

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



GAO Releases Positive Report on NMTC Program

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February 13, 2007

On January 31, 2007, the United States Government Accounting Office (GAO) released the second of its three statutorily-mandated reports on the New Markets Tax Credit (NMTC) Program. The Report is titled “New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance (GAO-PUB No. 07-296)” and can be found on www.gao.gov.

The Report found that NMTCs encourage investments in the nation’s most distressed communities, and that these investments would not likely have occurred in the same form or fashion without the credits. The Report also included two “recommendations for executive action” to help enhance the IRS’s ability to monitor compliance by NMTC program participants.

The GAO had been preparing this Report for much of the past year. Officials from the GAO met several times with officials from the IRS and the CDFI Fund. GAO officials collected documents on program status and efforts to monitor NMTC compliance; analyzed transactional data reported by CDEs to the CDFI Fund; analyzed tax return data reported by NMTC investors to the IRS; surveyed investors in the NMTC program; and compared NMTC investors with a stratified random sample of investors that did not make NMTC investments. This extensive research led to several findings pointing to the effectiveness of the NMTC Program, including:

- An estimated 88% of investors said that they would not have made the same investment without the NMTC.
- Of these investors who would not have made the same investment without the NMTC, 75% of investors also indicated that in the absence of the NMTC, they would not have made a similar investment in the same community.
- Sixty-nine percent (69%) of the investors making investments in CDEs in 2006 had not previously made investments in those entities.
- An estimated 64 percent of NMTC investors reported that they increased the share of their investment budget for low-income communities because of the credit.
- Communities receiving NMTC investments tend to be more highly distressed than minimally required under program rules.

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These findings, among others, led the GAO to ultimately conclude that *“The results of our survey and statistical analysis are consistent with the NMTC program increasing investment in eligible low-income communities by the investors who participate in the program and with investment coming primarily from funds shifted from other uses.”*

The Report also included two “Recommendations for Executive Action”, both of which were related to areas of compliance that fall under the purview of the Internal Revenue Service (IRS), but which involve assistance by the CDFI Fund. The CDFI Fund is committed to working with the IRS to help implement these recommendations.