



**Mortgage Bankers
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MULTIFAMILY ALERT

Low-Income Housing Tax Credit
March 20, 2003

In the current debate over the Administration's economic growth proposal, MBA has come out strongly in support of both major portions of the proposal, the acceleration of the scheduled reduction of marginal tax rates and the elimination of the double taxation of dividends. MBA believes that the benefits of the proposal to the economy, to jobs creation, and to the real estate industry are significantly positive and vital to a sustained economic recovery. MBA has stated that the dividend portion of the plan will have some impact on one portion of the multifamily finance industry, projects funded with Low Income Housing Tax Credits, but discernibly less of an impact than other studies would suggest. MBA has been working with the appropriate parties in Congress and the Administration to address that concern.

In the exhibits accompanying MBA's discussion of the impact of the President's tax package on Low Income Housing Tax Credits released last week, MBA incorporated certain simplifying financial assumptions used in a study of this issue by Ernst & Young. Ernst & Young has now given MBA clarification on an assumption used in their report. (That clarification will shortly be reflected in MBA's analysis found on MBA's website at www.mbaa.org.)

Based on a re-examination of our analysis in light of this clarification, MBA has determined that **the main assertions and conclusions in MBA's report are correct and remain unchanged.** Those are:

- 1) Given the substantial benefit the Administration's Growth plan offers to real estate and the economy, MBA reiterates its strong support for both of the major portions of the plan, the acceleration of the cuts in marginal tax rates and the elimination of the double taxation of dividends.
- 2) The impact from the tax plan on LIHTCs is entirely in the calculation of the Retained Earnings Benefit Adjustment, not in the Excludable Dividends Account, under any reasonable

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assumptions of tax and dividend payout rates. Therefore, investments in tax credits should not affect the ability of most corporations to pay tax-free dividends.

MBA is working to address the impact on the pricing of LIHTCs. MBA has met with staff of the House Ways and Means Committee and is scheduled to meet later this week with the staff of the Senate Finance Committee. MBA is also meeting one-on-one with members of Congress as well as Treasury and HUD officials to discuss pricing impacts and reiterate MBA's support for the LIHTC program.