

Opportunity Zones Fact Sheet

Figure 1. Incentives Offered by the Opportunity Zones Program

How does a capital gain of \$100 reinvested in 2018 perform over time?



Temporary Deferral



Step-Up In Basis



Permanent Exclusion

<http://sevenpeaksventures.com/opportunity-zones/>

Introduction:

Opportunity Zones were created as part of the federal tax overhaul by the United States Congress at the end of 2017. The Opportunity Zone program is meant to encourage private investment in underserved communities across the United States by providing federal tax incentives for investors who invest in real estate projects, or operate businesses in these communities. While there is an incentive to invest through reductions, or complete forgiveness of taxes on reinvested capital gains, there are virtually no mechanisms to ensure responsible development written into the federal tax code.

This lack of clarity on how to pursue community-oriented development through Opportunity Zone investments has made it incumbent on states like Maryland to create our own policies and fill the void. SB 581 became an omnibus bill, folding ideas from the Hogan Administration and legislators across the State, to encourage responsible, purposeful investment that genuinely enhances and uplifts communities.

Overview of SB 581 - Opportunity Zone Enhancements:

With passage of SB 581 during the 2019 General Assembly Session, the State of Maryland has become the first state in the nation to comprehensively align the federal Opportunity Zone tax program with our State's economic development programs. This alignment comes with voluntary participation in Opportunity Zone enhancements that incorporate Maryland's values of inclusive, purposeful, and engaged community development that can benefit neighborhoods across urban, suburban, and rural Maryland.

SB 581 establishes the Opportunity Zone Enhancement Program, to be administered by the Department of Commerce. Qualifying businesses investing in projects located in an opportunity zone may qualify for enhanced incentives under the following *existing* MD tax credit programs (1) job creation; (2) One Maryland; (3) enterprise zone; (4) biotechnology investment incentive; (5) cybersecurity investment incentive; and (6) More Jobs for Marylanders.

Those enhanced incentives are broken down into Level 1 (2.5% increased incentive on existing tax credits) and Level 2 (10% increased incentive on existing tax credits).

- **Level 1 Enhancements** - Opportunity Zone Funds would have to demonstrate transparency by disclosing key information like the amount and date of investment, address of the project, and progress on qualitative/quantitative benefits the project will provide to the community.
- **Level 2 Enhancements** - Opportunity Zone Fund investment project sponsors must meet Level 1 requirements, receive limited approval by the municipality in which the project is located, and fulfill one of two other requirements to engage in meaningful community collaboration in the neighborhood their project is located:
 - The first option is the creation of a local governing, or advisory board for the Opportunity Zone business comprised of neighborhood residents.
 - The second option is entering into a Community Benefits Agreement with the neighborhood effected, including local hiring requirements, or workforce development training.

In addition, SB 581:

1. Extends the More Jobs for Marylanders tax credit program until 2022.
2. Provides enhanced commercial and small commercial heritage structure rehabilitation tax credits, renamed as the “Historic Revitalization” program. Extends the Historic Tax Credit program 2 years, and authorizes inclusion of agricultural and post–World War II (mid-century modern) structures.
3. Requires a feasibility study for an online application for the historic revitalization tax credit.
4. Authorizes local jurisdictions to grant a property tax credit for qualified opportunity zone business property that was vacant for at least 12 months, or that is located on a redeveloped brownfield site.
5. Requires outreach by the Department of Housing and Community Development’s Division of Development Finance to facilitate investment in urban, suburban, and rural areas in the State.
6. Extends geographic eligibility for State economic development tax credit and financing programs available for priority funding areas and sustainable communities to include Opportunity Zones in 4 counties (Allegany, Garrett, Somerset, and Wicomico).
7. Adds an affordable and workforce housing credit component for Opportunity Zones, capped at \$4 million annually, to encourage mixed income development.

Why SB 581 is Necessary:

With the lack of guidance at the federal level, it is incumbent on the State of Maryland to ensure that development in Opportunity Zones within our State are happening *with* the communities in which those Opportunity Zones fall and *not simply to* them. SB 581 creates a framework for developers to engage in a transparent and meaningful community engagement process while incentivizing them to do so and keeping Maryland competitive in the national Opportunity Zone marketplace.

Maryland has been a leader across the country on issues around responsible development in the past, and SB 581 creates a model that other states should replicate as they consider the same questions regarding Opportunity Zones.

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