

Opportunity Zones & Funds

Presented by: Paul Speyer

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Overview of Opportunity Zones & Funds

- Set up as part of the Tax Cuts and Jobs Act of 2017
- Program was established as a way to motivate the investment of realized capital gains into economically distressed areas
- Offers incentives to invest into Qualified Opportunity Funds such as the deferral/reduction of capital gains taxes
- Must invest into a Qualified Opportunity Fund (QOF), and not directly into the Qualified Opportunity Zone

Two-Fold Dilemma in America

Problem:

- As recently as 2017, there are unrealized capital gains that have been estimated as high as \$6 trillion
 - Roughly \$4 trillion from individuals & \$2 trillion from corporate investors
- Tens of thousands of distressed areas all around the U.S. that are struggling with geographic inequality and showing stunted economic growth
 - 75% of all venture capital currently goes to three states: NY, MA, and CA

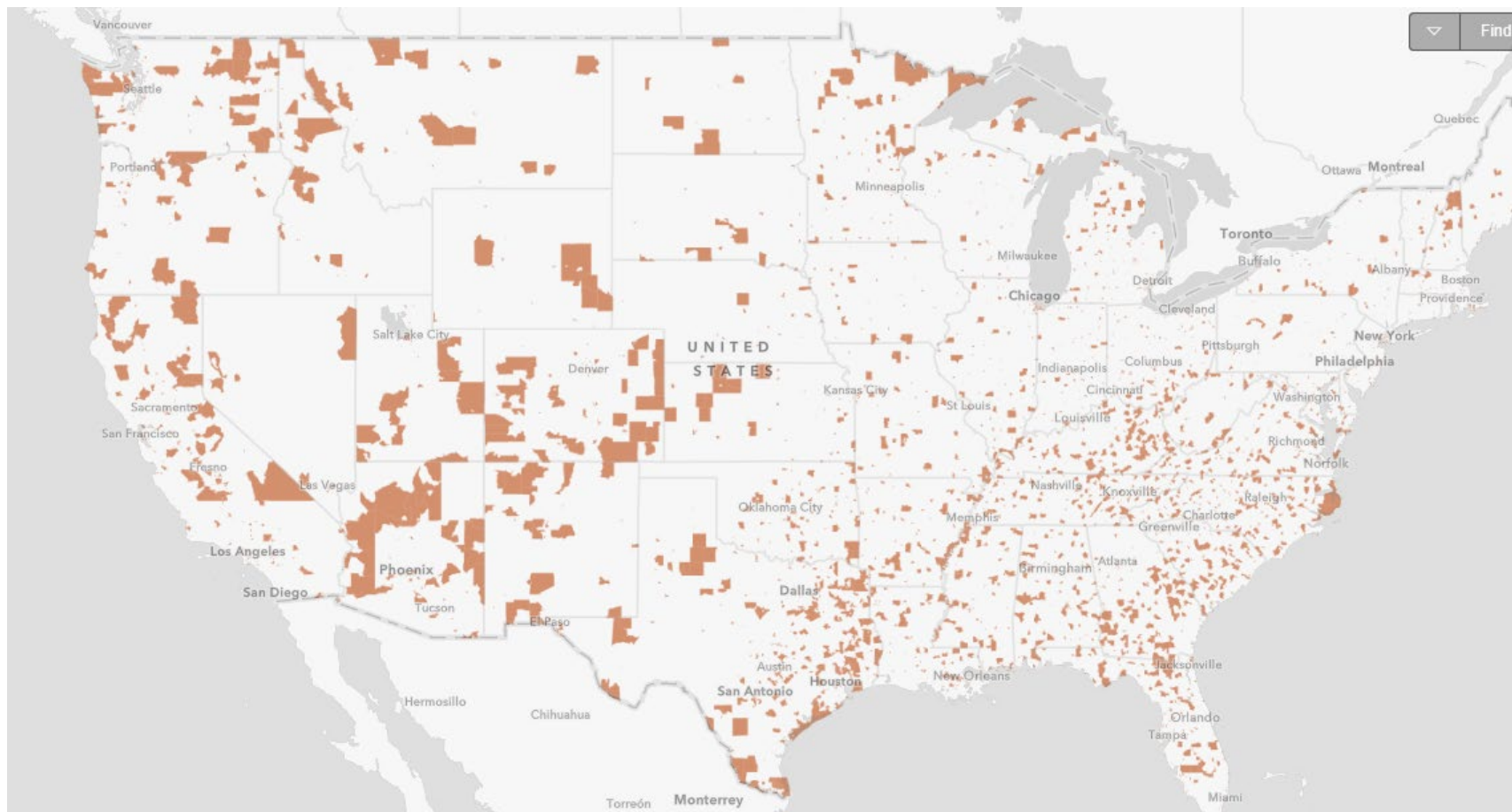
Solution:

- Opportunity Zones & Opportunity Zone Funds

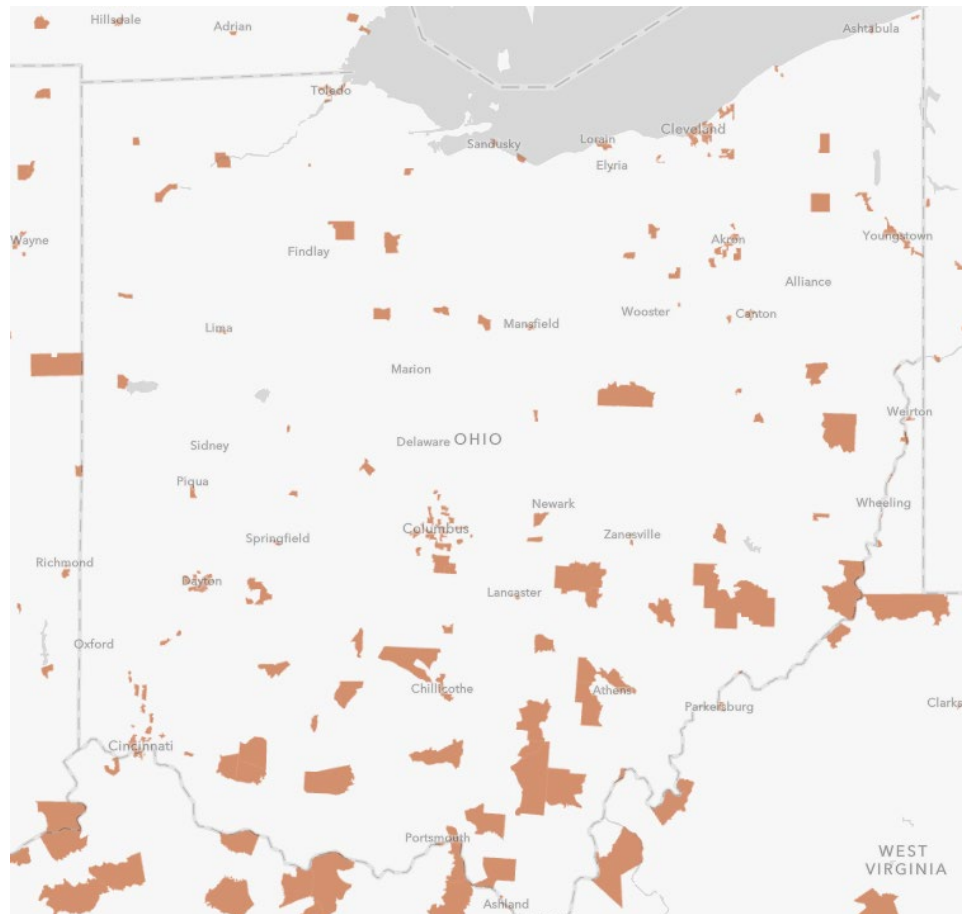
Opportunity Zones – What are they?

- These are “Distressed Areas”
 - Roughly 52 million Americans live in these areas
 - Defined as low income areas according to Code Section 45D(e)
 - Poverty Rate of at least 20%or
 - Median family income does not exceed 80% of statewide household income
- Nominated by each states Governor
 - Final count has over 8,700 qualified opportunity zones as approved by the Secretary of Treasury
 - Ohio alone has 320 qualified opportunity zones out of 1,280 qualified areas

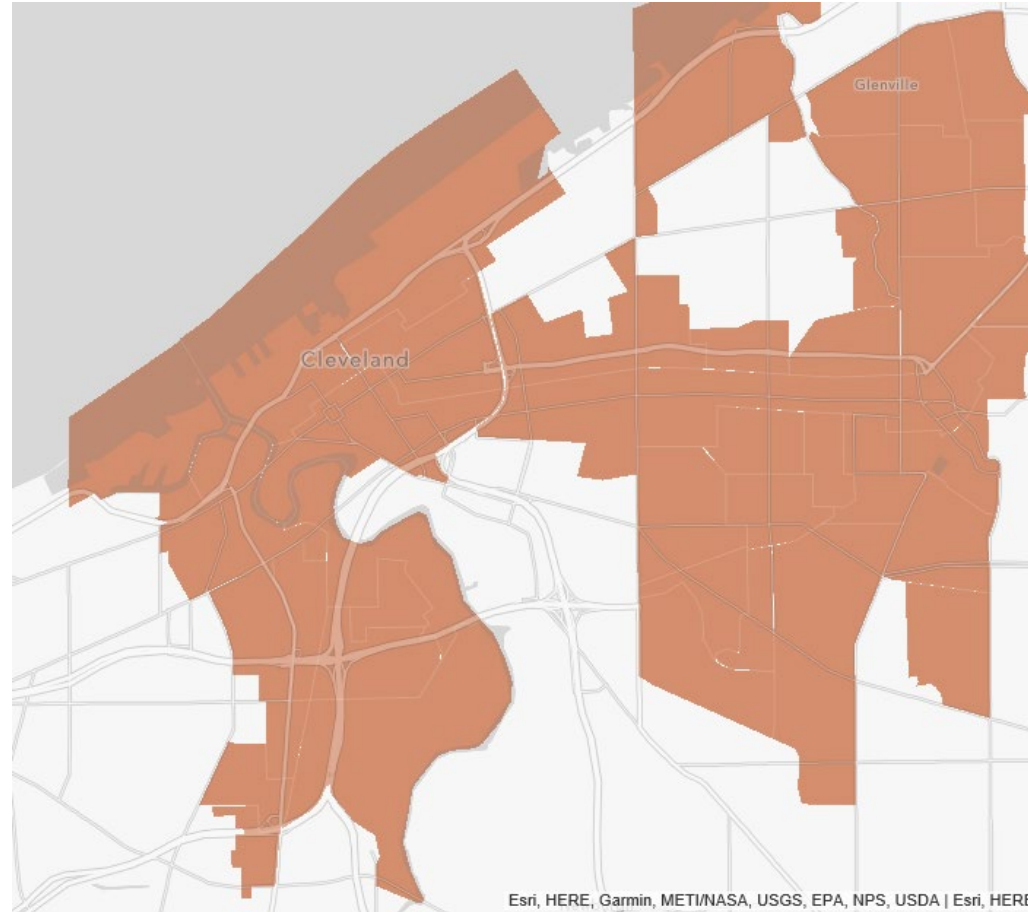
Opportunity Zones Across America



Opportunity Zones Across Ohio



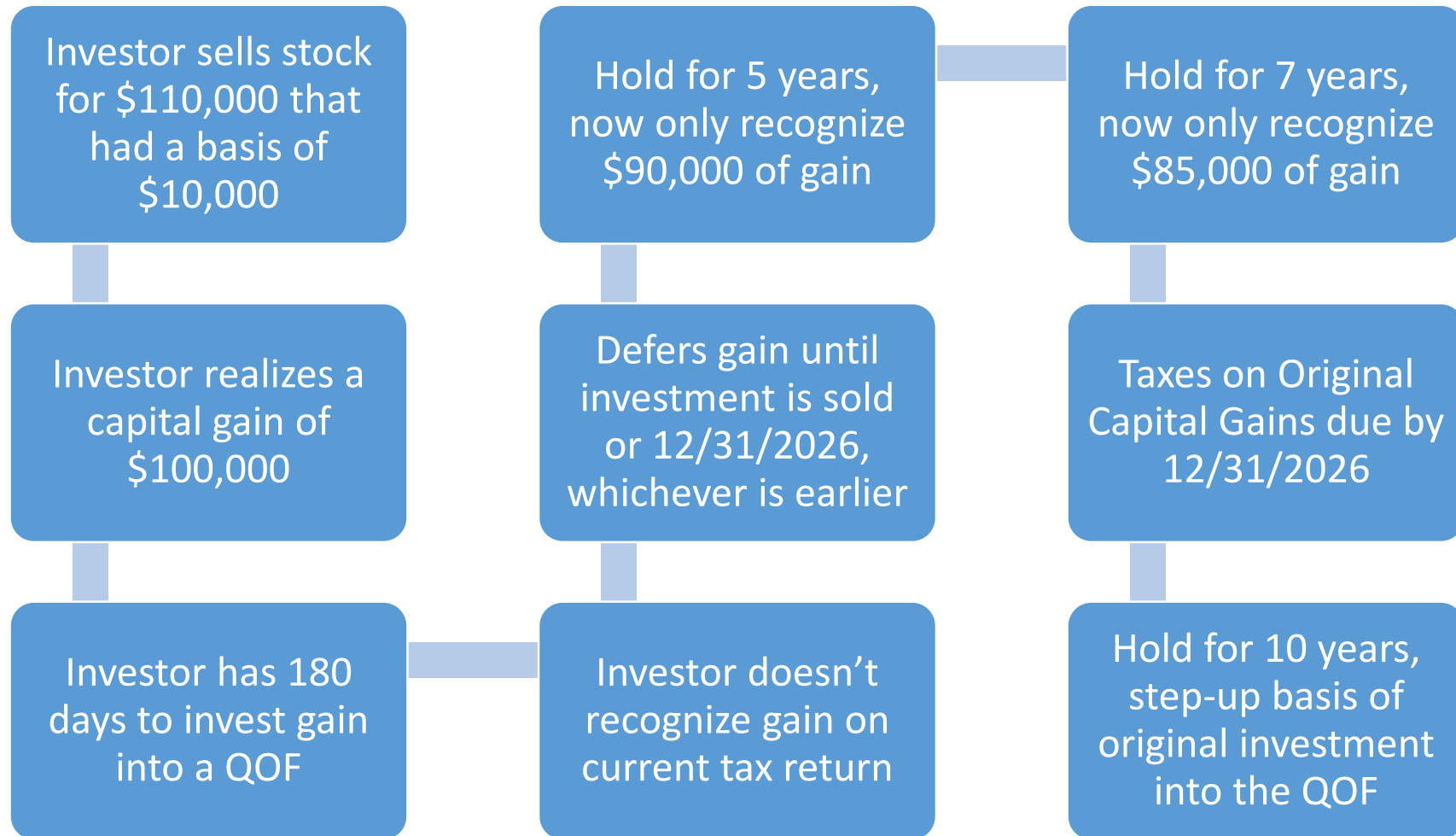
Opportunity Zones Across Cleveland



Deferral/Reduction of Taxable Capital Gains

- Investor has 180 days to invest in QOF once realizing capital gains
- Taxes on the original Realized Capital Gains due upon the sale/exchange of the QOF or 12/31/2026, whichever is earlier
- The length of time needed to hit incentives for original Realized Capital Gains:
 - Hold Asset for 5 Years: Able to reduce taxable gain by 10% (must invest by 12/31/2021)
 - Hold Asset for 7 Years: Able to reduce taxable gain by 15% (must invest by 12/31/2019)
 - Hold Asset for 10 Years: Able to step up your basis in the QOF, resulting in no additional capital gain being recognized when QOF sold or exchanged

Timeline of Investing



Regulations of Investing

- Partnerships can invest capital gains into QOF's or pass the gains through to the partners on an individual level where they have the option to invest them
- The 180-day timeframe for investing starts on the day the gain is realized
 - Exception: Gains come from a partnership that deferred them to the individual partners
- Realized Capital Gains must be from an unrelated party

Qualified Opportunity Zone Funds (QOF's)

- A self-certifying corporation or organization that invests at least 90% of their capital into qualified opportunity zones
- Self-Certifying through Form 8996
- Can be a partnership or corporation
- No size limitations or restrictions
- Expecting to see over 30 billion dollars in capital being invested into distressed areas all over America in the next few years through QOF's

Regulations for QOF's

- Must invest, at minimum, 90% of their assets into one of three categories within the first six months:
 - Qualified Opportunity Zone Stock
 - Qualified Opportunity Zone Partnership Interest
 - Qualified Opportunity Zone Business Property
- “90% Test” is measured twice a year with penalties being assessed every month the QOF does not meet the 90% requirement
- A QOF can not invest in another QOF
- Allowed to invest the same QOF throughout multiple opportunity zones

Defining QOF Categories

- Qualified Opportunity Zone Stock
 - Stock acquired by a QOF in exchange for cash from a Qualified Opportunity Zone Business
- Qualified Opportunity Zone Partnership Interest
 - Interest acquired by a QOF from a partnership in exchange for cash from a Qualified Opportunity Zone Business
- Qualified Opportunity Zone Business Property
 - Tangible property that has substantially all of its use in a qualified opportunity zone and either:
 - Original use of property commences with QOF
 - or
 - QOF substantially improves the property

Substantial Improvement

- Substantial Improvement: adding additional basis to the property that is equal to or more than the original basis, excluding land
- Qualified Opportunity Zone Fund must substantially improve property of business, if business didn't commence with QOF
 - Run down apartment building: must substantially improve
 - Warehouse converted into lofts: improvements don't need to be substantial
- Improvements to property must be completed within 30 months
 - Working Capital Safe Harbor: must have written plan for improvements

Qualified Opportunity Zone Business

- 70% of qualified opportunity zone business property needs to be in Opportunity Zone
- 50% of business's annual gross income must come from opportunity zone
- Excluding "Sin Businesses"
 - Casinos, Spas, Golf Clubs, Massage Parlors, and Racetracks

Highlights & Challenges

Highlights:

- Able to defer/reduce taxable capital gains over time
- Able to eliminate additional taxable capital gains
- Only the capital gains need to be invested
- Great for tax planning purposes
- Easy to set up

Challenges:

- Still considered to be a “work in progress”
- Time frames are locked in
- Only 180 days from day of sale to invest the capital gains
- Risking the capital gains tax rates increase
- Substantial Improvement of property can be difficult to achieve

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