



# The Latest on Opportunity Zones

Katie Kramer, Vice President  
Council of Development Finance Agencies  
September 18, 2018



[www.cdfa.net](http://www.cdfa.net)

# CDFA's Five Focus Areas

Education

Advocacy

Research

Resources

Networking

CC

Council

Development

Finance



CDFA represents the  
leaders and dealmakers  
in the development  
finance industry.







# Opportunity Zones

## 8,700 Opportunity Zones across the United States

Nominated by Governors in early 2018. All Opportunity Zones designated by the U.S. Department of the Treasury as of June 2018.

Opportunity Zones are low-income census tracts eligible for investment from Opportunity Funds.

# Opportunity Zones

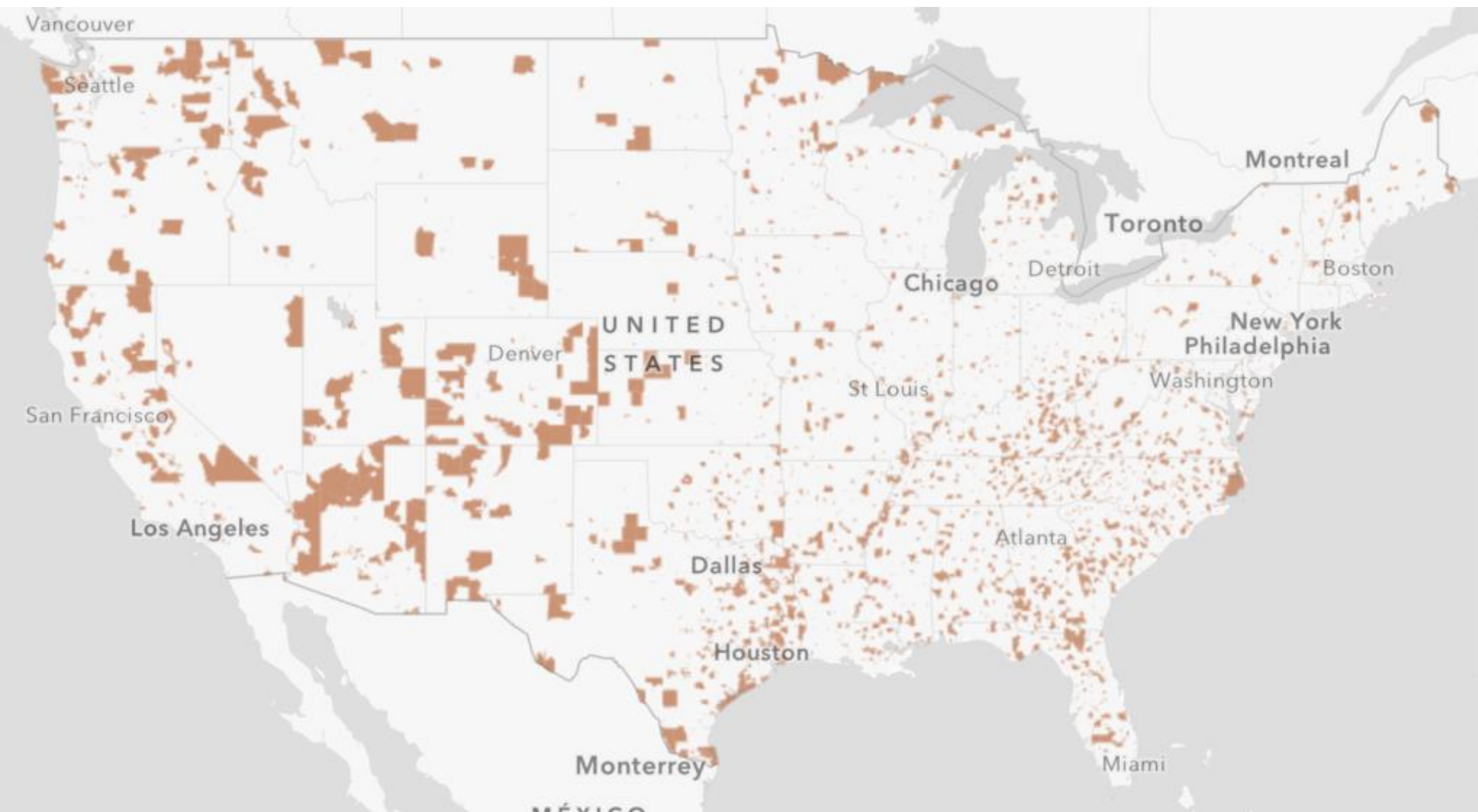
**Approximately 35 million people live in Opportunity Zones**

**56% of those residents are minorities**

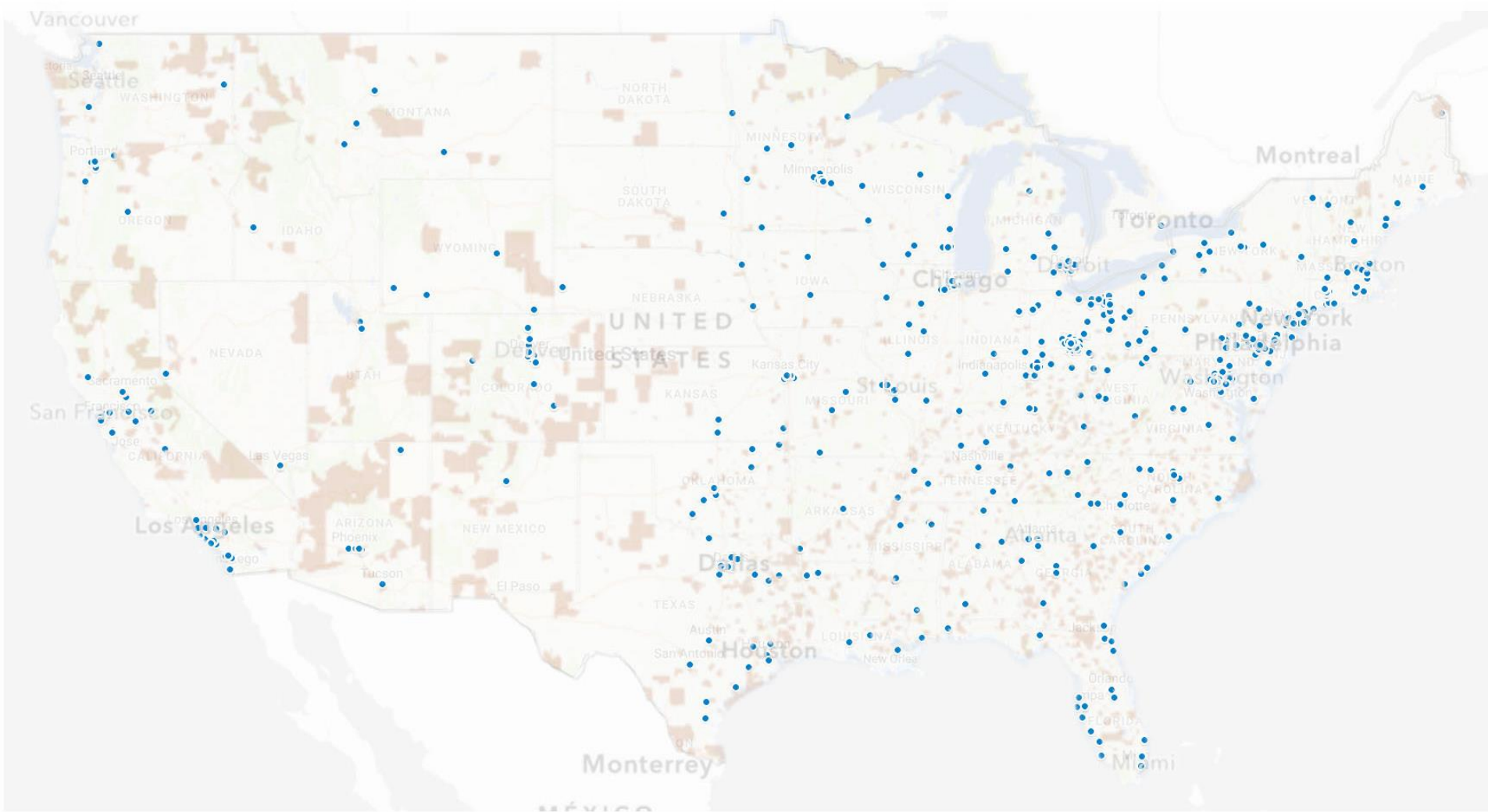
**294 Zones are tribal lands**

**76% are in metropolitan areas**





# CDFA Members + Opportunity Zones



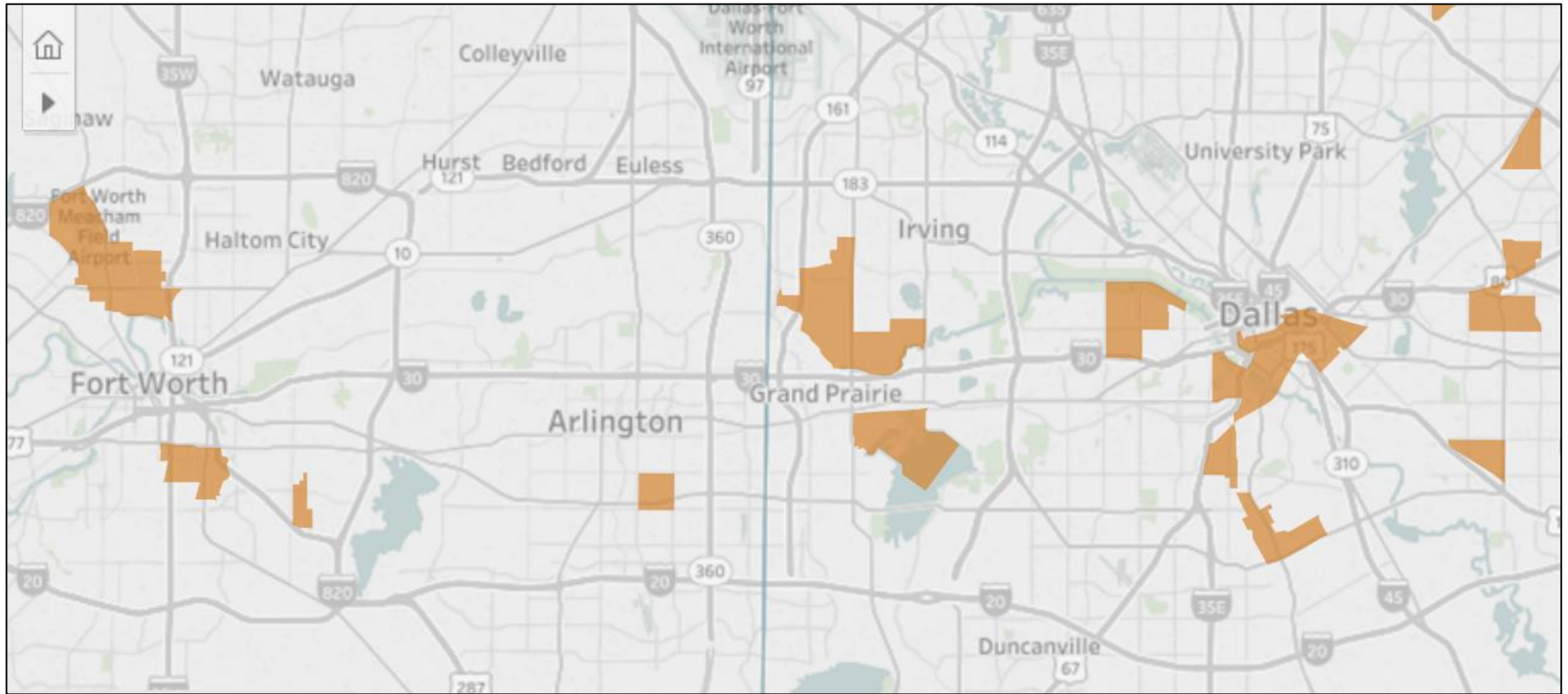
# Texas Opportunity Zones



Source: Opportunity 360 from Enterprise Community Partners

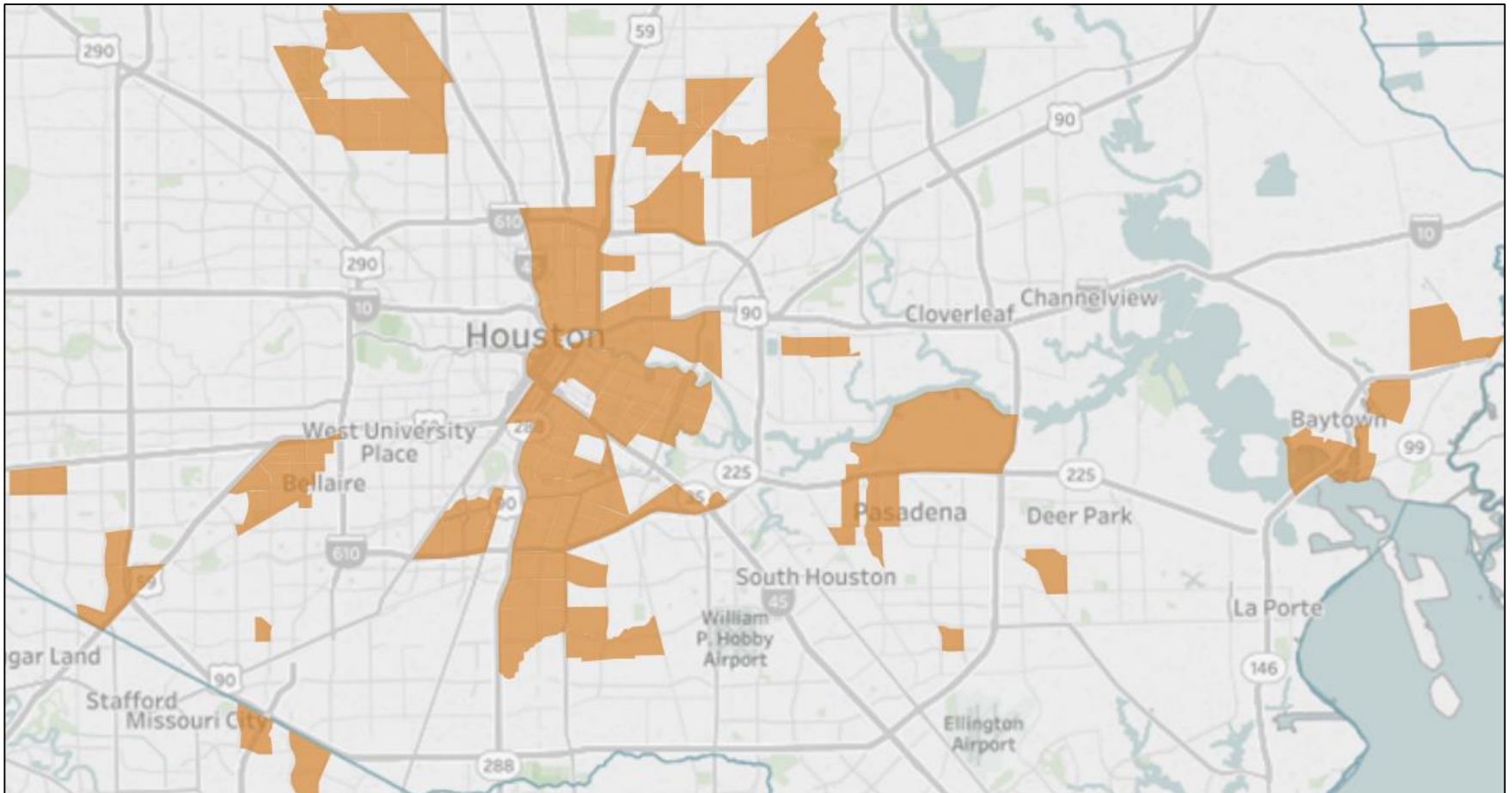


# Dallas / Ft. Worth Region Opportunity Zones



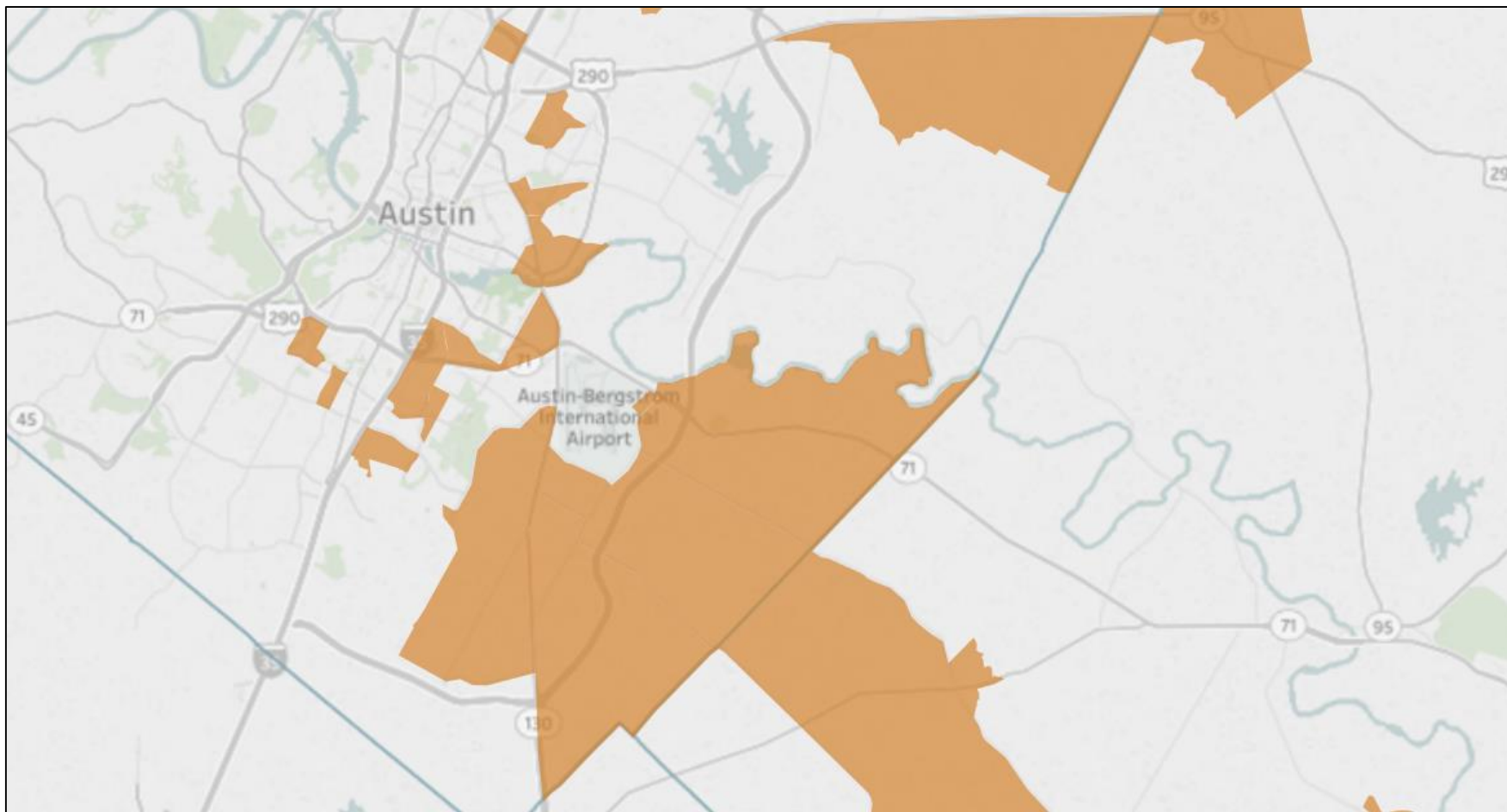
Source: Opportunity 360 from Enterprise Community Partners

# Houston Region Opportunity Zones

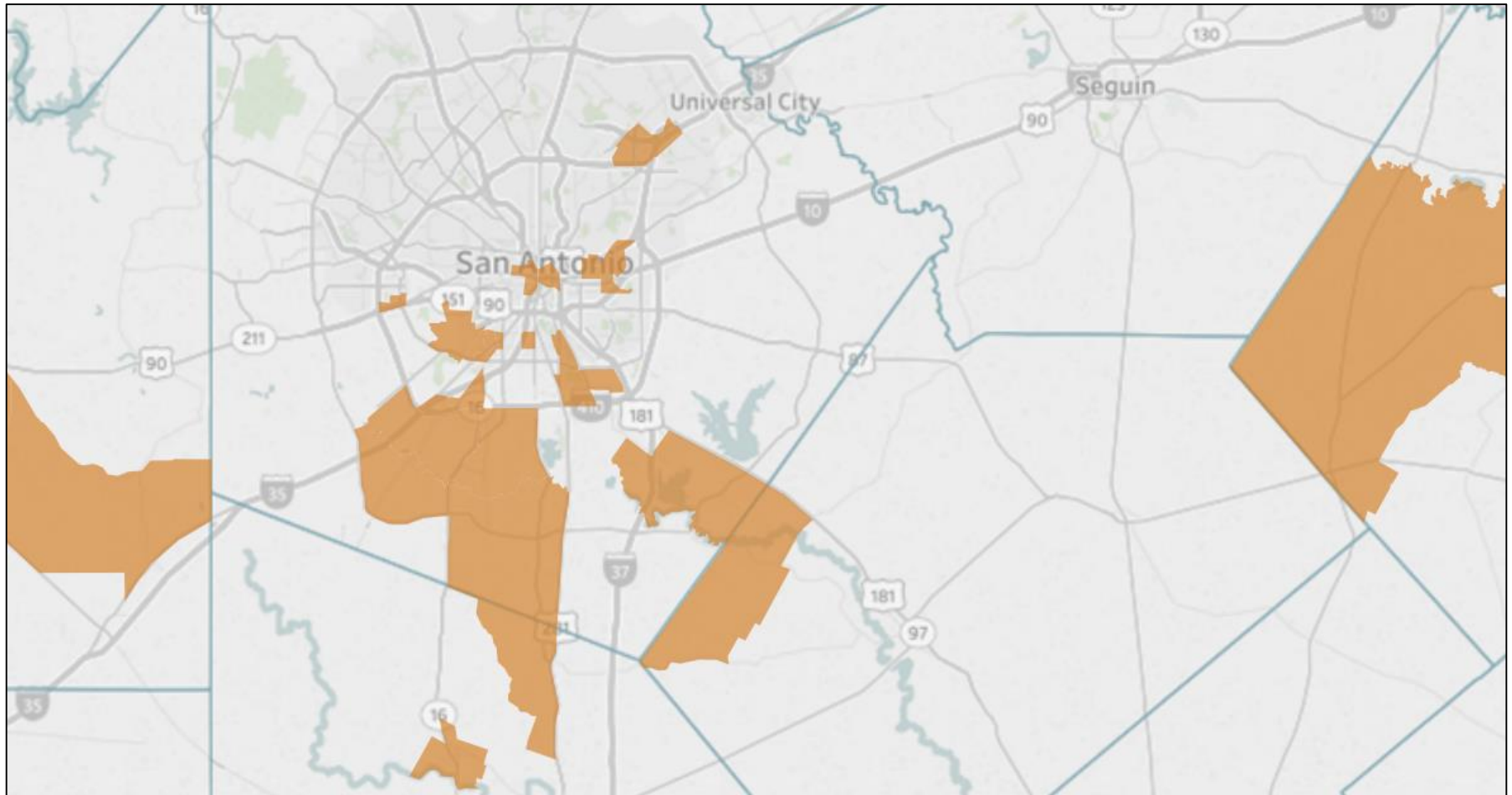




# Austin Region Opportunity Zones



# San Antonio Region Opportunity Zones





# Opportunity Funds

**Opportunity Funds can help tap into the estimated \$6 trillion market for unrealized capital gains.**

Two main incentives for investors:

1. Defer taxes owed on federal capital gains taxes by moving them into an Opportunity Fund. If invested for 5 years, receive a 10% reduction in the tax. If invested for 7 years or more, receive a 15% reduction in the tax.
2. For investments held for 10 years, any earnings realized by an Opportunity Fund are not subject to federal capital gains taxes.

*The theory is that a successful Opportunity Fund will earn enough over the 10 year period to pay off the original capital gains taxes owed and have enough remaining to realize the tax free earnings.*

# Opportunity Funds

## **Opportunity Funds must make equity investments.**

Investors can capitalize Opportunity Funds using gains realized within 180 days of a sale. No limit on size of funds, number of funds, or how many Opportunity Zones the fund invests in.

Opportunity Funds must invest at least 90% of their assets in qualified investments located in Opportunity Zones.

Opportunity Funds can make equity investments in qualified businesses or real estate projects.

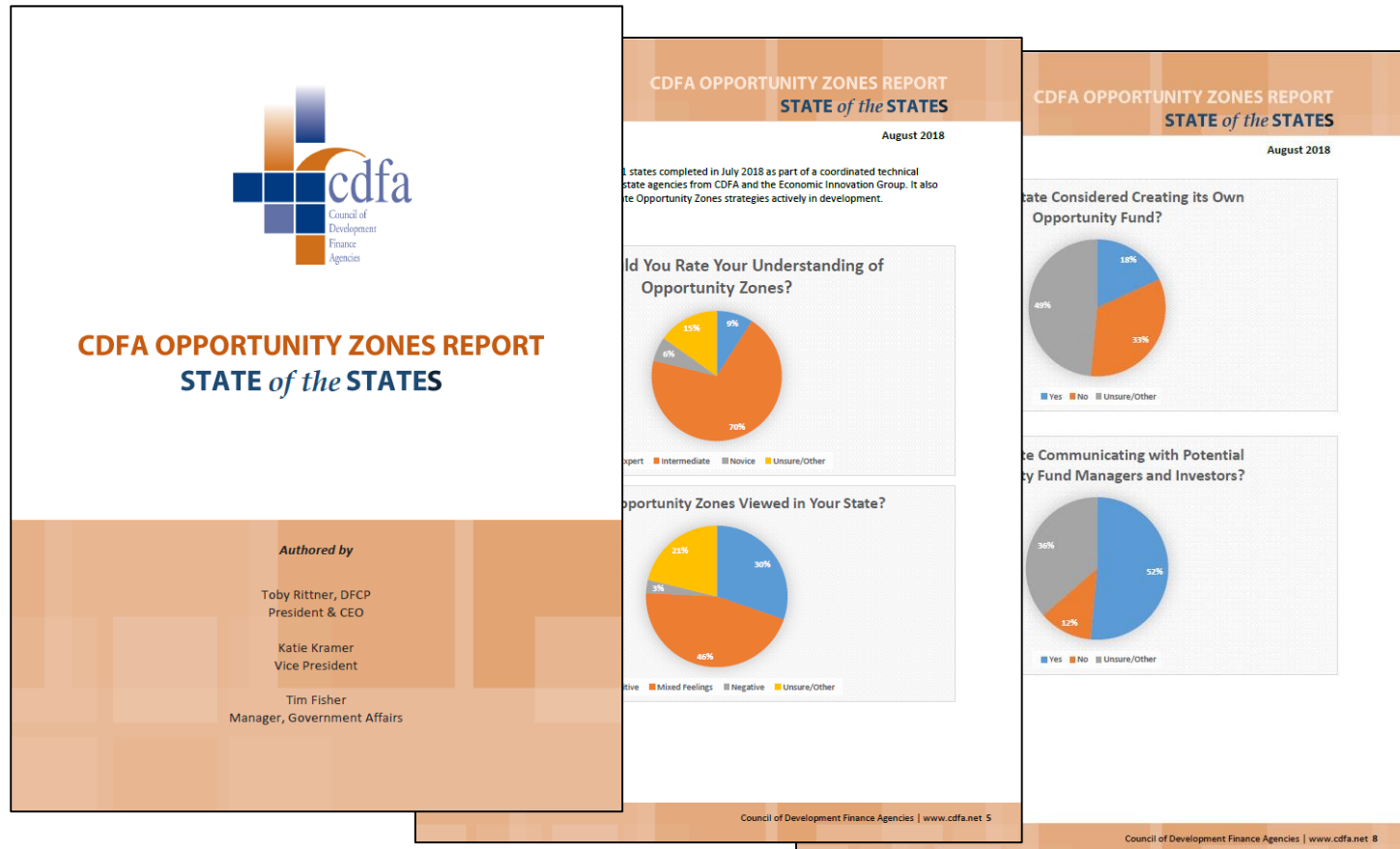
Opportunity Fund investors are seeking responsible exit solutions in order to realize the tax free earnings after the 10 year period.



# STATE *of the* STATES

Download in the CDFA Opportunity Zones Resource Center

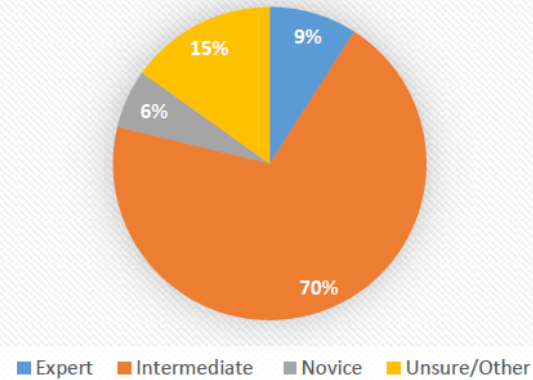
[www.cdfa.net](http://www.cdfa.net)



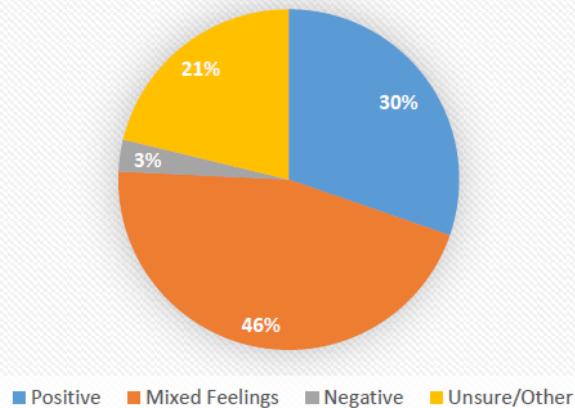
# STATE *of the* STATES

## *The Pulse on Opportunity Zones*

How Would You Rate Your Understanding of Opportunity Zones?



How are Opportunity Zones Viewed in Your State?

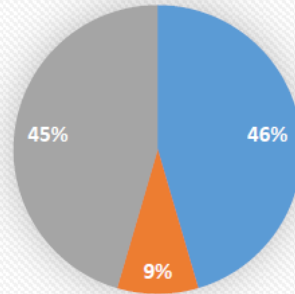




# STATE *of the* STATES

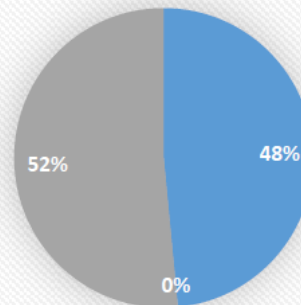
## State Agency Structures

Is Your State Coordinating Locally to Support Opportunity Zones in Small Communities?



■ Yes ■ No ■ Unsure/Other

Will Your State Be Hosting an Educational Event for Communities to Learn About Opportunity Zones?

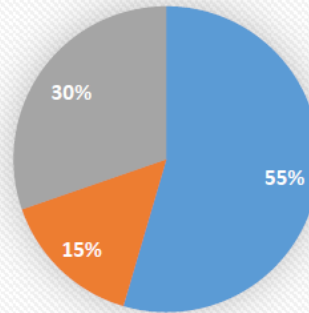


■ Yes ■ No ■ Unsure/Other

# STATE *of the* STATES

## *State Agency Structures*

Does Your State Have Dedicated Staff Working on Opportunity Zones?

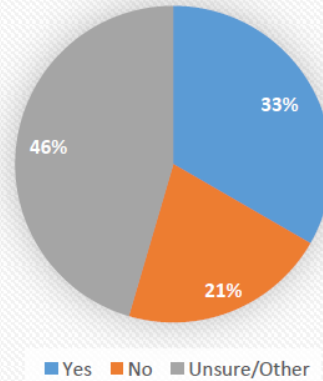


■ Yes ■ No ■ Unsure/Other

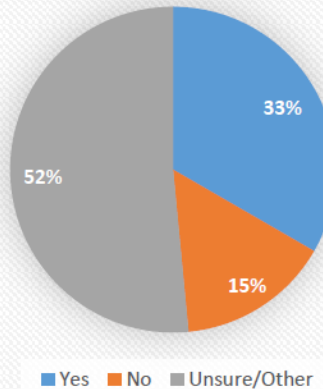
# STATE *of the* STATES

## *Opportunity Zones Investment Strategies*

**Is Your State Considering the Creation of Incentives for Opportunity Fund Investments?**



**Is Your State Considering Policies to Support a Pipeline of Investable Projects?**

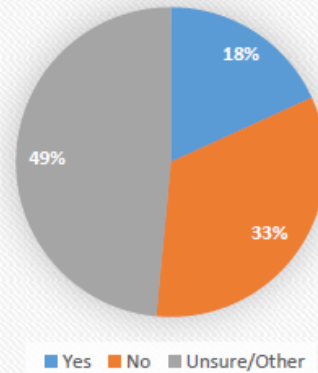




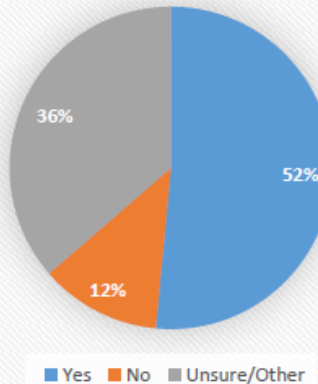
# STATE *of the* STATES

## *Opportunity Zones Investment Strategies*

Has Your State Considered Creating its Own Opportunity Fund?



Is Your State Communicating with Potential Opportunity Fund Managers and Investors?



# State & Local Engagement with OZ

## **Understand that not every Opportunity Zone will receive investment without local leadership.**

Develop a strategy to identify potential investments and make those opportunities known to investors.

Early research is showing that Opportunity Fund capital will meet about 5-30% of capital needed for a project. Identify local programs available for debt financing or other incentives now and make those resources known.

Identify projects and local economic development strategies and clearly communicate how investors can engage.

Encourage additional reporting requirements from investors in order to access additional incentives or co-investment.





# ***Advancing Development Finance Knowledge, Networks & Innovation***

***Join CDFA Today!***

Discounted Registration Rates for CDFA Trainings & National Summit

Reduced Rates for Publications in the CDFA Bookstore & Special Offers from Industry Partners

Exclusive Access to the CDFA Online Resource Database and Federal Financing Clearinghouse

Free Job and RFP Postings

***[www.cdfa.net](http://www.cdfa.net)***

***[@cdfa\\_update](#)***



# Opportunity Zones

COHN  REZNICK

Presented by:

**Mike Celkis, CPA**

---

# Opportunity Zones

## Three Benefits of Opportunity Zone Investments:

1. Gain Deferral
2. Partial Forgiveness (after 5 and 7 years)
3. Forgiveness of additional gains (after 10 years)

# Opportunity Zones

## Benefit #1: Gain Deferral

The period of capital gain tax deferral ends upon the earlier of:

1) The date on which the investment is sold or exchanged;

OR

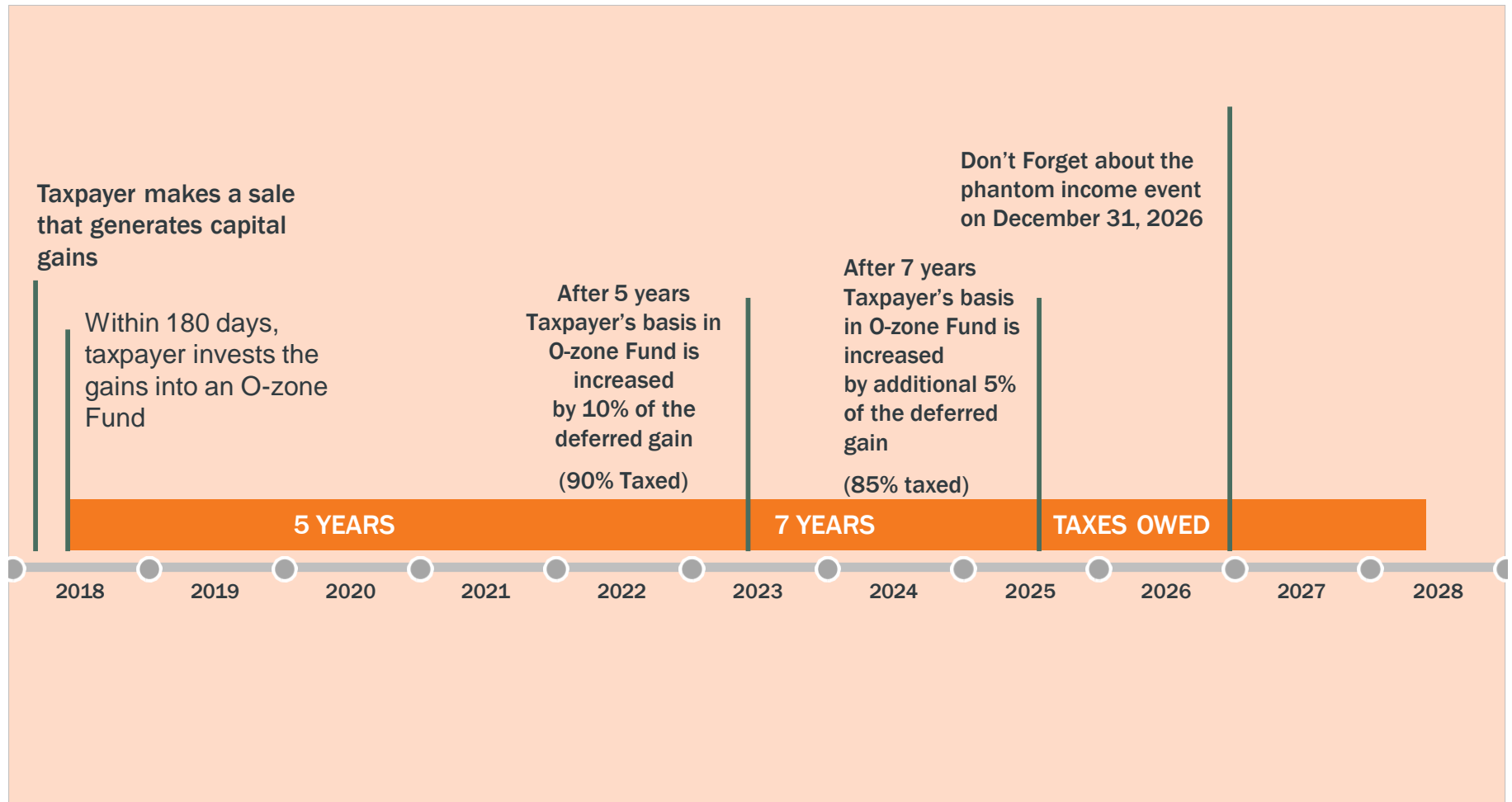
2) December 31, 2026 (phantom income event)

\*Note: Initial tax basis in the O-zone Fund investment is \$0



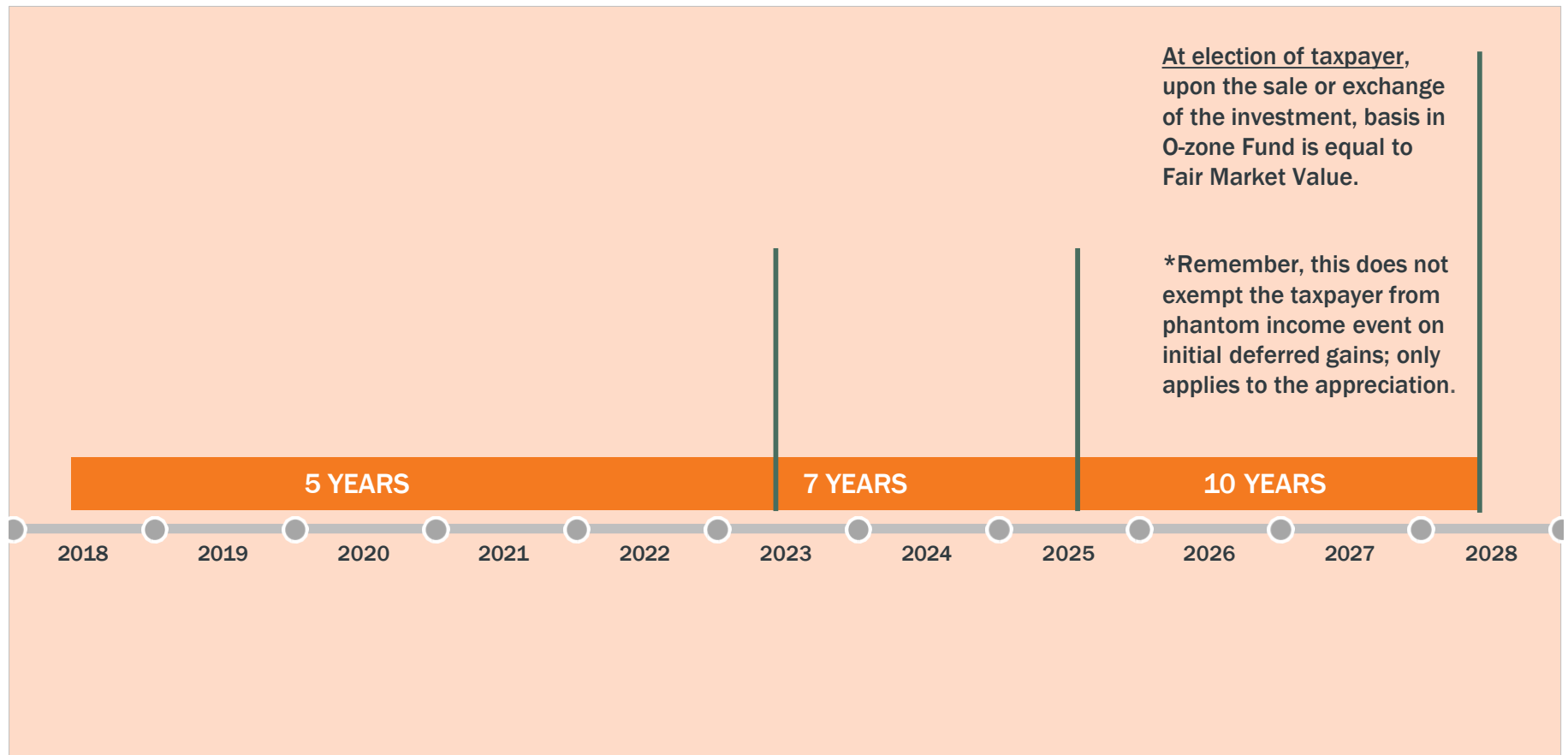
# Opportunity Zones

## Benefit #2: Partial Forgiveness



# Opportunity Zones

## Benefit #3: Forgiveness of Appreciation of Investment



# Opportunity Zones

## Opportunity Funds Must Invest in Qualified Opportunity Zone Property:

- Qualified Opportunity Zone Stock
- Qualified Opportunity Zone Partnership Interest
- Qualified Opportunity Zone Business Property

***Note: Funds must maintain 90 percent of their assets in Qualified Opportunity Zone Property to continue to qualify as a Qualified Opportunity Fund.***



# Opportunity Zones

## Qualified Opportunity Zone Stock or Partnership Interest

- Qualified Opportunity Zone Stock must be stock in a domestic corporation.
- Qualified Opportunity Zone Partnership Interest must be a capital or profits interest in a domestic partnership.
- Qualified Opportunity Zone Stock or Partnership Interest must be acquired **from the corporation or partnership** by the Opportunity Fund after December 31, 2017 solely in exchange for **cash**.
- Must be stock or a partnership interest in a Qualified Opportunity Zone Business **or** a business that is being organized for the purpose of being a Qualified Opportunity Zone Business.
- During **substantially all** of the holding period of the Qualified Opportunity Stock or Stock or Partnership Interest, the corporation or partnership must continue to qualify as a Qualified Opportunity Zone Business.

# Opportunity Zones

## 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.

# Opportunity Zones

## 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.

# Opportunity Zones

## 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. In other words, doubling the acquisition price.



# Opportunity Zones

## Preliminary Steps in Formation of Opportunity Zone Fund

1. Formation of Opportunity Zone Fund (OZF) as a corporation or a partnership for purposes of investing in Qualified Opportunity Zone Property ("QOZF") :
2. Formation of the operating entity limited liability company.
3. Terms of the Investment Management Agreement.
4. Self-certification of OZF based upon IRS Frequently Asked Questions. To self-certify, a taxpayer completes a form (to be released by end of 2018), which is attached to taxpayer's federal income tax return.
5. Preparation of OZF Business Plan (reviewed by counsel), including land and building acquisition, timing.

# Opportunity Zones

## The Unknowns

1. OZF application
2. Various compliance deadlines in first year
3. General mechanics if an OZF sells a property interest
4. Tax Basis and the ability to claim depreciation
5. Gains after 10 years tied to land appreciation
6. Depreciation recapture after 10 years
7. How long a OZF can hold cash from disposition of asset before reinvesting