



OPPORTUNITY ZONES 101

The United States Federal Government Opportunity Zone Program

The Tax Cuts and Jobs Act created this Opportunity Zones economic development program based on favorable tax incentives to incentivize both economic development and job creation in low income communities (new Internal Revenue Code sections 1400Z-1 and -2). Taxes on capital gains invested in Opportunity Funds are deferred and taxes on earnings while the capital gains are invested in the fund may be forgiven entirely. Opportunity Funds must invest at least 90% of their assets in qualified Opportunity Zone property operating as or used in a qualified Opportunity Zone business. The program does apply to Puerto Rico and the US territory is geographically designated as an Opportunity Zone island wide except for specific areas which are minimal.

Opportunity Zones Defined

Opportunity Zones are population census tracts analogous to low income communities qualifying for the New Markets Tax Credit. Up to 25% of qualifying communities in a state may be designated as qualifying Opportunity Zones. Opportunity Zones are identified at the local and not the federal level, therefore states, Washington, D.C. and the territories have more control over the development of underserved communities.

Incentives for Investments in Low Income Communities

Deferred taxes on capital gains and elimination of taxes on gains from Opportunity Fund investments are intended to attract investors into the Program.

Opportunity Fund Defined

A qualified Opportunity Fund is a privately managed investment vehicle organized as a corporation or a partnership for the purpose of investing in and holding at least 90% of its assets in qualified Opportunity Zone property. Capital gains from the sale or exchange of any property with an unrelated person invested in the Fund within 180 days will qualify for tax deferral until the earlier of the disposition of the investment in the Fund or 2026, with 10% and 15% increases in basis at the 5 and 7 year marks. Gain on Fund investments held at least 10 years will not be subject to tax.

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Qualified Opportunity Fund Defined

Qualified opportunity zone property includes any qualified opportunity zone stock, any qualified opportunity zone partnership interests, and any qualified opportunity zone business property. Corporations and partnerships must be qualified Opportunity Zone businesses. Qualified Opportunity Zone business property is tangible property used in a qualified Opportunity Zone business purchased after December 31, 2017 and the original use begins with the Opportunity Fund or the Fund substantially improves the property.

Qualified Opportunity Zone Business Defined

A qualified Opportunity Zone business is a trade or business where substantially all of the tangible property is qualified Opportunity Zone business property. At least 50% of the total gross income of the business must be from the active conduct of the business. Other conditions and restrictions pertaining to intangible property and passive income apply.

Incentives offered through opportunity funds

If a taxpayer makes a qualifying investment within the requisite timeframe, the taxpayer should be eligible for the following three primary tax benefits:

Deferral of tax: The federal income tax on the capital gain that is invested in a QOF is deferred until Dec. 31, 2026 or the date of disposition of the QOZ investment.

Reduction of taxable gain amount: At the time the deferred gain has to be taxed (Dec. 31, 2026 or earlier), the investor may obtain either a 10% or 15% reduction in the amount of deferred gain that is ultimately subject to tax, depending upon the length of time that the investment has been held. The amount of gain that is taxed is reduced by 10% if the QOZ investment is held for five years prior to the year of inclusion and is reduced by an additional 5% (15% in total) if the QOZ investment is held for seven years prior to the year of inclusion. Accordingly, to be eligible for the 15% reduction, an investment in a QOF needs to be made by the end of this year (Dec. 31, 2019) and to be eligible for the 10% reduction, an investment in a QOF needs to be made by Dec. 31, 2021.

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Elimination of tax with respect to future appreciation: If an investment in a QOF is held for 10 years, and disposed of prior to Dec. 31, 2047, no gain has to be recognized on the appreciation on the QOF investment.

State and local income tax treatment of the tax benefits may differ depending upon whether the taxpayer's state of residence decides to follow the federal tax treatment.

PUERTO RICO 98% of the Island qualifies. All our commercial properties and land is within the Opportunity Zones designation.

Excerpt from the Caribbean Business newspaper

Economic Development Secretary Manuel Laboy adds in the release that the Opportunity Zones initiative, which now forms part of the Puerto Rico Incentives Code, "is a positive step towards improving Puerto Rico's economy in a holistic way. It represents an opportunity to promote the development of several economic sectors throughout 98 percent of the Island, which will allow the most vulnerable zones to have a more just and favorable economic situation. Laboy Rivera pointed out that the positive impact of Opportunity Zones is calculated at more than \$600 million in investments."

The Incentives Code of Puerto Rico provides for the following incentives to opportunity funds that invest in Puerto Rico:

- A fixed 18.5% income tax rate and 0% on eligible distributions to its owners
- A transferable investment credit of up to 25% of the amount invested on an Opportunity Fund
- 25% exemption on real and personal property taxes (which may be increased to 75%)
- 25% municipal license and municipal construction tax exemption (which may be increased to 75%)
- An expedited permits process

The list of activities that qualify as priority projects within Opportunity Zones follow:

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Real Estate

1. Development (acquisition of property and construction thereon and/or substantial improvement of existing property) of residential real property that is a Low-Income Housing Project as defined in Section 42(g) of the United States Internal Revenue Code of 1986, amended, or by the Puerto Rico Department of Housing, for sale or rent.
2. Development (acquisition of property and construction thereon and/or substantial improvement of existing property) of residential and/or commercial real property for sale or rent.
3. Development (acquisition of property and construction thereon and/or substantial improvement of existing property) of industrial real property for sale or rent.
4. Substantial improvement of an existing commercial property for sale or rent.

“We must now meet with the mayors to explain to them the scope of the local Opportunity Zones legislation. The mayors will then be able to establish, through municipal ordinances, additional tax exemptions at the municipal level for the commercial activities that they wish to promote in their municipalities as they will be informed of the whole the process,” the release quotes Rep. Antonio “Tony” Soto as saying. (Excerpt from the Caribbean Business newspaper)

PRPERTIES AVAILABLE WITHIN THE OPPORTUNITY ZONES DESIGNATED AREAS – Sample

Several land/acres with excellent zoning and accessibility in Carolina, and the best tract adjacent to the established Encantada community in Trujillo Alto developed by Levitt Homes.)

Shopping Center with available adjacent land for expansion or other project

Farm with Atlantic Ocean front and with River views. Minutes from the Ritz Carlton Hotel.

NOTE: This is for information purposes only. Program subject to change. You should consult licensed counselor and/or certified public account for detailed information

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