

GAO Highlights

Highlights of [GAO-15-330](#), a report to the Chairman, Committee on the Judiciary, U.S. Senate

Why GAO Did This Study

The LIHTC program, established under the Tax Reform Act of 1986, is the largest source of federal assistance for developing affordable rental housing and cost an estimated \$8 billion in forgone revenue in 2014. LIHTC encourages private equity investment in low-income housing through tax credits. HFAs receive an annual allocation of tax credits and competitively award the credits to owners of qualified projects. GAO was asked to review the administration and oversight of the program. This report addresses, among other things, (1) IRS oversight of LIHTC and (2) how LIHTC administration and oversight compare with that of other tax credit programs. GAO reviewed regulations and guidance for monitoring HFAs and taxpayers; analyzed information on IRS audits of HFAs; reviewed selected programs that award tax credits similarly to LIHTC; and interviewed IRS, HUD, and HFA officials.

What GAO Recommends

Congress should consider designating HUD as a joint administrator of the program. HUD's role should include oversight responsibilities (such as regular monitoring of HFAs) to help address deficiencies GAO identified. Treasury agreed HUD could be responsible for analyzing the effectiveness of LIHTC, with IRS continuing to enforce tax law. HUD and IRS did not comment on the matter for congressional consideration. HUD supported consideration of a structure for enhanced interagency coordination. The association representing HFAs disagreed with the matter. GAO maintains that joint administration would strengthen program oversight.

View [GAO-15-330](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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LOW-INCOME HOUSING TAX CREDIT

Joint IRS-HUD Administration Could Help Address Weaknesses in Oversight

What GAO Found

Internal Revenue Service (IRS) oversight of the Low-Income Housing Tax Credit (LIHTC) program has been minimal. Specifically, since 1986 IRS conducted seven audits of 56 state housing finance agencies (HFA) on which IRS relies to administer and oversee the program. (HFAs are state-chartered authorities established to meet affordable housing needs.) Federal internal control standards call for monitoring to be performed continually in the course of normal operations and be ingrained in agency operations. Oversight of HFAs has been minimal, partly because LIHTC is viewed as a peripheral program in IRS in terms of its mission and priorities for resources and staffing. Without such reviews, IRS cannot determine the extent of noncompliance and other issues at HFAs.

IRS jointly administers other programs: the Historic Rehabilitation Tax Credit with the National Park Service and the New Markets Tax Credit with the Community Development Financial Institutions Fund in the Department of the Treasury. The federal agencies that work with IRS to oversee these programs have missions consistent with the purposes of these programs; they also conduct monitoring, report on performance, and collect data. For example, officials of both agencies told GAO that staff routinely conduct site visits and other project reviews. In these cases, IRS also is able to benefit from the other federal agencies' policy and subject-matter expertise. Likewise, the Department of Housing and Urban Development's (HUD) experience in administering affordable housing programs and working with HFAs may benefit IRS in its administration and oversight of the LIHTC program. More specifically, HUD relies on state and local housing agencies (including HFAs) to implement its programs and already has processes and procedures in place to oversee them. Although GAO and others have identified weakness in HUD's program evaluation and oversight activities, HUD has taken steps to address some of these issues and its existing processes and procedures constitute a framework on which further changes and improvement can be made. Moreover, IRS is not well positioned to oversee LIHTC. Since 1990, IRS has been on GAO's high-risk list due to significant capacity challenges and incomplete monitoring of tax law enforcement. IRS's budget has been reduced by 10 percent and enforcement program performance and staffing levels have declined since 2010.

Joint administration with HUD could better align program responsibilities with each agency's mission and more efficiently address existing oversight challenges. Under joint administration, IRS could retain responsibilities consistent with its mission (as it does in the other two tax credit programs). For example, IRS could continue to enforce taxpayer compliance. Assigning oversight responsibilities to HUD could involve additional resources for HUD. For LIHTC and the other two programs, GAO found that each used different mechanisms to fund administrative responsibilities. For instance, Historic Rehabilitation uses fees to fund its program, including oversight, while New Markets requests funding through annual appropriations. The level of resources that would be needed to perform an adequate level of oversight of HFAs is not known. An estimate of potential costs and funding options for financing enhanced federal oversight of the LIHTC program could benefit the agency involved and provide useful information to Congress.