

GAO Highlights

Highlights of [GAO-17-784T](#), a testimony before the Committee on Finance, 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 will represent an estimated \$8.5 billion in forgone revenue in 2017. LIHTC encourages private-equity investment in low-income rental housing through tax credits. The program is administered by IRS and allocating agencies, which are typically state or local housing finance agencies established to meet affordable housing needs of their jurisdictions. Responsibilities of allocating agencies (in Section 42 of the Internal Revenue Code and regulations of the Department of the Treasury) encompass awarding credits, assessing the reasonableness of project costs, and monitoring projects.

In this testimony, GAO discusses (1) how allocating agencies implement federal requirements for awarding LIHTCs, assess reasonableness of property costs, and monitor properties' ongoing compliance; and (2) IRS oversight of the LIHTC program. This statement is based primarily on three reports GAO issued in July 2015 ([GAO-15-330](#)), May 2016 ([GAO-16-360](#)), and February 2017 ([GAO-17-285R](#)). GAO also updated the status of recommendations made in these reports by reviewing new or revised IRS policies, procedures, and reports and interviewing IRS officials.

View [GAO-17-784T](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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LOW-INCOME HOUSING TAX CREDIT

Actions Needed to Strengthen Oversight and Accountability

What GAO Found

In its May 2016 report on the Low-Income Housing Tax Credit (LIHTC) program of the Internal Revenue Service (IRS), GAO found that state and local housing finance agencies (allocating agencies) implemented requirements for allocating credits, reviewing costs, and monitoring projects in varying ways. Moreover, some allocating agencies' day-to-day practices to administer LIHTCs also raised concerns. For example,

- qualified allocation plans (developed by 58 allocating agencies) that GAO analyzed did not always mention all selection criteria and preferences that Section 42 of the Internal Revenue Code requires; and
- allocating agencies could increase (boost) the eligible basis used to determine allocation amounts for certain buildings if needed for financial feasibility. However, they were not required to document the justification for the increases. The criteria used to award boosts varied, with some allocating agencies allowing boosts for specific types of projects and one allowing boosts for all projects in its state.

In its 2015 and 2016 reports, GAO found IRS oversight of the LIHTC program was minimal. Additionally, IRS collected little data on or performed limited analysis of compliance in the program. Specifically, GAO found that

- Since 1986, IRS conducted seven audits of the 58 allocating agencies we reviewed. Reasons for the minimal oversight may include LIHTC being viewed as a peripheral program in IRS in terms of its mission and priorities for resources and staffing.
- IRS had not reviewed the criteria allocating agencies used to award discretionary basis "boosts," which raised concerns about oversubsidizing projects (and reducing the number of projects funded).
- IRS guidance to allocating agencies on reporting noncompliance was conflicting. As a result, allocating agencies' reporting of property noncompliance was inconsistent.
- IRS had not participated in and leveraged the work of the physical inspection initiative of the Rental Policy Working Group—established to better align the operations of federal rental assistance programs—to augment its databases with physical inspection data on LIHTC properties that the Department of Housing and Urban Development (HUD) maintains.

In its prior reports, GAO made a total of four recommendations to IRS. As of July 2017, IRS had implemented one recommendation to include relevant IRS staff in the working group. IRS has not implemented the remaining three recommendations, including improving the data quality of its LIHTC database, clarifying guidance to agencies on reporting noncompliance, and evaluating how the information HUD collects could be used for identifying noncompliance issues. In addition, because of the limited oversight of LIHTC, in its 2015 report GAO asked that Congress consider designating certain oversight responsibilities to HUD because the agency has experience working with allocating agencies and has processes in place to oversee the agencies. As of July 2017, Congress had not enacted legislation to give HUD an oversight role for LIHTC.