

A Cost-Effective Strategy for Significantly Reducing the Number of Persons in Poverty Through the Development of a Federal Poverty Reduction Tax Credit Program

By: Kenyon M. Craig / kcraig@lifevisions.org

Today there are over 41 million persons living within the United States with household incomes below the federal poverty threshold. (1) In addition to the enormous personal suffering, negative impact on productivity, increased crime and increased health care costs resulting from this huge number, there are the hundreds of billions of dollars spent directly on poverty programs by the federal, state and local governments.

I believe that, although there are notable exceptions, most of the persons living in poverty would gladly exert the energy to rise out of their circumstances if they knew how to accomplish this and had the support to help them do so.

Throughout this paper I will focus on the City of Syracuse since I have the most knowledge and experience in this area. However, the situation in Syracuse can easily be extrapolated to cities throughout the United States. And we should not forget the people experiencing poverty in the rural areas as well. It is simply less noticeable without the concentration of poverty seen within the urban areas of our country.

Although there is occasionally short-term improvement in these numbers, the extent of poverty in Syracuse and nationwide is far too much. Furthermore, the long-term numbers are not changing significantly over time. (2)

This is despite huge amounts of federal, state and local resources expended each year (3). These resource expenditures are all well intentioned and should continue. However, unfortunately much of the funding is going to programs that serve to support persons in their current situation rather than serving to assist those persons to rise out of their situation and become self-sufficient tax paying citizens. Some people (especially those in generational poverty) have overwhelming problems that often cannot be solved with short-term solutions. And each person is unique and needs to be treated accordingly.

Effectively assisting individuals who have lived in long-term poverty requires a program that consists of both upfront training and long-term mentoring and support. This requires local organizations that develop long-term supportive relationships with their clients, and have the long-term funding that enables them to do this. However, it also requires a structure of accountability so that the long-term relationships are not misused. Unfortunately, current systems of funding both lack long-term funding commitments and also lack true accountability for long-term results.

The solution to this dilemma that I am proposing is the development and implementation of a federal poverty reduction tax credit program analogous to the federal Low Income Housing Tax Credit program (LIHTC) passed by the United States Congress in 1986.

The LIHTC program was intended as a means of encouraging the construction of high-quality housing that would be affordable to low-income households. It has been highly successful and has high bipartisan support. According to a July 2018 research report by the Urban Institute: *“Between 1987 and 2015, LIHTC has placed in service 45,905 properties and 2.97 million housing units (HUD 2017). It is the longest running (and currently, the only) national program to consistently produce affordable rental housing units.”*

This LIHTC program functions as follows:

Each year a pre-set quantity of federal tax credits are allocated to each state based upon the population of that state. Each state then selects the projects within the state which will receive the credits. This selection is in accordance with that state’s pre-published “Qualified Allocation Plan” that sets forth the selection criteria. This is a very competitive process since there are generally significantly more applications for credits than each state has available, due to the success of the program.

The amount of tax credits for which a given project can qualify is predetermined by a very specific formula related to the eligible costs of a particular project. The formula and the definition of eligible costs were specified in the federal legislation that authorized this program in 1986. Once a project is assigned the awarded credits, they are allocated to the project over ten years in return for the completion of the project's agreed upon building construction and the compliance by the project with the predefined low income housing restrictions over a pre-set number of years. Failure of the project to satisfactorily complete the construction or fully satisfy the long-term housing restrictions would result in loss of all or a portion of the awarded credits.

A given project is typically controlled by either a for-profit or a nonprofit private entity. This controlling entity sets up a limited liability company (LLC) that designs the project, purchases the necessary land, hires the personnel and supporting agencies, applies for the credits and manages the project throughout the multiple year compliance period. In return for the expected credits, a private investor (often a bank or insurance company) puts cash into the project.

The Urban Institute in its July 2018 Research Report had this to say about the program:

“LIHTC’s longevity stems from bipartisan support, homebuilding industry support, and a history of strong program performance, all of which have been difficult to achieve for other federal housing programs. LIHTC appeals to a more progressive agenda of increasing the supply of affordable rental housing, but it also supports the more fiscally conservative goal of minimizing the cost to government while leveraging private investment. It also allows for a strong role for state governments in setting priorities and administering the program while requiring minimal HUD involvement. LIHTC functions smoothly from a federal perspective and has placed in service roughly 110,000 units a year, serving low-income households with little federal intervention.”

I am proposing that this same approach be applied to assisting low-income households in their effort to rise out of poverty. Just as in the case of LIHTC, under this proposed Poverty Reduction Tax Credit (PRTC) program a local organization would apply for a specific amount of tax credit to fund a specific program within their locality over a predefined period of time. Also as in the case of LIHTC, this PRTC program would need to be passed by Congress as an amendment to the Internal Revenue Code. This amendment would specify the amount of federal tax credits that would be allocated to each state based upon the population of each state. The federal legislation would require each state to prepare and publish a Qualified Allocation Plan that would define the criteria that a state would employ in selecting projects within the state to receive a share of these federal credits. All of this process would be defined in the federal law, much of which could closely follow the LIHTC legislation.

Just as in the LIHTC program, the formula by which a given project can calculate the amount of possible tax credit that this specific project could earn would be defined in the federal legislation. Only the formula itself for PRTC would be different from that for LIHTC. As in LIHTC, the unique PRTC formula would be designed so as to require ongoing satisfaction of the requirements of PRTC in order to earn the credits for which the project has applied. There are other similarities to LIHTC including the clear definition of eligibility for households and the requirement for outside independent monitoring of project compliance.

Also, as in LIHTC, each local project could be controlled by either a for-profit or a nonprofit entity. This local controlling entity would establish a limited liability company (LLC) that designs the project, hires the necessary personnel and supporting agencies, applies for the credits and manages the project throughout the multiple year compliance period. Just as with LIHTC, this local LLC would make the awarded Poverty Reduction Tax Credits available to an investor in return for the investor providing cash into the project. This cash, in turn, would pay the LLC for the costs of providing the upfront training and ongoing support for the LLC’s clients as they work their way out of poverty.

I have some background that leads me to suggesting this approach. First of all, I was a co-founder and long-term president and CEO of Housing Visions, a nonprofit developer, builder, and property manager of low income, high quality, affordable housing. This organization has used the LIHTC program as a core element in obtaining over \$618 million of capital funding for the construction of over 2,000 units of low income housing, as well as market rate housing and commercial space, in 19 cities and towns in New York State and Pennsylvania. Although I retired from day-to-day operations in 2018, I remain an active member of its board of directors today. (4)

Secondly, during my time at Housing Visions I also founded and served as the president and CEO of a nonprofit affiliate of Housing Visions named Visions For Change (VFC). This organization was formed to help persons work their way out of poverty. It was formed in 2010, spent several years developing an effective curriculum and methodology named “Choosing to Thrive” and then applied this to the initial training of 319 clients. Results are summarized in the enclosed “Visions For Change Results”. (5) Unfortunately, the work was discontinued in 2017 due to the lack of independent funding.

In building high quality housing that is affordable for low-income families, it is desirable both to construct the housing and to obtain a long-term commitment that the housing will remain affordable for the low-income households. The LIHTC program accomplishes this. Adequate funding for a poverty reduction program has a similar need. In view of the many and varied obstacles faced by persons in poverty, it is necessary to fund efforts to both provide upfront training and provide long-term mentoring and problem-solving support to each of the clients that one is assisting in rising out of poverty. The existing sources of funding do not accomplish this.

The Poverty Reduction Tax Credit approach that I am suggesting would overcome this problem by providing tax credits over time to each awarded project with receipt of these credits dependent upon the continued proven success of the project. This is similar to the way that the LIHTC program requires long term compliance by a project in order to retain the earned credits for its investor.

I believe that the passing by the US Congress of legislation authorizing the Poverty Reduction Tax Credit program suggested here would be a major step in significantly reducing the number of persons living in poverty in this country. Furthermore, existing data from the earlier mentioned VFC program demonstrate that the resultant savings in federal SNAP and TANF funding, as well as the increased client income tax payments, would more than offset any reduction in tax revenue resulting from the proposed Poverty Reduction Tax Credits.

Notes:

1. As of 12/20/2023, the “advanced search” in data.census.gov reported 41,928,624 persons “below poverty level” in the United States from the table titled “poverty status in the past 12 months” for the most recent year for which poverty statistics were reported, the year 2022. [VIEW DATA TABLE](#)
2. Census Bureau poverty data for Syracuse, Onondaga County and US. [VIEW DATA TABLE](#)
3. In just Onondaga County alone a partial list of 71 county, city and nonprofit organizations that are providing services in one form or another to persons in poverty total their annual expenditures at over \$1.4 billion.
4. Additional information regarding this organization can be found at <https://www.housingvisions.org/>.
5. See [Visions For Change results](#)