



HOMES / JOBS / COMMUNITY

OPPORTUNITY ZONE VIRTUAL LISTENING SESSION

Washington State | October 23, 2018



Department of Commerce

National Development Council

Partners in Community Development since 1969

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.

IMPACT AT A GLANCE

\$579M for Affordable Housing	\$704M in New Markets Tax Credit Allocation	\$2.5B in Public-Private Partnership Development	\$210M in Small Business Loans	70K+ Practitioners Trained	100+ TA Client Communities
--	---	--	---	---	---



Opportunity Zone Listening Session

BACKGROUND

Established by congress in the Tax Cuts and Jobs Act of 2017

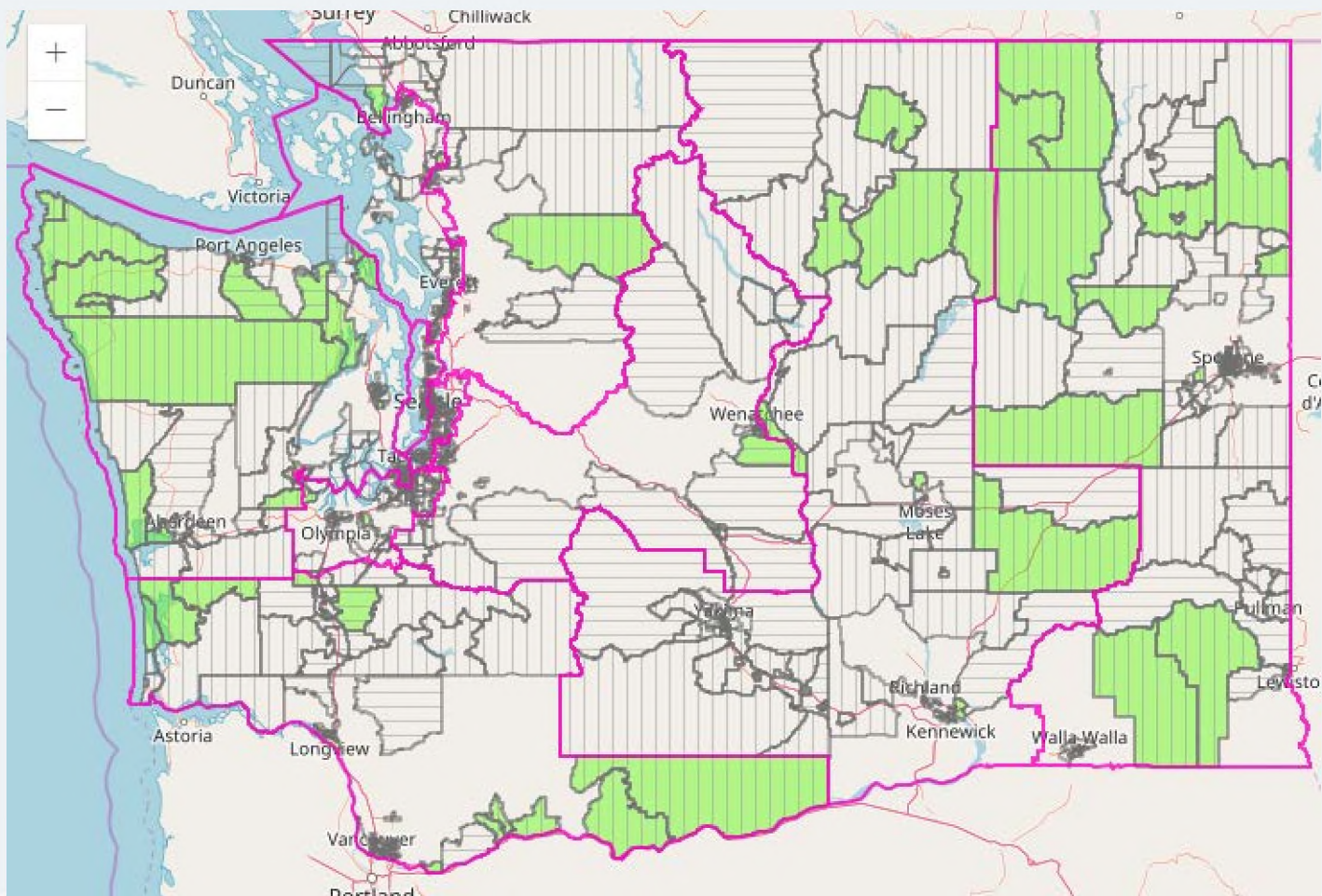
Goal is to spur private sector investment in low income communities

Treasury has issued FAQs, draft regulations and guidance

A “Light Touch” regulatory framework

Opportunity Zone Listening Session

WASHINGTON OPPORTUNITY ZONES



Opportunity Zone Listening Session

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 Zone Listening Session

HOW IT WORKS

Individual invests capital gains into Opportunity Fund

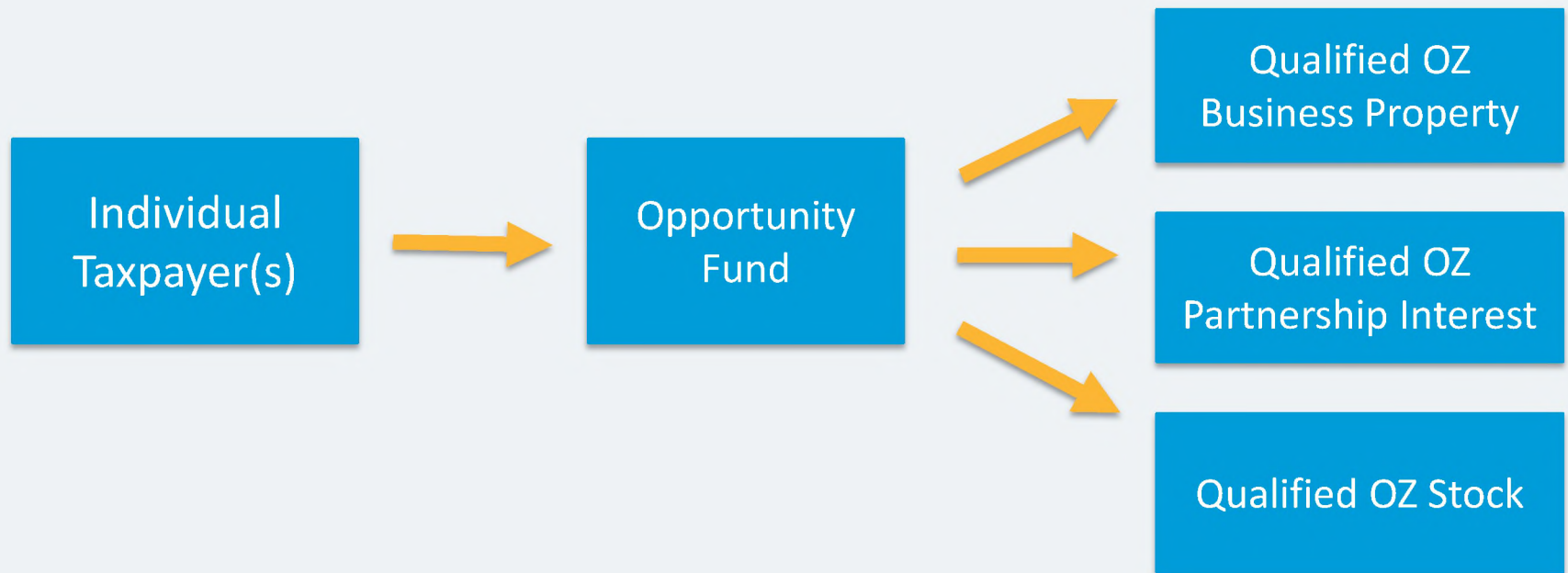
Opportunity Fund invests in qualified Opportunity Zone investments

Qualified investments include:

- Stock or partnership interest in operating business in OZ
- Qualifying property in OZ

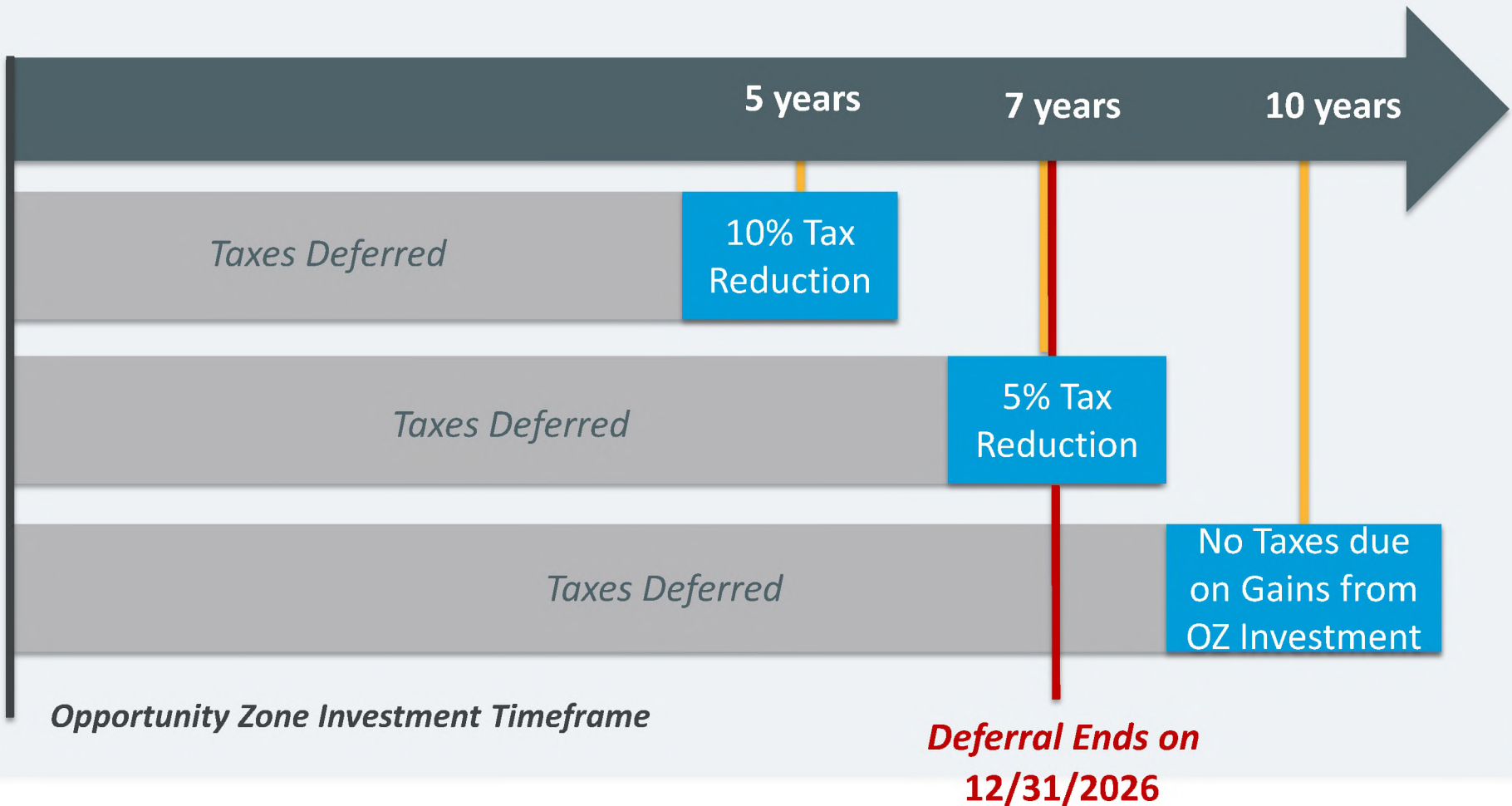
Opportunity Zone Listening Session

HOW IT WORKS



Opportunity Zone Listening Session

TAX BENEFITS



Opportunity Zone Listening Session

INVESTMENT EXAMPLE

**Investor has an Investment
Subject to Federal Capital
Gains Tax**

Investment Amount	\$500,000
Capital Gains Rate	23.80%
Capital Gains Tax Owed	\$119,000

**Invests in Real Estate – Businesses
Located in Designated
Opportunity Zones**

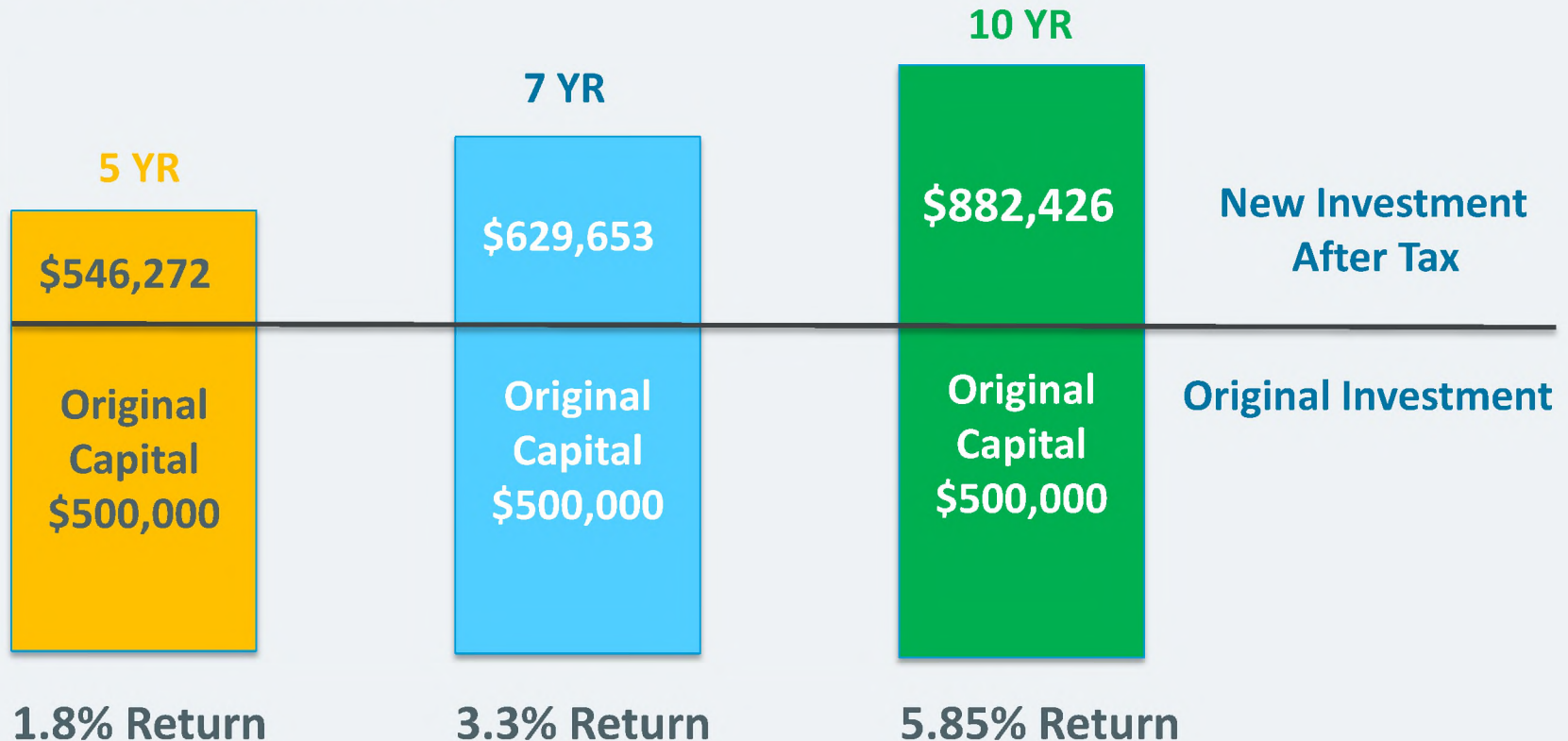


Investor wants a 7% Return

Opportunity Zone Listening Session

INVESTMENT EXAMPLE

Investor Summary



Opportunity Zone Listening Session

DRAFT REGULATIONS

- Proposed Regulations
- Revenue Ruling 2018-29
- QOF draft self-certification form (IRS Form 8996)
- Updates to IRS FAQs

Opportunity Zone Listening Session

DRAFT QOF CERTIFICATION FORM

Form **8996**
(December 2018)
Department of the Treasury
Internal Revenue Service

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: Corporation Partnership

2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)?
 No. STOP. Do not file this form with your tax return.
 Yes. Go to line 3.

3 Is this the first period the taxpayer is a Qualified Opportunity Fund?
 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.
 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 .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	13		

Cat. No. 37820G Form **8996** (12-2018)

Form 8996 (12-2018) Page **2**

Part IV Line 13 Penalty
If you checked "No" in Part III, line 13 complete Part IV to figure the penalty. Enter the number from line 6 below on Part III, line 13. See instructions if Part I, line 3 is "Yes."

	(a) Month 1	(b) Month 2	(c) Month 3	(d) Month 4	(e) Month 5			
1 Total assets on the last day of the month								
2 Multiply line 1 by .90								
3 Total Qualified Opportunity Zone Property on the last day of the month								
4 Subtract line 3 from line 2. If less than zero, enter -0-								
5 Underpayment rate								
6 Multiply line 4 by line 5								
7 Divide line 6 by 12.0. Round up to two decimal places. See instructions if Part I, line 3 is "Yes"								
	(f) Month 6	(g) Month 7	(h) Month 8	(i) Month 9	(j) Month 10	(k) Month 11	(l) Month 12	
1								
2								
3								
4								
5								
6								
7								
8 Penalty. Add columns (a) through (l) of line 7. Enter the total here and on Part III, line 13								\$

Form **8996** (12-2018)

Opportunity Zone Listening Session

DRAFT REGULATIONS

- **TIMING**
 - Taxpayers can invest until 6/30/2027 and, if they hold the investment for 10 years, step up the basis in their QOF investment to FMV
 - Flexibility with timing for QOF to meet 90% assets test
 - “Working capital safe harbor” – project has 31 months to spend OZ capital

Opportunity Zone Listening Session

DRAFT REGULATIONS

- **DEFINITIONS**
 - **“Substantially all”**: 70% of a business’s tangible property must be in an Opportunity Zone
 - **“Substantial improvement”** requirement to double adjustable basis excludes the value of land

Opportunity Zone Listening Session

CHALLENGES

- Had been waiting for **federal guidance**
 - Draft regulations released Friday, 10/19
 - Additional regulations forthcoming
- **Gentrification** concerns
- **No** guarantees
- Opportunity Zone Investments will provide **only a portion** of needed capital

Opportunity Zone Listening Session

CONTACT INFORMATION

Melissa LaFayette | Assistant Director, NDC

mlafayette@ndconline.org

Chuck Depew | Senior Director, NDC

cdepew@ndconline.org

Opportunity Zones: Community Strategies



FEDERAL RESERVE BANK
OF SAN FRANCISCO

Craig Nolte, Regional Manager
Community Development
Federal Reserve Bank of San Francisco
craig.nolte@sf.frb.org
(206) 396-2192

Community Strategies



Community Strategies

Identify key local stakeholders

- Property owners
- Civic officials
- Local companies
- Developers
- Financial institutions
- Foundations
- Community based organizations
- Social service agencies
- Native Corporations
- Federal agencies- RD, HUD, BIA, EDA
- State agencies, ADOs, many others

Community Strategies

Hold a strategy meeting with key stakeholders

- Conduct asset mapping
- Assess and prioritize needs of community
 - Listening sessions
 - Data analysis
- Determine resource gaps

Community Strategies

Seek resources to incentivize OZ investors

- Zoning waivers
- Funding
- Tax incentives
- Other investor requirements
- Incubators, accelerators
- Seek in-kind support
- Services needed to make investment successful
- Loans, other assistance from banks

Community Strategies

Establish an opportunity zone fund

- Communicate with foundations
- Identify companies, organizations, or individuals that may be willing to establish a fund
- Cast a wide net!

Community Strategies

Raise awareness of your opportunity zone

- Convenings – where investors gather
- Website – own and/or state's website
- Brochure - why your OZ is attractive
- Network with financial advisors, CPAs
- Consider collaborating with other OZs
- Promote nationally

Opportunity Zones: Community Strategies



FEDERAL RESERVE BANK
OF SAN FRANCISCO

Craig Nolte, Regional Manager
Community Development
Federal Reserve Bank of San Francisco
craig.nolte@sf.frb.org
(206) 396-2192