

GUNS, OIL, AND CRYPTO

Why does New York have a \$420-million-a-year tax break for investments in out-of-state federal Opportunity Zones?

**Reinvent
Albany.**

Open, Accountable
NY Government

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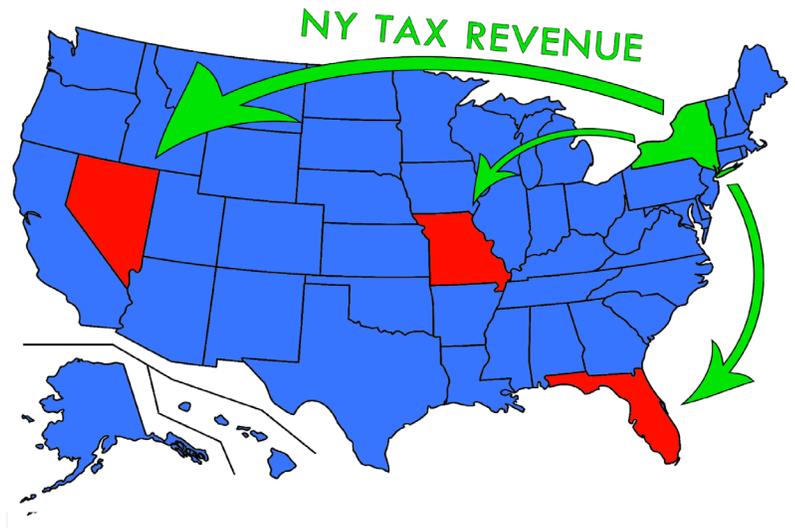
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Summary of conclusions

- Under the Opportunity Zone program, New York State and City could be losing tax revenue to gun sellers, gas companies, and crypto-mining operations out of state.
- The Opportunity Zone program is likely also making NY lose tax revenue to out-of-state luxury apartments, as well as casinos, superyacht marinas, and amusement parks.
- If New York does not end its Opportunity Zone tax break, the state could lose up to \$284 million annually, and NYC up to \$140 million, from 2029.

Introduction

One of the worst federal boondoggles of the 21st century is undoubtedly the "Opportunity Zone" (OZ) tax abatement program. Reporting in [The New York Times](#), [the Wall Street Journal](#), and [Bloomberg News](#) has shown how the program, ostensibly set up to help the poor, provides tax breaks for investments in superyacht marinas in Florida and luxury apartments with dog spas in North Carolina. But one aspect of the program has been largely overlooked: Opportunity Zones could also be funding gun sellers, gas companies, and cryptomining, and many of these tax breaks could be coming from New York State and City.



Under the Opportunity Zone program, New York State and City are likely losing tax revenue to other states.

Under New York's Opportunity Zone program, investors based in NY can receive a tax break from the state if they invest in OZs [anywhere in the country](#). And these investments can go to almost any type of business – including gun manufacturers. That means tax revenue that could be going to New York schools may instead be going to a gun seller in Florida – and at least one fund has been set up to make this happen.

The Citizens Budget Commission estimates that beginning in 2029, [New York State may lose up to \\$284 million annually from OZ tax breaks, and NYC \\$140 million](#). Because the federal OZ program – which New York automatically mirrors – was established with few transparency requirements, it is impossible to know exactly where New York tax breaks are going under the program. But it's already clear from research on OZs and [similar tax breaks](#) that the program will have few tangible benefits for people in need, let alone for New Yorkers.

What follows is a list of companies across the country that may be profiting from tax breaks that could otherwise pay for New York State and City's schools, clean air, and public transit. The longer the state continues to fund the program, the more tax revenue it will lose.

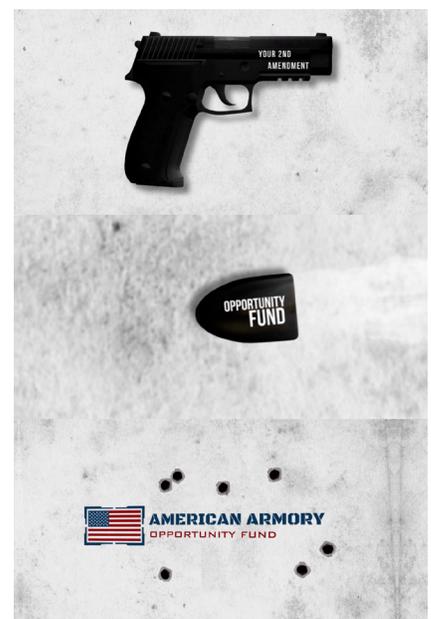


New York [recently strengthened its gun laws](#), passing legislation in July 2022 after the Supreme Court struck down New York City's ban on concealed carry. But because of its Opportunity Zone tax break, New York may be funding gun merchants in other states.

The American Armory Opportunity Fund was set up specifically to support firearm sellers and manufacturers in the United States. [An advertisement for the fund](#) shows a gun that says "Your 2nd Amendment" firing a bullet with "Opportunity Fund" written on it flying into a sign that says "American Armory Opportunity Fund," which is subsequently shot full of more bullet holes.

American Armory invests in Big Daddy Guns retail and training centers, whose sister store [Big Daddy Unlimited](#) aspires to be Amazon for guns: Its frontpage displays a cornucopia of firearms, ammunition, and scopes that customers can purchase in a matter of minutes. At times, the company has held [gun giveaways](#).

Until recently, the company [offered a discount promoted by Alex Jones](#), the extreme right-wing media personality. Jones has lost numerous civil lawsuits for claiming that the 2011 Sandy Hook massacre was a false-flag operation set up by the country's left wing to take away citizens' guns. One of the founders of Big Daddy says that Sandy Hook, and her fear of guns being taken away as the result of the tragedy, [was what inspired them to start the store](#).



Three frames from an advertisement for the American Armory Opportunity Fund. New York has passed strong gun control laws, but the state could be subsidizing gun sellers under the Opportunity Zone program.



Big Daddy Unlimited recently offered an Alex Jones tax break. Alex Jones is known for claiming that the 2012 Sandy Hook massacre was a hoax.



In 2019, New York [passed the Climate Leadership and Community Protection Act](#), which was hailed as being one of the most ambitious efforts to reduce carbon emissions in the nation. But the state may be undermining its own climate goals by not ending its tax break for Opportunity Zones, which can fund oil and gas projects in other states.

At least three opportunity funds exclusively fund oil and gas. There are more that include oil and gas in their portfolios, and because [the OZ program has virtually zero reporting requirements](#), it's impossible to know the true extent of oil and gas projects profiting from Opportunity Zones.

Elite Opportunity Fund is the largest of the gas-focused funds, with drilling targets estimated at \$13 billion in value. Elite's portfolio includes shale gas, [which results in the release of more methane](#), one of the most potent greenhouse gasses. Two others are [USEDG Opportunity Zone Fund I LP](#), which supports the U.S. Energy Development Corporation, and [Deep Green One Energy Opportunity Fund](#), which claims to extract oil and gas using a novel process.



Due to the negative environmental impact of cryptocurrency, New York has recently taken steps to limit crypto-mining in the state – Governor Hochul’s Department of Environmental Conservation [denied an air quality permit for a company to use a natural gas-fueled power plant for crypto mining](#), and the Governor [signed a bill that placed a two-year moratorium on some crypto mining in New York State](#).

Unfortunately, crypto funds are attempting to profit from OZs, including through mining. The [Bit Capital Opportunity Zone Fund](#) aims to acquire “large inventories of computers – equipped with high-powered processing systems” for the purpose of mining cryptocurrency. Similarly, the [Redivider Blockchain Opportunity Zone Fund](#) plans to deploy “computing data centers” that will be used by a mining company to produce more crypto. Under the Opportunity Zone program, NY investments in these funds will not be subject to taxation, meaning that NY tax policy is contradicting the state’s own policy goals.

Mining is not the only way that crypto investors can take advantage of NY’s OZ tax break – advisors have also encouraged investors to [use crypto profits to invest in Opportunity Zones](#), meaning tax revenue that would have gone to NY state services could instead go to high-end real estate.

Parking lots for yachts and private jets

The Opportunity Zone program also forces NY to subsidize businesses that not only are out of state, but appear to serve simply as parking lots for millionaires' yachts and jets:

- **A company that builds hangars for billionaires' private jets** - [Grass QOZF](#) has a wide portfolio, but one of its main focuses is private aviation, which includes building private hangars for clients – in other words, places for the wealthy to park their private jets.
- **First class yacht marinas** – One of the most notorious OZ properties is [a superyacht marina in West Palm Beach](#) that ProPublica reported on. However, there are at least two yacht marinas receiving investments – a second is [the Lighthouse St. Louis Yacht Club and resort](#), a \$400 million developments that will include “a first class marina and yacht club, multiple hotels, and a convention center,” as well as a “world class Indoor Water Park and Hotel.”



One Opportunity Fund supports a company that builds hangars for private jets.

Entertainment

OZs can also subsidize entertainment venues that cannot possibly deliver any economic benefit to New York. A review of Opportunity Zones across the country found several resorts, casinos, and theme parks that may be benefiting from New York's OZ tax break:

- **Gambling:** [Dream Las Vegas](#) is a hotel and casino on the Las Vegas strip that “will feature 526 luxury rooms and suites, casino gaming, food and beverage venues, a pool and day club, retail venues and a full-service fitness center.” Dream Las Vegas should be disqualified under the OZ's rules – which prohibits “[sin businesses](#)” such as gambling – but the fund may be able to argue that less than 5% of its revenue comes from “sin,” making the property eligible.



Dream Las Vegas, a hotel casino on the Las Vegas Strip, is supported by an Opportunity Fund, and could be benefiting from NYS tax revenue.



Opportunity Funds exist to support out-of-state surfing and mountain biking, both of which could be receiving NY tax revenue.

- **Outdoor adventure parks:** [Velocity Resort](#) is an OZ property whose goal “is to develop a true outdoor adventure lifestyle destination centered around the rapidly-growing freeride mountain biking segment, with a wide variety of activities and events that generate best in-class moments for our guests.”
- **RV Resorts:** [Florida Lakes RV Resort](#) will let customers park their RVs and have in the facility’s “a 15K square foot clubhouse, pickleball courts, resort-style pool, bowling lanes, and clubhouse commercial kitchen.” A second OZ-eligible RV park and storage facility, [Riverbound Custom Storage](#), encourages customers to “build your own man-cave” at the resort. Ownership packages for Riverbound start at [\\$219,000](#) and go as high as \$599,000.
- **“Wave Pools”:** At least two OZ properties are “wave pools,” outdoor facilities creating fake waves that replicate the ocean. One wave pool, [Surf Lake](#), will be built in the middle of the desert (see also [Honokea Surf Village](#)).
- **Stadiums:** New York faced controversy for funding the new Buffalo Bills stadium, a deal that was opposed by most voters, but NY may also be providing funding for [Sherbert Group’s OZ fund](#), which plans to build “the largest indoor Arena in the Carolinas.” Another developer [wants to build an indoor sports complex in an OZ](#) in Rhode Island, and the [Halo Entertainment Opportunity Zone Fund](#) plans to build a stadium connected to its mixed-use shopping center in Jackson, Mississippi.

Gold bullion

One OZ fund exists specifically to give investors tax-free investments in gold, and is based in Queens, New York.

The fund set up a gold storage facility in [an Opportunity Zone in Springfield Gardens](#), which is located in southeastern Queens. Investors can place their capital gains in the company, see their investments rise in value, then cash in on their investment tax-free after ten years.

The US Gold Opportunity Fund advertises itself as “providing economic development in economically challenged communities” but provides no explanation for how a tax-free gold storage center creates jobs.

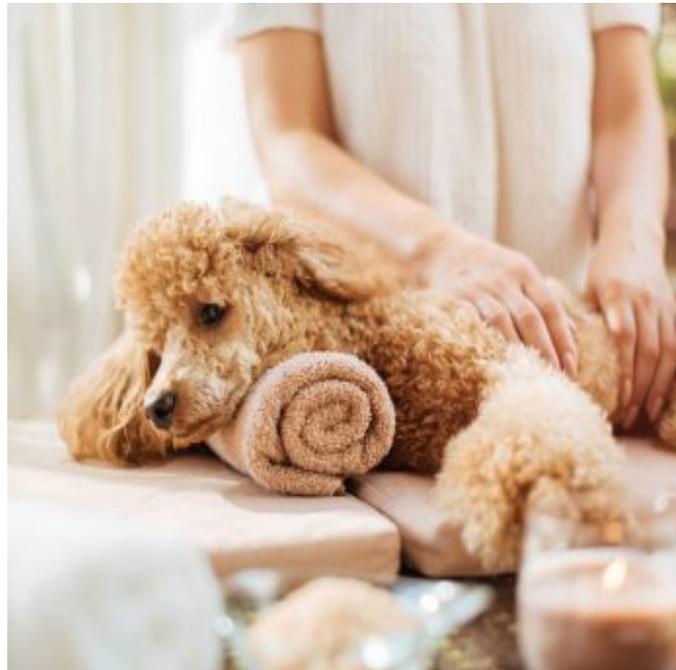


There is an Opportunity Fund for a gold storage center in Queens, New York.

High-end real estate

The New York Times, Wall Street Journal, and ProPublica have extensively documented luxury hotels and apartments that have benefited from the OZ program, but our review located others that went largely unreported in the news:

- [An OZ property in Raleigh, NC](#) will have “a rooftop deck and club room overlooking the Redhat Amphitheater and downtown skyline, a state-of-the-art gym, and the largest pool and amenity deck in the downtown market ... [It] [will consist of studios and one-, two- and three-bedroom units, each outfitted with stainless steel appliances, exposed concrete ceilings, tile and luxury vinyl flooring, modern wood cabinets, and sophisticated lighting fixtures.](#)”
- [Island Paradise QOF](#) will build “waterfront hotels in picturesque Cabo Rojo,” Puerto Rico.
- [620 Hudson House LLC](#) will build “a professionally-managed independent boutique hotel with 55-rooms, a restaurant, bar, library, spa, and event space” in Hudson, NY.
- [In Charlotte, NC](#), one OZ property will have “a fitness center, clubroom, resort style pool, passive courtyard, dog spa, and a virtual concierge.”



One high-end OZ apartment building in Charlotte, NC will have a dog spa.

Other projects

Almost any type of property, other than a few prohibited businesses, is eligible for the OZ tax break provided that the company is located within an Opportunity Zone. Our review also uncovered other OZ projects that may be subsidized by NY tax revenue:

- **Mining:** [Ozone California Metals Mining Operation](#) is “the restarting of a storied California mine which sits on over \$6 billion in known ore deposits. The mine contains vast silver and zinc deposits in addition to other critical minerals.”
- **Agriculture:** [Promised Land Opportunity Zone Farms](#) is a North Carolina property with “more than 4,000 tillable acres, which have historically been planted with corn, soybeans, wheat, and potatoes.”
- **Coworking spaces:** At least two funds, [e space](#), and [CENTRL J Street Investor OZ Fund, LLC](#), are coworking spaces – in other words, competitors to WeWork.
- **Self-storage:** New York may also be subsidizing self-storage centers in other states – a review of funds found at least three OZ funds that include self-storage: [McGregor Interests Council Bluffs QOF](#), [Quincy Freedom Fund](#), and [Raleigh Opportunity Fund](#). New York counties have been criticized for subsidizing self-storage centers, which employ few people and provide little (if any) economic benefit.
- **Tiny homes in Flagstaff, Arizona:** [Aspire Fund](#) builds tiny homes for “the Instagram generation” and advertises Opportunity Zones as “the biggest tax break of a generation.”
- **Dental implants:** One Opportunity Fund supports [a dentist’s office in Eugene, Oregon](#).



There is an Opportunity Fund for a dentist’s office in Eugene, Oregon.



An Opportunity Fund has been set up for the Lighthouse St. Louis Yacht Club, which has a “world class Indoor Water Park and Hotel.”

Appendix A

How opportunity zones work

Opportunity Zones give a tax break to those who invest their capital gains in properties in certain low-income or high-poverty areas.

When someone invests in a property and the value of the property increases, the value of the investment also increases. That increase in value is called a **capital gain**.

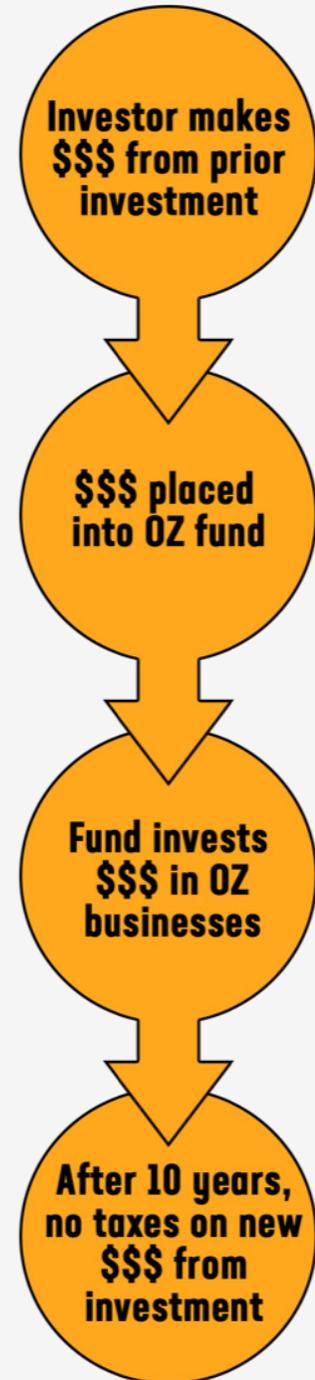
When investors decide to sell their investment – or “**realize**” their capital gains – they have to pay taxes on the realized capital gains. New Yorkers have to pay taxes on the gain regardless of whether it occurred in or out of state.

Under the Opportunity Zones program, investors can defer these taxes by placing the realized gain into an “**Opportunity Fund**.” An Opportunity Fund is usually run by a financial firm. It takes these capital gains and invests them into properties within an **Opportunity Zone**.

Opportunity Zones are typically high-poverty and/or low-income census tracts (areas of land circumscribed by the Census Bureau). To qualify as an Opportunity Zone, a census tract’s poverty rate must be [at least 20% or its average income must be 80% or less of the area median](#). However, up to 5% of Opportunity Zones are neither high-poverty nor low-income, and receive the designation because [they’re contiguous to high-poverty/low-income OZs](#).

Until December 31st, 2019, investing for 5 years would give investors a 10% reduction in their capital gains tax rate, and investing for 7 years would give them a 15% reduction. However, this benefit is no longer available, and New York State has also ended its tax break for the 10-15% reduction.¹

HOW OZS TAKE NY TAX REVENUE



¹ Investors could have still received the five-year tax break if they invested before December 31st, 2021.

After investing for 10 years, investors do not have to pay *any* taxes on capital gains from their new investment. For example, if I invest \$100,000 in a fund in 2019, then in 2029, the value of the investment rises to \$200,000, then I cash in on the investment, I do not have to pay any taxes on that investment.

[According to Citizens Budget Commission](#), the 10-year tax break will cost NY up to \$420 million annually from 2029 – unless lawmakers pass legislation ending NY’s tax break for the program. The state did partially decouple from the program in 2021 through budget legislation originally sponsored by Senator Mike Gianaris and Assemblymember Jeff Dinowitz.

Appendix B

Research showing Opportunity Zones don’t work

Because of their lack of transparency, it’s difficult to fully assess Opportunity Zones’ economic impact, but several scholars have used data from OZ neighborhoods to determine whether or not they have benefitted from the program:

- OZs likely have [no effect on poverty, earnings, or employment](#) (Freedman, Khanna, Neumark (2021)).
- [OZs have virtually no effect on housing prices](#), researchers say with “95% confidence” (Chen, Glaeser, Wessel (2020)).
- [OZs have no increase in job vacancies](#) and very limited salary increases (Atkins, Hernandez-Lagos, Jara-Figueroa, Seamans (2021))
- Where OZs are leading to an increase in prices, it’s usually [“driven by the higher end of the OZ market”](#) – in other words: luxury real estate. This means that lower-income residents receive few benefits (Bekkerman, Cohen, Liu, Maiden, Mitrofanov (2021)).
- Opportunity Zones investments are [overwhelmingly concentrated in a few areas](#), mostly going to higher-income neighborhoods in the Zones, and largely benefit the extremely wealthy (Kennedy and Wheeler, 2022).

Additional research shows that Opportunity Zones create a risk for corruption and favoritism: Governors are more likely to designate a census tract as an OZ [if the tract’s state representative is part of their political party](#) (Frank, Hoopes, Lester (2020)), and that Governors are more likely to designate tracts [in areas where they have more donations from executives or firms](#) (Eldar and Garber, 2021).

This report was written by Tom Speaker, Policy Analyst at Reinvent Albany, and edited by John Kaehny.

Thanks to Nathan Jensen of University at Texas Austin for his [original tweet](#) about Opportunity Zone funds for firearms, which inspired this research. We also thank Michael Mazerov at Center for Budget and Policy Priorities for his input on how Opportunity Zones subsidize investments out of state.

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