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Deriving Maximum Benefit from Rural Opportunity Zones

The establishment of Opportunity Zones was intended to encourage long-term investments in underserved, low-income communities by establishing a way to reduce an investor's capital gains.

The 2017 Tax Cuts and Jobs Act allowed state governors to nominate census tracts as Opportunity Zones, with up to 25% of a state's low-income census tracts to be eligible for designation. Indiana Governor Eric Holcomb nominated 156 census tracts as Opportunity Zones, which were a mix of underserved urban and rural tracts across the state. Investors interested in taking advantage of the Opportunity Zone tax break must do so through a qualified "Opportunity Zone Fund" investment.

The Treasury Department recently finalized Opportunity Zone regulations and many investors have set up qualified Opportunity Zone funds to take advantage of the legislation. Most of these funds are set up to invest in traditional residential and commercial real estate opportunities by refurbishing or rebuilding low-income properties in underserved communities.

This standard model of real estate investment in underserved communities presupposes that most of the investments occur in urban areas where increases in rental income can be offset by larger, more affluent populations. Investors in these properties will manage the property for ten years and then look to sell them, capturing any incremental gain on the post-acquisition economic appreciation. This type of capital gain will be tax free.

However, this investment model does not work well in underserved, rural areas where the population is disbursed over a large area. In these circumstances, revenues from an improvement of a single property will not significantly, nor beneficially, move the needle on property tax revenues. These communities require sizable investments from external capital sources to grow the local tax base immediately and over the long-term. Opportunity Zones in rural communities are now best positioned to add sizable industrial and infrastructure projects to their portfolios.

Currently, rural Opportunity Zone areas have been the target of warehouses, distribution centers, wafer manufacturers, plastic recycling plants, and other similar commercial and industrial projects. However, the future of rural Opportunity Zone development lies within the solar energy infrastructure industry. Solar panel farms in underserved, rural Opportunity Zones offer an attractive package of economic development, significant increases in local property tax base, direct payments to landowners above "farming margin," lower electricity costs to all ratepayers, and reductions in environmental issues.

With these important benefits in combination with stackable federal tax benefits (e.g. Investment Tax Credits and Bonus depreciation), solar panel farms can provide the next generation of Hoosiers with a low-cost, long-term energy solution that will improve the economies and environmental health of rural communities throughout the state of Indiana.

Inside Indiana Business

By Tim O'Hara, Managing Director, Energy Systems Network

Thursday, April 9th 2020, 10:19 AM EDT

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