




Opportunity Zone Introduction

Presented on Behalf of the Freeholders of Burlington County
and the Burlington County Bridge Commission

Burlington City • Palmyra Borough • Pemberton Township • Riverside Township • Willingboro Township

Opportunity Zone Introduction

- Background on legislation
- Mechanics of program
  - Structure
  - Tax Benefits
  - Definitions/Requirements
- Value of program
  - Investors
  - Businesses
  - Municipalities
- Proposed partners
- Next Steps

Background on legislation

- Opportunity Zones were created as part of the Tax Cuts and Jobs Act of 2017
- Co-sponsored by Senators Corey Booker and Tim Scott
- Seeks to encourage investment and economic growth in distressed targeted communities
- Provides tax incentives in the form of:
  - deferred capital gains tax
  - reduction of capital gains tax
  - abatement of capital gains tax on Opportunity Zone investments

Mechanics of program

- States were allowed to designate 25% of low income census tracts as Opportunity Zones
  - Opportunity Zones in Burlington County include parts of:
    - Burlington City
    - Palmyra Borough
    - Pemberton Township
    - Riverside Township
    - Willingboro Township
- Intent of program is to spur job creation and economic growth in these distressed communities by providing tax benefits to investors

Mechanics of program

Investment Structure

Investors

Capital Gains

Qualified Opportunity Zone Fund (QOF)

Qualified Opportunity Zone Project

Mechanics of program

- **Tax Benefits**
  - **Deferred capital gains tax** – investors may defer taxes on capital gains until the sale Opportunity Zone investment or December 31, 2026, whichever is earlier
  - **Reduction in capital gains tax** – original tax may be reduced:
    - 10% reduction if Opportunity Zone investment held for 5 years
    - 15% reduction if Opportunity Zone investment held for 7 years
  - **Abatement of additional capital gains tax** – any gains on Opportunity Zone investment would not be taxed if investment held for at least 10 years

Mechanics of program

Year 0	Capital Gains Invested – tax deferred up to December 31, 2026
Year 5	10% reduction in capital gains tax (10% additional basis)
Year 7	15% reduction in capital gains tax (15% additional basis)
Year 10	Exit investment – no capital gains ($0) on investment profit

Mechanics of program – Definitions/Requirements

- **Investor – must be a taxpayer**
  - Individuals, C corporations, S corporations, Real Estate Investment Trusts (REIT), Partnerships, Trusts or Estates are all eligible taxpayers
- **Investment**
  - Capital gains must be invested in a Qualified Opportunity Zone Fund (QOF) within 180 days following the date on which gain is recognized
  - QOF must be set up as either a corporation or partnership
  - Investments ***must be equity*** and ***not debt***
  - QOF must invest 90% in Qualified Opportunity Zone Property

Mechanics of program – Definitions/Requirements

- **Qualified Opportunity Zone Property – Property which is:**
    - Stock or partnership interest in a Qualified Opportunity Zone Business
    - Land, equipment or substantial improvements (acquired or completed as a result of QOF investment)
- **Businesses not eligible for Opportunity Zone Program**
    - Golf Courses
    - Country Club
    - Massage Parlor
    - Hot Tub Facility
    - Suntan Facility
    - Racetrack
    - Gambling Facility
    - Production of alcohol for off premise consumption

Mechanics of program –Capital Gains Tax Example

July 1, 2019	Capital Gains Invested – $1mm (tax due of $238k – deferred to earlier of liquidation of investment or December 31, 2026)
July 1, 2024	End of Year 5 – Liquidation of Investment - 10% reduction in capital gains tax ($214k tax due - $24k savings) **Finished** - ***or wait to Year 7***
July 1, 2026	End of Year 7 - Liquidation of Investment - 15% reduction in capital gains tax ($202k tax due - $36k savings) **Finished** - ***or wait to Year 10***
December 31, 2026	Remain in investment – Last date to pay capital gains tax (still 15% reduction in capital gains tax ($202k tax due - $36k savings)
July 1, 2029	Liquidation of investment after 10 years – No capital gains tax due on profits from investment of QOF funds

Mechanics of program – Investment Cash Flow/ROI

Assumptions

	Opportunity Zone Investment	Non-incentive Investment
Original Capital Gain	1,000,000	1,000,000
Capital Gains Tax Due (23.8%)		(238,000)
Balance to Reinvest	1,000,000	762,000
Equity Investment	(900,000)	(762,000)
7 Year Bond Purchase	(100,000)	
Annual Return		
Return on investment (7%)	63,000	53,340
Bond rate (2.5%)	2,500	
Total Annual Return	65,500	53,340

ROI Analysis

	Opportunity Zone Investment	Non-incentive Investment
Earnings - Years 1-7	458,500	373,380
Sale of Bond (after 7 years)	100,000	
Deferred Capital Gains Tax Due - year 7	(202,300)	
Earnings - Years 8-10	189,000	160,020
Sale of Asset (50% appreciation)	1,350,000	1,143,000
Capital Gains on Sale of Asset	-	(90,678)
Total Cash Flow - 10 Years	1,895,200	1,585,722
ROI	**895,200**	**585,722**
Additional ROI for Opportunity Zone	**309,478**	

Value of Opportunity Zone Program

Investors

- Tax deferral provides investment earnings on tax amount up to December 31, 2026
- Discounts up to 15% on capital gains tax
- Zero capital gains tax on Opportunity Zone investment appreciation – no limit
- Provides 31% greater return compared to non-incentive investment

Value of Opportunity Zone Program

Businesses

- Investment in company in the form of equity, not debt – no debt service payments
- Investment by QOF enables stronger financial statements – enabling greater strength for future borrowing needs
- Immediate liquidity for property, equipment and cash flow needs

Value of Opportunity Zone Program

Municipalities

- Provides incentive for immediate investment in municipality – sunset provision requires prompt action by investors
- New/expanding businesses provide ripple effect to municipality – jobs, ratables, transformation of deteriorated districts
- Improved median incomes and quality of life for residents

Proposed Partners

- Sunset provision requires prompt action to identify funding and shovel ready projects
- Unless investment made in QOF by December 31, 2019, opportunity for 7-year – 15% discount on capital gains tax will be ***lost***
- Must fast track the marriage of investments with viable projects – ***finding smaller individual investors and "one-off" developers will be difficult***
- ***Need to partner*** with large investment pools and professionals with shovel ready projects looking to invest in Opportunity Zones

Proposed Partners

Investment Bank

- Access to substantial, highly liquid capital

Venture Capital Firm

- Multiple shovel ready projects
- Ability to move quickly
- Familiarity with startup-ups

Municipality

- Facilitation of approval process
- Coordination of labor force and infrastructure

Next Steps

- Identify Investment Banks with funds available for Opportunity Zone projects
- Identify Venture Capital Firms (including REIT's) that have projects well suited for Opportunity Zones in the County
- Schedule meetings with all partners
- Coordinate any specific project needs with County, State agencies or Workforce Development as needed