

ENHANCE OPPORTUNITY ZONES TO STRENGTHEN AMERICA'S FORGOTTEN COMMUNITIES

For decades, too many Americans have seen their jobs shipped away, their businesses leave, and their communities fall into a state of steady decline. To solve these problems, our Nation's policies must provide new opportunities and lift people out of poverty. A renewed focus on new investment that includes powerful tax incentives has the power to drive revitalization in America's forgotten communities.

The Opportunity Zones (OZs) program does just that. The 2017 Tax Cuts and Jobs Act established the OZs program to unleash investment, economic development, and job creation in distressed areas. This law empowered governors to select eligible low-income census tracts within their states where reinvestment of capital gains would receive favorable tax treatment to facilitate access to capital for local businesses and entrepreneurs. In total, 8,800 tracts across all 50 states, the District of Columbia, and Puerto Rico were designated as OZs.

The previous administration also established the White House Opportunity and Revitalization Council to advance many critical initiatives for underserved communities. This Council included 17 federal agencies tasked with supporting the administration's pledge to encourage public and private investment in urban and economically distressed areas, including those designated as OZs. This bold step demonstrated a focused commitment to lift our fellow Americans by harnessing federal resources and interagency cooperation at the highest levels.

Unfortunately, the current administration has taken little to no action to strengthen the positive momentum of the OZs initiative. In fact, it is possible that the proposed capital gains tax hikes could stall the initiative entirely. By raising the capital gains tax rate, funds

invested into OZs could be pulled out early to avoid this tax increase. Our government must abandon this folly and embrace the pro-growth policies that have proven to be successful.

The OZs program creates three tax benefits. First, the incentives include a tiered federal capital gains tax deferral on investments made in these areas through what are known as Qualified Opportunity Zone Funds (QOFs). QOFs are an investment vehicle, like a partnership, that holds 90% or more of its assets in OZ property. Through QOFs, investors can delay or reduce their capital gains tax liability over time.

Second, OZs created a step-up in basis, which reduces the overall tax burden through increased eligible deductions for investments held in QOFs for at least five years. And third, OZ incentives include eliminating capital gains tax on investments maintained for at least 10 years.

By embracing the power of the OZs program, the government can lift up many forgotten Americans and help put our country back on a path to economic success.

THE FACTS

- ★ 32 million Americans live in the 8,829 economically distressed areas designated as OZs.
- ★ 28.9% of the population in economically disadvantaged OZs lives in poverty. This is more than double the 13.8% average poverty rate in non-OZ areas from 2012 to 2016.
- ★ Areas receiving an OZ designation were in worse states of decline from 2000 to 2016. These areas experienced an 11% drop in real median household income compared to only 6% for places

not designated as OZs.

- ★ Homeowners in OZs are expected to gain \$11 billion in new wealth through increased property values because of the OZ designation.
- ★ An estimated one million people could be lifted out of poverty through investment brought by the OZ incentives.
- ★ More than 1.2 million jobs are expected to be created because of the OZ designation.

THE AMERICA FIRST AGENDA

At the federal level, support policies that:

- ★ Expand the OZs program to allow American taxpayers to receive favorable tax treatment when they invest some of their paycheck income in QOFs.

At the state level, support policies that:

- ★ Create complementary state-level OZ incentives that boost the pro-growth, poverty-alleviation incentives of the federal OZ program.
- ★ Remove unnecessary, cumbersome, and duplicative policies that hinder economic development, such as excessive occupational licensing policies, hefty tax incentives, and excessive environmental, business, and development regulations.
- ★ Release “how-to” manuals for mass distribution to guide potential investors through the opaque process of investing in QOFs, which ultimately translates into OZ growth and development.

REFERENCES

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