PRESENT LAW AND DATA RELATING TO TAX INCENTIVES FOR RENTAL HOUSING

Scheduled for a Public Hearing
Before the
SENATE COMMITTEE ON FINANCE
on August 1, 2017

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INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on August 1, 2017, entitled "America's Affordable Housing Crisis: Challenges and Solutions." This document,[1] prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff"), provides general background on the tax incentives for rental housing. The first part of this document describes the tax provisions that offer incentives for rental housing. The second part provides data related to tax incentives for rental housing. Unless otherwise indicated, all section references are to the Internal Revenue Code of 1986, as amended ("the Code").

[1] This document may be cited as follows: Joint Committee on Taxation, *Present Law and Data Relating to Tax Incentives for Rental Housing* (JCX-40-17), July 28, 2017. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

I. TAX INCENTIVES FOR RENTAL HOUSING

Several provisions of the Code provide favorable tax treatment to rental housing. These include: (1) the low-income housing tax credit; (2) the rehabilitation credit; (3) the exclusion of interest on State and local government qualified private activity bonds for rental housing; (4) accelerated depreciation for rental housing; and (5) exceptions from the passive activity loss rules for certain rental real estate activities. Many of these incentives increase the rate of return to investment in the rental housing sector and may increase the supply of rental housing.

A. Low-Income Housing Tax Credit

In general

The low-income housing tax credit may be claimed over a 10-year period for the cost of building rental housing occupied by tenants having incomes below specified levels.[2] The amount of the credit for any taxable year in the credit period is the applicable percentage of the qualified basis of each qualified low-income building. The qualified basis of any qualified low-income building for any taxable year equals the applicable fraction of the eligible basis of the building. Eligible basis is generally adjusted basis at the close of the first taxable year of the credit period.

Qualified low-income housing project

To qualify for the low-income housing tax credit, the incomes of the tenants must satisfy certain targeting rules. A project is a qualified low-income housing project if 20 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 50 percent or less of area median gross income (the "20-50 test"). Alternatively, a project is a qualified low-income housing project if 40 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 60 percent or less of area median gross income (the "40-60 test"). A unit is rent-restricted if the gross rent does not exceed 30 percent of income. The owner must elect to apply either the 20-50 test or the 40-60 test. Operators of qualified low-income housing projects must annually certify that such project meets the requirements for qualification, including meeting the 20-50 test or the 40-60 test. For many projects every unit satisfies the income targeting rules such that the applicable fraction is 100 percent, and the eligible basis of the entire project qualifies for the credit.

Present value credit

In general

The calculation of the applicable percentage is designed to produce a credit equal to: (1) 70 percent of the present value of the building's qualified basis in the case of newly constructed or substantially rehabilitated housing that is not Federally subsidized (the "70-percent credit"); or (2) 30 percent of the present value of the building's qualified basis in the case of newly

[2] Sec. 42.

constructed or substantially rehabilitated housing that is Federally subsidized and the cost of acquisition of existing housing that is substantially rehabilitated (the "30-percent credit"). As discussed below, the 70-percent and 30-percent credit are predicated on an after-tax discount rate based on applicable Federal rates ("AFRs").[3] For example, in a zero interest rate environment, a building eligible for a 70-percent credit would have an annual applicable percentage of seven percent for each of the ten years of the credit period. As interest rates rise, the seven-percent applicable percentage also rises to preserve the present value of the credit.

Where existing housing is substantially rehabilitated, the acquisition cost of existing housing is eligible for the 30-percent credit and the qualified rehabilitation expenses (if not Federally subsidized) are eligible for the 70-percent credit.

Special rule

Under a special rule the applicable percentage is set at a minimum of nine percent for newly constructed non-Federally subsidized buildings placed in service after July 30, 2008. When the average of the annual AFR for mid-term and long-term obligations is below 8.45 percent, the minimum nine-percent applicable percentage results in a credit in excess of 70 percent.[4]

Calculation of the applicable percentage

The applicable percentage for a low-income building is determined for the earlier of: (1) the month the building is placed in service; or (2) at the election of the taxpayer, (a) the month the taxpayer and the housing credit agency enter into a binding agreement with respect to such building for a credit allocation, or (b) in the case of a tax-exempt bond-financed project for which no credit allocation is required, the month in which the tax-exempt bonds are issued.

These applicable percentages (used for the 70-percent credit and 30-percent credit) are adjusted monthly by the Internal Revenue Service on a discounted after-tax basis (assuming a 28-percent tax rate) based on the average of the annual AFR for mid-term and long-term obligations for the month the building is placed in service. The discounting formula assumes that each credit is received on the last day of each year and that the present value is computed on the last day of the first year. In a project consisting of two or more buildings placed in service in different months, a separate applicable percentage may apply to each building.

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[3] For details of the formula used to calculate the applicable percentages, see Rev. Rul. 1988-6, 1988-1 C.B. 3, 1988.

[4] For July 2017, the average of the AFR for mid-term and long-term obligations based on annual compounding is 2.25 percent. In the absence of this special rule, the applicable percentage for a building placed in service in July 2017 would be 7.52 percent. The minimum nine-percent applicable percentage results in a stream of low-income housing tax credits with a present value equal to approximately 84 percent of the building's qualified basis. Rev. Rul. 2017-14, 2017-27 I.R.B. 2, and Joint Committee staff calculations.

Substantial rehabilitation requirement

Rehabilitation expenditures paid or incurred by a taxpayer with respect to a low-income building are treated as a separate building and may be eligible for the 70-percent credit if they satisfy the otherwise applicable credit rules. To qualify for the credit, the rehabilitation expenditures must equal the greater of an amount that is (1) at least 20 percent of the adjusted basis of the building being rehabilitated; or (2) at least $6,700 (for 2017)[5] per low-income unit in the building being rehabilitated. The $6,700 amount is indexed for inflation.

At the election of the taxpayer, a special rule applies allowing the 30-percent credit to both existing buildings and rehabilitation expenditures if the second prong (*i.e.*, at least $6,700 of rehabilitation expenditures per low-income unit) of the rehabilitation expenditures test is satisfied. This special rule applies only in the case where the taxpayer acquired the building and immediately prior to that acquisition the building was owned by or on behalf of a government unit.

Enhanced credit for buildings in high-cost areas

Generally, buildings located in three types of high-cost areas are eligible for an enhanced credit. These areas are (1) qualified census tracts, (2) difficult development areas, and (3) buildings designated by the State housing credit agency as requiring the enhanced credit in order for such buildings to be financially feasible. Under the enhanced credit, the 70-percent and 30-percent credits are increased to a 91-percent and 39-percent credit, respectively. The mechanism for this increase is through an increase from 100 to 130 percent of the otherwise applicable eligible basis of a new building or the rehabilitation expenditures of an existing building. A further requirement for the enhanced credit in qualified census tracts and difficult development areas is that the portions of each metropolitan statistical area or nonmetropolitan statistical area designated as difficult to develop areas cannot exceed an aggregate area having 20 percent of the population of such statistical area. Buildings designated by the State housing credit agency as requiring the enhanced credit in order for such buildings to be financially feasible are not subject to the limitation limiting high cost areas to 20 percent of the population of each metropolitan statistical area or nonmetropolitan statistical area.

Recapture

Any building must remain in compliance with the 20-50 test or the 40-60 test, as applicable, for the period beginning on the first day of the first taxable year of the credit period of such building and ending 15 years from such date.

If any building subject to the 15-year compliance period fails to remain part of a qualified low-income project (due, for example, to noncompliance with the minimum set aside requirement or the gross rent requirement) the accelerated portion of the credit is recaptured, with interest, for all prior years.

[5] Rev. Proc. 2016-55, 2016-45 I.R.B. 707.

Volume limits

A low-income housing credit is allowable only if the owner of a qualified building receives a housing credit allocation from the State or local housing credit agency. Generally, the aggregate credit authority provided annually to each State for calendar year 2017 is $2.35 per resident, with a minimum annual cap of $2,710,000 for certain small population States.[6] These amounts are indexed for inflation. Projects that also receive financing with proceeds of tax-exempt bonds issued subject to the private activity bond volume limit do not require an allocation of the low-income housing credit, but the related use of tax-exempt bonds is subject to limitation as described below.

[6] Rev. Proc. 2016-55, 2016-45 I.R.B. 707.

B. Rehabilitation Tax Credit

Present law provides a two-tier tax credit for rehabilitation expenditures.[7]

A 20-percent credit is provided for qualified rehabilitation expenditures with respect to a certified historic structure. For this purpose, a certified historic structure means any building that is listed in the National Register, or that is located in a registered historic district and is certified by the Secretary of the Interior to the Secretary of the Treasury as being of historic significance to the district.

A 10-percent credit is provided for qualified rehabilitation expenditures with respect to a qualified rehabilitated building, which generally means a building that was first placed in service before 1936. The pre-1936 building must meet requirements with respect to retention of existing external walls and internal structural framework of the building in order for expenditures with respect to it to qualify for the 10-percent credit. A building is treated as having met the substantial rehabilitation requirement under the 10-percent credit only if the rehabilitation expenditures during the 24-month period selected by the taxpayer and ending within the taxable year exceed the greater of (1) the adjusted basis of the building (and its structural components), or (2) $5,000.[8]

The provision requires the use of straight-line depreciation or the alternative depreciation system in order for rehabilitation expenditures to be treated as qualified under the provision.

[7] Sec. 47.

[8] This amount is not indexed for inflation.

C. Tax-Exempt Bond Financing for Residential Rental Property

In general

Private activity bonds are bonds that nominally are issued by State or local governments, but the proceeds of which are used (directly or indirectly) by a private person and payment of which is derived from funds of such private person. The exclusion from income for interest paid on State and local bonds does not apply to private activity bonds, unless the bonds are issued for certain permitted purposes ("qualified private activity bonds"). The definition of a qualified private activity bond includes, but is not limited to, bonds for qualified residential rental projects.

Qualified residential rental projects

Residential rental property may be financed with qualified private activity bonds if the financed project is a "qualified residential rental project."[9] The standard for a qualified residential rental project is similar to the standard for a qualified low-income housing project for purposes of the low-income housing tax credit. That is, a project is a qualified residential rental project if 20 percent or more of the residential units in such project are occupied by individuals whose income is 50 percent or less of area median gross income (the "20-50 test"). Alternatively, a project is a qualified residential rental project if 40 percent or more of the residential units in such project are occupied by individuals whose income is 60 percent or less of area median gross income (the "40-60 test"). The issuer must elect to apply either the 20-50 test or the 40-60 test. Operators of qualified residential rental projects must annually certify that such project meets the requirements for qualification, including meeting the 20-50 test or the 40-60 test.

As with most qualified private activity bonds, bonds for qualified residential rental projects are subject to annual State volume limitations (the "State volume cap"), which are indexed for inflation. For calendar year 2017, the unified State volume cap for all bonds which are subject to the limitation equals $100 per resident of the State, or $305,315,000, if greater.[10]

Bonds issued to finance qualified residential rental projects are subject to a term to maturity rule which limits the period of time such bonds may remain outstanding. Generally, this rule provides that the average maturity of a qualified private activity bond cannot exceed 120 percent of the economic life of the property being financed.

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[9] Sec. 142(d).

[10] Rev. Proc. 2016-55, 2016-45 I.R.B. 707.

D. Accelerated Depreciation for Residential Rental Property

<u>Depreciation in general</u>

For Federal income tax purposes, a taxpayer is allowed to recover through annual depreciation deductions the cost of certain property used in a trade or business or for the production of income. The amount of the depreciation deduction allowed with respect to tangible property for a taxable year is determined under the Modified Accelerated Cost Recovery System ("MACRS"), whereby different types of property generally are assigned applicable recovery periods and depreciation methods.

The MACRS recovery periods applicable to most tangible personal property range from three to 20 years.[11] The depreciation methods generally applicable to tangible personal property are the 200-percent and 150-percent declining balance methods,[12] switching to the straight-line method for the first taxable year where using the straight-line method with respect to the adjusted basis as of the beginning of that year will yield a larger depreciation allowance. The recovery periods for most real property are 27.5 years (for residential rental property) and 39 years (for nonresidential real property). The depreciation method applicable to such real property is straight-line.

<u>Real property</u>

<u>In general</u>

The cost of residential rental property is recovered using the straight-line method of depreciation, and a recovery period of 27.5 years. The cost of nonresidential real property is recovered using the straight-line method, and a recovery period of 39 years. In addition, building improvements and structural components, based on their use, are recovered over either 27.5 years for residential rental property or 39 years for nonresidential real property.

Real property also includes leasehold improvements; however, the assigned recovery period for such improvements may be longer than the lease term. In general, leasehold improvements are recovered over the same period of time as the property to which the improvement relates (*i.e.*, 27.5 years for residential rental property and 39 years for

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[11] For certain tangible assets, the recovery period is controlled by statute (see, *e.g.*, section II.H.9 of Joint Committee on Taxation, *Report to the House Committee on Ways and Means on Present Law and Suggestions for Reform Submitted to the Tax Reform Working Groups* (JCS-3-13), May 6, 2013, pp. 295-307, which includes a table of statutorily defined recovery periods for specific types of property). For all other tangible assets, the recovery period is generally determined by administrative guidance (see, *e.g.*, Rev. Proc. 87-56, 1987-2 C.B. 674, and Appendix B of IRS Publication 946).

[12] Declining balance methods accelerate a portion of the total allowable deductions into the earlier years of the recovery period. For example, under the 200-percent declining balance method, the deduction in the first year is twice what it would be under the straight-line method, but the annual allowance amount declines over the recovery period. The allowable amount is thus smaller in the later years than the allowable amounts for those years would have been under the straight-line method.

nonresidential real property).[13] For certain qualified improvements (*i.e.*, qualified leasehold improvement property,[14] qualified restaurant property,[15] and qualified retail improvement property[16]), the cost of the property is recovered over 15 years, using the straight-line method.[17] Special rules provide a 15-year recovery period for qualified construction allowances for short-term leases as well.[18]

Placed in service convention

Depreciation of an asset begins when the asset is deemed to be placed in service under the applicable convention. In the case of both residential rental property and nonresidential real property, a mid-month convention applies. Under the mid-month convention, the depreciation allowance for the first year property is placed in service is based on the number of months the property was in service, and property placed in service at any time during a month is treated as having been placed in service in the middle of the month.

Nondepreciable assets

Certain assets, including land, are not depreciable. The cost of land is recovered only upon sale. Certain improvements to land (*e.g.*, sidewalks, roads, fences, shrubbery) can be depreciated if closely associated with other depreciable property (*e.g.*, residential rental property).[19]

Depreciation recapture

Depreciable residential real property is section 1250 property.[20] In the case of an individual, gain on the disposition of section 1250 property is taxed at a maximum rate of 25 percent to the extent the gain is attributable to depreciation deductions.[21]

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[13] Special rules (*e.g.*, section 165) may permit a deduction of the cost at the end of the lease term.

[14] Sec. 168(e)(6).

[15] Sec. 168(e)(7).

[16] Sec. 168(e)(8).

[17] Secs. 168(e)(3)(E)(iv), (v), and (ix).

[18] Sec. 110.

[19] See, *e.g.*, asset class 00.3 of Revenue Procedure 87-56, 1987-2 C.B. 674, that defines land improvements eligible for depreciation.

[20] Sec. 1250(c).

[21] Sec. 1(h)(1)(E).

E. Passive Activity Loss Rules and Special Rental Real Estate Rules

In general

The passive loss rules limit deductions and credits from passive trade or business activities.[22] Deductions attributable to passive activities, to the extent they exceed income from passive activities, generally may not be deducted against other income, such as wages, portfolio income, or business income that is not derived from a passive activity. A similar rule applies to credits. Deductions and credits that are suspended under these rules are carried forward and treated as deductions and credits from passive activities in the next year. The suspended losses from a passive activity are allowed in full when a taxpayer disposes of his entire interest in the passive activity in a fully taxable transaction to an unrelated person.

The passive loss rules apply to individuals, estates and trusts, closely held C corporations, and personal service corporations. A special rule permits closely held C corporations to apply passive activity losses and credits against active business income (or tax liability allocable thereto) but not against portfolio income.

Passive activities are defined to include trade or business activities in which the taxpayer does not materially participate. Except as provided in regulations, no interest as a limited partner is treated as an interest with respect to which the taxpayer materially participates.

A passive activity does not include a working interest in any oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. This rule applies without regard to whether the taxpayer materially participates in the activity.

Special rules for rental real estate activities

Rental activities (generally including rental real estate activities) are treated as passive activities, regardless of the level of the taxpayer's participation. However, a special rule treats a taxpayer's rental real estate activities in which he materially participates as not subject to limitation under the passive loss rules if the taxpayer meets eligibility requirements. To be eligible, (1) more than half of the personal services the taxpayer performs in trades or businesses during the taxable year are performed in real property trades or businesses in which the taxpayer materially participates, and (2) the taxpayer performs more than 750 hours of services during the taxable year in real property trades or businesses in which the taxpayer materially participates. Another special rule permits the deduction of up to $25,000 of losses from rental real estate activities in which the taxpayer actively participates. The $25,000 amount is allowed for taxpayers with adjusted gross incomes of $100,000 or less and is phased out for taxpayers with adjusted gross incomes between $100,000 and $150,000.[23]

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[22] Sec. 469.

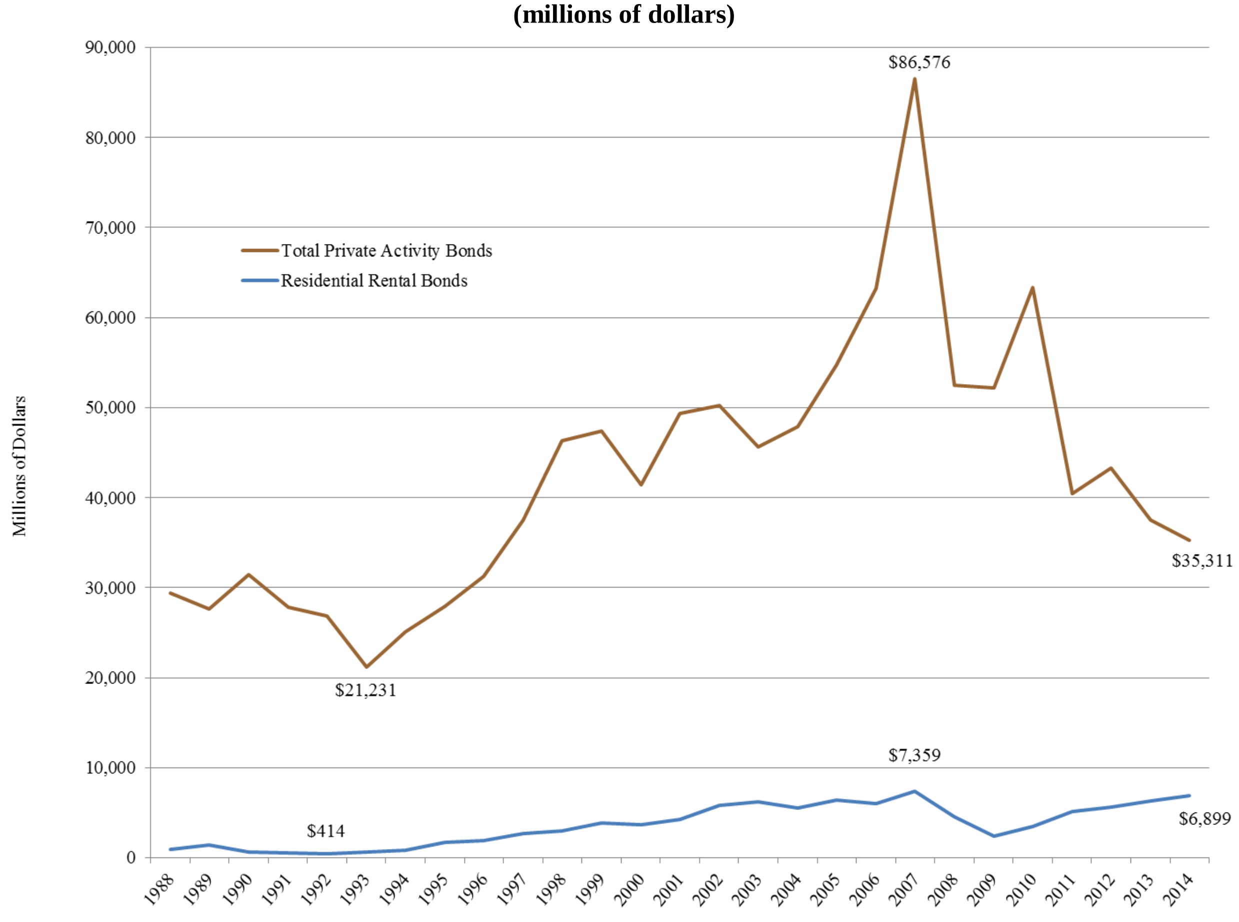
[23] In the case of any portion of the passive activity credit for any taxable year attributable to the rehabilitation credit, the phase-out begins at $200,000. The phase-out does not apply to any portion of the passive activity credit for any taxable year which is attributable to the low-income housing credit.

II. DATA RELATED TO TAX INCENTIVES FOR RENTAL HOUSING

Qualified private activity bonds

Gross income generally does not include interest paid on State or local qualified private activity bonds, including qualified private activity bonds issued to finance residential rental property. Figure 1 shows the volume of new money issuances of long-term private activity bonds in total and the volume of residential rental bonds since 1988 as reported to the IRS on Form 8038.[24] For 2014, $6.9 billion of qualified residential rental bonds for residential rental property were issued. Qualified residential rental bonds represent between 1.5 percent and 19.5 percent of all new money issuances of qualified private activity bonds between 1988 and 2014, with an average of 8.6 percent.

Figure 1.−Long-term Tax-Exempt Private Activity Bonds, New Money Issuances, 1988-2014
(millions of dollars)



Source: Statistics of Income.

[24] The highest and lowest volumes of issuance during the period are indicated on the chart for each bond purpose, as well as the volume for the most recent year for which data are available.

The qualified residential rental bond program allows States to issue tax-exempt bonds to finance residential rental property. Because the interest on these bonds is excluded from gross income for Federal income tax purposes, and in some cases for State income tax purposes, investors are generally willing to accept a lower interest rate on these bonds than they might otherwise accept on a taxable investment, all else being equal. This, in turn, lowers the borrowing cost for the beneficiaries of such financing. Some of the benefits, however, accrue to bond investors in higher marginal tax brackets in the form of higher after-tax returns rather than to borrowers in the form of reduced interest costs or renters in the form of lower rents. [25]

Because there are multiple tax brackets and the market-clearing purchaser of municipal bonds is likely to be in a lower bracket than most other bondholders, the loss of Federal tax receipts is greater than the reduction in the interest costs of tax-exempt issuers. Consider a taxpayer with a 25-percent marginal tax rate who purchases a $1,000 taxable bond that pays 6 percent interest. That investor receives $60 in interest income and pays $15 in income tax, for an after-tax return of $45 and an after-tax yield of 4.5 percent. That return is the same as the return the taxpayer receives on a $1,000 tax-exempt that pays 4.5 percent interest.

However, some taxpayers who purchase these bonds may be in a higher tax bracket and save more in taxes than the issuer saves in interest costs. For example, a taxpayer with a 33-percent marginal tax rate who purchases a $1,000 taxable bond that pays 6 percent interest receives $60 in interest income and pays $20 in income tax for an after-tax return of $40 and an after-tax yield of 4 percent. However, this bond investor receives 4.5 percent net return on the tax-exempt bond. Thus, unlike the investor in the 25-percent tax bracket who is indifferent to investment in taxable or tax-exempt bonds, the bond investor in the 33-percent marginal tax bracket receives a greater benefit by purchasing the tax-exempt bond. In contrast, a bond investor with a 15-percent marginal tax rate receives no benefit from purchasing the tax-exempt bond, and indeed would have a lower after-tax return on the tax-exempt bond than on the purchase of a taxable bond paying 6 percent interest.

Some of the benefits may accrue to the issuers of the bonds rather than to the renter. Since investors are generally willing to accept a lower rate of return on tax-exempt bonds than other similar investments, an issuer could borrow at the reduced rate and invest the proceeds in higher yielding investments. However, the Code provides detailed rules with which issuers must comply to ensure that the tax-exempt bonds do not become arbitrage bonds.

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[25] For a discussion of the economic issues of tax-exempt bond financing and a table showing historical implied marginal tax rates for the marginal investor, see Joint Committee on Taxation, *Present Law and Background Information Related to Federal Taxation and State and Local Government Finance* (JCX-7-13), March 15, 2013, pp. 50-56. See Joint Committee on Taxation, *The Federal Revenue Effects of Tax-Exempt and Direct-Pay Tax Credit Bond Provisions* (JCX-60-12), July 16, 2012, for a discussion of the economic modeling that the staff of the Joint Committee on Taxation undertakes to assess the Federal revenue effects of tax-exempt bond provisions.

Low-income housing tax credit

A low-income housing credit is allowable only if the owner of a qualified building receives a housing credit allocation from the State or local housing credit agency. Table 1 reports the allocations of 70-percent credits and 30-percent credits from 2001 through 2015. The effect of temporary legislative changes, including an increase in the State housing credit allocations for the 70-percent credit, and a decline in the bond market, which affects the usage of 30-percent credits, is evident in 2009. Having represented about three-quarters of all credit allocations on average in prior years, the 70-percent credits represent over 90 percent of all allocations in 2009, before returning to the historical share by 2011.

Table 1.–Low-Income Housing Credit Allocations (millions of dollars)

Year	70% Credits	30% Credits
2001	462.3	137.2
2002	517.2	201.7
2003	573.6	215.2
2004	606.0	216.4
2005	586.5	246.1
2006	730.8	256.0
2007	790.6	315.2
2008	939.9	335.0
2009	1,136.2	93.6
2010	917.4	186.9
2011	749.7	228.3
2012	754.7	196.8
2013	759.9	215.8
2014	775.8	208.9
2015	792.7	297.1

Source: State Housing Finance Agencies Factbook: NCHSA Annual Survey Results, Years 2001-2015.

Table 2 reports low-income housing tax credits claimed by corporations[26] on Form 3800 (relating to general business credits) since 2001.[27] Credits claimed by corporations increased steadily through the period and reached a peak of nearly $8.9 billion in 2014.

Table 2.–Low-Income Housing Tax Credits Claimed by Corporations (millions of dollars)

Year	Credits Claimed
2001	2,823.5
2002	3,490.8
2003	3,976.3
2004	4,366.4
2005	4,755.7
2006	5,336.6
2007	5,519.8
2008	6,527.7
2009	6,730.0
2010	7,035.1
2011	7,083.9
2012	8,092.5
2013	8,485.6
2014	8,895.9

Source: Various Statistics of Income Corporate Files.

[26] In addition to the credits claimed by corporations, a small amount of low-income housing tax credits is claimed by individuals. These amounts are not included in the table.

[27] The amounts reported do not reflect the actual tax reduction achieved by taxpayers claiming low-income housing tax credits, as the actual tax reduction depends upon whether the taxpayer had operating losses, is subject to the alternative minimum tax, and other aspects specific to each taxpayer's situation.

Rehabilitation tax credit

Table 3 reports the total amount of rehabilitation tax credits claimed since 2003.[28] The data represent claims by both individuals and corporations for both the 20-percent credit for historic structures and the 10-percent credit for buildings other than historic structures.

Table 3.–Rehabilitation Tax Credits Claimed (millions of dollars)

Year	Credits Claimed
2003	608
2004	556
2005	606
2006	730
2007	739
2008	808
2009	703
2010	651
2011	679
2012	749
2013	837
2014	914

Source: Statistics of Income.

Tax expenditure estimates

Table 4 contains tax expenditure estimates for select tax provisions related to rental housing.[29] Estimates are shown for the total tax expenditure for fiscal years 2016-2020.[30] The largest tax expenditure related to rental housing is the credit for low-income housing, with a tax expenditure estimate of $45.1 billion. Approximately $43.3 billion of the $45.1 billion is

[28] The amounts reported do not reflect the actual tax reduction achieved by taxpayers claiming rehabilitation tax credits, as the actual tax reduction depends upon whether the taxpayer had operating losses, is subject to the alternative minimum tax, and other aspects specific to each taxpayer's situation.

[29] A tax expenditure estimate is not the same as a revenue estimate for the repeal of the tax expenditure provision. First, unlike revenue estimates, tax expenditure estimates do not incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax expenditure provision, other than simple additions or deletions in filing tax forms, or what the Joint Committee staff refers to as "tax form behavior." Second, tax expenditure calculations are concerned with changes in the reported tax liabilities of taxpayers without concern for the short-term timing of tax payments, whereas revenue estimates are concerned with changes in Federal government tax receipts that are affected by the timing of all tax payments. Third, tax expenditure estimates reflect only the income tax effects of provisions. A revenue estimate would consider interactions between the income tax and other Federal taxes such as payroll, excise, and the estate and gift taxes.

[30] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2016*-2020 (JCX-3-17), January 30, 2017.

attributable to corporations. The next largest item, accelerated depreciation of rental housing, is available regardless of the income of the tenant. The estimated tax expenditure is about half as large at $20.7 billion, while the exclusion of interest on State and local government qualified private activity bonds for rental housing is $5.6 billion. In contrast to the low-income housing tax credit, most of the tax expenditure for these provisions ($18.6 billion, and $4.1 billion, respectively) is attributable to individuals.

Table 4.–Select Small Business Tax Expenditures, Fiscal Years 2016-2020

Tax Expenditure	Total Amount (billions of dollars)
Credit for low-income housing	45.1
Depreciation of rental housing in excess of alternative depreciation system	20.7
Exclusion of interest on State and local government qualified private activity bonds for rental housing	5.6