

Novogradac Report on Tax Credits **Summary: July 20, 2010**

Michael J. Novogradac, CPA, reviews the financial reform bill passed by Congress, covers the status of tax extenders legislation, discusses the small business tax and lending bill and shares information on energy legislation. He also discusses the National Commission on Fiscal Responsibility and Reform. Finally, he reviews some tax credit tidbits and closes with the tax credit calendar.

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CONGRESSIONAL UPDATE

Financial Reform

- On July 15th the Senate passed the a comprehensive financial reform bill by a vote of 60-39, following House passage last month.
- Three northeastern Republicans joined with Democrats to block a filibuster, allowing just enough votes for the bill to pass.
- Of primary significance to the tax credit community is a provision in the bill referred to as the Volcker Rule.
- The Volcker rule will limit equity investments by financial institutions. There is some concern about the impact on the tax credit market, but there is a general sense that the limitation would not apply to certain types of public welfare investments, such as low-income housing tax credit investments.
- I encourage you to visit our archives and download the June 8th podcast to hear more analysis of the bill and its potential impact.
- In addition, in the August issue of the Novogradac Journal of Tax Credits, John Leith-Tetrault discusses the Volcker rule in greater detail and specifically its potential effect on historic tax credit investment.
- Attention now turns to implementing the new law; hundreds of new rules and studies are required and new agencies will need to be created, such as the Financial Stability Oversight Council, the Office of Financial Research, the Office of National Insurance and the Bureau of Consumer Financial Protection.
- Discussion has also begun regarding a possible technical correction bill; if you have identified a needed technical correction to the financial reform bill, or if you have identified an adverse impact on tax credit investments, send an e-mail to michael.novogradac@novoco.com or CPAs@novoco.com.

Tax Extenders

- Shortly before final Senate passage of the financial reform bill, Senate Majority Leader Harry Reid announced his intention to carve the unemployment insurance provision out of the extenders and vote on extension of unemployment insurance this week.
- This opened to door for doubt about the rest of the bill's provisions, including its housing and community development provisions.
- The Housing Advisory Group (HAG) reports that while there is still optimism that an extenders package that includes housing and community development provisions would pass this year, the timing is very much up in the air.
- There is some chance that the extenders bill could be resurrected in the work period that remains until the August recess, but it's very possible that the earliest it will be considered is September and more likely not until after the November elections.

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- This would not be an ideal result for many of the extenders, including an extension of the 9 percent low-income housing tax credit exchange program for 2010.

Small Business Lending and Tax Bill

- The Senate is expected to continue considering the small business lending and tax bill this week.
- The ACTION campaign reports that Senate supporters are continuing to work with Senate Finance Committee Chairman Baucus and the Congressional Joint Committee on Taxation to revise their substitute amendment including the 5-year existing low-income housing tax credit carryback proposal
- ACTION reports that efforts are underway to reduce its cost to \$500 million or less so that it may be absorbed into the substitute amendment.
- Follow @Novogradac on Twitter for updates during the week, and tune in for more information in next week's Tax Credit Tuesday podcast.

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ENERGY LEGISLATION

- The House Ways and Means Committee is reported to be developing an energy package that could be considered in committee this week or next.
- In its Washington Update, Williams & Jensen reports that based on materials being circulated, the House will propose a \$20 billion bill that would include the following proposals:
 - Expand and add \$3 billion in Section 48C advanced energy manufacturing tax credits,
 - Extend the Section 1603 in lieu of tax credits program through 2012,
 - Extend investment tax credits for geothermal and offshore wind energy projects, and
 - Provide \$3.5 billion in additional Clean Renewable Energy Bonds (CREBs)
- Williams & Jensen note that offsets for the bill are not yet clear but they are expected to include eliminating oil and gas tax preferences.
- In the Senate, Majority Leader Harry Reid confirmed he will bring an energy bill to the floor this month.
- Sen. Reid's bill is expected to include a tax package from the Senate Finance Committee.

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NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

- On July 14th at an event hosted by the U.S. Chamber of Commerce, co-chairman Erskine Bowles and Sen. Alan Simpson stated that the commission is considering a number of ideas including changes to certain tax breaks and cuts in government spending in the effort to produce recommendations to reduce the federal deficit, according to Williams & Jensen's Washington Update.
- Any recommendations the commission has could have a significant impact on tax credit investments.
- The commission was created to provide recommendations to Congress.
- The recommendations are due by December 1, 2010.
- Williams & Jensen notes that the focus of the commission is to develop recommendations that meaningfully improve the long term fiscal outlook.
- This commission is made up from six appointees from President Obama and 12 members who were appointed by Senate and House leaders.
- To date, the commission has held three formal meetings.
- The next meeting is scheduled for July 28.
- The group's final report will require approval of at least 14 of the commission's 18 members.

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TAX CREDIT TIDBITS

GAAP Concerns for Tax Credit Corporate Investors

- Tax credit corporate investors are generally very concerned about the generally accepted accounting principles (GAAP) treatment for their tax credit investments.
- The target date for the convergence of U.S. generally accepted accounting principles and international financial reporting standards is June 2011.
- The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have been working since 2002 to improve and converge U.S. generally accepted accounting principles and international financial reporting standards.
- Bentley Stanton, CPA, a partner with Novogradac & Company has been heading up a task force within Novogradac & Company to focus on this convergence project and the impact it will have on the financial reporting for tax credit investments.
- If you have ideas, please send an e-mail to michael.novogradac@novoco.com or cpas@novoco.com.
- Information on how this convergence is likely to affect tax credit investments will be presented in future podcasts and the Journal of Tax Credits.

GAO Reports on DOE Loan Guarantee Program

- The Government Accountability Office found that the Department of Energy's loan guarantee program needs improvement
- GAO found inconsistencies in the program during a congressionally-mandated review.
- GAO detailed its findings in a report released on July 12th.
- You may access a copy of the GAO's report, including DOE's written comments, online at www.energytaxcredits.com.

Property Management Handbook

- Novogradac & Company's LIHTC Property Management Handbook was recently updated with important new information on income and rent limits, utility allowances and building rules and regulations, as well as Change 3 of HUD Handbook 4350 and the IRS 8823 Guide. It's available for purchase online at www.novoco.com/products.

Energy legislation

- Sens. Amy Klobuchar and Tim Johnson introduced an energy bill, the Securing America's Future with Energy and Sustainable Technologies Act (SAFEST).

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- The SAFEST bill establishes renewable energy and energy efficiency standards, incentives for developing biofuels and biofuel infrastructure, and targets for the availability of advanced vehicle technologies.
- More information, and a summary of the bill, can be found online at www.energytaxcredits.com.

AWEA ANNOUNCES NEW OFFSHORE WIND COALITION

- On July 17th the American Wind Energy Association (AWEA) announced the formation of the Offshore Wind Development Coalition (OffshoreWindDC).
- The coalition will focus on advocacy and education efforts to promote offshore wind energy.
- Founding members and contributors to the Offshore Wind Development Coalition, in addition to AWEA, include
 - Apex Wind,
 - Cape Wind,
 - Deepwater Wind,
 - Fishermen's Energy,
 - NRG Bluewater Wind,
 - OffshoreMW, and
 - Seawind Renewable.

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TAX CREDIT CALENDAR

Novogradac & Company's 17th Annual Affordable Housing Tax Credit Conference

- Take advantage of the special listener discount to Novogradac & Company LLP's 17th Annual Affordable Housing Tax Credit Conference in San Francisco. Register online at www.novoco.com by July 28, and enter coupon code PODCAST1 during checkout to save \$100 off the registration rate.

Fair Housing Conference

- In New Orleans this week the U.S. Department of Housing and Urban Development is holding a national fair housing conference.
- The five-day conference will feature leading scholars, advocates, government officials, and community leaders focused on
 - providing equal housing opportunities,
 - increasing economic opportunities for low-income individuals, and
 - meeting the needs of persons with disabilities.

Online Event: Weatherization Assistance Program

- Next week on July 27th, Enterprise, the National Housing Trust and local weatherization providers who serve multifamily rentals will present a free online training on the Recovery Act's Weatherization Assistance Program. The session will include information on:
 - how to find a provider and apply for services. The presentation will include
 - multifamily weatherization project successes
 - news of the latest developments of the HUD-DOE Weatherization Assistance Program interagency partnership
 - promising state agency strategies for increasing multifamily weatherization.
- To learn more, visit www.nhtinc.org.