South County Economic Development Council Opportunity Zone Forum

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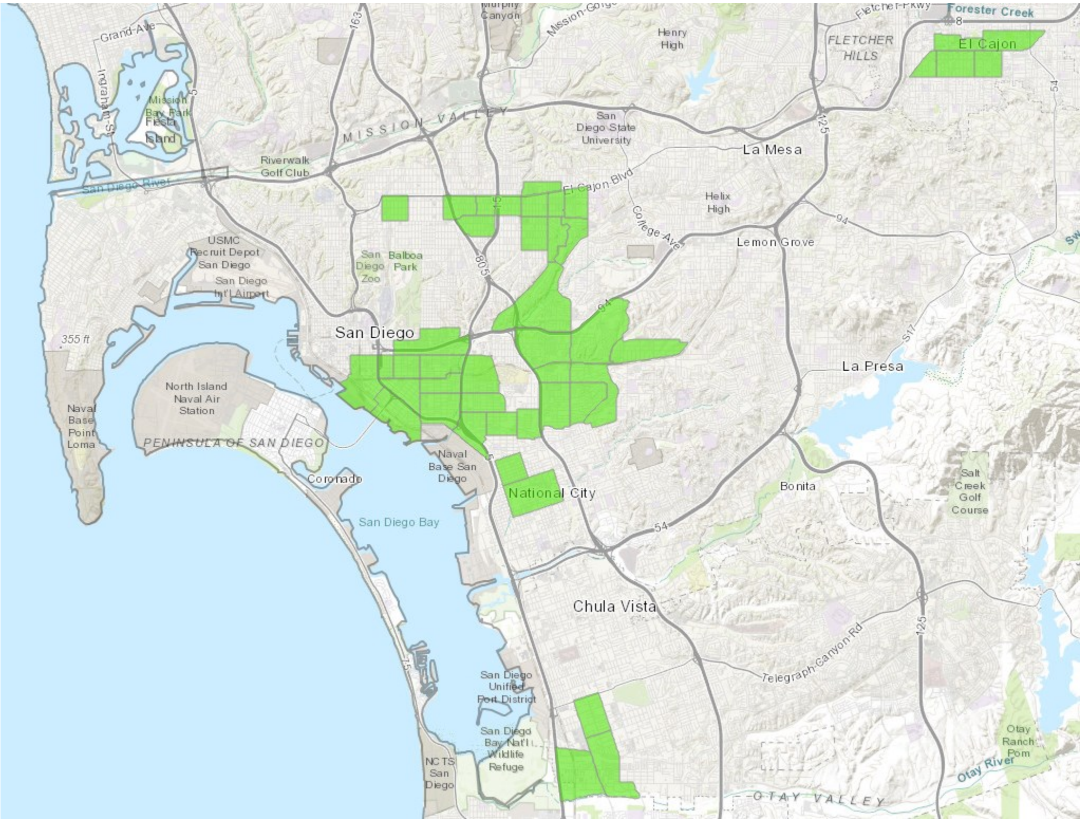
Introduction to Opportunity Zones

- Brand new law, enacted as part of the Tax Cut and Jobs Act, effective December 22, 2017
- The stated goal of the new law is to designate opportunity zones in low-income communities and to provide tax incentives for investments in the zones, including deferring recognition of capital gains that are reinvested in the zones
- Opportunity zones have generated positive reviews in the press
  - WSJ article 11/14/2018 – new law projected to generate $100 billion of investment in opportunity zones
- Attractive to institutional investors and “impact investors” – those with a stake in their community

Designation of Qualified Opportunity Zone

- IRC § 1400Z-1: Governor of each State charged with designating qualified opportunity zones
- Gov. Jerry Brown has already designated all of the opportunity zones in the California, including in San Diego County

San Diego County Qualified Opportunity Zones



Special Rules for Capital Gains Invested in Opportunity Zones - Overview

- IRC § 1400Z-2: critical definitions and operational rules to take advantage of tax benefits
- An investor is eligible to: (1) defer tax on capital gains invested in a qualified opportunity fund ("QOF"), and, (2) if those capital gains are held in the QOF for at least ten years, may elect to increase the basis of investment to FMV when sold, which eliminates all gain
  - 5 year rule: capital gains held in QOF for 5 years eligible to increase basis in investment by 10% of gain deferred
  - 7 year rule: capital gains held in QOF for 7 years eligible to increase basis in investment by additional 5% of gain deferred

Special Rules for Capital Gains Invested in Opportunity Zones

- 180-day rule: In order to be eligible to take advantage of the tax benefits of opportunity zones, capital gains must be invested in a QOF within 180 days of the capital gain event
- Capital gains = short-term and long-term, increasing opportunities for investment
  - STCG = capital asset held for less than one year
  - LTCG = capital asset held for more than one year
- Capital gain event must be from sale to unrelated person

Special Rules for Capital Gains Invested in Opportunity Zones

- A QOF is an investment vehicle organized for the purpose of investing in Qualified Opportunity Zone Property (“QOZP”)
- A QOF must be either a corporation or a partnership for tax purposes (i.e., Corporation, LLC, LP)
- A QOF must invest at least 90% of its assets in QOZP, tested semi-annually
- A QOF self-certifies on IRS Form 8996

Special Rules for Capital Gains Invested in Opportunity Zones

- Qualified Opportunity Zone Property – 3 options
  - Qualified Opportunity Zone Stock: new stock in a corporation organized as a Qualified Opportunity Zone Business ("QOZB")
  - Qualified Opportunity Zone Partnership Interest: capital or profits interest in a partnership organized as a QOZB
  - Qualified Opportunity Zone Business Property: property used in the trade or business of the QOF
    - "Original use" of property must commence with use by QOF, or
    - QOF must "substantially improve" the property
- Qualified Opportunity Zone Business: using qualified opportunity zone business property in a trade or business within a qualified opportunity zone

Putting the Opportunity in Opportunity Zone

- Opportunity zones create very attractive opportunities for owners and investors to make an impact in their community, while also taking advantage of favorable tax benefits
- Alternative to 1031 exchange: step-up in basis allows exit strategy to 1031 exchange investors
- Both short-term and long-term capital gains eligible to invest in QOFs, increasing options for investment

Thank you for attending!

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