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Options for Addressing Rent Burdens Through the Tax Code:

Considerations for Designing a Renter's Tax Credit

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Executive Summary

The deepening of the nation's housing affordability crisis in recent years has led local, state, and federal policymakers to pursue a range of solutions to improve housing affordability and stability. One strategy increasingly under consideration is the potential to use the tax code to deliver subsidies directly to tenants. A renter's tax credit could provide assistance by reducing a tenant's income tax liability and/or delivering a subsidy in the form of an income tax refund. Using the tax code to provide benefits to filers is not without precedent, but how a renter's credit is designed has implications for the number of renters reached and level of relief delivered. This analysis lays out a number of design and implementation questions for policymakers to consider when exploring the potential for a renter's tax credit to help advance local, state, or federal policy efforts to address their constituents' rental affordability challenges.

Design Considerations

Where possible, we use the income tax simulation model developed for the California Poverty Measure, based on American Community Survey public-use microdata to illustrate the effects of different design decisions. Here are the questions we examine and how they can matter for designing a tax credit:

Is the tax credit provided per household or per tax unit? Housing subsidies usually operate at the household level—which is also the level at which rents are typically set—but households can contain more than one person or family eligible to file taxes, and tax credits usually operate at the tax-unit level. In California, there are 5.8 million renter households but 8.3 million tax units within those households.

Is the credit tied to income, amount of rent paid, or a combination of the two? A renter's tax credit could be designed to provide a benefit to all renter households. However, if the goal is to target a subsidy to a particular subset of renters (e.g., those with lower incomes and/or with high housing costs compared to incomes), policymakers will need to determine how to measure incomes and/or rent.

How is income counted if used in determining credit eligibility? Given the substantial income-related information collected and reported on tax forms, policymakers have multiple options for how income might be determined for a renter's tax credit, including whether to account for taxes paid (which reduce income available to pay rent) and other tax benefits and nontaxable income received (which could help renters pay their rent).

Does credit eligibility take into account actual rent paid or a rent standard such as Fair Market Rent? For a credit based on rent amounts, asking filers to report actual rent paid could allow for more precision in calculating eligibility. Or eligibility could be based on local rent standards—such as the FMRs used in many US Department of Housing and Urban Development (HUD) programs—which could simplify implementation and ease oversight. Another option could be to combine the two—asking for rent paid but capping eligibility at FMR—which could allow for calibrating based on actual rents while also putting an upper bound on eligibility based on local rental market costs.

Is the goal to reach all renters or to target particular populations? Providing a (likely shallow) subsidy to all renters would involve different cost and implementation implications than targeting the credit (and potentially

providing a deeper subsidy) to particular kinds of tax filers, such as those with low incomes, those with the most severe housing cost challenges, senior households, and/or renters with children.

Is the credit amount flat or variable? Flat credits can be easier to calculate and administer and may be more appropriate for shallower subsidies. If the goal is to provide deeper subsidies for particular subsets of renters, policymakers have a range of options for how to tailor the credit, including a sliding scale of benefits based on tax filer characteristics.

Is the credit refundable? Nonrefundable tax credits allow filers to reduce their tax liability but are not available to those without a liability, which means they are generally only effective at reaching middle- and higher-income filers. Refundable tax credits allow filers with little or no tax liability to claim the credit in the form of a refund, making them more effective at reaching a range of filers, including those with low- and moderate-incomes.

Other Implementation Considerations

In addition to determining the size of the credit and type of filers who will benefit, policymakers also have a range of choices that can have implications for uptake, administration, and oversight. Here are the additional implementation questions we cover and why they matter:

Is the renter's tax credit local, state, or federal? Given the large scale of the federal budget, federal policymakers have the most potential flexibility in designing a renter's credit with respect to the total cost of the policy. Not all states—and only certain localities—administer income taxes. For those that do, state budget constraints often mean that state-level tax credits are more modest and/or narrowly targeted than what might be feasible at the federal level, and this is even more the case for local governments. While a federal credit has the potential to be broader and more robust than state or local versions, state and local credits can target limited resources to achieve particular policy goals (including providing robust support to targeted groups of renters) or to be complementary to any federal efforts.

How complex is the credit design? Tax credits can be tailored to reach specific policy goals and populations and to diminish the chance of erroneous or fraudulent payments. However, complexity can have implications for accessibility and uptake and for the resources required for implementation, compliance, and oversight.

What documentation is required from filers (or their landlords)? Requiring renters to document a valid lease, have their landlord verify rent paid, or offer other forms of verification of their renter status and/or rent paid establishes external forms of validation. But these can also make it more difficult for eligible filers to claim the credit and can increase the administration cost and complexity. Self-attestation can remove barriers to claiming the credit and reduce administrative costs but eliminates external validation.

Can filers use all types of taxpayer identification numbers to file for the credit? Most filers use a Social Security Number when they file taxes but some (typically immigrants who have not been issued a Social Security Number) use an IRS-issued Taxpayer Identification Number. Determining which taxpayer numbers are allowable will have implications for which filers are included in or excluded from receiving the credit.

Can filers receiving other types of housing subsidies claim the credit? A renter's tax credit could be designed to exclude those who already receive subsidies, or it could complement existing subsidies in cases where renters still struggle with affordability (e.g., residents in deed-restricted affordable housing units who may still be cost-burdened).

Are credit payments disbursed monthly, annually, or on another schedule? Disbursing a portion of the credit monthly (or quarterly) could help align the benefit with the rent payment schedule. Lump-sum payments (e.g., at tax time) could allow for paying larger renter expenses, such as rent arrears, security deposits, and/or moving costs.

Are credit payments disbursed after the tax year ends or in advance? The tax system is retrospective by design, meaning that tax liability, eligibility for tax benefits, and any refunds are typically determined after the tax year has ended and a complete assessment of filer circumstances can be made. Precedent for offering advance payment—before the end of the tax year based on likely eligibility—exists and could allow struggling renters to access resources sooner. However, an advance payment design would need to balance offering more timely assistance with minimizing the risk of overpayment.

Who risks missing out on filing to receive the credit? An advantage of using a tax credit as a policy vehicle is the opportunity to piggyback on the tax returns that most people are already filing for other reasons. However, some eligible filers may not have other reasons to file tax returns, if they have taxable incomes below the filing threshold and are not eligible for other refundable tax credits. Special outreach efforts could be needed to ensure these individuals file tax returns to claim a renter's tax credit. Alternatively, other subsidy vehicles besides renter's tax credits may be more appropriate to support those renters.

Are potential effects on landlord behavior or rental markets significant enough to require consideration? Possible effects on landlords or market rents would depend strongly on the specific design and implementation of a renter's tax credit. More modest credit amounts, or credits targeted to specific populations, would be less likely to cause market distortions—and over the long-term, an ongoing renter's tax credit implemented at a large scale could stimulate development of more rental housing. Pairing a renter's tax credit with other policies—including supply-side housing policies—could also be a strategy to limit unintended market effects and potentially spur new housing construction.

The housing crisis renters face is layered and multifaceted, and no single policy—including a renter's tax credit—can be a cure-all solution to closing the affordability gap. However, given that the tax code can help policymakers target assistance to renters at a range of income levels and/or other qualifying characteristics as needed, it could be a potentially effective complement to existing housing assistance policies at the local, state, and federal levels.

Introduction

Stable, affordable housing—or the lack of it—shapes a host of outcomes over the course of an individual's life, from school performance to mental health to the ability to participate in the economy and the potential for upward mobility.[1] Yet the deepening of the nation's housing affordability crisis in recent years means stable, affordable housing has become harder to access for households across the country. The increasing strain is particularly apparent for renters: the latest American Community Survey data show that half of the nation's renter households (22.4 million households) are cost-burdened, meaning they pay at least 30 percent of their income on housing costs. And 12.1 million households spend more than 50 percent—the highest number on record for severely rent-burdened households.[2] Moreover, cost burdens are most prevalent and severe for renters with low incomes, and are disproportionately borne by those who are Black and Latine.[3]

Given the scale and complexity of the affordability crisis, policymakers at the federal, state, and local levels have increasingly been pursuing a range of strategies to improve affordability and relieve the price pressures that have seen evictions and homelessness climb.[4] The tax code is one potential policy tool that has garnered growing attention. Several proposals—at both the state and national levels—have been put forward in recent years to deliver support to tenants through a renter's tax credit.[5] A renter's tax credit could provide assistance by reducing a tenant's income tax liability and/or delivering a subsidy in the form of an income tax refund. Using the tax code for housing subsidies is not without precedent. It already delivers supply-side subsidies that help build and rehabilitate affordable housing—through federal and state versions of the Low Income Housing Tax Credit (LIHTC) and through property tax incentives. The tax code also already delivers subsidies directly to homeowners. However, the federal tax code currently does not have any provisions targeted specifically to renters, and, while some states use the tax system to provide benefits to renters (albeit typically modest and often narrowly targeted), most do not.[6]

The tax code can be a flexible tool to deliver support to households, but adapting it to provide rental assistance raises important questions about how such a policy could be designed and implemented. Given the rising interest in this kind of tool, our analysis articulates several important design elements for policymakers to consider if seeking to implement a tax credit that delivers subsidies directly to tenants. We provide estimates of how different design decisions might shape the relative cost of a renter's tax credit—and the relative number and type of tax filers that might benefit from such a policy—using data from the American Community Survey with the income tax simulation model developed for the California Poverty Measure.[7]

The goal of this paper is to help illustrate key design dimensions and the tradeoffs between different approaches: it does not endorse any particular credit approach or design decision. Rather, the analysis provides evidence and insights that can help shape policy conversations happening in a range of different policy contexts (federal, state, and local) that may have different goals or constraints in considering a tax credit to help address rental affordability challenges.

Why Consider a Renter's Tax Credit?

Nationally, there were 44.3 million renter households as of the third quarter of 2023.[8] Within California, as of 2022 there were 16.4 million individuals living in rental housing, representing 40 percent of all Californians.[9]

Existing housing subsidies for renters provide vital support to help families and individuals address affordability challenges and meet their housing needs. For example, nationally more than 2 million households currently benefit from federal Housing Choice Vouchers,[10] and more than 3.6 million housing units have been created through the federal LIHTC program over the past 30 years.[11] Nevertheless, these and other existing housing subsidies meet the needs of only a fraction of renters struggling with housing affordability: only one in four households eligible for federal rental assistance receive any kind of support.[12] Long waitlists and program implementation challenges are also barriers that prevent existing programs from fully meeting renters' needs.[13]

Increased funding and targeted reforms could expand the reach and improve the functioning of existing housing subsidies. At the same time, the large scale of unmet renter needs has led policymakers, researchers, and practitioners across the country to explore additional approaches to help renters, including policies that could complement existing supports.

Benefits delivered via the personal income tax system offer one such potential policy vehicle. A potential appeal of using the tax code is the ability to leverage a well-established system with broad reach (most US residents have filed or will file a tax return at some point) and relatively low overhead to administer benefits. Income tax credits at both the federal and state levels have well-established policy track records, including Earned Income Tax Credits (EITCs) and Child Tax Credits—two programs designed primarily to supplement the earnings of low- and moderate-income working families.[14] Taken together, these refundable tax credits have been shown to reduce poverty and improve a range of outcomes, particularly for children.[15]

As previously mentioned, both the federal and state income tax systems already provide substantial tax benefits for homeowners, particularly through mortgage interest and real property tax deductions. Federal expenditures for these two deductions totaled nearly $40 billion in fiscal year 2022,[16] and many states offer parallel deductions. These existing housing-related income tax benefits flow primarily to higher-income tax filers: those with incomes of $100,000 or more received over 95 percent of the benefits from the federal mortgage interest deduction in 2022.[17] Moreover, Black and Latine families benefit substantially less from the mortgage interest deduction than white and other race/ethnicity families.[18] Meanwhile, there are currently no specific federal income tax benefits for renters. While a number of states offer tax credits or deductions for renters, they tend to be small and/or narrowly targeted.[19] For example, California's current renter's tax credit is just $60 for single filers and $120 for married, although there have been multiple proposals to expand it.[20]

Recent innovations in using the tax code to deliver subsidies also demonstrate the ability of tax systems to deliver timely assistance on a broad scale. During the early pandemic, individual tax credits were expanded and deployed in new ways to help households meet urgent needs.

This included a major expansion and new monthly disbursement of the federal Child Tax Credit. While temporary, it represented a significant innovation in credit payments that helped better match the timing of disbursement with the timing of need. Subsequent evaluations found that most recipients reported using the monthly disbursements to pay for housing, utilities, and food.[21] Economic stimulus payments were also distributed in the form of refundable tax credits early in the pandemic through federal and state tax agencies, demonstrating the capacity of both to be deployed in new ways to provide support to a broad population.

In addition, while many existing rental subsidies are rationed through waitlists or support specific housing units in limited geographic locations, tax credits are typically available to all eligible filers who file their taxes. This suggests that credits could potentially be designed as a complementary or supplementary policy tool to reach renters who do not benefit from existing subsidies. They can also be tailored to reach particular populations or stay within certain budget parameters. Broadly speaking, renter's tax credits have considerable flexibility in potential design to meet a variety of policy goals. Of course, some renters' needs may be better met through other types of policies instead of or in addition to a renter's credit (see Box 1).

That said, tax credit design matters in determining how many renters and what kind of households the policy reaches and the amount of relief they receive. After a brief summary of the methods used in this analysis, we present a series of design and implementation questions for policymakers to consider that have implications for how to best align the structure and design of a tax credit with policy goals and budget considerations.

Summary of Methods

To analyze the characteristics of cost-burdened renters and potential implications of renter's tax credit design choices, we use US Census Bureau American Community Survey public-use microdata downloaded from IPUMS-USA (University of Minnesota, www.ipums.org). Specifically, we use the ACS-based income tax simulation model developed for the California Poverty Measure—a joint project of Stanford Center on Poverty and Inequality and Public Policy Institute of California. It enables us to construct tax-filing units (which are not always synonymous with households), estimate after-tax income (including income and payroll taxes paid and eligibility for refundable tax credits), and model implications of different tax credit design decisions.[22] The estimates are specific to California. However, given that California is home to nearly one in eight US renter households and includes regions with diverse rental housing markets and costs, the directional findings of this analysis are both useful as a single-state example and have broader national relevance.

For rent paid, we use gross rents reported in the ACS at the household level. For tax-unit-level analyses involving rent paid, we distribute rent among multiple tax units within a single household based on each tax unit's relative share of the total household after-tax income.

We use data from 2022 (n=391,171)—the most recent year of microdata available at the time of publication—and we model refundable tax credit policies in place for tax year 2022. The 2022 data reflects the economic and policy context after the COVID pandemic's peak. The labor and rental markets had emerged from the height of pandemic-era disruptions and

most temporary pandemic-response policies had largely expired or been exhausted. (For more detail on our data and methods, see the Technical Appendix.) While the 2022 estimates illustrate specific design decision impacts—e.g., how would the number or type of filers eligible for a renter's credit shift based on a particular design choice?—these estimates are subject to change based on any subsequent shifts in regional economic and housing market conditions.

Box 1: Would simply expanding existing tax credits be an effective strategy to help struggling renters?

A potential alternative to creating a renter's tax credit might be to simply expand existing tax credits, such as the fully refundable federal EITC or partially refundable federal Child Tax Credit. Taken together, existing credits do help families and individuals facing housing affordability challenges in California. We estimate that 46 percent of California tax filers with a rent burden before accounting for taxes and 53 percent with severe rent burden are eligible for existing federal and state refundable credits that can provide increased resources to help cover housing costs.[23] So could renters' affordability challenges be addressed effectively simply by increasing the size of such existing refundable tax credits?

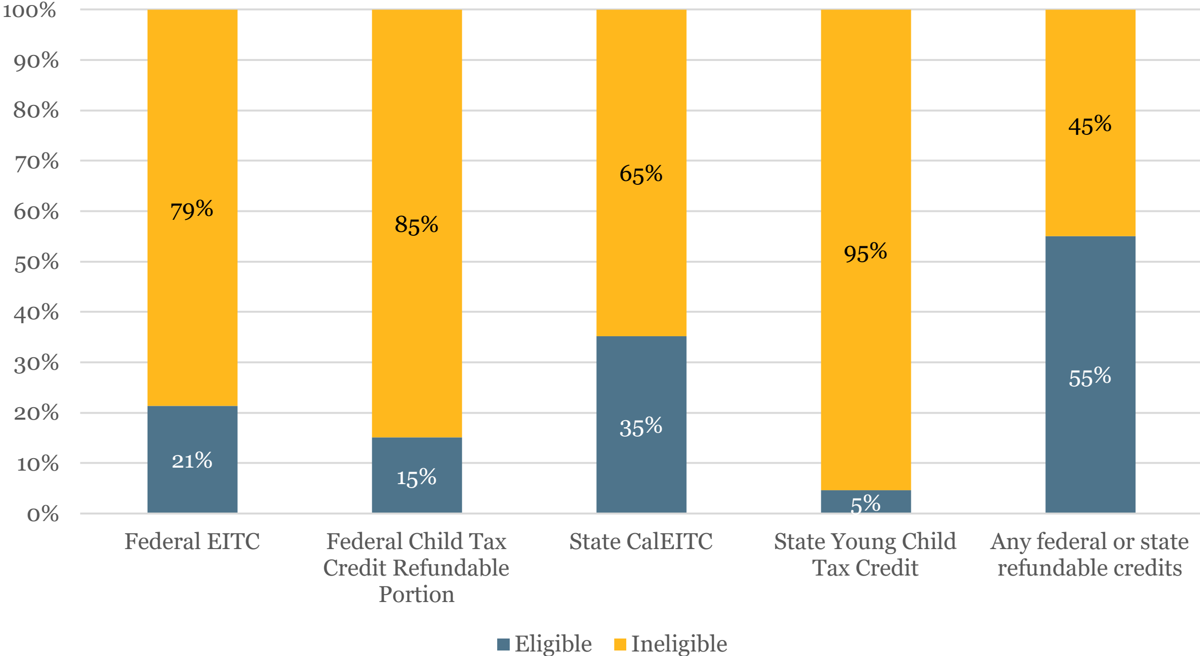
Analysis of eligibility for existing credits among rent-burdened tax filers shows that this strategy would have significant limitations. Our estimates find that among California tax filers who still face rent burdens after accounting for tax liabilities and credits, an estimated 55 percent are not eligible for any type of federal or state refundable tax credit (Figure 1). Only about one-fifth are eligible for the federal EITC (21%) and even fewer qualify for the refundable portion of the federal Child Tax Credit (15%) or the state Young Child Tax Credit (5%). A larger share—though still less than half (35%)—are eligible for the state CalEITC.

What explains this limited eligibility for existing credits? We find that a significant share of rent-burdened filers in California do not have dependents (an estimated 70%), and these filers are ineligible for existing Child Tax Credits available only to those with dependents (the federal ACTC, state YCTC). For filers without dependents, federal EITC eligibility is limited to those with the very lowest incomes—less than about $17,000 per year for single filers. The state CalEITC for filers without dependents is available up to a somewhat higher income threshold (about $30,000), but is still effectively limited to those working less than full time or less than year round. Even among filers with dependents, eligibility for the federal EITC is generally limited to those with incomes below

about $60,000—and for the refundable portion of the federal Child Tax Credit and state credits, to those with even lower incomes. The federal EITC, federal Child Tax Credit, and CalEITC are also restricted to filers with earnings from employment—they exclude those with only retirement or disability income. These results imply that an expansion of existing refundable credits would miss many renters who face affordability challenges.

Moreover, we estimate that 57 percent of filers eligible for federal refundable credits and 54 percent eligible for California's state refundable credits live in ownership—not rental—housing. This implies that simply expanding existing credits would direct substantial resources not just to renters, but also to homeowners and their co-resident family members, reducing efficiency in specifically addressing rent burden.

Figure 1. Estimated Share of Rent-Burdened Tax Filers in California Eligible for Existing Refundable Tax Credits, 2022



Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Notes: Rent-burdened calculated based on tax unit rent paid, capped at Fair Market Rent, compared to tax unit total income net of income and payroll taxes. See Appendix for methodology details.

Design Considerations for a Renter's Tax Credit

A tax credit for renters could be designed in many different ways depending on local, state, or federal policy goals and budget capacity or constraints. Whether policymakers want to provide a broad but shallow benefit to all renters or focus on specific populations (e.g., very low-income filers, veterans, seniors, families with children), they will need to make decisions on a range of dimensions. These include whether to base the credit on factors such as income and rent paid (and, if so, how to define those factors), how deep a subsidy to provide and whether it should be narrowly or broadly targeted, and whether the credit will be refundable or not.

The following questions have multiple possible answers and can be adapted to fit particular policy contexts. But each has implications for the cost of a renter's tax credit and for the number and type of tax filers that might benefit from such a policy. Where possible, we model the impact of design decisions to illustrate the inherent tradeoffs. While the data are specific to California, the scenarios and comparisons illustrate the directional differences in size and scope that might result from each design choice. These can be instructive to local, state, and federal policymakers across the country.

Is the tax credit provided per household or per tax unit?

A first-order consideration when designing a renter's tax credit is whether to target the benefit to the household or tax-unit level. Households and tax units are not always the same thing. Tax units represent individuals or married couples filing their taxes jointly, along with any dependents they support financially. It is not uncommon for a household to include more than one tax unit: California is home to 5.8 million renter households, but we estimate that those households hold 8.3 million potential tax units.[24] Single adults sharing an apartment, unmarried couples living together, a recent college graduate moving back into their parents' house, young families sharing housing costs, a multigenerational household caring for elderly family members—each could contain multiple tax filers.

Targeting the household would be consistent with the way many existing housing subsidies (e.g., the Housing Choice Voucher program) typically work. It also aligns with how rents are set. However, if policymakers choose to focus on the household level, tax filers and oversight agencies would need clear guidance regarding which tax unit in a multi-tax unit household would take precedence in claiming the credit. Ensuring that multiple tax filers in the same household do not simultaneously claim the credit would likely have implications for compliance and oversight considerations.[25]

Alternatively, the credit could be delivered at the tax-unit level, which would be consistent with the way existing tax credits—and the tax return form—are generally designed to function. This approach could potentially extend the benefit of a renter's tax credit to multiple recipients in multi-tax unit renter households experiencing cost burdens and/or overcrowding. (ACS data suggest that among California's 1.7 million renter households with multiple potential tax units, more than 1 in 4—26 percent—are overcrowded, meaning they live in homes with more than two people per bedroom.[26])

To model the effects of the different design considerations presented in subsequent sections, we use tax units as the primary universe to simplify the reporting of results.

Note that choosing to limit eligibility for the credit to one tax filer per household would affect the size of the estimates presented below, but the findings would be directionally similar.

Is the credit tied to income, amount of rent paid, or a combination of the two?

The simplest way to structure a renter's tax credit would be to make it available without consideration of actual (or estimated) rent paid. For instance, the state of California's current renter's tax credit is available to all renters below a specified income threshold regardless of rent paid.[27] To implement such a credit, the filer would simply need to indicate that they paid rent during the tax year (e.g., to be eligible for the California tax credit, tax filers have to stipulate that they have paid rent for at least half the year).

However, many proposals for renter's tax credits have specifically sought to benefit renters who face documented rent affordability challenges. Targeting these types of renters can entail conditioning eligibility on rent burdens, which requires measuring rent levels against income. To design a credit based on income (even if only for a simple eligibility threshold as in the California example), rent paid, and/or rent burden, policymakers must decide how to define income and how to determine rent costs for purposes of calculating credit eligibility.

How is income counted if used in determining credit eligibility?

Several options are feasible for calculating income if it is to be used in determining eligibility for a renter's tax credit. Each approach has implications for how many and what types of filers would be eligible.

Individual income tax forms already include two primary measures: Adjusted Gross Income (AGI) and taxable income. AGI represents a tax filer's total after excluding tax-exempt income and certain expenses (for example, Social Security Income). Taxable income is what remains after also subtracting the standard or itemized deductions (and qualified business income deduction if applicable) from AGI. Using AGI or taxable income to determine eligibility for a renter's credit requires no additional information from tax filers and no additional verification by tax agencies. However, it will tend to broaden renter's tax credit eligibility for filers with significant nontaxable income relative to those whose income comes only or primarily from taxable sources. For example, with income based on AGI, seniors whose income comes from nontaxable Social Security or other retirement benefits may be more likely to qualify for a renter's credit because their counted income will be lower, compared to families with the same total income but coming only from *taxable* sources like wages.

Alternatively, a more comprehensive income total could be used to determine a renter's credit eligibility. The rationale for doing so would be to more accurately reflect the total income potentially available to a tax filer to pay their rent, so that a renter's credit could be more closely targeted to those with inadequate income for rent. For example, a tax filer's nontaxable income could be added to their taxable income total. In fact, common nontaxable income sources—including nontaxable Social Security benefits and other retirement income and tax-exempt interest—are already reported on personal income tax forms, so including these sources in the calculation would add no burden to tax filers or tax agencies.[28]

An even more comprehensive income total could account for income *net of taxes*—i.e., subtracting income tax liabilities and adding income tax credits (including refundable credits like the EITC and Child Tax Credit), and subtracting payroll taxes. In effect, this would capture the actual amount of income a tax-filing unit has for rental costs and other expenses. Doing so would be feasible, since income tax liabilities and credits are calculated directly on income tax forms and payroll tax is reported on W2 information returns (while self-employment tax is reported on Schedule SE) and can be easily calculated based on earnings. Accounting for payroll taxes will tend to increase renter's credit eligibility for workers and their families, as it will reduce the total income counted for these tax filers. Accounting for existing refundable tax credits will tend to reduce renter's credit eligibility for families with children relative to tax filers without, because those with children receive the largest benefits from these existing credits.

To simplify reporting for the remainder of the analysis, rather than presenting multiple scenarios for defining incomes, we use the latter approach—accounting for income and payroll taxes paid as well as refundable tax credits and other cash benefits. However, the appendix includes tables showing how the number of eligible filers across scenarios differs under alternative income definitions.

Does credit eligibility take into account actual rent paid or a rent standard such as Fair Market Rent?

If the goal is to account for actual (or estimated) rent paid, once again policymakers have multiple design options that can influence both the number of eligible filers and the rent gap size. These design choices also impact the complexity of administering the credit.

One option would be to ask renters to report on their tax return the actual amount they spent on housing during the tax year (e.g., rent plus utilities). Policymakers would then need to determine if verification of rent paid would be required or if self-attestation would be sufficient—a decision that has implications for compliance and oversight.

A more administratively simple alternative would be to ask filers to identify if they were renters during the tax year, and then base determination of credit eligibility on a pre-defined payment standard such as the Fair Market Rent (FMR). The US Department of Housing and Urban Development (HUD) uses FMRs to determine payment standards for several of its programs. HUD sets them each year to generally reflect "estimates of the 40th percentile of gross rents for standard quality units" within a defined area.[29] FMRs are published for metropolitan areas and non-metropolitan counties and for ZIP codes—Small Area FMRs. Because FMRs are based on local market conditions, using them would also allow credit eligibility standards to reflect differences in local costs of living.

A third option would be to take a combined approach. Tax filers could report the rent they paid, but the amount eligible for credit determination could be capped based on a payment standard such as FMRs. This aligns the credit more closely to actual expenses, but puts an upper bound on eligibility, reducing the likelihood the credit would go to filers consuming more expensive housing.

To illustrate the potential impact these design decisions could have, consider how both the determination of cost burden and the size of the aggregate rent gap would shift under each approach (Table 1). Here we assign each tax unit an FMR based

Table 1. Number of Rent-Burdened Tax Filers and Size of Annual Rent Gaps Based on Different Definitions of Rent Paid, California, 2022

Definition of Rent Used to Calculate Rent Burden as Share of After-Tax Income	Share of Renter Tax Units with Cost Burden (Paying More than 30% of After-Tax Income Toward Rent)	Median Annual Rent Gap for Rent-Burdened Tax Units	Statewide Aggregate Rent Gap (millions)
Rent paid	57%	$6,000	$41,600
Tax unit FMR (regardless of rent paid)	78%	$11,500	$77,100
Rent paid (capped at tax unit FMR)	50%	$4,800	$27,100

Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Notes: Rent-burdened calculated based on tax unit rent paid, capped at Fair Market Rent, compared to tax unit total income net of income and payroll taxes. See Appendix for methodology details.

on location of residence and number of individuals in the tax unit.[30] In the first scenario—focusing on reported rent paid—more than half of renter tax units in California (57%) would qualify as spending 30 percent or more of their after-tax income on housing. The aggregate gap between affordable rent levels and actual rents paid would be $41.6 billion.

Basing the credit solely on a comparison of tax filer incomes to FMRs produces a much different picture. While the FMR-only approach offers administrative simplicity, it also produces a much larger pool of eligible filers and rent gaps. In the FMR scenario, more than 3 in 4 renter tax units in California (78%) would be considered cost-burdened, yielding a rent gap of $77.1 billion. The share of cost-burdened units and size of the rent gap increase so steeply compared to the first scenario because of the large number of tax units that actually pay less than FMR. About 2.3 million renter tax units (27% of all renter tax units) in California pay rents below FMR and do not qualify as rent-burdened based on rent paid, but do when their incomes are compared to the higher FMR standard.

While using this definition of rent burden expands the pool significantly, it could also help to target households that currently may not appear cost-burdened but are still struggling with housing security issues. Nearly 2 in 3 of these 2.3 million tax units (64%) have incomes of less than $50,000 a year. They are also largely filers without dependents (75%) and tend to be one-person tax units (69%). An estimated 33 percent live in overcrowded households compared to 19 percent overall. Using the FMR approach might help these tax units that have been "under-consuming" housing because of overcrowding (i.e., tax units that do not qualify as rent-burdened based on rent paid because they are lowering their housing costs by living in overcrowded conditions with others).

Combining the two approaches—using reported rent paid but capping the eligible amount at FMR (equivalent to taking the

lesser of rent paid or FMR)—brings the share of cost-burdened renter tax units to half (50%), with an aggregate rent gap of $27.1 billion. Capping eligible rent at FMR removes roughly 540,000 tax units from those categorized as rent-burdened (7% of all renter tax units). Among these, more than half (56%) include two or more individuals and 78 percent have annual incomes greater than $75,000. Some may be higher-income filers choosing to consume more expensive housing, while others may be moderate-income families with affordability challenges. These are tradeoffs for policymakers to consider if trying to balance public costs and target limited resources to more vulnerable households.

Box 2: Considering cost-of-living differences

Some proposals for a renter's tax credit have used Area Median Income (AMI) thresholds to account for regional differences in the cost of living and target the credit to lower-income households.[31] AMI is a common benchmark used in housing policy to identify extremely-low-income households (below 30% of AMI), very-low-income households (between 30% and 50%), and low-income households (between 50% and 80%) for various subsidy programs. However, because of the way AMI is calculated (based on household income not tax-unit), it does not easily translate to tax policy.

Yet there are alternative ways besides using AMIs to account for differences in cost of living and target renters with fewer resources. Linking credit eligibility to some measure of rent burden (rent as a percentage of income) implicitly accounts for differences in typical incomes and typical rents in different geographic areas but may also disproportionately include higher-income households for whom the cost burden isn't a problem. Incorporating FMRs into eligibility criteria is another way to build in consideration of cost-of-living differences: consider the wide range in FMRs in 2022 for a two-bedroom unit in San Francisco ($3,198) or Los Angeles ($2,044) Counties compared to rural Colusa ($944) or Trinity ($877) Counties. Alternatively, policymakers interested in accounting for cost-of-living differences might also designate higher-, moderate-, and/or lower-cost markets in the country, state, or region in question and tier credit amounts accordingly.

Is the goal to reach all renters or to target particular populations?

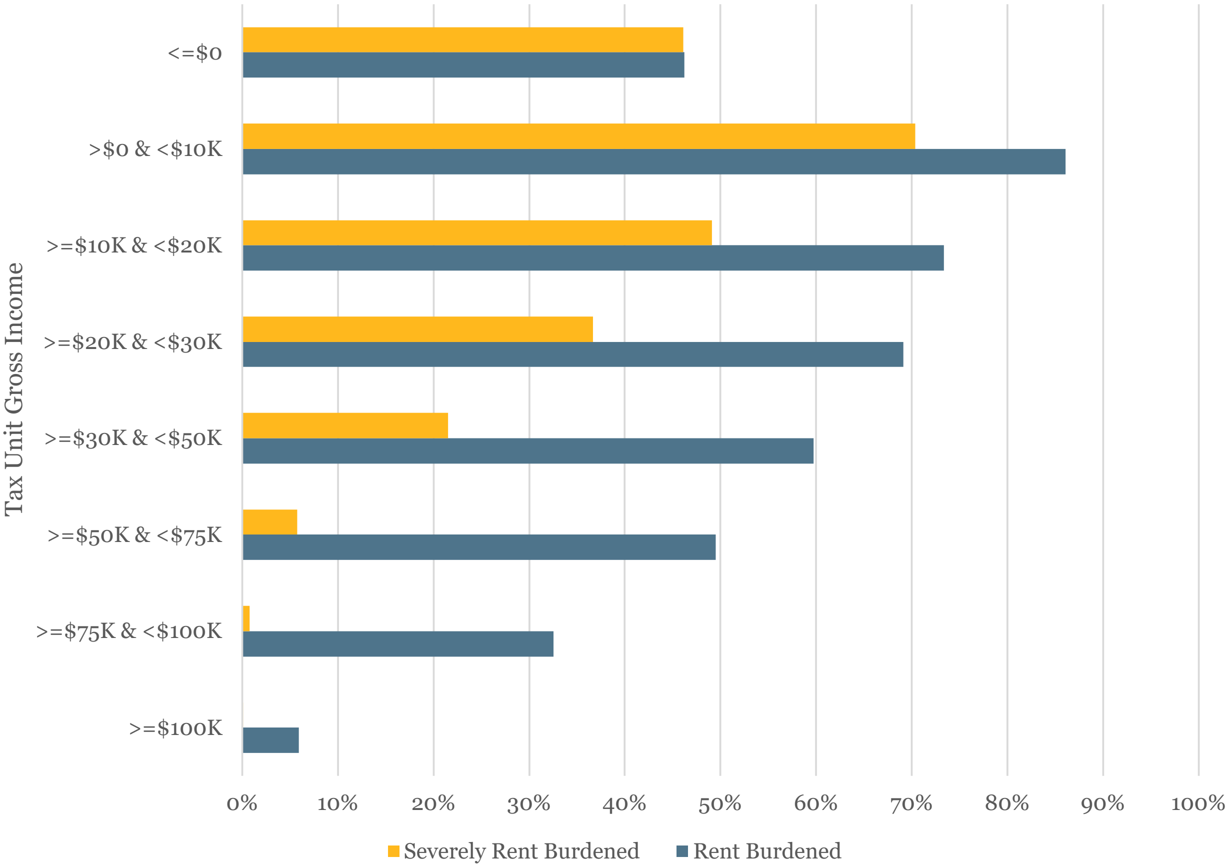
Decisions about the size of a renter's tax credit—and who gets it—depend on the policy goal. As the substantial size of the aggregate rent gaps presented in Table 1 suggest, it would take significant political will and funding commitments to fully close all rent gaps. It may also lead to perverse incentives to overconsume housing. However, renter's tax credits could be designed in myriad ways to provide support—and reduce rent burdens to varying degrees—either for all renters or particular populations.

At the broadest end of the spectrum, one goal might be to provide a shallow subsidy to all renters, regardless of rent paid or presence of rent burden. However, given the size of the renter population, even a modest credit would likely have a considerable price tag.

Targeting the credit to certain populations or renter characteristics could narrow the pool of potentially eligible filers and align with particular policy priorities. For instance, rather than providing a shallow subsidy to all renters, policymakers might choose to target resources based on income or to limit eligibility to filers with a rent burden (e.g., the 50% of California renter tax units with a typical annual rent gap of $4,800).

While rent burdens exist across the income spectrum, they are more prevalent and severe among households with lower incomes (Figure 2). Indeed, we estimate that about 98 percent of rent-burdened tax units in California have gross incomes of less than $100,000 (based on income net of income and payroll taxes compared to rent paid capped at FMR). Policymakers could choose to base eligibility on reported rent burdens or use income as a proxy. For instance, we estimate that about two-thirds of California tax units with incomes under $50,000 experience rent burdens, so one option might be to target a credit to tax units under that income threshold. Knowing the prevalence of rent burdens in a specific income range, policymakers could choose whether to determine credit amounts based on rent paid (or FMRs) or, for administrative simplicity, to issue a credit regardless of rent paid. Or the policy goal may be to explicitly target the most rent-burdened households with the fewest resources (Table 2). In that case, policymakers could choose to provide a deeper subsidy to severely cost-burdened tax units with incomes under $30,000, for example. The aggregate rent gap for those is less than half that of all rent-burdened tax units. Depending on budget capacity/constraints and policy priorities, it might be feasible to design a credit to close a more substantial portion of their rent gap.

Figure 2. Share of Tax Filers in California Experiencing Rent Burden, by Tax-Unit Gross Income, 2022



Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Notes: Gross income includes taxable and nontaxable cash income for all individuals in the tax unit. Rent-burdened calculated based on tax-unit rent paid, capped at Fair Market Rent, compared to tax-unit total income net of income and payroll taxes. See Appendix for methodology details.

Table 2. Distribution and Size of Rent Gaps of Rent-Burdened and Severely Rent-Burdened Tax Units in California, by Income, 2022

	Rent-Burdened Tax Units			Severely Rent-Burdened Tax Units		
Tax Unit Gross Income	**Share of Rent-Burdened Tax Units**	**Median Annual Rent Gap for Rent-Burdened Tax Units**	**Statewide Aggregate Rent Gap (millions)**	**Share of Severely Rent-Burdened Tax Units**	**Median Annual Rent Gap for Severely Rent-Burdened Tax Units**	**Statewide Aggregate Rent Gap (millions)**
<=$0	3%	$18,100	$1,800	6%	$18,000	$1,800
>$0 & <$10K	12%	$5,700	$4,100	22%	$7,800	$3,700
>=$10K & <$20K	18%	$5,300	$5,400	28%	$5,700	$3,600
>=$20K & <$30K	17%	$5,200	$4,600	20%	$4,700	$2,100
>=$30K & <$50K	26%	$5,000	$6,300	21%	$3,400	$1,600
>=$50K & <$75K	16%	$4,300	$3,500	4%	$2,600	$300
>=$75K & <$100K	6%	$2,500	$900	0%	$1,800	$20
>=$100K	2%	$2,800	$300	0%	$3,400	$1
Total	**100%**		**$27,100**	**100%**		**$13,000**

Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Notes: Gross income includes taxable and nontaxable cash income for all individuals in the tax unit. Rent-burdened calculated based on tax unit rent paid, capped at Fair Market Rent, compared to tax unit total income net of income and payroll taxes. See Appendix for methodology details.

Alternatively, policymakers may have particular goals around certain renter populations, like families with children or senior households (Table 3). Even within those populations, policymakers could choose to layer eligibility criteria to scope the credit's size and reach. For instance, a credit could be tailored to address affordability challenges among all rent-burdened tax units with dependents, of which there are 1.3 million in California with an aggregate rent gap of $10.4 billion. Or it could focus specifically on those units with incomes under $30,000, which would narrow eligibility to roughly 490,000 tax units with an aggregate rent gap of $4.9 billion. Narrowing the focus even further to severely-cost-burdened tax filers in this category would shift the scale and scope yet again to fewer than 400,000 tax units with an aggregate rent gap of $3.4 billion and a typical annual shortfall of roughly $7,800. Similar estimates can be calculated for specific renter populations with different income or family characteristics or within different geographic areas.

Table 3. Number of Renter Tax Units in California and Size of Rent Gaps by Tax-Unit Characteristics, 2022

	All Renter Tax Units			Tax Units with Gross Income under $50,000			Tax Units with Gross Income under $30,000		
	Tax Units (millions)	Median Annual Rent Gap for Rent-Burdened Tax Units	Statewide Aggregate Rent Gap (millions)	Tax Units (millions)	Median Annual Rent Gap for Rent-Burdened Tax Units	Statewide Aggregate Rent Gap (millions)	Tax Units (millions)	Median Annual Rent Gap for Rent-Burdened Tax Units	Statewide Aggregate Rent Gap (millions)
Rent Burdened	4.2	$4,800	$27,100	3.1	$5,400	$22,300	2.1	$5,800	$15,900
with Dependents	1.3	$6,300	$10,400	0.9	$7,300	$7,800	0.5	$8,700	$4,900
Senior Tax Units	0.6	$5,900	$4,000	0.5	$6,300	$3,700	0.4	$6,600	$3,100

Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Notes: Senior tax units defined as primary tax filer or spouse aged 65 or older. Gross income includes taxable and nontaxable cash income for all individuals in the tax unit. Rent-burdened calculated based on tax unit rent paid, capped at Fair Market Rent, compared to tax unit total income net of income and payroll taxes. See Appendix for methodology details.

Whatever the policy goals or priorities might be, budgetary constraints would likely be a factor in choosing the subsidy's depth or reach. These examples illustrate some of the many ways a credit could be designed to help fit within those parameters. The credit size can also be tailored to ensure that estimated aggregate credit totals will remain within a desired total state or federal budget amount. A credit aiming to close the full rent-affordability gap for all cost-burdened tax units would have a very substantial total cost, as shown by the estimated aggregate rent gap totals in the billions of dollars for California renters in the tables above. However, a credit could also be designed to close some percentage of the rent gap for eligible filers, or to prevent severe rent burden only, or to provide meaningful support to targeted renters without specifically eliminating rent gaps, or could be targeted only to specific populations of renters. An incremental policy strategy might begin with a small credit size initially, establishing a basic credit structure that could potentially be expanded over time as resources allow.

Is the credit amount flat or variable?

Tax credits typically have a set maximum amount eligible filers can claim. But there are multiple options for structuring credit maximums (and potentially minimums). The simplest scenario would be to set a flat credit amount. That may be easier for tax filers to understand and could be simpler to implement if it requires less documentation to verify filer eligibility. If the goal was to reach all or a broad segment of renters with a shallower subsidy, the amount could be modest (e.g., the $500 shown in Figure 3).

However, if the goal is to provide a deeper subsidy to a particular subset of renters (e.g., renters with low or moderate incomes), policymakers may want to consider adding a phase-out to avoid cliff effects. A cliff effect—where a potentially small change in a filer's income leads to a large loss of subsidy—could introduce perverse incentives for individuals to turn down opportunities to increase income via employment or other avenues. To avoid disincentives, policymakers could design the credit amount to decline as income approaches the eligibility threshold, wherever that income cutoff may be set. Phase-outs can be designed to happen more gradually (like the shallower downward slope in Figure 4, where the credit amount begins to decline at some set income before ending at a larger income) or more quickly (like the steeper downward slope in Figure 4, where the credit begins to decline at a somewhat higher income).

Figure 3. Example of a Flat Credit Amount

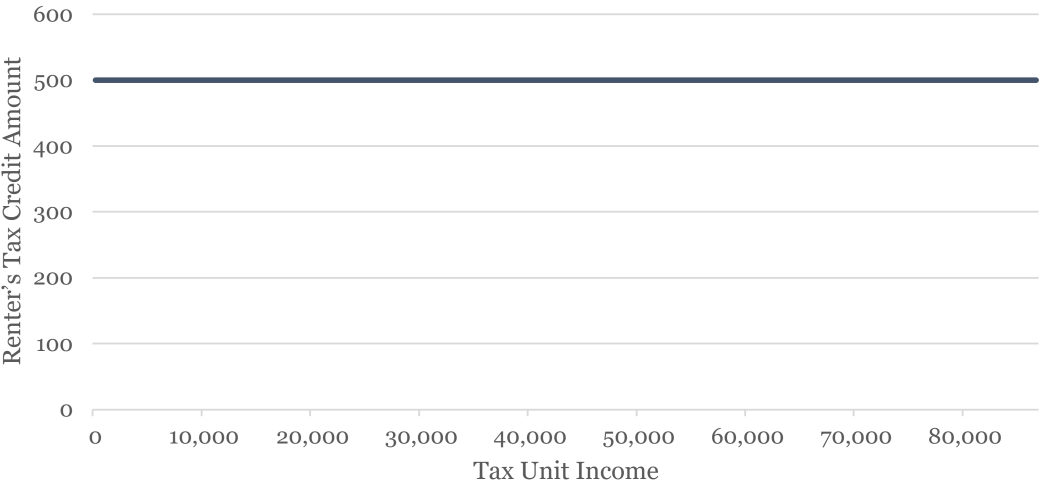
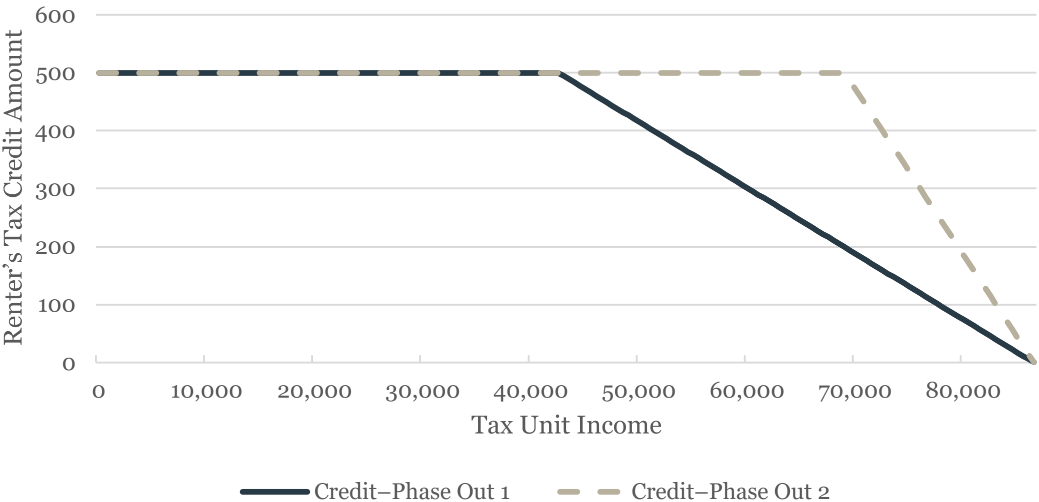


Figure 4. Example of a Credit with Phase Out



Another approach would be to design a variable credit that adjusts (up to a maximum amount) based on the size of the rent gap it is trying to fill. Existing credits like the EITC calculate amounts based on filer income, number of dependents, and filing status, and the size of the EITC tapers down as tax filer income approaches the top of the eligibility threshold. A variable renter's credit could be designed in many different ways, including structures that similarly incorporate criteria such as income, taxpayer characteristics (e.g., dependents, rent burdens, local FMRs), and phase-outs.

The many different options for structuring a flat or variable credit provide policymakers a great deal of flexibility and latitude in tailoring the credit to meet policy goals around populations targeted and level of subsidy delivered. At the same time, it should be noted that if calculation of a flat or variable credit amount requires filers to provide (and tax agencies to verify) additional information on tax forms—about rent paid or filer demographics or income sources not normally included on tax returns, for example—then filers may face more barriers to accessing the credit and tax agencies may face higher implementation costs.

Box 3: Considerations for unhoused individuals and those with no or very little income

Some of the individuals with the most severe housing affordability challenges include people not paying rent because they are experiencing homelessness or exiting institutional settings (e.g., incarceration, hospitals, or foster care). Others may be paying a very small amount toward rent while living in substandard or severely overcrowded shared housing, because they have exceptionally low incomes and cannot afford to pay more to obtain minimally adequate housing. Still others may have no or negative annual income (due to business losses, for example), and may have drawn down savings or used a credit card to pay rent.

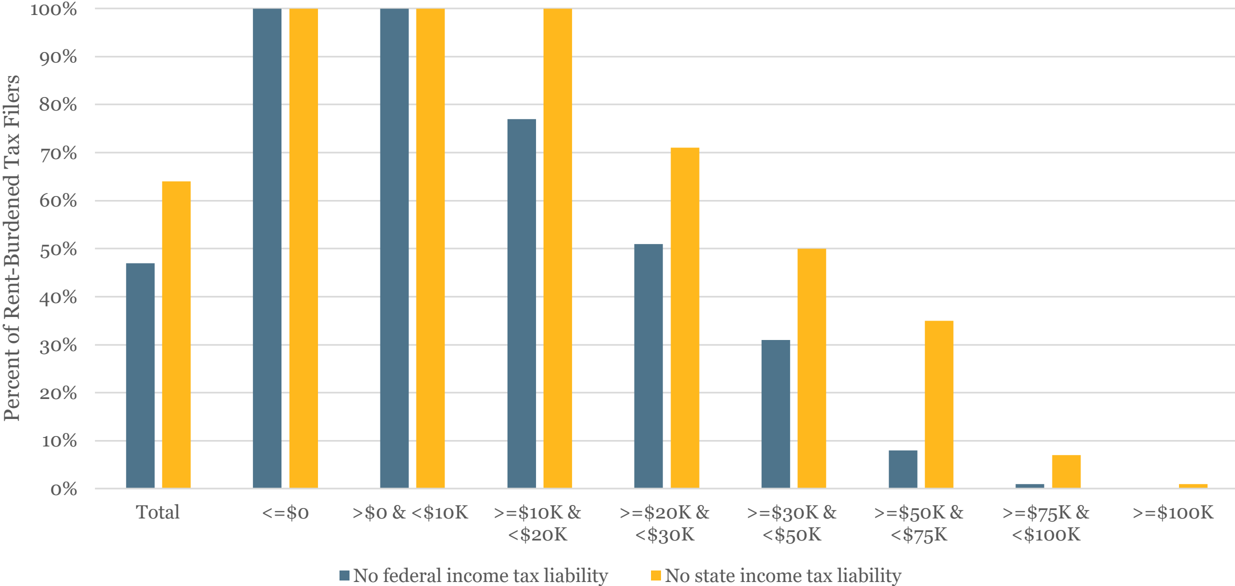
If a renter's credit is linked to the amount of rent paid or rent paid as a share of annual income, these types of individuals may not receive significant benefits. To better support them, a renter's credit can be designed to incorporate a flat minimum credit, so that all filers designated as eligible receive at least that amount. Another consideration, however, is that many may have no other reason to file taxes, having incomes below the filing threshold and minimal eligibility for existing refundable tax credits. They may also need additional support (such as housing navigation or supportive services) to adequately address their housing needs and/or lack of income. Thus, in some cases, their needs may be better served by other types of policies or programs rather than (or in addition to) a renter's tax credit.

Is the credit refundable?

Tax credits can be structured as nonrefundable or refundable. Nonrefundable credits reduce income tax liability only, so if the size of the nonrefundable tax credit a tax filer qualifies for is larger than their tax bill, the filer benefits only up to the amount they owe in income taxes. Therefore, a filer who does not owe any income taxes does not receive any benefit from a nonrefundable credit. In contrast, with a refundable tax credit, if the credit amount exceeds a tax filer's tax liability—or the filer has no income tax liability—that filer can still benefit from the credit, receiving the balance (or the entire credit, in the case of a filer with no income tax liability) in the form of a refund.

After accounting for dependent and other exemptions, standard deductions, and existing tax credits, we find that nearly 2 in 3 rent-burdened California tax units (64%) would only benefit from a refundable state renter's tax credit because they have no state income tax liability. About half (47%) would only benefit from a refundable federal credit because they have no federal income tax liability (Figure 5). That share varies widely by income: the majority of renter tax units with incomes under $30,000 have no federal or state income tax liabilities.

Figure 5. Share of California's Rent-Burdened Tax Filers Who Would Only Benefit from a Refundable Credit, by Tax-Unit Gross Income, 2022



Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Notes: Gross income includes taxable and nontaxable cash income for all individuals in the tax unit. Rent-burdened calculated based on tax-unit rent paid, capped at Fair Market Rent, compared to tax-unit total income net of income and payroll taxes. See Appendix for methodology details.

Thus, if the policy goal is to target assistance specifically to moderate- or middle-income rent-burdened tax filers, policymakers might opt for a nonrefundable option. If the policy goal is to reach a broader segment of tax filers or to reach lower down the income distribution, the majority of rent-burdened tax filers would only see their burden reduced if the credit is refundable.

Implementation Considerations

Policy implementation constraints and opportunities are also relevant when designing a renter's tax credit. For instance, the complexity of credit design and decisions around filing requirements (e.g., documentation, filer status, interactions with existing subsidies)—and the frequency and timing of credit disbursement—can all affect the cost of administering the credit and its eventual uptake. It is also important to consider who the credit might not reach and how it may or may not affect rental markets and landlord behaviors. Specific implementation questions for policymaker consideration include the following:

Is the renter's credit local, state, or federal?

Given the large scale of the federal budget, federal policymakers have the most potential flexibility in designing a renter's credit with respect to the total cost of the policy. The states and localities that administer income taxes bring in only a small fraction of the total revenues raised at the federal level. And many states and localities operate under annual balanced budget requirements (particularly constraining spending when revenues decline), meaning less total revenues are likely to be available to support a state or local renter's credit versus what might be possible for a federal credit. While a broader range of options may be financially feasible at a federal level, a state credit may need to be more narrowly targeted (e.g., limited to individuals with extremely high rent burden, or to filers with children) or may provide smaller credits. States may also seek to wrap around or piggyback on federal supports, for example by targeting state credits to renters not

eligible for federal tax credits (to close gaps in support), or designing state credits to supplement federal supports (e.g., targeting state credits such that when combined with the federal Child Tax Credit or EITC the state renter's tax credit brings rent burden to an affordable level). Local credits can be designed to wrap around both federal and state policies. As noted above, renter's credits can also be targeted to address specific housing needs or priority populations (like veterans or low-wage workers or former foster youth) important within a specific local, state, or federal policy context.

How complex is the credit design?

Complexity of design implies certain tradeoffs. A more complex design can allow for more precise targeting of credits to specific filers or to address specific levels of rent burden, while a simpler design may be easier to communicate, facilitating outreach and potentially encouraging take-up among eligible individuals. Complexity of design can also have implications for the documentation required to verify eligibility for credits, and it could increase perceived need for paid preparers to help filers navigate the filing process. However, this does not mean that tax credits cannot be based on alternative measures of income or use tapering credit designs. Even highly complex credit calculations can be feasible to implement, since tax agencies routinely use such calculations to process income tax returns.

What documentation is required from filers (or their landlords)?

Many approaches are possible for documenting a filer's eligibility to receive a renter's tax credit or to receive a credit of a certain amount. Requiring specific documentation like copies of formal rental agreements or forms signed by landlords can provide external validation of filer eligibility (and could also discourage landlords from under-reporting rental income on their tax returns). But it also creates a burden for tax agencies that must track and verify such documentation. It can also present a barrier to claiming credits among filers who are eligible but unable to readily locate required documents or secure cooperation from their landlords. Renters who sublet, who lack formal leases, or who have disengaged landlords may be particularly likely to be excluded, explicitly or in practice. Self-attestation of filer eligibility removes barriers to claiming credits and reduces the burden for administering agencies, but reduces external validation of eligibility.

Can filers use all types of taxpayer identification numbers to file for the credit?

Most tax filers use Social Security Numbers (SSNs) on their returns as the identification numbers for themselves and their dependents. However, some immigrant individuals ineligible for SSNs use IRS-issued Individual Taxpayer Identification Numbers (ITINs) to fulfill tax filing obligations (which are distinct from SSN eligibility). Some filers use a combination of SSNs and ITINs for different individuals in the tax unit. The types of taxpayer numbers filers can use will affect which families and individuals are included or excluded from receiving the credit.

Can filers receiving other types of housing subsidies claim the credit?

Renters receiving other types of housing subsidies—such as residents of public housing or private deed-restricted

affordable housing (e.g., LIHTC housing) or tenants with Housing Choice Vouchers—already benefit from public support to address their housing affordability challenges. At the same time, most of these renters have particularly low incomes, and some can still be rent-burdened, particularly those living in housing with below-market rents that may still be unaffordable compared to renters' low incomes. Renter's credits can be designed to automatically exclude filers with existing housing subsidies that eliminate their rent burden, while allowing for inclusion of filers with existing subsidies who still have rent burden. A renter's credit could also explicitly include or exclude filers receiving other housing subsidies, or could provide an alternative or minimum credit for them.

Are credit payments disbursed monthly, annually, or on another schedule?

Refundable tax credit payments have most commonly been disbursed as lump-sum payments issued after individuals file their income tax returns. However, the pandemic-era expanded federal Child Tax Credit used a hybrid disbursement structure, with half paid as a lump sum at tax time but the other half disbursed in monthly installments. This demonstrates that monthly payment of tax credits at scale is administratively feasible at the federal level, and provides a model for monthly delivery at the state level. In concept, payments could also be made on other schedules, such as quarterly. However, credit payments disbursed on a periodic schedule may have implications for recipients' eligibility for other safety net benefits, which should be considered in the policy design.

Echoing prior research on payment timing, research on the expanded Child Tax Credit found that families tended to spend monthly credit installments on regular monthly expenses and lump-sum payments on one-time big-ticket expenditures or to pay down debts incurred throughout the year.[32] With respect to housing expenses, then, renter's credit payments disbursed monthly or quarterly might be more likely spent on regular monthly rent payments. Lump-sum payments might be more likely to help recipients cover large one-time expenses like a security deposit to move into a new housing unit or paying down rent arrears, or serve as a mechanism to allow the households to increase their savings.

Are credit payments disbursed after the tax year ends or in advance?

Whether a credit is paid on a periodic basis or as a lump sum, policymakers must determine if the credit will be paid out at the end of the tax year or in advance. The tax system is generally retrospective by design, meaning that tax liability, eligibility for tax benefits, and any refunds are determined after the tax year has ended and a complete assessment of tax filer circumstances can be made.

Most commonly, refundable tax credits are disbursed after the end of the tax year—typically as a lump sum payment—when individuals file their tax returns. In concept, credits disbursed in periodic payments could also be paid on a deferred basis after the tax year ends. In this case, individuals would file a return at tax time to claim the credit, but rather than receiving the full credit amount immediately, they could elect to have all or some portion paid out over the following year (on a monthly, quarterly, or other cadence). There is no precedent for deferred periodic payment in the current tax code, although proposals have been put forward over the years to make such vehicles available (e.g., for a "Rainy Day"

EITC) to help filers smooth income over the tax year.[33] Policymakers considering a deferred option should take into account the need to pay interest on claimed credits not disbursed in their entirety at tax time.

There is precedent in the tax code for advance payments, where filers and/or tax agencies estimate eligibility for the credit before or during the tax year. Precedents include the pandemic-era monthly disbursement of the expanded federal Child Tax Credit and the former federal Advance EITC, a program enacted in 1979 and eliminated in 2010.[34] For a renter's tax credit, for example, eligibility for an advance credit could be determined based on the previous year's income earned and rent paid. The credit could then be partially or completely disbursed during the tax year on whatever cadence selected (e.g., monthly, quarterly, or lump-sum). Then, when individuals file their income tax returns after the tax year ends, they would reconcile their estimated credit eligibility with their actual eligibility and receive any remaining credit due as an additional refund or make a payment to the tax agency to cover any advance overpayment.

One benefit of advance payments is that newly eligible filers would not have to wait until tax filing time to receive them. However, determining eligibility and amounts for advance payments may be challenging depending on the structure of the credit, as tax credits are generally calculated based on full-year income (and potentially full-year rent expenses). For flat credits with broad income eligibility, accurately estimating amounts in advance is most straightforward. But if credit amounts vary significantly depending on filers' incomes or rents, then accurately estimating in advance requires accurately predicting filers' full-year incomes and/or rents in advance. That may be difficult—particularly for filers with less stable incomes such as earnings from low-wage jobs with variable hours.

When credit estimates used for advance payments do not match final credit amounts based on full-year incomes and rents, then advance payments can result in overpayment of the credit for which a filer is ultimately eligible. Filers typically must repay the excess at tax time, which can be particularly challenging for those with low incomes. However, policy provisions can be incorporated to minimize this risk.[35] Both the pandemic-era Child Tax Credit and Advance EITC had some overpayment protections built in. For instance, only half of the expanded Child Tax Credit was disbursed in advance and the remainder was claimed at tax time, providing a buffer if eligibility shifted during the year. In addition, an advance renter's tax credit could also be designed with a "safe harbor" that would allow additional buffer for overpayments up to a certain amount—forgiving some level of overpayments—before the tax filer would be expected to repay.

Note that with an ongoing renter's credit in place, advance payments particularly benefit the subset of filers who experience a significant change in income or rent from year to year that results in eligibility for a significantly larger credit amount from one year to the next. For filers eligible for similar credit amounts from year to year—either because they have relatively stable incomes and rents or because the credit has a simple flat structure with broad eligibility—the advantage to receiving payments in advance is greatest in the first year. At the same time, filers who do see a significant increase in credit eligibility who would specifically benefit from advance payment may also most urgently need the resources a credit provides.

Who risks missing out on filing to receive the credit?

The vast majority of families and individuals routinely file income taxes, either because they are required to file or because they are eligible for existing refundable tax credits like the EITC or Child Tax Credit. Indeed, an advantage of using a tax credit as a policy vehicle is the opportunity to piggyback on the tax returns people are already filing for other reasons, thereby minimizing the administrative burden for eligible individuals to apply for the support and for government to administer the support. However, depending on the tax credit design, eligible beneficiaries can include individuals who would not usually file taxes, because their taxable incomes are below the filing threshold and they are not eligible for other refundable tax credits.

In our California data an estimated 16 percent of tax filers with rent burden (based on income net of taxes, with rent capped at FMR) are not required to file taxes and are not eligible for other refundable credits. Special outreach efforts could be needed to ensure these individuals file tax returns to claim a renter's tax credit. Alternatively, other subsidy vehicles besides renter's tax credits may be more appropriate to support those renters. We find that 55 percent of these filers are in senior tax units. In terms of income sources, about half (54%) are in tax units that include individuals receiving Social Security. An estimated 23 percent are in tax units that include individuals receiving federal SSI benefits (available to low-income seniors and people with disabilities). Using administrative data for SSI or Social Security recipients to facilitate automatic payments or to conduct outreach could be a strategy to reach many of these filers, including many with the lowest incomes.

Are potential effects on landlord behavior or rental markets significant enough to require consideration?

Possible effects on landlords or market rents would depend strongly on the renter's tax credit's specific design and implementation. For instance, more modest credit amounts or those targeted to specific populations would not be likely to have significant effects on rental markets or landlord behavior. However, if tax filers claiming the credit are required to ask landlords to provide documentation of rent paid, or if potential tenants choose to tell landlords they are eligible for the credit to help show they can afford the rent level, the credit's visibility might prompt some landlords to raise rents. At the same time, high credit visibility could cause some landlords to be willing to approve leases for tenants with lower incomes or lower credit scores, knowing that the renter's credit would serve as an additional resource to ensure the rent can be paid in full, thus expanding the rental housing options for those tenants.

A credit that provided a large subsidy to a very broad range of renters at a large scale could have more of an impact on rental markets, for instance, by leading to increased demand for rental housing and potentially prompting landlords to raise rents. Over the longer-term, however, a renter's credit provided at a large scale on an ongoing basis could stimulate more development of rental housing, especially if paired with supply-side housing policies, as housing developers and financers respond to increased demand from a larger pool of families and individuals with adequate resources to afford rents. Including rent caps or considering rent as a percentage of renters' incomes when determining credit eligibility could help also address concerns about potential unintended effects on market rents or landlord behavior.

Conclusion

The tax code can be a flexible tool for providing assistance to renters struggling with housing affordability. However, how a renter's tax credit is designed matters for who is eligible and for the program's public costs. There are also tradeoffs to various decisions, as this analysis illustrates. The questions posed here—and the tradeoffs inherent in answering them—raise important considerations for policymakers exploring the role a renter's tax credit could play in ameliorating housing affordability challenges.

As we noted at the start, the housing crisis renters face is layered and multifaceted, and no single policy—including a renter's tax credit—can be a cure-all solution to closing the affordability gap. Some families and individuals—such as those who would struggle to or do not otherwise need to file tax returns—might be better served through other types of housing assistance. Thus, fully addressing renters' affordability challenges is likely to continue to require a multi-pronged policy response, including supply-side strategies to ensure there are adequate housing options across the affordability spectrum. However, given that the tax code can help policymakers target assistance to renters at a range of income levels and/or other qualifying characteristics as needed, such credits are worth consideration as a complement to existing housing assistance policies at the local, state, and federal level.

Technical Appendix

Data and Methodology Details

For all analyses presented, we use US Census Bureau American Community Survey (ACS) public-use microdata downloaded from IPUMS-USA (University of Minnesota, www.ipums.org) for California for 2022 (n=391,171). For tax-unit analyses, we use the ACS-based income tax simulation model developed for the California Poverty Measure—a joint project of Stanford Center on Poverty and Inequality and Public Policy Institute of California—in order to construct tax filing units, estimate tax unit before- and after-tax income (including income and payroll taxes paid and eligibility for refundable tax credits), and model implications of different renter's tax credit design decisions.[36]

Renters for this analysis (tax units, individuals, and households) are those identified in the ACS data as living in households that pay cash rent for their housing. This definition does not include the very small share of California households (about 1%) identified in the ACS as having "no cash rent," nor does it include individuals living in institutions or other group quarters (about 2% of all individuals in the ACS data).

Except where otherwise noted, tax units are identified as rent-burdened when rent paid exceeds 30 percent of gross income *net of income and payroll taxes*, with taxes including federal and state income taxes (accounting for liabilities and credits, including existing refundable tax credits) as well as federal and state payroll taxes. Note that this practice differs from the traditional calculation of rent burden based on gross cash income before taxes. We use income net of taxes as an income measure that is directly observable and relevant in the tax policy context, which allows us to account for the impact of existing refundable credits that would be received in tandem with any renter's tax credits.

For rent paid, we use gross rents reported in the ACS at the household level. In households that include multiple tax units (typically extended family or unmarried cohabiting partner households), tax-unit rent paid is assumed to be proportionate to the tax-unit share of total household after-tax income, excluding negative income (i.e. business/self-employment or investment losses). This choice implicitly assumes that co-occupant tax units divide the total rent in a way that corresponds to relative ability to pay, i.e., tax units with more after-tax resources pay a larger share of the rent and those with less (or no) resources pay a smaller (or no) share.

For purposes of categorizing tax units as rent-burdened, except where otherwise noted tax-unit rent paid is capped at Fair Market Rent (FMR). This strategy is intended to avoid categorizing tax units as rent-burdened—and therefore potentially eligible for subsidy from a renter's tax credit—if they choose to pay a large share of their (high) income to rent "luxury" housing. FMR is assigned to the tax unit based on filing status (single/head of household versus married filing jointly), number of dependents, and county of residence. To determine the number of bedrooms for FMR assignment, we assume that the filer (or filer and spouse together) require one bedroom and up to two dependents will share each additional bedroom. This approach broadly aligns with the rules some Public Housing Authorities use in assigning allowed number of bedrooms for Housing Choice Voucher recipients.[37]

Other approaches to defining income, rent, and cost burden produce different rates and numbers of rent-burdened tax units, as shown in the examples below (Appendix Table 1).

Appendix Table 1. Rent Burden Among California's Renter Tax Units, Under Different Income and Rent Definitions

	Rent-Burdened Tax Units			
	Rent-Burdened Tax Units as Share of Renter Tax Units	**Number of Rent-Burdened Tax Units (millions)**	**Median Annual Rent Gap for Rent-Burdened Tax Units**	**Statewide Aggregate Rent Gap (millions)**
Tax-unit Rent Paid vs Cash Income	47%	3.9	$6,300	$35,400
Tax-unit Rent Paid vs Income Net of Taxes (adding income tax credits and subtracting income and payroll tax liabilities)	57%	4.7	$6,000	$41,600
Tax-unit Rent Paid vs Income Net of Taxes, with Rent Paid Capped at Fair Market Rent (assigned based on tax unit size and county of residence)	50%	4.2	$4,800	$27,100
Tax-unit Fair Market Rent (without regard to rent paid) vs Income Net of Taxes	78%	6.4	$11,500	$71,100

	Severely Rent-Burdened Tax Units			
	Severely Rent-Burdened Tax Units as Share of Renter Tax Units	**Number of Severely Rent-Burdened Tax Units (millions)**	**Median Annual Rent Gap for Severely Rent-Burdened Tax Units**	**Statewide Aggregate Rent Gap (millions)**
Tax-unit Rent Paid vs Cash Income	23%	1.9	$6,800	$28,400
Tax-unit Rent Paid vs Income Net of Taxes (adding income tax credits and subtracting income and payroll tax liabilities)	27%	2.2	$6,200	$21,200
Tax-unit Rent Paid vs Income Net of Taxes, with Rent Paid Capped at Fair Market Rent (assigned based on tax unit size and county of residence)	23%	1.9	$5,100	$13,000
Tax-unit Fair Market Rent (without regard to rent paid) vs Income Net of Taxes	54%	4.4	$9,800	$47,100

Source: Authors' analysis of 2022 American Community Survey public-use microdata, downloaded from IPUMS USA (University of Minnesota, www.ipums.org), using the tax model developed for the California Poverty Measure.

Endnotes

1. See, e.g., Pribesh, S. & Downy, D.B. (1999). "Why Are Residential and School Moves Associated with Poor School Performance?" Demography, 36, no. 4: 521–534. https://doi.org/10.2307/2648088; Singh, A., et al. (2019). "Housing Disadvantage and Poor Mental Health: A Systemic Review." American Journal of Preventive Medicine 57, no. 2: 262–272. https://doi.org/10.1016/j.amepre.2019.03.018; Ramakrishnan, K., et al. (2021). "Why Housing Mobility Matters for Upward Mobility: Evidence and Indicator for Practitioners and Policymakers." Urban Institute. Retrieved from: https://www.urban.org/sites/default/files/publication/103472/why-housing-matters-for-upward-mobility-evidence-and-indicators-for-practitioners-and-policymakers.pdf.

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23. Analysis includes federal EITC, the refundable portion of the federal Child Tax Credit, and California's existing state refundable credits as of tax year 2022 (the CalEITC and Young Child Tax Credit).

24. This estimate of 8.3 million tax units includes those that file income tax returns as well as those that would comprise a tax-filing unit (primary individual plus spouse and dependents if applicable) but are not required to file and/or do not file tax returns.

25. Policymakers might look to the EITC as a gauge of potential compliance issues that could arise from determining eligibility for the credit when there may be multiple tax units with a potential claim. Research has shown that EITC overpayments tend to result from the complexity of the credit's design, including separated or divorced parents erroneously claiming the credit because of its unique rules for determining dependents. See, e.g., Greenstien, R. & Wancheck, J. (2011). "Earned Income Tax Credit Overpayment and Error Issues." Center on Budget and Policy Priorities. Retrieved from: https://www.cbpp.org/research/earned-income-tax-credit-overpayment-and-error-issues.

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