

Opportunity Zones

ANOTHER TAX-AVOIDANCE
DEVICE

Supporters of HB4010



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Tax Fairness Oregon

Oregon Center for Public Policy

Service Employees International Union 49

Oregon School Employees Association/AFT Local 6732

Main Street Alliance of Oregon

Portland Jobs with Justice

Human Services Coalition of Oregon

Unitarian Universalist Voices for Justice

Onward Oregon

Oregon Education Association

United Food and Commercial Workers 555

Oregon AFL-CIO

League of Women Voters

American Association of University Women of Oregon

Oregon Women's Rights Coalition

Oregon Coalition of Christian Voices

Ecumenical Ministries of Oregon

Why we support disconnection

- A device for avoiding capital gains taxes
- Benefits available for one-tenth of the state
- Cost is unknown, but in the tens of millions -- at least
- Oregonians needn't invest here to get Oregon tax breaks
- Another example that tax system is unfair

The Zones are for “winners”

Designed by Congress, 8,766 areas (86 in Oregon):

- Are already targeted for “mutually reinforcing state, local, or private economic development initiatives”
- “have demonstrated success in geographically targeted development programs such as promise zones, the new markets tax credit, empowerment zones, and renewal communities”

What are Opportunity Funds?

- Privately managed financing vehicles for projects in Opportunity Zones
- A device to reduce taxes on investors

How do Opportunity Funds work?

- Taxpayer sells capital asset (stock, property), invests in projects in Opportunity Zones
 - Defers tax on gain (price less basis) till 2026
 - Tax reduced by 10% (5 years) or 15% (7 years)
 - New investments tax-free after 10 years

Example (current law)

Capital gain: \$1 million (2019)

Tax deferred: \$337,000 (23.8% + 9.9%)

Tax paid in 2026: \$286,450 (\$50,550 reduction)

Tax on O Fund investment gain (2029): \$0

Who benefits from O Funds?

People who:

- Have **unrealized capital gains** and want to defer, reduce and exclude taxes at sale
- Invest in high-margin projects
- Foresee selling Fund shares in a decade

Whose idea was this?

“An unlikely group of billionaires and politicians has created the most unbelievable tax break ever”
– *Forbes*, 7/18/2018

Whose idea was this?

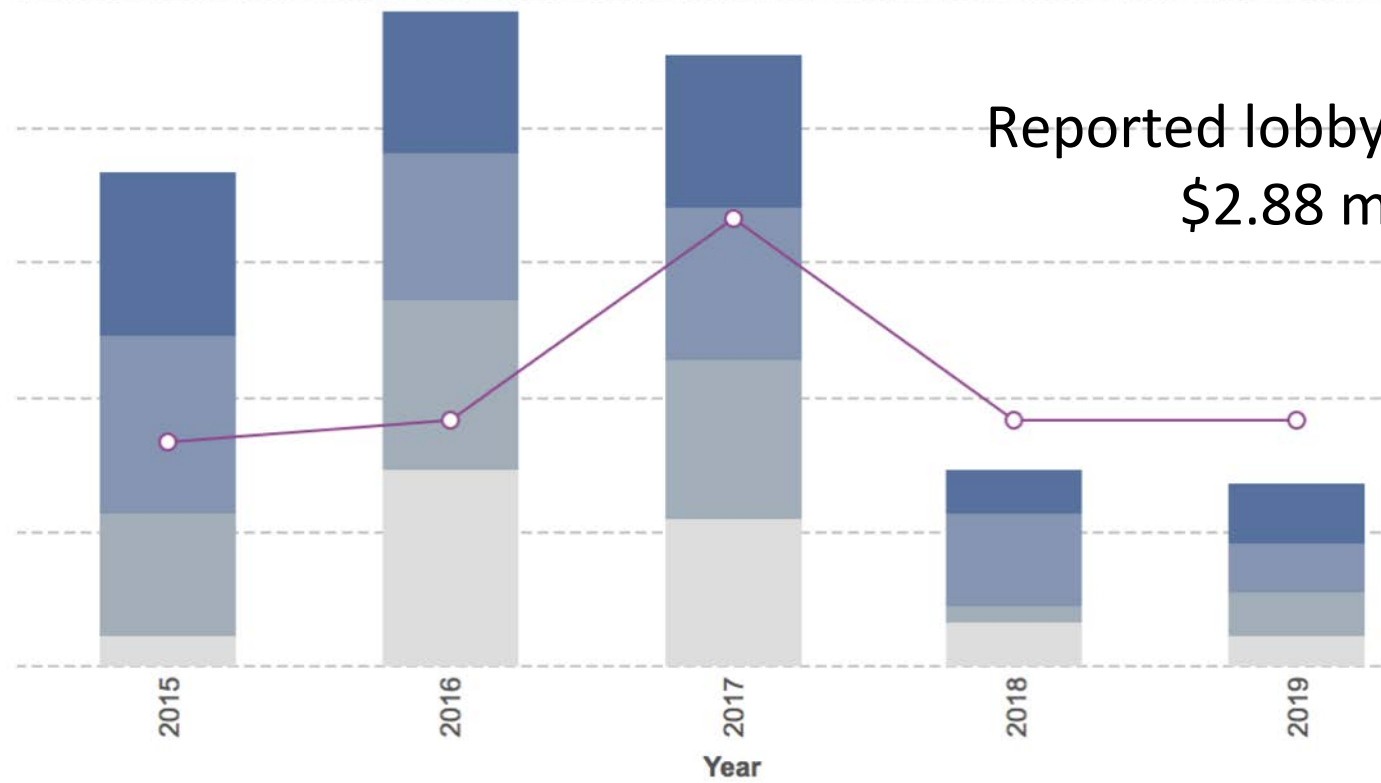


Sean Parker

“When you are a founder of Facebook, and you own a lot of stock,” Mr. Parker said at a recent opportunity-zone conference, “you spend a lot of time thinking about capital gains.”

– *New York Times* 8/31/2019

Economic Innovation Group



■ Mid-Year Report
■ Q3 Report

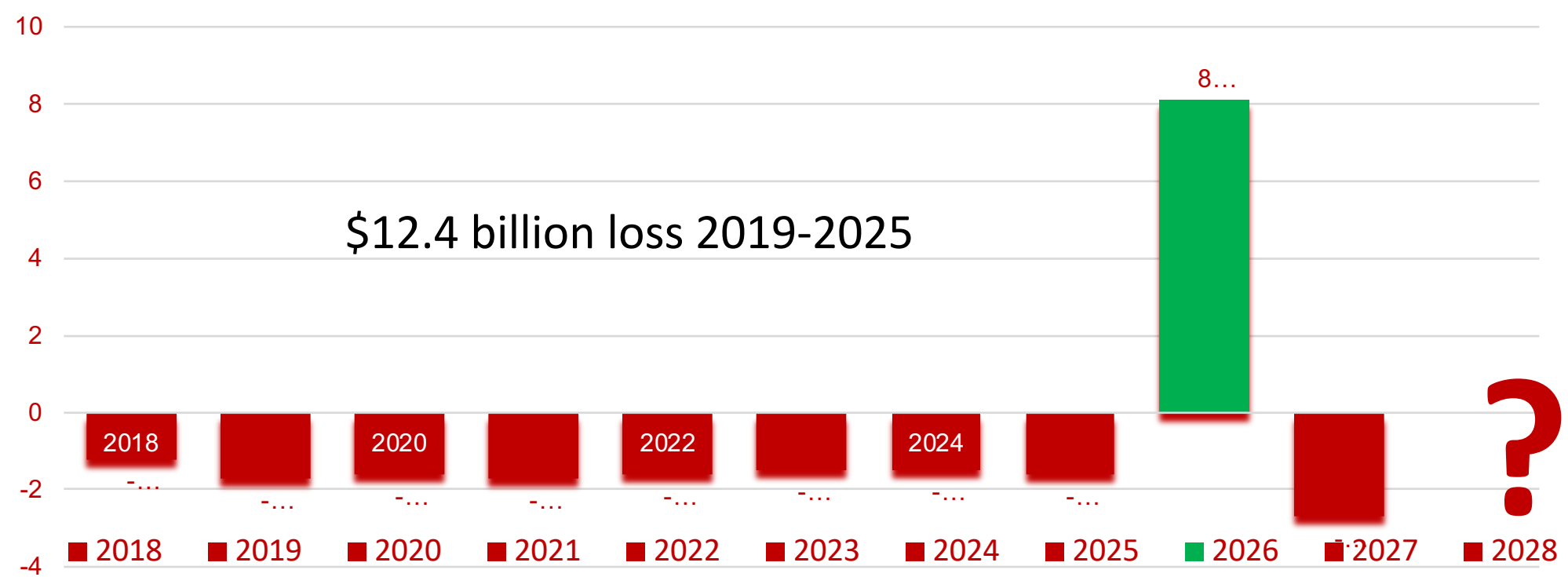
■ Year-End Report
■ Q4 Report

■ Q1 Report
○ Number of Lobbyists

■ Q2 Report

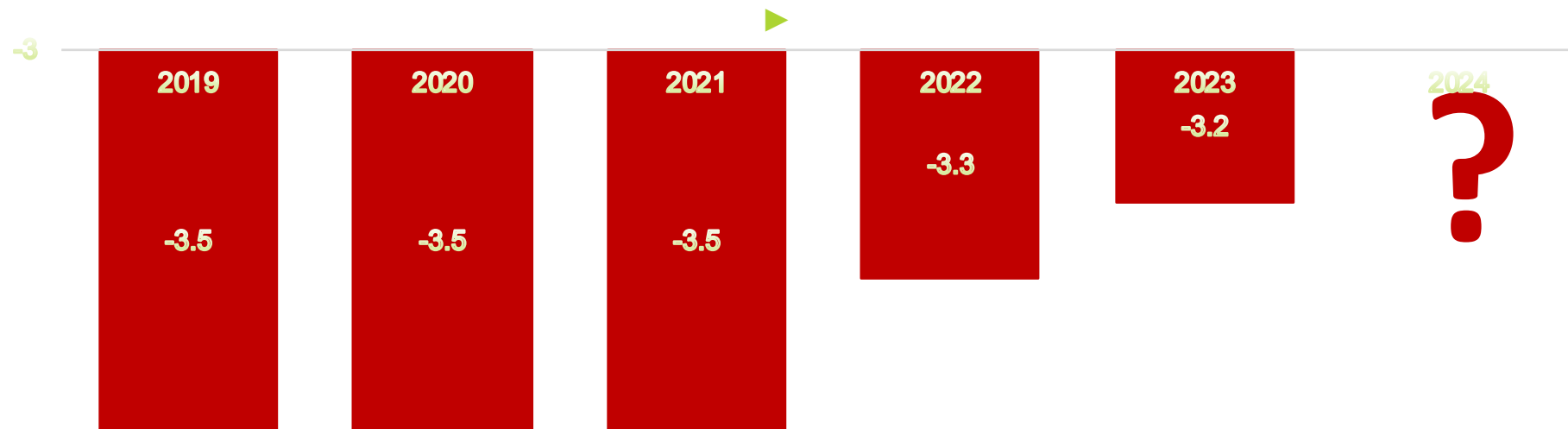
Cost to federal treasury

2018-2027, in \$ billions



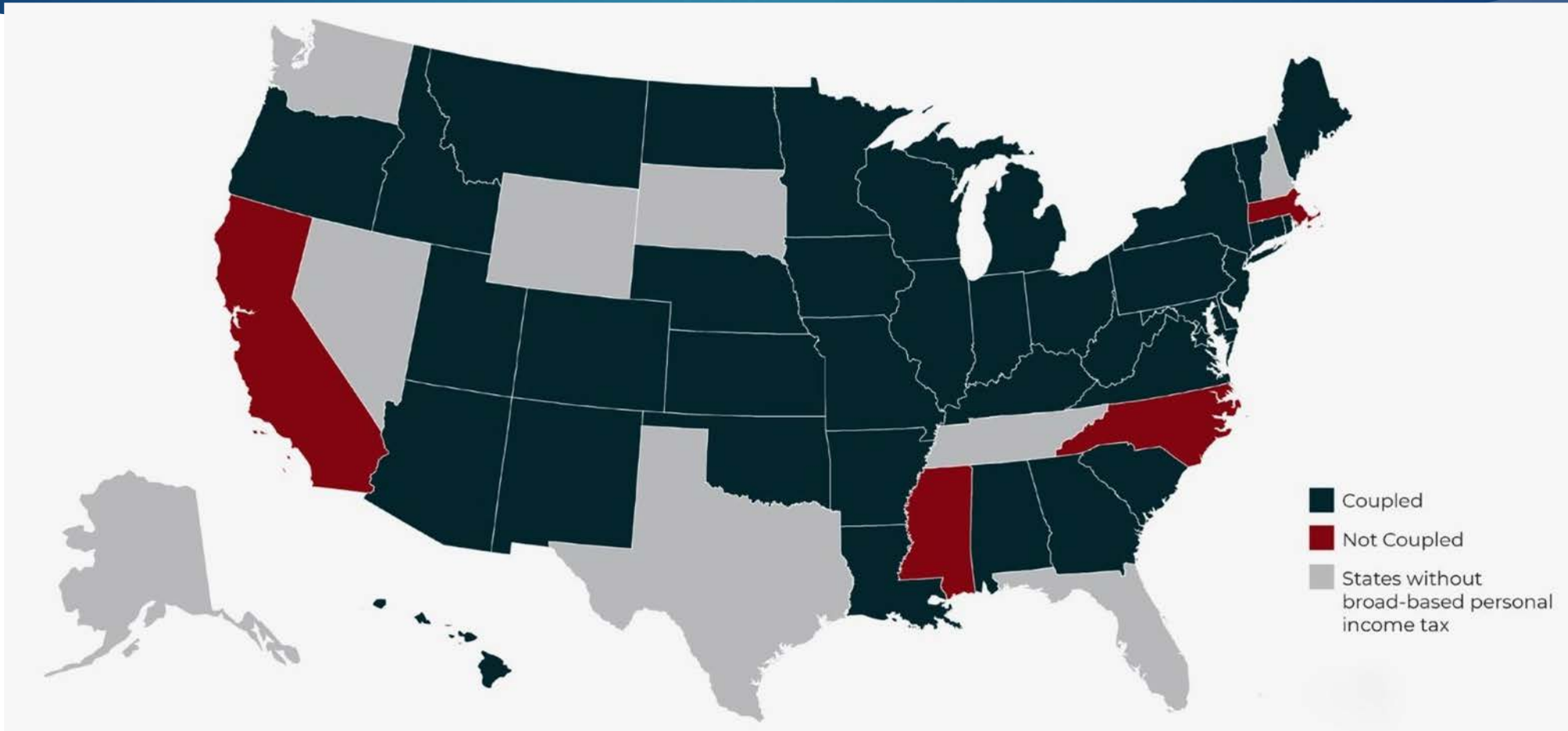
Cost to federal treasury

2019-2023, in \$ billions



\$16.9 billion loss, 2019-2023

State conformity to federal tax benefits



What kinds of investments?

“We are creating institutional quality investment opportunities for high net worth families and family offices.” The tax benefits from QOZs are an attraction, but “they would all have been properties that I would have been interested in acquiring at some point.”

– Avy Stein, Cresset Capital Management

HERE



Ritz Carlton under construction, BPM Real Estate Group, Portland

**NOT
HERE**



Proponents' claim

Tax breaks on **profits** will create a market for investments that are otherwise **not viable**.

The investor's reality

Investor must expect strong capital gains over 10 years

Illiquid investment brings inherent risk

Alternative is stock market

Offers liquidity, diversification, annual return of 7%

Standard investment advice

“Tax benefits don't bail out poor investments”

Investment must be desirable without tax benefit

Most investment will flow out of Oregon

500+ investment funds are selling to:

- High net worth individuals
- Passive investors (corporate executives, professionals, etc.)

Every state has investment opportunities

- Burns, Klamath Falls, Hermiston?

or

- Portland, Seattle, Houston, Dallas, Atlanta, Denver?

Oregon investor cuts OR taxes

“Paul DeMoret . . . recently sold his auto-industry software **company in Oregon**. He said he was using some of those capital gains to help finance a Courtyard Marriott in **Winston-Salem, N.C.**, and an apartment building in **Tempe, Ariz**. He is making the investments through a private equity firm, Virtua Partners.”

New York Times, 8/31/2019

Where does Oregon's revenue go?



Cato Institute

“O Zones are a bad idea and should be repealed. They actively divide the nation between winner and loser communities. They replace equal justice under law with differential treatment based on political pull. The main winners likely are landowners within the zones, not poor households.”

Chris Edwards, director of tax policy studies