

# Opportunity Zones: The Real Deal(s)

for the NAAHL 2019 Annual Policy & Practice Conference

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PNC Bank

# Brief History

## 2016 Opportunity Zone Legislation

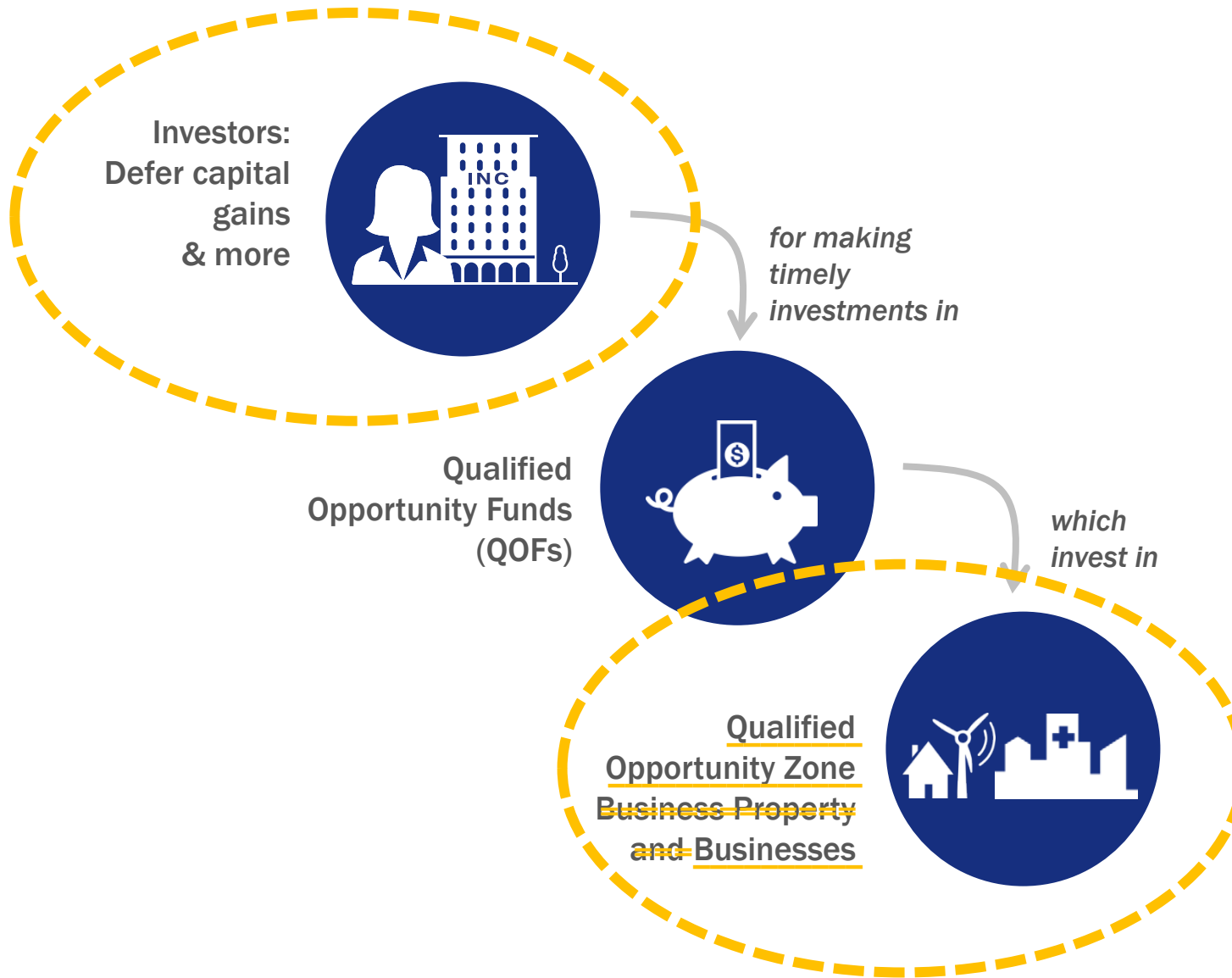
This block contains two legislative documents and four portraits. The top document is H.R. 5082, titled "To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains realized in community development zones." It is a bill introduced by the House of Representatives. The bottom document is S. 2868, titled "To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains realized in community development zones." It is a bill introduced by the Senate. The portraits include two men in the top row and two men in the bottom row, all in professional attire.

## 2017 Opportunity Zone Legislation

This block contains two legislative documents and four portraits. The top document is H.R. 828, titled "To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains realized in opportunity zones." It is a bill introduced by the House of Representatives. The bottom document is S. 293, titled "To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains realized in opportunity zones." It is a bill introduced by the Senate. The portraits include two men in the top row and two men in the bottom row, all in professional attire.

## 2017 Tax Cuts and Jobs Act

This block shows the cover of the Tax Cuts and Jobs Act, H.R. 1, titled "One Hundred Fifteenth Congress of the United States of America AT THE FIRST SESSION". A prominent blue callout box with white text is overlaid on the document, stating "OZs: Known to need some technical corrections".



# 3 Tax Incentive Benefits

## 1. Capital Gain Deferral

Defer to  
12/31/2026  
(or earlier)

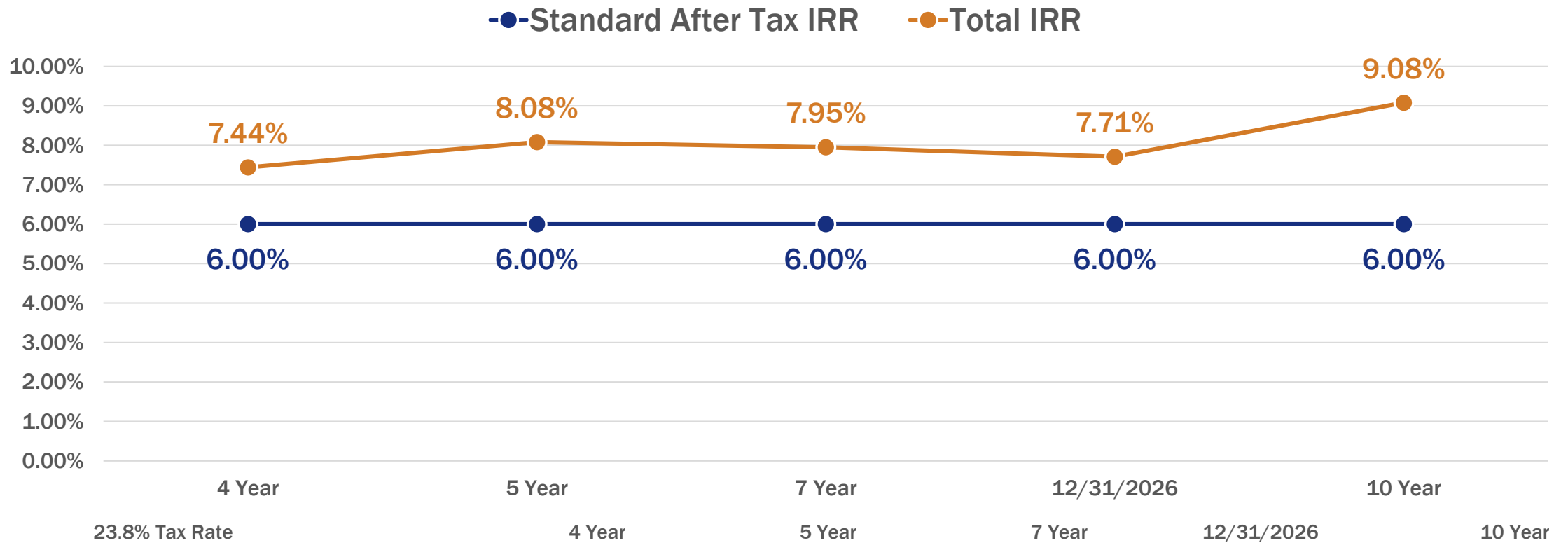
## 2. Partial forgiveness

5/7 year hold  
15% - 12/31/2019  
10% - 12/31/2021

## 3. Forgiveness of additional gains

Ten year hold  
FMV basis,  
when sell interest  
in Fund

# Opportunity Zones Incremental Benefit



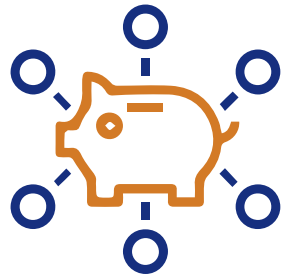
23.8% Tax Rate  
 Standard After Tax IRR  
 Incremental OZ Benefit  
 OZ Investment IRR  
 Percentage Increase

# Eligible Businesses

1. **New Businesses** *Forming* in an Opportunity Zones
  - a) Rental Real Estate
  - b) Operating Businesses
2. **Existing Businesses** *Expanding* in an Opportunity Zone
  - a) Rental Real Estate – Renovations > Building Cost
  - b) Operating Businesses – Additions > Existing Tangible Property
3. **Existing Businesses** *Moving* into an Opportunity Zone
  - a) Operating Businesses

# Benefits to Businesses

**Source of equity capital to finance the start-up, expansion or acquisition of a business.**



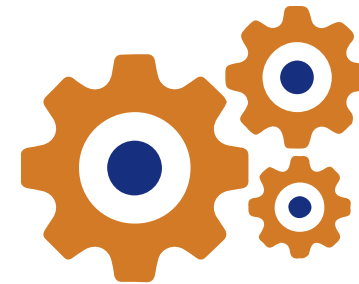
**Large pool of equity capital**



**Patient equity capital**



**Lower cost of capital**



**Investor experience and sophistication**

# Benefits to Businesses

Receive tax benefits on additional dollars invested by business owners.



Deferring income taxes on the invested capital gains

**15%** made by 12/31/19, or  
**10%** made by 12/31/21

Elimination of income taxes on the invested gains

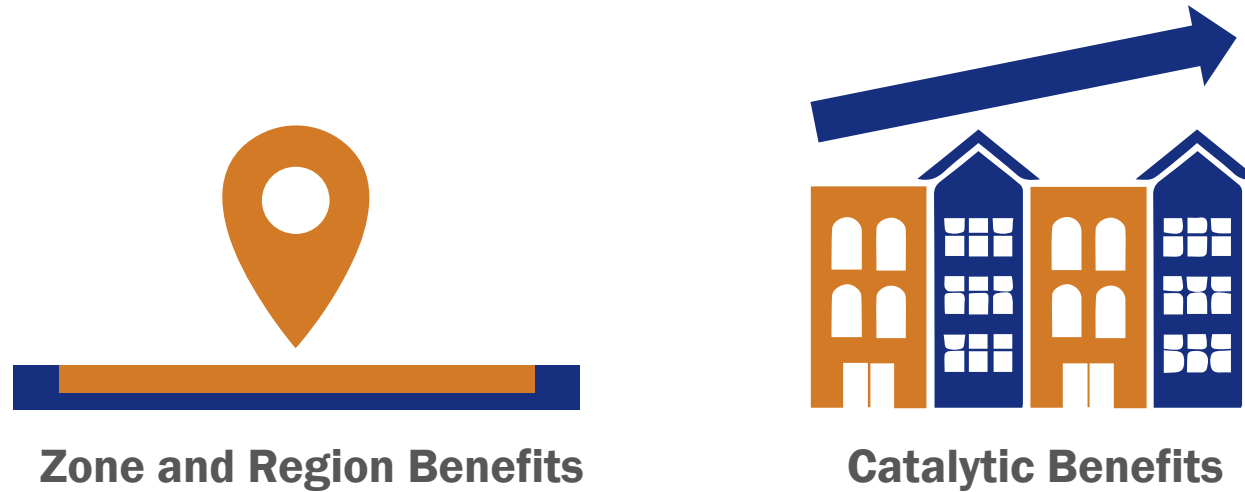


Elimination of income taxes from appreciation of business value



# Benefits to Businesses

**Benefit from other incentives available and investments made in Opportunity Zones.**



# Business Qualifications

- ✓ Organized as a **corporation** or **partnership** for tax purposes, **including LLCs**.
  
- ✓ Satisfy a **70% tangible property asset test**
  - At least **70% of the tangible property** (e.g., real estate, machinery, furniture) must be:
    - Used in a trade or business
    - Acquired by purchase **after December 31, 2017**
    - Used in an OZ
    - Property for which the owner is the original user of the property in an OZ
      - or the property is substantially improved
    - Substantially improve = Spend more than 100% of adjusted basis over 30 mos

# Business Qualifications

- ✓ Satisfy a **50% active gross income test**
  - At least 50% of gross income of the QOZB is from the active conduct of a trade or business in the OZ.
- ✓ Satisfy an **intangible property test**
  - A substantial portion of the intangible property owned by the QOZB is used in the active conduct of the business in the OZ.
- ✓ Satisfy a **nonqualified financial property test**
  - Maintain less than 5% of assets as cash, stock and partnership interests, receivables not from ordinary customers, options, annuities, and other sources of cash in excess of the reasonable working capital needs of the business.

# Ineligible Businesses

## Can't be a "Sin Business"

A private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

[www.OpportunityZonesResourceCenter.com](http://www.OpportunityZonesResourceCenter.com)

## Opportunity Funds Listing

The listings on this page are provided as a free service to potential community development funding recipients.

The 130 funds listed on this page represent more than \$28 billion in community development investing capacity.



Contact	(Geographical Focus)	(Investment Focus)
<b>1787 Capital Opportunity Zone Fund</b> 1787 Capital Chris Jeter 644.283.7295 cjr@1787capital.com	Mid-Atlantic and Southeast	Partnering with public agencies and officials on key redevelopment projects; Transit-Oriented Development.
<b>2LB Equities Opportunity Zone Fund</b> 2LB Equities Adam Smith 817.404.0075 ASmith@2lbequities.com	Texas	Multi-family Acquisition and Development.
<b>Access Ventures Opportunity Fund</b> Access Ventures		

# Regulatory Guidance

## Two Tranches (so far)

### 1. October 2018

- Thorough overview is available at [www.novoco.com/blog](http://www.novoco.com/blog)
- Biggest takeaway: addressed significant gating issues

### 2. April 2019

- Thorough overview is available at [www.novoco.com/blog](http://www.novoco.com/blog)
- Biggest takeaways:
  - Further addresses gating issues that were limiting OZ-incented investment in operating businesses
  - Provides added tax clarity to the start-up, operation and wind-down of a qualified opportunity funds (QOFs)

### 3. Later 2019 ?

- Anti-abuse?
- Decertification?
- Reporting?



How did your organization  
**decide** to get involved with **OZs**?



What **constraints/limitations/ complications** does OZ add?





Are there OZ deals you  
considered but **did not pursue**?  
**Why?**



What are appropriate roles for  
**banks, CDFIs, state/local  
government, philanthropy?**



What **lessons** have you learned?



What are your plans for  
**future OZ deals?**

# Questions?

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