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What to Know about Income Limits

by Carolyn Metzger, Texas Department of Housing & Community Affairs

As spring approaches, the affordable housing industry looks forward to the release of the 2024 income and rent limits. For the Low Income Housing Tax Credit (LIHTC) program, these limits are essential as they determine eligibility, as well as the maximum allowable rent. So let's talk about where to find the new limits and what to do with them once we've found them.

Each year, the U.S. Department of Housing and Urban Development (HUD) publishes several sets of national income limits data. The Multifamily Tax Subsidy Projects (MTSP) dataset is used for the LIHTC program and includes the 20% through 80% income limits for households as large as eight people. These limits can be accessed on HUD's website.

In 2007 and 2008, HUD modified the methodology used to calculate area median gross income (AMGI) to include additional data sources, which resulted in some areas seeing a significant drop in median income. The Housing and Economic Recovery Act of 2008 (HERA) included a hold harmless policy in these areas that prevented the income limits from decreasing. This resulted in a different set of limits called the HERA Special Income Limits, which apply only to "HUD hold harmless impacted projects." These are projects that placed in service no later than Dec. 31, 2008, and are located in a county or metropolitan statistical area (MSA) that was impacted by the hold harmless policy. If these limits apply to your area, they will display below the MTSP limits.

A third set of limits apply only to 9% LIHTC projects located in rural areas (as defined in section 520 of the Housing Act of 1949). These projects are eligible to use the greater of the MTSP limits or the national non-metropolitan limits. National non-metropolitan median income is published annually in the HUD MTSP FAQs.

Although the MTSP limits are offered for all designations (20% - 80%), the HERA Special Limits are only published for the 50% and 60% income levels, and the national non-metropolitan limits are only made available at the 50% level.

For projects with additional income levels, we can calculate our limits using the published 50% limits:

- To calculate the 20% AMGI, the 50% AMGI limit will be multiplied by 0.4, or 40%.
- To calculate the 30% AMGI, the 50% AMGI limit will be multiplied by 0.6, or 60%.
- To calculate the 40% AMGI, the 50% AMGI limit will be multiplied by 0.8, or 80%.

- To calculate the 60% AMGI, the 50% AMGI limit will be multiplied by 1.2, or 120%.
- To calculate the 70% AMGI, the 50% AMGI limit will be multiplied by 1.4 or 140%.
- To calculate the 80% AMGI, the 50% AMGI limit will be multiplied by 1.6 or 160%.

So now we know what our new income limits are. But what about the rent limits?

Unfortunately, HUD does not publish rent limits for the LIHTC program, but we can easily calculate them for our projects. Rent limits are calculated as 30% of the applicable income limit (assuming 1.5 persons per bedroom) and are rounded down to the nearest whole dollar.

For example, a two-bedroom unit is based on the three-person income limit. If the three-person income limit is $45,000, the rent limit is $1,125:

- $45,000*0.3 = $13,500
- $13,500/12 = $1,125

A one-bedroom unit is based on the average of the one- and two-person income limits. If the one-person limit is $15,000 and the two-person is $18,000, the rent limit is $412:

- $15,000+$18,000 = $33,000
- $33,000/2 = $16,500
- $16,500*0.3 = $4,950
- $4,950/12 = $412.50

IRS Revenue Procedure 94-57 allows for a “gross rent floor” election whereby owners can elect to lock in rents at the time of allocation or at the project’s placed-in-service date. Once elected, rent limits will never drop below the limits in place at that time.

Owners may rely on the income limits published by HUD until 45 days after HUD releases a new set of income limits. So as the weather starts to warm (at least here in Texas), keep an eye out for HUD’s announcement to begin implementing the new income and rent limits at all our LIHTC projects.

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