Policy Behind QOZ Law:

Encourage Investment in Low-Income Communities

The public policy goal of the qualified opportunity zone law is to encourage investment in low-income areas. It does this by establishing qualified opportunity zones (QOZ's) that meet low-income demographic criteria, and incentivizing investment in those QOZ's by offering tax breaks to taxpayers who invest in them in a qualifying manner.

QOZ's are census tracts that (a) meet the median family income and/or poverty rate criteria of IRC §1400Z-1(c)(1)*, (b) are nominated to become QOZ's by the state governor (who may nominate up to 25% of all qualifying tracts in their state), and (c) are certified by the U.S. Treasury Secretary.

The two major requirements imposed on an investment fund in order to qualify as a qualified opportunity fund (QOF) are:

- 90% of a QOF's investment must be made and maintained in one or more QOZ's; and
- If real estate in a QOZ is acquired, unless the QOF is its "original user" (either land or buildings with a sufficient duration or percentage of vacancy), the QOF must additionally invest 100% of the original amount into the property (or 50%, if the QOZ is entirely a "rural area").

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* QOZ's must be selected from among census tracts meeting ***either*** of the following tests:

Median family income (MFI) test:

If the tract ***is not*** within a metropolitan area, its MFI does not exceed 70% of the statewide MFI, ***or***

If the tract ***is*** located within a metropolitan area, its MFI does not exceed 70% of the metropolitan area's median family income.

Poverty rate test:

The tract has a poverty rate of at least 20%, ***and***

If not located within a metropolitan area, its MFI does not exceed 125% of the statewide MFI, ***or***

If located within a metropolitan area, its MFI does not exceed 125% of the metropolitan area's MFI.