



# HOMES JOBS COMMUNITY

## OPPORTUNITY ZONES 101

Bellingham | March 12, 2019



**Department of Commerce**

# National Development Council

## Partners in Community Development since 1969

NDC's work focuses on HOMES, JOBS and COMMUNITY. Founded as a national nonprofit in 1969, NDC has worked for almost 50 years fulfilling its mission to increase the flow of capital for investment in low-income communities. NDC directs capital to support the development and preservation of affordable housing, the creation of jobs through training and small business lending and the advancement of livable communities through investment in social infrastructure.

### IMPACT AT A GLANCE

<b>\$579M</b> for Affordable Housing	<b>\$704M</b> in New Markets Tax Credit Allocation	<b>\$2.5B</b> in Public-Private Partnership Development	<b>\$210M</b> in Small Business Loans	<b>70K+</b> Practitioners Trained	<b>100+</b> TA Client Communities
--	---	--	---	---	---



# Opportunity Zones

## OVERVIEW

Established by congress in the Tax Cuts and Jobs Act of 2017

Goal is to spur private sector investment in overlooked communities

Provides tax incentives for investing capital gains

Real estate and operating businesses

A “Light Touch” regulatory framework

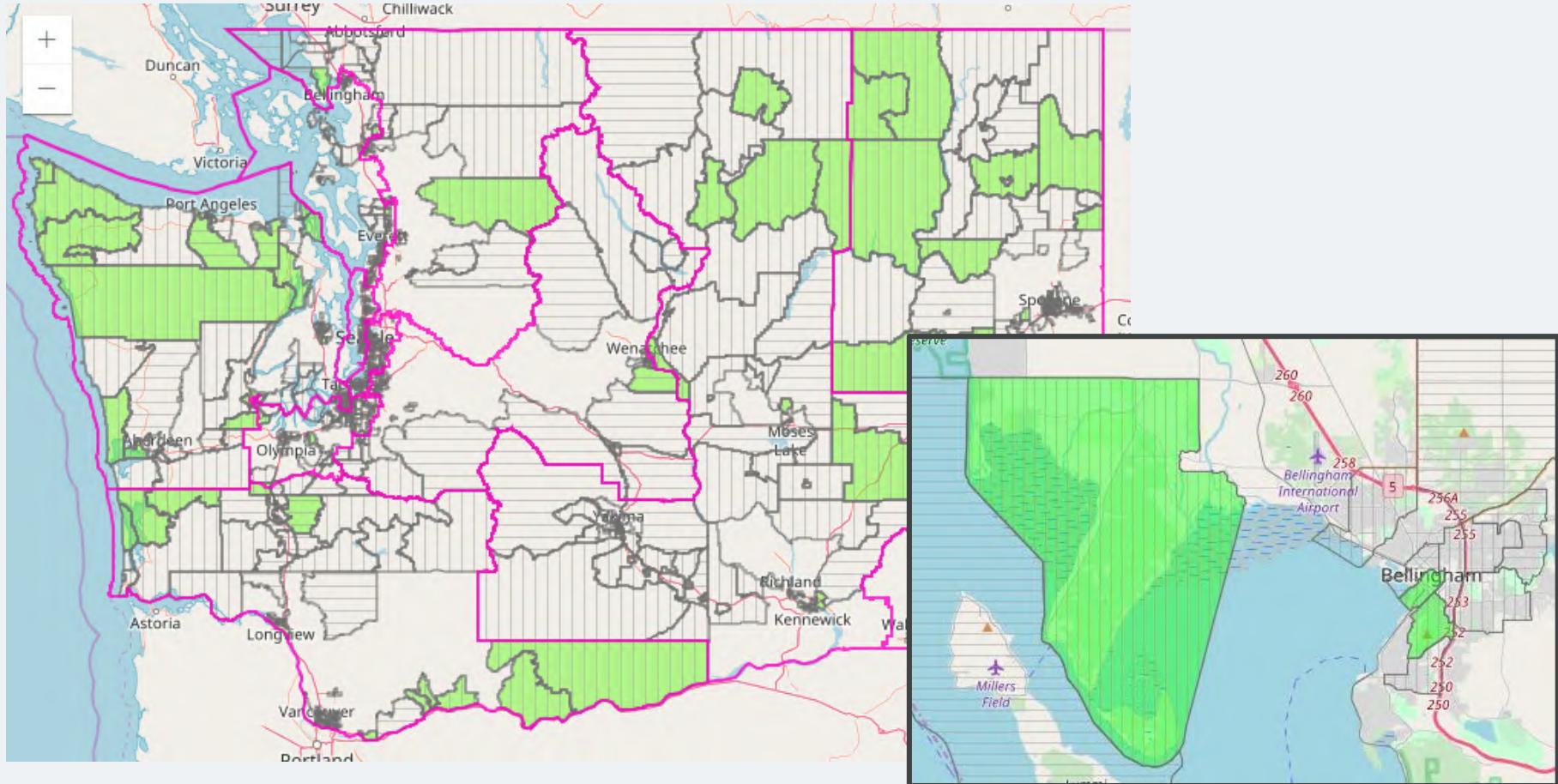
# Opportunity Zones

## THE BASICS

- **Investments in real estate and operating business, such as:**
  - **Grocery stores**
  - **Manufacturing/industrial businesses**
  - **Healthcare facilities**
  - **Workforce housing**
  - **Co-working spaces**
  - **Hotels**
  - **Incubators**
  - **Research facilities**
  - **Commercial real estate**

# Opportunity Zones

## WASHINGTON OPPORTUNITY ZONES



# Opportunity Zones

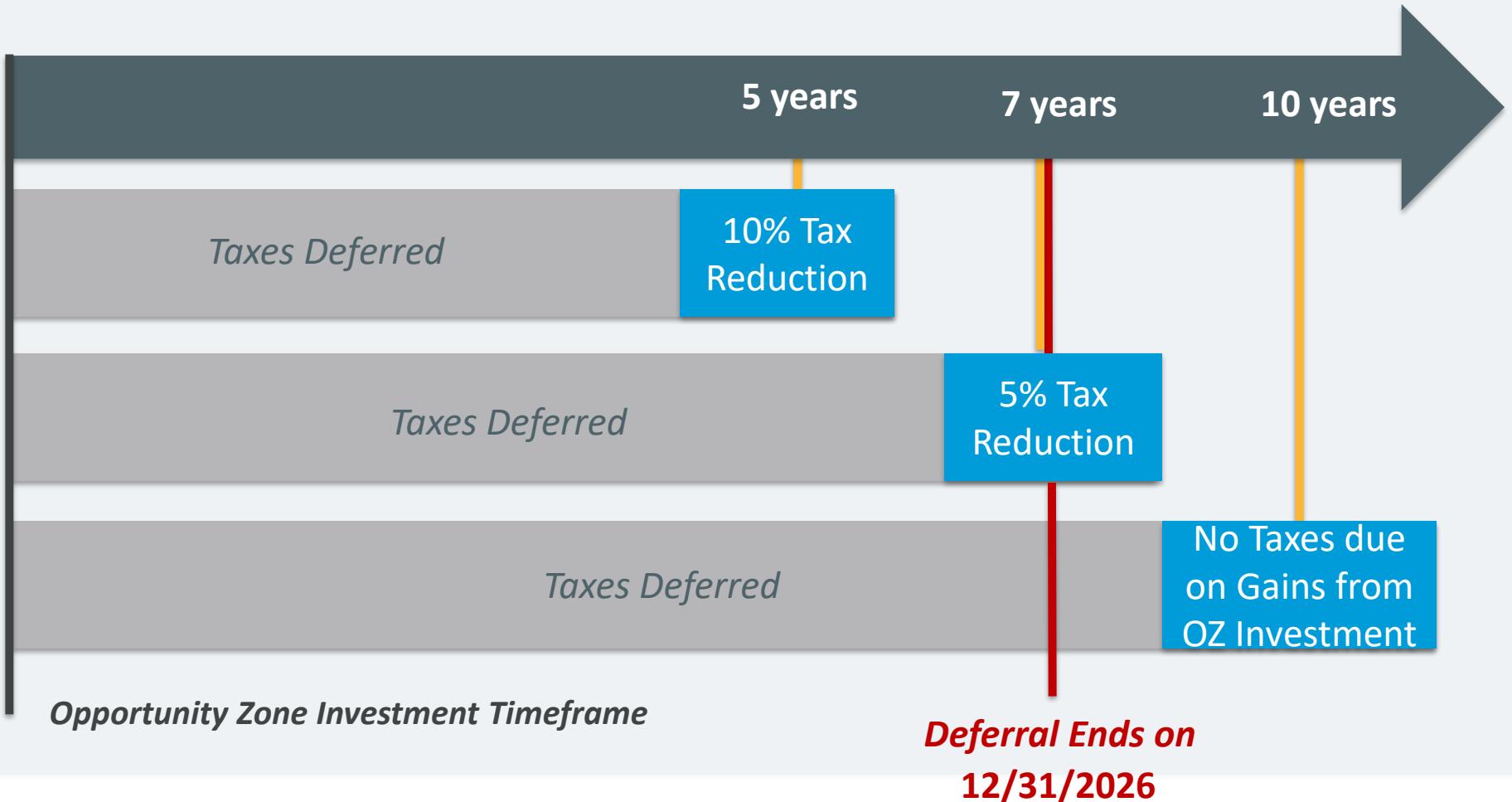
## THE BASICS

Provides tax incentives for investors to re-invest unrealized capital gains by:

- **Temporary deferral** of capital gains taxes until 2026
- **Tax reduction** on capital gains (at 5 and 7 years)
- **Elimination of taxes** on gains from OZ investments (if held for 10 years)

# Opportunity Zones

## TAX BENEFITS



# Opportunity Zones

## HOW IT WORKS

Individual invests capital gains  
into Opportunity Fund

Opportunity Fund invests in qualified  
Opportunity Zone investments

Qualified investments include:

- Stock or partnership interest in  
operating business in OZ
- Qualifying property in OZ

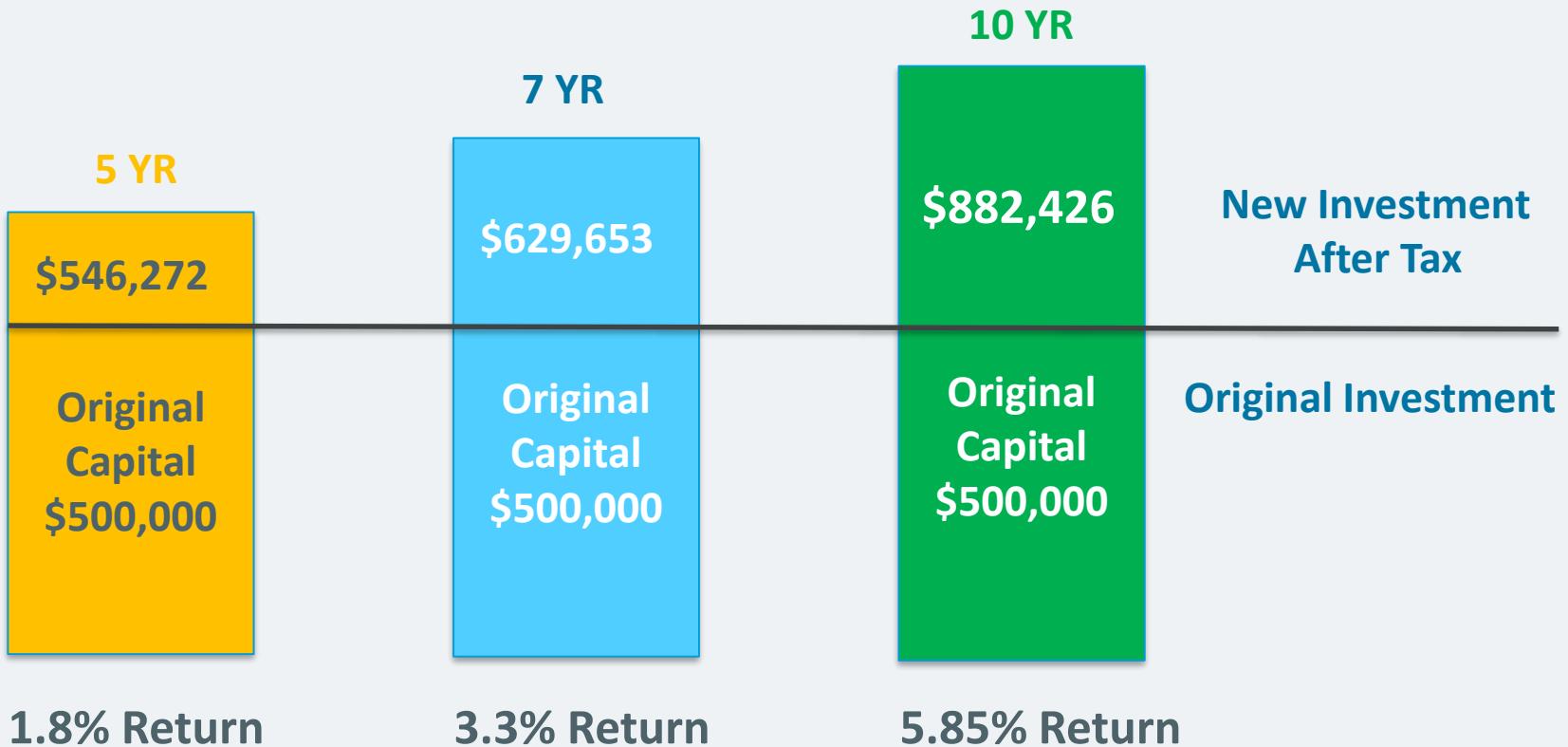
# Opportunity Zones

## FULLY TAXABLE VS OZ FUND EXAMPLE

Fully Taxed Investment		Opportunity Zone Investment	
Capital Gain	\$500,000	Capital Gain	\$500,000
- Tax Payable (24%)	\$119,000	- Tax Payable (24%)	\$0
Total capital to Invest	\$381,000	Total capital to Invest	\$500,000
Sale Price after 10 years	\$749,500	Sale Price after 10 years	\$983,600
- Tax on Appreciation	\$87,700	- Tax on Appreciation	0%
After Tax Funds Available	\$661,800	Deferred Capital Gain Tax paid in 2026	\$101,200
Annual Rate of Return	2.8%	After Tax Funds Available	\$882,400
		Annual Rate of Return	5.9%

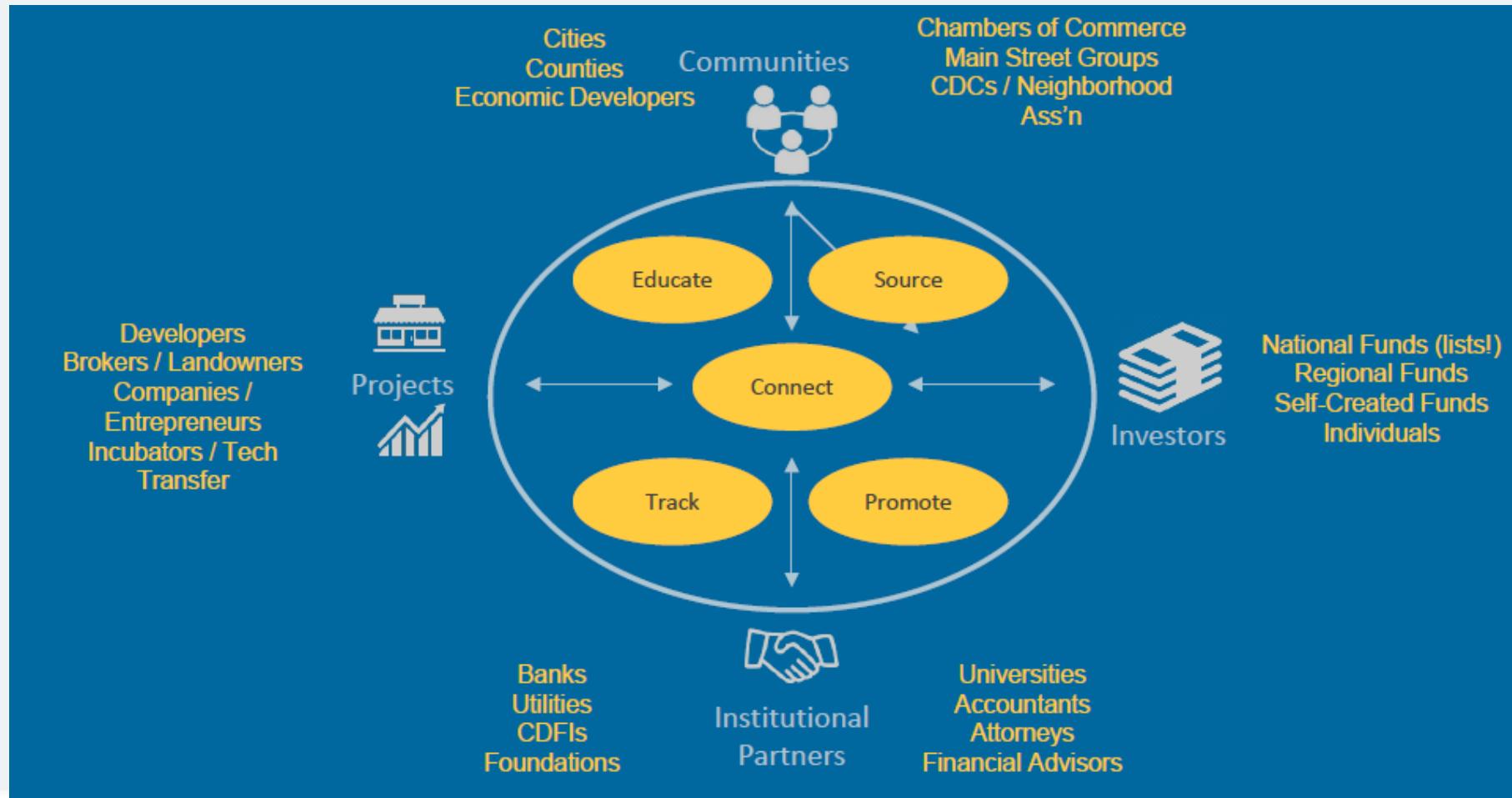
# Opportunity Zones

## INVESTMENT EXAMPLE



# Opportunity Zones

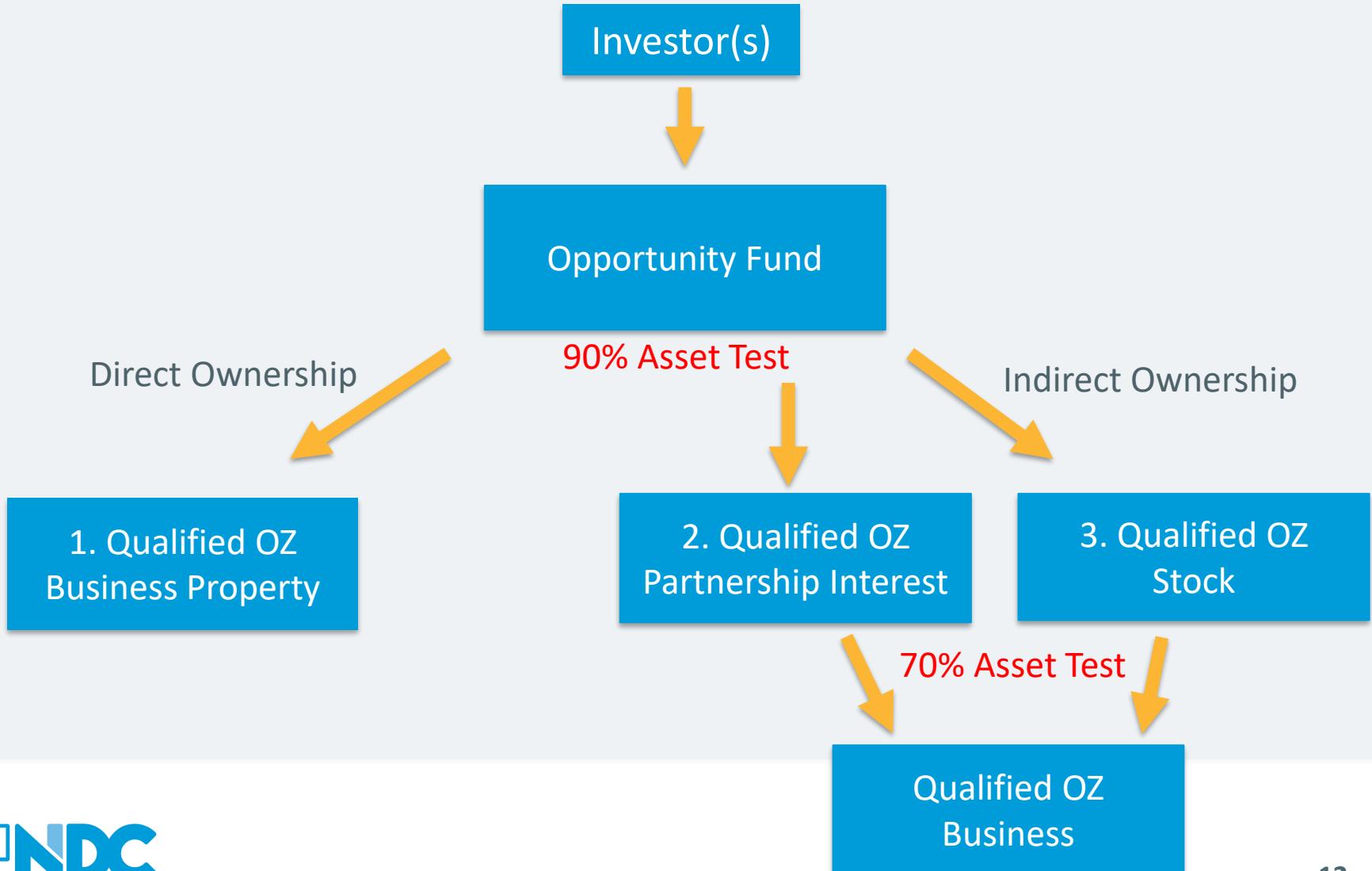
## ECOSYSTEM



Source: Opportunity Alabama

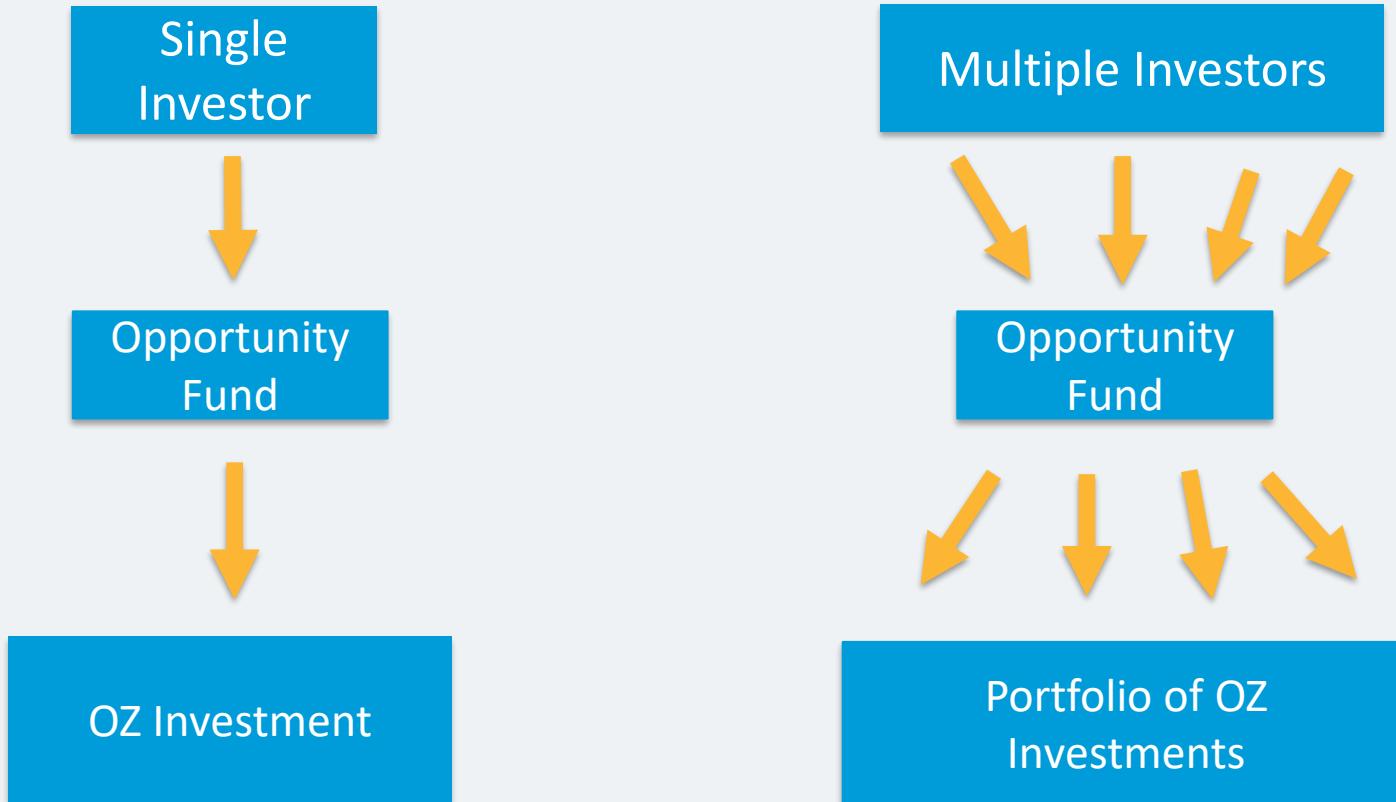
# Opportunity Zones

## HOW IT WORKS



# Opportunity Zones

## HOW IT WORKS



# Opportunity Zones

## THE FINE PRINT: TIMING

- Investment in QOF must take place within 180 days of realizing capital gain
- Property must be acquired after 12/31/2017
  - Must be purchased by an unrelated party (20%)
- Taxpayers can invest until 6/30/2027 and still receive the 10-year benefit
- “Safe harbor” allows project to take 31 months to spend OZ investment, given a written plan

# Opportunity Zones

## THE FINE PRINT: ELIGIBILITY

- Real estate or operating business
- No “sin” businesses (i.e. liquor store, tanning salon)
- At least 50% of business income must be derived from active conduct of a trade or business *in the Opportunity Zone (may change)*
- Can be new construction or rehabilitation
  - Must result in “original use” of property, or substantial improvement (double basis in building)

# Opportunity Zones

## DRAFT REGULATIONS

- Draft regulations were released in October 2018, but there are still many questions
- Links:
  - [Proposed Regulations](#)
  - [Revenue Ruling 2018-29](#)
  - QOF draft self-certification form ([IRS Form 8996](#))
  - Updates to [IRS FAQs](#)

# Opportunity Zones

## DRAFT QOF CERTIFICATION FORM

Form 8996  
(December 2018)  
Department of the Treasury  
Internal Revenue Service

Name \_\_\_\_\_ Employer identification number \_\_\_\_\_

### Part I General Information and Certification

1 Type of taxpayer:  Corporation  Partnership  
 2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)?  
 No. STOP. Do not file this form with your tax return.  
 Yes. Go to line 3.  
 3 Is this the first period the taxpayer is a Qualified Opportunity Fund?  
 Yes. By checking this box, you certify that by the end of the taxpayer's first qualified opportunity fund year, the taxpayer's organizing documents include a statement of the entity's purpose of investing in qualified opportunity zone property and the description of the qualified opportunity zone business. See instructions.  
 No. Go to Part II.  
 4 If "Yes" on line 3, list the first month in which the fund chooses to be a Qualified Opportunity Fund.

### Part II Investment Standard Calculation

5 Total qualified opportunity zone property held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes" . . . . .  
 6 Total assets held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes" . . . . .  
 7 Divide line 5 by line 6. . . . .  
 8 Total qualified opportunity zone property held by the taxpayer on the last day of the taxpayer's tax year . . . . .  
 9 Total assets held by the taxpayer on the last day of the taxpayer's tax year . . . . .  
 10 Divide line 8 by line 9. . . . .

### Part III Qualified Opportunity Fund Average and Penalty

11 Add lines 7 and 10 . . . . .  
 12 Divide line 11 by 2.0. See instructions if Part I, line 3 is "Yes" . . . . .  
 13 Is line 12 equal to or more than .90?  
 Yes. Enter -0- on this line and file this form with your tax return.  
 No. The fund has failed to maintain the investment standard. Complete Part IV to figure the penalty. Enter the penalty from line 8 of Part IV on this line, and file this form with your tax return . . . . .

Cat. No. 37820G

Form 8996 (12-2018)



# Opportunity Zones

## CHALLENGES

- Lack **clear** federal guidance
  - Draft regulations released October 2018
  - Hearing held 2/14/19
  - Additional regulations forthcoming
- **Gentrification** concerns in some areas (i.e. downtown Seattle)
- **No** guarantees
- Opportunity Zone Investments will provide **only a portion** of needed capital

# Opportunity Zones

## COMMUNITY STRATEGIES

- **Identify and educate an ecosystem of players:**
  - Developers, investors, banks, nonprofits, financial advisors, accountants, community foundations, public entities, etc.
- **Develop a local economic development strategy & pipeline of projects**
- **Cultivate relationships with investors (local, regional, national)**
- **Encourage impact measurement & reporting**
  - <https://ozframework.org/>
- **Coordinate and connect key players to get projects done!**

# Opportunity Zones

## OLYMPIC PENINSULA



EMERALD COAST  
OPPORTUNITY ZONE

HOME

INVESTMENT FUNDS

JOIN US

ABOUT

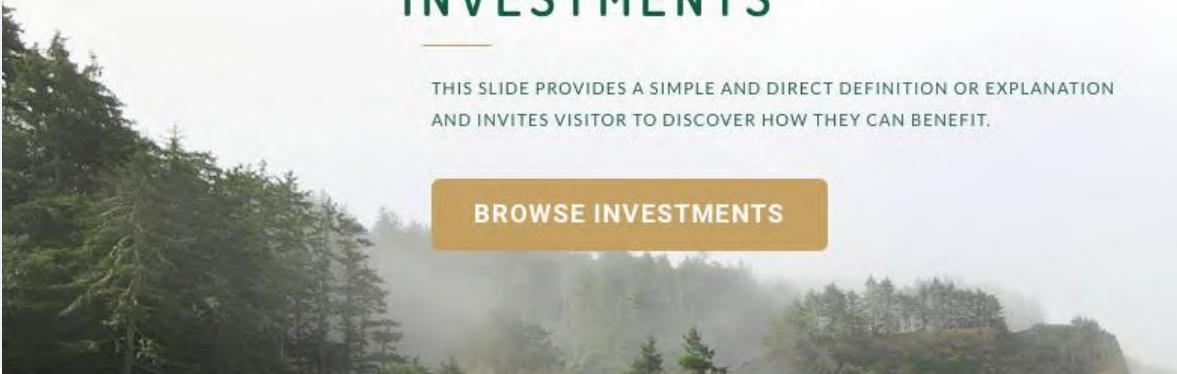
GROW YOUR PORTFOLIO TAX FREE WITH

### OPPORTUNITY FUND INVESTMENTS

THIS SLIDE PROVIDES A SIMPLE AND DIRECT DEFINITION OR EXPLANATION  
AND INVITES VISITOR TO DISCOVER HOW THEY CAN BENEFIT.

BROWSE INVESTMENTS

- Governor Jay Inslee bus tour of opportunity zones
- Federal Reserve Olympic Peninsula listening tour
- Community information sessions
- Identifying projects
- Identifying & mitigating barriers
- Media & photo bank
- Housing needs assessment participation



# Opportunity Zones

## NORTH CENTRAL WA

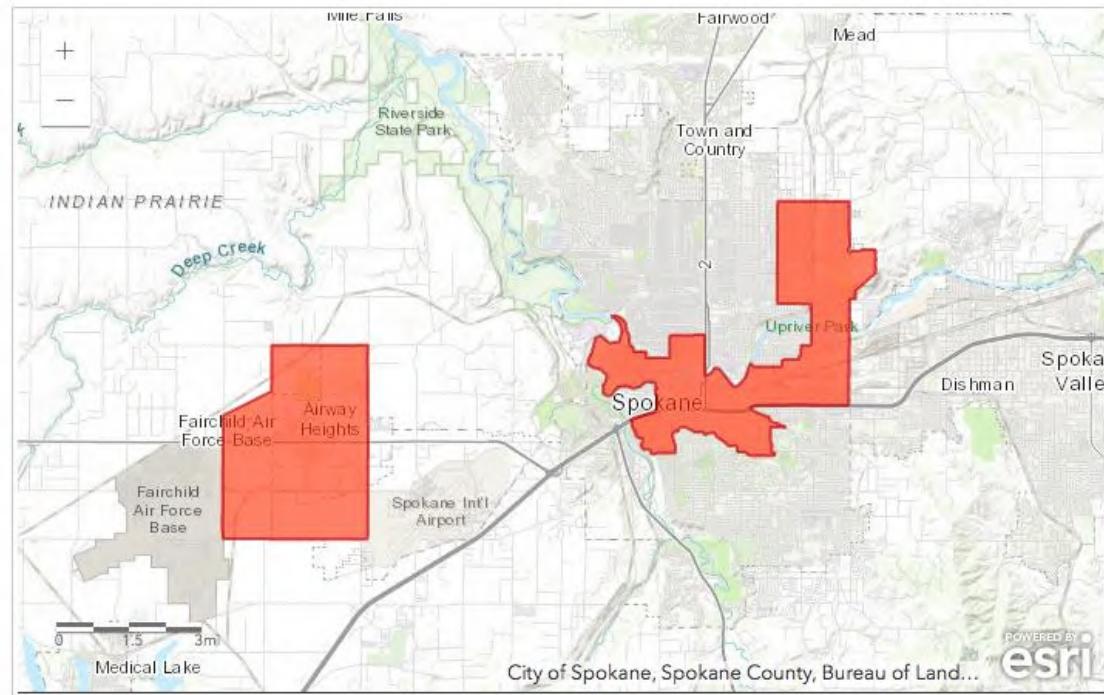


### N★rth Star Opportunity Zones

Our four counties and tribes offer a wide range of residential, industrial, and commercial investment opportunities in urban, rural, and waterfront locations in booming Washington State. If you are looking for investment-ready projects in North Central Washington or have an investment-ready project you'd like to list with the North Star OZ directory, please contact us at [northstar@ncwedd.com](mailto:northstar@ncwedd.com).

# Opportunity Zones

## SPOKANE



### Opportunity Zones

- [The ABC's of Opportunity Zones Powerpoint Presentation from GSI's Oct 3rd meeting. \(PDF 681 KB\)](#)
- [On Jane Jacobs and Opportunity Zones by Bruce Katz October 2, 2018](#)
- [\\*\\*Legislation to watch - Legislation Introduced to Indefinitely Renew OZ Incentive](#)
- [K&L Gates the "Stay Informed" page](#)
- [Council of Development Finance Agencies Opportunity Zones Update Newsletter](#)
- [Early movers are getting a jump on opportunity zones](#)
- [EIG's Opportunity Zones Resources Center](#)
- [Novogradac & Company LLP's Opportunity Zones Resource Center](#)
- [A website where Investors, Funds, and Projects meet](#)
- [Opportunity Zones Frequently Asked Questions](#)
- [Community Development Financial Institutions Fund \(CDFI Fund\) Opportunity Zones Resources](#)

# Opportunity Zones

ERIE, PA



## City of Erie Investment Prospectus

Building Opportunity | Restoring Hope | Transforming Erie

# Opportunity Zones

## CONTACT INFORMATION

Melissa LaFayette

[mlafayette@ndconline.org](mailto:mlafayette@ndconline.org)

Sharayah Lane

[slane@ndconline.org](mailto:slane@ndconline.org)