State tax credits for affordable housing overview

Like the federal Low Income Housing Tax Credit (LIHTC), state affordable housing tax credits are intended to generate private investment in affordable housing by providing a credit on taxes owed for investments in affordable housing.

An individual or organization may apply the credit against its own tax liability, or sell the credit to raise equity that can be used to reduce project financing costs. While state tax credits are not a local policy, local governments can encourage their state partners to develop a state tax credit for affordable housing.

Because the rules governing state tax credits are established at the state level, programs can vary widely with respect to the duration of the tax credit term, the share of the contribution against which the credit may be claimed, the eligible activities and affordability requirements, and other program features. Some states separate their tax credit program from the federal LIHTC, while others “piggy back” on the federal tax credit and automatically award the state credit to investors in the federal LIHTC to help fill gaps in development costs. Not all states offer a state tax credit program, and the available credit amounts vary widely.