






Housing Tax Credits: Making Them Work for More Tennesseans

Housing costs are rising rapidly across Tennessee, making it harder for working families in every region of the state to afford a place to live. As home prices and rents have increased, the federal Low-Income Housing Tax Credit (LIHTC) program has become Tennessee's most powerful tool for building and preserving attainable rental housing, supporting nearly 100,000 homes statewide over the past 40 years. A recent change to Tennessee law will help communities strengthen the tool's impact.

Housing developed with tax credits serve working Tennesseans across a wide range of incomes.



Eligibility for housing and rents are tied to local wages and family size.

	HAYWOOD COUNTY	MONTGOMERY COUNTY	RUTHERFORD COUNTY	SEVIER COUNTY
	 1 Parent, 2 Children	 2 Parents, 1 Child	 1 Person	 2 Parents, 2 Children
Area Median Family Income (AMI)	\$65,800	\$89,800	\$114,800	\$80,000
Maximum Income (60% of AMI, Adjusted for Family Size)	\$40,500	\$47,340	\$48,240	\$48,000
Maximum Rent*	\$1,013	\$1,184	\$1,206	\$1,200




Source: US Department of Housing and Urban Development Office of Policy Development and Research | *Maximum rent does not have utility allowance deducted.

KEY TAKEAWAYS

- Rising housing costs are a statewide economic issue—especially for working families and rural communities.
- LIHTC is an upfront financing tool that makes building projects possible. It does not increase operating income once a property is built.
- Current policy creates uneven access to attainable housing, depending on local government capacity rather than need.
- Tennessee communities can now choose to exclude the value of LIHTCs from a property's tax assessment, helping to strengthen the development incentive.

How housing tax credits work—and why Tennessee's tax policy matters.



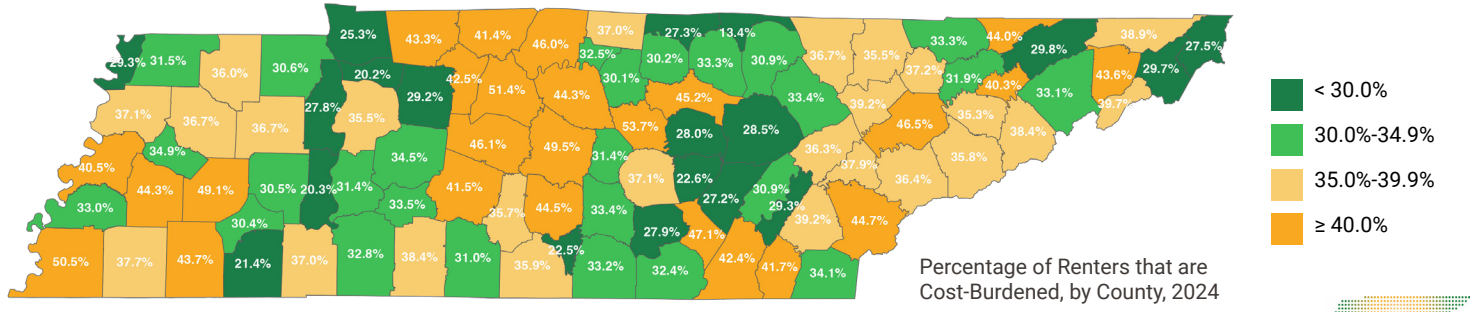
 <h3>Housing costs are rising statewide</h3> <ul style="list-style-type: none"> 💰 Rents and home prices have increased sharply across Tennessee 💰 Over half of renters are cost-burdened 💰 Working families are being priced out in urban, suburban, and rural communities 	 <h3>How the Low-Income Housing Tax Credit works</h3> <ul style="list-style-type: none"> 💰 Rents in LIHTC projects are determined by income 💰 Because rents are limited, projects cannot be financed like market-rate housing 💰 Developers use federal tax credits to attract private investment upfront, so housing can be built <p>Tax credits help finance construction—they do not increase operating income.</p>	 <h3>Tennessee taxes the tax credit</h3> <ul style="list-style-type: none"> 💰 Tennessee includes the value of tax credits when calculating property taxes 💰 But tax credits do not increase the operating income or project value 💰 Higher property taxes make attainable housing harder to build and operate
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Housing costs are rising faster than incomes across Tennessee.

Housing costs have risen sharply across the state, making it harder for working families to afford a place to live. Since 2014, home prices have more than doubled statewide, and median rents have increased by 25.8%—faster than both the Southeast and the nation overall.¹

As a result, nearly half of Tennessee renters statewide (44.3%) are cost-burdened, meaning they spend over 30% of their income on housing.² In 25 counties—both urban and rural—more than 40% of renters are cost-burdened.³

There are 25 counties—in every corner of the state—where over 40% of renters are cost-burdened.



Source: US Census Bureau, American Community Survey Table B25070



The Low-Income Housing Tax Credit makes attainable housing possible by financing construction costs.

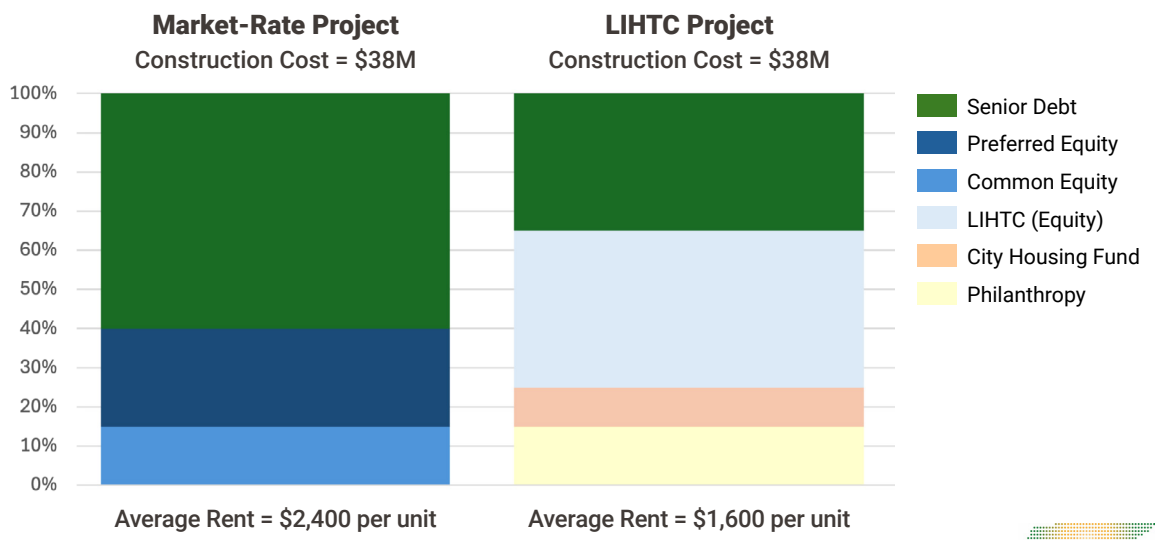
The federal Low-Income Housing Tax Credit (LIHTC) is a federal subsidy that is the primary tool used nationwide to finance attainable rental housing. In Tennessee, it has helped build or preserve 97,800 homes since 1986.⁴

LIHTC works by helping projects raise upfront construction financing. Developers package future tax credits into a capital stack for private investors in exchange for the funding needed to build the project.

The tax credit does not raise rents, increase annual cash flow, or provide ongoing income to the property. Once the housing is built and operating, rents are set by the federal government and cannot rise with market demand.

LIHTC fills the financing gap at the front end, allowing projects to get built. Attainable housing cannot be financed like market-rate housing because rents are limited.

The tax credit does not increase rental income and does not help cover operating costs once construction is complete. Rather, the tax credit is packaged into a capital stack for investors, and that financing allows builders to construct attainable housing units.



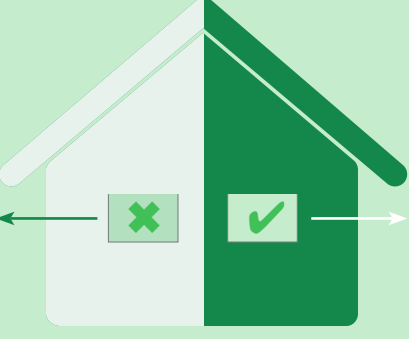
Sample capital stacks adopted from Colorado Division of Housing Affordable Housing Toolkit for Local Officials and SITG Capital.



Tennessee's tax policy makes attainable housing harder to build.

Tennessee is one of only 10 states that includes the value of the LIHTC when assessing property taxes. This effectively taxes the tax credit—reducing its value and increasing operating costs for rent-restricted developments.

Because rents are set by the federal government, attainable housing projects cannot offset higher property taxes by charging more. The result is a policy mismatch: projects with lower rents may face higher tax bills than similar-sized market-rate developments.⁵



MYTH:
Housing tax credits increase a property's value and should be taxed as income.

MYTH VS REALITY

REALITY:
Low-Income Housing Tax Credits help projects secure financing for construction, but they do not increase rents or operating income once a property is built. Because rents are set by law, attainable housing developments cannot translate the value of the tax credit into higher revenue. Treating the credit as ongoing taxable income increases costs without increasing a project's ability to pay.

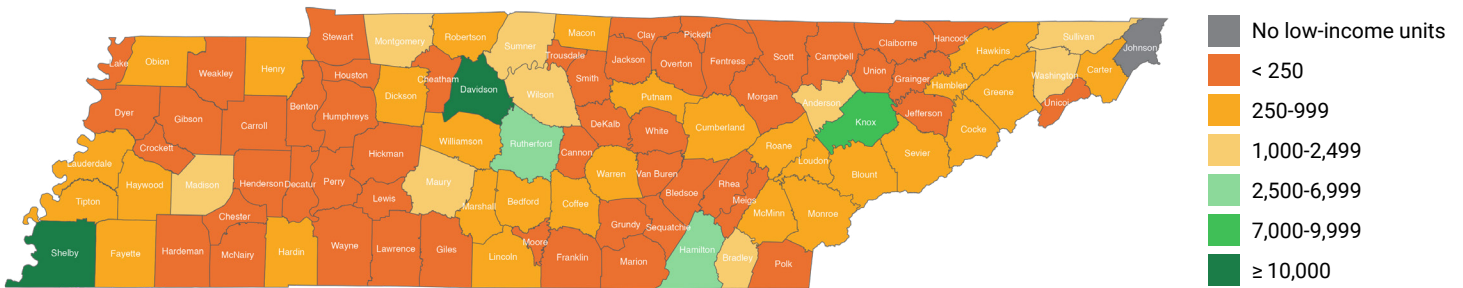
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Some local governments use Payments in Lieu of Taxes (PILOTs) to reduce this burden.

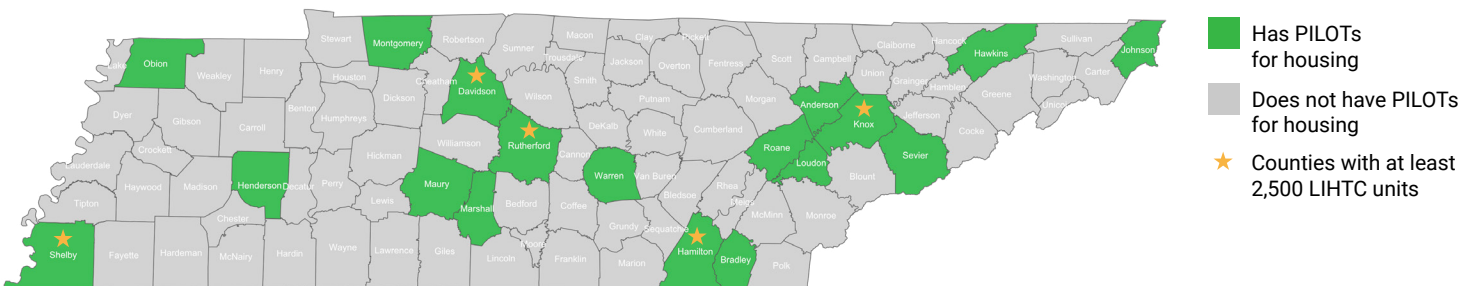
LIHTC housing developers and local governments can enter into PILOT agreements where the government entity temporarily takes ownership of the property. Instead of developers paying property taxes, they make payments (typically less than what property taxes would be) to the local government.⁶

However, PILOTs require local capacity and resources in order to be implemented. As a result, many rural and suburban communities lack access to this tool. In 2024, the 260 active housing PILOTs were located in just 18 counties.⁷ As of 2026, a city or county cannot enter into a PILOT that would abate the other's taxes without both local governments agreeing.⁸

All of the five counties with at least 2,500 LIHTC units had an active PILOT in 2024.



Number of completed LIHTC units per county from 1987-2022 (excluding projects still in the pipeline).

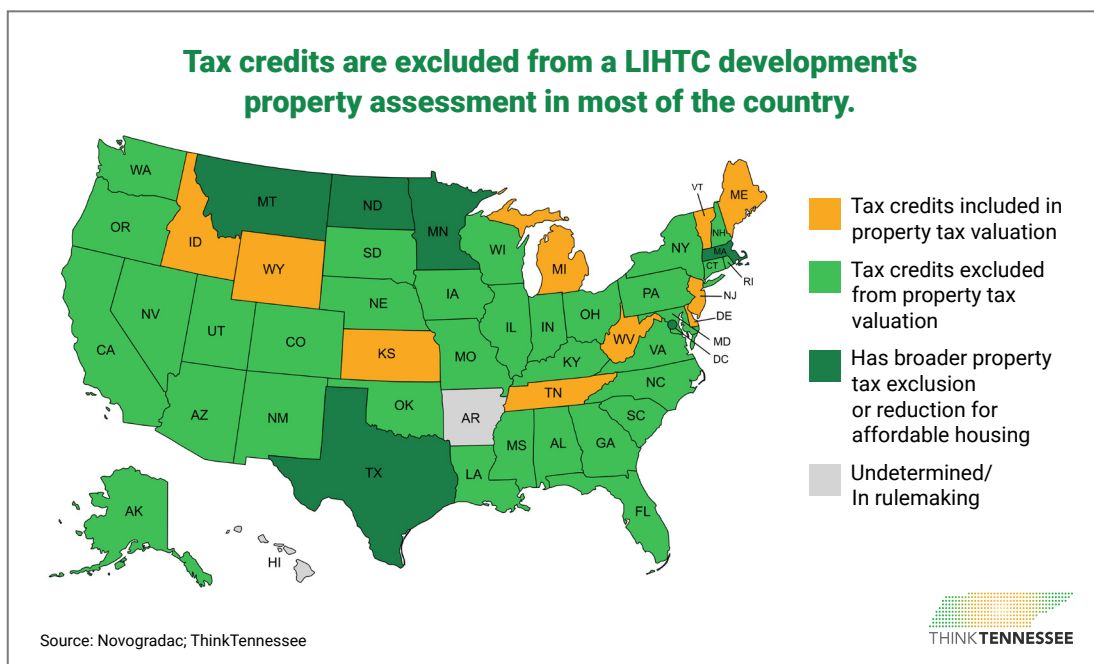


Counties with active housing PILOTs in 2024.*

Source: Tennessee Housing Development Agency; Tennessee Comptroller of the Treasury, State Board of Equalization | *Some housing PILOTs may support non-LIHTC projects.



A new law passed in 2026 allows the legislative body of a Tennessee city or county to adopt an ordinance or resolution to **exclude the value of housing tax credits from property assessments**.⁹ Communities that adopt this change will help reduce operating costs and improve project feasibility without increasing rents or significantly reducing local taxes. While already the process in most other states (all but 10), this change will help make Tennessee's primary tool for financing attainable housing work as it was intended.



References

1. US Census Bureau. Median Gross Rent (dollars), Inflation Adjusted using the US Consumer Price Index. *American Community Survey, ACS 1-Year Estimates Detailed Tables, Table B25064*.
2. ThinkTennessee. (2025). [State of Our State Dashboard](#).
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5. Tennessee Advisory Commission on Intergovernmental Relations. (2015, Jan). [Assessing the Value of Low-Income Housing for Property Tax Purposes](#).
6. Tennessee Comptroller of the Treasury, State Board of Equalization. (ND). [PILOT Reporting](#).
7. Tennessee Comptroller of the Treasury, State Board of Equalization. (2024). [Reported PILOT Information: IDB/H&ED Report 2024](#).
8. Tennessee [Public Chapter 820 \(2026\)](#), and Tennessee General Assembly. [Tennessee Public Chapter 987 \(2026\)](#).
9. [Tennessee Public Chapter 1053 \(2026\)](#).

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Written by: Amy Gore, Policy Director

Other Contributing Staff: Chris Candelaria, Research Director and Helen Souki Reyes, Policy Associate

For further information, email us at info@thinktn.org.