Opportunity Zones

INCENTIVE PROGRAM TO REWARD PRIVATE INVESTMENT IN COMMUNITIES

Overview of Opportunity Zones Program

The Opportunity Zones program was established in December 2017 by Congress in the Tax Cut and Jobs Act as an innovative approach to spurring long-term private sector investments in targeted urban and rural communities nationwide through investment vehicles called Opportunity Funds.

Opportunity Zones are census tracts with a poverty rate of at least 20 percent, nominated by governors and certified by the U.S. Department of the Treasury, into which investors can make equity investments in businesses and real estate in exchange for certain federal tax benefits.

A Qualified Opportunity Fund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is in an Opportunity Zone and that utilizes the investor's gains from a prior investment. The fund invests at least 90% of its assets in Opportunity Zone properties, either directly or through qualifying corporations or partnerships.

Investing in Opportunity Funds can provide the following three tax incentives to investors:

TEMPORARY DEFERRAL

A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund.

STEP-UP IN BASIS

For capital gains reinvested in an Opportunity Fund, the basis can be increased by 10%-15% and excluded from taxation.

PERMANENT EXCLUSION

A permanent exclusion from taxable income of capital gains from sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years.

Opportunity Fund can be utilized as a primary investment in a variety of activities. Funds can be used to create new businesses, new commercial or residential real estate, or infrastructure. Opportunity Funds can be used to invest in existing businesses if it doubles the investment basis over 30 months.

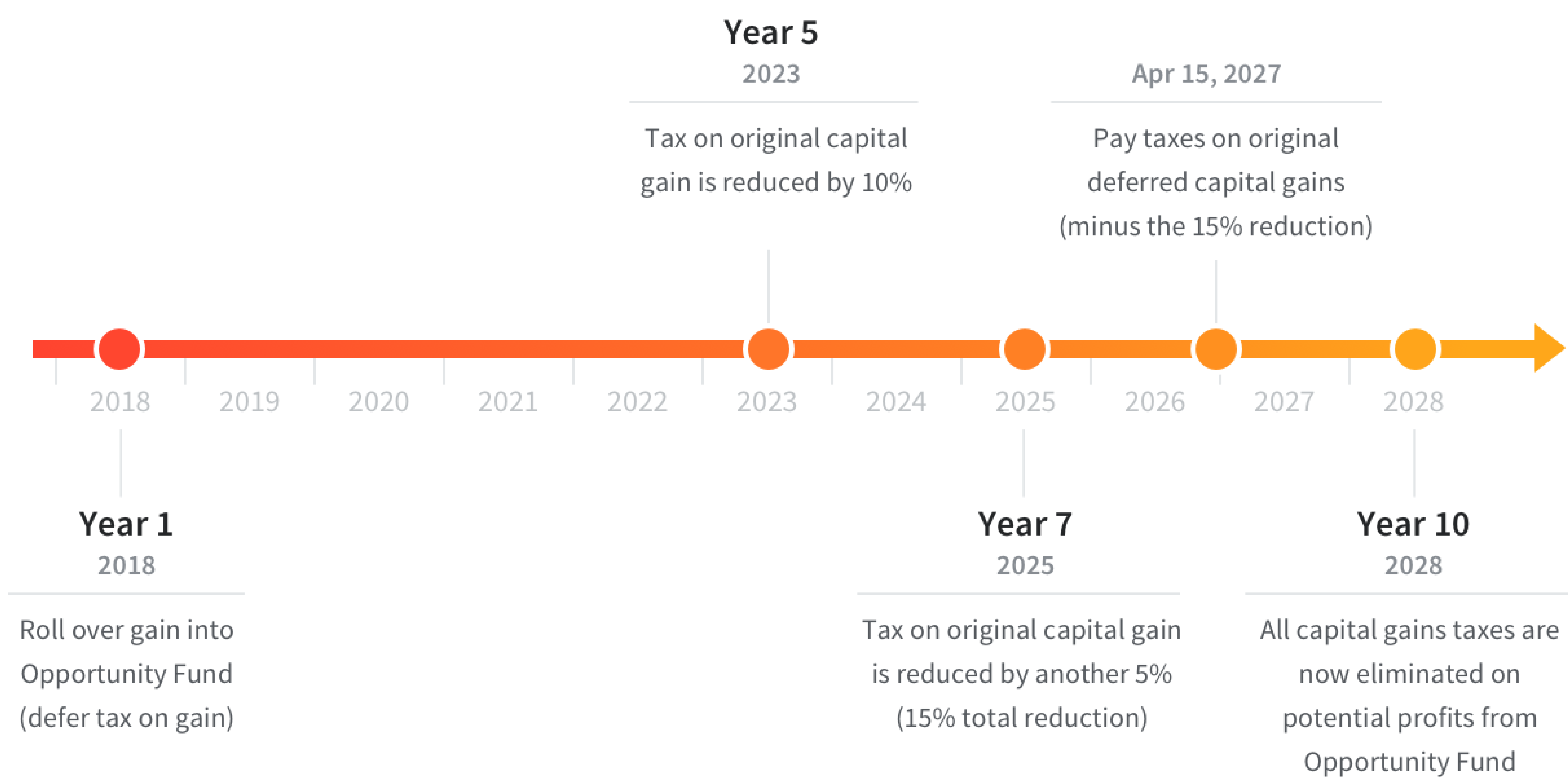
The incentive can also be combined with other incentives such as New Market Tax Credits (NMTC), Low-Income Housing Tax Credit (LIHTC) and historic rehabilitation tax credit, adding a valuable tool for economic and community development.

An Opportunity Fund cannot engage in any of the following "sin" businesses: 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 where the principal business purpose is the sale of alcoholic beverages for consumption off premises.

The innovations of the Opportunity Zones offer substantial potential to help lift economically distressed communities in pinpointed ways using a market-based approach. Investors have the power not only to transform thousands of census tracts across the US, they also can access numerous capital gains tax incentives if they stay within the guidelines of the Opportunity Zone program.

How Investing in an Opportunity Fund Works

Overview of Opportunity Zones Program:
To receive the most favorable tax treatment on their investment, investors are incentivized to hold their stakes in an Opportunity Fund over the long term, with the program providing the most potential upside to those who hold their investment for 10 years or even more.



Source: FundRise

The figure above illustrates how an investor's potential after-tax returns compare assuming a 10-year holding period, annual investment appreciation of 7%, and a long-term capital gains tax rate of 23.8% (federal capital gains tax of 20% and net investment income tax of 3.8%). For example, after 10 years an investor would see an additional $44,000 for every $100,000 of capital gains reinvested into an Opportunity Fund on December 31, 2018 compared to an equivalent investment in a more traditional stock portfolio generating the same annual appreciation. Note, however, that the performance assumptions shown are for illustrative purposes only, and are not intended to reflect the actual experience of any individual investor.

Resources and Tools

LEAP stronger together

Lansing Region Opportunity Zones map

MSHDA

Information on Michigan Opportunity Zones

IRS Department of the Treasury Internal Revenue Service

Opportunity Zones Guidelines

Economic Innovation Group

For more background information

Podcast on Opportunity Zones