

Innovation and Responsiveness: Opportunity Zones

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Opportunity Zones

- Responsive
- Created as part of the Tax Cuts and Jobs Act of 2017
- Opportunity Zones are low-income census tracts
- The same definition of a “low-income community” that is used by Treasury CDFI Fund’s New Markets Tax Credit (NMTC) program is the basis for defining eligible Opportunity Zone census tracts.
- States designated up to 25% of low income census tracts as “Opportunity Zones” (A list of all zones, as well as a mapping tool, is available: [CDFI Fund](#))

The Policy Goals

The policy goal of the Opportunity Zone tax incentive

- **Drive long-term private sector investments**
- **Channel equity capital into overlooked and underserved markets**
- **Reinvest realized capital gains into distressed communities**
- **First new national community investment in more than 15 years**
- **May scale to the largest economic development program in the country**

How does it work?

- Taxpayers can get capital gains deferral (& more) when they make timely investments
 - Capital Gain Deferral
 - Partial Forgiveness
 - Forgiveness in Additional Gains
- The Investments are made in Qualified Opportunity Funds
- The Qualified Opportunity Funds invest in Qualified Opportunity Zone Property

Investment Types

- Commercial Real Estate Development, Renovation and Improvement
- New Businesses
- Expansion of Existing Business into Opportunity Zones
- Large Expansions of Businesses in Opportunity Zones

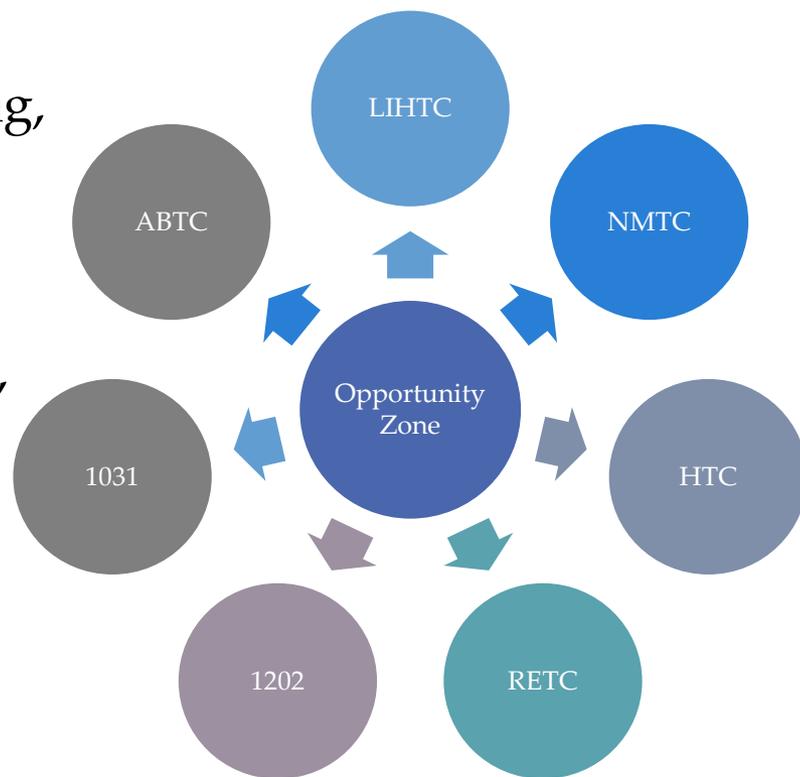
What is a Qualified Opportunity Fund?

- An investment vehicle taxed as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property (QOZP)
- Must hold at least 90% of its assets in QOZP
- Entity will self-certify using IRS form 8996

Form 8996 <small>(December 2018) Department of the Treasury Internal Revenue Service</small>	Qualified Opportunity Fund ▶ Go to www.irs.gov/Form8996 for the latest information. ▶ Attach to your tax return. See instructions.	<small>OMB No. 1545-0123</small> <small>Attachment Sequence No. 996</small>
Name _____		Employer identification number _____
Part I General Information and Certification		
1 Type of taxpayer: <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership		
2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)? <input type="checkbox"/> No. STOP. Do not file this form with your tax return. <input type="checkbox"/> Yes. Go to line 3.		
3 Is this the first period the taxpayer is a Qualified Opportunity Fund? <input type="checkbox"/> Yes. By checking this box, you certify that by the end of the taxpayer's first qualified opportunity fund year, the taxpayer's organizing documents include a statement of the entity's purpose of investing in qualified opportunity zone property and the description of the qualified opportunity zone business. See instructions. <input type="checkbox"/> No. Go to Part II.		
4 If "Yes" on line 3, list the first month in which the fund chooses to be a Qualified Opportunity Fund. ▶ _____		
Part II Investment Standard Calculation		
5 Total qualified opportunity zone property held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	5	
6 Total assets held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	6	
7 Divide line 5 by line 6	7	
8 Total qualified opportunity zone property held by the taxpayer on the last day of the taxpayer's tax year	8	
9 Total assets held by the taxpayer on the last day of the taxpayer's tax year	9	
10 Divide line 8 by line 9	10	
Part III Qualified Opportunity Fund Average and Penalty		
11 Add lines 7 and 10	11	
12 Divide line 11 by 2.0. See instructions if Part I, line 3 is "Yes"	12	

Community Development Finance

- Pair with other funding streams that support stronger and more resilient communities.
- New opportunities--affordable housing, small businesses, and jobs--that specifically benefit low-income neighborhoods and people.
- Collaborate with financial institutions, CDCs, CDFIs to help meet the credit, housing, and economic development needs of communities.
- Use with other State, Federal tax incentives
- Use with local tax incentives



Community Reinvestment Act

- Banks could create Qualified Opportunity Funds - individual investor capital, unrealized capital gains
- Qualified Opportunity Funds make equity investments; CRA is primarily debt-driven, but many QOFs are looking at how to layer
- Banks may couple debt and equity investments to achieve impact
- CRA Guidance → Will OZs be eligible as “areas targeted for redevelopment by federal, state, local, or tribal government?”

Economic Conditions and Impact

- Massive influx in capital and ability of community to absorb
- Few guardrails
- No “owner”
- Gentrification and Displacement
- Hot spots and Deserts
- Concentration in high-cost cities
- Unwelcome or harmful investments in communities
- Displacement of existing Community Development investments
- Lack of reporting requirements and metrics
- Incentives race
- Stakeholder engagement

OZ Strategies for Local Communities

Many local community stakeholders have begun conversations to both capitalize on the potential of the Qualified OZ Fund and develop strategies to mitigate possible harm i.e. S.C.

- Partnerships to raise and deploy funds (HBCU QOF, Knight Foundation West End Charlotte)
- National vs local vs regional Qualified Opportunity Funds
- Mission-oriented institutions' sponsorship of Qualified Opportunity Funds (Enterprise, Foundations)
- Qualified Opportunity Funds paired with other impact investing products
- Pairing Qualified Opportunity funds with existing tools and credits
- Local government-driven funds
- Zoning Overlays
- Community vision and the capacity to plan



Guiding Principles for Investors and Communities

- Synergy and Balance
- Social Equity
- Impact Investing
- Collaborative Partnership
- Transparency

Next Steps

- The law authorizes U.S. Treasury to define and **certify** Qualified Opportunity Funds designed to deploy equity investment capital in Opportunity Zones for eligible purposes.
- Treasury Guidance Request in late November 2018 requests additional guidance in several areas not covered by the Proposed Regulations and Revenue Ruling issued in October. **Pending**
- Additional comments regarding information that was covered in the Proposed Regulations and Revenue Ruling issued in October 2018.
- Notice of public hearing February 14, 2019
<https://www.federalregister.gov/documents/2019/02/01/2019-00704/investing-in-qualified-opportunity-funds-hearing>

Resources

- Urban Institute [Opportunity Zones Investment Score Dataset](#)
- Urban Institute [Community Development Financial Flows](#)
- Council of Development Finance Agencies [Opportunity Zones page](#)
- Novogradac Company [Resource Center](#) (Opportunity Funds)
- Federal Reserve [Webinar](#)
- Federal Reserve Bank of Richmond [East Baltimore Financing](#)

