# A Renter's Tax Credit to Curtail the Affordable Housing Crisis: Implications for New York State

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# Key Points

- What is a renter's tax credit?
- Motivation for a renter's tax credit
- Advantages of a renter's tax credit
- Key questions for credit design
- Sample credit (research from Kimberlin, Tach, & Wimer)
  - Model overview
  - Estimated impact in New York State
- Alternate example: Narrower targeting, shallower subsidy
- Other considerations

# What Is a Renter's Tax Credit?

- Tax credit provided when filing personal income taxes
- Available to renters who meet certain eligibility criteria, e.g. high rent paid compared to income
- Can be designed to alleviate "rent burden," by covering some portion of excess rent beyond 30% of income
- Can be made refundable so that families and individuals with low incomes with little or no income taxes owed can receive the credit as a payment (like EITC or Child Tax Credit)

# Motivation for a Renter’s Tax Credit

- Housing costs are typically the largest basic needs expense, typically making up about half of a family’s total basic needs budget (as reflected in the SPM poverty threshold)
- Renters are substantially more likely than homeowners to live in poverty and to face unaffordable housing cost burden
- Federal government historically and currently provides substantial subsidies for homeowners via the tax system – e.g. mortgage interest, real property tax deductions – but no subsidies specifically for renters
    - For tax year 2020, federal mortgage interest deduction expenditure was $157.8 billion, and deduction for real estate taxes (and certain other taxes) paid was $124.2 billion
- State government also provides substantial tax benefits for homeowners but little for renters
    - For tax year 2019, New York State mortage and investment interest deduction totalled nearly $700 million, while expenditure for Real Property Tax Credit was only $18.6 million for *both* homeowners and renters

# Motivation for a Renter’s Tax Credit (cont’d)

- Existing subsidies for renters (vouchers, public housing, LIHTC housing) reach only a fraction of those with unaffordable cost burdens
  - Nationally only 1 in 4 eligible households receive rental assistance
  - Average voucher wait time in New York State was 31 months in 2020
- Access and implementation limitations for existing housing subsidies suggest value of additional alternative subsidy models

# Advantages of a Renter’s Tax Credit

- Leverages existing infrastructure for tax filing and administration
  - Most families and individuals already file taxes, minimizing burden of applying
  - Administrative infrastructure well-established, with relatively low administrative costs
- Credit parameters can be adjusted, including target populations (for example, depending on severity of rent burden), depth of subsidy (how much excess rent costs will be alleviated), and total costs
- Does not require active/voluntary landlord participation – and landlords would be blind to who receives
  - Would cover significantly more units automatically
  - Would avoid source-of-income discrimination
- Credit is available to all eligible renters without waitlists or geographic constraints
  - Locations of LIHTC and public housing units limit geographic options for renters
  - Waitlist time for vouchers in New York State averages nearly 3 years

# Key Questions for Credit Design

- **Rent burden target** – credit reduces rent burden to x% of income
- **Share of excess rent burden covered by credit** – 100%, 50%, other share
- **Income definition** – gross income, taxable income, income net of taxes
- **Income cap** – cutoff vs. phase-out
- **Rent cap** – maximum rent allowed for calculation of rent burden, e.g. FMR, SAFMR
- **Adjustment for family size** – Used to assign rent cap, e.g. based on assumed number of bedrooms required
- **Accounting for households that include multiple tax units** – through adjustment for family size or other strategies
- **Exclusions from eligibility** – e.g. renters with other housing subsidies

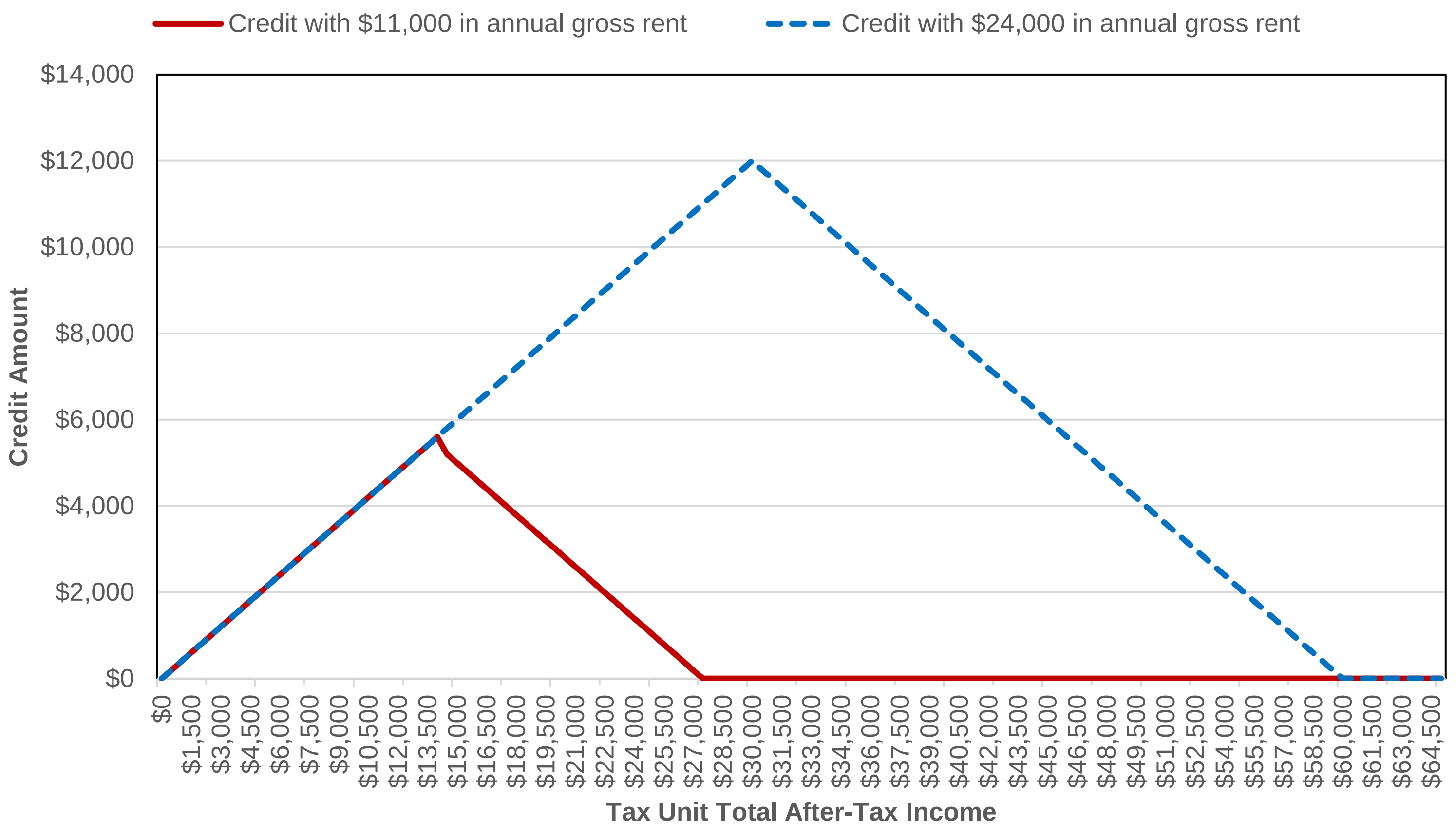
# Model Credit from Kimberlin, Tach, & Wimer

- **Rent burden target:** Reduces rent paid to 40% of income
- **Share of excess rent burden covered by credit:** 100%
- **Income definition:** Gross income for all members of tax unit, net of income tax liabilities and credits
- **Income cap:** No cutoff, phases out to $0 credit at [rent cap / 0.4]
- Rent cap: Population-weighted average 2-bedroom FMR statewide, with separate caps for all metro areas combined and all non-metro areas combined
- **Adjustment for family size:** FMR bedrooms assigned based on number of tax dependents (0 dep=1 bdrm, 1 dep= 2 bdrm, 2 dep= 3 bdrm, 3+ dep= 4 bdrm)
- **Exclusions from eligibility:** renters with other housing subsidies, individuals with no rent paid, credit capped for individuals reporting >80% of income paid toward rent

*Credit amount = Capped rent paid – (0.4 × After-tax income)*

Kimberlin, S., Tach, L., & Wimer, C. (2018). A Renter's Tax Credit to Curtail the Affordable Housing Crisis. *RSF: The Russell Sage Foundation Journal of the Social Sciences* 4(2): 131-160. DOI: 10.7758/RSF.2018.4.2.07.

# Simulated Renter’s Tax Credit Schedule




*Source:* Authors’ compilation
*Note:* Annual gross rent of $11,000 is equivalent to approximate population-weighted average 2023 HUD 2-bedroom Fair Market Rent in nonmetro New York State. Annual gross rent of $24,000 is equivalent to approximate population-weighted average 2023 HUD 2-bedroom Fair Market Rent in metro New York State. 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).

# Estimated Impact in New York State

| | |
|---|---|
| Tax filers receiving credit per year | 1.285 M |
| Beneficiaries per year (individuals in families receiving credit) | 2.152 M |
| Total cost per year (in $2023) | $4,102.389 M |
| Share of renters in poverty who benefit from credit | 62.1% |
| Share of severely rent-burdened renters (housing costs >50% of income) who benefit from credit | 78.6% |
| Total beneficiaries with poverty gap reduced or closed per year | 1.441 M |
| Beneficiaries lifted out of poverty (poverty gap closed) per year | 0.330 M |

# Estimated Impact in New York State (cont'd)

| | All Renters | Beneficiaries |
|---|---|---|
| SPM poverty rate before credit | 27.2% | 66.9% |
| SPM poverty rate after credit | 23.3% | 51.6% |
| Percentage point reduction in SPM poverty | 3.9% | 15.3% |
| Relative reduction in SPM poverty | 14% | 23% |
| Individuals with severe rent burden (>50% income) before credit | 26.5% | 82.6% |
| Individuals with severe rent burden after credit | 23.3% | 70.1% |
| Percentage point reduction in severe rent burden | 3.2% | 12.5% |
| Relative reduction in severe rent burden | 12% | 15% |

# Alternate Model: Narrower Targeting, Shallower Subsidy

- **Rent burden target:** Reduces rent paid to 50% of income
- Share of excess rent burden covered by credit: 100%

*Credit amount = Capped rent paid – (0.5 × After-tax income)*

- Targets most severely rent-burdened
    - Narrower reach to only those with most extreme housing cost burdens (>=50% rather than >=40% burden)
    - Shallower subsidy because reduces rent paid to 50% of income rather than 40% of income
    - Smaller overall cost

# Other Considerations

- Accounting for risk of rent inflation, depending on scale and targeting
- Access to tax filing assistance
- Reaching households that do not typically file taxes
- Documentation requirements, with tradeoffs for beneficiaries, landlords, tax administrators
- Disbursement schedule (lump-sum vs periodic payment), with tradeoffs for matching rent timing, administration, coordination with other public benefits

# For more information

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# Existing New York State Renter’s Tax Credit

- “Real Property Tax Credit for Homeowners and Renters”
- Refundable personal income tax credit
- Very narrow eligibility for renters, targeting extremely low income paying extremely low rents
    - Household gross income must be <=$18,000
    - Average monthly rent paid must be >$0 and <=$450
- Very small credit relative to prevailing rents, particularly for non-seniors
    - Maximum credit $75 annually for non-seniors, may be up to $375 if household includes seniors
    - For households paying max allowable monthly rent ($450), max credit still only covers 1% of rent for non-seniors or 7% for seniors
- Relatively small state tax expenditure
    - Total tax year 2020 expenditure for renters specifically of $17.9 million, benefiting about 129,000 tax filers
    - For comparison, NYS mortgage and investment interest deduction for tax year 2020 was $13.1 billion
- "Enhanced credit” for NYC residents (average credit $41 in 2018) ended after tax year 2019.

NYS Dept of Taxation and Finance, Instructions for Form IT-2014: https://www.tax.ny.gov/pdf/current_forms/it/it214i.pdf