Federal Affordable Housing Policy

Olivia Barrow
February 6, 2019
Federal Landscape

- The government is funded through February 15
  - Shutdown 2.0?

- FY 2020 Appropriations:
  - President's FY 2020 Budget request – delayed
  - Budget Caps – present serious threats for affordable housing funding

- Divided government
Low-Income Housing Tax Credit Advocacy

- Housing Credit advocacy in 2018:
  - The Affordable Housing Credit Improvement Act had the support of more than 40% of Congress
  - Enacted the first expansion of the Housing Credit in a decade – temporary 12.5% increase for four years
  - Enacted the new option for income averaging
Low-Income Housing Tax Credit Advocacy

- Housing Credit advocacy in 2019
  - Identify new lead sponsors in the House and Senate
  - Re-introduce the Affordable Housing Credit Improvement Act
  - Build on last year's strong bipartisan support

www.rentalhousingactionaction.org
Opportunity Zones

The Tax Cuts and Jobs Act of 2017 created Opportunity Zones – a tax benefit designed to incent long-term equity investments in businesses and real property located in designated underserved communities.

Terms:

- **Opportunity Zones** – the tax benefit (not a program)
- **Qualified Opportunity Zone** – designated census tract
- **Qualified Opportunity Fund** – investment vehicle
- **Qualified Opportunity Zone Property** – stock, partnership interest, business property
## Tax Benefits for Investors

<table>
<thead>
<tr>
<th>Temporary Deferral</th>
<th>Step-Up In Basis</th>
<th>Permanent Exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>A temporary deferral of taxes on capital gains if the gains are reinvested into an <strong>Opportunity Fund</strong>. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed or December 31, 2026.</td>
<td><strong>A step-up in basis for capital gains reinvested in an Opportunity Fund.</strong> The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.</td>
<td><strong>A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years.</strong> This exclusion only applies to gains accrued after an investment in an Opportunity Fund.</td>
</tr>
</tbody>
</table>

Source: Economic Innovation Group
Investment Example

- **10 Year Scenario - $800,000 invested in 2019**

- Sell property/stock with a tax basis of $200,000 for $1 million, $800,000 of capital gain can be deferred if reinvested in an Opportunity Fund.

  - **2019** (Day 1): immediate deferral of eligible investment
  - **2024** (Year 5): 10% of deferred gain permanently eliminated
    - $720,000 of deferred gain is taxable at exit or 12/31/2026
  - **2026** (Year 7): 15% of deferred gain permanently eliminated
    - $680,000 of deferred gain is taxable at exit or 12/31/2026
  - **2029** (Year 10): Appreciation of investment is fully tax-exempt
    - Sold interest in fund after 10 years; no gain taxed after 2026.
Implementation

Opportunity Zone Nominations:
- Approved in 50 states, 5 territories, Washington, D.C.

Guidance on Opportunity Funds:
- IRS published FAQS (April and June 2018)

Implementation of Law: Q4 2018 – Q2 2019
- First proposed rule issued in October
- Public hearing on February 14
- Second proposed rule expected in the “near future”

State and Local Efforts: Ongoing
- Convenings, community engagement and investor engagement, identifying projects, aligning capital with other incentives

Creation of / Investment in Opportunity Funds: Ongoing
Contact

obarrow@enterprisecommunity.org

@oliviajbarrow
@E_HousingPolicy