

Overview of Opportunity Zones & Tax Implications

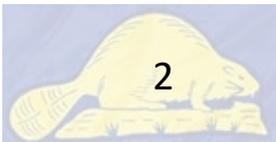
House Committee on Revenue – 3/28/2023

Legislative Revenue Office



Overview of Presentation

- Qualified Opportunity Zone (QOZ) policy & history
- Basic structure and flow of investment
- Qualified Opportunity zones described
- Qualified Opportunity Funds (QOF)
- Capital gains overview
- Tax benefit of QOZ
- Effect of Oregon disconnect





Opp. Zone Policy & History

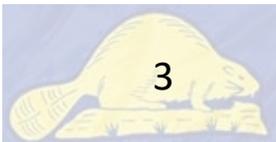
- Enacted in 2017, part of federal Tax Cuts and Jobs Act (TCJA)
- Purpose

*“Opportunity Zone tax incentives are designed to be broad incentives to retain investment in or shift investment toward specific geographic areas...could encourage long-term, “patient” capital for development projects in areas that could be classified as higher risk by lenders and financiers”
(Congressional Research Service)*

“unlock new private investment for communities where millions of Americans face the crisis of closing business, lack of access to capital, and declining entrepreneurship...dramatically expand the resources to restore economic opportunity, job growth, and prosperity for those who need it most”

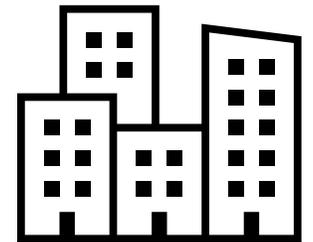
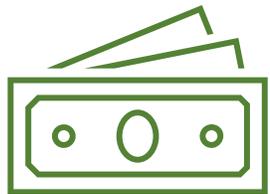
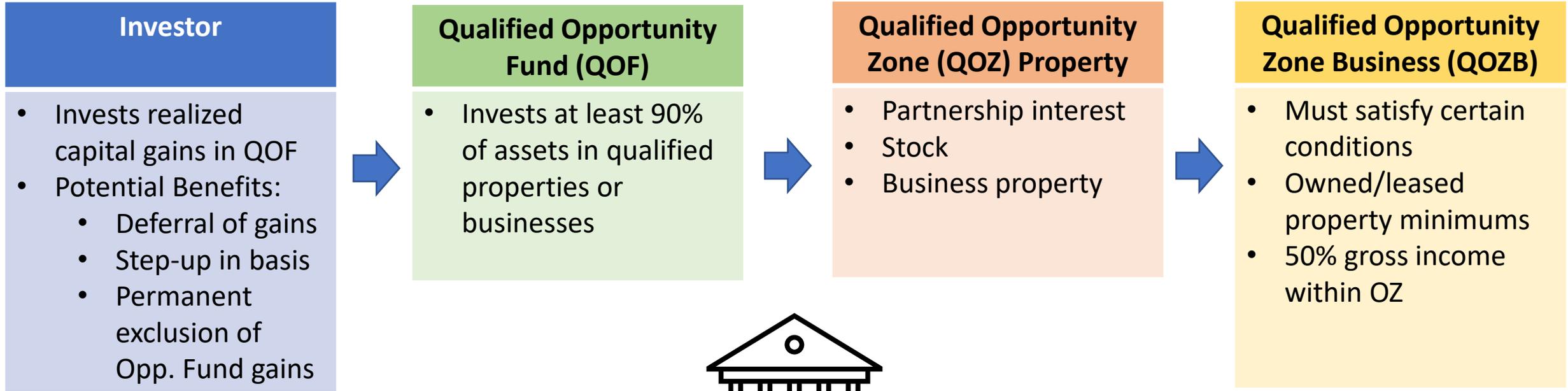
(Statement by Senators Cory Booker & Tim Scott and Representatives Ron Kind & Pat Tiberi)

- Oregon automatically connected to federal Opp. Zone tax policy





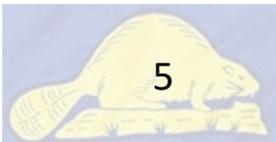
Basic Structure & Flow of Investment





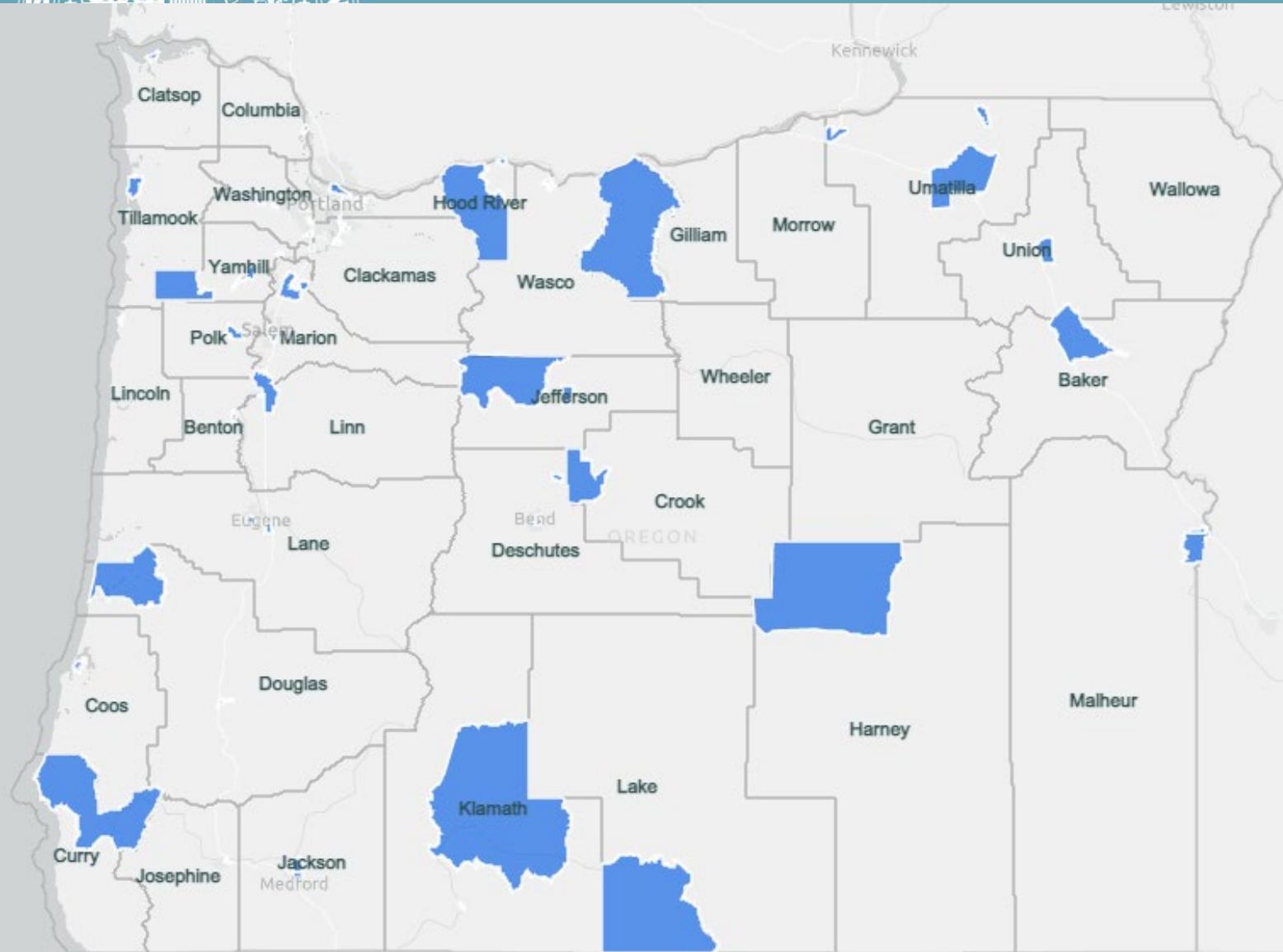
Designated Opportunity Zones

- ***Low-income community*** census tracts designated by state governors & approved by U.S. Treasury
- Opp. Zones
 - Tracts in which poverty rate is at least 20%
 - Inside MSA: Median family income does not exceed 80% or greater of
 - Statewide median family income
 - MSA median family income
 - Outside MSA: Median family income does not exceed 80% of statewide median family income
 - Contiguous tract with low income community
- Nationally: 8,764 designated Opp. Zones

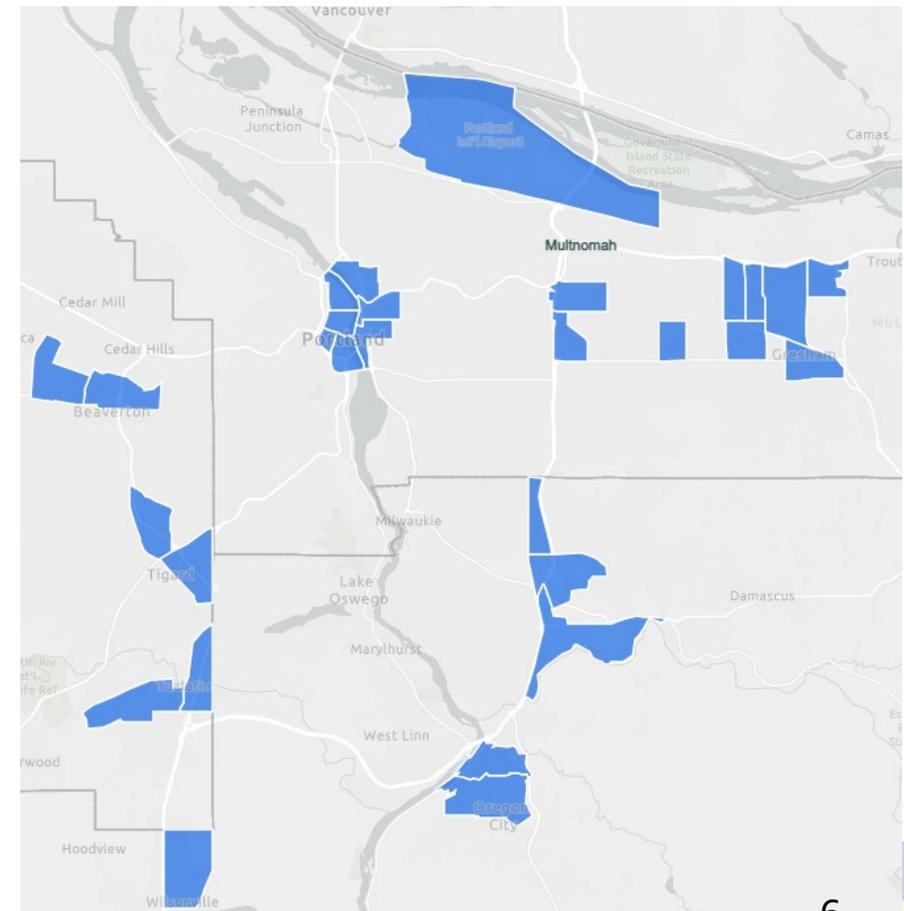




OR Designated 86 Opp. Zones



Portland Area





Qualified Opportunity Funds

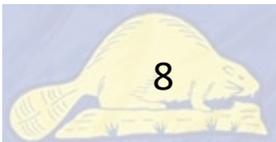
- Investment vehicle (partnership or corporation) organized for the purpose of investing in ***qualified opportunity zone property***
- Opp. Fund required to hold at least 90% of assets in qualified opp. zone property
- Opp. Funds
 - Can vary in size, number of investments, region(s) of investment





Capital Gains

- **Basis**
 - Cost of acquiring the asset
- **Capital Gains**
 - Value of asset when sold, minus basis
- **Example: Buy one share of stock for \$100, sell a few years later for \$130**
 - Capital gain is \$30 ($\$130 - \100)





Opp. Zone Tax Benefit

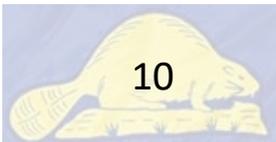
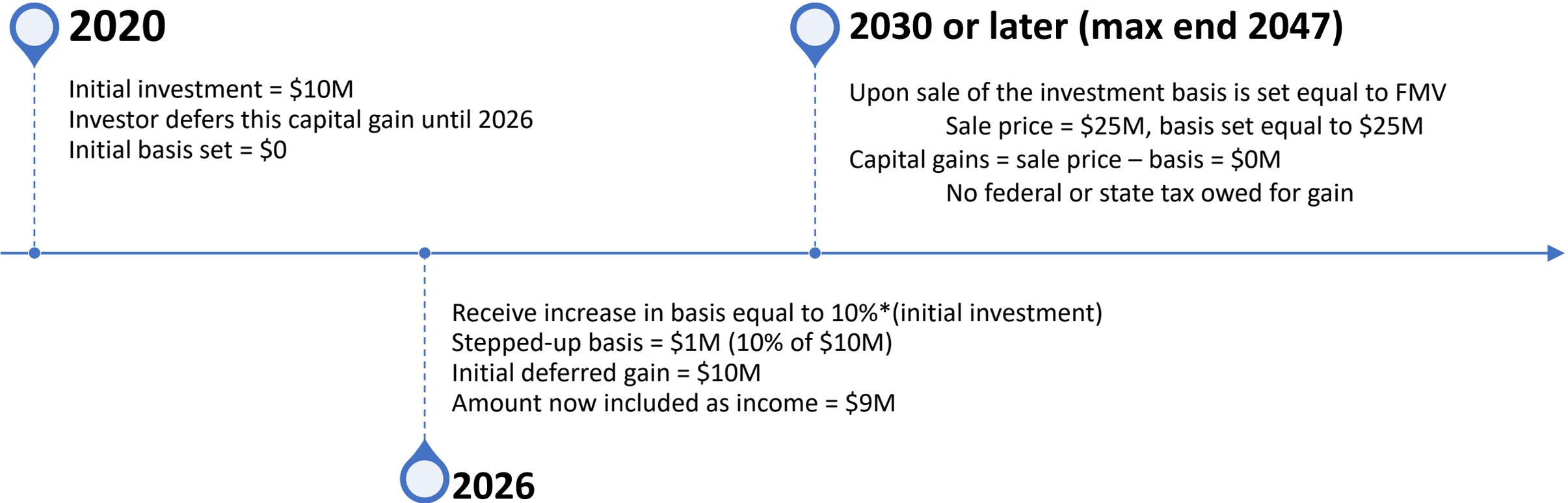
Three primary benefits to taxpayers

- 1) Tax due on capital gains may be temporarily deferred if reinvested in qualified opportunity fund (QOF) & invested within 180 days
- 2) Potential reduction in tax of original realized capital gains
 - Investment held for 5 years: 10% increase in basis
 - Investment held for 7 years: 15% increase in basis
 - Deferred gain realized no later than 2026 (or earlier if sold)
- 3) Permanent exclusion of gain in QOF investment
 - Investment held for at least 10 years (up to 12/31/2047)
 - Basis= fair market value of investment on date of sale/exchange





Opp. Zone Tax Benefit Example





Effect of Oregon Disconnect

- Oregon resident taxpayers
 - Oregon full disconnect
 - Eliminates deferral moving forward
 - Oregon taxpayer does not receive step-up in basis (10% of 15%)
 - No permanent exclusion of gain in QOF investment
 - Partially retroactive
- Non-resident taxpayer
 - Depending on organization structure of Qual. Opp. Fund and Qual. Opp. Zone Business, non-resident capital gains are not subject to Oregon income tax
 - Non-resident taxpayer investing in OR Opp. Zone unaffected by OR disconnect
- No change in federal tax benefit



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<https://www.oregonlegislature.gov/lro>

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