



INTRODUCTION TO OPPORTUNITY ZONES

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MILLER
COOPER
& Co., Ltd

ACCOUNTANTS AND CONSULTANTS

AGENDA

- Opportunity Zone Background and Overview
- Opportunity Zone Benefits
- Opportunity Zone Fund Requirements
- Examples
- Outstanding Questions
- Q&A



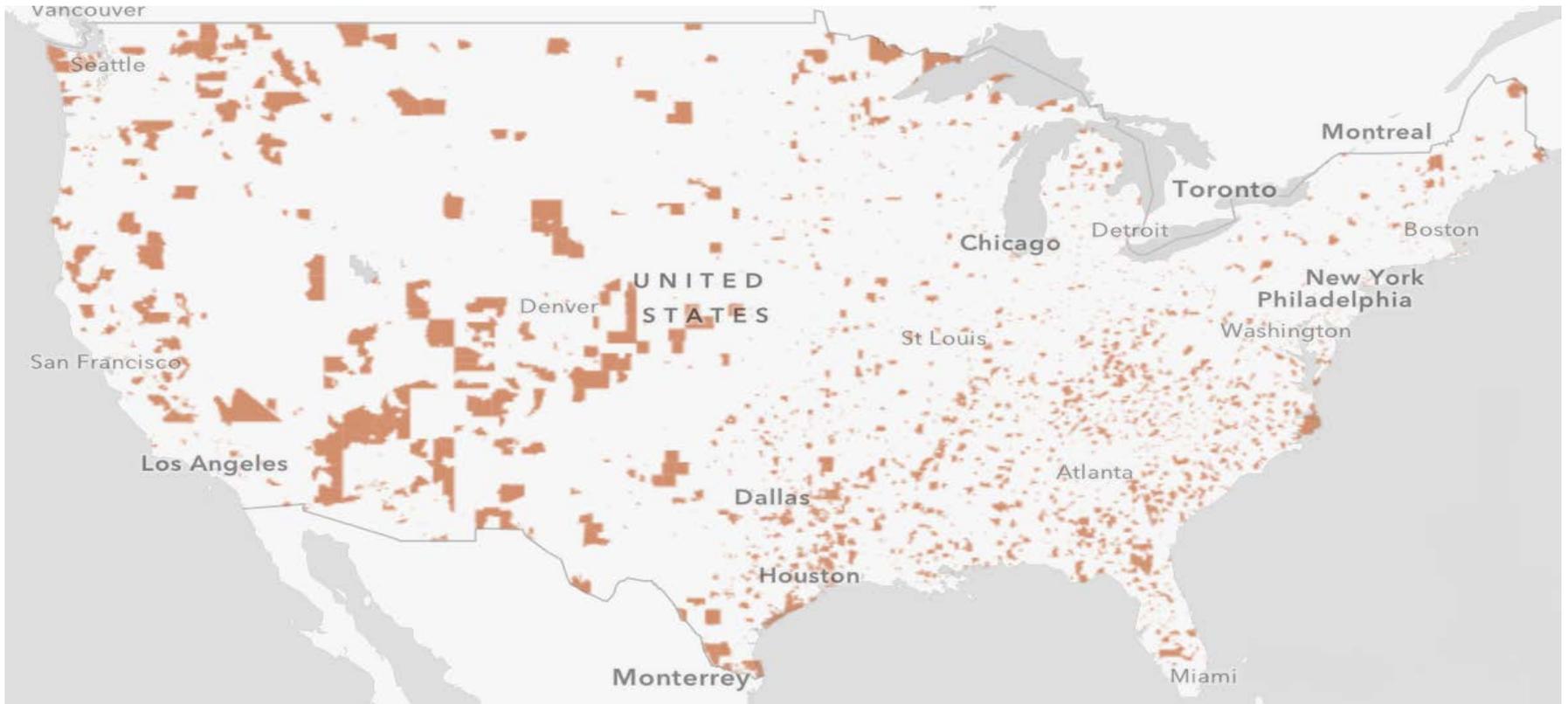
OPPORTUNITY ZONE BACKGROUND AND OVERVIEW

OPPORTUNITY ZONE PROGRAM

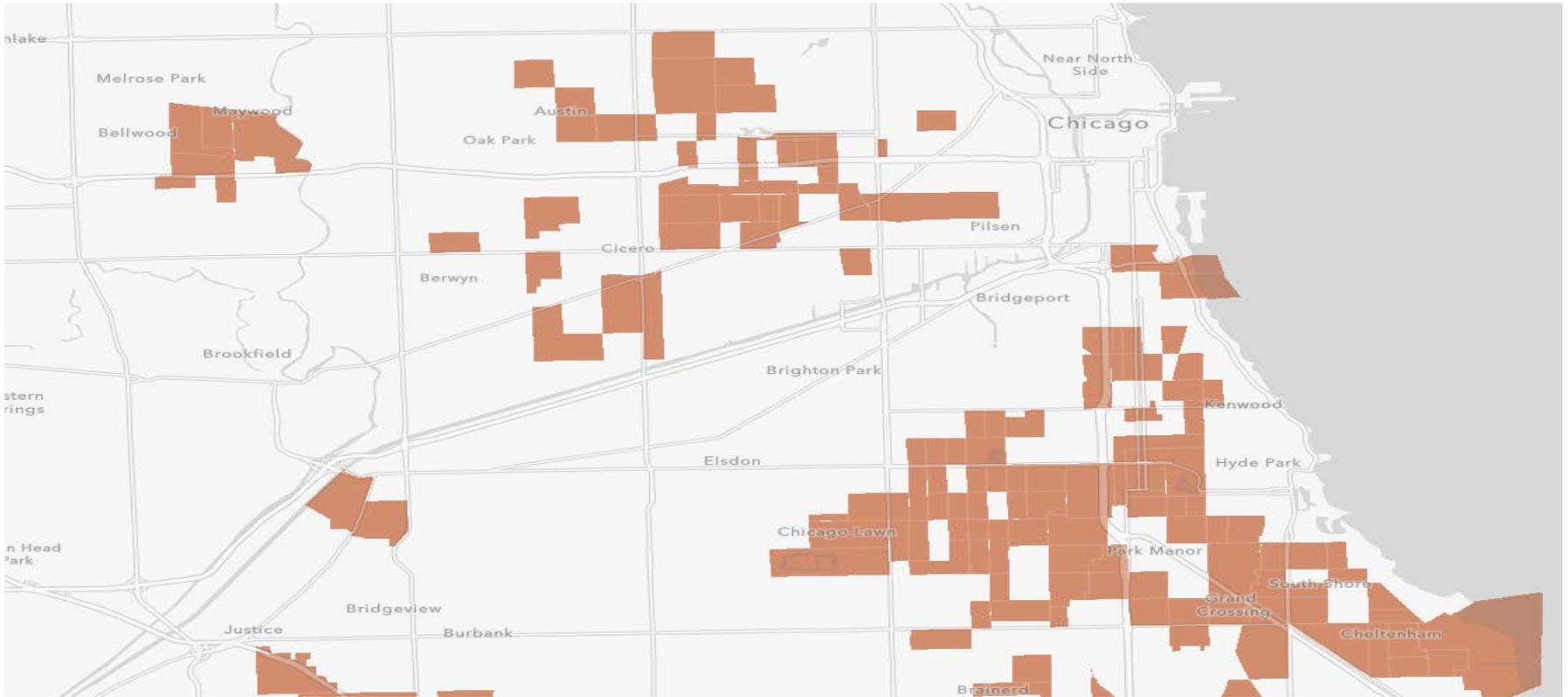
- New community development program established by Congress in the Tax Cuts and Jobs Acts of 2017 (TCJA)
- Intended to spur unrealized capital gains into long-term investments in low-income urban and rural communities nationwide
- Provides tax incentives for investors to re-invest their unrealized capital gains in distressed communities
- All 50 states and territories have designated opportunity zones
- Encouraged to be used with other Tax Credits and Incentives

WHAT IS AN OPPORTUNITY ZONE?

- A population census tract within a state that has a poverty rate of at least 20% and a median family income lower than 80% of the area average
- States were able to nominate up to 25% of their low-income census tracts as opportunity zones
- Illinois has 327 qualifying census tracts in the Opportunity Zone Program (See Maps)

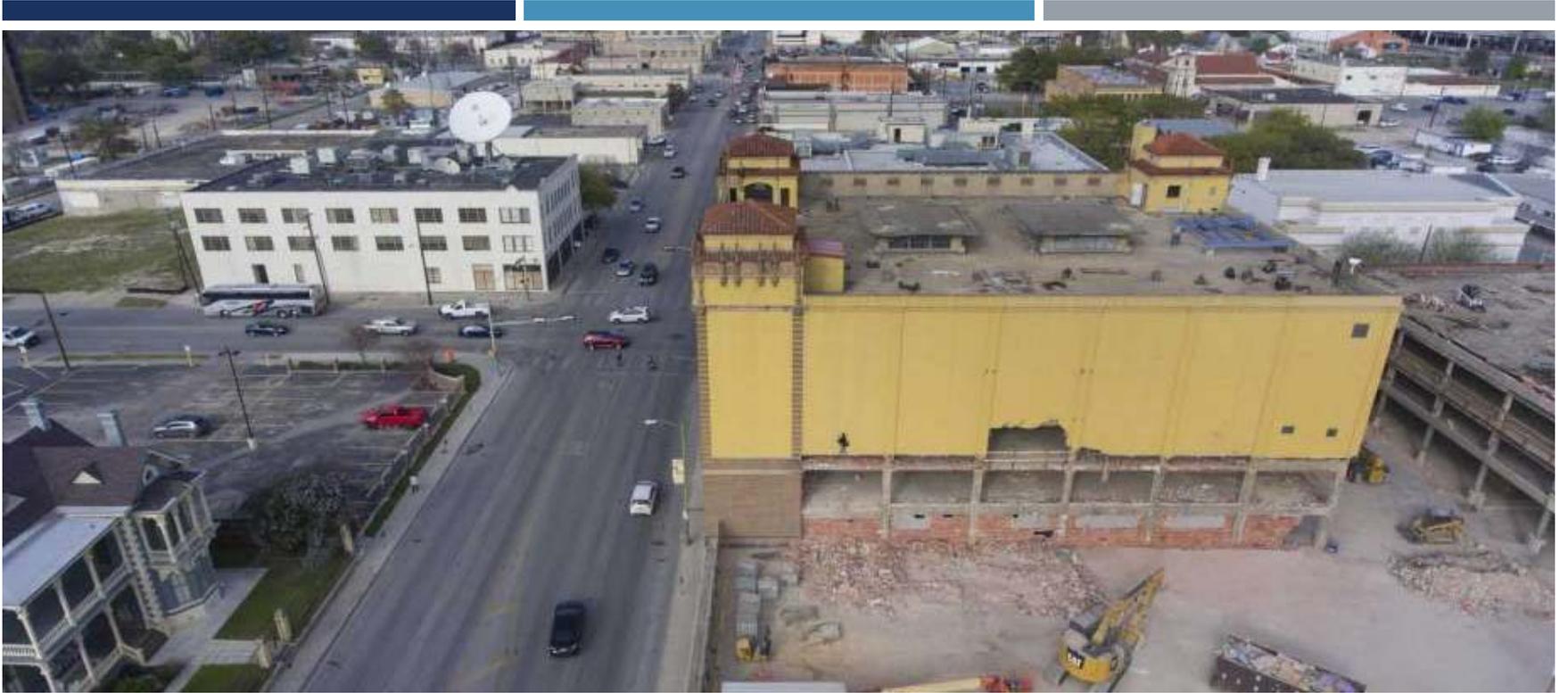


SOURCE: ECONOMIC INNOVATION GROUP



CHICAGO OPPORTUNITY ZONE MAP

SOURCE: ECONOMIC INNOVATION GROUP

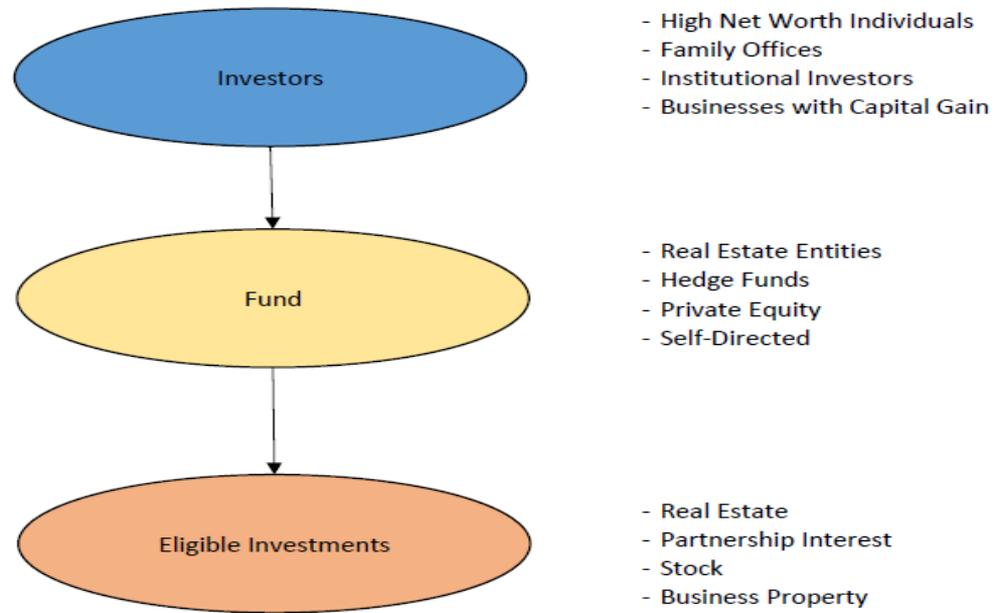


OPPORTUNITY ZONE BENEFITS

TYPES OF BENEFITS

1. Temporary Deferral
2. Partial Forgiveness
3. Tax-Free Appreciation

PARTIES



TEMPORARY DEFERRAL

- Upon investing in a Qualified Opportunity Fund (QOF), the investor receives a temporary deferral of any reinvested gains that it realized from recent sales. Such deferral will extend until the earlier of
 - the investor's disposition of its interest in the QOF, or
 - December 31, 2026. Like Section 1031 exchanges, QOF investments provide a deferral benefit, but one important difference is that only the gains an investor seeks to defer need to be reinvested in the QOF, whereas in Section 1031 exchanges the entire value of the "relinquished property" must be reinvested in like-kind property. On the other hand, the deferral benefit of a Section 1031 exchange is indefinite, whereas any gain deferred under the Opportunity Zone Program must be recognized no later than December 31, 2026.

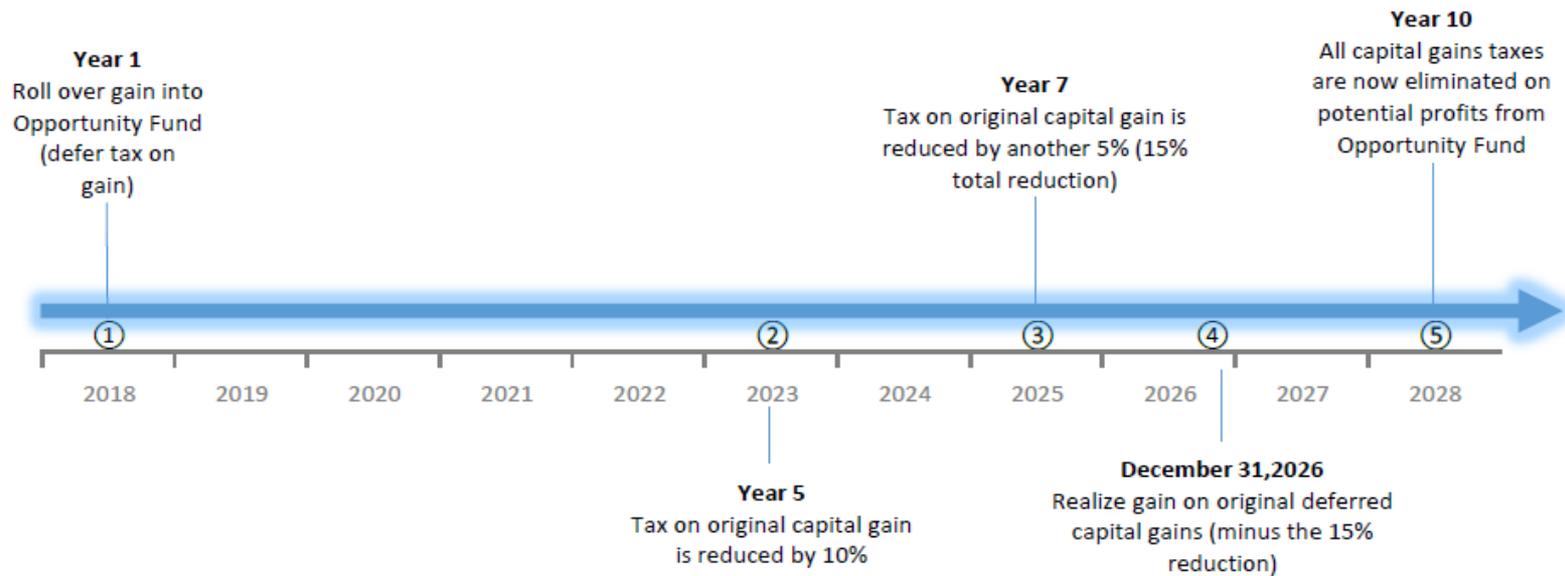
PARTIAL FORGIVENESS

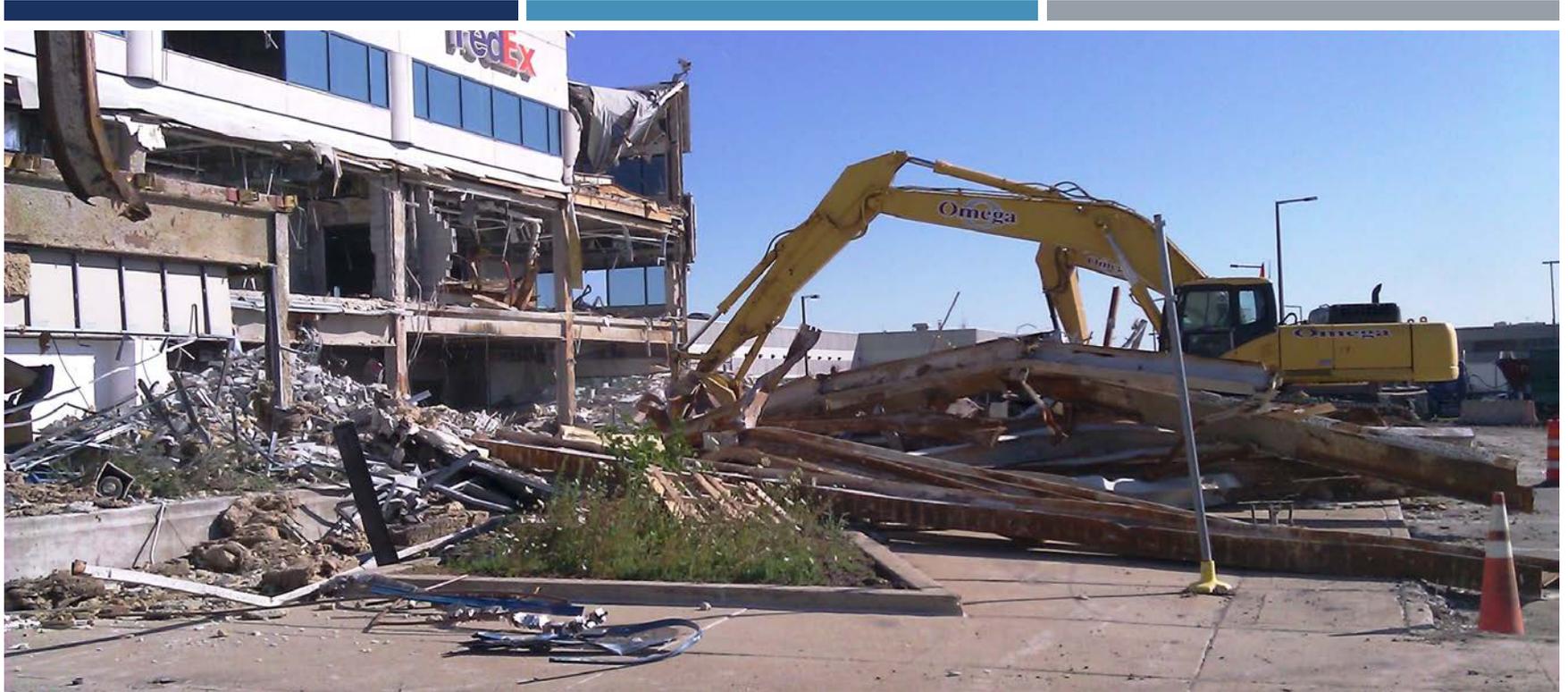
- Up to 15 percent of the gains realized from recent sales reinvested in a QOF can be eliminated, depending on the investor's holding period with respect to its interest in the QOF. The initial tax basis of an interest in the QOF acquired with reinvested gains from recent sales or exchanges is \$0.
 - If an investor holds its QOF interest for at least five years, the tax basis of the QOF interest is increased on the fifth anniversary of the investment by 10% of the amount of gain initially reinvested in such QOF interest.
 - If an investor holds its QOF interest for at least seven years, the tax basis of the QOF interest is increased on the seventh anniversary of the investment to a total of 15% of the amount of gain initially reinvested in such QOF interest.
 - For example, if the investor acquires its QOF interest on June 30, 2019, for \$10 million of reinvested gains from recent sales or exchanges and holds such interest into 2027, then on December 31, 2026, the investor will recognize gains previously deferred in an amount equal to the amount by which the lesser of \$10 million and the fair market value of the QOF interest exceeds \$1.5 million.

TAX-FREE APPRECIATION

- If an investor holds its interest in the QOF for 10 years or more, for purposes of determining the gain or loss the investor recognizes from the sale or exchange of such QOF interest, the investor may elect for the basis of such QOF interest to be equal to its fair market value on the date such QOF interest is sold or exchanged.
 - As a result, the investor will not recognize gain and will not owe tax on the sale or exchange of its QOF interest 10 years or more after it acquired the QOF interest.

OPPORTUNITY FUND TIMELINE





OPPORTUNITY ZONE FUND REQUIREMENTS

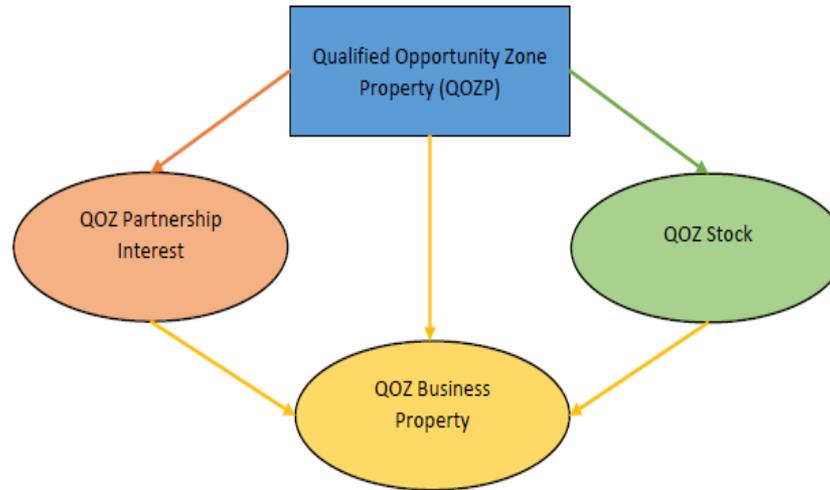
QUALIFIED OPPORTUNITY FUND

- Organized as a corporation or partnership (includes LLCs)
- Self Certification - Form 8996
- 180 day requirement
- 90% Asset Test
- Qualified Opportunity Zone Property (QOZB)
 - Stock
 - Partnership Interest
 - Business Property
- Excluded businesses
- Substantial improvement

QUALIFIED OPPORTUNITY ZONE PROPERTY

Qualified Opportunity Zone Partnership Interest

Capital or profits interest in a partnership organized as a Qualified Opportunity Zone Business



Qualified Opportunity Zone Stock

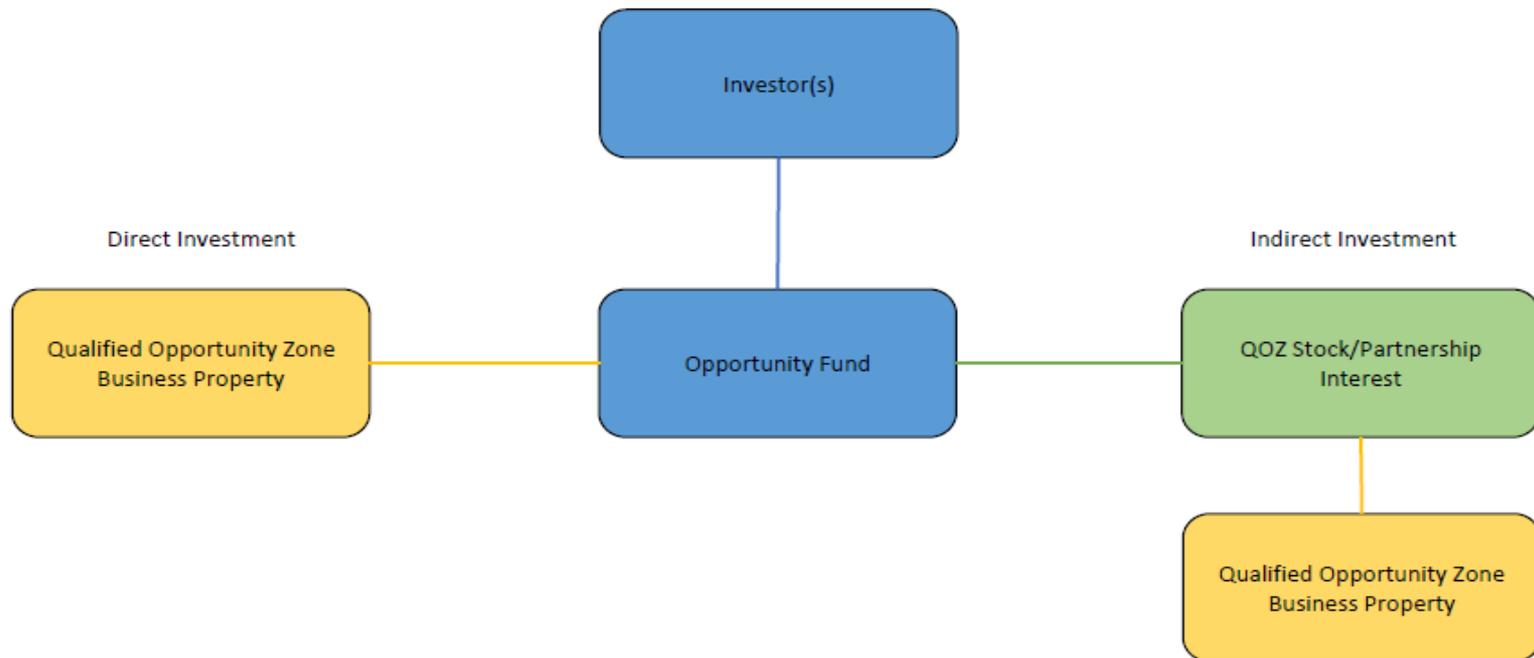
Stock of a corporation organized as a Qualified Opportunity Zone Business

Qualified Opportunity Zone Business Property (QOZBP)

Tangible property used in a Qualified Opportunity Zone

- Real property – New or “Substantially Improved”
- Acquired by purchase from unrelated party (20% standard)
- Original use in QOZ commences with taxpayer (or substantially improves)

STRUCTURE



180 DAY REQUIREMENT

- 180 days from when capital gain is realized to move the gain to the fund
- Special rule: partnership versus partner

90% ASSET TEST

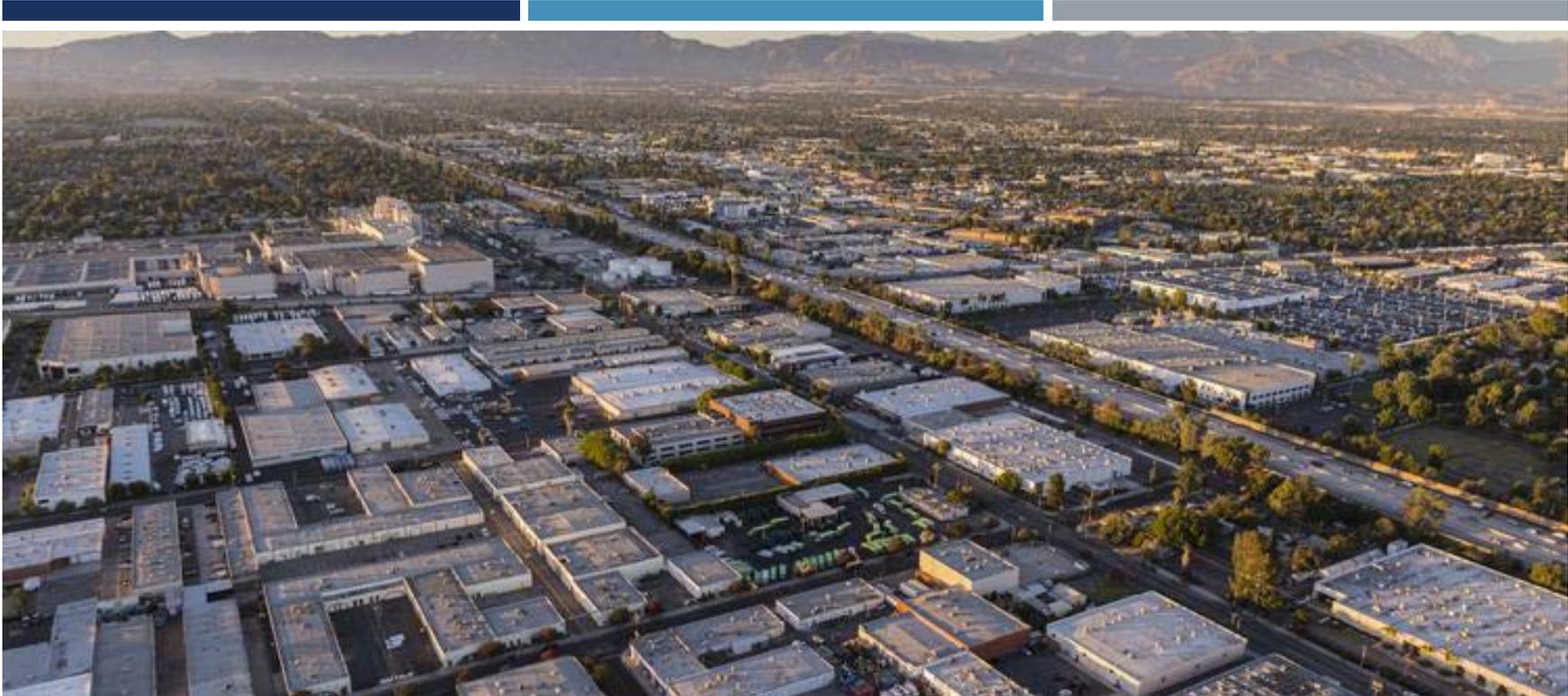
- At least 90% of the Fund's assets must be Qualified Opportunity Zone Property, measured:
 - On the last day of the first 6-month period of the taxable year of the fund, and
 - On the last day of the taxable year of the fund
 - Direct: 90% of assets must be Qualified Opportunity Zone Business Property
 - Indirect: 90% of assets must be Qualified Opportunity Zone Partnership Interest or Stock

EXCLUDED BUSINESSES

- “Sin” Businesses
 - Golf Course
 - County Club
 - Massage Parlor
 - Hot Tub Facility
 - Suntan Facility
 - Racetrack or Casino
 - Liquor Store

REAL ESTATE – SUBSTANTIALLY IMPROVED

- Substantially improved is defined as doubling the basis of the OZ Fund Property
 - Investing an amount at least equal to the starting basis of property
- Land is excluded from basis determination
- Substantial improvement must be complete within 30 months of the date of acquisition as long as:
 - There is a written plan that identifies the financial property as property held for the acquisition, construction, or substantial improvement of tangible property in the OZ
 - There is a written schedule consistent with the ordinary business operations of the business that the property will be used within 30 months
 - The business substantially complies with the schedule



EXAMPLES

BENEFIT ANALYSIS

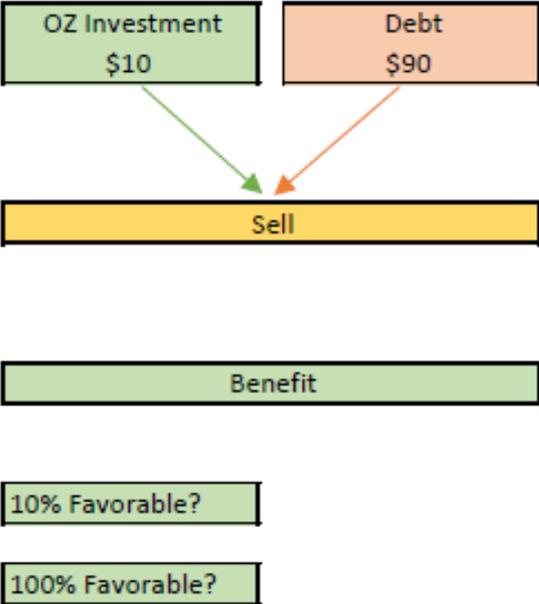
- Taxpayer sells stock in 2019 and realizes a \$100,000 capital gain.
- Taxpayer decides to reinvest the \$100,000 of capital gain into an opportunity zone.
- Purchases a property for \$20,000 (\$5,000 land/\$15,000 building) and builds a hotel for \$80,000.
- In year 2024 the amount of the capital gain is reduced by 10% to \$90,000
- In year 2026 the amount of the capital gain is reduced by an additional 5% to \$85,000. The taxes on the \$85,000 gain must be paid in 2026.
- In year 2030 the taxpayer decides to sell the property. The property has appreciated to a value of \$300,000.
- The property is sold for \$300,000 in 2030 and the taxpayer is not liable for any capital gain taxes on the appreciation of \$200,000. (The capital gain taxes on the original investment was already paid)

BENEFIT ANALYSIS

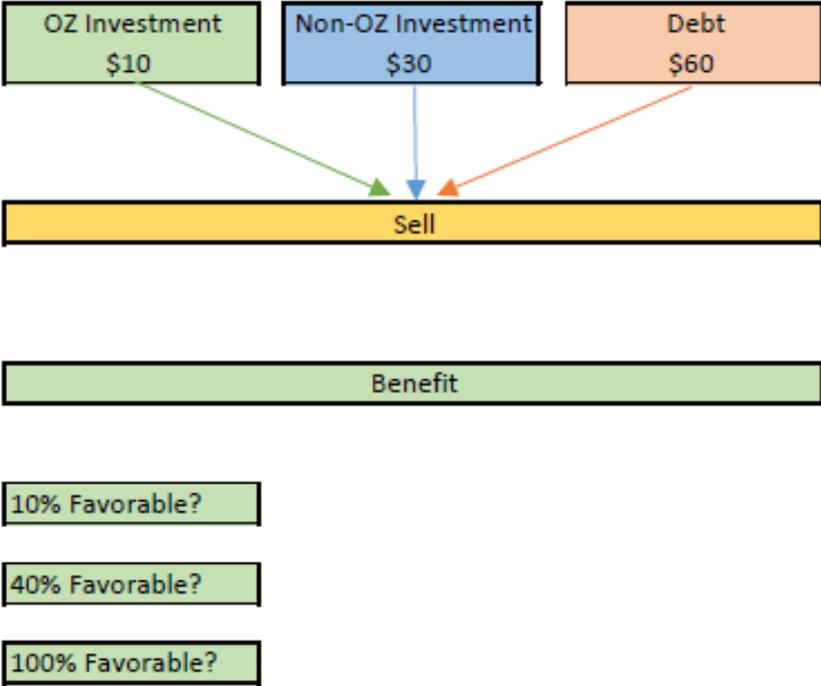
Timeline	Opportunity Zone	Traditional
2019	\$ 100,000 Realize Capital Gain	\$ 100,000 Realize Capital Gain
I	\$ - Defer Capital Gain Tax of 20%	\$ (20,000) Pay Capital Gain Tax of 20%
2019	\$ 100,000	\$ 80,000 Amount to Reinvest
2019	\$ (20,000) Purchase Property	\$ (20,000) Purchase Property
I	\$ 80,000 Sub-Total	\$ 60,000 Sub-Total
I	\$ 80,000 Construction Budget for Hotel	\$ 80,000 Construction Budget for Hotel
I	N/A	\$ 20,000 Invest an Additional \$X "Out of Pocket"
2020	\$ - Sub-Total	\$ - Sub-Total
2020-2024	Operations	Operations
2024	\$ 90,000 Reduce the amount of capital gain by 10%	N/A
2025-2026	Operations	Operations
2026	\$ 85,000 Reduce the amount of capital gain by an additional 5%	N/A
2026	\$ (17,000) Pay Capital Gain Tax of 20% "Out of Pocket"	
2027-2030	Operations	Operations
2030	\$ 300,000 Sell Property	\$ 300,000 Sell Property
I	\$ 100,000 Amount Invested in Property	\$ 100,000 Amount Invested in Property
I	\$ 200,000 Capital Gain	\$ 200,000 Capital Gain
2030	\$ - Pay Capital Gain Tax (Tax Free Appreciation)	\$ (40,000) Pay Capital Gain Tax of 20%
	\$ 17,000 Total Capital Gains Tax Paid	\$ 60,000 Total Capital Gains Tax Paid

BENEFIT ANALYSIS

Scenario A



Scenario B



COMMERCIAL REAL ESTATE DEVELOPMENT

- Multi-Family Development
 - Already Own Land in OZ
 - Existing Vacant Building
-
- 30 Month Test
 - Original Use?
 - Non OZ Equity?
 - Sell or Lease Land?
 - Related Party?

NEW BUSINESS

- Property Management Company
 - Company leases office space in building in QOZ
 - Some employees work on premises in the qualified opportunity zone, some employees work offsite at property locations not in QOZs
-
- 50% Gross Income?
 - Leased Space?
 - Equipment?

EXPANDING CURRENT BUSINESS

- Existing manufacturer of widgets
- Current warehouse not located in opportunity zone
- Would like to open a new warehouse in opportunity zone

- Substantial Rehab Test?
- Affiliate Entity?
- Original Use?



OUTSTANDING QUESTIONS

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- Can an investor invest in a qualified opportunity fund for 5 years and then, within 180 days, invest in another opportunity fund while maintaining the full benefits and starting dates?
- Will the 5 and 7 year benefits be extended to match the 12/31/47 extension date?
- How will this program work with other Tax Credits and Incentives?
- What specific capital gains are eligible for this program? What about Section 1250 depreciation recapture?
- After ten years, how does the sale work? Does the investor have to sell their entire interest? Must the fund sell all or part of their interest?
- What states will conform to the federal law? (IL appears to conform)

OUTSTANDING QUESTIONS

- How will losses (depreciation, interest, etc.) in the QOZ property be able to be used?
- How will carried interest of the fund/sponsor be treated?
- How will partnership flip structures work?
- What about related party debt?
- Is a triple net lease an operating business?
- After year 10, the appreciation would be tax free – what about the 1250 depreciation claimed?

QUESTIONS?

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