

# **NH&RA**

## **Washington 2014**

**Tax Reform, the future of the LIHTC and  
the role of Advocacy:  
Federal Legislative Update**



# Agenda

- **Tax Reform**
- **Extenders/9% & 4% Fixed LIHTC**
- **Permanent Fix Legislation**
- **The Role of Advocacy**
- **The Future**

# The Chairman



## The Tax Reform Act of 2014

### ***Specific Provisions Related to LIHTC***

***Allocation of basis:*** Under the provision, State and local housing authorities would allocate qualified basis, rather than credit amounts. The annual amount of allocable basis for each State would be equal to \$31.20 multiplied by the State's population, with a minimum annual amount of \$36,300,000.

***Credit period:*** Under the provision, the credit period would be extended from 10 years to 15 years to match the current 15-year compliance period.

***Repeals Recapture rules:*** Because the credit period would be aligned with the compliance period, the recapture rules would be repealed.

***Repeals 4% Credit:*** The 4-percent credit would be repealed.

***Credit amount:*** The 9-percent credit for newly constructed property and substantial rehabilitations would be retained. The amount of the credit would continue to equal the qualified basis in the qualified low-income building multiplied by the applicable percentage.

***Floating rate:*** The IRS would determine the applicable percentage generally for the month that the building is placed in service, which would be equal to the percentage that would yield over a 15-year period a credit amount that would have a present value equal to 70 percent of the qualified basis of the building.

***Repeals Basis boost for QCT's and DDA's:*** The increased basis rule for high-cost and difficult development areas would be repealed.

***Eliminates General Public Use:*** The general-public-use requirement would be revised to eliminate the special occupancy preference for members of specific groups. Only preferences for individuals with special needs and for veterans would remain.

***Eliminates Special preferences:*** The provision would repeal the requirement that States include in their low-income-housing selection criteria the energy efficiency of the project and the historic nature of the project.

# Points of Concern

- Extended credit period could hurt investment
  - Pricing vs. Yield
- Preservation and acquisition without 4% LIHTC
- Difficult to develop in very low income areas
- Diminished state control

# Where do we go from here?

- Meeting with W&M Staff on proposal
  - They do not understand the mechanics of LIHTC
  - They do not understand the market
  - They want the program to work

# The Senate



**Senator Wyden (D-OR)**



**Senator Hatch (R-UT)**

- Hearings this summer examining tax incentives and how corporations are taxed.
- First steps in push for comprehensive tax reform.

# 9% & 4% Fixed LIHTC

- Tax Extenders
  - Senate Finance passed bill including 9% & 4% LIHTC.
  - House Ways and Means focused on long track.
- Permanent 9%/4% fix
  - Senate Bill introduced – S. 1442
  - House Bill pending



# We Are The Champions



**Sen. Cantwell (D-WA)**



**Sen. Roberts (R-KS)**



**Cong. Tiberi (R-OH)**



**Cong. Neal (D-MA)**

# Advocacy



## Illinois Fact Sheet

The Low Income Housing Tax Credit (Housing Credit) program is the most successful affordable housing program in our nation's history, producing and preserving over 100,000 affordable rental homes annually through public-private partnerships.

### History of the Housing Credit's Success in Illinois

- 72,075 affordable apartments
- 83,607 jobs created
- \$6.3 billion of local income
- \$619.8 million in state and local revenue
- \$1.8 billion in federal revenue

As the fundamental housing resource used to transform communities, the program creates quality affordable housing for working families and people with special needs (such as the elderly, the disabled, veterans and the homeless) in urban, suburban, and rural communities throughout the country.

Since its creation as a provision in the Tax Reform Act of 1986, more than **\$75 billion of private equity capital** has been leveraged in order to help finance more than **2.5 million affordable rental homes** throughout the nation. In **Illinois**, the Housing Credit has provided critical financing for the development of **72,075 affordable homes**.

Given our nation's fiscal challenges, Congress has been considering deficit reduction solutions and tax reform options. During these discussions, it is important to recognize that the Housing Credit is a

proven and efficient means for creating affordable housing. Through public-private partnerships, the Housing Credit elicits a private-sector discipline as investors can claim tax credits only if the affordable housing is properly managed and maintained. This "pay-for-performance" model has been a critical component of the Housing Credit's success. Housing Credit properties have an extraordinarily low foreclosure rate of only 0.62 percent over the history of the program, according to the Reznick Group. Moreover, the risks are borne entirely by private-sector participants. Through the loss of tax credits, investors - not American taxpayers - are penalized for projects that fail to meet the stringent and ongoing affordable housing requirements.

The Housing Credit has a direct economic impact for local communities through both the development of infrastructure and job creation, as substantiated by economic analyses conducted by the National Association of Home Builders. The Housing Credit supports approximately 95,000 jobs annually - most of which are in the small-business sector - and the Housing Credit has created more than **83,607 jobs in Illinois** over the past 25 years. Additionally, the impact of construction and the ongoing operations of the affordable apartment communities attracts significant private investment and generates substantial tax revenue for states and municipalities. Since the program began, **Illinois** has allocated **\$5.2 billion** in new construction and substantial rehabilitation on Housing Credits throughout the state. During this period, investment has led to a return of **\$6.3 billion** in local income for **Illinois** communities, and **\$619.8 million** in state and local tax revenue for **Illinois**. In 2010, **Illinois** benefited from **4,420** new affordable apartments, **5,127** new jobs, over **\$38 million** in tax revenue, and **\$387.2 million** in income for state localities due to the private investment in **Illinois** communities.

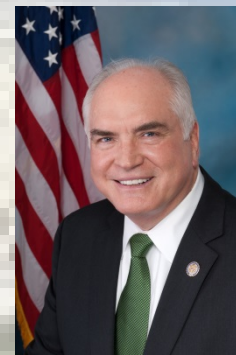
Perhaps even more important than its economic impact is the importance of the Housing Credit in addressing the substantial unmet national demand and rapidly growing need for affordable rental homes. A 2011 Joint Center for Housing Studies of Harvard University report found that only 11.6 million affordable rental homes are available for 18 million low-income families. There is an unmet need for 6.4 million affordable homes, and this number will only continue to grow as more families become burdened by housing costs and the affordable housing stock deteriorates. Over the past decade, this persistent rental affordability problem has collectively grown worse in all of our nation's top 100 largest metropolitan areas.

In order to address our nation's rental affordability challenges, minimum rates for the allocated Housing Credits should be made permanent as a means of maintaining stability in the affordable housing industry. Historically, the Internal Revenue Service has calculated the 70 percent and 30 percent present value credits for newly constructed and existing properties based on medium and long term interest rates. When applied to Housing Credit investments, this floating rate system creates uncertainty and financial complexity. The Housing and Economic Recovery Act of 2008 (HERA) provided for a 9 percent fixed floor rate for newly constructed and substantially rehabilitated properties placed in service through 2013. Making permanent the minimum 9 percent fixed floor as well as providing a minimum 4 percent rate for acquiring existing properties will boost affordable housing development by making it more financially feasible. Ensuring this continued development activity will not only help to provide a solution to our nation's housing challenges, but will also promote job creation and retention in communities throughout the country.

[www.rentalhousingaction.org](http://www.rentalhousingaction.org)



# Ways and Means Member Site Visits



# HUD Advocacy Targets

## Senate



## House



# See is Believing

- Mobilize grassroots to engage elected officials
- Gather economic data to bolster effort
- Identify properties in target member states/districts
- Site visits - Show them what the housing programs are and accomplish versus what they think

# The Next Congress

## Senate Finance Committee



Sen. Wyden  
(D-OR)



Sen. Hatch  
(R-UT)



Sen. Schumer  
(D-NY)



Sen. Crapo  
(R-ID)

## House Ways and Means Committee



Rep. Ryan (R-WI)



Rep. Levin (D-MI)



Rep. Hensarling (R-TX)



Rep. Waters (D-CA)

## House Financial Services Committee

**Thank You!**

**David Gasson  
Boston Capital**

**&**

**Housing Advisory Group**

**[Dgasson@housingadvisorygroup.org](mailto:Dgasson@housingadvisorygroup.org)**

