



Opportunity Zones Program

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Vice President



Cayuga County
March 4, 2019



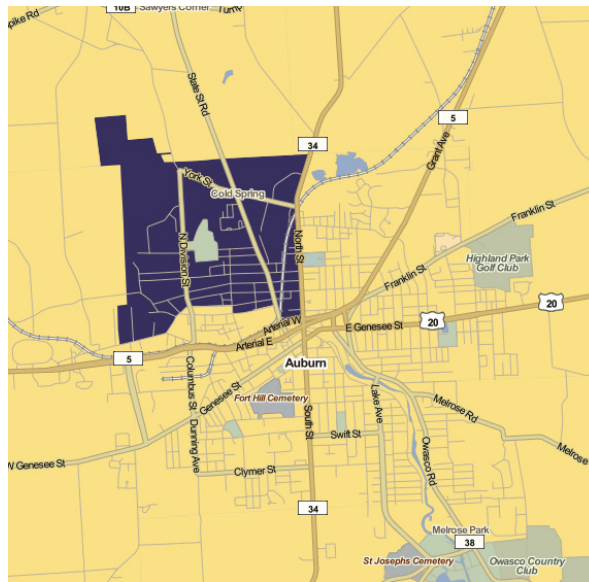
Agenda



- OZ Designations
- Purpose & Tax Benefits
- Definitions & Deal Structure
- Example
- Resources
- Your Next Steps

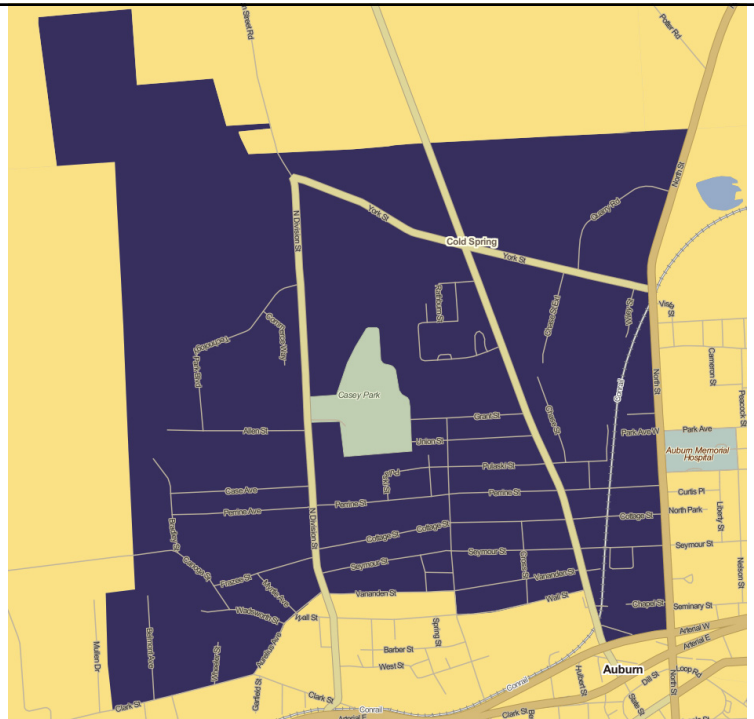


Designated Census Tract



Source: <https://go.bakertilly.com/contactbtc0618>

Designated Census Tract



Purpose

Tax Cuts and Jobs Act of 2017

Opportunity Zones Program provides tax benefits to encourage private investment in low income communities



Tax Benefits

1. Defer Existing Gain

2. Reduce Existing Gain

3. Eliminate Future Gain



Tax Benefits

1. Defer Existing Gain

The Investor has a pre-existing capital gain.

Instead of paying today, pays in 2027 when filing 2026 return.

Time-value-of-money (@9% ~ 50% reduction)



Tax Benefits

2. Reduce Existing Gain

The Investor has a pre-existing capital gain.

If QOF held at least 7 years, a 15% step-up in basis,
therefore a 15% reduction in tax.

If QOF held at least 5 years, a 10% step-up in basis.



Tax Benefits

3. Eliminate Future Gain

If the Investor holds to QOF investment for at least 10 years, the gain on the OZ investment can be fully sheltered from tax.

(cost basis raises to FMV)



Tax Benefits

What does this mean?

IRR could be increased by 2-3 percentage points.

e.g. annual return of 8% becomes 11%

Marginal project becomes an investment-worthy one.



Tax Benefits

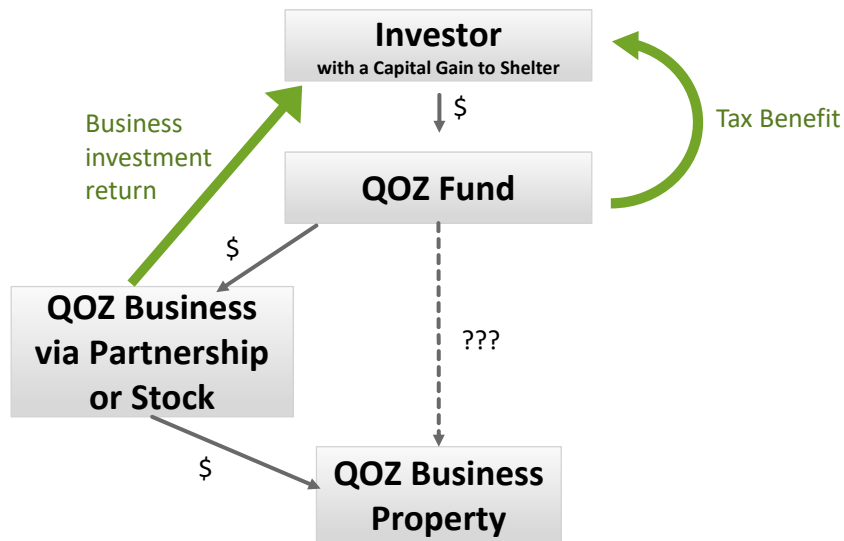
Why not just do
a 1031
exchange?

Opportunity Zone:

- Any asset, not just real estate
- No “like-kind” requirement
- Invest only the capital gain, not the full basis + gain
- Eliminates future capital gain entirely



Definitions and Deal Structure





Definitions and Deal Structure

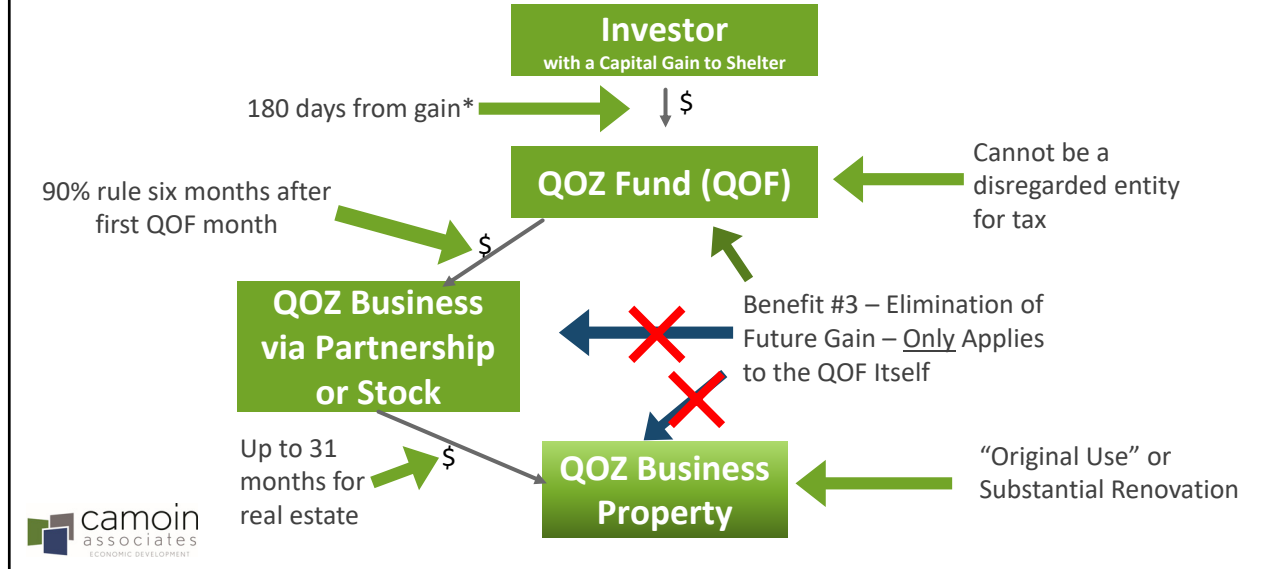
1. **Qualified Opportunity Zone (QOZ)** - Census Tracts as designated by Treasury
2. **Qualified Opportunity Fund (QOF)** - Investment vehicle taxed as partnership or corporation, formed to invest in qualified OZ property. Self-certifies to IRS and meets tests annually (90% of assets in OZ property).
3. **Qualified Opportunity Zone Property (QOZP)** - Can be either (a) ownership of stock or partnership interest in a qualified OZ business, or (b) qualified OZ business property
4. **Qualified Opportunity Zone Business Property (QOZBP)** - tangible property purchased after 2017, either new construction or substantial renovation, used in OZ



Definitions and Deal Structure

5. **Qualified Opportunity Zone Business (QOZB)**
 - a) 70% of tangible property is QOZBP - i.e. construction/renovation after 2017 in an OZ
 - b) 50% of gross income derived from OZ
 - c) "Substantial portion" of intangible property used in the conduct of business
 - d) Less than 5% of property is non-qualified financial property (think: securities, but excludes working capital held as cash or cash-equivalent)
 - e) Not a "sin business"

Definitions and Deal Structure



Example Deal for Manufacturer

2019

Manufacturer wants to expand, needs to make a \$40mm investment in real estate. Investor has a \$10mm capital gain from sale of stock in Jan 2019, forms QOF in Feb 2019 and invests \$10mm - can now defer tax until Dec 31, 2026

2019-2021

In March 2019, QOF creates RealEstateCo and invests \$10mm. RealEstateCo borrows \$30mm, buys land, builds \$40mm building, leases it to Manufacturer on a gross lease (not NNN)

Example Deal for Manufacturer

Dec 31, 2026

Investor pays capital gain on only 85% of original gain (i.e. \$8.5mm vs \$10mm)

2029

Investor sells interests in QOF for large gain. Because held more than 10 years, basis is stepped up to FMV, so gain is zero. No tax due.

Return w/o tax benefits = 7%, investor says “no”
Return w/tax benefits = 10%, investor says “yes”

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Resources

Articles and other content:

www.camoinassociates.com/navigator

CDFA Guidance:

www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html

Articles, Content, Investor Fund Lists:

www.novoco.com/

Best Maps:

go.bakertilly.com/contactbtc0618

Your Next Steps

1. Convene an information session: March

Developers, wealth advisors, legal/CPAs, property owners

2. Additional Treasury Guidance: March/April

3. Identify “sweet-spot” projects: April

Ready, low risk, viable, looking for equity to close in 2019/2020

4. Connect projects to investors: April-December

