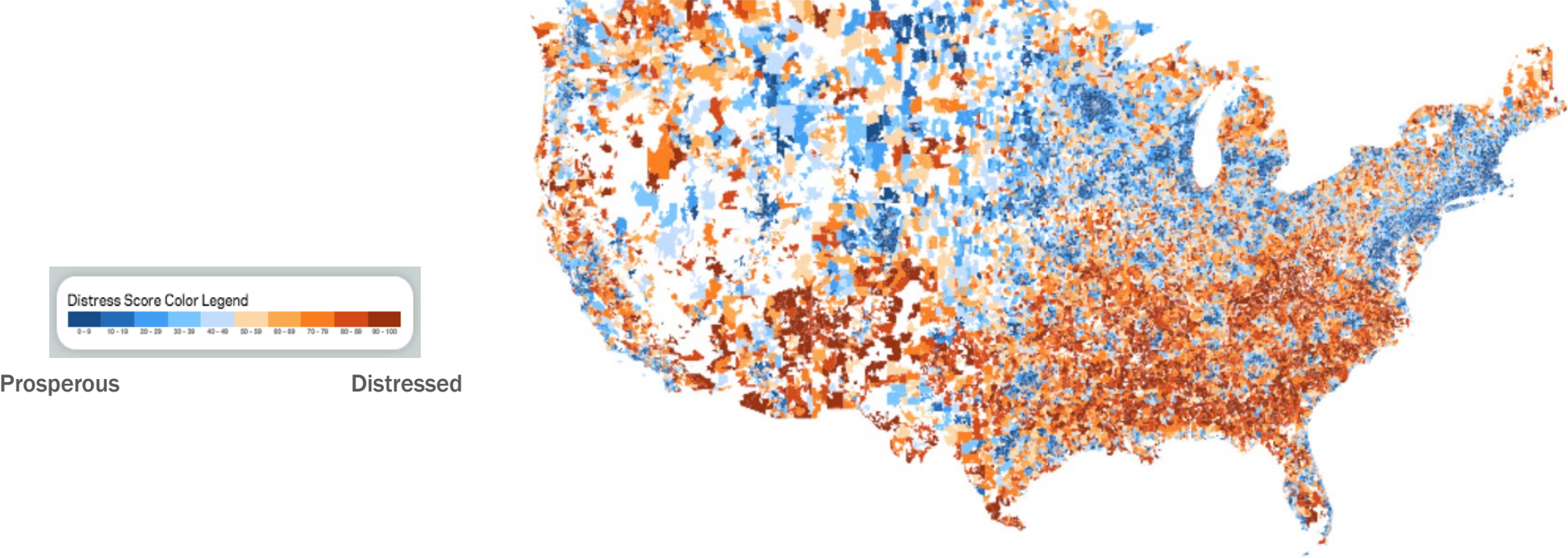


Introduction to the Opportunity Zones Incentive

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



EIG 

Basic Structure



3 Tax Incentive Benefits

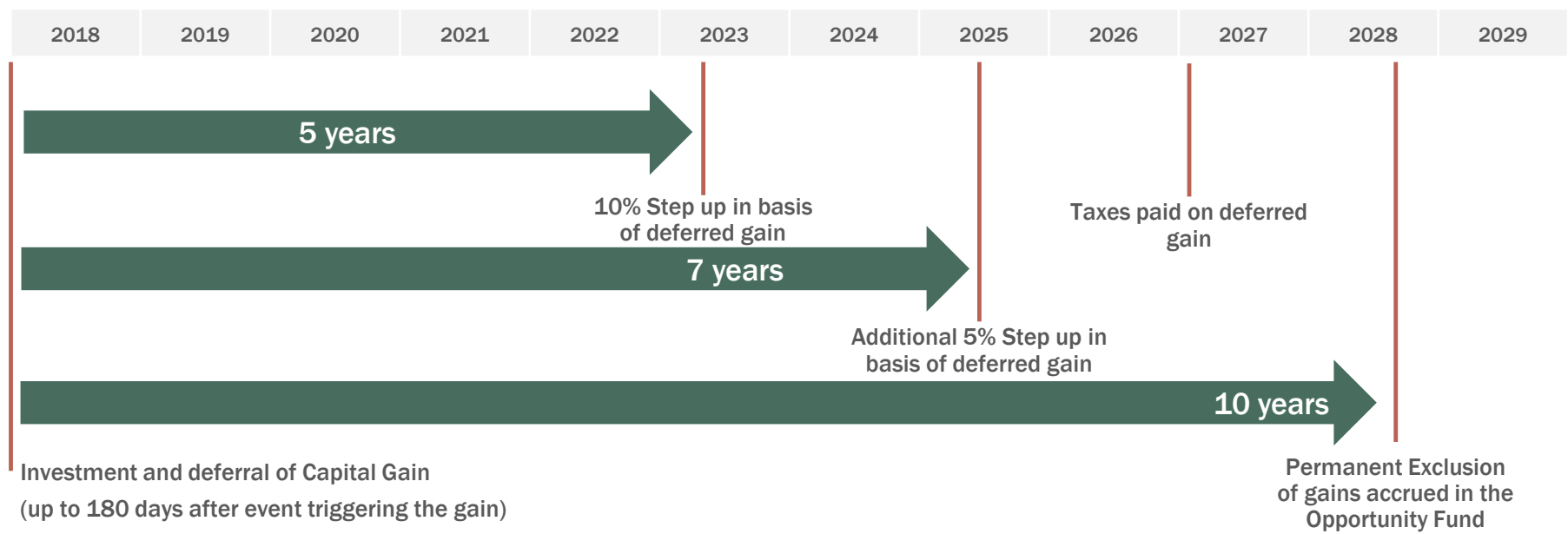
1. Capital Gain
Deferral

2. Partial
forgiveness

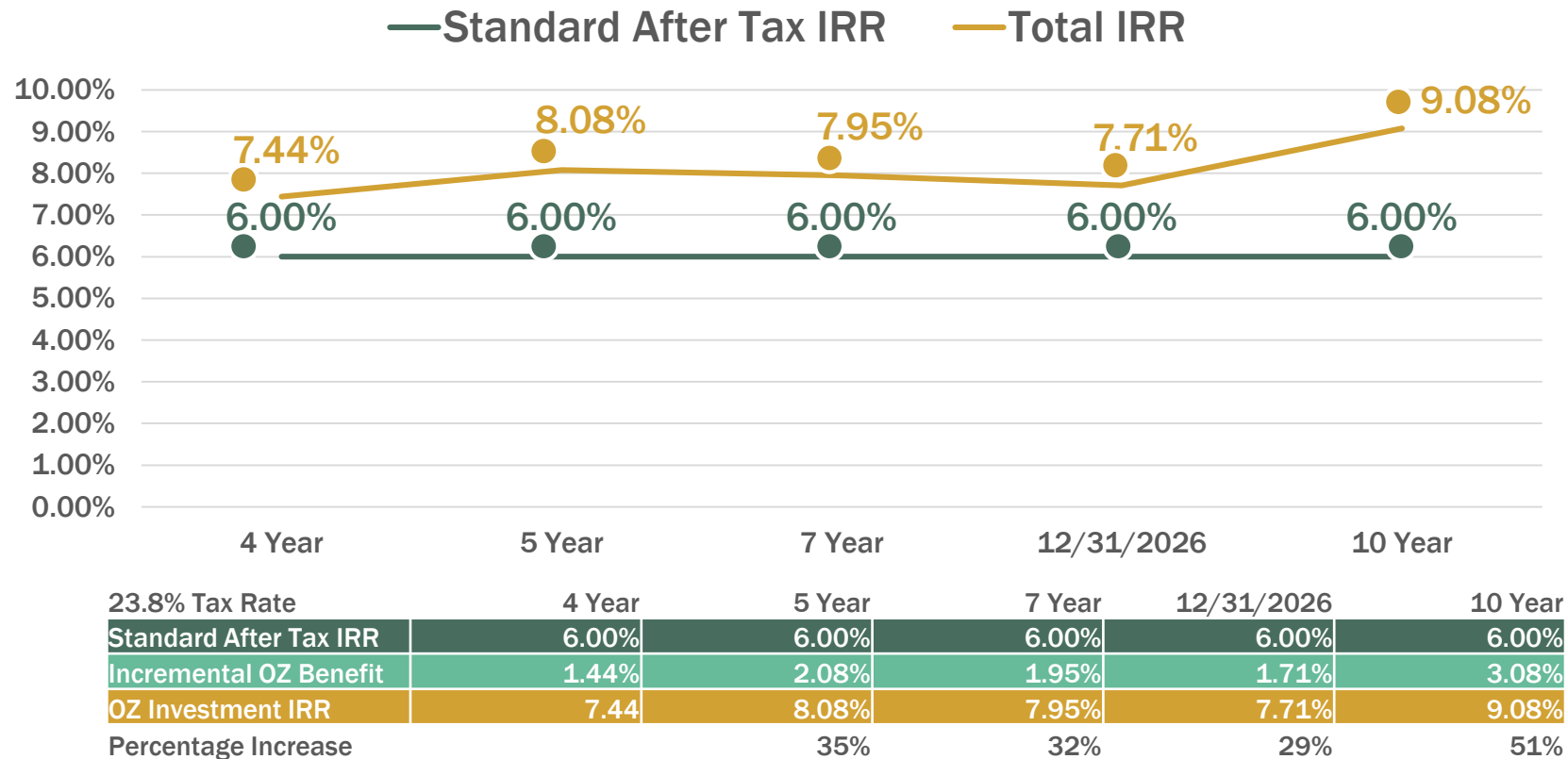
3. Forgiveness of
additional gains

Tax Incentives Timeline

Maximum benefit is achieved by holding the QOZ investment for 10 years

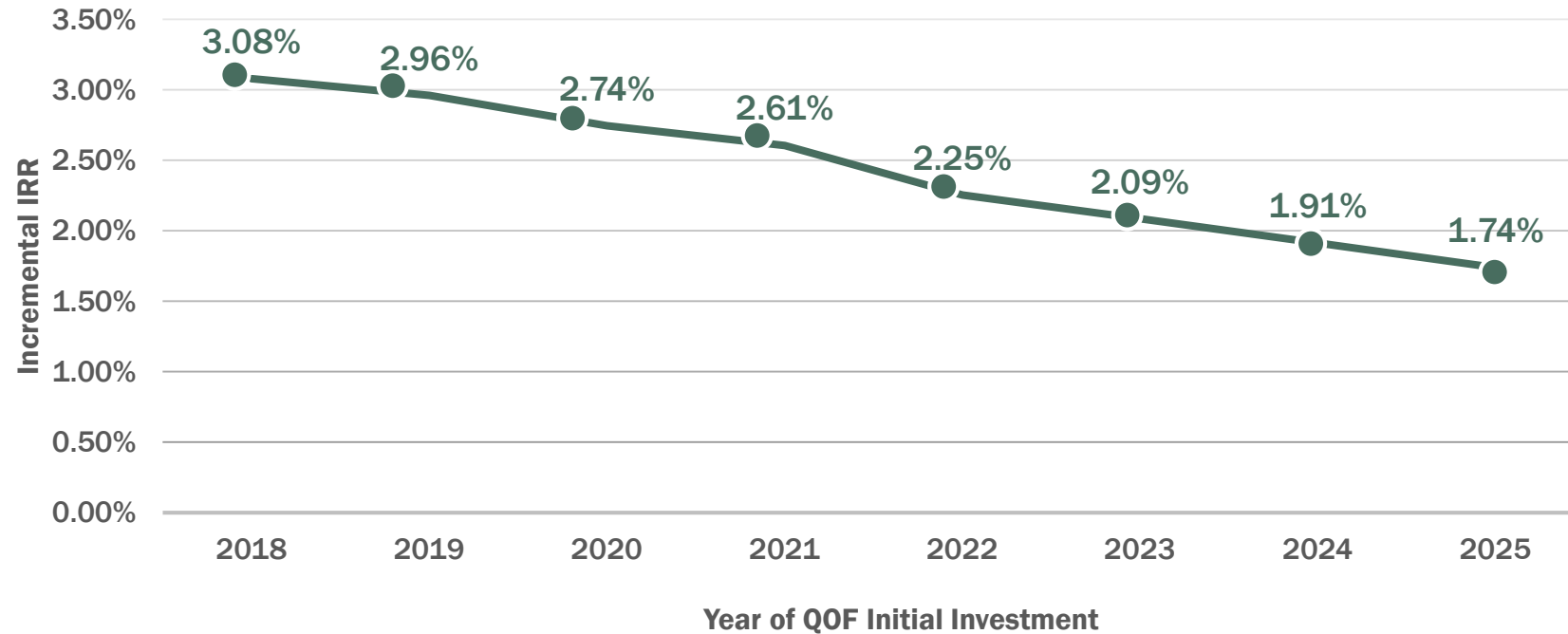


Opportunity Zone Incremental Benefit



*Rates and prices displayed in this and next slides are for demonstration purposes only and may not be indicative of actual figures available at market, depending on type of taxpayer, location of investment, and various other factors.

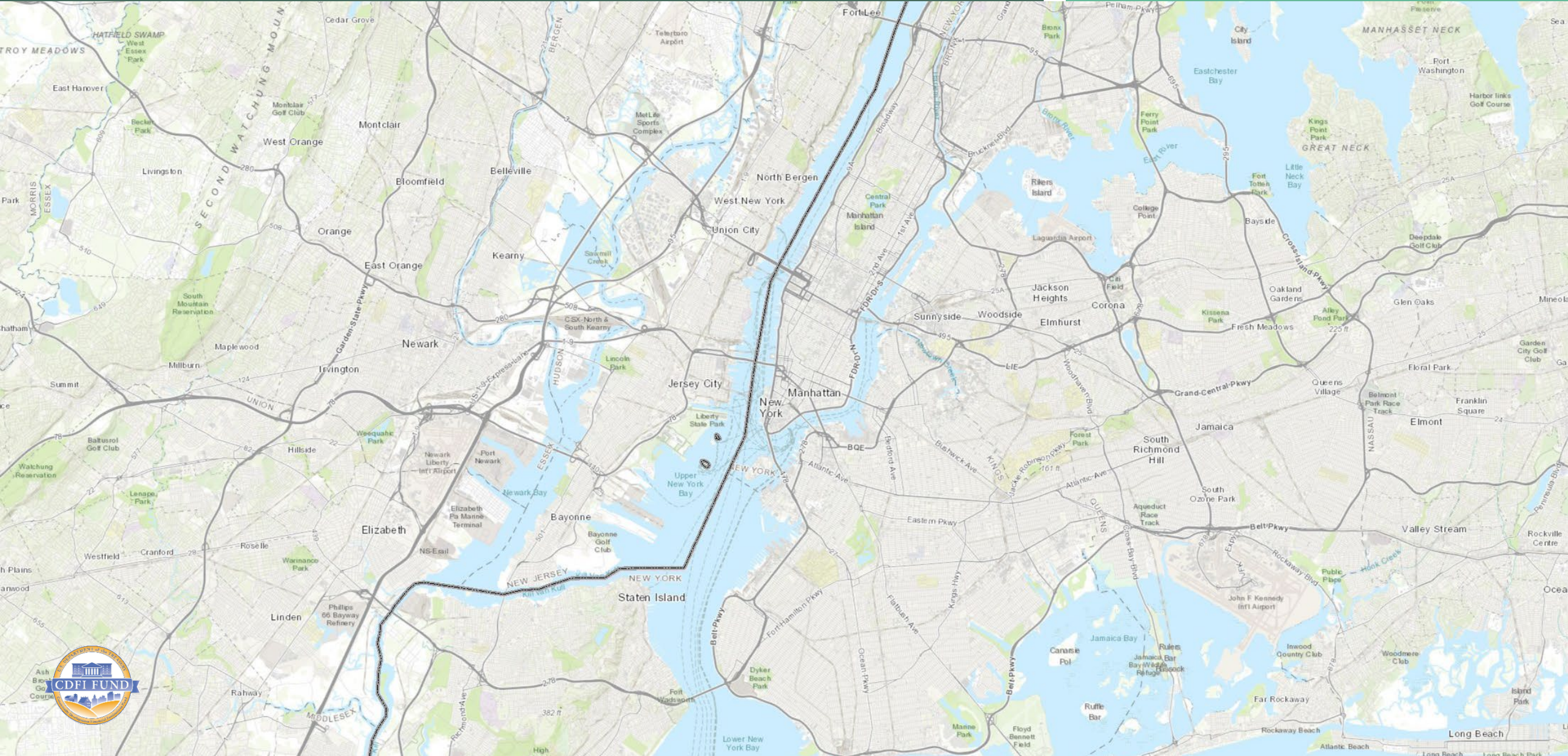
Perishability of Incentives



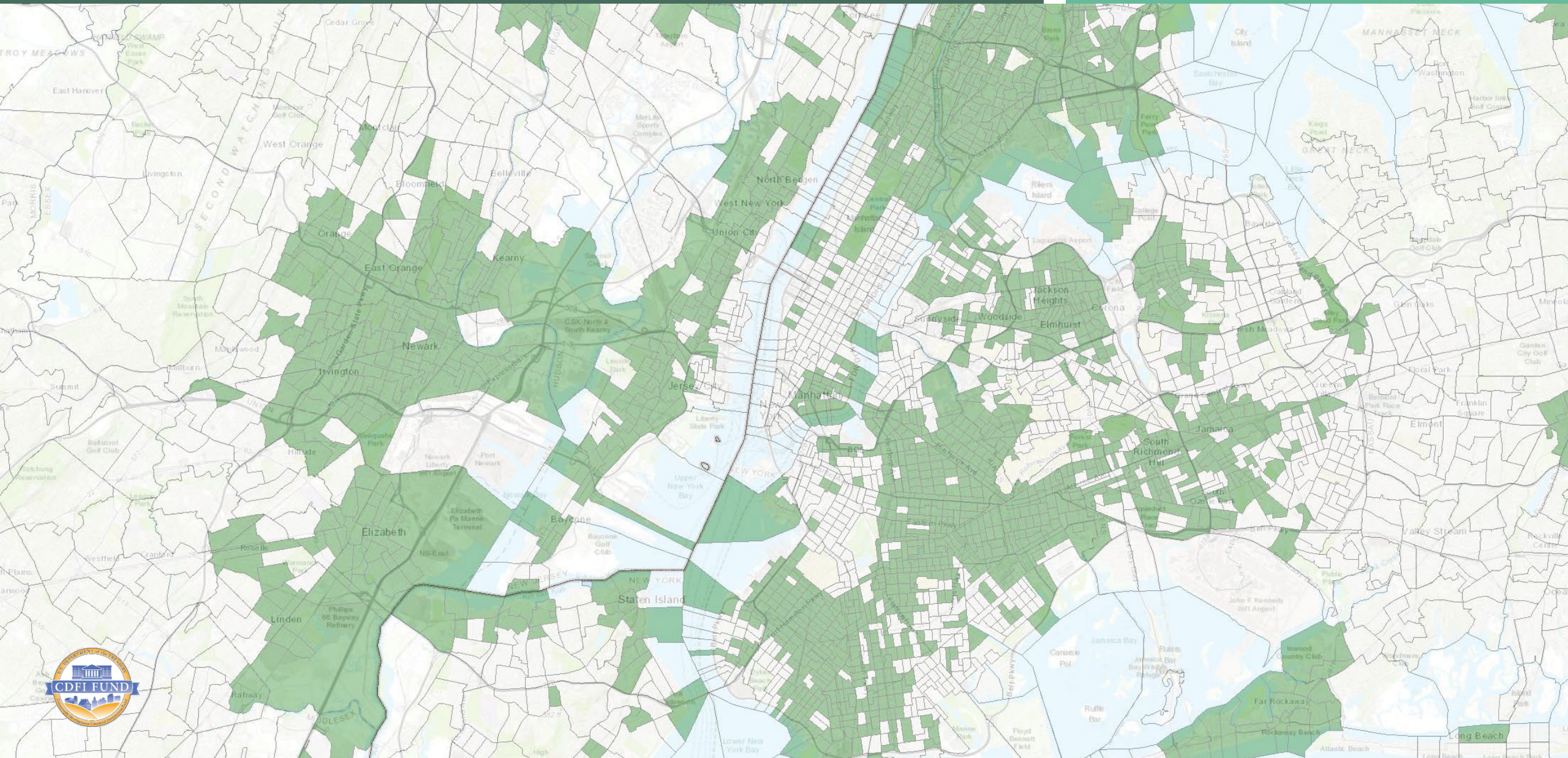
***In order to maximize benefits, gain must be invested in QOF by 12/31/2019.**

Location of Zones – Major Metros

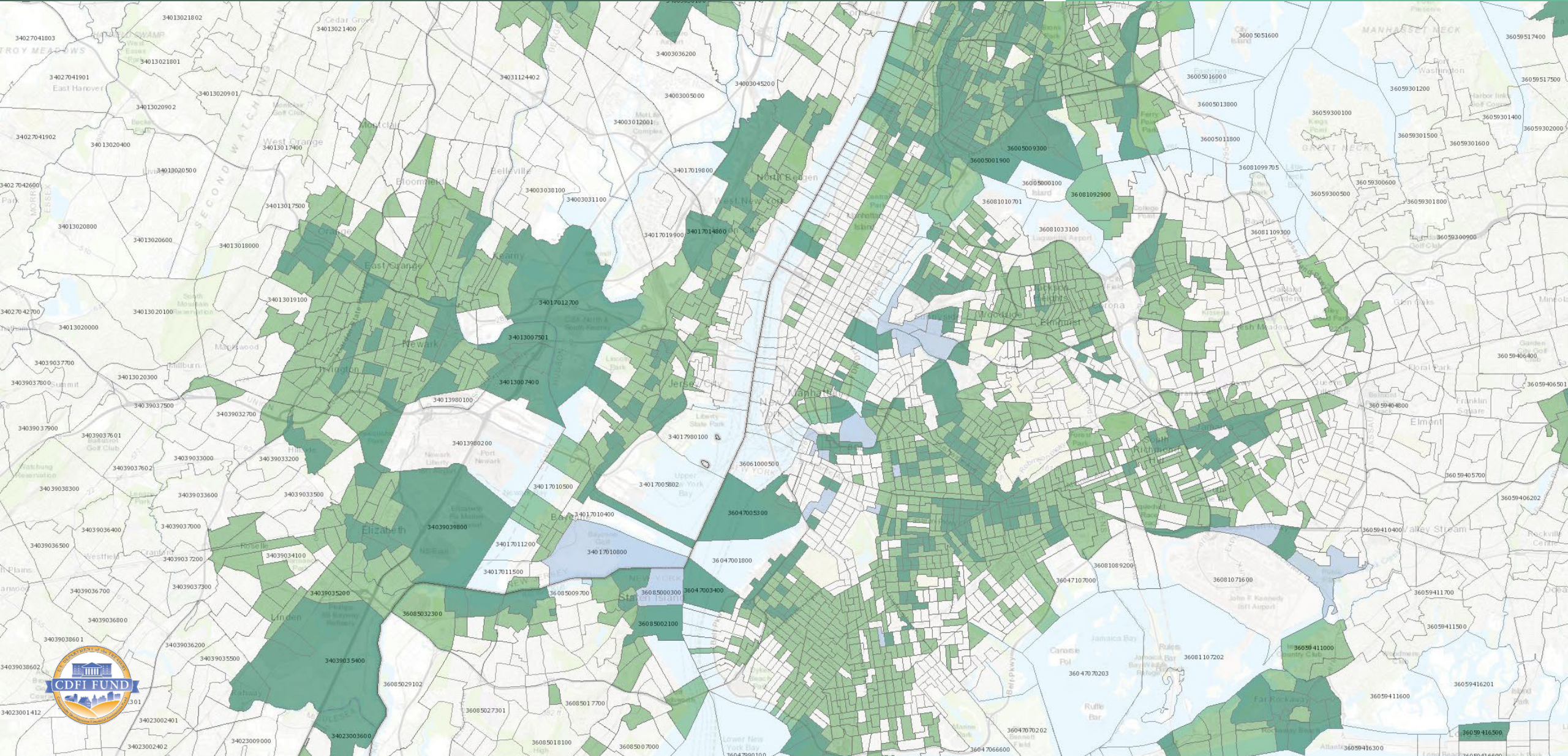
New York



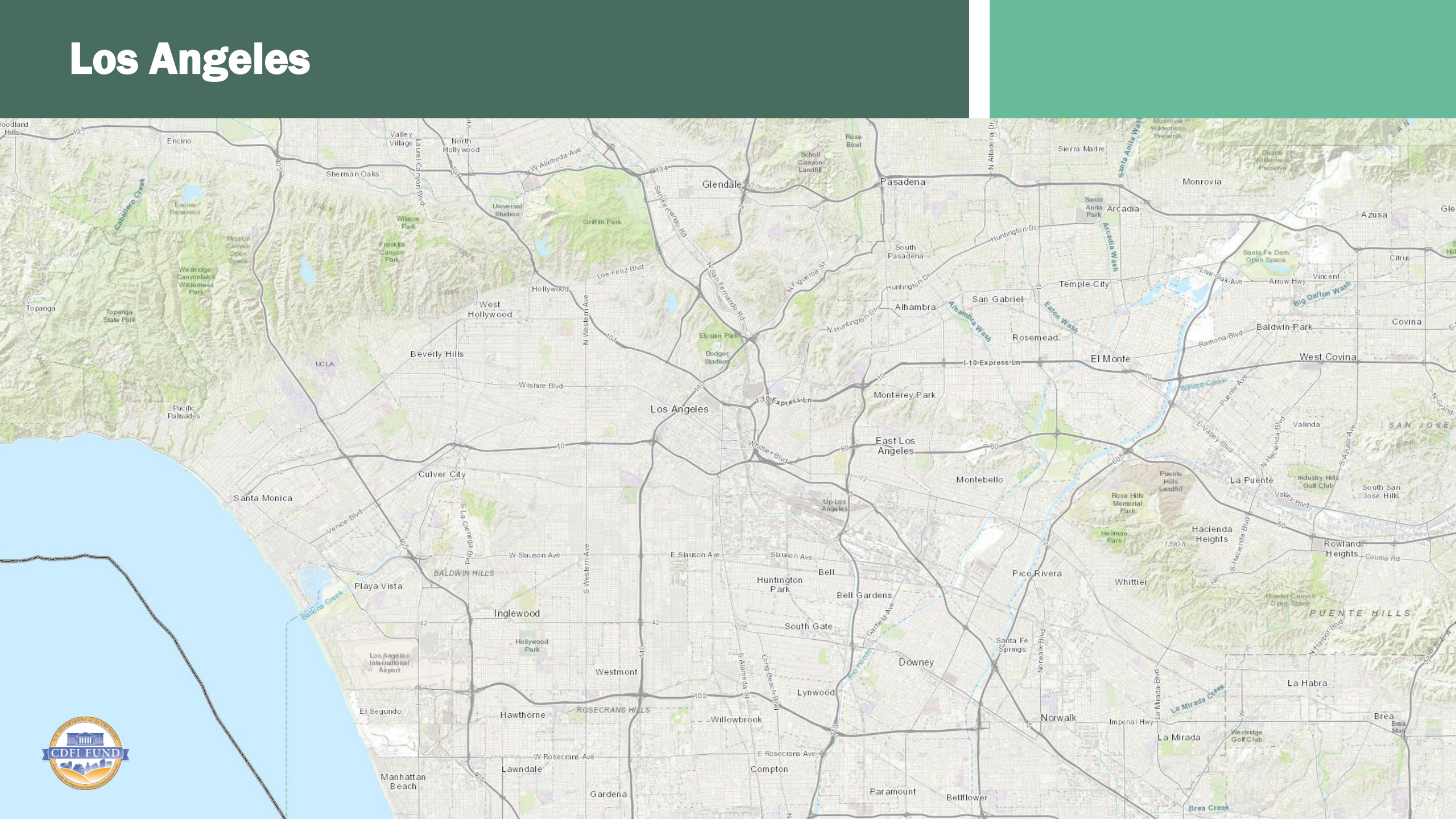
New York



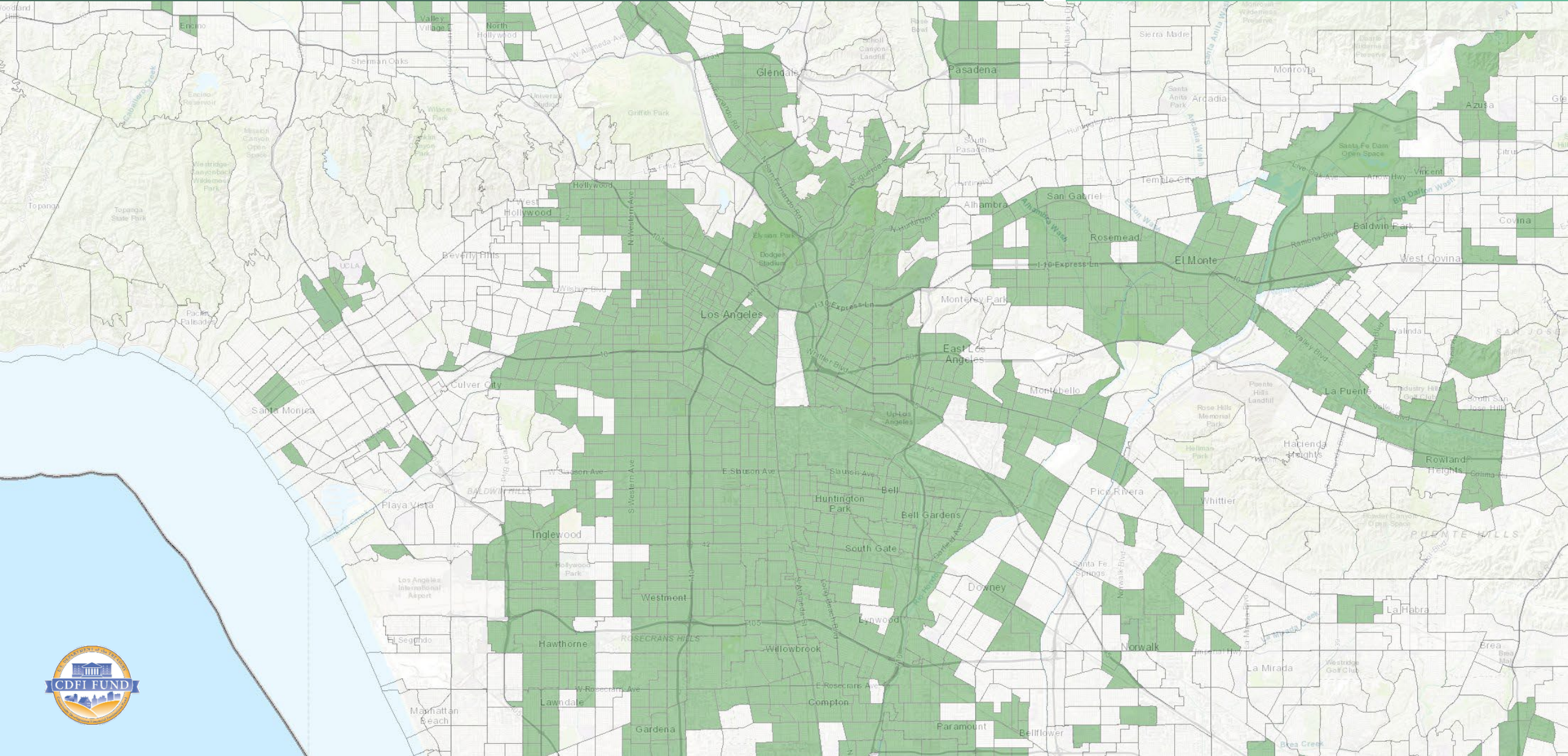
New York



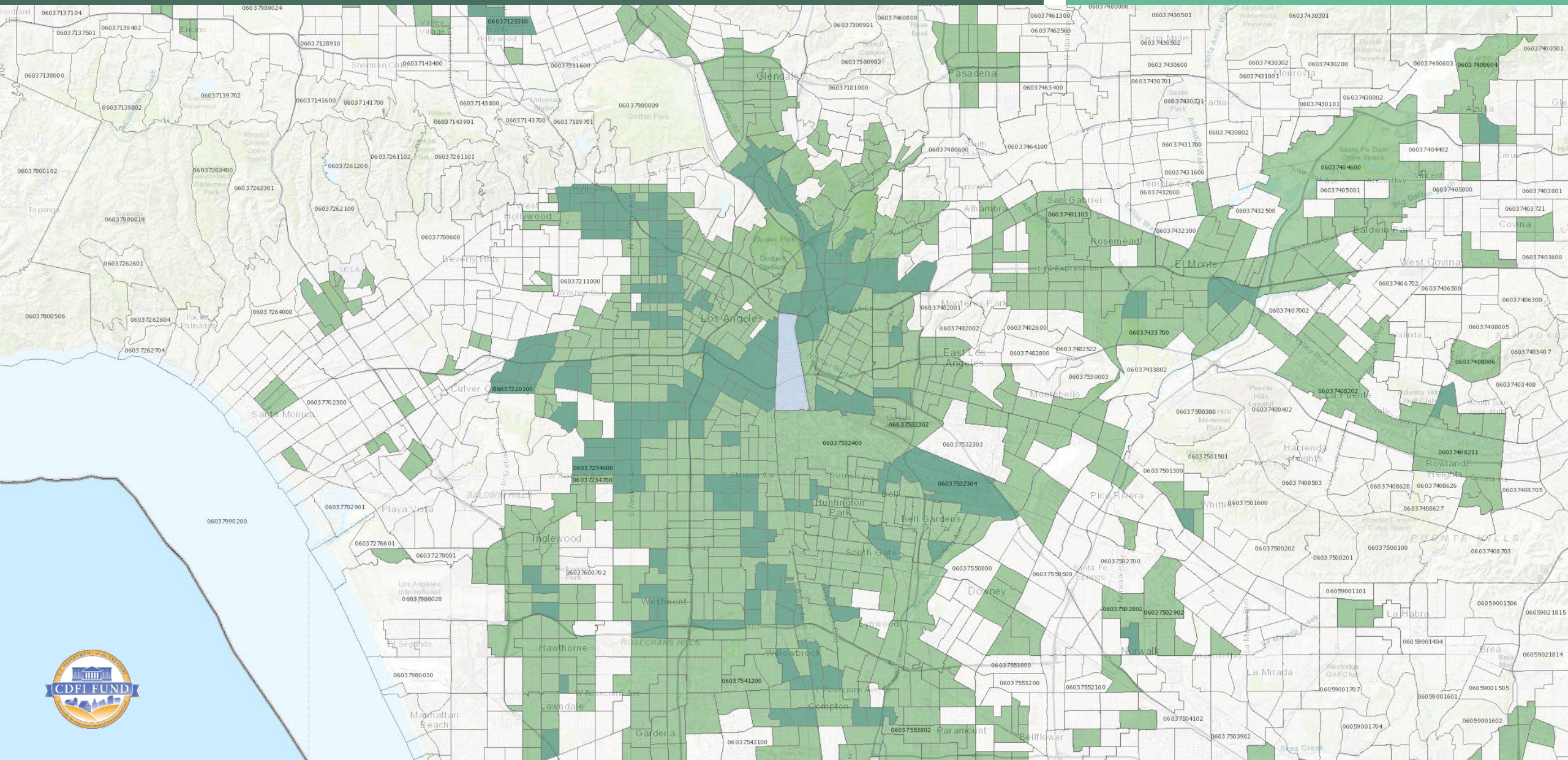
Los Angeles



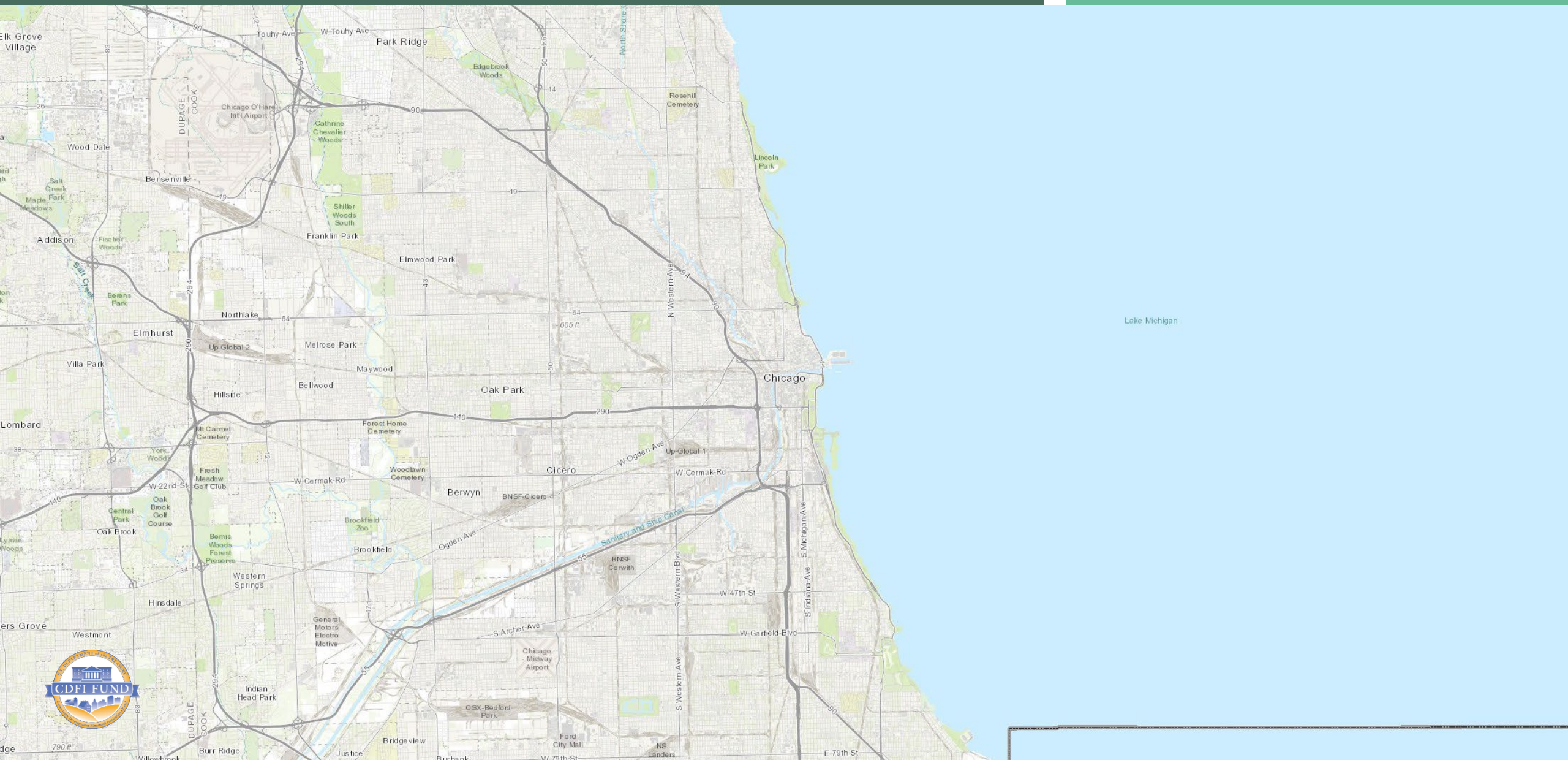
Los Angeles



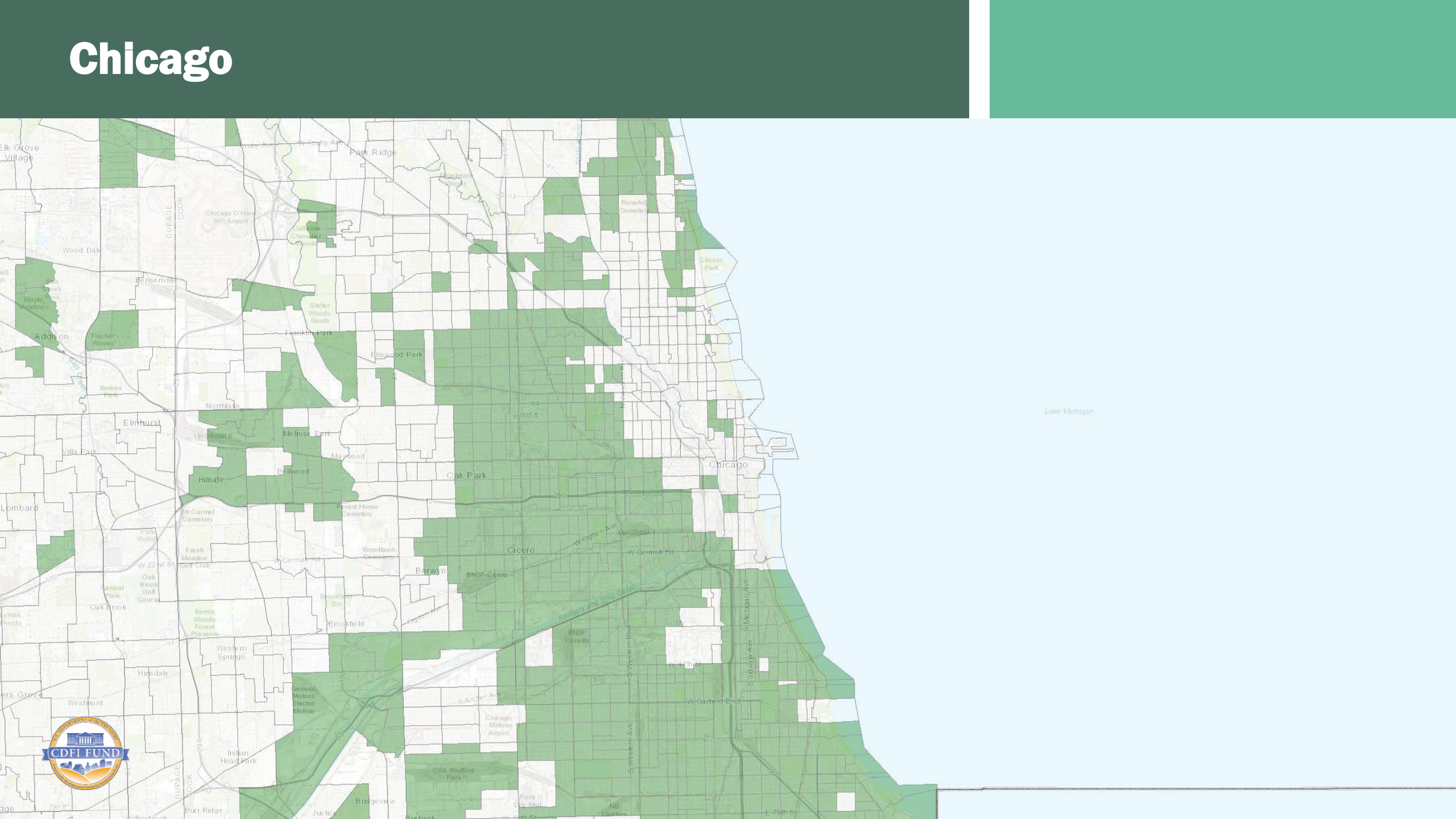
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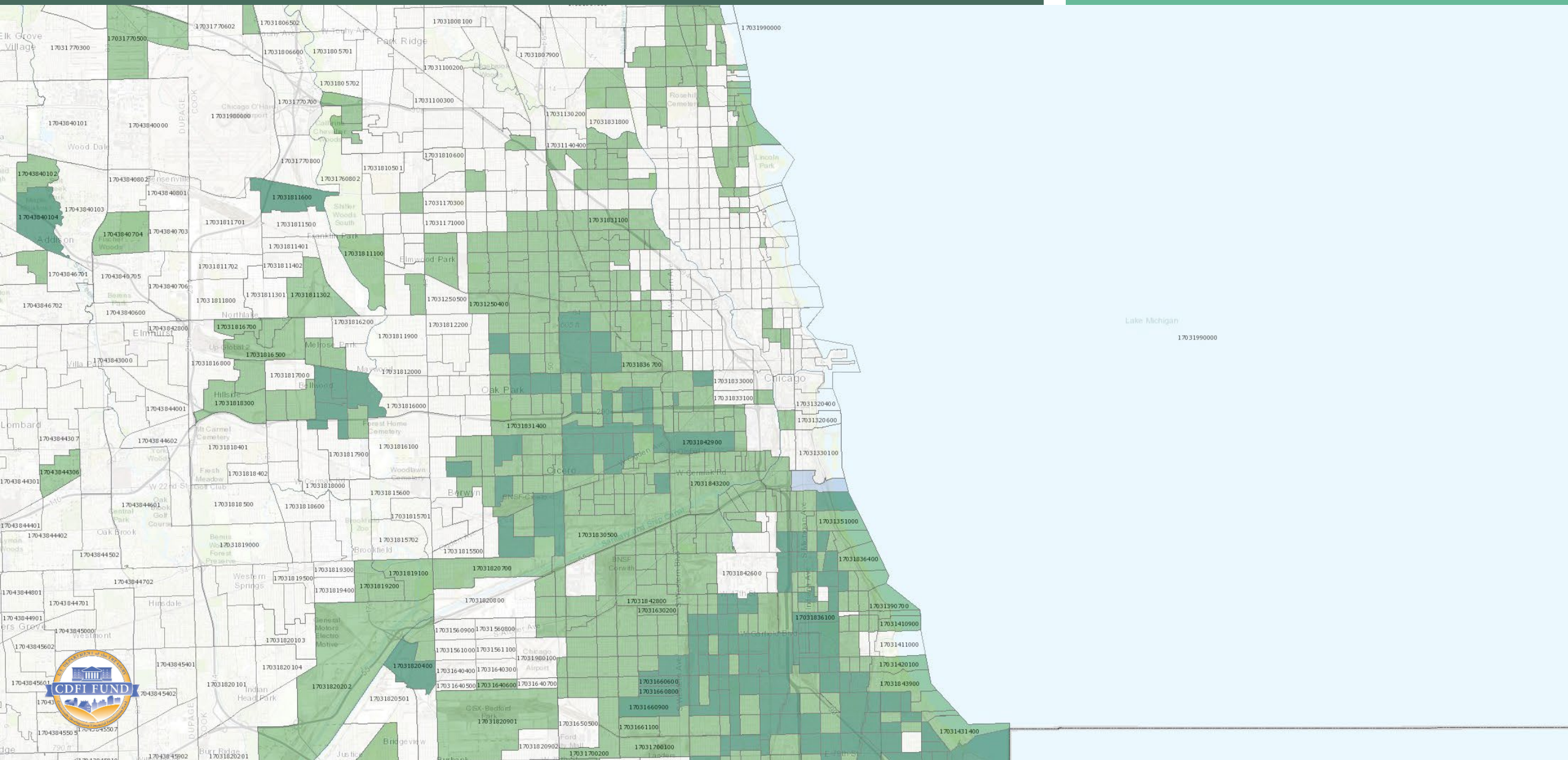
Chicago



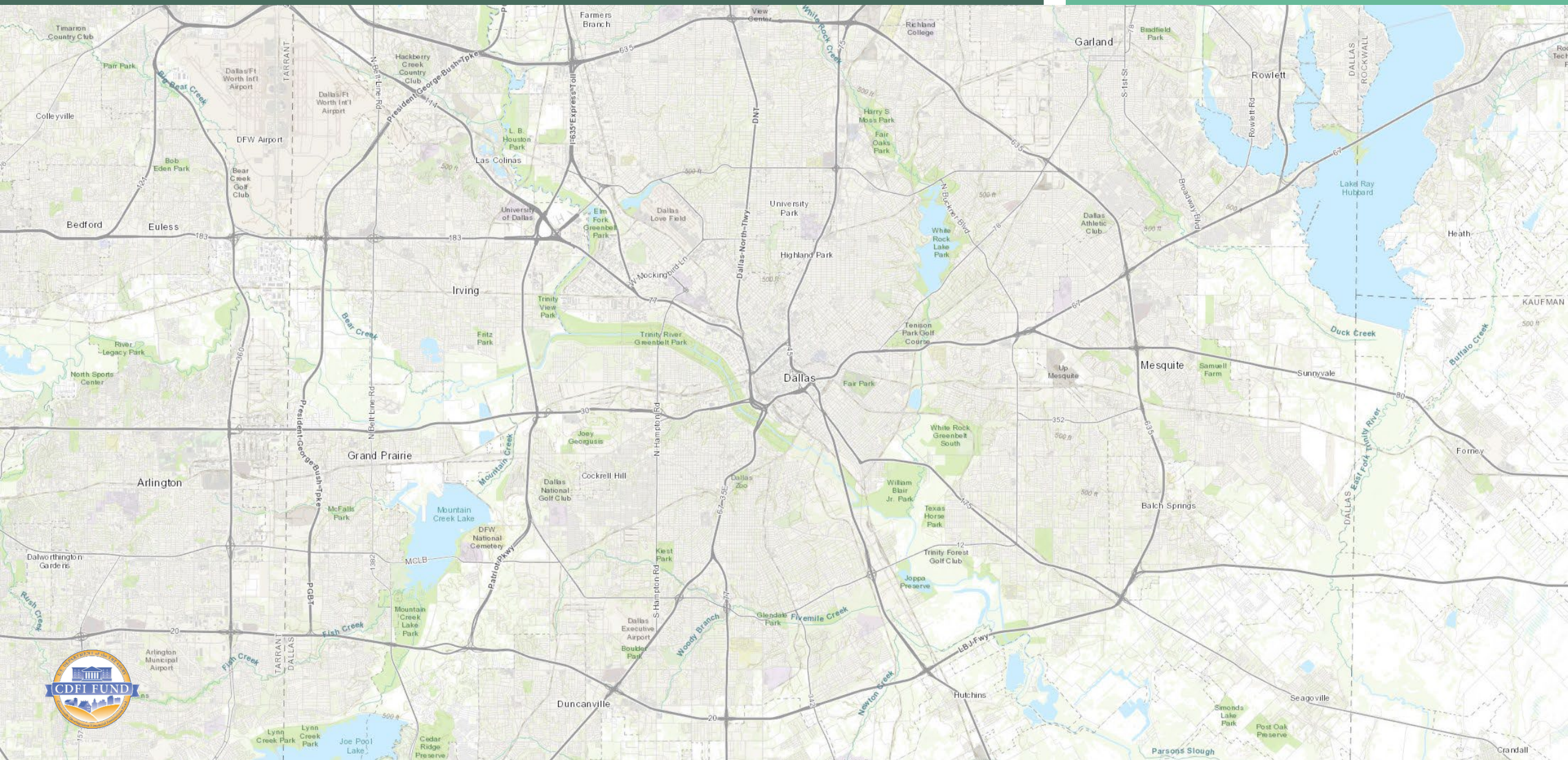
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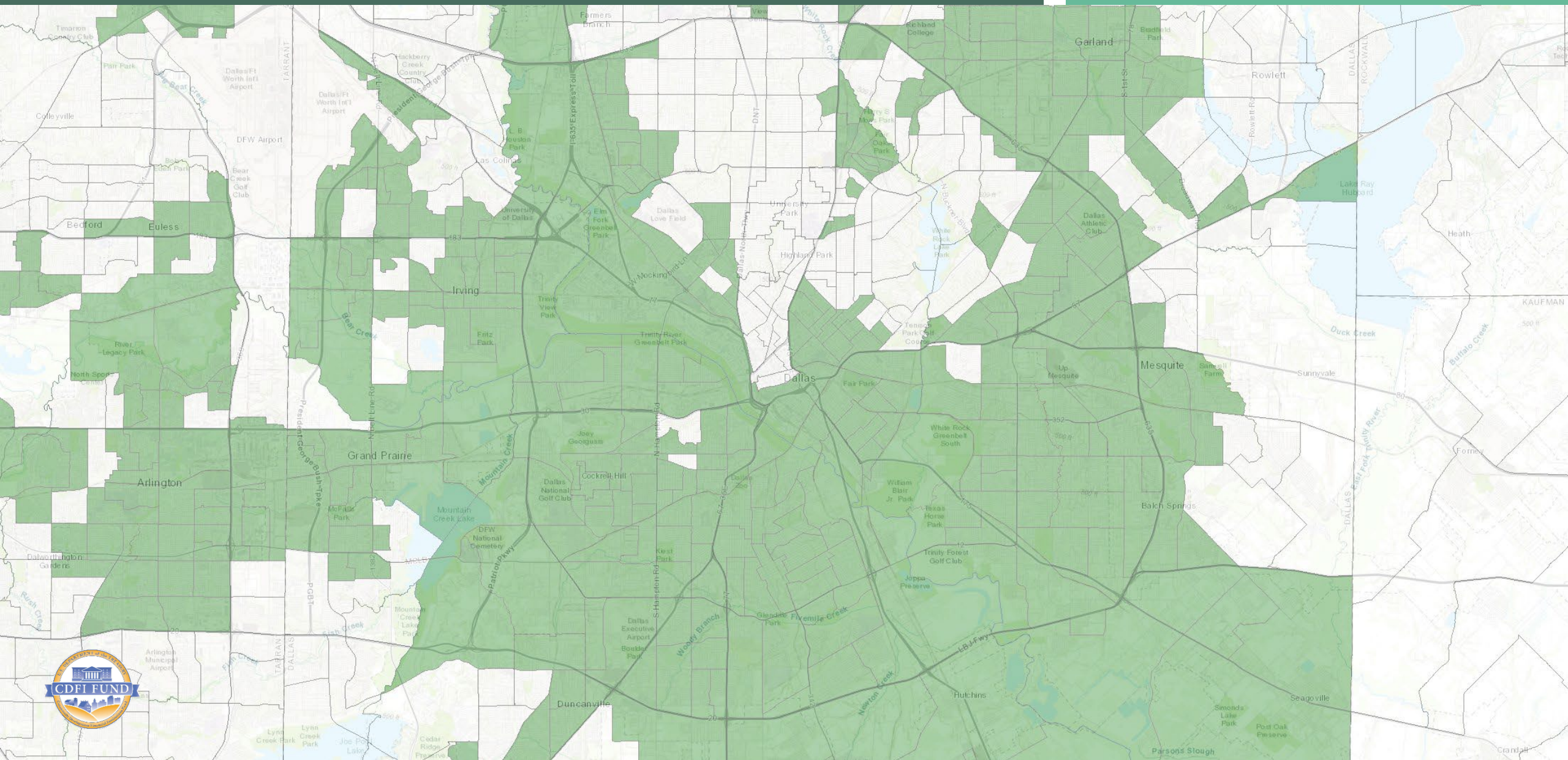
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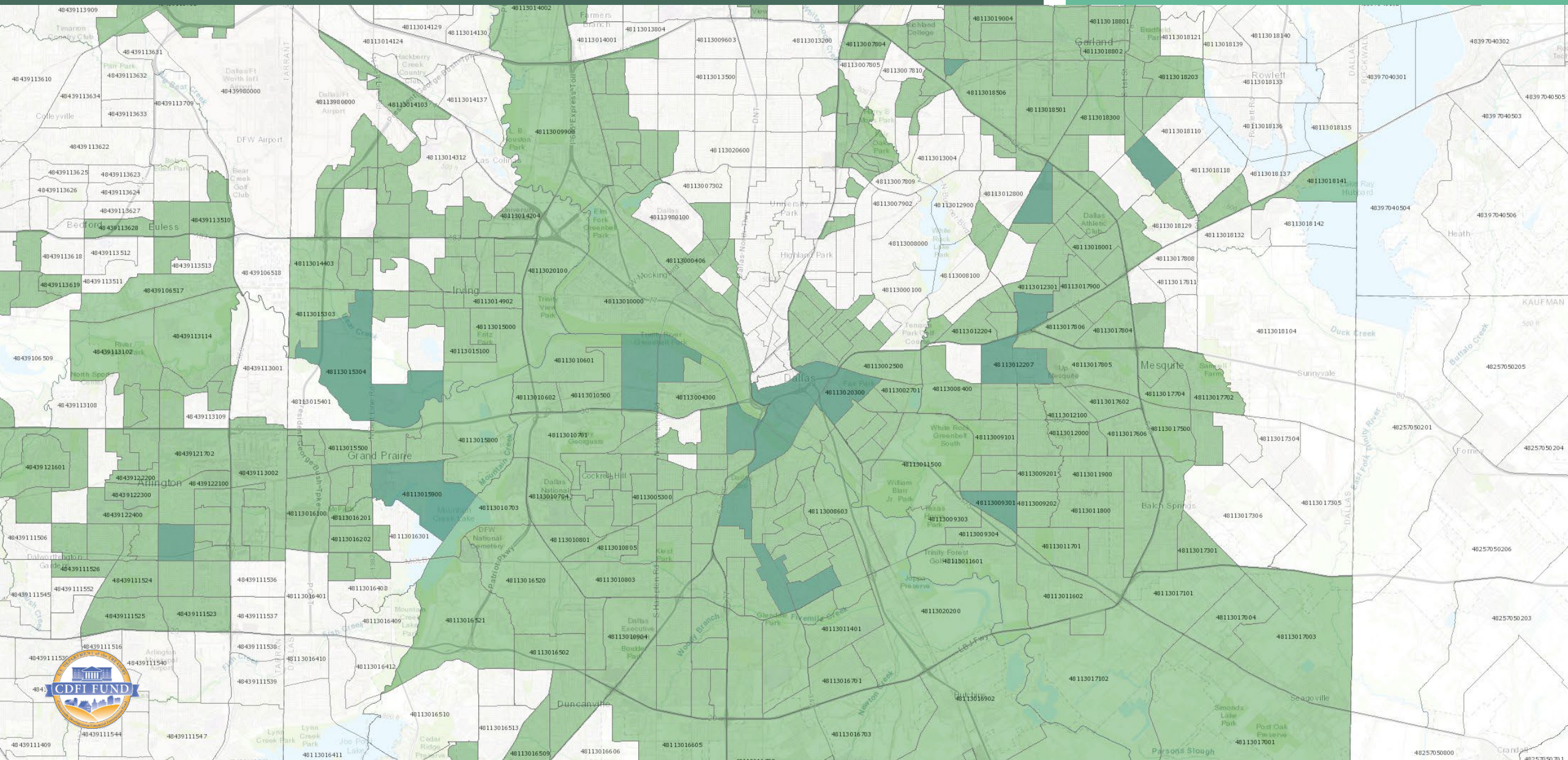
Dallas



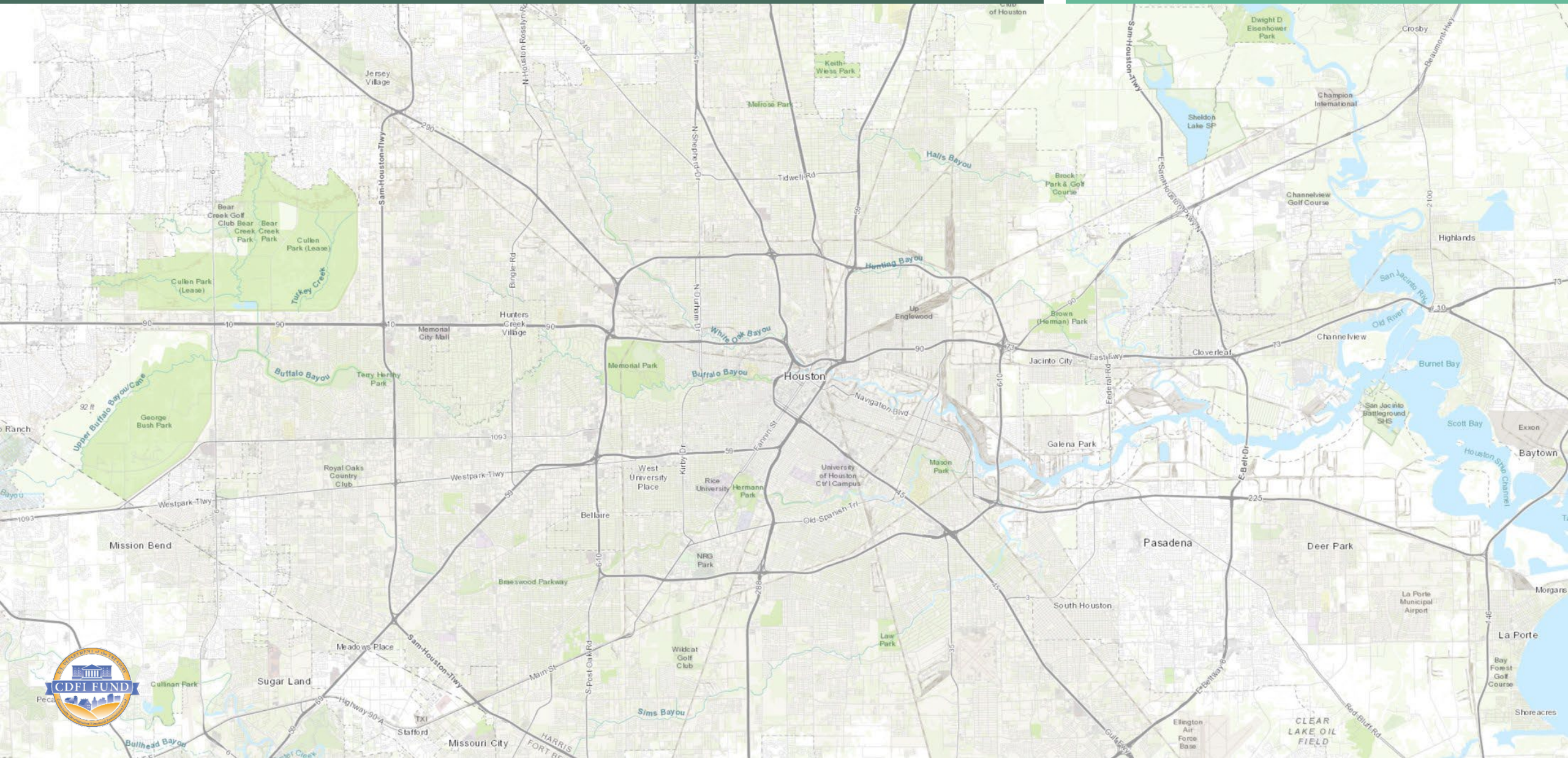
Dallas



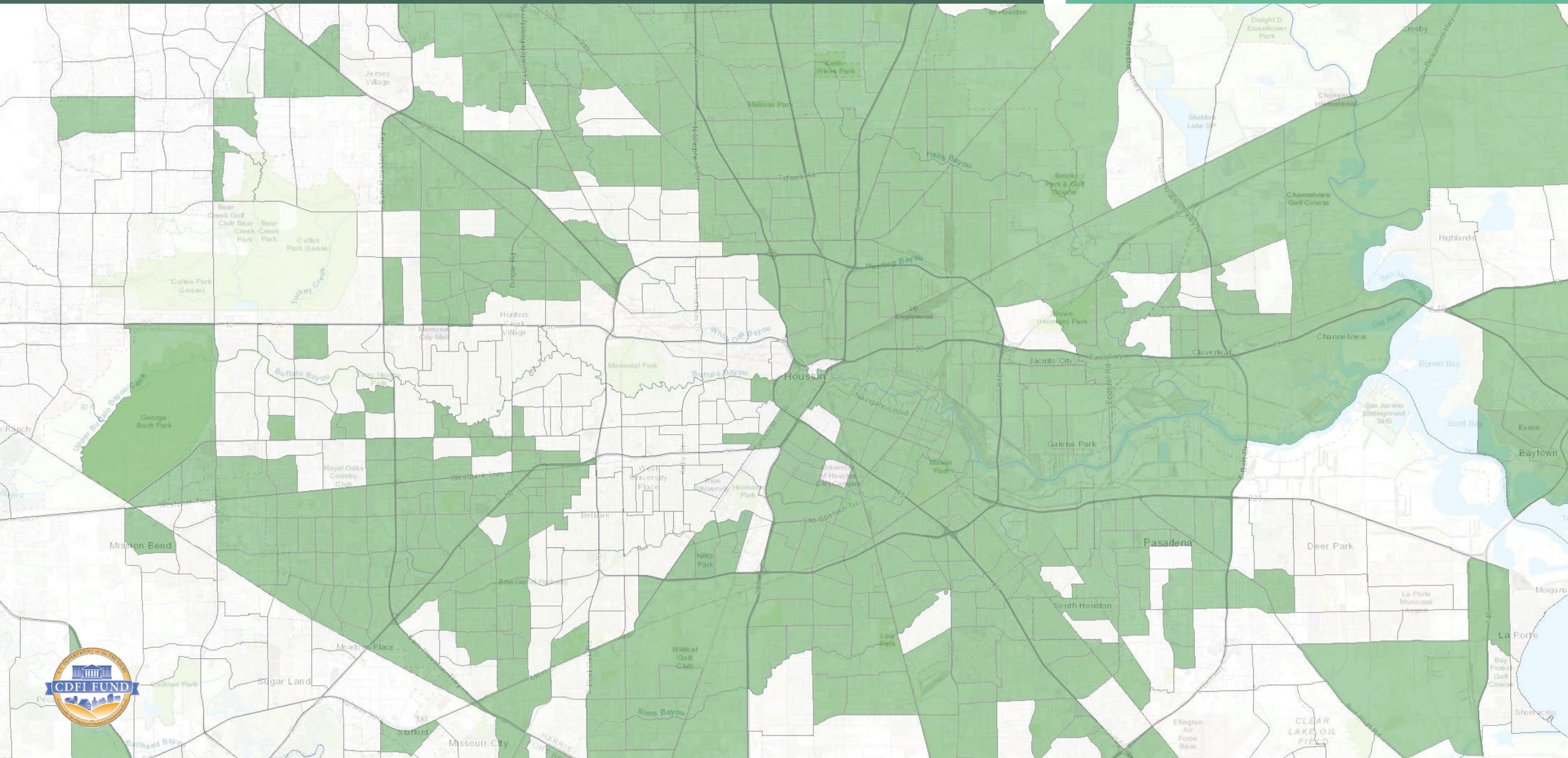
Dallas



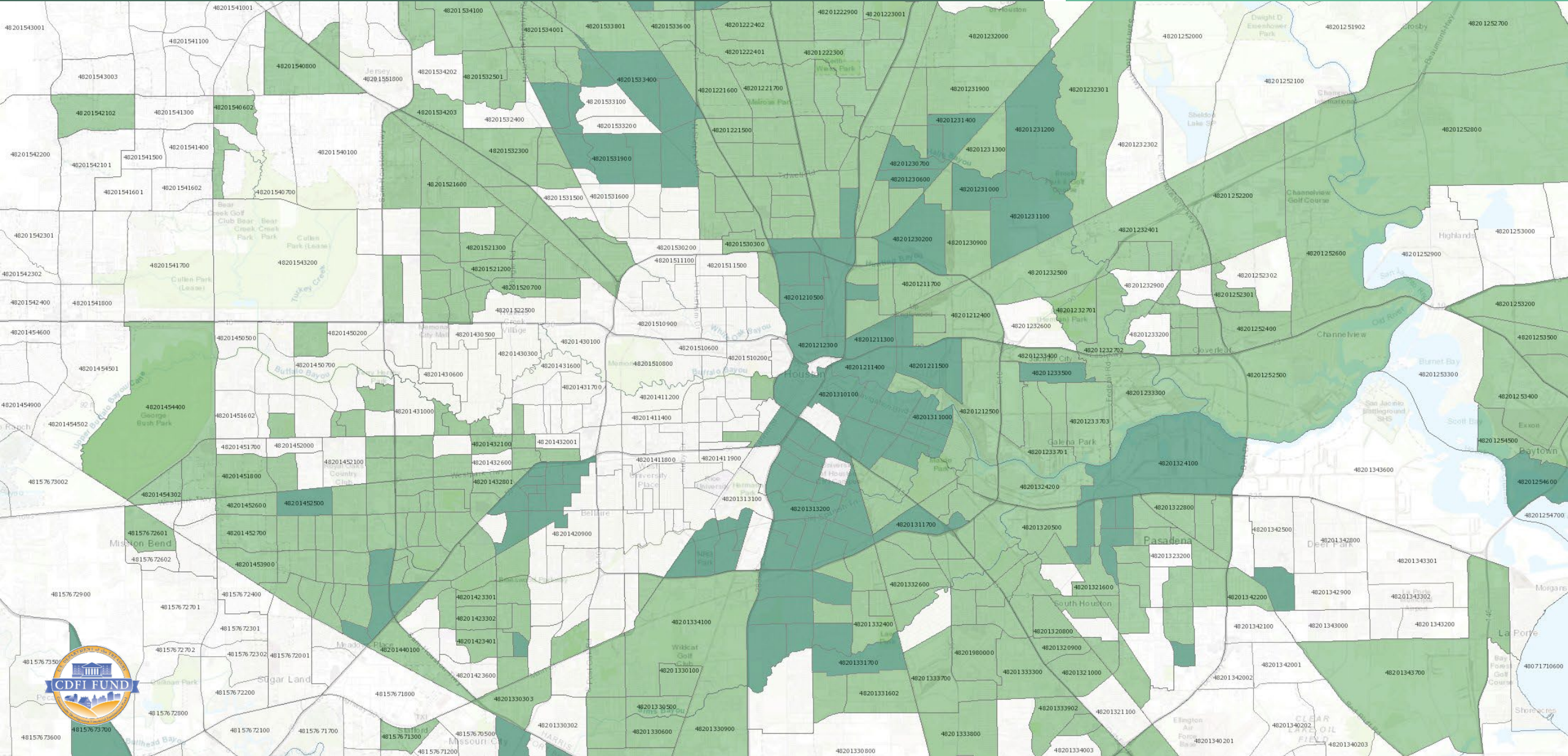
Houston



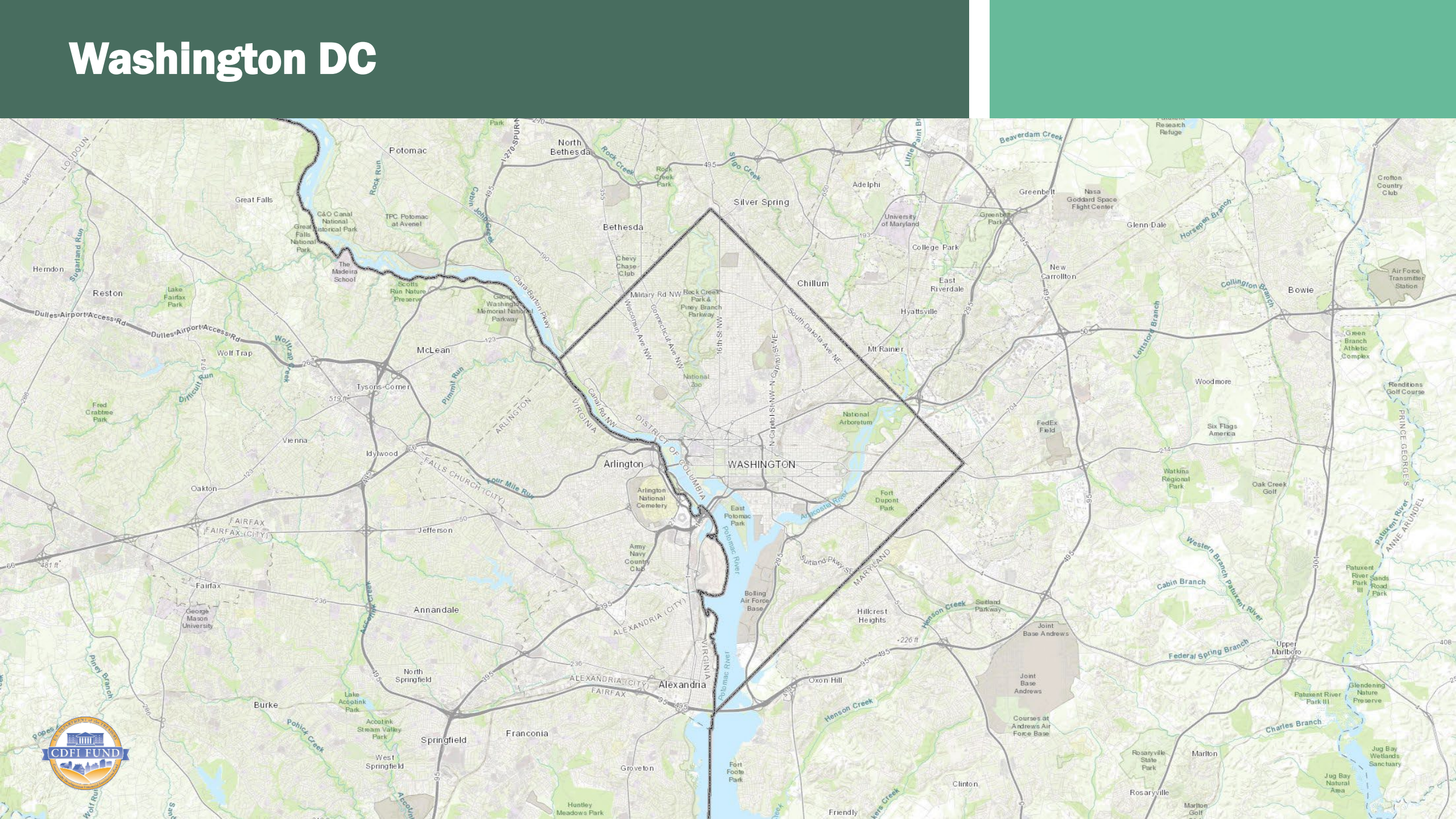
Houston



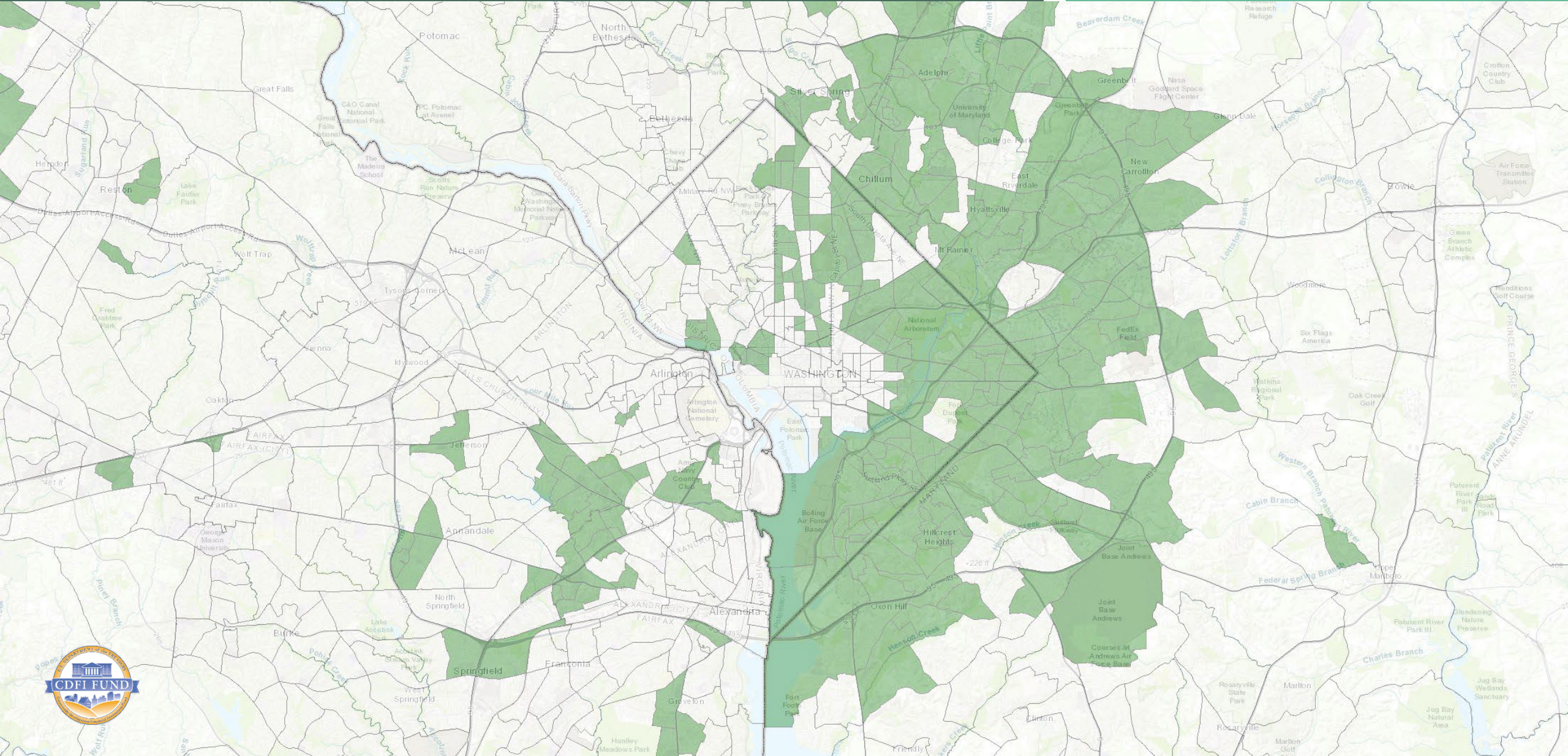
Houston



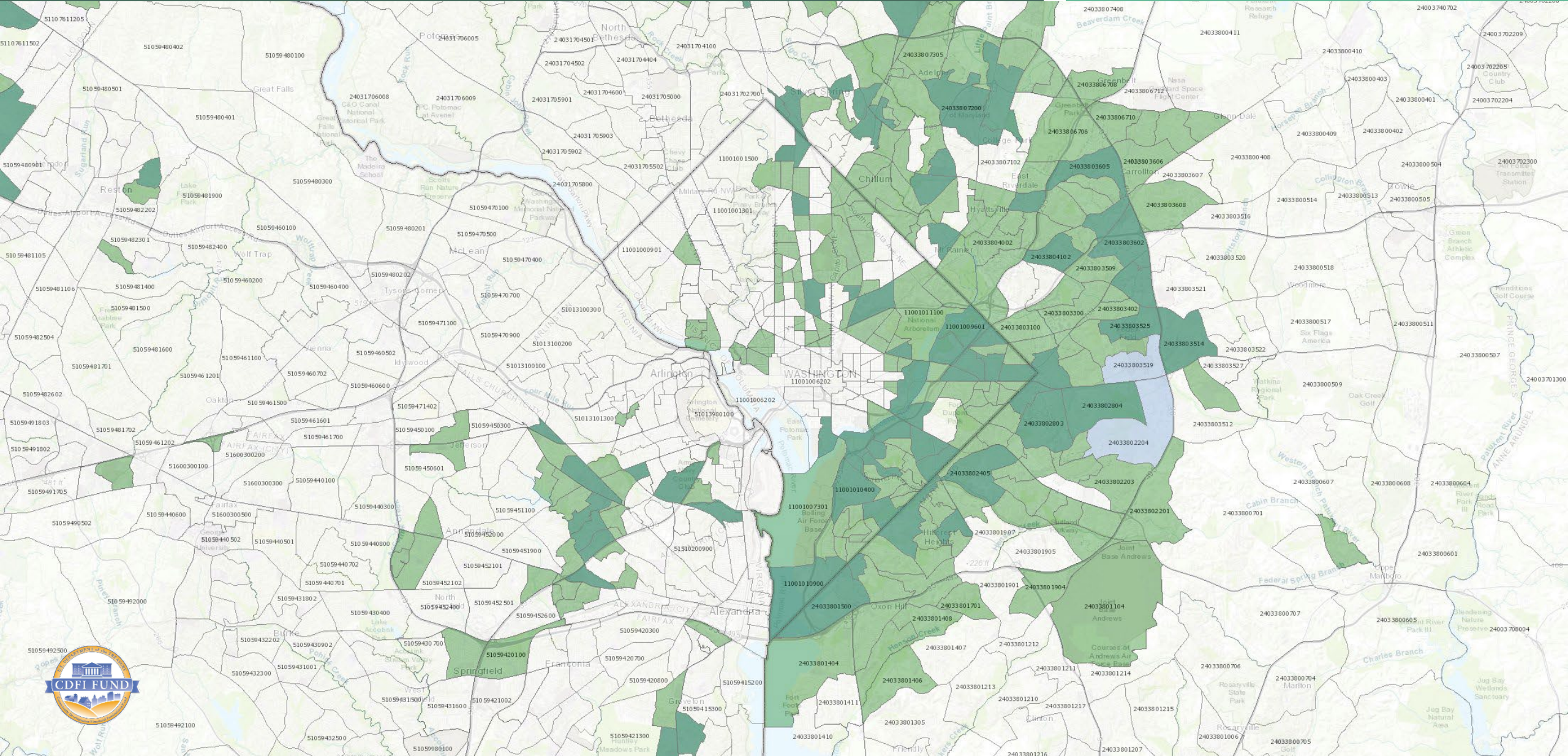
Washington DC



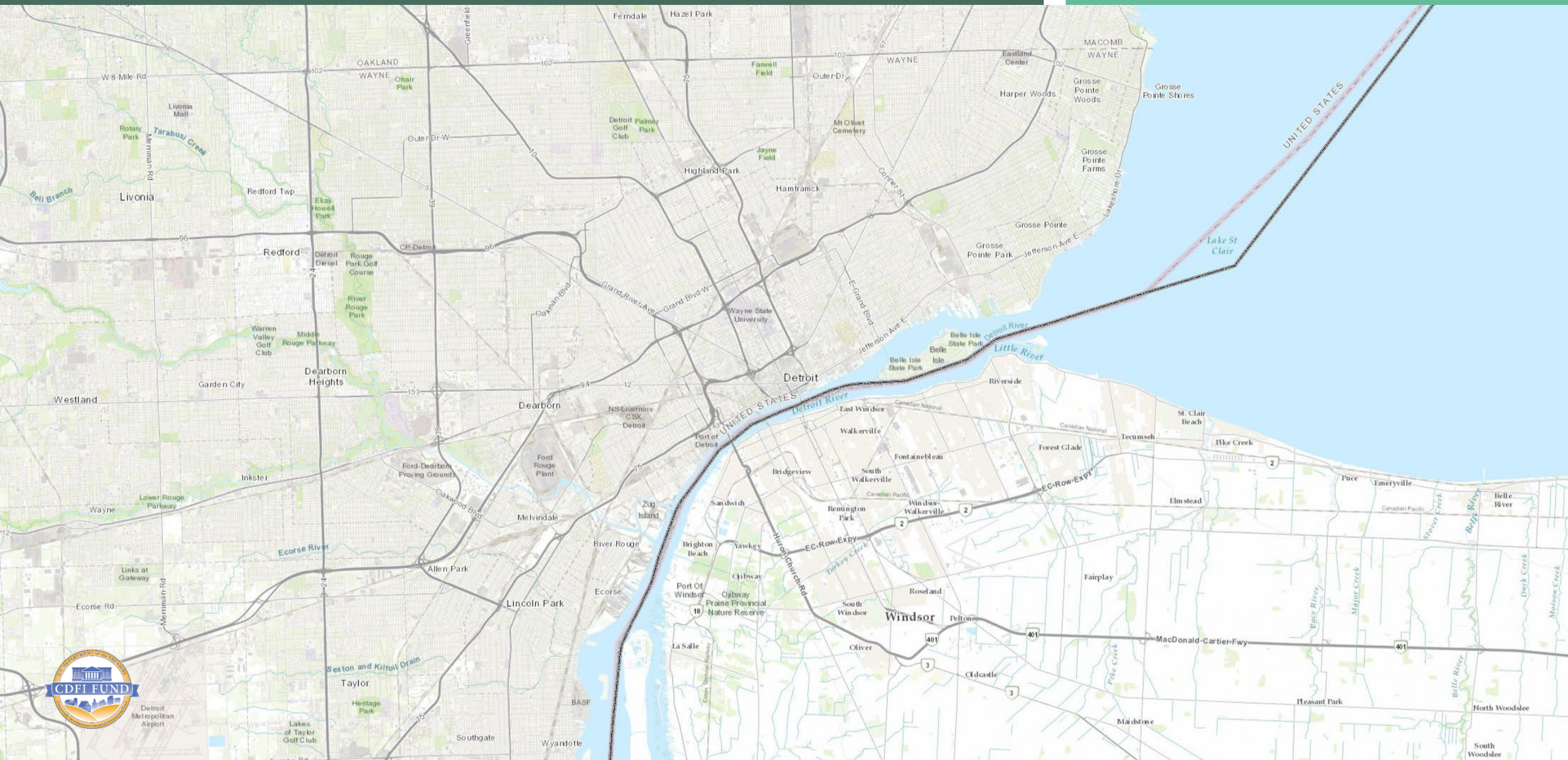
Washington DC



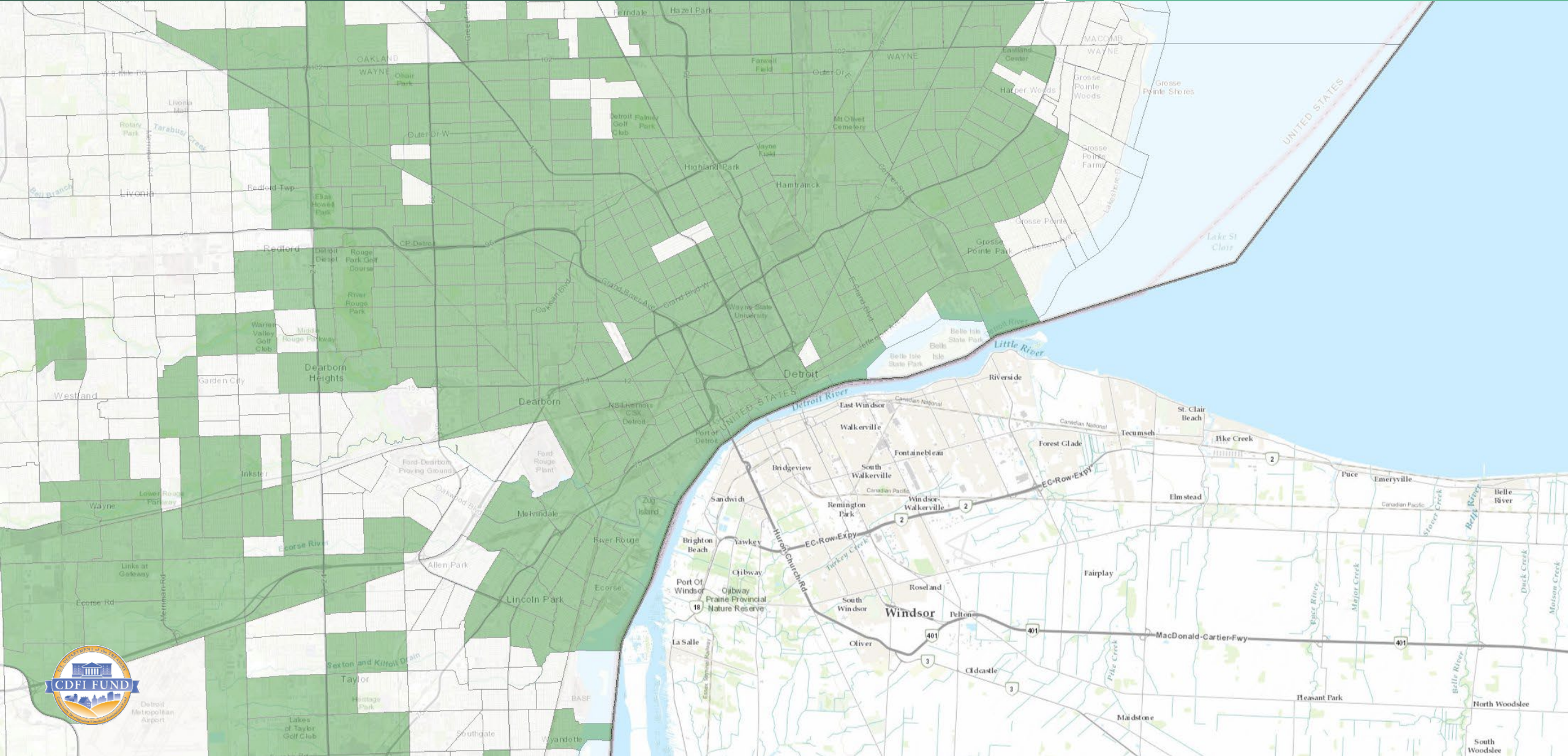
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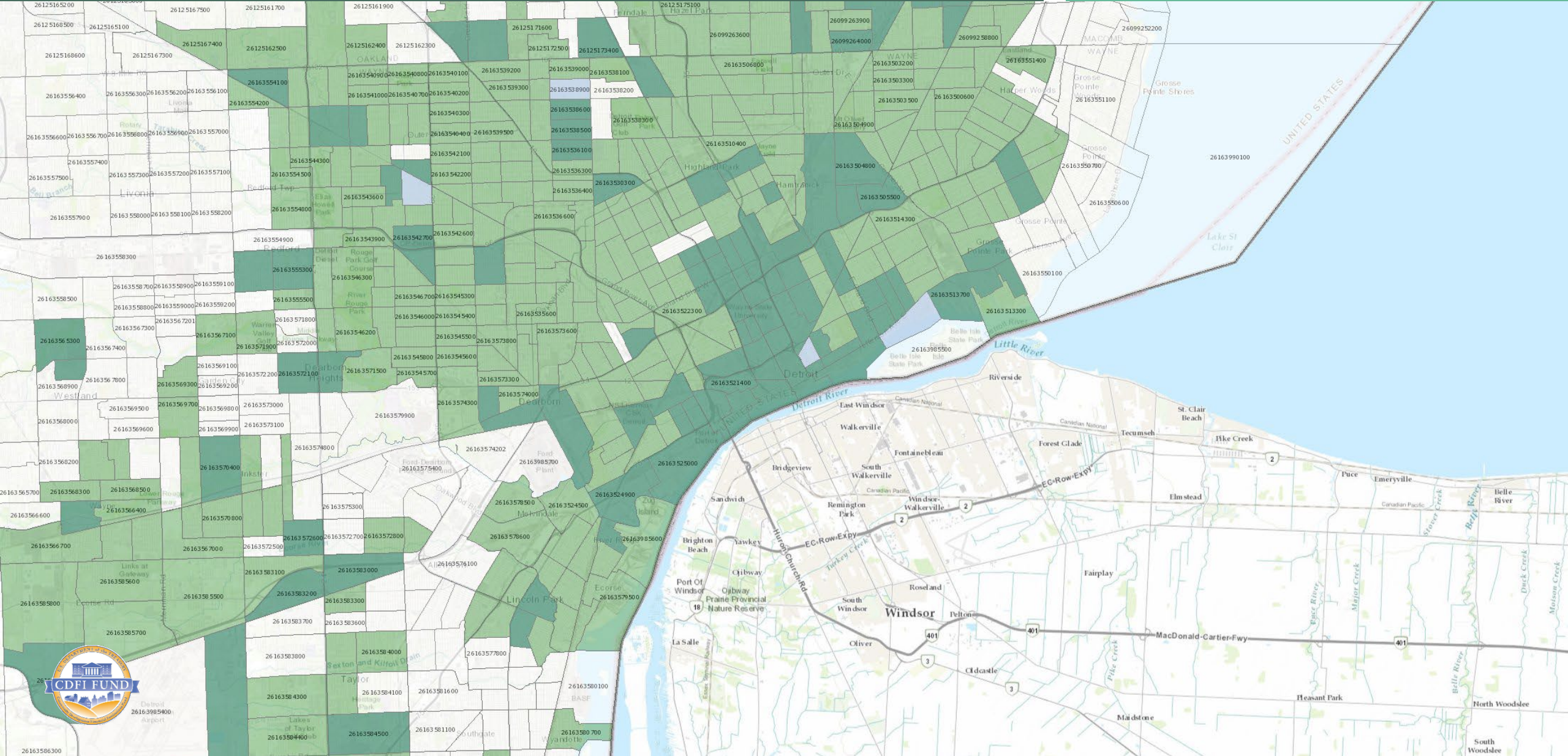
Detroit



Detroit



Detroit



Gains, Attributes of Gains, and Taxpayers

Eligible Gains

- Limited to gains treated as capital gains for Federal income tax purposes
 - Recognized before January 1, 2027
 - Multiple elections can be made for various parts of a single source of gain
- Includes additional deferral of previously deferred gains recognized
- Deemed gains under 1256 contracts, but only net gains for a year
- Gains from offsetting-position transactions (e.g. straddles) do not qualify

Attributes of Gains

- Deferred gains triggered have the same attributes in taxable year of inclusion that they would have had if tax on the gain had not been deferred
- Including attributes taken into account by
 - §1(h) – Maximum capital gains rate
 - §1222 – Term of Capital Gains
 - §1256 – Mark to Market Contracts
 - Other applicable provisions of the code

Eligible Taxpayer

A person that may recognize gains for purposes of Federal income tax accounting. Includes:



Individuals



C corporations



RICs



REITs



S Corporations



Trusts and
Estates

Eligible Interests in QOFs

Only equity interests

- Including preferred stock or partnership interests with special allocations
- Excludes debt instruments

Eligible interests are not impaired if used as collateral for a loan

QOF Contributions

- Investments in QOFs must be cash, or property, and does not include services
- Property contributions – deferral election is limited to tax basis of property contributed
- Value received by an investor for appreciated property or provision of services is treated as property contributed for which an election is not made
 - Results in a mixed funds investment

180-Day Period

Begins on the day on which gain would be recognized for Federal income tax purposes assuming no deferral



180-day period

Special Rules for Pass-through Entities

- A partnership (or other pass-through entity) may elect to **defer capital gains at the entity level**
- If a partnership (or other pass-through entity) does not elect to defer some or all of gains realized, a partner (or other owner) **can elect to defer their distributive share of the gain**
 - Generally, beginning of 180-day period is **last day of the pass-through entity's taxable year**
 - Partner (or other owner) may elect to use pass-through entity's 180-day period.

Qualified Opportunity Funds, Qualified Opportunity Zone Businesses & Qualified Opportunity Zone Business Property

Qualified Opportunity Funds (QOFs)

Two requirements for eligibility:

1. Investment vehicle to be organized as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property
2. At least 90 percent of its assets is held in Qualified Opportunity Zone Property

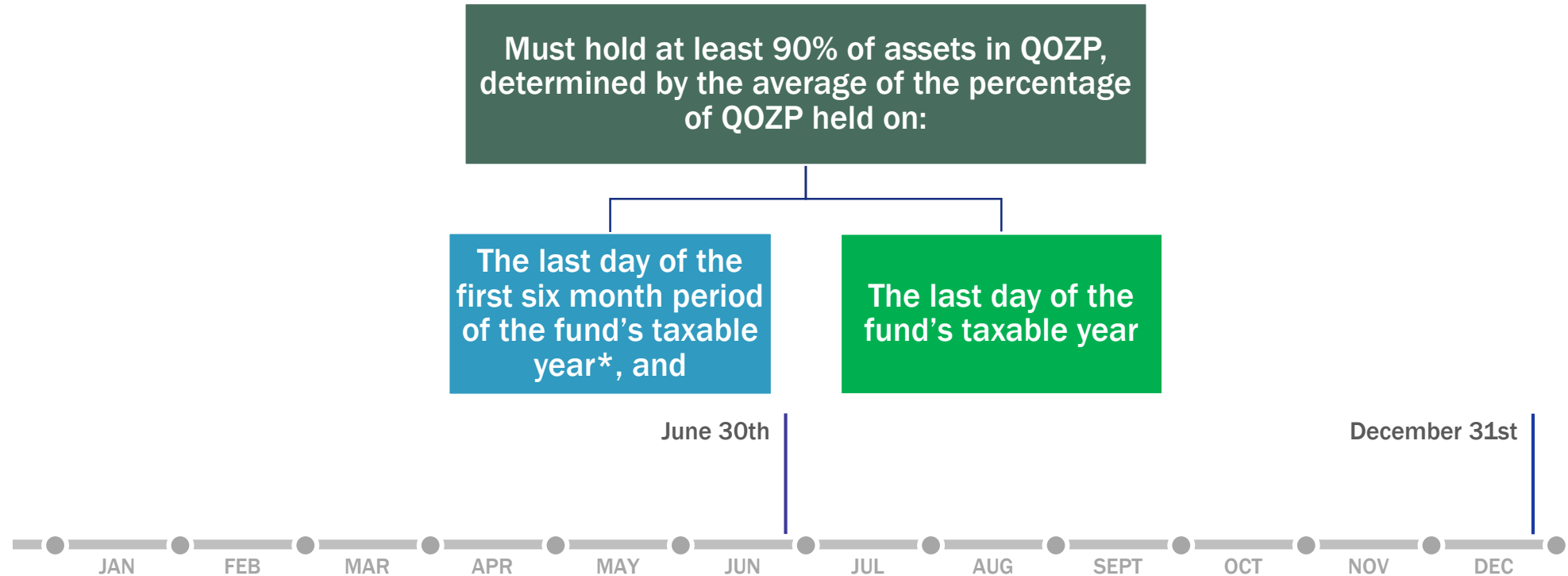
*Funds can be structured to invest in multiple assets, or as a single-asset special purpose vehicle. However, Opportunity Funds cannot be structured to invest in other funds, thereby prohibiting a 'fund-of-funds' model.

**Failure to meet 90% threshold causes a monthly penalty equal to the federal underpayment rate (6% for April – June) multiplied by the excess of 90% of fund assets over fund QOZP, subject to a reasonable cause exception – no penalty imposed if failure due to reasonable cause. Failure not covered by reasonable cause could result in penalty or possibly decertification.

Certification of QOF

- Entity classified as a **corporation or partnership for Federal tax purposes** is eligible – LLCs taxed as corporations or partnerships OK
- Self-certification using **Form 8996**
 - Identify **first taxable year** the entity wants to be a QOF
 - Identify the **first month** the entity wants to be a QOF
 - Anticipated additions to 8996 = EINs of QOZBs and \$\$ invested in QOZs
- Investments before “first month” **not eligible for deferral**
- QOFs have 6-months to invest proceeds, even if QOF investment is made during second half of QOF tax year (new provision; must be cash or debt due ≤ 18 mos)
- Penalty doesn’t apply to months before the “first month”
- No legal barrier to pre-existing entities becoming a QOF (or Qualified Opportunity Zone Business (“QOZB”))

Qualified Opportunity Fund – Assets Test



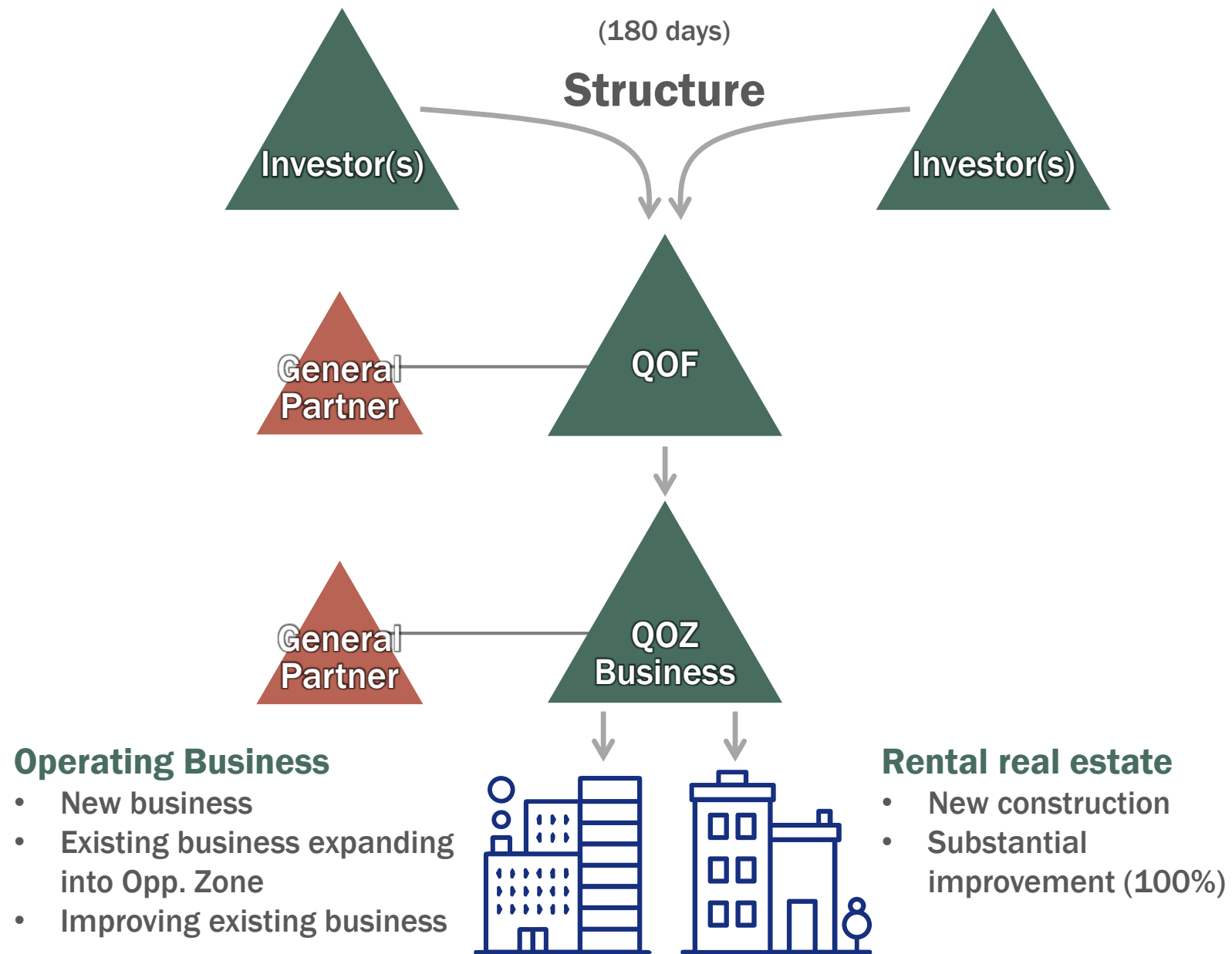
*If proceeds are held as cash, cash equivalents, and debt instruments with terms of 18 months or less, QOFs with contributions in later half of tax year may apply 90% test excluding contribution in first year.

**QOF has a reasonable time to reinvest interim gains from sale of QOZP. Reasonable time is defined as 12 months.

Qualified Opportunity Zone Property: Direct and Indirect Investments

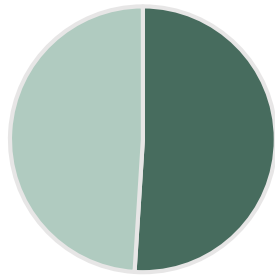


- The investment must be **acquired after December 31, 2017** solely in exchange for cash;
- Must be a **qualified opportunity zone business**, or is being organized for the purpose of being a qualified opportunity zone business;
- Must remain a qualified opportunity zone business for **substantially all** of the qualified opportunity fund's holding period
 - Now defined by new proposed regulations as 90% of the holding period



Qualified Opportunity Zone Businesses (QOZB)

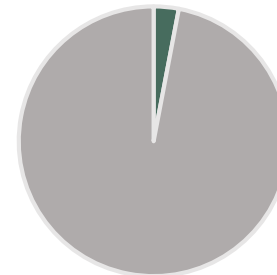
A trade or business in which **substantially all (70% per Proposed Regulations)** of the tangible property owned or leased by the taxpayer is **qualified opportunity zone business property (QOZBP)** and:



**At least 50% of
income derived
from Active Conduct**



**Substantial portion of
intangible property used in
active conduct of business**



**< 5 percent average
aggregate unadjusted basis of
property is nonqualified
financial property**

*Non-qualified financial property is, generally, debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, etc. that do not relate to the OZ investment.

More on Direct v. Indirect

- **Example 1 (Indirect):** QOF has \$1M, it invests \$900,000 in a QOZB, receiving back a partnership interest and holds \$100k in cash. QOZB uses the cash to buy a \$700,000 new building in an OZ, and a \$200,000 building *not* in an OZ. So, 7/9, or 77% of its assets (i.e., more than 70%) are good, and therefore, the *entire* \$900,000 partnership interest qualifies. Finally, 900K/1M of the Opportunity Fund's assets, or 90%, are good, and it meets the 90% test.
- **Example 2 (Direct):** Opportunity Fund has \$1M, it buys a \$700K new building in an OZ, a \$200K building *not* in an OZ, and keeps \$100K of cash. This FAILS, because only 70% of the QOF assets are qualified.

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 – now defined as 70%**
- ✓ **Original use in the QOZ commences with the taxpayer (PIS date for depreciation or amortization purposes)**

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**



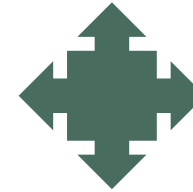
Readily Identifiable Investment Types in Opportunity Zones



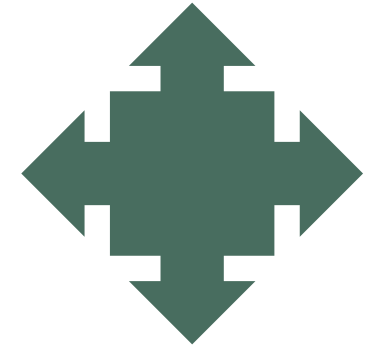
**Commercial Real Estate
Development and Renovation
in Opportunity Zones**



**Opening New
Businesses in
Opportunity Zones**

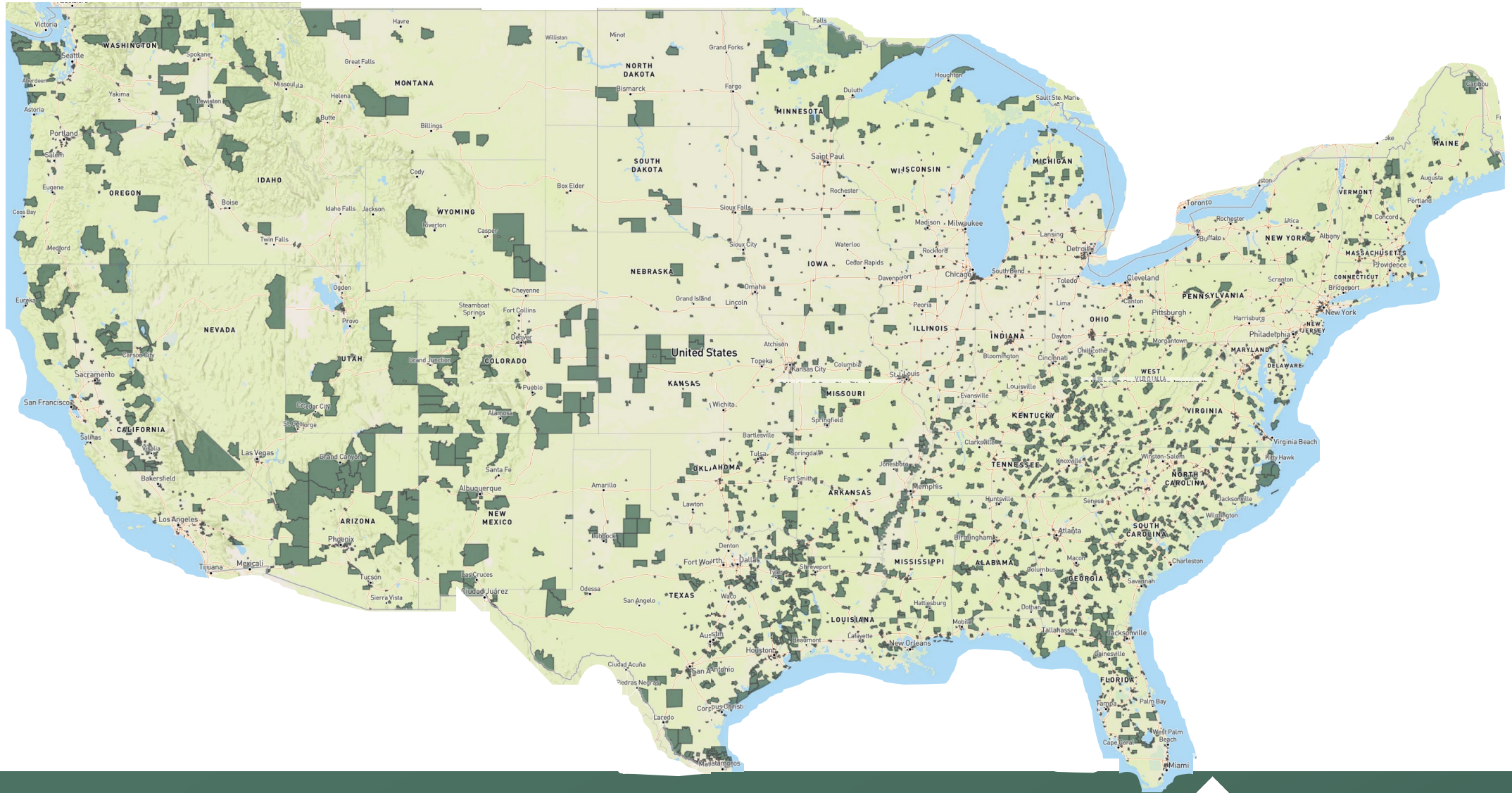


**Expansion of Existing
Businesses into
Opportunity Zones**



**Large Expansions of
Businesses already
within Opportunity Zones**

Q&A



Thank you.



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330-365-5403