

From Potential to Action - Putting Opportunity Zone Incentives to Work



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OZ 'at a glance'

- Policy
- Definitions
- Mechanics
- Zone Locations

OZ ... Moving forward

- Staying in the Fairway
- O-Fund Funnel
- Comparison to 1031 Exchange

What should we be doing now?

- The clock is ticking...

OZ 'at a glance'

- The Opportunity Zone (“OZ”) incentive was enacted as part of the tax reform bill in December 2017
- Goal is to spur long-term investment, economic growth and job creation in low income communities.
- Incentivizes investment in areas that might otherwise be overlooked.
- Applies to investments in active trades, businesses and real estate.

Significant tax benefits for investors with capital gains:

- Defer tax until 2026 on capital gains invested in Opportunity Funds
- 10% increase in basis if investment held 5 years
- Additional 5% increase in basis if investment held 7 years
- Gains on investments held at least 10 years completely free from federal income tax.

The Opportunity Zone program offers three tax incentives for investing in low-income communities through a qualified Opportunity Fund



Temporary Deferral

A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of, or December 31, 2026.



Step-Up In Basis

A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

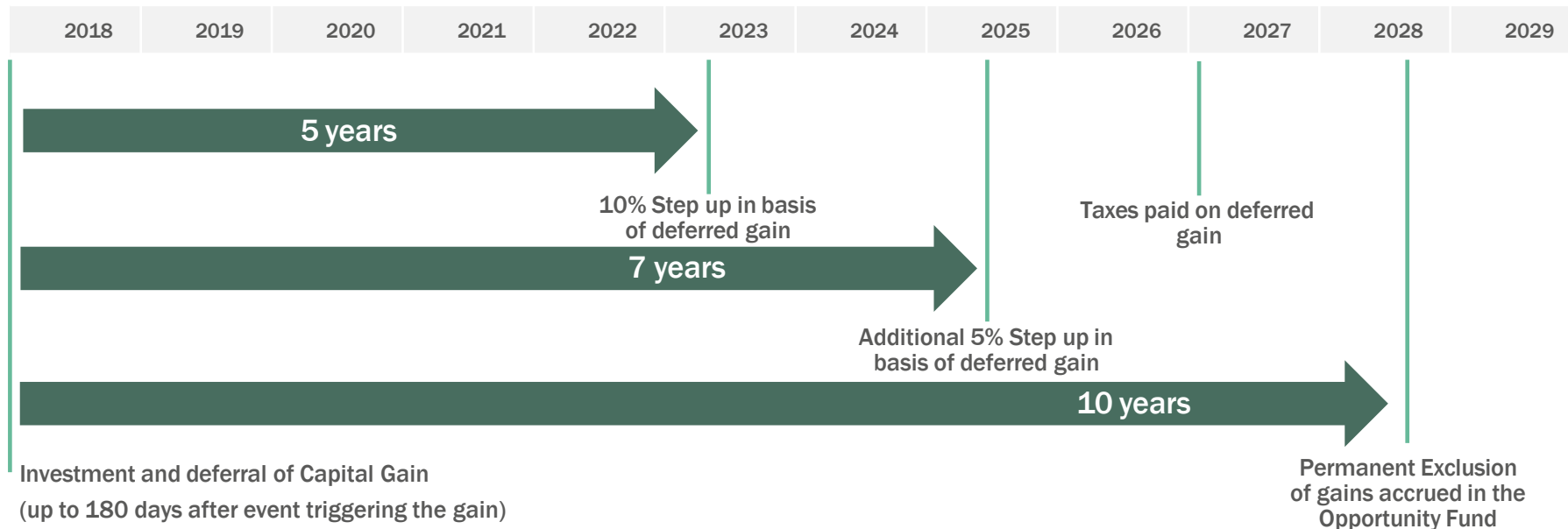


Permanent Exclusion

A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

TAX INCENTIVES TIMELINE

Maximum benefit is achieved by holding the QOZ investment for 10 years



OZ INCENTIVE STRENGTHS

Local

Designations were made by States and localities, rather than Federal agencies, ensuring more local buy-in and support.

Flexible

This investment can come from multiple capital gains sources, and can support investments into multiple asset/business classes.

New Investor Class

The incentive has the ability to attract a new source of capital from investors that would not previously have engaged in these areas.

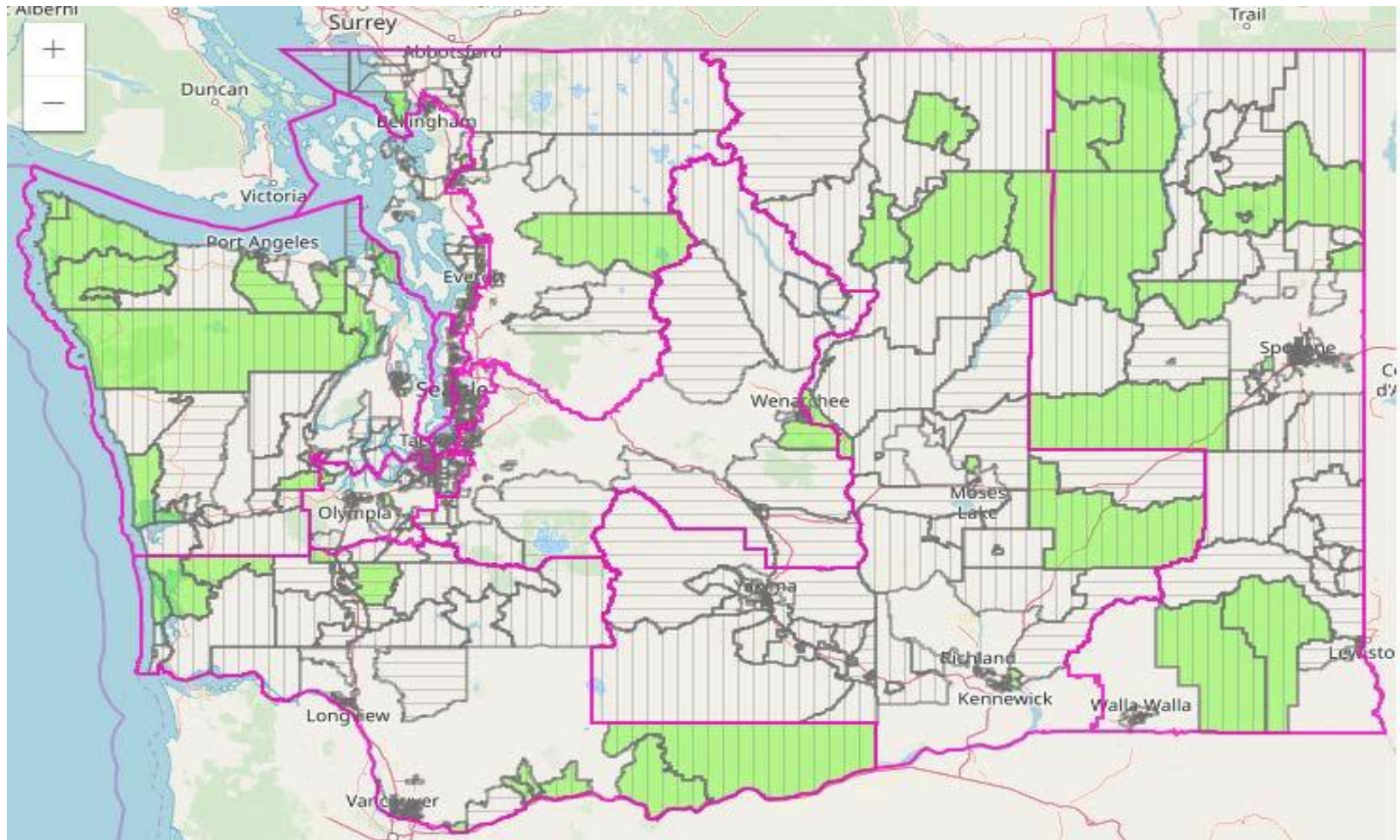
Potential

The incentive is projected to attract \$\$ billions in private-sector investment capital, producing both economic and community benefit.

OZ 'at a glance' // Zone Locations



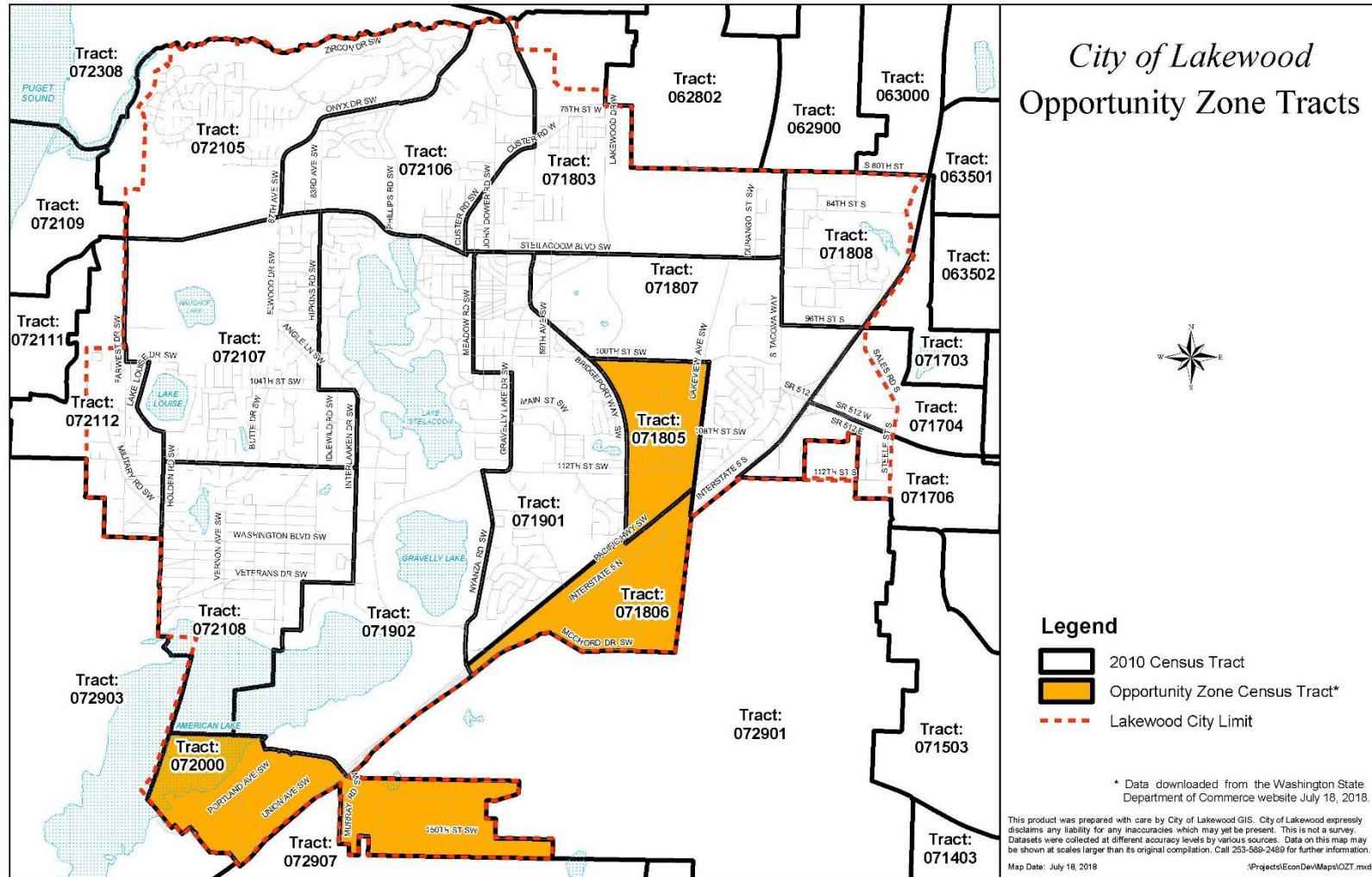
Washington State – 139 Opportunity Zones
Pierce County – 10 Opportunity Zones



OZ 'at a glance'



Lakewood – 3 Opportunity Zones



OTHER TERMS AND CONDITIONS

- Must invest in QOF within 180 days of transaction (Day 1 is date of transaction).
- Stock/partnership interest and tangible property must be acquired post 12/31/2017
- Related party rules apply (20% threshold)
- Can invest until 2026 (but may not qualify for all the benefits by waiting) and may hold until 2047
- Failure to meet 90% test may result in penalties

QUALIFYING ACTIVITIES AND BUSINESSES

- Must be active, not passive
- Manufacturing
- Distribution/warehouse
- Retail & hospitality
- Medical clinics, day care facilities
- Energy, Farming, Research
- Transportation, infrastructure
- Start-ups, incubators
- Real estate (residential, commercial)



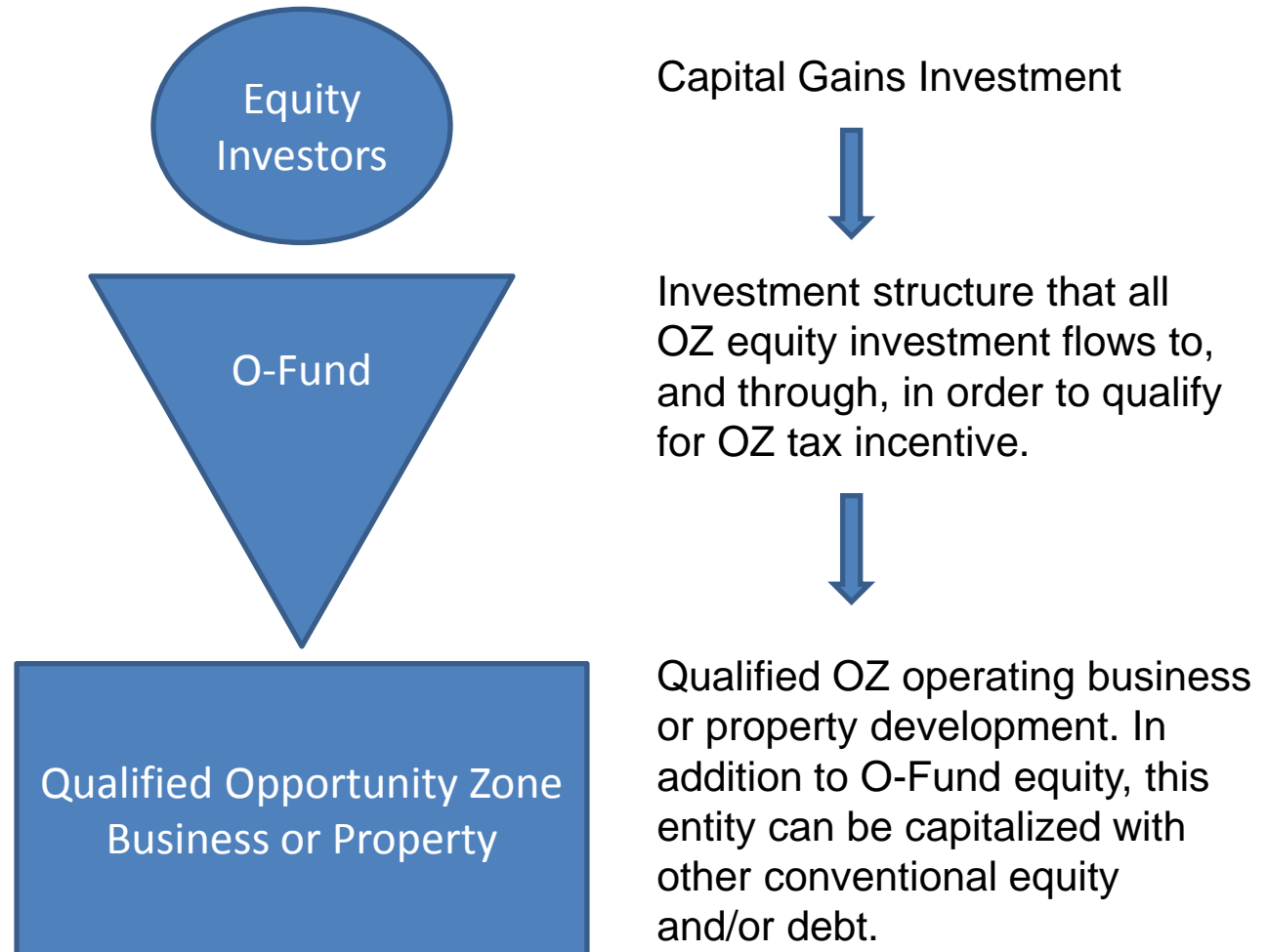
Qualified Opportunity Fund (QOF):

- Any investment vehicle organized as a corporation or partnership (which can include LLCs) for the purpose of investing in Qualified Opportunity Zone Property
- Funds can be a mix of capital gains and non-capital gains (but only capital gains share qualifies for special tax treatment)
- Funds self-certify annually to Treasury whether they meet requirements to comply with the OZ program (Form 8996)

Qualified Opportunity Zone Business (QOZB):

- Substantially all the tangible property owned or leased is OZ business property. 70% threshold applies
- 3 'safe harbors' for qualifying business:
 1. At least 50% of hours work are spent within the opportunity zone.
 2. Half of the company's services are within the area.
 3. The management and operations are based in the designated zones.
- Substantial amount of any intangible property is used in the active trade or business
- No "sin" businesses

The O-Fund Funnel



OZ ... Moving forward

OZ ... Moving forward



OZ ... Moving forward



Staying in the Fairway

- Uncertainty with all new government programs.
 - Easy to get stuck 'in the rough'
 - Many 'experts' warning of the complexity.
- Two sets of IRS regulations (October, 2018 and April 2019) have provided clarity.
 - All indications that Government is proactively clearing hurdles to encourage this investment.
- Lots of potential to be found in the 'middle of the fairway'
 - Not all OZ tracts are created equal.

OZ ... Moving forward



1031 Exchange used to be 'Complicated' too.

COMPARISON	1031 EXCHANGE	OPPORTUNITY ZONE
Use of Property	Must be like-kind	Does not need to be like-kind
Nature of Property	Must be real property	Can be real or personal property
Identification of Reinvestment	45 days	N/A
Closing on Reinvestment	180 days	180 days
Proceeds to Invest	Entire proceeds from sale	Only the gain on sale
Partnership Interests	Not allowed	Allowed
Subject Property	Primarily Real Estate	Real Estate or Operating Business

What should we be doing now?

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- Real Estate Developers: Understand the mechanics, the math, and the potential of new markets, new investment and new partners.
- Property Owners: Take a fresh look at potential new 'highest and best use'. The OZ incentives may have buyers looking where they would not have looked before.
- Entrepreneurs and VC: The 2nd set of IRS guidance materials provided significant upside for starting and/or growing business in an OZ.
- Communities and Economic Development: Share your plan to maximize OZ, and incentivize those who will make the investment. Facilitate creative public-private partnerships.
- Professional Services: Doing this well requires professional support. If you're an Attorney, CPA, Investment Advisor, Commercial Realtor, Lender, etc, there's a growing demand for your services.

What should we be doing now?



The clock is ticking.....

- June 28, 2019: Last day to invest 12/31/18 gains into an O-Fund. (180 day rule)
- December 31, 2019: Last day to invest gains for the full tax deferral benefit. (5, 7, 10 year benefits)

For OZ questions, information or support:

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