METROPOLITAN TRANSPORTATION COMMISSION

ASSOCIATION OF BAY AREA GOVERNMENTS

BayAreaMetro.gov

Memorandum

TO:	Joint MTC Legislation Committee and ABAG Legislation Committee	DATE:	January 5, 2018
FR:	Executive Director	W.I.	1131
RE:	Update on Federal Tax Bill		

Summary
This past December, the U.S. House of Representatives (House) and U.S. Senate (Senate) sent a final tax bill, H.R. 1. to President Donald Trump for signature, overhauling the federal tax code. The president signed the bill into law on December 22, 2017. The final bill reduced the corporate tax rate from 35 to 21 percent, made changes to individual tax brackets, made the standard deduction and child tax credit more generous, and repealed or limited a range of individual and business tax breaks to offset the cost of delivering tax cuts. Additionally, the bill repealed the "individual mandate" to buy health insurance under the *Affordable Care Act*.

The tax bill made changes to financing tools that could restrict California's ability to fund transportation projects and address the state's chronic housing shortage. The bill also reduced the value of homeownership incentives by capping the mortgage interest deduction at $750,000 and capping the state and local deduction at $10,000. These changes are expected to disproportionately affect Bay Area residents and other high-tax, high-income regions. However, the most troublesome housing and infrastructure provision of the House bill – the proposed elimination of private activity bonds, which would have effectively eliminated access to 4% low-income housing tax credits – was stripped from the final compromise.

The attached chart compares major transportation and housing-related provisions in the final bill with House and Senate-passed tax proposals and includes staff's impact analysis.

Steve Heminger

Attachment:

- Attachment A: 2017 Tax Bill Comparison Chart

J:\COMMITTE\Legislation\Meeting Packets\Legis2018\01_Legis_Jan 2018\10a_Federal Tax Bill.docx

Attachment A

2017 Tax Bill Comparison Chart

	Current Law	House Proposal	Senate Proposal	Final Bill	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 developments nationwide. States receive a capped allocation of 9% credits which subsidize up to 70% of eligible development costs. Developments financed with private activity bonds (PABs) are eligible to receive 4% credits to subsidize up to 30% of eligible development costs.	Retains 9% LIHTC but effectively eliminates the 4% credit by repealing tax-exempt PABs Reduces top corporate tax rate from 35% to 20% Changes inflation factor to chained consumer price index	Retains both 9% and 4% LIHTCs Same, with one-year delay Same	Retains both 9% and 4% LIHTCs Reduces top corporate tax rate from 35% to 21% Changes inflation factor to chained consumer price index	The LIHTC is the largest source of affordable housing financing in California. Last year, 4% credits generated $2.2 billion in affordable housing construction in California – financing more than 20,000 affordable rental homes – in addition to the $1.1 billion invested in capped 9% credits. The state housing bond headed to the 2018 ballot assumes an approximately 3:1 federal match in the form of LIHTCs. Changes to the corporate tax rate and inflation adjustments are expected to reduce the value of LIHTCs. This could lead to the loss of up to 50,000 affordable homes in California 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 new debt eligible for the MID and eliminates the MID for new second homes	Eliminates the home equity deduction and retains the MID for second homes	Reduces to $750,000 the amount of new MID-eligible debt, eliminates the home equity deduction and retains the 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, where the October 2017 median price for a single-family home was $890,000, according to the California Association of Realtors.
State and Local Property, Income and Sales Taxes	Taxpayers may deduct from their federal income taxes payments made for state and local taxes (SALT), including property taxes and income or sales taxes. Nationwide, 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 deduction for state and local taxes paid on either income or sales taxes	Caps property tax deductions at $10,000; Eliminates deduction for state and local taxes paid on either income or sales taxes	Caps the SALT deduction at $10,000 – taxpayers may choose to deduct a combination of property taxes and income or sales taxes paid	Like the MID, capping property tax deductions would have a disproportionally high impact on new homebuyers in the Bay Area. From a broader perspective, capping SALT may also affect moderate-income Bay Area residents in addition to higher-income taxpayers. One in three California taxpaying households currently claim SALT, with an average deduction of $22,000 ($16,000 in income taxes and $6,000 in property taxes), according to the California Department of Finance.

	Current Law	**House Proposal**	**Senate Proposal**	**Final Bill**	**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 on page 1). 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	Preserves tax-exempt PABs	PABs help attract private and nonprofit financing for capital projects with public benefits. In California, the greatest impact benefit is on the housing side; the California Housing Partnership estimates at least 20,000 affordable housing units could be financed each year with PABs paired with the 4% LIHTC. This tool benefits transportation infrastructure, as well. For example, the San Francisco International Airport recently issued $179 million in PABs for facility upgrades.
Advance Refunding Bonds	Advance refunding allows state and local governments to take advantage of interest rates that may have decreased after the initial issuance of a tax-exempt bond. State and local governments may issue new debt at the lower interest rate, which is then used to finance the previously incurred debt. Tax-exempt governmental bonds and certain PABs may be advance refunded one time.	Repeals authority to issue advance refunding bonds after 2017	Same	Repeals authority to issue advance refunding bonds after 2017	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 advance refunded a significant amount of debt, realizing approximately $350 million in savings. The savings improve BATA’s cash flow and allow new projects without toll increases.

	Current Law	**House Proposal**	**Senate Proposal**	**Final Bill**	**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 the employee's tax liability and the employer's payroll taxes. An employer may also 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	Retains commuter benefits for transit and parking, but eliminates the bike benefit Eliminates employer tax deduction for costs associated with providing commuter benefits to employees	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 the final bill. 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 Tax Credit	Purchasers of plug-in hybrid and electric vehicles (EVs) 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	Retains the EV tax credit	Retaining the credit would continue to incentivize EV adoption in the United States, including in California.