ECONOMIC INNOVATION GROUP

The Latest on Opportunity Zones

ECONOMIC INNOVATION GROUP / **Washington, DC**

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What are the incentives for investors?

Opportunity Zones offer investors three incentives for putting their capital to work in economically distressed communities:

Temporary Deferral

1. A **temporary deferral**: An investor can defer capital gains taxes until 2026 by rolling their gains directly over into an Opportunity Fund.

Step-Up In Basis

2. A **reduction**: The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.

Permanent Exclusion

3. An **exemption**: Any capital gains on subsequent investments made through an Opportunity Fund accrue *tax-free* as long as the investor stays invested in the fund for at least 10 years.

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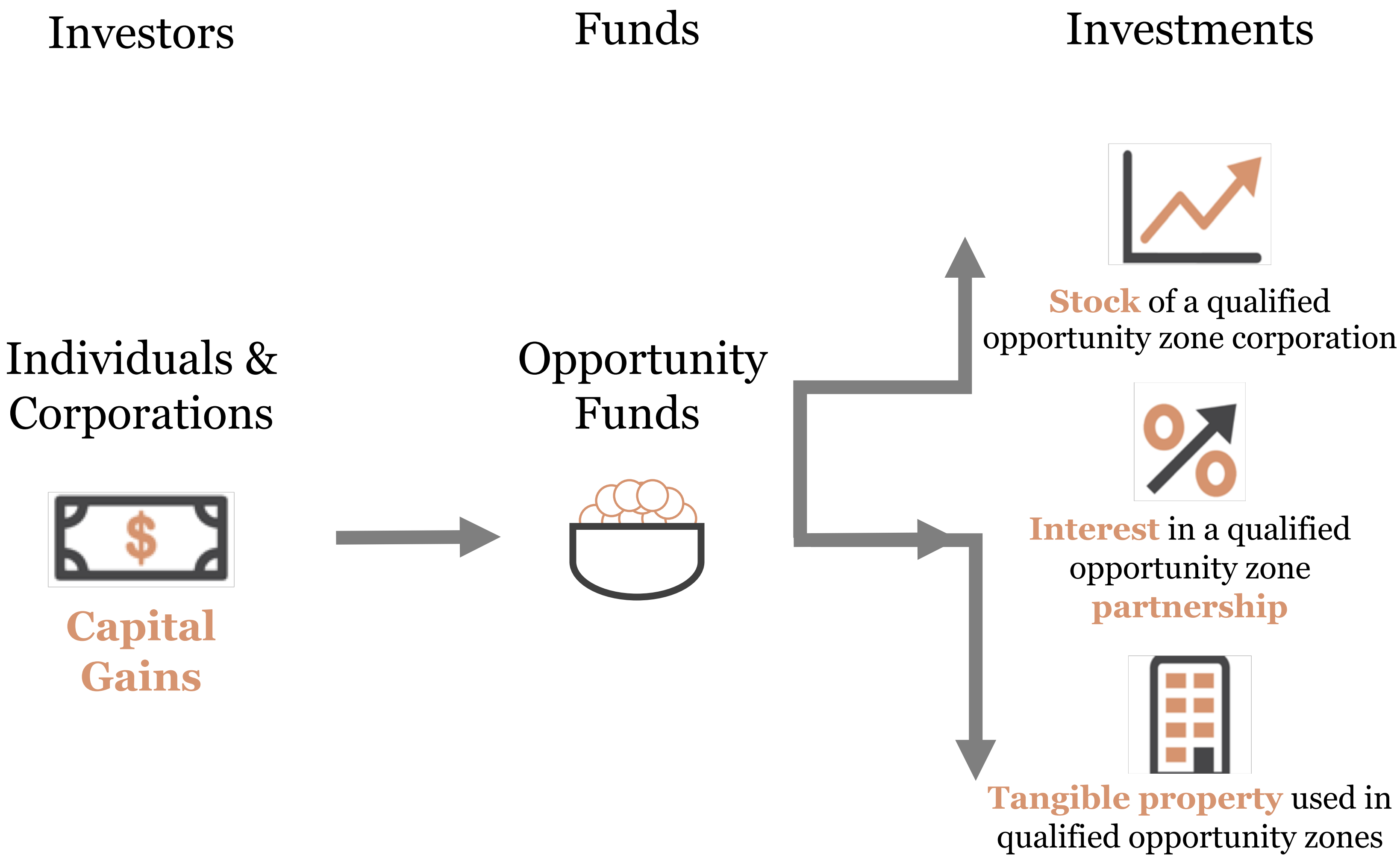
As you're thinking about your strategy, remember to tend to all sides of the market.



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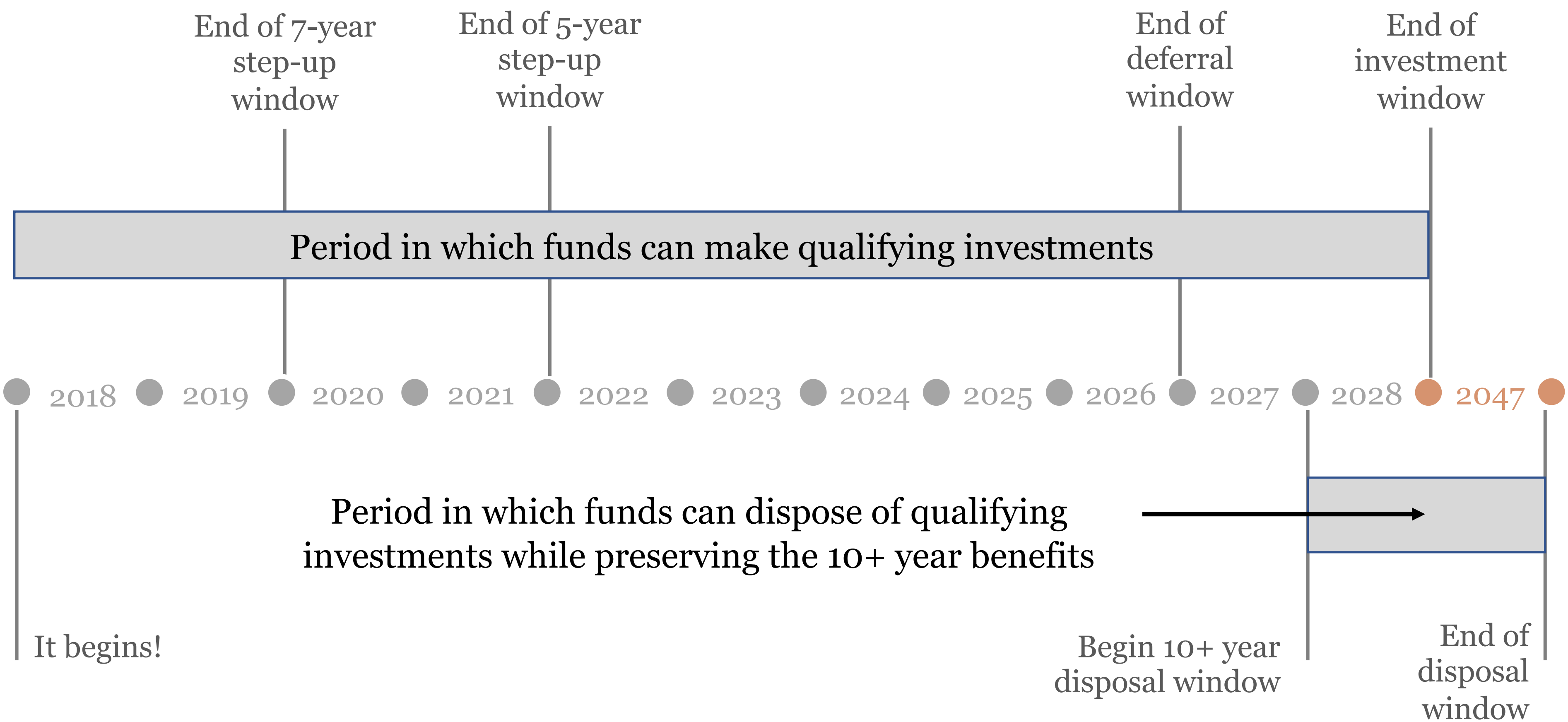
There will be a long tail of investment.



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Opportunity Funds are the critical intermediary.

- All investments that seek to benefit from the tax advantages of the program must be made through an O-Fund.
- The O-Fund model is designed to encourage broad participation.
- The private sector is responsible for establishing O-Funds.
- Funds must self-certify to the IRS.
- Funds must invest at least 90% of their capital in qualified investments in zones and will be audited twice yearly to ensure compliance.
- O-Funds will come in many shapes and sizes:
    - Some will invest nationally, others locally.
    - Some will have many investors, others few.
    - Some will specialize in particular asset classes or geographies, others will diversify.

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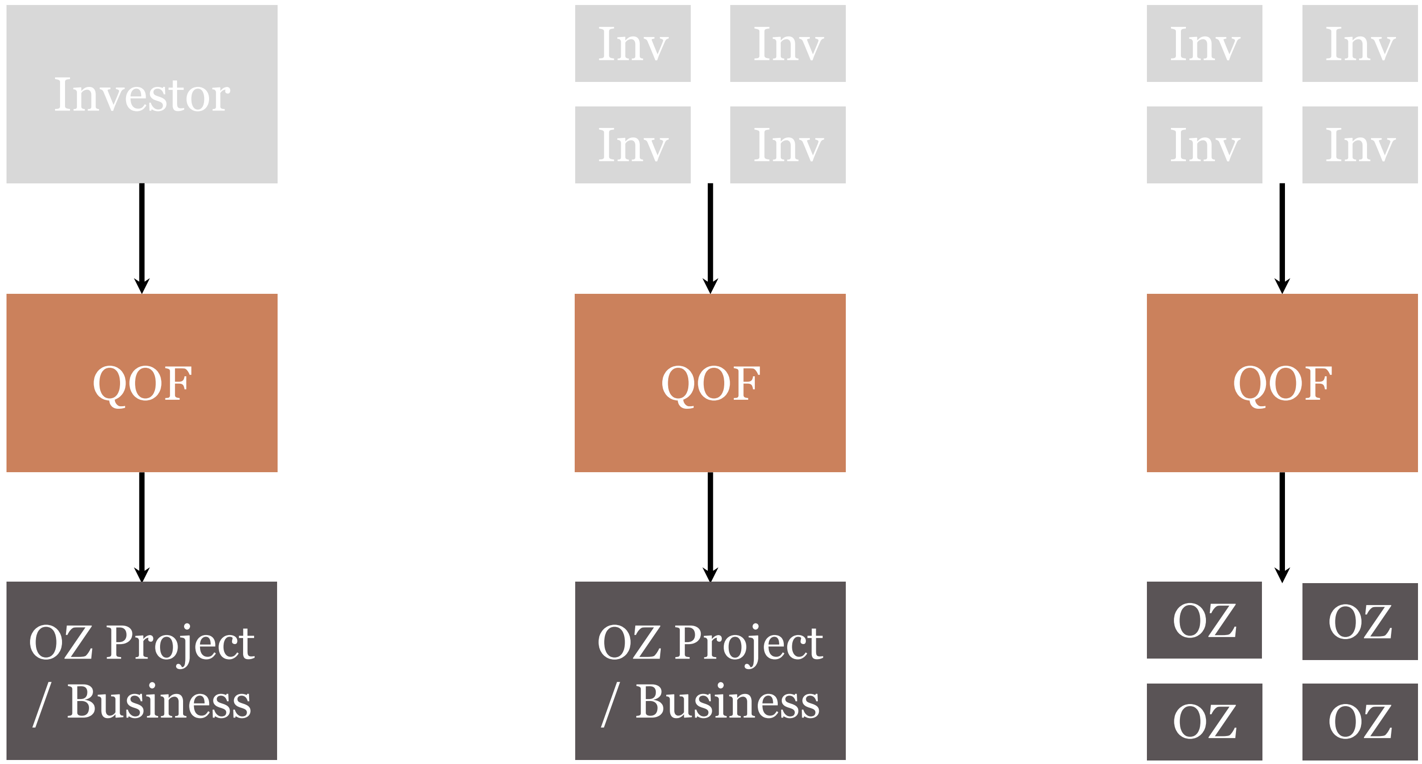
How will a mature market look?



☐ Good read: [Calvert Impact incubator develops funds that will benefit communities] *(Kresge Foundation)*

The fund landscape is populating.

Novogradac's Opportunity Zones Fund Listing (pictured) now contains 87 funds seeking over $20 billion.

The National Council of State Housing Agencies' directory contains over 100 funds.

A number of specialized funds are forming:

- Rural CO Opportunity Fund
- Emergent Communities Fund
- HBCU Opportunity Fund

Some states are creating their own platforms too:

- Colorado
- Maryland
- Oregon (forthcoming)

Fund Name Fund Manager Contact	Investment Footprint (Geographical Focus)	Investment Focus Area
1787 Capital Opportunity Zone Fund 1787 Capital Chris Jeter 646.283.7295 chris@1787capital.com	Mid-Atlantic and Southeast	Partnering with public agencies and officials on key redevelopment projects; Transit-Oriented Development
3LB Equities Opportunity Zone Fund 3LB Equities Adam Smith 817.406.0075 ASmith@3lbequities.com	Texas	Multi-family Acquisition and Development
Access Ventures Opportunity Fund Access Ventures Ross Baird 404.281.1254 ross@accessventures.org	National	Operating businesses
Activated Capital Opportunity Zone Fund II Activated Capital Josh Burrell, CFA 212.320.8994 investments@activatedcapital.com	Mid-west and Southeast	Substantial improvement residential, commercial and hospitality real estate.
Affordable Housing Opportunity Fund LIHTC Development Kim Miller	National	Multi-Family Development

First round of Opportunity Zones regulations provided some clarity, but not enough for operating businesses.

The first round of proposed regulations were released by Department of the Treasury on October 19, 2018. The public had 60 days to issue comments on the draft regulations. The draft rulemaking provided much-needed clarity on several issues, including:

- Clarification on partnership rules, types of funds (LLCs), and types of gains (capital gains only) that are eligible for the benefit
- Qualified Opportunity Fund timing
- Definition of “substantially all” for an Opportunity Zone business’s tangible property as 70 percent
- Clarification that the substantial improvement test requires the doubling of original basis of the building only, not the land

We need additional clarity on these issues to ensure successful implementation of OZs:

- 50 percent gross income test
- Determination of original use, other substantially all definitions, and substantial improvement for an operating business
- Timing for Qualified Opportunity Fund investment and reinvestment

What do we expect from the second round of guidance?

Treasury sent the second round of guidance to the Administration for regulatory review on Tuesday, March 12. We expect the proposed regulations to be published in April. We anticipate Treasury will aim to address the following issues in the second tranche of regulations:

- What types of property qualify as qualified Opportunity Zone business property
- Steps a qualified OZ Business must take to be qualified
- How Opportunity Funds can invest in business property and businesses
- Penalties for a fund's failure to meet the 90% asset test

We expect there will be at least one more round of guidance that will address anti-abuse provisions, the decertification process, and reporting requirements for Opportunity Funds.

Good resources on OZ regulations: Hill Op-Ed by State Economic Development officials; EPA Letter to Treasury on brownfield development in OZs

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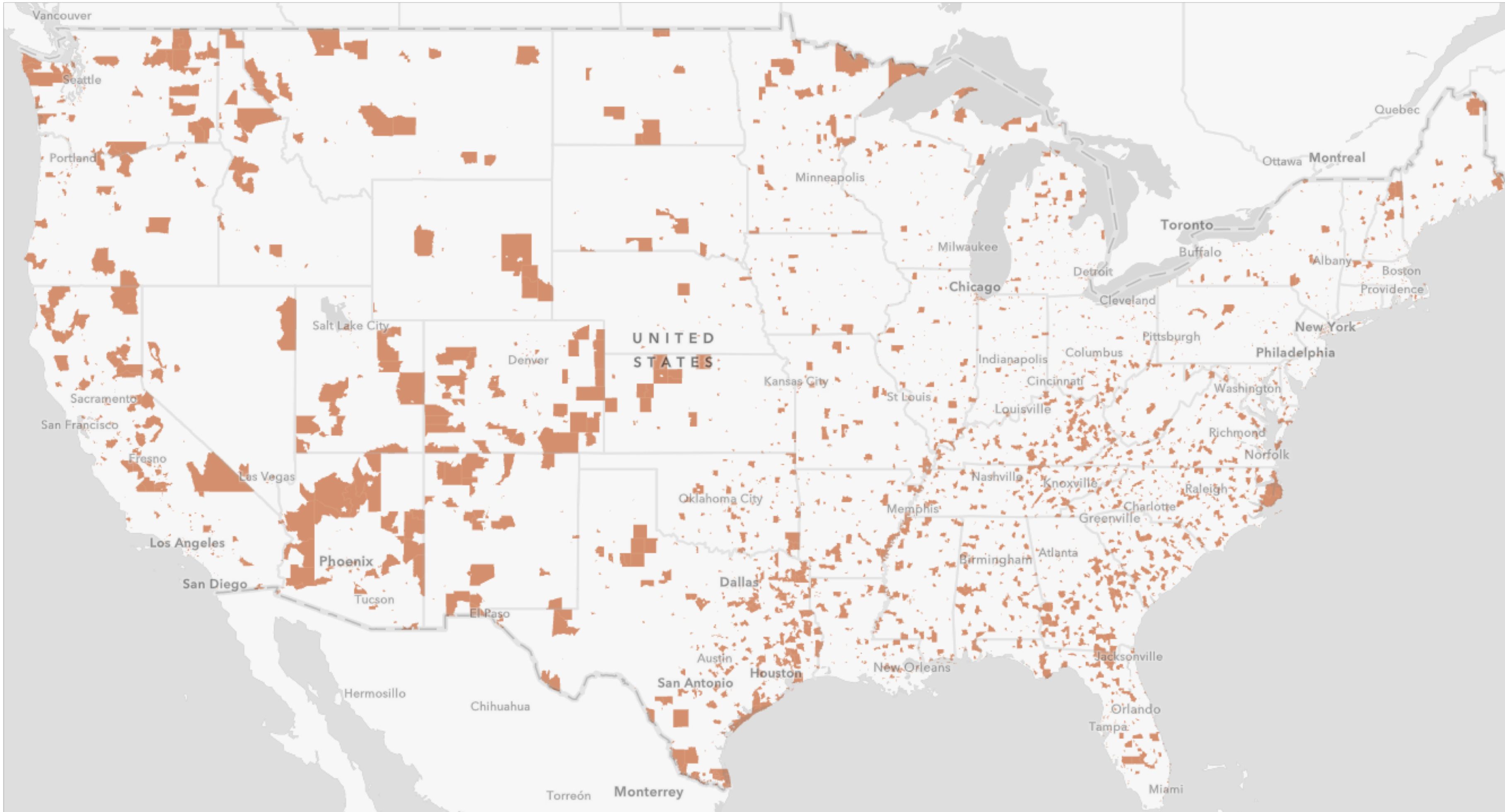
Over 8,700 census tracts across all 50 states, DC, and Puerto Rico are now certified Opportunity Zones.



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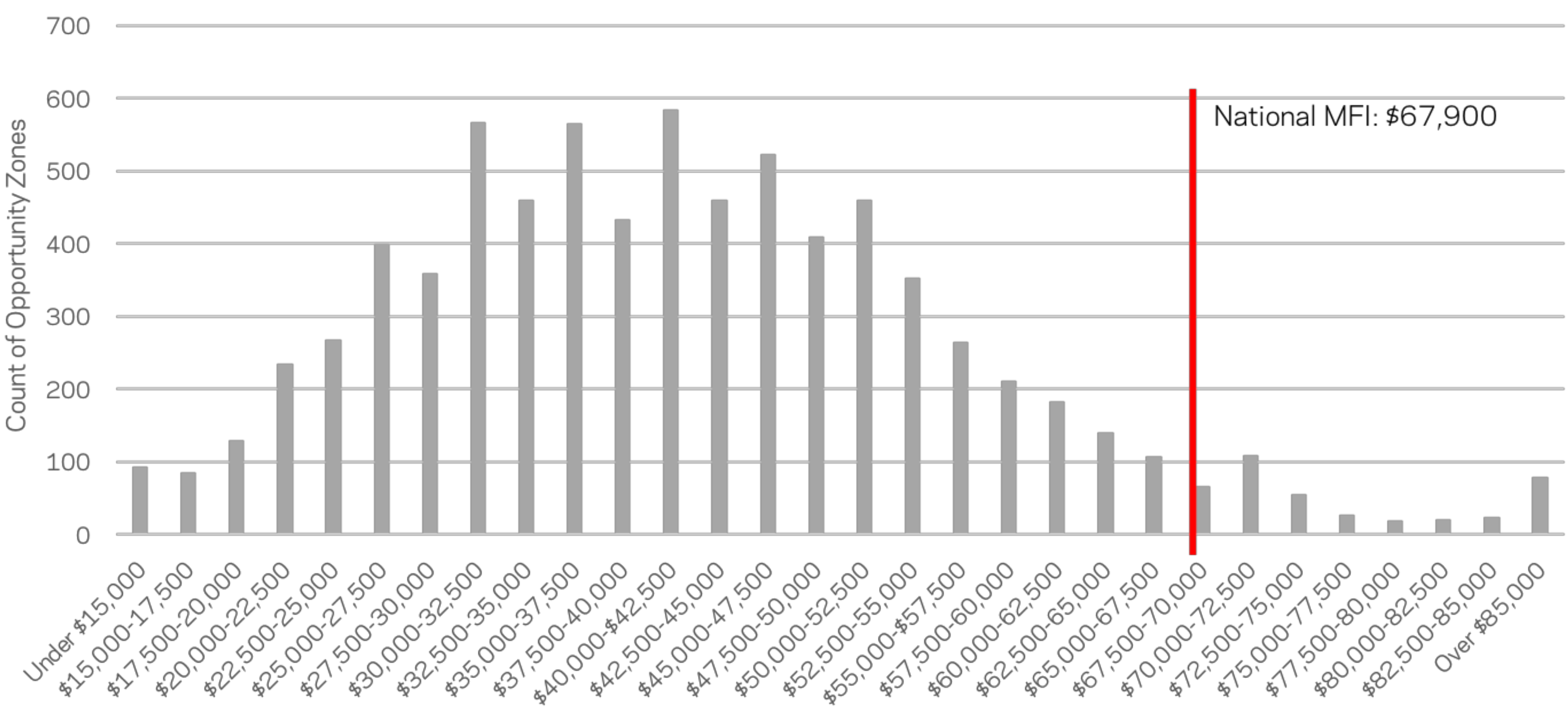
*Visit **eig.org/opportunityzones** to explore the map*

Opportunity Zones exhibit more need across a range of metrics than eligible tracts that were not nominated

Distribution of OZ Census Tracts by Median Family Income



Explore the national map at
eig.org/opportunityzones

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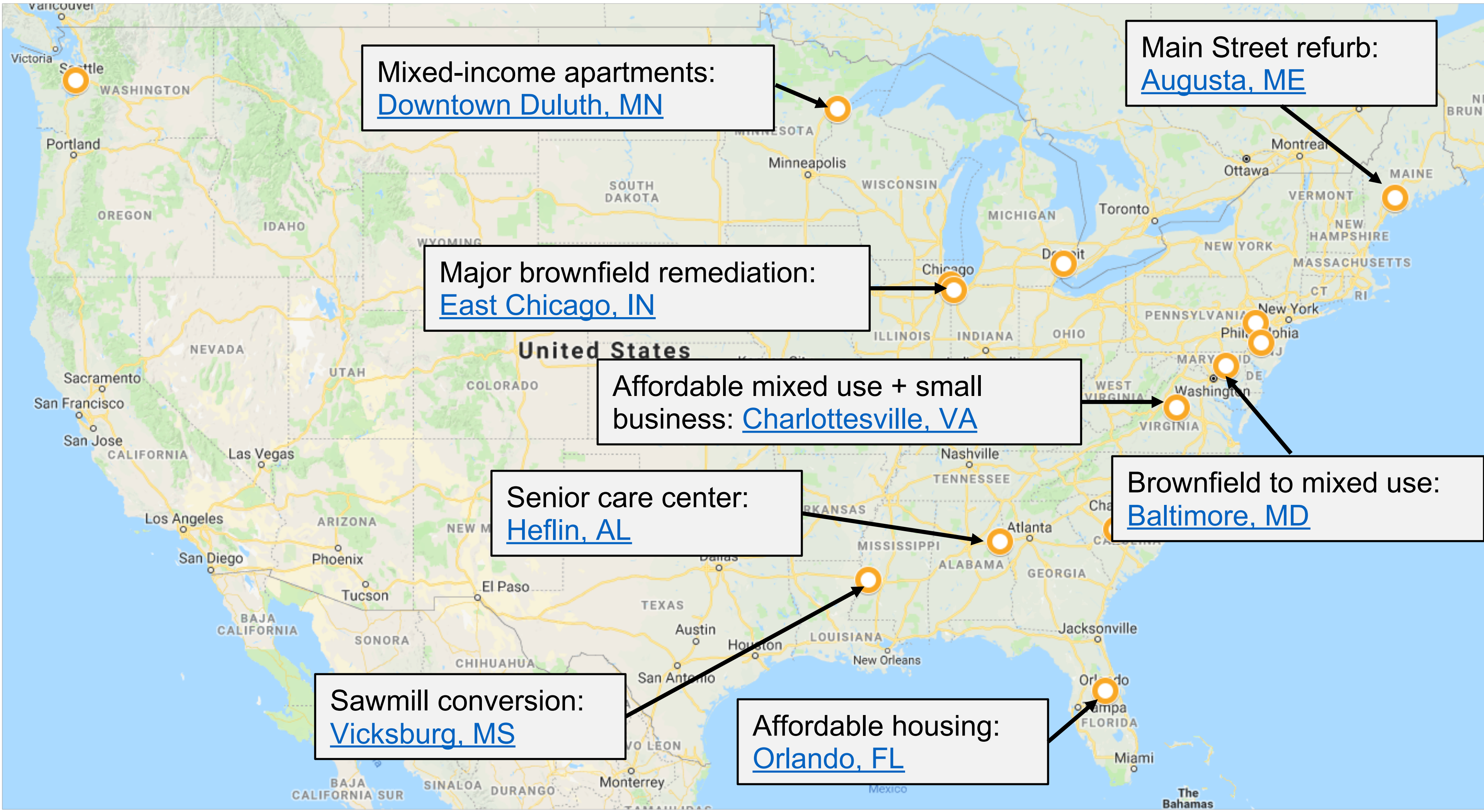
We’re getting a good flavor for early deals



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Key impressions from year 1 ¼: Local, local, local

The investor base is **broad**.

OZs genuinely **changes the economics** of many types of investment.

OZ equity often serves as the **deal closer**.

Local capital will move first.

Operating **business side** of the market is mostly frozen pending regulations.

Local **leadership** is key. Philanthropies, non-profits, other want to know how they can help. They are looking to you for an answer.

Local leaders should **chart that vision** and **build in community impact** along the way.

Indirect impacts and opportunities for entrepreneurship and wealth-building will be significant.

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Emerging Landscape Across the Nation

Initiatives

- Ecosystem building by third-party entities (Opportunity Alabama)
- Creating a "Prospectus" (list of examples at Accelerator for America)
- Local legal service provider as an OZ quarterback (Legal Services of Greater Miami)
- Technology platforms to connect investors and opportunities (OppSites)
- Impact frameworks (OZFramework)

Capital Solutions

- Locally-funded technical assistance to support community efforts (CO)
- Fund Manager Incubator (Kresge and Calvert Impact Capital)

Policies

- City and state OZ taskforces (MD, Pine Bluff, AR)
- State tax credits and conforming with IRC (Novogradac website for reference)
- Exemption of income taxes for QOZ businesses (WV)
- Set-aside for tax credit-financed housing and state historic tax credits (MS, MO)
- Aligning state resources and programs with OZs (MD)
- Regulatory relief (CA)

Resources

- Nowak Metro Finance Lab, Milken Institute, The Governance Project

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What We Are Hearing on Key Concerns

Investment in Rural Communities

- White House Opportunity and Revitalization Council
  - Align programs with rural OZs to attract investors
  - infrastructure improvements, workforce training, complementary debt products
- Education and Outreach
  - Utah Association of Counties and Sorenson Impact Center (GOED)
  - Community Exchange in Minnesota (OZ Challenge)

Community Wealth Building

- Site control of land is key
  - Rapid-response land acquisition facilities
  - Metro Denver Impact Facility // Golden State Acquisition Fund
- True potential for wealth creation is through business investment
  - Incubators and co-working spaces; LaunchPad
  - Need more clarity from the IRS before investment in business will occur
- Pre-negotiated exits from Opportunity Funds

Displacement

- Leverage city-owned property to preserve and create affordable homes and workspace
- Create sustainable revenue streams to capitalize anti-displacement fund
- Apply existing policies: tax abatement, inclusionary zoning, right of first refusal

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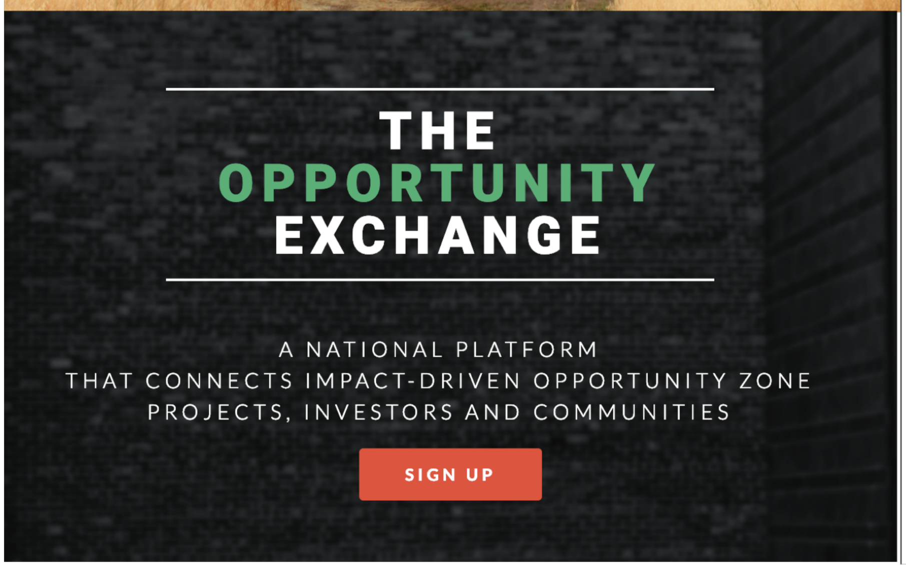
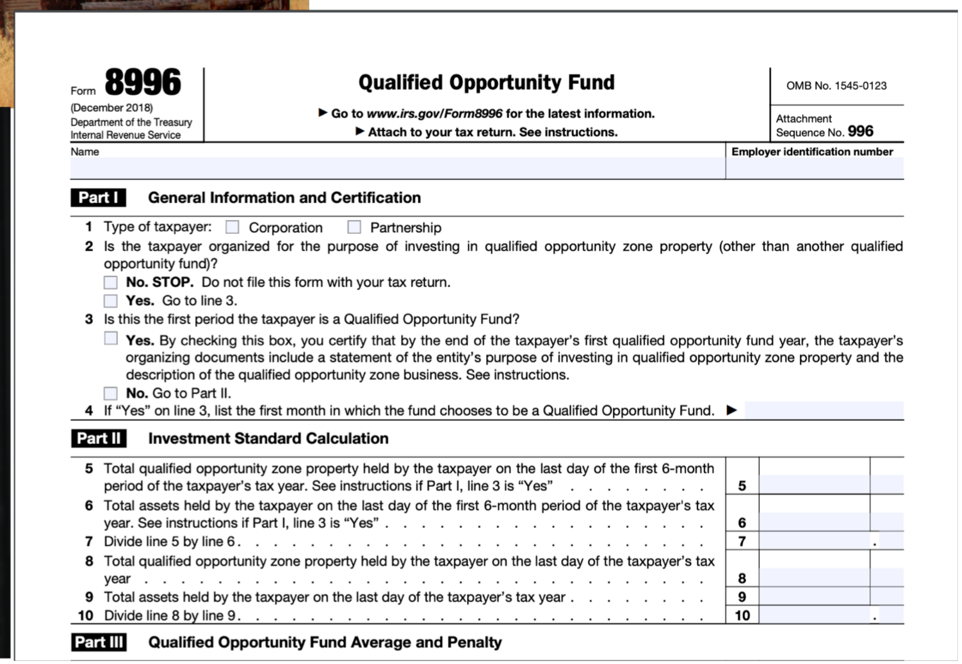
Data Collection and Investment Transparency



- IRS Form 8996 for QOFs
- Opportunity Zones Reporting Framework
- The Opportunity Exchange Platform



Form **8996** (December 2018) Department of the Treasury Internal Revenue Service

Qualified Opportunity Fund

▶ Go to *www.irs.gov/Form8996* for the latest information.
▶ Attach to your tax return. See instructions.

OMB No. 1545-0123
Attachment Sequence No. **996**

Name | **Employer identification number**

Part I **General Information and Certification**

1 Type of taxpayer: ☐ Corporation ☐ Partnership
2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)?
☐ **No. STOP.** Do not file this form with your tax return.
☐ **Yes.** Go to line 3.
3 Is this the first period the taxpayer is a Qualified Opportunity Fund?
☐ **Yes.** By checking this box, you certify that by the end of the taxpayer's first qualified opportunity fund year, the taxpayer's organizing documents include a statement of the entity's purpose of investing in qualified opportunity zone property and the description of the qualified opportunity zone business. See instructions.
☐ **No.** Go to Part II.
4 If "Yes" on line 3, list the first month in which the fund chooses to be a Qualified Opportunity Fund. ▶

Part II **Investment Standard Calculation**

5	Total qualified opportunity zone property held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	5	
6	Total assets held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	6	
7	Divide line 5 by line 6	7	.
8	Total qualified opportunity zone property held by the taxpayer on the last day of the taxpayer's tax year	8	
9	Total assets held by the taxpayer on the last day of the taxpayer's tax year	9	
10	Divide line 8 by line 9	10	.

Part III **Qualified Opportunity Fund Average and Penalty**

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Appendix

Frequently Asked Questions

Q: How were Opportunity Zones designated?

A: Low-income community census tracts are the building blocks of Opportunity Zones. Generally, low-income census tracts either have poverty rates of at least 20% or median family incomes no greater than 80% of the surrounding area's according to the 2011-2015 American Community Survey. Governors nominated up to 25% of all low-income census tracts in a state, territory, or commonwealth as Opportunity Zones.

Q: Do I need to live in an Opportunity Zone to take advantage of the tax benefits?

A: No. All you need to do is invest in a Qualified Opportunity Fund.

Q: I don't have capital gains. Can I still invest in an Opportunity Fund?

A: Yes, but only reinvested capital gains are eligible for the tax benefits.

Q: In practice, how do I actually defer my gains and begin investing in Opportunity Zones?

A: An investor has 180 days from the point of sale of an asset to re-invest all or part of the gain from that sale into a Qualified Opportunity Fund. Whatever portion of the gain that is invested into a fund is the portion on which taxes are eligible to be deferred. In practice, the election will be made on the taxpayer's Federal Income Tax return for that year.

For more, visit: http://eig.org/opportunityzones/faq or https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions

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