA; P.L. 110-289) placed a temporary "floor" under the new construction credit preventing it from being set at less than 9%. The floor originally applied to developments completed in August 2008 through the end of 2013.[7] Following a number of temporary extensions, the floor became a permanent feature of the program in 2015 with enactment of the Protecting Americans from Tax Hikes (PATH) Act (Division Q of P.L. 114-113).[8]

The effect of the floor depends on how far the tax credit rate determined by Treasury is from 9%. The floor has no effect if the credit rate produced by Treasury's formula is 9% or greater; the credit rate will be determined by Treasury's formula and generate a subsidy of up to 70%. If, however, the credit rate determined by Treasury is below the floor, then the credit rate is set equal to 9%. When this happens, new construction projects can potentially receive a subsidy above 70%, with the subsidy increasing the further the credit rate determined by Treasury's formula is below 9%.[9] The current interest rate is the key factor determining whether the floor takes effect.

[5] The choice of interest rate will affect the credit rate that is needed to deliver the specified subsidy levels. IRC §42(b) requires that the Treasury Department use an interest rate equal to 72% of the average of the mid-term applicable federal rate and the long-term applicable federal rate. The mid- and long-term applicable federal rates are, in turn, based on the yields on U.S. Treasury securities. It could be argued that this interest rate, also known as the discount rate, should be higher because LIHTC investments are riskier than Treasury securities. If this were true, then the LIHTC credit rate determined using the interest rate specified in IRC §42(b) would result in subsidies less than the 30% and 70%. Because Congress defined the subsidy levels to be 30% and 70% using the interest rate specified in IRC §42(b), this report does not consider how the use of alternative discount rates would affect the program.

[6] The 4% credit rate was 4% during the first year of the program. Since then the rate needed to produce the 30% subsidy has been below 4%. Novogradac & Company LLP, *Low-Income Housing Tax Credit Handbook*, 2006 ed. (Thomson West, 2006), pp. 845-850; Novogradac & Company LLP, "Tax Credit Percentages 2019," https://www.novoco.com/resource-centers/affordable-housing-tax-credits/data-tools/tax-credit-percentages-2019.

[7] The floor technically applied to properties that were "placed in service" during that time period.

[8] The floor was originally enacted on a temporary basis by the Housing and Economic Recovery Act of 2008 (P.L. 110-289) and applied only to new construction placed in service before December 31, 2013. The American Taxpayer Relief Act of 2012 (P.L. 112-240) extended the 9% floor for credit allocations made before January 1, 2014. The Tax Increase Prevention Act of 2014 (P.L. 113-295) retroactively extended the 9% floor through the end of 2014. Division Q of P.L. 114-113—the Protecting Americans from Tax Hikes Act (or "PATH" Act) permanently extended the 9% floor.

[9] Treasury's formula is designed to produce the credit rate necessary to deliver a 70% subsidy. This credit rate can be, and often is, less than 9%. For example, the October 2019 tax credit rate for new construction as determined by Treasury's formula was 7.39%. In this case the floor took effect and the tax credit rate was increased to 9%. Since the

Treasury's formula produces low credit rates when interest rates are low and higher credit rates when interest rates are high.[10] In December 1990, when Treasury's formula last determined a credit rate above 9% (9.06%), the 10-year Treasury constant maturity rate was 8.08%.[11] In January 2020, the rate was 1.81%.[12] Thus, interest rates would need to increase significantly from current levels for the floor to no longer have an effect.

An Example

A simplified example may help in understanding how the LIHTC program is intended to support affordable housing development. Consider a new apartment complex with a qualified basis of $1 million. Since the project involves new construction it will qualify for the 9% credit and, assuming for the purposes of this example that the credit rate is exactly 9%, will generate a stream of tax credits equal to $90,000 (9% × $1 million) per year for 10 years, or $900,000 in total. Under the appropriate interest rate the present value of the $900,000 stream of tax credits should be equal to $700,000, resulting in a 70% subsidy. Because the subsidy reduces the debt needed to construct the property, the rent levels required to make the property financially viable are lower than they otherwise would be. Thus, the subsidy is intended to incentivize the development of housing at lower rent levels—and thus affordable to lower-income families—that otherwise may not be financially feasible or attractive relative to alternative investments.

The situation would be similar if the project involved rehabilitated construction except the developer would be entitled to a stream of tax credits equal to $40,000 (4% × $1 million) per year for 10 years, or $400,000 in total. The present value of the $400,000 stream of tax credits should be equal to $300,000, resulting in a 30% subsidy.

The Allocation Process

The process of allocating, awarding, and then claiming the LIHTC is complex and lengthy. The process begins at the federal level with each state receiving an annual LIHTC allocation in accordance with federal law. The administration of the tax credit program is typically carried out by each state's housing finance agency (HFA). State HFAs allocate credits to developers of rental housing according to federally required, but state created, allocation plans. The process typically ends with developers selling awarded credits to outside investors in exchange for equity. A more detailed discussion of each level of the allocation process is presented below.

Federal Allocation to States

LIHTCs are first allocated to each state according to its population. In 2020, states will receive LIHTC allocation authority equal to $2.8125 per person, with a minimum small population state

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credit rate is increased above what is needed to deliver a 70% subsidy (i.e., 7.39%), it means that the subsidy rises above 70% when the floor takes effect.

[10] This relationship is an intrinsic feature of the present value formula, and not a result of a decision by Treasury in computing the credit rate.

[11] Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis, January 8, 2020, https://fred.stlouisfed.org/series/DGS10.

[12] Treasury does not directly use the interest rate on 10-year bonds, but as discussed in footnote 5, the interest rate used by Treasury is based on the yields on U.S. Treasury securities.

allocation of $3,217,500.[13] These figures reflect a temporary increase in the amount of credits each state received as a result of the 2018 Consolidated Appropriations Act (P.L. 115-141). The increase is equal to 12.5% above what states would have received absent P.L. 115-141, and is in effect through 2021. The state allocation limits do not apply to the 4% credits, which are automatically packaged with tax-exempt bond financed projects.[14]

State Allocation to Developers

State HFAs allocate credits to developers of eligible rental housing according to federally required, but state created, qualified allocation plans (QAPs). Federal law requires that a QAP give priority to projects that serve the lowest-income households and that remain affordable for the longest period of time. States have flexibility in developing their QAPs to set their own allocation priorities (e.g., assisting certain subpopulations or geographic areas), and to place additional requirements on awardees (e.g., longer affordability periods, deeper income targeting). QAPs are developed and revised via a public process, allowing for input from the general public and local communities, as well as LIHTC stakeholders. Many states have two allocation periods per year. Developers apply for the credits by proposing plans to state agencies.

An allocation to a developer does not imply that all allocated tax credits will be claimed. An allocation simply means tax credits are set aside for a developer. Once a developer receives an allocation it generally has two years to complete its project.[15] Credits may not be claimed until a property is placed in service. Tax credits that are not allocated by states after two years are added to a national pool and then redistributed to states that apply for the excess credits. To be eligible for an excess credit allocation, a state must have allocated its entire previous allotment of tax credits. This use-or-lose feature gives states an incentive to allocate all of their tax credits to developers.

To be eligible for an LIHTC allocation, properties are required to meet certain tests that restrict both the amount of rent that may be charged and the income of eligible tenants. Historically, the "income test" for a qualified low-income housing project has required project owners to irrevocably elect one of two income-level tests, either a 20-50 test or a 40-60 test. To satisfy the first test, at least 20% of the units must be occupied by individuals with income of 50% or less of the area's median gross income (AMI), adjusted for family size. To satisfy the second test, at least 40% of the units must be occupied by individuals with income of 60% or less of AMI, adjusted for family size.[16]

The 2018 Consolidated Appropriations Act (P.L. 115-141) added a third income test option that allows owners to average the income of tenants. Specifically, under the income averaging option,

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[13] From 1986 through 2000, the initial credit allocation amount was $1.25 per capita. The allocation was increased to $1.50 in 2001, to $1.75 in 2002 and 2003, and indexed for inflation annually thereafter. The initial minimum tax credit ceiling for small states was $2,000,000, and was indexed for inflation annually after 2003.

[14] Tax-exempt bonds are issued subject to a private activity bond volume limit per state. For more information, see CRS Report RL31457, *Private Activity Bonds: An Introduction*, by Steven Maguire and Joseph S. Hughes.

[15] Developers must have the property placed in service in the calendar year an allocation is made. However, a developer can receive an extension which gives them an additional calendar year to have the property placed in service. To be granted this extension, known as a *carryover allocation*, at least 10% of anticipated costs must be incurred within the first calendar year.

[16] Individual income levels are certified by each property manager, although states have some discretion over the specifics of the income verification method. LIHTC participants are prohibited from using HUD's Enterprise Income Verification (EIV) system to verify tenant income. The EIV system is required to be used in the Section 8 housing voucher program.

the income test is satisfied if at least 40% of the units are occupied by tenants with an average income of no greater than 60% of AMI, and no individual tenant has an income exceeding 80% of AMI. Thus, for example, renting to someone with an income equal to 80% of AMI would also require renting to someone with an income no greater than 40% of AMI, so the tenants would have an average income equal to 60% of AMI.

In addition to the income test, a qualified low-income housing project must also meet the "gross rents test" by ensuring rents (adjusted for bedroom size) do not exceed 30% of the 50% or 60% of AMI, depending on which income test option the project elected.[17]

The types of projects eligible for the LIHTC include rental housing located in multifamily buildings, single-family dwellings, duplexes, and townhouses. Projects may include more than one building. Tax credit project types also vary by the type of tenants served; for example, LIHTC properties may be designated as housing persons who are elderly or have disabilities.

Properties located in difficult development areas (DDAs) or qualified census tracts (QCTs) are eligible to receive a "basis boost" as an incentive for developers to invest in more distressed areas. In these areas, the LIHTC can be claimed for 130% (instead of the normal 100%) of the project's eligible basis. This also means that available credits can be increased by up to 30%. HERA (P.L. 110-289) enacted changes that allow an HFA to classify any LIHTC project that is not financed with tax-exempt bonds as difficult to develop, and hence, eligible for a basis boost.

Developers and Investors

Upon receipt of an LIHTC award, developers typically exchange or "sell" the tax credits for equity investment in the real estate project. The "sale" of credits occurs within a partnership that legally binds the two parties to satisfy federal tax requirements that the tax credit claimant have an ownership interest in the underlying property. This makes the trading of tax credits different than the trading of corporate stock, which occurs between two unrelated parties on an exchange. The partnership form also allows income (or losses), deductions, and other tax items to be allocated directly to the individual partners.[18]

The sale is usually structured using a limited partnership between the developer and the investor, and sometimes administered by syndicators. As the general partner, the developer has a relatively small ownership percentage but maintains the authority to build and run the project on a day-to-day basis. The investor, as a limited partner, has a large ownership percentage with an otherwise passive role. Syndicators charge a fee for overseeing the investment transactions.

Typically, investors do not expect their equity investment in a project to produce income. Instead, investors look to the credits, which will be used to offset their income tax liabilities, as their return on investment. The return investors receive is determined in part by the market price of the tax credits. The market price of tax credits fluctuates, but in normal economic conditions the price typically ranges from the mid-$0.80s to low-$0.90s per $1.00 tax credit. The larger the difference between the market price of the credits and their face value ($1.00), the larger the return to investors. Investors also often receive tax benefits related to any tax losses generated through the project's operating costs, interest on its debt, and deductions such as depreciation. The right to claim tax benefits in addition to the tax credits will affect the price investors are willing to pay.

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[17] Rent includes utility costs.

[18] For more details on the general tax equity mechanism, see CRS Report R45693, *Tax Equity Financing: An Introduction and Policy Considerations*, by Mark P. Keightley, Donald J. Marples, and Molly F. Sherlock.

The vast majority of investors are corporations, either investing directly or through private partnerships. Financial firms are large investors in LIHTC. Partly this is due to the Community Reinvestment Act (CRA), which considers LIHTC investments favorably.[19] Other investors include real estate, insurance, utility, and manufacturing firms, which are seeking a return in the form of reduced taxes from investing in the tax credits.

The LIHTC finances part of the total cost of many projects rather than the full cost and, as a result, must be combined with other resources. The financial resources that may be used in conjunction with the LIHTC include conventional mortgage loans provided by private lenders and alternative financing and grants from public or private sources. Individual states provide financing as well, some of which may be in the form of state tax credits modeled after the federal provision. Additionally, some LIHTC projects may have tenants who receive other government subsidies such as housing vouchers.

Recent Legislative Developments

Most recently, to assist certain areas of California that were affected by natural disasters in 2017 and 2018, the Further Consolidated Appropriations Act, 2020 (P.L. 116-94) increased California's 2020 LIHTC allocation by the lesser of (1) the state's 2020 LIHTC allocations to buildings located in qualified 2017 and 2018 California disaster areas, or (2) 50% of the state's combined 2017 and 2018 total LIHTC allocations.

A number of bills introduced in the 116th Congress would make targeted changes to the LIHTC program. These proposals include H.R. 4984, which would remove the high housing cost adjustment used in certain areas when computing AMI unless a jurisdiction petitioned for its use, and require developers to disclose information on expenditures, profits, syndication fees, projected rents, and any other information deemed reasonably necessary to monitor compliance; H.R. 4865 and S. 767, which would allow homeless youth and veterans who are full-time students to reside in LIHTC properties if they otherwise qualify; H.R. 4689, which would require states to give preference in their QAPs for buildings that do not permit smoking; H.R. 3479 and S. 1956, which would repeal the qualified contract option which allows owners to exit the program after 15 years; and H.R. 3478, which would allow for certain buildings that have participated in the program within the last 10 years to qualify for credits.[20]

Broader changes to the program have been proposed by the Affordable Housing Credit Improvement Act of 2019 (H.R. 3077/S. 1703). Among the more significant changes, the act would increase the amount of tax credits states receive; create a floor under the 4% credit; allow properties utilizing tax-exempt bond financing to more easily use the new income averaging test; provide clarity about the period in which a property that experiences a causality loss must return to service; eliminate the restriction that no more than 20% of the population in a metropolitan area can reside in a QCT (properties in a QCT receive a 30% basis boost); increase from 20% to 30% the fraction of the population in a metropolitan statistical area (MSA) or county that may reside in a DDA (properties in a DDA receive a 30% basis boost); provide a 50% basis boost for buildings in which at least 20% of units are occupied by tenants whose income does not exceed the greater of 30% of AMI or 100% of the federal poverty line, or for which an HFA has deemed needing such boost to be financially feasible; give HFAs the discretion to provide a 30% basis

[19] For more information on the LIHTC program and the CRA, see Office of the Comptroller of the Currency, *Low-Income Housing Tax Credits: Affordable Housing Investment Opportunities for Banks*, Washington, DC, April 2014, http://www.occ.gov/topics/community-affairs/publications/insights/insights-low-income-housing-tax-credits.pdf.

[20] This provision was also included in H.R. 3077/S. 1703.

boost to properties utilizing tax-exempt bond financing if deemed necessary for financial feasibility; provide a 30% basis boost to rural properties; require states to include in their QAP consideration of the reasonableness of development costs; and change the name of the tax credit to the "Affordable Housing Tax Credit."

The increase in the amount of tax credits that states would receive under the Affordable Housing Credit Improvement Act of 2019 would occur over a five-year period. Specifically, the proposal would set the per capita state amounts equal to $2.76 in 2019, $3.10 in 2020, $3.49 in 2021, $3.93 in 2022, $4.42 in 2023, and $4.96 thereafter and subsequently adjusted for inflation.[21] The minimum small population state allocation would be similarly increased over a five-year period, reaching $5,700,468 in 2024, and would thereafter be adjusted for inflation. Relative to *current law*, it is estimated that the act would produce an 84% increase in the per capita credit amounts states would receive once the proposed changes were fully phased-in in 2024.[22] This estimate of the increase in the per capita credit amounts is not an estimate of the increased cost of the program, which would be provided by the Joint Committee on Taxation (JCT).

[21] Some have described the increase in tax credits under H.R. 3077/S. 1703 as a 50% increase (adjusted for inflation) over current levels phased-in over five years, or 10% per year for five years. If compounding growth is factored in to the calculation, the 50% figure appears to understate the effect of increasing the credit amounts by 10% each year for five years. Specifically, a 10% increase per year for five years of any amount would, by itself, result in a total increase of 61%. Mathematically, the total effect of a 10% increase of any amount each year for five years is computed as $1.10^5 = 1.61$ (i.e., a 61% increase).

[22] See the **Appendix** for details of this estimate and why current law is the relevant baseline for estimating how much the act would expand the program. Estimates relative to current policy are also provided.

Appendix. Estimated Future Per Capita Tax Credit Amounts

Under current law, states receive tax credits equal to $2.8125 per capita in 2020, with a minimum small population state allocation of $3,217,500. These amounts reflect a temporary increase of 12.5% in the amount of credits each state receives through 2021 as a result of the 2018 Consolidated Appropriations Act (P.L. 115-141). Based on current law (i.e., where the current 12.5% increase expires after 2021) and the most recent CBO inflation projections, states are scheduled to receive an estimated $2.70 per capita in 2024 (see **Table A-1**). In 2024, the increase proposed by H.R. 3077/S. 1703 would be fully phased-in at $4.96 per capita, resulting in an estimated 84% ($4.96 divided by $2.70, minus 1) increase in per capita tax credit allocations under current law. Under current policy (i.e., assuming the 12.5% increase is permanent), it is estimated that H.R. 3077/S. 1703 would increase the per capita amounts by 63% ($4.96 divided by $3.04, minus 1) once fully phased-in (see **Table A-1**).

From a budgetary cost perspective, current law is the relevant baseline for considering how much the Affordable Housing Credit Improvement Act of 2019 would expand the program. This is because the JCT, the official revenue estimator for tax legislation before Congress, uses the Congressional Budget Office's (CBO's) baseline to estimate the revenue effects of legislation. CBO is required by law to assume that spending and revenue policies continue or expire based on what is currently slated to occur in statute (i.e., current law).[23]

The estimated 84% increase in the per capita credit amounts does not imply that the JCT would estimate that H.R. 3077/S. 1703 will increase the cost of the LIHTC program by 84%. Revenue scores are estimated over a 10-year budget window. The per capita credit increase proposed by H.R. 3077/S. 1703 would phase-in over five years. During a portion of the phase-in period, the temporary 12.5% increase enacted by P.L. 115-141 would be in effect, which is one reason why a JCT score of the proposal would likely represent less than an 84% increase in the cost of the program. Additionally, the full increase of the per capita credit amounts under the act would not be in place during the entire 10-year budget period, also suggesting a JCT score of the proposal would likely represent less than an 84% increase in the cost of the program.

[23] Statutory requirements related to the calculation of the baseline can be found in The Balanced Budget and Emergency Deficit Control Act of 1985, as amended in §257, 2 U.S.C. 907. CBO's baseline is called the Budget and Economic Outlook. For more information on the JCT's revenue estimation process, see https://www.jct.gov/about-us/revenue-estimating.html.

Table A-1. Estimated Future Per Capita Tax Credit Amounts of Proposal, 2020-2029

Scenario	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current Law	$2.81	$2.87	$2.60	$2.65	$2.70	$2.75	$2.80	$2.85	$2.90	$2.95
Current Policy[a]	$2.81	$2.87	$2.92	$2.98	$3.04	$3.09	$3.15	$3.21	$3.26	$3.32
Proposal[b]	$3.10	$3.49	$3.93	$4.42	$4.96	$5.05	$5.15	$5.25	$5.35	$5.45
% Increase of Proposal over Current Law	10.32%	21.60%	51.15%	66.79%	83.70%	83.64%	83.93%	84.21%	84.48%	84.75%
% Increase of Proposal over Current Policy	10.32%	21.60%	34.59%	48.32%	63.16%	63.43%	63.49%	63.55%	64.11%	64.16%
Inflation[c]	2.14%	2.31%	2.30%	2.29%	2.15%	2.09%	2.08%	2.08%	2.08%	2.08%

Source: CRS estimates and the Affordable Housing Credit Improvement Act of 2019 (H.R. 3077/S. 1703).

a. The figures for the proposal through 2024 are not estimates and are explicitly listed in H.R. 3077/S. 1703.

b. IRC §42(h)(3)(ii) requires that inflation adjustments be rounded to the next-lowest $0.05. The rounding requirement is not in effect for the 12.5% temporary increase enacted by P.L. 115-141, and thus it is assumed that it would not continue to be in effect under current policy after 2021.

c. All inflation adjustments were made using the CBO's forecast as of August 2019 for the percentage change in the Chained CPI-U in fiscal years 2019 through 2029. See https://www.cbo.gov/system/files/2019-08/51135-2019-08-economicprojections_1.xlsx.

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