GAO@100 Highlights

Highlights of GAO-22-104019, a report to congressional requesters

October 2021

OPPORTUNITY ZONES

Census Tract Designations, Investment Activities, and IRS Challenges Ensuring Taxpayer Compliance

Why GAO Did This Study

Congress created the Opportunity Zones tax incentive to spur investments in distressed communities. Taxpayers who invest in Qualified Opportunity Funds—that then invest in qualified property or businesses—could receive significant tax-related benefits. Funds and their investors generally must invest in Opportunity Zones for a minimum number of years and report information annually to receive tax benefits and avoid penalties. IRS administers and ensures compliance with these rules. GAO was asked to review implementation and use of this tax incentive.

This report describes the process for designating census tracts as Opportunity Zones and compares characteristics of designated and non-designated tracts; describes Qualified Opportunity Funds' experiences with and states' views on the tax incentive; analyzes available IRS data; and evaluates IRS's taxpayer compliance plans, among other objectives.

GAO analyzed census data on tracts designated and not designated as Opportunity Zones, analyzed data from a non-generalizable sample of 18 Qualified Opportunity Funds, and surveyed state officials. GAO also reviewed IRS documentation, including a compliance plan, and met with Treasury and IRS officials.

What GAO Recommends

GAO is recommending that IRS (1) address risks caused by limited data availability, and (2) research compliance risks of high-wealth investors and large partnership Qualified Opportunity Funds. IRS generally agreed pending available resources.

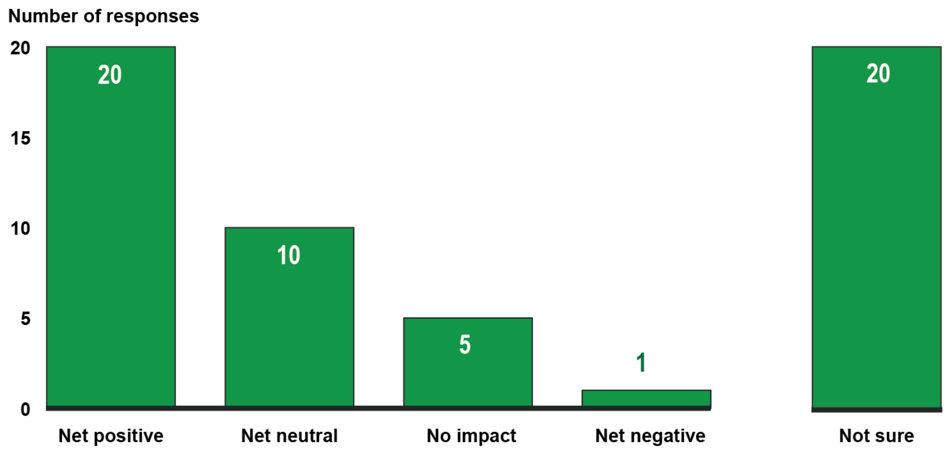
View GAO-22-104019. For more information, contact Jessica Lucas-Judy at (202) 512-6806 or LucasJudyJ@gao.gov.

What GAO Found

The 2017 law commonly known as the Tax Cuts and Jobs Act created a tax incentive that gave governors discretion to nominate generally up to 25 percent of their states' low-income census tracts as special investment areas called Opportunity Zones. The U.S. Department of the Treasury then verified eligibility and designated the nominated tracts. GAO found that on average, the selected tracts had higher poverty and a greater share of non-White populations than eligible, but not selected, tracts. These differences were statistically significant.

Most state government officials were aware of at least some Opportunity Zone investments but had differing views of the tax incentive's effect so far.

State Respondents' Views on Overall Impact of the Opportunity Zones Tax Incentive



Source: GAO analysis of state responses to GAO survey on Opportunity Zones incentive. | GAO-22-104019

Note: GAO surveyed government officials from the 50 states, Washington, D.C., and the five U.S. territories—American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands—and received 56 responses.

Based on case studies of Qualified Opportunity Funds—investment vehicles organized for investing in Opportunity Zones—the tax incentive attracted investment in a variety of projects, including multifamily housing, self-storage facilities, and renewable energy businesses. According to survey responses and other sources, most projects are real-estate focused.

Through 2019, more than 6,000 Qualified Opportunity Funds had invested about $29 billion, based on partial data from the Internal Revenue Service (IRS).

IRS developed plans to ensure Qualified Opportunity Funds and investors are complying with the tax incentive's requirements; however, IRS faces challenges in implementing these plans. Specifically, the plans depend on data that are not readily available for analysis. In addition, funds have attracted investments from high-wealth individuals, and some funds are organized as partnerships with hundreds of investors. IRS considers both of these groups to be high risk for tax noncompliance generally. However, IRS has not researched potential compliance risks these groups pose for this tax incentive. As a result, IRS may be unable to effectively direct compliance efforts.