Opportunity Zones - A Redevelopment Jump Start July 11, 2018

Opportunity Zones, included in the recent 2017 Tax Act, are a new national investment program that incentivizes private capital to invest in low income communities and businesses. The new code allows individual and corporate taxpayers to defer capital gains on the sale of stock, business assets, or any other property, by investing the proceeds in an Opportunity Fund, which in turn must invest in businesses located in certain low-income communities designated as Opportunity Zones (OZs). Most of Reno and Sparks' downtown cores, as well as the Tahoe Reno Industrial center, are in a designated zone.

Why are Opportunity Zones Important? Investments in OZs can now provide a significantly higher return on investments, which will help in the redevelopment of our downtowns. This program makes projects that may have been unable to get funded before, possible now, as the needed capital will be more readily available. In short, this tool will help to address a major roadblock in downtown revitalization, acquiring the capital needed for the more expensive infill projects. These projects are necessary to grow our community in a way that maximizes our resources and slows our urban sprawl.

So How Does This Work? Individual Investors and corporate taxpayers can defer capital gains on the sale of stock, business assets, or any other property by investing the proceeds in an Opportunity Fund, which in turn must invest in Opportunity Zones. These certified Opportunity Funds may be managed by investment banks or Community Development Financial Institutions (CDFI), much like the current New Market Tax Credits program. Any taxpayer will qualify for up to three tax incentives; a temporary deferral, a step-up basis and a permanent exclusion.

1. **A Temporary Deferral:** Any taxpayer can defer capital gains from the sale or exchange of any property by investing the proceeds from such sale in an Opportunity Fund. For example, if an individual sells $1 million of stocks with a tax basis (initial investment) of $200,000, the entire capital gain (normally taxable profit) of $800,000 can be deferred. The deferred taxes on this capital gain could total more than $300,000 (in the highest tax bracket at 39.6%) and would not have to be paid until the investment is sold or Dec 31st 2026.
2. **Step-up Basis:** For this same capital gain, 10% percent of the $800,000 is forgiven if the investment is held for five years, and 15% is forgiven if held for seven years. So, the tax savings on 10% and 15% of the of capital gains, ($80,000 and $120,000) is around $30,000 in taxes not paid at 10% and around $37,000 at 15%.
3. **Permanent Exclusion:** 100% of the gains made by the investment are tax free if held for 10 years. So, if the $800,000 is invested in low income property and held 10 years, then sold for let's say $1.6M (about a 7% annual return) the taxes would only be paid on the "stepped-up basis" of $800,000 – 15% = $680,000. That means $920,000 in tax free gains which could mean more than $360,000 of taxes owed, would be permanently forgiven.

As you can see this program is complicated even when explained in this simplified manner. However, you may now understand that the tax savings may be significant and something that could accelerate the redevelopment of our community at a time that really works for our region. So, if you have a large capital gains due in the coming years, get with your attorney or accountant to see how you can invest in your community and get paid to do it.