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ECONOMIC PERSPECTIVES

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NNDA Northern Nevada Development Authority

# Opportunity Zones: New Economic Development Tool

As part of the Tax Cuts and Jobs Act of 2017, Congress added Opportunity Zones to the tax code, establishing them as a new community development program. Designed as an economic development tool, qualified Opportunity Zones are intended to spur economic development and job creation in eligible communities. They encourage long-term private re-investment of unrealized capital gains into projects, businesses, and property development in areas still struggling to grow, even with our strong economy.

Opportunity Zones are economically-distressed census tracts where new investments, under certain conditions, may be eligible for preferential tax treatment. Certified by Secretary of the U.S. Treasury (Treasury), the zones are intended to support economic development efforts by providing tax benefits to investors.

**Rob Hooper**
**President & CEO**

Investments made in projects located in Opportunity Zones must be made through an Opportunity Fund. An Opportunity Fund is an investment vehicle set up as either a partnership or corporation for investing in eligible projects located in an Opportunity Zone. Currently, U.S. Internal Revenue Service (IRS) is developing the process and regulations for establishing and administering an Opportunity Fund.

An unrealized capital gain occurs when the profit resulting from an investment, such as shares of a company's stock increasing in value, exists on paper. Once the gain is sold in exchange for cash, it then becomes realized and is subject to the capital gains tax.

Over $3 trillion in unrealized capital gains is currently estimated to be held in investments simply to postpone this tax burden. The Opportunity Zones program offers significant tax incentives for realized capital gains that are quickly and properly reinvested into designated Opportunity Zones. There are three types of incentives:

1. Temporary Deferral - Investors can defer tax on any prior gains until the earlier of the date on which an investment is sold or exchanged, or December 31, 2026, so long as the gain is reinvested in a qualified Opportunity Fund.

2. Step-up in Basis - A step-up in basis for capital gains reinvested into an Opportunity Fund is a readjustment of the value of an appreciated asset for tax purposes. The basis is increased by 10% if the investment is held for 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

3. Permanent Exclusion – Investors may earn a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for 10 years. This only applies to gains accrued after an investment in an Opportunity Fund, not the original gains.

The 2018 Opportunity Zone nominations by the Governors of each state, territory or commonwealth were limited to no more than 25% of eligible census tracts. Nevada had 243 eligible census tracts, and Governor Sandoval nominated the maximum of 61 tracts. All 61 tracts were certified by Treasury.

The Governor's Office of Economic Development (GOED) facilitated the nomination process. This included seeking public comment and soliciting input from the Regional Development Authorities, including NNDA, before proposing eligible census tracts for Governor Sandoval's consideration. GOED's recommendations to the Governor were based on potential and probable projects and investment for each eligible tract.

NNDA provided feedback about 10 eligible census tracts in the Sierra Region. These either had already submitted projects for approval to county planning departments or were under serious consideration or evaluation for potential projects. The Governor elected to include 4 of the 10 tracts suggested by NNDA, as part of his 61 nominated tracts. All 4 Sierra Region tracts were certified by Treasury.

While more than 75% of certified tracts are located within metropolitan areas, Opportunity Zones are nearly evenly split between urban zip codes and rural ones. The remaining zones are within suburban communities. Certified Opportunity Zones have both high need and demonstrated growth potential, with 75% located in zip codes that experienced at least some employment growth from 2011 to 2015.

Across the U.S., Governors in 26 states, including Nevada, nominated census tracts which included Tribal areas. 248 tribal census tracts received at least one Opportunity Zone designation. The Pyramid Lake Paiute Tribal community was one of Nevada's 61 nominated and certified Opportunity Zones.

Now that the first phase of the program has designated the initial group of Opportunity Zones, the emphasis can shift to engaging the marketplace and recruiting investment. Treasury and the IRS need to provide technical rules and guidance which give investors more clarity, which they will do through the rulemaking process.

Opportunity Zones are a new asset class that hopes to generate a new market. NNDA has been involved in the process from the beginning and continues to be through the rulemaking phase. We plan to leverage and maximize the potential of these zones for the Sierra Region. This includes supporting the emergence of an Opportunity Zone investment ecosystem, and working with state and local leaders to develop the necessary strategies. The work is just beginning!

For more information and resources, NNDA suggests visiting EIG.ORG