

Qualified Opportunity Zones

A Brief Primer

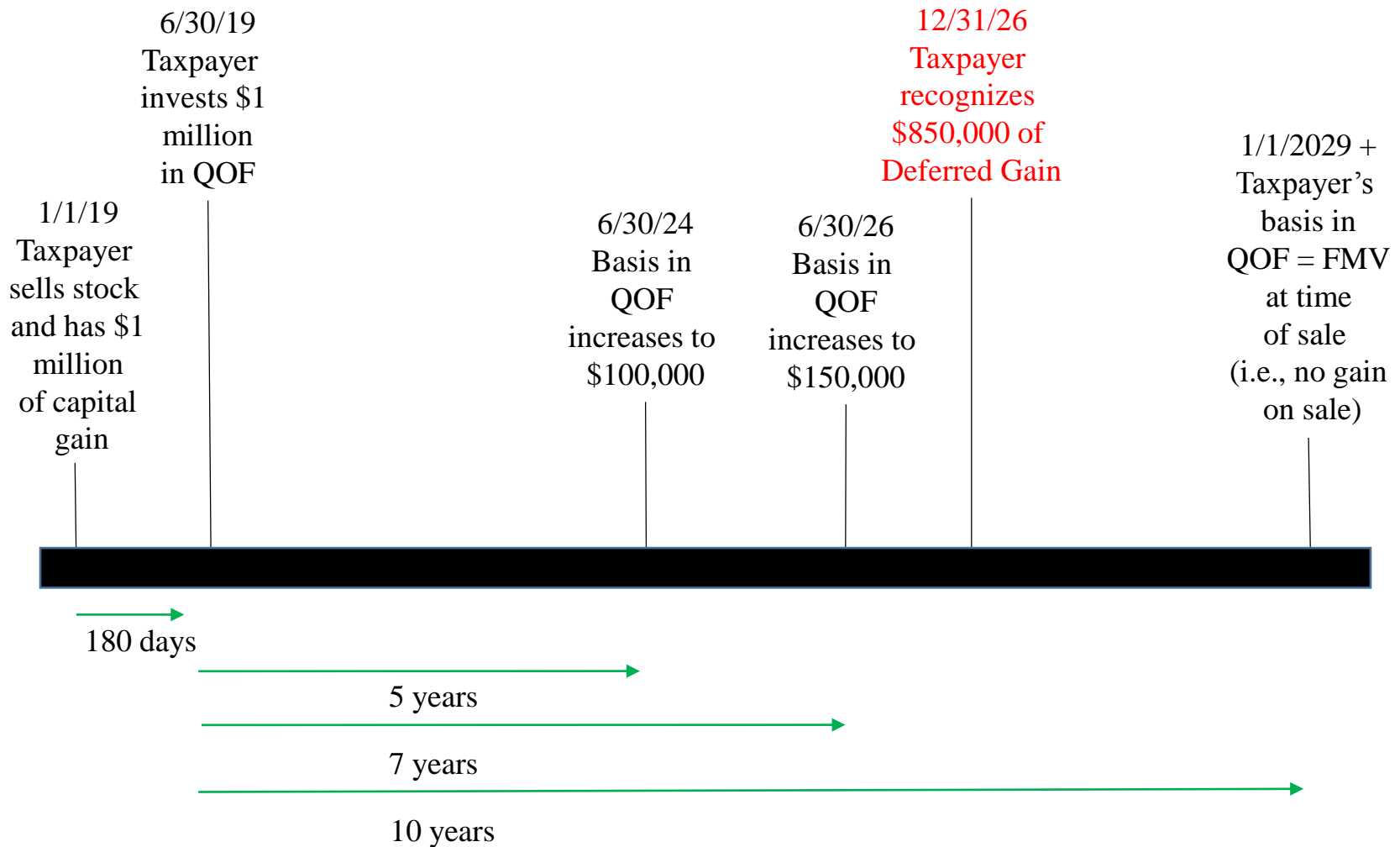
What Are Qualified Opportunity Zones?

- Poverty census tracts that were designated as qualified opportunity zones by the governor of each state.
- Designation lasts for 10 years.
- List of all census tracts can be found in IRS Notice 2018-48 (<https://www.irs.gov/pub/irs-drop/n-18-48.pdf>).
- An interactive map to locate Qualified Opportunity Zones is available at https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml

The Three Tax Benefits of Qualified Opportunity Zones

- Deferral of capital gain (“Deferred Gain”) if taxpayer invests in a Qualified Opportunity Fund (“QOF”) within 180 days. Deferred Gain recognized when QOF is sold, or at latest, **December 31, 2026**.
- Partial forgiveness of Deferred Gain if held at least 5 years:
 - Day 1, Taxpayer’s basis in QOF = \$0
 - 5+ years, Taxpayer’s basis in QOF = 10% of Deferred Gain
 - 7+ years, Taxpayer’s basis in QOF = 15% of Deferred Gain
- Permanent exclusion of gain from earnings in QOF if QOF investment held for 10+ years
 - Taxpayer’s basis in QOF = FMV at time of sale of QOF investment

Timeline of Qualified Opportunity Zone Benefits



Qualified Opportunity Fund

- A domestic corporation or partnership (including an LLC) organized to invest in a qualified opportunity zone.
- At least of 90% of assets are
 - Qualified opportunity zone business property,
 - Qualified opportunity zone partnership interest, or
 - Qualified opportunity zone stock.
- Assets tested on 180th day of first year as QOF, and last day of tax year. Annual testing.
- QOF self certifies by filing a Form 8996.

QOZ Business

- A trade or business if
 - Substantially all (at least 70%) of the tangible property owned or leased by business is QOZ Business Property,
 - 50% or more of gross income derived from active conduct of a trade or business;
 - Substantial portion of intangible property is used in an active conduct of a trade or business;
 - Less than 5% of basis of property is from non-qualified financial property (exception for reserves); and
 - Not a sin business.

QOZ Business Property

- Tangible property used in a trade or business of the QOF if
 - Acquired after December 31, 2017 by purchase from unrelated party (20% test),
 - Original use of property in QOZ commences with the QOF or the QOF substantially improves the property; and
 - During substantially all of the QOF's holding period for the property, substantially all of the property was used in a QOZ.
- Substantial improvement safe harbor for buildings
 - Improvements at least equal to basis in building (not including land)
 - Within 30 months.

QOZ Stock or Partnership Interest

- Stock or partnership interest in a Qualified Opportunity Zone Business acquired by QOF after 12/31/2017 for cash.
 - Debt does not qualify
 - Property contributions do not qualify
 - Preferred equity does qualify
- For substantially all of the QOF's holding period, the business must qualify as a Qualified Opportunity Zone Business.

**THANK
YOU**

QUESTIONS?



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