

# Collaborative Initiative to Promote Federal Opportunity Zones

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At the end of 2017, Congress passed the Tax Cuts and Jobs Act which contained a provision to create Federal Opportunity Zones in each state. Federal Opportunity Zones spur investment in impoverished and economically distressed areas by allowing investors and companies to defer and/or reduce federal capital gains taxes when invested in a qualifying Opportunity Fund/Zone. To collaborate with the federal government's goal of alleviating poverty, Oklahoma will utilize Priority Enterprise Zones (PEZs) created in the Oklahoma Enterprise Zone Act to attract capital to Oklahoma's Opportunity Zones. The Act gives the Oklahoma Department of Commerce (Commerce) the authority to designate PEZs when degree of need and likelihood of success is considered.

Given that Federal Opportunity Zones were among the highest poverty areas in the state and success is more likely when the state collaborates with federal, local and tribal partners, the designation of PEZ is anticipated to attract potential investors. It is the first defined state initiative that incorporates state and local incentives touching manufacturing, community redevelopment and entrepreneurship activities coinciding with the Opportunity Zone designations. In order to identify the most effective strategies to attract capital to high poverty areas, the Commerce will work with other state agencies.

"Federal Opportunity Zones will increase the probability that these high poverty areas will see investment and development," said Governor Kevin Stitt. "By identifying Priority Enterprise Zones, we are taking a targeted approach to identifying the zones in our state that have the greatest need as well as opportunities for success. The Oklahoma Department of Commerce will collaborate with the necessary parties, such as the federal government, tribal and community leaders, industry sectors and others, to ensure these zones play a vital role in making a difference in the lives of Oklahomans and in the future of our state."

"If we can highlight some of these opportunities to investors outside the state, then we can potentially attract capital to this state for development," said Lieutenant Governor Matt Pinnell. "I am excited to see the work we can accomplish together as a unified team, utilizing this tool to aggressively pursue ways to grow the state and diversify Oklahoma's economy."

Investors who take advantage of Oklahoma's Federal Opportunity Zones within PEZs can potentially layer other state and/or local incentives, including:

- Investment Tax Credit– Allows a corporate income tax credit for new investment or job creation. PEZ would double the income tax credit and allow the period of time for the designation is lengthened, which provides certainty to the businesses for a multi-year planning purpose

- Enterprise Zone Incentive Leverage Act– Allows local areas to capture state sales tax if the local areas have a match. PEZ would allow participation in leverage incentive, if it is extended
- Oklahoma Small Business Linked Deposit Act– Would allow small businesses located in a PEZ to receive low interest loans from banks participating in the Oklahoma Treasurer’s Linked Deposit Program
- Tax Increment Financing (TIF)– Local incentive authorized in state statute utilized for redevelopment and reinvestment of blighted areas. PEZ designations are evidence as distressed areas and would be allowed to be incorporated in a Local Development Plan as a TIF District

Individuals or entities that invest in an Opportunity Zone, through a qualifying Opportunity Fund, can defer and/or reduce their federal capital gains tax liability. If an investor’s capital is left in a qualifying fund for 5 years, the investor will defer their federal capital gains taxes. In the fifth year the investor can reduce their capital gains tax. There is an additional reduction in year 7. If they leave the money in the fund for 10 years, then any appreciation in the asset from the time they invest through 10 years is not subject to any additional capital gains tax. This deferral and/or reduction on federal capital gains taxes will improve return on investment and also direct capital to areas that need investment.

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