

Why GAO Did This Study

IRS and state HFAs administer the LIHTC program, the largest source of federal assistance for developing affordable rental housing. HFAs are allocated tax credits on a per capita basis and award them to developers. By acquiring project equity from developers, investors may become eligible for the credits, which offset federal tax liabilities. As part of HERA, Congress made changes to the program that included increasing credits allocated to states, setting a temporary floor on the most common LIHTC rate (the portion of eligible project costs for which a developer can receive credits), and giving HFAs more discretion in “enhancing” (i.e., increasing) awards. HERA also required GAO to study the changes, including the distribution of credit allocations before and after HERA. This report discusses (1) how IRS and selected HFAs implemented the HERA changes, (2) what HUD’s data show about the number and characteristics of projects completed from 2006 through 2010 and any data limitations, and (3) stakeholders’ views on the effects of the HERA changes on LIHTC projects. GAO reviewed IRS and state guidelines, analyzed HUD data on LIHTC projects, and spoke with federal, state, and industry officials.

What GAO Recommends

GAO recommends that HUD evaluate and implement additional steps to improve its LIHTC Database. HUD agreed with the recommendation but said the report could better describe the agency’s efforts to improve data collection despite resource constraints. In response, GAO added further information on HUD’s changes to its collection process.

View [GAO-13-66](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov or James R. White at (202) 512-9110 or whitej@gao.gov.

LOW-INCOME HOUSING TAX CREDITS

Agencies Implemented Changes Enacted in 2008, but Project Data Collection Could Be Improved

What GAO Found

Federal and state agencies implemented changes made in 2008 to the Low-Income Housing Tax Credit (LIHTC) program by revising program guidance and modifying plans for allocating tax credits. The Internal Revenue Service (IRS) implemented the changes made by the Housing and Economic Recovery Act of 2008 (HERA) by, among other things, issuing notices and revenue procedures. Program stakeholders that GAO contacted said that IRS’s actions were generally sufficient. But as of October 2012, IRS and the Department of the Treasury were still working on implementation issues, such as developing guidance on the provision designed to ease restrictions on using tax credits to acquire existing federally or state-assisted buildings. At the state level, housing finance agencies (HFA) implemented the HERA changes by modifying their tax credit allocation plans, which provide criteria for awarding credits. For example, in their plans, some HFAs cited financial need as the only criterion for awarding HERA-created enhanced credits. Others planned to target specific types of projects, such as those using “green building” practices.

The Department of Housing and Urban Development (HUD) voluntarily compiles the largest public database on LIHTC projects, but the data it collects from HFAs are incomplete. Despite HUD efforts to improve its data collection process, the database may undercount projects, in part because HUD did not follow up on potentially incomplete information. For example, HUD’s database showed that one state had between 23 and 49 completed projects each year from 2006 through 2009, but only 2 projects in 2010. However, officials from this state’s HFA provided GAO with documentation showing that they had reported 37 projects for 2010. Further, much of the project data that HUD has received does not include characteristics such as the type of location, construction, and tenants targeted. A HUD official noted that a HERA provision requiring states to collect tenant-level data (e.g., race and income) had made collecting project data more challenging because HUD did not receive additional resources and available resources had to be divided between tenant and project data collection. Without more complete data on the LIHTC program, the federal government’s ability to evaluate basic program outcomes—such as how much housing was produced—and overall federal efforts to provide affordable housing may suffer. Data from 42 HFAs that reported each year from 2006 through 2010 provide limited insight into the actual number and characteristics of LIHTC projects. The number of reported projects completed exceeded 5,300, and most were in metropolitan areas and were new construction. However, missing data prevented analysis of trends over the 5-year period. For example, the proportion of missing information on the types of tenants targeted increased from 5 percent in 2006 to 28 percent in 2010.

Program stakeholders told GAO that the broad effects of the HERA provisions on the LIHTC market were difficult to determine but noted that certain provisions enhanced the financial feasibility of some individual projects. For example, stakeholders said the temporary increase in per capita credit allocations, temporary credit rate floor, and discretion to use enhanced credits improved the financial viability of some projects by allowing states to award more credits per project. Some state officials also said that the larger awards especially benefited projects in rural areas that can be difficult to finance because they tend to have lower rents and are less attractive to investors than projects in urban areas.