HOMES  JOBS  COMMUNITY

OPPORTUNITY ZONES 101
Bellingham | March 12, 2019

National Development Council
FEDERAL RESERVE BANK OF SAN FRANCISCO
STATE OF WASHINGTON Department of Commerce
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.
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
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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
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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)
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TAX BENEFITS

Opportunity Zone Investment Timeframe

Taxes Deferred

5 years

10% Tax Reduction

Taxes Deferred

7 years

5% Tax Reduction

Taxes Deferred

10 years

No Taxes due on Gains from OZ Investment

Deferral Ends on 12/31/2026
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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

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

Assumes 7% annual investment appreciation and 23.8% capital gains tax.
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INVESTMENT EXAMPLE

5 YR
Original Capital $500,000
1.8% Return
$546,272

7 YR
Original Capital $500,000
3.3% Return
$629,653

10 YR
Original Capital $500,000
5.85% Return
$882,426

New Investment After Tax
Original Investment
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ECOSYSTEM

Cities
Counties
Economic Developers

Chambers of Commerce
Main Street Groups
CDCs / Neighborhood
Ass’n

Developers
Brokers / Landowners
Companies /
Entrepreneurs
Incubators / Tech
Transfer

Projects

Educate
Source

Connect

Track
Promote

Investors

National Funds (lists!)
Regional Funds
Self-Created Funds
Individuals

Banks
Utilities
CDFIs
Foundations

Institutional
Partners

Universities
Accountants
Attorneys
Financial Advisors

Source: Opportunity Alabama
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**HOW IT WORKS**

1. **Qualified OZ Business Property**
   - Direct Ownership
   - 90% Asset Test

2. **Qualified OZ Partnership Interest**
   - Opportunity Fund
   - Indirect Ownership
   - 70% Asset Test

3. **Qualified OZ Stock**
   - Qualified OZ Business
   - 70% Asset Test
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HOW IT WORKS

Single Investor

Opportunity Fund

OZ Investment

Multiple Investors

Opportunity Fund

Portfolio of OZ Investments
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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
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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)
• 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
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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
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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/](https://ozframework.org/)

- Coordinate and connect key players to get projects done!
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OLYMPIC PENINSULA

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.

- 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

BROWSE INVESTMENTS
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.
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