Municipal officials upbeat on tax-break program

Opportunity zone designation may help investment in Scranton, Blakely, Jessup.

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Blakely, Jessup and parts of Scranton will be part of a federal tax-incentive program to drive investors to distressed communities.

The Department of the Treasury recently approved 300 U.S. Census tracts throughout Pennsylvania as opportunity zones, including Blakely and Jessup and six areas in downtown Scranton. Under the Qualified Opportunity Zone program, businesses and investors will be able to delay or avoid paying federal capital gains taxes on investments made in the zones. Capital gains are the appreciations of investments.

In April, Gov. Tom Wolf nominated census tracts from across the state based on poverty rates and median family income, according to the state Department of Community and Economic Development's website. The program stems from President Donald Trump's tax-cut program.

The opportunity zones will give the Greater Scranton Chamber of Commerce "an opportunity for us to bring some more incentives — resources — to the table ... without negatively impacting any of the local municipalities or taxing bodies," chamber President Bob Durkin said.

"There's no question this is another one of those tools we may be able to use in terms of trying to entice businesses to come here," he said.

Businesses and investors who put unrealized capital gains into opportunity zones can defer paying federal taxes on the profits, as well as receive reductions on tax liability. Unrealized gains are profits on paper that have not been converted into cash. The longer an unrealized gain stays invested, the greater the reduction in federal taxes on the profits.

After five years, investors receive a 10 percent reduction in taxes on deferred gains from investments in opportunity zones, a 15 percent reduction after seven years and a 100 percent reduction after 10 years, said Geoffrey Mesko, a shareholder for Philadelphia- and Scranton-based tax advising firm Drucker & Scaccetti.

Investors have 180 days from the time they sell an asset to either put the funds in an opportunity zone or choose to pay taxes, Mesko said.

The tax incentives will revitalize the designated areas by drawing in money that would not have otherwise been invested, Scranton council President Pat Rogan said. Scranton's zones comprise the downtown and adjacent areas in South Side, the Hill Section and Green Ridge.

"It should bring in large investments," he said. "Any time investors can invest on a tax-free basis, that gives those zones a huge advantage."

Jessup council President Gerald Crinella and Blakely council President Joseph Ercolani were optimistic about the opportunity zones in their towns but wanted to learn more about the program.

"We don't really have much of the specifics," Ercolani said, adding that the borough encourages any type of investment.

Likewise, Crinella believed the zones could "create an opportunity for investment" but was researching the program further.

With the locations approved, the Department of the Treasury is still in the process of developing the opportunity zone program, according to DCED. The program was not written as completely or as clearly as it could have been, Mesko said.

"We really need a lot more guidance on this to advise our clients appropriately," he said.

For example, there has not been any clarification on the structure of the investment — meaning whether a fund can be created to invest in opportunity zones, Mesko said. It is not clear if the law would allow a "multitiered entity" like an LLC or partnership to invest in the zones. It is also unclear what business properties qualify, Mesko said.

To fall under the program, 90 percent of a business's property has to be newly acquired after Dec. 31, 2017, he said.

"Is that just intended for expansion of businesses, or building of new properties, or can you take an existing property that you already owned that's in a qualified opportunity zone and just rehabilitate that, and will that qualify?" Mesko said, noting that the program leaves "many, many questions."

Moving forward, the IRS is expected to provide additional guidance sometime in July, he said.

Contact the writer: flesnefsky@timesshamrock.com; 570-348-9100 x5181; @flesnefskytt on Twitter