

Understanding Opportunity Zones in Massachusetts

*Overview of the OZ Program and the Latest Guidance
from Treasury*

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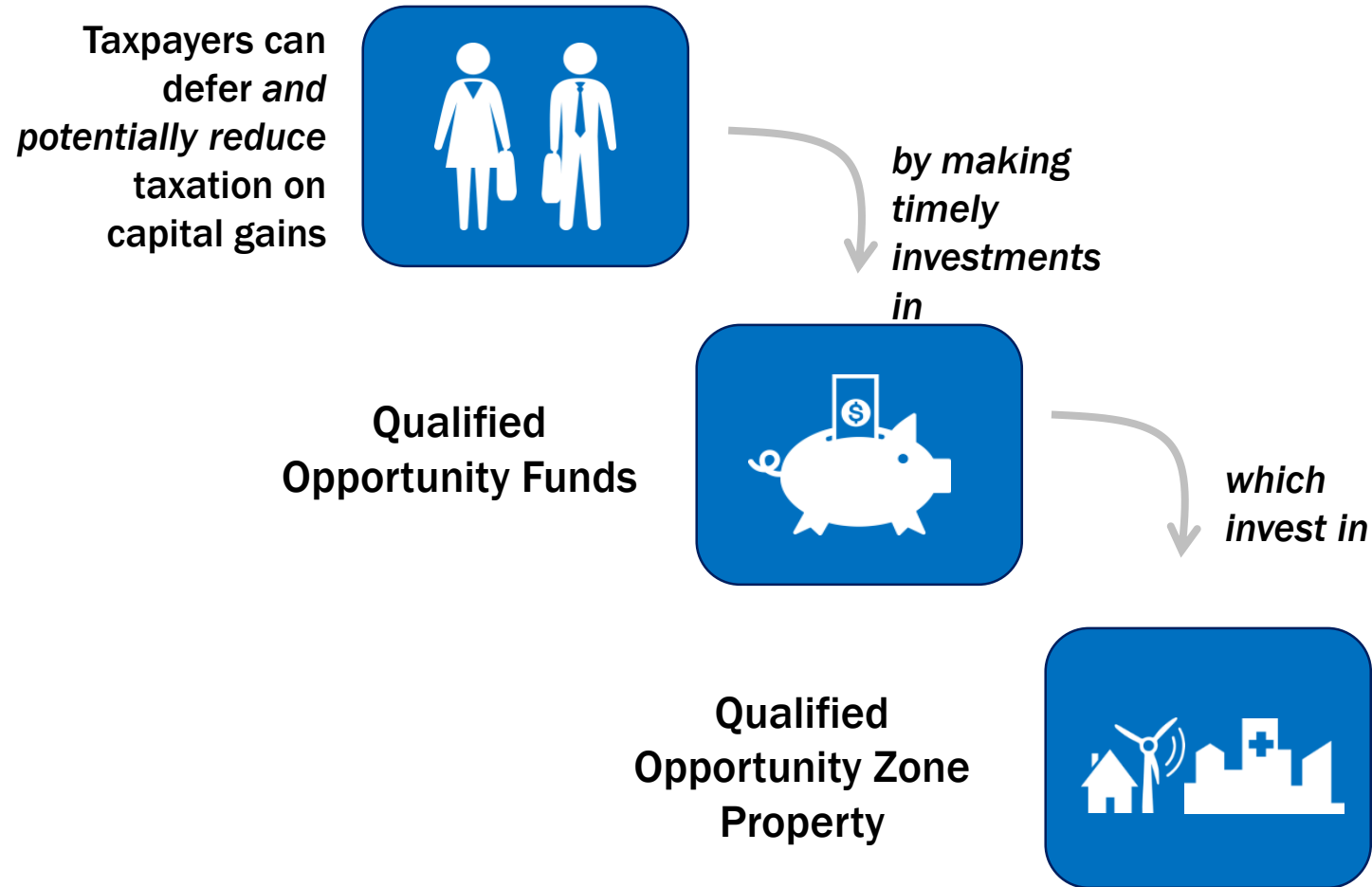
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What is an Opportunity Zone (O-Zone)

- Created as part of the 2018 Tax Reform Act;
- Governors designated 8700 zones in low-income areas;
- Designation is for ten years.
- Funds intermediary investment vehicle that must be able to hold 90% of assets in a O-Zone property
- Investments that constitute O-Zone Property are:
 - *Indirect Investments: Equity investment in an Opportunity Zone Business*
 - *Direct Investments: Direct purchase of Opportunity Zone Business Property*

Basic Structure



3 Tax Incentive Benefits

1. Temporary Deferral of Eligible Gain

- *Applies to any capital gain from the sale or exchange of any property to an unrelated person*
- *\$6 trillion of potential eligible capital*

2. Partial reduction of Deferral Gain

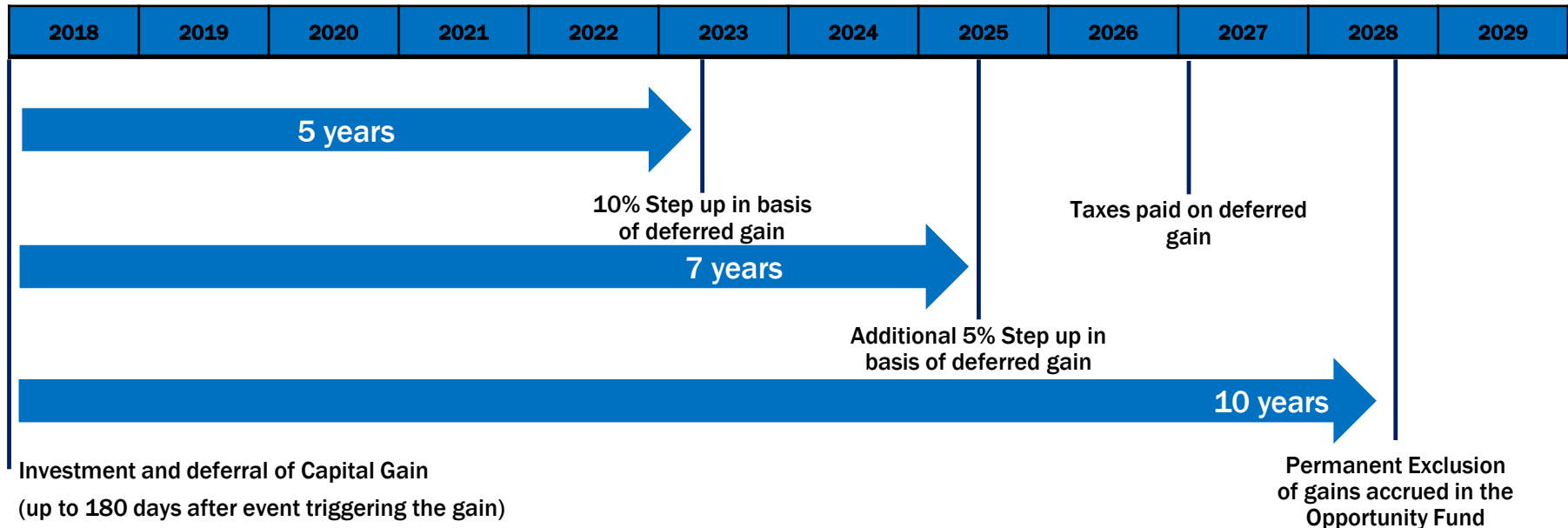
- *Income Tax is still paid on a large portion of the Deferred Gain*

3. Forgiveness of Additional Gain

- *Applies to the Appreciation in the Investment*

Timeline of Tax Incentives

- Maximum benefit is achieved by holding the QOZ investment for 10 years



Opportunity Zone Business Property & Direct Investments

- Acquired by **purchase from an unrelated party** (more than 20% standard) after **December 31, 2017**
- **Original use in the Opportunity Zone** must commence with the O-Zone Business (or O-Fund) OR **substantially improves** the property.
 - *30-Month Period*
 - *Additions to basis that exceeds adjusted basis of such property*
- A trade or business (not including “sin businesses”) in which **substantially all (70%)** of the tangible property owned or leased by the taxpayer is **O-Zone Business Property and at least 50% of income is derived from active income.**

Opportunity Zones – Status

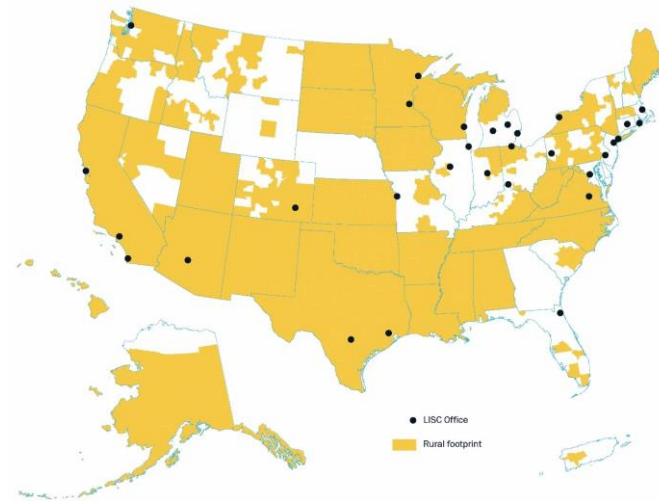
- Guidance is needed to address many important issues:
 - *Grace periods for Opportunity Fund and Opportunity Zone Business to make investments*
 - *Refinancing distributions*
 - *Interim gains issue (Reinvestment)*
 - *Avoiding the Penalty while holding cash*
 - *Not having an allocation of taxable gain to Investors*
 - *How long would the O-Fund have for reinvestment*
 - *Vacant Land – Substantial Improvement?*
 - *Multi-Asset Funds – Exit Mechanics*
 - *Meaning of the term “active” (to determine implication on triple net leases)*
 - *Residential Rental Property – Is it a problem for an O-Zone Business*
 - *Meaning of the other “substantially all” and “substantial portion”*
- Second tranche will be released in late 2018/early 2019

Local Initiatives Support Corporation

LISC is the nation's largest community development organization, with deep local roots.

We are an investor, capacity builder, advisor, convener and innovator.

We pool public and private resources to invest in people and places.



Since 2008, LISC has invested \$2.3 billion in areas designated as Opportunity Zones.



Massachusetts Opportunity Zone Designations

138

census tracts designated

79

municipalities

Average poverty rate	26.2%
Average unemployment rate	12.4%
Average family income in OZ census tracts relative to area median income (AMI)	53.1%

18% Rural

48% Gateway Cities

Potential and Risk for Communities

Potential to Harness Needed Investment

U.S. investors currently hold \$2.3 trillion in unrealized capital gains, representing a significant untapped resource for economic development.

Lack of Oversight or Impact Incentives

Incentives focus on back-end returns, rather than investments that will result in community impacts

Gentrification and Displacement

The tool might aid in the gentrification and displacement of residents and businesses in Opportunity Zone communities

Strategies for Massachusetts Communities

LISC Boston is developing guidance for communities containing designated opportunity zones, to build their capacity to define community-driven strategies for investment and growth.

What is your strategy?
Submit ideas/best practices.
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Community Strategies

Land

Zoning

Planning

Incentives