OPPORTUNITY ZONES

A New Economic Development Tool

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PROGRAM PURPOSE

The Opportunity Zone Program is an economic development tool that uses federal tax incentives to direct investment capital to underserved low income areas, that is, targeted communities called opportunity zones. This program was established as part of the Tax Cuts and Jobs Act of 2017.
HOW IT WORKS – INVESTOR INCENTIVES

Investors (high net worth individuals, corporations) who have triggered a capital gain by selling an asset like stocks or real estate can receive special tax benefits if they roll that gain into an Opportunity Fund within 180 days. There are three primary advantages to rolling over a capital gain into an opportunity fund:

1. Defer the payment of the capital gains until Dec 31, 2026.
2. Reduce the tax owed by up to 15% after 7 years.
3. Pay zero tax on gains earned from the opportunity fund.
HOW IT WORKS – OPPORTUNITY FUNDS
INVEST IN UNDERSERVED COMMUNITIES

- At least 90% of opportunity fund must be invested in an opportunity zone.
- The investments must be equity investments. Specifically, eligible purposes include stock, partnership interest, and business property.
- Creation of opportunity funds will be private sector driven.
- Real estate based investments will be highly desirable because of the strong potential for appreciation.
- Venture capital funds for investment into innovative companies may also be stimulated.
- Waiting on guidance (rules) from the Treasury Department, on additional requirements for opportunity funds.
HOW IT WORKS – COMMUNITY BENEFITS

It is hoped that this program will lead to neighborhood and business district revitalization as well as encourage entrepreneurship in the opportunity zones.

Examples:
--Gentrification of distressed areas.
--New housing developments.
--Expansion funding for businesses.
--New developments in underdeveloped areas, e.g., shopping centers, manufacturing plants, business offices.

Guidance from various government and private sector organizations suggests the opportunity funds will be varied, from property developers to sector or demographic specific business investors.
OPPORTUNITY ZONES

Hawaii was authorized to designate 25 census tracts as opportunity zones.

Hawaii has 99 census tracks that meet the low-income eligibility requirement from which the state can designate not more than 25 percent as qualified opportunity zones according to the program.

Census tracts that are contiguous with low-income communities may also be designated as qualified opportunity zones if they are below 125% of the medium family income of the qualifying census tract. Only 5% of the census tracts nominated can be from contiguous tracts. Two (2) of the 25 zones nominated are qualified contiguous census tracts.
CONCLUSIONS

• New economic development tool using the tax code to steer investment capital to distressed areas in the U.S.

• So far, the first opportunity funds established have been property developers.

• More guidance on the funds is expected from the Treasury Department this year.

• Key success factor for Hawaii will be the opportunity funds themselves...
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