

ISSUE: Ensure a Fair Federal Tax Code That Continues to Support Homeownership, Affordable Housing and Investment in Small, Midsize and Rural Communities

The nation's tax code must remain fair to the nation's working families, and it is key that it preserve and strengthen features in tax law that support homeownership for low- and moderate-income households, and that help finance community development and affordable housing projects.

The Trump Administration and Congress have indicated that they intend to enact major tax reform in 2016. Last year, Speaker of the House of Representatives Paul Ryan (R-WI-1), released a tax overhaul blueprint that proposed to simplify the federal tax code by raising the standard deduction for individuals and joint filers and eliminating or modifying a number of popular deductions, such as: the mortgage interest deduction, the deductibility of state and local real property taxes, and tax credits that support community development and affordable housing projects.¹

Tax Code on Homeowners: The federal tax code currently supports homeownership in a number of ways, and particularly for the higher-income households that itemize their deductions.² With some restrictions, homeowners receive a federal tax deduction for mortgage interest payments as well as for the state or local property taxes they pay. They can exclude some capital gains on the sale of their principal residence from federal taxes. Depending on income, homeowners can deduct mortgage insurance premiums from federal taxes. Residential rental property owners can also deduct depreciation on their rental property from their federal taxes.

The Historic Tax Credit and the New Market Tax Credit: Historic rehabilitation projects frequently have higher costs, greater design challenges and weaker market locations – all of which result in lender and investor bias against investment in rehabilitation, making the Historic Tax Credit (HTC) key. The HTC benefits local communities, especially in the nation's urban core and rural areas. Over 40 percent of projects financed in the last fifteen years are located in communities with populations of less than 25,000.³ In addition to revitalizing communities and spurring economic growth, a study commissioned by the National Park Service found that \$23.1 billion in federal tax credits have generated more than \$28.1 billion in federal tax revenue from historic rehabilitation projects since the inception of the HTC.

Similarly, the **New Market Tax Credit (NMTC)** is designed to encourage investments in low-income communities that traditionally have had poor access to debt and equity capital. Individual and corporate investors receive a tax credit against their federal income tax in exchange for making equity investments in Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a seven year period. As of the end of Fiscal Year 2015, the NMTC program had generated \$8 of private investment for every \$1 of federal funding and created 164 million square feet of manufacturing, office, and retail space and financed over 4,800 businesses.⁴

1 Paul Ryan, Speaker of the U.S. House of Representatives, *A Better Way: Our Vision*

2 Congressional Budget Office, *Federal Housing Assistance for Low-Income Households* (September 2015)

3 Historic Tax Credit Coalition, *Prosperity Through Preservation* Fact Sheet.

4 CDFI Fund, *New Market Tax Credit Program*, website homepage.

Low Income Housing Tax Credit: The Low Income Housing Tax Credit (LIHTC) remains the principal federal resource for both expanding and preserving affordable housing. Still, the LIHTC program has supported only 76,000 additional affordable units annually on average in recent years, with about half of its funding going to acquisition and rehabilitation of existing subsidized developments and half to new construction.⁵ Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.⁶ This allows individual and corporate investors to claim tax credits on their federal income tax returns. The LIHTC database, created by HUD, contains information on 40,502 projects and 2.6 million affordable housing units placed in service between 1987 and 2013.⁷

Importantly, in December 2015, Congress enacted a permanent minimum nine percent LIHTC rate for new construction and substantial rehabilitation and extended the NMTC through 2019 at its current annual funding level of \$3.5 billion.⁸ However, the shortage of affordable housing units demands a greater federal response.

Who Can Act:

The U.S. Congress

NCRC's Position:

Congress should continue to provide tax support for homeownership for low- and moderate-income households. Homeownership is the best vehicle for these families and people of color to build wealth and enter the middle class.

We support the *United for Homes Campaign*⁹ in reforming the mortgage interest deduction to:

- **Lower the Cap:** Reduce the amount of a mortgage eligible for a tax break from \$1 million to \$500,000. Homeowners would continue to get tax relief on the first \$500,000 of their mortgage.
- **Convert it to a Tax Credit:** Convert the mortgage interest deduction to a tax credit, which would allow an additional 15 million low- and moderate-income homeowners to get a tax break.¹⁰

5 *America's Rental Housing: Expanding Options for Diverse and Growing Demand*, Joint Center for Housing Studies of Harvard University (December 9, 2105).

6 *About the LIHTC Database*, HUD Website (2016).

7 Ibid.

8 HousingWire, *Congress Approves Permanent Minimum Rate for LIHTCs*, December 18, 2015.

9 *United for Homes*: National Low Income Housing Coalition.

10 Diane Yentel and Mark Calabria, *Time to reform the mortgage interest deduction*, The Hill (February 6, 2017).

- **Invest the Savings:** Invest the estimated \$241 billion in savings in affordable housing programs, such as the National Housing Trust Fund.

NCRC supports the bipartisan Historic Tax Credit Improvement Act (H.R. 1158/S. 425). The bill makes long overdue changes to the federal Historic Tax Credit to further encourage reuse and redevelopment in small, midsize and rural communities. We also support the bipartisan New Market Tax Credit Extension Act (H.R. 1098/S. 384). Forty percent of all U.S. and most central business district census tracts qualify for the NMTCs.¹¹

To make a meaningful dent in the affordable housing supply gap, we urge Congress to increase the cap on LIHTC authority by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over a ten-year period.¹²

11 National Trust Community Investment Corporation: <http://ntcic.webfactional.com/tax-credit-basics/new-markets-tax-credits/>

12 Affordable Housing Resource Center (March 2016).