HB 4010 Disconnect from the Federal Opportunity Zone tax breaks

Testimony for the House Revenue Committee – Jody Wiser – 2.6.2020

On behalf of Tax Fairness Oregon, I simply want to make one additional point.

One of our TFO members who with her partner is an “accredited investor” has made phone calls to 12 Qualified Opportunity Funds and studied their promotional materials. She has looked into Funds for a single building, and ones for a grouping of buildings, including Funds which purport to be community-needs focused. She has been clear that she lives in a state with income taxes.

In talking with 12 different funds – in Oregon and around the country – she has not had one fund manager mention state tax breaks. Not one.

And where she’s raised the issue, “There’s always a long pause” she told me. “It’s like it’s a question that has never occurred to them. I leave the pause, but they only know how to talk about the federal tax breaks. That’s all they are relying on.”

The chart below or one similar to it is used throughout the investment community when they promote their Opportunity Funds. Looking at the chart, it is clear that only the federal tax consequences are being given consideration by these funds. If local advisors have similar documents that include state tax consequences for their low-profit investments, we’ve not seen them.

The critical factors on the state tax issue is the residency of the investors and the business form through which they invest. New York investors would pay NY taxes, they don’t care about Oregon’s taxes.

Meanwhile, just yesterday Maryland’s legislature began consideration of a bill very like HB4010. It’s time for states to chart their own course and not let our tax laws be dictated by DC policymakers.

Cresset Partners, LLC **After-tax gains on a QOZ Investment can be more than double those of a similar investment without the QOZ benefits. The table below illustrates an investor's potential after-tax returns in a QOZ investment compared to the investment of capital gains in a traditional investment both appreciating at 10%.**

- *Assumes investment is held for 7 years and a 15% step-up in basis is applied to original capital gain that was invested
- **Assumes 10-year holding periods, annual rate of investment appreciation of 10%, and a long-term capital gains tax rate of 23.8%.

Note: The amounts shown are not net of fees and carry in either the traditional investment or the QOZ investment. This is to illustrate the tax benefits of QOZ investments prior to any fee structure

We read the bills and follow the money

Major Benefit to After-Tax Returns	TRADITIONAL INVESTMENT	QOZ INVESTMENT
Invested Capital Gain	$1,000,000	$1,000,000
Less: Capital Gain Tax Investment (23.8%) FEDERAL TAX ONLY	($238,000)	0
After-Tax Investment	$762,000	$1,000,000
Year 10 Value (assumes 10% annual investment appreciation)	$1,976,432	$2,593,742
Less: Year 10 Capital Gains Tax (23.8%) STATE TAX NOT MENTIONED	($289,035)	0
Year 10 After-Tax Value	$1,687,397	$2,593,742
*Less: Cap Gains Taxes on Invested Gains Due on 12.31.26**	0	($202,300)
Total Year 10 After-Tax Value	**$1,687,397**	**$2,391,442**
Total Year 10 After-Tax Net Gain**	**$687,397**	**$1,391,442**

O-ZONE DOUBLES PROFITS