
‘Opportunity Zones’ Rules Help Bring Program Into Sharper Focus.

Proponents of the initiative believe it could attract billions of dollars of new investment to struggling communities.

Rules for the Opportunity Zones program issued by the U.S. Treasury Department on Friday provided substantial new insights into how the recently launched economic development initiative will work, but also leave a number of significant questions unanswered.

The proposed rules focus on two broad areas: the establishment and operation of the special funds that can make investments through the program, and the tax breaks for capital gains that individual taxpayers and companies funnel into those funds.

Proponents of the program have high hopes for the sums of money that it could attract in the years ahead to businesses and real estate projects in struggling communities across the U.S.

“We anticipate that $100 billion in private capital will be dedicated towards creating jobs and economic development in Opportunity Zones,” Secretary Steve Mnuchin said about the program, which was created as part of last year’s massive federal tax overhaul.

Senior Treasury Department officials said during a conference call with reporters on Friday that the draft guidelines should provide enough information for so-called Opportunity Funds to confidently begin operating, and for taxpayers to invest in them.

Treasury expects to issue a second round of guidance before the end of the year. One of the officials on Friday’s call said they anticipate that the draft rules issued this week could be finalized by spring, following a 60-day public comment period.

Steve Glickman, founder and CEO of Develop LLC, an advisory firm for Opportunity Zones investors, said he expects that the first round of rules will help to get more real estate investors off the program’s sidelines. “They’ve been waiting for these regs,” he noted.

But the big money that could flow toward the program, according to Glickman, is sitting with major institutional wealth managers, who generally handle investments for entities like endowments, commercial banks, pension funds, and insurance companies.

“They’re not going to invest until they feel like they’ve got as much regulatory clarity as is feasibly possible,” he said. “They’re going to continue to wait.”

A basic but important issue that the proposed rules clarify is that only capital gains, from the sale of assets like stock, are eligible for the tax breaks afforded under the program.

Taxpayers who qualify to make investments include individuals, corporations, partnerships, regulated investment firms, real estate investment trusts, and estates and trusts.

Investments through the program can’t be issued as debt. They have to be equity investments, like stock or a partnership stake in a business.

Route Fifty

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