



As we move into the fall, we find the debate on healthcare in Washington narrowing to a few defined proposals. We too are looking to sharpen our three consensus proposals as we continue to get feedback from decision makers on Capitol Hill. Getting action on these proposals with the goal of stimulating the equity markets for LIHTCs is our foremost priority so congressional feedback and industry consensus on the final form of the proposals is critical.

Based on reports from meetings with House and Senate staff, we can report the following feedback on the three consensus proposals:

1. **One-year extension of the LIHTC Exchange program including 4% credits.** This proposal continues to have support on the hill and within the administration but some issues have arisen as of late. The administration has expressed concern that the Exchange is being used as a crutch and is lessening the resolve to seek equity investments. Feeding into these concerns are reports that developments are eschewing interested equity investors in favor of Exchange grants. These reports have made their way up to Capitol Hill and congressional staff have voiced similar concerns. There is a relative sense of confidence that the Exchange in some form (with or without the 4% credit provision) will be adopted but these issues could prove to be a road block.

2. **LIHTC Carryback**

a. **Five-year LIHTC Carryback of unused credits for returns filed in 2009, 2010 and 2011, but only to extent the tax payer reinvests 100% of the benefits of the Carryback.** It seems for a number of reasons, this proposal is having difficulty gaining traction on Capitol Hill. Congressional staff have little confidence they can secure a Carryback for the LIHTC while excluding other business credits. In addition, there is reticence toward providing more relief for large financial institutions. As with many issues being debated on the hill, cost is another issue working against this provision as well as Part. B of the Carryback.

b. **Permit a Carryback of LIHTCs generated by new investments up to five years as they arise during the 10-year credit period.**

This provision of the Carryback proposal has garnered more support from congressional allies who have acknowledged its potential allure to new economic investors. Nonetheless, the issue of cost remains the greatest hurdle to getting this proposal considered.

3. **Change the passive loss rules to allow some S Corporations, LLCs and closely-held C Corporations to offset revenue by investing in the LIHTC.** We were very measured in our expectations as to how this proposal would be received on the hill. For some time, the tax writing staffs have been very wary of considering any changes to the passive loss rules but to our pleasant surprise there has been a positive response toward a portion of this proposal. Specifically, there is interest in allowing Sub-S banks or perhaps financial institutions to invest in the LIHTC program. There seems to be a comfort level with this narrow group of financial institutions on Capitol Hill. Assisting us in convincing staff of the merits of this proposal was framing it as a rural housing initiative. The tax writing staffs understand the difficulties involved in attracting equity investment in many parts of the country and see this provision as one way to draw equity to these transactions. Pending this proposal receives similar support from senate tax writers, the consensus group may decide to trim the proposal to affect this narrow group of potential investors.

We will meet with Congressional staff and Administration personnel again on October 21st and will update you following those meetings. We encourage you to continue to solicit your elected officials support for our proposals.

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