Summary: Oct. 22, 2019

In this week's Tax Credit Tuesday Podcast, Michael J. Novogradac, CPA, talks about the introduction of the Senate version of the Historic Tax Credit Growth and Opportunity Act, or the HTC-GO Act. Then he talks about HUD's release of difficult development areas and qualified census tracts for 2020, and introduction of Sen. Kamala Harris' Ending Homelessness Act of 2019. Next he shares highlights form the Novogradac 2019 New Markets Tax Credit Fall Conference, including keynote speakers and informative panels on the extension of the new markets tax credit incentive through 2020. He also shares information on the Home Energy Savings Act (S. 2588) to extend the Section 25C credit and the New Home Energy Efficiency Act (S. 2595) to extend the Section 45L tax credit. Finally, he discusses House Bill 532 for opportunity zones investments in Wisconsin, and shares what to expect at the Novogradac 2019 Opportunity Zones Fall Conference.

Summaries of each topic:

GENERAL NEWS

HTC Growth and Opportunity Act

- Last week, a long-anticipated bill was introduced in the Senate
  - A bill to bring more value to historic tax credit investments,
  - And also to encourage redevelopment of smaller, income-producing properties.
- I'm talking, of course, about the Historic Tax Credit Growth and Opportunity Act or HTC-GO Act, as it's also known.
- This is legislation that one of its lead Senate sponsors mentioned at our Novogradac Historic Tax Credit Conference in St. Louis, this past September.
  - Those of you who joined us at the event will remember that our keynote speaker, Sen. Bill Cassidy from Louisiana, said that he planned to introduce historic tax credit enhancement legislation.
  - Well, the bill was officially introduced last week.
- The Senate legislation, S. 2615, and it is similar to a House bill, H.R. 2825, that was introduced in May.
- The Senate bill
  - eliminates the historic tax credit basis adjustment requirement,
  - the bill increases the historic tax credit from 20 percent to 30 percent for properties with rehabilitation expenses of less than $3.75 million and it is capped at an overall credit of $750,000.
  - The bill also makes it easier to satisgy the substantial rehabilitation test as well as
  - expanding the ability of nonprofits to lease historic tax credit properties.
- As I said, the Senate bill is a companion bill to the House version of the legislation, but for one change: The Senate bill does <u>not</u> allow the transfer of historic tax credits as a tax certificate for developments with qualified rehabilitation expenses of less than $2.5 million.
- That provision was left out of the senate bill, but it is in the House Bill.
- Overall, both the House and Senate bills are meant to increase the tax benefits available to historic tax credit properties so as to attract more capital from investors, in turn making more developments financially feasible.
- It is also designed to increase the availability of tax credit properties to lease to nonprofits.
- Support for this legislation is bipartisan, and obviously now bicameral.
- Original cosponsors of the Senate are:
  - Republican Sen. Bill Cassidy of Louisiana,
  - Democrat Ben Cardin of Maryland,
  - Republican Susan Collins of Maine and
  - Democrat Maria Cantwell of Washington.
- The House version of the bill is likewise, bipartisan, with original sponsors being:
  - Democrat Earl Blumenauer of Oregon,
  - Republican Darin LaHood of Illinois,
  - Democrat Terri Sewell of Alabama and
  - Republican Mike Kelly of Pennsylvania.
- The House bill has 51 cosponsors to date, including 27 Democrats and 24 Republicans.
- With demonstrated support from both sides of the aisle, the hope is to include provisions of this legislation in other must-pass legislation.
- I've included a link to both versions of the bill, the Senate and the House, in today's show notes and I'll tweet them out as well.

2020 DDAs, QCTs

- Now, turning to housing news, the Department of Housing and Urban Development, HUD, has released the list of difficult development areas and qualified census tracts for the year 2020.
- These are also known as DDAs and QCTs.
- As you may know and as I mentioned earlier, low-income housing tax credit properties that are located in DDAs and QCTs are qualified to increase their eligible basis by 30 percent for new construction and rehabilitation costs.
- This 30 percent boost in basis translates to a correspondingly larger maximum low-income housing tax credit allocation, and thus more potential tax credit equity.
- As a consequence, this makes DDAs and QCTs a particular interest to developers.
- The recently announced DDAs and QCTs are effective for low-income housing tax credit allocations after Dec. 31, 2019.
  - The DDAs and QCTS are also in effect for bond-financed properties where the bonds are issued and the building is placed in service after Dec. 31, 2019.
  - Obviously, if you have a property that's in and now is out or was out and now in the release of these DDAs are particularly relevant.
- I'll have analysis in next week's podcast that does compare DDAs and QCTs in 2019 vs. 2020.
- In the meantime, you can find a list of the 2020 QCTs and DDAs on the Novogradac website.
- I'll also include a link today's show notes and tweet it out.
- Also in the interim, you can also contact my partner Thomas Stagg to ask him and find out how the new QCTs and DDAs may affect your low-income housing tax credit development.

Harris Homelessness Bill

- In last week's podcast, I talked about news about two housing plans that were released by Democratic presidential hopefuls, Michael Bennett and Beto O'Rourke.
  - They each introduced separate plans or released separate plans that I discussed in last week's podcast.
- On Wednesday last week, another Democratic presidential candidate made headlines with a housing proposal of her own: A senate bill.
- Sen. Kamala Harris of California introduced the Ending Homelessness Act of 2019.
  - This bill is a companion to legislation introduced in the House by House Financial Services Committee Chairwoman Maxine Waters, she's also of California in the L.A. area.
- The Ending Homelessness Act would provide $2.5 billion over five years for new special purpose Section 8 housing choice vouchers.
- These vouchers as funding would enable about 300,000 additional vouchers, with a preference for the homeless.
- The bill would also appropriate $5 billion over five years for the National Housing Trust Fund intended to create about 25,000 affordable rental homes, for which homeless or formerly homeless households would get priority.
- There are other provisions of the bill:
  - The bill would provide $5 billion over five years for McKinney-Vento homelessness assistance grants,
  - $500 million over five years for case management and social services outreach as well as

  - $20 million for states and localities to integrate healthcare and housing initiatives.
- The Senate bill does have five Democratic original cosponsors, and they include fellow Democratic presidential candidate Amy Klobuchar of Minnesota as well as former presidential candidate Kirsten Gillibrand of New York.
- The other three original cosponsors are:
  - Mazie Hirono [MAY-zee Hee-RO-no (rhymes with kimono)] of Hawaii,
  - Patty Murray of Washington and
  - Richard Blumenthal of Connecticut.
- Meanwhile, the House bill that Chairman Waters introduced in March has 47 cosponsors, they're all Democrats.
- The House bill was approved by the Financial Services Committee on July 5, but it's not yet been scheduled for a House floor vote.
- I will include a link to both versions of the Ending Homelessness Act in today's show notes.
  - You may have also seen a column I wrote for the October issue of the Novogradac Journal of Tax Credits
  - In the column, I rank Democratic presidential candidates and their stances on affordable housing.
  - Actually, I rated them, didn't rank them.
  - That column was written before these most recent developments, so they are not reflected in the ratings.
  - I will be updating the ratings and making them available in a blog post, but
  - I'd also like you to know that we will continue to monitor the other candidates' positions on affordable housing and as other releases come out, we'll adjust our ratings accordingly.
  - We do expect the candidates' policies to continue to emerge and evolve

NMTC Conference

- Next, I want to share some highlights from last week's Novogradac 2019 New Markets Tax Credit Fall Conference held in Austin, Texas.
- Our keynote speaker was Sen. Steve Daines.
  - U.S. Sen. Steve Daines is a Republican from Montana and he's a co-sponsor of the New Markets Tax Credit Extension Act of 2019.
  - He's one of 30 cosponsors in the Senate.
- At the conference, Sen. Daines spoke extensively about the general health of the American economy.
  - Sen. Daines said that the new markets tax credit is a key contributor to economic health, primarily because the credit spurs so much private investment.
  - The senator, in fact, pointed to the new markets tax credit's impressive ability to leverage $8 in private investment for every $1 invested by the federal government in new markets tax credit incentive.
- Sen. Daines serves on both the Senate Finance Committee and the Senate Appropriations Committee, which is unusual.
- He said that supporters of the new markets tax credit in Congress are working hard to get an extension bill passed this year.
  - As you know, the calendar year 2019 round of the new markets tax credit is the final approved round for a five-year extension that passed at the end of 2015.
- Sen. Daines did say, and I quote, "We are all very aware that it is an expiring provision. Be aware that you have a strong advocate and a lot of bipartisan support," end quote.

- Sen. Daines said that the new markets tax credit is an important part of the continued growth of the American economy and of American prosperity.
- We at Novogradac would like to thank Sen. Daines for his time and for his advocacy for the new markets tax credit.
- The senator's discussion of the possibility of extending the new markets tax credit was a continuation of one of the themes of the conference.
- There was a lot of discussion during my Washington Report panel about the chances that legislation to extend the new markets tax credit would be enacted.
- Plans to attach this extender legislation to other tax legislation are complicated by the potential impeachment of President Trump.
    - There was optimism from my co-panelists that President Trump and Congress will want to show that they can continue to run the government even if impeachment hearings are happening.
    - So it's not <u>impossible</u> that tax legislation could still pass.
    - As you probably know, the most likely path for any extension legislation is for extenders to be attached to other must-pass legislation.
    - The New Markets Tax Credit Extension Act has tremendous bipartisan support, which will hopefully work in its favor in getting it attached to a must-pass vehicle.
- Merrill Hoopengardner of the National Trust Community Investment Corporation emphasized that supporters of the credit need to make sure that the extension legislation is connected to another bill that will pass.
    - I would note, the government's continuing resolution expires Nov. 21, so that could be the next best chance.
- Bob Rapoza of Rapoza Associates, who also manages the New Markets Tax Credits Coalition, said that he expects the best chance for extension legislation is the funding bill that will likely pass in the first quarter of 2020.
- He's thinking there's a good chance that we'll have a series of budget extensions until we get a funding bill in the first quarter of 2020.
- Bob emphasized his point about being tied to a funding bill by noting that the legislation that enacted the new markets tax credit was a spending bill, and every piece of legislation that has extended the new markets tax credit has also been a spending bill.
- By the way, Bob also shared that New Markets Tax Credit Coalition members and other advocates for an extension of the credit continue to meet with members of Congress.
    - The New Markets Tax Credit Extension Act of 2019, in fact, has more cosponsors now than any previous extender legislation.
        - There are 103 co-sponsors in the House and 30 in the Senate, and those numbers might have since changed since our meeting last week.
    - Bob said that advocates are emphasizing a five-year extension and an increase in allocation authority to $5 billion in their meetings with members of Congress.
- One other session from the conference that I wanted to discuss was the investor market outlook session.
- Our panelists discussed the state of the investor market for new markets tax credits and they did say that they expect the coming year to be very busy.
    - Yes, panelists expect a busy year despite uncertainty about whether and when the new markets tax credit would be extended beyond the 2019 round.
    - One possibility, of course, is that the credit will be extended sometime in 2020, but that the delay in the extension will cause a delay in the opening round.
    - The panelists did say that a potential delay in the next round would not necessarily affect the appetite or equity investment pricing for the credit.

  - But obviously, no delay or lapse in allocation authority is ideal.
  - As with any investment incentive, predictability is a pillar of effectiveness.
- I'd like to thank everyone for making the new markets tax credit conference a success.
  - Including Sen. Daines, all of our panelists, cohosts, sponsors, exhibitors and all who attended.
  - I want you to know though, we haven't stopped.
  - Our next new markets tax credit conference will be held in January in San Diego.
  - I encourage you to join us there, we have a lot in store.
  - I'll include a link to the conference registration page in today's show notes.

OTHER NEWS

- Let's turn now to some energy news.
- Legislation was introduced in Congress to extend two energy tax incentives that expired at the end of 2017.
  - First, the Home Energy Savings Act would extend the Section 25C tax credit for qualified energy efficiency improvements through the end of 2026.
  - The second extenders bill is the New Home Energy Efficiency Act and it would extend and update the Section 45L tax credit.
  - The 45L credit is a credit for new energy efficient homes that is it *was* a credit for new energy efficient homes then it expired in 2017.
  - While the extenders bill would reauthorize the Section 45L credit through the year 2022.
  - We'll discuss these bills and much more and other renewable energy proposals at the Novogradac 2019 Financing Renewable Energy Tax Credits Conference in Washington, D.C., Nov. 7-8.
    - And we have Sen. John Thune of South Dakota will be our keynote speaker.
    - As you may know, Sen. Thune is a member of the Senate Finance Committee and he is the Majority Whip.
    - I do you'll join us there.
    - I'll include a registration link in today's show notes and tweet it out as well.
- In some state-level opportunity zones news, we have more coming out of Wisconsin at the legislative level.
- Specifically, Wisconsin legislators have introduced House Bill 532.
- They introduced the bill last week and it would increase the tax benefit for investors in qualified opportunity funds.
  - House Bill 532, or H.B. 532, is a companion bill to S.B. 440.
  - You may remember from an earlier podcast episode that the Senate version of the Wisconsin bill was introduced in late September.
  - Both House and Senate bills would grant an additional 10 percent capital gains tax reduction for state tax purposes for investors who hold their investment in a Wisconsin-centered qualified opportunity fund for five years.
  - And investors who hold their investment in a Wisconsin qualified opportunity fund for seven years would see the capital gains tax reduction or gain omission increase to 15 percent.
  - Investments would be required to be in qualified opportunity funds that hold at least 90 percent of their assets in Wisconsin opportunity zones businesses or business property.
  - Any federal penalty that would be assessed to an opportunity fund for failure to pass the 90 percent test would also result in an additional state penalty equal to 33 percent of the federal penalty.
  - If the legislation is passed, it would apply to taxable years beginning after Dec. 31, 2018.
  - Links to both proposed bills are available in today's show notes.
  - If you'd like to learn more about proposed and enacted state incentives that support opportunity zones investments, I do encourage you to contact my partner John Sciarretti.

- John is in our Dover, Ohio, office, he heads up the Novogradac-lead Opportunity Zones Working Group and as I'll note in a moment, he'll be in Chicago for our opportunity zones conference this week.

RELATED RESOURCES

HTC GO Act

Historic Tax Credit Growth and Opportunity Act (Senate)

Historic Tax Credit Growth and Opportunity Act of 2019 (House)

2020 QCTs and DDAs

Statutorily Mandated Designation of Difficult Development Areas and Qualified Census Tracts for 2020

2020 Metropolitan Difficult Development Areas

2020 Non-Metropolitan Difficult Development Areas

2020 Qualified Census Tracts - Metropolitan Areas

2020 Qualified Census Tracts - Non-metropolitan Areas

2020 Difficult Development Areas – Data Used to Designate

Contact Thomas Stagg

Ending Homelessness Act of 2019

S. 2613

H.R. 1856

Novogradac 2020 New Markets Tax Credit Conference

Conference Registration

Energy Extenders Legislation

The Home Energy Savings Act (S. 2588)

The New Home Energy Efficiency Act (S. 2595)

Wisconsin OZ Bill

H.B. 532

S.B. 440

Contact John Sciarretti

Novogradac 2019 Opportunity Zones Fall Conference

Conference Registration