

115TH CONGRESS
1ST SESSION

H. R. 828

To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains reinvested in opportunity zones.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 2, 2017

Mr. TIBERI (for himself, Mr. KIND, Mr. MEEHAN, Mr. NEAL, Mr. RENACCI, Mr. AGUILAR, Mr. SMITH of Missouri, Ms. SEWELL of Alabama, Mr. PAULSEN, Ms. DELBENE, Mr. REICHERT, Mr. COOPER, Ms. JENKINS of Kansas, Mr. MOULTON, Mr. STIVERS, Mr. LARSON of Connecticut, Mr. LANCE, Mr. POLIS, Mr. SENSENBRENNER, Mr. KHANNA, Mr. RODNEY DAVIS of Illinois, Mr. YODER, Mr. KILMER, Mr. ROUZER, Mr. SOTO, Mr. MARCHANT, Mr. BLUMENAUER, Mr. UPTON, Mr. HIMES, Mr. COLLINS of New York, Mr. O'HALLERAN, and Mr. PERRY) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains reinvested in opportunity zones.

1 Be it enacted by the Senate and House of Representa-
2 tives of the United States of America in Congress assembled,

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Investing in Oppor-
5 tunity Act”.

1 **SEC. 2. OPPORTUNITY ZONES.**

2 (a) IN GENERAL.—Chapter 1 of the Internal Rev-
 3 enue Code of 1986 is amended by adding at the end the
 4 following:

5 **“Subchapter Z—Opportunity Zones**

“Sec. 1400Z-1. Designation.

“Sec. 1400Z-2. Deferral for capital gains invested in opportunity zones.

6 **“SEC. 1400Z-1. DESIGNATION.**

7 **“(a) QUALIFIED OPPORTUNITY ZONE DEFINED.—**

8 For the purposes of this subchapter, the term ‘qualified
 9 opportunity zone’ means a population census tract that
 10 is a low-income community that is designated as a quali-
 11 fied opportunity zone.

12 **“(b) DESIGNATION.—**

13 **“(1) GOVERNOR.—**

14 **“(A) IN GENERAL.—**For purposes of sub-
 15 section (a), a population census tract that is a
 16 low-income community is designated as a quali-
 17 fied opportunity zone if—

18 **“(i)** not later than the end of the de-
 19 termination period, the governor of the
 20 State in which the tract is located—

21 **“(I)** nominates the tract for des-
 22 ignation as a qualified opportunity
 23 zone, and

1 “(II) notifies the Secretary in
2 writing of such nomination, and

3 “(ii) the Secretary certifies such nomi-
4 nation and designates such tract as a
5 qualified opportunity zone before the end
6 of the consideration period.

7 “(B) EXTENSION OF PERIODS.—A gov-
8 ernor may request that the Secretary extend ei-
9 ther the determination or consideration period,
10 or both (determined without regard to this sub-
11 paragraph), for an additional 30 days.

12 “(C) DEEMED DESIGNATION IF SEC-
13 RETARY FAILS TO ACT.—Unless the tracts are
14 ineligible for designation, if the Secretary de-
15 clines in writing to make such certification and
16 designation or fails to act before the end of the
17 consideration period, such nomination shall be
18 deemed to be certified and designated, effective
19 on the day after the last day of the consider-
20 ation period.

21 “(2) SECRETARY.—If a governor fails to make
22 the nominations and notifications by the end of the
23 periods referred to in paragraphs (1)(A) and (1)(B),
24 the Secretary shall designate and certify population
25 census tracts that are low-income communities as

1 qualified opportunity zones, as permitted by sub-
2 section (e).

3 “(c) OTHER DEFINITIONS.—For purposes of this
4 subsection—

5 “(1) LOW-INCOME COMMUNITIES.—The term
6 ‘low-income community’ has the same meaning as
7 when used in section 45D(e).

8 “(2) DEFINITION OF PERIODS.—

9 “(A) CONSIDERATION PERIOD.—The term
10 ‘consideration period’ means the 30-day period
11 beginning on the date on which the Secretary
12 receives notice under subsection
13 (b)(1)(A)(i)(II), as extended under subsection
14 (b)(1)(B).

15 “(B) DETERMINATION PERIOD.—The term
16 ‘determination period’ means the 90-day period
17 beginning on the date of the enactment of the
18 Investing in Opportunity Act, as extended
19 under subsection (b)(1)(B).

20 “(d) GUIDANCE FOR OPPORTUNITY ZONE NOMINA-
21 TIONS.—When considering the nomination of qualified op-
22 portunity zones, governors should strive for the creation
23 of qualified opportunity zones that are geographically con-
24 centrated and contiguous clusters of population census

1 tracts and should give particular consideration to areas
2 that—

3 “(1) are currently the focus of mutually rein-
4 forcing State, local, or private economic development
5 initiatives to attract investment and foster startup
6 activity,

7 “(2) have demonstrated success in geographi-
8 cally targeted development programs, such as prom-
9 ise zones, new market tax credit, empowerment
10 zones, and renewal communities, and

11 “(3) have recently experienced significant lay-
12 offs due to business closures or relocations.

13 “(e) NUMBER OF DESIGNATIONS.—

14 “(1) IN GENERAL.—Except as provided by
15 paragraph (2), the number of population census
16 tracts in a State that may be designated as qualified
17 opportunity zones under this section may not exceed
18 25 percent of the number of low-income communities
19 in the State.

20 “(2) EXCEPTION.—If the number of low-income
21 communities in a State is less than 100, then a total
22 of 25 of such tracts may be designated as qualified
23 opportunity zones.

24 “(f) DESIGNATION OF TRACTS CONTIGUOUS WITH
25 LOW-INCOME COMMUNITIES.—

1 “(1) EXCLUSION OF GAIN INVESTED IN OPPOR-
2 TUNITY ZONE PROPERTY.—In the case of gain from
3 the sale to, or exchange with, an unrelated person of
4 any property held by the taxpayer, at the election of
5 the taxpayer—

6 “(A) gross income for the taxable year
7 shall not include so much of such gain as does
8 not exceed the aggregate cost of all qualified
9 opportunity zone property acquired by the tax-
10 payer during the 180-day period beginning on
11 the date of such sale or exchange, and

12 “(B) the amount of gain excluded by sub-
13 paragraph (A) shall be included in gross income
14 as provided by paragraph (2).

15 “(2) DEFERRAL OF GAIN INVESTED IN OPPOR-
16 TUNITY ZONE PROPERTY.—

17 “(A) YEAR OF INCLUSION.—Except as
18 provided by subparagraph (C), gain to which
19 paragraph (1)(B) applies shall be included in
20 income in the taxable year in which the quali-
21 fied opportunity zone property related to such
22 gain is sold or exchanged in the amount deter-
23 mined under subparagraph (B).

24 “(B) AMOUNT INCLUDIBLE.—The amount
25 of gain determined under this clause shall be—

1 “(i) 100 percent of such gain in the
2 case of the sale or exchange of the quali-
3 fied opportunity zone property with respect
4 to which gain is deferred under paragraph
5 (1) that is held for less than 5 years,

6 “(ii) 90 percent of such gain in the
7 case of the sale or exchange of the quali-
8 fied opportunity zone property with respect
9 to which gain is deferred under paragraph
10 (1) that is held for at least 5 years but less
11 than 7 years, and

12 “(iii) 85 percent of such gain in the
13 case of the sale or exchange of the quali-
14 fied opportunity zone property with respect
15 to which gain is deferred under paragraph
16 (1) that is held for at least 7 years.

17 “(C) PROPERTY HELD AFTER 2026 TREAT-
18 ED AS SOLD.—For purposes of subparagraph
19 (A), any qualified opportunity zone property
20 that has not been sold or exchanged on or be-
21 fore December 31, 2026, shall be treated as
22 sold on December 31, 2026.

23 “(3) EXCLUSION OF GAIN ON QUALIFIED OP-
24 PORTUNITY ZONE PROPERTY HELD FOR AT LEAST 10
25 YEARS.—Except as provided in paragraph (2), in the

1 case of the sale or exchange of qualified opportunity
2 zone property, or an investment in a qualified oppor-
3 tunity fund, held for at least 10 years, gross income
4 for the taxable year shall not include any gain from
5 the sale or exchange of such property or investment.

6 “(4) ONE ELECTION PER PROPERTY.—No elec-
7 tion may be made under paragraph (1) with respect
8 to a sale or exchange if an election previously made
9 with respect to such sale or exchange is in effect.

10 “(b) BASIS RULES RELATING TO QUALIFIED OPPOR-
11 TUNITY ZONE PROPERTY.—

12 “(1) REDUCED BY GAIN DEFERRED UNDER
13 SUBSECTION (a)(1).—The basis of a qualified oppor-
14 tunity zone property immediately after its acquisi-
15 tion under subsection (a) shall be reduced by the
16 amount of gain deferred by reason of subsection
17 (a)(1)(A) with respect to such property.

18 “(2) INCREASE FOR GAIN RECOGNIZED UNDER
19 SUBSECTION (a)(2).—The basis of qualified oppor-
20 tunity zone property shall be increased by the
21 amount of gain recognized by reason of subsection
22 (a)(2) with respect to such property.

23 “(3) SUBSEQUENT INCREASE IN BASIS FOR
24 PROPERTY HELD FOR AT LEAST 5 YEARS BUT LESS
25 THAN 10 YEARS.—In the case of qualified oppor-

1 tunity zone property held for at least 5 years but
2 less than 10 years—

3 “(A) PROPERTY HELD FOR 5 YEARS.—For
4 qualified opportunity zone property held for at
5 least 5 years, the basis of such property shall
6 be increased by an amount equal to 10 percent
7 of the amount of gain deferred by reason of
8 subsection (a)(1)(A) with respect to such prop-
9 erty.

10 “(B) PROPERTY HELD FOR 7 YEARS.—For
11 qualified opportunity zone property held for at
12 least 7 years, the basis of such property shall
13 be increased by an amount equal to 5 percent
14 of the amount of gain deferred by reason of
15 subsection (a)(1)(A) with respect to such prop-
16 erty.

17 “(c) QUALIFIED OPPORTUNITY ZONE PROPERTY.—

18 For purposes of this section:

19 “(1) IN GENERAL.—The term ‘qualified oppor-
20 tunity zone property’ means property which is—

21 “(A) qualified opportunity zone stock,

22 “(B) qualified opportunity zone partner-
23 ship interest,

24 “(C) qualified opportunity zone business
25 property, or

1 “(D) an interest in a qualified investment
2 fund.

3 “(2) QUALIFIED OPPORTUNITY ZONE STOCK.—

4 “(A) IN GENERAL.—Except as provided in
5 subparagraph (B), the term ‘qualified oppor-
6 tunity zone stock’ means any stock in a domes-
7 tic corporation if—

8 “(i) such stock is acquired by the tax-
9 payer after December 31, 2017, at its
10 original issue (directly or through an un-
11 derwriter) from the corporation solely in
12 exchange for cash,

13 “(ii) as of the time such stock was
14 issued, such corporation was a qualified
15 opportunity zone business (or, in the case
16 of a new corporation, such corporation was
17 being organized for purposes of being a
18 qualified opportunity zone business), and

19 “(iii) during substantially all of the
20 taxpayer’s holding period for such stock,
21 such corporation qualified as a qualified
22 opportunity zone business.

23 “(B) REDEMPTIONS.—A rule similar to
24 the rule of section 1202(c)(3) shall apply for
25 purposes of this paragraph.

1 “(3) QUALIFIED OPPORTUNITY ZONE PARTNER-
2 SHIP INTEREST.—The term ‘qualified opportunity
3 zone partnership interest’ means any capital or prof-
4 its interest in a domestic partnership if—

5 “(A) such interest is acquired by the tax-
6 payer after December 31, 2017, from the part-
7 nership solely in exchange for cash,

8 “(B) as of the time such interest was ac-
9 quired, such partnership was a qualified oppor-
10 tunity zone business (or, in the case of a new
11 partnership, such partnership was being orga-
12 nized for purposes of being a qualified oppor-
13 tunity zone business), and

14 “(C) during substantially all of the tax-
15 payer’s holding period for such interest, such
16 partnership qualified as a qualified opportunity
17 zone business.

18 “(4) QUALIFIED OPPORTUNITY ZONE BUSINESS
19 PROPERTY.—

20 “(A) IN GENERAL.—The term ‘qualified
21 opportunity zone business property’ means tan-
22 gible property used in a trade or business of the
23 taxpayer if—

24 “(i) such property was acquired by
25 the taxpayer by purchase (as defined in

1 section 179(d)(2)) after December 31,
2 2017,

3 “(ii) the original use of such property
4 in the qualified opportunity zone com-
5 mences with the taxpayer or the taxpayer
6 substantially improves the property, and

7 “(iii) during substantially all of the
8 taxpayer’s holding period for such prop-
9 erty, substantially all of the use of such
10 property was in a qualified opportunity
11 zone.

12 “(B) SUBSTANTIAL IMPROVEMENT.—For
13 purposes of subparagraph (A)(ii), property shall
14 be treated as substantially improved by the tax-
15 payer only if, during any 30-month period be-
16 ginning after the date of acquisition of such
17 property, additions to basis with respect to such
18 property in the hands of the taxpayer exceed an
19 amount equal to the adjusted basis of such
20 property at the beginning of such 30-month pe-
21 riod in the hands of the taxpayer.

22 “(C) RELATED PARTY.—For purposes of
23 subparagraph (A)(i), the related person rule of
24 section 179(d)(2) shall be applied pursuant to

1 paragraph (8) of this subsection in lieu of the
2 application of such rule in section 179(d)(2)(A).

3 “(5) QUALIFIED OPPORTUNITY FUND.—The
4 term ‘qualified opportunity fund’ means any invest-
5 ment vehicle organized as a corporation or a part-
6 nership for the purpose of investing in qualified op-
7 portunity zone property (other than another quali-
8 fied opportunity fund) that holds at least 90 percent
9 of its assets in qualified opportunity zone property,
10 determined—

11 “(A) on the last day of the first 6-month
12 period of the taxable year of the fund, and

13 “(B) on the last day of the taxable year of
14 the fund.

15 “(6) QUALIFIED OPPORTUNITY ZONE BUSI-
16 NESS.—

17 “(A) IN GENERAL.—The term ‘qualified
18 opportunity zone business’ means a trade or
19 business—

20 “(i) in which substantially all of the
21 tangible property owned or leased by the
22 taxpayer is qualified opportunity zone busi-
23 ness property,

1 “(ii) which satisfies the requirements
2 of paragraphs (2), (4), and (8) of section
3 1397C(b), and

4 “(iii) which is not described in section
5 144(c)(6)(B).

6 “(B) SPECIAL RULE.—For purposes of
7 subparagraph (A), tangible property that ceases
8 to be a qualified opportunity zone business
9 property shall continue to be treated as a quali-
10 fied opportunity zone business property for the
11 lesser of—

12 “(i) 5 years after the date on which
13 such tangible property ceases to be so
14 qualified, or

15 “(ii) the date on which such tangible
16 property is no longer held by the qualified
17 opportunity zone business.

18 “(d) APPLICABLE RULES.—

19 “(1) IN GENERAL.—For purposes of this sec-
20 tion and except as otherwise provided in this section,
21 rules similar to the rules applicable to deferred like
22 kind exchanges under section 1031 shall apply ex-
23 cept that reinvestment in opportunity zone property
24 need not require an intermediary party.

1 “(2) RELATED PERSONS.—For purposes of this
2 subsection, persons are related to each other if such
3 persons are described in section 267(b) or 707(b)(1),
4 determined by substituting ‘20 percent’ for ‘50 per-
5 cent’ each place it occurs in such sections.

6 “(3) DECEDENTS.—In the case of a decedent,
7 amounts recognized under this section shall, if not
8 properly includible in the gross income of the dece-
9 dent, be includible in gross income as provided by
10 section 691.

11 “(4) REGULATIONS.—The Secretary shall pre-
12 scribe such regulations as may be necessary or ap-
13 propriate to carry out the purposes of this section,
14 including—

15 “(A) rules providing for proportionate in-
16 clusion in income and increases in basis for
17 purposes of subsections (a) and (b) in cases in
18 which a sale or exchange of any qualified oppor-
19 tunity zone property with respect to which gain
20 is deferred under subsection (a)(1)(A) is less
21 than all of such property,

22 “(B) rules requiring taxpayers to provide
23 such information as the Secretary determines to
24 be necessary or appropriate for the identifica-
25 tion of both the assets sold (including basis and

1 sale price) and the assets acquired and invest-
2 ments made, and

3 “(C) rules to prevent abuse.

4 “(e) FAILURE OF QUALIFIED OPPORTUNITY FUND
5 TO MAINTAIN INVESTMENT STANDARD.—

6 “(1) IN GENERAL.—If a qualified opportunity
7 fund fails to meet the 90-percent requirement of
8 subsection (c)(5), the qualified opportunity fund
9 shall pay a penalty for each month it fails to meet
10 the requirement in an amount equal to the product
11 of—

12 “(A) the excess of—

13 “(i) the amount equal to 90 percent of
14 its aggregate assets, over

15 “(ii) the aggregate amount of quali-
16 fied opportunity zone property held by the
17 fund, multiplied by

18 “(B) the underpayment rate established
19 under section 6621(a)(2) for such month.

20 “(2) SPECIAL RULE FOR PARTNERSHIPS.—In
21 the case that the qualified opportunity fund is a
22 partnership, the penalty imposed by paragraph (1)
23 shall be taken into account proportionately as part
24 of the distributive share of each partner of the part-
25 nership.

1 “(3) REASONABLE CAUSE EXCEPTION.—No
2 penalty shall be imposed under this subsection with
3 respect to any failure if it is shown that such failure
4 is due to reasonable cause.”.

5 (b) BASIS ADJUSTMENTS.—Section 1016(a) of such
6 Code is amended by striking “and” at the end of para-
7 graph (36), by striking the period at the end of paragraph
8 (37) and inserting “, and”, and by inserting after para-
9 graph (37) the following:

10 “(38) to the extent provided in section 1400Z–
11 2(b).”.

12 (c) REPORT TO CONGRESS.—The Secretary of the
13 Treasury, or the Secretary’s delegate, shall submit a re-
14 port to Congress on the opportunity zone incentives en-
15 acted by this section beginning 5 years after the date of
16 enactment of this Act and annually thereafter. The report
17 shall include an assessment of investments held by quali-
18 fied opportunity funds nationally and at the State level.
19 To the extent such information is available, the report
20 shall include the number of qualified opportunity funds,
21 the amount of assets held in qualified opportunity funds,
22 the composition of qualified opportunity fund investments
23 by asset class, the percentage of qualified opportunity zone
24 census tracts designated under subchapter Z of the Inter-
25 nal Revenue Code of 1986 (as added by this section) that

1 have received qualified opportunity fund investments. The
2 report shall also include an assessment of the impacts and
3 outcomes of the investments in those areas on economic
4 indicators including job creation, poverty reduction, and
5 new business starts, and other metrics as determined by
6 the Secretary.

7 (d) CLERICAL AMENDMENT.—The table of sub-
8 chapters for chapter 1 of such Code is amended by adding
9 at the end the following new item:

“SUBCHAPTER Z. OPPORTUNITY ZONES”.

10 (e) EFFECTIVE DATE.—The amendments made by
11 this section shall take effect on the date of the enactment
12 of this Act.

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