OPPORTUNITY ZONES – AN OVERVIEW

STEP 1 Governor declares which census tracts are OZs by <u>Mar. 21, 2018</u>. (1)

STEP 2 Investors sell off assets, generate capital gains.

STEP 3 Capital gains invested in "OZ Fund" within 180 days. (2)

STEP 4 OZ Fund invests in "Opportunity Zone Businesses." (3)

STEP 5 Investors hold OZ Fund interest for 5+ years.

STEP 6 Investors "cash out" of OZ Fund after 10+ years.

BENEFITS

TAX DEFERRAL

Tax on gains invested in OZ Fund is deferred until earlier of (i) date investment is sold or (ii) 2026.

TAX REDUCTION

If investment held for 5 years, capital gains tax payable reduced by 10%. Holding for 7 years reduces tax payable by 15%.

NO TAX ON APPRECIATION

No cap. gains tax owed by Fund investors on disposition of OZ Fund interests if held for 10+ yrs.

NOTES

(1) Governors can select up to 25% of NMTC-eligible census tracts as OZs. No method for selection dictated by statute. Optional 30 day extension period for March 22 deadline. Certain non-NMTC tracts may be eligible as well.

(2) OZ Funds must keep 90% of assets invested in stock or p'ship interests of OZ businesses or tangible property used in OZs. Any entity can manage an OZ fund.

(3) Examples provided for illustration only. Can be <u>any</u> business if "substantially all" tangible personal property was acquired after 2017 for use in OZ and at least 50% of income is derived from OZ activities (among other requirements).

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Example: A corporation is holding stock it originally acquired for $600. It sells the stock for $1,000, realizing $400 in income from capital gains. It will take the $600 and invest in a standard fund that is expected to appreciate at 7% on an annual basis. The question is whether it should invest the $400 gain in the standard fund or the Opportunity Zone Fund (each of which are assumed to appreciate at 7% per year). All taxes calculated at the 21% corporate rate.

	STANDARD FUND		OZ FUND	Neutral Fund Rate[1]
	Tax on $400 Gain		Tax on $400 Gain	
Year 0 (2018)	$400 - $84 = $316		$400 - $0 = $400	
	Tax on Fund Gain		Tax on $400 Gain; Tax on Fund Gain	
Year 5 (2024)	$443 - $27 = $416	+$35	$561 - $76 - $34 = $451	5.25%
Year 7 (2025)	$507 - $40 = $407	+$113	$642 - $71 - $51 = $520	5.33%
Year 10 (2028)	$622 - $64 = $558	+$158	$787 - $71 - $0 = $716	4.63%

(1) The "neutral fund rate" is the annual rate of return (given for each year level) at which an investor would be indifferent between investing in the standard fund (at 7%) and the OZ Fund. It provides a floor for how low return rates could be in OZ Funds in order to still attract investor attention.