4 ways "Opportunity Zones" squelch real opportunity

Commentary

April 1, 2019By Daniel Hauser and Juan Carlos Ordóñez

The Oregon legislature is debating whether our state should go along with tax breaks for the wealthy through so-called "Opportunity Zones," a provision in the 2017 Trump tax scheme. Because Oregon automatically connects to the federal definition of taxable income, we often get stuck with new tax giveaways created by Congress, unless state lawmakers choose to disconnect from them. Opportunity Zones is such a tax giveaway — one that gives wealthy investors three big tax breaks and works to the detriment of real economic opportunity.

Here are four reasons why Oregon lawmakers should disconnect from the Opportunity Zones tax giveaway.

1. Opportunity Zones are a big tax break for the ultra-rich

Opportunity Zones dangle an offer of tax cuts on capital gains income. Capital gains is income derived from the profitable sale of assets such as stocks, bonds, and real estate. What's been labeled Opportunity Zones is a package of three different tax breaks for capital gains income for those who invest in specially designated areas.

Capital gains income mostly flows to the rich. The richest 1 percent of Oregonians together collect about three-fifths of all capital gains income.

But look closer and you'll see a far more skewed picture. The richest one-tenth of 1 percent (or 0.1 percent) of Oregonians together collect about the same amount of capital gains income as the bottom 99 percent of Oregonians. Put another way: If there were exactly 1,000 Oregonians, the richest person would take about the same amount of capital gains income as the poorest 990 Oregonians.

Clearly, the biggest beneficiaries of Opportunity Zones won't simply be the rich — it will be the ultra-rich.

2. Opportunity Zones waste precious tax revenue on investments that would happen anyway

Business tax incentives are, by-and-large, a waste of money, subsidizing investments that would happen anyway. That is likely to be true with much of the subsidies for Opportunity Zones, especially in Portland, one of Oregon's biggest destinations for investment dollars. The state designated as an Opportunity Zone parts of Portland's downtown and inner-eastside — ground-zero in a city already gripped by a building boom.

federal tax breaks are more likely to drive investment decisions. Any morsels of its own that Oregon throws to investors will only squander taxpayer dollars.

3. Opportunity Zones rob from schools and other services that truly promote opportunity

Someone will have to pay for the subsidies going to the wealthy investors profiting from Opportunity Zones, and that someone will be schools and essential services. In the coming budget period, Opportunity Zones will siphon nearly $16 million from the state budget, the main source of funding for K-12 education. Thus, they will undermine those services that create real opportunity.

Although Opportunity Zones are expected to have a modest cost in this budget period, when the legislature is schedule to decide on whether to go along with the scheme, the costs will explode in the future.

Opportunity Zones are not one, but three different tax breaks for capital gains income. They include a deferral of capital gains from a prior investment, a reduction in the basis of that prior capital gain if the Opportunity Zone investment is held for at least five years, and the full exemption of capital gains from the Opportunity Zone investment if held for at least 10 years. It's hard to forecast how much wealthy Oregonians will plow into Opportunity Zones, making it difficult to estimate how much this scheme will cost down the road. However, we do know the design of the subsidy makes it so the full impact won't be felt until five, seven, or 10 years out. What started as a trickle could well become a flood.

In short, Opportunity Zones will take real opportunity away from current and future generations of Oregonians.

4. Opportunity Zones risk displacing residents from their communities

Rather than help low-income residents of neighborhoods designated as Opportunity Zones, the tax scheme could end up chasing them out. The influx of dollars into distressed communities, many fear, could accelerate gentrification, That's the process whereby wealthier residents move into a previously low-income neighborhood, pushing up rents and, eventually, pricing out long-term residents — often people of color.

While Oregon can't entirely undo this wasteful tax scheme concocted by the Trump administration, it can refuse to be stuck with the bill. Oregon lawmakers should disconnect from the tax breaks for Opportunity Zones that would undermine real economic opportunity for Oregonians.

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