

## Federal Tax Reform

In December 2010, the National Commission on Fiscal Responsibility and Reform published a report concluding that, "America's tax code is broken and must be reformed." It determined that since the Tax Reform Act of 1986, tax expenditures amounting to \$1.1 trillion have been added to the tax code, increasing the federal deficit and causing tax rates to be too high. While the report itself was not adopted, its conclusion that the tax code is broken has become the foundation for further debate in Congress on the need to decrease corporate and individual tax rates and reduce or eliminate some or all of the many credits, deductions, exclusions, and exemptions that have increased the complexity and the cost of complying with the code.

The House Ways and Means Committee and the Senate Finance and Budget Committees have already held the first set of what will be a series of hearings on tax reform. Several congressional and tax policy leaders have expressed their desire to pursue comprehensive tax reform as soon as possible, although several key tax writers have stated they think reform enactment is unlikely before the 2012 elections. The Administration's FY 2012 Budget indicated an interest in corporate tax reform and President Obama's State of the Union address called for both corporate and individual tax reform.

These efforts highlight the importance of ensuring that Housing Bonds and the Housing Credit are preserved and protected by making members of Congress aware of the need for and the benefits of these programs.

Housing Bonds finance low-interest mortgages for low- and moderate-income home buyers and the acquisition, construction, and rehabilitation of multifamily housing for low-income renters. Investors purchase Housing Bonds at low interest rates because the income from them is tax-free. The interest savings made possible by the tax exemption is passed on to home buyers and renters in reduced housing costs.

The Mortgage Revenue Bond (MRB) and tax-exempt multifamily housing bond programs (collectively, Housing Bonds) have provided 4 million lower-income Americans with affordable homeownership and another 1 million with rental housing opportunities. Each year, another 100,000 families buy their first homes with MRB mortgages. HFAs use multifamily tax-exempt housing bonds to finance an additional 30,000 apartments each year.

The Housing Credit was created through Congress' last major tax reform effort. President Reagan and Congress enacted the program under Section 42 of the Internal Revenue Code in the Tax Reform Act of 1986. At the time, Congress was concerned that the tax preferences for low-income rental housing available under prior law were not effective in providing affordable housing for low-income individuals.

Congress believed a more efficient mechanism could be provided through the Housing Credit because the amount of Credit an owner could receive would be directly related to the number of rental units made available to low-income individuals, thus, providing an incentive to create a greater number of units for more low-income individuals. Congress recognized on a

bipartisan basis the importance of encouraging the private sector to invest in the construction and rehabilitation of housing for low- and moderate-income families.

Twenty-five years since its enactment, the Housing Credit is recognized as the most successful rental housing production program in history—helping to finance over 2.4 million apartments for low-income families and contributing to the financing of over 100,000 more apartments each year. According to a study conducted in 2009 by Ernst & Young, the private sector invested more than \$75 billion in affordable rental housing between 1987 and 2008 because of the Housing Credit.

A significant factor in the program's success has been its focus on state government administration and private sector oversight. Unlike spending programs that are administered by the federal government through extensive regulation and rulemaking, the Housing Credit operates with a minimal amount of federal oversight.

The Housing Credit is administered by each state according to its affordable housing needs and priorities, which are based upon annual review and public hearing. Furthermore, no Credits are disbursed to an investor unless and until the development is placed in service and complying with the rules of the program. Thus, the risk of developments failing is not borne by the federal government and the public but by the private investor who has contributed financing upfront with the expectation of future Credits.