

# Renter's tax credit

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The affordability of housing in the United States is a major issue for those with incomes too low to accommodate rising rents. In 2015, half of all renters had housing costs that exceeded 30 percent of family income, meeting the U.S. Department of Housing and Urban Development's standard for "housing-cost burdened." Further, half of those who were housing-cost burdened were considered severely burdened, with housing costs exceeding 50 percent of family income.<sup>1</sup> Low-income families are disproportionately likely to face housing costs that present such burdens. While there are federal subsidy programs that are intended to defray housing costs, these programs are insufficient and inequitable. We propose a refundable tax credit for renters that would reach a much broader segment of the population than existing programs; reflect geographic variation in housing costs; lift some families out of poverty; and substantially reduce the poverty gap for other families.

## Why focus on housing to reduce poverty?

Under the U.S. Census Bureau's Supplemental Poverty Measure, poverty thresholds are based on spending for basic needs including food, clothing, shelter (housing), and utilities; housing costs account for around half of the total poverty threshold. Families that are unable to find affordable housing have less to spend on other necessities, and are more likely to live in substandard housing, be evicted, or be homeless.<sup>2</sup> The stress of trying to make ends meet can also negatively affect mental health and parenting resources.<sup>3</sup>

Further, housing costs vary greatly by geographic area. Assistance offered through existing safety net programs such as the Earned Income Tax Credit, the Child Tax Credit, or Supplemental Security Income does not reflect cost-of-living variations across the country. A policy that specifically targets households that are burdened by housing costs could reflect this geographic variation, and offer a promising strategy to reduce poverty.

## Existing housing subsidy programs

The two primary housing subsidy programs in the United States are the Low Income Housing Tax Credit (LIHTC) and

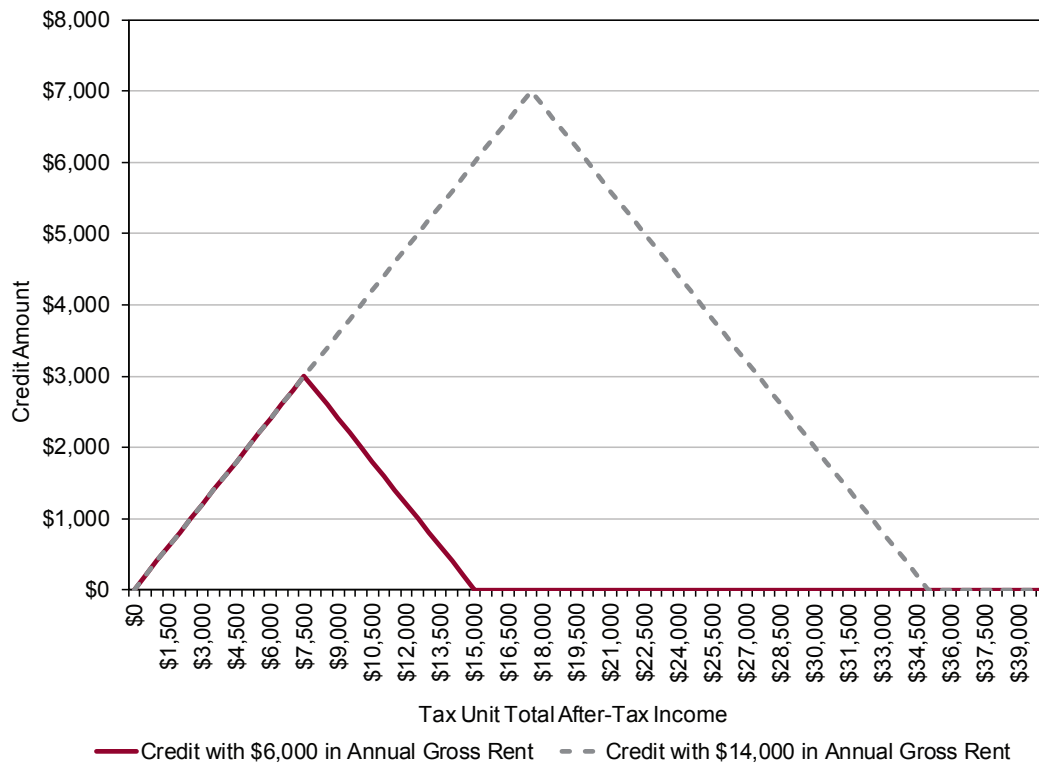
the Housing Choice Voucher program. The LIHTC provides funding for states to provide tax credits to developers who build or rehabilitate rental housing and reserve a specific proportion of units for households earning less than 60 percent of the local median income. These credits are available only for new construction or rehabilitation; they cannot be applied to existing housing. Because rents in the housing subsidized by the LIHTC are not targeted to households with incomes below half of the local median, the housing made available through this program is generally not accessible to the poorest households without an additional subsidy.

In contrast, the Housing Choice Voucher program does offer a substantial rental subsidy to low-income households. Families that have a voucher pay 30 percent of their income towards rent; public funds cover the rest. These vouchers are directed at very poor families; by law, local agencies must provide at least 75 percent of available vouchers to families with incomes at or below 30 percent of the area median income, with any remaining vouchers going to families with incomes below 50 percent of the median. The primary drawback of the Housing Choice Voucher program is that there are so few vouchers available. In many cities, waitlists to receive these vouchers are years or even decades long. There are also high administrative barriers for both landlords and tenants to make use of the program; some landlords are unwilling to participate in the program, and even some families that receive a voucher are not able to secure a lease within an allotted time period.<sup>4</sup> All told, only one in four eligible families receives any assistance from this voucher program.<sup>5</sup>

In addition to being inadequate to fill the need, federal housing subsidies are also inequitable. Homeowners receive more than three times the amount spent on federal low-income housing subsidies, in the form of mortgage interest and property tax deductions. Half of the dollar amount of these homeowner deductions go to families earning more than \$100,000. Renters, who receive none of these deductions, are much more likely to be poor than homeowners; in 2013 through 2015, over one-quarter of renters were poor according to the Supplemental Poverty Measure, compared to one-tenth of homeowners.<sup>6</sup>

## Proposed renter's tax credit

In order to address the inequities and inadequacies of current housing policy and assistance, we propose a new refundable renter's income tax credit for households with high rental housing costs relative to their income. This credit would be for renters who were not already receiving a housing subsidy, and who had housing costs equal to more than 40 percent of their total after-tax income (marking a middle ground between the



**Figure 1. Proposed renter's tax credit schedule in low-rent and high-rent areas.**

Source: Authors' compilation.

Notes: Annual gross rent of \$6,000 is equivalent to approximate average Fair Market Rent (FMR) for tax filers in nonmetropolitan Iowa. Annual gross rent of \$14,000 is equivalent to approximate average FMR for tax filers in metropolitan California. Assumes tax filer's annual gross rent does not exceed FMR cap (set to average FMR by state and metropolitan status, adjusted to family size).

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housing-cost burdened and severely housing-cost burdened federal housing affordability standards). The credit would equal the difference between actual rent paid and 40 percent of after-tax total income (including taxable and nontaxable income), up to certain caps. Thus, with the credit, recipients' housing-cost burden would generally be reduced to 40 percent of income. Allowed rent costs would be capped at the expected market rent for the tax filer, assessed using average Fair Market Rents in either metropolitan or nonmetropolitan areas by state, adjusted for household size. The credit amount would increase with housing cost burden up to a cap equal to the credit amount available to renters paying 80 percent of income toward rent. Renters with housing cost burdens of 80 percent of income or more would therefore be eligible for the maximum credit amount, which would gradually phase out to zero for those with housing costs equal to or less than 40 percent of income. Figure 1 shows examples of what this would look like in a nonmetropolitan area with relatively low Fair Market Rent, and in a metropolitan area with relatively high Fair Market Rent.

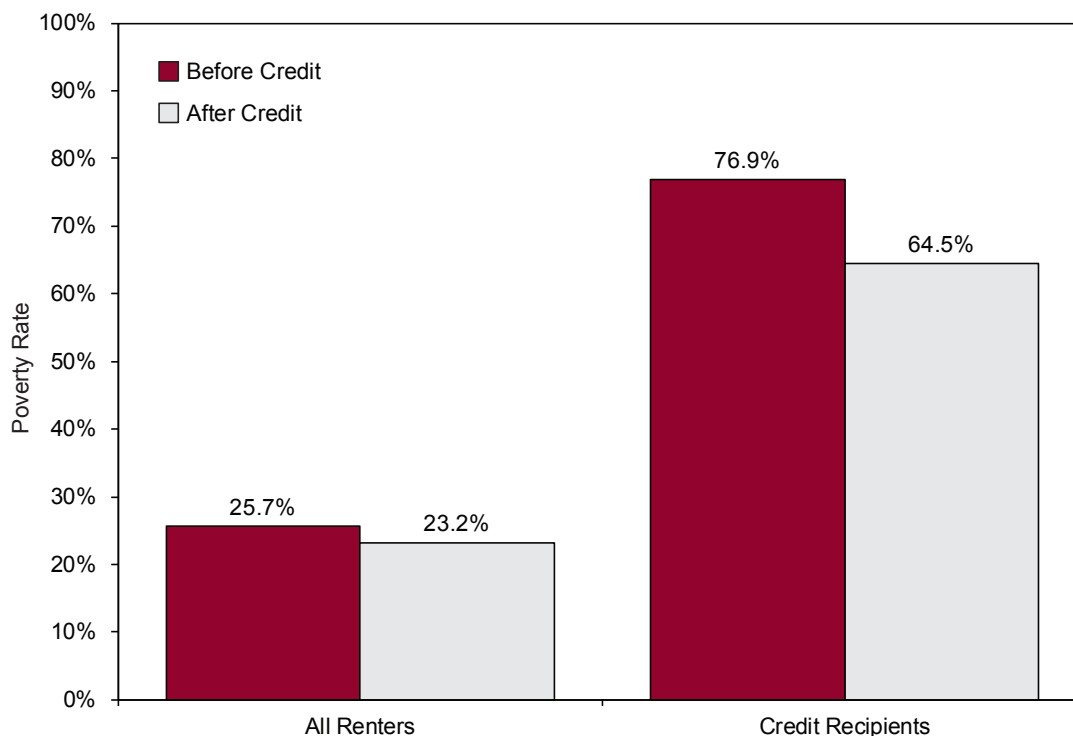
Relative to existing housing subsidy programs, this renter's tax credit would have a much broader reach, and the largest benefits would go to those facing the largest housing-cost burden. Since most households already file tax returns, the process of applying for this tax credit would be relatively straightforward. Also, because the credit would make use of

existing tax processing infrastructure, we anticipate that the costs of administering this credit would be low.

### Simulation of policy effects

We used 2015 Current Population Survey data to simulate the reach and effects of our proposed renter's tax credit. This simulation confirms the broad reach of the proposed credit: over 11.5 million tax filers would be eligible, comprising over 20 million total individuals when all household members are counted. The credit would reach more than twice as many cost-burdened renters as do current housing subsidy programs. The average credit amount would be about \$2,100, with poor households receiving more than non-poor households (approximately \$2,300 compared to \$1,500). More than half of the households receiving the credit would be families with children. Individuals benefiting from the credit would be diverse by race and ethnicity, and about half would be in families where the highest educational attainment was a high school degree or less. Households receiving the credit would be concentrated in Southern states, where income tends to be low, and in Western states, where housing costs tend to be high.

Figure 2 shows the expected effect of the renter's tax credit on the poverty rate, as determined by the Supplemental Poverty Measure. We estimate that the credit would reduce



**Figure 2. Poverty rate before and after renter's tax credit.**

**Source:** Authors' calculations using 2013–2015 Current Population Survey data.

**Notes:** Poverty rates determined using Supplemental Poverty Measure.

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poverty by 2.5 percentage points among renters, and by 12.4 percentage points among those receiving the credit. Overall, 2.6 million people would be lifted out of poverty by the credit. An additional 13.4 million would see a substantial decline in the gap between their total resources and the poverty line, reducing the median poverty gap by approximately one-third, from about \$7,700 to \$5,100.

Compared to simply expanding existing housing subsidy programs, a renter's credit would be a more efficient and equitable way of providing the most assistance to families. Because the credit would go directly to the renter, landlords would not need to consent to participate, nor grapple with administrative hassles. Landlords and other tenants would not need to know that a particular family was receiving a credit, which could be less stigmatizing than the existing voucher program.

The total annual cost of the credit as outlined here would be approximately \$24 billion. One possibility for funding such a credit would be to reduce the mortgage interest and property tax deductions available to high-income homeowners. The current public cost of these deductions for homeowners earning more than \$100,000 per year is over \$70 billion annually.<sup>7</sup> Another option would be to divert some of the profits of landlords and property owners who benefit from rising housing costs, through taxes on rental property income or on capital gains from the sale of real estate. In this case, care would need to be taken to prevent these costs from being passed back to renters in the form of higher rents.

Overall, we believe that a refundable renter's tax credit offers a promising pathway to address the decline of affordable housing and to reduce poverty. Although we propose a specific tax credit plan in this article, the general structure of the credit allows considerable flexibility to make modifications in order to meet specific policy goals such as targeting particular types of households, or lowering total cost.■

<sup>1</sup>Joint Center for Housing Studies, "America's Rental Housing: Expanding Options for Diverse and Growing Demand," Joint Center for Housing Studies of Harvard University, 2015. [http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas\\_rental\\_housing\\_2015\\_web.pdf](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf). Accessed September 28, 2016.

<sup>2</sup>M. Desmond, *Evicted: Poverty and Profit in the American City* (New York: Crown, 2016).

<sup>3</sup>J. Harkness and S. J. Newman, "Housing Affordability and Children's Well-being: Evidence from the National Survey of America's Families," *Housing Policy Debate* 16, No. 2 (2005): 223–255; T. Leventhal and S. Newman, "Housing and Child Development," *Children and Youth Services Review* 32, No. 9 (2010): 1165–1174.

<sup>4</sup>R. E. Smith, S. J. Popkin, T. George, and J. Comey, "What Happens to Housing Assistance Leavers?" *Cityscape* 17, No. 3 (2015): 161–192.

<sup>5</sup>Joint Center for Housing Studies, "America's Rental Housing."

<sup>6</sup>Authors' calculations using Current Population Survey data.

<sup>7</sup>W. Fischer and B. Sard, "Chart Book: Federal Housing Spending Is Poorly Matched to Need," Center on Budget and Policy Priorities, March 8, 2017. <http://www.cbpp.org/research/chart-book-federal-housing-spending-is-poorly-matched-to-need>. Accessed December 7, 2017.