Smith says tax bill will damage construction industry

By SHARON McRAE
Advocate business writer

NEW ORLEANS — The proposed federal tax reform bill will damage the construction industry, especially multi-family building, and related businesses nationwide, the president of the National Home Builders Association said Monday.

David C. Smith, speaking at the fall meeting of the NHBA’s board of directors, predicted that rental housing construction could drop about 300,000 units during the first year under the new tax code, a decline of about 50 percent from the current level.

“Because of the loss of various tax incentives, we project that investment capital now financing new rental and commercial construction projects will flow to higher yielding ventures elsewhere in the economy,” Smith said.

Furthermore, he said, as the supply of rental housing declines, rents can be expected to increase, possibly rising 15 to 20 percent more than normally expected over the next five years. Rising rents will more than offset the savings many low-income renter households can expect to gain from lower tax rates under the reform law, he said.

Of more immediate concern, Smith added, is the effect a slowdown in the construction industry could have on other businesses dependent upon its health.

“Housing has been one of the bright spots of today’s otherwise sluggish economy, which grew at an anemic pace of 0.6 percent in the second quarter,” he said. “If tax reform seriously disrupts the rental housing and commercial markets and if other segments of the economy have difficulty adjusting, then it could increase the possibility of the economy slipping into another recession,” he said.

Smith, a builder of residential and commercial properties in Maryland and Virginia, also predicted that President Reagan will sign the tax reform package into law by mid-October.

“We’ve always supported tax reform when it’s fair, but this is not fair,” he said of the 142,000-member builders’ association.

The NHBA asked the House and Senate conferees to amend the housing credit retroactive provision of the bill to the new system because the two federaltaxreformbillof2016willdamage the savings many low-income renter “We’ve always supported tax reform principal deductions for homeowners — mortgage interest payments on up to two homes and property taxes — will remain deductible, he said.

However, builders of single-family housing will lose their investment tax credits retroactive to Jan. 1, 1986, he said. That proposal is unfair because current building projects were put together under current law, he said.

After the tax reform package is passed, Smith said, the home builders’ association will conduct a major educational campaign to inform its membership of ways to adapt their businesses to the changes.

And then we will be returning to Capitol Hill to urge the changes that are necessary to restore some fairness in the tax treatment of real estate,” he said.

The single-family housing market should have relatively easy adjustment to the new system because the two principal deductions for homeowners — mortgage interest payments on up to two homes and property taxes — will remain deductible, he said.

However, building lobbyists were unsuccessful in those attempts, and foreclosures and bankruptcies could result, Smith said.

“The tax reform passage was on such a fast track that our message was lost in the shuffle,” he commented.

The reform law will increase the industry’s tax bill by $50 billion, he said.

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