



Office of Tax Analysis
Working Paper 123
July 2023

Use of the Opportunity Zone Tax Incentive:
What the Data Tell Us

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Use of the Opportunity Zone Tax Incentive: What the Tax Data Tell Us

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July 26, 2023 (update)

Abstract

The Tax Cuts and Jobs Act (TCJA) of 2017 created the opportunity zone (OZ) tax incentive as a means of spurring economic growth and job creation in low-income communities. The OZ tax incentive provides capital gains tax relief for taxpayers who make a qualified investment in a Qualified Opportunity Fund (QOF), which in turn invests substantially all its assets in an OZ. The Treasury Department designated 8,764 census tracts as OZs in 2018 that had been nominated by each state, possession, and the District of Columbia. To be eligible for nomination, a census tract needed to either be a low-income community or contiguous to a low-income community. This paper uses information reported on Form 8996 for tax years 2018 through 2020 and Form 8997 for tax years 2019 and 2020 to provide an early look at the effect of the OZ tax incentive on investment in designated areas. We analyze the distribution of investments across OZs and identify which type of OZs have so far attracted investment through QOFs. We also study the characteristics of taxpayers (individuals, corporations, and pass-through entities such as partnerships) that invest in QOFs.

This research was conducted while the authors were employees at the U.S. Department of the Treasury. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors and do not necessarily reflect the views or the official positions of the U.S. Department of the Treasury. All taxpayer data used in the research described in this paper was kept in a secured Treasury or IRS repository, and all results have been reviewed to ensure that no confidential information is disclosed.

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1. Introduction

The Tax Cuts and Jobs Act (TCJA) of 2017 created the opportunity zone (OZ) tax incentive as a means of spurring private investment and economic activity in low-income communities. The OZ tax incentive provides capital gains tax relief for taxpayers who make a qualified investment in a Qualified Opportunity Fund (QOF), which is an investment vehicle organized for the purpose of investing in qualified opportunity zone property. We use information from federal tax returns, in particular Internal Revenue Service (IRS) Forms 8996 and 8997, to analyze the distribution of investments across OZs, the type of OZs that have so far attracted investment through QOFs, and the characteristics of taxpayers that invest in QOFs.

The OZ tax incentive is the latest of several federal place-based tax incentives enacted over the past 30 years. The list of these incentives includes empowerment zones (EZ), enterprise communities, renewal communities (RC), the DC Enterprise Zone, new markets tax credits (NMTCs), accelerated depreciation for equipment placed in service on Indian reservations, and the Indian Employment Credit. In addition, tax incentives have been provided to a particular geographic area after a disaster, such as the New York Liberty Zone and the Gulf Opportunity Zone. Each of these provisions were enacted on a temporary basis and several of them have completely expired, such as enterprise communities, RCs, and the DC Enterprise Zone, while others have been extended on a temporary basis.

It is well known that economic outcomes are unevenly spread across geographies in the United States. Recent work by Chetty and co-authors have found that place matters not just for current outcomes, but for intergenerational mobility as well (see Chetty and Hendren (2018) and Chetty, et al. (2020)). Proponents of place-based tax policies often make equity and efficiency arguments for introduction or continuation of the policy. For example, some suggest that the presence of agglomeration economies, knowledge spillovers, spatial mismatch, and network effects imply that a place-based policy may promote efficiency by compensating for an externality. Whether place-based tax policies have been effective in addressing these concerns has been difficult to determine.

The empirical literature is mixed overall regarding the effectiveness of place-based tax policies at increasing the well-being of targeted residents. Generally, studies find that economic activity in the targeted region increases while the incentive is in place, but it is less clear whether low-income residents in the targeted areas benefit overall. For state enterprise zones, some studies find no employment effects, while others find some positive impact (Neumark and Simpson, 2015). At the federal level, Busso et al. (2013) examined the original 6 urban EZs and found that wages and employment increased significantly within the zones, but it is difficult to know how much of the increase was due to the tax incentives and how much was due to additional grant money provided to those areas at the same time. Reynolds and Rohlin (2015) also found evidence of increased wages for EZ residents, but their results indicated the increase was mostly attributable to higher income individuals. Freedman (2012) studied the effects of the NMTC on investment and labor market outcomes within low-income communities. He found that investment in those communities increased relative to similar communities not eligible for the NMTC, and that there were modest reductions in poverty and unemployment rates in those low-income communities. However, his results also suggest that part of the reduction in poverty and unemployment may result from compositional changes. Freedman (2015) found that much

of the increase in employment resulting from NMTC investment goes to individuals residing outside of the low-income community.

This brief literature review of prior policies reveals some of the difficulties in measuring the effectiveness of place-based tax policies. An increase in measured economic activity within a targeted area does not necessarily mean that the low-income residents of the area benefit from the incentive. Employment or wage gains could accrue to higher-income individuals residing in or outside of the zone. Median income could increase because of higher-income individuals moving into the zone and lower-income zone residents could be displaced due to increased housing costs within the zone.

It is too soon to reach conclusions regarding the effectiveness of the OZ tax incentive. There are several papers that provide a preliminary inspection of the effects of the OZ tax incentive on labor market outcomes. Atkins et al. (2021) use job posting data from Burning Glass Technologies in zip codes with and without OZs and find little evidence of increased job posting in zip codes with OZs, although there is more of an increase after the COVID-19 recession impacts the economy. Arefeva et al. (2021) use establishment level data from Your-economy Time Series to estimate that both employment and establishments increased 3 to 4.5 percent in OZs located in metropolitan areas, with no effect for OZs located in nonmetropolitan areas. Freedman et al. (2021) use restricted access Census data for 2013-19 that allows them to focus on residents of OZs. They find that census tracts designated as OZs were already trending towards more employment growth and poverty reduction compared to tracts that were eligible and not designated. They find that after they control for preexisting trends, there is little change in the employment rate of zone residents, a small increase in average annual earnings, and no positive impact on poverty rates.

In addition, other papers have explored whether there is evidence of increased investment or changes in property prices in OZs. Eldar and Garber (2022) focus on whether the OZ tax incentive led to an increase in venture capital investment in startup companies. They use data from VentureXpert and examine the first five quarters after OZs were first designated in April 2018. They find no evidence that OZ designation affected startup investment. Feldman and Corinth (2022) use data from Real Capital Analytics and use a regression discontinuity design, unlike the majority of the other papers which typically use a difference-in-difference estimation strategy. They find no statistically significant effect of OZ designation on commercial investment through the end of 2020, whether measured in number of investments or dollar amounts. Similarly, using Mastercard data, they find no statistically significant impact on new business creation, new business loan growth, and consumer spending measures. Sage et al. (2021) use Real Clear Analytics data on commercial real estate and find little evidence of general price differences between OZs and economically similar but non-eligible census tracts. However, they do find evidence of increased prices for vacant land and older properties within OZs that would be a good target for redevelopment. The authors conclude that this evidence suggests that these parcels have priced in the potential tax benefit, but there is not yet evidence for expectation of future economic growth across the zones that benefits other parcels. Alm et al. (2021) also find little evidence of a commercial real estate price increase in Florida OZs, but their estimates suggest owner-occupied housing prices may have increased. Similarly, Chen et al. (2022) use FHFA housing price data through 2020 to estimate an annual increase in owner-occupied housing prices between 0 and 0.5 percentage

points for census tracts designated as OZs. Their estimates are precise enough to rule out annual price increases of more than 1.5 percent at the tract level.

Our paper adds to this early literature by presenting details on how the OZ tax incentive was used in 2018 through 2020. The paper most similar to ours is Kennedy and Wheeler (2022). They use a partial set of electronically filed tax returns to identify the location of investment flowing through QOFs. However, we include a fuller set of tax returns, including paper returns.

2. Description of OZ tax incentive and comparison with other federal place-based tax incentives

Description of other federal place-based tax incentives

The OZ tax incentive differs from prior federal place-based tax incentives in geographic scope, the types of incentives provided, and the degree to which federal rules determine the taxpayer and activity eligible for the incentive. The most prominent of the current federal place-based tax incentives other than the OZ tax incentive are EZs and the NMTC.

Three rounds of EZs were authorized through legislation in 1993, 1997, and 2000, totaling 40 EZs. State and local governments nominated distressed geographic areas that were selected as EZs on the strength of the area's strategic plan for economic and social revitalization. Tax benefits for EZs included an employment tax credit, expanded tax-exempt bond authority, increased section 179 expensing, and the deferral of capital gains on sales and reinvestment in empowerment zone assets.² Empowerment zone designations have been extended several times and are currently scheduled to expire at the end of 2025, but only the employment credit and tax-exempt bond authority are still in effect. Similar tax benefits were provided to the DC Enterprise Zone and RCs, except a temporary exclusion for capital gains was provided to certain qualifying assets.

The NMTC was enacted in 2000 to encourage capital investment in businesses located in low-income communities. Private investors in community development entities (CDEs) receive a tax credit paid out over 7 years equal to 39 percent of their equity investment in the CDE. The CDEs are required to invest substantially all of the proceeds of the qualified equity investments in low-income communities. Generally, a census tract is a low-income community (LIC) if it has a poverty rate of at least 20 percent or the median family income of the tract is not greater than 80 percent of the applicable area median family income (either of the state or of the metropolitan area).³ The Community Development Financial Institutions (CDFI) Fund allocates credit authority to CDEs based on an annual competitive application process. The annual amount of credit eligible investment the CDFI may allocate is capped at \$5 billion per year through 2025.

² In addition, there was an increase in the exclusion of the gain on the sale of qualified small business stock held more than 5 years from 50 to 60 percent, but the general exclusion increased to 75 percent in 2009 and 100 percent in 2010 and the EZ increase of the exclusion was no longer applicable. The capital gains incentives were not originally part of the tax benefits for the first two rounds of EZs.

³ There are special rules provided for targeted populations, areas not within census tracts, census tracts with low populations, and census tracts in high migration rural counties.

Description of the OZ tax incentive

In 2018, the Department of the Treasury designated 8,764 census tracts as qualified OZs that had been nominated by each state, possession, and the District of Columbia.⁴ To be eligible to be nominated, a census tract must either be a LIC, or in certain cases, be contiguous to a LIC. The definition of a LIC follows that used for the NMTC.⁵ A census tract that (i) is contiguous to a LIC that is designated as an OZ and (ii) has a median family income that does not exceed 125 percent of the median family income of the neighboring LIC that is designated as an OZ, may also be designated as an OZ (hereinafter termed “contiguous tracts”). States could nominate up to 25 percent of the total number of LIC tracts within the state to be an OZ, but the number of contiguous tracts designated as OZs could not exceed five percent of the total designated tracts in the state. A minimum of 25 OZs could be designated for each state.

In total, nearly 57 percent of all census tracts were eligible to be designated and almost 12 percent of all census tracts were designated as OZs, including tracts in possessions. For simplicity, in this paper we will not include census tracts located in one of the possessions in our analysis or discussion, as the eligibility rules were different for Puerto Rico, and the other possessions are not included in the American Community Survey (ACS) conducted by the Census Bureau.⁶ For census tracts in a state (including the District of Columbia), over 56 percent of the tracts were eligible and almost 11 percent were designated as OZs.

Table 1 provides summary statistics for non-eligible, eligible but not designated, and designated census tracts. In general, OZs have higher poverty and unemployment, lower income, a larger minority population, less educated households, lower rates of homeownership, higher vacancy rates, and lower house prices than eligible but non-designated tracts, and eligible tracts were similarly different from ineligible tracts. However, the difference between designated and eligible but non-designated tracts is less pronounced when the comparison is limited to LICs. This is because eligible contiguous tracts tend to be higher income and make up about 30 percent of eligible non-designated tracts but only just over 2 percent of designated tracts. For example, the median household income is \$46,426 in eligible but non-designated tracts and is \$36,538 in designated tracts. However, the median household income is \$41,614 in eligible non-designated LICs and is \$57,515 in eligible non-designated contiguous tracts.

Table 2 shows the categorization of tracts across the states. Since the share of LICs varies across states, the share of the census tracts designated as OZs also varies across states, from a high of almost 19 percent in Wyoming to a low of about 7 percent in Hawaii, as shown in Table 3. The share is relatively higher in Wyoming and other low-population states that could designate more than 25 percent of the number of LICs due to the 25-tract minimum. States also used different strategies with regard to

⁴ For simplicity we use OZ to refer to census tracts that have been designated as qualified opportunity zones.

⁵ The 2011-2015 ACS was generally used to determine poverty rates and median incomes, but there were some cases where the 2012-2016 ACS was used.

⁶ All low-income communities in Puerto Rico were specified by statute to be designated as OZs. For the other possessions, the 25-tract minimum also allowed a larger percentage of eligible tracts to be nominated than for a state. For all the possessions, 938 out of 1077 census tracts (87 percent) were designated as OZs.

designating contiguous tracts, with 14 states choosing to designate the maximum possible number of contiguous tracts and 13 states designating zero contiguous tracts.

Taxpayers who make timely qualifying investments in QOFs may use three potential tax benefits. First, taxpayers may defer the recognition of eligible gain until disposal of the ownership interest in the QOF, or until the end of 2026, whichever comes first. Second, if the investment in the QOF is held for at least 5 years prior to the required inclusion date, then 10 percent of the *deferred gain* may be excluded from income (the excluded amount increases to 15 percent if the investment is held for 7 years). Third, if the QOF investment is held for at least 10 years, then gain from that investment is excluded from income.⁷

The following example illustrates these benefits. Suppose Taxpayer A realizes \$1.5 million in eligible gain in April 2021 and elects to defer \$1 million of the gain by investing in QOF B in September 2021. Taxpayer A holds the investment in the QOF for 15 years. Taxpayer A defers the recognition of the \$1 million in gain until 2026, when the taxpayer includes \$900,000 in taxable income due to the 10 percent exclusion for holding the investment more than 5 years. When Taxpayer A sells the QOF investment in 2036 for \$3 million the tax basis is \$1 million notwithstanding the OZ tax incentive, but Taxpayer A can exclude the \$2 million in capital gain from income since the holding period was more than 10 years.

The value of the deferral and potential partial exclusion of the deferred gain is mostly known to the investor at the time of making the investment, except for the uncertainty regarding the tax rate that would apply on the date of inclusion. The value of the 10-year exclusion is highly dependent on the expected rate of return, but usually would be the most significant tax benefit affecting taxpayer behavior. Using the numbers from the example above and assuming a 5 percent discount rate and a capital gains tax rate of 20 percent, the net present value of the tax benefits from the QOF investment compared to a similar fully taxed investment is around \$250,000. Just over three-quarters of the tax reduction is due to the 10-year exclusion. This share depends on the discount rate, the rate of return on the investment, and the holding period. For example, if the rate of return increases from 7.6 to 20 percent, then the share of tax benefits from the 10-year exclusion rises to more than 95 percent.

For investments in QOFs made after 2021, there is no partial exclusion available for the deferred gain and the benefit of deferral is limited by the shorter time period before the required inclusion. For these investments, it is even more the case that the primary benefit to the investor is the 10-year exclusion. The incentive structure for OZ investments is not primarily to make a negative-return investment profitable, but rather to make a good return greater. Taxpayers have a strong incentive to make investments that will appreciate greatly in market value. This differs from the incentive structure of most previous federal place-based tax incentives, where the incentive usually reduces the initial cost of employment or investment.

Taxpayers making qualified investments in QOFs may be individuals, partnerships, trusts, estates, or corporations, as long as the taxpayer realizes eligible gain and makes an investment in the QOF within the required 180-day period from the date the gain would be recognized for federal income tax

⁷ The statute allows the tax basis to be set at the fair market value when a qualifying QOF interest is disposed after being held for at least 10 years. In addition, the regulations allow for gain on assets sold by the QOF or qualified opportunity zone business (QOZB) to be excluded from income in certain situations.

purposes if it were not deferred.⁸ Corporations and partnerships self-certify as a QOF by filing Form 8996 annually. By statute at least 90 percent of a QOF's assets must be qualified opportunity zone property (tested every 6 months), or the QOF is subject to a penalty.⁹ Qualified opportunity zone (QOZ) property is an ownership interest in a qualified opportunity zone business (QOZB) which may be a corporation or a partnership, or the QOF may own QOZ business property directly.

In order to be a QOZB, substantially all (defined by regulation as 70 percent) of the owned and leased tangible property of the business must be QOZ business property. In addition, it must satisfy certain other conditions: (1) at least 50 percent of its gross income is from the active conduct of a trade or business within an OZ;¹⁰ (2) the business uses a substantial amount of its intangible property in the active conduct of such business; (3) less than 5 percent of the average of the aggregate unadjusted bases of the business is attributable to nonqualified financial property;¹¹ and (4) the business is not one of the prohibited "sin" businesses.¹² These rules prohibit or make it difficult for certain types of businesses from being eligible for the OZ tax incentive, such as a financial institution, and are intended to encourage the location of tangible capital within an OZ.

QOZ business property is tangible property that a QOF (or QOZB throughout this paragraph) acquires after 2017 and uses in a trade or business and satisfies both of the following tests: (1) the use of the property in an OZ originates with the QOF, or the QOF substantially improves the property, and (2) during substantially all (90 percent) of the QOF's holding period for such property, substantially all (70 percent) of the use of such property was in an OZ. To substantially improve a property, the QOF must make improvements that more than doubles the basis of the property within 30 months of acquisition of the property.

Proposed regulations were issued in two rounds, the first was published in October 2018 and the second May 2019. Final regulations were released in December 2019 and published in January 2020. The final regulations specify that taxpayers are eligible for the 10-year gain exclusion as long as the disposition of the QOF investment does not occur after 2047.

⁸ The recognition date will generally be the day the property generating the gain is sold, the last day of the taxable year, or the date the return for the taxable year is due, depending on the type of property and taxpayer.

⁹ The penalty is equal to the amount of the shortfall from the 90 percent requirement multiplied by underpayment rate for the number of months the shortfall existed. A QOF may choose to exclude cash contributions received in the 6-month period before a QOF property testing date that is held in cash or cash equivalents from the 90-percent test.

¹⁰ The regulations provide several safe harbors for satisfying this condition. This condition is met if at least 50 percent of the labor services performed for the business are in an OZ whether based on hours or the amounts paid for the service, or if the tangible property of the business located in an OZ and the management or operational functions performed in an OZ are each necessary for the generation of at least 50 percent of the gross income of the business.

¹¹ Recognizing that many businesses would have times of holding large amounts of cash before purchasing or developing property, the definition of nonqualified financial property excludes reasonable amounts of working capital. The regulations provide rules for a working capital safe harbor.

¹² The list of prohibited businesses comes from section 144(c)(6)(B). A QOZB may not be a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or liquor store.

Comparison with other federal place-based tax incentives

The OZ tax incentive is most similar to the NMTC. Both only provide direct incentives for capital, not labor. The determination of an eligible area for OZ designation was primarily based on the NMTC definition of a LIC. However, the OZ tax incentive follows the EZ model somewhat in that states play a role in designating zones. The NMTC and the OZ tax incentive differ regarding the level of government involvement in the investment decision. The CDFI Fund makes an annual allocation of investment authority to CDEs, and while the CDFI Fund does not dictate how the CDE then invests in low-income communities, it has influence, especially for those CDEs wishing to apply for future allocations. In contrast, QOFs are free to invest when and how they choose in OZs, and only need to make sure the investments follow the guidelines of the statute and regulations to not face a penalty. The OZ incentive also provides an incentive only to those taxpayers who have capital gains that they can realize, which is more restrictive than needing to have positive taxable income that can offset non-refundable credits.

These incentives are also similar in that many census tracts are eligible for all three incentives. Over 97 percent of OZs are also eligible for the NMTC-funded investment and using the 2011-2015 ACS, almost 25 percent of NMTC low-income communities are also an OZ. Around 5 percent of OZs are also in an EZ and almost 43 percent of EZ census tracts are also an OZ. Figure 1 shows a map of Detroit to illustrate how an EZ, LICs, and OZs overlay in a particular community. One thing to note in this figure is that the OZ tracts are more spread out than EZs, as the EZ statute required zone boundaries to be continuous or, in certain circumstances, to consist of no more than three noncontiguous parcels.

3. Data

The primary sources for the data presented in this paper are IRS Forms 8996 and 8997. Form 8996 is filed by QOFs and includes information about QOF investments, including amounts and where those investments are deployed. Form 8997 is filed by investors in QOFs and indicates how much deferred capital gains an individual or business has invested in QOFs, as well as identifying those QOFs. Most of our attention is on Form 8996 as that provides information on the amounts and location of QOF investment. In addition, we use information from other parts of the tax return to inform our analysis, such as self-reported industry codes.

Taxpayers are required to file Form 8996 annually to self-certify as a QOF. QOFs report total assets and total qualified opportunity zone property held on the last day of the first 6-month period of the tax year and on the last day of the tax year on Part II of the form. If the ratio of total qualified opportunity zone property to total assets averaged over those two reporting dates is below 0.9, then the QOF must calculate and pay a penalty. The total assets and QOZ property investment by QOFs reported in this paper are from the Part II end of year amounts.

Beginning with the 2019 tax year, a QOF was required to report additional information regarding the location of its investment on Form 8996. For QOZ business property held directly by the QOF, the census tract location and the valuation of owned versus leased property is reported on Part V of the form. On Part VI, the QOF reports the valuation of ownership interests in QOZBs and the Employer Identification Number (EIN) of the QOZB. For QOZBs that operate in multiple census tracts, the value of

the ownership share is apportioned ratably across census tracts according to the share of tangible property held by the QOZB in each census tract, with all non-qualifying property aggregated into the non-qualified tract category, regardless of location. In addition, the QOF reports the amount of tangible property held by the QOZB in each census tract and distinguishes between owned and leased property. There could be various reasons why the valuation of the ownership interest could vary from the value of the tangible property held by the QOZB, such as the QOF only being a partial owner of the QOZB. These valuations are reported for the last day of the first 6-month period of the QOF's tax year and on the last day of tax year. In this paper, we only report the end of year numbers.

For tax year 2018, Form 8996 was not available in a format that allowed electronically filed returns to be available as machine readable data. Instead for both paper and electronically filed returns, Form 8996 needed to be manually scanned by IRS workers. Images of these returns were made available to staff from the Office of Tax Analysis (OTA), who manually transcribed data from the relevant fields.

For tax year 2019 the IRS was able to process the data from electronically filed Form 8996 returns as normal. However, for paper returns, a similar manual process as for the 2018 returns was used. The processing of the 2018 returns and the 2019 paper returns have been significantly slowed by the pandemic related to COVID-19, as filing deadlines were extended and some IRS work locations were shut down for months at a time. The implication is that the full population of 2018 and 2019 paper Form 8996 returns were not available for this analysis. However, the number of unprocessed returns not included in this analysis is very small, representing less than 2 percent of the 2018 returns and less than 6 percent of the 2019 returns.

For tax year 2020, electronically filed returns with Form 8996 are included in our analysis, however, the 2020 paper returns have yet to be transcribed. Given that QOFs report asset values, the 2019 paper returns are included in the 2020 reported totals, unless that taxpayer filed an electronic return in 2020. This approach will overstate the 2020 asset values for some QOFs and understate it for others, but it helps make the totals between 2019 and 2020 more comparable.

Form 8997 was first available for tax year 2019 and is filed annually by investors in QOFs. Taxpayers report QOF investment holdings at the beginning of the tax year, end of the tax year, capital gains deferred by investing in a QOF in the current tax year, and QOF investments disposed during the current tax year. The QOF EIN is required, which provides one way to link investors with the QOFs and ultimately to the location of the investment. Our paper includes information from Form 8997s included with 2019 and 2020 electronically filed returns.

4. Analysis

Form 8996 QOF returns

The 2018 tax year Form 8996 returns indicate that QOFs reported holding approximately \$4 billion in both QOZ property and totals assets, as shown in Table 4. Table 5 shows that partnerships were the most common entity structure for QOFs, accounting for approximately 93 percent of the approximately

1,300 returns.¹³ Corporations accounted for the remaining 7 percent, which was fairly evenly split between regular C-corporations and pass-through S-corporations. QOFs organized as C-corporations tended to be larger, with average assets of about \$8 million, compared to \$3 million for partnerships and \$1 million for S-corporations.

These patterns of returns by entity type continue for the 2019 tax year (Table 5), though the number of QOFs and asset holdings increased considerably (Table 4). For 2019, the partnership share of the approximately 5,800 returns increased to around 95 percent. Partnership QOFs accounted for about 87 percent of both the approximately \$28 billion in QOZ property and the \$30 billion in total assets held by QOFs in 2019. QOFs that are C-corporations were still the largest, having increased to around \$33 million on average while a partnership QOF held assets of around \$5 million on average.

For the 2020 tax year the number Form 8996 returns increased to approximately 7,800 and the amount of QOZ property was approximately \$44 billion and total assets held by QOFs was about \$48 billion (Table 4). The patterns of holdings across taxpayer type remained fairly stable, with partnerships accounting for 94 percent of returns while the share of QOF assets held by partnerships increased to 89 percent (Table 5). The average QOF asset holdings also remained relatively stable, with average holdings increasing slightly to \$37 million, \$6 million, and \$1 million for corporations, partnerships, and S-corporations, respectively.

Taking the difference between QOF asset holdings between the years provides an estimate of the annual flow of investment into QOFs. This investment flow was around \$4 billion in 2018, \$26 billion in 2019, and \$18 billion in 2020. The surge in investment in 2019 was expected, given that zone designations were not finalized until the middle of 2018, regulations were finalized at the end of 2019, and 2019 was the last year that investors could qualify for the 15 percent basis adjustment for deferred gains held in a QOF for at least 7 years. Contributions to QOFs likely increased again in 2021, given the expiration of the 10 percent basis adjustment for deferred gains, with investment flows in future years not likely to be as large. Of course, many other factors could affect the flow of funds into QOFs, including the effect of the COVID pandemic on the macroeconomy and real estate development prospects, the trend in capital gains, and the forecast for future tax rates.

Consistent with expectations, real estate is the largest sector for entities organized as a QOF, accounting for approximately 60 percent of the QOZ property held by QOFs in 2019 (Table 6). Given the structure of the QOZ tax-incentive, real estate investment is relatively easy to guarantee compliance with the statutory and regulatory rules and also is an asset with a good probability of nominal appreciation where the capital gains break would be beneficial. Other prominent sectors include finance and insurance (22 percent) and holding companies (4 percent). A similar breakdown holds in 2020.

¹³ The number of QOFs reported in this paper only includes taxpayers that filed Form 8996 with a positive indication that the taxpayer intended to certify as a QOF. This indication could consist of reporting positive asset values or by checking “Yes” on Line 2 of Part I of the form, which asks the following question, “Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)?” There were hundreds of returns from both 2018 and 2019 with a Form 8996 attached, but none of the form lines were filled in. These returns are not included in our counts of QOFs.

The industry breakdown for QOZBs is similar with real estate being the largest sector by far at 67 percent, followed by finance and insurance (5 percent), and professional, scientific and technical services (4 percent), as shown in Table 7 for 2019. For 2020, real estate is still the largest sector at 68 percent followed by finance and insurance (5 percent) and construction (4 percent).

Table 8 shows how much of QOF investment is directed towards particular types of OZs. In 2019 (2020), Urban OZs received 96 (95) percent of investment, contiguous tracts received 6 (5) percent of investment, and OZs that are within EZs received 6 (6) percent of investment. In comparison, these types of tracts compose 86, 2, and 5 percent of OZs, respectively. This illustrates that contiguous tracts are viewed as a relatively attractive location for QOF investment, with an investment share considerably larger than the share of OZ tracts.

Across the nation, approximately 26 percent of OZs have received qualified investment through 2019, which increased to 48 percent by the end of 2020. Among those OZs that have received investment, about 54 percent received investment from a single QOF, while the remaining 46 percent received investment from multiple QOFs as of 2020. About 9 percent had received investment from more than 5 QOFs, and 3 percent had received investment from 10 or more QOFs.¹⁴ Each state has received qualified investment as seen in the second column of Table 9. The states with the largest share of OZs receiving qualified investment through 2020 include DC, Oregon, Colorado, Utah, and Arizona. The states with the lowest share of OZs receiving qualified investment through 2020 include Kansas, New Mexico, Alabama, Iowa, and Illinois. The states with the largest average QOZ property investment per OZ through 2020 include Utah, DC, Colorado, Oregon, and Wyoming. The states with the smallest average QOZ property investment through 2020 include Oklahoma, Delaware, Illinois, Iowa, and West Virginia. At least initially, western states and the District of Columbia have received a disproportionately large share of QOZ property investment. Table 9 also shows the amount of QOZ property located in each state where the location information was reported on Form 8996.¹⁵ The national total of just over \$38 billion in 2020 is smaller than the \$44 billion reported in Table 4 due to amounts not being included in the total for Table 9 if the location information was not provided.

Table 10 provides the averages across several different socioeconomic characteristics for OZs that have already received QOZ property investment and OZs that have not for both 2019 and 2020. The information on socioeconomic characteristics come from the 2013-2017 ACS. These different categories of OZs do not differ substantially on racial characteristics, though the percentage of the population that is white and black are both slightly smaller in OZs that have received investment. For 2019, the share of the adult population with at least a bachelor's degree is 23 percent in OZs with QOZ property investment compared to 16 percent in OZs without investment. Median household income (\$37 thousand versus \$36 thousand) and home values (\$194 thousand versus \$145 thousand) are higher in OZs that received QOZ property investment relative to OZs that did not, and the unemployment rate is lower (10 percent versus 11 percent). The differences for 2020 show a similar pattern, though generally the difference is smaller as a larger portion of tracts received QOZ investment in 2020 relative to 2019.

¹⁴ For the purposes of this part of the analysis, multiple QOFs that were part of the same consolidated group and invest in the same OZ were counted as a single QOF.

¹⁵ For some returns, the location information from Form 8996 Part V or Part VI was missing or incomplete. These returns were not included in the totals for Table 9 or other tables where location information is used.

Somewhat surprisingly, the poverty rate does not differ on average between OZs with and without QOZ property investment, however, the change in the poverty rate between 2012 and 2017 is different, having fallen by about a percentage point more in OZs that received QOZ property investment relative to those that did not. Table 11 provides the change from 2012-2017 in the same socioeconomic characteristics listed in Table 10 based on values reported in the 2008-2012 and 2013-2017 ACS. OZs that have received QOZ property investment experienced stronger increases in educational attainment, income and housing values, and larger decrease in the unemployment from 2012-2017 relative to OZs that did not receive investment.

When weighted by the amount of QOZ investment received, the differences between OZs that received qualified investment and those that have not is much starker. For example, Table 12 shows that median income in the weighted average OZ receiving QOZ property investment was \$43,000, compared to \$36,000 in tracts not receiving investment. Similarly, the median house value was \$242,000 compared to \$136,000. Both the unemployment rate, 9 percent versus 12 percent, and the poverty rate, 27 versus 29 percent, were lower on average in tracts receiving qualified investment. The share of the population with at least a bachelor's degree was nearly double (29 versus 15 percent). On average, OZs receiving qualified investment tend to have a lower homeownership rate (32 versus 48 percent).

Another way to examine investment patterns is by comparing the percentile ranking of the average OZ receiving QOZ property investment (weighted by QOZ property investment share) to the percentile ranking of the average OZ without any QOZ property investment, where the ranking is out of all census tracts. Table 13 shows that the weighted average OZ with QOZ property investment ranks above the median for the share of population with at least a bachelor's degree (59th percentile) and median house value (67th percentile) compared to the 27th and 36th percentile, respectively, for OZs without qualified investment. Similarly, the ranking for median household income is higher (30th versus 18th percentile), while the homeownership rate is lower (12th versus 25th).

These results so far suggest that OZs that have received qualified investment have generally been economically better off than OZs that have not yet received investment, with notably higher educational attainment, median household income and housing values. This is further confirmed by looking at the distribution of QOZ property investment deciles of OZs ranked according to different economic characteristics. Figure 2 shows that when OZs are ranked according to median household income, the top three deciles of OZs account for more than 45 percent of total QOZ property investment, almost double the amount received in the lowest three deciles. The measures of median household income and poverty are based on the 2013-2017 ACS and the investment amounts are from the 2020 Form 8996 returns. For poverty rates (Figure 3), there is not as much of a systematic relationship, as the top three deciles (lowest poverty rates) account for just over one-third of total QOZ investment and the bottom three deciles account for about one-fourth of the total QOZ investment.

However, just one variable may be a poor indicator of the overall level of economic well-being in a community. Poverty rates in a census tract can be skewed by the presence of relatively well-off individuals who have temporarily low incomes, such as college students or retirees. Median income and poverty rates do not control for the cost of living, which can vary across regions. Other researchers have

constructed an economic distress index that incorporates several different economic indicators. In this paper, we use the distress index created by Gelfond and Looney (2018) that combines the poverty rate (adjusted for the share of zone residents attending college), child poverty rate, educational attainment, home prices, and household income. The ranking is done for each state separately, which should control somewhat for differences in the cost of living. Figure 4 shows the percent share of QOZ investment in OZs ranked according to the Gelfond-Looney economic distress index where the tracts with the most economic distress are in decile 1. This index shows the amount of QOZ property investment increases as the measured level of economic distress decreases, with the top three deciles accounting for about half of all QOZ investment, nearly three times the amount of investment in the lowest three deciles.

We conduct a similar analysis of the distribution of QOZ property investment at the state level. Table 14 shows the percent share of QOZ property as of tax year 2020 located in state OZ quintiles, where OZs within the state are ranked by median household income. In the event of an insufficient number of QOFs investing within a particular quintile to preserve anonymity, then the QOZ property amounts in that quintile were merged with an adjacent quintile. At the national level, the highest median household income OZ quintile received 34 percent of the total QOZ property investment, a disproportionately large share. Consistent with the national story, there were several states where the highest median income OZ quintile received a disproportionate amount of QOZ property investment. In fact, the highest income quintile accounted for at least half of the QOZ property investment in the state for Alabama, Connecticut, Louisiana, Missouri, and Utah. However, for Oregon, South Carolina, and Washington the share of QOZ property investment in the lowest median income quintile in the state was at least 40 percent, double the proportionate share. This indicates that there is heterogeneity across states regarding the location of QOZ property investment when measured along median household income.

Next, we examine how investment in tracts varies according to the size of the investment. Figure 5 shows how many OZs had received QOZ property investment through 2020, by size of the total amount of QOZ property located in the OZ. There were a little over 4,000 OZs that had not received any QOZ property investment through 2020. There were over 500 OZs that received a positive investment that totaled less than \$250,000. In contrast, there were also over 500 OZs that had received QOZ property investment between \$10 million and \$50 million. There were less than 200 OZs that had received QOZ property investment in excess of \$50 million.

Table 15 provides another way to look at the distribution of investments within OZs. In this table, we only include OZs that received positive QOZ property investment through 2020. We then divide these OZs into quintiles ranked according to the amount of QOZ property located in that OZ. We then report the average amount of QOZ property in an OZ within each quintile and the average socioeconomic characteristics for the group of OZs within each quintile. The average QOZ property investment for the top quintile is just over \$42 million per OZ. From this distribution, we can calculate that approximately 84 percent of total QOZ property investment is concentrated in the top 20 percent of OZs that received any QOZ property investment through 2020. Moreover, given that only about half of OZs had received QOZ property investment through 2020, we can also determine that approximately 84 percent of QOZ property investment was located in just 10 percent of all OZs.

Furthermore, Table 15 indicates that the size of OZ investment is positively correlated with the median household income, median house value, and percent of the population with at least a bachelor's degree, which is consistent with our other results. The size of investment is negatively correlated with the unemployment rate in the OZ, but the poverty rate again is not a strong indicator of QOZ property investment location. The homeownership rate is also negatively correlated with the amount of QOZ property investment within an OZ, with an especially large decline when moving from the fourth to the fifth (top) quintile.

Form 8997 QOF Investor Returns

The total amount of deferred gains reported on electronically filed Form 8997 returns is around \$27 billion at the end of tax year 2019 and increases to \$39 billion in 2020, as shown in Table 16. There are several reasons why the total amount of deferred gains reported by investors in QOFs on Form 8997 may not equal the amount of total assets reported by QOFs on Form 8996. First, there could be missing data, either due to taxpayer error, IRS processing error, or in the case of this paper, missing returns. Second, the amount from Form 8997 may be greater than what is reported on Form 8996 because the QOF may not yet be required to report the contribution if it has been less than 6-months since the contribution was received. Third, the amount of total assets reported by QOFs on Form 8996 can include non-qualified amounts, and so may be greater than the total deferred gains reported on Form 8997. Fourth, there can also be timing issues caused by some taxpayers with a tax year differing from the calendar year.

Individuals account for approximately 85 percent of Form 8997 returns and about two-thirds of the deferred gains, though the share is a little lower in 2020. These results indicate that there is a considerable difference between the investors in the NMTCs, where over 90 percent of the investment is attributable to corporations, primarily financial institutions, and the investors in QOFs which are primarily individuals.

At the 2-digit NAICS sector level, business entities within the Management of Companies (Holding companies) sector account for the largest portion of business entity QOF investment at 33 percent, followed by Finance and Insurance at 25 percent and Real Estate at 23 percent in 2019, while no other sector had more than 10 percent (Table 17). In 2020, the four sectors with the largest investment in QOFs were Management of Companies (32), Finance and Insurance (24), Real Estate (16), and Information (15).

Individual investors in QOFs are generally high-income households, as expected, given the distribution of capital gains realizations. The median individual investor in a QOF in 2020 had adjusted gross income (AGI) of little under \$730,000. The median amount of deferred gain invested in a QOF at the end of 2020 was nearly \$250,000 and the average amount invested was over \$1 million. Business entities made larger investments in QOFs, with an average investment of approximately \$4 million.

5. Conclusion

The information presented in this paper provides an early look into the use of the OZ tax incentive. Our data show that through 2020, investment in OZs was geographically broad, covering each state. Overall, about 48 percent of OZs have received qualified investment through a QOF through tax year 2020. These shares varied greatly across states, with several states with shares above 70 percent, while a couple of states had a share below 30 percent.

OZs that received QOZ property investment were also different than OZs that did not, by some measures. In particular, OZs that had a higher median household income, higher measures of educational attainment, higher house prices, and lower unemployment were more likely to receive investment. Moreover, trends prior to OZ designation were an important indicator of which tracts received investment. Tracts that experienced growth in median household income, population, and housing values and reduction in the poverty rate and unemployment rate were more likely to receive qualified investment.

This paper provides an initial examination of the characteristics of investment in OZs based on the first two years when the tax return data on the geographic location of investment is available. Future work will determine if early trends continue and more importantly, will do the harder work of evaluating whether QOZ property investment leads to benefits for residents of OZs.

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Table 1. Socioeconomic Characteristics of Opportunity Zones (OZs) and other Census Tracts*

| Characteristic | All Tracts | Ineligible Tracts | Eligible Non-Designated Tracts | | | Designated OZs | | |
|---|------------|-------------------|--------------------------------|------------|-----------|----------------|------------|-----------|
| | | | LIC | Contiguous | Total | LIC | Contiguous | Total |
| Number of tracts | 73,056 | 31,838 | 23,324 | 10,068 | 33,392 | 7,657 | 169 | 7,826 |
| Percent Urban | 80.5 | 82.9 | 83.3 | 62.2 | 76.9 | 86.4 | 58 | 85.8 |
| Percent of population: | | | | | | | | |
| White | 72.6 | 81.4 | 62.4 | 80.6 | 67.9 | 56.9 | 77.9 | 57.4 |
| Black | 13.8 | 6.3 | 21.4 | 8.9 | 17.7 | 27.5 | 12.4 | 27.1 |
| American Indian/Alaska Native | 0.9 | 0.5 | 1.2 | 0.8 | 1.1 | 1.7 | 1.2 | 1.6 |
| Asian | 4.9 | 6.2 | 4.2 | 3.5 | 4.0 | 3.2 | 3.0 | 3.2 |
| Other Race | 7.8 | 5.5 | 10.7 | 6.2 | 9.3 | 10.8 | 5.5 | 10.7 |
| Hispanic | 16.3 | 10.4 | 23.7 | 12.4 | 20.3 | 22.8 | 10.0 | 22.5 |
| Foreign Born | 16.4 | 14.2 | 20.6 | 11.8 | 18.0 | 18.7 | 9.2 | 18.5 |
| With no college education | 41.4 | 30.0 | 51.7 | 42.8 | 49.0 | 54.4 | 42.9 | 54.2 |
| With at least a Bachelor's Degree | 29.6 | 41.2 | 19.6 | 26.2 | 21.6 | 17.3 | 27.1 | 17.5 |
| Homeowner | 63.2 | 74.7 | 51.0 | 70.3 | 56.8 | 44.4 | 65.9 | 44.8 |
| Average Median Age | 39.3 | 41.9 | 36.2 | 41.1 | 37.7 | 35.5 | 41.5 | 35.6 |
| Average Median Household Income | \$61,698 | \$84,434 | \$41,614 | \$57,515 | \$46,426 | \$36,103 | \$56,173 | \$36,538 |
| Average Poverty Rate | 15.7 | 7.4 | 24.0 | 12.0 | 20.4 | 29.2 | 13.2 | 28.9 |
| Average Labor Force Participation Rate | 62.8 | 65.5 | 60.6 | 62.4 | 61.2 | 58.4 | 61.2 | 58.5 |
| Average Unemployment Rate | 7.1 | 4.9 | 9.1 | 6.0 | 8.2 | 11.1 | 6.5 | 11.0 |
| Average Rent as Share of Household Income | 30.7 | 28.5 | 33.4 | 28.8 | 32.0 | 34.0 | 29.0 | 33.9 |
| Average Housing Vacancy Rate | 11.9 | 9.1 | 14.0 | 13.2 | 13.7 | 15.4 | 15.2 | 15.4 |
| Average Median House Value | \$245,869 | \$337,483 | \$172,551 | \$196,528 | \$179,901 | \$154,928 | \$214,935 | \$156,263 |

* Source: 2013-2017 American Community Survey. Does not include census tracts located in a possession.

Table 2. Opportunity Zone (OZ) Eligibility and Designation Status of Census Tracts by State

| State | Total Census Tracts | Total Eligible Tracts | Eligible LIC* Tracts | Eligible Contiguous Tracts | Total Designated OZs | Designated LIC OZs | Contiguous Designated OZs |
|-------------------|----------------------------|------------------------------|-----------------------------|-----------------------------------|-----------------------------|---------------------------|----------------------------------|
| Alabama | 1,181 | 835 | 630 | 205 | 158 | 153 | 5 |
| Alaska | 167 | 68 | 57 | 11 | 25 | 25 | 0 |
| Arizona | 1,526 | 870 | 673 | 197 | 168 | 160 | 8 |
| Arkansas | 686 | 520 | 340 | 180 | 85 | 83 | 2 |
| California | 8,057 | 4,343 | 3,520 | 823 | 879 | 871 | 8 |
| Colorado | 1,249 | 657 | 504 | 153 | 126 | 119 | 7 |
| Connecticut | 833 | 344 | 286 | 58 | 72 | 71 | 1 |
| Delaware | 218 | 118 | 80 | 38 | 25 | 24 | 1 |
| Dist. of Columbia | 179 | 116 | 97 | 19 | 25 | 25 | 0 |
| Florida | 4,245 | 2,356 | 1,706 | 650 | 427 | 427 | 0 |
| Georgia | 1,969 | 1,339 | 1,039 | 300 | 260 | 260 | 0 |
| Hawaii | 351 | 132 | 99 | 33 | 25 | 23 | 2 |
| Idaho | 298 | 192 | 109 | 83 | 28 | 26 | 2 |
| Illinois | 3,123 | 1,659 | 1,306 | 353 | 327 | 327 | 0 |
| Indiana | 1,511 | 817 | 621 | 196 | 156 | 153 | 3 |
| Iowa | 825 | 410 | 247 | 163 | 62 | 61 | 1 |
| Kansas | 770 | 420 | 295 | 125 | 74 | 70 | 4 |
| Kentucky | 1,115 | 768 | 573 | 195 | 144 | 139 | 5 |
| Louisiana | 1,148 | 785 | 597 | 188 | 150 | 145 | 5 |
| Maine | 358 | 214 | 128 | 86 | 32 | 30 | 2 |
| Maryland | 1,406 | 743 | 593 | 150 | 149 | 145 | 4 |
| Massachusetts | 1,478 | 677 | 555 | 122 | 138 | 137 | 1 |
| Michigan | 2,813 | 1,528 | 1,152 | 376 | 288 | 283 | 5 |
| Minnesota | 1,338 | 744 | 509 | 235 | 128 | 127 | 1 |
| Mississippi | 664 | 535 | 401 | 134 | 100 | 95 | 5 |
| Missouri | 1,393 | 883 | 641 | 242 | 161 | 153 | 8 |
| Montana | 271 | 162 | 90 | 72 | 25 | 25 | 0 |
| Nebraska | 532 | 273 | 178 | 95 | 44 | 43 | 1 |
| Nevada | 687 | 331 | 243 | 88 | 61 | 60 | 1 |
| New Hampshire | 295 | 151 | 105 | 46 | 27 | 27 | 0 |
| New Jersey | 2,010 | 835 | 679 | 156 | 169 | 169 | 0 |
| New Mexico | 499 | 338 | 249 | 89 | 63 | 59 | 4 |
| New York | 4,918 | 2,641 | 2,055 | 586 | 514 | 497 | 17 |
| North Carolina | 2,195 | 1,414 | 1,007 | 407 | 252 | 241 | 11 |
| North Dakota | 205 | 84 | 52 | 32 | 25 | 25 | 0 |
| Ohio | 2,952 | 1,647 | 1,282 | 365 | 320 | 317 | 3 |
| Oklahoma | 1,046 | 651 | 467 | 184 | 117 | 114 | 3 |
| Oregon | 834 | 513 | 344 | 169 | 86 | 81 | 5 |
| Pennsylvania | 3,218 | 1,640 | 1,197 | 443 | 300 | 289 | 11 |
| Rhode Island | 244 | 97 | 79 | 18 | 25 | 25 | 0 |
| South Carolina | 1,103 | 741 | 538 | 203 | 135 | 128 | 7 |
| South Dakota | 222 | 112 | 69 | 43 | 25 | 23 | 2 |
| Tennessee | 1,497 | 986 | 709 | 277 | 176 | 170 | 6 |
| Texas | 5,265 | 3,131 | 2,510 | 621 | 628 | 628 | 0 |
| Utah | 588 | 283 | 181 | 102 | 46 | 46 | 0 |
| Vermont | 184 | 89 | 49 | 40 | 25 | 23 | 2 |
| Virginia | 1,907 | 1,071 | 853 | 218 | 212 | 207 | 5 |
| Washington | 1,458 | 780 | 555 | 225 | 139 | 132 | 7 |
| West Virginia | 484 | 385 | 220 | 165 | 55 | 52 | 3 |
| Wisconsin | 1,409 | 734 | 479 | 255 | 120 | 120 | 0 |
| Wyoming | 132 | 56 | 33 | 23 | 25 | 24 | 1 |
| Total | 73,056 | 41,218 | 30,981 | 10,237 | 7,826 | 7,657 | 169 |

*LIC represents a low-income community tract, Source: CDFI Fund, U.S. Department of the Treasury

Table 3. Percent Share of Census Tracts Eligible by Type and Opportunity Zone (OZ) Designation Status by State, States Ranked According to Share of Total Tracts Low-Income Communities (LIC)

| State | Share of total tracts that are eligible as a LIC | Share of total tracts that are eligible as a contiguous tract | Share of total tracts that are designated OZs | Share of OZs that are a contiguous tract | Share of total tracts that are urban | Share of designated tracts that are urban |
|----------------|--|---|---|--|--------------------------------------|---|
| Mississippi | 60 | 20 | 15 | 5 | 54 | 68 |
| DC | 54 | 11 | 14 | 0 | 100 | 100 |
| Alabama | 53 | 17 | 13 | 3 | 59 | 74 |
| Georgia | 53 | 15 | 13 | 0 | 74 | 82 |
| Louisiana | 52 | 16 | 13 | 3 | 78 | 87 |
| Kentucky | 51 | 17 | 13 | 3 | 56 | 50 |
| New Mexico | 50 | 18 | 13 | 6 | 75 | 73 |
| Arkansas | 50 | 26 | 12 | 2 | 57 | 80 |
| South Carolina | 49 | 18 | 12 | 5 | 67 | 68 |
| Texas | 48 | 12 | 12 | 0 | 84 | 76 |
| Tennessee | 47 | 19 | 12 | 3 | 66 | 71 |
| Missouri | 46 | 17 | 12 | 5 | 71 | 85 |
| North Carolina | 46 | 19 | 11 | 4 | 68 | 69 |
| West Virginia | 45 | 34 | 11 | 5 | 50 | 71 |
| Virginia | 45 | 11 | 11 | 2 | 76 | 78 |
| Oklahoma | 45 | 18 | 11 | 3 | 68 | 79 |
| Arizona | 44 | 13 | 11 | 5 | 90 | 84 |
| California | 44 | 10 | 11 | 1 | 94 | 96 |
| Ohio | 43 | 12 | 11 | 1 | 82 | 94 |
| Maryland | 42 | 11 | 11 | 3 | 88 | 96 |
| Illinois | 42 | 11 | 10 | 0 | 88 | 94 |
| New York | 42 | 12 | 10 | 3 | 88 | 98 |
| Oregon | 41 | 20 | 10 | 6 | 81 | 92 |
| Indiana | 41 | 13 | 10 | 2 | 74 | 94 |
| Michigan | 41 | 13 | 10 | 2 | 76 | 90 |
| Colorado | 40 | 12 | 10 | 6 | 84 | 77 |
| Florida | 40 | 15 | 10 | 0 | 91 | 91 |
| Kansas | 38 | 16 | 10 | 5 | 72 | 81 |
| Washington | 38 | 15 | 10 | 5 | 83 | 76 |
| Minnesota | 38 | 18 | 10 | 1 | 72 | 81 |
| Massachusetts | 38 | 8 | 9 | 1 | 93 | 98 |
| Pennsylvania | 37 | 14 | 9 | 4 | 81 | 98 |
| Delaware | 37 | 17 | 11 | 4 | 85 | 96 |
| Idaho | 37 | 28 | 9 | 7 | 64 | 64 |
| Maine | 36 | 24 | 9 | 6 | 38 | 59 |
| New Hampshire | 36 | 16 | 9 | 0 | 61 | 67 |
| Nevada | 35 | 13 | 9 | 2 | 93 | 93 |
| Connecticut | 34 | 7 | 9 | 1 | 90 | 100 |
| Alaska | 34 | 7 | 15 | 0 | 59 | 40 |
| Wisconsin | 34 | 18 | 9 | 0 | 72 | 94 |
| New Jersey | 34 | 8 | 8 | 0 | 96 | 100 |
| Nebraska | 33 | 18 | 8 | 2 | 69 | 93 |
| Montana | 33 | 27 | 9 | 0 | 47 | 56 |
| Rhode Island | 32 | 7 | 10 | 0 | 93 | 100 |
| South Dakota | 31 | 19 | 11 | 8 | 48 | 76 |
| Utah | 31 | 17 | 8 | 0 | 89 | 85 |
| Iowa | 30 | 20 | 8 | 2 | 61 | 86 |
| Hawaii | 28 | 9 | 7 | 8 | 93 | 92 |
| Vermont | 27 | 22 | 14 | 8 | 33 | 80 |
| North Dakota | 25 | 16 | 12 | 0 | 45 | 60 |
| Wyoming | 25 | 17 | 19 | 4 | 66 | 84 |
| Total | 42 | 14 | 11 | 2 | 81 | 86 |

Table 4. Form 8996, Qualified Opportunity Fund (QOF), selected items for tax years 2018-2020*

| | 2018 | 2019 | 2020 |
|---|-------|-------|-------|
| Number of QOFs | 1,300 | 5,800 | 7,800 |
| Qualified Opportunity Zone Property (\$ billions) | 4 | 28 | 44 |
| Total Assets (\$ billions) | 4 | 30 | 48 |

*Counts and amounts are rounded totals for tax returns available as 11/1/2022. Paper returns that have not yet been transcribed are not included in these totals.

Table 5. Form 8996, Share of Qualified Opportunity Fund (QOF) Returns and Assets by Entity Type, Tax Years 2018-2020 (Percent)

| Return type | Share of QOFs | Share of Qualified Opportunity Zone Property | Share of Total Assets |
|---------------------------|---------------|--|-----------------------|
| 2018 | | | |
| Form 1065 Partnerships | 93 | 90 | 90 |
| Form 1120 Corporations* | 3 | 8 | 9 |
| Form 1120S S-Corporations | 4 | 2 | 2 |
| 2019 | | | |
| Form 1065 Partnerships | 95 | 87 | 87 |
| Form 1120 Corporations* | 2 | 12 | 12 |
| Form 1120S S-Corporations | 4 | 1 | 1 |
| 2020 | | | |
| Form 1065 Partnerships | 94 | 89 | 89 |
| Form 1120 Corporations* | 2 | 10 | 10 |
| Form 1120S S-Corporations | 4 | 1 | 1 |

*This includes all 1120 form types including 1120-F and 1120-REIT, except 1120S

Table 6. Qualified Opportunity Fund (QOF), Major Sector Share of Qualified Opportunity Zone Property, Tax Years 2019 and 2020

| Sector | Share (percent) |
|---|-----------------|
| 2019 | |
| Real estate, rental, and leasing | 60 |
| Finance and insurance | 22 |
| Management of companies (holding companies) | 4 |
| All Other | 14 |
| 2020 | |
| Real estate, rental, and leasing | 57 |
| Finance and insurance | 23 |
| Management of companies (holding companies) | 6 |
| All Other | 14 |

Table 7. Qualified Opportunity Zone Business (QOZB), Major Sector Share of Qualified Opportunity Zone Property, Tax Years 2019 and 2020

| Sector | Share (percent) |
|--|-----------------|
| 2019 | |
| Real estate, rental, and leasing | 67 |
| Finance and insurance | 5 |
| Professional, Scientific, and Technical Services | 4 |
| All Other | 24 |
| 2020 | |
| Real estate, rental, and leasing | 68 |
| Finance and insurance | 5 |
| Construction | 4 |
| All Other | 23 |

Table 8. Percent Share of Opportunity Zones (OZs) and Qualified Opportunity Zone Property, by Type of Tract, Tax Years 2019-2020*

| | Share of OZs | Share of Qualified Opportunity Zone Property, 2019 | Share of Qualified Opportunity Zone Property, 2020 |
|-----------------------------|--------------|--|--|
| Urban | 86 | 96 | 95 |
| Contiguous | 2 | 6 | 5 |
| Located in Empowerment Zone | 5 | 6 | 6 |

*Columns will not sum to 100 percent as the categories are not mutually exclusive.

Table 9. Qualified Opportunity Zone (QOZ) Property, Percent Share of Opportunity Zones (OZs) with QOZ Property, QOZ Property Per OZ, and QOZ Property Per OZ with QOZ Property, by State in 2020

| State | QOZ Property in 2020 (\$M) | Percent Share of OZs with QOZ Property in 2020 | QOZ Property Per OZ in 2020 (\$M) | QOZ Property Per OZ with QOZ Property in 2020 (\$M) |
|----------------------|----------------------------|--|-----------------------------------|---|
| Alabama | 1,110 | 30 | 7.0 | 23.1 |
| Alaska* | * | 56 | * | * |
| Arizona | 1,740 | 72 | 10.4 | 14.4 |
| Arkansas | 320 | 49 | 3.8 | 7.6 |
| California | 4,800 | 52 | 5.5 | 10.5 |
| Colorado | 1,450 | 75 | 11.5 | 15.3 |
| Connecticut | 340 | 50 | 4.7 | 9.4 |
| Delaware | 30 | 40 | 1.2 | 3.0 |
| District of Columbia | 440 | 80 | 17.6 | 22.0 |
| Florida | 2,020 | 49 | 4.7 | 9.7 |
| Georgia | 910 | 53 | 3.5 | 6.6 |
| Hawaii | 110 | 60 | 4.4 | 7.3 |
| Idaho | 100 | 54 | 3.6 | 6.7 |
| Illinois | 320 | 20 | 1.0 | 4.9 |
| Indiana | 610 | 51 | 3.9 | 7.7 |
| Iowa | 30 | 27 | 0.5 | 1.8 |
| Kansas | 270 | 36 | 3.6 | 10.0 |
| Kentucky | 280 | 44 | 1.9 | 4.4 |
| Louisiana | 220 | 39 | 1.5 | 3.7 |
| Maine | 160 | 47 | 5.0 | 10.7 |
| Maryland | 870 | 49 | 5.8 | 11.9 |
| Massachusetts | 440 | 49 | 3.2 | 6.6 |
| Michigan | 1,140 | 42 | 4.0 | 9.4 |
| Minnesota | 590 | 48 | 4.6 | 9.5 |
| Mississippi | 190 | 64 | 1.9 | 3.0 |
| Missouri | 650 | 44 | 4.0 | 9.2 |
| Montana | 120 | 68 | 4.8 | 7.1 |
| Nebraska | 330 | 55 | 7.5 | 13.7 |
| Nevada | 550 | 61 | 9.0 | 14.9 |
| New Hampshire | 40 | 59 | 1.5 | 2.5 |
| New Jersey | 1,070 | 51 | 6.3 | 12.3 |
| New Mexico | 100 | 33 | 1.6 | 4.8 |
| New York | 3,930 | 47 | 7.6 | 16.1 |
| North Carolina | 1,020 | 53 | 4.0 | 7.7 |
| North Dakota | 60 | 48 | 2.4 | 5.0 |
| Ohio | 1,070 | 48 | 3.3 | 7.0 |
| Oklahoma | 170 | 38 | 1.5 | 3.8 |
| Oregon | 990 | 76 | 11.5 | 15.2 |
| Pennsylvania | 810 | 44 | 2.7 | 6.1 |
| Rhode Island | 110 | 64 | 4.4 | 6.9 |
| South Carolina | 910 | 63 | 6.7 | 10.7 |
| South Dakota | 60 | 68 | 2.4 | 3.5 |
| Tennessee | 1,050 | 56 | 6.0 | 10.7 |
| Texas | 2,580 | 41 | 4.1 | 9.9 |
| Utah | 1,540 | 74 | 33.5 | 45.3 |
| Vermont | 140 | 60 | 5.6 | 9.3 |
| Virginia | 680 | 45 | 3.2 | 7.2 |
| Washington | 1,090 | 66 | 7.8 | 11.8 |
| West Virginia | 20 | 40 | 0.4 | 0.9 |
| Wisconsin | 280 | 46 | 2.3 | 5.1 |
| Wyoming | 290 | 60 | 11.6 | 19.3 |
| Total | 38,150 | 48 | 4.9 | 10.1 |

Notes: Amounts are rounded to the nearest \$10 million for statewide totals, and nearest \$0.1 million for per-OZ totals.

Amounts in the table reflect only QOZ Property investment for which location information was reported on Form 8996. The sum of states' investment reported in the 'Total' row does not equal the national total investment reported elsewhere in this paper (\$44 billion) due to incomplete reporting of investment location.

*Amounts are not reported due to insufficient observations.

Table 10. Socioeconomic Characteristics of Opportunity Zones (OZs) Receiving Qualified Opportunity Zone (QOZ) Property Investment and OZs with No QOZ Property Investment, Means of Select Characteristics from 2013-2017 American Community Survey

| | OZs with QOZ Property Investment | | OZs with No QOZ Property Investment | |
|-----------------------------------|----------------------------------|-----------|-------------------------------------|-----------|
| | 2019 | 2020 | 2019 | 2020 |
| Percent of population: | | | | |
| White | 56 | 57 | 58 | 58 |
| Black | 27 | 26 | 27 | 28 |
| Hispanic | 23 | 23 | 22 | 22 |
| With at least a Bachelor's Degree | 23 | 20 | 16 | 15 |
| Homeowner | 38 | 42 | 47 | 48 |
| Average Median Household Income | \$37,274 | \$37,257 | \$36,283 | \$35,859 |
| Average Poverty Rate | 29 | 29 | 29 | 29 |
| Average Unemployment Rate | 10 | 10 | 11 | 12 |
| Average Median House Value | \$192,161 | \$177,741 | \$144,078 | \$136,264 |

Table 11. Socioeconomic Characteristics of Opportunity Zones (OZs) Receiving Qualified Opportunity Zone (QOZ) Property Investment and OZs with No QOZ Property Investment, Comparison of Trends for Select Characteristics between 2008-2012 American Community Survey (ACS) and 2013-2017 ACS

| | OZs with QOZ Property Investment | | OZs with No QOZ Property Investment | |
|--|----------------------------------|------|-------------------------------------|------|
| | 2019 | 2020 | 2019 | 2020 |
| Percent of population: | | | | |
| White (pp) | -0.2 | -0.2 | -0.2 | -0.2 |
| Black (pp) | -1.0 | -0.7 | -0.4 | -0.4 |
| Hispanic (pp) | 0.9 | 0.9 | 1.0 | 1.0 |
| With at least a Bachelor's Degree (pp) | 2.8 | 2.3 | 1.5 | 1.4 |
| Homeowner (pp) | -1.7 | -1.7 | -1.9 | -1.9 |
| Average Median Household Income (%) | 13.7 | 12.6 | 10 | 9.1 |
| Average Poverty Rate (pp) | -1.3 | -0.8 | 0 | 0 |
| Average Unemployment Rate (pp) | -4.3 | -4.0 | -3.2 | -3.1 |
| Average Median House Value (%) | 10.6 | 9.6 | 5.2 | 3.7 |

Table 12. Socioeconomic Characteristics of Opportunity Zones (OZs) Receiving Qualified Opportunity Zone (QOZ) Property Investment through 2020 (Weighted by QOZ Property Investment Share) and OZs with No QOZ Property Investment, Means of Select Characteristics from 2013-2017 American Community Survey

| | OZs with QOZ Property Investment | OZs with No QOZ Property Investment |
|-----------------------------------|----------------------------------|-------------------------------------|
| Percent of population: | | |
| White | 57 | 58 |
| Black | 23 | 28 |
| Hispanic | 25 | 22 |
| With at least a Bachelor's Degree | 29 | 15 |
| Homeowner | 32 | 48 |
| Average Median Household Income | \$42,948 | \$35,859 |
| Average Poverty Rate | 27 | 29 |
| Average Unemployment Rate | 9 | 12 |
| Average Median House Value | \$242,361 | \$136,264 |

Table 13. National Percentile Rank of Average Opportunity Zone (OZ) Tract Receiving Qualified Opportunity Zone (QOZ) Property Investment through 2020 (Weighted by QOZ Property Investment) and Average OZ Tract with No QOZ Property Investment for Selected Socioeconomic Characteristics from 2013-2017 American Community Survey

| | OZs with QOZ Property Investment (percentile rank) | OZs with No QOZ Property Investment (percentile rank) |
|-----------------------------------|--|---|
| Percent of population: | | |
| White | 23 | 23 |
| Black | 82 | 85 |
| Hispanic | 79 | 76 |
| With at least a Bachelor's Degree | 59 | 27 |
| Homeowner | 12 | 25 |
| Median Household Income | 30 | 18 |
| Poverty Rate | 85 | 87 |
| Unemployment Rate | 77 | 86 |
| Median House Value | 67 | 36 |

Table 14. Percent Share of Qualified Opportunity Zone (QOZ) Property Located in State Opportunity Zone (OZ) Quintiles through 2020, Ranked by Median Household Income

| State | Median Household Income Quintile | | | | |
|-----------------------|----------------------------------|-----------|-----------|-----------|-----------|
| | 1 | 2 | 3 | 4 | 5 |
| Alabama | 17 | 2 | 9 | 12 | 60 |
| Alaska* | 100 | | | | |
| Arizona | 20 | 8 | 21 | 7 | 44 |
| Arkansas* | 35 | 26 | | | 39 |
| California | 20 | 16 | 14 | 24 | 26 |
| Colorado | 11 | 35 | 25 | 5 | 22 |
| Connecticut* | 12 | | 29 | 7 | 53 |
| Delaware* | 100 | | | | |
| District of Columbia* | 60 | | 40 | | |
| Florida | 28 | 18 | 16 | 12 | 26 |
| Georgia | 34 | 24 | 15 | 13 | 14 |
| Hawaii* | 26 | | | 74 | |
| Idaho* | 30 | | | 70 | |
| Illinois | 31 | 15 | 33 | 4 | 18 |
| Indiana | 12 | 16 | 7 | 15 | 49 |
| Iowa* | 58 | | 42 | | |
| Kansas* | 20 | 68 | 2 | 10 | |
| Kentucky | 34 | 4 | 32 | 16 | 14 |
| Louisiana* | 14 | | 30 | | 55 |
| Maine* | 59 | | 41 | | |
| Maryland* | 22 | | 14 | 27 | 37 |
| Massachusetts | 24 | 17 | 12 | 14 | 33 |
| Michigan | 15 | 10 | 12 | 38 | 25 |
| Minnesota | 39 | 15 | 12 | 8 | 26 |
| Mississippi* | 16 | | 37 | | 46 |
| Missouri | 7 | 14 | 10 | 18 | 51 |
| Montana* | 52 | | | 48 | |
| Nebraska* | 12 | | 41 | | 46 |
| Nevada | 32 | 34 | 15 | 11 | 9 |
| New Hampshire* | 100 | | | | |
| New Jersey | 20 | 7 | 23 | 27 | 24 |
| New Mexico* | 34 | 66 | | | |
| New York | 7 | 14 | 9 | 22 | 49 |
| North Carolina | 27 | 15 | 15 | 4 | 39 |
| North Dakota* | 100 | | | | |
| Ohio | 18 | 11 | 11 | 15 | 46 |
| Oklahoma* | 12 | 27 | 28 | 34 | |
| Oregon | 46 | 9 | 16 | 25 | 4 |
| Pennsylvania | 15 | 12 | 12 | 16 | 45 |
| Rhode Island* | 30 | | 70 | | |
| South Carolina* | 68 | 11 | | 12 | 10 |
| South Dakota* | 100 | | | | |
| Tennessee | 21 | 12 | 36 | 22 | 9 |
| Texas | 9 | 15 | 7 | 24 | 46 |
| Utah | 15 | 5 | 22 | 8 | 50 |
| Vermont* | 100 | | | | |
| Virginia | 6 | 43 | 19 | 16 | 16 |
| Washington | 40 | 15 | 8 | 17 | 20 |
| West Virginia* | 100 | | | | |
| Wisconsin | 29 | 4 | 39 | 10 | 18 |
| Wyoming* | 100 | | | | |
| National | 17 | 15 | 15 | 19 | 34 |

Notes: Median household income for each OZ determined from 2013-2017 American Community Survey. Location of QOZ Property calculated by authors from IRS Form 8996.

*Quintiles merged to provide sufficient observations

Table 15. Socioeconomic Characteristics of Opportunity Zones (OZs) Receiving Qualified Opportunity Zone (QOZ) Property Investment and Average QOZ Property Investment through 2020 by National OZ Quintile Ranked by Level of QOZ Property Investment*, Means of Select Characteristics from 2013-2017 American Community Survey

| | National QOZ Property Investment Quintile | | | | |
|-----------------------------------|---|---------|-----------|-----------|------------|
| | 1 | 2 | 3 | 4 | 5 |
| Percent of population: | | | | | |
| White | 56 | 55 | 58 | 60 | 56 |
| Black | 29 | 29 | 26 | 23 | 24 |
| Hispanic | 21 | 24 | 23 | 23 | 26 |
| With at least a Bachelor's Degree | 17 | 17 | 19 | 20 | 26 |
| Homeowner | 45 | 44 | 43 | 42 | 33 |
| Median Household Income (\$) | 35,942 | 36,778 | 36,767 | 37,131 | 39,667 |
| Poverty Rate | 30 | 28 | 28 | 29 | 29 |
| Unemployment Rate | 11 | 11 | 10 | 10 | 9 |
| Median House Value (\$) | 150,797 | 158,851 | 168,369 | 180,695 | 231,472 |
| Average QOZ Property (\$) | 185,000 | 610,000 | 1,887,000 | 5,448,000 | 42,161,000 |

*Only OZs with positive QOZ Property investment through 2020 included in the quintile ranking.

Table 16. Form 8997 Electronically Filed Returns, Qualified Investment in Qualified Opportunity Funds, by Investor Type, Tax Years 2019-2020

| Return type | 2019 | | 2020 | |
|-------------|-------------------------------|------------------------------|-------------------------------|------------------------------|
| | Number of returns (thousands) | Deferred Gains (\$ billions) | Number of returns (thousands) | Deferred Gains (\$ billions) |
| Individuals | 16 | 18 | 21 | 24 |
| Entity* | 3 | 9 | 4 | 15 |
| Total | 19 | 27 | 25 | 39 |

*Includes corporations, partnerships, estates and trusts

Table 17. Business Entities that File Form 8997 Electronically, Major Sector Share of Deferred Qualified Gain, Tax Years 2019 and 2020

| Sector | Share (percent) |
|---|-----------------|
| 2019 | |
| Management of companies (holding companies) | 33 |
| Finance and Insurance | 25 |
| Real Estate and Rental and Leasing | 23 |
| All other industries | 19 |
| 2020 | |
| Management of companies (holding companies) | 32 |
| Finance and Insurance | 24 |
| Real Estate and Rental and Leasing | 16 |
| Information | 15 |
| All other industries | 13 |

Figure 1. Census Tracts in Detroit, Michigan by Empowerment Zone, Low-income Community (LIC), and Opportunity Zone Status

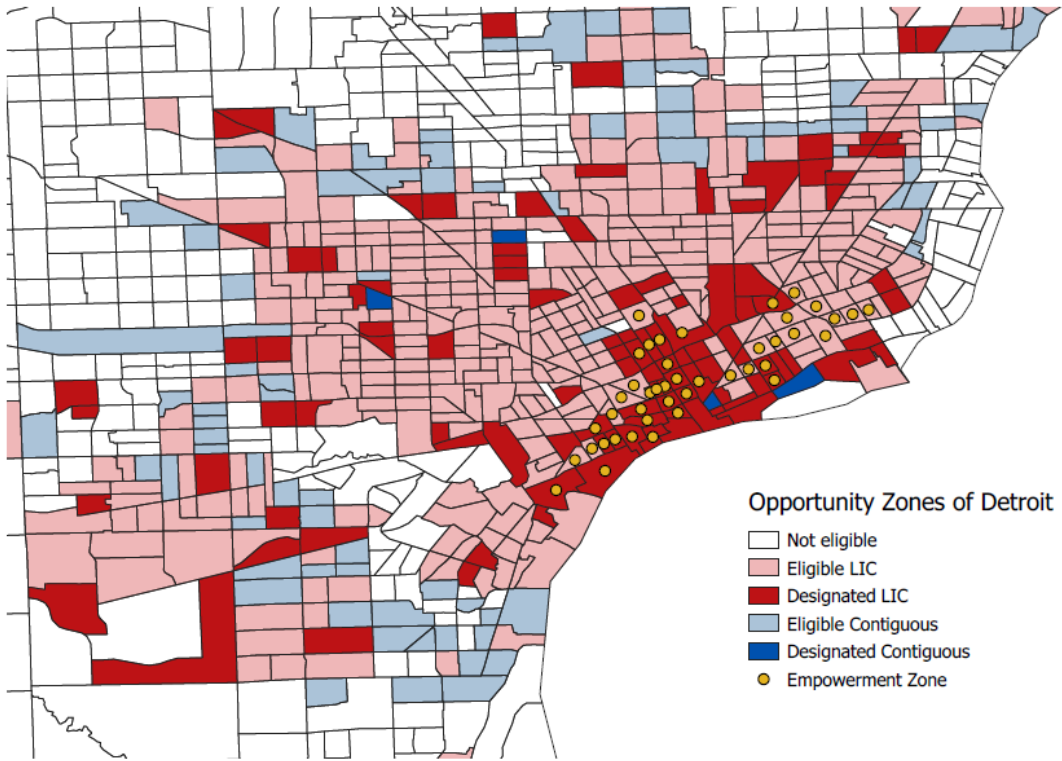
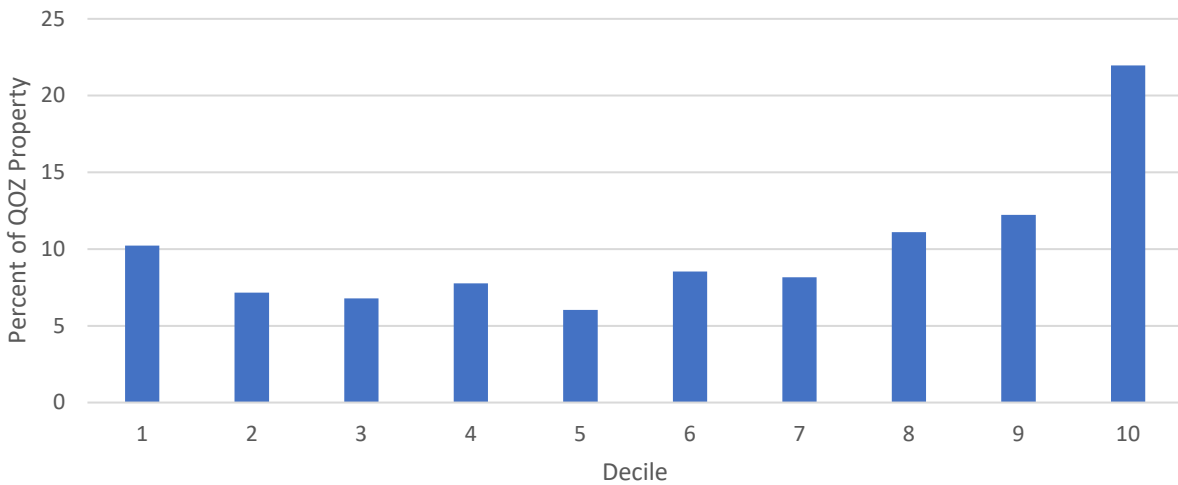
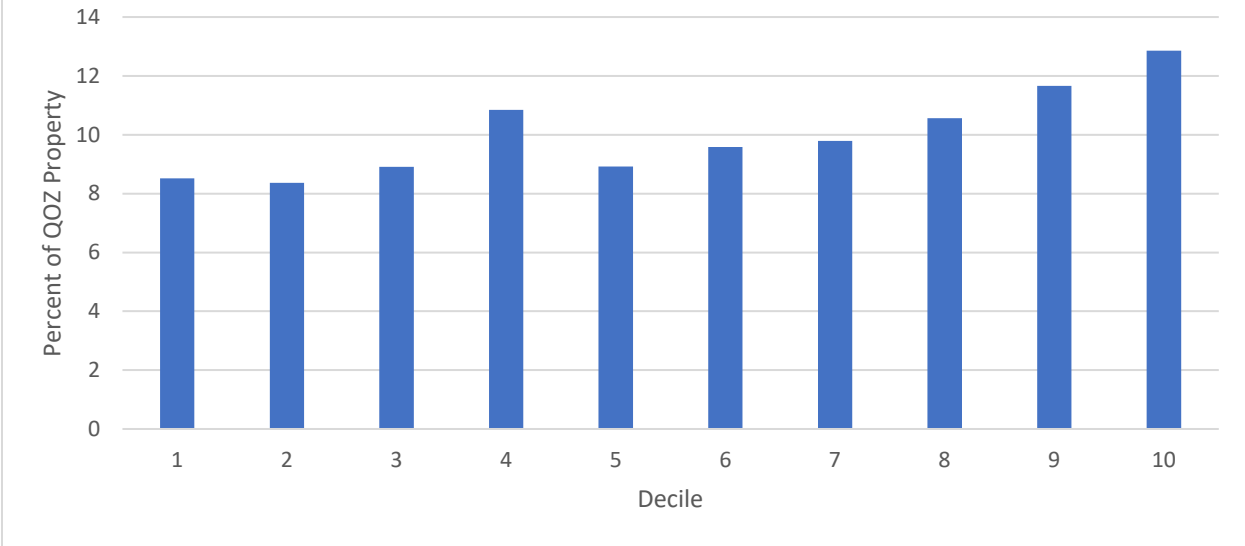


Figure 2. Percent Share of Qualified Opportunity Zone (QOZ) Property Located in National Opportunity Zone Decile Ranked by Median Household Income, 2020



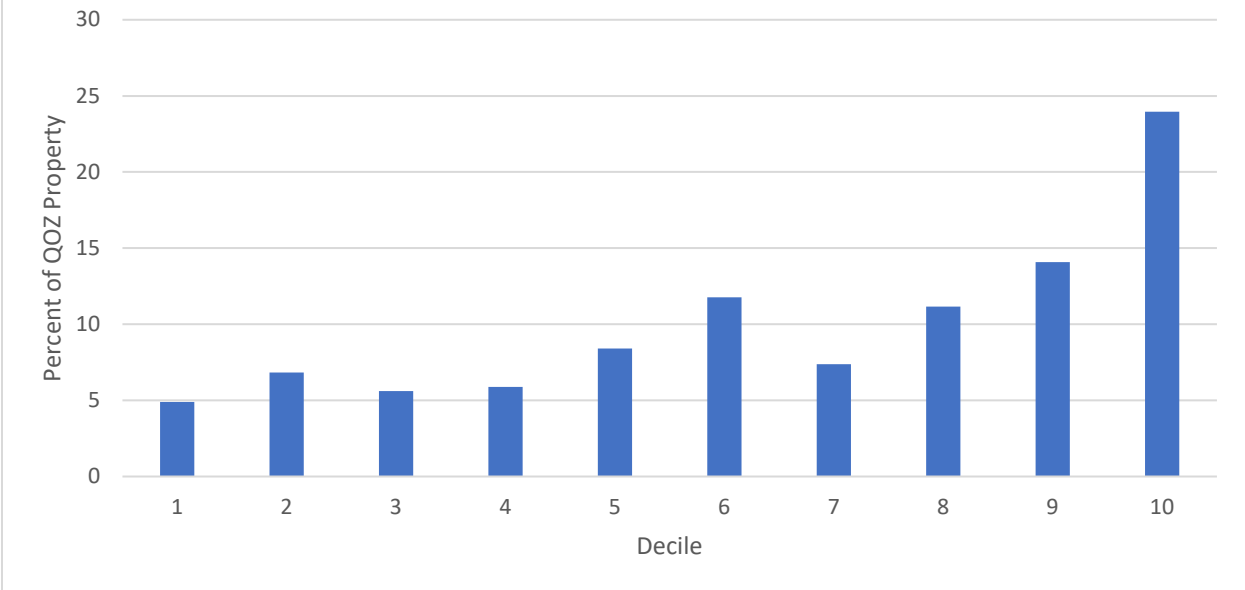
Notes: Median household income for each OZ determined from 2013-2017 ACS. Location of Qualified Opportunity Zone Property calculated by authors from IRS Form 8996.

Figure 3. Percent Share of Qualified Opportunity Zone (QOZ) Property Located in National Opportunity Zone Decile Ranked (Reversed) by Poverty Rate, 2020



Notes: Poverty rates for each OZ determined from 2013-2017 ACS. Location of Qualified Opportunity Zone Property calculated by authors from IRS Form 8996.

Figure 4. Percent Share of Qualified Opportunity Zone (QOZ) Property Located in National Opportunity Zone Decile Ranked by Distress Index, 2020



Notes: Census tract distress index developed by Gelfond and Looney (2018). Location of Qualified Opportunity Zone Property calculated by authors from IRS Form 8996.

Figure 5. Distribution of Opportunity Zones (OZs) by Amount of Qualified Opportunity Zone Property (QOZ) Investment, 2020

