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Potential Flaws of Opportunity Zones Loom, as Do Risks of Large-Scale Tax Avoidance.

The 2017 tax law created a new tax break to encourage investment in low-income areas ("opportunity zones") but, as high-profile Wall Street, Silicon Valley, and real estate investors rush to profit from it, critics are raising sensible concerns about the policy:

- The law enabled state policymakers to designate relatively affluent areas as opportunity zones, which could divert investment from truly disadvantaged communities.
- While the new tax break enables investors to accumulate more wealth, it includes no requirements to ensure that local residents benefit from investments receiving the tax break. Thus, this tax break could amount to a "subsidy for gentrification" in many areas instead of, as intended, for providing housing and jobs for low-income communities.[1]
- Potential loopholes in the law and an initial set of proposed Treasury regulations — which investors are now lobbying to re-shape — could enable investors to secure the tax benefits while generating little real economic activity in the opportunity zones. The scope of potential tax avoidance — an issue that hasn't received enough attention to date — will become clearer as Treasury finalizes its first set of regulations and releases additional guidance on how to comply with the law.
- The new tax break will cost an estimated $1.6 billion in lost federal revenue over ten years, according to Congress' Joint Committee on Taxation,[2] but the costs could be significantly higher after the first decade because, as explained below, some of the most generous tax benefits extend far into the future.[3] Moreover, the extent to which the $1.6 billion figure accounts for large-scale tax avoidance isn't clear.

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BY SAMANTHA JACOBY

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