

Proposal

The proposal expands the Affordable Housing Tax Credit Act to allow property owners to receive investment vouchers for building, remodeling, or rehabilitating their own property into affordable single-family housing in a rural area. To qualify, the project must be completed and the housing sold to an individual other than the owner or a relative of the owner as specified in the bill. Projects require Mortgage Finance Authority (MFA) approval.

The voucher equals 50 percent of qualified expenditures, capped at \$50 thousand per voucher. Qualified expenditures are broadly defined to include costs directly connected with land acquisition, renovation, conversion, demolition, reconstruction, construction, development, financing, operating, or owning a property.

The proposal uses the existing voucher program's annual allocation rather than creating a separate allocation. That limit is calculated by multiplying an inflation-adjusted base rate of \$1.85 by the state population. Vouchers approved in a previous calendar year do not count against the issuance limit in the year they are issued. Rural areas are defined as locations outside incorporated municipalities with populations of 30 thousand or more and outside a three-mile buffer surrounding those municipalities, according to the most recent federal decennial census.

Under the existing program, voucher holders may claim credits against personal income tax, corporate income tax, or modified combined tax liability, including state gross receipts tax but excluding local-option gross receipts taxes and governmental gross receipts taxes. Unused credits may be carried forward for up to five years under existing law. Vouchers may be sold or transferred once, in whole or in part, with notice to MFA and TRD within 10 days. The proposal applies to affordable housing projects initiated on or after its effective date and does not include a sunset.

Issues

Project Eligibility and Targeting. The proposal supports affordable single-family housing sold to another individual, rather than improvements retained for the original owner's personal occupancy. Requiring completion and sale provides a tangible project outcome and an opportunity to verify buyer eligibility. However, the proposal does not require the property to be vacant, deteriorated, uninhabitable, or otherwise difficult to develop. An existing habitable home could potentially qualify after remodeling and sale, provided MFA approves it as an affordable housing project.

The proposal covers both new construction and improvements to existing housing but does not require a net increase in

Affordable Housing Tax Credit Expansion

Sponsor(s): Rep. Dow

202#: 234258.2

October 15, 2026

**One-Year Cost
\$5 M**

**Five-Year Cost
\$25 M**

Impact by Fund

Fund	1 Year	5 Year
General Fund	(\$5.0)	(\$25.0)
Total	(\$5.0)	(\$25.0)

housing units. Remodeling and rehabilitation may improve housing quality or preserve existing supply, but those outcomes differ from expanding the housing stock. Clear program objectives would help MFA distinguish projects creating additional housing from those improving homes that would otherwise remain available.

Qualified Expenditures and Spending Incentives. The voucher reimburses 50 percent of qualified expenditures, up to \$50 thousand. An eligible project would reach the maximum award at \$100 thousand of qualified spending. Although the recipient bears part of the cost, the subsidy could make discretionary improvements or higher-cost project designs more financially attractive.

The definition of qualified expenditures extends beyond construction and rehabilitation to financing, operating, and ownership expenses. The proposal does not specify expenditure dates, allocation methods, or how these categories relate to the requirement to build, remodel, or rehabilitate the property. This creates uncertainty about which costs may be included and how MFA would distinguish necessary development expenses from ordinary ownership costs. Cost-reasonableness standards and documentation requirements would help prevent awards from subsidizing expenses unrelated to the intended housing outcome.

Income Verification and Continuing Affordability. The proposal requires an MFA-approved affordable housing project but does not itself establish an income threshold, maximum sale price, or minimum affordability period. These requirements would depend on the existing program framework and MFA's implementation of the new voucher category. The required sale provides a clear point for verifying buyer income and documenting affordability, but the bill does not expressly require income thresholds or that the buyer occupy the home as a primary residence.

MFA's existing voucher rules include underwriting, documentation, compliance oversight, and land use restriction agreements or acceptable alternatives. They generally establish a minimum affordability period of five years for single-family housing. However, those rules are structured around contributions to approved affordable housing projects. MFA would need to clarify how they apply when the voucher recipient owns, improves, and sells the property. Without enforceable resale or occupancy restrictions, a subsidized home could subsequently be resold at market value, rented, or used as a second home. Rules or statutory provisions should identify the continuing affordability obligation and remedies for noncompliance.

Related-Party Sales. The proposal excludes sales to the owner and certain relatives, reducing the opportunity to receive a subsidy through an intra-family transaction. The definition of relative includes parents, step-parents, siblings, grandparents, aunts, uncles, and first cousins but does not expressly include spouses, children, grandchildren, or other related parties. These omissions could allow transactions with these family members, which may be inconsistent with the intent of the restriction.

Additionality and the "But-For" Test. The proposal does not require applicants to demonstrate that a project would not proceed without assistance. Owners could receive vouchers for construction, remodeling, or rehabilitation already planned or financially feasible based on expected sale proceeds. Broad expenditure eligibility increases the possibility of subsidizing ordinary development activity rather than overcoming a documented financing barrier.

MFA approval offers an opportunity to assess project need, but the bill does not expressly require awards to reflect financing gaps or the minimum subsidy necessary to deliver affordable housing. Evaluating project feasibility without the credit would help distinguish additional affordable housing production from projects that would have occurred anyway.

Comparison to Approved Guidelines

No supporting proposal or analysis was provided with the draft. The draft does not demonstrate compliance with several of the committee's guidelines. The draft does not include a purpose statement; however, it is easily inferred the purpose of the credit is to incentivize private renovation and increase affordable single-family housing. There is no stated theory of change, measurable goals, or evaluation requirements. It identifies eligible activities, requires completion and sale, and limits each voucher to \$50 thousand. It also operates within the existing program's annual cap. However, it does not include a sunset or require applicants to demonstrate that the subsidy is necessary for a project to proceed.

Evaluation should track completed homes, buyer incomes, sale prices, project locations, cost per home, continuing affordability, and whether projects would have proceeded without assistance. The proposal does not add a specific reporting requirement for the new category.

Fiscal Impacts

The proposal could increase general fund revenue losses by increasing utilization of the existing affordable housing tax credit allocation. However, it does not increase the statutory annual allocation or create a separate pool of credits. The incremental fiscal impact would therefore depend on how much of the existing allocation would otherwise go unused and whether the new vouchers displace awards to existing program participants. The maximum amount for this expenditure is calculated annually by multiplying a base rate, adjusted for inflation, and the state's population. For tax year 2024, the maximum is approximately \$5.7 million. The average claim amount the last three years was \$760 thousand. If the new tax credits for single-home remodels causes the overall cap to be reached, which is likely, the impact to the general fund could be up to \$5 million per year.

At the maximum award, each qualifying voucher would represent \$50 thousand in potential state tax reductions.

1	Clearly Stated Purpose	Does the proposal identify the problem to be solved? Does it explain why a tax policy change is the right solution? If an economic development incentive, is the purpose included in the language of the proposal itself?	  
2	Theory of Change or Logic Model	Does the proposal explain how the tax change will achieve the intended outcome? Does it identify the taxpayer behavior it is intended to influence?	 
3	Measurable Goals and Targets	Does the proposal identify expected outcomes? Does it identify affected populations or activities? Does it explain how success will be measured?	  
4	Fiscal Impact Analysis	Does the proposal estimate the impact on the general fund? Does it estimate the impact on the local government and other funds? Does it identify the impacts as recurring or nonrecurring?	  
5	Expiration Date (Sunset)	Does the proposal include a delayed repeal?	
6	Expenditure Cap	If feasible, does the proposal include an annual or aggregate cap on total cost?	
7	Effective Targeting	Does the proposal clearly identify eligible taxpayers or activities? Does it limit benefits to those populations or activities necessary to achieve the state purpose?	 
8	Reporting Requirements	Does the proposal require sufficient reporting on utilization, cost, and outcomes? Does it provide for data collection, sharing, and analysis? Does it identify performance measures and targets?	  

Transferability makes vouchers usable by taxpayers other than the original recipient and increases the likelihood they will ultimately be claimed. Fiscal-year revenue losses may vary because vouchers can be issued after their approval year and credits can be carried forward.

Other Considerations

Administrative Guardrails. The proposal uses MFA’s existing infrastructure but leaves expense verification, buyer eligibility, affordability restrictions, and treatment of related-party transactions largely to rulemaking. Establishing minimum requirements in statute would provide clearer expectations while retaining MFA’s administrative flexibility. The requirement to complete and sell the housing before qualifying may also limit the voucher’s usefulness as upfront financing.

Competition for Existing Resources. New owner-expenditure vouchers would share the existing annual allocation with other approved investments and contributions to the MFA-administered trust. Expanded eligibility could improve utilization but could also reduce resources available to other affordable housing projects. The bill does not establish priorities among these uses.

Potential Questions

- What specific housing problem is this proposal intended to solve, and how would success be measured?
- Would vouchers support projects that would not otherwise occur, or subsidize construction and remodeling already financially feasible?
 - How would MFA ensure the voucher creates additional affordable housing benefits rather than increasing profits on home-flipping projects that would proceed without assistance?
- What income, sale-price, primary-residence, and continuing affordability requirements could MFA apply?
- Why does the related-party restriction omit spouses, children, and grandchildren?
- How would the \$50 thousand limit apply to multiple homes, projects, or vouchers involving the same owner?
- How could MFA prioritize these vouchers relative to existing uses of the annual allocation?