NEW MARKETS TAX CREDIT

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

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.

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.

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.