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Opportunity Zones



Agenda

- Opportunity Zone Overview
- Opportunity Zones in Southeast Wisconsin
- Benefits to Investors
- Benefits to Property Owners and Developers
- Comparison to 1031
- Case Study – Good City Brewing
- Broker Take-Away

“Opportunity Funds are private sector investment vehicles that invest at least 90 percent of their capital in Opportunity Zones. U.S. investors currently hold trillions of dollars in unrealized capital gains in stocks and mutual funds alone—a significant untapped resource for economic development. Opportunity Funds provide investors the chance to put that money to work rebuilding the nation’s left-behind communities. The fund model will enable a broad array of investors to pool their resources in Opportunity Zones, increasing the scale of investments going to underserved areas.” <https://eig.org/opportunityzones/about>



Opportunity Zones are a law in process

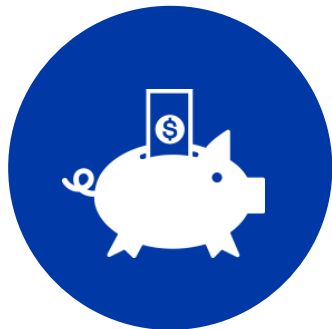
- **Created in the Tax Cuts and Jobs Act of 2017 (TCJA)**
- **New Section 1400Z-2 added to Internal Revenue Code**
- **Program is managed by the U.S. Department of Treasury, Community Development Financial Institutions Fund**
- **Treasury issued additional, interim guidance in October 2018**
- **A final set of guidance is anticipated around year-end**

Taxpayers can get
capital gains
tax deferral
(& more)



*for making
timely
investments in*

Qualified
Opportunity Funds
(QOFs)



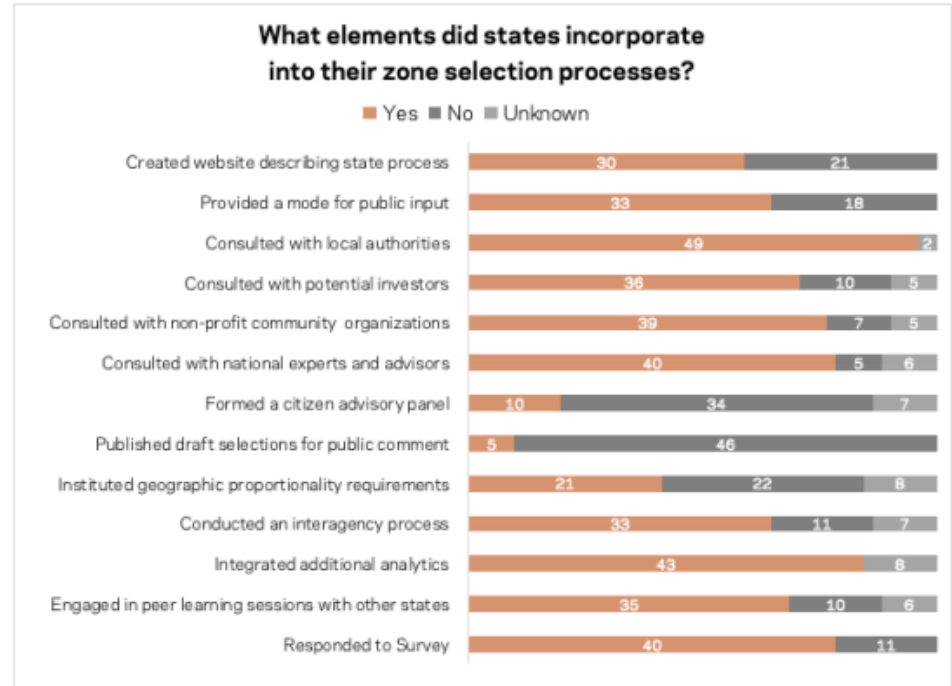
*which
invest in*

Qualified
Opportunity Zone
Property

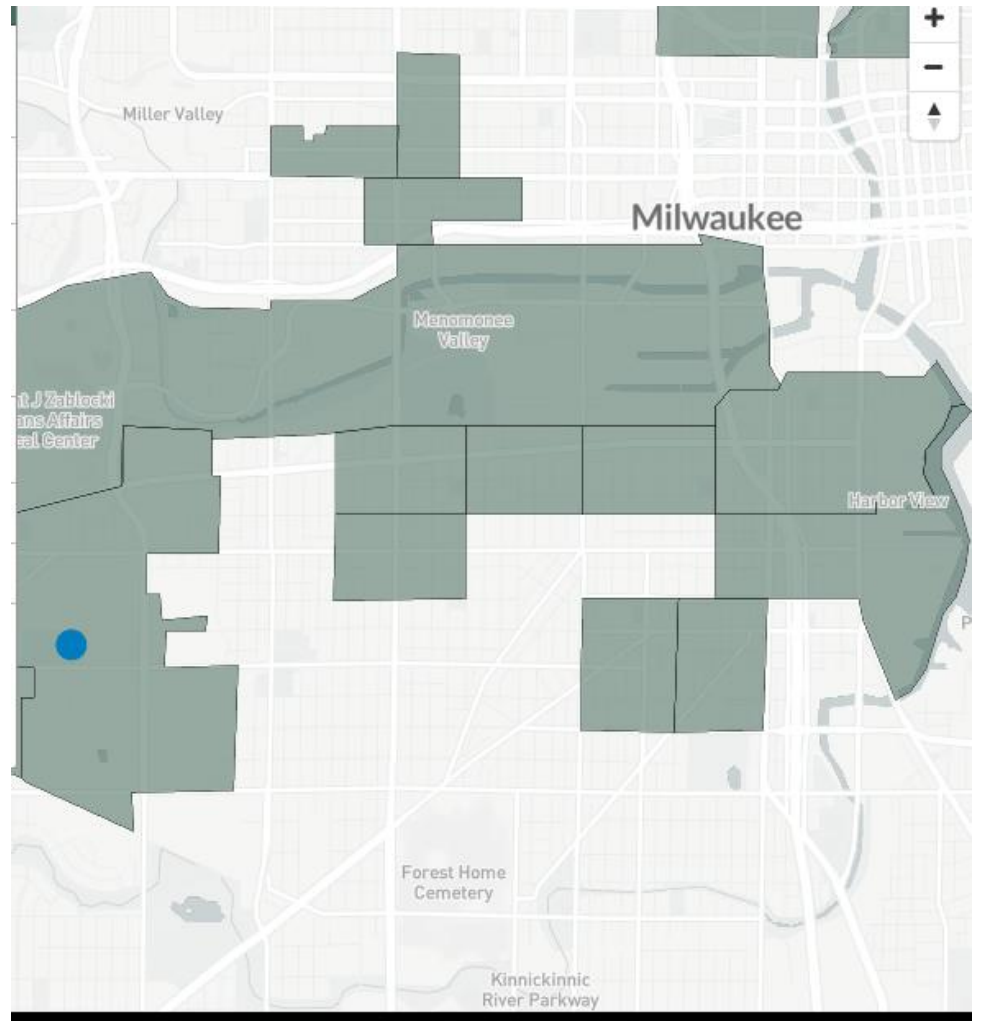


Opportunity Zones are Low Income Communities certified by each state as Opportunity Zones

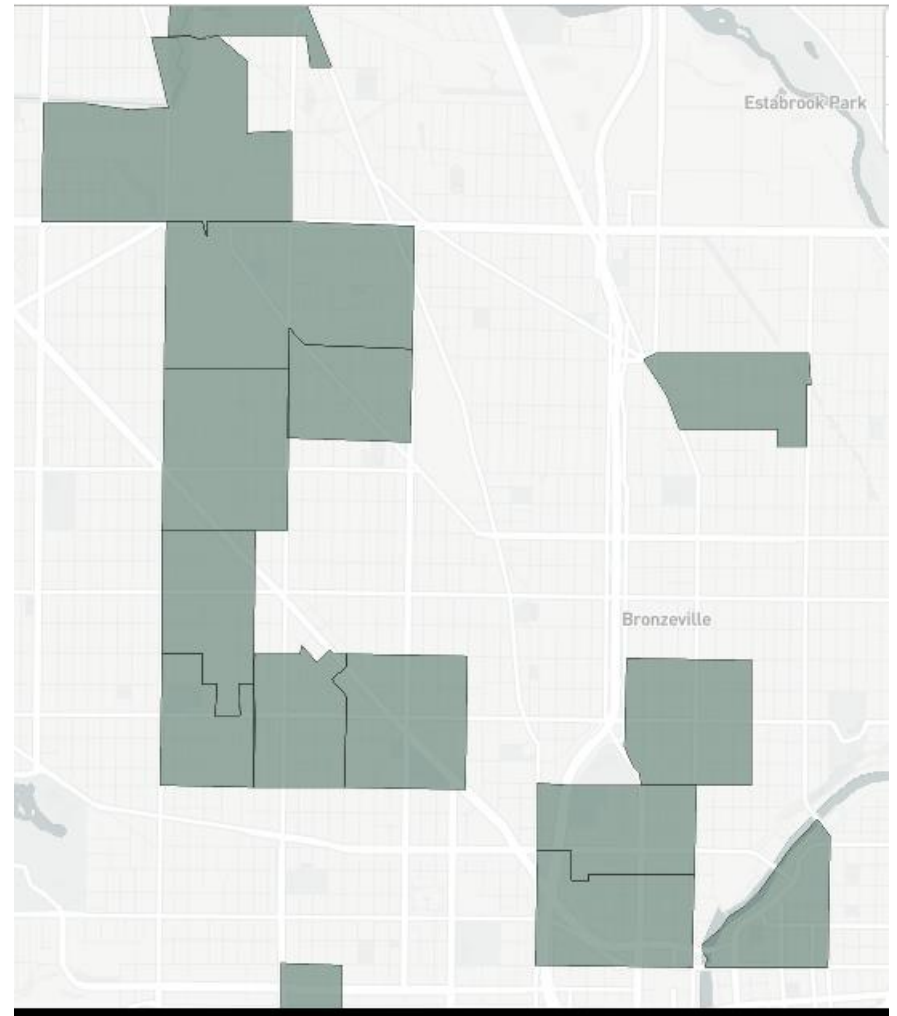
- States consulted with their municipalities, counties, and local and regional economic development organizations in designating their OZs.
- Zones hold their designation until December 31, 2028



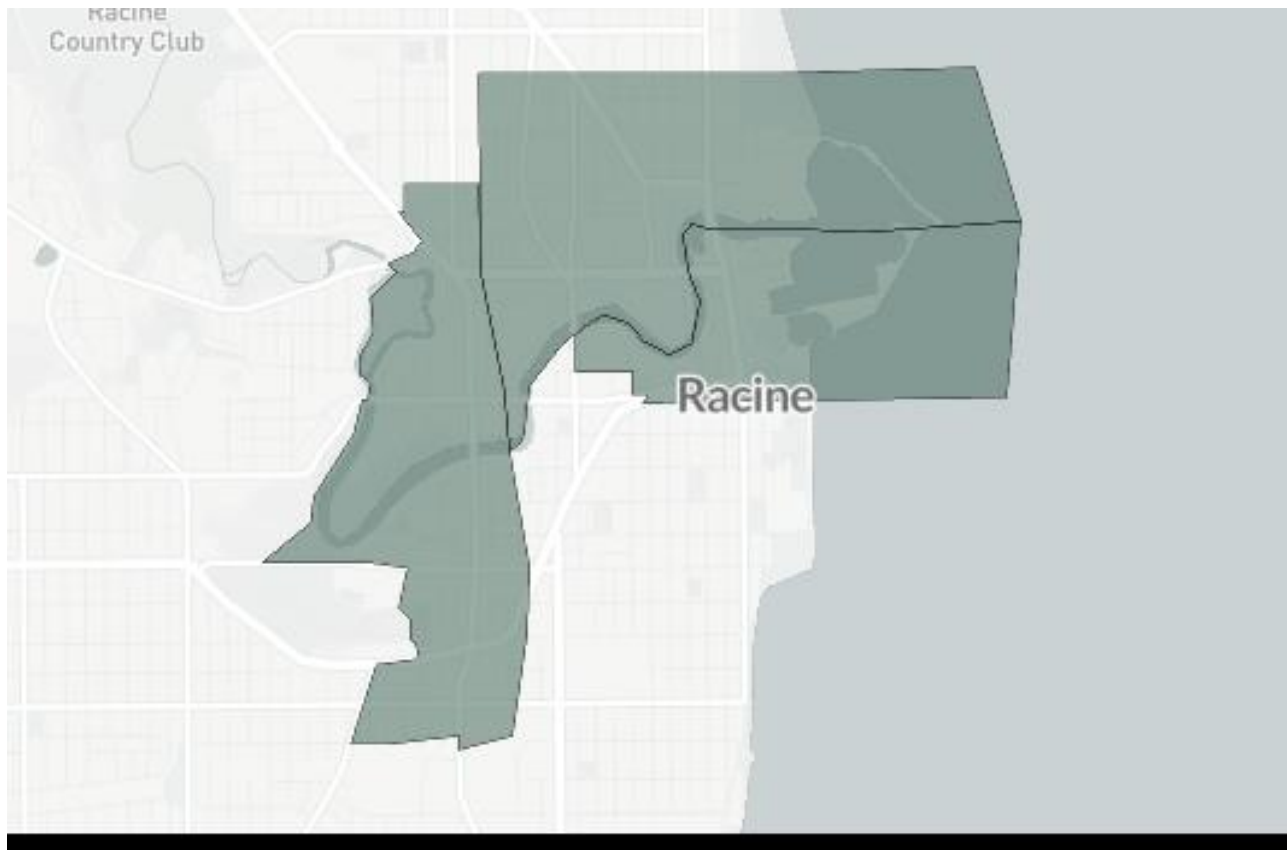
- **Menomonee Valley**
- **Harbor District**
- **Near Westside**
- **West Allis**



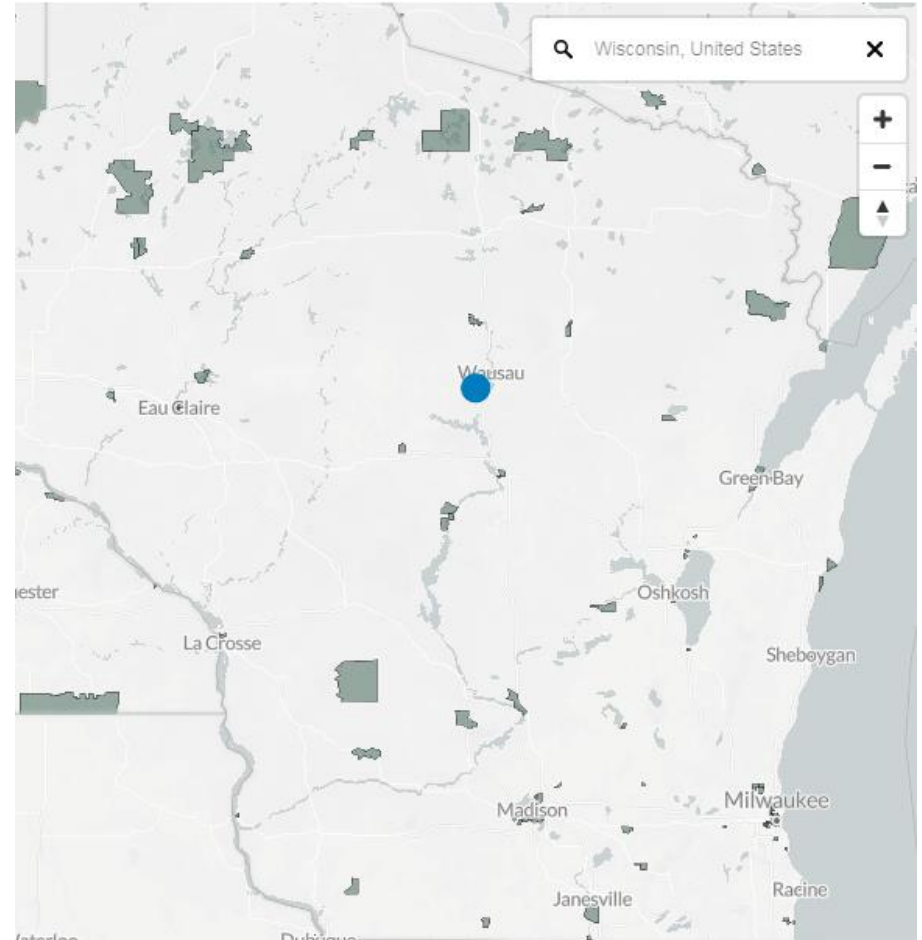
- **30th Street Industrial Corridor**
- **Park East**
- **MLK Dr./Bronzeville**
- **Harambee**
- **Granville - Northridge**



RACINE



- **Fond du Lac**
- **Green Bay**
- **Janesville**
- **Kenosha**
- **La Crosse**
- **Madison**
- **Oshkosh**
- **Sheboygan**



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Qualified Opportunity Fund

- Statutory definition:
 - An **investment vehicle** organized as a **corporation** or a **partnership** for the purpose of investing in **Qualified Opportunity Zone Property (QOZP)**.
- Opportunity Funds self certify
- Noncompliance Penalty
 - 90% asset test
 - Per month penalty equal to % of shortfall x underpayment rate
 - No penalty for reasonable cause
- Qualified Opportunity Funds will be large blind funds, small project specific funds and everything in between

3 Tax Incentive Benefits

1. Gain
Deferral

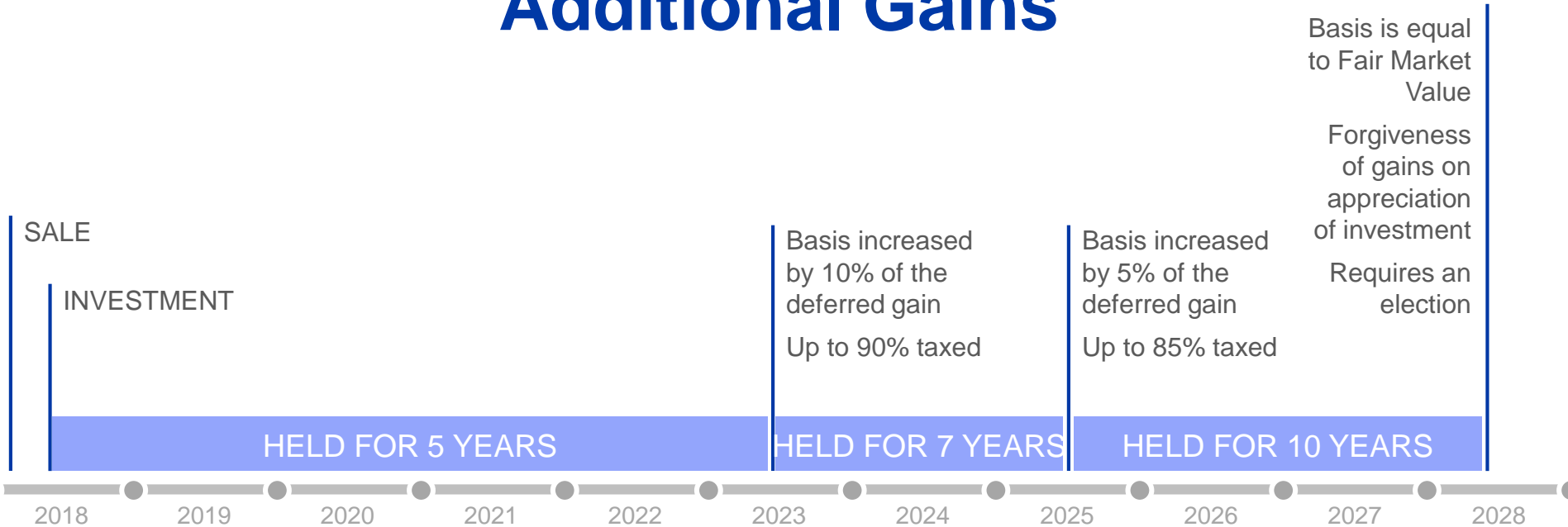
2. Partial
forgiveness

3. Forgiveness of
additional gains

Period of Deferral & Amount Recognized

- Deferral period ends upon the earlier of:
 - Sale of QOF interest or
 - December 31, 2026
- Amount of capital gain tax recognized:
 - Lesser of:
 - Amount of gain deferred or
 - The fair market value of the investment in the QOF interest
 - Minus
 - Taxpayer's basis in the QOF interest (basis in QOF interest initial is deemed to be zero)

Partial Forgiveness and Forgiveness of Additional Gains



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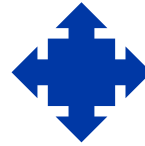
Readily Identifiable Investment Types in Opportunity Zones



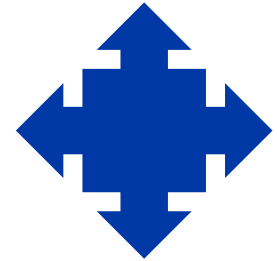
Commercial Real Estate Development and Renovation in Opportunity Zones



Opening New Businesses in Opportunity Zones



Expansion of Existing Businesses into Opportunity Zones



Large Expansions of Businesses already within Opportunity Zones



Commercial Real Estate Development and Renovation in Opportunity Zones



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Qualified Opportunity Zone Businesses (QOZB)

A trade or business in which **substantially all** of the tangible property owned or leased by the taxpayer is **qualified opportunity zone business property** (QOZBP) and:

- At least 50% of income derived from Active Conduct
- Substantial portion of intangible property used in active conduct of business
- < 5 percent unadjusted basis of property is nonqualified financial property (October regulations created a 31 month safe harbor for reasonable working capital held pursuant to a plan and schedule for use)

No “sin businesses” permitted

- 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

Qualified Opportunity Zone Business Property (QOZBP)

- ✓ Tangible property used in a trade or business
- ✓ Acquired by purchase from an unrelated party (20% standard) after December 31, 2017
- ✓ During substantially all of holding period, substantially all the use is in a QOZ
- ✓ Original use in the QOZ commences with the taxpayer

OR

- ✓ Taxpayer substantially improves the property
 - ✓ during any 30-month period after acquisition, additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such period

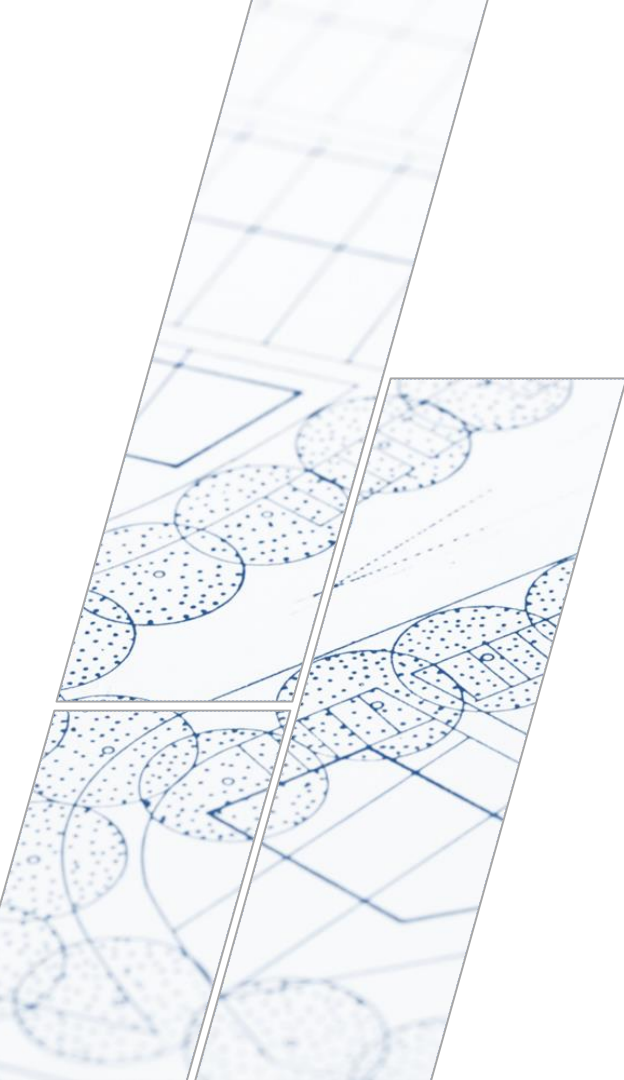


Considerations for Real Estate Developers

- **New construction in an OZ works well**
- **Renovations of existing structures must meet substantial improvement test**
- **Potential that “original use” test could be applied to vacant structures**
- **If the QOZB is an operating company, the company may only need to locate in an OZ but not construct or substantially improve a structure**
- **OZ capital can be layered with other financing incentives**

1031 Comparison

- **No “like kind” requirement**
- **No qualified intermediary necessary**
- **180 days to reinvest**
- **No initial property identification necessary**
- **Benefits to tax payer in additional to deferral**
- **No continuous deferral - taxes on original gain must be paid in April 2027**
- **Potential cash flow issues when taxes are due**



Opportunity Zones Case Study



Former Tower/ A.O. Smith site in October 2009. Note Building 37 (center) is collapsing. (City of Milwaukee)



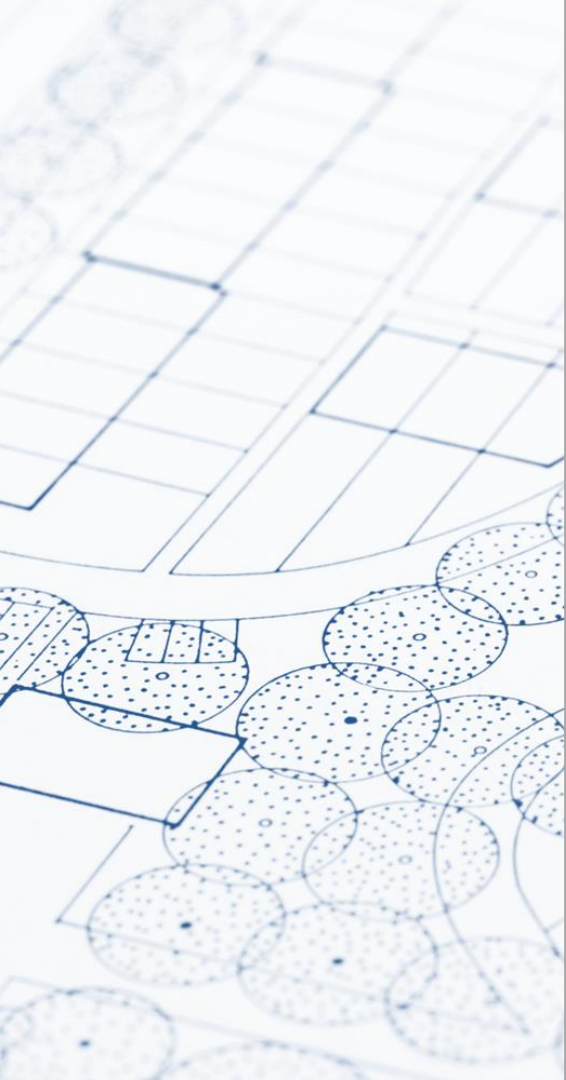






Take-Aways for Brokerage Community

- **Know what listings you have in Opportunity Zones and consider marketing a location in an OZ as an asset to the property.**
- **Understand the program so you can introduce it to potential purchasers who are renovating property or developing vacant land**
- **Know that it is an option for taxpayers who are considering a sale but are concerned about capital gains**
- **Know that it is an option for 1031s gone wrong**



For more information about Opportunity Zones, talk to a member of Husch Blackwell's Opportunity Zones Team

- A multidisciplinary team of more than 25 attorneys covering tax, finance, real estate, fund management, securities and corporate law
- Offices in 18 cities across the United States
- Find us at:
<https://www.huschblackwell.com/capabilities/opportunity-zones>
- Or call Rebecca Mitich (414) 978-5367 or Hal Karas (414) 978-5549 in Husch Blackwell's Milwaukee office.