CARH’S BROADCAST E-MAIL – Legislative Update

February 27, 2014

House Ways and Means Committee’s Tax Reform Discussion Draft Would Alter the Housing Credit Program

On Wednesday, February 26, 2014, the Chairman of the Ways and Means Committee, Dave Camp (R-MI), unveiled a comprehensive tax reform discussion draft entitled the Tax Reform Act of 2014. This discussion draft is a result of almost three years of the Committee holding hearings in Washington and throughout the country, establishing special bipartisan working groups, traveling throughout the country and receiving input from various interest groups, including CARH, on the current tax code and provisions.

Prior to the release of Representative Camp’s tax reform discussion draft, tax reform was something for Congress to talk about in theory, but not face the difficult choices that are inevitable (and unenviable) in this task. With this release, some of the potential contours and challenges of actually passing comprehensive tax reform will now be discussed more thoroughly.

The discussion draft and summary from the Joint Committee on Taxation encapsulate broad conceptual changes to the federal tax code. For affordable housing, while the working draft would preserve certain aspects of the Low-Income Housing Tax Credit (Housing Credit) program, it would also make substantial changes that would make preservation of the rural housing portfolio almost impossible to do. Dozens of other corporate and other business tax expenditures would be eliminated as would other tax credit programs including the historic rehabilitation tax credit (HTC), the renewable energy investment tax credit (ITC), and production tax credit (PTC). The discussion draft does not include any reference to the new markets tax credit (NMTC), but the treatment would effectively end that program.

Specifically, the discussion draft would impact the Housing Credit by the following:

- Eliminate tax-exempt private activity bonds. Tax-exempt bonds support the financing of 40 percent of all Housing Credit development annually, including many preservation projects.

- Eliminate the 4 percent Housing Credit, which likely eliminates the acquisition credit used in preservation projects that also have 9 percent credits. Together with the
elimination of tax-exempt bonds, this change appears to be very detrimental to the use of
the Housing Credit for rural housing preservation activities.

- Change the length of the credit period from 10 to 15 years.
- Stipulate that housing finance agencies would allocate qualified basis rather than credit
  amounts, at a rate of $31.20 multiplied by the state’s population, with a minimum of
  $36.3 million.
- Repeal the 130% basis boost for "high-cost and difficult development areas.”
- Eliminate all special occupancy preferences except for individuals with special needs and
  veterans.
- Remove the requirement that states include energy efficiency and the historic nature of
  the project as selection criteria.

Overall, the draft asserts that these changes are expected to make the Housing Credit a less
expensive program and thereby increase revenues by $10.7 billion over the period from 2014 to
2023. The discussion draft also indicates that the proposed changes would increase the amount of
Housing Credit-financed projects by more than 5% (creating more projects at a lower cost to
taxpayers); presumably on the theory that the elimination of the 130% boost will mean that
Housing Credit allocations will be spread among more projects. Clearly, eliminating acquisition
basis and private activity bonds will only serve to reduce the number of Housing Credit-financed
projects.

It does not appear that House Leadership plans to move on Representative Camp’s plan. Also,
the Senate does not look like it is ready to follow Representative Camp’s lead. New Senate
Finance Committee Chairman Ron Wyden (D-OR) and Senate Minority Leader Mitch
McConnell (R-KY) have both stated that they did not believe the Senate would bring up tax
reform this year. Nothing being reported in the President’s Fiscal Year (FY) 2015 budget
suggests the Administration wants to take up tax reform this year. It is in fact being reported that
the Administration will seek to make the renewable energy production tax credit permanent and
refundable; which is the opposite of cutting such credits.

Combine all of these challenges with the fact that we are in an election year, the likelihood of
Representative Camp’s plan seeing much movement is slim. Still, Representative Camp’s plan is
the first to put down a marker. While any future tax reform is virtually certain to be different, it
is important to understand this becomes a starting point for future tax reform discussions in the
114th Congress or beyond. Therefore, it is even more important to make sure we are
communicating what these changes mean for the future of rural housing.

More analysis of the nearly 1000 page discussion draft will be taking place over the next several
weeks. It will be vitally important for CARH members to continue your grassroots efforts that
show members of Congress the importance of the Housing Credit program, particularly since the
important tool for rural housing preservation used today would be eliminated. Click here to
contact your Representative and click here to contact your Senator.

CARH’s board of directors will be meeting on March 12-13, 2014, in Washington, D.C. and the
discussion draft will be a top priority at the meeting. The board will be meeting with key
members of Congress on March 12, 2014.

Please contact the CARH national office at carh@carh.org or 703-837-9001 should you have questions or concerns.

Don’t miss CARH’s 2014 Annual Meeting & Legislative Conference
June 8-10, 2014 at the Ritz Carlton Pentagon City in Arlington, Virginia!

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