

Opportunity Zones Overview

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Disclosures:

- ❖ This presentation reflects the views of Mariia Khorun, Esq. and not of East Coast Capital Holdings.
- ❖ This presentation attempted to provide as accurate depiction of the Opportunity Zone program as possible within the current guidelines.
- ❖ Nothing in this presentation should be considered a legal advice. Should you have specific legal question, please consult your attorney.



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East Coast Capital Holdings (ECCH)

- ▶ ECCH is an SSBIC and a federal licensee under the Small Business Investment Act of 1958
- ▶ ECCH is one of only few SBICs that focuses on FinTech
- ▶ ECCH as an SSBIC is investing in socially or economically disadvantaged entrepreneurs (minority owned businesses, businesses located in the Low or Moderate Income (LMI) zones)
- ▶ ECCH portfolio consists of
 - ▶ Minority Depository Institutions (MDIs)
 - ▶ FinTech
 - ▶ InsurTech
- ▶ Visit eastcoastcapitalholdings.com

Overview of the basic components of Opportunity Zone (OZ) program

- ▶ OZ
- ▶ Qualified Opportunity Fund (QOF)
- ▶ OZ benefits
 - ▶ Deferral of capital gains
 - ▶ Step up in basis and elimination of capital gains tax
 - ▶ Communities Revitalization

Opportunity Zones

- ▶ President Donald Trump signed into law the 2017 Tax Cuts and Jobs Act in December 2017.
- ▶ The Secretary of the Treasury certified the tracts nominated by state governors as opportunity zones.
- ▶ In July 2018 the Internal Revenue Service published a list of 8,764 qualified opportunity zones in the 50 states and U.S. territories.
- ▶ This number represents approximately 25% of low-income tracts and a small percentage of moderate-income tracts. Approximately 10% of US residents reside in these areas.
- ▶ For Opportunity Zone strategies in a State or a Territory:
 - ▶ <https://opportunityzones.hud.gov/>
- ▶ Where to check if your area qualifies?
 - ▶ <https://opportunityzones.hud.gov/resources/map>

QOF

- ▶ A special vehicle created to invest in OZ properties
- ▶ Who can establish a QOF?
 - ▶ Corporation
 - ▶ Partnership
 - ▶ LLC (if elects to be treated as a partnership or a corporation for tax purposes)
- ▶ Type of Investment:
 - ▶ stock or a partnership interest in an opportunity zone business or
 - ▶ opportunity zone business property.
- ▶ An OZ fund needs to self-certify with the US Treasury by filing Form 8996.
 - ▶ See <https://www.irs.gov/pub/irs-pdf/f8996.pdf>
- ▶ An opportunity fund is required to hold at least 90 percent of its assets in qualified opportunity zone businesses or business property (otherwise pay a monthly fine)
- ▶ Number of QOFs as of today?
 - ▶ 513 funds that represent \$68.75 billion in community development investment capacity according to Novogradac & Company

QOF

- ▶ Qualified OZ businesses
 - ▶ 70% of a company's tangible property must be used in an Opportunity Zone
 - ▶ 40% of a company's intangible property must be used in the active conduct of a business in OZ and
 - ▶ 50% of a company's gross income must be derived from the active conduct of a business in the OZ
 - ▶ IRS safe harbor if
 - ▶ the management, operations and tangible property needed to generate 50% or more of the gross income of the business are located in an OZ or
 - ▶ 50% or more of the services performed for the business by employees and independent contractors (based on either hours worked or compensation paid) are performed in an OZ
 - ▶ Not every business qualifies (for example, gambling facilities, liquor stores do not qualify)
- ▶ Qualified OZ business property must meet “substantial improvement” test



OZ benefits - Deferral of Capital Gains

- ▶ If the gains are invested in QOFs, the capital gains tax will be deferred.
- ▶ Invested in a QOF within 180 days following the taxable event (sale or exchange) that generated the gain (unless falls under a new extension under the Government Covid-19 response)*
- ▶ At this stage, no total elimination but a temporary deferral of capital gains tax:
 - ▶ the gain must be recognized on the earlier of Dec. 31, 2026* or
 - ▶ the date the investment in the opportunity fund is sold or exchanged.

*may be changed if Opportunity Zone Extension Act H.R. 6513 is successful

OZ benefits -

Step up in basis and elimination of capital gains tax

- ▶ Hold investment for at least 5 years –
 - ▶ the investor's basis will be increased by 10 percent of the original gain.
- ▶ Hold investment for at least 7 years
 - ▶ the investor's basis will be increased by another 5 percent of the original gain.
- ▶ Hold investment for at least 10 years
 - ▶ there are no taxes on gains from the sale of the investment in the fund.

OZ benefits – Communities Revitalization

- ▶ Creation of new businesses
- ▶ Job creation
- ▶ Expansion of existing businesses in OZs
- ▶ Real estate development or rehabilitation of vacant or abandoned properties
 - ▶ Development of affordable housing, community-, child-, or adult-centers
- ▶ Enable provision of commercial and community goods and services in low-income communities
 - ▶ Nonprofits that coach residents on improving their credit score
 - ▶ Companies assisting residents and local businesses with EIDL/PPP applications

Opportunity Zones and Covid-19 Response

- ▶ Deadlines extended
 - ▶ 180-day period for reinvesting established by Section 1400Z-2 is extended until July 15, 2020 (if the period was to otherwise expire between April 1, 2020, and July 14, 2020). It benefits mostly the investors whose deadline is now or approaching.
 - ▶ For example, an Investor sold its asset on July 1, 2019. 180 days will fall on April 1, 2020. The deadline will be extended to July 15, 2020.
 - ▶ An Investor sold its asset on March 1, 2020. The deadline is still 180 days and will fall on December 1, 2020.
 - ▶ See Notice 20-23 for details: <https://www.irs.gov/pub/irs-drop/n-20-23.pdf>
- ▶ New Bills - Opportunity Zone Extension Act H.R. 6513
 - ▶ If becomes the law, the bill would extend the required inclusion date for capital gains deferred through a QOF investment from Dec. 31, 2026, to Dec. 31, 2030.
 - ▶ The rule will apply only for investments made in taxable years beginning after the enactment of the legislation.

Who are the parties participating in the process?

- ▶ Federal, State, and local government
- ▶ Community organizations (example)
 - ▶ Nonprofits that know the needs of their communities
 - ▶ CDFI
- ▶ Investors
 - ▶ Impact investors
- ▶ Fund Managers
- ▶ Developers
- ▶ Lenders
- ▶ Land Banks
- ▶ Professional services providers (CPAs, attorneys)

State of OZ technology

- ▶ Innovation and Automation efforts – not enough!
- ▶ Incubators/ accelerators choose to be located in OZs
 - ▶ For example, the Pearl Fund OZ Incubator
- ▶ Tools to explore how OZ tracts relate to other federal programs and designations, provide information on residents
 - ▶ For example, Opportunity Zone Explorer Tool by enterprisecommunity.org
- ▶ Market place solutions for connecting investors and developers
 - ▶ For example, conferences such as ASD (Any Size Deals)
- ▶ Platforms analyzing OZ data
- ▶ Companies using AI to analyze alternative data such as street views, cellular data, and social media for OZ Investor decision-making
 - ▶ For example, Skyline AI

Timothy™ - an OZ technological solution

- ▶ Approximately 30% of Houses of Worship (HoW) are in OZs
- ▶ On average 5000 HoW were closing their doors each year between 2006 and 2012
- ▶ Covid-19 sharpened the needs of HoW
 - ▶ No gatherings – reduced charitable contributions
 - ▶ Difficulty to apply for EIDL or PPP
 - ▶ Based on recent data provided by BankingExchange.com, approximately ½ of PPP funds were loaned to companies in these sectors: construction; professional, scientific and technical services; manufacturing; and health care and social assistance
 - ▶ Difficulties to meet recurring financial obligations
- ▶ At risk
 - ▶ Mission of HoW
 - ▶ Communities
 - ▶ Lenders
 - ▶ Goals of Opportunity Zones program to reach distressed communities

Timothy™- an OZ technological solution

- ▶ Timothy is developed with the Opportunity Zones (OZ) program and the CARES Act in mind.
- ▶ It provides a tech-enabled solution for revitalization of distressed communities by bringing together HoWs, lenders, OZ Investors, and developers.
- ▶ Utilizing the OZ framework (possible deferral or elimination of capital gains), its strategic partners such as local Nonprofit Organizations and developers, Timothy facilitates the repositioning of HoWs in OZs to create community-friendly revenue-generating businesses.
- ▶ Through this process, lenders are relieved of sensitive and underperforming HoWs' loans.
- ▶ OZ Investors receive the benefits of OZ program on top of the satisfaction of making a social and economic impact investment.
- ▶ HoWs and their surrounding communities are modernized and resilient to future disasters and pandemics.

Materials and Resources referenced in the presentation:

- ▶ <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>
- ▶ <https://opportunityzones.hud.gov/>
- ▶ <https://www.novoco.com/resource-centers/opportunity-zones-resource-center>
- ▶ <https://www.bankingexchange.com/news-feed/item/8208-banks-demand-additional-funding-for-ppp>
- ▶ <https://opportunitydb.com/2019/10/brian-phillips-056/>
- ▶ <https://www.cooleygo.com/consider-locating-your-startup-in-an-opportunity-zone/>

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Thank you for your attention.

Be safe and healthy!

Q & A