



Watching and Waiting on the Dividend Exclusion

By Michael J. Novogradac, CPA

President George Bush's proposal to exclude certain corporate dividend payments from federal income taxes has the tax credit industry abuzz. No one is sure what the final version of the proposal will be, but the plan, as written, has caused concern on how it will affect corporate tax credit investors, the foundation of the industry. As initially outlined, the Bush proposal allows individuals to receive tax free dividends from corporations to the extent such dividends were paid out of income previously taxed at the corporate level. If corporations chose not to distribute income taxed at the corporate level, then individual shareholders would get a step-up in the basis of the stock for the unpaid dividends. (See related stories on page 1 and page 8.)

David Kunhardt, vice president of community investments for AEGON USA Realty Advisors Inc., has talked with several major investors and says they are "on tenterhooks – stretched taut and reverberating in the wind."

"No mature proposal has been brought to the fore," he says. "We're in a watchful but not discouraged position."

Russell Kaney, director Housing Investments for Heartland Properties Inc., an Alliant Energy company, says his company would definitely be affected, if not for its pending sale. Utility companies, like Alliant, could be forced to put the brakes on future investments

in affordable housing tax credits. As payers of dividends, utility companies would see their ability to pay out tax-free dividends limited if they invested in LIHTC investments. Similarly, the step-up in basis for undistributed dividends creates disincentives for all corporations with individual shareholders.

The Affordable Housing Investors Council is going to watch the proposal closely and discuss it at its March meeting, "if it's still alive," according to Kunhardt. At press time there was little indication in Washington of the proposal's status, but the industry might want to keep in mind Kunhardt's observation that the lessons learned from the Reagan administration and the three administrations since, along with the great majority of both houses of eight Congresses are that public officials recognize that investment in affordable housing is and will continue to be good public policy.

With those lessons in mind, the LIHTC industry should marshall all the support it can for a carve-out provision for the LIHTC. The LIHTC community should ask Congress and the Bush administration to treat the LIHTC as equivalent to a tax payment. If federal income taxes are reduced by the LIHTC, then the associated income should be considered previously taxed income, eligible for tax free distribution or basis step-up for individual shareholders. ❖

UPCOMING LIHTC EVENTS

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| May 15-16, 2003 | Credit and Bond Financing For Affordable Housing Conference
Ritz-Carlton New Orleans, New Orleans, La. |
| July 17-18, 2003 | Urban Revitalization: An Affordable Housing Conference
Renaissance Chicago Hotel, Chicago, Ill. |
| September 18-19, 2003 | 10th Annual Affordable Housing Conference
The Argent Hotel, San Francisco, Calif. |

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