

# Opportunity Zones

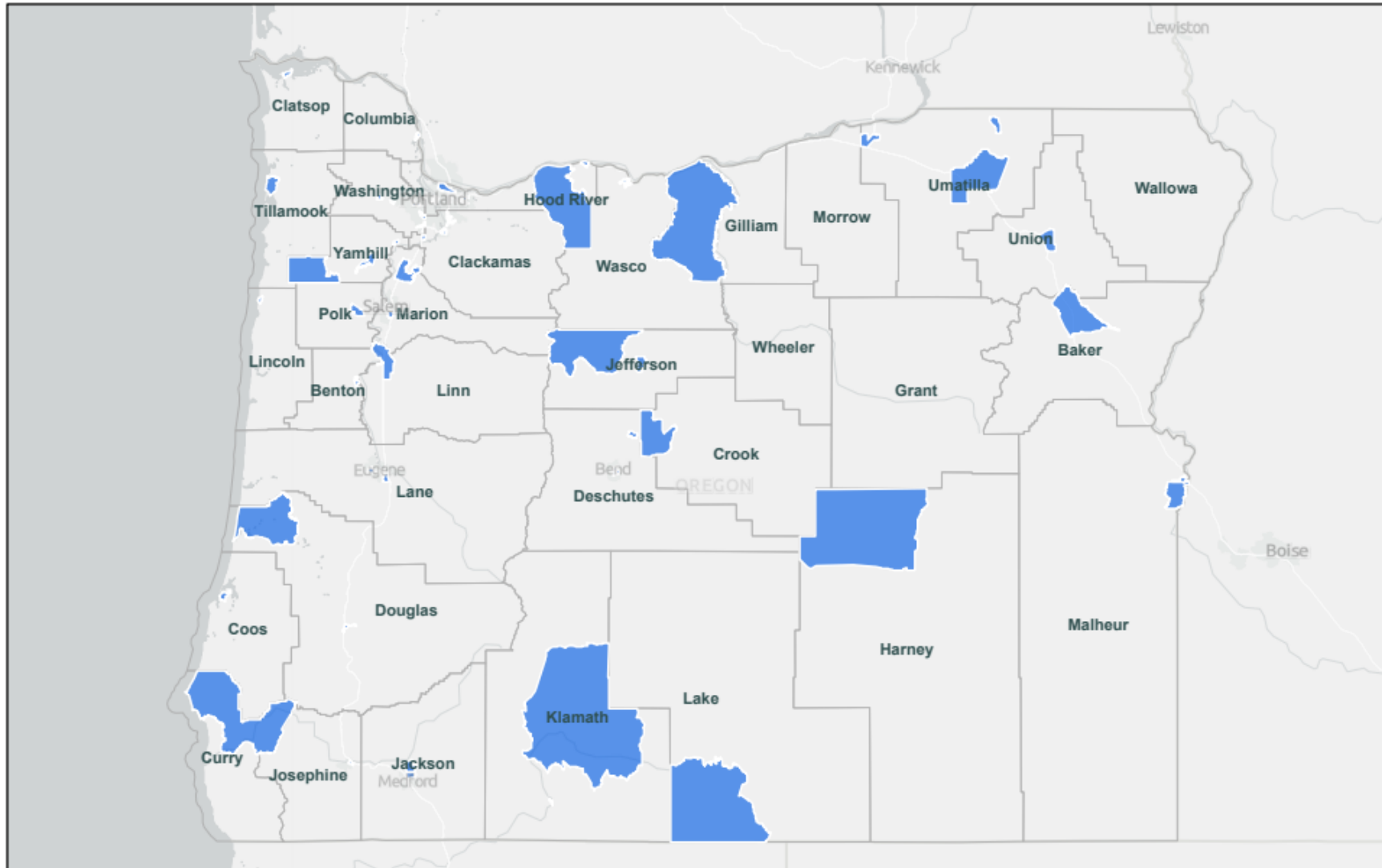
Oregon's O-Zones and Associated Tax Incentives

Legislative Revenue Office

# The Opportunity Zone Program

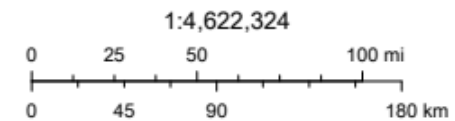
- Part of federal TCJA
- Federal: identify eligible low-income communities
- States: choose set of designated O-Zones from eligible communities
- Provides tax incentives for investment into low-income areas

# Oregon O-Zones

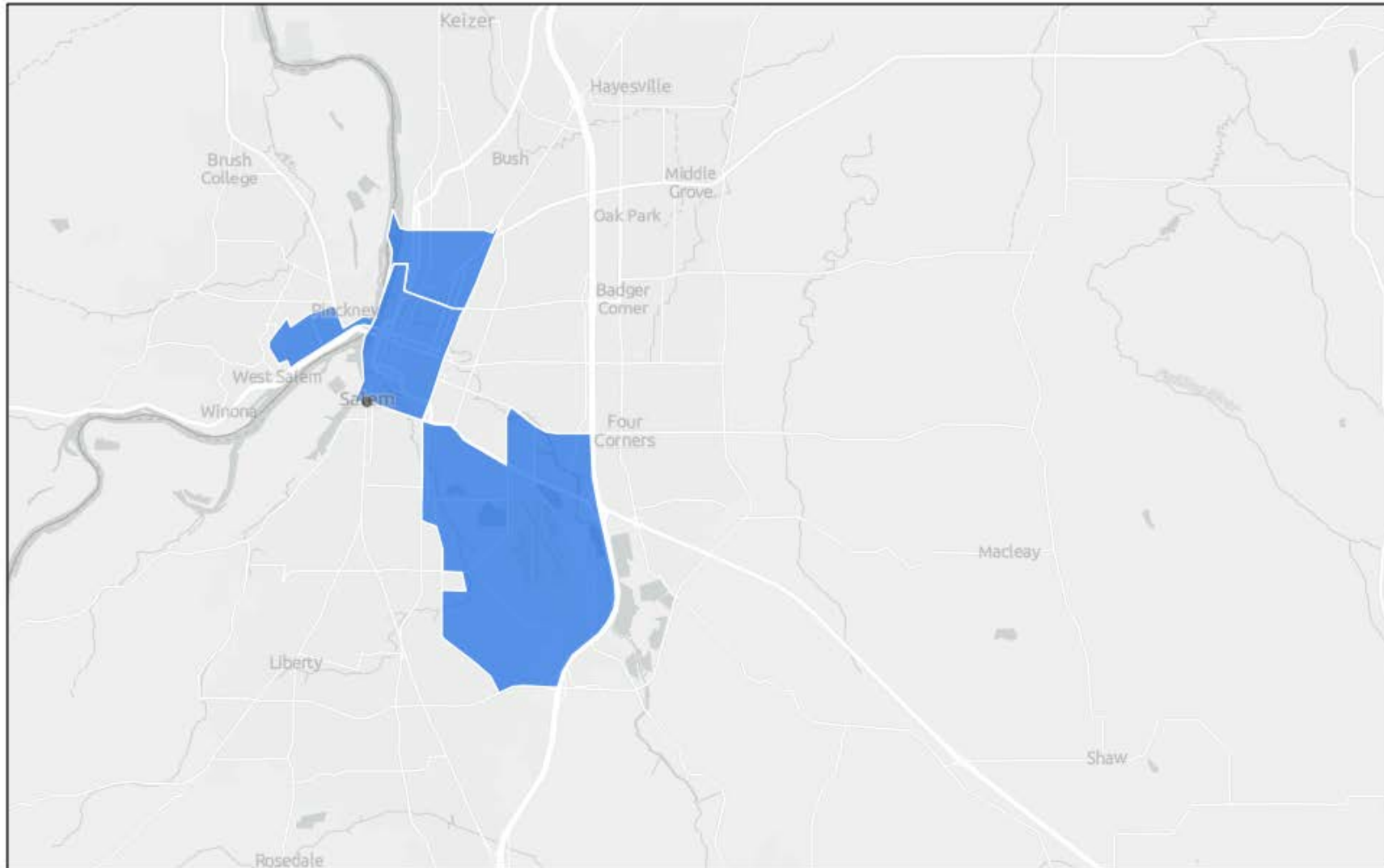


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- Opportunity Zones
- Counties

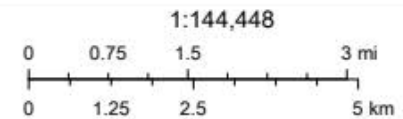


# Salem O-Zones

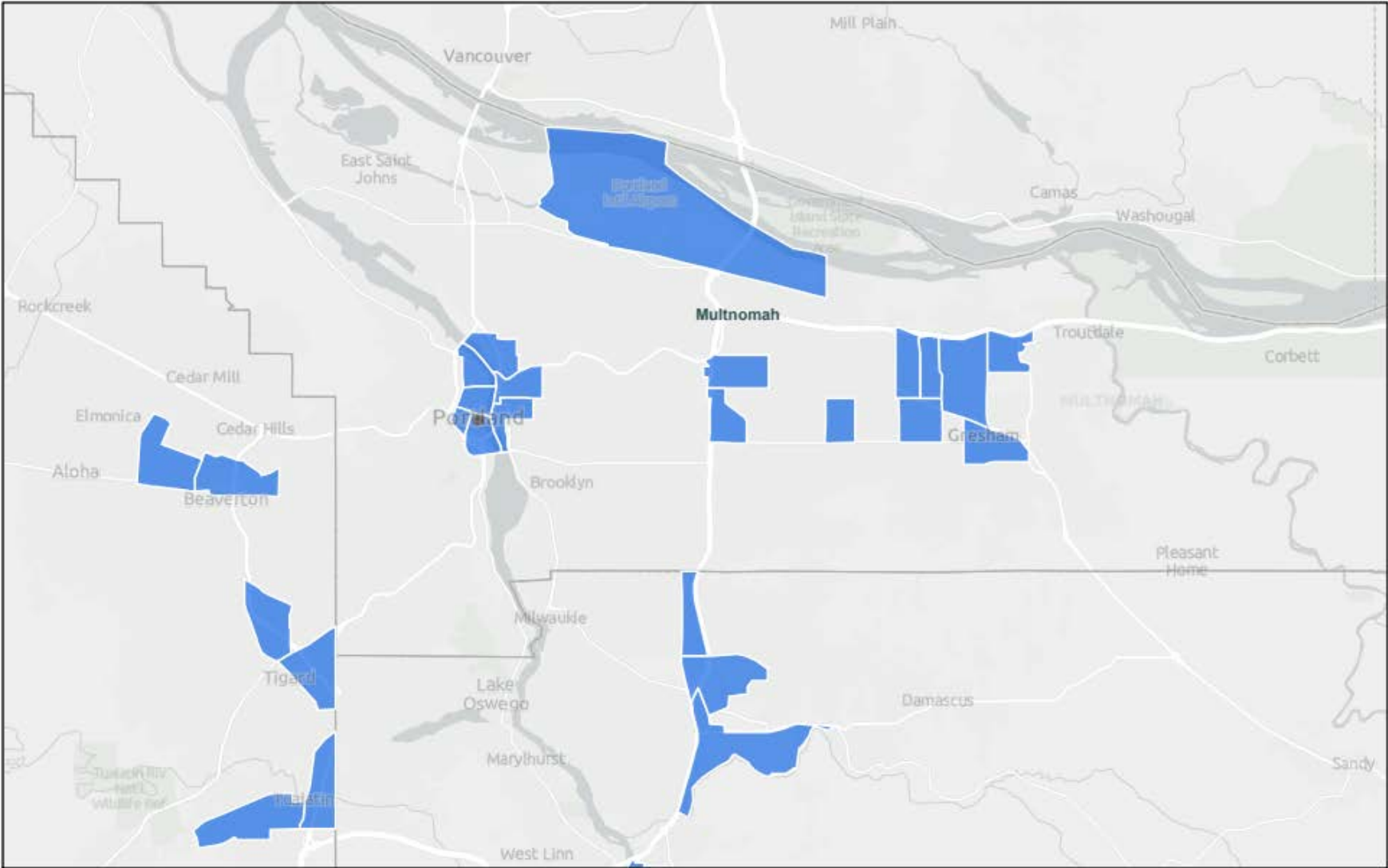


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- Opportunity Zones
- Counties

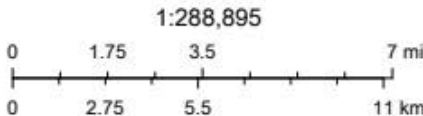


# Portland O-Zones



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 Opportunity Zones  
 Counties



# How Investment Works



# Opportunity Zone Tax Incentives

- **(1) Deferred tax on capital gains**
- **(2) Increase in basis on initial capital gain**
  - Capital gains = sale price of asset – basis
- **(3) O-Zone investment is not subject to capital gains tax when sold**
  - 10 year holding requirement for investment

# Opportunity Zone Tax Incentives

## Example of (1)

- (1) Deferred tax on capital gains
- Individual A sold stock on January 1, 2019 and received \$1,000,000 in capital gains income
  - Individual A initially paid \$3 million for the stock and sold the stock for \$4 million
  - \$4 million - \$3 million = 1 million in *capital gains*
- Individual A invests that \$1 million into an O-Zone within 6 months
- Now individual A excludes the \$1 million from gross income on 2019 tax return



# Opportunity Zone Tax Incentives

## Example of (2)

- (2) Increase in basis on initial capital gain
  - 5 years → 10% increase in basis
- Individual A holds investment 5 years then sells
  - 10% increase in basis
  - Capital gains= sale price of asset – basis
    - At the time of the initial investment, individual A had \$1 million in capital gains
      - \$1 million = \$4 million - \$3 million
    - After holding investment for 5 years
      - Capital gains= sale price – (basis + 10% of initial capital gains)
      - Capital gains= \$4 million – (\$3 million + \$100,000)
      - Capital gains= \$900,000
  - Taxable capital gains initially= \$1,000,000
  - Taxable capital gains after 5 years= \$900,000

# Opportunity Zone Tax Incentives

## Example of (3)

- (3) O-Zone investment is not subject to capital gains tax when sold
  - 10 year holding requirement for investment
- Now suppose individual A keeps the investment for 10 years or longer
- When individual A sells the investment, the basis becomes equal to the sale price
  - → Individual A has no capital gains from this sale no matter the sale price
    - Capital gains = sale price – basis
    - Capital gains = \$1.5 million – 1.5 million .....because after 10 years sale price = basis

Oregonian investing \$1 million into an O-Zone holding investment 10 years

**No Policy Change**

Defer federal and state tax on capital gains until sale *or* 2026

2026:

- Pay capital gains tax on 85% of initial investment at federal level.
- Income is also taxed within Oregon since part of FTI.

2029:

- Investor sells share of Qualified Opportunity Fund and pays no federal capital gains on that income.
- Since excluded from FTI, Oregonians do not pay tax on gains.

**Under HB 2144**

Add back capital gains income excluded from federal income

2026:

- Pay capital gains tax on 85% of initial investment at federal level.
- Oregon subtraction allowed for amount of previous addition.

2029:

- Investor sells share of Qualified Opportunity Fund and pays no federal capital gains on that income.
- Oregon requires addition of capital gains excluded at federal level and ignores basis adjustment.
- Oregonians pay tax on capital gains from O-Zone investment.

## Non-Oregonian

Invest \$1 million in Oregon O-Zone

Defer federal tax on capital gains until sale *or* 2026

2026:

- Pay capital gains tax on 85% of initial investment at federal level.
- **No Oregon tax on non-resident capital gains.**

2029

- Investor sells share of Qualified Opportunity Fund and pays no federal capital gains on that tax.
- **No Oregon tax on non-resident capital gains.**

**Bottom Line**

Only Oregon taxpayers are affected by a disconnect.

# Opportunity Zones

Oregon's O-Zones and Associated Tax Incentives

Legislative Revenue Office

# Opportunity Zone Tax Incentives

## Example of (2)

- (2) Increase in basis on initial capital gain
  - 7 years → additional 5% increase in basis, 15 % total
- Individual A holds investment 7 years then sells
  - 15% increase in basis compared to initial
  - Capital gains= sale price of asset – basis
    - At the time of the initial investment, individual A had \$1 million in capital gains
      - \$1 million = \$4 million - \$3 million
    - After holding investment for 7 years
      - Capital gains= sale price – (basis + 15% of initial capital gains)
      - Capital gains= \$4 million – (\$3 million + \$150,000)
      - Capital gains= \$850,000
  - Taxable capital gains initially= \$1,000,000
  - Taxable capital gains after 5 years= \$850,000
  - **Recall, the deferred capital gains must be included in taxable income by 2026 even if the investment still exists**