# Tax incentives target poor neighborhoods but leave communities behind

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The development of place-based investment tax incentives such as opportunity zones can be explained as a predictable result of the "pro-gentrification legal, business and political environment that produced them," said Michelle D. Layser, a professor of law at Illinois. Credit: University of Illinois College of Law

Lawmakers often tout pro-gentrification tax incentives such as the new

federal "opportunity zone" tax incentive—the tax break offered to developers in the Tax Cuts and Jobs Act of 2017—as tools to promote capital investment in poor neighborhoods.

While they traditionally enjoy significant bipartisan support, place-based tax incentives are often disappointing to anti-poverty advocates. But what many advocates regard as a flaw of such incentives—specifically, the lack of safeguards to protect poor communities—may actually be a feature of the policy, says a new paper from a University of Illinois expert who studies the intersection of tax law and social policy.

The development of place-based investment tax incentives can be explained as a predictable result of the "pro-gentrification legal, business and political environment that produced them," said Michelle D. Layser, a professor of law at Illinois.

"Public discussion about tax incentives to encourage investment in low-income areas often comes from two perspectives: pro-growth and anti-poverty," Layser said. "The pro-growth perspective argues that it's going to spur investment, which will be good for business, economic growth and jobs—all the things we like to see when we're thinking about the economy.

"And traditionally, these kinds of incentives have garnered a lot of support across the political spectrum and have been fairly popular because they're viewed as having this double dividend: economic growth and easing the burden of poverty."

But the notion that such tax incentives have been designed to alleviate poverty has "always been misguided," Layser said.

"None of these laws have been designed in a way in which we should expect that they would help poor communities," she said. "This is not to

say that they couldn't be designed with communities in mind. They absolutely could be. But the political, economic and legal environment under which these laws have been crafted and come to be used over time has not been conducive to such pro-community goals."

Opportunity zones, for example, allow state governors to designate specific low-income areas for certain tax-subsidized financing. But many of the projects that are prioritized under the current system don't have the pre-existing community in mind.

"They have in mind a wealthier demographic—people who are going to come into that community, spend money and live in the fancy new condos and turn this neighborhood that was once viewed as economically declining into a new booming pocket of tax revenues," Layser said.

Community advocacy groups may feel misled by such policies because "they feel that a lot of this money is going toward gentrifying areas, and this law is not meaningfully designed to raise people out of poverty or help poor communities—that it potentially opens the door to trample all over them," Layser said.

"The rhetoric of late has really shifted on opportunity zones," she said. "Many commentators are skeptical. But really, this isn't new. Tax incentives to invest in poor areas have never been designed to advance the needs of poor communities, and opportunity zones are just another chapter in a much longer story."

Anti-poverty goals may be advanced more effectively through community-oriented investment tax incentives, which would confer power to community stakeholders, link place to community and incorporate a system for monitoring outcomes.

But such incentives are "rare under current law," Layser said.

"One question that always comes up is, 'How can you invest in a community without gentrifying it? Isn't it inevitable?' My answer to that is not necessarily," she said. "We need to spend more time talking to people in poor communities and finding out what they need. Responding to those needs can improve their quality of life and improve their experience of their environment—way more than a new condo building ever would."

The paper provides a roadmap for designing community-oriented investment tax incentives that employ "mental mapping techniques to inform the tax incentive designs" and pilot programs of community-oriented investment tax incentives that would enable researchers to study their impact and evaluate their potential as large-scale anti-poverty programs.

"It could turn out that what poor areas really need are run-of-the-mill chain grocery stores—not coffee shops, high-end grocery stores or new high-rise condo developments," she said. "And you would only find that out by talking to the people who live in that community."

The paper will be published in the *Wisconsin Law Review*.

**More information:** "The pro-gentrification origins of place-based investment tax incentives and a path toward community oriented reform" papers.ssrn.com/sol3/papers.cf … ?abstract_id=3347401

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