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CC:PA:LPD:PR (REG-115420-18), room 5203
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Dear Mr. Dinwiddie,

We thank you for the opportunity to comment on the proposed rule for Investing in Qualified Opportunity Funds, IRS REG-115420-18 ("proposed regulations"), Revenue Ruling 2018-29, and draft IRS Form 8996. With the potential to become the nation's largest economic development initiative, and 12 percent of all census tracts across the United States covered, we believe that the Opportunity Zones incentive will have outsized national impact, and as such, should require adequate reporting to understand investment flows that result and prevent waste, fraud, and abuse. We believe that detailed and non-burdensome Opportunity Fund- and transaction-level reporting are necessary for the Department of Treasury to fulfill its legal obligation pursuant to the Tax Cuts and Jobs Act of 2017 to annually evaluate and report on the impacts of the Opportunity Zones incentive.

As a Principal Research Associate and director of the Community Economic Development Hub at the Urban Institute, I (Brett Theodos) have considerable experience studying federal community economic development programs and policies, along with capital flows and investment into communities. The Urban Institute, where we are both employed, is a nonprofit and nonpartisan research and policy organization based in Washington, DC. We are, however, representing our own views in this submission.

We have been actively engaged in Opportunity Zones from initial proposals through gubernatorial selection of Opportunity Zones (Zones). And we are now working with local communities and governments across the country on implementation.

We are troubled by the lack of reporting requirements for Opportunity Fund investors written into the proposed IRS regulations released in October 2018. Draft IRS Form 8996, last revised December 2018, solely requires reporting at the Opportunity Fund-level and limits reporting to the total valuation of Zone property and total assets. We understand you are further considering reporting requirements for Opportunity Funds/investors, and strongly encourage the inclusion of the basic Fund- and transaction-level information needed to investigate the incentive. Such information will be necessary to collect if the Department of Treasury is to comply with its statutory obligation to regularly report on the adequacy of the law.

Considering the billions of dollars in forgone federal tax revenue that will be provided to investors by this incentive, a mechanism for requiring sufficiently detailed reporting should be included. It is our belief that a modest set of metrics can both provide the detail needed and prove not overly burdensome to record and report. In our view, a proactive annual reporting approach that takes stock of each Opportunity Fund's inventory would fulfill these ends.

Without full understanding of the projects supported by this community economic development incentive, little can be done to properly assess and monitor its results for communities. With access to these data, waste, fraud, and abuse can be more actively reduced. A compact series of reporting requirements can satisfy multiple functions and stakeholders in one step.

While other community development programs have sometimes required more intensive impact reporting—for example, going back years later to do original data collection about the number of jobs created for every project—we think Opportunity Zones should be treated differently. The program's effects can be sufficiently well observed and understood as long as basic inventory reporting is required, which has the benefit of imposing less burden on investors than extensive original data collection. The set of facts and figures required to monitor Opportunity Zones is the very set of information Opportunity Funds will be themselves tracking and collecting to analyze their own investments.

For the ease of all parties involved, information should be recorded and reported with clear guidelines very early in the lifetime of the incentive. In the interest of complete, accurate, and nonburdensome reporting, all parties would benefit from collection and reporting in an ongoing fashion, rather than retroactively years later in the process. It is essential that this information be proactively reported rather than kept on hand in case of audit—there is little rationale for withholding it from the government's obligation to evaluate the program.

The federal government should collect basic information on Opportunity Zone investments that provide answers to five simple questions:

- **Who**: Who is making an investment? Who is receiving an investment? What are the basic industry and size attributes of the business receiving the investment?
- **What**: What is the purpose of the project?
- **When**: When was the investment made?
- **Where**: Where is the project located?
- **How much**: What is the investment amount?

While the IRS considers revisions to Form 8996 as part of these proposed regulations, we urge you to include additional Fund- and transaction-level reporting requirements, as the current version does not adequately capture what needs to be known. In Appendix A, we submit for your consideration a comprehensive series of metrics that would allow Treasury to report to Congress an "assessment of the impacts and outcomes of the investments in those areas on economic indicators including job creation, poverty reduction and new business starts, and other metrics as determined by the Secretary," as required in the Conference Report of the Tax Cuts and Jobs Act of 2017. Treasury's ability to determine outcomes of Opportunity Zones and ascertain broader economic trends in designated census tracts will be directly reliant on the availability of transaction-level data from the incentive.

It is worth stressing that the metrics we are suggesting are already known to all Opportunity Funds and will not require original data collection. All Funds (or their parent organizations, depending on how they are structured) record in their investment/data management systems information the nature of their investment, the address of their investment, the purpose of their investment, and the size of their investment.

There is strong precedent for similar reporting requirements in other federal incentives and programs, including for transaction-level reporting. While each program is different from the others in some ways—and Opportunity Zones as well—they provide a useful roadmap for how the federal government engages in monitoring and evaluation for economic and community development programs.

- The NTMC requires all Community Development Entities (CDE) to provide within 60 days of an equity investment public notice of the amount paid to them by an investor and the CDE's taxpayer identification number. Detailed address, project purpose, and financing provided information is provided annually.
- Under the CDBG program, the Secretary of HUD is statutorily required to report to Congress the local governments receiving funds, the amount of each grant, a brief summary of each funded project, any involvement from other public/private entities, and employment and economic impact.
- When claiming the 1031 Exchange (deferring capital gains taxes on like-kind property exchanges) on income taxes, individuals are responsible for providing the IRS with a description of the initial property and new property, the date the initial property was sold, the date the new property was obtained, the amount of the capital gain made on the sale, the fair market value of both properties, liabilities paid off or assumed from either transaction, cost of sales expenses, amount of payment in cash, and cost basis of each property.

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- All community development financial institutions (CDFIs) are required to submit annual reports to the CDFI Fund detailing all activities, financial conditions, and any performance goals (if part of the initial assistance agreement).
- The Economic Development Administration tracks investment amounts, locations, investees, purposes, and dates for all projects.
- State housing finance agencies track and report to HUD similar information about LIHTC projects.
- The SBA receives identified, transaction-level reporting on every firm receiving a loan or investment.

While we are stopping here for the sake of brevity, there are ample other examples as well, which makes clear the precedent for reporting under incentives and programs of this nature. We believe the IRS should include similarly detailed and nonburdensome reporting requirements in their proposed regulations for investing in Opportunity Funds.

Importantly, much of the information about the programs and incentives described above is made available in some form to investors, state and local governments, and researchers. While the principal reason to collect the Opportunity Fund- and transaction-level information we recommend is for the IRS to fulfill its statutory evaluation obligations, we would encourage the IRS to begin thinking now about how to aggregate and share information about Opportunity Fund investments with the public with as much spatial granularity as possible so that others can also work to understand and assess this important initiative.

We appreciate your consideration of these comments and welcome any future opportunity to work with the Department of Treasury to ensure that the Opportunity Zones incentive can achieve maximum benefit for communities across the country and grow the community development finance ecosystem.

Respectfully,

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Appendix A: Recommended Reporting Metrics for Opportunity Funds

For each Opportunity Fund, identifying information should be included on both the Fund and its largest investors, as well as general accounting information on assets and expenses. These should be reported on an annual basis.

Recommended Fund-level Opportunity Zone reporting requirements

- Fund name
- Fund EIN or SSN
- Fund DUNS
- Fund address
- Total assets under management
- Eligible investments deployed in a qualified Opportunity Zone businesses (to calculate a deployment ratio)
- Total investment income – gross yield on assets
- Operating expenses
- Investment losses
- Single or multiple investor fund
- Name all investors with more than 10% share, include their % share and their EIN/SSN/DUNS
- If single, name investor, SSN

More detailed transaction-level should also be required – for every investment made, on an annual basis. At this level, identification numbers should be provided in addition to data on the amount invested in a project, location, type of project, and date of investment. The complete list of recommended transaction-level reporting requirements follows.

Recommended transaction-level Opportunity Zone reporting requirements

- Fund name
- Fund EIN or SSN
- Fund DUNS
- OZ investee business address
    - Street address line 1
    - Street address line 2
    - City
    - State
    - Postal code
- Qualifying OZ census tract ID
- OZ investee business name
- OZ investee business EIN
- OZ investee business DUNS (required for operating businesses)
- OZ investee business revenues for:

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  - Most recent financial year
  - Next most recent financial year
- OZ investee employment at:
  - End of most recent financial year
  - End of next most recent financial year
- OZ business NAICS
- $ total project costs (to include non-OZ-linked funds)
- $ of qualifying OZ-linked capital gains invested
- $ of qualifying OZ-linked capital gains invested by use (needed to define "substantial improvements")
  - $ for land acquisition
  - $ for building acquisition
  - $ for new construction (hard costs)
  - $ for rehab (hard costs)
  - $ for soft costs
  - $ for equipment, working capital
- Project type (for the project or part of a project directly supported by OZ-linked capital gains invested – measured as a % of OZ-linked capital gains invested and summing to 100%)
  - Real estate: Rental – Single family
  - Real estate: Rental – Multifamily
  - Real estate: Owner-occupied – Single family
  - Real estate: Owner-occupied – Multifamily
  - Real estate: Commercial
  - Real estate: Industrial
  - Real estate: Institutional
  - Operating business - equipment
  - Operating business – inventory
  - Operating business – other
- Investment closing date (day, month, year)

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