

THE OZ

2011

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Investments in Operating Businesses

Eligible Business Entities

Form of Investment

Qualified Opportunity Zone Business

A. Tangible Property

i. QOZBP

B. Intangible Property

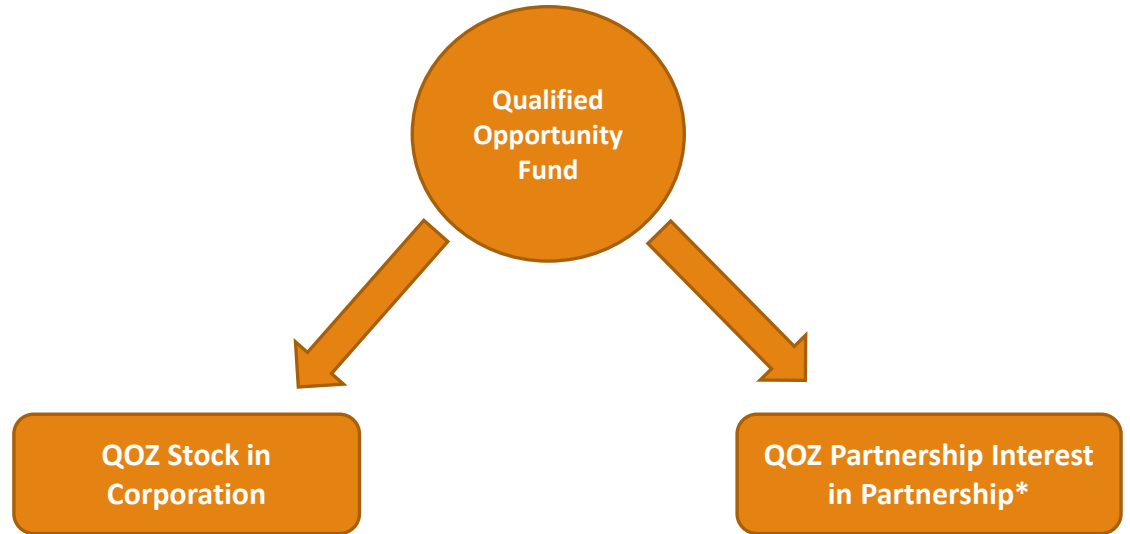
C. 50% Test

D. NQFP

E. Sin Businesses

The Opportunities

Eligible Business Entities



** Includes membership interest in a limited liability company taxed as a partnership*

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Form of Investment

- The stock or partnership interest in the business must be acquired by the opportunity fund:
 - After **December 31, 2017**;
 - At its **original issue** from the business; and
 - Solely in exchange for **cash**.



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Investment in a Qualified Opportunity Zone Business

- Must be a **qualified opportunity zone business** at the time the equity is issued (or, if a new business, it must be organized for the purpose of being a qualified opportunity zone business); and
- Must **remain** a qualified opportunity zone business for substantially all (90%) of the opportunity fund's holding period.

“Substantially All”?

A large, 3D-rendered graphic of the number '90%' in a vibrant red color. The numbers and the percentage symbol are thick and have a slight shadow, giving them a three-dimensional appearance. The graphic is centered horizontally and occupies a significant portion of the lower right area of the slide.

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What is a “Qualified Opportunity Zone Business?”

- A. Tangible Property Test: **Substantially all** (70%) of the business’s tangible property (including leased property) must be **qualified opportunity zone business property**.

“Substantially All”?

A large, 3D-rendered red percentage '70%' is centered on the page. The numbers and the percentage sign are thick and have a slight shadow, giving them a three-dimensional appearance.

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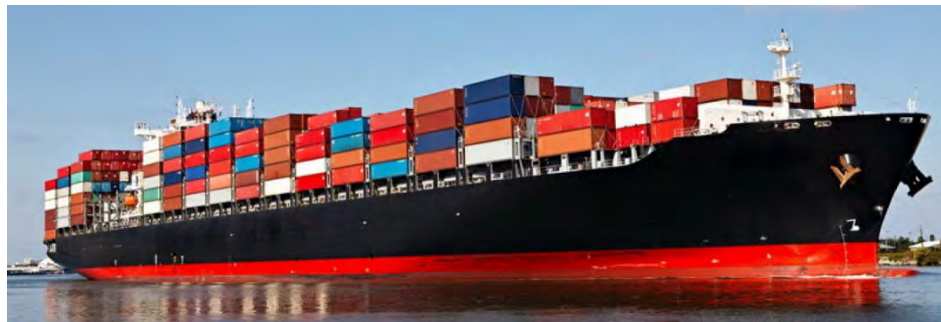
The Opportunities

What is a “Qualified Opportunity Zone Business?” (cont’d)

Qualified Opportunity Zone Business Property: **Tangible property** used in a trade or business if:

1. It was acquired by purchase from an unrelated party **after December 31, 2017**
2. During **substantially all** (90%) of the business’s holding period for such property, **substantially all** (70%) the use is **in a Qualified Opportunity Zone**

Special Rule regarding Inventory: Inventory (including raw materials) of a business does not fail to be “used in a qualified opportunity zone” solely because the inventory is in transit.



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What is a “Qualified Opportunity Zone Business?” (cont’d)

3. **Original use** in the QOZ commences with the Qualified Opportunity Zone Business

OR

Qualified Opportunity Zone Business **substantially improves** the property during any 30-month period after acquisition.

“Substantially Improves”?



Additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such period (Think: **Double it**)

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What is a “Qualified Opportunity Zone Business?” (cont’d)

- B. Intangible Property Test. Substantial portion (40%) of **intangible property** used in active conduct of business.

“Substantial portion”?

A large, 3D-rendered graphic of the text "40%" in a vibrant red color. The characters are thick and have a slight shadow, giving them a three-dimensional appearance. The percentage sign is also rendered in the same style, with a circular loop and a diagonal slash.

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What is a “Qualified Opportunity Zone Business?” (cont’d)

- C. 50% Test: At least 50% of income derived from **Active Conduct** in the Opportunity Zone.



Active Conduct **does not** include triple-net-leasing.

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What is a “Qualified Opportunity Zone Business?” (cont’d)

50% Test Safe Harbors:

1. If 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 qualified opportunity zone.
2. If 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 qualified opportunity zone, **based on amounts paid** for the services performed.
3. If (1) the **tangible property** of the business that is in a qualified opportunity zone **and** (2) the **management or operational functions** performed for the business in the qualified opportunity zone are each necessary to generate 50 percent of the gross income of the trade or business.

If no safe harbor can be satisfied, then facts & circumstances test.

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What is a “Qualified Opportunity Zone Business?”

(cont’d)

4. Less than **five percent** unadjusted basis of property is nonqualified financial property.

Nonqualified Financial Property: debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, annuities and other similar property.

Does not include **reasonable amounts of working capital** held in cash for up to 31 months pursuant to a written plan.

Written plan for planned use of working capital may include the **development of a trade or business in the qualified opportunity zone** as well as acquisition, construction, and/or substantial improvement of tangible property.

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What is a “Qualified Opportunity Zone Business?”

(cont’d)

5. Can’t be a “**Sin Business**”:
 - i. A private or commercial golf course
 - ii. Country club,
 - iii. Massage parlor,
 - iv. Hot tub facility,
 - v. Suntan facility,
 - vi. Racetrack or other facility used for gambling, or
 - vii. Any store the principal business of which is the sale of alcoholic beverages for consumption off premises.



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Large Expansions of Existing Businesses

New Businesses



Real Estate Development and Rehabilitation

ONE TAKEAWAY

Real Estate Investments

One Takeaway

Pre-Regulations

Examples

Structures

Role Playing

Conclusion

New activity in your town? It almost certainly fits into the OZ program!



Real Estate Investments

One Takeaway

Pre-Regulations

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Pre-Regulations

Three Basic Approaches:

1. Buy a building and renovate it
2. Buy new equipment
3. Buy land and put a new building on it



Real Estate Investments

One Takeaway

Pre-Regulations

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EXAMPLES I

Purchase/lease new equipment and use it

Purchase new equipment and lease it to a business



Purchase used equipment that has not been used in your zone

**Pre-Owned
Equipment**

Real Estate Investments

One Takeaway

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EXAMPLES II

Buy a building; substantially rehabilitate it; put a business in it

Buy a building; substantially rehabilitate it; lease it to a tenant

Buy a building that has been vacant for 5 years and put a business in it

Buy land and put a building on it



Courtesy of the National Trust for Historic Preservation

Real Estate Investments

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EXAMPLES III

An OZ Business can be a tenant



An OZ Business can be a lessor of equipment

Real Estate Investments

One Takeaway

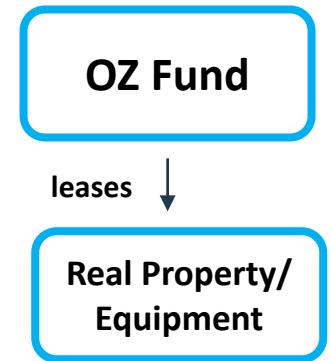
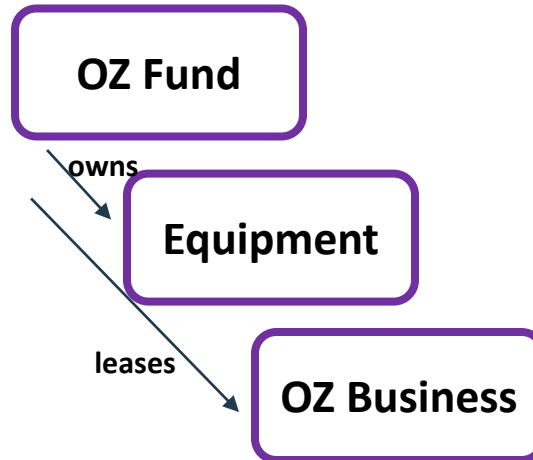
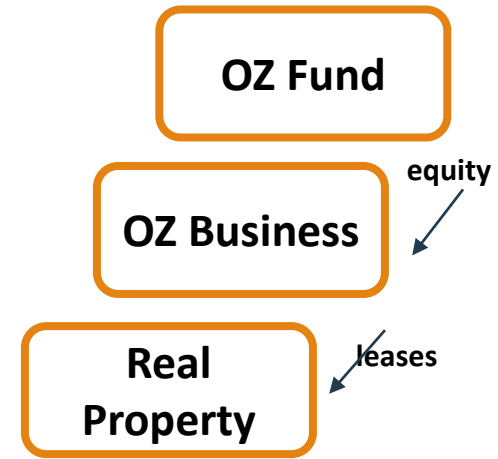
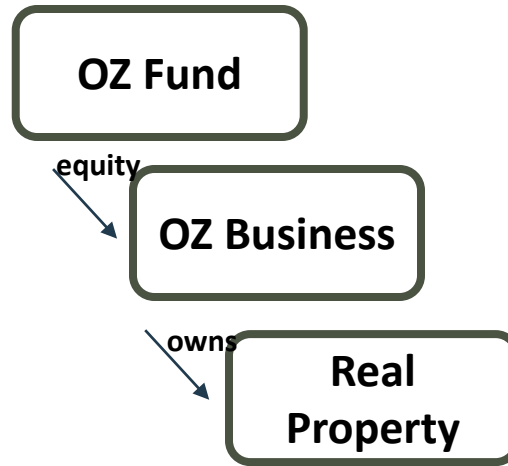
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Q: I am thinking of relocating my business. Should I put it in your town?

A: Yes!

Q: Why?

A: We are an OZ Town!

Q: I want to buy an old building and fix it up. Does that work?

A: Yes!

Q: I want to buy some vacant land and build a manufacturing facility there. Does that work?

A: Yes!

Q: I just bought some new equipment and want to lease it to a start-up business in your town. Does that work?

A: Yes!

Real Estate Investments

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