

# OPPORTUNITY ZONES

## Reinvesting America's \$6.1 trillion in capital gains for revitalization

### Here are the tax benefits of reinvesting in an Opportunity Fund:

Investors can defer capital gains taxes upon selling one of their investments by reinvesting it into an Opportunity Fund or a business located within an Opportunity Zone (OZ). Three tax incentives of doing this are:

1. Owners can defer the payment of capital gains on the sale of an asset until December 31, 2026, or until the end of the fund (whichever comes first), if the gains are reinvested in an Opportunity Fund.
2. Owners can reduce their capital gains if they reinvest their gains into an Opportunity Fund and hold the fund for 5 or 7 years. AFTER 2018 the 7-year provision no longer applies.
3. Owners can permanently remove payment of capital gains if they reinvest in an Opportunity Fund and hold it for more than 10 years.

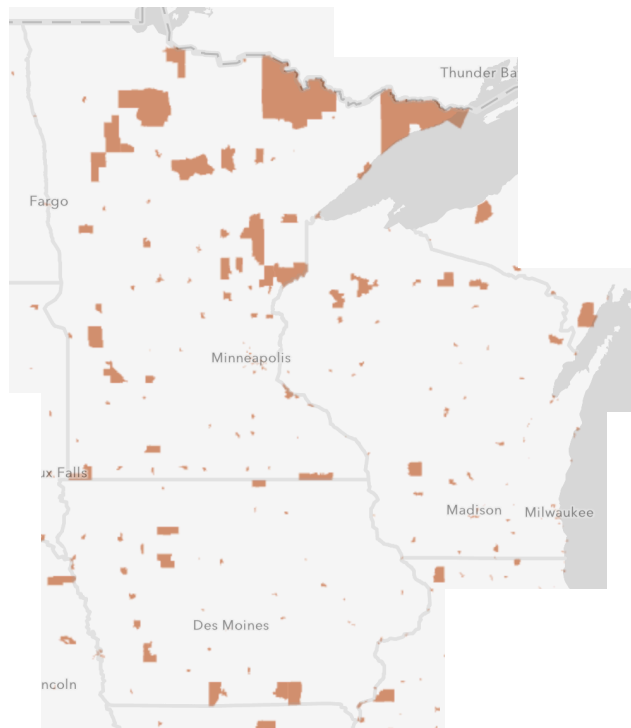
*Governors from all 50 states nominated tracts in March 2018. In June, 8,700+ OZs were selected, such as ones marked orange at right. (Courtesy of EIG.org)*

### What is an Opportunity Zone?

As part of the Tax Cut and Jobs Act passed Dec. 22, 2017, Opportunity Zones (OZs) were created — an idea initially conceived by the Economic Innovation Group (EIG) out of D.C.

At its most essential level, OZs are a federal tax incentive to encourage investing in both urban and suburban low-income communities to stimulate growth. The goal is a long-term investment of up to 10 years in an Opportunity Fund.

EIG estimates there could be \$6.1 trillion in unrealized capital gains available for investments to reinvest in Opportunity Funds.



## What an Opportunity Fund does not support:

1. Leasing a building in a designated OZ area.
2. "Sin industries" including gambling-related businesses, massage parlors, businesses where the primary business is selling of alcohol, country clubs, golf courses (both public and private), suntan facilities or hot tub facilities.

## Where are these Opportunity Zones?

Census tract nominations had to meet at least one of the following economic requirements, including:

- Poverty rate of at least 20%.
- Median income below a certain threshold. The threshold were based on if they were in a metropolitan area or a High Migration Rural County.
- In the most complicated scenario, the population is less than 2,000 AND the tract is located within an Empowerment Zone AND it is contiguous to another low-income community.

You can find a complete list of OZs [on the U.S. Treasury website](#).

### *Clinton, IA Committee of the Whole July 10, 2018*

"[Regarding] Tax Abatement on Single-Family Residential Homes ... Administrator Brooke stated the blighted areas were generally consistent with the areas recently designated as an **'Opportunity Zone'** as well as a portion of the north end of the City."

### *Faribault, MN Housing and Redevelopment Authority August 13, 2018*

"This **census tract** encompasses one of the primary redevelopment areas, and gateways, for the City of Faribault. Multiple efforts are underway to spur development in this area ... A market study was completed to show that the vacancy rate for the City of Faribault was less than 2-percent. To increase the supply of housing in order to meet the needs, the HRA has been working to attract developers (market-rate and affordable) to the City."

### *Whitewater, WI Common Council September 4, 2018*

"The Library and City may be willing to provide the land in the Library Project Area, without charge, to a selected developer as a means of incentivizing this project. Development of the Library Project Area could potentially make use of New Market Tax Credits, investments under **the new Federal Economic Opportunity Zone program** ..."

## How do I get started?

A qualified Opportunity Fund is created through a partnership or corporation with the sole purpose of investing in OZ areas. This is done through a self-certification process available on the [IRS website](#). There can be multiple assets within this fund, but 90% of them must be within qualified OZs.

As an individual or organization, you have 180 days from the sale of an asset to reinvest into a qualified Opportunity Fund. Notably, there is no cap on how much you can be invested in an Opportunity Fund.

*Following approval of census tracts in June, communities across the U.S. have discussed ways to leverage this new but still vague tax benefit system. At left are real discussions from municipality meetings regarding use of OZs.*

*(Courtesy of Curate)*