May 8, 2013

Ways and Means Committee Office
Chairman Dave Camp
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Camp:

The LIHTC Working Group was established to provide a platform for low-income housing tax credit ("LIHTC") industry participants to work together to resolve technical and administrative LIHTC program issues. On behalf of the members of the LIHTC Working Group, we respectfully would like to submit comments surrounding some of the key benefits of the LIHTC and the possible effects of corporate tax reform on equity raised from the LIHTC, as detailed in the attached report, as comprehensive tax reform is being considered. The members of the LIHTC Working Group strive to make the LIHTC program even more efficient in delivering benefits to help build affordable rental housing. Our group includes nonprofit and for-profit developers, property managers, lenders, syndicators, investors, accountants and lawyers. We hope to engage the House Ways and Means Committee in a continuing dialogue on the benefits of the LIHTC, as well as the importance of retaining the LIHTC as a permanent part of the tax code.

The following are examples of key benefits of the LIHTC program:

- **The LIHTC addresses a critical need for more affordable rental housing.**
- **The LIHTC program has helped build, renovate and/or preserve over 2.5 million affordable housing rental units.**
- **The LIHTC program creates jobs for around 95,000 people annually across the United States, and generates approximately $7.1 billion in economic income each year.**
- **The LIHTC is an efficient program with a successful track record.**
- **The LIHTC is an acquired tax benefit, unlike other corporate tax expenditures.**

The following is an executive summary of the key benefits of the LIHTC program mentioned above:

The LIHTC addresses a critical need for more affordable rental housing. [1, 2]

According to the Bipartisan Policy Center's Housing Commission, approximately 25% of all renter households pay more than 50% of their income for rent, which increases to 64% for extremely low-income households (those with incomes which are at or below 30% of the area median income). Recent data from the Census Bureau found that a shortfall currently exists in the supply of homes for extremely low-income people. Specifically, there are approximately only 30 units of available, affordable rental housing for every 100 extremely low-income households in the country, which represents a national shortage of affordable rental housing of over 2 million units. According to HUD's Summary of Worst Case Housing Needs, 8.5 million very low-income families nationwide were considered to have "worst case housing needs" during 2011, which means that these families either paid more than 50% of their income towards rent, lived in severely inadequate conditions, or both. Without the LIHTC's presence in the tax code, the shortfall in available, affordable rental housing will further increase, and consequently exacerbate significant long-term costs that the federal government may have to bear as a result of not having an adequate supply of affordable rental housing.

The LIHTC program has helped build, renovate and/or preserve over 2.5 million affordable housing rental units. [3, 4, 5]

The LIHTC is one of the most important and successful federal housing programs ever created, and it is responsible for helping build, renovate and/or preserve over 2.5 million housing units since its creation and creates around 100,000 more affordable rental homes each year. Nearly half (19 million) of the nation's renters are rent burdened and need affordable options. Without the LIHTC, there would be a significant reduction in the options for these renters.

The LIHTC program encourages private individuals and corporate investors nationwide to invest in affordable rental housing. Without the tax credit equity from the investors, these affordable housing properties are not financially feasible, as they would not be able to sustain the debt coverage that would be required without tax credit investor equity.

The LIHTC program creates jobs for around 95,000 people annually across the United States, and generates approximately $7.1 billion in economic income each year. [6]

The LIHTC not only benefits low-income communities with affordable housing, the LIHTC creates jobs and economic activity. The 95,000 annual jobs that are created with the LIHTC are measured in full-time equivalents, which is defined as sufficient employment to keep a worker employed full time for a year. The increase in income to the economy generates approximately $2.8 billion in federal, state, and local taxes. The LIHTC fosters community renewal and attracts job opportunities to the surrounding neighborhoods, while providing increased purchasing power from new tenants. At the same time, unused or abandoned land, as well as inefficiently used real estate, can be put to productive use.

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[1] Bipartisan Policy Center Housing Commission. "Housing America's Future: New Directions for National Policy." February 2013. Page 84.

[2] National Low-Income Housing Coalition. "Housing Spotlight: The Shrinking Supply of Affordable Housing." 2012.

[3] Khadduri, Jill. "Creating Balance in the Locations of LIHTC Developments: The Role of Qualified Occupancy Plans." Poverty & Race Research Action Council, February 2013. Web. 2 April 2013. <http://www.novoco.com/low_income_housing/resource_files/research_center/balance_in_the_locations_of_lihtc_developments_022513.pdf>

[4] Ernst & Young LLP. "Low-Income Housing Tax Credit Investment Survey, October 8, 2009." 2 April 2013. <http://www.novoco.com/low_income_housing/resource_files/research_center/ey_study_carryback_100809.pdf>

[5] National Association of Home Builders. "The Low Income Housing Tax Credit: The Most Successful Affordable Rental Housing Production Program in our Nation's History." 2 April 2013 <http://www.novoco.com/low_income_housing/resource_files/research_center/nahb_lihtc-stats-october-2011.pdf>

[6] Ibid.

The LIHTC is an efficient program with a successful track record. [7]

The LIHTC program has experienced significantly lower foreclosure rates relative to other real estate asset classes, observed lower levels of noncompliance with program requirements and maintained affordable rental housing stock over the long-term. The LIHTC's successful past performance can be attributed to the involvement of third-party for-profit partners who partner with developers and/or syndicators, the synergies of which provide benefits to LIHTC developments through economies of scale and uniform practices. The various parties involved with LIHTC investments have become more sophisticated and have streamlined their processes making the program more efficient. Also, the LIHTC program's successful track record can be attributed to all of the involved parties' constant monitoring of their LIHTC properties to ensure the delivery of the LIHTC benefits over a period of time, rigorous screening of the developments, construction and lease-up risk borne by the sponsors and investors instead of the federal government, and state and federal oversight of the program. This public/private partnership brings together the strength of each partner to generate a stable investment opportunity for its investors and contributes to the successful track record of the LIHTC program. Other government supplied housing programs have demonstrated less consistent performance, because of issues inherent to those programs; most notably, a lack of continued property monitoring and upfront funding of the applicable public subsidy.

The LIHTC is an acquired tax benefit, unlike other corporate tax expenditures. [8]

The LIHTC is a credit which is essentially acquired by the investors with the low-income tenants as the beneficiary. Investors assume the development and operating risk that is associated with the LIHTC. Investors only get to claim and keep the tax credit if affordable housing units are built, leased, and maintained as affordable throughout the compliance period. The LIHTC has been categorized as a corporate tax expenditure due to the economic efficiencies of marketing LIHTC investments to large corporations. The LIHTC should be viewed distinctly from other corporate tax expenditures as it is an acquired investor based tax credit. Also, any discussion about tax expenditures should include a distinction between those tax expenditures where the substantial portion of the benefit is retained by the recipient of the subsidy versus those where the predominant benefit of the subsidy is being low-income families. A repeal or reduction of the LIHTC would have a dramatic impact on low-income families for reasons previously mentioned, but only a minor economic impact to large corporate investors.

These keys benefits of the LIHTC show how crucial this credit is to the lifeline of affordable rental housing. However, even if the LIHTC itself emerges unchanged from tax reform, there are other potential changes to the tax code that would affect the amount of LIHTC equity that can be raised as a means to fund the development of future affordable rental housing.

A few basic principles of tax reform that have been discussed are to broaden the base and lower the marginal tax rates. For example, House Republicans have targeted a lower top corporate tax rate of 25%[9], and President Barack Obama has suggested a top rate of 28% for most corporations, and 25% for manufacturing firms[10]. In terms of broadening the base, this proposal[11] often involves moving to an alternative depreciation system under which property is depreciated over longer periods, lengthening the depreciation period for residential real estate from 27.5 to 40 years.

[7] "Low-Income Housing Tax Credit Assessment of Program Performance & Comparison to Other Federal Affordable Rental Housing Subsidies, 2011." Novogradac & Company LLP, 2011. 2 April 2013 <http://www.novoco.com/products/special_reports/Novogradac_HAG_study_2011.pdf>

[8] Novogradac, Michael. "LIHTC: Breaking the Corporate Tax Expenditure Shackle." *Notes from Novogradac*. Novogradac and Company LLP, 18 May 2011. Web. 2 April 2013. <http://novogradac.wordpress.com/2011/05/18/lihtc-breaking-the-corporate-tax-expenditure-shackle/>

[9] "International Tax Reform Discussion Draft." Ways and Means Committee Republications. October 26, 2011

[10] "The President's Framework for Business Tax Reform." The White House and the Department of the Treasury. February 2012

[11] "Business Investment and Innovation." Senate Finance Committee Staff Tax Reform Options for Discussion. April 11, 2013

The potential economic effects of these two reform principles on LIHTC investor yields, investor equity pricing, and the amount of equity raised should be considered. To gauge the effect, an analysis was conducted and included in the attached report, *Affordable Rental Housing after Tax Reform: Calculating Corporate Tax Reform's Possible Effects on Equity Raised from Low-Income Housing Tax Credits*, which provides a detailed analysis conducted by Novogradac & Company LLP of the possible effects on the amount of equity that can be raised from the LIHTC if current efforts to enact corporate tax reform are successful. The analysis found that for the LIHTC equity market as a whole, there could be a potential loss of $220 million to nearly $1 billion dollars, or more, in equity used to finance affordable rental housing.

We are excited about the positive impact that the LIHTC program is having on the nation's low-income communities and low-income persons, and its potential for future success. The furtherance of the LIHTC program will better provide affordable housing and help increase the number of jobs in our communities. We appreciate the opportunity to submit our comments to you to explain the importance of retaining the LIHTC as part of the tax code, and we thank you in advance for your time and consideration. Please do not hesitate to contact us if you have any questions regarding our comments or if we can be of further assistance.

THE LIHTC WORKING GROUP

Very truly yours,

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