

GAO Highlights

Highlights of [GAO-14-500](#), a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

In recent years, private investors have claimed more than \$1 billion in NMTCs annually. The credits are combined with private loans and other public funds to support investments in low-income communities. GAO was asked to review the financial structure of NMTCs.

This report assesses: (1) the complexity and transparency of NMTC financial structures and controls over the size of federal subsidies; (2) what is known about the types and amounts of fees and other costs of the financial structures; (3) what is known about the equity remaining in low-income community businesses after the 7-year credit period; and (4) what is known about NMTC project failure rates. GAO reviewed Treasury NMTC data and surveyed CDEs that allocated credits to 305 projects in 2010-2012.

What GAO Recommends

Treasury should issue further guidance on how other government programs can be combined with NMTCs; ensure adequate controls to limit the risks of unnecessary duplication and above-market rates of return; and ensure that more complete and accurate data are collected on fees and costs, the equity remaining in the business after 7 years, and loan performance.

Treasury agreed with GAO's recommendations to improve data collection on equity remaining and loan performance. Treasury said that a recently formed working group, that includes representatives from the Community Development Financial Institutions Fund and the Internal Revenue Service, is considering GAO's other recommendations.

View [GAO-14-500](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

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NEW MARKETS TAX CREDIT

Better Controls and Data Are Needed to Ensure Effectiveness

What GAO Found

The financial structures of New Markets Tax Credit (NMTC) investments have become more complex and less transparent over time. The increased complexity is due, in part, to combining the NMTC with other federal, state, and local government funds. Based on GAO's survey of Community Development Entities (CDEs) an estimated 62 percent of NMTC projects received other federal, state, or local government assistance from 2010 to 2012. While combining public financing from multiple sources can fund projects that otherwise would not be viable, it also raises questions about whether the subsidies are unnecessarily duplicative because they are receiving funds from multiple federal sources. In addition, in some cases the complexity of the structures may be masking rates of return for NMTC investors that are above market rates. For example, a study done for the Department of the Treasury (Treasury) found an investor apparently earning a 24 percent rate of return, which is significantly above market rates of return. In that case, the investor leveraged the NMTCs by using other public funds to increase the base for claiming the NMTC. Treasury and the Internal Revenue Service issued guidance about allowable financial structures in the early years of the NMTC program, but the guidance has not been updated to reflect the subsequent growth in complexity, such as the use of other public money to leverage the NMTC. Treasury also does not have controls to limit the risk of unnecessary duplication in government subsidies or above market rates of returns. Without such guidance and controls the impact of the NMTC program on low-income communities could be diluted.

The costs of complex NMTC financial structures may not be fully reflected in fees charged by CDEs, and they could be reflected in other costs such as higher interest rates. Treasury has taken steps to ensure businesses are better informed about fees and other costs, but is not collecting these additional data itself. Without these data, Treasury is limited in its ability to analyze NMTC program benefits.

GAO also found that the data on equity remaining in businesses after the 7-year credit period were unreliable because, in part, instructions on what to report are unclear. As a result, at this time it is not possible to determine how much equity remains in low-income community businesses after 7 years.

Similarly, data on NMTC project failure rates were unavailable. GAO reviewed data of performance on loans from CDEs to low-income community businesses as an indicator of whether the businesses will be viable over the long term. However, data on loan performance were also incomplete because some reporting of this information by CDEs is optional. As a result, it is not possible to determine, at this time, the NMTC project failure rate with certainty.