



OPPORTUNITY ZONES AND OTHER TAX BENEFITS AND RULES IN AGE OF COVID

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PARTRIDGE
SNOW &
HAHN LLP

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QUALIFIED OPPORTUNITY ZONES BACK IN THE NEWS

- Areas hit hard economically by COVID-19 overlap with Opportunity Zones
- Potential for increased activity in the zones.
- Shift away from large urban centers.
- Regulations have delayed some testing periods making requirements more flexible.
- “Chatter” about extending the 12/31/2026 deadline to allow more investors to receive the full 15% deferral amount.

OPPORTUNITY ZONE TAX CREDIT

- ⊖ Enacted as part of 2017 Tax Reform
- ⊖ First Draft IRS Regulations issued October 19, 2018
- ⊖ Second Draft IRS Regulations issued April 17, 2019
- ⊖ Final IRS Regulations December 2019.
- ⊖ Over 8700 designated zones, covering 11% of the US
 - Massachusetts has 138 tracts in 79 communities classified as Opportunity Zones
- ⊖ **Does not preclude other Federal, State and Local Tax Credits**
- ⊖ Over \$75 Billion committed to OZ investments, more than \$10 Billion already invested.

HOW DO TAXPAYERS BENEFIT?

Taxpayers can defer
and potentially reduce
taxation on capital gains



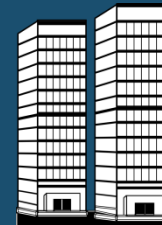
by using eligible funds to
making timely investments in

A Qualified Opportunity
Fund ("QOF")

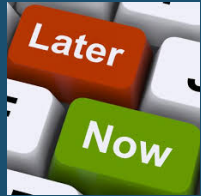


which invests in

Opportunity Zone Property

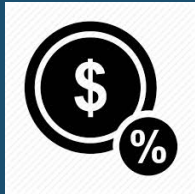


GENERAL OVERVIEW OF FEDERAL TAX BENEFITS



1. Deferral of capital gain

- Invest Capital Gain in a QOF within **180 days** after gain realized.
- Recognize gain earlier of when sell QOF interests or 12/31/2026.



2. Exclusion of a percentage of the deferred capital gain **

- Hold investment for 5 years, exclude **10%** of gain permanently
- Hold investment for 7 years, exclude **15%** of gain permanently

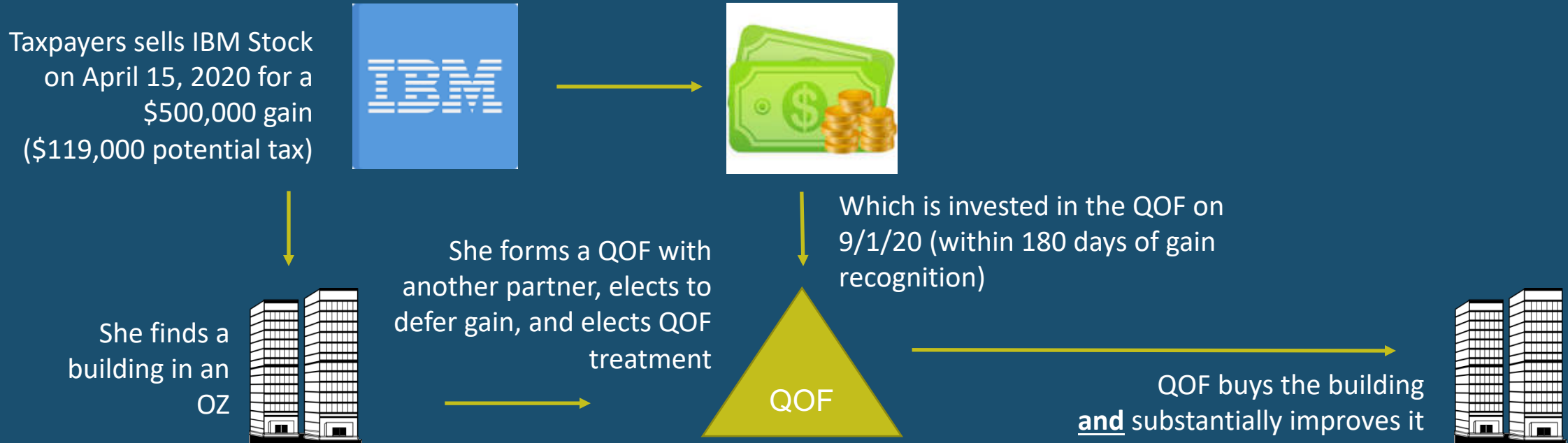


3. Exclusion of appreciation from taxation **

- If investment **in QOF** held for at least 10 years, exclude all appreciation from taxation.
- Investment has to be disposed of by 12/31/2047 to get full step-up in basis

**** Benefits not available for MA Income Tax purposes for Individuals (including partnerships). Benefits are available for Corporations for MA Income Tax purposes**

TAX BENEFIT EXAMPLE (REAL ESTATE)



Sept 2025
10% Exclusion
(\$50,000 cap gain excluded)

Sells interests after 9/2/2030 for \$800,000
Appreciation tax-free
(total of \$350,000 cap gain excluded from income)

Ineligible for Additional 5% deferral
Since not held for 7 years prior to 12/31/2026

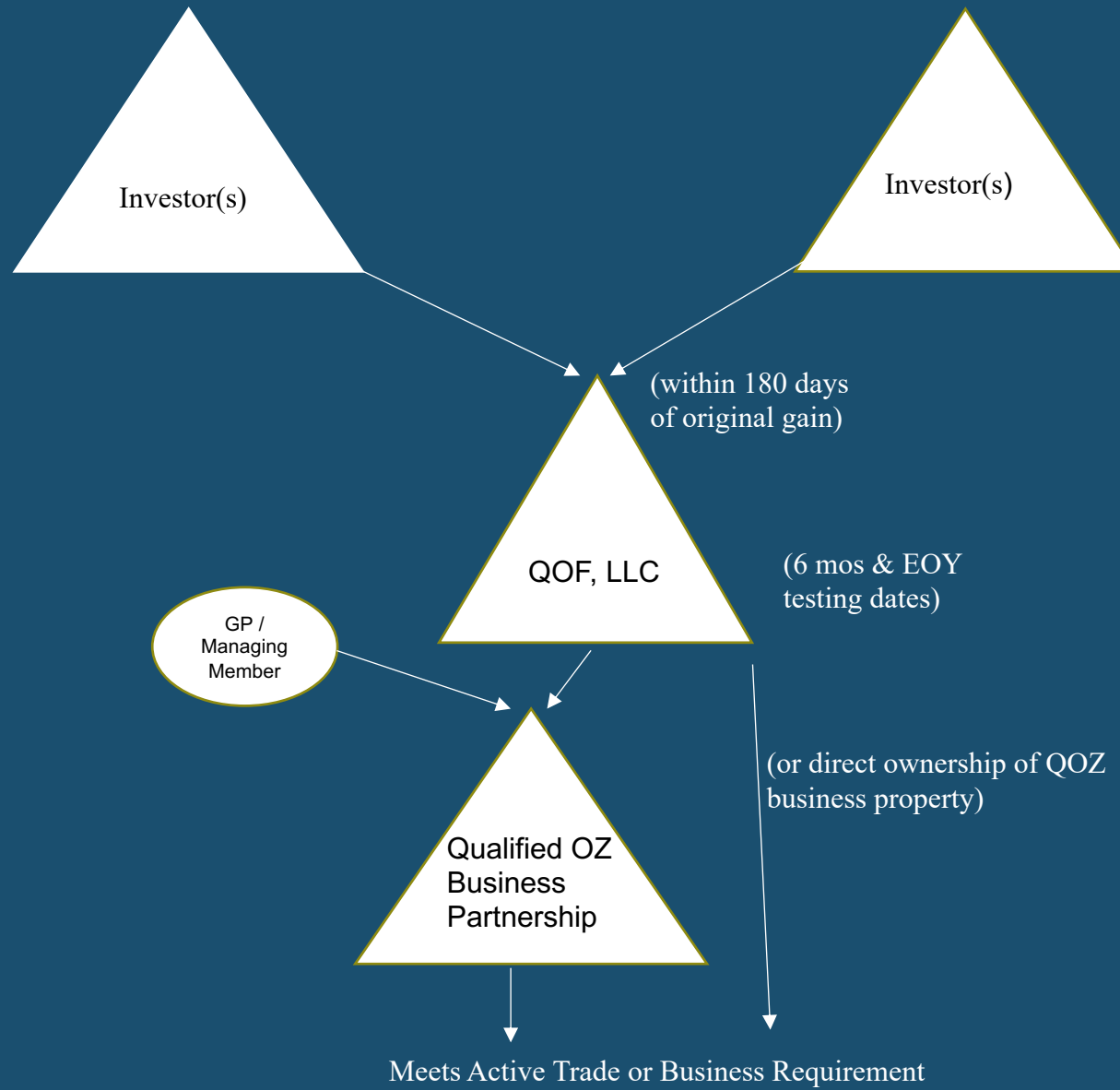


12/31/2026
Tax on \$450,000 of remaining deferred gain

GENERAL REQUIREMENTS

- ⇒ Capital gains have to be re-invested **directly** in a QOF
- ⇒ QOF has to hold at least 90% of its assets in “qualified opportunity zone property”.
 - Can be structured to have the test at 63% of assets if use two-tier structure
- ⇒ Only 3 types of Qualified Opportunity Zone Property
 - Qualified opportunity zone business property
 - Qualified opportunity zone stock
 - Qualified opportunity zone partnership interest
- ⇒ Special rules for **cash**. Depending on where the cash sits it could be a **bad asset** for testing purposes.

BASIC QOF STRUCTURE



QUALIFIED OPPORTUNITY ZONE BUSINESS PROPERTY

- ⊖ Tangible property used in a trade or business of a QOF if:
 1. Acquired by **purchase or lease** by the QOF after 12/31/17
 - April Proposed Regulations provided additional guidance on leases
 2. **Original use** commences with the QOF or QOF **substantially improves** the property, and
 3. Substantially all of the use of the property is in a QOZ
- ⊖ Substantial Improvement
 - Over a **30-month period** improvements to building = cost of building (not counting land)

RISKS AND UNCERTAINTIES: WHAT TO THINK ABOUT

- ⊖ Investment Risk
- ⊖ Tax Rate Risk – what if the capital gains tax rate goes up?
- ⊖ These are long-term investments – if a QOF sells assets before 10 years creates taxable income / gain

OTHER TAX DEVELOPMENTS / TAX CREDITS

- ⇒ Massachusetts Non-resident tax Emergency Regulations
- ⇒ PPP Loans – forgiveness / deductibility of expenses
- ⇒ Employee Retention Credit – Refundable tax credit
- ⇒ Paid Sick and Family Leave
- ⇒ Employee Payroll Tax Deferral?
- ⇒ Restaurant Revitalization Fund – Proposed Legislation
- ⇒ RESTART Act – Proposed Legislation
- ⇒ HEALS Act / HEROES Act– Proposed Legislation

QUESTIONS?



Jay R. Peabody
jpeabody@psh.com



Russell J. Stein
rstein@psh.com

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