What You Need to Know About the New Opportunity Investment Draft Form.

In October, the U.S. Treasury Department released a draft form designed to help it and the IRS collect information about how opportunity zone investments — a concept established by the 2017 Trump tax cuts — are affecting the economy. If implemented, it will gather data about whether these investments are living up to the project's original goal, which is to spur economic development in undercapitalized American communities.

What Are Opportunity Zones?

The opportunity zone concept comes from the Trump tax cuts — introduced in Congress as the Tax Cuts and Jobs Act (or TCJA) — passed in December of 2017. The zones are designed to encourage investment in areas that are federally certified as economically distressed.

Investors can sell stocks or other investments and assets and delay the capital gains tax they would normally pay on those investments, so long as they invest the proceeds into an opportunity zone. Profits made from projects in these zones can be written off entirely and results in reduced or no federal tax. These projects can include stock or partnership interests held in local businesses, as well as direct ownership of companies in opportunity zones.

The first set of opportunity zones, designated shortly after the passage of the tax breaks, only covered 18 states. Now, there are more than 8,700 opportunity zones across all 50 states — roughly 12 percent of all census tracts.

The opportunity zone investment idea was one of the few components of the tax cuts that were met with bipartisan support.

However, even the idea's supporters were concerns that the concept didn't have much in the way of guidelines. As the legislation was written, the IRS and Treasury were not required to collect information on where the opportunity zone investment money was going. It was not clear what sorts of projects were being constructed as a result of the tax break.

Treasury outlined new regulations on opportunity investment since the spring. There has also been pressure from Congress. The draft form comes after a bipartisan group of lawmakers — including presidential candidate Cory Booker — introduced legislation that would require the IRS to collect information about opportunity zone investment. It's not clear when the bill will be voted on, but the Treasury has already moved to start collecting information about opportunity zone investments.

Breakdown of the Opportunity Investment Draft Form

The draft form is designed for the 2019 tax year, but it's not clear when Treasury will begin requiring taxpayers to disclose this additional information about their opportunity zone investments. The form primarily requires corporations and partnerships to do so.

Under the form, corporations and partnerships would be required to report employer identification numbers for each business in which they hold stock or partnership interest. They would also be required to report the census tract number the investment is in, as well as its overall value.

The form would also collect information about businesses in which corporations and partnerships hold a direct stake.

Because no instructions have been published for the form yet, it's not clear what noncompliance will mean for taxpayers. The IRS may leverage a penalty or fine if a corporation or partnership fails to properly disclose all its opportunity zone investments.

Treasury noted that the information collected as a result of the draft form would be available to lawmakers.

What Investors Need to Know About Opportunity Zones

It's not clear when the IRS will begin requiring taxpayers to report additional information about their opportunity zone investments. The draft form is designed for the 2019 tax year, but taxpayers may not have to worry about providing more details just yet.

Lawmakers, in the meantime, will likely continue to push for stricter regulations on opportunity zones and look to pass laws that require the IRS and Treasury to ensure compliance with the provisions established under TCJA.

Tech Bullion

By Kayla Matthews

November 14, 2019