



Tax Reform Proposal Could Impact Houston Families, Students, and Most Vulnerable Residents

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What follows is an analysis of the Trump administration's proposed tax reform plan's potential impact on the City of Houston and its residents. A Controller's Office analysis finds the proposed reform plan will most significantly affect students, families, and most vulnerable residents in the Houston Metropolitan Statistical Area (Houston MSA). The administration's reform plan proposes significant cuts to a number of tax credits and deductions that thousands of Houstonians currently rely on.

Reform Plan's Proposed Cuts

The proposed tax reform plan puts forward wide-ranging changes for individuals, businesses, and localities alike. These reforms include reducing the number of tax brackets, doubling the standard individual deduction, reducing the corporate tax rate to 15%, and imposing new taxes on capital held overseas, amongst others.

This document will focus on the plan's potential impact on Houstonians via the proposed cuts to the:

- Earned Income Tax Credit (EITC)
- Child Tax Credit(s)
- Student Loan Interest Deduction
- Tuition & Fees Deduction
- Low Income Housing Tax Credit (LIHTC)

The proposed cuts to these credits/deductions represent a small sample of the reform plan's total rollbacks, but are also those that could most impact Houston residents and their families.

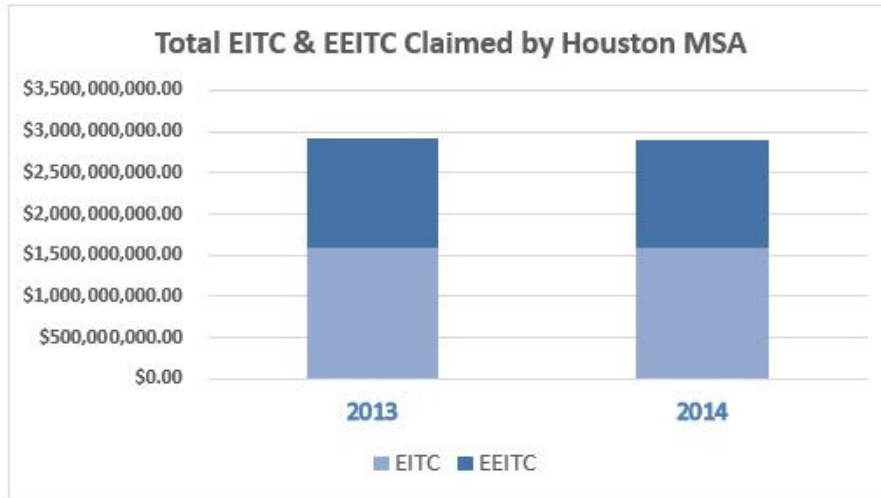
Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is a refundable credit for low-to-moderate income working families, particularly benefiting those with children. The EITC can be claimed for families with children who have annual incomes between \$39,296 to \$53,505, and for families without children with an income between \$14,880 and \$20,430.

Although specifics have yet to be released, the administration's tax reform plan will likely make changes to eligibility and income level requirements, which will have significant implications on many Houstonians.

In tax year 2013* for example, the Houston MSA saw a total of 1,146,060 tax returns claim either an Earned Income or Excess Earned Income Tax Credit totaling \$2,917,648,000. In tax year 2014*, the Houston MSA saw a total of 1,123,300 tax returns claim either an Earned Income or Excess Earned Income Tax Credit totaling \$2,898,384,000.

*Most up-to-date Earned Income Tax Credit data available from IRS is for tax years 2013 and 2014.



While the administration has not made clear what specific cuts or changes will be made, there are widespread expectations that tighter eligibility requirements and heightened income limits will be included in the final reform plan. This will preclude many Houstonians from qualifying for the credit and likely result in heightened tax burdens in subsequent years.

Child Tax Credit

The Child Tax Credit is a credit worth up to \$1,000 per qualifying child under the age of 17, depending on an individual's income. A qualifying child for this credit is someone who meets the qualifying criteria of six tests: age, relationship, support, dependent, citizenship, and residence.

The administration has sent mixed signals regarding child care in its reform plan. On one hand, there are signals that the administration will increase credits for child care. On the other, the administration has also stated its intention to cut the child tax credit in order to generate a portion of the plan's proposed savings. The elimination of this credit would have a notable impact on families in Houston.

The Houston MSA saw a total of 494,060 tax returns claim the Child Tax Credit in tax year 2013*, totaling \$591,408,000. Similarly, tax year 2013 saw 497,540 tax returns claim the Additional Child Tax Credit at a total of \$693,086,000. In total, the number of tax returns that claimed some form of child tax credit in 2013 was 991,600 with a total value of \$1,284,494,000.

In tax year 2014*, the Houston MSA saw a total of 497,640 tax returns claim a Child Tax Credit totaling \$599,272,000. In that same year, the region saw a total of 486,800 returns claim Additional Child Tax Credits, totaling \$679,499,000. Cumulatively, tax year 2014 saw 984,440 tax returns claim a child tax credit for a total of \$1,278,771,000.

*Most up-to-date Child Tax Credit data available from IRS is for tax years 2013 and 2014.

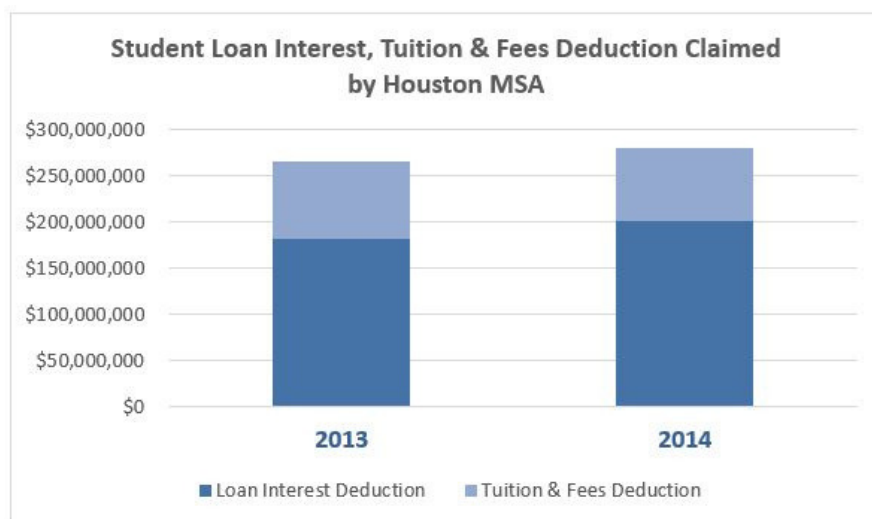
Student Loan, Tuition & Fees Deduction

The Student Loan Interest Deduction allows individuals to deduct up to \$2,500 in interest payments made on federal and private student loans on their federal income tax returns. The Tuition & Fees Deduction provides an "above-the-line" exclusion from income of up to \$4,000 per tax return, based on qualified expenses for tuition and required fees and, in required by and paid to the school, textbooks, supplies, and equipment. In total, more than 43 million Americans claim either or both deductions from their tax returns on an annual basis.

The administration's tax reform plan looks to eliminate the Student Loan Interest Deduction in its entirety. In 2017, Congress failed to renew the Tuition & Fees Deduction, with the administration declining to address it in its reform proposal.

In tax year 2013, the Houston MSA saw a total of 177,810 tax returns claim the Student Loan Interest Deduction, totaling \$181,882,000. In 2014, the Houston MSA saw a total of 188,170 returns claim the same deduction, totaling \$200,365,000.

As for the Tuition & Fees Deduction, the Houston MSA saw a total of 36,340 returns claim the deduction for a total of \$83,316,000 in tax year 2013. In 2014, a total of 34,280 tax returns claim the deduction for a total of \$79,582,000.



Housing & Low-Income Housing Tax Credits

The Housing Tax Credit (HTC) is a program run through the Texas Department of Housing and Community Affairs that serves as a primary means of directing private capital toward the development and preservation of affordable rental housing for low-income households. Tax credits are awarded to eligible participants to offset a portion of their federal tax liability in exchange for the production or preservation of affordable rental housing. There are two types of Tax Credits: Competitive (9%) and Non-Competitive (4%).

The administration's tax reform plan will drastically cut the Competitive and Non-Competitive tax credits, which will require states and localities to increase their funding levels to make up the shortfall. These cuts come at a time where the City of Houston faces significant needs relating to affordable housing options throughout the region.

*Most up-to-date Housing & Low-Income Housing Tax Credit data available from IRS is for tax years 2013 and 2014.

In tax year 2015, the Houston MSA received or was recommended to receive \$9,582,243 in 9% (Competitive) Housing Tax Credits (HTC)/Low-Income Housing Tax Credits (LIHTC) that would support the construction of 154 units in the region. In 2016, the Houston MSA received or was recommended to receive \$3 million in Competitive Tax Credits that would support the construction of 264 new units in Houston.

In tax year 2015, \$1,562,422 in 4% (Non-Competitive) Housing Tax Credits (HTC)/Low-Income Housing Tax Credits (LIHTC) was requested in the Houston MSA to support the construction of 122 units in the region. For tax year 2016, \$4,211,254 in the Non-Competitive Tax Credit was given or recommended to be given to support the construction of 708 new projects in the city.

The credits received in these two tax years cumulatively represent \$18,355,919 in resources dedicated to 1,248 new construction projects aimed at increasing the number of affordable housing options in the Houston metropolitan area.