

QUALIFIED OPPORTUNITY ZONES

An Alternative to 1031 Exchanges



- Newly Created
- Flexible
- Over 8000 potential locations
- Self-certifying
- Deferral of gain
- Potential for gain exclusion
- Potential for Investment Basis Step-up

Why Consider Opportunity Zone Investment

- Invest gain from any source
- Defer recognition until sale or 12/31/26
- After 5 years 10% gain exclusion
- After 7 years additional 5% gain exclusion
- 10 years after investment, step-up basis to FMV

Summary of Tax Benefits

Internal Revenue Code Section 1400z

The Nuts and Bolts

QOZ Fund

- Corporation or Partnership [LLC allowable]
- 90% of its assets are QOZ Property
 - QOZ stock[QOZ Business]
 - QOZ partnership Interest [QOZ Business]
 - QOZ Business Property
 - Obtained by Purchase after 12/31/17
 - Original use commences with QOZ Fund or substantially improves property
 - During any 30 month period
 - Additional basis to property exceeding basis at beginning of 30-month period
 - Substantially all use of property is in QOZ
- **QOZ Business**
 - Substantially all tangible property in QOZ property
 - Excludes certain businesses under IRC 144(c)(6)B)
 - Satisfies IRC 1397C(b) requirements

(B) no portion of the proceeds of such issue is to be used to provide (including the provision of land for) any 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.

Excluded Businesses Under IRC 144(c)(6)(B)

- (2) at least 50 percent of the total gross income of such entity is derived from the active conduct of such business,
- (4) a substantial portion of the intangible property of such entity is used in the active conduct of any such business
- (8) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property

Needed Requirements Under IRC 1397C(b)

1031 Exchanges

- Limited to Real Property
- For full deferral must invest all proceeds
- Carry-over basis of prior investment
- 45 Day identification period
- Limited Ability to Identify

Opportunity Zone Fund

- Gain from any Source
- Investment into QOZ Fund [Business or Real Estate]
- No Basis in Investment
- No Identification Period
- Partial Gain Elimination [10% -5 yr. 15%-7 yr.]
- Basis Step-up to FMV in 10 yrs.

What are the Differences between 1031 and 1400z Deferrals

1031 Exchange

- 180 day Period to reinvest
- Gain Deferral [until sale]

QOZ Fund Investment

- 180 day Period to reinvest
- Gain Deferral [until sale or 12/31/26]

Similarities Between Section 1031 and 1400z Deferrals

1031 ID Rules

1. Three replacement properties without regard to their fair market value ("3 Property Rule");
2. Any number of replacement properties so long as their aggregate fair market value of all replacement property does not exceed 200% of the aggregate fair market value of all relinquished properties ("200% Rule");
3. Any number of replacement properties without regard to the combined fair market value, as long as the replacement properties acquired amount to at least ninety-five percent of the fair market value of all identified properties ("95% Rule").

- Is it a Good Investment?
 - Use Usual Tools to Assess
 - Risk vs. Reward independent on tax benefit
- Is it Designed for a 10-year hold?
- Does it have Experienced and Proven Local Management?

What to Look For In a QOZ Fund

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Questions?