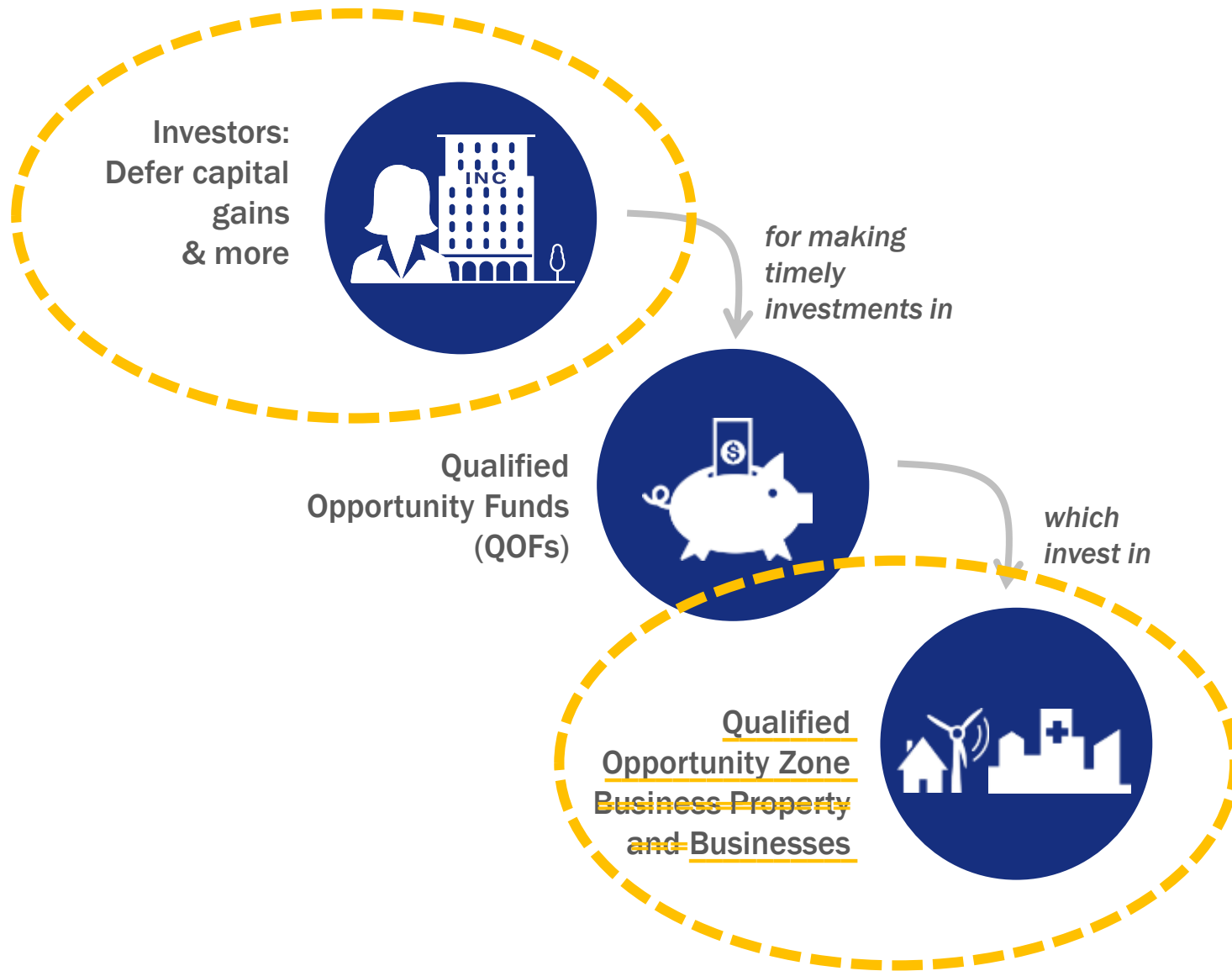


# Opportunity Zones: Guidance Update

**Michael Novogradac**

Novogradac & Company LLP

 @Novogradac



# 3 Tax Incentive Benefits

## 1. Capital Gain Deferral

Defer to  
12/31/2026  
(or earlier)

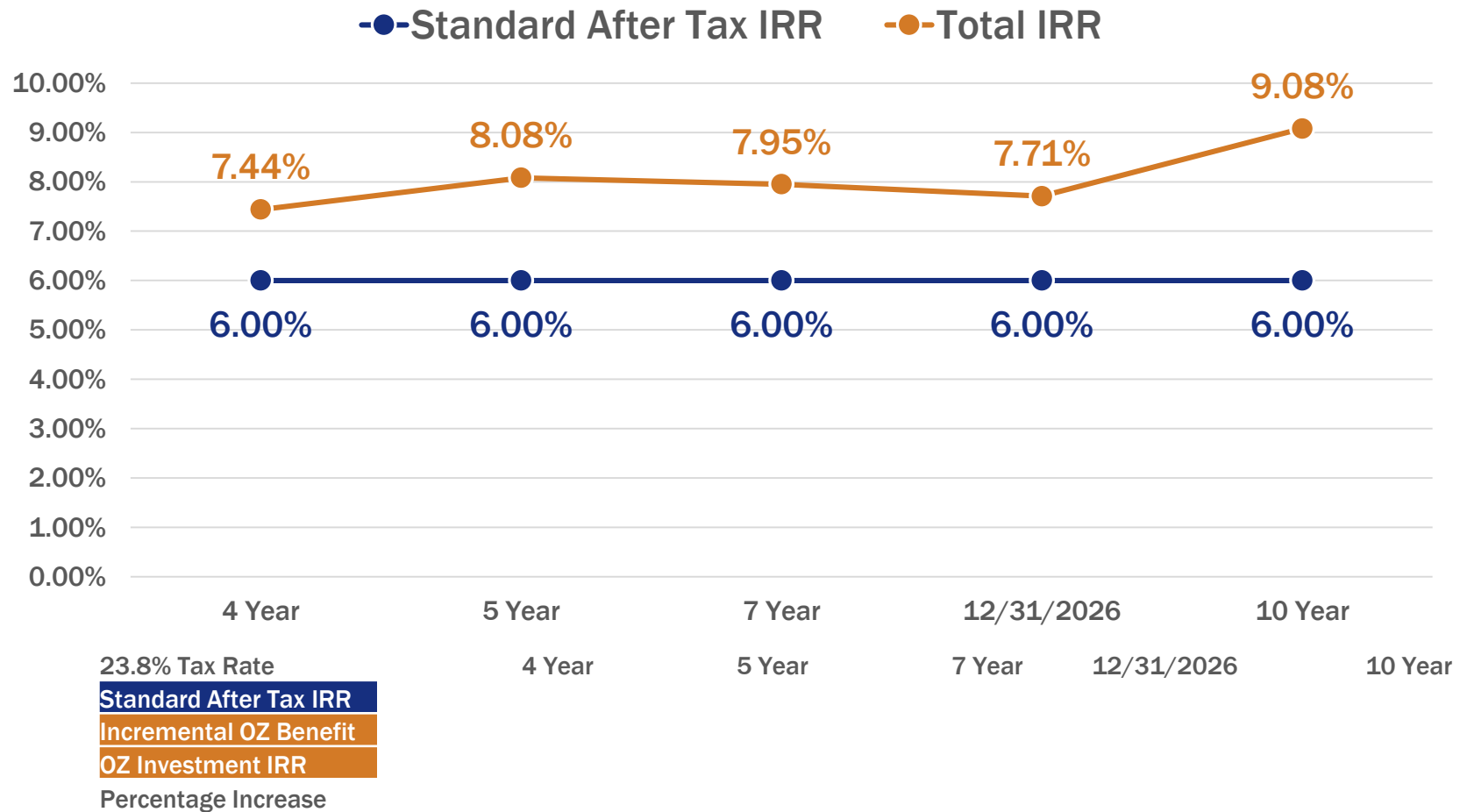
## 2. Partial forgiveness

5/7 year hold  
15% - 12/31/2019  
10% - 12/31/2021

## 3. Forgiveness of additional gains

Ten year hold  
FMV basis,  
when sell interest  
in Fund

# Opportunity Zones Incremental Benefit



# Eligible Businesses

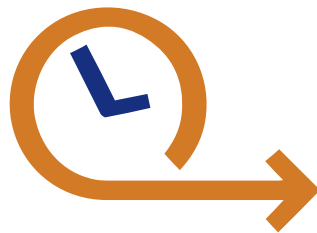
1. **New Businesses** *Forming* in an Opportunity Zones
  - a) Rental Real Estate
  - b) Operating Businesses
2. **Existing Businesses** *Expanding* in an Opportunity Zone
  - a) Rental Real Estate – Renovations > Building Cost
  - b) Operating Businesses – Additions > Existing Tangible Property
3. **Existing Businesses** *Moving* into an Opportunity Zone
  - a) Operating Businesses

# Benefits to Businesses

**Source of equity capital to finance the start-up, expansion or acquisition of a business.**



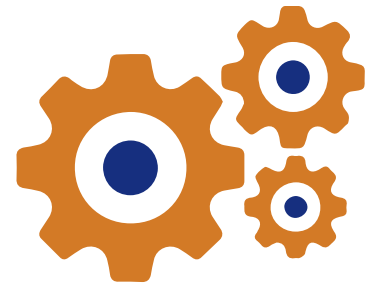
**Large pool of equity capital**



**Patient equity capital**



**Lower cost of capital**



**Investor experience and sophistication**

# Benefits to Businesses

Receive tax benefits on additional dollars invested by business owners.



Deferring income taxes on the invested capital gains

**15%** made by 12/31/19, or

**10%** made by 12/31/21

Elimination of income taxes on the invested gains



10 YEARS +

Elimination of income taxes from appreciation of business value

# Benefits to Businesses

**Benefit from other incentives available and investments made in Opportunity Zones**



**Zone and Region Benefits**



**Catalytic Benefits**



# Business Qualifications

- ✓ Organized as a **corporation** or **partnership** for tax purposes, **including LLCs**.
  
- ✓ Satisfy a **70% tangible property asset test**
  - At least **70% of the tangible property** (e.g., real estate, machinery, furniture) must be:
    - Used in a trade or business
    - Acquired by purchase **after December 31, 2017**
    - Used in an OZ
    - Property for which the owner is the original user of the property in an OZ
      - or the property is substantially improved
    - Substantially improve = Spend more than 100% of adjusted basis over 30 mos

# Business Qualifications

- ✓ Satisfy a **50% active gross income test**
  - At least 50% of gross income of the QOZB is from the active conduct of a trade or business in the OZ.
  
- ✓ Satisfy an **intangible property test**
  - A substantial portion of the intangible property owned by the QOZB is used in the active conduct of the business in the OZ.
  
- ✓ Satisfy a **nonqualified financial property test**
  - Maintain less than 5% of assets as cash, stock and partnership interests, receivables not from ordinary customers, options, annuities, and other sources of cash in excess of the reasonable working capital needs of the business.

# Ineligible Businesses

## Can't be a "Sin Business"

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 beverages for consumption off premises.

# When to Expect Further Updates?

- ... Tranche 1
- ... Tranche 2
- ... Tranche 3

This document will be submitted to the Office of the Federal Register (OFR) for publication. The version of the document released today may vary slightly from the published document if minor editorial changes are made during the OFR review process. The document published in the Federal Register will be the official document.

[4830-01-P]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

[REG-115420-18]

RIN 1545-BP03

Investing in Qualified Opportunity Funds and Taxing Capital Gains

AGENCY: Internal Revenue Service (IRS)

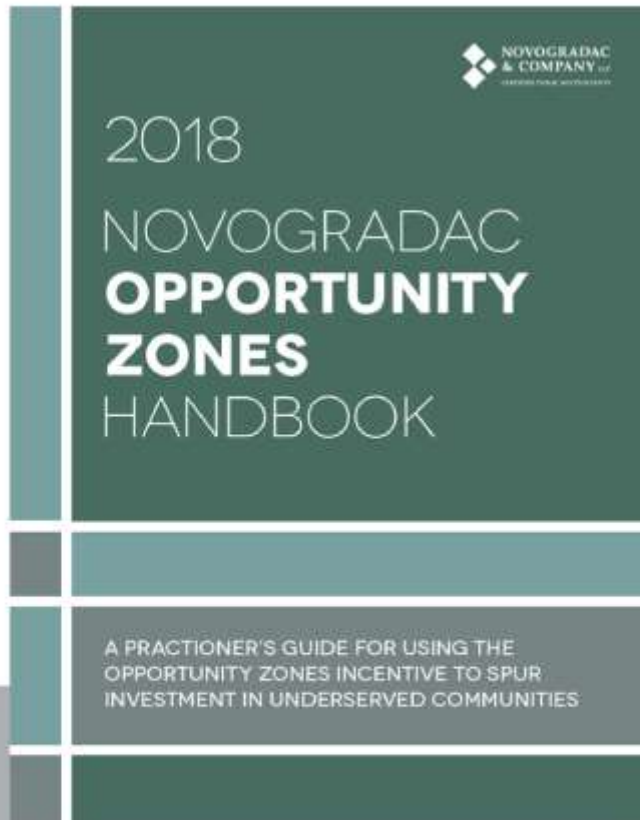
ACTION: Cancellation of notice of public hearing on proposed rulemaking.

SUMMARY: This document cancels a public hearing on proposed regulations under section 1400Z-2 of the Internal Revenue Code and on capital gains invested in qualified opportunity funds. A new public hearing date on these proposed regulations will be announced in the future. The public hearing on these proposed regulations has been restored. The new hearing will be scheduled for a date that is at least two weeks after the issuance of the new notice of public hearing.

DATES: The public hearing, originally scheduled for January 10, 2019 at 10:00 a.m. is cancelled. A new date for a public hearing will be published in the Federal Register once appropriate for the Department of the Treasury have been issued.

FOR FURTHER INFORMATION CONTACT: Carrie Mudd, Director, Legal Processing division (Procedure and Administration) at (202) 317-5280 (not a toll-free number).

**HEARING  
POSTPONED  
UNTIL  
CONCLUSION OF  
SHUTDOWN  
Set for 2/15**



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# Opportunity Zones: Guidance Update

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