U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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October 31, 2022

The Honorable Brian Schatz
Chair
The Honorable Susan Collins
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable David Price
Chairman
The Honorable Mario Diaz-Balart
Ranking Member
Subcommittee on Transportation, and Housing and Urban Development, and Related Agencies
Committee on Appropriations
House of Representatives

ECONOMIC DEVELOPMENT: Status of Recommendations on Empowerment Zones and Other Selected Community Investment Initiatives

Over a period of years, beginning in 1993, Congress established the Empowerment Zone, Enterprise Community, and Renewal Community designations (federal revitalization designations) to reduce unemployment and generate economic growth in selected census tracts.[1] The Community Renewal Tax Relief Act of 2000 mandated that GAO issue three reports on the programs between 2004 through 2010.

The body of work found that Empowerment Zones and Enterprise Communities used grant funds to implement a wide range of community and economic development initiatives to revitalize impoverished urban and rural communities. We also found limitations with available program data and how the programs were monitored and administered. We made

[1]Census tracts are small, relatively permanent statistical subdivisions of a county or statistically equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size from 1,200 to 8,000 people, with an optimum size of 4,000 people. While census tracts usually cover a contiguous area, the spatial size of census tracts varies widely depending on the density of settlement.

recommendations and observations related to improving these programs as well as other related tax incentives to promote economic development in low-income communities and distressed areas.[2]

The Joint Explanatory Statement accompanying the Department of Housing and Urban Development (HUD) fiscal year 2022 appropriations includes a provision for GAO to review the longstanding recommendations on Empowerment Zones. This report addresses the (1) key findings from our previous reports on Empowerment Zones and (2) status of our previous recommendations related to program administration and the collection of data on Empowerment Zones and other tax incentives with community investment and redevelopment goals. This report includes the slides we provided to your staff on September 8, 2022 (see enc. I).

To conduct this work, we reviewed our previous reports on Empowerment Zones, tax expenditures, and other place-based initiatives.[3] We also reviewed our work on fragmentation, overlap, and duplication in economic development programs. For those reports, we reviewed relevant documents and interviewed officials from the Department of Health and Human Services (HHS), HUD, Internal Revenue Service (IRS), and Department of Agriculture (USDA).[4] For those reports, we also surveyed the most recently designated Empowerment Zones and Renewal Communities and performed fieldwork at selected urban and rural Empowerment Zone and Renewal Community locations. More detailed information on scope and methodology can be found in our published reports. To review the status of recommendations related to program administration and the collection of data on Empowerment Zones and other tax incentives with community investment and redevelopment goals, we reviewed information contained in GAO's result phase system database and prior reports. More specifically, we included reports completed from 2004 to 2010 on Empowerment Zones, Enterprise Communities, Renewal Communities, and the New Markets Tax Credit (NMTC). For the Opportunity Zones, we reviewed the recommendation status of reports completed from 2020 to 2021.

We conducted this performance audit from June 2022 to October 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[2]For example, see GAO, *Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program Is Unclear*, GAO-06-727 (Washington, D.C.: Sept. 22, 2006); and *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited*, GAO-04-306 (Washington, D.C.: Mar. 5, 2004). When we issued our 2006 report, all three rounds of the Empowerment Zone and Enterprise Community programs were scheduled to end no later than December 31, 2009. However, in 2020, the Empowerment Zone designation was extended until December 31, 2025. Our observations should be considered if these or similar programs are authorized in the future.

[3]Place-based initiatives can be a way to concentrate investments in a specific location to achieve measurable community revitalization results. For a list of our work, see the Related Products page at the end of this report.

[4]This report does not focus on legal or regulatory changes to the Empowerment Zone program since our last issued report on the program in 2010.

Background

Congress established Round I of the Empowerment Zone and Enterprise Community programs through the Omnibus Budget Reconciliation Act of 1993.[5] Further legislation in 1997 and 1998 authorized Round II of the programs.[6] The Community Renewal Tax Relief Act of 2000 authorized Round III of Empowerment Zones and established the Renewal Community program.[7] The Enterprise Communities and Renewal Communities designations expired at the end of 2009 and the Empowerment Zone designation was extended until December 31, 2025.[8]

While eligibility varied slightly by program and round, designated urban and rural Empowerment Zones, Enterprise Communities, and Renewal Communities were selected largely based on a combination of poverty and unemployment rates, population, and other area statistics and federal, state, and local input in the selection process.[9] In general, program benefits in Rounds I and II included a combination of grants and tax incentives, while Round III Empowerment Zones and Renewal Communities generally received only tax benefits.

Congress has also established other place-based incentives to promote economic development. For example, the Community Renewal Tax Relief Act of 2000 established NMTC to encourage investment in low-income communities.[10] The Department of the Treasury's (Treasury)

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[5]Pub. L. No. 103-66, § 13301, 107 Stat. 312, 543 (1993).

[6]Pub. L. No. 105-34, § 952, 111 Stat.788, 886 (1997); Pub. L. No. 105-277, § 766, 112 Stat. 2681, 2681-37 (1998).

[7]Pub. L. 106–554, § 1(a)(7) [title I, § 111], 114 Stat. 2763, 2763A-600; Pub. L. 106-554, § 1(a)(7) [title 1, § 101(a)], 114 Stat. 2763, 2763A-589.

[8]An area's designation as an Empowerment Zone or Enterprise Community will end on the earliest of the following: (1) in the case of an Empowerment Zone, by December 31, 2025, or in the case of an Enterprise Community, the close of the 10th calendar year beginning on or after the date of designation; (2) the termination date designated by the state and local governments as provided for in their nomination; or (3) the date the appropriate secretary revokes the designation. 26 USC 1391(d)(1). An area's designation as a Renewal Community remained in effect until the earliest of (1) December 31, 2009; (2) the termination date designated by the state and local governments in their nomination; or (3) the date the HUD Secretary revoked such designation. Pub. L. 106–554, § 1(a)(7) [title I, § 101(a)], 114 Stat. 2763, 2763A–589 (2000), codified at 26 U.S.C. § 1400E, repealed by Pub. L. No. 115-141, div. U, § .401(d)(5)(A), 132 Stat. 210 (2018).

[9]To be designated as Empowerment Zones, Enterprise Communities, or Renewal Communities, areas had to be nominated by one or more local governments and the state or states in which they were located. Nominated Empowerment Zones and Enterprise Communities then submitted a strategic plan showing how they would meet key program principles. Multiagency teams from HHS, HUD, USDA, and other federal agencies reviewed the applications in Round I. HUD and USDA issued designations based on the effectiveness of communities' strategic plans, assurances that the plans would be implemented, and geographic diversity. Renewal Communities submitted a written "course of action" with commitments to carry out specific legislatively mandated activities and were selected by HUD based on the highest average ranking of the nominees based on poverty, unemployment, and, in urban areas, income statistics.

[10]Pub. L. 106–554, §1(a)(7) [title I, §121(a)], 114 Stat. 2763 , 2763A-605. A low-income community is defined as a census tract (1) in which the poverty rate is at least 20 percent or (2) outside a metropolitan area in which the median family income does not exceed 80 percent of median statewide family income or within a metropolitan area in which the median family income does not exceed 80 percent of the greater statewide or metropolitan area median family income. After October 22, 2004, the Secretary of the Treasury was authorized to issue regulations designating targeted populations that may be treated as low-income communities and procedures for determining which entities are qualified active low-income community businesses with respect to such populations. See 26 C.F.R. § 1.45D-1(d)(9). In addition, the definition of a low-income community includes certain areas not within census tracts, tracts with low populations, and tracts with high-migration rural counties.

Community Development Financial Institutions (CDFI) Fund allocates the tax credits to certified organizations called Community Development Entities, which then offer the tax credits to investors in exchange for making equity investments in the entities. With the proceeds of these equity investments, the entities then make loans to or investments in businesses located in low-income communities.

In addition, Congress created the Opportunity Zones tax incentive as part of the Tax Cuts and Jobs Act of 2017 to incentivize growth and investment in distressed communities.[11] The Opportunity Zones are designated census tracts where certain qualified investments are eligible for federal tax benefits. Taxpayers who invest in Qualified Opportunity Funds—which then invest in qualified property or businesses—could receive significant tax-related benefits. Investors generally must invest temporarily deferred capital gain amounts into Qualified Opportunity Funds for a minimum number of years and report information annually to receive tax benefits. Qualified Opportunity Funds generally must report information annually to avoid penalties. IRS is solely responsible for administering the Opportunity Zone program but shares administration of the NMTC program with Treasury's CDFI Fund.[12]

Federal Administration of the Empowerment Zone Program Was Designed to Promote Collaboration and Flexibility, but Had Limitations

We previously reported that no single federal agency had sole responsibility for overseeing the initial implementation of the Round I Empowerment Zones and Enterprise Communities.[13] Four federal agencies—HUD, USDA, IRS, and HHS—administered aspects of Empowerment Zones. For example:

- HUD and USDA oversaw urban and rural Empowerment Zones, respectively; designation of Empowerment Zones; implementation of the program; and tracking of program performance.
- HHS (Round I), HUD (Rounds II), and USDA (Rounds II and III) each administered grants to certain Empowerment Zones or rounds of Empowerment Zones.
- IRS was responsible for administering the tax benefits available under Empowerment Zones.

We also reported that the program design likely contributed to challenges in monitoring the programs during Round I. More specifically, the Empowerment Zone and Enterprise Community programs were designed to give the designated communities increased flexibility in deciding how to use program funds and used states as pass-through entities for providing funds. The programs also sought to avoid burdening states and localities with extensive reporting requirements. However, in 2006 we found that oversight of the programs was limited because the three agencies—HHS, HUD, and USDA—did not collect data on how program funds were

[11] Pub. L. No. 115-97, § 13823, 131 Stat. 2054, 2183 (2017) (codified as amended at 26 U.S.C. §§ 1400Z-1 – Z-2).

[12] Treasury's CDFI Fund allocates the tax credits and collects project data related to NMTC.

[13] GAO-06-727.

used, and HHS did not provide state and local entities with guidance sufficient to ensure monitoring of the program.[14]

While the agencies made some efforts to share information in the beginning to understand the use of funds at a programmatic level, those efforts were not maintained. For example, officials explained that HHS provided fiscal data to HUD and USDA at the onset of Round I, but over time stopped sharing detailed fiscal data with HUD and USDA due to a lack of staff.

For Rounds II and III of the Empowerment Zone and Enterprise Community programs, information sharing was more streamlined since fiscal and program oversight roles were not split between three different agencies—HHS, HUD, and USDA. Instead, HUD and USDA were responsible for fiscal and program oversight for the urban and rural Empowerment Zones and Enterprise Communities, respectively.[15] HUD and USDA officials explained that information on the activity for which funds were used was linked to each drawdown of program funds.

Agencies Implemented Six of Our Recommendations on Available Data, and Five Remain Open

We made 11 recommendations related to data available on Empowerment Zones and other federal place-based tax incentives from 2004 to 2021.[16] Agencies have implemented six of those recommendations, and five remain open.

Data Available to Evaluate Federal Revitalization Designations Have Been Limited

We reported in 2010, 2006, and 2004 that adequate data to assess Empowerment Zones and Enterprise Communities were not available, making it challenging to evaluate the effectiveness of the designation in stimulating community development and business activity.[17] For example, IRS collected limited data on tax benefits associated with Empowerment Zones and Enterprise Communities, and the data it did collect could not be separated to show how much was claimed in individual Empowerment Zones.

[14] GAO-06-727.

[15] Round II of the Empowerment Zone and Enterprise Community programs ran from 1997 through December 2009, and Round III ran from 2000 through 2009.

[16] We reviewed the status of recommendations we made from 2004 to 2010 on Empowerment Zones, Enterprise Communities, Renewal Communities, and the New Markets Tax Credit, and from 2020 to 2021 for Opportunity Zones.

[17] See GAO, *Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities*, GAO-10-464R (Washington, D.C.: Mar. 12, 2010), GAO-06-727 and GAO-04-306. According to GAO's framework for evaluating tax expenditures, program agencies should determine what data should be collected to evaluate tax expenditures relevant to their agency goals (or Treasury's goals in the case of tax expenditures with tax administration purposes). Data needed to determine if the tax expenditure is achieving its intended purpose may differ from data needed to evaluate broader issues. In general, IRS collects only the information needed to know the correct amount of taxes owed to minimize its workload and the burden on taxpayers. As a result, existing IRS data may not be sufficient for evaluating the efficiency, equity, and other effects of a tax expenditure. See GAO, *Tax Expenditures: Background and Evaluation Criteria and Questions*, GAO-13-167SP (Washington, D.C.: Nov. 29, 2012).

Because of this lack of data, we made one recommendation to three agencies in our 2004 report. Specifically, we recommended that HUD, USDA, and IRS collaborate to (1) identify the data needed to assess the use of the tax benefits and the various means of collecting such data; (2) determine the cost effectiveness of collecting these data; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect these data if a cost-effective means was available. HUD and IRS agreed with our recommendation. USDA said it welcomed the opportunity to collaborate with IRS and HUD, but raised concerns that responding to the report's recommendation could stretch the agency's already scarce resources.

From 2004 to 2006, HUD, USDA, and IRS took steps to address the recommendation, such as identifying data needed and documenting the analysis. The agencies identified two methods for collecting the information—through a national survey or by modifying the tax forms—but the agencies did not reach agreement on a cost-effective method for collecting additional data. The recommendation has not been implemented because the agencies have not sought authority to collect the data (in part because the agencies could not agree on a cost-effective method).[18] Without more detailed data and with the extension of the designation until 2025, the agencies and others cannot tie the use of tax benefits to particular communities. This is because the information collected on tax forms does not allow them to do so.[19] For example, the form does not require the taxpayer to identify where the tax benefit is being used or the specific Empowerment Zone designation.

[18]Several Empowerment Zone tax benefits once available to businesses are no longer available. For example, pursuant to 26 U.S.C. § 1397B, if a business sold a qualified Empowerment Zone asset held for more than a year, it could, under certain circumstances, elect to postpone part or all of the gain that it would otherwise include in ordinary income. As a result of the enactment of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, this election does not apply to Empowerment Zone asset sales for tax years beginning after December 31, 2020. Pub. L. No. 116-260, div. EE, § 118(c), 134 Stat. 1182, 3051 (2020). Other Empowerment Zone tax benefits continue to be available. *See*, *e.g.*, 26 U.S.C. § 1394 (regarding tax-exempt enterprise zone facility bonds) and 26 U.S.C. § 1396 (regarding Empowerment Zone employment credits).

[19]For our 2004 report, we reported on the national use of certain designation tax credits. However, we could not provide information at the designation level due to how information is collected on tax forms—for example, tax filers may not use the address where the tax credit is being used. Furthermore, tax filers are not required to identify the Empowerment Zones or Renewal Communities where the business operations eligible for the credit are located. See GAO-04-306 for more information.

Other Federal Place-Based Incentives with Economic and Community Development Goals Also Have Data Collection Limitations

We previously identified data limitations that can affect evaluation of the NMTC and Opportunity Zones incentives:[20]

NMTC. The Community Renewal Tax Relief Act of 2000 also mandated that GAO issue three reports on NMTC between 2004 through 2010. We found challenges related to the CDFI Fund's and IRS's monitoring of the NMTC program, including the use of data. We made six related recommendations to improve compliance monitoring of the tax credit, all of which have been fully addressed.[21] For example, in our 2004 report, we made one recommendation to the Secretary of the Treasury to instruct the CDFI Fund and IRS to implement compliance monitoring processes for NMTC, because we found the agencies had not finalized how to use data to monitor compliance, including through developing documented plans.[22] In response, as of 2007, the agencies implemented a compliance monitoring system that addressed our recommendation.

In 2010, we found that the CDFI Fund collected data about outcomes associated with NMTC-funded projects.[23] However, we noted that it was difficult to establish causal links between NMTC-related financing and these reported project outcomes. Consequently, we were unable to determine the extent to which any economic development in the communities receiving the NMTC investment would have occurred if the NMTC program did not exist. Therefore, we recommended that the CDFI Fund continue to improve strategies for collecting NMTC project-

[20]For example, see GAO, *Opportunity Zones: Census Tract Designations, Investment Activities, and IRS Challenges Ensuring Taxpayer Compliance*, GAO-22-104019 (Washington, D.C.: Oct. 7, 2021); *Opportunity Zones: Improved Oversight Needed to Evaluate Tax Expenditure Performance,* GAO-21-30 (Washington, D.C.: Oct. 8, 2020); *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified,* GAO-10-334 (Washington, D.C.: Jan. 29, 2010); *Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance,* GAO-07-296 (Washington, D.C.: Jan. 31, 2007); and *New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance,* GAO-04-326 (Washington, D.C.: Jan. 30, 2004). For additional reports, see the Related Products page. Furthermore, since 1994, we have recommended greater scrutiny of tax expenditures to help determine how well specific tax expenditures work to achieve their goals, and how their benefits and costs compare to spending programs with similar goals. We currently have an open priority recommendation to Treasury and the Office of Management and Budget to develop and implement a framework for conducting performance reviews of tax expenditures to ensure policymakers and the public have necessary information to make informed decisions. See GAO, *Priority Open Recommendations: Department of the Treasury,* GAO-22-105633 (Washington, D.C.: May 10, 2022).

[21]See one recommendation in GAO-04-326, two recommendations in GAO-07-296 and three recommendations in GAO-10-334.

[22]GAO-04-326.

[23]GAO-10-334.

level data that clearly identify the potential outcome of each project.[24] The CDFI Fund implemented new reporting requirements in 2012 that addressed our recommendation.[25]

Opportunity Zones. We have reported on the administration of the Opportunity Zones tax incentive since 2020.[26] In 2020, we identified challenges related to not having an agency designated with responsibility to collect data and evaluate and report on the incentive's performance. We therefore recommended that Congress consider giving Treasury the authority and responsibility to collect data and report on the incentive's performance, in collaboration with other federal agencies.[27]

In addition, we found in 2021 that while IRS had developed plans to ensure that funds and investors comply with the tax incentive's requirements, those plans depended on data that are not readily available for analysis.[28] Therefore, we recommended that IRS (1) assess the risks caused by this limited data availability and (2) research compliance risks posed by high-wealth individuals and large partnerships that are using the Opportunity Zones tax incentive.

IRS has taken some steps to address these two recommendations, including updating its compliance plan to include alternative mitigating actions for identified risks and developing research parameters to assess compliance risk associated with high-wealth individuals and large partnerships. However, IRS has not fully implemented these recommendations and needs to (1) develop additional mitigating actions that may be appropriate and are not data-dependent and add them to the compliance plan and (2) conduct an analysis of its research results to identify any compliance risks and develop plans to mitigate those risks as appropriate. IRS officials told us that they expect to update their compliance plan by October 2022 and finish their analysis of potential compliance risks and make recommendations for mitigating risks by October 2023.

[24]Our 2010 report included a total of three recommendations that the agency addressed. Specifically, we also recommended that the CDFI Fund Director (1) collect data that show the sale price of NMTCs from Community Development Entities to investors, fees paid by qualified active low-income community businesses to close NMTC transactions, and the amount of equity that the Community Development Entities projects will leave in the qualified active low-income community business at the end of the 7-year period during which investors can claim tax credits; and (2) collect data on the failure rate of NMTC projects.

[25]In 2014, we made five additional recommendations to Treasury regarding NMTC, four of which have been addressed related to ensuring adequate controls to limit the risks of unnecessary duplication and above-market rates of return and ensuring that more complete and accurate data are collected on fees and costs, the equity remaining in the business after 7 years, and loan performance. Our fifth recommendation in this report—specifically, that Treasury issue further guidance on how other government programs can be combined with NMTCs—had not been implemented as of February 2022. See GAO, *New Markets Tax Credit: Better Controls and Data Are Needed to Ensure Effectiveness,* GAO-14-500 (Washington, D.C.: Jul. 10, 2014).

[26]GAO-22-104019 and GAO-21-30.

[27]GAO-21-30. As of August 2022, no legislation had been enacted to address this matter. This report also contained another matter for congressional consideration that as part of its deliberation, Congress should also consider identifying questions about the performance of the Opportunity Zones tax expenditure that it wants Treasury to address, in collaboration with other agencies, to help guide data collection and reporting of performance, including outcomes.

[28]GAO-22-104019.

Agency Comments

We provided a draft of this report to HHS, HUD, USDA, and IRS for comment. The agencies did not have any comments on the draft report.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of the Department of Health and Human Services, Secretary of the Department of Housing and Urban Development, Commissioner of the Internal Revenue Service, and Secretary of the Department of Agriculture. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Nadine Garrick Raidbard (Assistant Director), Daniel Newman (Analyst in Charge), Luke Hagemann, John McGrail, and Jennifer Schwartz.

William B. Shear
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Enclosure – 1

Briefing to the Subcommittees on Transportation, Housing and Urban Development, and Related Agencies Committees on Appropriations

ECONOMIC DEVELOPMENT: Status of Recommendations on Empowerment Zones and Other Selected Community Investment Initiatives

September 8, 2022

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Introduction

- The Joint Explanatory Statement accompanying the Department of Housing and Urban Development fiscal year 2022 appropriations includes a provision for us to review the long-standing recommendations on Empowerment Zones.
- We have previously reported that Empowerment Zones and Enterprise Communities (federal revitalization programs) used their grant funds to implement a wide range of community and economic development initiatives to revitalize impoverished urban and rural communities. We also found limitations with available program data and how the programs were monitored and administered. We have made recommendations and observations related to improving the programs since 2004.

Background

- The Omnibus Budget Reconciliation Act of 1993 established the Empowerment Zone (EZ)/Enterprise Community (EC) programs. It authorized six urban and three rural Round I EZs, and 65 urban and 30 rural Round I ECs. Subsequent legislation in 1997, 1998, and 2000 authorized additional Round I, II, and III EZs, more ECs, and Renewal Communities (RCs).
- EZs assisted economically distressed communities through grants and tax incentives.
- The grants and tax incentives were generally available from 1993 to 2009 and intended to stimulate community development and business activity. However, there were extensions for the tax incentives.
- Four federal agencies oversaw EZs.
  - Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) oversaw urban and rural EZs, respectively; designation of EZs; implementation of the program; and tracking of program performance.
  - Department of Health and Human Services (HHS) administered grants for Round I EZs.
  - IRS was responsible for administering the tax benefits available under EZs.
- The Community Renewal Tax Relief Act of 2000 mandated that GAO report to Congress in 2004, 2007 (the report came out in 2006), and 2010 on the EZ/EC and RC programs.

Objectives

- This report addresses
  1) The key findings from our previous reports on EZs and
  2) The status of our previous recommendations related to program administration and the collection of data on EZs and other tax incentives with community investment and redevelopment goals.

Scope and Methodology

- Reviewed our previous reports on EZs, tax expenditures and other place-based initiatives.
- For those reports, we:
  - reviewed relevant documents and interviewed officials from HHS, HUD, IRS, and USDA;
  - surveyed the most recently designated EZs and RCs; and
  - performed fieldwork at selected urban and rural EZ and RC locations.
- To review the status of recommendations, we reviewed GAO's result phase system database and prior reports.

Objective 1: Empowerment Zone 2004 report (GAO-04-306)

Key Findings

- The EZ/EC and RC programs shared the goal of improving conditions in distressed communities by reducing unemployment and fostering development in designated areas. There were differences across the programs, such as available grant funding and tax incentives offered.
- The report provided information on progress of grant obligations being spent but highlighted the limited data collected on the use of program benefits.
- Few EZ/EC evaluations had been conducted.

Objective 1: Empowerment Zone 2004 report (GAO-04-306) (cont)

Recommendations

- HUD, USDA, and IRS should facilitate the administration, audit, and evaluation of the EZ/EC and RC programs by collaborating to (1) identify the data needed to assess the use of the tax benefits and the various means of collecting such data; (2) determine the cost effectiveness of collecting these data, including the potential impact on taxpayers and other program participants; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect the data, if a cost-effective means is available.
- The three agencies generally agreed with the 2004 report recommendations. In response, from 2004 to 2006, the three agencies discussed options for collecting additional data on tax benefits and determined two methods for doing so: a national survey and changes to tax forms. The three agencies were unable to agree on a cost-effective method for collecting the additional data and did not seek authority to collect the data.
- Status: *Open – Partially Addressed*. Without more detailed data and with the extension of the Empowerment Zone designation until 2025, the agencies and others cannot tie the use of tax benefits to particular communities because the information collected on tax forms does not allow them to do so.

Objective 1: Empowerment Zone 2006 report (GAO-06-727)

Key Findings

- Round I EZs/ECs used their grant funds to implement a wide range of program activities.
- The Round I EZs/ECs program design likely contributed to challenges in monitoring the programs:
  - Designated communities had flexibility in using program funds and used states as pass-through entities to receive funds.
  - Design of program also aimed to limit reporting requirements for states and localities.
  - Lack of data on how program funds were used and detailed tax data made it difficult to assess the use of program tax benefits.
- EZs/ECs showed some improvements related to poverty and unemployment, but the analysis did not definitively link these changes to the program.

Observations (no recommendations in report)

- Round I program oversight was limited because HHS, HUD, and USDA did not collect data on how the funds were used. In addition, additional guidance to state and local entities could have assisted with program monitoring requirements.
- Program offered flexibility in how communities could use funds. However, limited data and inconsistent monitoring hindered federal oversight.

Objective 1: Empowerment Zone 2010 report (GAO-10-464R)

Key Findings (no recommendations in report)

- **Features of the EZ/EC and RC programs:**
  - In general, programs were designed to reduce unemployment and generate economic growth. Early rounds provided grant funds, but later rounds primarily offered tax incentives. Early rounds of EZ/EC targeted community development and large business projects, while RCs targeted small and medium-sized business projects.
- **Information available on programs:**
  - Report reiterated earlier findings that general information on the use of tax benefits was available but information at the EZ/EC/RC level was limited.
  - For example, information on employment credits could not be broken down to conclusively show their use in specific EZ/RC areas.
  - Changes in available census data provided more information on poverty and other economic variables at a more local level, through the Census Bureau’s Annual Community Survey.

Objective 2: Other GAO reports related to tax expenditures and data collection (GAO-13-167SP)

- According to GAO's framework for evaluating tax expenditures, the responsible program agencies should determine what data should be collected to evaluate tax expenditures relevant to their agency goals.
- The data agencies need to evaluate a tax expenditure depend on the questions being asked about the tax expenditure. Data needed to determine if the tax expenditure is achieving its intended purpose may differ from data needed to evaluate broader issues.
- IRS collects some tax expenditure data reported on tax returns and other tax forms. However, to minimize its workload and the burden on taxpayers, IRS collects only the information needed to know the correct amount of taxes owed. As such, existing IRS data may not be sufficient for evaluating the efficiency, equity, and other effects of a tax expenditure.
- Without information on where the investment is located, little progress can be made in determining how effective the tax expenditure is in promoting the goals of the incentive. Agencies need to plan sufficiently so the data collected are available in time to conduct an evaluation.

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits

- The Community Renewal Tax Relief Act of 2000 established the New Markets Tax Credit (NMTC) to encourage investment in low-income communities. The NMTC provides investors with a tax credit for investing in Community Development Entities that are to invest the proceeds in qualified low-income community investments.

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits (GAO-04-326)

Key Findings

- The Community Developmental Financial Institutions (CDFI) Fund and IRS had not finalized how to use data to monitor compliance. Agency officials did not have schedules or documented plans for timely compliance monitoring.

Recommendations

- CDFI Fund and IRS should collaborate to implement their NMTC compliance program.
- Status: *Closed – Implemented.*

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits (GAO-07-296)

Key Findings

- IRS and the CDFI Fund had taken steps to monitor compliance with the requirements of the NMTC program, but they were not collecting data that would allow IRS to identify credit claimants and amounts to be claimed.
- Neither IRS nor the CDFI Fund had sufficient information to enable IRS to identify NMTC investors and the amount of credit that the investors are entitled to claim, particularly when the original investments are sold to others.

Selected Recommendation

- IRS should work with the CDFI Fund to further explore options for cost effectively monitoring investor compliance.
- Status: *Closed –Implemented.*

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits (GAO-10-334)

Key Findings

- Limited available data made it difficult to isolate project impacts.
- CDFI Fund collected data about outcomes associated with NMTC-funded projects, but it was difficult to establish causal links between NMTC-related financing and these reported project outcomes.
- We were unable to determine the extent to which any economic development in the communities receiving the NMTC investment would have occurred if the NMTC program did not exist.

Selected Recommendation

- CDFI Fund Director should collect additional data on program performance and improve project-level data.
- Status: *Closed – Implemented*

Objective 2: Other GAO reports related to tax expenditures and data collection – Opportunity Zones (GAO-21-30)

The 2017 Tax Cuts and Jobs Act established the Opportunity Zones incentive to spur investment in distressed communities. Investors who invest in Qualified Opportunity Funds—which in in turn invest in qualified property (low-income communities) or businesses—could receive significant tax-related benefits.

Key Findings

- An agency was not designated with responsibility to collect data, evaluate, and report on the Opportunity Zone incentive's performance.

Selected Matter for Congressional Consideration

- Congress should consider giving Treasury the authority and responsibility to collect data and report on the incentive's performance, in collaboration with other federal agencies.
- Status: *Open*

Objective 2: Other GAO reports related to tax expenditures and data collection – Opportunity Zones (GAO-22-104019)

Key Findings

- IRS has developed plans to ensure that OZ investments/investors comply with the tax incentive's requirements. However, these plans depend on data that are not readily available for analysis.

Recommendations

- IRS should (1) assess the risks that data limitations pose to its OZ tax incentive compliance plan and (2) research compliance risks posed by high-wealth individuals and large partnerships that are using OZ tax incentives.
- Status: *Open*

Related GAO Products

Empowerment Zones

- GAO-10-464R *Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities*
- GAO-06-727 *Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program is Unclear*
- GAO-04-306 *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited*

New Markets Tax Credit

- GAO-10-334 *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified*
- GAO-07-296 *Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance*
- GAO-04-326 *New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*

Related GAO Products (continued)

Opportunity Zones

- GAO-22-104019 *Opportunity Zones: Census Tract Designations, Investment Activities, and IRS Challenges Ensuring Taxpayer Compliance*
- GAO-21-30 *Opportunity Zones: Improved Oversight Needed to Evaluate Tax Expenditure Performance*

Other

- GAO-13-167SP *Tax Expenditures: Background and Evaluation Criteria and Questions*
- GAO-12-819 *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*
- GAO-12-262 *Community Development: Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention*
- GAO-11-318SP *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*

Related GAO Work

Empowerment Zones, Enterprise Communities, and Renewal Communities

Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities. GAO-10-464R. Washington, D.C.: March 12, 2010.

Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program Is Unclear. GAO-06-727. Washington, D.C.: September 22, 2006.

Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited. GAO-04-306. Washington, D.C.: March 5, 2004.

New Markets Tax Credit

New Markets Tax Credit: Better Controls and Data Are Needed to Ensure Effectiveness. GAO-14-500. Washington, D.C.: July 10, 2014.

New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified. GAO-10-334. Washington, D.C.: January 29, 2010.

Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance. GAO-07-296. Washington, D.C.: January 31, 2007.

New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance. GAO-04-326. Washington, D.C.: January 30, 2004.

Opportunity Zones

Opportunity Zones: Census Tract Designations, Investment Activities, and IRS Challenges Ensuring Taxpayer Compliance. GAO-22-104019. Washington, D.C.: October 7, 2021.

Opportunity Zones: Improved Oversight Needed to Evaluate Tax Expenditure Performance. GAO-21-30. Washington, D.C.: October 8, 2020.

Other

Priority Open Recommendations: Department of the Treasury. GAO-22-105633. Washington, D.C.: May 10, 2022.

2020 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits. GAO-20-440SP. Washington, D.C.: May 19, 2020.

Tax Expenditures: Background and Evaluation Criteria and Questions. GAO-13-167SP. Washington, D.C.: November 29, 2012.

Entrepreneurial Assistance: *Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*. GAO-12-819. Washington, D.C.: August 23, 2012.

Community Development: Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention. GAO-12-262. Washington, D.C.: February 29, 2012.

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