Repealing Community Development Tax Credits Would Barely Reduce Tax Rates but Would Be a Windfall for Corporations

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In the debate over corporate tax reform, lawmakers continue to look for a way to lower the top tax rate below its current 35 percent rate. When former House Ways and Means Committee Chairman David Camp, R-Mich., was drafting his tax reform bill in 2013, Novogradac & Company looked at what effect the repeal of the low-income housing tax credit (LIHTC) would have on the top corporate tax rate. As current House Ways and Means Committee Chairman Kevin Brady, R-Texas, now does the same using the House Tax Reform Task Force Blueprint as guidance, Novogradac has updated its analysis.

LIHTC Repeal

First, it is important to note that the LIHTC has created more than 2.9 million affordable rental homes since its inception in 1986, providing affordable housing to 6.7 million households, and as such a reduction of the corporate tax rate through repeal of the LIHTC would have to be incredibly valuable to outweigh those benefits. So, how low could the tax rate be by repealing the LIHTC? The answer is —yet again—not very.

Created by the Tax Reform Act of 1986, the LIHTC was made an indefinite section of the tax code in 1993. A repeal of the LIHTC on a prospective basis would only reduce the tax rate, at most, 0.02 percent in the first year (from 35 percent down to 34.98 percent). Over five years, the average reduction would be, at most, 0.2 percent (to 34.8 percent) and over 10 years the average reduction would only be, at most, 0.43 percent (to 34.57 percent). These estimates are described as "at most" because in reality these small reductions would likely be even smaller; these estimates are based on calculations that assume 100 percent savings in the first year whereas, given the combined construction and lease-up period associated with development of LIHTC properties, savings in the early years would be much less. The first year reduction would likely have close to no impact on the top corporate tax rate.

If the savings from the repeal of LIHTCs were entirely used to lower individual rates, the top rate of 39.6 percent would drop on average to about 39.48 percent after 10 years, a reduction of a mere 0.12 percent.

This analysis shows that a prospective repeal of the LIHTC would provide only extremely modest reductions in the top corporate income tax rate, but it would come at a cost of nearly a million affordable rental units over 10 years.

Even if Congress considered the unthinkable, a retroactive repeal, where tax credits of properties already placed in service are recaptured, savings are about 0.9% (down from 35% to 34.1%).

HTC Repeal

Novogradac also updated its analysis from 2013 regarding the effect of repealing the historic rehabilitation tax credit (HTC). Like the LIHTC, the HTC is an indefinite provision of the tax code. According to the National Park Service's Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2015, the HTC has created more than 2.3 million jobs, leveraged $117 billion in private capital and restored 41,270 historic buildings since it was created 39 years ago. Any consideration of repeal must be weighed carefully against these achievements, which would be impossible without the HTC.

The most politically realistic repeal scenario would be that savings from the individual HTC repeal would be used to reduce the individual rate and the corporate savings would reduce the corporate rate. In that case, over 10 years, the top corporate tax rate would average out at 34.9 percent over 10 years, resulting in a 0.1 percent savings. The top individual income rate over 10 years would see 0.02 percent decrease.

These small savings clearly don't justify the repeal of such a successful program, especially when one takes into account that the HTC more than pays for itself: The HTC has produced nearly $28.1 billion in federal tax receipts at the cost of $23.1 billion in credits.

New Markets Tax Credit (NMTC) Repeal

The NMTC was created in 2000, and most recently was extended through 2019 by the Protecting Americans from Tax Hikes (PATH) Act of 2015. Between 2003 and 2014, $38 billion in direct NMTC investments were made in businesses. These NMTC investments leveraged nearly $75 billion in total capital investments to more than 4,000 businesses and revitalization projects in urban and rural communities of poverty, economic distress and high unemployment. These NMTC investments also generated more than 750,000 jobs at a cost to the federal government of less than $20,000 per job.

Although the NMTC is currently only extended through Dec. 31, 2019, this analysis addressed the effect on corporate tax rates as if the currently structured NMTC were extended indefinitely. Because the NMTC is essentially only a corporate tax expenditure, Novogradac's analysis focuses on the potential corporate tax rate reduction. Over 10 years, repealing the NMTC and applying all of the savings to reducing the corporate tax rate would result in a 0.08 percent rate reduction to the corporate rate over 10 years, lowering it to about 34.92 percent

Conclusion

While tax reform is important, lawmakers looking to eliminate tax expenditures should look elsewhere if the goal is to accomplish meaningful savings without doing substantial harm. *In the* *aggregate, repeal of community development tax credits would lower top corporate tax rates no more than a mere 0.61 percent over 10 years, and cause significant economic damage, including the loss of hundreds of thousands of affordable rental units, hundreds of thousands of jobs, and billions of dollars of investment in distressed low-income communities.*

It is also worth noting, the repeal of community development tax credits to lower tax rates would be a windfall to corporations, as they currently invest 90 cents to a dollar to obtain these tax credits. *Repeal would essentially allow corporations to obtain the benefit of these tax credits, through lower corporate tax rates, without having to make investments in affordable housing, historic properties, and distressed low-income communities.*