



Opportunity Zones

Planning for Successful Redevelopment

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Investing in Opportunity Act

- Bipartisan legislation proposed by Senator Tim Scott (R-SC) and Corey Booker (D-NJ)
- Included in the Tax Cuts and Jobs Act of 2017, which Congress approved on December 22, 2017
- Text of legislation:
www.congress.gov/bill/115th-congress/house-bill/1



Opportunity Zone Basics

- **Goal** – Encourage long-term private capital investment in low-income urban and rural communities
- **Incentive** – Tax deferrals on original capital gains invested in Opportunity Zones and tax exclusion on new capital gains achieved from Opportunity Zone investments
- **Outcome** – Equity share in and launch of development projects that may not have traditionally penciled out



Opportunity Zones & Brownfields

- Many contaminated properties within “highly distressed” Census Tracts
- Big opportunity for brownfields redevelopment in designated Opportunity Zones – can help make previously marginal projects look more attractive
- Brownfields remediation likely to be considered by the Internal Revenue Service as a pre-development cost eligible for Opportunity Zone investment



Opportunity Zone Tax Incentives

- **Temporary Tax Deferral** – Taxable capital gains are deferred (until sale of equity share or December 31, 2026) if investors capitalize projects in designated Opportunity Zones
- **Step-Up in Basis** – Investors allowed to exclude 10% of original gain from taxation with 5-year Opportunity Zone investment and 15% exclusion with 7-year Opportunity Zone investment
- **Permanent Exclusion** – Any gains from an Opportunity Zone investment held at least 10 years are excluded from taxation



Opportunity Zone Tax Incentives - Example



- Mr. Monopoly sells stock and realizes \$1 million in capital gains that will be taxed.
- He invests \$1 million in an “Opportunity Fund” that capitalizes a housing project in a designated Census Tract. The investment is held for 10 years.
- Mr. Monopoly defers all taxes on his initial \$1 million in capital gains until 2026.
- His basis increases, which enables him to exclude 15% of his original taxable capital gains (from \$1 million down to \$850,000).
- The housing project’s value grows, and Mr. Monopoly will pay no taxes on any new capital gains.

Designating Opportunity Zones

- Governors designated up to 25% of eligible low-income Census Tracts
- Eligibility:
 - The poverty rate for Census Tract is at least 20%, or
 - The median family income for such tract does not exceed 80% of the statewide (or metropolitan area) median family income
- Treasury Secretary has certified most State's Opportunity Zones
- Majority of Opportunity Zones are urban and suburban

Designating Opportunity Zones

- Criteria:
 - Ideally geographically concentrated or contiguous clusters of Census Tracts
 - Existing public and private initiatives to attract investment and foster startup activity
 - Demonstrated success with New Market Tax Credits, Promise Zones, Empowerment Zones, and Renewal Communities
 - Recent layoffs due to business closures or relocations



Creating Opportunity Funds

- Definition – an investment vehicle that is organized as a partnership or a corporation for the purpose of investing in qualified Opportunity Zone property
- Must maintain at least 90 percent of assets in “qualified opportunity zone property,” including investments in “qualified opportunity zone stock,” “qualified opportunity zone partnership interest,” and “qualified opportunity zone business property”



Creating Opportunity Funds

- Can be created by “community development entities”
- Likely to be established at the local, state, and national levels
- Tax guidance forthcoming from Treasury Department – expected June/July 2018



Opportunity Zone Concerns

- Tax benefits flowing to the wrong places or paying for the wrong things
- Gentrification
- Transparency and inclusion in low-income neighborhoods
- Lack of Opportunity Fund access for small and rural places



Next Steps for Community Officials

- Conduct forums with key stakeholders (developers, business groups, banks, wealth advisors, tax experts) to build interest in Opportunity Zones
- Gauge interest of the local/regional financial community in creating a nearby Opportunity Fund
- Consider strategies that protect residents and business owners from displacement



On the Horizon

- Support federal legislation that fixes Opportunity Zone conflicts
- Pursue federal funding (e.g., DOT BUILD grants) within Opportunity Zones – Trump Administration will invest in designated areas
- Share successes with Governor's office – demonstrate to your State that your Opportunity Zone designation was warranted
- Consider contiguous Census Tracts that may be ripe for future Opportunity Zone designation – Congress may authorize another round

Opportunity Zone Resources

- Economic Innovation Group
eig.org/opportunityzones
- Council of Development Finance Agencies
www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html
- Treasury Department
www.cdfifund.gov/Pages/Opportunity-Zones.aspx

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