



NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

TAX REFORM UPDATE FOR NMHC FALL BOARD OF DIRECTORS AND ADVISORY COMMITTEE MEETING

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TAX REFORM

- Tax reform has capacity to reshape the multifamily industry.
- Reform can impact taxes paid at all stages of development:
 - Building
 - Operating
 - Sale
 - Transfer to Heirs
- NMHC supports reform that promotes economic growth and investment in multifamily housing.

TAX REFORM - KEY MULTIFAMILY ISSUES

- Protect Flow-Through Entities / REIT Structure
- Maintain Like-Kind Exchanges
- Retain Full Business Interest Deduction
- Ensure Depreciation Rules Avoid Harming Real Estate
- Preserve Carried Interest
- Protect the Low-Income Housing Tax Credit

TAX REFORM LANDSCAPE

- Goal: Complete action on tax reform by end of 2017
- Reality: Lots of uncertainty given policy and procedural challenges
 - Just prior to recess, “Big 6” released statement calling for:
 - Reduced tax rates on families
 - Reduced tax rates on businesses (and lower rate for small businesses)
 - Providing unprecedented capital expensing
 - Setting aside border adjustability
 - House Ways and Means and Senate Finance Committees to fill in details
 - More details *may* come out later this month from Big 6

THE BIG 6



Speaker Ryan



Majority Leader McConnell



Treasury Secretary Mnuchin



Chairman Brady



Chairman Hatch



NEC Chairman Cohn

TAX REFORM -- POLICY CHALLENGES

- Reality: Tax Reform is hard
- Everyone supports lower rates
- Broadening the base is the problem

TAX REFORM - PROCEDURAL CHALLENGES

■ Tax Agenda will be complicated by:

- ❑ Passage of FY 2018 Budget Resolution (enabling tax reconciliation)
- ❑ 9/30: FDA, FAA, CHIP Need Reauthorization
- ❑ Hurricane Harvey / Irma Relief
- ❑ 12/8: FY 2018 Budget & Flood Insurance
- ❑ Debt Ceiling

RECONCILIATION

- Requires passage of FY 2018 Budget Resolution
 - GOP will have to resolve intraparty dispute over deficits / entitlement cuts
- Allows Senate to approve tax bill with 51 votes (no Dems needed)
- Reconciliation Tax Bill must be offset to be permanent
 - Offsets are at a premium
 - Finance Chair Hatch suggested looking at VAT – rejected by Brady
 - Option for some provisions to be permanent & others to sunset

ON THE TABLE FOR MULTIFAMILY

- Everything is on the table as part of tax reform
- NMHC is aggressively advocating for all of our priorities
- We have two broad areas of particular and immediate concern
 - Cost recovery rules
 - Treatment of business income

ON THE TABLE: COST RECOVERY RULES

■ Current Law

- ❑ Depreciation: 27.5 years
- ❑ Interest: Fully deductible
- ❑ Like-Kind Exchanges: Available

■ On Table

- ❑ Full expensing for buildings unlikely (but depreciation *could* speed up for buildings and other assets)
- ❑ Interest: Haircut on interest deductibility is possible
- ❑ Like-Kind Exchanges: They could be considered a loophole to be cut

ON THE TABLE: TREATMENT OF INCOME

■ Current Law Treatment of Business Income

- ❑ Flow-through entity: 39.6 percent max rate
- ❑ Individual: 39.6 percent max rate
- ❑ Corporate: 35 percent max rate

■ House Republican Blueprint (for illustrative purposes)

- ❑ Flow-through entity: 25 percent max rate
- ❑ Individual: 33 percent max rate
- ❑ Corporate: 20 percent max rate

■ KEY ISSUE

- ❑ How is gaming prevented when top flow-through and individual rates are split
- ❑ 70/30 split between ordinary and flow-through income (limited to active income)?

THANK YOU

- NMHC is well positioned to work with Congress and the Administration.
- We cover all key issues from soup to nuts.
- We have strong relationships with members on both sides of the aisle.

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