

December 21, 2018

CC:PA:LPD:PR (REG-115420-18)  
Room 5203  
Internal Revenue Service  
P.O. Box 7604  
Ben Franklin Station  
Washington, DC 20044

RE: Investing in Qualified Opportunity Funds (REG-115420-18)

To Whom It May Concern:

Thank you for the opportunity to comment on the first proposed rulemaking implementing the Opportunity Zones provision of the Tax Cut and Jobs Act of 2017, published in the Federal Register on October 29, 2018. Please note that these comments have not been submitted to or approved by NeighborWorks America's board and do not necessarily represent the views of its board members, either collectively or as individuals. These comments have been formed based on the ongoing work of NeighborWorks America with our network of roughly 245 local and regional nonprofit-affiliated NeighborWorks organizations.

For 40 years, Neighborhood Reinvestment Corp. (d/b/a NeighborWorks America), a Congressionally-chartered, national, nonpartisan nonprofit, has created opportunities for people to improve their lives and strengthen their communities by providing access to homeownership and safe, affordable rental housing. Our collective network experience provides the basis for concerns and strong suggestions for improvements in your proposed rule that will ensure that Opportunity Zones (OZs) provide opportunities in housing and economic/community development to the current residents of those very zones. NeighborWorks remains concerned that without these improvements OZs will become vehicles for gentrification and displacement of residents and thus will prove counterproductive and detrimental to the benefit's purported goals.

#### *Maintaining Focus*

The enactment of legislation creating Opportunity Zones was intended to spark economic activity in disinvested communities across the country. According to estimates from the White House, over 52 million low-income Americans reside in distressed communities that may benefit from the investment brought by OZs. As such, it is incumbent that the regulations implementing OZs ensure that the interests of low-income households are prioritized. Unfortunately, the proposed regulations are silent on this critical issue. NeighborWorks urges the IRS to put into place appropriate guardrails to ensure that investments made in OZs benefit not only investors and entrepreneurs coming to these communities, but also the existing residents and businesses.

The regulations should safeguard residential affordability by creating sustainable channels for investment in affordable housing development and preservation. They should also work towards inclusion of existing businesses as beneficiaries by crafting rules that recognize investments in these enterprises as a key pathway for creating economic opportunities for

the local community. To the extent allowable within the statutory framework, the IRS should provide maximum flexibility for eligibility for investments in existing local businesses to ensure that the inflationary pressures of a reenergized market become a tide to “lift all boats” rather than a threat to the local community. To that end, NeighborWorks recommends consideration of alternate standards and definitions for provisions such as the “substantial improvement” test to recognize the differing investment needs of existing businesses.

#### *Helpful Technical Provisions*

NeighborWorks applauds the efforts of the IRS to create clarity and certainty around the requirements for qualifying investments. Clarity regarding real estate development activities is paramount for ensuring affordable housing opportunities are conceivable and preferable activities. For example, NeighborWorks supports the safe harbor for reasonable working capital. It is also helpful to clarify that existing entities are eligible to be QOFs or QOBs.

#### *Coordinated Incentives*

NeighborWorks encourages the IRS to continue efforts to develop mechanisms by which the benefits of Opportunity Zones can be aligned with other tax provisions such as the Low Income Housing Tax Credit and New Markets Tax Credit. When combined, these programs can increase their impacts and stretch the boundaries of feasible projects. They can also yield more comprehensive community development efforts that enhance both residential and economic opportunities for low-income residents of Opportunity Zones.

#### *Lending*

There is tremendous unmet need for capital for safe, sustainable loans in low-income communities. It is unfortunate that Opportunity Zones do not create these kinds of opportunities that could assist in providing more single-family homes, multifamily units or small businesses.

#### *Reporting*

The conference report accompanying the Tax Cuts and Job Relief Act of 2017 includes clear language instructing the Treasury to submit reports detailing the investments made by Opportunity Funds, including the “number of qualified opportunity funds, the amount of assets held in qualified opportunity funds, the composition of qualified opportunity fund investments by asset class, and the percentage of qualified opportunity zone census tracts designated under the provision that have received qualified opportunity fund investments.” Although the current set of proposed regulations does not include reporting requirements, NeighborWorks encourages the IRS to include in a future proposed regulation a reporting regime sufficient to allow for the measurement of outcomes and create public accountability for this program. In particular, data describing the income levels targeted by the residential investments and the types of small businesses receiving investments would help to illustrate the impacts of the program.

Data collection is essential to ensuring that the effects of Opportunity Zones can be analyzed. Given the potential size of the tax expenditures in play, policymakers and the public must be able to understand how effective a strategy these kinds of tax incentives are for promoting investment. GAO studies have repeatedly highlighted the limitations of insufficient data for studying the impacts of these types of policies. NeighborWorks encourages the IRS to consider implementing a reporting regime to allow for the measurement of outcomes and create public accountability for this program. Transaction level reporting, such as that which is collected by the Treasury in connection with projects funded through the CDFI Fund, would provide the data necessary to respond to the Congressionally-prescribed reports.

*Closing*

Again, thank you for the opportunity to comment on these proposed implementation rules for Opportunity Zones. NeighborWorks urges the IRS to continue to listen to the technical and beneficial comments that would maximize the social and economic impact of OZs for the people who live in them. NeighborWorks Organizations know their communities best and facilitating their ability to incentivize investors to be catalysts for economic activities could help ensure successful outcomes that should be reported and measured in order to understand if the OZ benefits are mutual between the investors and the OZ communities themselves.

Sincerely,

A handwritten signature in black ink that reads "Marietta Rodriguez". The signature is written in a cursive, flowing style.

Marietta Rodriguez

President & Chief Executive Officer