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Kasich picks 320 Ohio census tracts to recommend to feds for 'Opportunity Zone' designation

By Jay Miller

Photo by BLOOMBERG Ohio Gov. John Kasich

Ohio Gov. John Kasich has chosen 320 census tracts to recommend to the U.S. Treasury Department to be designated as Opportunity Zones (OZ), which, if accepted, would make development or redevelopment projects in these census tracts, which are considered economically distressed, more attractive to private sector investment.

People, banks or businesses could write off a portion of their capital gains from an earlier investment by reinvesting in an OZ-eligible investments. In turn, any capital gains from the OZ-eligible investment could be completely exempt from the capital gains tax if held for the long term. The zones were created in the recently passed federal tax bill.

Government and business groups from around the region nominated census tracts and forwarded their recommendations to the state Development Services Agency, and then Kasich came up with a list of census tracts to nominate for eligibility.

Cuyahoga County has nominated 70 distressed census tract, most in the city of Cleveland, though others were in Bedford Heights, Brook Park, Brooklyn, Cleveland Heights, East Cleveland, Euclid, Garfield Heights, Lakewood, Maple Heights, Newburgh Heights, North Randall, Parma, Richmond Heights and Warrensville Heights.

Summit County nominated 22 tracts, Lorain County 11 , Lake County three and Medina County two.

The governor's office didn't identify the selections, though the DSA posted a map on Wednesday, March 21, of the nominated districts. The Treasury Department received similar recommendations from all states and is expected to announce a final list of eligible census tracts in 30 day. Details of how the program will operate have not yet been set, so development officials *Crain's* spoke with earlier this month could not offer definitive details about how the program will operate.

The program is expected to be similar to the existing New Markets Tax Credit (NMTC) program, which also directs development or redevelopment investments to low-income areas. Investors in NMTCs get a credit to offset federal income taxes.

Unlike NMTCs, however, the OZ program provides a deferment or write off of capital gains taxes on earlier investments and there is no cap on the amount of investment. Also, unlike NMTCs which typically are used for real estate projects, an investment in a startup or young company that then locates in an OZ is eligible.

The tax law provides that the investor can write off against taxes 10% of the capital gain, once the investment is held for five years. Another 5% of the capital gain can be written off if the investment is held for at least seven years.

The big tax savings would come if an investor holds what turns out to be a successful investment for at least 10 years. Then the investor will not have a taxable gain for any appreciation in value in the OZ investment when the investment is sold.