WEBSTER ECONOMIC DEVELOPMENT ALLIANCE

WEBSTER, NEW YORK OPPORTUNITY ZONE

The Opportunity Zones program offers three tax incentives for investing in targeted communities with a qualified Opportunity Zone.

Temporary Deferral

A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Zone. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.

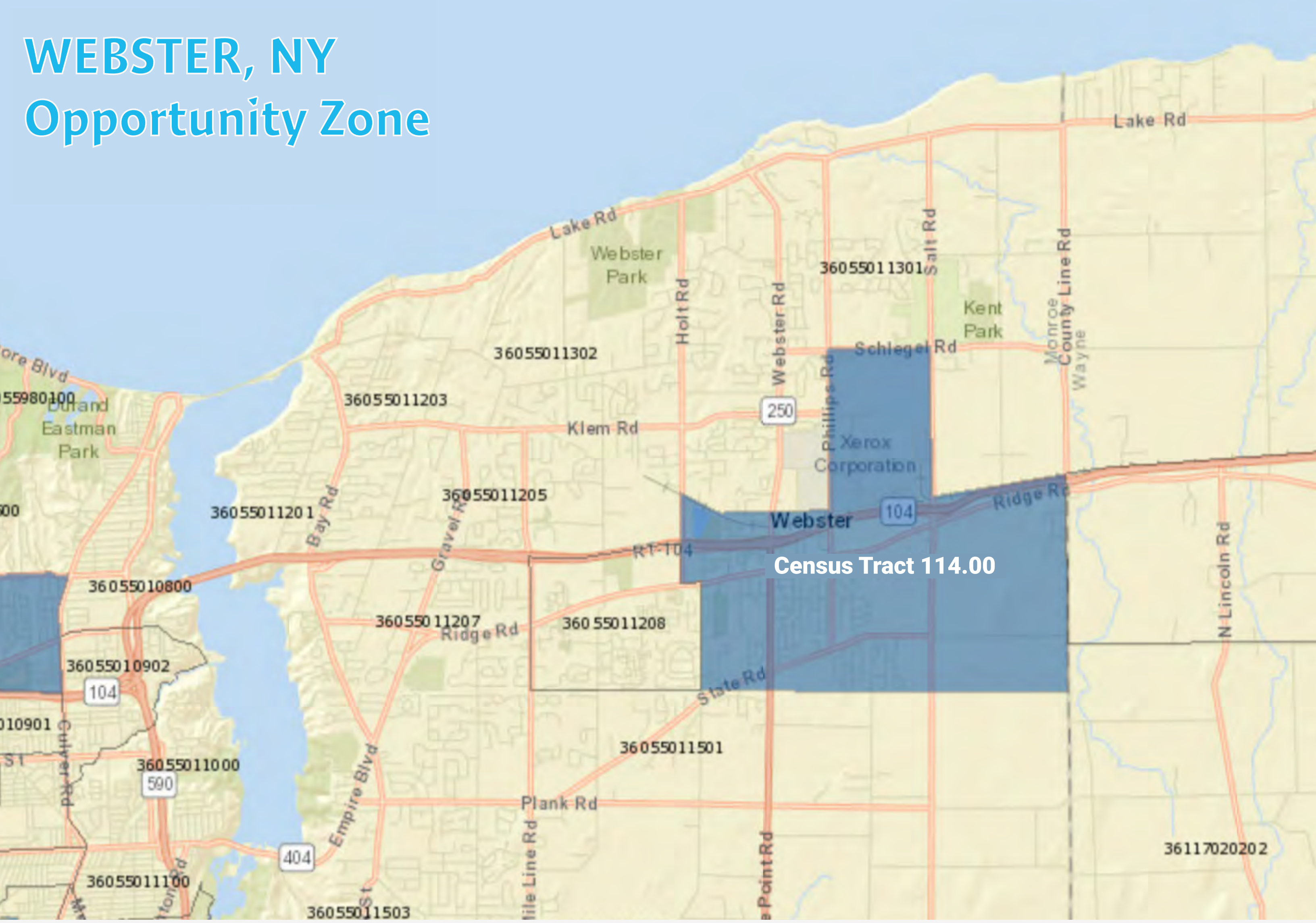
Step-Up In Basis

A step-up in basis for capital gains reinvested in an Opportunity Zone. The gain is decreased by 10% if the investment in the Opportunity Zone is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

Permanent Exclusion

A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Zone if the investment is held for at least 10 years. This exclusion only applies to gains accrued after a qualified investment in an Opportunity Zone.

WEBSTER, NY Opportunity Zone



What is the Opportunity Zone Program?

The Opportunity Zone Program provides federal tax incentives for private entities to reinvest capital gains into Opportunity Funds. These funds are then used to invest in targeted communities throughout the country. The fundamental goal of the Opportunity Zone Program is to stimulate private investment in disadvantaged areas.

What are Opportunity Funds?

A qualified Opportunity Zone Fund is any investment vehicle which is organized as a corporation or a partnership for the purpose of investing in qualified Opportunity Zone property (other than another OF) that holds at least 90 percent of its assets in qualified Opportunity Zone property. This can be a newly organized entity, or an existing entity can self-certify as qualified Opportunity Zone Fund.

What are Opportunity Zones ?

In mid-2018, the federal government designated Opportunity Zones from low-income community census tracts nominated at the state level. To qualify as a low-income community census tract, it must have an individual poverty rate of at least 20% and a median family income of up to 80% percent of the area median. In Webster, NY census tract 114.00 was designated as a qualified Opportunity Zone.

How does it work for the investor?

1 Investor ABC Corp has an unrealized capital gain of $2M in a shopping mall asset and is looking for a project into which it can invest the net proceeds of the anticipated sale of the mall.

2 ABC Corp finds a mixed-use project in a qualified Opportunity Zone that looks solid, needs a $2M equity investment, and offers a good, but not great, anticipated return.

3 In 2018, ABC Corp sells the shopping mall, realizes a $2M gain and files IRS Form 8949 with its tax return on which it elects to defer payment of the 23.8% tax on the capital gain. ABC Corp has 180 days from the date of sale to invest $2M in a Qualified Opportunity Fund (QOF).

4 ABC Corp forms XYZ, LLC, whose purpose is to invest in Qualified OZ property, and invests all $2M of its previous gain in XYZ, LLC within the 180 days. XYZ files IRS Form 8996 to self-certify as a QOF. ABC Corp gets to defer payment of $476,000 in capital gains tax until Dec 31, 2026. Furthermore, instead of paying $476,000 in tax in 2027 (when it files its 2026 return), it would only pay $404,600, because it gets to step up its basis by 15% for holding the OZ investment for seven years. At a 9% discount rate, this is the equivalent gain of $202,000 on the tax benefits and additional equity as of the date of the investment.

5 XYZ has 30 months from the date of the investment by ABC to complete the mixed-use property witin the Opportunity Zone. XYZ issues debt, builds the property and completes the project. XYZ maintains its ownership in the property for ten years and operates exclusively within the OZ.

6 After ten years from the date of its investment in XYZ, ABC sells its interests and realizes a gain of $2M on its OZ investment. Since it has held the qualified OZ property for 10 years, ABC can exclude its entire gain and reap a tax benefit of $476,000. At a 9% discount rate, that equates to $201,000 in present value benefits as of the date of the investment.

7 Combining the two benefits means ABC Corp realizes around $400,000 in present value dollars on the day it makes its $2M investment in the mixed-use development via its QOF. That’s a 20% return on invested capital related solely to OZ benefits as compared to a non-OZ project.

Want to learn more?

Reach out to the Webster Economic Development Alliance to discuss investment opportunities in Webster.

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