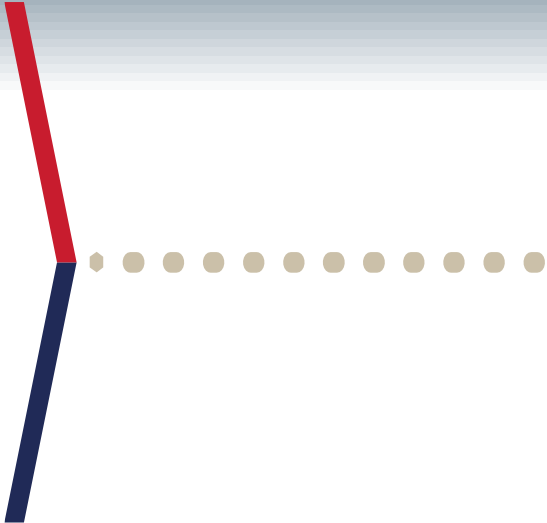


Opportunity Zones



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What is an Opportunity Zone?

- A “qualified opportunity zone” is a census tract that is a low-income community as designated by the Governor and approved by the Secretary of the Treasury
- Over 8,700 in 50 states, D.C., and 5 U.S. possessions
- 879 OZs in California

Where are these Opportunity Zones?

Always Check the Official Source!

US Department of Treasury
Community Development Financial Institutions
Fund

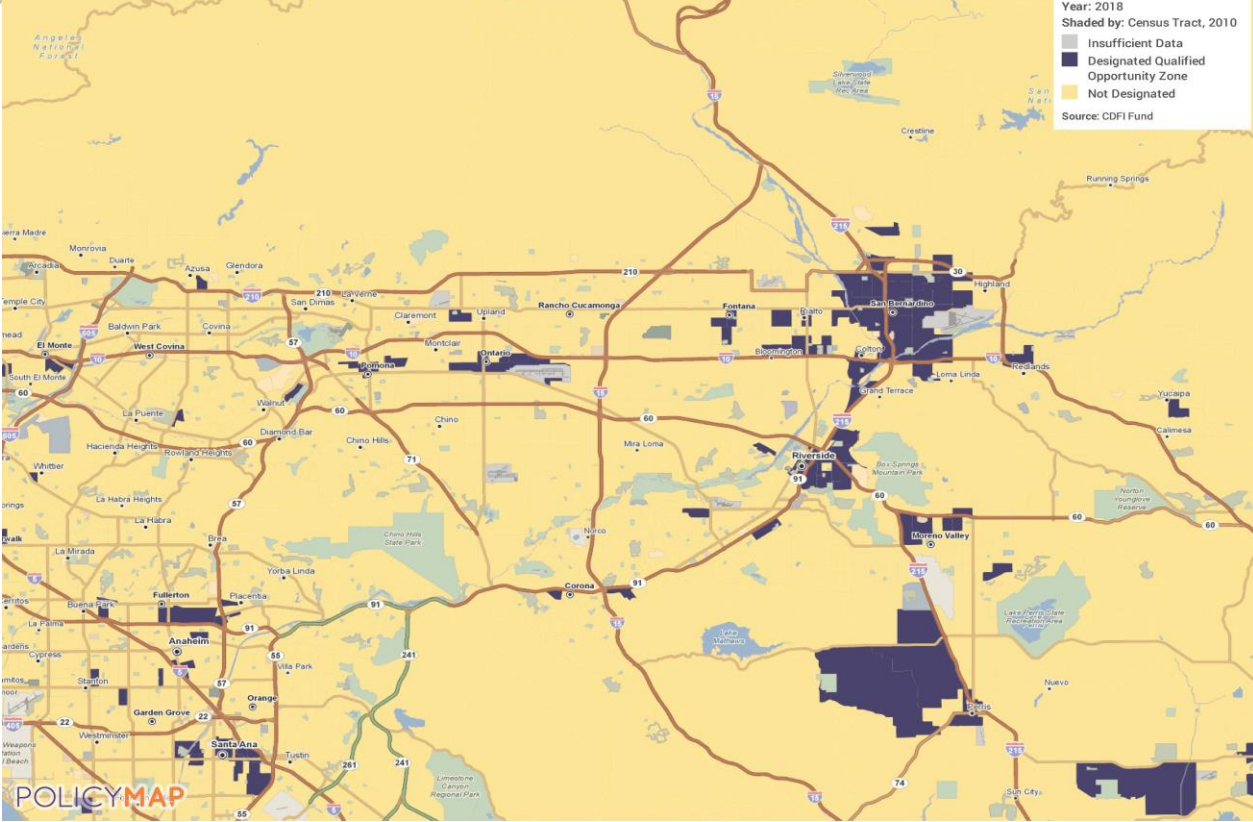
www.cdfifund.gov/pages/opportunity-zones.aspx

Designated Qualified Opportunity Zones, as of 2018.

Designated Qualified Opportunity Zone
Year: 2018
Shaded by: Census Tract, 2010

- Insufficient Data
- Designated Qualified Opportunity Zone
- Not Designated

Source: CDFI Fund



Investment Incentives

Investors receive tax incentives for investments made—using capital gain income—through a Qualified Opportunity Fund

Businesses may use a Qualified Opportunity Fund to help fund projects located within an opportunity zone.

- This new source of investment dollars could prove to be a powerful economic tool, if properly administered

Qualified Opportunity Fund (QOF)

A QOF can take the form of a corporation or partnership

Property may take the form of stock, partnership interest, or business property

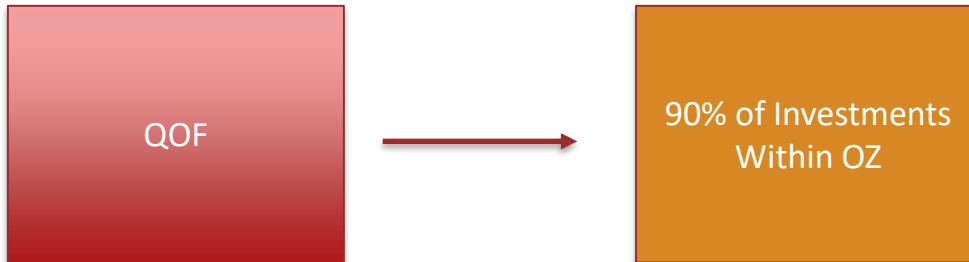
At least 50 percent of the business' gross income must be derived from the active conduct of such business.

IRS Form 8996

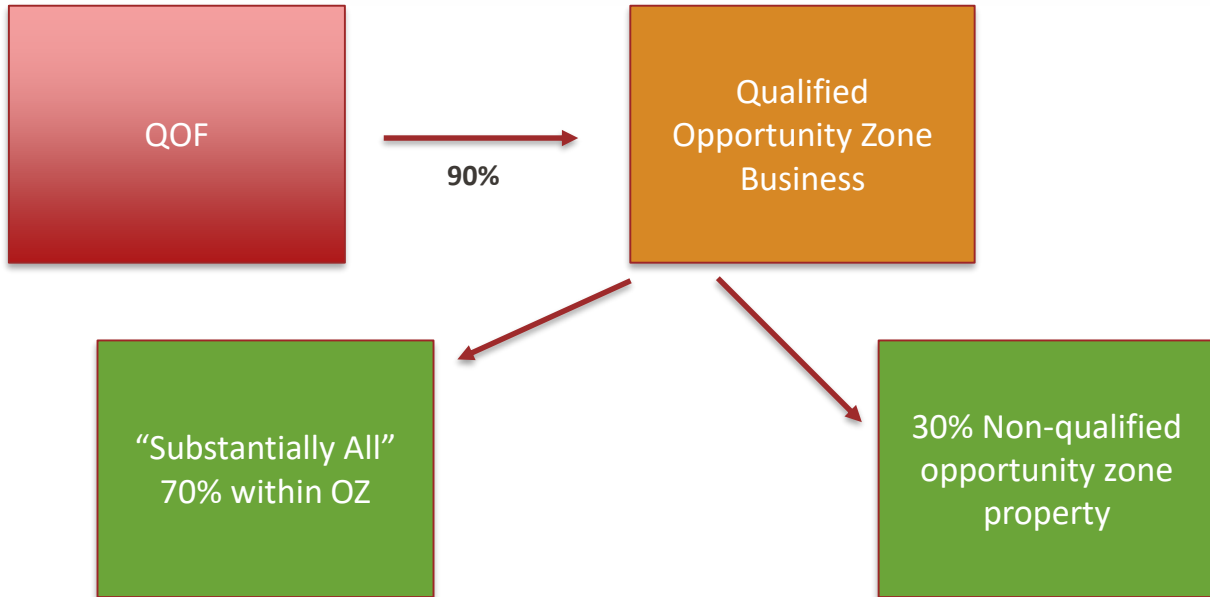
Ineligible Investments

- Golf Course
- Country Club
- Massage Parlor
- Hot Tub Facility
- Suntan Facility
- Racetrack
- Gambling Facility
- Liquor store (“any store the principal business of which is the sale of alcoholic beverages for consumption off premises

QOF 90% Test



QOF “Substantially All” 70% Test



Substantial Improvement

Within 30 months of acquisition, additional basis of property must “exceed an amount equal to the adjust basis of such property” when acquired.

- If rehabbing real property, renovation costs must meet or exceed the acquisition costs, excluding the land value

Capital Safe Harbor

- QOFs have Six Months to Invest Qualifying Assets
- For acquisition, construction, or substantial improvement, proposed regulations would provide a safe harbor for up to 31 months if:
 - There is a written plan
 - There is a written schedule
 - There is “substantial compliance” with the schedule

Related Party Rules

Property must be acquired from sellers who are least 80 percent unrelated to the buyer.

- See IRC Section 179(d)(2), 267(b), and 707(b)(1) and a tax advisor

Tax Incentives

- Only Capital Gains May Be Invested
- Gains must be invested within 180 days
- Federal tax liability is deferred on all invested gains

Incentives for Initial Investment Dollars

After 5 years, 10% basis adjustment on capital gains invested in a QOF

After 7 years, an additional 5% basis adjustment on capital gains invested in a QOF

- If you invest \$100 in gains, after 7 years, you owe taxes on \$85--\$15 is now tax free

10 Years to Maximize Tax Incentives

After 7 years, no additional benefits on the deferred gains (initial investment).

However, after 10 years, investor will owe no capital gains on any appreciation of the initial investment.

Example

<u>QOF</u>	<u>Regular Investment</u>
\$100 start balance (taxes on gain deferred)	\$76 start balance, after taxes paid
Year 10 balance @5%: \$163	Year 10 balance at 5%: \$124
Taxes Owed: Deferred cap gains on initial investment, minus basis adjustment, making \$85 taxable=\$20 in deferred cap gains taxes	Taxes Owed: No Cap Gains on Initial Investment (tax already paid)
Cap gains on \$63 in appreciation from initial investment, held 10 years=\$0	Cap gains on \$48 in appreciation from initial investment=\$11
After tax return: \$143	After tax return: \$113
Difference: \$+30	Difference \$-30

Pesky Details

December 31, 2026: Taxes on Deferred Gains Due,
Regardless of Whether Investment is Sold

After that date, no other gains may be invested

The OZs expire after 10 years

Deadlines

To get the 5 year benefits, invest before 2022

To get the 7 years benefits, invest before 2020

To get the 10 years benefits, invest before mid-2027

Or gamble on Congress extending/making
permanent

DISCLAIMER

Information and Updates:
www.nahb.org/OZ

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