AFFORDABLE RENTAL HOUSING A.C.T.I.O.N.
A Call To Invest in Our Neighborhoods

Summary of the ACTION Campaign's Response to the Tax Reform Act of 2014 Discussion Draft

July 2014

The ACTION campaign commends Chairman Camp for preserving the Low Income Housing Tax Credit (Housing Credit), America's most effective tool for creating and preserving affordable housing, in his tax reform discussion draft, and for proposing to increase Housing Credit resources by 3 – 5 percent. However, the draft proposes changes to the Housing Credit that will make building and preserving affordable housing more difficult or even impossible, reduce the number of jobs created and limit the local income and taxes generated.

- ***On Housing:*** We estimate that the changes to the Housing Credit proposed in the Tax Reform Act of 2014 could result in the development of up to 54,000 fewer affordable units per year, or a reduction of over 60 percent. With an unmet need of 8 million affordable apartments and counting in the U.S., we cannot afford this loss in production.
- ***On Jobs:*** Developing 54,000 fewer units would result in 61,000 fewer jobs each year, mostly in small businesses.
- ***On Economic Development*:** Housing Credit development has attracted about $100 billion in private investment since its inception, and each year it generates $9.1 billion of local income and $3.5 billion in taxes and other revenues for all levels of government – much of which would be lost as a result of the changes proposed.

Below is a summary of ACTION's response to the individual discussion draft proposals.

Discussion Draft: Repeal the 4 percent acquisition credit.
ACTION Recommendation: Retain the 4 percent acquisition credit.

- The 4 percent acquisition credit is a critical tool for preserving affordable housing, which is a top priority for many states.
- Roughly 18,000 units were preserved using the 4 percent credit in 2011, most of which could not have been preserved without it.

Discussion Draft: Eliminate multifamily tax-exempt bonds.
ACTION Recommendation: Preserve multifamily tax-exempt bonds.

- Multifamily tax-exempt bonds (used with 4 percent Housing Credits) are responsible for more than 40 percent of annual Housing Credit production, providing affordable housing to over 1 million families since 1986.

- In 2012 alone, almost 38,000 affordable apartments were created using multifamily tax-exempt bonds.

Discussion Draft: Extend the length of the credit period from 10 to 15 years.

ACTION Recommendation: Maintain the 10-year credit period.

- Lengthening the credit period would reduce investor demand in the program, which would negatively affect tax credit pricing and the amount of equity capital that could be raised, and ultimately how many affordable homes could be financed using the Housing Credit.
- Extending the credit period would amplify the negative effect on the Housing Credit that the discussion draft's proposal to lower the corporate tax rate to 25 percent and extend the rental housing depreciation period to 40 years would have, resulting in a cumulative loss of as much as 19 percent of the total Housing Credit equity—about $1.5 billion annually, or as many as 13,000 units.

Discussion Draft: Retain floating Housing Credit rates.

ACTION Recommendation: Establish permanent minimum 9 and 4 percent credit rates.

- The floating rate has reduced the Housing Credit equity that can go into any given property by 15-20 percent, making it more difficult to finance affordable housing. In turn, developers are forced to rely on increasingly scarce gap financing resources, or to serve less needy families at higher rents and cut back on physical amenities and social services.
- The floating rate is also very complex and unpredictable, running counter to the Chairman's goals to streamline and simplify the tax code.

Discussion Draft: Eliminate the basis boost for high-cost and difficult development areas as well as the authority of credit allocating agencies to award additional credits to qualifying projects.

ACTION Recommendation: Maintain the basis boost.

- Without the basis boost, some of the most important types of housing—for example, developments that serve populations with special needs, including homeless veterans—could not be built.
- This tool is important for helping states allocate Housing Credits to the types of projects and to communities where they believe are most needed.

Discussion Draft: Award allocable basis instead of Housing Credit authority.

ACTION Recommendation: Retain allocations based on credits.

- Awarding credits instead of qualified basis is more intuitive, simple, transparent and directly relevant.
- Converting to a system of allocating qualified basis will require significant resources to establish new systems in each state, and may also negatively impact the equity market by creating uncertainty for taxpayers claiming credits.

Discussion Draft: Eliminate the national pool for unused credits.

ACTION Recommendation: Maintain the national pool.

- Though a relatively small percentage of each year's annual credit authority, the pool increases the likelihood that all credits allocated to the states each year will be used promptly, and it allows some states to finance additional developments that would otherwise not be possible.
- Each year approximately 30 allocating agencies apply for national pool allocations, helping to ensure that scarce Housing Credit resources are not lost.

Discussion Draft: Restrict the use of selection criteria by repealing the requirement that states include the energy efficiency of affordable housing projects and the historic nature of the projects as selection criteria in their qualified allocation plans.

ACTION Recommendation: Retain the energy efficiency and historic selection criteria.

- Energy expenses are and will increasingly be a critical component of both project viability and the physical and financial health of the affordable housing stock.
- Preserving historic buildings has been an important federal priority for many years.

Discussion Draft: Restrict occupancy preferences by revising the general public use rule to "eliminate the special occupancy preferences for members of specific groups under certain Federal or State programs and the special preference for individuals involved in literary or artistic activities. Instead, occupancy preferences would only be permitted for individuals with special needs and for veterans."

ACTION Recommendation: Retain occupancy preferences.

- While we do not believe the ability of states to develop occupancy preferences is critical to the future of the Housing Credit in the way that some of the other issues highlighted in our response are, we believe that occupancy preferences have been a useful tool for states as they address their local housing and economic development goals.