NOVOGRADAC TAX CREDIT TUESDAY PODCAST

Summary: July 31, 2018

In this week's Tax Credit Tuesday Podcast, Michael J. Novogradac, CPA, shares the latest updates on Republican efforts to advance phase two of tax reform. After that, he discusses one bill to expand the low-income housing tax credit and another bill to expand the new markets tax credit for certain rural areas. The introduction of these two bill is a notable milestone to potentially getting them enacted in the fall, setting the stage for their enactment next year. He closes out today's podcast with other industry headlines, including a blog post on HUD income data and good news for the state historic tax credit programs in Delaware and Illinois.

Summaries of each topic:

GENERAL NEWS

Tax Reform 2.0

- Now let's talk about Tax Reform 2.0, and what Republicans, at least House Republicans, have in mind.
- Now we start with last Tuesday, when House Ways and Means Committee Chairman Kevin Brady released the House GOP framework for tax reform 2.0.
- House Republicans say they will release Tax reform 2.0 this fall.
- The legislation, as the title implies, is a follow-up to last winter's tax legislation.
- Tax Reform 2.0, if enacted, would make permanent many of the individual and pass-through tax cuts for small businesses that were enacted last year, as well as reform tax treatment of savings and education accounts.
- Now the Republican stated goals of the framework include helping families increase their savings and helping new businesses write off more of their initial startup costs.
- Now one interesting line I should note is the framework calls for the tax code to be examined and improved every year.
    - The document actually likened annual tax code revisions to upgrading apps on your phone.
    - An interesting analogy, but no doubt not as easy as updating apps on your phone.
- Now a Ways and Means Committee press release said that the framework launches the listening sessions that are going to occur between lawmakers and constituents as they head home for the August recess.
- House Ways and Means Chairman Kevin Brady said he expects the bill to be discussed and voted on in the fall.
- Now getting to that point certainly seems plausible.
- That is, discussing it and voting on the bill in the fall in the House.
- But getting Tax Reform 2.0 beyond that isn't very plausible.
- Now it's unclear, or many would say it's actually unlikely, that the Senate will even consider the bill.
- This means the bill isn't likely to pass before the midterm elections, or even in a lame duck session of Congress post-election.
- Now one item in the Tax Reform 2.0 legislation that's likely to cause consternation among congressional Republicans in New York, California or other high state income or state tax states, is having to vote again on repealing the deductibility of state taxes.
- Now that said, the discussion of Tax Reform 2.0 will take up a lot of energy in the fall, and parts of Tax Reform 2.0 are likely, eventually, to be enacted either in a lame duck session at the end of this year, or next year.
- That's why it's well worth watching and monitoring the details of this legislation as they develop.
- In the interim, if you want to learn more about the tax reform legislation that was passed last year, or get a refresher on how the new law affects the low-income housing tax credit (LIHTC), new markets tax credit (NMTC), historic tax credit (HTC) and renewable energy tax credits (RETCs), or the creation of opportunity zones, I encourage you to check out the 2018 Novogradac Tax Reform Resource Guide.
- I note, if you're a client, it is free.

- And I'll include a link to the resource and guide and to the Tax Reform 2.0 framework in today's show notes.
- And I'll also send out a tweet.

Restoring Tax Credits for Affordable Housing Act

- Now, let's discuss the two bills that were introduced last week, that would expand support for affordable housing and community development.
- You may recall, or you may have read over the weekend in Glenn Thrush's article in the New York Times, that one of the major effects of last year's tax bill was a projected loss of 235,000 affordable housing units over the next 10 years.
- Now that's due mostly to a decrease in the top corporate tax rate, but it's also due to some other provisions.
- Now a temporary boost in the LIHTC enacted in the omnibus appropriations bill earlier this year was a small down payment to help mitigate those affordable housing losses.
- Well, last Thursday, Democratic Rep. James Clyburn of South Carolina introduced a bill that would fully restore the affordable housing units lost.
- Now the bill has two main provisions.
- First, it increases the LIHTC annual allocation amount by 19 percent starting in 2019.
    - More specifically under the bill, the per-capita LIHTC allocation amount in 2019 would be $2.90.
    - Also, the small-state minimum LIHTC allocation amount would increase to $3.365 million in 2019.
- Second, the bill modernizes the credit percentage formula.
- Thus resulting in a higher 9 percent rate and a higher so-called 4 percent rate.
- Now for the tax wonky listeners, I want to go through the specific changes in the calculation of the credit percentage formula.
    - First, the bill would repeal the statutory 28 percent reduction in the discount rate used,
    - Second, the bill would add 1.5 percent to the average discount rate used.
        - This adjustment would better align the discount rate used to the private investor cost of capital,
    - And third, in calculating the credit percentage, the assumed start date of tax credit delivery would be delayed two years to better reflect the fact that investors typically do not claim the credit immediately upon a development receiving an allocation.
- Now these three changes would increase the resulting applicable percentage by about 16 percent.
    - 16 percent for the 9 percent credit, a lot more for the 4 percent credit, since it doesn't have a floor currently under current law.
- Now this offset would help increase the credit percentage to an equity value that we saw before tax reform.
- Now this bill overall would result in larger allocations that will allow more funding on the 9 percent credit side, as well as an adjusted credit percentage formula to restore the financial feasibility of individual developments.
- The bill, we estimate, would increase production of affordable housing by more than 235,000 homes over 10 years.
- Now the bill is called the Restoring Tax Credits for Affordable Housing Act.

- I also wanted to note that I'm proud to share that Novogradac did assist in the development of the bill and has analyzed the effects of the bill.
- I will tweet a link to the legislation and will include the bill in today's show notes.

Rural Jobs Act

- Now let's switch now to community development funding.
- A bill was introduced Friday, last Friday that is, in the House of Representatives to authorize an extra $500 million per year in NMTCs to certain rural areas.
- The Rural Jobs Act, which was introduced by Republican Jason Smith of Missouri and Democrat Terri Sewell of Alabama.
    - This legislation would increase the allocation for two years, so that the total additional allocation would be $1 billion.
        - $500 million a year, for two years.
    - Now the bill would cover the 2018 and 2019 NMTC allocation rounds.
    - Which means both rounds would have $4 billion in allocation authority, rather than $3.5 billion.
- Now the legislation would go exclusively to Rural Jobs Zones.
    - Now these would be NMTC-eligible census tracts in rural communities that are eligible for the USDA Business and Industry program.
    - Rural Job Zones would include non-metro areas and other rural areas outside of urbanized regions of metro areas.
- Now, an additional requirement.
- At least 25 percent of this additional allocation, or $125 million, would need to be prioritized for persistent poverty counties and high out-migration rural counties.
- So, what are persistent poverty and high out-migration rural counties?
- Persistent poverty counties are counties with poverty rates of 20 percent or more since 1990.
    - Persistent poverty.
- And high out-migration rural counties are counties that have experienced net out-migration of at least 10 percent over the past 20 years.
- So basically, there would be a priority for counties with a long history of poverty and for rural counties that have experienced long periods of significant population losses.
- Now I do expect a Senate companion bill to be introduced in the coming weeks, and these bills could be considered during the post-election lame duck session.
- I'll keep you updated on the status of the bill's progress.
- And in the meantime, if you would like to learn more about ways to bring NMTC investments to rural areas, I'd encourage you to contact one of my partners in a Novogradac office near you.

Other News

- Now let's turn to other news.
- I wanted to call your attention to a post on our Notes from Novogradac blog about what we can learn from HUD's income data.
    - In the blog, my partner Blair Kincer explains in the post how widespread the increases are this year in area median income.
    - He notes in the blog that maximum allowable rents will be increasing significantly in many markets from 2017 to 2018 and beyond.
    - Now these increases in maximum rents will need to be balanced against real and localized rent trends, of course.
    - Now I've included a link to the blog post in today's show notes.
    - Take a read, let me know what you think.
    - Send an email to cpas@novoco.com.
- Now let's turn to HTC news.
- The state HTC cap for owner-occupied properties in Delaware was increased this month.
    - That legislation bumped the cap for a single rehab of owner-occupied property from $20,000 to $30,000.
    - Delaware does have a 30 percent state HTC for properties that are not eligible for the federal credit.
- And then turning to Illinois.
- Illinois last week enacted a statewide HTC.
- Previously, state HTCs were only available in certain areas.
- The newly enacted act, namely the Historic Preservation Tax Credit Act, makes a 25 percent tax credit available statewide for tax years 2019-2023.
- I'd encourage you to contact my partner Tom Boccia for more information on using this newly created Illinois state tax credit.
- Or if you have questions about other state HTCs, please reach out to Tom.
- He's in our Cleveland, Ohio office.

RELATED RESOURCES

Tax Reform 2.0

GOP Listening Session Framework for Tax Reform 2.0
2018 Novogradac Tax Reform Resource Guide

LIHTC Bill

Restoring Tax Credits for Affordable Housing Act
How Congress Could Offset the Effects on Affordable Housing Production of a Reduced Corporate Rate

Rural Jobs Act

Rural Jobs Act

HUD Income Data

Income Limit Data Tells Important National and Local Stories

Delaware HTC

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