PRELIMINARY

HB 2144 STAFF MEASURE SUMMARY

House Committee On Revenue

Prepared By: Kaitlyn Harger, Economist
Meeting Dates: 3/11

WHAT THE MEASURE DOES:
Requires an addition to federal taxable income amounts excluded and deferred from federal capital gains income due to investment in Qualified Opportunity Zone Funds. Allows a subtraction in year deferred capital gains income is included in federal income. Disregards, for Oregon purposes, changes to basis of investments as part of the Opportunity Zone program. Takes effect on the 91st day following sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:
No amendment.

BACKGROUND:
As part of the federal Tax Cuts and Jobs Act (TCJA), the federal government designated low-income communities eligible to receive investments through the Opportunity Zone program. A low-income community is generally defined as a census tract with a poverty rate of at least 20% or a median family income to state median family income ratio of 80% or less. Census tracts may also qualify based on low population or being a rural area with high migration. The federal government used these criteria to identify eligible O-Zones throughout the country. From the list of designated zones, Governors designated zones within their states and were limited in the number of zones they could select. Oregon designated 86 O-Zones.

To participate in the program, investors must invest capital gains income into a Qualified Opportunity Fund (QOF), which then makes investments into O-Zones in the form of stock, partnership interest, or business property. Opportunity Zones (O-Zones) provide investors with three tax incentives. First, upon investing capital gains income into a QOF, the investor excludes the amount of the capital gains investment in the QOF from their federal taxable income in the year of the investment. This initial capital gains income is deferred from taxation until the sale of the investment or 2026, whichever comes earlier. The second tax incentive provides for investors a tiered increase in basis on the initial capital gains investment. After the investment into the zone has been held for 5 years, the basis on the initial capital gain is increased by 10%. That basis increase increases to 15% if the investment is held 7 years. Finally, investors holding investments in O-Zones for 10 years or more experience an increase in basis equal to the sale price of the asset at the time of sale. Effectively, the investor has no income defined as capital gains from the O-Zone investment.