

# Opportunity Zones: Understanding the Potential of the New Community Development Tax Incentive

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# Welcome

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- Call-in number: 888-625-5230
- Conference code: 5653-9867#
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/26422>

You have two options to ask questions today:

*\*These questions may be part of the recorded archive for this session.*

- Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Type your question into the chat box of the webinar.

An archived recording of this session will be available on the **Connecting Communities**<sup>®</sup> web site shortly after the session ends. Please visit <https://bsr.stlouisfed.org/connectingCommunities>

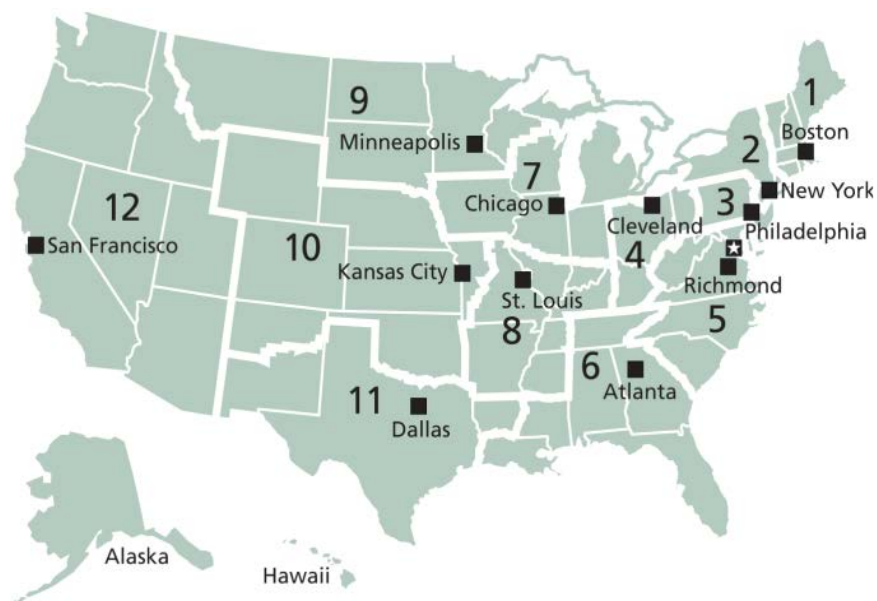
In connection with this session, you can find a variety of additional resources on this topic, available at [www.fedcommunities.org](http://www.fedcommunities.org). We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

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The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

# Community Development

- The Community Development function within the Federal Reserve System—consisting of individual departments at each of the 12 Federal Reserve Banks, as well as at the Board of Governors—promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
  - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
  - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
  - **Identifying emerging issues**



# Today's Presenters and Agenda

- Presenters:
  - Rachel Reilly, Director, Impact Investing, Enterprise Community Partners
  - Eric Robertson, President, Community LIFT
  - Amanda Roberts, Senior Community Development Analyst, Federal Reserve Board of Governors
  - Daniel Davis, Community Development Officer, Federal Reserve Bank of St. Louis (moderator)
- The following will be discussed:
  - Opportunity Zones
  - Community LIFT

# Opportunity Zones: Understanding the Potential of the New Community Development Tax Incentive

**Rachel Reilly**

Impact Investing

Enterprise Community Partners

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# Enterprise Community Partners

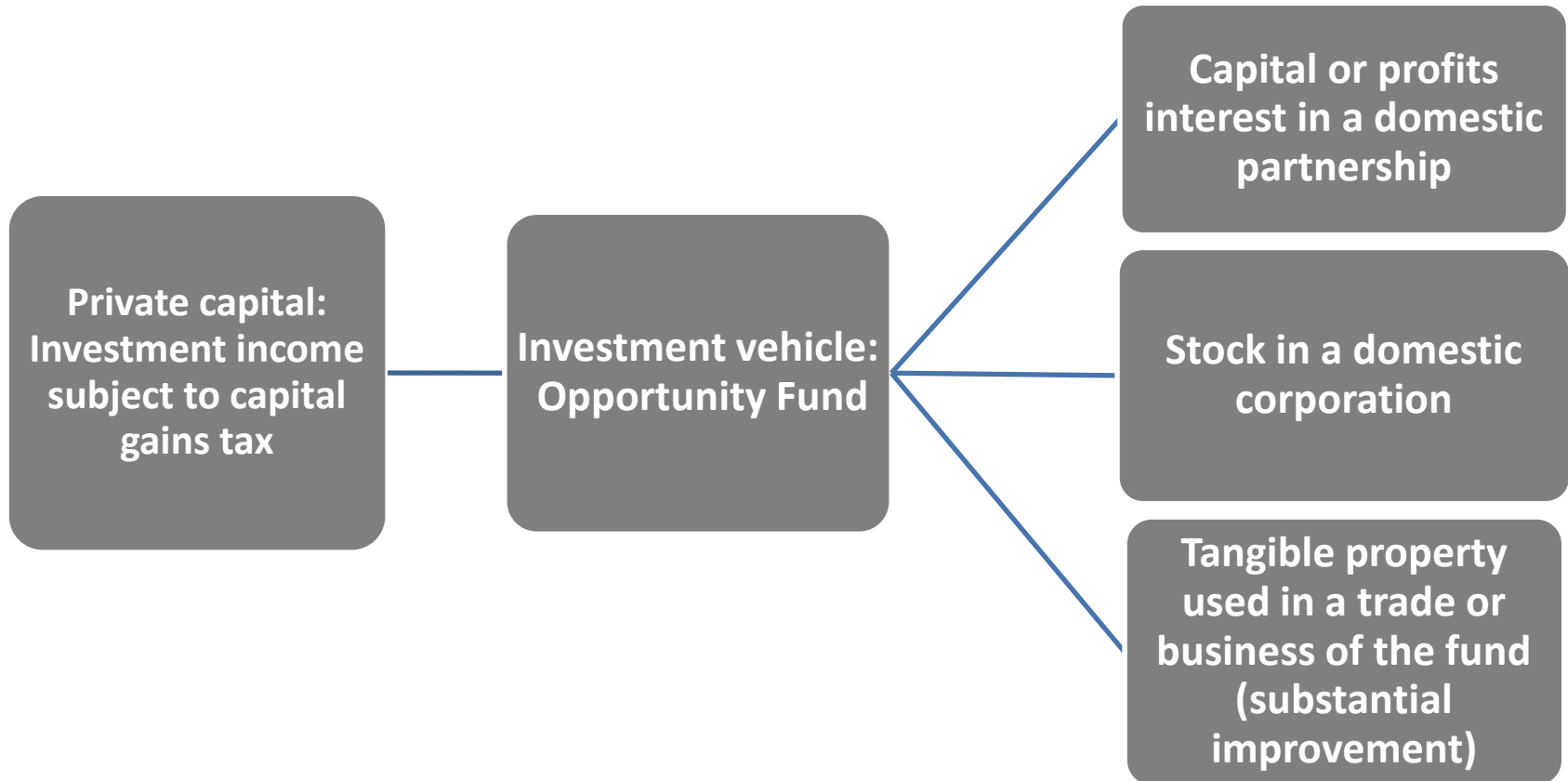
- **Who we are:**
  - Proven and powerful nonprofit improving people’s lives by strengthening communities. We bring together nationwide know-how, partners, policy leadership, and investment.
- **Engagement with Opportunity Zones:**
  - Early supporter of the Investing in Opportunity Act
  - Aligned with key stakeholders on implementation at national and local levels:
    - Congressional testimony to Joint Economic Committee (May 2018)
  - National resource: State mapping tool, policy guide, and free webinars
  - Local expertise: Technical assistance presence, existing relationships, and measurable impact in one-third of Opportunity Zones nationwide
  - Opportunity Funds: Leveraging our impact-driven investment platform to create funds and provide a wide range of services for other mission-aligned funds

# Opportunity Zones Definitions

- The Tax Cuts and Jobs Act (Tax Reform, P.L. 115-97) created Opportunity Zones—a tax benefit designed to incent long-term equity investments in businesses and real property located in designated underserved communities.
- **Terms:**
  - Opportunity Zones (tax benefits)
  - Qualified Opportunity Zone
  - Qualified Opportunity Fund
  - Qualified Opportunity Zone property
- **Reference:**
  - IRC Section 1400Z
  - Special rules for capital gains invested in Opportunity Zones



# Opportunity Zones Capital Flow



# Opportunity Zones Background

- **Enacted in tax reform (Tax Cuts and Jobs Act):**
  - Investing in Opportunity Act, bipartisan support (114<sup>th</sup>, 115<sup>th</sup> Congress)
  - Economic Innovation Group
- **Tax benefits** to encourage individuals and corporations to invest in distressed communities—Opportunity Zones:
  - Internal Revenue Service (IRS) will oversee, not a tax program
  - No reporting requirements, state oversight, or investment mandates
- **Opportunity Fund** vehicle could reduce transactional friction and connect investors to overlooked, but credit-worthy, investment opportunities
- **Equity investments in growth-stage businesses and real property:**
  - Intent was to spur economic growth and job creation

# Tax Benefits

- Individual and corporate taxpayers can reinvest an unlimited amount of gains into an Opportunity Fund within 180 days.
- Alternative to paying capital gains tax
- **Benefits when original gain is rolled into Opportunity Fund:**
  - Temporary tax deferral:
    - Recognized at exit or December 31, 2026, whichever comes first
  - Step-up in basis:
    - Five-year minimum = 10 percent reduction in tax liability of original gain
    - Seven-year minimum = 15 percent reduction in tax liability of original gain
- **Benefit of new gain earned on Opportunity Fund investment:**
  - Permanently excluded from taxable income:
    - Ten-year minimum

# Opportunity Funds

- **New investment vehicle to aggregate and deploy investments:**
  - **Flexible structure:**
    - Private or public fund manager
    - Wide range: National, multi-asset fund or single-asset fund
  - **90 percent of assets invested** in qualified Opportunity Zone property located in Opportunity Zones
  - **Equity investments** made after December 31, 2017, in qualified Opportunity Zone business:
    - Stock or partnership interest
    - Business property:
      - Substantial improvement test

# Implementation as of July 2018

- **Opportunity Zone nominations: Complete**
  - All Zones approved as of June 15, 2018: 50 states, 5 territories, Washington, D.C.
- **Guidance on Opportunity Funds: Ongoing**
  - [IRS published FAQs](#) (April and June 2018):
    - Certifying as an Opportunity Fund
    - Clarity for investors
  - Additional FAQs anticipated by Labor Day
- **Creation of/investment in Opportunity Funds: Currently happening**
- **Full implementation of law: Anticipated Q3 2018–Q4 2018**
  - July 7, 2018: Secretary Steven Mnuchin testified that Treasury/IRS regulatory guidance will be coming out “soon,” before year-end.

# What's Happening Today

- **Fund creation:**
  - Early movers
- **State and local efforts:**
  - Convenings, tours, highlighting potential deals, aligning resources, legislation, tax treatment
- **Guidance and clarity needed:**
  - Advocacy efforts from different parties on key consensus issues (examples):
    - Clarity on certain definitions and terms
    - Revolving nature of funds and how tax benefit is impacted
    - Length of time allowed for deployment of capital
- **Reporting requirements for Opportunity Funds:**
  - Statute already mandates reporting to IRS
  - Alignment with IIOA, TCJA Conference Report (Congressional intent)
- **Potential legislation to address “fixes”:**
  - Reporting requirements

# Community LIFT

Eric Robertson  
President  
Community LIFT  
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# About Community LIFT

- A economic & community development intermediary in Memphis, TN.
- Has an affiliate CDFI, River City Capital Investment Corp.
- Small CDFI that focuses on small business and real estate development.



# Memphis/Shelby Co. & Opportunity Zones

- Guided by Memphis 3.0 (comprehensive plan)
- Both Mayors held a convening
- Considering how local government can influence outcomes
  - Considering layering with existing and new incentives
  - Considering additional benefits if projects meet certain performance goals

# Community LIFT & Opportunity Fund

Two Options:

## 1. Establish an Opportunity Fund

- Pro: New source of capital for our CDFI
- Con: Unsure of the administrative requirements

## 2. Become a Broker or Connector for deals

- Pro: Can leverage our existing staff capacity
- Con: Loss of new source of capital for our CDFI

# What Community LIFT has done so far

We have made contact with informed individuals and potential key partners. Such as:

- St Louis Federal Reserve Community Development Staff
- Local Government Representatives
- Local Asset Management & Investment Firms
- Convened a meeting with area CDCs and small & midsize developers
- Department of Treasury's CDFI Fund

# Questions?

You have two options to ask questions today:

1. Email us at [communities@stls.frb.org](mailto:communities@stls.frb.org)
2. Click the “Ask Question” button in the webinar

# Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

## Next steps:

- All session materials are available on our website, and, in the next few days, we will post an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Information about future sessions will be posted on our website, along with archived materials from past sessions: <https://bsr.stlouisfed.org/connectingCommunities>

# Related Resources



In connection with this session, you can find a variety of additional resources on this topic available at **[www.fedcommunities.org](http://www.fedcommunities.org)**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the policy and practice of community development, or small business development.