



HOMES / JOBS / COMMUNITY

OPPORTUNITY ZONE INFORMATION SESSION

Lawrence, KS | February 12, 2019

AGENDA

- How did Opportunity Zones Come to Be?
- How it Works
- State of Kansas and Lawrence OZs
- Community Strategies

Opportunity Zone Information Session

BACKGROUND

Established by congress in the Tax Cuts and Jobs Act of 2017

Goal is to spur private sector investment in low income communities

Treasury has issued FAQs, draft regulations and guidance

A “Light Touch” regulatory framework

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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

HOW IT WORKS

Individual invests capital gains into Opportunity Fund

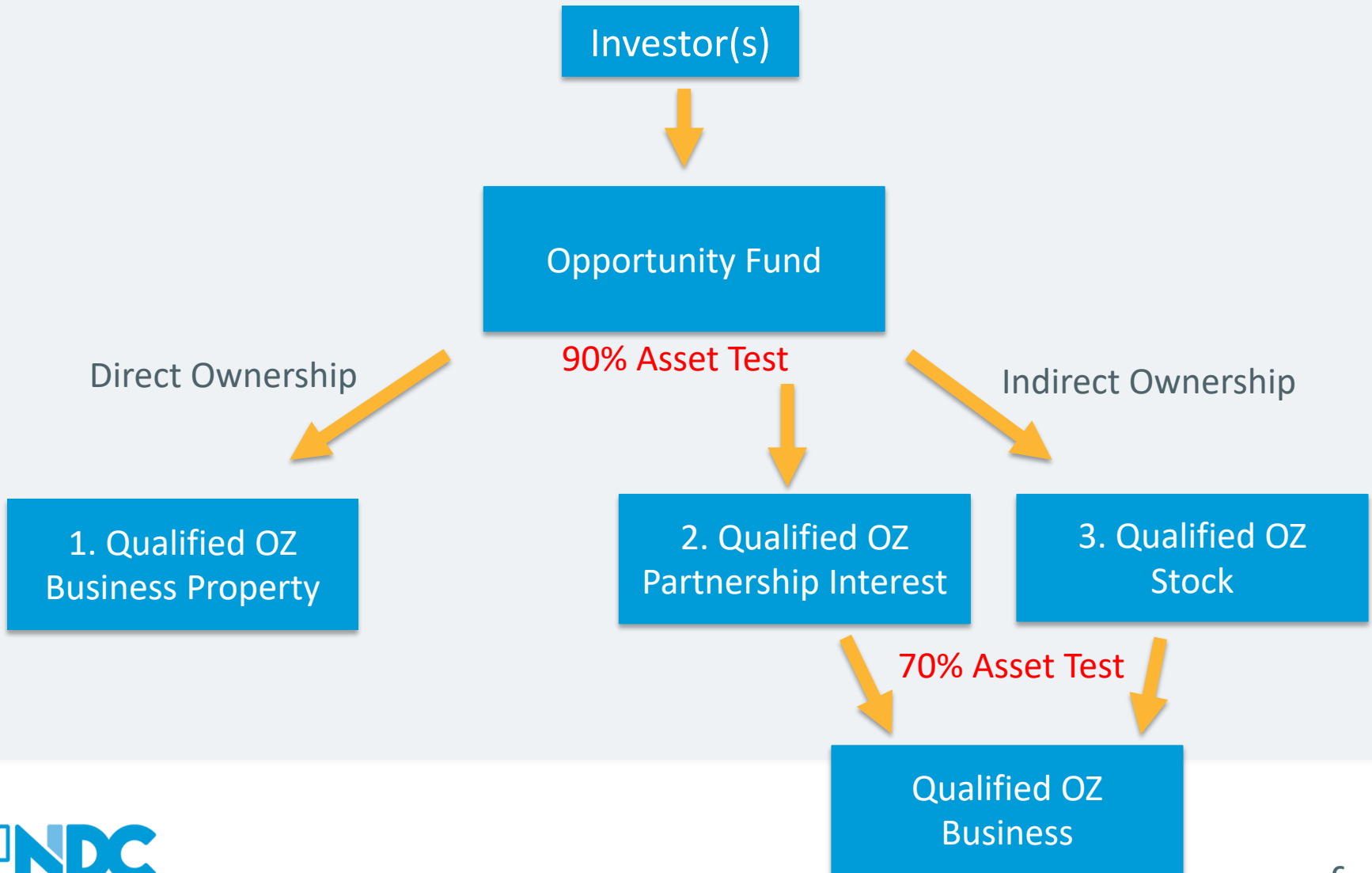
Opportunity Fund invests in qualified Opportunity Zone investments

Qualified investments include:

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

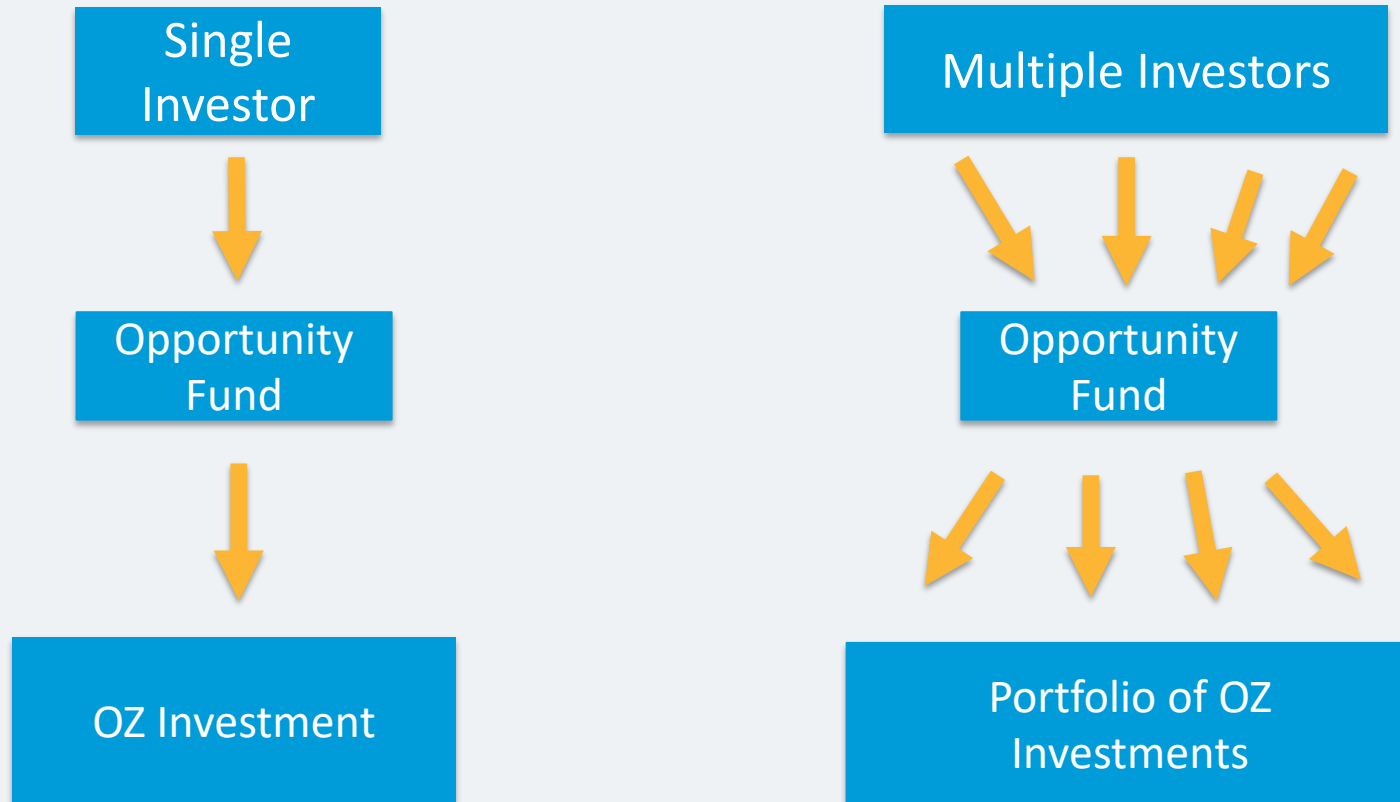
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HOW IT WORKS



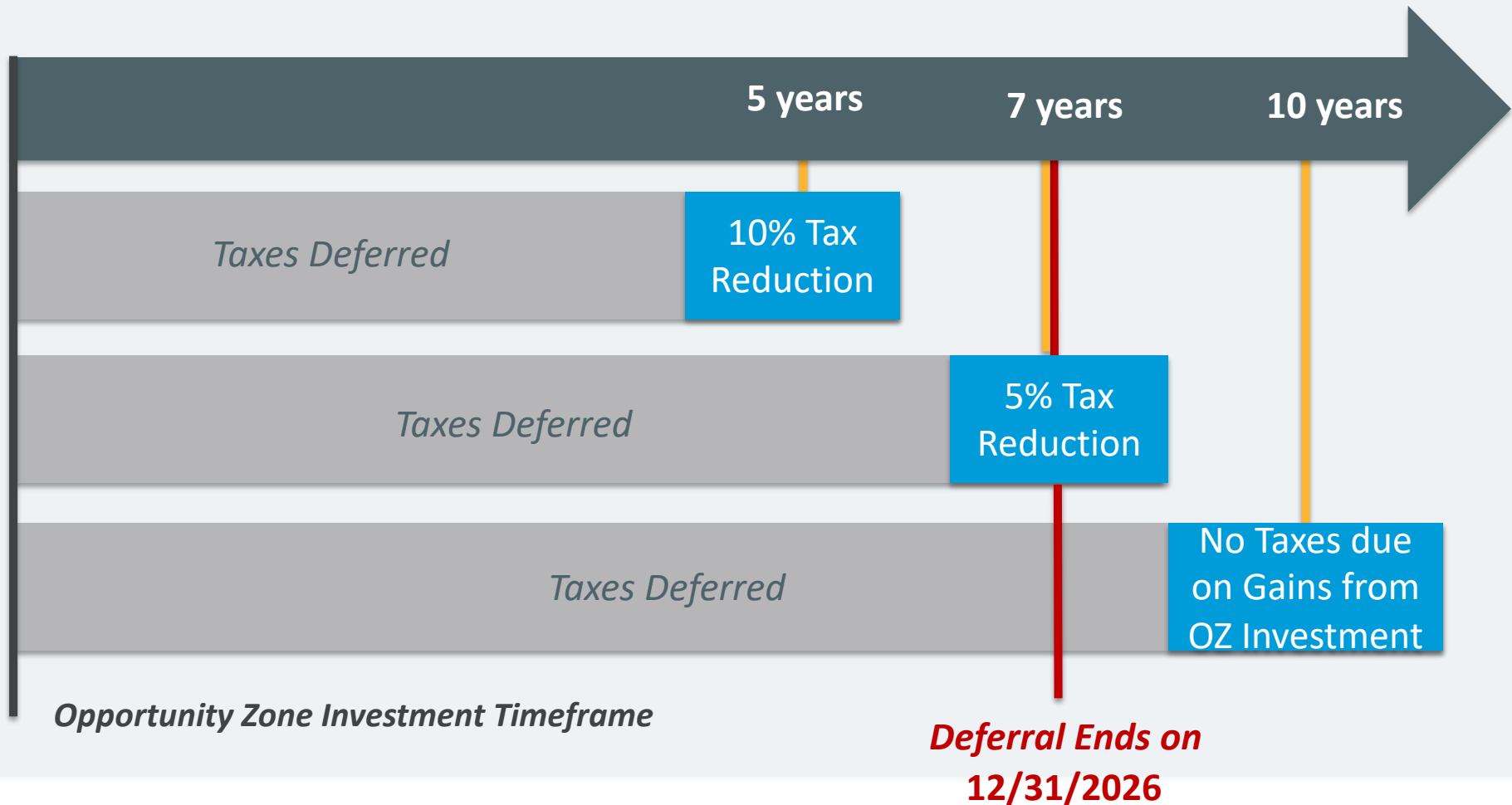
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HOW IT WORKS



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TAX BENEFITS



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INVESTMENT EXAMPLE

**Investor has an Investment
Subject to Federal Capital
Gains Tax**

Investment Amount	\$500,000
Capital Gains Rate	23.80%
Capital Gains Tax Owed	\$119,000

**Invests in Real Estate – Businesses
Located in Designated
Opportunity Zones**

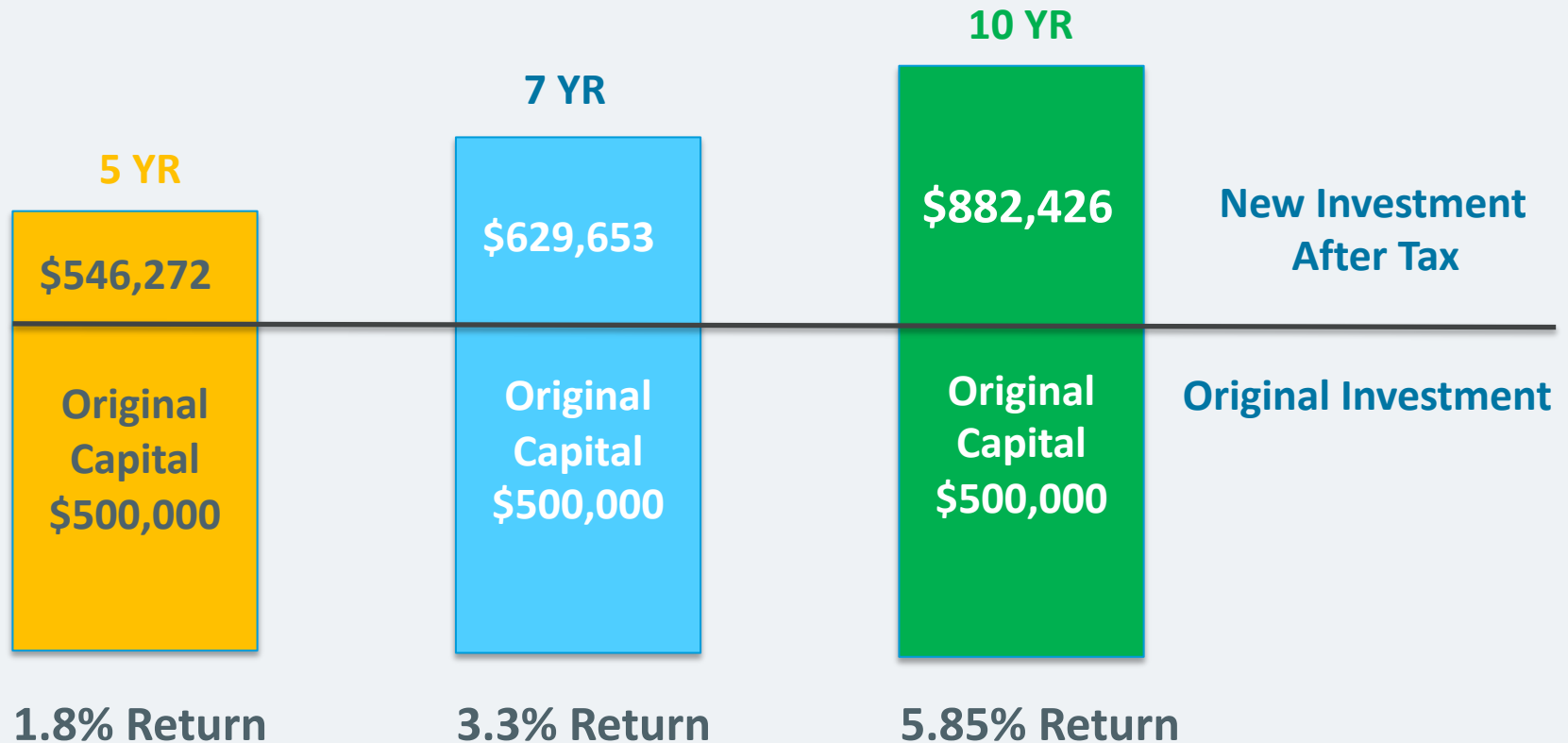


Investor wants a 7% Return

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INVESTMENT EXAMPLE

Investor Summary



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FULLY TAXABLE VS OZ FUND EXAMPLE

Fully Taxed Investment	
Capital Gain	\$500,000
- Tax Payable (24%)	\$119,000
Total capital to Invest	\$381,000
Sale Price after 10 years	\$749,500
- Tax on Appreciation	\$87,700
After Tax Funds Available	\$661,800
Annual Rate of Return	2.8%

Opportunity Zone Investment	
Capital Gain	\$500,000
- Tax Payable (24%)	\$0
Total capital to Invest	\$500,000
Sale Price after 10 years	\$983,600
- Tax on Appreciation	0%
Deferred Capital Gain Tax paid in 2026	\$101,200
After Tax Funds Available	\$882,400
Annual Rate of Return	5.9%



Assumes 7% annual investment appreciation and 23.8% capital gains tax

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OPPORTUNITY ZONE PROPERTY

- **Category 1**
 - Tangible property
 - Must be in OZ
- **Category 2**
 - OZ stock or partnership interests
- **Investment transaction must occur *after* 12/31/17***
- **Property must be substantially improved during any 30 month period***

*Awaiting further guidance from Treasury

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DRAFT REGULATIONS

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

DRAFT QOF CERTIFICATION FORM

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 9 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)

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DRAFT REGULATIONS

- **TIMING**
 - Taxpayers can invest until 6/30/2027 and, if they hold the investment for 10 years, step up the basis in their QOF investment to FMV
 - Flexibility with timing for QOF to meet 90% assets test
 - “Working capital safe harbor” – project has 31 months to spend OZ capital

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DRAFT REGULATIONS

- **DEFINITIONS**
 - “Substantially all”: 70% of a business’s tangible property must be in an Opportunity Zone
 - “Substantial improvement” requirement to double adjustable basis excludes the value of land

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KEY DIFFERENCES

- **Flexible**
 - Market-driven
 - Variety of projects
 - No required outcomes
- **Scalable**
- **No upfront awards**

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STATE ROLE IN KANSAS OPPORTUNITY ZONES

- **Designate Census Tracts**
- **Identify and Align Existing Resources, Programs and Policies to Enhance Kansas Opportunity Zones**
- **Facilitate Community Collaboration**
- **Create and Distribute Resources for Communities**
 - Website
 - LinkedIn Group Page
 - mySidewalk

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KANSAS OPPORTUNITY ZONES

Kansas Opportunity Zones Selection



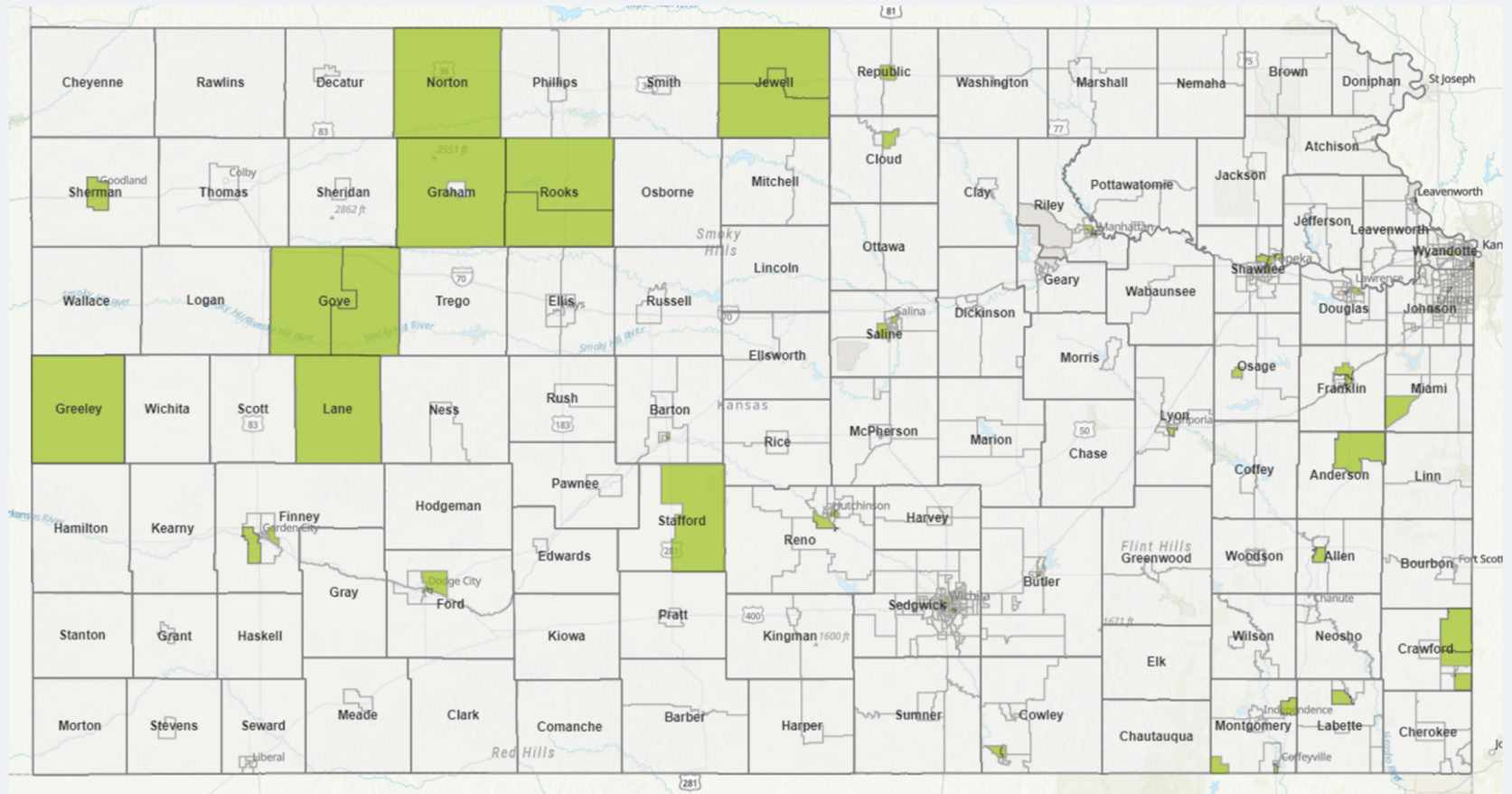
- **December 2017: Tax Cuts and Jobs Act of 2017**
- **February 2018: Department of Commerce Announces Request for Letters of Interest**
- **March 2018: Selected Communities Announced**
- **April 2018: Final Nominations sent to the United States Department of the Treasury for Designation**
- **May 2018: Treasury confirms all nominated census tracts as designated Kansas Opportunity Zones**

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KANSAS OPPORTUNITY ZONES

- **Focused on reaching out and working with local leaders**
 - to identify needs in their community and
 - the opportunities available to address those needs.
- **Received letters of interest from 39 communities.**
 - Evaluated needs and opportunities present in each census tract.
- **Through application process, the panel considered many projects, including:**
 - Shortages of workforce housing
 - Food deserts
 - Economically depressed downtowns, and main streets in rural communities.
- **Factors considered included:**
 - Geographic location
 - Poverty and Unemployment Rates
 - Potential engagement with education
 - Identification of specific projects

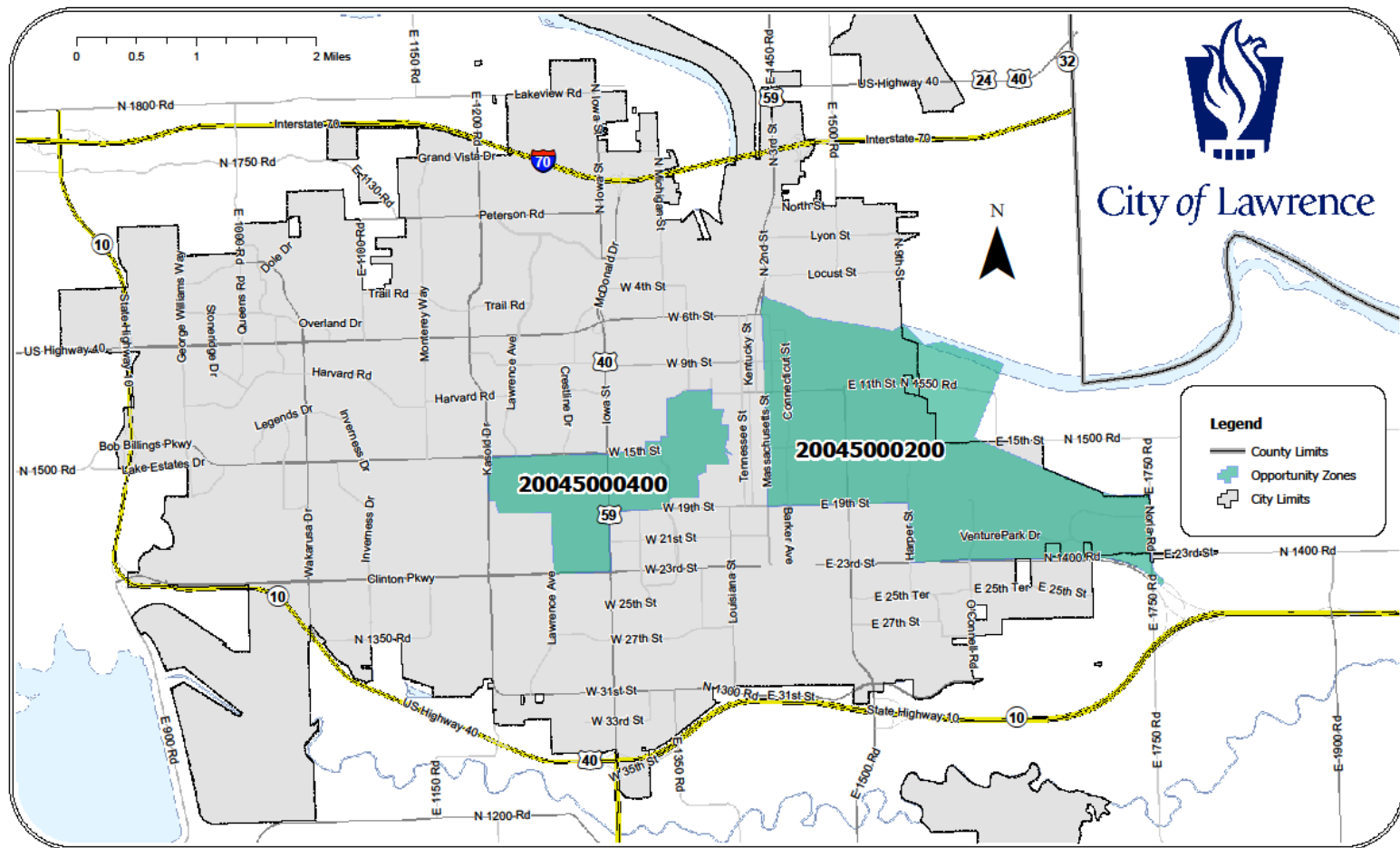
KANSAS OPPORTUNITY ZONES



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LAWRENCE OPPORTUNITY ZONES

Designated 2018 Lawrence Opportunity Zones Map



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LAWRENCE OPPORTUNITY ZONES

Area	Total Population	African-American	Hispanic	People in Poverty (%)	18 and under in poverty	Median Household Income	BA Degree (%)	Some College (%)	HS Degree (%)	No HS Degree (%)	Under 18 (%)	Over 65 (%)	Unemployment (%)
US	321,004,407	12.7%	17.6%	14.6%	20.3%	\$ 57,652	19.1%	29.1%	27.3%	12.7%	22.9	14.9	6.6%
State	2,903,820	5.8%	11.5%	12.8%	16.4%	\$ 55,477	19.6%	31.9%	26.2%	9.5%	2.7	14.7	4.8%
Lawrence MSA	117,806	4.1%	6.0%	18.7%	12.8%	\$ 54,370	26.4%	27.0%	18.3%	4.7%	18.9	10.8	4.7%
Lawrence City	87,643	4.5%	6.6%	21.8%	14.4%	\$ 49,297	27.0%	26.2%	15.8%	4.6%	17.2	9.9	4.3%
Opportunity Zone 1 (4)	3,839	6.6%	8.4%	57.5%	82.0%	\$ 15,288	28.6%	25.6%	8.3%	0.0%	2.4	0.3	17.8%
Opportunity Zone 2 (2)	6,998	4.9%	9.4%	32.1%	46.1%	\$ 40,343	26.4%	29.6%	18.7%	8.9%	20	7.8	2.8%

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CHALLENGES

- **Clear** Federal guidance
 - Additional regulations forthcoming
- **Gentrification** concerns
- **No** guarantees
- Opportunity Zone Investments will provide **only a portion** of needed capital

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STACKING OPPORTUNITY ZONE BENEFITS

- Qualified Opportunity Funds are one funding source for projects
- No limitation on the use of existing programs for qualified projects within Opportunity Zones

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EXISTING RESOURCES

Federal

Federal Historic Tax Credits - NMTC (New Markets Tax Credit)
USDA Rural Infrastructure Grant/Loan Program

State

Angel Investors - CDBG - HAT - HPIP - KDHE Brownfields Program - KIT / KIR - PEAK -
RHID State Historic Tax Credits - STAR Bonds - Workforce AID

Local

CID - Electric Rate Incentive Discounts - IRB
Local Community Foundations & Job Creation Grants - NRP - Property Tax Abatement
Revolving Loan Funds - Regional Planning Commissions - TIF

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COMMUNITY STRATEGIES

- **Identify and educate an ecosystem of players:**
 - Developers, investors, banks, financial advisors, accountants, community foundations, public entities, etc.
- **Develop a local economic development strategy & pipeline of projects**
- **Cultivate relationships with investors (community prospectus, website, etc.)**
- **Coordinate and connect key players to get projects done!**

Opportunity Zone Listening Session

COMMUNITY ENTRY POINTS

- Raise awareness of OZs
- Identify stakeholders
- Strategy/listening session
- Resources to incent OZ investments
- Establish a fund? Identify opportunities
- Market and pitch them

Opportunity Zone Listening Session

CONTACT INFORMATION

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For more information:

www.kansascommerce.gov/OpportunityZones

IRS FAQs

Economic Innovation Group (www.eig.org)