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Opportunity Zones: Making Them Work for Minnesota.

Opportunity zones will be in the news over the next few months. Since opportunity zones have the potential to affect communities across the state, now is a good time to learn a little bit about what they are, how they might work, and what they may mean for Minnesota communities.

Opportunity zones were created in December of 2017 through a bipartisan effort to guide more investment into low-wealth communities.1 States may designate eligible census tracts as opportunity zones, and taxpayers with capital gains can defer paying taxes on those gains by investing in opportunity funds that support investments in the in opportunity zones. These funds can be used for activities including commercial real estate development, infrastructure, housing, and business development. If an investor stays in an opportunity fund, their capital gains taxes are reduced over time. Additionally, the investor does not pay any tax on the gains earned on the opportunity fund investment if they stay invested for ten years.

Driving private investment in low wealth communities is intended to ensure that places that have suffered from a lack on investment capital are able to benefit and grow. The State of Minnesota designated a range of census tracts as opportunity zones including both urban and rural communities following consultation with local governments.2 However, designating a census tract as an opportunity zone does not mean that any investment will happen in that tract. Decisions about where investment occurs will be based on the interests and needs of the investors. Areas that are attractive targets for investment are those that are likely to have the highest financial returns for investors. This has raised fears that opportunity zones could be an investment vehicle that encourages gentrification and displacement.3 Meanwhile disinvested rural areas are unlikely to attract investment without substantial mission focused effort and targeted efforts by local partners.

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