

## Testimony Before The Committee on Finance

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### “Combatting Inequality: The Tax Code and Racial, Ethnic, and Gender Disparities”

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#### **Introduction**

Chairman Wyden, Ranking Member Crapo, and members of the committee: it is a pleasure to be with you today. This will be my third time testifying before Congress, but my first time testifying before the Senate, so thank you for having me. I am the Co-founder and President of the Opportunity Funds Association (OFA), a trade association whose members are entrepreneurs, investors, developers and fund managers operating in Opportunity Zones. Through our members, we connect capital to overlooked areas including Frontline Communities, improving lives, creating opportunities, and ensuring long-term economic growth.

This morning, I would like to share a few success stories from Opportunity Zones, discuss ways to build wealth through expanded retirement saving, remind the committee of the ways Tax Reform made the tax code more equal, and finally suggest policies to get investment capital to minority entrepreneurs.

Prior to co-funding OFA, I served as Tax Counsel to Senator Tim Scott (R-S.C.) where I helped champion the Investing in Opportunity Act, legislation authored by Senators Tim Scott and Cory Booker (D-NJ) that became Opportunity Zones. Research from the accounting firm Novogradac shows that over \$15 billion has been raised for investment so far with over 3 billion of that being raised in the midst of a pandemic. An August report from the Council of Economic Advisors estimates that Opportunity Zones will lift 1 million Americans from poverty and reduce poverty in designated zones by 11 percent.

#### **Building Wealth through Diverse Projects and Diverse Leaders**

Quinn Palomino was born in Vietnam right at the end of the Vietnam War. She grew up at the refugee camps that the U.S. set up at Fort Chaffee in Arkansas. Today, Quinn leads Virtua Partners, a global private equity firm that was active in social impact prior to Opportunity Zones, but has raised \$100 Million across four Opportunity Funds to build a combination of commercial real estate and affordable housing nationwide.

I’m proud to say that in my hometown of Cleveland Ohio, the Minority- and Veteran-owned Bridgeport Group is raising capital from Opportunity Fund investors to expand its supply chain logistics business to serve Cleveland’s world class healthcare market. The venture will expand to provide prescription and OTC drug fulfillment services for local retailers to cost effectively

compete with disruptive online pharmaceutical providers. Bridgeport's founder Andre Bryant is an active entrepreneur who makes it a point to support other minority entrepreneurs.

Two weeks ago in Panama City Florida, Jorge Gonzalez, CEO of St. Joe Company broke ground on a waterfront hotel and standalone restaurant on Panama City Marina. The parcel is city-owned and will be leased to St. Joe, providing immediate revenue to residents. The terms provide for an increase in lease payments as the hotel's revenues grow over time. The project will create 150 direct jobs for current residents and rebuild a portion of Panama City that was completely destroyed during Hurricane Michael.

Alex Bhathal, Managing Partner of RevOZ a leading real estate investment firm specializing in Opportunity Zones, will cut the ribbon on an 11,325 square-foot office project. The facility will house San Bernardino County's Children's Department of Behavioral Health (DBH), providing mental wellness care to some of the most vulnerable and underserved members of the community. The facility's location allows for synergy between the County's collective community resources, such as the San Bernardino County Office, San Bernardino Department of Health, San Bernardino County Public Defender, San Bernardino County Juvenile Court and local schools.

### **Building Wealth Through Retirement Savings**

According to Federal Reserve data, the bottom 50 percent of American families hold less than 2 percent of total U.S. wealth and have a median retirement savings balance of \$0. Fixing this requires policies specifically targeted to the tens of millions of lower-income workers for whom a tax deduction provides little meaningful support.

During my time as Tax Counsel for Senator Scott, I was proud to advise him as he and this committee developed the bipartisan SECURE Act. The bill was the largest retirement reform to impact the economy in more than a decade, made it easier to save for retirement, and made retirement plans more accessible to more people.

Another promising way to address this challenge was outlined in a recent paper from the Economic Innovation Group by a bipartisan pair of economists, Teresa Ghilarducci and Kevin Hassett. The authors propose a new program modeled after the highly-successful federal Thrift Savings Plan (TSP) that would be aimed specifically at helping lower-income workers build wealth and retirement security. As a former Senate staffer who, like every member of this committee, has benefitted first-hand from the TSP, I believe this proposal deserves careful consideration. It is precisely the kind of idea that could fill the gaps in current policy and ensure that all workers are rewarded for hard work and diligent savings. If properly designed, such a program could help narrow the racial wealth gap.

### **Congress Should Do No Harm**

It is critical that we build on previous efforts to make the income tax code more simple, fair, and focused on helping the American people. The Tax Cuts and Jobs Act:

- **Placed a cap on the State and Local Tax Deduction**
  - We should not reverse course and lift the cap on SALT.
  - Representative Alexandria Ocasio-Cortez recently called SALT “A Gift to Billionaires”
    - I can’t say that I agree with the Representative often, but in *this* case the math is on her side.
  - Lifting the cap on the SALT deduction would be a huge give away to the rich.
  - Even with the cap in place, around three-quarters of the benefit goes to families in the top fifth of the income distribution.
  - According to the Brookings Institution, if the cap is lifted Almost all (96 percent) of the benefits of SALT cap repeal would go to the top quintile (giving an average tax cut of \$2,640); 57 percent would benefit the top one percent (a cut of \$33,100); and 25 percent would benefit the top 0.1 percent (for an average tax cut of nearly \$145,000).
  - Uncapping SALT is a nonstarter for those concerned with income inequality in the tax code.
- **Doubled the Standard Deduction**
  - TCJA increased the standard deduction from \$6,500 to \$12,000 for single filers and \$13,000 to \$24,000 for taxpayers who are married filing jointly.
  - Millions of households will no longer need to go itemizing their deductions.
  - The Joint Committee on Taxation estimates that about 88 percent of the 150 million households that file taxes will take the increased standard deduction.
- **Doubled the Child Tax Credit**
  - Taxpayers can claim a maximum credit of \$2,000 for each child, with a portion of the credit refundable.
  - If the credit is greater than the taxpayer’s liability, they can receive a refund up to \$1,400 based on an earned income formula.
  - The CTC, in combination with other refundable tax credits, is explicitly designed to benefit low-income families with workers and children and can significantly boost incomes and lift families above the poverty line, according to the Congressional Research Service (CRS).
  - CRS estimates that TCJA’s federal income tax rate changes reduced total poverty by 15 percent.
    - Nearly all of the poverty reduction from the income tax changes were experienced by families that have both workers and children.
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- **Limited the Home Mortgage Interest Deduction (HMID)**
  - The benefits of the HMID go primarily to high-income taxpayers because high-income taxpayers tend to itemize more often, and the value of the HMID increases with the price of a home.
  - According to the Tax Foundation, in 2018, less than 4 percent of taxpayers earning less than \$50,000 will claim HMID, and these taxpayers will receive less than 1 percent of the overall benefits.
  - Taxpayers making over \$200,000 will make up 34 percent of claims and take 60 percent of the benefits.

## **What Congress Should Do to Help**

### **Keep the Playing Field Level for Entrepreneurs**

More than 90 percent of small businesses are organized as pass-throughs (sole proprietorships, LLCs, partnerships, or S corporations), not as corporations. This percentage is even higher for minority owned businesses. Because of TCJA, pass-through business owners can now claim a 20 percent deduction on their share of the business's income. The deduction is scheduled to sunset in 2026, Repealing this sunset, as suggested in Senator Daines' legislation, will benefit millions of pass-through businesses and help level the playing field between small and large businesses.

### **Democratize Opportunity Zone Investment**

Opportunity Zones allow for a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This benefit should be allowed for any capital invested and held in an Opportunity Fund for at least 10 years, not just capital gains. By allowing non-capital gains to be invested in Opportunity Zones, we can democratize the community development tool and allow investors at every level of wealth and income to participate. The change will also increase the overall amount of capital available to entrepreneurs building businesses in Opportunity Zones.

### **Empower CDFIs**

Congress should also consider allowing Community Development Finance Institutions (CDFIs) to receive equity investments as Opportunity Zone Businesses. CDFIs are already active as business and project lenders in distressed communities and have a deep understanding of a community's needs, strengths and weaknesses. Allowing CDFIs to take in equity capital from Opportunity Zone investors and then lend this capital out to entrepreneurs in on a larger scale would money in minority hands and minority communities.

### **Make Opportunity Zones Transparent**

Perhaps the most important step Congress can take to optimize sustainable growth in Opportunity Zones is to pass a bill adding reporting and transparency requirements to the policy. Senator Tim Scott along with Senators Sinema, and Grassley introduced a bipartisan bill to this end last Congress. The bill would enable Treasury to collect key information on the location of Opportunity Zone investments, the types of businesses and projects attracting investment, and the number of jobs created. This information will enable Congress to adjust the policy to further incentivize investment in areas remaining underserved, and will demonstrate the viability of the policy as a community development tool.

### **Extend the Opportunity Zones Policy**

Congress should finally consider extending this great policy. Investment in Opportunity Zones was first undermined by untimely regulations, and further hindered by the global pandemic. Extending the policy to account for the time and momentum lost would go far in bringing capital into distressed communities for benefit of existing residents.