
Affordable Housing Advocates Say Trump Tax Reform Bill is 'Devastating.'

Elimination of private-activity bonds would lead to steep drop in affordable housing units

Affordable housing advocates were cautiously optimistic that the House tax reform bill would have only modest effects on low-income housing after the Trump administration's framework explicitly retained the tax credit responsible for virtually all construction and preservation of low-income housing units—the Low-Income Housing Tax Credit (LIHTC).

While the House's tax reform bill released Thursday does include LIHTCs, the unexpected elimination of private-activity bonds would have devastating effects on the construction and preservation of affordable housing. When combined with other changes the bill proposes, accounting firm [Novogradac & Company estimates](#) a loss of nearly 1 million affordable housing units produced over 10 years.

"This was the worst case scenario that we were bracing for," said Rachel Fee, Executive Director of the New York Housing Conference. "We knew bonds were slated for elimination in previous tax reform proposals so that threat has been out there," she explained, "However, given that the tax reform framework announced last month explicitly supported the housing credit, we were hopeful that there was sincere interest from the administration and House Republicans in supporting this public-private partnership model with a track record of success."

The LIHTC program provides two types of credits for developers willing to put affordable housing units in their projects—the 9-percent credit and the 4-percent credit. The 4-percent credit can only be claimed if 50-percent or more of the project is funded using tax-exempt private-activity bonds.

The House tax reform bill, dubbed the Tax Cuts and Jobs Act, proposes eliminating private-activity bonds, so while LIHTCs are explicitly retained in the bill, the elimination of the bonds would eliminate the 4-percent credit and likely lead to a precipitous drop in construction of low-income housing units produced by the program.

"These bonds contribute to 60-percent or more of the affordable rental housing built or renovated every year," said Michael Novogradac of Novogradac & Company. "Hundreds and hundreds of thousands of units of affordable housing would be lost over the next 10 years."

The bond elimination compounds a problem that was expected in the bill—the corporate tax rate cut. The bill proposes cutting the rate from 35 to 20-percent. This would ultimately lower the value of LIHTCs and thus the amount of equity available to developers for building low-income housing units.

Novogradac & Company's analysis measured the effects of the elimination of the 4-percent LIHTC, the corporate tax cut, and change in inflation adjustments through out the tax code and found a reduction in LIHTC-financed units produced somewhere between 882,000 and 983,000 over 10 years.

The New York Housing Conference, in coordination with New York City and the State of New York, estimates that the combination of the corporate tax cut and the elimination of the 4-percent credit would cost New York alone $4.5 billion and 17,128 affordable housing units annually.

It could ultimately lead to as much as a 15-percent drop in the number of new affordable housing units, and that's before taking into account the effects of eliminating private-activity bonds.

Private-activity bonds are used to fund a number of different public works, in addition to affordable housing units. Trump has actually proposed expanding the use of private-activity bonds in the past, as part of his push for increased spending on infrastructure projects, so this cut comes as a surprise. Treasury Secretary Steven Mnuchin actually advocated for "enhancing" private-activity bonds during his confirmation process.

The Joint Committee on Taxation estimates that elimination of private-activity bonds would save the federal government $38.9 billion over the next 10 years. That's a drop in the bucket for a bill that the House estimates would add $1.5 trillion to the deficit over 10 years.

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