

HOMES JOBS COMMUNITY



*NDC Washington
Webinar Series*

*2017 Tax Plan: What it means for the
Economic Development Community*

Presented by: Jane Campbell | November 16, 2017





The
**TAX CUTS & JOBS
ACT**

MORE jobs | FAIRER taxes | BIGGER paychecks



The TAX CUTS & JOBS ACT
U.S. House of Representatives
COMMITTEE ON WAYS AND MEANS



Policy Highlights as prepared by GOP Majority

- **Lowers individual tax rates for low- and middle-income Americans to Zero, 12%, 25%, and 35%**
- **Significantly increases the standard deduction**
- **Eliminates special-interest deductions that increase rates and complicate Americans' taxes**
- **Establishing a new Family Credit, which includes expanding the Child Tax Credit**
- **Preserving the Child and Dependent Care Tax Credit**
- **Preserves the Earned Income Tax Credit**
- **Streamlines higher education benefits**
- **Continues the deduction for charitable contributions**
- **Preserves the home mortgage interest deduction**
- **Continues to allow people to write off the cost of state and local property taxes**
- **Retains popular retirement savings options**
- **Repeals Alternative Minimum Tax**
- **Provides relief for the Death Tax**

The TAX CUTS & JOBS ACT
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Policy Highlights as prepared by GOP Majority

- **Lowers the corporate tax rate to 20%**
- **Reduces the tax rate on the hard-earned business income of Main Street job creators to no more than 25%**
- **Establishes strong safeguards to distinguish between individual wage income and “pass-through” business income**
- **Allows businesses to immediately write off the full cost of new equipment**
- **Protects the ability of small businesses to write off the interest on loans**
- **Retains the low-income housing tax credit**
- **Preserves the Research & Development Tax Credit**
- **Strengthens accountability rules for tax-exempt organizations**
- **Modernizes our international tax system**
- **Makes it easier and far less costly for American businesses to bring home foreign earnings**
- **Prevents American jobs, headquarters, and research from moving overseas**

The New Markets Tax Credit REPEALED

“The House Ways and Means [tax reform proposal](#) released today by the majority demonstrates an appalling disregard for low-income rural and urban communities by repealing the federal New Markets Tax Credit program, a vital piece of America’s tax code that has leveraged over \$80 billion in public-private investments and created more than 750,000 jobs in some of our country’s poorest neighborhoods and towns,” said Bob Rapoza, spokesperson for the NMTC Coalition. “Unfortunately it will be these communities, in addition to the hardworking people living there, that will bear the burden of the omitted NMTC – the very places that can least afford it. This can only be described as penny wise and pound foolish – with repeal of NMTC saving less than \$1.8 billion over the 10 year period. Today’s repeal is a serious misstep that will be felt by communities nationwide.”

Historic Tax Credit REPEALED

“Our tax credits have made the preservation of our older buildings not only a matter of respect for beauty and history, but of economic good sense.”
– President Ronald Reagan in 1984

“In a time of austere federal budgets, we need to look at meaningful ways of getting the most out of every dollar and the economic impacts of historic tax credits have been transformational.”
– Senator Ben Cardin

<https://youtu.be/-kJAlopuPyI>

Low Income Housing Tax Credit

The tax reform preserves the 9% Low Income Housing Tax Credit program (Housing Credit), but **it eliminates private activity bonds and the 4% credit**, and fails to include any reforms proposed in the [Affordable Housing Credit Improvement Act](#) (HR 1661) that was introduced by Representatives Pat Tiberi (R-OH) and Richard Neal (D-MA).

The Republican tax plan would repeal the tax-exempt status of private activity bonds, which are used to finance the construction and rehabilitation of multifamily housing for low income renters.

Because the 4% Housing Credit is only available with debt financing from tax-exempt private activity bonds, the Republican bill essentially eliminates the 4% Housing Credit.

The Housing Credit may also be impacted by the lowered corporate tax rate, which could reduce demand and decrease the value it generates for affordable housing developments.

Low Income Housing Tax Credit

1. Elimination of private activity bonds and associated 4 percent LIHTCs.

The latest data available from the National Council of State Housing Agencies (NCSHA) shows that in 2015, 49,380 tax-exempt multifamily private activity bond-financed homes were awarded 4 percent LIHTCs. However, according to data from the Council of Development Finance Agencies (CDFA), new tax-exempt multifamily bond issuance increased at least 51 percent or more in 2016; based on CDFA data the estimated number of rental homes financed is assumed also to have increased by 51 percent in 2016. Accordingly, repeal of the 4 percent LIHTC for tax-exempt bonds means a loss of roughly 788,000 to 881,000 affordable rental homes over 10 years, or more.

2. Lower corporate tax rate from 35 percent to 20 percent.

The reduction of the top corporate tax rate from 35 percent in 2017 to 20 percent in 2018 would reduce the tax loss benefits of LIHTC investments, since the value of depreciation expense deductions would be reduced. An [analysis by Novogradac & Company](#) found that lowering the corporate tax rate to 20 percent would reduce LIHTC equity by about 15 percent, translating to \$1.2 billion or more in loss equity annually. This loss of investor equity translates into loss of 85,600 to 93,900 affordable rental homes over 10 years, or more. Much of this loss could be addressed through [a two-step proposal to increase allocable LIHTC and modernize the credit percentage formula](#).

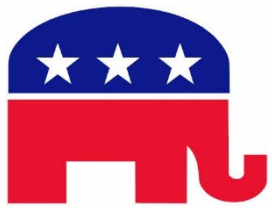
Low Income Housing Tax Credit

3. Change inflation factor for future LIHTC allocations from CPI-U to “chained CPI.”

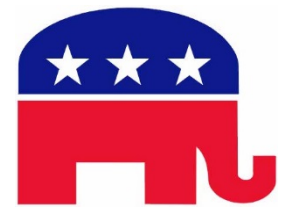
The current draft of tax reform legislation would change the inflation adjustments throughout tax code from a factor based on the consumer price index for all urban consumers (CPI-U) to one based on a “chained” CPI-U. Many economists claim that the chained CPI-U provides a more accurate estimate of changes in the cost of living from one month to the next by accounting for the effects of substitution on changes in the cost of living. This change will decrease inflation adjustments in LIHTC allocations in future years, and would lead to a loss of 8,200 more affordable rental homes over 10 years.

Conclusion

On balance, it appears that Chairman Brady’s tax reform legislation would reduce the total amount of LIHTC-financed affordable rental homes by about 882,000 to 983,000, or more, over 10 years.



House WHIP Notice



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- **240 GOP Majority**
- 194 DEM Minority

HR 1 Tax Cut and Jobs Act

- *Need 218 Affirmatives to Pass*
- Can only afford **22 GOP defections**
- **Contentious issue unsolved is S.A.L.T**
- **No (10)**
- *Undecided (11)*

Driving the Ship

... Key Players



Orrin Hatch
Chair – Senate Finance



Gary Cohn
WH Chief Economic
Advisor



Steve Mnuchin
Treasury Secretary



Kevin Brady
Chair – Ways and Means



United States Senate Committee on Finance

Policy Highlights as prepared by GOP Majority

- ▶ Lowers individual tax rates for low- and middle-income Americans by effectively expanding the zero tax bracket and maintaining a 10 percent bracket, allowing hardworking taxpayers to keep more of their hard-earned money, make ends meet, and save for retirement. The bill includes a reformed rate structure that targets tax relief to the middle class while maintaining the existing tax distribution, and a 38.5 percent bracket for high-income earners.
- ▶ Nearly doubles the standard deduction to reduce or eliminate the federal income tax burden for tens of millions of American families. The standard deduction will **increase from \$6,350 to \$12,000** for individuals and from **\$12,700 to \$24,000 for married couples**. For single parents, the standard deduction will **increase from \$9,300 to \$18,000**.



United States Senate Committee on Finance

Policy Highlights as prepared by GOP Majority

- ▶ Recognizes the unique challenges faced by parents with young children by:
 - Expanding the child tax credit from \$1,000 to \$1,650 and allowing many more parents to claim the credit by substantially lifting existing caps
 - Preserving the child and dependent care tax credit to help working parents care for their children and older dependents – such as an aging grandparent – who need support;
 - Preserving the adoption tax credit to help families with the high costs of adopting children; and
 - Allowing parents to more effectively save for the education costs of unborn children.

- ▶ Preserves the deduction for charitable contributions, continuing a long recognition of the importance of private philanthropy for the churches and community organizations that daily provide aid and assistance to those in need.



United States Senate Committee on Finance

Policy Highlights as prepared by GOP Majority

- ▶ Protects the home mortgage interest deduction for existing mortgages and maintains the deduction for newly purchased homes **up to \$1 million**. This incentive for homeownership provides tax relief to current and aspiring Homeowners.
- ▶ Continues popular retirement savings programs such as 401(k)s and Individual Retirement Accounts, to help Americans build their retirement nest eggs and prepare for the future.
- ▶ Preserves the earned income tax credit to provide tax relief to low-income Americans working to build better lives for themselves.
- ▶ Preserves additional important elements of the existing individual tax system, including:
 - Deduction for medical expenses
 - Enhanced standard deduction for the blind and elderly
 - Education relief for graduate students



United States Senate Committee on Finance

Policy Highlights as prepared by GOP Majority

- ▶ Repeals the alternative minimum tax (AMT) to simplify the tax code
- ▶ Provides relief from the death tax by doubling the current exemption.
- ▶ **Permanently lowers the corporate tax rate to 20 percent**
- ▶ Substantially lowers the tax burden on Main Street job creators through:
 - A simple and easy-to-administer deduction for pass-through businesses of all sizes, allowing more small businesses to grow, invest, hire new workers and increase wages while also preventing abuse of the reformed system;
 - Enhanced Section 179 expensing to promote business investment and growth; and
 - Enhanced cash accounting, allowing more businesses to use the simple cash-basis accounting method.
- ▶ Full and immediate expensing of new equipment
- ▶ Protects the ability of small businesses to deduct interest on
- ▶ Preserves important elements of the existing business tax system, including:
 - **Low-income housing credit** to continue encouraging businesses to invest in affordable housing
 - Research and development tax credit, which enhances investments in American products, technology and innovations.



United States Senate Committee on Finance

Policy Highlights as prepared by GOP Majority

- ▶ Permanently modernizes our outdated international tax system by eliminating the antiquated “worldwide” system
- ▶ Eliminates the “lock-out effect” by making it simpler and less onerous for American multinationals to bring foreign earnings back to America for investment and growth here at home.
- ▶ Makes the United States a better place to do business by eliminating incentives for companies to shift jobs, profits and intellectual property overseas, and by creating incentives for companies to both locate in America and bring economic activity back to America.



United States Senate Committee on Finance

Modified Chairman's Mark

Child Tax Credit : increase the child tax credit from \$1,000 under current law to \$2,000 (from \$1,650 in the introduced bill). It would also increase the phaseout to \$500,000 for married filers from the current law phaseout of \$110,000. The phaseout, however, is decreased from \$1,000,000 in the original proposal.

Individual Mandate Penalty: Under the new proposal, the individual mandate penalty for not having qualifying health insurance would fall to \$0, effectively repealing the requirement.

Expiring Provisions: All individual income tax changes, excluding the move to Chained CPI and the elimination of the individual mandate penalty, would expire effective December 31, 2025. This includes the individual income tax rate cuts, the expanded child tax credit, the repeal of personal exemptions, and the expanded standard deduction.

Pass-Through Income: The new proposal would expand the number of businesses in service industries that could claim the special 17.4 percent deduction.

Temporary Full Expensing: The temporary full expensing provision is broadened to include qualified property for film, television, and live theater productions.



United States Senate Committee on Finance

Modified Chairman's Mark

- **Net Operating Losses:** Starting in 2024, net operating loss (NOL) carryforwards would be limited to 80 percent of taxable income, down from 90 percent.
- **Research and Experimental Expenditures:** Under the new proposal, Research and Experimental (R&E) expenditures would need to be amortized, instead of deducted, starting in 2026.
- **Business Tax Trigger:** The proposal would also create a federal tax trigger. If federal revenues from October 1, 2017, to September 30, 2026, exceed \$27.487 trillion by more than \$900 billion, several business tax increases would not take effect for the 2026 tax year. These are the changes to NOLs and international base-erosion rules.
- **Reduced Alcohol Excise Taxes:** The proposal would lower the excise tax rate on beer, wine, and distilled spirits.



Impact on Community and Economic Development

Tax Cuts and Jobs Act	House	Senate
Historic Tax Credit	ELIMINATES	Reduced from 20% to 10%
NMTC	ELIMINATES	Sustains current legislation in PATH Act allowing for 2018 & 2019 allocations
PABS	ELIMINATES	Current law is maintained
SALT	\$10,000 on Property only	ELIMINATES



Impact on LIHTC

The new version of the bill still **retains the Housing Credit and private activity bonds**, including [multifamily Housing Bonds](#). It also adds several no-cost proposals to strengthen the Housing Credit, taken from the Cantwell-Hatch [Affordable Housing Credit Improvement Act](#) (S. 548), which would:

- Allow for a reasonable restoration period after a casualty loss (Sec. 302)
- Replace the existing nonprofit right of first refusal with a purchase option to help nonprofit sponsors keep properties affordable for the long term (Sec. 303)
- Clarify that state Housing Credit agencies have the authority to determine what constitutes community revitalization, with broad parameters, for purposes of determining whether properties are eligible for a basis boost by virtue of being located in a Qualified Census Tract and contributing to a “concerted community revitalization plan” (Sec. 307)
- Prohibit local approval and contribution requirements in order to prevent NIMBY opposition from interfering with Housing Credit development (Sec. 308)
- Require that states add a selection criteria to their Qualified Allocation Plans for housing that serves the needs of Native Americans (Sec. 401)
- Rename the Low-Income Housing Tax Credit to the "Affordable Housing Tax Credit" (Sec. 501)



Getting to Finish line in the Senate ...easier said then done

- ***GOP has a 52- 48 Majority in Senate*** – with Reconciliation rules can only afford 2 defectors
- *Modified Chairman's mark calls for the repeal of the individual mandate in the Affordable Care Act*
 - *Could peel of GOP votes who opposed Repeal and Replace efforts in the summer*
- *Already have one defector on record , **Sen Ron Johnson (WI)***
 - *"I don't think what they're doing with pass-throughs is the right approach...I have no problems in making all American businesses competitive globally," Johnson told the Journal. "This isn't anti-big corporation at all. When you're going to do a tax reform, you have to treat them equitably so they can maintain their competitive position here at home as we're making them competitive globally."*



Getting to Finish line in the Senate ...easier said then done

Non Partisan Joint Committee on Taxation release the following report this morning on the updated Chairman's mark....

- *The tax bill Senate Republicans are championing would give large tax cuts to millionaires while raising taxes on American families earning \$10,000 to \$75,000 over the next decade, according to an analysis released Thursday by the Joint Committee on Taxation, Congress' official nonpartisan analysts.*

Distribution of the Proposal

INCOME CATEGORY	CHANGE IN FEDERAL TAXES (\$ millions)				
	2019	2021	2023	2025	2027
Less than \$10,000.....	-\$395	-\$97	\$178	\$216	\$341
\$10,000 to \$20,000.....	-\$1,013	\$2,818	\$3,726	\$3,732	\$6,257
\$20,000 to \$30,000.....	-\$1,861	\$2,991	\$3,165	\$3,779	\$7,987
\$30,000 to \$40,000.....	-\$4,615	-\$1,542	-\$257	-\$163	\$4,626
\$40,000 to \$50,000.....	-\$6,371	-\$3,646	-\$2,700	-\$2,621	\$4,070
\$50,000 to \$75,000.....	-\$22,420	-\$19,672	-\$16,998	-\$17,327	\$3,981
\$75,000 to \$100,000.....	-\$21,482	-\$20,923	-\$17,960	-\$18,925	-\$747
\$100,000 to \$200,000.....	-\$64,130	-\$63,181	-\$51,695	-\$54,069	-\$3,918
\$200,000 to \$500,000.....	-\$59,377	-\$59,592	-\$49,392	-\$53,805	-\$4,589
\$500,000 to \$1,000,000.....	-\$24,753	-\$23,884	-\$18,515	-\$19,799	-\$1,817
\$1,000,000 and over.....	-\$33,670	-\$28,134	-\$12,740	-\$15,343	-\$5,580
Total, All Taxpayers.....	-\$240,090	-\$214,865	-\$163,155	-\$164,563	\$10,637

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