

POLICY NOTE

Governor Inslee uses Trump tax-cut law to designate 139 Opportunity Zones in economically-depressed communities

By Jason Mercier, Director, Center for Government Reform

July 2018

Key Findings

1. Governor Inslee nominated 139 areas in 36 counties (none in San Juan, Wahkiakum or Whitman counties) across the state to be designated as Opportunity Zones.
2. Opportunity Zones help encourage job creation and private economic investment in economically-distressed areas.
3. Opportunity Zones are authorized under a provision of the 2017 Federal Tax Cuts and Jobs Act adopted by Congress and signed by President Trump.
4. Washington's Opportunity Zones received final approval by the federal government on May 18, 2018.

Introduction

On April 20, 2018 Governor Inslee nominated 139 areas in 36 counties (none in San Juan, Wahkiakum or Whitman counties) across the state to be designated as Opportunity Zones to encourage job creation and private economic investment.¹ These Opportunity Zones are authorized under a provision of the 2017 Federal Tax Cuts and Jobs Act adopted by Congress and signed by President Trump. The U.S. Treasury Department granted final approval to the governor's recommendations on May 18, 2018.

What are Opportunity Zones?

Opportunity Zones are a new tool for economically-distressed areas to receive investments from individuals, facilitated with favorable tax treatment for the investments.

Investors in an Opportunity Zone are able to defer tax on capital gains for a set period as long as the gains are reinvested in a Qualified Opportunity fund.² This new economic development tool was authorized by the 2017 Federal Tax Cuts and Jobs Act.

This concept was pulled from the bipartisan "Investing in Opportunity Act" sponsored by U.S. Senators Tim Scott (R-SC) and Cory Booker (D-NJ)³ and Representatives Pat Tiberi (R-OH) and Ron Kind (D-WI).⁴ Among the co-sponsors were Washington State Representatives Suzan DelBene (D), Derek Kilmer (D) and David Reichert (R).

Creating an Opportunity Zone

To be eligible for Opportunity Zone status a census tract needs to be designated as a low-income community (at least 20% at individual poverty rate and median family income up to 80% of area median). Up to 25% of these areas in a state are eligible for Opportunity Zone

1 "Gov. Inslee approves Opportunity Zones in communities across Washington," Washington State Department of Commerce, April 20, 2018, at <http://www.commerce.wa.gov/news-releases/gov-inslee-approves-opportunity-zones-in-communities-across-washington/>

2 "Opportunity Zones Frequently Asked Questions," U.S. Internal Revenue Service, accessed on May 14, 2018, at <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

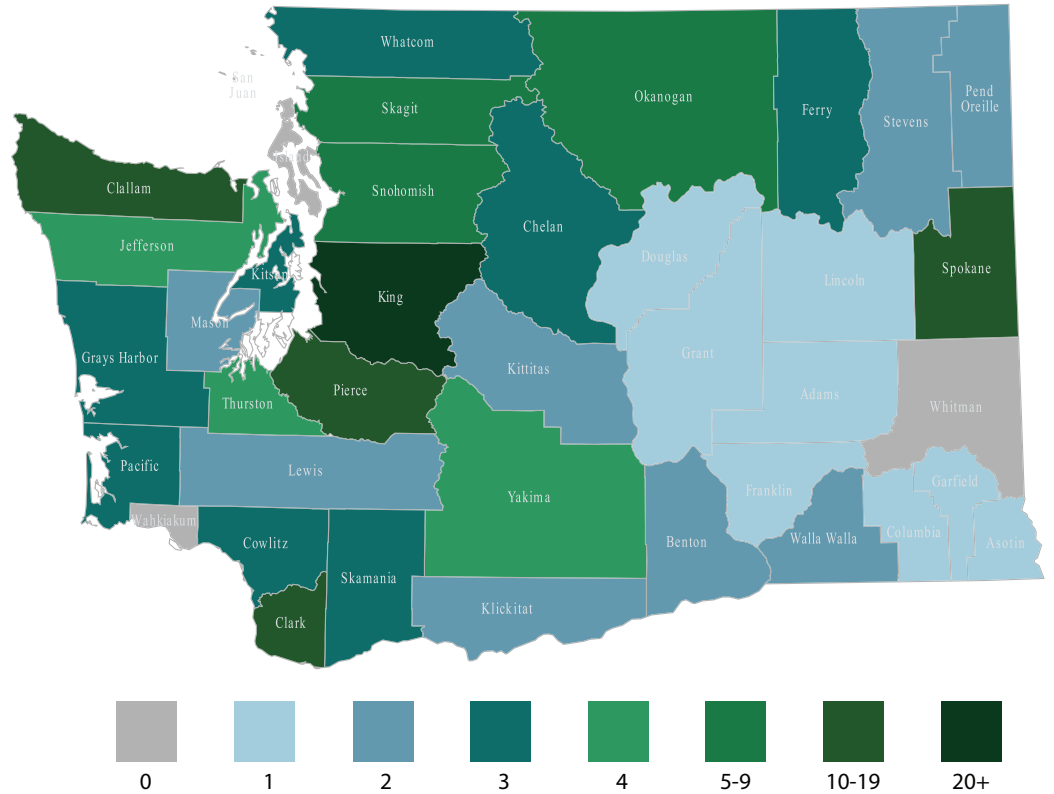
3 "S.293 - Investing in Opportunity Act," Congress.gov, introduced February 2, 2017, accessed on May 14, 2018, at <https://www.congress.gov/bill/115th-congress/senate-bill/293>

4 "H.R.828 - Investing in Opportunity Act," Congress.gov, introduced February 2, 2017, accessed on May 14, 2018, at <https://www.congress.gov/bill/115th-congress/house-bill/828>

nomination. According to the state Department of Commerce: “A total of 555 census tracts in Washington met the eligibility criteria, though only 139 could receive the designation.”⁵

When announcing the 139 nominations for the state Governor Inslee said, “Opportunity Zones have the potential to provide a much-needed boost to communities and target development projects, strengthening the local economies and creating jobs.”⁶

Designated Opportunity Zones in Washington state, by county



Washington state counties, with the number of designated Opportunity Zones in each county

Adams - 1	Franklin - 1	Lewis - 2	Snohomish - 7
Asotin - 1	Garfield - 1	Lincoln - 1	Spokane - 11
Benton - 2	Grant - 1	Mason - 2	Stevens - 2
Chelan - 3	Grays Harbor - 3	Okanogan - 4	Thurston - 4
Clallam - 10	Island - 1	Pacific - 3	Wahkiakum - 0
Clark - 7	Jefferson - 4	Pend Oreille - 2	Walla Walla - 2
Columbia - 1	King - 23	Pierce - 12	Whatcom - 3
Cowlitz - 2	Kitsap - 3	San Juan - 0	Whitman - 0
Douglas - 1	Kittitas - 2	Skagit - 5	Yakima - 4
Ferry - 3	Klickitat - 2	Skamania - 3	

Among those who worked with the Governor to identify potential Opportunity Zone areas was State Treasurer Duane Davidson. The Treasurer said: “The

5 “Gov. Inslee approves Opportunity Zones in communities across Washington,” Washington State Department of Commerce, April 20, 2018, at <http://www.commerce.wa.gov/news-releases/gov-inslee-approves-opportunity-zones-in-communities-across-washington/>

6 Ibid.



Jason Mercier is the Director of the Center for Government Reform at Washington Policy Center and is based in the Tri-Cities. He has served on the boards of the Washington Coalition for Open Government and Verify More, and was an advisor to the 2002 Washington State Tax Structure Committee. Jason is an ex-officio member for the Tri-City Regional Chamber of Commerce and serves on the Chamber's government affairs committee. He worked with lawmakers in 2008 to create the state's renowned budget transparency website www.fiscal.wa.gov and has been a champion for many of the state's important budget reform tools including the four-year balanced budget requirement adopted in 2012. In 2010, former Governor Gregoire appointed Jason as WPC's representative on her Fiscal Responsibility and Reform Panel.

Washington Policy Center is an independent research organization in Washington state.

Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.

Published by
Washington Policy Center
© 2018

washingtonpolicy.org
206-937-9691

Opportunity Zone program is an innovative way to attract private investment into struggling communities. This has real potential to boost economies in geographic areas that today feel bypassed by Washington's overall prosperity."⁷

States allowed to nominate Opportunity Zones areas

On April 9, 2018 the U.S. Treasury Department and Internal Revenue Service (IRS) announced that 18 states had received approval for Opportunity Zones, including in the western states of Arizona, California, Colorado and Idaho.⁸ Initially, Washington state was not one of them. The state missed the original March 21 deadline to nominate areas for Opportunity Zone designation. According to the state Department of Commerce:

“Treasury has 30 days from the date we submitted to review Washington's Opportunity Zone designations . . . Washington was among the majority of states that received a 30 day extension to April 20 to submit.”⁹

Although the initial deadline was missed, the state has taken numerous steps to take advantage of Opportunity Zones including creating a public website and comment portal and working with local officials and investors pending federal approval.¹⁰

Washington's Opportunity Zones received final approval by the federal government on May 18, 2018.¹¹

Conclusion

Though he opposed passage of the 2017 Federal Tax Cuts and Jobs Act, it is encouraging to see Governor Inslee take advantage of an important tool provided by the new law to encourage private investment in economically-depressed areas in our state.

This creative tax policy will help direct private investment to those areas that need it most. Though the law arbitrarily limits Opportunity Zones to no more than 25% of low-income communities, this contrast will provide a clear benchmark to measure its impact compared to those areas that don't receive the favorable tax treatment.

The Opportunity Zone provisions of the Tax Cuts and Jobs Act will help promote new job opportunities and higher incomes in communities that receive approval. This is in addition to the new law reducing tax rates and increasing the standard deduction for Washington families.

⁷ Ibid.

⁸ “Treasury, IRS Announce First Round of Opportunity Zones Designations For 18 States,” U.S. Department of the Treasury, April 9, 2018, at <https://home.treasury.gov/news/press-releases/sm0341>

⁹ E-mail to the author from Jaime Rossman, Policy Advisor, Washington State Department of Commerce, April 25, 2018, copy available on request.

¹⁰ E-mail to the author from Sarah Lee, Project Director, Washington State Department of Commerce, May 14, 2018, copy available on request.

¹¹ E-mail to the author from Jaime Rossman, Policy Advisor, Washington State Department of Commerce, June 13, 2018, copy available on request.