

Opportunity Zones can deliver significant tax savings on medium- to long-term investments in economically disadvantaged communities. This new tax incentive pertains to both the capital gains invested initially through a qualified opportunity fund (QOF), as well as future capital gains earned on the original investment in zone-based businesses or projects.

Each zone consists of an entire census tract, as established for the decennial U.S. Census. Tracts vary in size but generally align with population density. Oregon has 834 census tracts, more than 300 of which were eligible by meeting the definition of a "low income community" in terms of median family incomes or poverty rates. Oregon could nominate up to 86 zones, as each state was allowed up to 25% of its low income communities for designation.

The designations are in effect until December 31, 2028, and offer a predictable basis for private investment decisions over several years. Current federal law provides no means to change or add zones. As such, Oregon's nomination process entailed thorough analysis of all relevant census tracts for their potential to be used and to address economic needs, as well as extensive outreach to the general public, federally recognized Indian Tribes, local governments, and other parties over a 3-month period. Aside from the opportunity zone nomination process, state government does not have an ongoing, official role under federal law.

The private capital for projects or businesses in a qualified opportunity zone will arise primarily from the unrealized capital gains of U.S. taxpayers—that is, the increased value of assets (stocks, land, etc.) since they were originally purchased by the individual or corporation currently holding the asset. When an asset is sold and the gains realized, an income tax liability is normally generated.

With the opportunity zone incentive, the capital gains arising from sale to an unrelated person that are then transferred into a qualified opportunity fund within 180 days will have their tax liability delayed or deferred until December 31, 2026, at the latest. The taxpayer decides how much of his/her newly realized gains to invest, when to sell or exit that investment, or even whether to invest other moneys alongside (which would not receive these tax benefits).

In addition to deferring income taxes, by the time the investment of tax-deferred capital gains in the opportunity zone is sold or the end of 2026, whichever is earlier:

- The amount subject to taxes shrinks by 10% if the investment has been held for at least five years by 2026 (invested by 2021).
- The amount subject to taxes also shrinks to the fair market value of the investment if less than its original value.

If the value of the investment of capital gains appreciates after having been held for at least 10 years in the QOF, then those new capital gains earned in the zone are themselves completely tax free. Otherwise, the net income or proceeds generated by a zone investment are taxable. This 10-year hold on the investment in the QOF must begin on or before December 31, 2026, and the investment or interest in the QOF must be disposed of or liquidated or the gains realized on or before December 31, 2047.

Investors seeking to maximize the after tax return on their tax deferred gains could put money into qualified opportunity zones anywhere in the country, or they might be able to choose qualified opportunity funds that have a regional or other type of emphasis. Despite sharing some common geography, these tax benefits work quite differently from New Market Tax Credits, or for that matter, from any other federal program or incentive. Regulations and other guidance issued by the Internal Revenue Service (IRS) have addressed critical details.

The above information was provided by Business Oregon

https://www.oregon.gov/biz/programs/opportunity_zones/pages/default.aspx