

Opportunity Zones

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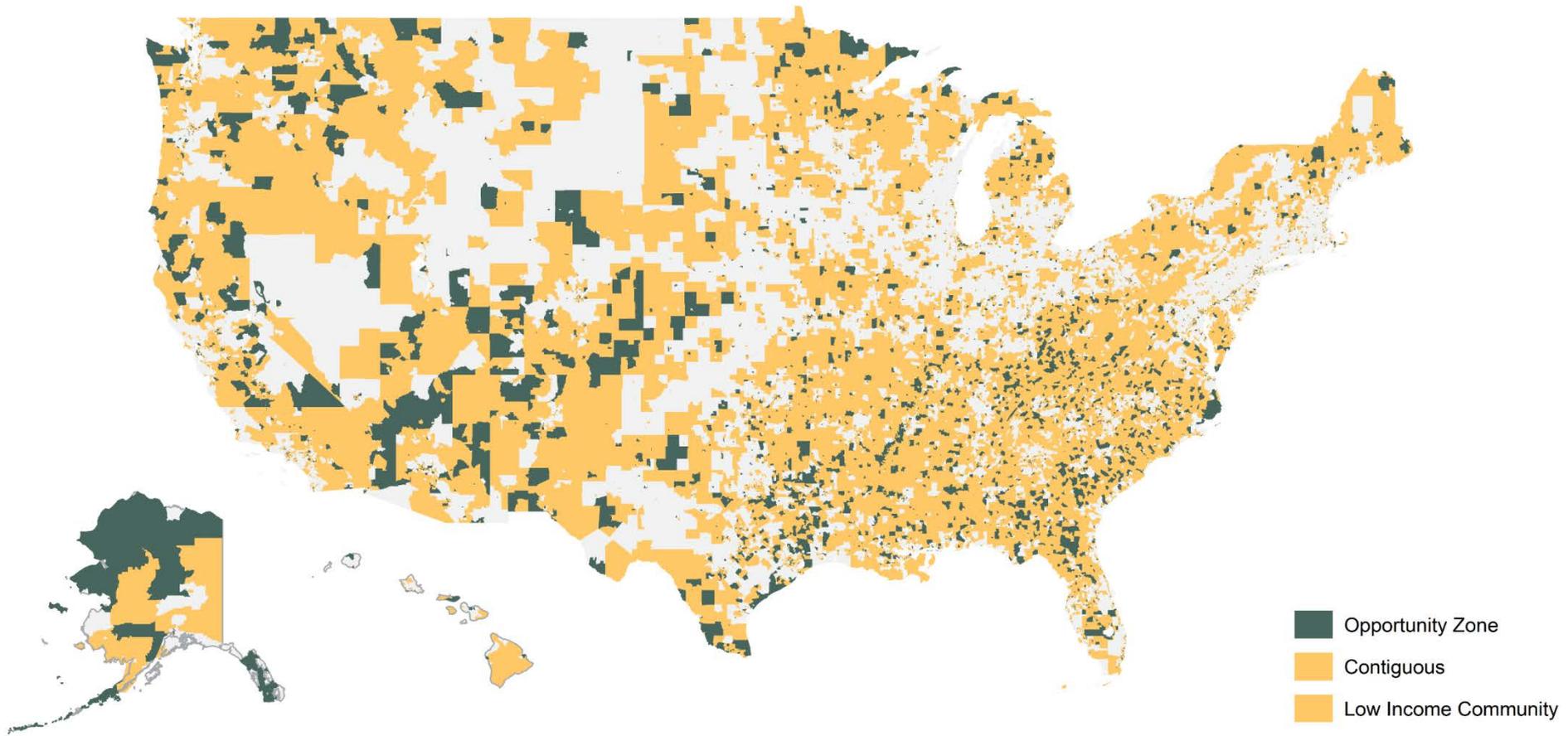


Opportunity Zones – Policy Objectives

- Designed to **spur long-term private sector investments** in LIC
- Frictionless way to **reinvest realized capital gains** into distressed communities
- **1st** new national community investment program in over **15** years
- Potential to **scale** into the largest economic development program in the U.S.
- Specifically designed to channel more **equity capital** into overlooked markets.

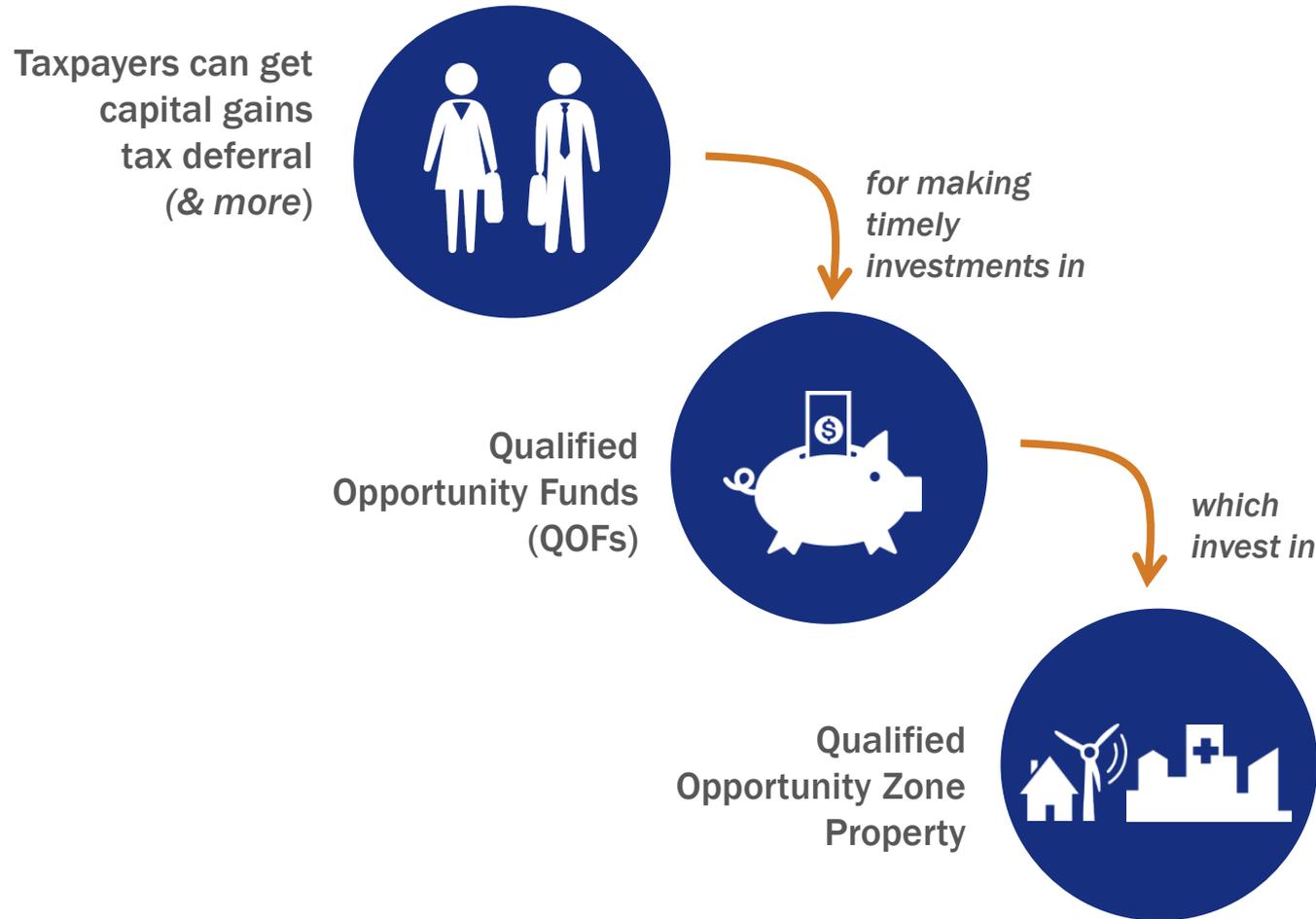


Opportunity Zones





Benefits of the Opportunity Zone Incentive





3 Tax Incentive Benefits

1. Capital Gain
Deferral

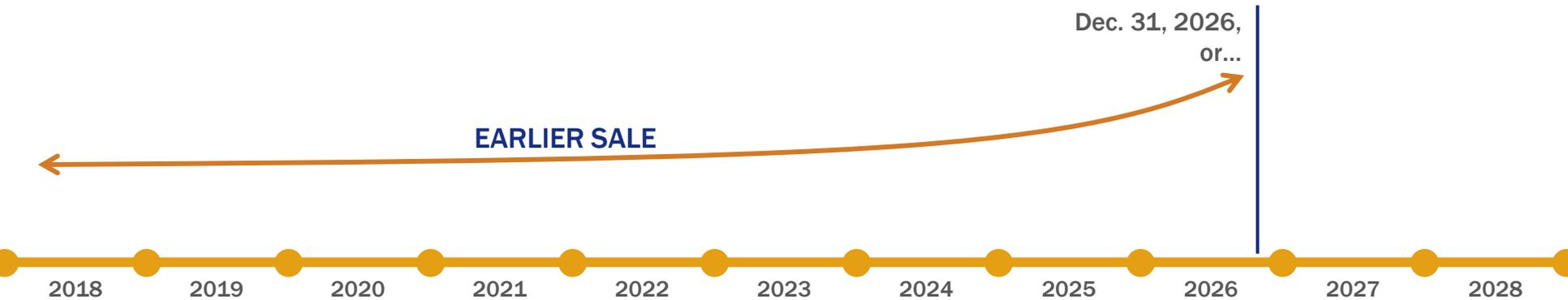
2. Partial
forgiveness

3. Forgiveness of
additional gains



Period of Deferral

The period of capital gain tax deferral ends upon the earlier of:





Amount Recognized

THE LESSER OF:

1. Amount of capital gain deferred
- or*
2. The fair market value of investment in QOF interest

MINUS:

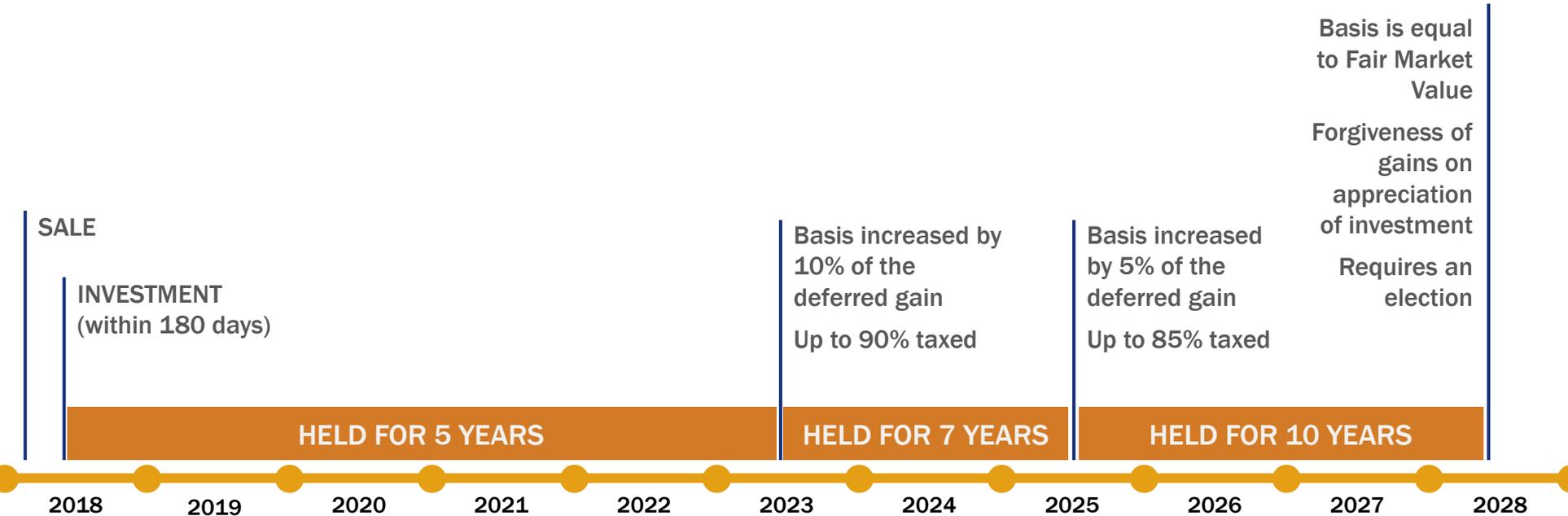
Taxpayer's basis in the QOF interest

Note: The taxpayer's basis in the Opportunity Fund is initially deemed to be zero.

Note: Per the proposed regulations, the attributes of the original gain will remain when the gain is eventually recognized into income.



Partial Forgiveness and Forgiveness of Additional Capital Gains



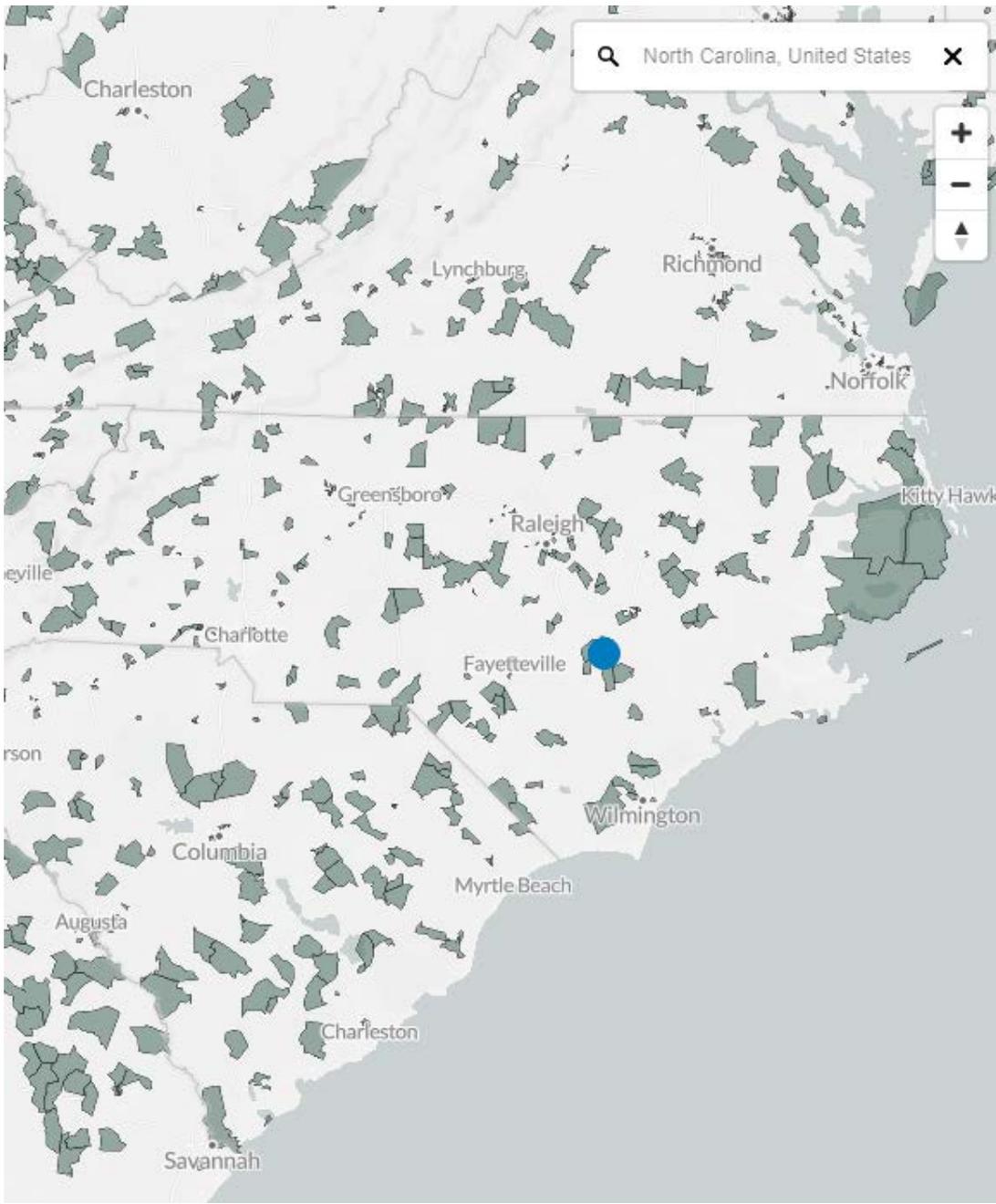
Eligible Areas
Where are the Opportunity Zones?



Opportunity Zone Designation

- More than 8,700 census tracts located in each State, DC and possessions have been designated (approx. 11% of the country by census tract)
- The Opportunity Zones meet basic low income criteria, but contiguous census tracts not meeting low income also are designated
- List is final and essentially unchanging
- The list is available from IRS organized by state
- States also have interactive websites for confirming address in a QOZ
- Novogradac Mapping Tool: www.novoco.com/resource-centers/opportunity-zone-resource-center/guidance/novogradac-opportunity-zones-mapping-tool

Designated Opportunity Zones in North Carolina





Qualified Opportunity Fund



Qualified Opportunity Fund

- An **investment vehicle** taxed as a **corporation** or a **partnership** for the purpose of investing in **Qualified Opportunity Zone Property (QOZP)**
- **Must hold at least 90% of its assets in QOZP**
- **Entity will self-certify using IRS form 8996**



Qualified Opportunity Fund – Assets Test

Must hold at least 90% of assets in QOZP, determined by the average of the percentage of QOZP held on:

The last day of the first six month period of the fund's taxable year, and

The last day of the fund's taxable year

June 30th

December 31st

*Note that testing dates may not be June 30 and December 31; depends on formation date, taxable year of fund and IRS guidance



Qualified Opportunity Fund – Noncompliance Penalty

Failure to meet 90% investment standard

Per month penalty for
failing to meet 90% test

$\frac{\% \text{ shortfall}}{\text{underpayment rate}}$
penalty

(Federal short-term rate
plus 3%) – currently 5%

No penalty if it is shown failure
is due to reasonable cause



Qualified Opportunity Zone Business and Qualified Opportunity Zone Business Property





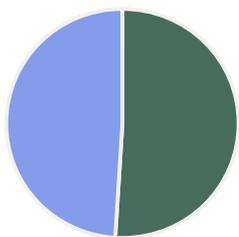
Qualified Opportunity Zone Stock and Partnership Interests

- The investment must be **acquired after December 31, 2017 solely** in exchange for cash
- Must be a **qualified opportunity zone business**, or is being organized for the purpose of being a qualified opportunity zone business
- Must remain a qualified opportunity zone business for **substantially all** of the qualified opportunity fund's holding period



Qualified Opportunity Zone Businesses (QOZB)

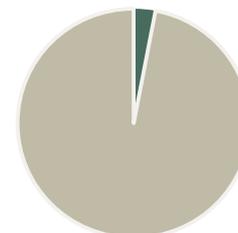
A trade or business in which **substantially all (70 percent)** of the tangible property owned or leased by the taxpayer is **qualified opportunity zone business property (QOZBP)** and:



At least 50% of income derived from Active Conduct



Substantial portion of intangible property used in active conduct of business



< 5 percent unadjusted basis of property is nonqualified financial property

Note: QOZB cannot be an Excluded Business.



Nonqualified Financial Property

- A QOZB is subject to the requirements of section 1397C(b)(8), that **less than 5 percent** of the aggregate adjusted basis of the entity is attributable to **nonqualified financial property**.
- Proposed regulations provide a **working capital safe harbor** for QOF investments in QOZB for a period of **up to 31 months** if:
 - Written plan that identifies the financial property as property held for acquisition, construction, or substantial improvement of tangible property in the opportunity zone
 - Written schedule consistent with the ordinary business operations of the business that the property will be used within 31 months
 - QOZB substantially complies with the schedule



Qualified Opportunity Zone Business Property (QOZBP)

- **Tangible property** used in a **trade or business**
- Acquired by **purchase from an unrelated party** (20% standard) after **December 31, 2017**
- During **substantially all** of holding period, substantially all the use is **in a QOZ**
- **Original use in the QOZ** commences with the taxpayer

OR

- Taxpayer **substantially improves** the property
 - during any 30-month period after acquisition, additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such period

Note: The land purchased along with a building is excluded from the original use and substantial improvement provisions.

Special Rules for Land and Improvements on Land

If a QOF purchases a building located on land wholly within a QOZ, a substantial improvement to the purchased tangible property is measured by the QOF's additions to the adjusted basis of the building.



QOZ

QOF is not required to separately substantially improve the land upon which the building is located.

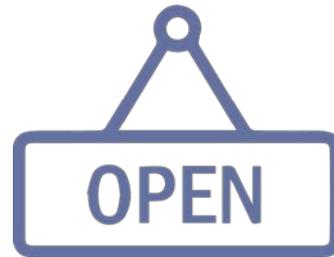




Readily Identifiable Investment Types in Opportunity Zones



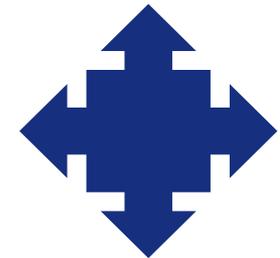
Commercial Real Estate
Development and
Renovation in Opportunity
Zones



Opening New
Businesses in
Opportunity Zones



Expansion of Existing
Businesses into
Opportunity Zones



Large Expansions of
Businesses already
within Opportunity Zones



Comparison of Requirements by Direct and Indirect Investment by Opportunity Fund

Requirement	Direct Investment	Indirect Investment
Percentage of Opportunity Fund's assets that must be invested in qualified opportunity zone business property	90%	N/A
Percentage of Opportunity Fund's assets that must be invested in stock or partnership interests	N/A	90%
Percentage of Opportunity Fund's assets that may be held in cash or other liquid investments	10% (together with intangible property)	5% plus reasonable working capital
Percentage of Opportunity Fund's assets that may be held in intangible property	10% (together with cash)	Unlimited, but intangible property must be used in trade or business
Percentage of Opportunity Fund's assets that must be invested in tangible property	90%	No minimum
Percentage of gross income that must be derived from active conduct of business	None	50%
Ineligible Businesses	None	Sin Businesses



Combining with Other Tax Incentives





Opportunity Zones Working Group

- **Priority Issues:**
 - Discovering how to best use the incentive with various business models.
 - Discovering how best to pair the OZ incentive with various tax credits.
 - Making requests for guidance and providing recommendations around statutory requirements and regulations
- Treasury Guidance Request sent late November requesting additional guidance in several areas that were not covered by the Proposed Regulations and Revenue Ruling issued in October
- Additional comments will be sent to Treasury regarding the information that was covered in the Proposed Regulations and Revenue Ruling issued in October



Opportunity Zones Working Group

- **Formal Treasury Guidance Requests:**
 - Are cash reserves held by an Opportunity Fund designated for investment in Opportunity Zone Property considered Opportunity Zone Property?
 - Can gains realized by an Opportunity Fund from the sale or exchange of Opportunity Zone Property, be deferred if they are reinvested in replacement Opportunity Zone Property within a twelve-month period beginning on the date of the sale or exchange?
 - Are debt-financed returns of capital (or a reduction in a partner's share of partnership liabilities that is treated as a distribution) that do not exceed a partner's basis in its Opportunity Fund interest, considered sales or exchanges that trigger the end of the tax deferral period?
 - If Taxpayer realizes a gain, and invests in a partnership, and the partnership, in turn, invests in an Opportunity Fund within 180 days of Taxpayer realizing the gain, may Taxpayer elect to defer the realized gain under Section 1400Z-2?
 - What does it mean for an entity to be in the “active conduct of a trade or business in the opportunity zone” for purposes of meeting the Opportunity Zone Business requirements?
 - How does an Opportunity Zone Business determine whether its leased property is Opportunity Zone Business Property?
 - Does a business have a grace period to become an Opportunity Zone Business following an investment from an Opportunity Fund?



Opportunity Zones Working Group

- Informal Treasury Guidance Requests:
 - Qualification of vacant land (where an existing building is not situated) as Opportunity Zone Business Property.
 - Whether substantial improvements after December 31, 2017 to property purchased before December 31, 2017 can be considered separate Opportunity Zone Business Property.
 - Whether the 70% substantially all test must be met at the time of investment for existing entities.
 - Whether non-original use property acquired by an Opportunity Fund or an Opportunity Zone Business is considered opportunity zone business property during the 30 month period it is being substantially improved.
 - Whether residential rental property can qualify as an Opportunity Zone Business.

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