# Opportunity Zones Fact Sheet

## What is the Opportunity Zone Program?

- The Tax Cuts and Jobs Act of 2017 established the Opportunity Zones community development program, which encourages long-term investment in low-income communities nationwide. The program offers three tax incentives to encourage investors to reinvest unrealized capital gains into Opportunity Funds which invest in Opportunity Zones:

| Temporary Deferral | Step-Up in Basis | Permanent Exclusion |
|---|---|---|
| Investors can defer capital gains tax on the sale of an asset if the gain is reinvested in an Opportunity Fund within 180 days of sale. The tax is deferred until the investment in the Opportunity Fund is sold or December 31, 2026 (whichever is earlier). | The investor's basis in the Opportunity Fund investment is initially zero, but investors who keep their investment in the Opportunity Fund for at least 5 years will receive a step-up in basis of 10 percent. If ownership of the investment is maintained for at least 7 years, the investor will receive an additional step-up in basis of 5 percent. | Investors who hold their investment in an Opportunity Fund for at least 10 years will have no taxable capital gain income on the sale of the investment. |

- The Opportunity Zone (OZ) program is intended to be a flexible vehicle for investors to take a direct role in the future of struggling communities through unutilized capital gains. The program rewards 'patient' capital by tying incentives to the longevity of the investment.

## What Are Opportunity Zones?

- An Opportunity Zone is a population census tract that is a low-income community which has been designated as a qualified Opportunity Zone (OZ). Eligible census tracts are those with a poverty rate of at least 20 percent or a median family income that does not exceed 80 percent of the area's median income.

- This past spring, governors of states and territories designated up to 25 percent of their low-income community census tracts to be certified by the US Treasury Department as OZs. On June 14, 2018 the Treasury Department released the final list of OZ designations. OZs retain their designation for 10 years.

## What Are Opportunity Funds?

- An Opportunity Fund is an investment vehicle organized as a corporation or a partnership for the purpose of investing in an OZ property and holds at least 90 percent of its assets in OZ properties. All investments in OZs must go through an Opportunity Fund.

- Any entity can establish an Opportunity Fund, an eligible taxpayer must simply self-certify as one. No approval by the Treasury Department or the IRS is necessary.

## What Can Opportunity Funds Invest In?

- Opportunity Funds can invest in three types of assets: OZ stock, OZ business property, and OZ partnership interest:

| OZ Stock | OZ Business Property | OZ Partnership Interest |
|---|---|---|
| Opportunity Funds can purchase new issue stock in a corporation, if the corporation qualifies as a qualified OZ business. | Opportunity Funds can invest in tangible property used in a qualified OZ business if the original use of the property began with the fund or if the fund substantially improves the property. | Opportunity Funds can acquire interest in a partnership that is a qualified OZ business. |

## What Can Cities and States Do Now?

As the Treasury Department and the IRS develop Opportunity Zone guidance, state and local governments should begin taking steps, such as the following recommendations, to prepare their communities for Opportunity Zone investment.

*Develop Policies and Incentives to Protect Against Negative Outcomes*

- Given the lack of federal government reporting requirements, it is up to local and state governments to ensure Opportunity Fund investments are equitable. State and local officials should consider implementing do no harm policies and affordable housing policies, while also developing best practices guidance.

- To protect against displacement or gentrification, state and local governments should consider offering tax incentives for the creation of equitable Opportunity Funds.

*Leverage Federal and Local Funding*

- State and local officials should consider how best to use federal, state, and local program dollars to best position Opportunity Zones to attract investment.

*Connect with the Business Community*

- Opportunity Zone businesses may be unaware they are located in OZs, unsure of how to market themselves to Opportunity Funds, and unprepared to attract and sustain investment. State and local officials should connect with OZ businesses to ensure they are aware of the program and to help them develop an OZ strategy.

*Partner with Educational Institutions*

- State and local governments should consider partnering with local universities and educational institutions to ensure Opportunity Zones have access to a qualified workforce. This could help attract investment and also benefit the community at large.

*Create Opportunity Funds*

- Anyone or any entity can establish an Opportunity Fund, so if local governments are interested in certain priorities or completing specific projects they should consider creating their own Opportunity Funds.

## What's Next?

- The Treasury Department and the IRS are developing additional Opportunity Zone guidance that will be released over the next few months. More information will be available at Treasury.gov and IRS.gov.

- The Treasury Department expects to release the self-certification form to establish an Opportunity Fund this summer.

- Learn more here: https://eig.org/opportunityzones/resources and here https://home.kpmg.com/content/dam/kpmg/us/pdf/2018/02/tnf-wnit-tceas-feb19-2018.pdf