

NMTC MONTHLY REPORT

A MONTHLY PUBLICATION ON THE NEW MARKETS TAX CREDIT INDUSTRY

March 2007 Volume VI, Issue III, Published By Novogradac & Company LLP

GAO Releases Report on Impact of New Markets Tax Credit

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The U.S. Government Accountability Office (GAO) last month released its second report on the impact of 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” and can be found at www.gao.gov. The report describes the status of the NMTC program, profiles NMTC program participants, assesses the credit’s effectiveness in attracting investment by participating investors, and assesses Internal Revenue Service (IRS) and the Community Development Financial Institutions (CDFI) Fund compliance monitoring efforts. To conduct the analysis, GAO surveyed NMTC investors, conducted statistical analysis, and interviewed IRS and CDFI Fund officials.

The NMTC program has grown considerably since GAO’s initial program report in January of 2004. The CDFI Fund reports that it has made 233 NMTC allocation awards totaling \$12.1 billion in allocation authority, which to date has generated \$6.2 billion of investments in community development entities (CDEs) serving low-income communities throughout the country. The tax credit has been used to support a wide variety of community and economic development initiatives, including, among others, the financing of charter schools, health-care facilities, manufacturing businesses, grocery-anchored retail centers, and numerous other commercial and mixed-use real estate projects.

Through FY 2005, the NMTC program has generated financing for the construction or rehabilitation of more than 43 million square feet of real estate, and has helped to create or retain 72,000 construction jobs and 20,000 full time equivalent jobs in businesses in low-income communities. The GAO reports that activities reported through fiscal year 2005 included 583 projects, located in 45 states, the District of Columbia and Puerto Rico. The top 10 states organized by the total dollar amount of NMTC investment and the total number of projects are: California (\$303,081,270, 58 projects), New York (\$239,178,566, 25 projects), Ohio (\$201,857,969, 69 projects), Maine (\$153,527,250, 13 projects), Wisconsin (\$149,131,108, 26 projects), Missouri (\$146,165,868, 22 projects), Massachusetts (\$145,059,237, 34 projects), Kentucky (\$135,117,406, 44 projects), North Carolina (\$126,420,590, 14 projects) and Washington (\$125,703,680, 19 projects).

Study Conclusions

In response to its release, the CDFI Fund says it appreciates the detailed analysis and valuable recommendations in the GAO’s report, and is particularly encouraged by several conclusions contained in the report, such as:

- Sixty-nine percent of the investors making investments in CDEs in 2006 had not previously made investments in those entities, suggesting the NMTC is fostering new community development finance relationships.
- The average expected returns on NMTC investments have declined from 8.2 percent to 6.8 percent, suggesting increased program efficiencies and investor confidence in the NMTC program.
- Communities receiving NMTC investments tend to be more highly distressed than minimally required under program rules.
- Investors indicated that most investments would not have occurred in the absence of the credit, and that they had increased their investments in low-income communities because of the credit.
- The most likely effect of the credit is that it shifts investment by participating investors into low-income communities from higher-income communities.

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GAO Releases Report

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Recommendations

The GAO's report also included two recommendations related to areas of compliance. And even though the recommended actions fall under the purview of the IRS, the CDFI Fund says it is committed to working with the IRS to help implement these recommendations.

Specifically, to ensure that the IRS is reviewing the full range of NMTC transactions and that the conclusions of its compliance study are more representative of all CDEs with NMTC allocations, the GAO report recommends that the IRS use CDFI Fund data and the results of its current NMTC compliance study to develop criteria for selecting which CDEs to audit as part of its future compliance monitoring efforts. Additionally, to ensure that eligible taxpayers claim the correct amount of NMTCs on their tax returns and IRS is able to identify all tax credit claimants in the event of the credit being recaptured, GAO recommends that the IRS work with the CDFI Fund to further explore options for cost effectively monitoring investor compliance and developing a way to identify NMTC claimants, even in instances where the original investor sells its equity share in a CDE, and the amount of QEI that each investor made. ❖

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ISSN 1541-2474