



The New Homes Tax Credit Act

The New Homes Tax Credit Act, legislation introduced by U.S. Senator Martin Heinrich (D-N.M.), would provide private investors with a tax credit when they invest capital to construct qualified entry-level homes and renovate single-family housing. The bill is modeled after the successful bipartisan New Markets Tax Credit program.

Specifically, the New Homes Tax Credit (NHTC):

- Will be administered by the Community Development Financial Institutions (CDFI) Fund, and
- Will be exchanged for cash from investors by Housing Development Entities (HDEs), which can be banks, CDFIs and other mission lenders, or government and quasi-governmental entities.

The New Homes Tax Credit Act provides that:

- HDEs transfer the investment capital to qualified construction business after the qualified home project is complete,
- Qualified construction businesses are entities engaged in the trade or business of construction or renovation of residential housing,
- Qualified home projects are construction of entry-level homes or renovation of single-family housing for low- and moderate-income individuals,
- Eligible individuals do not earn more than 120% of the area median income, and
- The amount invested in the construction of a home is not more than 20% — or 15% for renovations — of the median purchase price of a single-family home in the area.

Background:

Americans are struggling to find affordable housing due to a severe supply shortage. Excessive demand, high interest rates, and mangled supply chains are also causing housing prices to soar. The COVID-19 pandemic exacerbated this issue even further, creating the most constrained housing market the United States had seen in several decades, especially for single-family housing.

Construction of new housing units has not kept pace to meet demand; the housing stock — the total number of housing units — has remained largely unchanged since 1980. To put the dream of homeownership within reach for every American, we must incentivize the construction of new affordable homes and the renovation of existing homes.

Endorsers:

The National Association of Home Builders, the National Association of Realtors, the Mortgage Bankers Association, Housing New Mexico, Homewise, Yes Housing.

How Does the New Homes Tax Credit Work?

Example New Homes Tax Credit Scenario

Home Smart, a CDFI based in Santa Fe, New Mexico, whose primary goal is to make homeownership attainable for low- and moderate-income New Mexicans, understands that there is a major need for more housing in New Mexico. Home Smart applies for a New Homes Tax Credit from the CDFI Fund.

Home Smart then identifies Built Solid, a construction company based in Las Cruces, New Mexico, as a viable qualified construction business. Invest Well, an investment firm, raises \$1 million to invest in new home construction. Home Smart swaps the tax credits with the funds raised by Invest Well. Invest Well holds a qualified equity interest in Home Smart and receives tax credits that will reduce its taxable net income by 39% of its investment over five years. In this case, the taxable net income of Invest Well will decrease by \$390,000 throughout the five years following investment.

The funding per house Home Smart can allocate is capped by a percentage of the median area sales price as determined by the Department of Housing and Urban Development for the HOME and Housing Trust Fund programs. The [limit](#) in Las Cruces for a new, 1-unit home was \$261,000 in 2023. Home Smart can give up to 20% of that limit for new construction or 15% for renovations. 20% of \$261,000 means that the maximum amount per house Home Smart can furnish is \$52,200. Home Smart can invest in roughly 17 houses if each house construction project receives the maximum amount.

Built Solid constructs 17 houses and Home Smart ensures that the buyers are qualified, earning less than 120% of the [area median income](#), or just under \$85,000 for a family of four in Las Cruces. At closing, Home Smart provides the funds to Built Solid, which must use those funds to pay for the qualified construction project.

Framework of the New Homes Tax Credit

