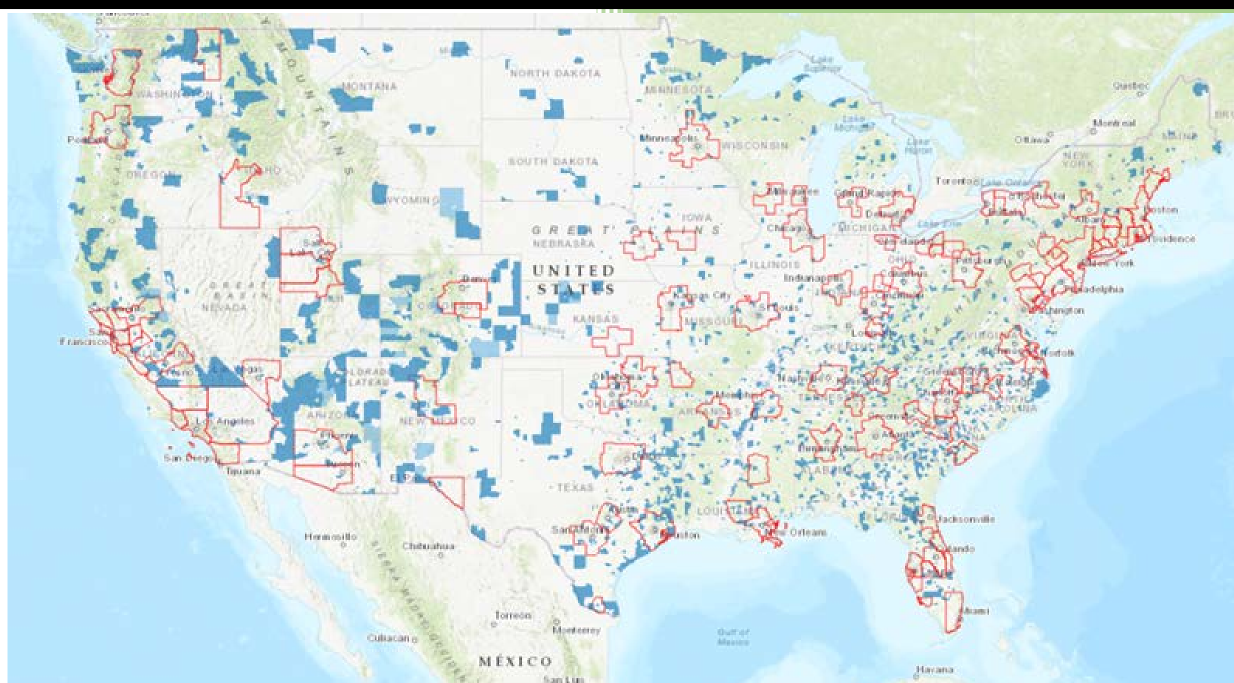
Examining opportunity zones by looking at enterprise zones of the past: Can tax-incentivized areas truly help or just hurt impoverished people for the sake of the rich



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Introduction

How to improve the economic well-being of improvised communities may be one of the most difficult yet important issues facing America. Among the world's richest nations, the United States has the second highest poverty rate[1].While there are multiple theories and opinions[2] on how to improve the nation's poverty, one of the more controversial solutions is the concept of tax-incentivized zones. Tax-incentivized zones are designated areas providing certain tax-benefits providing qualifying organizations with certain tax exemptions, deductions and credits. Ideally, they are supposed to help poorer neighborhoods through businesses improving the local economy with new job opportunities. In 2017, the U.S adopted a federal policy setting up tax-incentivized areas across the nation called opportunity zones. Opportunity zones are the first federally passed tax-incentivized areas only giving out tax benefits. With the passing of this new law, advocates and tax professional alike have already drawn conclusions on the policy. Some believe it will fail while other predict its revolutionary success[3]. Despite the precedent set on the federal level, states have already had a history with enterprise zones; a program similar to OPs. EZs present a treasure-trove of data on the use of tax-benefits for financial development. Data which can help to predict if the opportunity zones will succeed or fail. Analyzing the history of tax-incentivization, especially the U.S enterprise zones, foreshadows how opportunity zones are not only likely to fail but also hurt the very people they are supposedly attempting to help.

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[1] Merelli, Annalisa. "The US Has a Lot of Money, but It Does Not Look like a Developed Country." *Quartz*, Quartz, 21 Mar. 2017, qz.com/879092/the-us-doesnt-look-like-a-developed-country/.
[2] Vallas, Rebecca, and Melissa Boteach. "The Top 10 Solutions to Cut Poverty and Grow the Middle Class." *Center for American Progress*, 17 Sept. 2014, www.americanprogress.org/issues/poverty/news/2014/09/17/97287/the-top-10-solutions-to-cut-poverty-and-grow-the-middle-class/.
[3] Weaver, Timothy. "Does the 'Opportunity Zone' Model Work?" *CityLab*, 16 May 2018, www.citylab.com/equity/2018/05/the-problem-with-opportunity-zones/560510/.

The use of tax breaks to improve regions has an interesting and elaborate history. This paper goes through the creation of the concept, its past in America and the new nationaladditiona of opportunity zones in nine parts. Beginning with Part I, the background of EZs in the U.K will be explored. Followed by Part II which explains their introduction in the U.S. Then, Part III explains the restrictions and laws behind opportunity zones. In Part IV, the paper looks at Indiana enterprise zones. The discussion continues in Part V with a similar examination of Maryland's EZs. After explaining the two states' past with the policy, Part VI compares the results of both. Afterward, Part VII forecast the effectiveness of OPs through looking at the nation's past with tax-incentivization. Evaluating the ethics of the program, Part VIII elaborates on the possible gentrification. Lastly, Part IX wraps up the paper with the conclusion.

Part I: Background on the United Kingdom's Enterprise Zones

The concept of tax-incentivized zones originated in the United Kingdom in the 1970's by urbanologist Peter Hall. Peter Hall got the idea from observing the economic success of eastern cities like Singapore and Hong Kong[4]. Seeing the decline in major inner cities in the U.K., Peter Hall wanted a solution that would revitalize cities but not in the traditional means of the time. Inspired by the low regulations and low taxes of economically booming Singapore and Hong Kong, Hall created "freeports[5]." "Freeports" are areas that would encourage "fairly shameless free enterprise" through massive deregulation. In Hall's ideal freeports, taxes would be abated on profits and capital gains, sales would be duty free, social services and labor protection would be cut and strong trade unions would be officially discouraged[6]. Official implantation of Hall's

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[4] Gunther, William D., and Charles G. Leathers. "British Enterprise Zones: Implications for U.S. Urban Policy." *Journal of Economic Issues*, vol. 21, no. 2, 1987, pp. 885–893., doi:10.1080/00213624.1987.11504680.
[5] Hall, Peter, et. al . , "Urban Enterprise Zones: A Debate," International Journal of Urban and Regional Research 1982
[6] Kennedy, Marie. "IF ENTERPRISE ZONES DON'T WORK, WHY ALL THE CONTROVERSY? ." 1986.

vision would come from Sir Geoffrey Howe, a member of British Parliament and Margret Thatcher's first Chancellor of the Exchequer, who introduced the policy idea in his 1980 budget speech. Howe promised economic growth in inner cities from the reduced taxes and regulations. The law designating the zones was the Local Government, Planning and Land Act of 1980.

In the Local Government, Planning and Land Act of 1980, there were two major deregulations and three key tax-incentives. The first deregulation was the removal of the need to inform government industrial training boards on training requirements. The second was simplified regulatory procedures[7]. As for the tax-incentives, there was exemption from property taxes on industrial and commercial property, 100% deduction on corporate tax and income tax for capital purchase on industrial and commercial buildings and exemption from development land tax[8]. A tax exemption[9] is a tax that one no longer owes to the government. With an exemption on property and land tax, one does not have to pay government for those items[10]. A deduction is a subtraction from taxable income. While both exemptions and deductions are taxes that do not need to be paid, exemptions different from deductions. Exemptions are a subsection of taxes on items one no longer needs pay. Deductible items are still added to taxable income but are subtracted after they are added[11].

In 1981 to 1993, eleven enterprises zones were established, later expending to twenty-four in total. With the intention of observing rather than full implementation, the enterprise zones

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[7] Gunther, William D., and Charles G. Leathers. “British Enterprise Zones: Implications for U.S. Urban Policy.” *Journal of Economic Issues*, vol. 21, no. 2, 1987, pp. 885–893., doi:10.1080/00213624.1987.11504680.
[8] Ibid.
[9] Staff, Motley Fool. “What Is a Tax Exemption?” *The Motley Fool*, The Motley Fool, 8 Dec. 2016, www.fool.com/knowledge-center/what-is-a-tax-exemption.aspx.
[10] TurboTax. “What Are Tax Exemptions?” *TurboTax Tax Tips & Videos*, turbotax.intuit.com/tax-tips/irs-tax-return/what-are-tax-exemptions/L5xCsvZKO.
[11] S, Surbhi. “Difference Between Deduction and Exemption (with Comparison Chart).” *Key Differences*, 26 July 2018, keydifferences.com/difference-between-deduction-and-exemption.html.

were only designated to last for a 10-year period[12]. They were set-up in areas that were considered “economic problems”[13] as well as a history of heavy public sector involvement. Ranging from 100 to 900 acres, the zones were relevantly small to the U.S. zone. These zones were focused on economic development through industrialization rather than community development in it of itself. Not to mention, residential areas were bordered out of the zones themselves. Unlike the U.S, these zones were intended to solve economic decline primarily through industry than privatization by itself[14]. While the studies on the enterprise zones each differed in some way, the studies seemed to agree the goal of increasing industry failed. Survey and research showed any increase in economic activity matched the activity outside the zone. Zone managers cited the only important characteristic was the exemption on property tax[15]. Plus, 70% of the jobs created from the areas came from relocation. Seeing the evidence of relocations increasing activity not the program themselves, the British government decided to let them expire without developing the program any further. Despite the failure in the U.K, the U.S. would still adopt the concept of tax-incentivized zones in 1980 with much more controversy surrounding their success.

Part II: The U.S adopting Enterprise Zones

In 1980, the Heritage Foundation’s Stuart Butler began advocating an American adoption of enterprise zones. Stuart Butler is a British born economist educated in America. When at the Heritage Foundation, he championed the creation of these zones and would later see them as a

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[12] Papke, Leslie E. “What Do We Know about Enterprise Zones?” *Tax Policy and the Economy*, vol. 7, 1993, pp. 37–72., doi:10.1086/tpe.7.20060629.
[13] Ibid
[14] Ibid
[15] Ibid

main component for the Regan administration's policy[16]. While the tax-incentivized areas were introduced on the national level by Congressman Jack Kemp, they would not be federally enacted until the Clinton administration in 1993 with major changes to the idea. Republican Congressman Kemp, an advocate of supply-side economics, submitted the bill to Congress in 1980. After withdrawing the bill, Kemp resubmitted a new version co-sponsored by Democratic Congressman Robert Garcia in 1981. Even though the Regan administration did not support the bill, they did push their own form of legislation based off it. Along with support from Kemp and Garcia, the bill received bipartisan and support from the National Association of Advancement of colored people[17]. However, even with the bipartisan support, enterprise zone bills would still fail in the House. Eventually, the Regan administration withdrew its supports because of the multiple failures to pass. A provision was passed in the Housing and Community Act of 1987 but the Secretary of Housing and Development Jack Kemp, but he did not implement it[18]. Finally, under President Clinton in 1993, the bill was enacted with inclusion of federal grants added to the tax incentives. While the federal government ran into many difficulties passing enterprise zones, state EZ legislators found a much easier time setting up their zones.

Illinois was the first U.S. state to pass legislation for an enterprise zone in 1979. Compared to Sir Peter Hall's original vision, Illinois' bill was very weak. Originally, the bill cut minimum wage laws and reduced safety codes[19]. Environmental, civil rights and labor organization alike pushed against the bill until what was passed was nothing like the original tax-

[16] Turner, Robert C., and Mark K. Cassell. "When Do States Pursue Targeted Economic Development Policies? The Adoption and Expansion of State Enterprise Zone Programs." *Social Science Quarterly*, vol. 88, no. 1, 2007, pp. 86–103., doi:10.1111/j.1540-6237.2007.00448.x.
[17] Mossberger, Karen. *The Politics of Ideas and the Spread of Enterprise Zones*. Georgetown University Press, 2000.
[18] Ibid
[19] Turner, Robert C., and Mark K. Cassell. "When Do States Pursue Targeted Economic Development Policies? The Adoption and Expansion of State Enterprise Zone Programs." *Social Science Quarterly*, vol. 88, no. 1, 2007, pp. 86–103., doi:10.1111/j.1540-6237.2007.00448.x.

incentive zones[20]. Now about thirty-seven states have enacted some form of enterprise zones, each ranging in different strengths in regulations. Some states have only one designated section while others have upwards of 100. Zones are relatively small in both area and population. EZs have been sufficiently studied and will be examined later in the paper.

While there was legislation with President Clinton on tax-incentivized zones, these zones were not the federal policy that Butler, Kemp and Hall would have envisioned at all. In 1993, EZ's laws were filled with government grants and spending not in line with the more conservative approach wanted by supply-side advocates[21]. The actual federal fulfillment of Butler's concept for economic revitalization came in the Federal Tax Cuts and Jobs Act.

Part III: The Opportunity Zones

In 2017, Congress passed the Federal Tax Cuts and Jobs Act. The new law changed the tax code and introduced many new concepts that will affect individuals and businesses. One of these new concepts is opportunity zones[22], areas in impoverished communities with special tax incentives designated to improve economic well-being. Inspired by the past enterprise zones, opportunity zones rely on freeing up regulation and tax to encourage free-market investment. While many support opportunity zones for their potential good, others question their

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[20] Ibid
[21] "Where's the Power in the Empowerment Zone?" *City Journal*, 26 Jan. 2016, www.city-journal.org/html/where%E2%80%99s-power-empowerment-zone-12129.html.
[22] "Opportunity Zones Frequently Asked Questions." *Internal Revenue Service*, www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions.

effectiveness. When looking at similar attempts in the past, critics[23] conclude that tax-incentivized zones will not only fail to help communities but also encourage gentrification[24].

Regardless of the effect on poverty, investors and advocates alike are paying close attention to these zones. With estimations of $30 to $100 billion going to areas that might be deemed opportunity zones[25], there is a lot of interest in the them. Before looking into their effectiveness, it is important there be an explanation of what opportunity zones are as well as what they are actually providing. Opportunity zones were introduced in the Federal Tax Cuts and Jobs Act of 2017. They are designed to improve the economic well-being of underprivileged neighborhoods by encouraging job and business development with tax incentives coming from what is known as a qualified opportunity Fund. Qualified Opportunity funds are a type of investment vehicle set up in a similar fashion to a partnership or an LLC. 90% of assets will be invested into these funds as well as provide an ease of access to pool capital[26]. While the details are still subject to change, governors oversee implementation of OPs. Governors can choose up to 25% of the state's low-income census tracts which qualify for the program. Low-income census tract are areas with an individual poverty rate of at least 20% as well as median family income no greater than 80% of the area median[27]. In 5% of a population census tract, an area whose median family income does not exceed 125% of the median family income of the low-

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[23] Weaver, Timothy. "Does the 'Opportunity Zone' Model Work?" *CityLab*, 16 May 2018, www.citylab.com/equity/2018/05/the-problem-with-opportunity-zones/560510/.
[24] EDSON, ALLEN. "Gentrification." Race, Poverty & the Environment, vol. 8, no. 1, 2001, pp. 30–30. JSTOR, www.jstor.org/stable/41554318.
[25] Mattson-Teig, Beth. "An Increasing Number of New Real Estate Funds Target Opportunity Zones." *National Real Estate Investor*, 10 Oct. 2018, www.nreionline.com/finance-investment/increasing-number-new-real-estate-funds-target-opportunity-zones.
[26] "Opportunity Zones Program - An Updated Overview of Program Details and What's Ahead." *Enterprise Community Partners*, www.enterprisecommunity.org/resources/policy-focus-opportunity-zone-program.
[27] Carroll , Rachel. "Opportunity Zones Program: An Early Overview of Program Details and What's Ahead." *Enterprise*, Jan. 2018.

income census tract can apply to join the program without being a low-income census tract. Basically, these funds provide three tax benefits: temporary deferrals, step-up basis, and permanent exclusions[28]. First, temporary deferrals are an exclusion for taxable income on capital gains invested in the qualified opportunity funds until 2026. For example, if a business sells an investment for a gain instead of paying a tax on the gain at the end of the fiscal year, the business can delay the tax owed all the way to 2026[29]. Delaying capital gain taxes encourages business to sell property and generate revenue that they can invest back in to the community. Deferrals are a very advantageous tool for a business especially when it is just starting out as to avoid paying taxes that can prevent its early growth. While they will need to eventually pay the taxed owed, they will be able to pay it when their business has already grown so it will not be as much of a financial burden. Plus, there is no interest added to the amount owed so with inflation the amount in 2026 will be less than the amount in which the tax was incurred. Second, step-up[30] basis is the increase in an investment's basis (its currently worth). In the opportunity zones, investments will receive a step-up basis of 10% if kept in the fund for at least five years, as well as an additional 5% if kept for seven years. Increasing the basis of one's investments is a coveted ability to many businesses. For instance, if I were to buy a building at $500,000, the building's beginning basis would be $500,000. Let's say, I wanted to sell the building at a price of $1,000,000. The gain of $500,000 ($1,000,000-$500,000) would be subject to tax. However, if the basis of the building was increased to $750,000, there would only be a tax on $250,000 ($1,000,000-$750,000) because the basis or the worth of the building was increased. The $250,000 would incur less tax than $500,000 leading businesses to always try and increase their

[28] "The Tax Benefits of Investing in Opportunity Zones." *The Tax Benefits of Investing in Opportunity Zones*, 2018, eig.org/wp-content/uploads/2018/01/Tax-Benefits-of-Investing-in-Opportunity-Zones.pdf.
[29] Ibid
[30] Ibid

basis. If they ever wanted to sell their business or property, the higher the basis the less tax owed. Finally, permanent exclusion is a permanent exclusion from having to pay taxes on capital gains on an investment held within an opportunity zone for at least 10 years. With the incentive of avoiding taxes from selling an investment, a permanent exclusion will encourage business to invest in poor community because they can sell their investment in 10 years without having to pay any capital gains tax. Temporary deferrals, step-up basis and permeant exclusion are the advantages that make opportunity zones so craved in the business and finance world. However, while they will probably benefit the investors and business people of the U.S, there is still the question of whether they will really help the people who live in the designated areas.

Opportunity Zones were just introduced in the tax bill and they have not been fully utilized yet so there are very little studies on their effectiveness. However, I will be looking at the already established state enterprise zones that were made to deal with improvised areas from the past to draw conclusions. The two states this paper will be using as pieces of studies are Indiana and Maryland. Indiana has a number of studies[31][32][33] on their EZs while Maryland has an official Government Accountability Office (GAO) report[34]. In Indiana, the results seemed to point to very little improvement for the residents as well as the cost not being worth the benefit. While the GAO report agreed the cost was not worth the zones, they also cited the zones as inefficient in employment growth.

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[31] Rubin, Barry M., and Margaret G. Wilder. "Urban Enterprise Zones: Employment Impacts and Fiscal Incentives." *Journal of the American Planning Association*, vol. 55, no. 4, 1989, pp. 418–431., doi:10.1080/01944368908975431.

[32] Sheldon, A. W. "Patterns and Determinants of Enterprise Zone Success in Four States." *1989 Annual Meeting of the Urban Affairs Association*, 15 Mar. 1989.

[33] Papke, Leslie E. "What Do We Know about Enterprise Zones?" *Tax Policy and the Economy*, vol. 7, 1993, pp. 37–72., doi:10.1086/tpe.7.20060629.

[34] United States, Congress, "Enterprise Zones: Lessons from the Maryland Experience." *Enterprise Zones: Lessons from the Maryland Experience*, United States General Accounting Office, 1988.

Part IV: Indiana Enterprise Zones

Originally, six EZs were created in Indiana for a 10-year period subject to renewal. Entering the program required an unemployment rate of 1.5 times the average state rate and resident household poverty rate at least 25% above the U.S. poverty level. Plus, the population must be between 2,000 and 8,000 with a geographic area between 0.75- and three-square miles, all with a continuous boundary[35]. Like the opportunity zones, Indiana created tax incentives for bringing in economic and financial capital. There were five major benefits to investing in these areas. The first was a tax credit against local property tax owed of 100% of all inventories in the zone. Business and individuals highly value tax credit. Credits are income that can be subtracted from the taxed owed. Not to be confused with deductions or exemptions, credits are taken out of the taxed owed which means it can provide a larger benefit[36]. For example, if one has a deduction of $100 with a tax rate of 20% and a before taxable income of $7,500, the taxed owed is $1,480(($100-$7,500) x .20) = $1,480. With a $100 tax credit, the tax owed is $1,400 (($7,500 x .20) -$100) = $1,400. Second, a total exemption from corporate gross income tax of all incremental income made within the zone[37]. The third benefit is a credit for 5% of interest income for loans to EZ business or improvement of real property. Fourth, another credit dedicated to employers hiring zone residents equal to 10 percent of wages with a ceiling of $1,500 per qualified employee. The last incentive are zone residences are allowed an income tax

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[35] Papke, Leslie E. "What Do We Know about Enterprise Zones?" *Tax Policy and the Economy*, vol. 7, 1993, pp. 37–72., doi:10.1086/tpe.7.20060629.

[36] Kagan, Julia. "Tax Credit." *Investopedia*, Investopedia, 12 Mar. 2019, www.investopedia.com/terms/t/taxcredit.asp.

[37] Papke, Leslie E. "What Do We Know about Enterprise Zones?" *Tax Policy and the Economy*, vol. 7, 1993, pp. 37–72., doi:10.1086/tpe.7.20060629

deduction of one-third of their qualified adjusted gross income with a ceiling of $7,500[38]. All of these tax advantages are very craved by businesses[39] yet the data has proven it is very difficult to answer if business actually increased because of them.

While Indiana's lieutenant governor at the time praised the zones for creating 5,682 jobs and retaining 4,856 more, analysis of the EZs critique their credit for job creation. The Indiana state enterprise zones board collects data on jobs created but this number might not be accurate because they do no account for jobs lost. Not to mention, there was no description in these numbers about whether these jobs were from people in the community or outside of it[40]. In terms of job creation, studies have come to different conclusions. According to a study done by economist Leslie Papke, Indiana EZs were never truly effective rather there were other reasons for the creation of employment. Backing up Papke's argument are studies on four of Indiana's tax-incentivized areas. Three which were considered the best performing communities and one that averagely performed. Those four are Evansville, Michigan City, Hammond and Fort Wayne[41]. Each place helped to tell the story of Indiana's results with the program.

One of the earliest studies was conducted in Michigan city. Designated in 1984, Michigan city is south of Michigan Lake and in the northern part of the state. Numerous interviews were conducted with business people, local officials and zone mangers. All agreed that the tax incentives by themselves would not have led to any increase in businesses. In addition, companies revealed the program provided a "nice side benefit" but any investment in the area was long planned before the implementation of the policy. The second EZ that drew

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[38] Ibid
[39] Ibid
[40] Nissen, Bruce. *Enterprise Zones As an Economic Development Tool: The Indiana Experience* .
[41] Ibid

significant attention is Evansville. In 1984, Evansville took part in the new policy seeing a 43% employment increase. With a 43% growth, it seemed as if Evansville was a huge success. However, there were other reasons for their economic improvement. Margret G. Wilder of Cornell University and Barry M. Rubin of Indiana University concluded companies thrived because of the location, the zone administrator and other factors not related to tax-incentives[42]. While the economic success cannot be completely dedicated to tax benefits, there is evidence it did help some corporations. Inventory focused firms stated they fared very well with the policy such as warehouses and wholesale traders. Inventory companies are businesses primarily selling items as opposed to providing a service. For example, T.J. Maxx, a clothing retailer, provided most of the new jobs credited their success to the incentives. Another relevant finding of Evansville is some companies claimed the tax benefits without hiring anyone from the community. Instead of adding to the overall employment, companies would reap the advantages they could without increasing jobs in the EZs. Most likely, these companies were using the zones as “tax heaven” to cut down on their taxable income but not adding to the local economy. While Evansville was considered a huge achievement of the policy, Hammond was known as the best in Indiana. In surveys, there was a high number of people who believed the zone was solely responsible for the increase in business. Bruce Nissen, a labor studies professor at Indiana University Northwest, critiqued Hammond for relocating jobs rather than creating them. Data showed 83% of employment came from businesses who moved to the area rather than creating new jobs from entirely new companies. Lastly, there is the research on Fort Wayne. Fort Wayne had 240 businesses and 111 received tax benefits. Surveys showed both residents and business owners believed the EZs played a major role in bringing in a surplus of firms. However, 49% of

[42] Ibid

owners could not name what benefits actually helped them as well as numbers for new hires showed a progressive trend before the policy came into effect.

While the four Indiana enterprise zones did show an increase an employment, studies showed there are several reasons not related to the program for their increase in jobs. It appears there was a few other factors leading to the economic surpluses such as pre-EZ business plans and locations of the area. However, data did point to corporations admitting they benefited from some advantages like the inventory credit. Also, people in the area believed the zones helped in improving their economic situation. Not to mention, the confidence one can have in surveys and the question on why jobs being relocated to a community that needs them is a problem. The results leave too many contradictions to draw a definitive conclusion about the policy's effectiveness because employment did rise, and business profited but there are other strong reasons for the increase in employment not related to the EZs. In contrast with the Indiana's outcomes, the GAO had a much firmer stance on Maryland enterprise zones.

Part V: Maryland Enterprise Zone

In 1982, Maryland began the establishment of their enterprise zone legislation in underprivileged communities. Originally, they were only going to happen contingent on the federal government also creating EZs. While the Maryland zone laws did exist, the federal government provided very little tax benefits, so no jurisdiction applied for the federal program[43]. The law was altered to no longer rely on the national government and the first four enterprise

[43]United States, Congress, "Evaluation of the Enterprise Zone Tax Credit." *Evaluation of the Enterprise Zone Tax Credit*, Department of Legislative Services, Office of Policy Analysis, 2014.

zones were formed. Before these zones formed, they each had to pass the qualifying restrictions. A political area had to first apply with the Maryland Secretary of Business and Economic Development and qualify with one of the following criteria: for a recent 18-month period, the average unemployment must be at least 150% of the average national and state rate, the area is designated as a low-income zone, at least 70% of the people in the area have less than 80% median family income of the designated zone or the population has declined by 10% in two recent census and there has been chronic abandonment or a substantial property tax already exist[44]. Each zone will have a local administrator who will determine which business can reap the benefits of the EZs. After 60 days, an area can become a part of the program and receive three tax benefits.

Those three tax credits are a 10-year property tax credit and two employment credits. The 10-year property tax credit allows business to gain a credit against local property tax. For the first five years, a business can earn up to 80% in a benefit off their property tax. After those five years, the percentage goes down by 10% for the remining five years. For example, in year 6 it would be 70% tax credit, and in the following year 7 a 60% credit[45]. In terms of the employment incentives, there are two benefits given to businesses hiring workers. A credit for hiring workers in general and one for hiring an "economically disadvantage worker." Every employee hired will earn a company a $1,000 income tax credit while every economically disadvantage employee will earn $6,000. A business can only receive the employment tax credit if it fulfills the four requirements. The business must have at least one worker who was hired after the creation of the EZ or after the company moved to the area. Also, they must have at least one person who works

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[44] Ibid

[45] United States, Congress, "Enterprise Zones: Lessons from the Maryland Experience." *Enterprise Zones: Lessons from the Maryland Experience*, United States General Accounting Office, 1988.

at least 35 hours a week as well as spends at least 50% of their workday in the zone. Plus, at least one employee must make 150% above minimum wage[46]. Despite all the available credits for employment, they had very little effect on the overall employment.

According to the Government Accountability Office report, the enterprise zones did very little to "stimulate local economic growth as measured by employment or strongly influence most employers' decisions about business location." The report looked at three Maryland areas Hagertown, Cumberland, and Salisbury. Hagertown is in the northwestern part of the state with a population of over 34,000. Suffering from the 1981-82 recession, its average unemployment was over 14%. In dire need of an economic boost, the EZ was created in December 1982. Hagertown had 3,300 employees in businesses with at least 5 employees each. During the first 4 years, companies from service, finance, insurance, and real estate industries joined the zones. In 8 to 10 months after the designation, 191 people found jobs. Initially, it seems as if the zones were rather successful, but a closer glance put the numbers in a different light. Most of the increase in employment came from one large employer, who settled in Hagertown regardless of the tax credits because they admitted to not knowing about the program beforehand. Similar results are shown in both Cumberland and Salisbury. In 1980's northwestern Maryland, Cumberland had a population of 26,000. Blaming a lack of an interstate highway nearby and the topography of the region, they registered for a tax-incentive zone in 1982 with a current unemployment of 13%. Unlike Hagertown, the zone administrator heavily advertised the tax incentives. Jobs were created in the zone at that time but most of the jobs were attributed to a gradual improvement in the economy not the zone themselves. While Cumberland was suffered from economic problems because of location, like Hagertown, Salisbury was in decline from the 1980's recession. They

[46] Ibid

had an unemployment rate over 15% and joined the program in 1983. This local government focused on attracting larger business. Larger business did come as well as increase employment by 31 workers in January and March, but these increases were also found to not be attributed to the tax incentives. Most of the new hires were a continuation of an ongoing trend supported by statements from the company crediting rising demand instead of the program.

The GAO's report was very clear in its assessment of Maryland's enterprise zones. While research did show an uptake in new hires, there were other mitigating factors preventing the EZs from taking credit. Factors such as companies planning to move to these areas regardless of the program, improvement of the economy and increase of employment already occurring. Dissimilar to the Indiana studies, the GAO clearly states the zones were unable to improve the financial well-being in these communities. Although the studies from the two states differ in their results, both reveal valuable insights into the possible effects of certain tax-advantages.

Part VI: Comparison between Indiana and Maryland EZs

When looking at the types of tax benefits given out in the Maryland and Indiana EZs, there appears to be two kinds of advantages. One rewarding companies for hiring within the community and the other simply giving out benefits for setting up in the area. Both states had these two types of tax advantages with a few differences. IN gave a credit to employers for 10% of the worker's wages with Maryland going even farther giving a reward for employing economically disadvantage workers. Presumably, these credits were created with the intention of encouraging hiring of zone residences. Desiring a break from their taxes, companies would employ people from the community. Not only would the tax benefit help business through a boost in the income they get to keep but also aid the community with the creation of jobs. The laws created restriction making sure that only residence employment can get the tax-advantage. While the job credit was created to help both employee and employer, the general incentives were made to directly aid the business owners. Although the idea of the supply-side incentives is there will be an indirect profit to everyone, these rest exemptions, deductions and credits, not associated with hiring, were probably designed to directly assist company owners. Business are always looking for opportunity to increase their profit margins and one of the ways to accomplish that goal is to cut down on taxes. Most of the breaks between all of the zones were similar with the only real exception being the inventory credit and the loan deduction. The property tax credit and income deduction are valuable because they provide relief from paying the local government. Compared to MD, Indiana had extra specialized incentives. The inventory credit can only help industries selling high inventory such as T.J Maxx other major retailers. Plus, the loan deduction is especially assigned to motive the taking of loans for companies. Despite Indiana's EZs extra advantages, they did not seem to result in a difference in success from Maryland's.

Both MD and IN tax-incentivized program leave many doubts about their success. While employment rose, there are a number of other reasons that could have led to the creation of jobs. The issue with the data is there can never be a truly concrete answer about the zone's effectiveness. Although the GAO deems them a failure, there was data revealing they did help companies. Even thought they might not have been the main reason or even a reason why businesses moved to these areas, companies still benefited from them. The inventory credit absolutely helped corporations and there is nothing in the data saying the tax-breaks did nothing at all. They might not have been the major motivator, but they cannot be entirety rule out. Indiana had residences and company owners praise the program even if there were other reasons for the economic revitalization. Another problem preventing a conclusive answer is there does not seem to be a way to rule out the other factors that might have led to new businesses. Though the enterprise zones studies' outcomes might not be completely clear or free from inaccuracy, assumptions about opportunity zones can still be made.

Part VII: Predicating opportunity zones' future through looking at enterprise zones past

Predicting the effects of opportunity zones by looking at EZs requires an examination of the difference in the incentives they provide. While both have tax, breaks dedicated to helping business, there are a few important distinctions between the two policies that help create forecasts. Both MD and IN had credits given to employers for hiring resident but opportunity zones do not. The federal policy lacks any incentive for companies to hire within the community where the funds are set up which could result in non-residents taking the jobs instead. Without the financial motivation, why should a company hire within the zone over another area. In addition, the opportunity zones provide a lot of rewards for investment rather than actual creation of business. For instance, step-up basis and temporary deferral are fantastic enticement for investing but not as much for genuine creation of commerce. Investors can easily just throw their money in to assets in the qualified funds without bringing real commercialize to the area. A building could be brought, and the step-up basis used to reduce the capital gains tax yet there would be no creation of employment or benefit brought to the people (except for maybe the increase in property values). Deferrals might have the same effect. Instead of relieving the burden on a new company, deferrals might just give investors another way to not pay taxes without bringing anything to the community. Delaying payments to the government does nothing to encourage companies let alone employment. Contrasted with EZs, opportunity zones provide almost no motivation for the creation of business.

When looking at the current laws in opportunity zones as well as the issues with the enterprise zones, one can conclude they will not only fail to help improvised community but provide a sort of "tax heaven." Research from Indiana and Maryland proved there is no completely concrete answer to if the zones actually work but they did reveal business had other concerns when it came to where they decided to locate themselves. These concerns ranged from location to the state of the overall economy. With bigger reasons as to why companies move to an area play, why would one assume tax-breaks would them to underprivileged communitive? It seems as if the deductions, exemptions and credits are just an added bonus rather than a primary motivator. Instead of aiding areas in need, they will probably only help communities already improving. Like EZs, any zone receiving a surplus will probably be from other aspects. Opportunity zones by themselves will more than likely not result in developments of improvised areas. Even though the OPs will fail in helping the poor, the assistances given to corporations might end up hurting the people who live in the zones.

Part VIII: Gentrification and Ethics

Gentrification has many definitions and multiple meanings[47][48][49] depending on the source. For the sake of relevance to the paper's topic, the focus will be on gentrification as it relates to

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[47] Saunders, Pete. "How To Understand Gentrification." *Forbes*, Forbes Magazine, 29 Aug. 2016, www.forbes.com/sites/petesaunders1/2016/08/29/understanding-gentrification/#6a512e2135ec.

[48] "Gentrification Explained." *Gentrification Explained | Urban Displacement Project*, www.urbandisplacement.org/gentrification-explained.

[49] Richard Florida, CityLab. "This Is What Happens After a Neighborhood Gets Gentrified." *The Atlantic*, Atlantic Media Company, 16 Sept. 2015, www.theatlantic.com/politics/archive/2015/09/this-is-what-happens-after-a-neighborhood-gets-gentrified/432813/.

finance and demographics. This is not to say it does not play an important role in culture and history but when it comes to tax-incentivized zones only finance and demographics seemed to be affected by them as shown by studies. Most of the research relating to enterprise zones do not mention the affect it had on other fields not related to population or economics. However, conclusions can be drawn from the available information on gentrification from population and employment data. Gentrification is the process of changing a neighborhood by increasing its economic value which usually results in changes in both demographic and property value[50]. Some see it as wrong and hurtful. Improving a local neighborhood's economy can result in people being moved out of the way for development[51]. There are cases of specific racial demographics forced to move from their homes such as African Americans and Latinx people. Whether these races are intentionally targeted or not is a matter of great academic discussions. It could simply be these races just happen to leave in poorer communities because of other reasons (possible racist ones) or because institutions and people in power want to oppress them[52]. Regardless, changes in demographics can symbolize possible gentrification.

Indiana and Maryland have shown changes in their demographics since the establishment of their EZs. In Maryland, it not only appeared that most of the workers in the zone were non-residential but also that the demographic changed. Most of the workers in the MD zones were from outside of the area with no section having over 20% residential employment. Plus, African-

[50] Gentrification Explained." *Gentrification Explained | Urban Displacement Project*, www.urbandisplacement.org/gentrification-explained.

[51] Richard Florida, CityLab. "This Is What Happens After a Neighborhood Gets Gentrified." *The Atlantic*, Atlantic Media Company, 16 Sept. 2015, www.theatlantic.com/politics/archive/2015/09/this-is-what-happens-after-a-neighborhood-gets-gentrified/432813/.

[52] Hwang, Jackelyn, and Robert J. Sampson. "Divergent Pathways of Gentrification." *American Sociological Review*, vol. 79, no. 4, 2014, pp. 726–751., doi:10.1177/0003122414535774.

Americans within some of the area had gone down while the percentage of whites went up[53][54][55]. Similar conclusions were seen in Indiana. IN's EZs had a slight change in demographics[56] although not a particularly big one across the four sections[57].

One of the ethical dilemmas with tax-incentivized zones is the effort and money put into the program can be better spent in more effective ways to alleviate poverty. UDAG[58], GDBG and Clinton's empowerment area[59] all have much better records of helping the poor over just providing tax-breaks. If one is truly trying to help the underprivilege, it would be better to invest in policies that have a clear, more conclusive record of giving actual aid. Instead of providing investors with another option to boost their incomes, there is an obligation to fulfil the supposed intention of opportunity zones and attempt more helpful options.

Part IX: Conclusion

Analyzing the history of tax-incentivized areas, especially the U.S enterprise zones, foreshadows how opportunity zones are not only likely to fail but also hurt the very people they are supposedly attempting to help. Looking back at 1970s U.K revealed the history of enterprise

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[53] "Cumberland, Maryland Population 2019." *Cumberland, Maryland Population 2019 (Demographics, Maps, Graphs)*, worldpopulationreview.com/us-cities/cumberland-md-population/.

[54] States, Congress, "Evaluation of the Enterprise Zone Tax Credit." *Evaluation of the Enterprise Zone Tax Credit*, Department of Legislative Services, Office of Policy Analysis, 2014.

[55] United States, Congress, "Enterprise Zones: Lessons from the Maryland Experience." *Enterprise Zones: Lessons from the Maryland Experience*, United States General Accounting Office, 1988.

[56] United States, Congress, IN government. "Indiana Enterprise Zone (EZ) Fiscal Impact Project." *Indiana Enterprise Zone (EZ) Fiscal Impact Project*.

[57] United States, Congress, "1990 Census of Population." *1990 Census of Population*, U.S. Dept. of Commerce, Economics and Statistics Administration, Bureau of the Census, 1993.

[58] United States, Congress, "An Impact Evaluation of the Urban Development Action Grant Program." *An Impact Evaluation of the Urban Development Action Grant Program*, Dept. of Housing and Urban Development, Office of Policy Development and Research, 1982

[59] Liebschutz, Sarah F. "Empowerment Zones and Enterprise Communities: Reinventing Federalism for Distressed Communities." *CrossRef Listing of Deleted DOIs*, vol. 25, no. 3, 1995, p. 117., doi:10.2307/3330690.

zones as well as their failures. Despite their disappointment overseas, the U.S still attempted to implement them. While it took the federal government multiple tries to bring forth the law, states quickly adopted the policy in enterprise zones. Studies on the EZs resulted in mixed as well as unclear conclusions but still revealed some of their definite failures. Failures which foreshadow opportunity zones hurting not helping poorer regions as well as adding to an already gentrifying U.S.

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