NOVOGRADAC TAX CREDIT TUESDAY PODCAST

Summary: May 8, 2018

In this week's Tax Credit Tuesday Podcast, Michael J. Novogradac, CPA, shares the latest on whether listeners might see more tax reform this year, as well as updates on the population figures used to calculate state low-income housing tax credit allocations, Housing Trust Fund increases and what conference attendees learned about solar tariffs at the Novogradac 2018 Financing Renewable Energy Tax Credits Conference last week. After that, he shares a HUD notice about the Rental Assistance Demonstration program, as well as a report on the amount of renewable energy investment tax credits and production tax credits claimed by taxpayers in recent years.

Summaries of each topic:

GENERAL NEWS

Tax Reform 2.0

- In general news, let's consider how likely we are to see follow-up legislation to the tax bill enacted last year.
  - The answer, as with many things, depends on whom you ask.
  - Many lawmakers and lobbyists say there's not much appetite to take on another tax bill.
  - But, the head of the House's chief tax-writing committee, the House Ways and Means Committee, thinks otherwise.
  - So we could see legislation introduced, but many doubt the legislation could be passed.
- More specifically, House Ways and Means Committee Chairman Kevin Brady told Fox News last week that he is planning a follow-up bill to make certain tax cuts permanent.
- Brady said that he and President Donald Trump think that tax reform isn't something that should be enacted every 30 years.
  - He said Congress and the president should work to improve the tax law every year.
  - Brady said he hopes to vote on a follow-up tax bill before the mid-term elections, before November.
  - One of the provisions he mentioned would be to make the individual tax cuts that were contained in H.R. 1 permanent.
  - Brady told Fox Business Network that he wanted to make other provisions of the original tax bill permanent as well.
- Now many in Congress say there's little chance of this happening, though.
  - For instance Sen. Marco Rubio, who voted for the bill, was quoted in the Economist saying he wasn't sure how the corporate tax cut helped most Americans.
- A few days later, though, Rubio wrote an op-ed for the National Review in which he further explained his comments and walked back some of the criticism.
- Still, the issues Rubio expressed about the tax bill benefits backed up claims that more tax reform legislation will be very difficult to introduce, let alone pass.
- I'll keep you posted on this matter, and as conditions warrant, discuss it again in future podcasts and in future tweets from my Twitter account.

IRS Population Figures

- Moving on to affordable housing, the IRS last week released the official population figures for the 2018 calendar year.
- Now the IRS uses those figures for purposes of calculating state allocations of low-income housing tax credits (LIHTCs) and private activity bonds.
- So what's the big picture?
  - The big picture is that the population increased by 0.7 percent nationwide to 325.7 million residents.
  - This translates into about a 0.7 percent increase in volume cap LIHTCs from what would otherwise be available given the prior year population.

  - More specifically, the big gainers in population were Texas and Florida in terms of numeric growth while Idaho and Nevada had the largest growth of population on a percentage basis.
- Now thanks to the fiscal year 2018 omnibus spending bill, the IRS population figures are going to be multiplied by $2.70 to calculate the state LIHTC cap.
  - Similarly, a state's population is multiplied by $105 to calculate the state private activity bond cap.
- Now there is a small-state minimum of about $3.1 million for LIHTCs and a bit over $310 million for tax-exempt bonds, or I should say more specifically, private activity bonds.
- Now the states that gained the most population also gain the most LIHTC allocation authority.
- The top five gainers numerically are:
  - Texas,
  - Florida
  - California,
  - North Dakota and
  - Georgia
- Now there were seven states whose population dropped.
- However, four of those states are eligible for the small-state LIHTC minimum.
  - Which means the decrease won't affect their caps.
- Now the states whose population decreased but will still get the small-state minimum are:
  - Alaska,
  - North Dakota,
  - Vermont and
  - Wyoming
- Now the other three states that had decreases in population but aren't eligible for the small-state minimum are West Virginia, Mississippi and Hawaii.
- But thanks to the 12.5 increase in the recent budget bill, those states will still see an increase in LIHTCs to allocate over the prior year.
- Now I have a blogpost on our website with more details of the IRS population figures and what they mean.
- And I've also added a link to the blog post in today's show notes.

HTF Increases

- Meanwhile, turning to HUD, HUD recently announced the final allocations for the Housing Trust Fund, or HTF.
- The amount allocated to the HTF is $266.8 million.
- This is a 22 percent increase over 2017.
  - An HTF formula determines the distribution of the funds and like with the LIHTCs and private activity bonds, there is a small-state minimum.
  - We've published a blog post that lists the amounts for each state.
  - As expected, it's led by California and New York.
  - Twenty-four states and the District of Columbia received the small-state minimum of $3 million.
- The link for the blog is included in today's show notes.

Philip Shen

- Last week was our financing renewable energy tax credits (RETCs) conference in San Francisco.
- As a follow-up to the conference, I wanted to share some insights provided from one of our featured speakers: namely Philip Shen, a cleantech analyst from Roth Capital.
    - Shen talked about how the Section 201 solar tariff has affected industry pricing in the United States as compared to the rest of the world.
- One influencing factor in the analysis is the type of solar cell technology.
- Specifically, Shen talked about the difference between multi- and mono-PERC.
    - That’s right, PERC, that’s P-E-R-C.
    - That stands for passivated emitter rear cell.
    - Simply put, PERC is a technology that allows cells to produce higher power outputs.
    - For purposes of this podcast, all you need to know is that the difference between multi- and mono-PERC cells creates a pricing difference.
- For multi-PERC cells, Shen said pricing is about 42 to 43 cents per watt for pre-tariff product and 45 to 46 cents for post-tariff product – two to three cents more.
- Due to shorter supply, mono-PERC technology goes for the high 40s to 51 cents per watt.
- So overall, that’s between 42 to 51 cents per watt in the United States.
    - Now globally, pricing is between 34 to 38 cents, a pretty big difference.
- This increase in pricing has caused some developers to shelve certain projects because they no longer pencil.
- One other concern though to keep an eye on is the possibility of the Trump administration enacting an additional $100 billion Section 301 tariff that could include inverters.
- That was discussed a lot at the conference.
    - Section 301 is a part of the Trade Act that allows the executive branch to respond not only through actions related to specific goods and services, but in any area of relations with a country with unfair trade practices.
- We’ll keep monitoring that and we’ll share any information as it becomes available in future podcasts and on Twitter.
- I want to once again thank Philip Shen for joining us and sharing his perspective on the solar tariff.

OTHER NEWS

- In other news, HUD issued a memo with new guidelines recently for public housing agencies that are closing a Rental Assistance Demonstration, or RAD, transaction.
- The memo applies after the agencies get a RAD conversion commitment, or what's called an RCC.
  - According to the memo, agencies have 90 days to close their transactions after receiving an RCC.
  - That is, unless they receive an extension from HUD.
  - HUD created a new status, called delayed submission status.
  - This is for properties whose closing packages aren't received by HUD two months after the RCC is issued.
  - Now if there is no evidence that the agency is progressing towards closing, then the RCC may expire.
- A link to the memo is included in today's show notes.
- And if you work with RAD transactions, you want to make sure you review the memo.
- And lastly, on the renewable energy front, the U.S. Energy Information Administration released its annual report on federal interventions and subsidies in energy, this one for 2016.
  - So what's the takeaway?
  - The amount claimed using the renewable energy production tax credit (PTC) and investment tax credit (ITC) dropped from 2013 to 2016.
  - The amount claimed in ITCs fell from $2 billion to $1.4 billion.
  - The amount of PTC claimed dropped from $1.7 billion to $1.4 billion.
  - Now the report says that the main reason for the drop is that the Section 1603 grant program expired.
  - You can find a link to the report in today's show notes.

RELATED RESOURCES

IRS Population figures
Blog post on states seeing increases to LIHTC, Bond caps

HTF Fund Allocations
Blog post on HTF Funding

HUD Memo on RCCs
Notice from HUD to CHAP Awardees

PTC, ITC Report from EIA
Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2016

Novogradac's 25th Annual Affordable Housing Conference
Web page with information, registration