January 2007

TAX POLICY

New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-296, a report to congressional committees

Why GAO Did This Study

The Community Renewal Tax Relief Act of 2000 authorized up to $15 billion of allocation authority under the New Markets Tax Credit (NMTC) to stimulate investment in low-income communities. The act mandated that GAO report on the program to Congress by January 31, 2004, 2007, and 2010. Two subsequent laws authorized an additional $1 billion in NMTC authority for certain qualified investments and extended the program for 1 year with an additional $3.5 billion of authority.

This report (1) describes the status of the NMTC program, (2) profiles NMTC program participants, (3) assesses the credit's effectiveness in attracting investment by participating investors, and (4) assesses IRS and the Community Development Financial Institutions (CDFI) Fund compliance monitoring efforts. To conduct the analysis, GAO surveyed NMTC investors, conducted statistical analysis, and interviewed IRS and CDFI Fund officials.

What GAO Recommends

To ensure that it is reviewing the full range of NMTC transactions, IRS should develop information for selecting which CDEs to audit as part of its compliance study. In addition, IRS should work with the CDFI Fund to further explore options for cost effectively monitoring investor compliance.

IRS and the CDFI Fund agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-296.

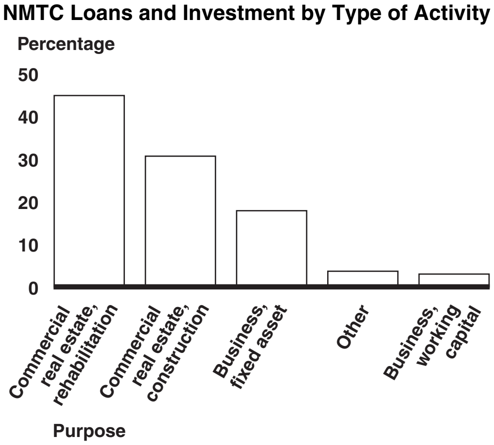
To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

As of January 2007, the CDFI Fund had awarded $12.1 billion of NMTC authority to 179 Community Development Entities (CDE). CDEs that received allocations began making NMTC investments in 2003, and the program has continued to grow since then. Investors use two main investment structures to make NMTC investments: direct investments to CDEs and tiered investments, which include equity investments and leveraged investments, where a portion of the investment amount originates from debt and a portion from equity.

Banks and individuals constitute the largest proportion of NMTC investors, though banks and other corporations have made the largest share of NMTC investment. CDEs that received allocations applied for allocations in a competitive selection process and, through fiscal year 2005, most investment from CDEs to low-income communities had been used for either commercial real estate rehabilitation or new commercial real estate construction.

NMTC Loans and Investment by Type of Activity for Fiscal Years 2003 through 2005



Source: GAO analysis of CDFI Fund data.

The results of GAO's survey and statistical analysis indicate that the NMTC may be increasing investment in low-income communities by participating investors. Investors indicated that they have increased their investment budgets in low-income communities as a result of the credit, and GAO's analysis indicates that businesses may be shifting investment funds from other types of assets to invest in the NMTC, while individual investors may be using at least some new funds to invest in the NMTC.

The CDFI Fund and IRS developed processes to monitor CDEs' compliance with their allocation agreements and the tax code. However, IRS's study of CDE compliance does not cover the full range of NMTC transactions, focusing instead on transactions that were readily available, and may not support the best decisions about enforcement in the future. Moreover, IRS and the CDFI Fund are not collecting data that would allow IRS to identify credit claimants and amounts to be claimed.