METROPOLITAN TRANSPORTATION COMMISSION — ASSOCIATION OF BAY AREA GOVERNMENTS

BayAreaMetro.gov

Memorandum

TO: MTC Commission
ABAG Executive Board

DATE: November 14, 2017

FR: Executive Director

W. I. 1131

RE: Federal Tax Reform Update

Earlier this month, the House Ways and Means Committee and Senate Finance Committee released their $1.5 trillion tax reform proposals, both named *the Tax Cuts and Jobs Act*. Both proposals would reduce corporate tax rates from 35 to 20 percent, make changes to individual tax brackets, make the standard deduction and child tax credit more generous, and repeal or limit a range of individual and business tax breaks to offset the cost of delivering tax cuts. The House bill advanced through the Ways and Means Committee last week and could be considered on the House floor as early as this Thursday according to news reports. The Senate Finance Committee is expected to debate and vote on their proposal this week, as well. In a late-breaking development, it appears the House and Senate bills will be amended to repeal the "individual mandate" to buy health insurance under the Affordable Care Act.

Though the proposals vary, each bill would make changes to tax-exempt financing tools that could restrict California's ability to fund transportation projects and address the state's chronic housing shortage. For example, the House bill would eliminate a subset of the Low Income Housing Tax Credit program (LIHTC) program, which is the largest source of affordable housing funding in California. Each bill also makes changes to specific deductions that incentivize a range of taxpayer investments, from homeownership to purchasing electric vehicles. These changes are expected to disproportionately affect residents of California and other high-tax, high-income states.

The attached chart compares major transportation and housing-related provisions in the House and Senate tax reform proposals, as of this writing, to current law and includes staff's impact analysis.

Steve Heminger

Attachments:

- Attachment A: 2017 Tax Reform Comparison Chart

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Attachment A

2017 Tax Reform Comparison Chart

November 13, 2017

	Current Law	House Proposal	Senate Proposal	Estimated Impact
Low Income Housing Tax Credits	The Low Income Housing Tax Credit (LIHTC) program – comprised of 9% and 4% tax credits – finances approximately 90% of affordable housing development nationwide. Each state receives a capped allocation of 9% credits which subsidize up to 70% of eligible development costs. Housing projects financed with private activity bonds (PABs) are eligible to receive 4% credits, which subsidize up to 30% of eligible development costs. These 4% credits serve as an important source of financing in California and other states where the capped 9% LIHTC is insufficient to meet the demand for affordable-housing financing.	Retains 9% LIHTC but effectively eliminates the 4% credit by repealing states' ability to issue tax-exempt PABs Reduces corporate tax rate from 35% to 20% Changes inflation factor for LIHTCs to chained consumer price index	Retains both 9% and 4% LIHTCs Same, with one-year delay Same	LIHTC is the largest source of affordable housing funding in California. Last year, 4% credits generated $2.2 billion in affordable housing construction in California, financing more than 20,000 affordable rental homes. This is double the $1.1 billion of capped 9% credits invested in 2016. The state housing bond headed to the 2018 ballot assumes an approximately 3:1 federal match in the form of LIHTCs. The House bill could reduce affordable housing production in California by 262,000 units over 10 years, primarily because of the elimination of the 4% credit. Additionally, changes to the corporate tax rate and inflation adjustments are expected to reduce the value of LIHTCs. As a result, even the Senate bill could lead to the loss of 65,000 affordable homes over 10 years.
Mortgage Interest Deduction	The mortgage interest deduction (MID) enables homeowners to deduct interest paid on home loans up to $1 million and on home equity debt up to $100,000, or $1.1 million in total home acquisition and equity debt.	Reduces to $500,000 the amount of debt eligible for the MID for new home loans Eliminates MID for new second homes	Reduces to $1 million the amount of debt eligible for the MID Retains MID for second homes	Because of our record-high home prices, MID changes are expected to have a disproportionate impact on homebuyers in the Bay Area. In San Francisco and Marin counties, for example, more than 45% of home mortgages secured between 2012 – 2014 exceeded $500,000.
Property Taxes	Taxpayers may deduct from their federal income taxes payments made for state and local taxes (SALT), including property taxes, income taxes and sales taxes. Across the nation, taxpayers generally considered middle class to wealthy utilize SALT and other itemized deductions, while low-income taxpayers typically opt for the standard deduction.	Caps property tax deductions at $10,000 Eliminates state and local income and sales tax deductions	Eliminates SALT, including the property tax deduction	Like the MID, capping or eliminating property tax deductions would have a disproportionally high impact on new homebuyers in the Bay Area. From a broader perspective, eliminating SALT may also affect low- and moderate-income Californians in addition to higher-income taxpayers. For example, 80% of California taxpayers earning between $100,000 - $200,000 currently claim the SALT deduction.

	Current Law	House Proposal	Senate Proposal	Estimated Impact
Private Activity Bonds (PABs)	PABs are tax-exempt bonds issued by or on behalf of state or local governments for qualified, privately-run projects. The bonds are used to attract private investment for projects that have some public benefit. In the past decade, approximately 80% of PABs have financed affordable housing projects (see LIHTCs referenced above). The other 20% have financed a range of infrastructure investments, including transportation. Airports, mass transit, high speed rail, and certain port, highway and freight projects are qualified to benefit from private activity bonds.	Repeals authority to issue tax-exempt PABs after 2017	Preserves tax-exempt PABs	Eliminating PABs would make it more expensive for private entities and nonprofit organizations to finance capital projects with public benefits. In California, the greatest impact would be on the housing side; the California Housing Partnership estimates at least 20,000 fewer affordable housing units would be financed each year. Additionally, certain transportation projects might be more challenging to finance, as entities in California have used PABs for infrastructure investment. For example, the San Francisco International Airport recently issued $179 million in PABs for facility upgrades.
Advance Refunding Bonds	State and local governments may issue new debt to refund existing outstanding debt. In advance refunding, the issuer typically sells new bonds and places proceeds into an escrow account. Those proceeds are used to pay off bonds at their scheduled maturity date. Refunded bonds qualify as “advanced” if they remain outstanding for more than 90 days after the refunded bonds are issued. Tax-exempt governmental bonds and certain PABs may be advance refunded one time.	Repeals authority to issue advance refunding bonds after 2017	Same	National associations have expressed concerns that eliminating advance refunding would limit state and local borrowing capacity for future capital improvement projects by limiting opportunities to realize savings on debt service. In the last two years, the Bay Area Toll Authority (BATA) has realized approximately $350 million in savings through advance refunding. The savings improve BATA’s cash flow and allow for new projects without toll increases.

	Current Law	House Proposal	Senate Proposal	Estimated Impact
Commuter Benefits	Commuter benefits are employer-provided benefits that allow employees to reduce their monthly commuting expenses for transit (including vanpooling), parking or bicycling. Commuting costs may either be directly subsidized by an employer or excluded from an employee's gross income, reducing both the employee's federal taxes and the employer's payroll taxes. Additionally, an employer may deduct the cost of providing commuter benefits from their federal taxes.	Retains commuter benefits for transit, parking and bicycling Eliminates employer tax deduction for costs associated with providing commuter benefits to employees	Retains commuter benefits for transit and parking, but eliminates the bike benefit Same	More than 1.4 million Bay Area employees currently receive commuter benefits from employers participating in the Bay Area Commuter Benefit program. Approximately 82% of employers offer the pre-tax transit benefit, which remains untouched in both the House and Senate bills. Over 750 employers subsidize their employees' commuter benefits. This change may incentivize some of these employers to shift to the pre-tax transit option.
Electric Vehicle (EV) tax credit	Purchasers of plug-in hybrid and electric vehicles are eligible for up to $7,500 in tax credits. The tax credit is available until 200,000 qualified vehicles have been sold in the United States by each manufacturer – no automaker has yet hit the 200,000 number. This federal credit augments state, local and utility incentives across the country.	Eliminates the EV tax credit	Retains the EV tax credit	Automakers have expressed concerns that eliminating the federal EV tax credit would slow the rate of EV adoption in the US, including in California.