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.
Opportunity Zones

OVERVIEW

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
Opportunity Zones

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
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)
Opportunity Zones

TAX BENEFITS

Opportunity Zone Investment Timeframe

- Taxes Deferred for 5 years
- 10% Tax Reduction

- Taxes Deferred for 7 years
- 5% Tax Reduction

- Taxes Deferred for 10 years
- No Taxes due on Gains from OZ Investment

Deferral Ends on 12/31/2026
Opportunity Zones

**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

HOW IT WORKS

Investor(s)

Opportunity Fund

Direct Ownership

1. Qualified OZ Business Property

90% Asset Test

2. Qualified OZ Partnership Interest

Indirect Ownership

3. Qualified OZ Stock

70% Asset Test

Qualified OZ Business
Opportunity Zones

HOW IT WORKS

Single Investor

- Opportunity Fund

OZ Investment

Multiple Investors

- Opportunity Fund

Portfolio of OZ Investments
Opportunity Zones

WASHINGTON OPPORTUNITY ZONES
Opportunity Zones

ECOSYSTEM

Source: Opportunity Alabama
Opportunity Zones

A TOOL FOR BROWNFIELD REDEVELOPMENT?

• Mission-aligned with OZ, but some concerns:
  • "Original Use" or "Substantial Improvement" requirement
    • Concerns:
      • "Substantial Improvement" doesn't include value of land
      • 30-month window for substantial improvement too short
    • Possibilities:
      • "Original Use" requirement met if vacant for 5 years
Opportunity Zones

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
Opportunity Zones

THE FINE PRINT: ELIGIBILITY

• Real estate or operating business
• No “sin” businesses (i.e. liquor store, tanning salon)
• Can be new construction or rehabilitation
  • Must result in “original use” of property, or substantial improvement (double basis in building)
• Businesses must meet certain location criteria based on hours worked or wages paid within the zone
Opportunity Zones

DRAFT REGULATIONS

• Round 1 of Draft regulations was released in October 2018, and Round 2 released April 2019
• Links:
  • Round 1 Draft Regulations
  • Round 2 Draft Regulations
  • QOF draft self-certification form (IRS Form 8996)
  • Updates to IRS FAQs
Opportunity Zones

CHALLENGES

• Lacked clear federal guidance until recently
• Gentrification concerns in some areas (i.e. downtown Seattle)
• No guarantees for investment capital
• Opportunity Zone Investments will provide only a portion of needed capital
Opportunity Zones

CONTACT INFORMATION

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