LEAGUE OF WOMEN VOTERS® OF OREGON

The League of Women Voters of Oregon is a 100-year-old grassroots nonpartisan political organization that encourages informed and active participation in government. We envision informed Oregonians participating in a fully accessible, responsive, and transparent government to achieve the common good. LWVOR Legislative Action is based on advocacy positions formed through studies and member consensus. The League never supports or opposes any candidate or political party.

February 2, 2020

To: House Committee on Revenue
Representative Nancy Nathanson, Chair

Re: HB 4010 – Oregon Opportunity Zone Tax Bill, Disconnect – **Support**

The League of Women Voters of Oregon (LWVOR) supports a tax system that is based on the ***ability to pay, but that applies a benefits-received principle wherever reasonable and that recognizes the role of social expediency***. The Opportunity Zone capital gains tax break for investments does not meet these criteria.

Oregon LWV supports the HB 4010 because it will prevent a potentially large loss of Oregon state revenue due to the state's present default connection to the federal Opportunity Zone capital gains tax break.

This bill would address some of the problems for Oregon that the existing federal program presents.

The Problem with the Opportunity Zone Program

The purported intent of the Opportunity Zone program is to spur private capital investment into under-invested, economically distressed communities. In practice, however, the projects underway or planned under this program are often high-return investments located in prime real estate areas, such as in downtown Portland and Salem. The federal program has very broad parameters defining low-income areas based on large census tract data that are easy to exploit to investor advantage. Oregon has 86 designated opportunity zones that were determined in early 2018 over a period of several months by Business Oregon and approved by the Governor.

One of the objections to this program is that the program was designed by wealthy investors to reduce and/or avoid capital gains tax on stock or real estate that investors would otherwise be required to pay, so long as they invest within 6 months of the sale in a qualified opportunity fund to be used for investment.

But who will this tax break benefit? Is there a case to be made that the investment will be of social benefit? We think not, because the only people who can afford to make use of this tax break are people with a large amount of disposable income or assets who have something to sell with significant capital gains, including foreign investors, while local residents and small businesses can be displaced as a result of these expensive real estate projects and these Oregonians will not necessarily receive benefits of any kind. This clearly is a benefit to the wealthy at the expense of the very people the incentive was supposed to benefit.

The fool.com, an opportunity zone fund website says that most Opportunity Zone Funds are only open to accredited investors. This means that investors have either:
At least $1 million in net assets, excluding the value of a primary home, or
At least $200,000 in annual income ($300,000 when combined with a spouse's) for each of the previous two years and an expectation of the same this year.

The projected high rate of return is what attracts investors in the first place. Some are targeting annualized internal rate of return (IRR) ranging from 12.7% to 18%.

Fundrise, an Opportunity Zone investment website boasts: "In addition to considerable immediate and long-term tax advantages, investments offer wider access to tax incentives. Unlike tax credit programs of the past, Opportunity Zone investments come *with significantly fewer restrictions,* which opens up access to the new investment option." In addition, the Business Oregon website says "If the value of the original investment of capital gains appreciates after having been held for at least 10 years in the Qualified Opportunity Fund (QOF), then those new capital gains earned in the zone are themselves completely tax free. Otherwise, the net income or proceeds generated by a zone investment are taxable."

These are not investors who will be funding workforce or affordable housing projects or rural businesses, transportation or communications projects that will lift up the local communities in which they will be located. These benefits are for profitable investments, some of which were already planned or would have happened without this tax "incentive."

Does Oregon or a local community have a voice in the nature or placement of these investment projects? NO! As Business Oregon states:

"Aside from the opportunity zone nomination process, state government does not have an ongoing, official role under federal law. Nevertheless, Business Oregon is exploring ways to partner with others in furthering the use of zones for the benefit of Oregon communities."

This benefit is not yet assured. However, this bill calls for the Legislative Revenue Officer after study and consultation with interested parties to make a report with possible recommendations.

With fast-growing economic inequality, an increase in homelessness and lack of affordable housing in Oregon and elsewhere, why would Oregon choose to forego Oregon revenue for yet another tax break for the wealthy who are most able to afford it? We need tax policies that actually reduce inequality, not exacerbate the problems.

Although Oregon can do nothing about the federal Opportunity Zone tax break, Oregon *can* take the steps that this bill offers to protect Oregon Revenue by disconnecting Oregon taxes from this federal tax break and to study if there are ways to direct these investments to the economically-distressed communities the incentive was meant to help. We hope you will pass this bill.

Thank you for the opportunity to discuss this legislation.

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