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Tax Reform Bill Would Eliminate Future Supply of Nearly 1 Million Affordable Rental Housing Units.

According to Novogradac & Company analysis, the Tax Cuts and Jobs Act, House Ways and Means Committee Chairman Kevin Brady's landmark tax reform legislation would reduce the future supply of affordable rental housing by nearly one million units. That would translate to a reduction of as much as two-thirds of the current production of affordable rental housing provided by the Low-Income Housing Tax Credit (LIHTC) program.

Specifically, the following changes proposed by the bill would negatively affect the number of rental homes built or renovated by the LIHTC:

- Eliminate private activity bonds and associated 4 percent LIHTCs.
- Lower corporate tax rate from 35 percent to 20 percent, and
- Change inflation factor for future LIHTC allocations from CPI-U to "chained CPI."

The following analyzes the effect of each change and provides a rough estimate of the degree to which each change would affect the number of affordable rental housing units supported by the LIHTC over 10 years.

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.

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. Furthermore, given the lower financial feasibility under a lowered corporate rate, the changes would also result in rental homes that would likely serve higher average income levels, provide fewer amenities and/or social services.

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