The Federal Low-Income Housing Tax Credit Program in Tennessee

Tennessee is currently in the minority of states that allow local property assessors to include the value of the Federal low-income housing tax credit (LIHTC) in a property's assessed/appraised value. Continued utilization of this punitive valuation method is detrimental public policy that threatens current and future affordable housing development in Tennessee.

The solution to this public policy problem is to enact legislation whereby affordable housing properties that receive Federal low-income housing tax credits are valued on the actual income derived from the property.

Tennessee Housing Development Agency:

THDA is concerned about the viability of the LIHTC program going forward if Tennessee continues to utilize the punitive valuation method. What developer or financial institution is going to sign on to a deal guaranteed to lose money for the next 15-20 years?

THDA is sensitive to the impact on local government revenue. Important to point out that these properties pay taxes – and in every instance, pay more tax than the county was getting on the vacant lot or rundown building it replaced. No one is suggesting they shouldn't pay their share. Tax them on the income they can generate in rent-controlled properties, not on the value of the incentive given to them to build in the first place.

Tennessee Association of Housing and Redevelopment Authorities:

If affordable housing is important to local governments in Tennessee, it makes no sense tax the Federal incentive that makes affordable housing viable.

Local taxing authorities generally do not assess other government incentives for the development of real properties. For example, incentives from the TN Department of Economic and Community Development for job creation are not added into the property tax assessment of those companies' assets.

Tennessee Bankers Association:

Taxing the tax credit on LIHTC properties would mean higher expenses, less income and less ability to finance debt based on income. This would put existing LIHTC properties across the state into financial difficulty and would make obtaining financing for future properties more difficult.

Financial institutions can use the LIHTC to satisfy Federal Community Reinvestment Act requirements. However, they will turn to other ways to earn CRA credit besides LIHTC properties if these become unprofitable and risky investments due to heavy tax burdens.

Tennessee Developers Council:

The tax credits are sold to raise equity upfront. They get the buildings built or rehabbed but developers don't get a big check from Washington each year. The properties have to have cash flow, and that income is capped. When the value of the tax credit is included in the assessment, it results in an assessment that assumes the ability to charge market rents, which these properties cannot do. The result is real dollar losses for the property, year after year.

As a state utilizing the punitive valuation method for LIHTC properties, Tennessee is currently on an island with no contiguous states utilizing counterproductive valuation method.