GAO Highlights

Highlights of GAO-12-262, a report to congressional requesters

Why GAO Did This Study

Tax expenditures—exclusions, credits, deductions, deferrals, and preferential tax rates—are one tool the government uses to promote community development. Multiple tax expenditures contribute to community development.

GAO (1) identified community development tax expenditures and potential overlap and interactions among them; (2) assessed the data and performance measures available and used to assess their performance; and (3) determined what previous studies have found about selected tax expenditures' performance.

GAO identified community development activities using criteria based on various federal sources and compared them with authorized uses of tax expenditures. GAO reviewed agency documents and interviewed officials from the Internal Revenue Service (IRS) and five other agencies. GAO also reviewed empirical studies for selected tax expenditures, including the New Markets Tax Credit and Empowerment Zone program which expired in 2011.

What GAO Recommends

Congress may wish to provide OMB guidance on whether community development should be among OMB's long-term crosscutting priority goals, stress the need for evaluations, and focus attention on addressing community development tax expenditure performance issues through its oversight activities. Two agencies questioned the matters for congressional consideration or findings. GAO believes its analysis and matters remain valid as discussed in the report.

View GAO-12-262. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

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COMMUNITY DEVELOPMENT

Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention

What GAO Found

GAO identified 23 community development tax expenditures available in fiscal year 2010. For example, five ($1.5 billion) targeted economically distressed areas, and nine ($8.7 billion) supported specific activities such as rehabilitating structures for business use. The design of each community development tax expenditure appears to overlap with that of at least one other tax expenditure in terms of the areas or activities funded. Federal tax laws and regulations permit use of multiple tax expenditures or tax expenditures with other federal spending programs, but often with limits. For instance, employers cannot claim more than one employment tax credit for the same wages paid to an individual. Besides IRS, administering many community development tax expenditures involves other federal agencies as well as state and local governments. For example, the National Park Service oversees preservation standards for the 20 percent historic rehabilitation tax credit. Fragmented administration and program overlap can result in administrative burden, such as applications to multiple federal agencies to fund the needs of a distressed area or finance a specific project.

Limited data and measures are available to assess community development tax expenditures' performance. IRS only collects information needed to administer the tax code or otherwise required by law, and IRS data often do not identify the specific communities assisted. Other federal agencies helping administer community development tax expenditures also collect limited information on projects and associated outcomes. GAO has long recommended that the Executive Branch improve its ability to assess tax expenditures, but little progress has been made in developing an evaluation framework. Generally, neither these agencies, nor the Department of the Treasury or the Office of Management and Budget (OMB) have assessed or plan to assess community development tax expenditures individually or as part of a crosscutting review. The Government Performance and Results Act Modernization Act of 2010 (GPRAMA) calls for a more coordinated approach to focusing on results and improving performance. OMB is to select a limited number of long-term, outcome-oriented crosscutting priority goals and assess whether the relevant federal agencies and activities—including tax expenditures—are contributing to these goals. These assessments could help identify data needed to assess tax expenditures and generate evaluations of tax expenditures' effect on community development. Through related GPRAMA consultations agencies are to have with Congress, Congress has a continuing opportunity to say whether it believes community development should be among the limited number of governmentwide goals. While community development was not on the interim priority list, Congress also can urge more evaluation and focus attention on community development performance issues through oversight activities.

In part due to data and methodological limitations, previous studies have not produced definitive results about the effectiveness of the New Markets Tax Credit, Empowerment Zone tax incentives, historic rehabilitation tax credits, and tax aid for certain disaster areas. A key methodological challenge is demonstrating a causal relationship between community development efforts and economic growth in a specific community. As a result, policymakers have limited information about the tax expenditures reviewed, including those that expired after 2011, and ways to increase effectiveness.