An aerial photograph of a city, likely San Francisco, showing a river (the San Francisco River) winding through the urban landscape. The city is densely packed with buildings, and mountains are visible in the background under a hazy sky. The image is overlaid with a semi-transparent dark layer to make the text stand out.

Opportunity Zone Basics

Stephanie Copeland
The Governance Project

Passed in the 2017 Tax Cut and Jobs Act

Governors of the 50 states, the District of Columbia, and the five territories, and the Secretary of the Treasury select 25% of eligible areas as Opportunity Zones.

Once selected, the designation is for 10 years.

8,700 OZs have been designated across the country.

What are Opportunity Zones?

- New **federal incentive** designated in the 2017
- Incentive for investors to **support distressed long-term, equity investments** in businesses
- Incentive is **deferral, reduction and potential federal capital gains taxes**
- If properly executed, Opportunity Zones may address challenges in Colorado:
 - **Promoting economic vitality** in parts of the state that have not fully shared in the general prosperity over the past decade
 - **Funding the development of workforce** in areas with escalating prices and inventory
 - **Funding new infrastructure** to support economic growth
 - **Investing in startup businesses** that have the potential to increase in scale and the ability to “export” jobs to Colorado

How it Works



Roll Gains Forward

Roll gains of any kind, including gains from stock or real estate, into a qualified OZ investments. Unlike 1031 exchanges, only gains need to be rolled forward, allowing investors to extract their original basis.



Defer Taxes

Defer taxes on Gains realized today until 2026. This allows investing dollars that would otherwise be paid as taxes to increase your initial investment size, and ultimately your gains.

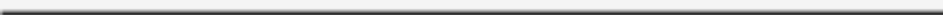


Reduce Taxes

If the investment is left in qualified OZ investments for 5 years, there is a 10% forgiveness of the 2026 bill. After 7 years, an additional 5% is forgiven for a total of 15% reduction in the deferred taxes due.

- Taxpayer has 180 days to move gain into the OZ Fund
- Fund must be a partnership or corporation (LLC is allowed)
- Fund must be 90% deployed into Qualified Opportunity Zone Property
 - This will be checked 6 months after Fund takes in capital and at the end of the taxable year
 - Safe harbor for reasonable working capital
 - Hoping that Treasury allows an additional grace period
- Declaration and deployment test will be self-certified and subject to audit – Draft IRS form 8996 was recently released

Qual



How investors are thinking about Opportunity Zones



Excellent tax incentives to search for potential investment areas



New possibilities for those with realized gains and capital (incentive not factored into return expectations)



Current rules make it challenging to invest in opportunity zones



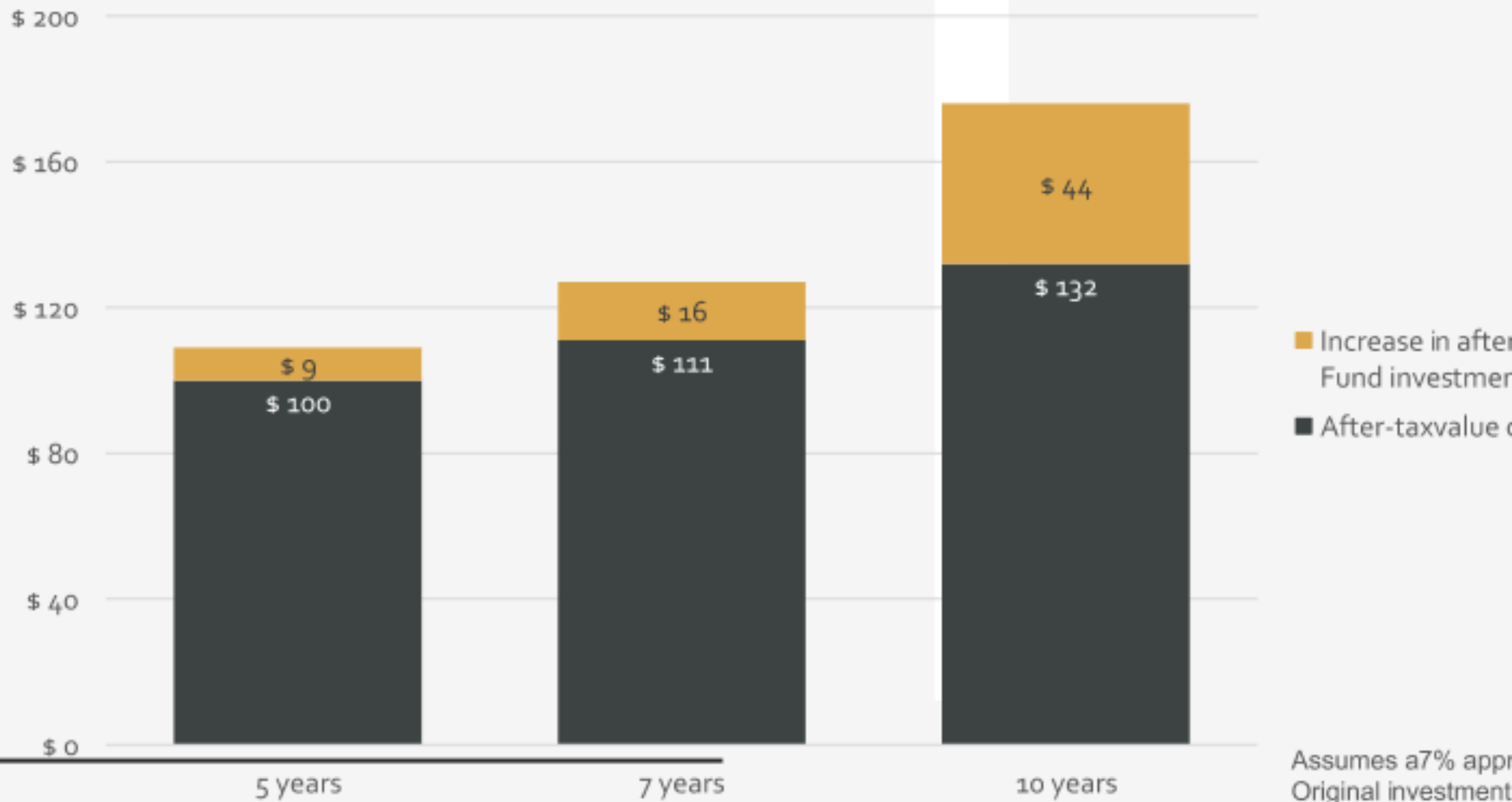
Not always clear how to find viable projects



Business investment is still unclear

Particularly compelling for investors over horizon

After tax value of a \$100 standard portfolio investment vs. Opportunity Zone



First Set of Rules Released October



Generally Positive for Investment

- Ø Favors funds specifically geared towards projects
- Ø Have to get dollars to the project level to meet the **6 month test**
- Ø Asset value must increase 100% after 30 months
- Ø Likely to have single purpose vehicle funds

Some Questions

- Ø Questions about multiple projects
- Ø Questions about reporting requirements
- Ø Uncertain feasibility of operating businesses
- Ø Larger institutions are not providing funds at this point
- Ø **Hearing February 14**