Overview: Opportunity Zones

What is an Opportunity Zone?

- An economically distressed area in which new investments are eligible for tax benefits

What are Qualified Opportunity Funds?

- A partnership or corporation for investing in Opportunity Zones certified by completing a for self-certification

What are the tax benefits of investing in an Opportunity Zone?

- Investors can postpone taxes on investments until the earlier of their sale or the end of 2026 only if the gains are reinvested in an Opportunity Zone; eventually, taxes may be reduced by as much as 15%
- Investors can also exclude any accumulated gains, due to appreciation of an asset, if the asset is held for 10 years

How are Opportunity Zones designated?

- Governors nominated certain census tracts to be certified by the Treasury Secretary
- Governors were permitted to nominate up to 25% of all Low-Income Community census tracts
- Nominated areas must have a minimum 20% poverty rate and an average median family income of no more 80% of the surrounding area’s median income

December 22, 2017

Tax Cuts and Jobs Act passes with changes to the tax code that create Opportunity Zones (OZs)

April 9, 2018

The first set of OZs were designated, covering parts of 18 states

June 14, 2018

Treasury Dept. certified the final round of OZs; there are 8,700 of them

December 31, 2026

Deferred gains from OZ investments are taxed

Sources: IRS, “Opportunity Zones Frequently Asked Questions”; Steven M. Rosenthal, “Opportunity Zones May Create More Opportunities for Investors and Syndicators Than Distressed Communities,” *TaxVox*, August 2, 2018.

Treasury releases Opportunity Zone proposed rules

Which kinds of projects qualify for OZ investment?

The Treasury Department's proposed rules do not set sharp limits on which kinds of projects qualify, but do prescribe some basic requirements

- 70-30 rule: as long as 70% of an Opportunity Fund's tangible property is located in an OZ, the business benefits from preferential tax treatment
  - E.g. A restaurant chain with four properties located within OZs and one located outside would still qualify for the tax break on all of its investments
  - The tax law previously established that 10% of investments could be located outside of an OZ; the combination of these policies creates an even lower threshold of 63% of properties that are required to be within an OZ to qualify

- Businesses have an additional 30 months to retain capital as long as they have plans for investment and can be audited by the IRS

- Rules define how much improvement is necessary in order for a property to qualify as a new investment; the calculation excludes land value, favoring projects in high-cost urban areas

October 19, 2018

Treasury Dept. releases proposed rules for OZ funds

December 21, 2018

Written comments and outlines of topics to be discussed at the public hearing must be received by 60 days after the publication of the proposed rules

January 10, 2019

Public hearing held

Spring, 2019

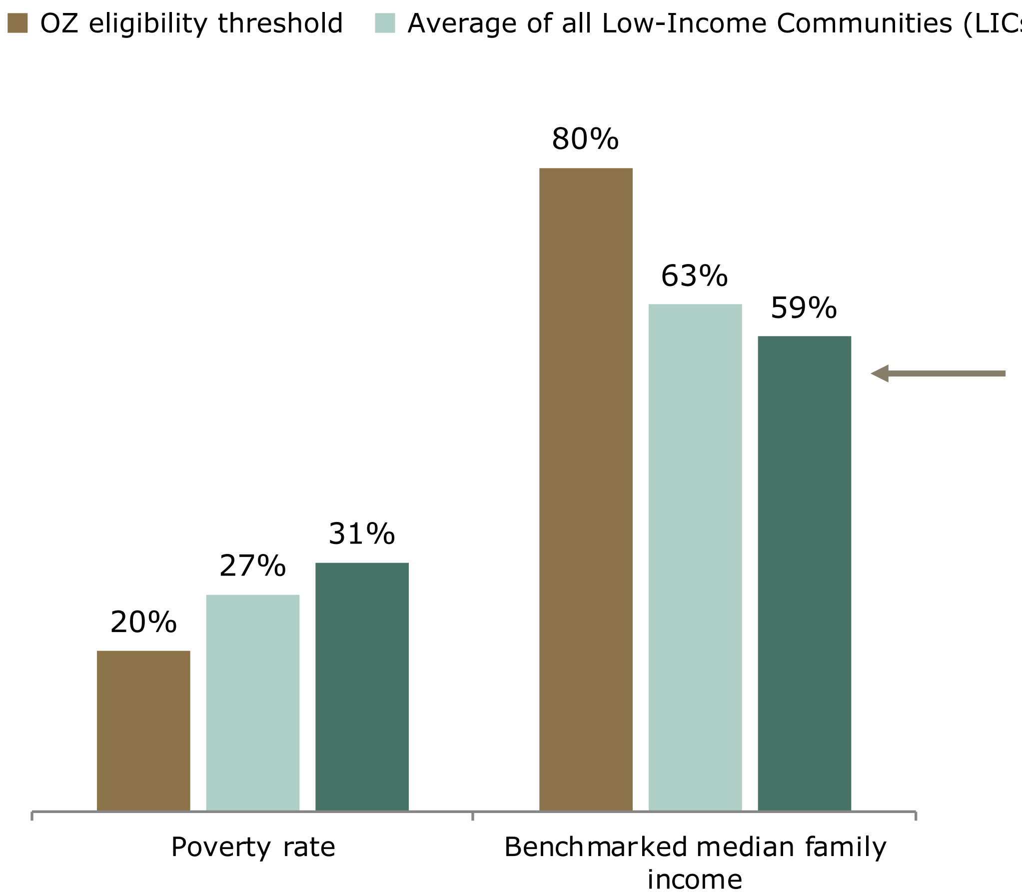
Final regulations will most likely be posted

Sources: Richard Rubin, "New 'Opportunity Zone' Tax-Break Rules Offer Flexibility to Developers," *WSJ*, October 19, 2018; Jim Tankersley, "Treasury Outlines Tax Breaks for Investing in Distressed Areas," *NYT*, October 18, 2018; "Investing in Qualified Opportunity Funds," Dept. of Treasury

Opportunity Zones have an average poverty rate of 31%

Opportunity Zones compared to Low Income Communities (LICs)

CALCULATED BASED ON 2011-2015 5-YEAR ESTIMATES



Opportunity Zone characteristics:

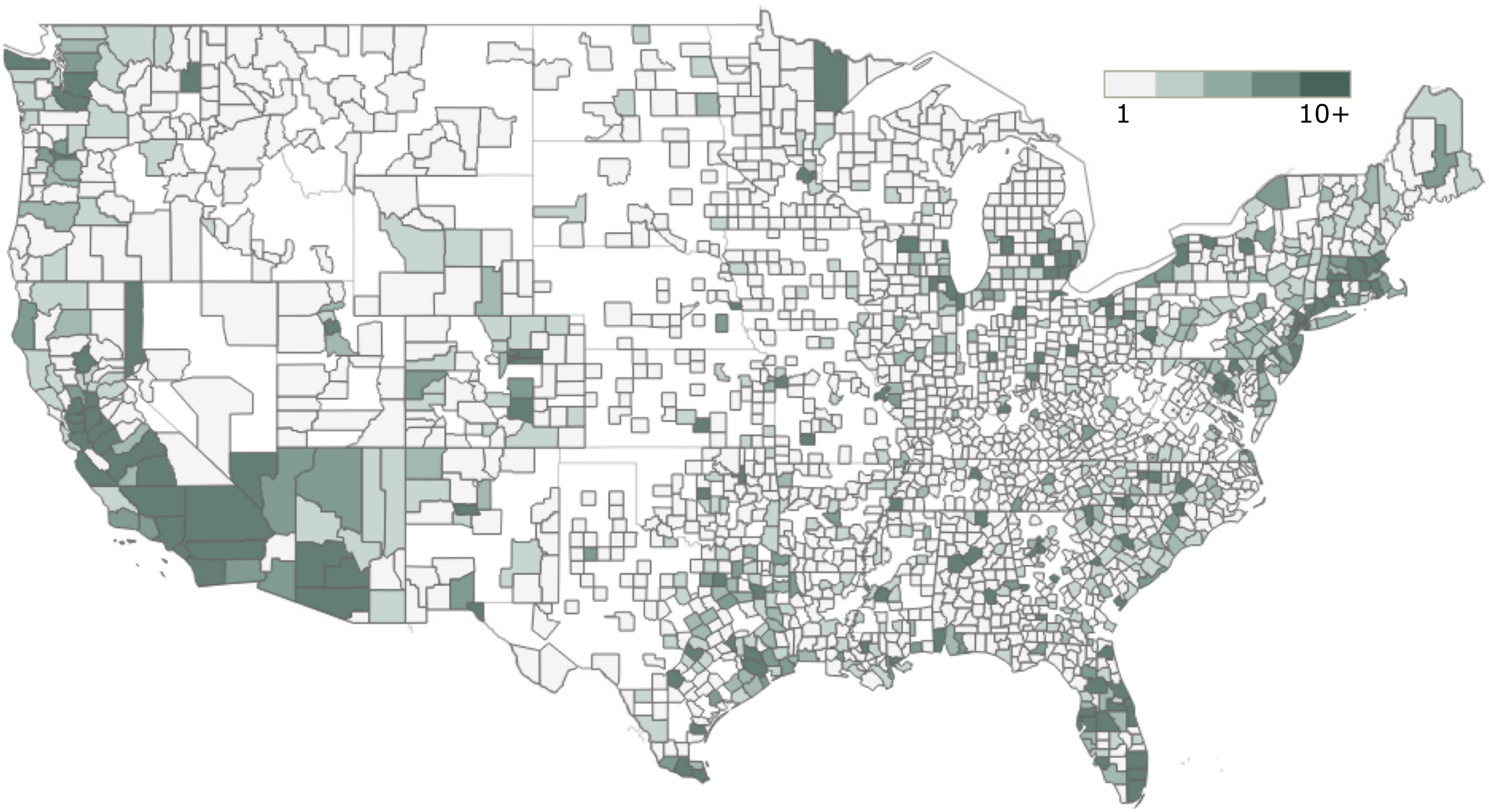
- 8,700 Opportunity Zones across the U.S.
- 31.3 million people residents
- Average poverty rate of 31%
- Average median family income of 59% of its area median
- Contain 24 million jobs and 1.6 million businesses
- Less than 4% of these zones have been recently gentrified
- Average housing stock of 50 years, which is 10 years greater than the U.S. median
- 50% are eligible for Low-Income Housing Tax Credit
- More than 2/3 of the OZs are EPA brownfield sites

Sources: "Opportunity Zones: The Map Comes Into Focus", *Economic Innovation Group*, June 5, 2018

Los Angeles County has the most census tracts designated as Opportunity Zones with 254

Locations of Opportunity Zones in the contiguous United States

NUMBER OF CENSUS TRACTS PER COUNTY



Sources: Community Development Financial Institutions Fund

Expectations for Opportunity Zones are varied

Potential benefits

The Opportunity Zone selection process yielded fair results, making it more likely that market mechanism will benefit economically distressed communities

- Governors relied on public & local government engagement and data analytics to choose Opportunity Zones, prioritizing high-need census tracts
- As a result, less than 4% of Opportunity Zones are already-gentrifying areas, and most contain high rates of poverty, low median-incomes, and high unemployment rates
- 69% of people residing in Opportunity Zones are in a "severely distressed" census tract
- Local governments can work with investors, moving forwards, to ensure that investment is effective and meaningful

Potential downfalls

Opportunity Zones may benefit investors more than they benefit economically distressed communities

- The businesses that qualify for tax benefits are wide-ranging; for example, rental property businesses, which may be less beneficial for the surrounding community, would be eligible
- The loss of tax collection revenue is essentially uncapped (Joint Committee on Taxation projects the program could reduce federal revenue by $9.4 billion between 2018-2022), while the benefits of Opportunity Zones will be hard to measure
- Some taxpayers may game the system by re-characterizing existing projects to gain access to Opportunity Zone tax benefits
- Investors may focus on investing in already-gentrifying
- The IRS will begin reporting on the program in 2022, making the process of measuring progress less transparent

Sources: "Opportunity Zones: The Map Comes Into Focus", *Economic Innovation Group,* June 5, 2018; Steven M. Rosenthal, "Opportunity Zones May Create More Opportunities for Investors and Syndicators Than Distressed Communities," *TaxVox,* August 2, 2018.