Opportunity Zones

A new program to connect private investment to low-income communities nationwide

Overview

The Opportunity Zones program was established by Congress in the Tax Cut and Jobs Act as an innovative approach to spurring long-term private sector investments in low-income urban and rural communities nationwide. The program is based on the bipartisan **Investing in Opportunity Act**.

The program establishes a mechanism that **enables investors with capital gains tax liabilities** across the country to receive favorable tax treatment for investing in **Opportunity Funds** that are certified by the U.S. Treasury Department. The Opportunity Funds use the capital invested to make equity investments in businesses and real estate in **Opportunity Zones** designated by each state.

Program Need

More than half of America's most economically distressed communities contained both fewer jobs and businesses in 2015 than they did in 2000.

New business formation is near a record low. The average distressed community saw a 6% decline in local businesses during the prime years of the national economic recovery.

The U.S. economy is increasingly dependent on a handful of places for growth. Five metro areas produced as many new businesses as the rest of the country combined from 2010 – 2014. Now is the time to diversify.

For more information, visit the Economic Innovation Group's Opportunity Zone page.

Investor Incentives

U. S. investors currently hold $2.3 trillion in unrealized capital gains, representing a significant untapped resource for economic development. Opportunity Funds will allow these investors throughout the country to deploy their resources as Opportunity Zone investments.

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New Markets Support Company

The Opportunity Zone program is designed to incentivize long term investments:

Investment Length	Benefits Received
Fewer than 5 years	Deferred payment of existing capital gains until the date that the Opportunity Fund investment is sold or exchanged
5 - 7 years	Benefits above + 10% of tax on existing capital gain is canceled
7 - 10 years	Deferred payment of existing capital gains until December 31, 2026 or the date that the Opportunity Fund investment is sold or exchanged (whichever comes first) + 15% of tax on existing capital gain is canceled
Greater than 10 years	Benefits of 7 - 10 year investment + investors pay no capital gains tax on the Opportunity Fund investment (investments are exempt from any capital gains beyond those which were previously deferred)

Note: All capital gains realized by an investor in the 180 days before an Opportunity Fund investment are eligible for the tax benefits of investment in Opportunity Funds

Investment Example

In 2018, an individual investor sells 1,000 shares of Amazon stock that they purchased in 2013 for $250,000. The sale at $1,250 per share results in a $1 million capital gain. Instead of paying the $238,000 in federal capital gains tax on this sale, the investor rolls their $1 million gain into a Qualified Opportunity Fund that invests the capital in newly issued preferred stock shares of various operating businesses located in Opportunity Zones with a plan to liquidate the fund in 2028. The assumed value of this investment in 2028 is $2 million. The benefits received by this investor include:

- *Investing $1 million instead of the $762,000 that would be remaining if the capital was not re-invested into an Opportunity Fund.*
- *Paying $202,300 in taxes in 2026 instead of paying $238,000 in 2018.*
- *Owing no additional tax on the $1 million in capital gains on the Opportunity Fund investment realized in 2028.*

Opportunity Funds

Investments must be made in Qualified Opportunity Funds to receive the investor benefits just detailed.

Opportunity Funds:

- Must be certified by the U.S. Treasury Department.
- Must be organized as a corporation or partnership for the purpose of investing in Qualified Opportunity Zone Property.
- Must hold at least 90% of their assets in Qualified Opportunity Zone Property.
- Qualified Opportunity Zone property includes newly issued stock, partnership interests, or business property in a Qualified Opportunity Zone business.
- Opportunity Fund investments are limited to equity investments in businesses, real estate, and business assets that are located in a Qualified Opportunity Zone. Loans are not eligible for the tax incentives. Opportunity Fund investments in real estate are subject to a substantial rehabilitation requirement.

Examples of potential Opportunity Funds:

- A $100 million national private equity fund that provides growth capital to lower middle market operating businesses located in Opportunity Zones.
- A $20 million local fund that provides the equity capital for the $100 million redevelopment of a closed shopping mall into a mixed-use development that includes new neighborhood retail and workforce housing.
- A $50 million disaster area fund that develops and leases new affordable housing for residents displaced by the 2017 hurricanes and forest fires.

Opportunity Zones

Governors of each state may choose **up to 25%** of that state's eligible low-income census tracts (same definition as for New Markets Tax Credits) to become Opportunity Zones. Up to 5% of each state's Opportunity Zone census tracts may be non-qualifying tracts contiguous with qualifying tracts if the median income in those tracts is less than 125% of area median.

Governors only have until **March 22, 2018** to submit their Opportunity Zone designations to the U.S. Treasury Department or request a 30-day extension.

Opportunity Zone designations stay in place for ten years and cannot be modified after initial designation.

LISC Next Steps and Advocacy

1

State and Local Policy - the clock is ticking for governors to choose their Opportunity Zones. Designations or a request for a 30-day extension must be submitted to Treasury by March 22, 2018.

a. Ensure that governors and the state heads of economic development are aware of the program

b. Encourage states to select Opportunity Zones in a targeted manner, as opposed to simply maximizing the geographic coverage of the zones, so that there can be sufficient investment of resources into each Zone.

c. Advocate for "severe economic distress" census tracts (NMTC definition) to be included in Opportunity Zones to drive resources to the areas of highest need

d. Advocate for a balance of rural and urban neighborhoods to be included in the state's Opportunity Zones to diversify investment activity and ensure rural markets that have lost significant jobs and population are eligible for investment

e. Advocate for states and municipalities to create new programs or utilize existing incentive programs to:

i. Enhance the investor benefits of this program and drive investment opportunity to their state and its target markets

ii. Ensure that benefits of Opportunity Fund investments accrue to residents of the Opportunity Zones and create quality job opportunities or bring critical services to residents.

2

Federal policy - for investors to begin utilizing this new program, the U.S. Treasury Department must act to provide guidance to the states on making their Opportunity Zone designations, publish rules for certifying Opportunity Funds, and publish rules for on-going compliance and reporting.

a. Lobby the Administration on the importance of this program and need for timely implementation

b. Provide guidance to the Treasury Department on rule making that will foster program success

Resources and Tools

Governors' Offices contact information and websites

Policy Map of low-income census tracts eligible to become Qualified Opportunity Zones

The Investing in Opportunity Act

The Economic Innovation Group's "Opportunity Zone" webpage, for more background information and a list of bipartisan supporters (including our very own Maurice Jones)