Will Opportunity Zones Help Distressed Residents or Be a Tax Cut for Gentrification?

States are fast approaching a deadline set by the new tax law to designate low-income neighborhoods as “Opportunity Zones”—a designation that will unlock favorable capital gains treatment for investments in those areas. Supporters say this will help revitalize distressed communities, but there is a risk that instead of helping residents of poor neighborhoods, the tax break will end up displacing them or simply provide benefits to developers investing in already-gentrifying areas.

Unfortunately, the evidence on the benefits of existing place-based policies is inconclusive. To understand whether Opportunity Zones are effective—and worth extending when key benefits come up for renewal as soon as next year—states have only a short window to act to incorporate evaluation mechanisms into their selection process. States and the District of Columbia must select qualified neighborhoods for Treasury’s approval by March 21. Only one in four low-income areas in any state can be designated as an Opportunity Zone, so states must reject more neighborhoods than they select. This is a perfect opportunity to build in a rigorous comparison of places that made the cut to those that did not, to see whether the program helps residents of low-income communities, which elements are effective, and whether it should be renewed.

For background, Opportunity Zones offer favorable capital gains treatment for taxpayers who invest in designated high poverty neighborhoods. Invest in real estate or businesses located in a qualified zone, hold it for ten years, and not only can you sell your investments free of capital gains tax, but you also you get a tax break on untaxed capital gains rolled into an Opportunity Zone investment. Individuals in a high-tax state and with short-term capital gains can avoid $7.50 in taxes for each $100 they invest, even before considering any return on their Zone investments. It’s very favorable treatment.

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by Adam Looney

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