

THE NATIONAL POLICY DISCUSSION

for NH&RA Tennessee Developers Symposium

Peter Lawrence

Director of Public Policy and Government Relations

Novogradac & Company LLP

peter.lawrence@novoco.com

 [@NovocoPolicy](https://twitter.com/NovocoPolicy)

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www.novoco.com

Agenda

~~Tax Reform?~~

Key Changes to Impact the Low-Income Housing Tax Credit

Impact on New Markets and Historic Tax Credits

Base Erosion and Anti-Abuse Tax (BEAT)

Opportunity Zones



Low-Income Housing Tax Credit

Lower **Corporate Rate**

Interest Expense **Limitation**

100% Expensing through 2022 for:

- Site improvements, and
- Furniture, Fixtures & Equipment

Likely negative impact of the BEAT
(will discuss later)

9 Percent Property

Price per Credit

	\$0.95	\$1.00	\$1.05	\$1.10
35%	\$0.95	\$1.00	\$1.05	\$1.10
21%	\$0.82	\$0.87	\$0.90	\$0.95

4 Percent Tax Exempt Bond Property

Price per Credit

	\$0.95	\$1.00	\$1.05	\$1.10
35%	\$0.95	\$1.00	\$1.05	\$1.10
21%	\$0.81	\$0.86	\$0.89	\$0.93

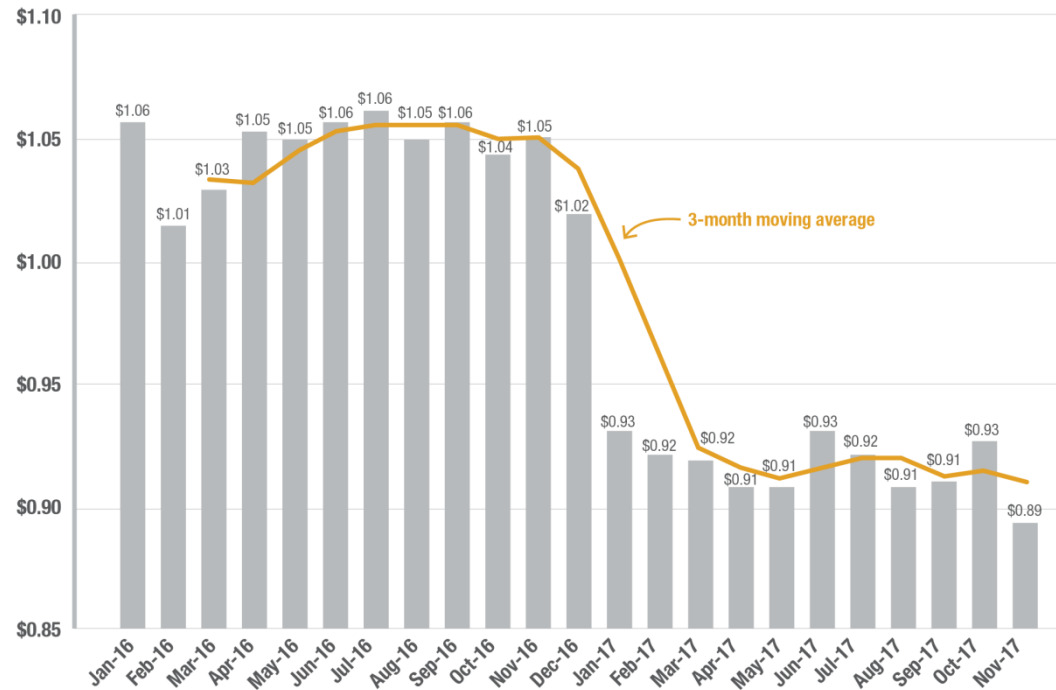
Assumes 4.5% – 5.0% investor level yield in all scenarios
Results may differ based on a change in underlying assumptions.
Property not eligible for 30% basis bonus

Effect of Tax Reform on LIHTC Equity Pricing

Affordable Housing Community had already lost investment and production in 2017

Low-Income Housing Tax Credit Equity Pricing per Credit

January 2016-November 2017



This low-income housing tax credit equity pricing chart is presented for general information purposes only. Per credit equity pricing is based on syndicator Letter of Intent (LOIs) provided to Novogradac & Company LLP by market participants. The equity price reported for each month is the average equity price for LOIs issued in that month. No adjustments to equity pricing are made for timing of capital contributions or other considerations. Data labels are rounded to the nearest cent.

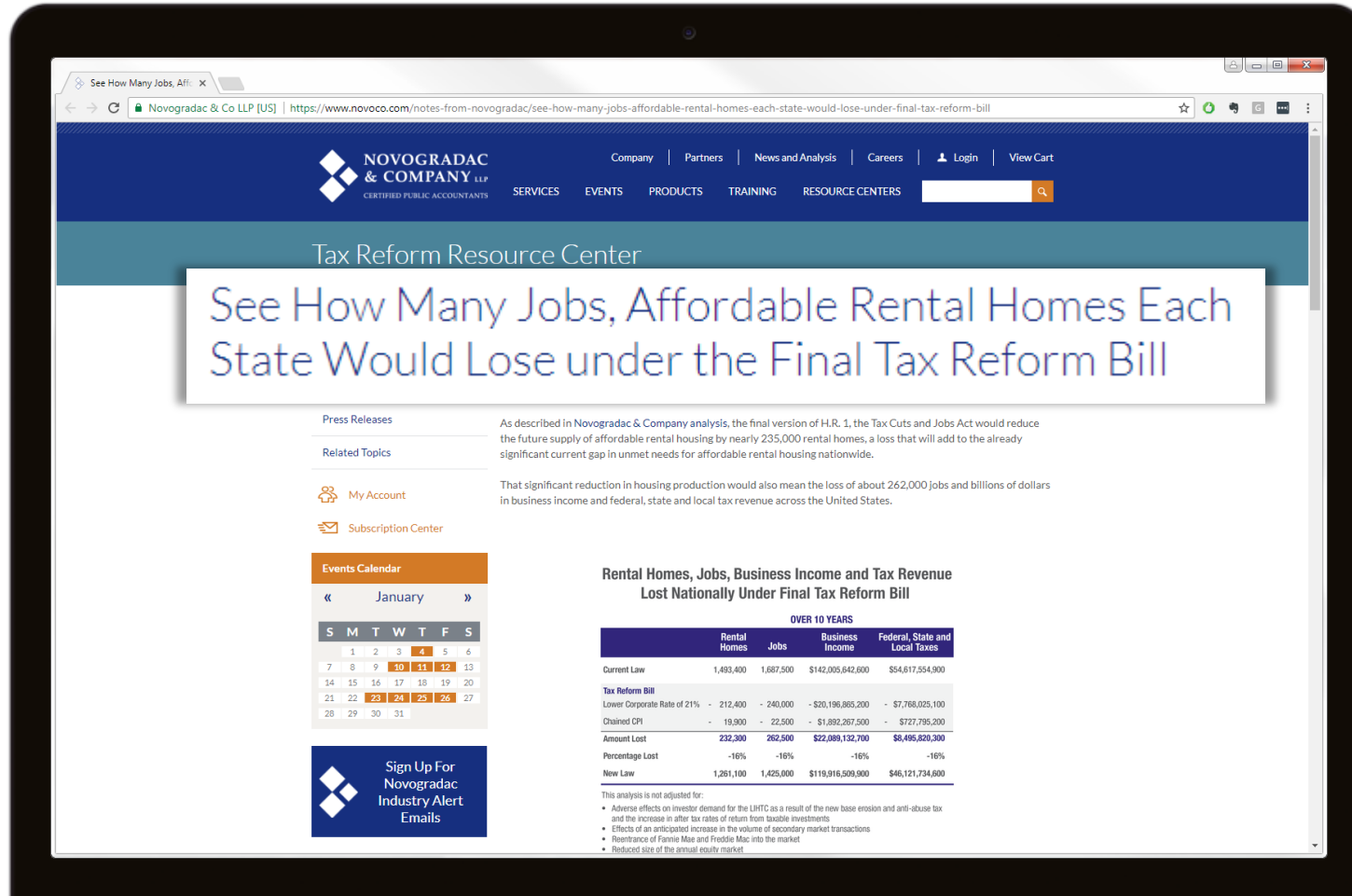
Source: Novogradac & Company LLP



Effect on Tax Reform on LIHTC Production

Based on a sample of states

						Total Cost/		Credits		Additional Credits	
		Credits	Units	Total Cost	Credits/Unit	Unit	Cost Increase	Higher Cost	Dollars	%	Lost Units
Total	2015	\$46,715,121	4,467	\$726,206,855	\$10,457.83	\$162,571.49					
Total	2017	\$46,668,353	3,743	\$643,556,376	\$12,468.17	\$171,935.98	\$9,364.49	\$602.39	\$1,407.94	12.7%	476
							6%				



Rental Homes, Jobs, Business Income and Tax Revenue Lost Nationally Under Final Tax Reform Bill

OVER 10 YEARS

	Rental Homes	Jobs	Business Income	Federal, State and Local Taxes
Current Law	1,493,400	1,687,500	\$142,005,642,600	\$54,617,554,900
Tax Reform Bill				
Lower Corporate Rate of 21%	- 212,400	- 240,000	- \$20,196,865,200	- \$7,768,025,100
Chained CPI	- 19,900	- 22,500	- \$1,892,267,500	- \$727,795,200
Amount Lost	232,300	262,500	\$22,089,132,700	\$8,495,820,300
Percentage Lost	-16%	-16%	-16%	-16%
New Law	1,261,100	1,425,000	\$119,916,509,900	\$46,121,734,600

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New Markets Tax Credit

- No **statutory changes** to section 45D
- 2017, 2018 and 2019 rounds from the PATH Act in 2015 remain at **\$3.5 billion each**
 - House bill had originally eliminated 2018 and 2019 rounds
- Efforts to extend or make the NMTC an **indefinite part** of the internal revenue code likely included in a future extenders package
- **Corporate AMT repealed**
- Unlike LIHTC, lower corporate rate is a slight positive for NMTC because investors pay taxes on gains at exit
- **Unknown impact of the BEAT** (will discuss later)



Historic Rehabilitation Tax Credit

The new rules:

- House would have **dropped the HTC entirely**; Senate bill **prevailed**
- The 10 percent non-certified rehabilitation credit (for pre-1936 buildings) is **repealed**
- 20 percent historic rehab credit is claimed **ratably over 5 years**
- Pricing may drop **7% to 15%** due to changes
- **Unknown impact of the BEAT** (will discuss later)

Base Erosion and Anti-Abuse Tax (BEAT)

- Who is subject to BEAT?

$$\frac{\text{BEAT deductions}}{\text{Total deductions}} = \text{BEAT \%}$$

Banks = 2% or more = subject to BEAT

All other corporations = 3% or more = subject to BEAT

Base Erosion and Anti-Abuse Tax (BEAT)

BEAT tax liability calculation:

Taxable Income

+ Base Erosion Tax Benefits

+ NOL Carryforwards and Carrybacks

Modified Taxable Income

x BEAT Rate

BEAT Tax

Base Erosion and Anti-Abuse Tax (BEAT)

BEAT rate is generally lower than normal tax rate (21%)

Year	Corporations	Banks
2018	5%	6%
2019-2025	10%	11%
2026 and thereafter	12.5%	13.5%

Base Erosion and Anti-Abuse Tax (BEAT)

Sample Calculation for Banks in 2019

	<u>Regular Tax</u>	<u>BEAT</u>
Taxable Income	\$ 100,000	\$ 100,000
BEAT Adjustment		+ 125,000
Modified Taxable Income		<u>225,000</u>
Rate	x 21%	x 11%
<u>Tax Before Credits</u>	<u>\$ 21,000</u>	<u>\$ 24,750</u>
LIHTCs	- 10,000	- 8,000*
<u>Tax Liability</u>	<u>\$ 11,000</u>	<u>\$ 16,750</u>

*up to 80% of your LIHTCs can offset up to 80% of your tentative BEAT through 2025.

Investing in Opportunity Act

- Allows investors with capital gains from sale of assets to defer those gains
- Creates **new incentive** to **invest capital gains in low-income communities**
- Authorizes the designation of **“opportunity zones”**
- Governors responsible for designating these zones by end of March
- Encourages investors to **pool resources and risks** in “Opportunity Funds” (O Funds). Investors can temporarily defer capital gains recognition if they reinvest in these zones
- Incentivizes long-term investment by stepping up basis
- Provides shallower subsidies than the NMTC, but can be used on a **greater scale**

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