



Opportunity Zones

Governor's Office of Business and
Economic Development



February 2019 | San Jose, CA

Section 1:

Opportunity Zone Background

Tax Cuts and Jobs Act 2017

How the California Zones were selected

Opportunity Zones Map

Tax Cuts and Jobs Act 2017

- Opportunity Zones were established by the ratification of the Tax Cuts and Jobs Act of 2017.
 - U.S. Investing in Opportunities Act created tax incentives for investment in designated census tracts called Opportunity Zones.
 - Designed to spur growth into low-income communities by encouraging reinvestment of capital gains into certified Opportunity Funds.
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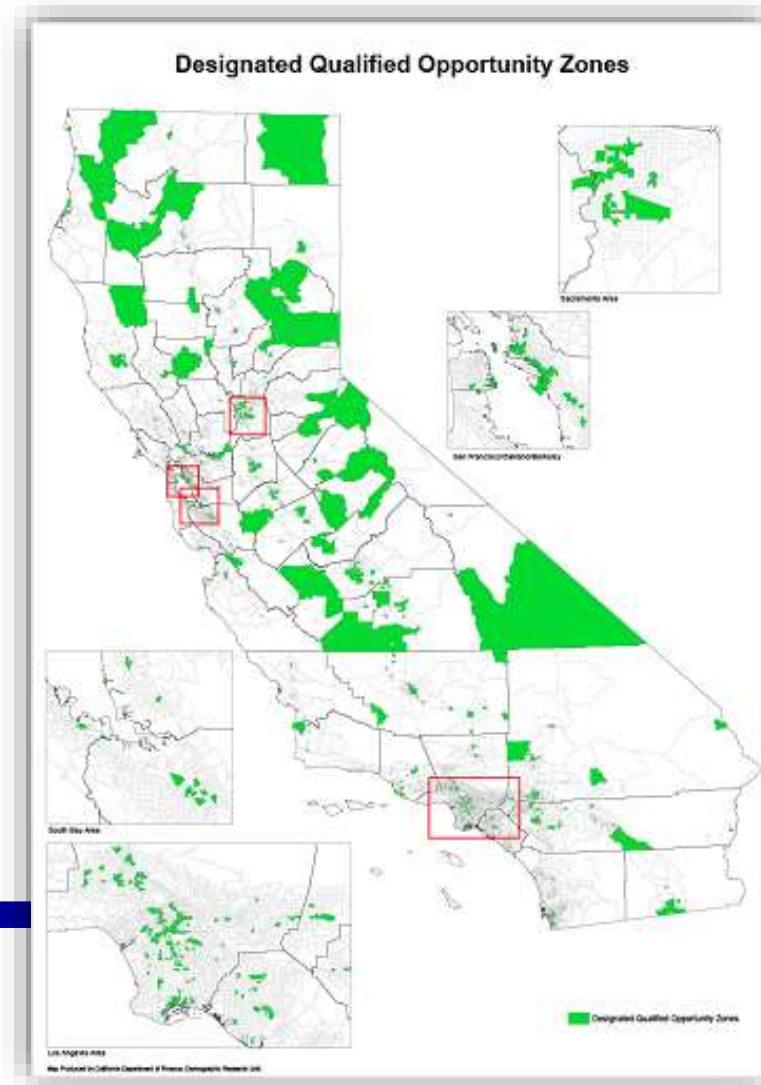
How the California Zones were selected

- Governor allowed to designate 25% of census tracts which had:
 - ❖ Poverty rates of at least **20** percent or
 - ❖ Median family incomes of no more than **80** percent of statewide or metropolitan area family income
 - The 798 preliminary tracts designated were based on:
 - ❖ **Focus on Poverty.**
 - ❖ **Areas with Business Activity.**
 - ❖ **Geographic Diversity.**
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How the California Zones were selected

- Comment Period:
 - ❖ 2,684 comments; regarding 1,518 individual census tracts
 - ❖ From 221 individuals, cities, counties, legislators and organizations.
 - Final Designation determined using the following:
 - ❖ **Adjust for High Median Incomes.**
 - ❖ **Follow Local Guidance When Possible.**
 - ❖ **Remove Tracts when Critiqued.**
 - ❖ **Focus on Overlap with Existing Programs.**
 - ❖ **Add Tracts When Requested.**
 - ❖ **Geographic Distribution.**
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Opportunity Zones Map



Section 2:

Regulations Guidance

Where the Regulations are now

Revenue Rule 2018-29

Illustration of Form 8996

Impact of Federal Government Shutdown

...Future Timeline

Where the regulations are:

- REG-115420-18
 - ❖ <https://www.irs.gov/pub/irs-drop/reg-115420-18.pdf>
 - Guidance document
 - ❖ Incomplete, numerous sections “Reserved” for future clarification
 - ❖ Lacks clarity on Businesses in Opportunity Zones
 - Public Comment Submissions
 - ❖ Ended December 28, 2018
 - ❖ Public Hearing Scheduled January 10, 2019
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Rev. Rule 2018-29 brief

- Section 1400Z-2: Special Rules for Capital Gains Invested in Opportunity Zones
 - ❖ <https://www.irs.gov/pub/irs-drop/rr-18-29.pdf>
 - Identifies an Issue
 - Provides Facts about that issue
 - Provides the Law and Analysis reference
 - ❖ Erika C. Reigle of the Office of Associate Chief Counsel Income Tax & Accounting. (202) 317-7006
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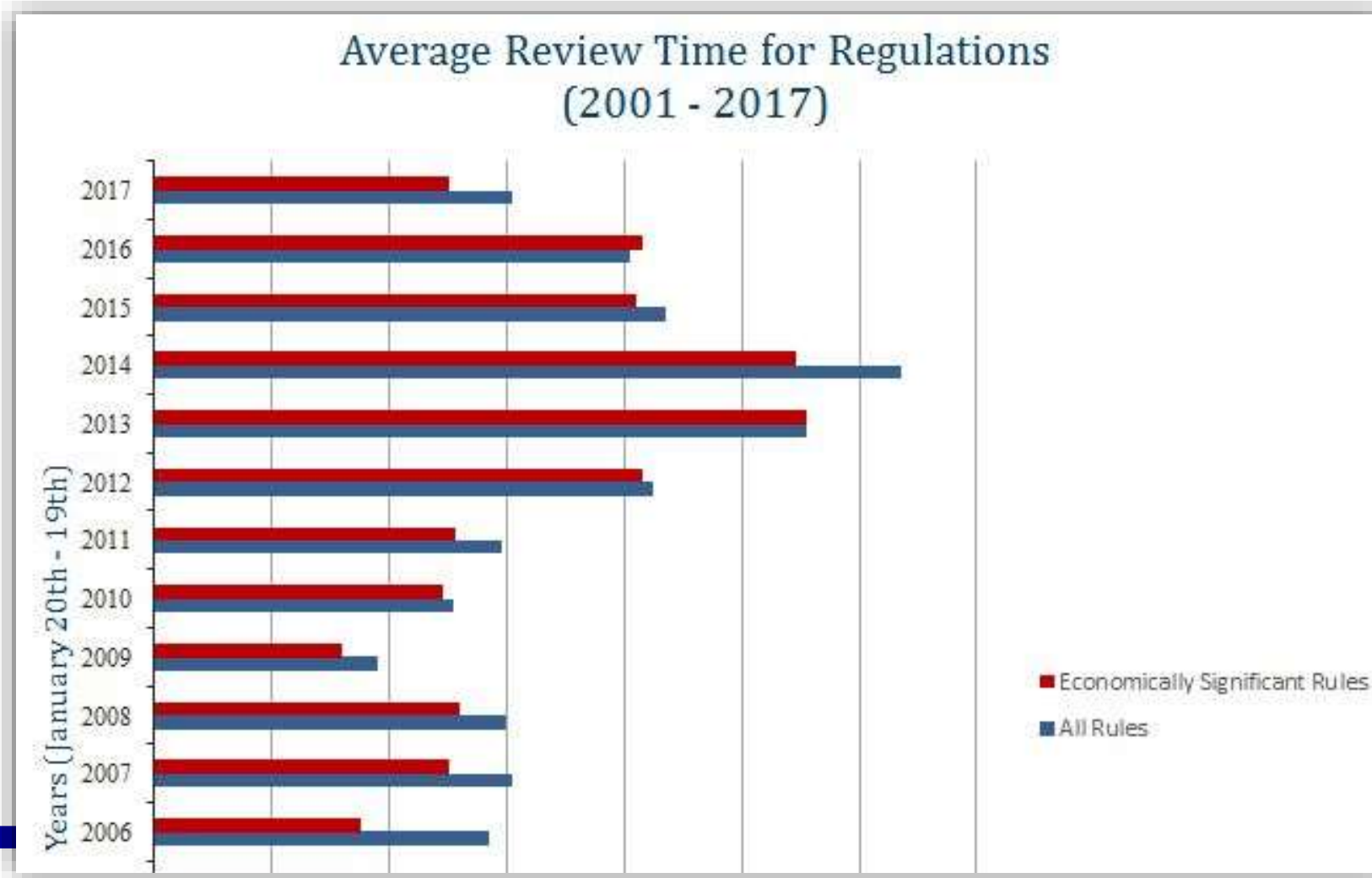
Illustration of Form 8996

Form 8996 <small>(December 2018) Department of the Treasury Internal Revenue Service</small>	Qualified Opportunity Fund ▶ Go to www.irs.gov/Form8996 for the latest information. ▶ Attach to your tax return. See instructions.	OMB No. 1545-0123 Attachment Sequence No. 996
Name _____		Employer identification number _____
Part I General Information and Certification		
1 Type of taxpayer: <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership 2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)? <input type="checkbox"/> No. STOP. Do not file this form with your tax return. <input type="checkbox"/> Yes. Go to line 3. 3 Is this the first period the taxpayer is a Qualified Opportunity Fund? <input type="checkbox"/> Yes. By checking this box, you certify that by the end of the taxpayer's first qualified opportunity fund year, the taxpayer's organizing documents include a statement of the entity's purpose of investing in qualified opportunity zone property and the description of the qualified opportunity zone business. See instructions. <input type="checkbox"/> No. Go to Part II. 4 If "Yes" on line 3, list the first month in which the fund chooses to be a Qualified Opportunity Fund. ▶ _____		
Part II Investment Standard Calculation		
5 Total qualified opportunity zone property held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	5	
6 Total assets held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	6	
7 Divide line 5 by line 6.	7	
8 Total qualified opportunity zone property held by the taxpayer on the last day of the taxpayer's tax year	8	
9 Total assets held by the taxpayer on the last day of the taxpayer's tax year	9	
10 Divide line 8 by line 9.	10	
Part III Qualified Opportunity Fund Average and Penalty		
11 Add lines 7 and 10	11	
12 Divide line 11 by 2.0. See instructions if Part I, line 3 is "Yes"	12	
13 Is line 12 equal to or more than 0.90? <input type="checkbox"/> Yes. Enter -0- on this line and file this form with your tax return. <input type="checkbox"/> No. The fund has failed to maintain the investment standard. Complete Part IV to figure the penalty. Enter the penalty from line 8 of Part IV on this line and file this form with your tax return.		

Impact of the Government shutdown

- Public Hearing scheduled for February 14, 2019
 - ❖ Delayed release of and compilation of additions to existing regulations
 - ❖ 45-60 day period AFTER the hearing for release is typical
 - ❖ Expectations for an accelerated review
 - Another round of review, comment, and hearing is expected after release.
 - ❖ Two weeks minimum announcement
 - ❖ 45-60 days for completion
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Illustration of Review Time



Related Legislation

- S. 3648 (Burr)
 - ❖ Hurricanes Florence and Michael and California Wildfire Tax Relief Act
 - ❖ Introduced into Senate 11/15/2018
 - Posits the inclusion of disaster areas to Opportunity Zone totals if not present

 - H.R. 7242
 - ❖ Disaster Recovery and Opportunity Act of 2018
 - ❖ Introduced into House 12/10/2018
 - This bill amends the Internal Revenue Code to allow the chief executive officer (e.g., governor) of a state to designate certain population census tracts in areas related to federally declared disasters as opportunity zones. This makes investments in the areas eligible for various tax incentives.
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Section 3:

Navigating the State of California's expected rulings

SB 635

Page 94

EIFDs

Annual Meeting

SB 635

- https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB635
 - Approved by Governor on September 28, 2018
 - ❖ Authorized GO-Biz to develop content
 - ❖ Public Dissemination
 - ❖ Annual Meeting
 - ❖ Regarding geographically targeted economic development programs
 - ❖ Opportunity Zones
 - ❖ Promise Zones
-

Page 94

- Opportunity Zone Conformity to Federal program
 - ❖ Affordable Housing
 - ❖ Green Technology
 - EIFDs
 - ❖ Paired with Opportunity Zones
 - ❖ Governor's Office of Business and Economic Development charged with fostering relationships between:
 - EIFDs
 - Investors
 - State to explore layering additional programs related to affordable & moderate-income housing.
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EIFDs

- Enhanced Infrastructure Financing Districts
 - Approved by Governor September 29, 2014
 - ❖ SB 628 (Beall)
 - From Page 94 “The state will also make EIFDs a more attractive economic tool by pairing them with the federal Opportunity Zones program.”
 - “Additionally, the Governor’s Office of Business and Economic Development will help foster relationships between local EIFDs and investors to facilitate investments for disadvantaged communities or other targeted areas.”
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Who to contact for questions

- Get in Touch
 - ❖ Governor's Office of Business and Economic Development
 - ❖ (877) 345-4633
- Stay Informed & Annual Meeting
 - ❖ Informational emails surrounding key developments
 - ❖ Future: Sign-up sheet on Business.ca.gov
 - ❖ zones@gobiz.ca.gov

