



FACT SHEET | Center for Opportunity Now and Center for American Prosperity

REBUILDING AMERICA'S LEFT BEHIND COMMUNITIES WITH OPPORTUNITY ZONES

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OPPORTUNITY ZONES UNLEASH INVESTMENT, JOBS, AND AFFORDABILITY

The 2017 Tax Cuts and Jobs Act created Opportunity Zones (OZs), which designated nearly 8,800 distressed communities (i.e., census tracts) across America as eligible for a suite of tax incentives to encourage private investment, job growth, and greater housing affordability.

OZ Policy Overview

The pillars of the current first-generation OZ policy (OZs 1.0) are a **tax deferral on reinvested capital gains**, a **step-up in basis**, and **no tax on gains from the OZ investment**. Specifically:

- ★ Investors who roll over capital gains from an investment into a Qualified Opportunity Fund (QOF) that invests in qualified OZ businesses receive a deferral on their original gains until they exit the OZ investment or December 31, 2026, whichever comes first.
- ★ Investors who keep their funds invested in the OZ for five years receive a 10% step-up in basis (which reduces taxable income) on their original gains. The step-up increases to 15% if they keep their money invested for seven years.
- ★ Investors who keep their funds invested in the OZ for 10 years pay zero capital gains tax on all new gains accrued from the OZ investment itself.

Together, these incentives reward investors willing to bet on America's untapped potential through long-term investments that create transformational effects over time.

Evidence of OZ Impact

OZs are the most impactful economic development policy in American history:

- ★ **OZs are boosting investment:** By 2022, just three years into full implementation, OZ incentives will have brought [\\$84 billion](#) in equity investment to OZ communities. The total impact may be far larger since investments are usually a mix of debt and equity.
- ★ **OZs are improving housing affordability:** Housing unit growth [accelerated](#) in OZs relative to similar non-OZ communities. OZs now account for [20% of all market-rate apartment unit development](#) nationwide, compared to only 8% before the legislation passed. One partial survey [tracks](#) over 172,000 new units across 201 cities. Low-income *and* market-rate development [significantly improve](#) overall [housing affordability](#) as residents who climb the property ladder [free up](#) cheaper units for aspiring families.
- ★ **OZs are creating jobs:** OZ incentives have [raised employment growth](#) by 3 to 4.5 percentage points in OZ communities relative to similar non-OZ areas.
- ★ **OZs are cost-efficient:** The Joint Committee on Taxation [estimates](#) that the direct cost to taxpayers for OZs is only \$11.3 billion from 2023–27. The Council of Economic Advisers [found](#) that each \$1 of equity raised by QOFs leads to only \$0.15 of direct foregone revenue. However, considering their positive impact on worker outcomes, OZs could even be revenue-neutral by boosting tax receipts and reducing dependence on government transfers.



Extending and Building Upon a Successful Policy: OZ 2.0 Reform Highlights

Lessons from the implementation of OZs 1.0 point to a number of valuable reforms for a next-gen OZ 2.0 package. (R) indicates the reform may be possible via rulemaking or executive order without legislation.

Reforms to Improve Predictability, User-Friendliness, and Flexibility

- ★ Make the OZ incentives permanent but periodically redesignate OZ census tracts based on transparent reporting and updated economic conditions to ensure that OZs continue to focus on the areas with the greatest need.
- ★ (R) Allow investors to lock in the capital gains tax rate when they invest money in an OZ to shield against the risk of future tax hikes and encourage the stability of invested funds.
- ★ (R) Streamline OZ rules to simplify compliance, create stakeholder-specific step-by-step OZ user guides, and boost technical assistance and local capacity building.
- ★ (R) Allow a “fund-of-funds” model to enable more efficient pooling of capital.
- ★ (R) Create an “OZ exchange” mechanism that allows investors to exit one OZ investment and swap it for another without impairing their tax incentives and make it easier for QOFs to redeploy capital, thereby allowing investment to flow to several projects.
- ★ (R) Modernize unworkable OZ regulations (such as disguised sale rules and Non-Qualified Financial Property limits) that interfere with sound investment practices.

Reforms to Broaden the Base of Investors and Investment Opportunities

- ★ Allow workers to invest their paychecks in OZs by extending OZ incentives to ordinary income. Limited pre-tax dollars could receive a deferral and deduction, and OZ gains from any funds (pre-tax/post-tax) invested for 10 years would face no capital gains tax.
- ★ (R) Reduce other investment barriers, including modernizing accredited investor criteria.
- ★ (R) Allow banks to receive Community Reinvestment Act credit for aiding OZ investment.
- ★ (R) Enable businesses to become qualified OZ businesses based on hiring OZ residents.

Reforms to Expand and Refine the Map of OZ Communities

- ★ Allow governors to designate an additional 10% of their state’s distressed communities (35% total), provided that at least a certain threshold is rural areas.
- ★ (R) Make the substantial improvement threshold in rural OZs less onerous.
- ★ Create Critical Industry Zones and Disaster Rebuilding Zones to shore up America’s supply chains and facilitate recovery of highly distressed areas from natural disasters.

Reforms to Strengthen Housing Affordability and Reward Deregulation

- ★ Create a higher OZ+ incentive tier (i.e., a more generous basis step-up and relaxed investment timelines) for housing investments that satisfy affordability criteria.
- ★ Reward states and localities that ease regulatory barriers to the construction of new housing by awarding OZs in their jurisdiction with an OZ Impact Badge (OZIB) that is either necessary to unlock the OZ+ tier or unlocks an even more generous OZ++ tier.
- ★ This framework of linking OZ+/OZ++ to deregulation can be applied to other priorities besides housing affordability, like healthcare access, national supply chain resilience, and school choice.

Extending and strengthening OZs with these reforms will continue the unprecedented transformation of America’s most distressed communities, recruiting more people and resources to rebuild the previously forgotten and left behind parts of America.

