HB 4010 A STAFF MEASURE SUMMARY

Carrier: Rep. Marsh

House Committee On Revenue

Action Date:	02/20/20
Action:	Do pass with amendments. (Printed A-Eng.)
Vote:	4-3-0-0
Yeas:	4 - Hernandez, Keny-Guyer, Marsh, Nathanson
Nays:	3 - Owens, Reschke, Smith G
Fiscal:	Has minimal fiscal impact
Revenue:	Revenue impact issued
Prepared By:	Kaitlyn Harger, Economist
Meeting Dates:	2/6, 2/19, 2/20

WHAT THE MEASURE DOES:

Adjusts Oregon's connection to the federal Opportunity Zone program. Adds to statute, for corporate and personal income filings, a provision that requires taxpayers selling or exchanging opportunity zone property to increase the basis of their investment by 50% of the difference between fair market value and the taxpayer's original basis. This basis computation is in lieu of the federal basis adjustment under the program. Requires the Legislative Revenue Office (LRO) to study the federal Opportunity Zone program and its relation to Oregon. Details a list of stakeholders LRO will consult during the study. Requires LRO to present the findings of the report to the interim committees related to revenue and economic development by November 1, 2020. Adds to statute requirement that Qualified Opportunity Funds (QOFs) submit a report to the Department of Consumer and Business Services (DCBS) in Oregon within six months of receiving investment dollars from an investor domiciled in Oregon or making an investment in a qualified Opportunity Zone in Oregon. Details reporting requirements and frequency of required reporting. Takes effect on the 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Current and ongoing development related to the Opportunity Zone program
- Oregon opportunity zone projects

EFFECT OF AMENDMENT:

Replaces the bill.

BACKGROUND:

As part of the 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. These tracts were designated using data from Census' American Community Survey (ACS) 2011-2015. 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 may make investments into O-Zones in the form of stock, partnership interest, or business property. A QOF could also invest in a Qualified Opportunity Zone Business (QOZB). In that case, the QOZB manages the investment in the qualified O-Zone.

Broadly speaking, Opportunity Zones provide investors with two tax incentives. First, upon investing capital gains income into a QOF, the investor defers 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. With this deferral, investors are provided a tiered increase in basis on the initial capital gains investment, depending how long the investment is held. 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. The second tax incentive provides investors holding investments in O-Zones for 10 years or more an increase in basis equal to the fair market value of the asset at the time of sale. Effectively, the investor has no capital gain income from the O-Zone investment.