



The Honorable Steven Mnuchin
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

September 6, 2018

Dear Mr. Secretary,

The U.S. Impact Investing Alliance and our members represent collectively over 800 investors and financial intermediaries who are actively engaged in deploying private capital to advance the public good. We believe that it is possible to leverage the power of markets to create measurable social, economic and environmental benefits, and that investors can play an important role in achieving desirable policy outcomes.

Many of our members and stakeholders have particularly deep knowledge of and experience investing for community economic development. They include individual investors, institutional investors, banks, Community Development Financial Institutions (CDFIs) and foundations that understand the importance of place, local context and authentic community engagement when investing in low-income communities. For this reason, we have taken a keen interest in Opportunity Zones and Opportunity Funds and the development of pertinent regulations.

We believe that the new Opportunity Zones tax benefit has the potential to create an important new market for investment in low-income communities. A well-functioning market will direct capital towards projects and enterprises that meet the goals of Congress in establishing the benefit by creating new social and economic opportunities. To that end, certain market structures – including appropriate regulation – will be necessary to enable capital to flow efficiently. **In particular, the Opportunity Zones market cannot function efficiently without access to basic, transparent data about Opportunity Funds and their investments.**

In this letter, we propose that you instruct the Internal Revenue Service or another agency of the Department to collect this data. Such data will be readily available to Opportunity Fund managers, necessary to inform the financial decisions of investors and highly valuable to state and local policy makers.

RECOMMENDATION: Proposed Framework for Collection of Transaction Data

Opportunity Funds will need to file annually with the IRS to certify their compliance with 1400Z-2(d)(1). The requisite form presents the ideal opportunity to efficiently capture basic transaction data from Opportunity Funds. This data could then be publicly disseminated in a way that protects proprietary or confidential information (either through anonymization or aggregation), while still creating the various market efficiencies envisioned above.

Specifically, we believe that Opportunity Funds could reasonably be asked to report, at a minimum, the following information on an annual basis:

- Value of investment capital received into the Opportunity Fund
- Value of investment capital received into the Opportunity Fund eligible for special treatment under 1400Z-2(a)
- Summary of transactions completed in the given tax year, including:
 - Type of Qualifying Opportunity Zone Property acquired
 - Amount invested in the Qualifying Opportunity Zone Business (QOZB) in the case of Qualifying Opportunity Zone Stock or Partnership Interest; (OR) investment basis in the case of Qualifying Opportunity Zone Business Property (QOZBP)
 - NAICS Code representing the trade or business of QOZB or QOZBP
 - Location (either census tract or address) of the underlying QOZB or QOZBP
- Other data points, as determined by the Secretary, as needed to assess the impacts and outcomes of the investments in those areas on economic indicators -- including job creation, poverty reduction, and new business starts.

As discussed below, all of this information will be readily available to an Opportunity Fund manager and could be reported at little to no cost. At the same time, we believe this data set would enable rigorous analysis at the fund, zone and national levels. Such information would be vitally important to local leaders in the near term and would underpin a national analysis of the policy's efficacy in the long-term.

RECOMMENDATION RATIONALE

1. Data Transparency Facilitates Market Formation and Development

We believe that through a variety of mechanisms, the collection and reporting of basic data will encourage the flow of private investment capital off the sidelines and into Opportunity Zones.

First, **information connects potential investors and Opportunity Fund managers to investment opportunities**. Because investors have to deploy capital into Opportunity Funds within 180 days, it is important that we establish tools to quickly identify opportunities that align with their investment objectives. Many of these investment discovery tools will be created and disseminated by private actors, but the Department can facilitate these efforts through an appropriately scaled collection and reporting of basic Opportunity Fund data, to include publicly available information that would enable businesses, developers and other interested parties to connect with Opportunity Funds serving their markets.

Second, transparency around Opportunity Fund activity will **help state and local leaders ensure their Opportunity Zones are able to attract investment capital**. They might do so by deploying additional resources – such as through infrastructure investment, additional tax incentives or workforce development programs – or by aligning zoning requirements and other economic development policies. Market data will allow community advocates and local officials alike to understand what's working to stimulate the flow of capital and to adjust state and local policy accordingly in real-time.

Finally, consistent and transparent collection of Opportunity Fund data will allow for a **rigorous evaluation of the Opportunity Zone policy itself**. A common framework for collection and reporting of Opportunity Fund data should create a baseline data set to enable the long-term evaluation of the policy and its impact on Opportunity Zones individually and in aggregate.

Different stakeholders (Congress, local leaders, investors, etc.) will have different approaches to this evaluation, but all will benefit from consistent and transparent transaction data.

2. Data Transparency Produces Benefits for Opportunity Funds and their Investors

We also believe that an appropriately scaled data collection effort could be implemented by IRS with minimal impact on the operations of Opportunity Funds or the enterprises in which they invest. Basic transaction data will be readily available to Opportunity Fund managers, and they will need to track much of the same information to ensure compliance with 1400Z2(d)(1). Standard reporting of this data can be designed to create little or no additional costs.

In many cases, investors will use similar reporting to inform their decision making. In this sense, a common reporting framework creates efficiency and allows investors and fund managers to quickly compare like-with-like. This common framework and the participation of IRS and Treasury can also engender investor confidence in an emerging market, thereby encouraging more investors to deploy more capital in Opportunity Zones. Finally, a common framework for collecting basic transaction data facilitates the creation of more sophisticated, private market tools to direct capital towards specific community development objectives.

3. Treasury Currently has the Necessary Authority to Collect Transaction Data

The statutory language creating Opportunity Zones gives the Department of Treasury the necessary authority to collect and report basic transaction data. As discussed above, collection of this data will enable Opportunity Fund managers to track and certify their compliance with 1400Z-2(d)(1). The Secretary is given the specific authority to promulgate regulations that facilitate the certification of qualifying funds under (e)(4)(A).

Furthermore, though we primarily see this data collection effort as a means to promote the efficient formation and deployment of capital, an ancillary benefit would be to inform the Secretary and the Department in promulgating rules to prevent abuse, as envisioned in (e)(4)(C).

Finally, the intent of the statute – to incentivize investment in low-income communities – is clear from both statutory language and legislative history. To the extent that 1400Z-2 is intended to further that goal through the creation of specific tax benefits, and to the extent that those benefits are made more attractive to investors by the collection and reporting of basic transaction data, the Secretary has the broad authority to promulgate regulations that enable this reporting under (e)(4).¹

¹ The language of the conference report, the legislative history of the statute, and both contemporary and subsequent commentary from the statute’s principal sponsors all further suggest that Congress viewed the collection and reporting of certain information about the activity of Opportunity Funds and the subsequent effects on Opportunity Zones as important components of the overall policy. That the statute gives the Secretary broad rather than narrow authority to design this reporting scheme should be taken as further encouragement to consider the needs of market participants (investors, fund managers, local policymakers, and Opportunity Zone residents) in this process.

Thank you for your time and consideration in reviewing these comments. We look forward to staying engaged with the Department on this and other important components of Opportunity Zones implementation going forward.

Sincerely,

Fran Seegull

Executive Director

U.S. Impact Investing Alliance

CC:

Dan Kowalski, Counselor, Office of the Secretary, Department of Treasury

Scott Dinwiddie, Associate Chief Counsel, Internal Revenue Service