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

Proposal to Address the Reduced Value of the Housing Credit Resulting from a Lower Corporate Tax Rate

The reduction in the corporate tax rate from 35 percent to 20 percent proposed in the "Tax Cuts and Jobs Act" will significantly reduce the value of the Low-Income Housing Tax Credit (Housing Credit), which means that less equity capital can be raised to invest in affordable housing. This will both reduce the number of affordable rental units that can be built or renovated and make it more difficult for properties to serve residents with the lowest incomes.

About a third of the return from the Housing Credit is obtained by deducting losses on the investment. Losses deducted at a 20 percent corporate rate are worth less than losses deducted at a 35 percent corporate rate. The reduction in the value of the losses to Housing Credit investors reduces the cost of the program to the federal government.

According to the national accounting firm Novogradac & Company, this will reduce investment in the Housing Credit by more than $2 billion annually.

The affordable housing community is proposing a two-step solution to the reduction in Housing Credit resources:

I. First, **increase the national cap on credits allocated by states by 14.5 percent.** This would not increase federal government costs above current law because the lower corporate rate reduces the cost of the loss deductions taken by investors by that amount.

II. Second, **modernize the formula for calculating the amount of the tax credit.** Under current law, the annual tax credit percentage formula is based on the average of the mid-term and long-term applicable federal rates (AFR), reduced by 28 percent, and discounted on a present value basis over a 10-year period. The present value calculation assumes an investor receives the first year's tax credit on the same day the investment is made.

   - Under a revised formula, the 28 percent discount would be eliminated and 150 basis points would be added to the average of the mid-term and long-term AFRs. Also, the present value discount would be delayed by two years to reflect the fact that private investors generally invest a significant amount of capital well in advance of when they can start claiming Housing Credits, and the first year Housing Credit is generally less than a full year, given the lease-up rule. Lastly, the resulting Housing Credit rate would be adjusted based on the change in corporate tax rates.

   - While this change in the credit formula would permit a state housing finance agency to award more tax credits to a property, it would have no effect whatsoever on the return to investors since they would simply be investing more equity in the property in return for more tax credits.