

A topographic map of California showing various geographical features and cities. A large blue circle highlights the Central Valley region, and a yellow exclamation mark is placed over Bakersfield. The text 'Opportunity Zones in California' is overlaid on the map.

Opportunity Zones in California

An Overview

Agenda

Opportunity Zones provide a new tool for investors, fund managers and communities by utilizing privately sourced funds into eligible economic development and community re-investment projects

1. Where are Opportunity Zones (OZs) in California?

How do OZs work?

How do OZs benefit investors?

How do OZs benefit fund managers?

2. How may OZs impact my community?

How do OZs benefit communities?

Can OZs change the land uses in my community?

3. Where can I find more information?

Who can I contact at the State with questions?

Investing in Opportunities

- Congress authored the *Investing in Opportunity Act* in early 2017
- The **Tax Cuts and Jobs Act of 2017 (TCJA)** was signed into law on December 22, 2017
- TCJA preserved existing tax credit and tax credit incentive programs
 - *New Market Tax Credits
 - *Historic Rehabilitation Tax Credits
 - *Infrastructure Tax Credits
 - *Low-Income Housing Tax Credits
 - *Renewable Energy Investment and Production Tax Credits
- TCJA expanded first year depreciation and expensing for capital asset purchases
- TCJA created **Qualified Opportunity Zones**
- **NEW** Section 1400Z added to the Internal Revenue Code, as amended, to establish Qualified OZs
- **879** OZ designations in California
- Certified by the U.S. Treasury on **4/9/18**
- OZ certifications are valid for **10 years**
- Opportunity Zones program is managed the U.S. Department of Treasury, Community Development Financial Institutions Fund

Frequently Asked Questions (FAQs)

From IRS website <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions> as of April 24, 2018:

Q. What is an Opportunity Zone?

A. **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 authority to the Internal Revenue Service.**

Q. Who created Opportunity Zones?

A. Opportunity Zones were added to the tax code by the Tax Cuts and Jobs Act on December 22, 2017.

Q. Have Opportunity Zones been around a long time?

A. No, they are new. The first set of Opportunity Zones, covering parts of 18 states, were designated on April 9, 2018.

Q. What is the purpose of Opportunity Zones?

A. Opportunity Zones are an economic development tool—that is, they are designed to spur economic development and job creation in distressed communities.

Q. How do Opportunity Zones spur economic development?

A. Opportunity Zones are designed to spur economic development by providing tax benefits to investors. First, investors can defer tax on any prior gains until the earlier of the date on which an investment is sold or exchanged, or December 31, 2026, so long as the gain is reinvested in a Qualified Opportunity Fund. Second, if the investor holds the investment in the Opportunity Fund for at least ten years, the investor would be eligible for an increase in basis equal to the fair market value of the investment on the date that the investment is sold or exchanged.

Frequently Asked Questions (FAQs)

From IRS website <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions> as of April 24, 2018:

Q. What is a Qualified Opportunity Fund

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 located in an Opportunity Zone and that utilizes the investor's gains from a prior investment for funding the Opportunity Fund.**

Q. Do I need to live in an Opportunity Zone to take advantage of the tax benefits?

A. No. You can get the tax benefits, even if you don't live, work or have a business in an Opportunity Zone. All you need to do is invest in a Qualified Opportunity Fund.

Q. I am interested in investing in an Opportunity Zone. Is there a list of Opportunity Zones available?

A. Yes. The current list of approved Opportunity Zones can be found at **Opportunity Zones Resources** <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>

This list will continue to be updated as more Opportunity Zones are approved. A complete list of approved Opportunity Zones will be published later this spring after all Opportunity Zones have been nominated, certified and designated.

Q. How does a Qualified Opportunity Fund get certified?

A. To become a Qualified Opportunity Fund, an eligible taxpayer self certifies. (Thus, no approval or action by the IRS is required.) To self-certify, a taxpayer merely completes a form (**which will be released in the summer of 2018**) and attaches that form to the taxpayer's federal income tax return for the taxable year. (The return must be filed timely, taking extensions into account.)

Q. How can I get more information about Opportunity Zones?

A. Over the next few months, the Treasury Department and the Internal Revenue Service will be providing further details, including additional legal guidance, on this new incentive. More information will be available at Treasury.gov and IRS.gov.

Q. What is qualified opportunity zone property?

- A. Qualified opportunity zone property includes:
1. qualified opportunity zone stock,
 2. qualified opportunity zone partnership interests, or
 3. qualified opportunity zone business property.

Q. What is a qualified opportunity zone business (QOZB)?

- A. A QOZB is a trade or business in which substantially all of the tangible property owned and leased by the taxpayer is **qualified opportunity zone business property** (QOZBP). QOZBP means tangible property used in the trade or business of the QOZB and which meets the acquisition and other use and holding period requirements.

At least 50% of the total QOZB's gross income must be derived from the activities of such business and the average of the aggregate unadjusted bases of the QOZBP attributable to "nonqualified financial property" must be less than 5 percent.

A QOZB **cannot** engage in any of the following prohibited activities: any private or commercial golf course, country club, business of which is the sale of alcoholic beverages for consumption off premises.

If tangible property ceases to be QOZBP, it will **continue to be treated** as such for the earlier of:

- (i) **5 years** after the date it ceases to be qualified, or
- (ii) the date on which it is no longer held by the QOZB.

For example if currently owned QOZBP is no longer used in the trade or business as of January 20, 2022 but has not been sold, then it will be treated as QOZBP for 5 years after the out-of-service date on January 20, 2027. However, if the QOZB sells the QOZBP on January 20, 2024, the property will cease to be QOZBP after the date of sale.

•1

Where are Opportunity Zones (OZs)?

How do OZs work?

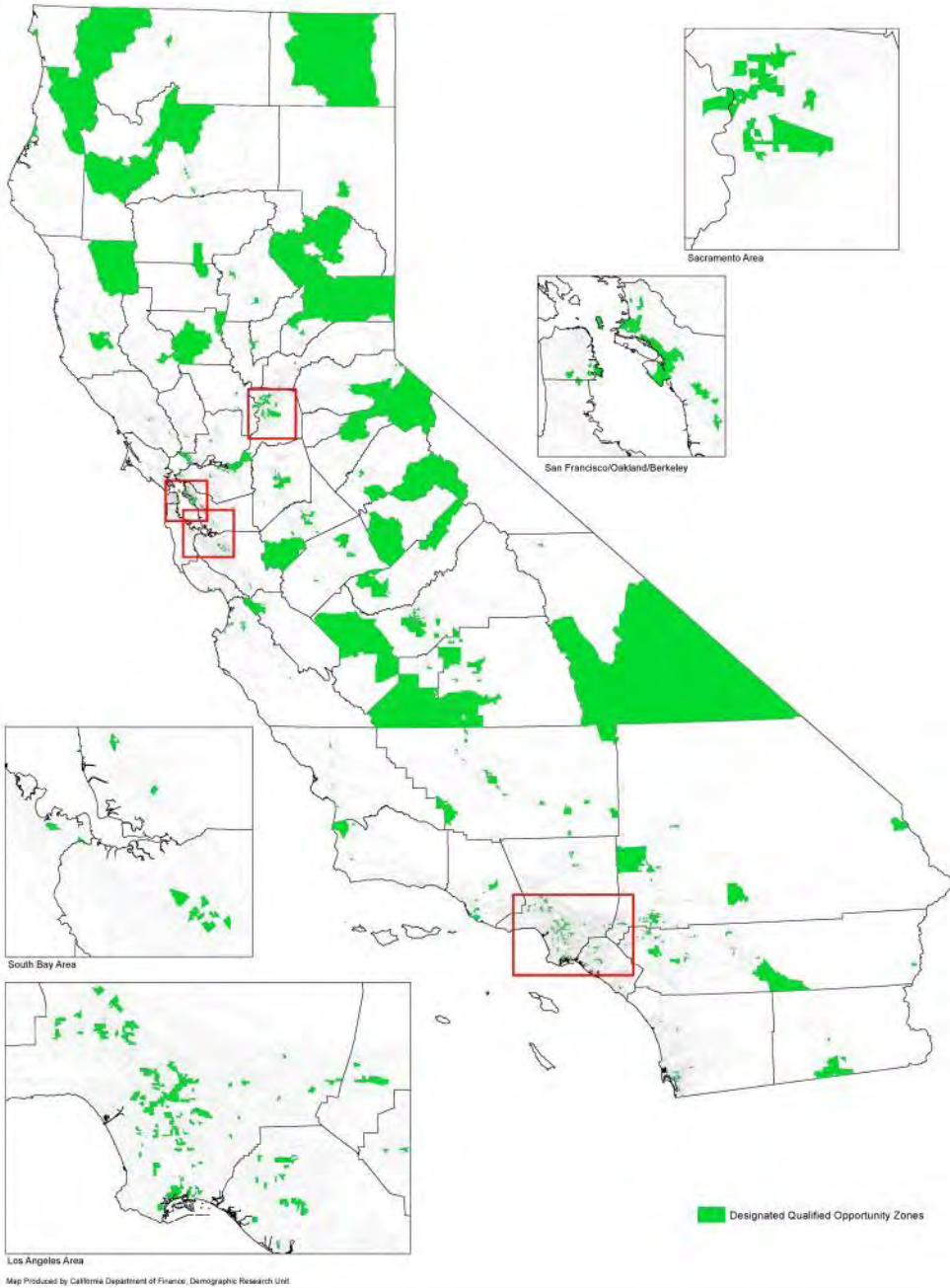
How do OZs benefit investors?

How do OZs benefit fund managers?

How do OZs benefit CA communities?



Designated Qualified Opportunity Zones

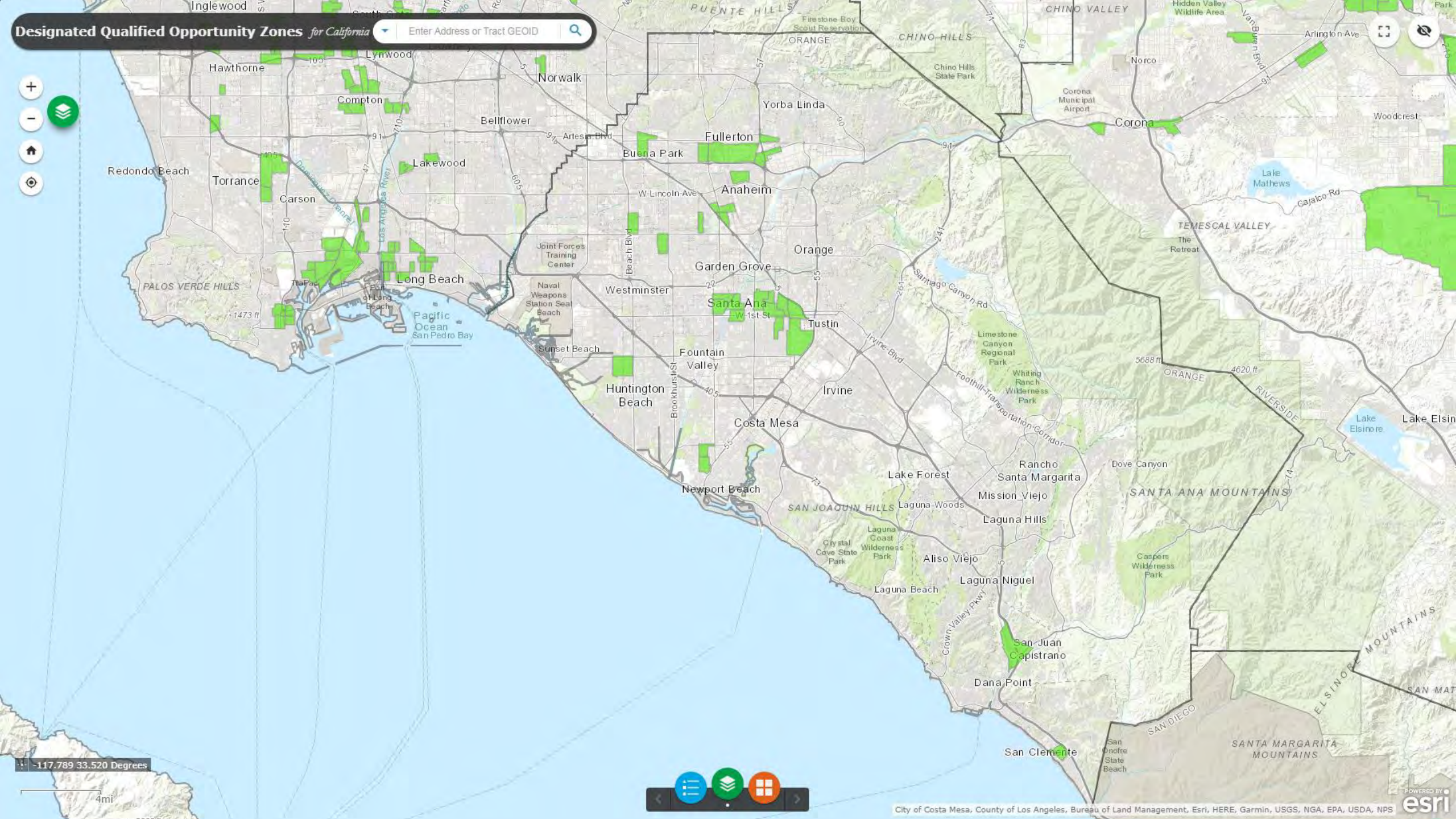


Where are Opportunity Zones in California?

- CA Department Finance, Opportunity Zones in California http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/index.html
- For an Excel workbook containing a list of the designated tracts for California: http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/documents/DesignatedQOZ.xlsx
- To view an interactive map of the designated tracts for California: http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/documents/DesignatedQOZ.xlsx
- To download a large, non-interactive map (28 inches x 40 inches) of the designated tracts for California: http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/documents/DesignatedQOZ.pdf
- To view a copy of the designation of qualified opportunity zones letter from the U.S. Department of the Treasury: http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/documents/DesignatedQOZ.pdf

Designated Qualified Opportunity Zones for California

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How do OZs work?

Unlike a *1031 Exchange*...

Whenever you sell business or investment property and you have a gain, you generally have to pay tax on the gain at the time of sale. IRC Section 1031 provides an exception and allows you to postpone paying federal tax on the gain if you reinvest the proceeds into similar property as part of a qualifying like-kind exchange. Gain deferred in a like-kind exchange under IRC Section 1031 is tax-deferred, but it is **not tax-free**.

Opportunity zones provide:

1. the ability to invest only the gain,
2. Into a broader range of options eligible for deferral,
3. a potential basis step-up of 15% or more of the initial deferred amount of investment in the OZ, and
4. an opportunity to avoid paying tax on capital gains held in a QOZ until 12/31/2026.

Summary:

OZs are somewhat similar to a 1031 exchange except eligible investments are limited by geography, can be made into other asset classes beyond real estate (e.g. stock or partnership interests), are structured by fund managers and any tax deferred will become due no sooner than 12/31/2026.

How do OZs benefit investors?

An investor, at risk of tax liability from capital gains earned from a previous investment, can still elect to defer tax liability from capital gains through a qualified IRC 1031 “like-kind” exchange but now has a new option to re-invest gains into a **Qualified Opportunity Fund (QOF)** within **180 days** from sale or disposition of properties after 12/31/2017. Investments made by a QOF into a QOZ enable the investor to benefit from one of following three tax benefit scenarios:

- 1. Temporary Deferral:** You will not be taxed on gains invested into a QOF until you withdraw from the fund or until December 31, 2026, whichever comes first.
- 2. Tax Reduction (Step Up in Basis in Years 5 and 7):** If you hold your investments in an QOF for a minimum of 5 years, you will be taxed at a reduced rate of 90% for investments held at least 5 years (10% basis increase) and/or 85% for investments held at least 7 years (an additional 5% basis increase – or a total of up to 15%).
- 3. Tax Exclusion (Tax-Free Earnings After Year 10).** If you hold your investment in an QOF for 10 years and until at least 12/31/2026, all gains accrued on your Opportunity Fund investment during that 10-year period are permanently excluded from your taxable gross income. For investments maintained longer than 10 years and upon a sale or disposition of the investment, the investor is allowed to elect the basis in the investment to be equal to the fair market value of the investment.

How do OZs benefit fund managers?

- It is expected that QOF managers, now having a new tool to offer investors interested in reinvesting through QOFs, will be able to realize new fees both from raising and structuring for placement available capital as well as in asset management activities taken in connection with operating one or more QOFs.
- Fund managers will now be able to structure related partner level financing and/or issue letters of credit for potential projects

Key terms for QOF managers:

- **Qualified opportunity zone stock** is stock in a domestic corporation acquired by the QOF after December 31, 2017, at its original issue, solely in exchange for cash. When the stock is issued, the corporation must be a qualified opportunity zone business (“QOZB”) and must remain a QOZB for substantially all of the QOF’s holding period of such stock.
- A **qualified opportunity zone partnership interest** is a domestic partnership interest acquired by the QOF after December 31, 2017, solely in exchange for cash. As with corporations, when the partnership interest is issued, the partnership must be a QOZB and remain one during substantially all of the QOF’s holding period of such interest.
- **Qualified opportunity zone business property (“QOZBP”)** means tangible property used in a trade or business of a QOF if such property:
 - (i) was acquired by purchase after December 31, 2017,
 - (ii) the original use of such property in the QOZ commences with the QOF or the QOF substantially improves the property, **and**
 - (iii) substantially all of the use of such property was in a QOZ during substantially all of the QOF’s holding period for the property.

QOZBP will be treated as substantially improved by a QOF only if during the 30 month period beginning after the date of acquisition, the additions to the basis of such property in the hands of the QOF exceed the adjusted basis of such property at the beginning of the 30 month period.



•2

How may OZs impact my community?

How do Ozs benefit CA communities?

Can OZs change land uses in my community?

How do OZs benefit CA communities?

- Generally, benefits provided by the QOZ program are realized by **private** market forces and conditions.
- 879 census tracts designated as OZs in California now have access to attract investments from a QOF.
- Tax benefits made available through a OZ are designed to offer projects in high-need areas (and that have a project financing need), with a new investment vehicle that might not otherwise have been considered for placement in the subject community.
- Certain projects in an OZ may already be eligible to raise project financing through any combination of other existing federal program sources including but not limited to: New Market Tax Credits, Historic Rehabilitation Tax Credits, Low-Income Housing Tax Credits, or Renewable Energy Investment and Production Tax Credits.
- A QOF can be organized as a corporation or a partnership for the purpose of investing in “qualified opportunity zone property”, that holds **at least 90%** of its assets in qualified opportunity zone property. Whether the QOF holds at least 90% of its assets in qualified opportunity zone property is determined by the percentage of qualified opportunity zone property held in the QOF measured (a) on the last day of the first six month period of the QOF’s taxable year, and (b) on the last day of the QOF’s taxable year.

OZs

Can OZs change land uses in my community?

No.

All land uses in California (and the intensity of their uses) continue to be managed by the respective and applicable local planning authority.

Similar in scope to the existing federal New Market Tax Credit program, designated OZs only enable a QOF to place and hold investments.

•3

Where can I find more information?

Who can I contact at the State with questions?



Where can I find more information?

- **United States Code, Title 26 – Internal Revenue Code**, Subtitle A – Income Taxes, Chapter 1 – Normal Taxes and Surtaxes, Subchapter Z – Opportunity Zones (Sections 1400Z-1 to 1400Z-2)

<http://uscode.house.gov/browse/prelim@title26/subtitleA/chapter1/subchapterZ&edition=prelim>

Sec. 1400Z-1. Designation

<http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section1400Z-1&num=0&edition=prelim>

Sec. 1400Z-2. Special rules for capital gains invested in opportunity zones

<http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section1400Z-2&num=0&edition=prelim>

- **CDFI Fund – Opportunity Zone Resources Page**

<https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>

- **California Department of Finance, Opportunity Zones in California**

http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/index.html

Who can I contact at the State with questions?

California Governor's Office of Business and Economic Development (GO-Biz)

Main: (916) 322-0694

Toll-Free: (877) 345-4633

www.business.ca.gov

Ask for California Business Investment Services (CalBIS)

The California Business Investment Services (CalBIS) Unit is comprised of a team of business development specialists with in-depth insight on available resources, ongoing initiatives, and government programs that provide direct technical and financial assistance to companies interested in either locating or expanding in California.

CalBIS works closely with regional and local economic development partners to provide confidential no-fee, site selection services to company executives, employers, corporate real estate executives, and site location consultants who are considering California for new establishments, relocation and/or expansion opportunities.

CalBIS regional offices are located in Los Angeles, Sacramento, San Diego, and San Francisco



Thank you!