



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

# UNLEASHING RURAL AND SMALL-TOWN PROSPERITY WITH OPPORTUNITY ZONES 2.0

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The enactment of Opportunity Zones (OZs) was a cornerstone of the 2017 Tax Cuts and Jobs Act, which brought \$84 billion of equity investment to distressed communities across America. OZs 2.0 would build upon this legacy to spread prosperity to every corner of America, especially rural areas and small towns.

## **OZ 2.0 Pillar I to Promote Rural Revitalization: Simplify and Streamline**

Ease of use, flexibility, and predictability reduce the barriers and perceived risk of OZ investment, which gives investors the confidence and ability to invest in overlooked rural communities. The OZs 2.0 solution:

### ★ **Reduce the regulatory compliance burden for operating businesses**

- ★ Currently, unnecessary compliance hurdles disadvantage rural areas and operating businesses.
- ★ For example, reducing the substantial improvement threshold in lower-cost rural areas allows more projects to be funded. Businesses should also have more flexibility in managing cash flows.

### ★ **Enable OZ investment redeployment**

- ★ OZs are meant to encourage long-term investment, but current rules keep money tied up in individual *projects*, discouraging investor participation and impeding reinvestment of funds.
- ★ Allowing investors to redeploy funds in new OZ projects unlocks and multiplies rural investment.

## **OZ 2.0 Pillar II to Promote Rural Revitalization: Expand the Map**

The robust uptake of OZs 1.0 reveals a deep reservoir of continued unmet needs. The OZs 2.0 solution:

### ★ **Designate additional OZs and ensure that rural America is adequately represented**

- ★ Originally, governors could designate up to 25% of their eligible low-income census tracts as OZs.
- ★ OZs 2.0 raises this threshold to at least 35% while setting aside a fraction for rural communities.

## **OZ 2.0 Pillar III to Promote Rural Revitalization: Broaden Participation**

Attracting new OZ investors and businesses will scale up rural transformation. The OZs 2.0 solution:

### ★ **Extend OZ incentives to non-capital gains income, expanding the investor base for rural OZs**

- ★ Currently, only capital gains income is eligible for OZ tax incentives, limiting who can invest.
- ★ Allowing people to invest other forms of income in OZs opens vast new funding for OZ projects and empowers community residents to participate actively in rebuilding rural America.

### ★ **Allow “feeder funds” and “fund of funds” models to attract and recruit capital to rural areas**

- ★ Currently, OZ funds (QOFs) must identify their own projects and cannot invest in others' funds.
- ★ Allowing fund-to-fund investment enables smaller impact-oriented funds to raise money more easily from within and outside the community to invest in promising rural projects.

## **OZ 2.0 Pillar IV to Promote Rural Revitalization: Reward Impact and Deregulation**

Low-regulation rural areas are at the core of solving America's most pressing problems. The OZs 2.0 solution:

### ★ **Create a higher tier of OZ+ tax incentives for critical needs investments in low-regulation areas**

- ★ Currently, taxpayers receive less for their money when regulation drives up the cost of projects.
- ★ Rewarding investments in low-regulation communities for priorities like housing affordability and critical supply chains encourages deregulation and gives rural areas a natural advantage.

***The reforms in OZs 2.0 can help lead the way in driving America's rural renaissance.***

