LEVERAGING OPPORTUNITY ZONES IN YORK, PENNSYLVANIA

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WHAT IS AN OPPORTUNITY ZONE?

- A generous federal capital gains tax incentive offered to taxpayers who make investments in businesses or real estate in one of 8,700 distressed census tracts designated throughout the country, if that investment is made with a capital gain and held for five, seven, or at least ten years.

<u>We'll get back to the details</u>

WHY WERE OPPORTUNITY ZONES CREATED?

The Problems

- Vast departure of wealth, residents, and jobs from cities and rural areas around the country since the mid 20th century
- Aggregation of "21st century economy" jobs in a few metro areas
  - NYC, Bay Area, and Boston account for 80 percent of venture investment
- Concentration and cycle of poverty and other urban/rural challenges

The Tools

- Enormous amount of capital (est. $6 trillion) stuck on the sidelines
  - Richest people in the world are really the people with the chance to be the richest
- Federal tax policy caused much of the exodus of wealth from cities and rural areas; it could also bring it back
- Simplicity and uniformity

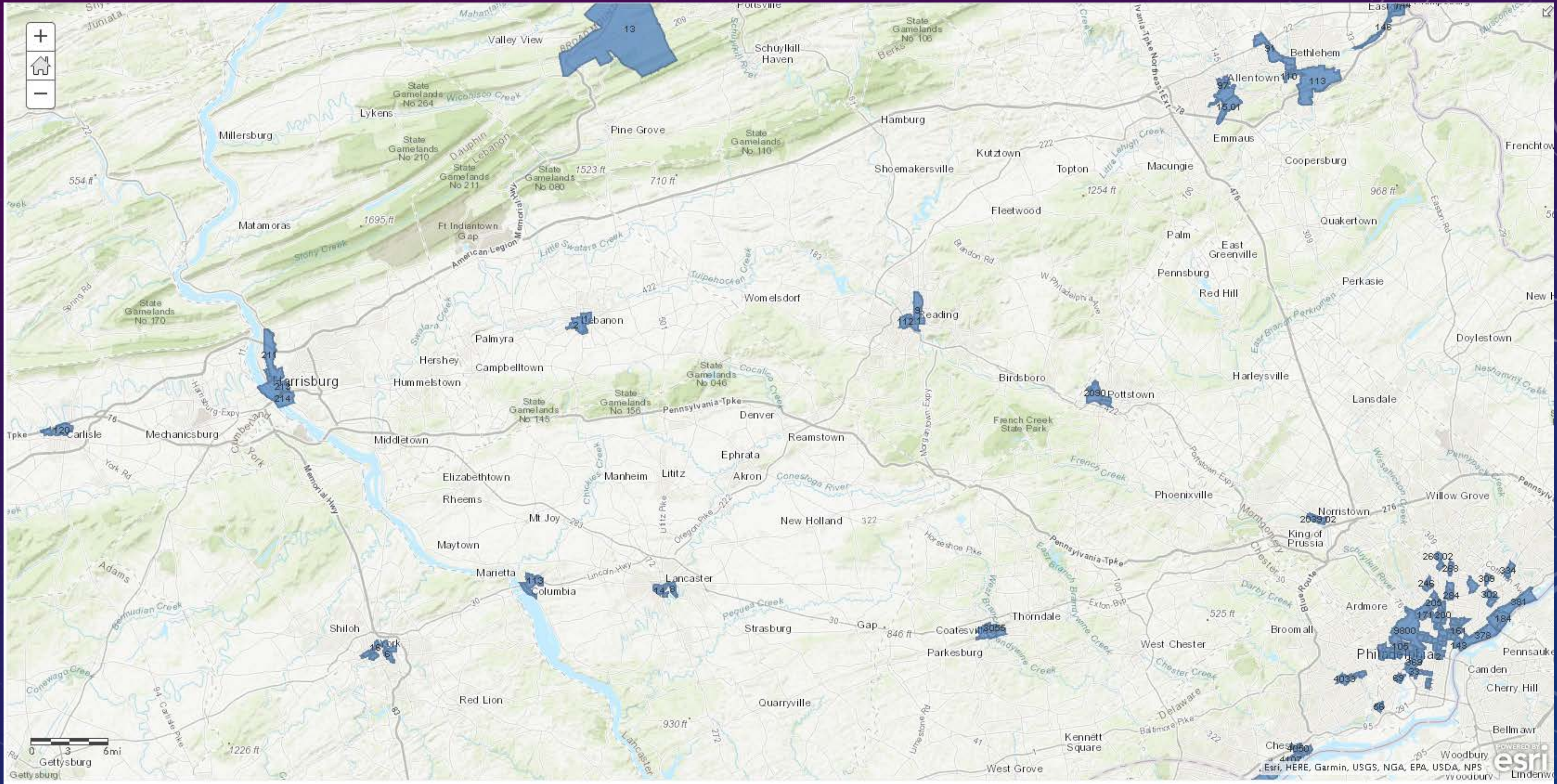
WHO CREATED OPPORTUNITY ZONES?

The federal government

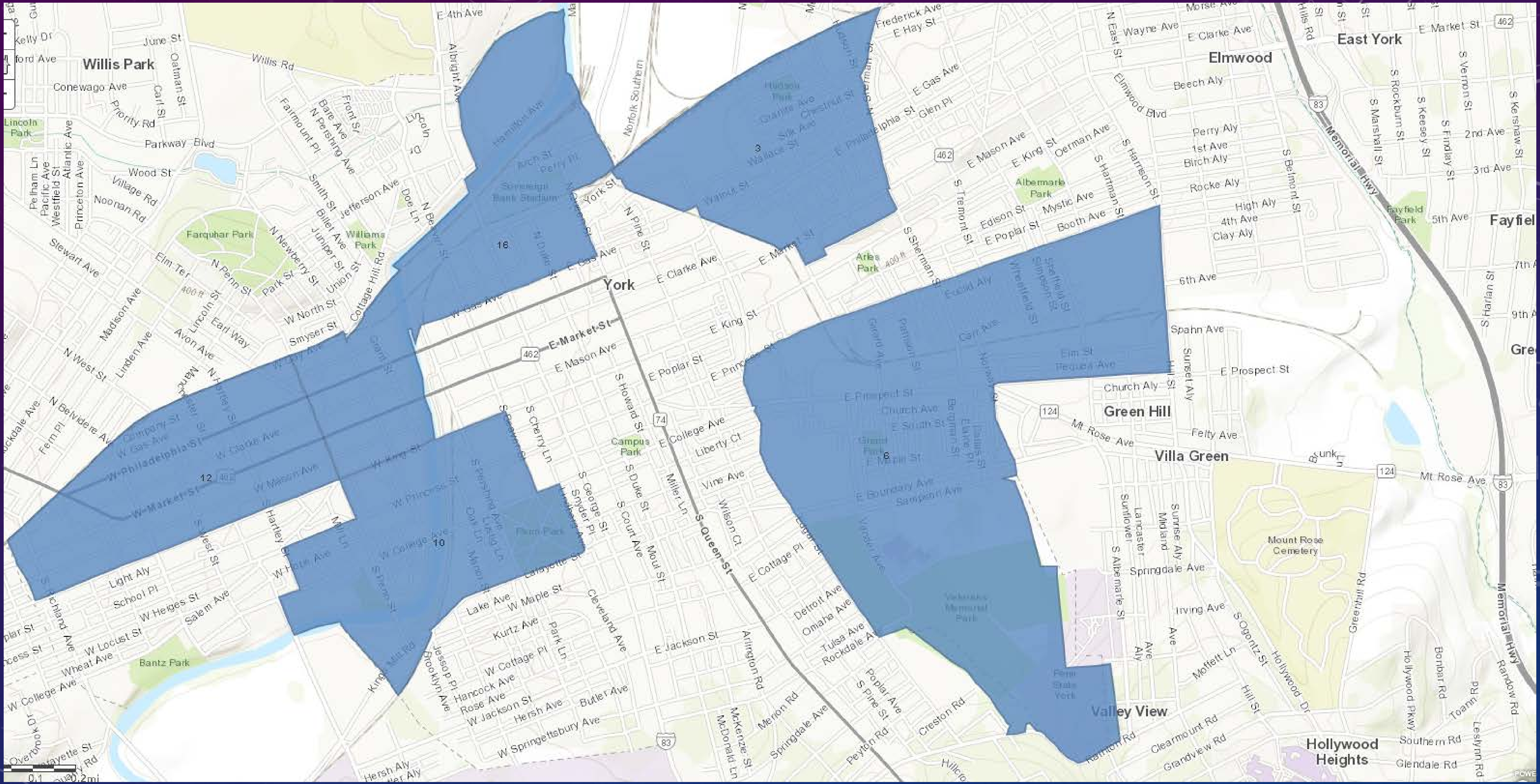
- Created as part of the Tax Cuts and Jobs Act of 2017; this initiative sponsored by Senators Cory Booker (D-NJ) and Tim Scott (R-SC)
- Each governor was put in charge of naming Opportunity Zones (25% of all eligible (low-income) census tracts.
- Treasury certified all Opportunity Zones this summer, IRS will regulate them
- All tax benefits are at the federal level

The Commonwealth of Pennsylvania

- Governor Wolf and the Department of Community and Economic Development led the designation effort in PA
- Local stakeholders were solicited for comments. DCED focuses on poverty elimination, geographic diversity, and preexisting business activity
- Of the nearly 1,200 eligible tracts, the Governor recommended and the IRS certified 300
    - Maryland has 149, New Jersey has 169, and New York has 514



OPPORTUNITY ZONES IN SOUTH CENTRAL/EAST PENNSYLVANIA



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WHAT ARE THE THREE SPECIAL BENEFITS OF OPPORTUNITY ZONE INVESTING?

The Deferred Gain (1+2)

The process starts with a taxpayer's (individual or business) realization of a capital gain (sale of stock, property, etc.) and her investment, within 180-days, in an Opportunity fund

1. Any federal capital gains tax owed on the invested gain is deferred until December 31st, 2026 or upon the sale of the taxpayer's interest in the Opportunity Fund
2. If the Opportunity Fund investment is held for five years, the tax owed is decreased by 10 percent; 7 years an additional 5 percent

The OZ Investment (3)

The Opportunity Fund must invest in Qualified Opportunity Zone Property: stock, partnership interest, and/or real estate (more on that later)

3. **If the investment in the *Opportunity Fund* is held for at least ten years, <u>no</u> capital gains tax will be assessed on the Opportunity Fund's appreciation**

Remember, the Opportunity Fund can buy and sell assets—it doesn't have to be invested in the same thing for the whole ten years

WHAT QUALIFIES AS AN OPPORTUNITY ZONE INVESTMENT?

The Law

- "(I) such property was acquired by the qualified opportunity fund by purchase (as defined in section 179(d)(2)) after December 31, 2017,
- "(II) the **original use** of such property in the qualified opportunity zone commences with the qualified opportunity fund or the qualified opportunity fund substantially improves the property, and
- "(III) during **substantially all** of the qualified opportunity fund's holding period for such property, substantially all of the use of such property was in a qualified opportunity zone.

Translation

- You cannot use an Opportunity Fund to invest in a property you (or a family/business partner) own, unless you take a 20% or less stake. Also, you can't retroactively apply it
- New construction is required or "substantial improvement" which basically means doubling the project value within 30-months
- "Substantially all" means 70 percent (this matters more with business investment)

Also, no sin businesses: golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, racetracks or other facilities used for gambling, or liquor store

MAKING IT HAPPEN

The 8,700 Opportunity Zones in the United States

- Pennsylvania Taxes
  - Explain the incentives (e.g., LERTA, KOZ, KIZ, etc), but also the challenges and how the framework is structured
- Sound investment with remarkable growth potential
  - Fairly unique across the United States with Pennsylvania's mid-sized cities
- Progress
  - Redevelopment initiatives already advanced when compared to other "distressed" Opportunity Zones.

The 300 Opportunity Zones in Pennsylvania

- Local first and build out
  - Anchor businesses, non-profits, colleges, and hospitals can be key investors, guarantors, or clearing houses
  - Local and "ex-pat" high net worth individuals
- Expedite!
  - OZ investment depends on meeting tight timelines. Projects that can move quickly are at an extreme advantage
- Navigators
  - Where are the projects? Who is in charge? Single point of contact

QUESTIONS?

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Policy Resources

- DREXEL'S NOWAK METRO FINANCE LAB: FROM TRANSACTIONS TO TRANSFORMATION: HOW CITIES CAN MAXIMIZE OPPORTUNITY ZONE
- SMART GROWTH AMERICA
- DCED MAP AND QUICK FACTS
- EIG RESOURCES

Tax Resources

- Bloomberg Opportunity Zone Regulation Analysis and Summary
- IRS FAQ
- IRS regulations