

**DATE:** February 26, 2026

**BILL NO.:** House Bill 1080

**TITLE:** Income Tax - Addition Modifications - Excluded Opportunity Fund Gains, Foreign-Derived Deduction Eligible Income, and Interest

**COMMITTEE:** House Ways and Means Committee

### Letter of Information

#### Description of Bill:

House Bill 1080 removes Maryland's participation in the Opportunity Zone program, the nation's largest place-based economic development initiative. The bill accomplishes this by (1) prohibiting the Governor from nominating an eligible census tract to the US Treasury for designation as an Opportunity Zone; and (2) decouples the State from providing the Opportunity Zone tax incentives for investors.

#### Background and Analysis:

The Opportunity Zone program is the nation's largest place-based initiative to encourage long-term private investment in economically distressed communities by offering tax incentives to investors who reinvest capital gains into designated Qualified Opportunity Funds (QOFs). The program was first established by the US Congress through the Tax Cuts and Jobs Act of 2017. The program was recently altered and made permanent by HR1 of 2025, colloquially dubbed the One Big Beautiful Bill Act. The updates changed eligibility for census tracts and altered tax benefits, requiring each Governor to designate a new list of census tracts to the US Treasury by September 29, 2026.

There are two types of Opportunity Zones in the updated law: (1) Opportunity Zones; and (2) Rural Opportunity Zone.

1. Standard Opportunity Zones are census tracts with either (1) poverty rate of at least 20% AND less than 125% of state/metro Median Family Income (MFI); or (2) A median family income of equal to or less than 70% of the state or area median family income, whichever was greater.
2. Rural Opportunity Zones are simply Opportunity Zones located in towns or cities of not more than 50,000 people and not urbanized areas contiguous to cities or towns of more than 50,000 people.

#### How the program works:

An investor - be it an individual or an institution - sells an asset and realizes a capital gain. Instead of holding onto the cash, the investor can invest the capital gain into a special investment fund called a Qualified Opportunity Fund (QOF). A QOF must invest at least 90% of its assets into Opportunity Zones as designated by the states.

If this investment is made within 180 days of selling the asset, the investor can defer payment on their capital gains tax for up to 5 years. If held for the full 5 years, the investor claims a “step up in basis” on the deferred capital gain. That benefit is 10% for an investment in a standard Opportunity Zone and 30% for an investment in a Rural Opportunity Zone.

To illustrate this, imagine that an individual invested \$10,000 in capital gains into a Qualified Opportunity Fund. Once invested, the individual does not owe capital gains taxes for 5 years. After those 5 years have elapsed, the investor must pay the tax but gets a 10% discount - meaning that they owe \$9,000 rather than \$10,000.

The significant tax benefit occurs when an investment is held in a QOF for at least 10 years. At that point, all earnings on the investment into the Opportunity Zone are exempt from the capital gains tax.

The purpose of the program is to attract capital into projects that would not otherwise provide a sufficient return on investment. While the first round of the Opportunity Zone program suffered from insufficient reporting, it is generally accepted that the tax benefits offer the following boosts on return:

1. **Equity Multiple (Total cash returned ÷ Equity invested):** An investment that receives all three of the OZ tax benefits can expect a 15% - 25% higher return - an increase of 0.4x - 0.7x - compared to a non-OZ investment over 10 years. For context, an investor may look for a 1.5x - 3.0x return depending on the risks involved.
2. **Internal Rate of Return:** Over 10 years, an investor may see an internal rate of return boost of 1.5 to 5 percentage points, with a 3 percentage point increase as the general rule. For context, an investor in an opportunistic investment may look for an 13% - 25% IRR over 10 years.

The impact of the program is in maximizing returns on investments to investors and, as a result, incentivizing them to invest in projects that would not otherwise provide sufficient returns. Opportunity Zone investments will not make a bad investment good, but can make a decent investment very good. Given that capital is portable and a myriad of factors affect the risk profile of any given investment, this program seeks to benefit communities that have seen a low rate of investment historically when compared to affluent census tracts.

## Data

The program was not adequately tracked by the federal or State government during its first round and, as such, researchers have not been able to conclusively judge the effectiveness of the program. No State entity is directly involved in approving qualified investments and the State does not have an ability to publicly access tax data for investments made in Maryland.

However, states such as Ohio and Alabama have tracked their data much more effectively and so inferences can be drawn from their data. Additionally, a National Bureau of Economic Research (NBER) working paper found that OZ designation increased investment in designated tracts by roughly 20–25% relative to comparable eligible tracts not selected.

In Ohio, 60 percent of QOF dollars flowed into just 2 percent of funded tracts. Over half the state’s total OZ capital went to just nine tracts, primarily located around major cities.



It is also unclear whether the investments have led to direct improvements for residents. This is not conclusive but there is insufficient data to determine whether there was a causal relationship between OZ investments and key socioeconomic indicators.

## DHCD Involvement

DHCD was designated by Governor Hogan and, later, Governor Moore to lead the process of designating eligible census tracts in the State as Opportunity Zones. Following the January 29, 2026 publication of the American Community Survey (ACS), the State now knows that the Governor may designate up to 113 eligible census tracts as Opportunity Zones.

The table below provides a breakdown of the census tracts eligible for designation by county:

	Tracts	OZ Eligible	Percent
<b>Baltimore City</b>	199	138	69.3%
<b>Prince George's County</b>	214	103	48.1%
<b>Baltimore County</b>	219	60	27.4%
<b>Montgomery County</b>	232	49	21.1%
<b>Allegany County</b>	22	19	86.4%
<b>Frederick County</b>	65	14	21.5%
<b>Anne Arundel County</b>	130	9	6.9%
<b>Washington County</b>	36	7	19.4%
<b>Dorchester County</b>	10	7	70.0%
<b>Harford County</b>	59	7	11.9%
<b>Wicomico County</b>	21	6	28.6%
<b>Charles County</b>	35	5	14.3%
<b>Caroline County</b>	9	5	55.6%
<b>Worcester County</b>	18	4	22.2%
<b>St. Mary's County</b>	23	4	17.4%
<b>Garrett County</b>	9	4	44.4%
<b>Cecil County</b>	21	3	14.3%
<b>Somerset County</b>	7	2	28.6%
<b>Howard County</b>	59	2	3.4%
<b>Calvert County</b>	19	1	5.3%
<b>Kent County</b>	6	1	16.7%
<b>Talbot County</b>	11	1	9.1%
<b>Queen Anne's County</b>	14	0	0.0%
<b>Carroll County</b>	37	0	0.0%

Each Maryland county will provide insight and nominations regarding which census tracts they would like to see designated as an Opportunity Zone. The State, for its part, will seek to identify and designate census tracts that are emerging markets with growth potential but that will not inevitably attract capital needed for development.

