



HOMES JOBS COMMUNITY

OPPORTUNITY ZONES 101

Quinault Beach Resort & Casino | April 11, 2019



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 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

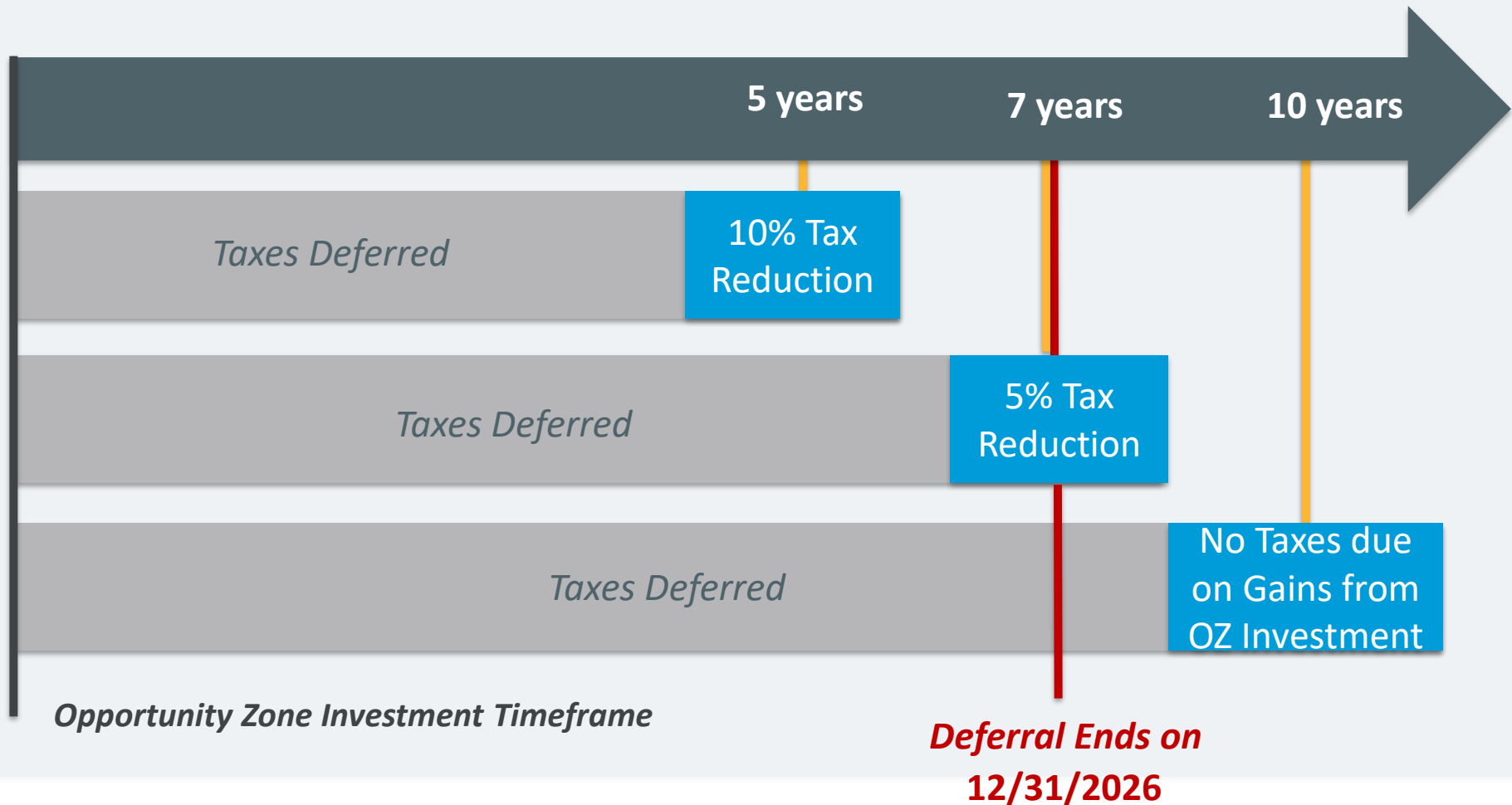
THE BASICS

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 Zones

HOW IT WORKS

Individual invests capital gains into Opportunity Fund

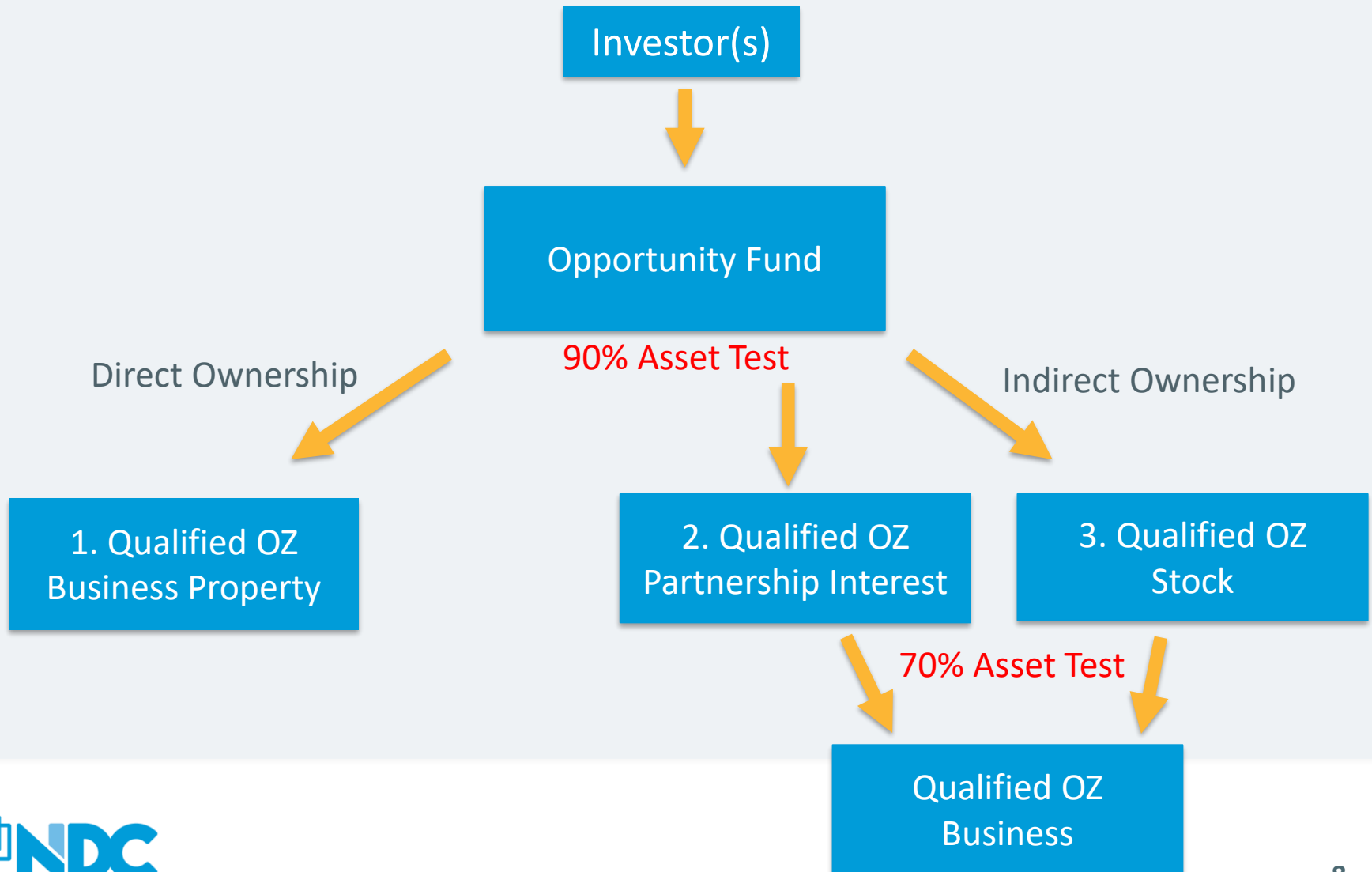
Opportunity Fund invests in qualified Opportunity Zone investments

Qualified investments include:

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

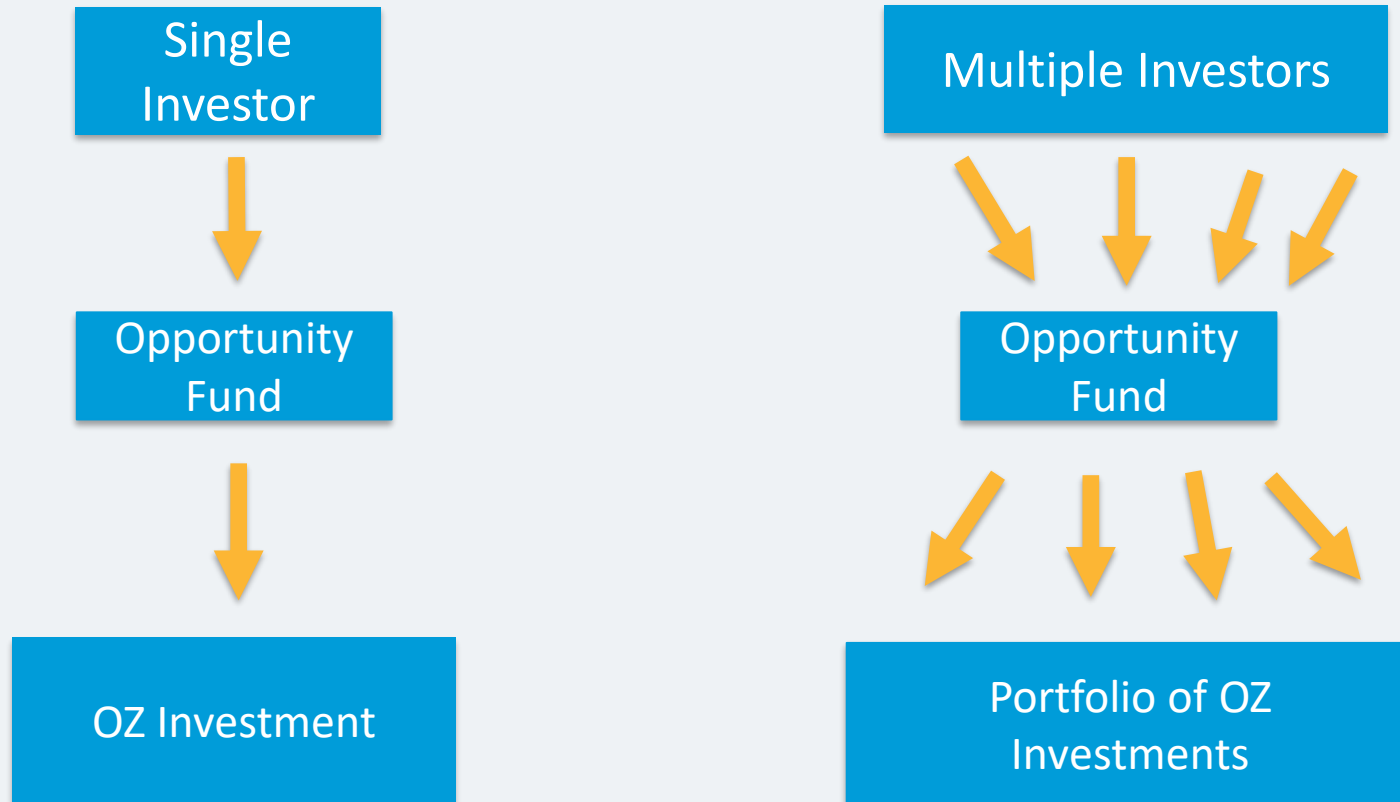
Opportunity Zones

HOW IT WORKS



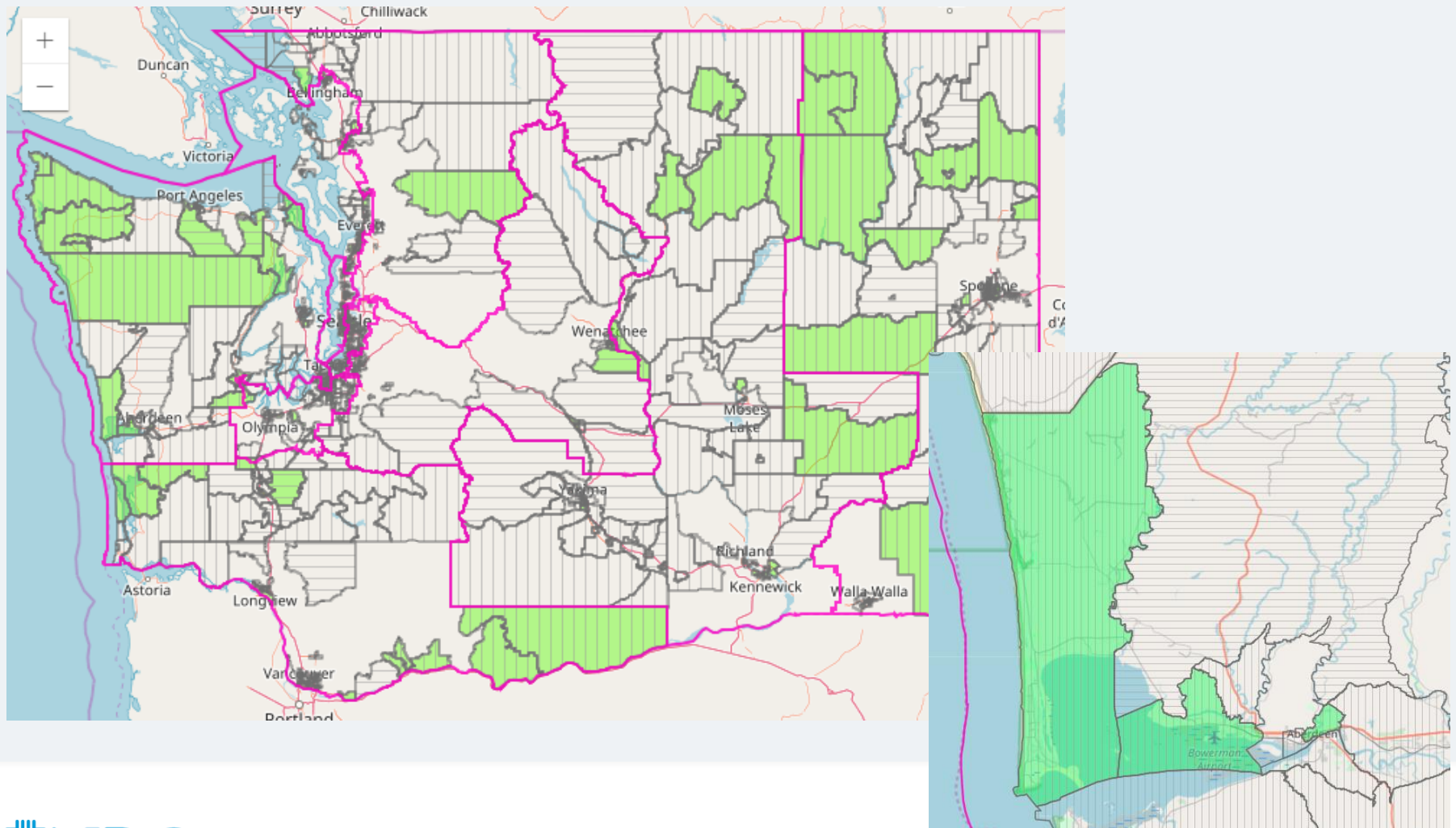
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HOW IT WORKS



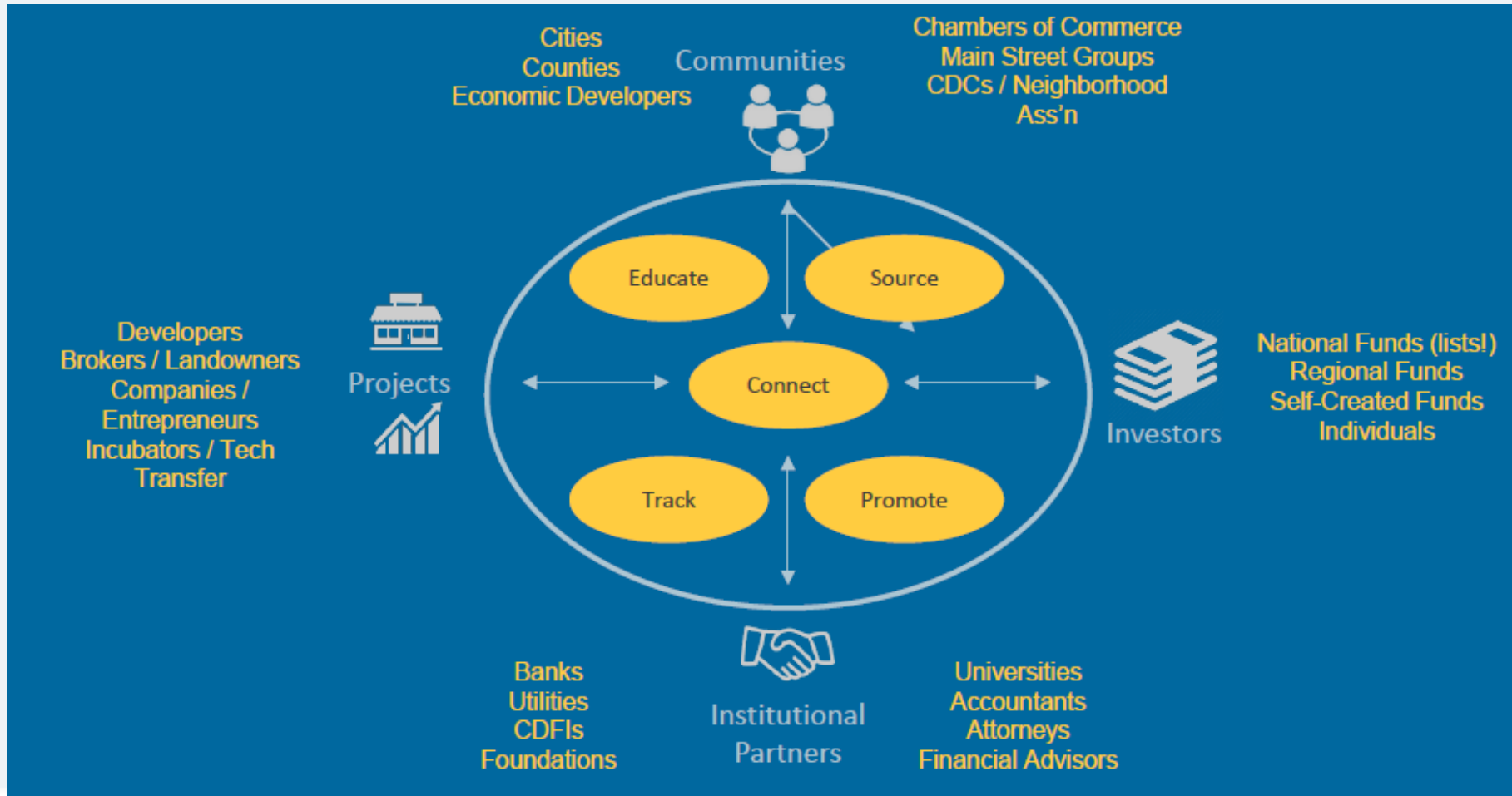
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WASHINGTON OPPORTUNITY ZONES



Opportunity Zones

ECOSYSTEM



Source: Opportunity Alabama

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)
- At least 50% of business income must be derived from active conduct of a trade or business in the Opportunity Zone (may change)
- Can be new construction or rehabilitation
 - Must result in “original use” of property, or substantial improvement (double basis in building)

Opportunity Zones

DRAFT REGULATIONS

- Draft regulations were released in October 2018, but there are still many questions
- Links:
 - [Proposed Regulations](#)
 - [Revenue Ruling 2018-29](#)
 - QOF draft self-certification form [\(IRS Form 8996\)](#)
 - Updates to [IRS FAQs](#)

Opportunity Zones

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 8 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 Zones

CHALLENGES

- Lack **clear** federal guidance
 - Draft regulations released October 2018
 - Hearing held 2/14/19
 - Additional regulations forthcoming
- **Gentrification** concerns in some areas (i.e. downtown Seattle)
- **No** guarantees
- Opportunity Zone Investments will provide **only a portion** of needed capital

Opportunity Zones

COMMUNITY STRATEGIES

- **Identify and educate an ecosystem of players:**
 - Developers, investors, banks, nonprofits, financial advisors, accountants, community foundations, public entities, etc.
- **Develop a local economic development strategy & pipeline of projects**
- **Cultivate relationships with investors (local, regional, national)**
- **Encourage impact measurement & reporting**
 - <https://ozframework.org/>
- **Coordinate and connect key players to get projects done!**

Opportunity Zones

CONTACT INFORMATION

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Emerald Coast Opportunity Zone

Hello!

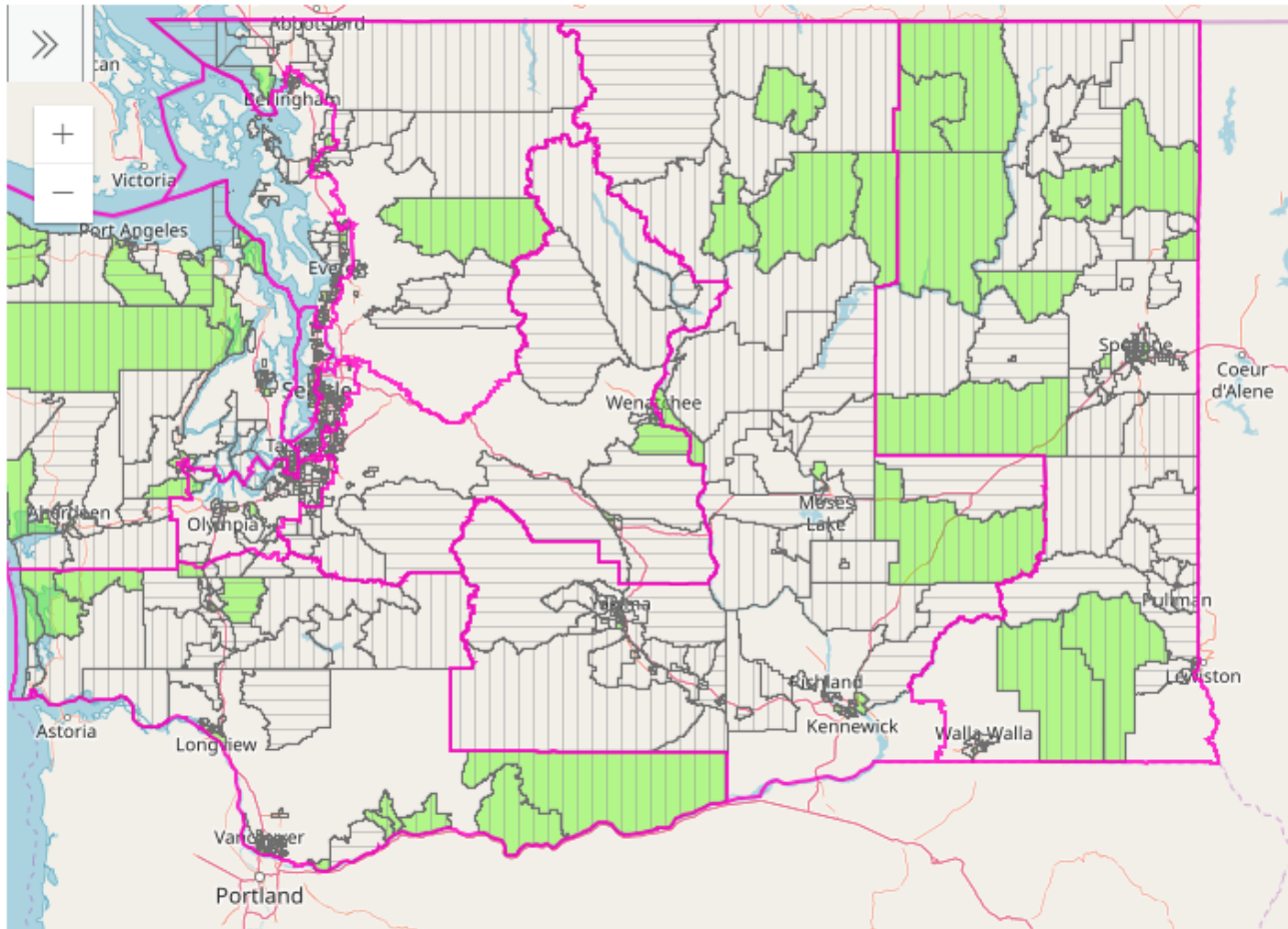
The New York Times January 2018

*Tucked Into the Tax Bill, a Plan
to Help Distressed America*



8,700
\$6.1 Trillion
14

Washington State OZ



Nationally recognized

"The Emerald Coast Opportunity Zone is a model of collaboration for the country."

*~Brian Bonlender,
Director of Washington State Department of Commerce*

Washington State Group Launches Aggressive Effort to Capture 'Opportunity Zone' Investment

Special Report: Tribes, Local Governments Focus on Potential Projects While Awaiting Federal Guidelines



What are we working on?

- Identify projects
- Investor ready
- Develop & identify funds
- Attract investors
- Mitigate barriers



What are we working on?

- ◉ Listening sessions
- ◉ Community education
- ◉ Agency outreach
- ◉ Testing assumptions
- ◉ Special interest groups
- ◉ Tribal OZ partnerships
- ◉ Investor confidence
- ◉ Rural opportunity zone advocacy



Emerald Coast Projects

◆ Multi-family housing



Emerald Coast Project

- ◆ Waterfront performing arts & conference center
- ◆ Lower Elwha Tribe longhouse
- ◆ Marine discovery center



LMN | Stephanie Bower, Architectural Illustration

Emerald Coast Project

- ◆ Wood bricks manufactured from cedar waste



Emerald Coast Project

- ◆ Full-service fiber processing mill



emerald funds.org

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TO GROW YOUR PORTFOLIO WITHOUT PAYING CAPITAL GAINS ON FUTURE
RETURNS.



What happens next in region & nation?

- ◆ IRS guidelines released for public review October 2018
- ◆ IRS public hearing Valentine's Day 2019
- ◆ Rules are currently with Office of Management & Budget
- ◆ Expect release of latest IRS guidelines any day



Emerald Coast Opportunity Zone

Thank you!