



Opportunity Zones

PRIMER

INTRODUCTION TO OPPORTUNITY ZONES

The Opportunity Zone Program was created through the Tax Cuts and Jobs Act of 2017. It offers incentives—in the form of capital gains tax abatement—to investors in Qualified Opportunity Zone (QOZ) assets via Qualified Opportunity Funds (QOF). The Act created 8,764 QOZs in the 50 states and U.S. regions that consist of low-income census tracts deemed economically distressed. The census tracts were chosen by the CEOs of the states and U.S. regions to spur private investment in economically distressed QOZs. The program provides three potential tax benefits. First, the income tax on previously earned capital gains invested in QOZs is deferred until the earlier of either the investment being sold/exchanged or Dec. 31, 2026. For investments held for at least five years in a QOZ, investors' original investment basis raises 10%; 15% if held for seven years. Finally, for investments held for at least 10 years, investors pay no taxes on capital gains generated from their investment.

The Treasury Department and IRS have issued regulations and guidance on the Opportunity Zone Program. The regulations specify how the QOZ tax benefits will be managed and identify rules for an investment in a QOF.

While all 8,764 QOZs are considered economically distressed, not every QOZ will attract QOF investment. Many opportunity zones do not have the level of infrastructure needed to lure private investment. The Dec. 31, 2026, deadline shortens the capital gains deferral for projects that weren't in the pipeline when the Act was approved.

LEVERAGING FINANCIAL TOOLS IN OPPORTUNITY ZONES

The Opportunity Zone Program does not prevent the use of other incentives, such as state and local tax abatements, rebates and fee waivers; new market tax credits; low-income housing tax credits; and enterprise and empowerment zone incentives. Some local governments have marketed their opportunity zones with an investor statement that highlights the demographics and economic data relevant to their opportunity zones as well as local incentives available to investors. At the state level, legislation was introduced in some statehouses in 2019 to create more incentives for opportunity zone investors.

However, there is no requirement for the private sector to work with the public sector or to share data on their Opportunity Fund investments within a QOZ. Some local and state governments have voiced concerns about possible negative effects of an inflow of capital into a transitioning area, especially in light of renovation and affordability trends in urban areas.

QUESTIONS FINANCE OFFICERS SHOULD ASK ABOUT OPPORTUNITY ZONES

Finance officers should be ready to ask the following questions about opportunity zone projects:

- » How does the project fit within my jurisdiction's zoning, transportation, economic development, and other approved plans and regulations?
- » If the project conflicts with my jurisdiction's plans or goals, are there local measures that can be taken to affect the outcome?
- » Does my state offer incentives that can be used with a local incentive?



- » Would providing a local incentive result in a greater community benefit that supports the organization's goals?
- » Is the investor/developer willing to share financial and project data to help the local jurisdiction determine the impact of the investment on economic development metrics?
- » Should the local jurisdiction use its resources to prepare an investor statement for its opportunity zones?

OUTSIDE RESOURCES

- » Internal Revenue Service, Opportunity Zones Frequently Asked Questions, <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>
- » Community Development Financial Institutions Fund, Opportunity Zones Resources, <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>
- » Stats America, USA Opportunity Zones, <http://www.statsamerica.org/opportunity/map.aspx>
- » National Council of State Housing Agencies: Opportunity Zone Fund Directory, <https://www.ncsha.org/resource/opportunity-zone-fund-directory/>
- » Economic Innovation Group, Opportunity Zones (interactive map highlighting innovative opportunity zone activity), <https://eig.org/opportunityzones>
- » Tax Policy Center, Urban Institute and Brookings Institute. What are Opportunity Zones and How Do They Work? <https://www.taxpolicycenter.org/briefing-book/what-are-opportunity-zones-and-how-do-they-work>

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