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Highlights

Highlights of GAO-10-334, a report to congressional committees

January 2010

NEW MARKETS TAX CREDIT

The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified

Why GAO Did This Study

The Treasury Department's Community Development Financial Institutions (CDFI) Fund awarded $26 billion in New Markets Tax Credits (NMTC) through 2009 for investment in low-income communities. The NMTC allows investors to claim a tax credit totaling 39 percent of their investment in Community Development Entities (CDE) over 7 years which CDEs reinvest in qualified communities.

This mandated report (1) describes where and how CDEs are using NMTCs, (2) assesses how CDEs use NMTCs to offer favorable financing terms to low-income community businesses and describes options for simplifying the NMTC, (3) describes how, if at all, NMTC investments support low-income community development, and (4) determines how effective IRS and the CDFI Fund have been in monitoring NMTC compliance. GAO analyzed CDFI Fund and CDE data, did case studies of CDEs, and interviewed relevant experts.

What GAO Recommends

Congress should consider options to simplify the NMTC's structure, and GAO recommends that the Secretary of the Treasury direct the CDFI Fund Director to collect additional data on program performance and improve project-level data. The CDFI Fund agreed with GAO's recommendations and disagreed with GAO's matter for Congress. GAO maintained its matter for Congress; evaluating the simplification's effects can include the Fund's concerns.

View GAO-10-334 or key components.

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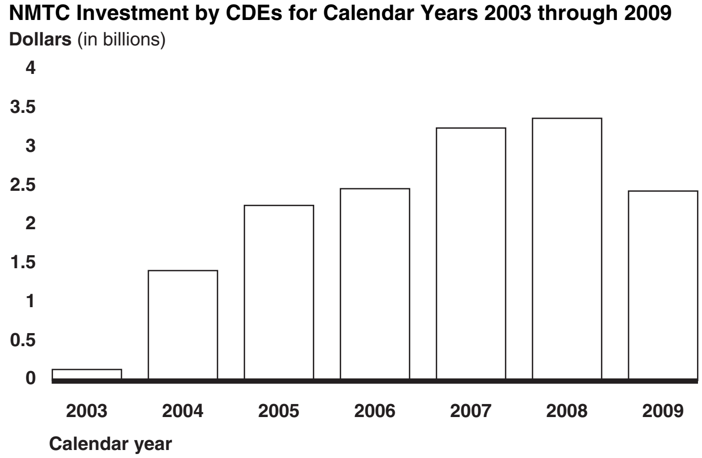
What GAO Found

Since 2003, CDEs have made NMTC investments in all 50 states, the District of Columbia, and Puerto Rico, with about 65 percent for real estate. NMTCs are often used as "gap financing," accounting for a portion of total project costs.

NMTC investments in low-income community businesses generally use leveraged structures, where equity is left in the businesses, or subsidized interest rate structures, where below-market interest rate loans are offered. Recently, investors appear to be paying less for tax credits than in previous years and they made fewer NMTC investments in 2009 than in previous years. The CDFI Fund does not collect data that could identify the portion of the subsidy channeled to businesses, such as data on credit pricing, transaction fees, and the amount of equity left in businesses. Two potential options (i.e., changing related parties tests or converting the NMTC to a grant program) could simplify the program and make additional funds available to businesses.

NMTC Investment by CDEs for Calendar Years 2003 through 2009



Source: GAO analysis of CDFI Fund data.

CDEs have used the NMTC program to support a variety of investments, but project impacts are difficult to measure and likely vary depending on the project. GAO identified NMTC-supported projects for mixed-use facilities, housing developments, and community facilities, among other qualified business activities. The CDFI Fund does not collect data on incomplete or failed projects, which might be used, for instance, to improve credit allocation selections. Projects with NMTC financing likely contribute employment and other outcomes to low-income communities. Limitations with available data make it difficult to isolate project impacts and GAO's analysis does not allow it to determine whether the projects supported by NMTCs would have taken place absent the credit. Continued improvements could be made in collecting project-level data (e.g., removing double-counting of some outcomes).

IRS monitors CDE and investor compliance with applicable laws, while the CDFI Fund monitors CDEs' compliance with their allocation agreements. IRS and CDFI Fund officials weighed the costs and benefits of options to monitor compliance and selected controls on that basis.