Opportunity Zones

An Overview

An affiliate of LISC

NMSC

New Markets Support Company

National Equity Fund INC

an affiliate of LISC

LISC

Helping neighbors build communities

Opportunity Zones

The Opportunity Zones tax incentive was established by Congress in the 2017 Tax Cut and Jobs Act as an innovative approach to spur long-term private sector investments in low-income urban and rural communities nationwide. This economic development initiative is based on the bipartisan [Investing in Opportunities Act](#).

Definitions

Opportunity Zone: A low-income census tract **(LIC)**, as determined within New Markets Tax Credits legislation, is designated as an Opportunity Zone **(OZ)** by the governor of the of the state or territory in which it is located. Designations will stay in place for 10 years.

Up to 25% of LICs in a U.S. state or territory may be designated as OZs.

States or territories in which there are fewer than 100 LICs may designate up to 25 LICs as OZs.

Up to 5% of census tracts contiguous to LICs may be designated as OZs, if the median family income of the census tract does not exceed 125% of the median family income of the LIC to which the tract is contiguous.

Designated Opportunity Zones

All states and territories have officially designated their Opportunity Zones, as of June 14, 2018.

8,762
census tracts designated

1,858
rural census tracts designated

32.5%
average poverty rate

14.4%
average unemployment rate

63%
average family income in OZ census tracts relative to area median income (AMI)

Definitions

Opportunity Fund: An investment vehicle organized as a corporation or partnership for the purpose of investing in Opportunity Zone property.

Opportunity Funds are required to invest 90 percent or more of their resources in OZs.

Opportunity Funds will be self-certified per IRS guidelines.

Opportunity Zone property includes stock, partnership interest, or business property in an Opportunity Zone business.

INVESTORS

OPPORTUNITY ZONES

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 pool and deploy their resources as Opportunity Zone investments.

OPPORTUNITY ZONE INVESTMENTS PROVIDE AN IMMEDIATE BENEFIT

to investors of deferring payment of the capital gains tax that would be paid in 2018 until 2026. Further incentives are linked to the duration of an investor's commitment to Opportunity Fund investments.

THE OZ TAX INCENTIVE WILL ALLOW

a modest reduction in capital gains taxes in exchange for holding Opportunity Fund investments for five to seven years.

IF INVESTMENTS ARE HELD 10+ YEARS,

gains accrued on the Opportunity Fund investment during that 10-year period will not be taxed, further incentivizing patient capital.

Timeline for Opportunity Zone Investments

Gains rolled into an Opportunity Zone Investment within 180 days of sale

Year 5 – 2023 (Legislative date): Tax on original gain is reduced by 10%

Year 7 – 2025 (Legislative date): Tax on original gain is reduced by an additional 5% (total reduction is 15%)

December 31, 2026 (Legislative date): Deferred tax on original gain is due. Investors pay tax on 85% of original capital gains

Year 10 and beyond: Upon sale, no tax on sale gains

NVESTMENTS

OPPORTUNITY FUNDS

Eligible **Investments**

Only equity investments are eligible for the Opportunity Zone tax incentive.

1. **Business investments**

   can include investments in new stock issuance for corporations and ownership interests in partnerships and LLCs.

2. **Investments in real estate**

   must include an ownership interest of new construction or assets that will be substantially improved within 30 months of acquisition by the Opportunity Fund.

3. **New equipment and other assets**

   are also eligible investments.

NVESTMENTS

OPPORTUNITY FUNDS

Fund Uses **Examples**

1. Commercial real estate development and renovation in Opportunity Zones
2. Opening new businesses in Opportunity Zones
3. Expansion of existing businesses into Opportunity Zones
4. Large expansions of businesses already in Opportunity Zones
5. Enhancement for other federal tax credit transactions (LIHTC, NMTC, HTC, and RETC)

Steps Toward Implementation

1

2

3

01

ALL OPPORTUNITY ZONES

approved by treasury (10 year designation) as of June 14, 2018.

02

IMPLEMENTATION OF LAW

Treasury Department rulemaking to be issued.

03

INVESTMENT ACTIVITY BEGINS

Currently anticipated to start in Q4 2018/Q1 2019.

Advocacy Recommendations

- Encourage the **Treasury Department and IRS to move quickly to issue guidance and regulations** which provide investors and Opportunity Funds with clarity and certainty, and also help ensure that the legislative intent of O-Zones is being met.

- Engage with community stakeholders (such as mayors, county executives and other local leaders) to **determine how Opportunity Zone designations line up with current local community development goals** and begin identifying projects that would benefit from additional equity capital through Opportunity Fund investments.

- Advocate for states and municipalities to **create or utilize existing incentive programs to pair with Opportunity Fund investments** in order to:

  - **Ensure equitable and inclusive economic development** by expanding access to opportunities for low-income residents and existing local businesses while protecting them from displacement.

  - **Enhance the investor benefits of Opportunity Fund investments**, incentivizing investments with high social benefits and driving investment opportunity where capital might not otherwise flow. For example:

    - Further incentivize investments in Opportunity Funds and keep dollars locally invested by **providing preferential tax treatment at the state level.**

Strengths

Local	Flexible	New Investor Class	Potential	Straightforward
Designations are made by states and localities, rather than Federal agencies, ensuring more local buy in and coordination.	The flexibility of the investment tool can support investments in any type of asset class.	The incentive has the ability to attract high net worth individual investors to community development finance.	The incentive could attract hundreds of billions of private sector capital into low-income communities (compared with about \$10 - \$12 billion annually under LIHTC and \$3.5 billion annually under NMTC).	The tool is relatively straightforward from an investment and compliance standpoint, in comparison to LIHTC and NMTC.

Potential Concerns

Lack of Oversight

Lack of oversight from government entities could lead to program abuses.

Lack of Impact Incentives

Incentives focus on back-end returns, rather than investments that will result in community impacts.

Gentrification and Displacement

The tool might aid in the gentrification and displacement of residents and businesses in Opportunity Zone communities.

Future of Other Tax Incentives

The new incentive might be used as an excuse to diminish or eliminate other community development tax incentives, such as the NMTC program.