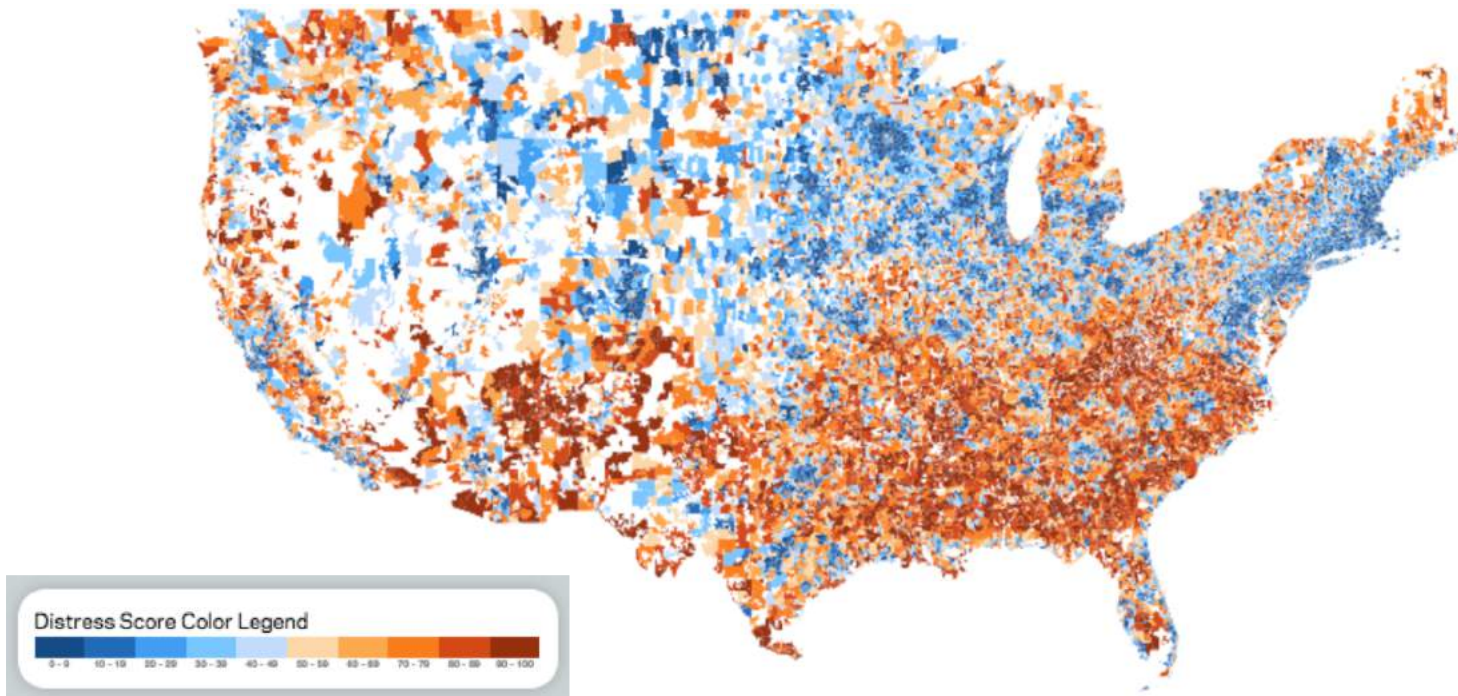




# Qualified Opportunity Zones

# Why Opportunity Zones and Why Now?

52 million Americans (1 in 6) live in economically distressed communities



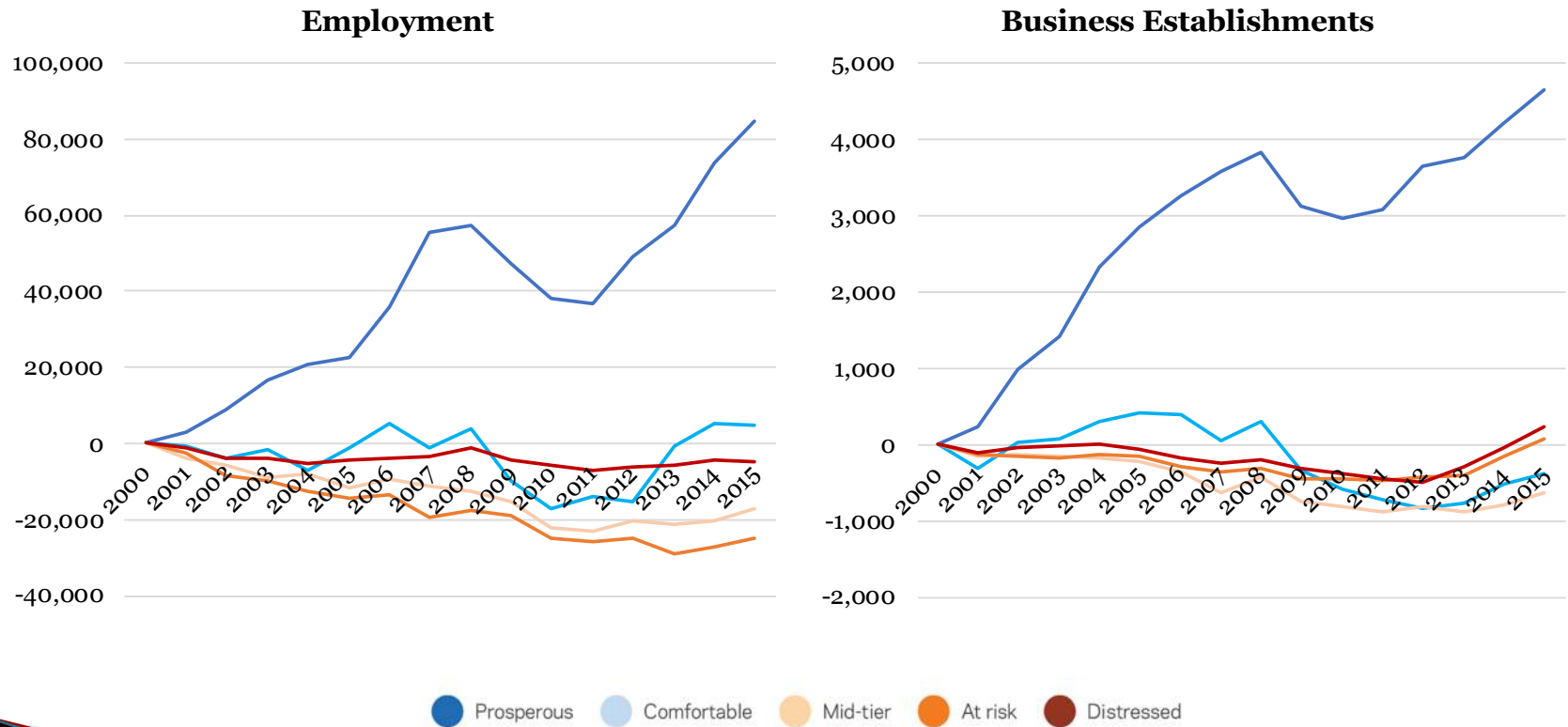
**Prosperous**

**Distressed**

*Source: EIG's "Distressed Communities Index"*

# ...and distressed communities are being left behind

*Cumulative change since 2000*



Source: EIG's "Escape Velocity"

# Opportunity Zones are an innovative, flexible, and bipartisan solution for catalyzing private sector-led economic growth

Opportunity Zones were established by Congress in the Tax Cuts and Jobs Act of 2017.

The new provision is based on the bipartisan *Investing in Opportunity Act*, which was championed by Senators Tim Scott (R-SC) and Cory Booker (D-NJ) and Representatives Pat Tiberi (R-OH) and Ron Kind (D-WI) and attracted nearly 100 bipartisan cosponsors.

EIG originally developed the concept in a 2015 working paper authored by Jared Bernstein and Kevin Hassett.



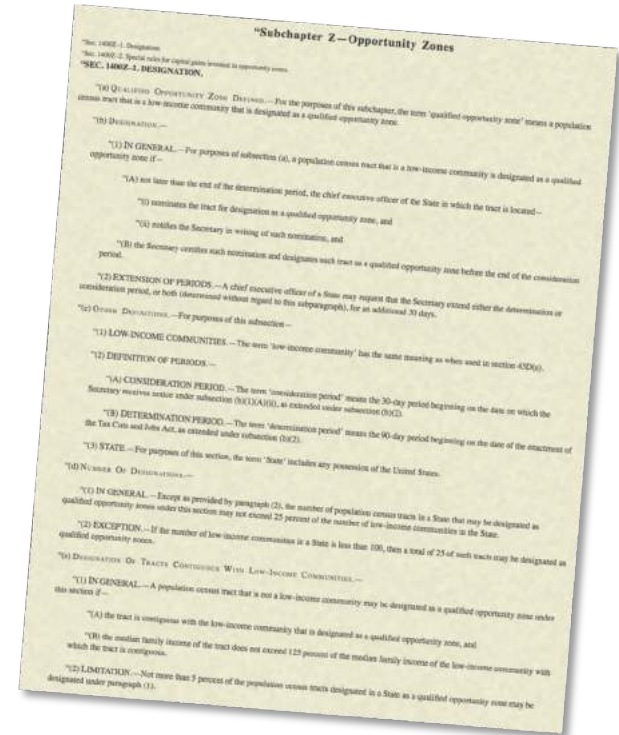
# Opportunity Zones aims to connect low-income communities with much-needed capital



**Capital** – U.S. households and corporations were sitting on an estimated **\$6.1 trillion** in unrealized capital gains at the end of 2017.



**Connect** – Opportunity Zones offer a frictionless way for investors to dedicate all or a portion of their winnings to seeding the next generation of enterprise in distressed communities all across the country. In exchange, investors get a graduated series of federal tax incentives tied to **long-term holdings**.



# OZ Benefits

## 1. Deferral of Gain      2. Partial Forgiveness of Deferred Gain      3. Forgiveness of Additional Gains

- Time Value of Deferred Obligation – earlier of:
  - Date the investment is sold or exchanged; or
  - Outside date of December 31, 2026
- Gain Recognition
  - Amount of gain (or fair market value)
  - Less: the taxpayer's basis in the opportunity zone fund
- Partial Forgiveness of Gain – The Basis Step Up
  - 5 year hold = 10%
  - 7 year hold = 15%
- Forgiveness of Additional Gain/Investment Appreciation
  - 10 year hold
  - Basis step up



# Sample Investment

Jan. 2, 2018

Taxpayer enters  
into a sale  
generating \$1MM  
of capital gains

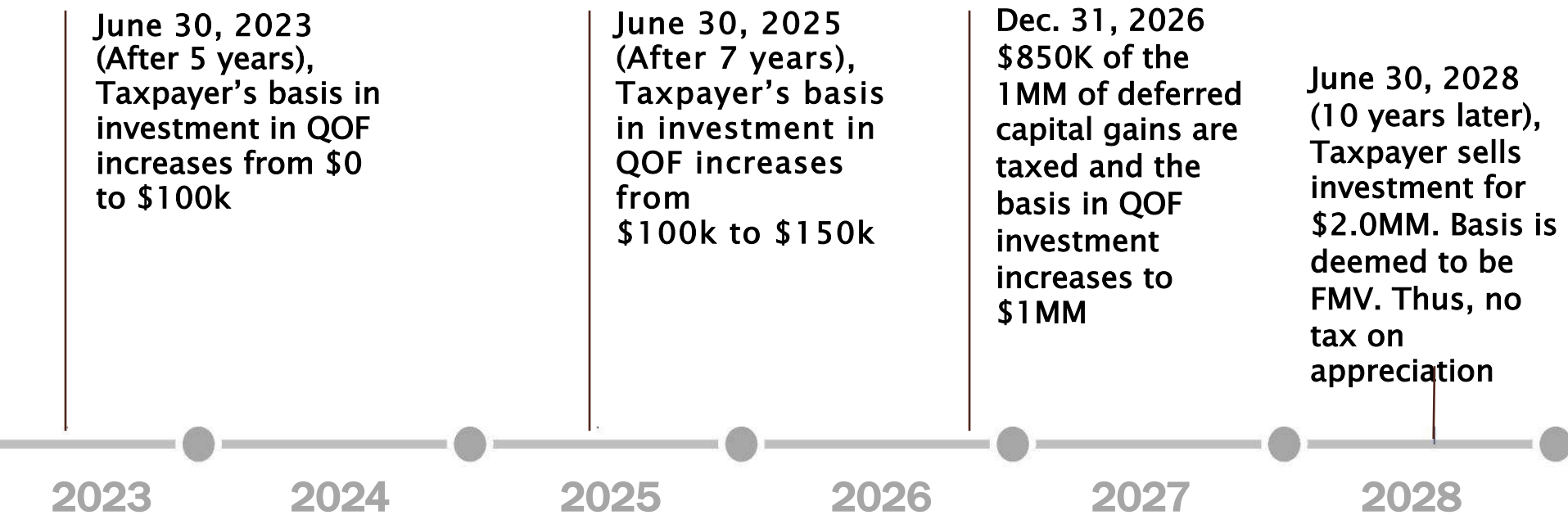
June 30, 2018

Taxpayer contributes  
entire \$1MM of capital  
gain to a Qualified  
Opportunity Fund

- Taxpayer is deemed to have a \$0 basis in its QOF investment
- QOF Invests the \$1MM in Qualified Opportunity Zone Property



# Qualified Opportunity Zone Sample Investment





# Qualified Opportunity Funds

- **An Investment Intermediary**
  - Must be organized as a Corporation or Partnership
  - Purpose – to invest in OZs
  - Assets Test – Must hold at least 90% of assets in (1) stock or partnership interests of a Qualified Opportunity Zone Business, and/or (2) Qualified Opportunity Zone Business Property
- **Certification**
  - Statute authorizes fund certification by Treasury
  - Treasury announced Funds will “self-certify” by filing a form with their tax return
  - No limit on the number of Funds that can be created

# Investments in Qualified Opportunity Zone Property



# Qualified Opportunity Zone Business

- A trade or business.
- **Substantially all of its tangible property (whether owned or leased) is Qualified Opportunity Zone Business Property**

AND

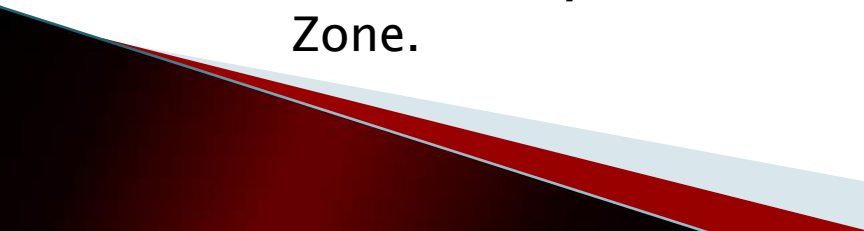
- At least 50 percent of its gross income must be from the **active** conduct of a trade or business in an Opportunity Zone,
- A substantial portion of its intangible property must be used in the **active** conduct of its business in an Opportunity Zone,
- No more than 5 percent of the average unadjusted basis of its assets may consist of “non-qualified financial property,”
- Cannot be a golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility, or any store the principal business of which is the sale of alcoholic beverages for consumption off-premises

# Qualified Opportunity Zone Business Property

Qualified Opportunity Zone Business Property is tangible property used in a trade of business if:

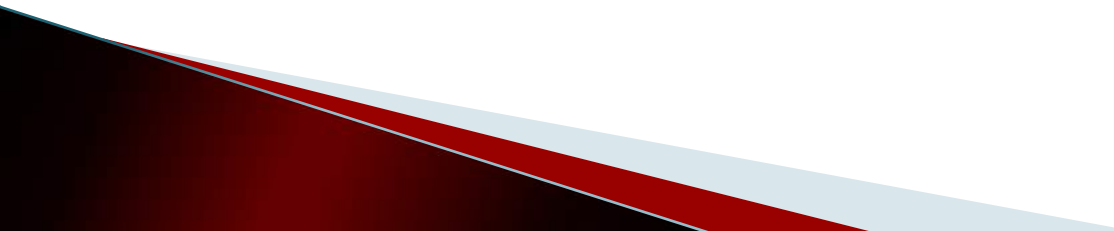
- It is acquired by purchase (as defined in Section 179(d)(2) related party rules, but using a 20% related party test instead of 50%) after December 31, 2017;
- The original use in the Qualified Opportunity Zone commences with the Qualified Opportunity Zone Business

OR

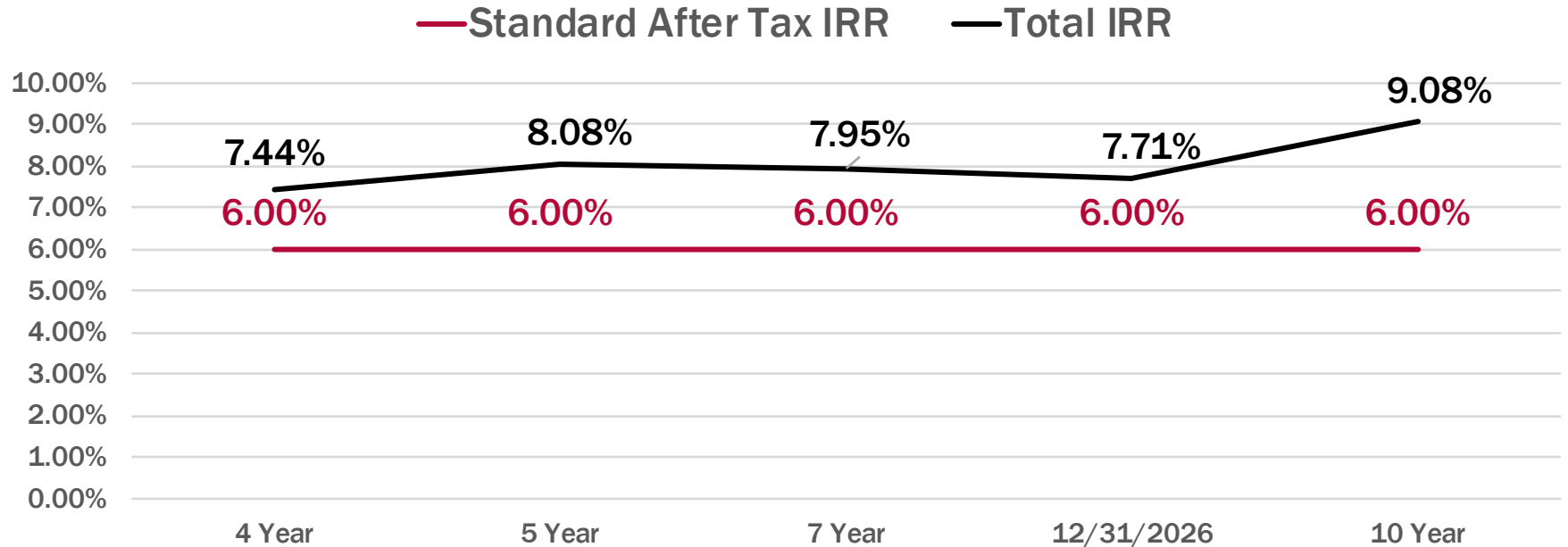
- The Qualified Opportunity Zone Business **substantially improves** the property; and
  - During **substantially all** of the holding period for such property, **substantially all** of the use of such property is in an Opportunity Zone.
- 

# Qualified Opportunity Zone Business Property

## Substantial Improvement Test:

- Property is treated as “substantially improved” if, during any 30-month period beginning after the acquisition of the property, additions to basis of the property exceed an amount equal to the adjusted basis of the property at the beginning of such period.
  - Land excluded
- 

# OZ Incremental Benefit



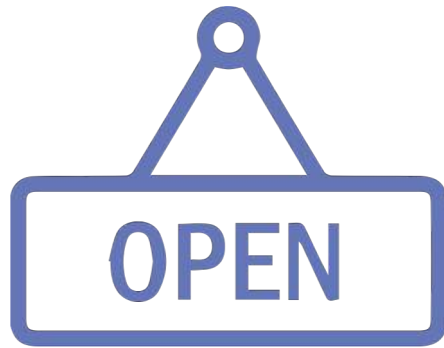
23.8% Tax Rate	4 Year	5 Year	7 Year	12/31/2026	10 Year
Standard After Tax IRR	6.00%	6.00%	6.00%	6.00%	6.00%
Incremental OZ Benefit	1.44%	2.08%	1.95%	1.71%	3.08%
OZ Investment IRR	7.44%	8.08%	7.95%	7.71%	9.08%
Percentage Increase	24%	35%	32%	29%	51%

\*Table Source-Novogradac & Company ([www.novoco.com/resource-centers/opportunity-zones-resource-center](http://www.novoco.com/resource-centers/opportunity-zones-resource-center))

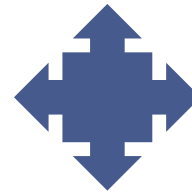
# Readily Identifiable Investment Types in Opportunity Zones



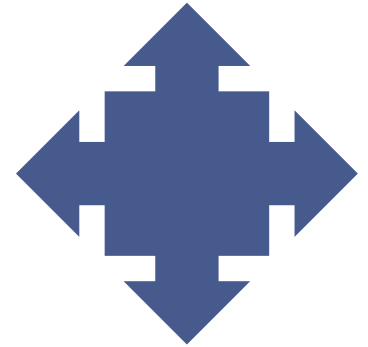
Commercial Real Estate Development and Renovation in Opportunity Zones



Opening New Businesses in Opportunity Zones



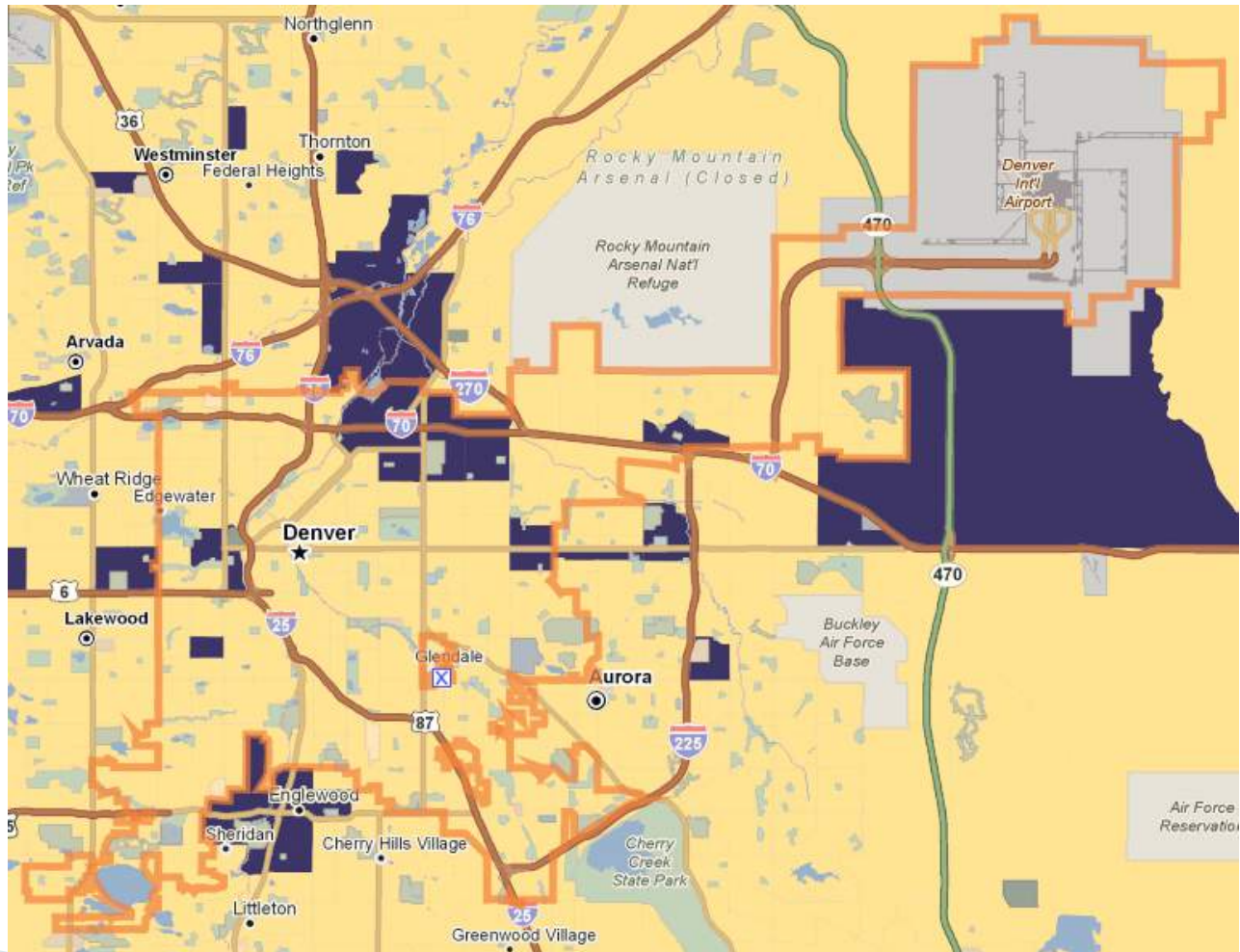
Expansion of Existing Businesses into Opportunity Zones



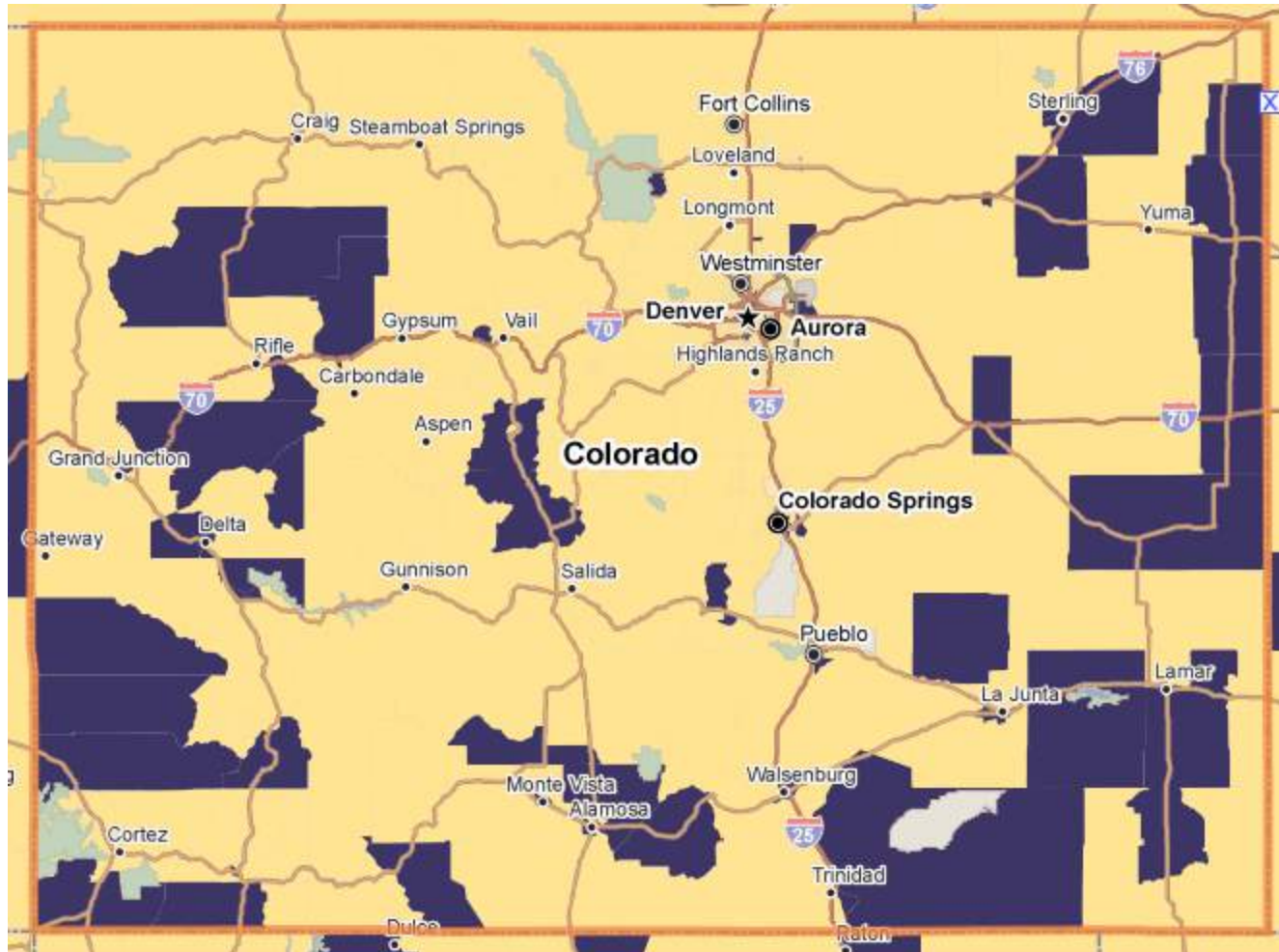
Large Expansions of Businesses already within Opportunity Zones



# Opportunity Zone Mapping Denver



# Opportunity Zone Mapping Colorado



# Qualified Opportunity Zones

Questions?

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