OPPORTUNITY ZONES

Improved Oversight Needed to Evaluate Tax Expenditure Performance

Why GAO Did This Study

Congress created Opportunity Zones (OZ)—a tax expenditure that reduces taxpayers’ liabilities and federal revenues—to spur investment in distressed communities. OZ allows taxpayers to defer taxes on invested gains, and in certain circumstances pay reduced taxes, by investing in distressed communities designated as Qualified Opportunity Zones (Zones) through Qualified Opportunity Funds.

This report (1) describes key features of OZ and how it compares to other federal tax expenditures aimed at spurring investment in low-income and distressed areas, and (2) evaluates the executive branch’s ability to effectively evaluate OZ’s performance. GAO compared OZ’s key features with those of three other community development tax expenditures, analyzed executive branch documentation, and interviewed agency officials about plans to collect data and report on performance.

What GAO Found

Congress created Opportunity Zones (OZ)—a tax expenditure that reduces taxpayers’ liabilities and federal revenues—to spur investment in distressed communities. OZ allows taxpayers to defer taxes on invested gains, and in certain circumstances pay reduced taxes, by investing in distressed communities designated as Qualified Opportunity Zones (Zones) through Qualified Opportunity Funds.

Basic Structure of and Tax Benefits from Investments in Opportunity Zones

Compared to some other community development tax expenditures, OZ generally has fewer limits on the project types that can be financed and fewer controls to limit potential revenue losses. While OZ can generally be used to support investment in any type of tangible asset class within a Zone, some other tax expenditures, such as the Low Income Housing Tax Credit, are targeted at specific project types. OZ is also not subject to limits on the aggregate dollar amount that can be claimed, unlike the New Markets Tax Credit.

Congress did not designate an agency with the responsibility and authority to collect data and report on OZ’s performance. The Internal Revenue Service (IRS) administers and collects data explicitly for tax compliance purposes. Some of these data, such as investment amounts, can be used to evaluate outcomes. Without additional data, however, only limited reporting on performance is possible. Additional data collection and reporting on OZ are necessary to evaluate outcomes. It would be beneficial for Congress to identify what questions it would like such evaluations to address, such as what are OZ’s effects on employment and housing in the Zones.

What GAO Recommends

GAO is identifying two matters for congressional consideration, including that Congress consider providing Treasury with authority and responsibility to collect data and report on OZ’s performance, in collaboration with other agencies. As part of that deliberation, Congress should also consider identifying questions about OZ’s effects that it wants Treasury to address in order to help guide data collection and reporting of performance, including outcomes.

In its comments, Treasury acknowledged the lack of clear guidance and authority to collect OZ data.

View GAO-21-30. For more information, contact Jessica Lucas-Judy at (202) 512-9110 or lucasjudyj@gao.gov.