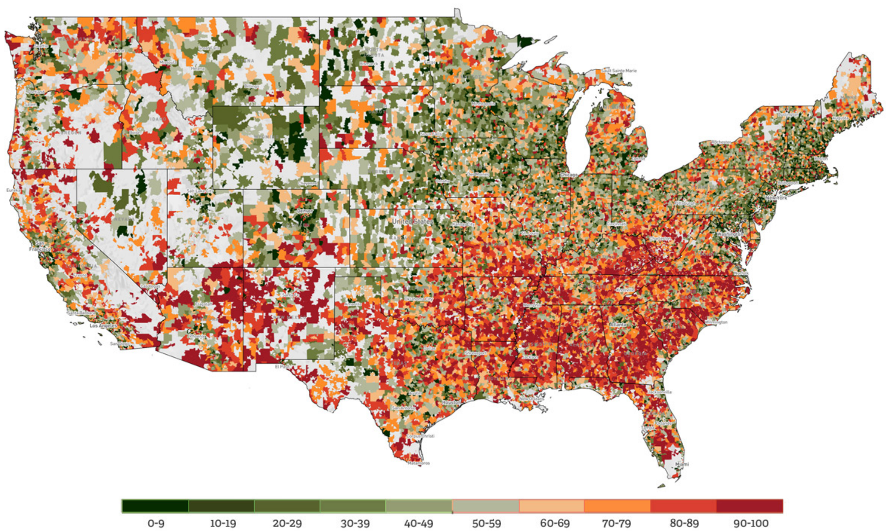
Investing in Opportunity Act

"Millions of Americans live in communities facing the crisis of closing business, lack of access to capital, and absent entrepreneurship. The Investing in Opportunity Act is a new approach to connecting struggling communities with the private investment they need to thrive."

- Senators **Scott** and **Booker** & Congressmen **Tiberi** and **Kind** joint statement, 4/27/2016

Senators **Tim Scott (R-SC)** and **Cory Booker (D-NJ)** and Congressmen **Pat Tiberi (R-OH)** and **Ron Kind (D-WI)** introduced the *Investing in Opportunity Act* to help revitalize economically distressed communities which suffer from a lack of investment and business growth, by facilitating new incentives for investment in those areas around the country.

Map courtesy of Economic Innovation Group. A Distressed Communities Index (DCI) interactive visualization is available online at eig.org/dci



Today, more than 50 million Americans live in a distressed community, and American investors have trillions of dollars of inactive capital that, if reinvested, could be an important new source for catalyzing growth and opportunity. These new dollars could help stem the tide of business closures, a lack of access to capital, and absent entrepreneurship in areas that need it most.

The *Investing in Opportunity Act* encourages new investment by:

- **Allowing investors to temporarily defer capital gains recognition if they reinvest into an "Opportunity Zone."** U.S. investors currently hold an estimated $2.3 trillion in unrealized capital gains – a significant untapped resource for economic development. This legislation allows investors to temporarily defer capital gains recognition from the sale of an appreciated asset, but *only* if they reinvest the gains into qualified assets in an Opportunity Zone. This will remove the tax disincentive for investors to roll assets into distressed communities, and preserve a larger amount of capital for investment in distressed communities.

- **Encouraging investors to pool resources and risk in "Opportunity Funds" (O Funds).** Many investors are willing to provide the capital, but lack the wherewithal to locate and execute investment opportunities in communities that need it. These new O Funds will democratize economic development by allowing a broad array of investors throughout the country to pool resources and mitigate risk, increasing the scale of investments going to underserved areas and thereby increasing the probability of neighborhood turnaround. O Funds would be required to invest 90 percent of their resources in qualifying Opportunity Zones.

- **Giving governors the responsibility for designating Opportunity Zones.** This legislation uses the New Markets Tax Credit (NMTC) program definition of a

- **Giving governors the responsibility for designating Opportunity Zones.** This legislation uses the New Markets Tax Credit (NMTC) program definition of a "low income community" as the basis for defining areas eligible to be designated an Opportunity Zone. Governors will be able to designate no more than 25 percent of the total number of qualifying NMTC census tracts and all areas will have to meet the required threshold of economic distress. This approach will help ensure local needs and opportunities are being met as well as encourage concentration of capital in targeted, geographically contiguous zones in each state.

The legislation is designed to be **low cost and low risk** to the taxpayer. Investors bear the risk and are on the hook for all of their originally deferred capital gains, minus a modest reduction for long-term holdings, regardless whether subsequent investments have increased or decreased in value. There are no tax credits and no public sector financing is involved.

Finally, this legislation **incentivizes long-term investment** via a modest reduction in capital gains taxes owed on the original investment after holding qualified investments for five to seven years. Patient capital is further rewarded by exempting qualified investments held for more than 10 years from additional capital gains recognition beyond that which was originally deferred.

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