Opportunity Zones 101
The Context

52.3M
AMERICANS

live in economically distressed communities. Between 2000 and 2015, more than half of these communities experienced a decline in both jobs and businesses.

FROM 2010 TO 2016

three-quarters of net job growth occurred in a narrow selection of metropolitan areas, resulting in inequalities across the country.

67% OF JOB GROWTH

comes from small businesses, for whom the most important variable for success is access to capital.

Source: Milken Institute Analysis
What is an Opportunity Zone?

➢ Enacted by the 2017 Tax Cuts and Jobs Act, a census tract designated by each state or territory and certified by Treasury as eligible to receive private investments via Qualified Opportunity Funds.

➢ Meets definition of a “low-income community” (LIC), or …

➢ Contiguous to a LIC and with a median family income that doesn’t exceed 125% of the LIC.

➢ 10-year designation as an Opportunity Zone.

➢ More than 8,700 Opportunity Zones have been designated in the 50 U.S. states, the District of Columbia and five U.S. territories.

Source: Milken Institute Analysis, 2017 Tax Cuts and Jobs Act: Subchapter Z
Nationally, where are the Opportunity Zones?

Source: Economic Innovation Group
Where are the DC Opportunity Zones?

Source: Office of the Deputy Mayor for Planning and Economic Development
What is a Qualified Opportunity Fund?

➢ An investment vehicle set up as a partnership or corporation for the purpose of investing in eligible property that is located in Opportunity Zones.

➢ Qualified Opportunity Funds are capitalized by realized capital gains, within 180 days of being realized. If funds own assets directly 90% must be in the zones; if indirectly via business investment, 70% must be in the zones. Tested every 6 months.

➢ Broad definition of eligible investments, including real estate and operating companies. Investments in existing real estate and business projects are subject to improvement tests (100% of basis); new business formations are not.

➢ Qualified Opportunity Funds must self-certify they meet all requirements. IRS draft forms and first round of regulations released 4Q18. Additional revenue guidance forthcoming.

Source: Milken Institute Analysis, 2017 Tax Cuts and Jobs Act: Subchapter Z
How Do the Tax Benefits Work?

- Opportunity Funds may provide potential Federal tax incentives to investors (1,2,3).
- **Benefit 1:** A temporary capital gains tax deferral for all newly realized capital gains reinvested in an Opportunity Fund, lasting until the investment is sold or December 31, 2026, whichever is sooner.
- **Benefit 2:** A 10 percent basis adjustment on the original capital gains, which can result in tax reductions if the Opportunity Fund investment is held for 5+ years; plus an additional 5 percent adjustment if the investment is held for 7+ years.
- **Benefit 3:** If an investor holds the Opportunity Fund investment for 10+ years, the investor also may permanently avoid capital gains taxes on any proceeds from the Opportunity Fund investment itself.

1. Milken Institute does not provide investment advice and any information contained in this document is for informational purposes only and does not constitute financial, accounting, or legal advice.
2. IRS Revenue Guidelines are required for clarification and have yet to be released.
3. For a more detailed explanation of Opportunity Zones and Qualified Opportunity Funds, please visit: irs.gov and cdfifund.gov.
4. Kosmont Companies graphic.
Some Considerations for OZ Businesses

➢ **Revenue**: 50% of a company’s total gross income must be derived from active conduct in the Zones.

➢ **Tangible Assets**: qualified opportunity funds must maintain 90% of their assets in the zone. If owning assets directly, 90% must be in the zones; if owning indirectly via business investment, 70% must be in the zones.

➢ **Business Property**:
   - Tangible property of the QOF acquired by the QOF after 2017 from unrelated party (<20% ownership).
   - “Original use” or “substantially improved”

➢ **Operating Losses**: a Working Capital Safe Harbor exists for business expenses related to the acquisition, construction, and/or substantial improvement of tangible property, but this may not provide comfort for start-ups or businesses that aren’t “asset heavy.”