

coasis coalition



Opportunity Zone Basics

Presentation for the Texas REALTORS® Housing Initiative Committee
at the 2019 Texas REALTORS® Conference

The Opportunity Zone Tax Incentive Created as a Bipartisan Solution to Expand the Geography of Economic Prosperity



What Are the Opportunity Zones?

- Original statutory standard same as for New Markets Tax Credits
 - Based upon poverty rate (20%) or Median Family Income (under 80%)
 - Contiguous tracts (must not exceed over 15% of MFI of the contiguous LIC tract)
- 8,761 throughout the United States and Territories (Puerto Rico)
- 37% of the United States
- 35 million Americans
- Unemployment rates 1.6 times higher than average census tract
- These communities present both the need for investment and significant investment opportunities

Tax Benefits Summary

- New Section 1400Z of the Internal Revenue Code
- Similar to Sections 1031 and 1033 Deferral of Reinvested Gain
- Better/More Powerful in Several Respects
- Deferral of Recognition of Capital Gains Reinvested in a Qualified Opportunity Fund (“QOF”)
- Taxation of Reinvested Gains may be Deferred up to 7 Years
- Deferred Gains may also be Reduced up to 15%
- Tax Free Additional Gains from if Held at least 10 Years

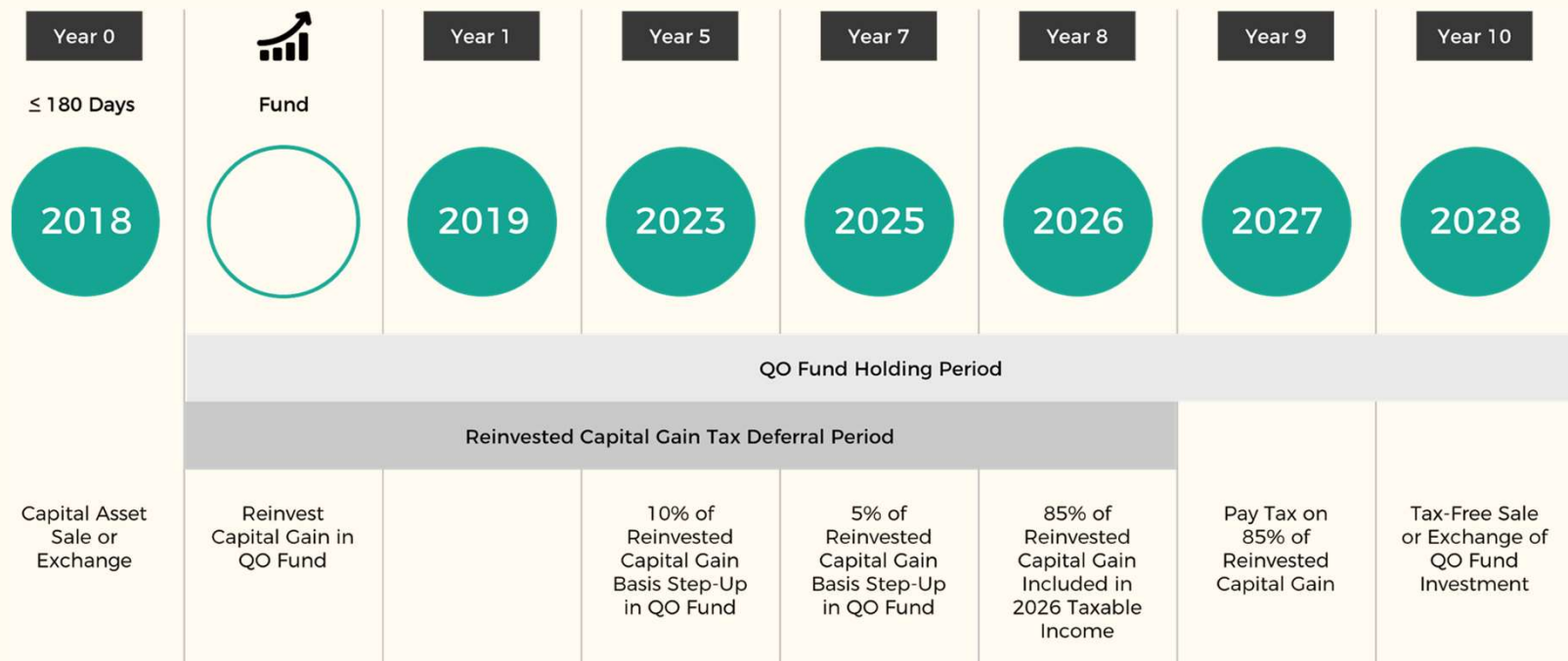
Eligible Capital Gains

- Capital Gains of Any Type - Whether from Sale of Stock, Bonds, Other Securities, Real Estate, Commodities, Cryptocurrency, Art, Coins, etc.
- Includes Section 1231 Gains, Gains on the Sale or Exchange of Real or Depreciable Property Used in a Trade or Business and Held over One Year
- Cannot be Gains from Related Party Transactions
- Caution; Gains From the Sale of Capital Assets Held as Inventory are Ordinary Gains, Not Capital Gains - A Problem for Developers and Residential Real Estate Flippers

Reinvestment Timing

- In General Must Reinvest Capital Gains within 180 Days
- Owners of Pass Through Entities that Generate Capital Gains may Reinvest their Allocated Amounts either within 180 Days of (i) the Date of the Generation of those Capital Gains or (ii) the End of the Pass Through Entity's Tax Year
- Presents Planning Opportunities for Anticipated Capital Gains Events

Tax Benefits Timeline



Qualified Opportunity Fund

- Entity used to invest in Qualified Opportunity Zone Property (“QOZP”)
- Broad Flexibility as to Entity Structure of QOF
- May be Structured as a Corporation or a Partnership
- Self-Certify Annually to IRS Compliance (Form 8996)

Qualified Real Estate Investment

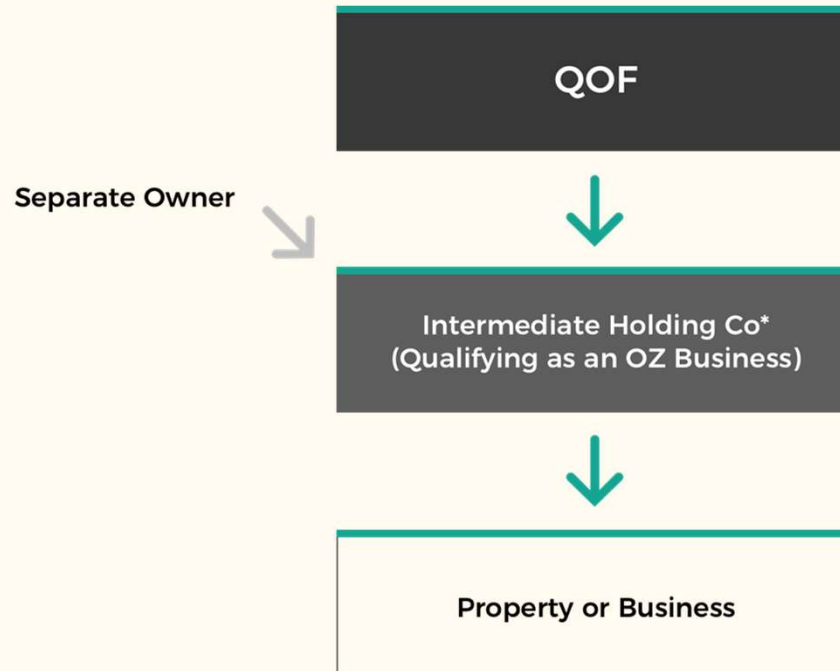
- Must be Real Estate Development - Investment in Existing Assets Alone Not Compliant
- Must be Developed from Raw Land, Land with Developments Abandoned for at Least Five Years or Substantially Improved Existing Assets
- Substantial Improvement means Improvements with a Value at least as Great as the Value of the Existing Improvements (exclude Land Value)

Qualified Opportunity Zone Business Property

- Tangible Property used in a Trade or Business
- From an Unrelated Party (20% Standard)
- During Substantially all of Holding Period, Substantially all Use in an OZ
- Original Use in the OZ Commences with the Taxpayer **or**
- Substantial Improvement of the Property



Basic QOF Structure



* Develops a "written schedule" to use QOF investment proceeds over 31 months (current proposed IRS regulations do not clearly apply this grace period to OZ Businesses not acquiring, constructing or rehabilitating tangible property)

Qualified Opportunity Zone Businesses (QOZBs)

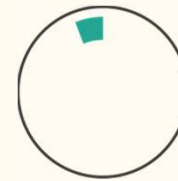
A Trade of Business in which Substantially all of the Tangible Property Owned or Leased by the Taxpayer is Qualified Opportunity Zone Business Property (“QOZBP”)



At least 50% of
Income Derived from
Active Conduct and
from the Opportunity
Zone



Substantial Portion of
Intangible Property
Used in Active
Conduct of Business



< 5% Unadjusted
Basis of Property is
Nonqualified
Financial Property

QOZB Asset Requirements

At least 70% of Total Tangible Assets must have been Acquired or Leased in the Opportunity Zone or substantially improved (improvements at least double basis) after 2017

Qualifying Tangible Assets are Tangible property used in a trade or business of the QOF

Substantially all the use of those Tangible Assets Use is in an Opportunity Zone (70% threshold)

40% of Intangibles must be Used in the QOZB

QOZB Revenue Nexus Requirement

Sales Need Not be Limited to the Opportunity Zone but at least 50% of the QOZB's Total Gross Income Must Be Attributable to Business Activities in the Opportunity Zone

Current IRS Rules Allow for Any of Four Avenues to Qualify:

- i. At least 50 percent of the services performed (based on hours) for such business by its employees and independent contractors (and employees of independent contractors) are performed within the Opportunity Zone, or
- ii. At least 50 percent of the services performed for the business by its employees and independent contractors (and employees of independent contractors) are performed in the Opportunity Zone, based on amounts paid for the services performed, or
- iii. BOTH (A) the tangible property in the Opportunity Zone and (B) the management and operational functions performed in the Opportunity Zone are necessary to generate at least 50% of the QOZB's total gross income, or
- iv. Under all the facts and circumstances, at least 50% of the QOZB's total gross income derived from conduct in the Opportunity Zone

QOZB Cash Safe Harbor

Having Cash Can Result in Non-Compliance

The Ethos of the Opportunity Zone Law is to Cause Prompt Investment into these Communities

Current Rules provide a Cash Safe Harbor for QOZBs
- 31 Month Safe Harbor for Budgeted Working Capital if used for acquisition, construction, or substantial improvement of tangible property or For Business Start-Ups

Similar Rule may be Adopted for QOFs

The Mixed-Use Development Solution

1. Opportunity Zone Capital Can Be Accessed Many Ways to Obtain Equity Finance for Mixed-Use Developments
2. Can Be Common Equity or Preferred/Mezzanine Equity
3. Create Captive QOFs to Attract OZ Capital
4. Shop the Project to Other QOFs
5. Equity Finance of Related Tangible Business Property
6. Equity Finance of Related Businesses and Business Tenants of the Project

Coasis Coalition Founder

Gerry Reihsen



Gerald J. (Gerry) Reihsen, III is the founder and chief executive officer of Coasis Coalition Companies PB LLC, a public benefit company that provides support, services and products to the Opportunity Zone ecosystem, including its (a) investment and other economic participants, (b) agencies and organizations that are historically dedicated to assisting under-optimized communities, (c) state and local economic development agencies, and (d) residents of those communities.

Gerry is a nationally recognized expert in the Opportunity Zone incentive ecosystem, speaking and writing on it and advising clients across the county. With Coasis Mr. Reihsen continues and leverages his rich career in corporate-securities law and in founding and building innovative business enterprises, both for-profit and nonprofit, including, among others, Behringer Harvard Funds, a real estate investment fund platform grown to nearly \$12 billion in AUM globally, and Cristo Rey Dallas College Prep, a non-profit high school that serves families in low-income communities with both a rigorous college prep curriculum and a corporate work-study program that maintains a college acceptance rate for its seniors at well above 90%. Mr. Reihsen's professional expertise and experience are uniquely suited to lead Coasis as a "provider of picks and shovels" to the Opportunity Zone ecosystem and its various participants. See <http://coasiscoalition.com> and <https://www.linkedin.com/in/gerry-reihsen>.

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