Brief

Understanding the Low-Income Housing Tax Credit (LIHTC) and Qualified Allocation Plans (QAPs)

A Guide for Supportive Housing Stakeholders

This brief explains how the Low-Income Housing Tax Credit (LIHTC) and Qualified Allocation Plans (QAP) influence supportive housing development and helps affordable and supportive housing stakeholders understand the role these tools play in advancing supportive housing opportunities in their communities.

About CSH

CSH (Corporation for Supportive Housing) advances affordable housing aligned with services by advocating for effective policies and funding, investing in communities, and strengthening the supportive housing field. Since our founding in 1991, CSH has been the only national nonprofit intermediary focused solely on increasing the availability of supportive housing. Over the course of our work, we have created more than 512,500 units of affordable and supportive housing and invested more than $2.2 billion in communities. Our workforce is central to accomplishing this work. We employ approximately 170 people across 30 states and U.S. Territories. As an intermediary, we do not directly develop or operate housing but center our approach on collaboration with a wide range of people, partners, and sectors. For more information, visit www.csh.org.

Introduction

The Low-Income Housing Tax Credit (LIHTC) program is the nation's largest public source of financing for the development and preservation of affordable rental housing. Since its creation through the Tax Reform Act of 1986, LIHTC has supported the development of millions of affordable homes across the United States.

While LIHTC is a federal program, state housing finance agencies play a critical role in determining how tax credits are distributed. Each state develops a Qualified Allocation Plan (QAP), which establishes priorities, eligibility requirements, and scoring criteria used to award tax credits. Through their QAPs, states can encourage housing developments that address specific local needs, including supportive housing for people experiencing homelessness, people with disabilities, and other vulnerable populations.

What are Low-Income Housing Tax Credits?

LIHTC is a federal incentive that encourages private investment in affordable rental housing. The Internal Revenue Service allocates tax credits to states based on population, and state housing finance agencies distribute those credits to developers through a competitive application process.

Developers typically sell tax credits to investors, generating equity that reduces the debt needed to finance a project and allows rents to remain affordable.

There are two primary LIHTC programs:

- **9% LIHTC**, which provides a larger subsidy and is generally awarded competitively.
- **4% LIHTC**, which is typically paired with tax-exempt bonds and provides a smaller subsidy.

Most supportive housing developments seeking competitive tax credits apply through the 9% LIHTC program, although 4% credits may also be used in certain financing structures.

Because demand for credits often exceeds available resources, states use their Qualified Allocation Plans to establish selection criteria and funding priorities.

What is a Qualified Allocation Plan?

A Qualified Allocation Plan (QAP) is the document each state housing finance agency uses to determine how LIHTC resources will be awarded.

Federal law requires every state to develop a QAP that includes selection criteria and preferences for affordable housing developments. However, states have significant flexibility in determining how projects compete for credits.

Through the QAP, states can:

- Encourage development in specific geographic areas.
- Promote housing for populations with complex needs.
- Incentivize deeper affordability levels.
- Advance supportive housing development through unit requirements, incentives, and dedicated set-asides.

As a result, QAPs are among the most important policy tools available to state leaders seeking to align affordable housing investments with broader goals to generate more affordable housing especially for people experiencing homelessness.

Why Supportive Housing Matters

For more than 5 years, supportive housing has helped hundreds of thousands of people leave homelessness and make progress toward stability, health, and wellness. Supportive housing - safe, stable, affordable housing with integrated services - is a proven method for increasing housing stability and has been shown to create cost offsets through decreased utilization of emergency services, jails, and public systems and institutions.

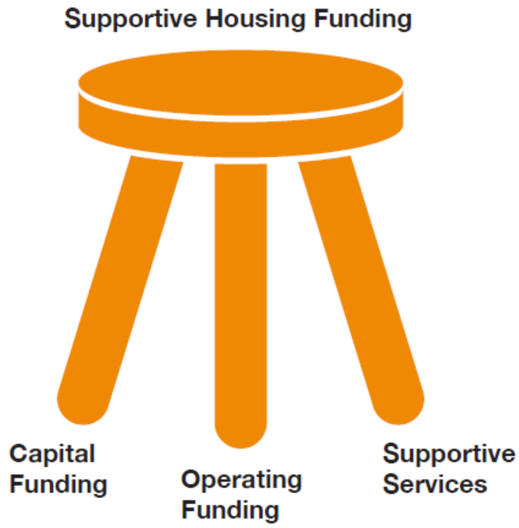
Supportive housing **pairs affordable housing with support services** that help people get housed and stay housed. It is an **evidence-based intervention for people with complex needs** experiencing or at risk of homelessness and people living in institutional settings who could otherwise live successfully in their communities.

Despite significant progress, an estimated 1.1 million households nationwide still need supportive housing. This includes individuals and families experiencing homelessness, as well as people who remain unnecessarily institutionalized because affordable housing with services are not available in their communities. Closing this gap requires both sufficient housing resources and policies that facilitate the development of high-quality supportive housing.

While supportive housing is an evidence-based solution, when it is implemented without sufficient funding or in ways that are inconsistent with studied models, outcomes decline. Although LIHTC is a central resource for supportive housing development, additional resources are needed to support operating costs and services and to ensure the long-term success of supportive housing communities.

Supportive Housing Financing

Understanding supportive housing financing is critical because supportive housing depends on multiple funding sources working together to support housing, operations, and services. While LIHTC is often the foundation of the capital stack and a primary source of development financing, tax credits alone cannot fund all aspects of supportive housing. Successful supportive housing requires financing for capital, operations, and supportive services, which together support long-term affordability, housing stability, and positive outcomes for residents.



Gathering the financing for a supportive housing project can be thought of as a three-legged stool, with capital, operating, and supportive service funding each comprising a leg. Table 1 provides a breakdown of funding sources across all three areas.

Capital

Capital costs refer to all acquisition, construction, and rehabilitation expenses. While LIHTC is one of the primary federal resources for affordable and supportive development, additional federal and state funding is often paired with LIHTC to cover capital cost.

Operating

Operating refers to rental subsidy costs and expenses associated with operating and/or maintaining a housing development. In supportive housing, tenants pay no more than 30% of their income towards rents. Operating subsidies supplement the difference between the tenant's portion and a reasonable rent charged under market conditions. Federally or state funded vouchers issued through local Public Housing Authorities (PHAs) are often used to finance operating costs. In the absence of vouchers, other funding sources can be used to make a supportive housing project financially feasible.

TABLE 1: FUNDING SOURCES AND USES

Funding	Capital	Operating	Service
SAMSHA			X
Medicaid			X
Ryan White			X
LIHTC	X		Limited
HOME	X		
CoC	X	X	X
CDBG	X		X
HOPWA		X	X
Hospitals/Philanthropy	X	X	X
CDFI Loans	X		
National Housing Trust Fund	X	X	
Public Housing Authority	X	X	
Social Impact Bonds		X	X
Tax Reserves	X		X
Housing Bonds	X		X
State LIHTC	X		
Federal Vouchers		X	
State/Local Vouchers		X	
State Agency		X	X

Supportive Services

The services that are an important part of supportive housing programs work to address housing, health, and other tenant needs. In addition to financing heath care needs, [many states use Medicaid waivers or have adapted their state plan] to include financing for housing-related services such as assistance with finding an apartment, understanding leases, budgeting, relationship navigation with landlords, and short-term housing.

How Qualified Allocation Plans Influence Supportive Housing Development

Because LIHTC resources are limited and highly competitive, the design of a state's QAP can significantly influence whether supportive housing projects are developed.

> States can **use their QAPs to create incentives** or requirements that prioritize supportive housing. These policies can **increase access to affordable homes** for people experiencing homelessness, people with disabilities, and others with high service needs.

To help stakeholders understand how states are using QAPs to promote supportive housing, CSH developed an interactive QAP dashboard that examines three primary approaches used by housing finance agencies:

- **Threshold Requirements:** Mandatory criteria that projects must meet to be eligible for funding.
- **Set-Asides:** Portions of LIHTC allocations reserved for developments serving specific populations or priorities.
- **Scoring Incentives:** Additional points awarded to projects proposing specific supportive housing features.

Together, these approaches demonstrate how states can leverage QAPs to strengthen supportive housing pipelines and increase housing opportunities for people with the greatest needs.

Conclusion

LIHTC is the primary federal resource for developing affordable housing, and QAPs are among the most powerful tools states have to shape how those resources are used. While LIHTC provides critical capital financing, supportive housing requires a broader financing strategy that includes operating subsidies and funding for supportive services.

Because **states have significant flexibility in designing their QAPs**, they can use these plans to promote supportive housing opportunities for people with complex needs who are experiencing homelessness, at risk of homelessness, or unnecessarily institutionalized.

Through **threshold requirements, set-asides, and scoring incentives,** state housing finance agencies can create stronger **pathways for supportive housing development.**

Understanding the fundamentals of LIHTC and QAPs is an important first step for supportive housing stakeholders seeking to expand housing opportunities in their communities. Readers interested in exploring how states currently incorporate supportive housing priorities into their QAPs can access CSH's interactive QAP dashboard. A companion brief, ***Promoting Supportive Housing Development Through Qualified Action Plans***, builds on this introduction by examining strategies states can use to strengthen QAP policies, align housing, services, and healthcare systems, and coordinate funding resources to support a more robust supportive housing pipeline.