Opportunity Zones Workshop in Norwich

11/27/18

How Do Cities Achieve Best Results from Their Opportunity Zones?

Presented by CERC

Who’s In Charge?

- City?
- Planner?
- EDO?
- Task Force?
- New Collaborative Organization?
- Repurposed Existing Organization?

Are You Ready?

- What institutions have capacity to take on Zone management?
- What resources are going to be invested locally?
- Is there a collaborative organization that is prepared to take on management responsibilities?

What's Your Message?

- What institutions are positioned to take on marketing of the Zone?
- Is there a profile of the Zone that features the unique investment opportunities?
- Are you creating marketing tools…website, social media presence, etc… and/or are you going to participate in state and national platforms?

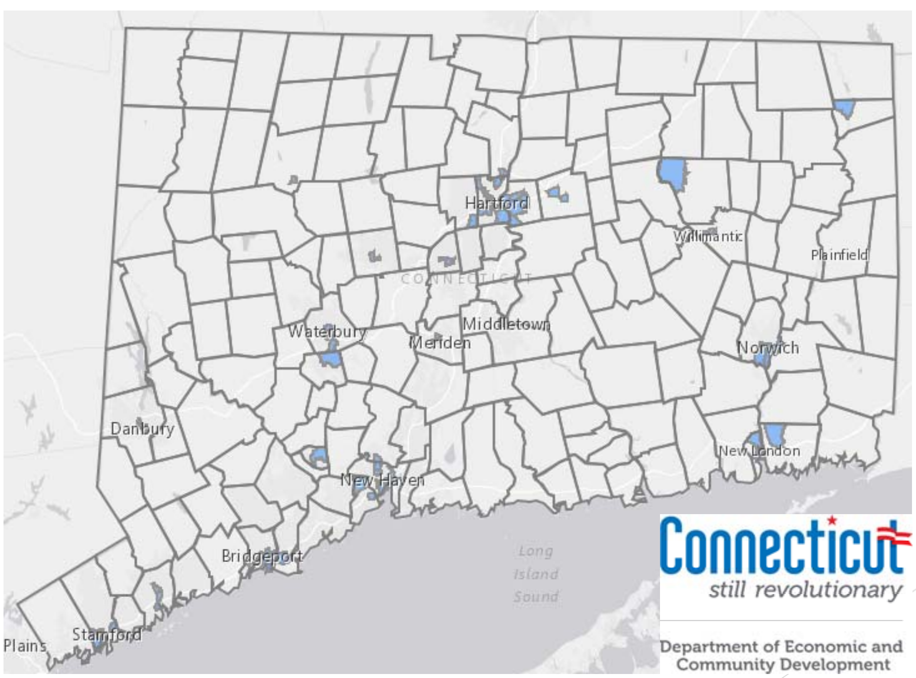
Do You Have a Strategy for Business Formation?

- Target Industries
- Institution to Manage… Innovation Places, etc.

- Are you engaging anchor institutions?
- Do you have a workforce strategy?

Are You in Control?

- Uniquely, Zones are market driven investment vehicles.
- You may not even know if funds are being set up to invest in your Zones.
- Need to do outreach to Zone Property owners.
- Need to do outreach to investors that have a particular interest in your Zone.
- Make sure potential investors know what your goals are for the Zone.



Thank You for Attending!

CERC Connecticut Economic Resource Center

NCDC

PULLMAN &COMLEY LLC ATTORNEYS

SECTER

Norwich Opportunity Zone Workshop

PULLMAN &COMLEY LLC
ATTORNEYS
Pulling Together. Succeeding Together.

Opportunity Zones

Tax Benefits through Long-Term Investments

Michael Andreana
Pullman & Comley, LLC
November 27, 2018

Overview of Opportunity Zone Program

PULLMAN &COMLEY LLC
ATTORNEYS

- Encourage long-term private capital investment in economically distressed communities
- Opportunity Zones (designated by census tract) were nominated by state governors and approved by US Treasury
  - Designation expires on December 31, 2028
- Opportunity Zones exist in all 50 states, District of Columbia and certain US territories (e.g.….Puerto Rico)
- Significant tax benefits for capital gains invested in Opportunity Zones <u>through</u> a Qualified Opportunity Fund
  - capital gains tax deferral for up to 7 years through December 31, 2026
  - capital gain tax forgiveness - 5 years (10% increase in basis) and 7 years (15% increase in basis)
  - exclusion of capital gains tax on QOF investment if held for 10 years or more

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Overview of Opportunity Zone Program

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- Existing Guidance
  - IRC Section 1400Z-1 (Opportunity Zone Designation)
  - IRC Section 1400Z-2 (Opportunity Zone Investments)
  - Revenue Procedure 2018-16 (Designation Guidance)
  - Proposed Regulations [REG-115420-18] (October 19, 2018)
  - Revenue Ruling 2018-29 (“original use” and “substantially improve” guidance)
  - IRS Form 8996 and Instructions (QOF Certification and 90% Test)
  - IRS Form 8949 (Capital Gain Deferral)

Investing in a Qualified Opportunity Fund

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- 180 Day Investment Window
- Post-2017 capital gain resulting from sale of property to an <u>unrelated</u> person
- No cap on the amount of capital gain
- Investor must hold an <u>equity</u> interest in the QOF
- Investors can include individuals, C corporations, S corporations, partnerships, trusts and REITs
- Pass-through entities can defer capital gain tax at the entity level or at the owner level
- Investors will use IRS Form 8949 for tax deferrals under the Opportunity Zone Program

Qualified Opportunity Funds (QOF)

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- QOF must be an entity classified as a corporation or partnership for federal income tax purposes
- QOF self-certifies its status to IRS pursuant to Form 8996, Qualified Opportunity Fund
- At least 90% of assets must be "Qualified Opportunity Zone Property"
- 31-month working capital exception for qualified opportunity zone businesses
- No guidance on disclosures related to the nature of the investments (risk/reward profile); follow SEC Rules

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Qualified Opportunity Zone Property

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- QOFs invest in Qualified Opportunity Zone Property
- Must be an Equity Investment (acquired by QOF after December 31, 2017)
  - Qualified Opportunity Zone Stock – equity interest in a business corporation (but not a non-profit corporation) that is a qualified opportunity zone business
  - Qualified Opportunity Zone Partnership Interest – partnership or limited liability company taxed as a partnership (but not a limited liability company that is disregarded for tax purposes) that is a qualified opportunity zone business
  - Qualified Opportunity Zone Business Property includes tangible property used in the trade or business of the QOF
  - Loans from QOF do not qualify

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Qualified Opportunity Zone Stock

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- Stock of domestic corporation acquired after December 31, 2017 at its original issue solely in exchange for cash
- Corporation invested in must be, or be organized as, a qualified opportunity zone business at the time of issuance of stock
- Must continue to qualify as a qualified opportunity zone business for “substantially all” of the QOF’s holding period of the stock

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Qualified Opportunity Zone Partnership Interest

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- Any capital or profits interest in a domestic partnership that is acquired by QOF after December 31, 2017 solely in exchange for cash
- Partnership invested in must be, or be organized as, a qualified opportunity zone business
- Must continue to qualify as a qualified opportunity zone business for “substantially all” of QOF’s holding period in the partnership interest

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Qualified Opportunity Zone Business

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A qualified opportunity zone business is a trade or business in which "substantially all" (at least 70 percent) of the tangible property is "qualified opportunity zone business property" and which meets the following requirements:

- At least 50 percent of its gross income is derived from the active conduct of such trade or business in an Opportunity Zone
- A substantial portion of its intangible property is used in the active conduct of such trade or business in an Opportunity Zone
- Such entity business is not 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 beverage for consumption off premises

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Qualified Opportunity Zone Business Property

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Qualified Opportunity Zone Business Property is tangible property used in a trade or business of the QOF/QOZB if:

- Such property was acquired by purchase after December 31, 2017
- The original use of such property in the Opportunity Zone commences with the QOF/QOZB or the QOF/QOZB "substantially improves" the property
  - Double the basis (careful about land improvements & demo)
  - Land doesn't count (Rev. Rul. 2018-29)
- During "substantially all" of the QOF's holding period, "substantially all" of the use of such property was in an Opportunity Zone

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Unanswered Questions

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– Investing in an existing qualified opportunity zone business
– Leased Property
– Definition of "original use" (vacant buildings/refurbished equipment)
– Exit from OZ Fund investments
– What is a "reasonable period" to reinvest proceeds from sale of qualified opportunity zone business property
– "Substantially all" definitions
– 90% investment test
– Information Reporting Requirements

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Contact Information

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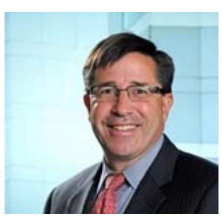

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EnhancedCapital

Opportunity Zone Investment Targets

November 27, 2018

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Opportunity Zones

- New Program
- Capital Gains Deferred/Eliminated
  - $6.7 Trillion Potential
- Final Rules- still coming out
- Promotes Investments in Designated Zones.

EnhancedCapital 2

Investment Must be in Designated Zones

- Equity
- 10 year hold
- Real Estate
- Stock in Businesses
- Equity in Infrastructure

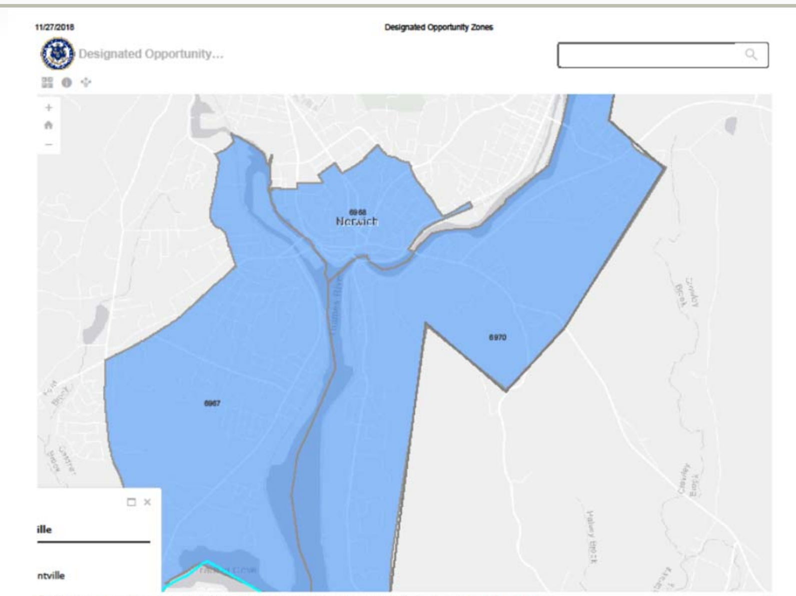
EnhancedCapital 3

Opportunity Zone Funds

- Easy to set up – IRS Form
- Single or many investors
- One investment or many
- 90% must be invested in OZone

EnhancedCapital 4

Norwich Opportunity Zones Map - EIG



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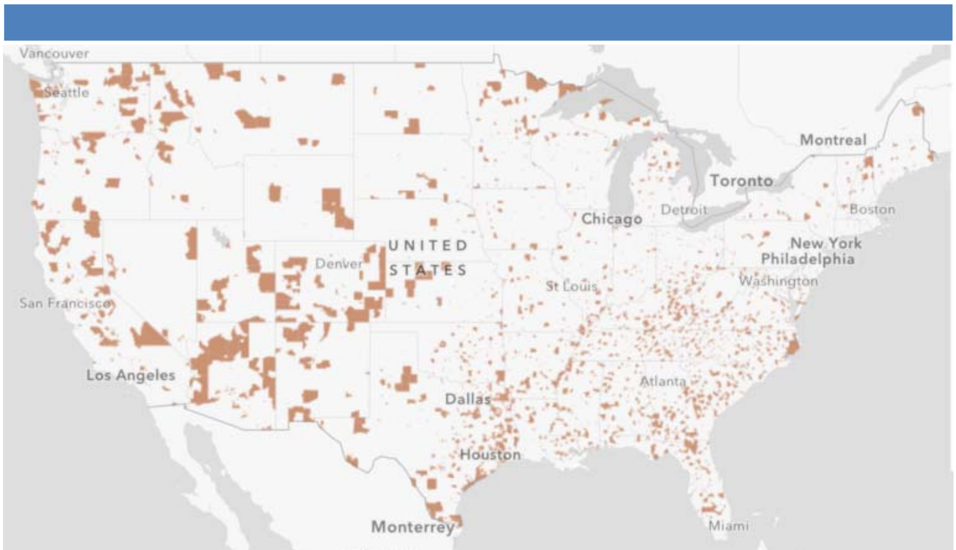
Ozones – All 50 States



OZone Fund Investments

1. **Real Estate** **that requires rehabilitation**
   – Commercial and Residential
   – Historic rehabilitation, Low Income housing
2. **Businesses** **for Sale**
   – New businesses in opportunity zones
   – Expansion of existing businesses into opportunity zones
   – Expansions of businesses already within opportunity zones
3. **Infrastructure** **Projects**
   – Renewable energy and energy efficiency
   – Broadband and other technology services
   – Healthcare facilities

Opportunity Zone Property

- The interest in the opportunity zone property must be acquired from an unrelated party after December 31, 2017
  - Seller to hold less than 20% of the business after the sale

- Opportunity zone property is:
  - Tangible property used in a trade or business;
  - Property is substantially all used in an opportunity zone
  - Either:
    - Original use of the property commences when opportunity zone fund takes control of property; or
    - The opportunity zone fund substantially improves the property
      - During the 30-month period after acquisition, the opportunity zone fund spends as much money improving and/or rehabilitating the property as it did on purchasing the property (i.e. additions to basis equal or exceed the adjusted basis of such property at beginning of 30-month period)

Opportunity Zone Business Investments

- New or existing businesses
- Acquire interest after December 31, 2017 from unrelated party
  - Seller must hold less than 20% of the business after the sale
- An opportunity zone business is a trade or business in which:
  - Substantially all of the tangible assets of business must be used in an opportunity zone;
  - At least 50% of gross income earned in active conduct of a business in an opportunity zone;
  - Substantially all of intangible property used in active conduct of business;
  - Less than 5% unadjusted basis of property is nonqualified financial property; and
  - Is not a "sin business"
    - Includes golf courses, country clubs, massage parlors, hot tub facilities, gambling facilities, and stores with principal businesses of selling alcoholic beverages for consumption off premises.

Investor Focus

- Opportunity zone funds will attract investors for various reasons:
  – Impact investors with focuses on:
    - Particular types of investments (i.e. solar or healthcare)
    - Specific geographies (i.e. urban or local)
  – Strong risk-adjusted returns for equity investments
  – Tax strategies
  – Match with other incentives: New Market Tax Credits, Historic Tax Credits, Enterprise Zones

Opportunity Zone Resources

- IRS.GOV
- EIG.ORG
- CDFIFUND.GOV

Bring us Your Investment Opportunities

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