REVENUE IMPACT OF PROPOSED LEGISLATION

82nd Oregon Legislative Assembly
2023 Regular Session
Legislative Revenue Office

Bill Number:	**HB 3039**
Revenue Area:	**Income Taxes**
Economist:	**Kyle Easton**
Date:	**5/16/2023**

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Requires Oregon personal and corporate addition to taxable income for any gain that is excluded from federal taxable income resulting from a qualified federal Opportunity Zone investment. Requires Oregon determination of taxable income to disregard any adjustment in basis resulting from a qualified federal Opportunity Zone investment. Allows subtraction from Oregon taxable income, amounts previously required to be added to Oregon taxable income, if such amounts are included in federal taxable income. Applies to tax years beginning on or after January 1, 2023.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2023-24	2024-25		2023-25	2025-27	2027-29
General Fund	**$9.3**	**$10.1**		**$19.4**	**-$8.1**	**$0.9**

Impact Explanation:

Three tax incentives are associated with qualified Opportunity Zones. First, upon investing capital gains income into a Qualified Opportunity Fund, the investor defers the amount of the capital gains investment in the QOF from their federal taxable income in the year of the investment until investment realization or 12/31/2026. Second, if the investment in the QOF is held for at least five years or at least seven years, the basis on the original gain is increased by 10 percent or 15 percent respectively. Third, QOF investments held for at least ten years and until at least 12/31/2026, are eligible for permanent exclusion of capital gains tax on any gains from the qualified portion of their investment earned within the Opportunity Zone when the QOF investment is sold or disposed.

Beginning with tax year 2023, measure requires capital gains invested in a QOF that would otherwise be deferred until 2026, to be included in taxable income (through required Oregon addition) in the year of realization. Measure eliminates the potential 10 or 15 percent increase in basis in 2026. Measure eliminates permanent exclusion of capital gains of QOF investments.

Under current law, most of the deferred capital gains from a taxpayer's initial realization of gain and subsequent investment in a QOF, will be included in taxable income in the 2026 tax year. Measure's requirement to include as income such deferred capital gains and investment made on or after January 1, 2023 will pull forward the gain that would otherwise be realized in 2026, causing a shift in timing of revenue between 2023-25 and 2025-27 biennia. Eliminating the potential step-up in basis results in a net revenue increase as compared to current law,

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rather than a shift in timing. Due to the ten-year holding requirement for the permanent exclusion of capital gains, revenue increases from the elimination of the permanent exclusion first begin in 2028 and potentially continue through 2047 (end of opportunity zone investment exclusion period).

Creates, Extends, or Expands Tax Expenditure: Yes ☐ No ☒