New Tax Plan Impacts Affordable Housing

At the end of 2017, the U.S Senate and House of Representatives passed the Tax Cuts and Jobs Act, which reduced the corporate tax rate from 35% to 21%. The new tax rate, the lowest since 1938, went into effect on January 1, 2018.

While the full impact of the new plan is yet to be determined, it is expected that the changes will have a significant impact on the affordable housing industry and many of the clients we serve in that sector. The Low Income Housing Tax Credit (LIHTC) helps finance 90% of affordable rental units built across the country. Since these credits are tied to the corporate tax rate, the credits are worth less to investors when the expected tax burden decreases.

The reduction in the corporate tax rate from 35% to 21% will reduce LIHTC equity by approximately 14%, which translates to roughly $1.7 billion in lost equity each year. Novogradac & Company, a CPA and consulting firm, projects that this reduction in equity will result in more than 200,000 fewer affordable units being built over the next decade.

At Scott, we understand the importance of these impacts since affordable housing is such a major economic driver for communities and families., It is estimated that the reduction in housing production will result in the loss of 262,000 jobs and billions of dollars in business income and federal, state and local tax revenue across the country. Additionally, the lower value of the tax credit may also result in rental homes that will cater to higher income levels while providing fewer amenities and social services.

As the full impact of the reduced corporate tax rate is realized over the next couple of years and cost containment becomes even more important, our Scott Affordable Housing Practice Group is committed to service that forges strong partnerships and produces significant results throughout the process. We understand the diverse business operations, complex needs and unique operational risks of affordable housing organizations and we provide strategic solutions for our clients' risk management needs as they improve lives and communities through the development of high-quality affordable rental units.

Written by Nathan Kerr

Nathan is Vice President and Branch Leader of Scott Insurance's Roanoke, Virginia office. He began his career with Scott in 2000 and started their Knoxville, Tennessee office in 2001 as a Commercial Risk Advisor. In 2011, Nathan became the Branch Leader of the Roanoke, VA office and leads the Affordable Housing Practice Group for Scott Insurance. As a property and casualty risk advisor, he works as an advocate, advisor, and broker to middle market companies with their risk management needs.

Call Nathan at **540-224-1774** if you have any questions or need any additional assistance.