



Frequently Asked Questions About Opportunity Zone Investing



Hosted by
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Frequently Asked Questions About Opportunity Zone Investing

Agenda

- Intro
- Type Questions Into *Chat Box* at Anytime!
- FAQs
- Open Q&A From Participants
- Final Thoughts



Frequently Asked Questions About Opportunity Zone Investing

What is an Opportunity Zone Fund?

- IRS: An opportunity zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as opportunity zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation of authority to the Internal Revenue Service.
 - Designated by census tract
 - Low income statistical requirement*



Frequently Asked Questions About Opportunity Zone Investing

How Were Opportunity Zones Created?

- IRS: Opportunity Zones were added to the tax code by the Tax Cuts and Jobs Act on December 22, 2017.
 - Bi-partisan legislation
 - State Governors designated specific tracts in 2018



Frequently Asked Questions About Opportunity Zone Investing

What is the Purpose of Opportunity Zones?

- IRS: Opportunity Zones are an economic development tool—that is, they are designed to spur economic development and job creation in distressed communities.
 - Despite 10+ year economic boom in U.S., some communities have not received significant economic development
 - OZ legislation was created to drive investment into underserved communities
 - Offers tax incentives to motivate investment in designated low-income census tracts



Frequently Asked Questions About Opportunity Zone Investing

How Do Opportunity Zones Spur Economic Development?

- IRS: Opportunity Zones are designed to spur economic development by providing tax benefits to investors. First, investors can defer tax on any prior gains invested in a Qualified Opportunity Fund (QOF) until the earlier of the date on which the investment in a QOF is sold or exchanged, or December 31, 2026. If the QOF investment is held for longer than 5 years, there is a 10% exclusion of the deferred gain. If held for more than 7 years, the 10% becomes 15%. Second, if the investor holds the investment in the Opportunity Fund for at least ten years, the investor is eligible for an increase in basis of the QOF investment equal to its fair market value on the date that the QOF investment is sold or exchanged.
- #1- Defer existing tax until 12/31/2026 (payable in 2027)
- #2- Reduce existing tax (10%)
- #3- Elimination of capital gain tax on new investment if held for 10+ years



Frequently Asked Questions About Opportunity Zone Investing

Does It Matter Where I Live?

- To receive the tax benefits you have to be a US taxpayer.



Frequently Asked Questions About Opportunity Zone Investing

Does My Income Matter?

- There is no income maximum or minimum for the tax incentives, however to receive the tax benefits you have to have capital gains income that you invest.



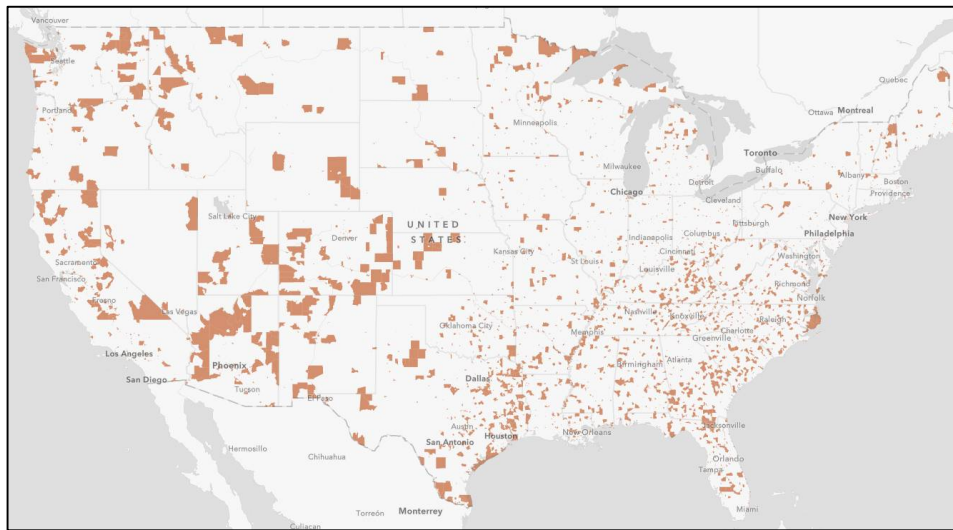
Frequently Asked Questions About Opportunity Zone Investing

How Do I Find Opportunity Zones?

- IRS: The list of designated Qualified Opportunity Zones can be found in IRS Notices [2018-48 \(PDF\)](#) and [2019-42 \(PDF\)](#). Further, a visual map of the census tracts designated as Qualified Opportunity Zones may also be found at [Opportunity Zones Resources](#).
 - ESRI Media Map
 - <https://esrimedia.maps.arcgis.com/apps/View/index.html?appid=77f3cad12b6c4bffb816332544f04542>

How Do I Find Opportunity Zones?

- ESRI Media Map
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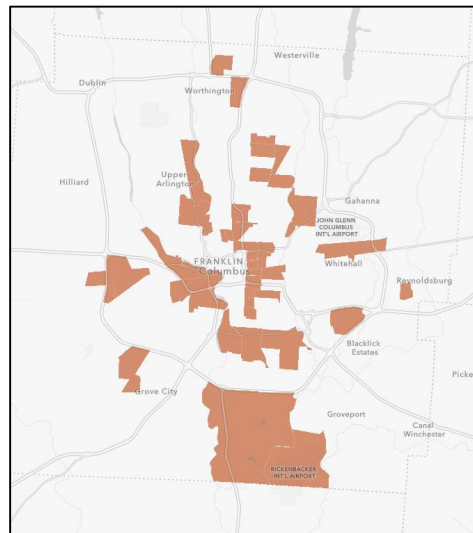




Frequently Asked Questions About Opportunity Zone Investing

How Do I Find Opportunity Zones?

- ESRI Media Map
 - <https://esrimedia.maps.arcgis.com/apps/View/index.html?appid=77f3cad12b6c4bffb816332544f04542>



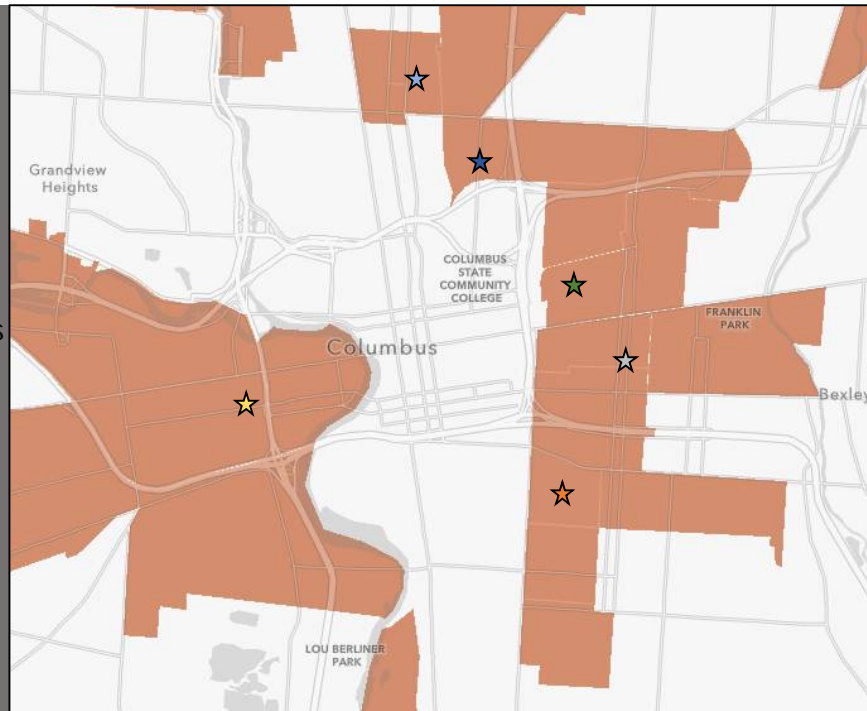


Frequently Asked Questions About Opportunity Zone Investing

How Do I Find Opportunity Zones?

- Example OZ Neighborhoods In Urban Columbus

- ☆ Weinland Park
- ★ Milo-Grogan
- ★ King-Lincoln
- ☆ Olde Towne East
- ★ Southern Orchards
- ★ Franklinton





Frequently Asked Questions About Opportunity Zone Investing

When Do I Need to Invest?

- Generally, within 180 days from when you incurred the capital gain.
- You must report your OZ investment on your tax return, so you must invest prior to filing your tax return for the tax year in which you incurred the capital gain.



Frequently Asked Questions About Opportunity Zone Investing

When Do I Need to Invest?

- More specifically, for ***Individuals***:
 - 2019 Gains:
 - 180 days from year end = ~~Friday June 26th 2020~~
 - **NOW EXTENDED DUE TO COVID-19 = July 15th, 2020**
 - Before you file your 2019 tax return (or amended return)!
 - 2020 Gains:
 - Certain gains (like real estate under Section 1231 can be invested within 180 days of the actual sale
 - Don't have to wait to reinvest the money = start earning ASAP
 - Example: Sell a property January 15th
 - Invest in OZ next day (Jan 16th) or anytime before July 13th
 - Alternatively, invest in first 180 days of 2021 = by 6/29/21
 - Other gains (stock sales) can be invested within 180 days of 12/31/2020 = by 6/29/21
 - Before you file your 2020 tax return (or amended return)!



Frequently Asked Questions About Opportunity Zone Investing

When Do I Need to Invest?

- More specifically, for ***Partnerships***:
 - 2019 Gains:
 - 180 days from year end = ~~Friday June 26th 2020~~
 - **NOW EXTENDED DUE TO COVID-19 = July 15th, 2020**
 - Before you file your 2019 partnership tax return (or amended return)!
 - 2020 Gains:
 - Certain gains (like real estate under Section 1231 can be invested within 180 days of the actual sale
 - Don't have to wait to reinvest the money = start earning ASAP
 - Example: Sell a property January 15th
 - Invest in OZ next day (Jan 16th) or anytime before July 13th
 - Alternatively, invest in first 180 days of 2021 = by 6/29/21
 - Other gains (stock sales) can be invested within 180 days of 12/31/2020 = by 6/29/21
 - Before you file your 2020 partnership tax return (or amended return)!



Frequently Asked Questions About Opportunity Zone Investing

When Do I Need to Invest?

- More specifically, for ***Individual Partners:***
 - If your partnership does not defer entity gains into an QOZF, then the gains pass through to you individually on Form K-1
 - 2019 Gains:
 - 180 days from partnership tax filing
 - Partnership returns are usually due March 15th for calendar tax years but are NOW EXTENDED DUE TO COVID-19 until July 15th, 2020
 - If Partnership filed on March 15th then partner has until Sept 11th 2020 to invest
 - Before you file your 2019 individual tax return (or amended return)!
 - 2020 Gains:
 - Within 180 days from filing of partnership return
 - Before you file your 2020 individual tax return (or amended return)!



Frequently Asked Questions About Opportunity Zone Investing

How Do I Invest In Opportunity Zones?

- Must Invest Into a *Qualified Opportunity Zone Fund*
 - Cannot simply buy a property or business in an OZ
 - QOFs must comply with IRS requirements for OZ property investment, timelines, and reporting
 - Fund structure and requirements ensures that the tax incentives contribute to the desired outcome and are not abused or manipulate.



Frequently Asked Questions About Opportunity Zone Investing

Who Can Invest?

- Individuals or business entities (any taxpayer)
- However...
 - To receive the tax incentives you must have current capital gains to invest into the QOF
 - Must invest prior to filing your tax return for year capital gains are reported
 - Due to required compliance with securities laws, many QOFs available for public investment are restricted to only accepting *Accredited Investors* (more on this later)



Frequently Asked Questions About Opportunity Zone Investing

Can I Invest Into a QOF if I Don't Have Capital Gains?

- Yes, but it would be treated as any other investment and the gain on investment would be fully taxable



Frequently Asked Questions About Opportunity Zone Investing

Can I Invest Into a QOF With My IRA?

- Yes, self-directed IRAs (or 401k or HSA or CESA) can invest like any other entity, but the tax advantages may not apply because your IRA likely doesn't pay tax on capital gains. It would be like any other investment made by your IRA.
- *Accredited Investor* rules may apply



Frequently Asked Questions About Opportunity Zone Investing

What Is an Accredited Investor?

- SEC: Under the federal securities laws, a company that offers or sells its securities must register the securities with the SEC or find an exemption from the registration requirements. The federal securities laws provide companies with a number of exemptions. For some of the exemptions, such as Rule [506](#) of [Regulation D](#), a company may sell its securities to what are known as *accredited investors*. The term accredited investor is defined in [Rule 501](#) of Regulation D.



Frequently Asked Questions About Opportunity Zone Investing

What Is an Accredited Investor?

- SEC: The term accredited investor is defined in [Rule 501](#) of Regulation D.
 - 8 types of “accredited investors”
 - Banks/Financial Institutions
 - Investment Advisory related entity
 - Companies with assets > \$5 Million
 - Trusts with assets > \$5 Million
 - Officer, Director, or Partner of entity issuing security
 - **Individuals with net worth > \$1 Million (excluding residence)**
 - **Individuals with income > \$200,000 (or joint income > \$300k)**
 - Entity with all members who are accredited investors



Frequently Asked Questions About Opportunity Zone Investing

How Much Do I Have to Invest?

- Technically, there is no minimum investment under the IRS rules
- Practically speaking, many funds open to the public establish a minimum investment due to securities rules and administrative burden
 - Commonly \$50,000 or more



Frequently Asked Questions About Opportunity Zone Investing

Should I Buy Property in an Opportunity Zone?

- No tax benefits if it is not purchased by a QOF
- Only if it makes good investment sense independent of being located in an OZ



Frequently Asked Questions About Opportunity Zone Investing

What If I Already Own Property in an Opportunity Zone?

- Unfortunately, you don't get any tax benefits if you already owned it.
- The OZ designation may make it more marketable for sale, but it's not an automatic gold-mine
 - Only appeals to OZF investors if it can fit the "substantial improvement" or "original use" categories
 - Price must still be attractive for investment



Frequently Asked Questions About Opportunity Zone Investing

Can I Start a Business in an Opportunity Zone?

- Yes, locating your business in an OZ may help you attract startup capital if you plan raise equity investors
- Doesn't offer you tax benefits unless you have capital gains that you use to form the business
- Start-up funding must go through a QOF that buys stock in your business



Frequently Asked Questions About Opportunity Zone Investing

Can I Create My Own Opportunity Zone Fund?

- Simple Answer: Yes
- But...It's Complicated:
 - QOFs must be multi-member entities
 - Typically a partnership or corporation
 - Entity Formation May Require Compliance with Securities Laws (SEC filings or exemptions)
 - Strict IRS Reporting Requirements, Investment Thresholds and Timelines
 - Fund must invest 90% or more of it's assets in qualified OZ property (stress tested twice annually)
 - Qualified OZ property must adhere to strict definitions and typically requires "significant improvement" within 30 months
 - Hire Legal, Tax, and Accounting professionals



Frequently Asked Questions About Opportunity Zone Investing

What Are the Requirements for a QOF?

- **Strict IRS Reporting Requirements, Investment Thresholds and Timelines:**
 - Fund must invest 90% or more of its assets in qualified OZ property (stress tested twice annually)
 - Qualified OZ property must adhere to strict definitions and typically requires "significant improvement" within 30 months
- **Example: Create a fund and invest \$100,000**
 - Must invest at least \$90,000 within 6 months
 - Property that is purchased must qualify as QOZP
 - "Original Use" meaning it's new, or
 - "Significantly Improved" within 30 months (must have funds to improve it)
 - Track "working capital" plan for cash that is committed but not yet invested (up to 31 month plan)



Frequently Asked Questions About Opportunity Zone Investing

What Are the Requirements for a QOF?

- Example: Create a fund and invest \$100,000
 - Cannot buy an occupied rental property unless you plan to double the investment via repairs within 30 months (and have the available working capital to do so)
 - Cannot buy vacant land and sit on it (must do minimal improvements)
 - Must hold improved or original use (newly built) property for 10+ years to achieve tax incentives
 - What you CAN do:
 - Buy a house for 50k & complete repairs of 45k (assuming land value is 5k)
 - Buy a vacant lot and build an investment property



Frequently Asked Questions About Opportunity Zone Investing

What's the Difference Between Multi & Single Asset Funds?

- Single Asset Fund invests in a one project/property
 - Success and impact hinges on outcome of that project
- Multi-Asset Fund invests in a portfolio of assets
 - Success and impact is spread across the overall performance across the portfolio



Frequently Asked Questions About Opportunity Zone Investing

How Does a Recession Impact OZ Investing?

- Last Month's Webinar About COVID-19
- OZ Funds have 10+ year timeline, so ups and downs are expected.
- Long term investment horizon smooths the impact of short term recessions
- Recessions can provide good investment opportunities for long term funds



Frequently Asked Questions About Opportunity Zone Investing

How Does a Recession Impact OZ Investing?

- Last Month's Webinar About COVID-19
- OZ Funds have 10+ year timeline, so economic cycles are expected.
- Long term investment horizon smooths the impact of market fluctuations
- Recessions can provide good investment opportunities for long term funds
- Improved properties create additional value
- Income producing assets hold value over time



Frequently Asked Questions About Opportunity Zone Investing

How Does a Recession Impact OZ Investing?

- Invest with a long term vision
 - OZ investments require a 10 year+ timeline to achieve tax incentives ✓
- Don't speculate on short term outcomes
 - OZ investments require a 10 year+ timeline to achieve tax incentives ✓
- Commercial/Retail real estate will be hit hardest
 - CBUS OZ FUNDS investment strategy is focused on housing ✓
- Housing should remain in high demand
 - CBUS OZ FUNDS investment strategy is focused on housing ✓
- Mid-level housing should do better than high-end ✓
 - Target neighborhoods (OZs) are entry-level and mid-level
- A portfolio of multiple assets is less risky than investing in a single asset or project ✓
 - CBUS OZ FUNDS accumulates portfolios of single family & small multi-family properties
- Seek "value add" investment opportunities ✓
 - OZ investments require "significant improvement" meaning the properties will be renovated within 31 months of purchase. Properties requiring renovation can be purchased at a discount. ✓
- Income producing assets hold value ✓
 - Once renovated, properties are rented and held long term. Rental income supports property value. ✓
- Invest with experienced partners ✓
 - The principles of CBUS OZ FUNDS successfully navigated the Great Recession ✓



Frequently Asked Questions About Opportunity Zone Investing

Explain the Tax Benefits Again?

- Three Major Federal Tax Advantages

Example Investment of \$100,000 (*Using Capital Gains**)

- Defer current capital gains tax until 12/31/2026
 - 20% capital gain tax on \$100,000 = \$20,000 tax that can be invested for 7 years before being paid to IRS
 - **\$20,000 at 12% IRR grows to \$44,213.63 after 7 years**, so the tax essentially pays for itself
- Receive 10% discount of capital gains tax when due 12/31/2026
 - 10% discount on \$20,000 tax = **\$2,000 tax savings**
- Tax free exit from OZ Fund investment if held for 10 years
 - **\$100,000 at 12% IRR over 10 years grows to \$310,584.82** resulting in a **tax free gain of \$210,584.82**
 - After tax equivalent is 14% IRR or more, depending on individual circumstances



Frequently Asked Questions About Opportunity Zone Investing

Tax Free Exit After 10 Years

Example Investment of \$100,000

Investment	100,000
Projected 12% IRR	
Year 1	112,000
Year 2	125,440
Year 3	140,493
Year 4	157,352
Year 5	176,234
Year 6	197,382
Year 7	221,068
Year 8	247,596
Year 9	277,308
Year 10	310,585

\$210,585
Capital Gain is
Tax Free

\$42,000
Tax Savings



Frequently Asked Questions About Opportunity Zone Investing

Are There State Tax Benefits?

- Ohio Opportunity Zone Tax Credit
 - 2019 investors were eligible to receive a transferrable certificate for a non-refundable income tax credit equal to 10% of their investment into Ohio opportunity zones, whether with eligible gains or ordinary after-tax cash.
 - Ohio Development Services Agency is in the process of approving the 2019 tax credit applications
 - May extend the program to 2020 investors

\$100,000 invested into an OZ Fund = \$10,000 state income tax credit!



Frequently Asked Questions About Opportunity Zone Investing

Why All the Benefits?

- Incentivize investment into communities that have been historically underinvested
- Allows investors to make good returns while helping neighbors and communities who need it the most



Frequently Asked Questions About Opportunity Zone Investing

Does OZ Investing Help People?

- Provides economic stimulus to areas in need of infrastructure, services, jobs, and housing



Frequently Asked Questions About Opportunity Zone Investing

When Do the OZ Tax Incentives End?

- Current OZ census tract designation will remain in effect until 12/31/28
 - Different census tracts may be designated at that time
- Can hold your investment up to Jan 1st, 2048 and receive tax free capitals upon sale.



Frequently Asked Questions About Opportunity Zone Investing

What Should I Do Next?

- Determine if you have 2019 Capital Gains
- Seek OZ Fund Investment Opportunities
- Consider selling assets for a gain in 2020



Frequently Asked Questions About Opportunity Zone Investing

What Should I Do Next?

- Important Timelines

- **Tax Deadline Extended:** Due to the Coronavirus, the tax deadline for individuals and most businesses has been EXTENDED UNTIL JULY 15th, 2020! From an OZ perspective, this gives you a little extra time to determine whether or not you have capital gains from 2019 and to line up an investment in a Qualified Opportunity Zone Fund.

Before You File Your Tax Return: If you sold *anything* for a gain in 2019 you should consider investing in an OZ fund BEFORE filing your 2019 tax return.

Did You Sell Something Already in 2020? If you sold something in 2020, you might be able to invest those gains immediately into an OZ fund. Any "Section 1231" gain (such as from the sale of real estate), is eligible for the immediate investment of the gross gains, and you do not have to wait until the end of the tax year to net out your gains against any losses you may have later in the year.

What If You Don't Have Any Capital Gains? You can still invest! Our CBUS Opportunity Zone Fund II is open for the investment of non-capital gains as well. If you invest without having any capital gains you still get the same great return as everyone else, just without the extra tax saving incentives.

6/26/20: Last day to invest in our CBUS Opportunity Zone Fund II.



Frequently Asked Questions About Opportunity Zone Investing

Other Questions?

- Ask Them Now!



How The Coronavirus Will Impact Opportunity Zone Investing

Closing Remarks

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