

Deciphering Tax Reform

The House passed tax reform legislation that would make dramatic changes to the nation's tax code on November 16. While largely leaving many provisions of critical importance to the multifamily industry intact, including those impacting interest deductibility, like-kind exchanges, and depreciation, it would make dramatic changes to both the individual and business sides of the tax code.



First, the House bill reduces marginal income tax rates, enabling multifamily firms to see a portion of business income taxed at 25 percent. Second, the House legislation sets a three-year holding period for carried interest capital gains treatment. Third, the Low-Income Housing Tax Credit (LIHTC) is retained, but private activity bonds (PABs) are eliminated, seriously impacting the 4 percent credit.

At the same time as the House debated its version of tax legislation, the Senate Finance Committee approved its own version. Like its House counterpart, the Senate bill preserves key tax code components, including interest deductibility and like-kind exchanges. However, the Senate language extends the depreciation period of multifamily buildings to 30 years. Initially, the Senate sought a 40-year depreciation period for buildings, but NAA/NMHC were able to secure an amendment offered by Finance Committee Chairman Orrin Hatch (R-UT) to reduce the period to 30 years.

Like the House bill, the Senate measure reduces tax rates on individuals and provides a tax incentive for pass-through business income. Under the proposal, individuals could take a 17.4 percent deduction on a portion of pass-through income.

Notably, these and other tax reductions targeted to individuals would end in 2025. At the same time, corporate tax reductions, including cutting the corporate tax rate to 20 percent, would be permanent. This could lead to a reprisal of the "fiscal cliff" scenario brought on by expiring tax provisions that Congress last addressed at the end of 2012 with respect to Bush-era tax cuts passed in 2001 and 2003.

The full Senate is expected to consider tax reform legislation the week of November 27. If passed, there will be a formal or informal conference to resolve differences between the House and Senate bills.

CLEAN WATER ACT

Why It Matters: The Environmental Protection Agency (EPA) and Army Corps of Engineers (Corps) finalized a rule that claimed to clarify the scope of the waters regulated under the federal Clean Water Act. The controversial rule was found to significantly increase the costs and time associated with permitting requirements, provide greater opportunities for citizen lawsuits and essentially federalize local land use planning. The rule would also subject municipal separate storm sewers to an additional level of regulation as "Waters of the US." The Trump Administration has ordered that the rule be repealed and replaced.



CLEAN WATER ACT (CONT'D)

What We Are Doing: Pursuing an aggressive advocacy strategy before Congress and the Administration on the appropriate scope of federal jurisdiction over water. Existing authority under the 1986 regulation and 2008 guidance to define "waters of the United States" covered by the Clean Water Act has led to a spate of lawsuits and was the impetus for the last Administration to issue the flawed WOTUS rule.

ENERGY POLICY



Why It Matters: Energy efficient multifamily buildings reduce utility consumption costs for apartment owners and residents and further the goal of national energy independence. Although the industry has embraced energy efficient design and operations, it is important that federally-sponsored energy performance standards be cost-effective. Expensive

code requirements that have a pay-back outside of traditional financing terms will exacerbate the shortage of affordable housing. Federal tax incentives are insufficient to improve the efficiency of the nation's existing housing stock and should be expanded. New Federal Housing Administration financing programs will assist owners and developers in improving building 7 Updated May 2017 energy performance. The apartment industry welcomes the newly available ENERGY STAR rating for multifamily, however, the lack of access to whole building energy consumption data in many regions of the country limits the ability of properties to participate in the program.

What We Are Doing: Advocating for policies that include cost-effectiveness as a consideration in building code adoption, promoting building energy research and working to help property owners access their energy consumption data. We are also lobbying for energy efficiency tax measures that encourage energy efficient rehabilitation of existing properties. Finally, we continue to work with HUD, EPA and the Department of Energy to expand opportunities that will assist property owners in improving building energy performance and remain focused on growing the ENERGY STAR rating for multifamily.

“I’M NOT INTERESTED IN POLITICS, IT DOESN’T AFFECT ME”

By: Mike Pharis

Wrong! It would be nice if that were true. Unfortunately, politics and government affairs **do** affect each of us every day. From the food we eat to the cars we drive to our place of employment to how we get paid and every other facet of life – government is there. At times it's a bit overwhelming. If you are like most Americans you often feel like there is nothing you can do about it. Again...

Wrong! What can you do about it? First of all, let your elected officials know what you think. Second, let them know that there are a lot of others that think that way. Third, let them know we are watching! How can you do that? Easy, be part of an organization that looks out for your interests and is large enough to command the attention of the people who make the rules.

“I’M NOT INTERSTED IN POLITICS, IT DOESN’T AFFECT ME” (CONT’D)

The good news is that you are already part of just such an organization – the National Apartment Association! When you are a member of the Apartment Association of Greater Wichita you are automatically a member of the National Apartment Association! The N.A.A. represents the interests of it’s 73,000 member companies and the residents of over 9 MILLION apartments in the country. That’s enough to command attention!

To make sure that our voices are heard the N.A.A. maintains offices in Washington D.C. to monitor the activities of the “rule makers” and make sure they hear us. Over the next few months you will be receiving a series of emails telling you more what the N.A.A. is doing to represent you in Washington D.C. To accomplish all that we need to do in D.C. takes money. The most efficient way for you to help right now is to make a donation to the National Apartment Association Political Action Committee (NAA/PAC). To make a donation please contact Ryan at the A.A.G.W. office (316) 682-3508 or myself at (316) 210-4004.



Remember-

“If you do not have a seat at the table, you are probably on the menu!”