



OpportunityDb
The Opportunity Zones Database

OZ Pitch Day - March 7, 2024

Opportunity Zones Explained

Presented by Jimmy Atkinson
Founder of OpportunityDb & OZ Insiders



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**OPPORTUNITY
ZONES**

INVESTORS

**CAPITAL
GAINS TAX**

Opportunity Zones: The Greatest Tax Incentive Ever Created?

- Who Can Invest?
- Policy Background
- Opportunity Zone Facts & Figures
- Overview of Opportunity Zone Tax Benefits: **Unlimited Tax-Free Growth**
- Opportunity Zones vs. 1031s & DSTs
- Program Updates: Marketplace & Legislative (As Of March 2024)
- How To Invest In Qualified Opportunity Funds

Who Can Invest In OZs?

- U.S. taxpayers with capital gains (minimum of \$50,000).
- Almost exclusively limited to accredited investors.
- High Net Worth investors, the ultra wealthy, and family offices.
- Patient capital (10-year holding period).
- Liquidity needed in 2027 for deferred tax liability.

Policy Thesis Developed Post-Recession

Wealth inequality widened following the Great Recession of 2008-09.

Wealthy areas recovered. Low-income areas got left behind.

At the end of 2017: An estimated \$6.1 trillion in unrealized capital gains.

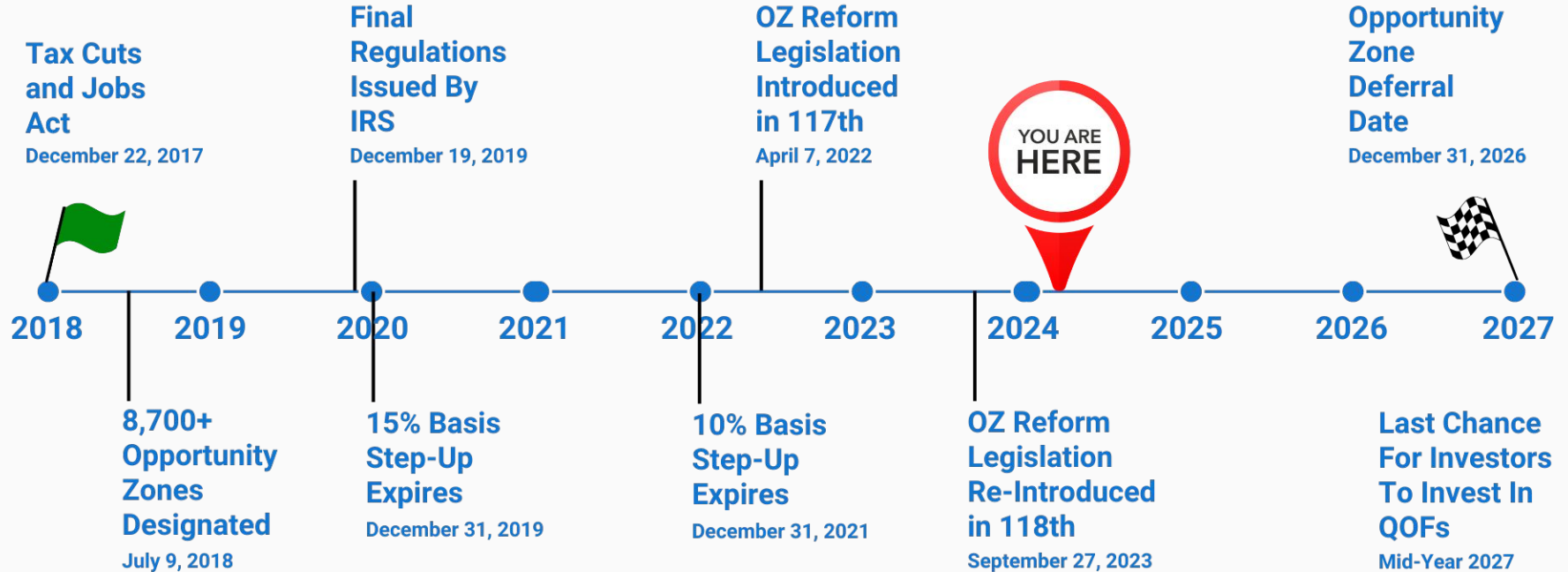
Policy challenge: How can we incentivize wealthy individuals to invest some of their wealth into low-income areas, to create new jobs and increase the local tax base?

Problem: How to incentivize private capital investment in low-income communities?

Bipartisan Place-Based Policy Solution: Opportunity Zones

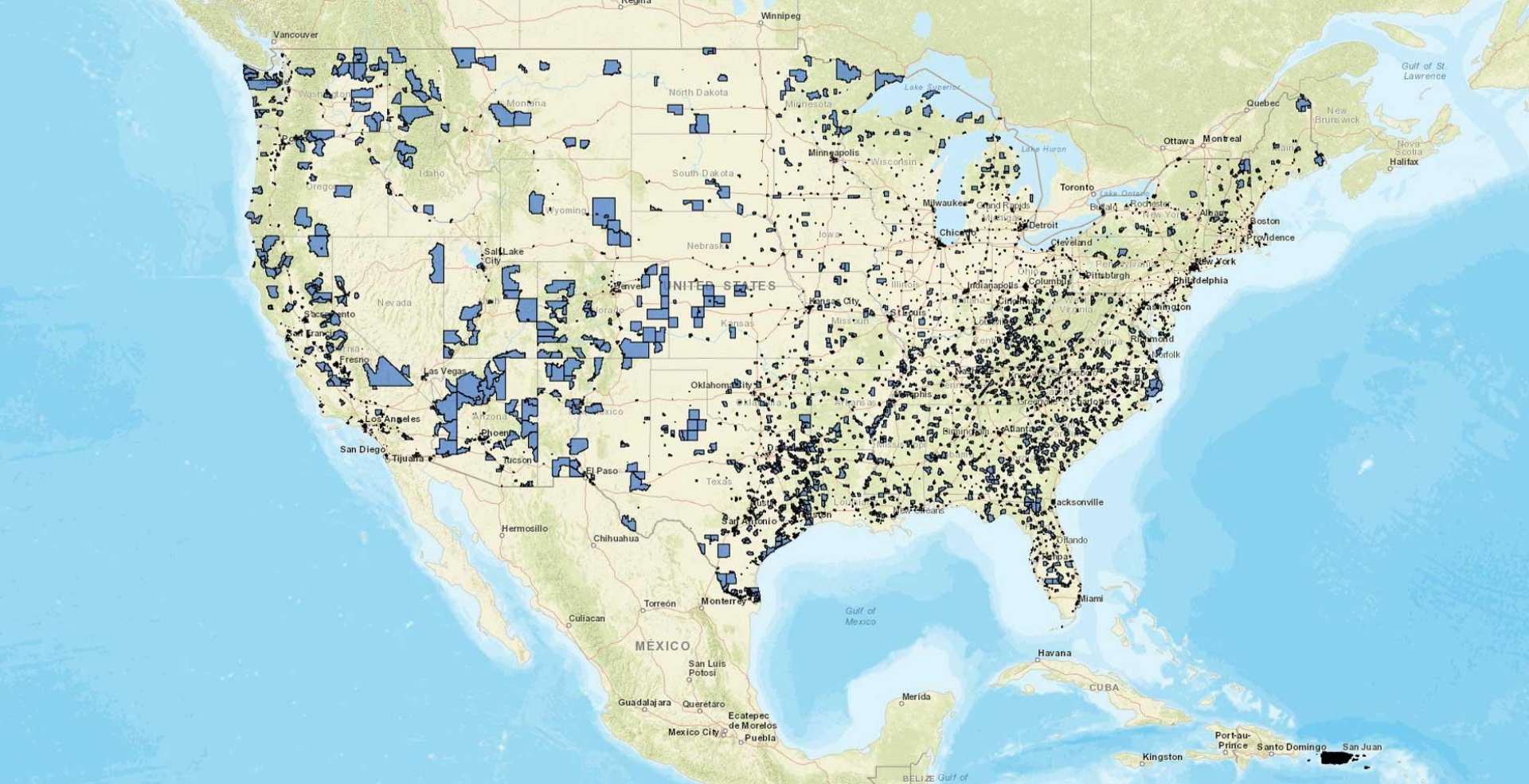
- Policy Goal: Economic revitalization for low-income communities.
- Investor Incentive: Capital gains tax deferral + unlimited tax-free growth.

Opportunity Zone Timeline



Opportunity Zone Facts & Figures

- Bipartisan support.
- Perishable tax incentive.
- Place-based economic policy and investment program.
- 8,764 census tracts designated as Opportunity Zones in 2018.
- 35 million people and 12% of landmass.
- Estimated \$100 billion program.
- The greatest economic development program in U.S. history.



Opportunity Zone Map (Continental United States) – Source: <https://opportunitydb.com/map/>

Technical Terminology

- **QOZ** - Qualified Opportunity Zone (a/k/a **OZ**)
 - Designated census tract.
- **QOF** - Qualified Opportunity Fund (a/k/a **OZ fund**)
 - Investment vehicle.
- **QOZP** - Qualified Opportunity Zone Property
- **QOZB** - Qualified Opportunity Zone Business
- **QOZBP** - Qualified Opportunity Zone Business Property
- **§1400Z** - Internal Revenue Code Section that codifies Opportunity Zones

Opportunity Zones Tax Benefits Deferral + Unlimited Tax-Free Growth

An investor who rolls over a capital gain into a Qualified Opportunity Fund within 180 days is eligible for the following benefits.

Benefit #1 **Gain Deferral**

Until Dec 31, 2026.

Benefit #2 **Gain Reduction**

10% or 15% reduction
after 5- or 7-year holding
period.

Benefit #3 **Gain Elimination**

Pay zero tax on OZ gains
after a 10-year holding
period.

OZ Investment Example

Example: Taxpayer has \$10 million capital gain

- Assume 23.8% federal capital gains tax rate (including NIIT).
 - We'll ignore state taxes to keep it simple.
- Normally: \$2.38 million tax liability due next April leaves \$7.62 million net.
- Instead: within 180 days of triggering the gain, taxpayer invests \$10 million in Qualified Opportunity Fund (QOF).

Benefit #1: Deferral

Temporary deferral of capital gains recognition until December 31, 2026

- Essentially a \$2.38 million interest-free loan from Uncle Sam.
- TVM benefits, plus a greater amount of compounding.
- Important: tax on this gain does eventually come due.
- This benefit becomes less valuable with each passing year.
- Risk: The 2026 tax rate applies; tax rates could rise.
 - But this could actually be to your benefit in the long-run! See Benefit #3.

~~Benefit #2: Reduction~~

Reduction of original gain recognition amount

- 10% reduction in gain recognition after 5-year hold in the QOF.
- So long as holding period is achieved by December 31, 2026.
- **This benefit expired after December 31, 2021.***

** or did it?*

Benefit #3: Elimination

Pay ZERO TAX on capital gains realized from OZ investment after a 10-year holding period

- Unlimited tax-free growth within the Opportunity Zone investment.
- Example: \$10 million QOF investment appreciates to \$25 million.
- \$0 due on the \$15 million capital gain from the OZ investment.
- Important: OZ gain must be recognized by December 31, 2047.
- Note: If tax rates goes up, this benefit becomes more valuable!

A “Hidden” Benefit

No depreciation recapture!

Combined with bonus depreciation, this is a powerful incentive.

Impact of OZ Tax Benefits on Returns

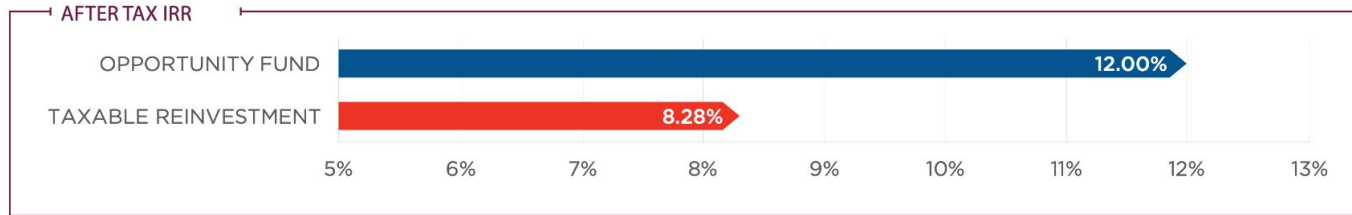


CHART 1:
The difference in after tax IRR between a Qualified Opportunity Fund investment and a traditional fund investment without special capital gain treatment.

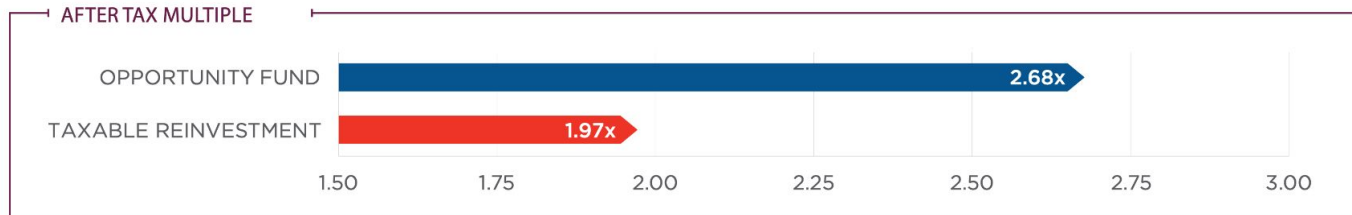


CHART 2:
The difference in after tax multiple between a Qualified Opportunity Fund investment and a traditional fund investment without special capital gain treatment.

Charts assume a 23.8% federal capital gain tax rate and a 37% federal ordinary income tax rate. The investment criteria for a Qualified Opportunity Fund and the traditional fund investment is on page .

Source: Jill Homan at Javelin19 Investments.

Opportunity Zone Investment vs. DST/1031 Exchange

Investment Aspect	Opportunity Zone Investment	DST/1031 Exchange
Full Tax Benefit Timeline	After a 10-year holding period	Upon death
Triple Net Leasing	Limited	Allowed
Capital Gain Eligibility	Any type of gain. Can be invested into a QOF that holds real estate and/or operating business(es).	Like-kind exchange. Must be a gain from real estate. Can only be invested into another real estate investment property.
Investment Amount	Tax benefit applies only to the gain. Can rollover full or partial gain.	Principal and gain amount must be rolled over for the full benefit.
Investment Strategy / Risk	Capital Appreciation Ground-up, redevelopment, or start-up	Varies (Traditional 1031) Stable Cash Flow (DST)
Timeline For Investment	180 Days	45-Day Rule & 180-Day Rule
Ease Of Investment	Self-Certification	Qualified Intermediary
Geographic Restriction	Limited to 8,764 census tracts, most of which are "low-income"	No geographic restriction

Marketplace Update

- Estimated: Roughly \$150 billion of OZ equity invested as of year-end 2023.
- EIG Report: OZ investment reached approximately 3,800 communities from mid-2018 through 2020 (nearly half of all OZs).

Legislative Update & Potential Changes

Opportunity Zones Transparency, Extension and Improvement Act

Bipartisan House bill (H.R. 5761) introduced on September 27, 2023.

Five Key Provisions:

1. Extend the tax incentive for 2 years (2026 → 2028).
2. Expand reporting requirements.
3. De-certify certain high income Opportunity Zone tracts.
4. Allow feeder funds (fund of funds).
5. Establish a State & Community Dynamism Fund.

What Is A Qualified Opportunity Fund?

All qualifying Opportunity Zone investments must flow through a Qualified Opportunity Fund (QOF). New vehicle established in the OZ legislation in 2017.

Per the IRS, QOFs must comply with a number of requirements in order to adhere to the legislative intent of the OZ tax policy. Two key requirements:

- 90% asset test.
- Original use or substantial improvement.

(Plus many more requirements.)

2 Options For Investors To Invest In QOFs

- Active: Create and invest in your own captive QOF.
- Passive: Invest as an LP in a private placement QOF offering.

Captive QOF

- Self-funded QOF.
- Actively invest in your own projects.
- Or alongside other QOFs.
- Proposed legislation may allow for investment directly into other QOFs.
- Easy to create and file annually (QOF files IRS Form 8996).
- Investor files IRS Form 8997.
- Compliance burden.
- Capital raise and deployment burden.

Investing As An LP In A QOF

- Similar to investing in a private equity fund as a passive investor.
- Variety of flavors. Consider your investment objectives.
- Multi-asset / single-asset. Multi-sector / Single-sector.
- Geographic focus vs. national pipeline.
- In most cases, these funds are limited to accredited investors.
- Typical fee structure: 1-2% asset management fee + 20% carried interest.
- Investors file IRS Form 8997 annually with their tax return.

Questions to Ask Before Investing as an LP

- Minimum investment amount? Fund close date?
- Blind pool fund or identified pipeline of projects?
- Asset class diversification / concentration?
- Geographic diversification / concentration?
- Who is the fund sponsor? Who is the developer? Track record?
- How much committed capital so far? Do the GPs have skin in the game?
- Tax implications? Forms?
- Projected returns? Cash distributions?
- Fees and sponsor promote?

How to Invest

Who: Taxpayers with capital gains (typically \$50,000 or more).

How: Invest via Qualified Opportunity Funds (QOFs).

Next Steps...

- Ask questions in our live Q&A and participate in the chat.
- Review our bonus guides and other materials we'll be sending.
- Reach out to today's presenters and have follow-up conversations.
- Request subscription documents from the fund issuers.

Free Bonus

How To Make Your First OZ Investment (A 5-Step Guide)

How To Make Your First Opportunity Zone Investment

By Jimmy Atkinson
Founder of OpportunityDb and Host of the Opportunity Zones Podcast

Updated March 21, 2022

The Opportunity Zone policy initiative is the biggest economic development program in U.S. history – and the tax incentive of a lifetime.

This guide shows you, step-by-step, exactly how to invest directly in a Qualified Opportunity Fund, and how to file your tax return in order to be eligible for all of the federal tax incentives.

(By the way, if you need a basic introduction to the OZ tax benefits, please download our free guide: [Opportunity Zone Tax Benefits](#).)

Download now...

<https://opportunitydb.com/bonuses/>



2024 OZ Pitch Day Schedule

Save The Dates!

- OZ Pitch Day Spring 2024 – March 7, 2024
- OZ Pitch Day Summer 2024 – June 13, 2024
- OZ Pitch Day Fall 2024 – November 14, 2024

OZ Insiders

**A Private Community Of
High-Performing Opportunity Zone
Executives, Professionals, And
Investors.**

Learn more:

<https://ozinsiders.com/>



Upcoming OZ Insiders Events



Monday, March 11, 2024

OZ Insiders Meetup & Dinner:
7 PM Central Time
Al Biernat's Oak Lawn — Dallas, TX
Hosted by OZ Insiders



Tuesday, April 9, 2024

Masterclass:
Diligencing OZ Investments
3 PM Eastern Time
Presented by Jill Homan



Tuesday, March 12, 2024

Masterclass:
Raising Opportunity Zone Equity
3 PM Eastern Time
Presented by Jimmy Atkinson



Monday, May 13, 2024

Masterclass:
Financial Modeling For OZ Deals
3 PM Eastern Time
Presented by Michael O'Mara

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