

Opportunity Zones 101

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Medina County Economic Development Corp.
Wayne County Economic Development Council



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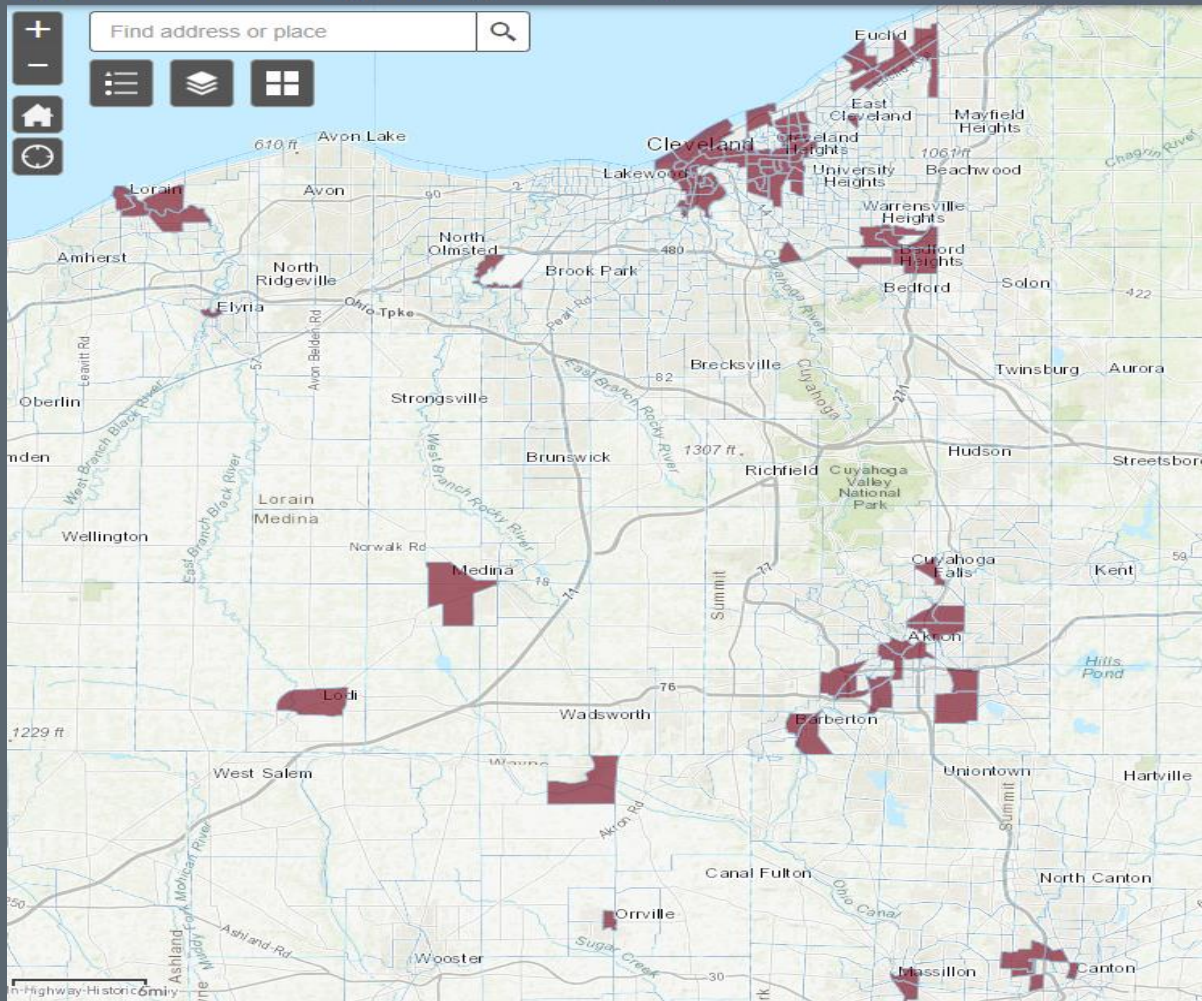


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Ohio Qualified Opportunity Zone Designations

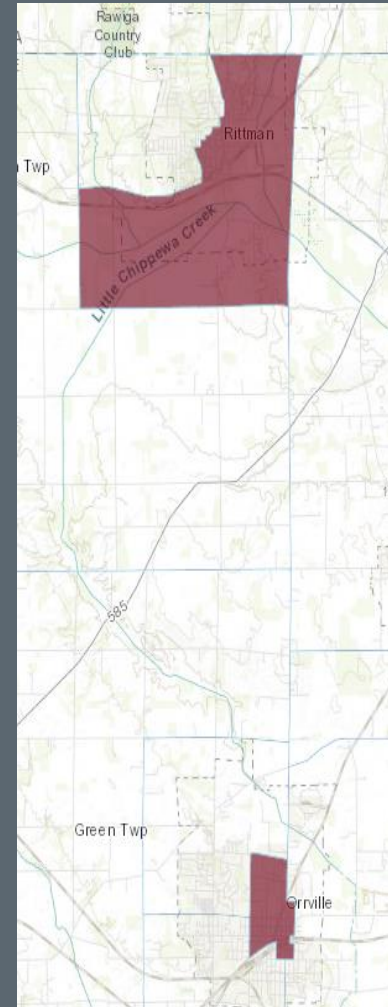
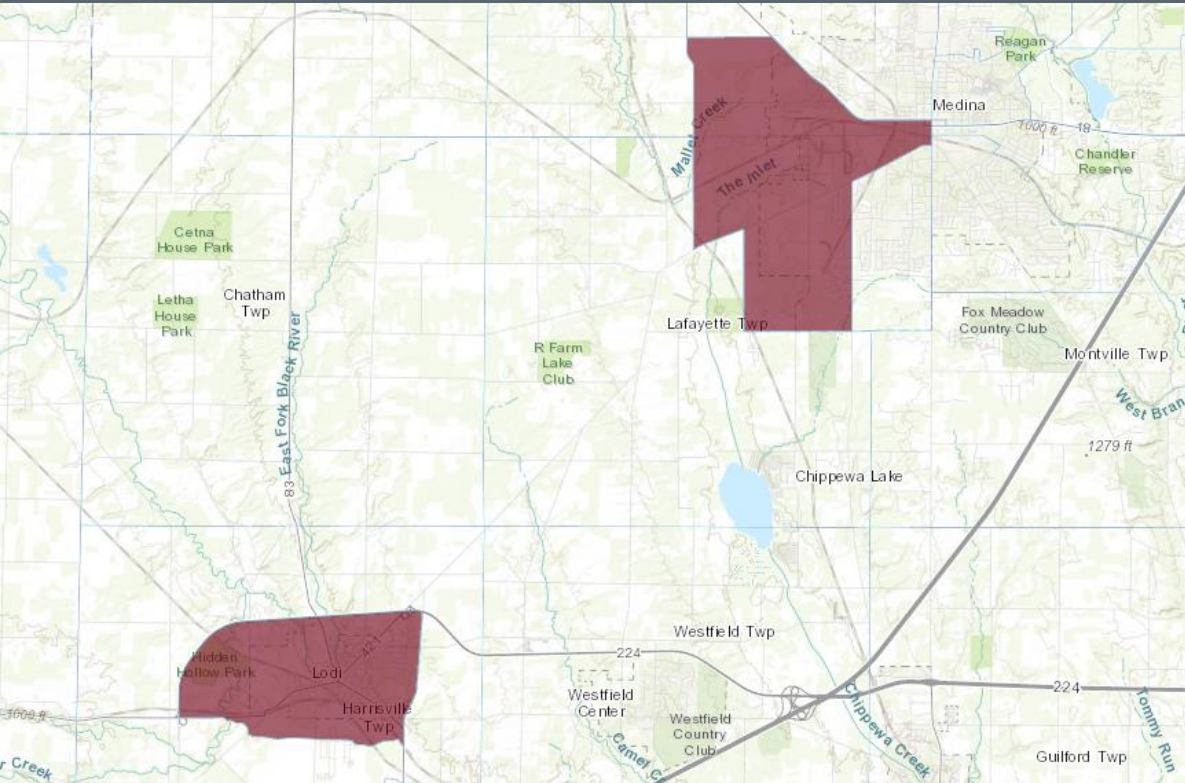
with Web AppBuilder for ArcGIS



Ohio Development Service Agency Mapping Tool

https://development.ohio.gov/bs/bs_censustracts.htm

Where are Opportunity Zones in Medina & Wayne Counties?





How does it work?



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Three Primary Benefits

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



Temporary Deferral

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



Step-Up In Basis

A **tax liability 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

A **tax 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.

Benefit #1: Capital Gain Deferral

- Within 180 days of sale of previous investment
- Ends at the earlier of December 31, 2026 or disposition of investment



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Benefit #2: Reduction of Deferred Gains

- If held for 5 years: basis increased by 10% of deferred gain (90% taxed)
- If held 7 years: basis increased by another 5% of deferred gain (85% taxed)



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Benefit #3: Permanent Exclusion of Appreciation

- Forgiveness of gains on appreciation of QOF investment held for at least ten years
- Requires election by taxpayer



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Qualified Opportunity Fund

- Investment vehicle organized as a corporation or partnership for purpose of investing in qualified opportunity zone property
- Must hold at least 90% of assets in QOZP
- QOF's organizing documents must state its purpose is to invest in QOZP (by end of year)



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90% test

- Average % of assets held on last day of first six month period of QOF's taxable year and last day of QOF's taxable year
- Penalty for each month test is failed



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Certification as QOF

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

11 Add lines 7 and 10	11
12 Divide line 11 by 2.0. See instructions if Part I, line 3 is "Yes"	12
13 Is line 12 equal to or more than .90? <input type="checkbox"/> Yes. Enter -0- on this line and file this form with your tax return. <input type="checkbox"/> No. The fund has failed to maintain the investment standard. Complete Part IV to figure the penalty. Enter the penalty from line 8 of Part IV on this line, and file this form with your tax return	13

Cat. No. 378203 Form **8996** (12-2018)

Form **8996** (12-2018) Page **2**

Part IV Line 13 Penalty
If you checked "No" in Part III, line 13 complete Part IV to figure the penalty. Enter the number from line 8 below on Part III, line 13. See instructions if Part I, line 3 is "Yes."

	(a) Month 1	(b) Month 2	(c) Month 3	(d) Month 4	(e) Month 5		
1 Total assets on the last day of the month							
2 Multiply line 1 by .90							
3 Total Qualified Opportunity Zone Property on the last day of the month							
4 Subtract line 3 from line 2. If less than zero, enter -0-							
5 Underpayment rate							
6 Multiply line 4 by line 5							
7 Divide line 6 by 12.0. Round up to two decimal places. See instructions if Part I, line 3 is "Yes"							
	(f) Month 6	(g) Month 7	(h) Month 8	(i) Month 9	(j) Month 10	(k) Month 11	(l) Month 12
1							
2							
3							
4							
5							
6							
7							
8 Penalty. Add columns (a) through (l) of line 7. Enter the total here and on Part III, line 13							\$

Form **8996** (12-2018)



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Qualified Opportunity Zone Business Property

- QOZBP can be either:
 - Tangible property used in a trade or business; or
 - Equity interest in a partnership or corporation that is a QOZB



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What is a qualified opportunity zone business?

A trade or business that meets the following requirements:

- Substantially all tangible property owned or leased by the entity is qualified opportunity zone business property
- At least 50% of gross income derived from active conduct of a business in QOZ
- Substantial portion of all intangible property is used in the active conduct of a trade or business in QOZ
- <5% unadjusted basis of property is nonqualified financial property
- Can't be a "sin business"



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Qualified Opportunity Zone Business Property

- Tangible property qualifies if:
 - Acquired by purchase after December 31, 2017
 - Cannot be acquired from a related party
 - The QOF or QOZB is the **original user** of the property in the QOZ **or substantially improves** the property
 - Remains QOZBP for “substantially all” of the QOF’s holding period



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Working Capital Safe Harbor

- The proposed regulations provide a safe harbor under which working capital held in cash and relatively short term debt and debt can be considered a qualified asset for up to 31 months.
- QOZB level



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Comparing to 1031 Like-Kind Exchanges

OZ Fund Investments:

- Not limited to Like-Kind
- Only invest capital gains
- Post-acquisition appreciation nontaxable

1031 Like-Kind Exchanges:

- No geographical limitation
- Tax on retained cash proceeds
- Unlimited deferral
- Requires qualified intermediary



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Types of Investments

- Closely Held QOZ Funds
- Pooled QOZ Funds (Passive investments)
- Public-Private Projects
 - OZ benefits are meant to complement, not replace, other incentives and programs.
 - Help attract private investments to less desirable areas.



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National Opportunity Zone Funds

- 72 Publicly Announced Qualified Opportunity Zone Funds
- Over \$18B in anticipated investment
- Funds focus on:
 - Real estate
 - Economic dev
 - Revitalization
 - Mixed-use
 - Hospitality dev.
 - Workforce housing
 - Affordable housing
 - Small business*



Real Estate Investments

- Provide the most certainty until further regulations issued.
- Substantial Improvement – must double the initial adjusted basis of property within 30 months.
 - Development and New Construction
 - Build to Suit
 - Renovation or Revitalization of Existing Buildings



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Significant Opportunities

Vacant Land



Mixed-Use Development



Multi-Family Rehabilitation Project



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Investing in Operating Businesses

- Uncertainty remains – Expecting further guidance in 2nd round of Regs.
 - Sales to customers outside the OZ
 - Leased property
 - Use of intangible property



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Thank you!

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