

Virginia Opportunity Zones

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Agenda

- What is the Opportunity Zone Program?
- State Role
- What do we know and where does the program currently stand?
- Strategies for Local Governments
- Additional Information
- Q&A

Opportunity Zones

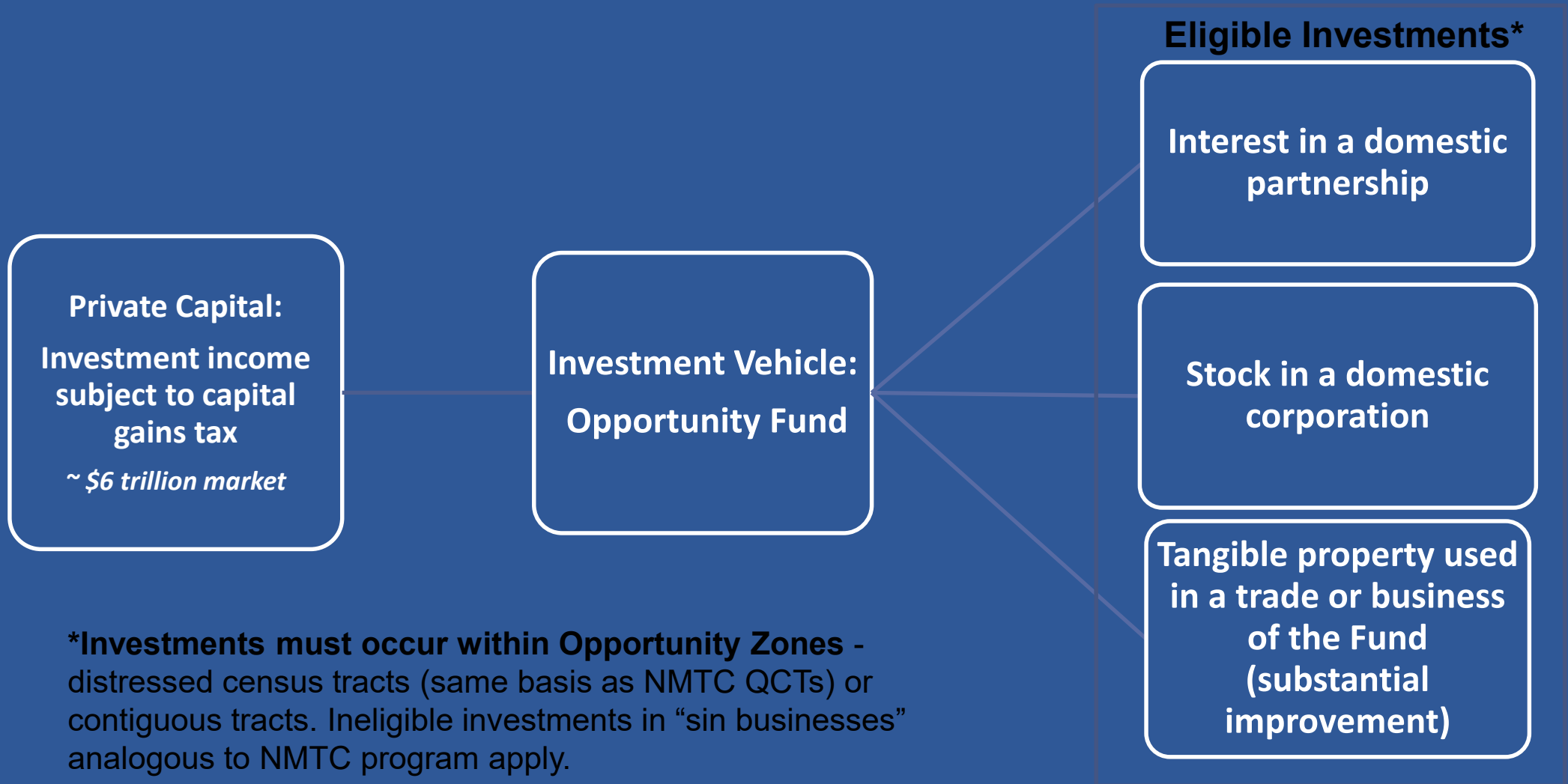
- Enacted in Federal Tax and Jobs Act (2017)
- Another tool in toolbox for investment and revitalization in your community



Opportunity Zones

- Taxpayers can get capital gains tax deferral for making timely investments in Opportunity Funds and Opportunity Zone properties
 - Can be tangible and intangible property
- Opportunity Fund vehicle could reduce transactional friction and connect investors to overlooked, but credit-worthy, investment opportunities
- Equity investments in growth-stage businesses and real property

Overview of Structure





Tax Benefits

- Benefits when capital is invested in a Qualified Opportunity Zone Fund
 - Temporary Tax Deferral
 - Recognized at exit of fund or December 31, 2026, whichever is earlier
 - Step up in basis
 - 5 year = 10% reduction in tax liability of original capital gain
 - 7 year = 15% reduction in tax liability of original capital gain
 - 10 year holding period: permanent exclusion of tax on any gains made in the fund

Tax Benefits

- Do not need to invest all of capital gain
- Have 180 days to recognize gain and contribute in a Qualified Opportunity Fund
- December 31, 2026: deferral period ends and deadline for investing in an OZ fund
- If a taxpayer's investment in an Opportunity Fund decreases in value during the deferral period, the amount of gain a taxpayer is required to recognize decreases proportionately

SAMPLE INVESTMENT
OPPORTUNITY ZONES

JANUARY 2, 2019



Taxpayer receives \$1M in capital gains generated from a sale

JUNE 30, 2019

Taxpayer has 180 days to contribute capital gains into a Qualified OZ Fund

The QOF invests the \$1M in Qualified OZ Property



JUNE 20, 2023



Basis: 0K to 100K

Taxpayer basis increases by 10%. Basis is considered to start at zero when funds are first invested

JUNE 30, 2025

Taxpayer basis increases to 15%

Basis: 100K to 150K



DECEMBER 31, 2026



850K taxed

Deferral period ends. Taxpayer pays 85% in basis on OZ fund. Basis then increases to \$1M

JUNE 30, 2028

Basis is Fair Market Value. Taxpayer sells investment for \$3M. Taxpayer does not owe tax on appreciation of investment.

Opportunity Zone Funds

- Taxpayer can self certify on tax return OZ fund
- Fund can be set up as an LLC or partnership
- Must hold 90% of assets in QOZ property



Opportunity Zone Business Property or Business

- Opportunity Zones can be used for a variety of uses
 - Housing
 - Commercial Real Estate and Renovation
 - Opening new business in an OZ
 - Expansion of existing business in an OZ or large expansion of a business already in an OZ

Other Incentives

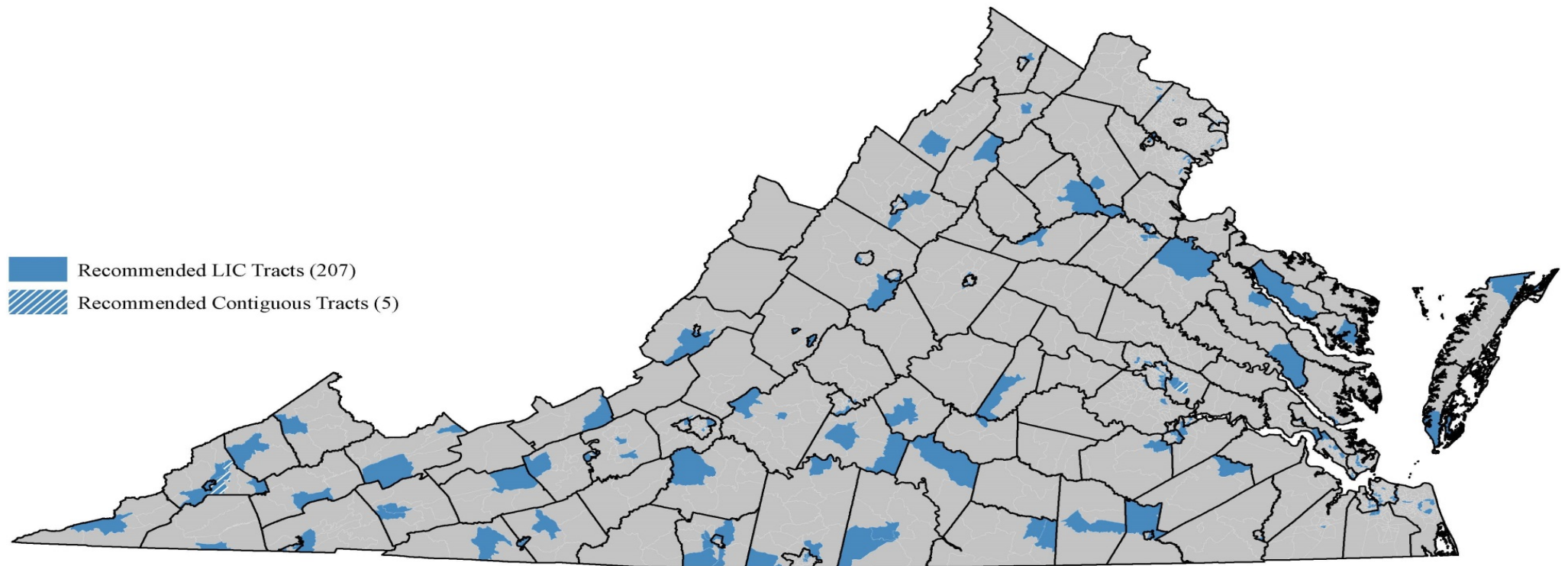
- Can be layered with other incentives
 - LIHTC
 - Enterprise Zones
 - Historic Tax Credit



Virginia OZs

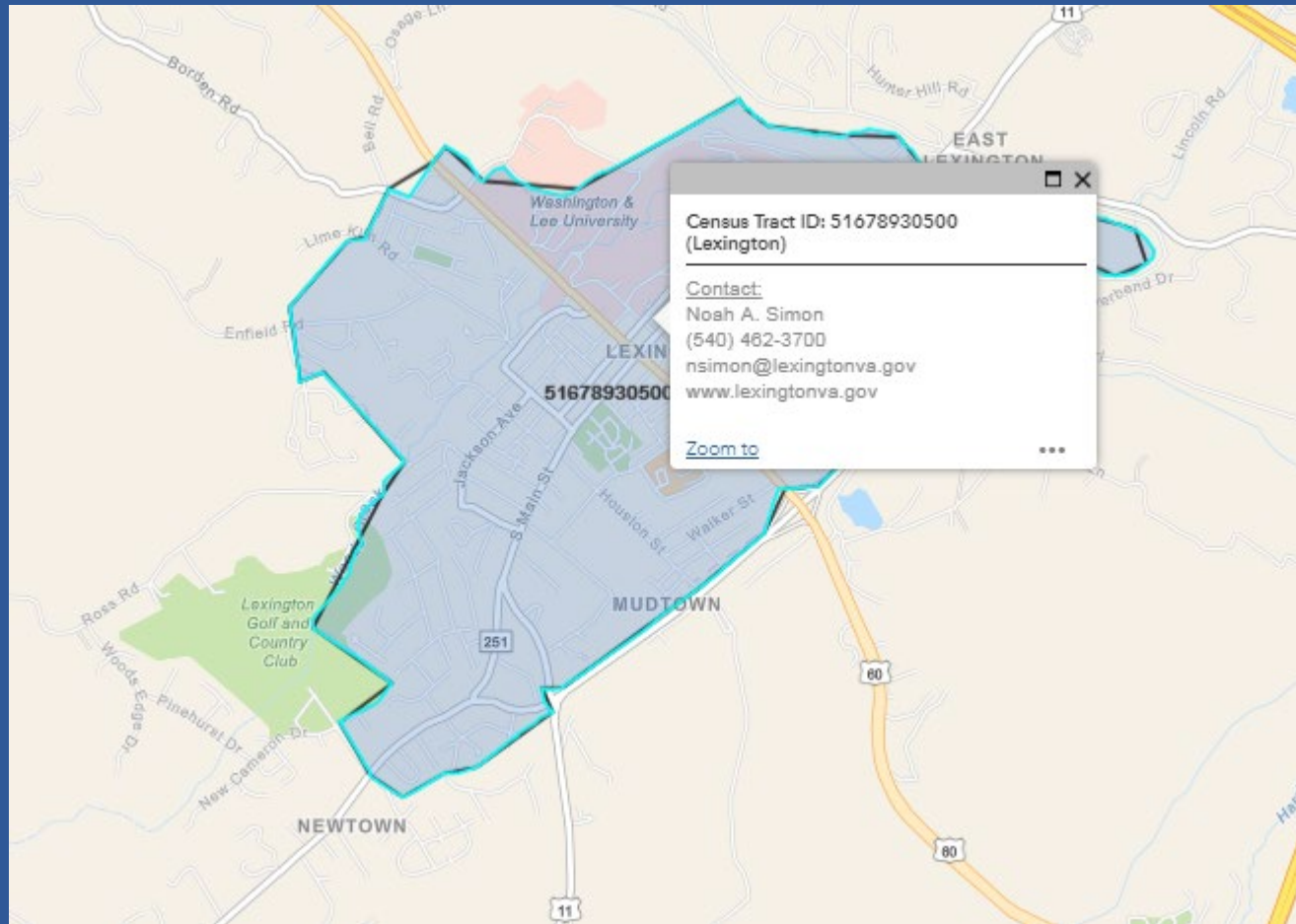
- The State's role in the program was to nominate low income census tracts to be designated as Opportunity Zones
- Virginia nominated 212 out of 901 low income census tracts for OZ designation
- Approved & Certified by U.S. Treasury in May
- This represents the maximum number of low income census tracts that could be nominated in Virginia

Virginia Qualified Opportunity Zones



Virginia Qualified Opportunity Zones

Current State Initiatives



Current State Efforts

- Connecting investors, local governments and developers
- Clearinghouse

Considerations

- Our understanding is that Virginia State capital gains tax liability is based on your federal capital gains liability
- Many OZs overlap with Enterprise Zones and Historic Regions registered with DHR
- Look at targeted local incentives

Where are we now?

- Draft regulations posted on Friday October 19, 2018 for a 60 day comment period
- 3 documents released
 - IRS Tax Form (draft)
 - Proposed regulations
 - Special rules for capital gains invested in OZ



Strategies and Tips for Local Governments

- Identify target businesses and properties
- Create a marketing prospectus for investors
 - Provide market data and information
 - Workforce data, demographics, etc
 - Existing properties
 - Pipeline of potential projects
 - Highlight investable deals
 - Tell your local story



Strategies and Tips for Local Governments

- Identify and meet with potential investors
 - High net worth individuals, Community foundations
- Have an Opportunity Zone Day
 - Tour of potential projects
- Identify other incentives to layer on projects that are in OZs



Strategies and Tips for Local Governments

- Update capital improvement Plan, Zoning ordinances, etc
 - Direct resources to priority projects
 - Zoning
 - Inclusionary zoning to prevent negative effects of gentrification
- Get engaged with your community and engage investors with the community

Additional Information

- [DHCD Opportunity Zones](#)
- [CDFI OZ Resources](#)
- [IRS OZ FAQ](#)
- [Economic Innovation Group](#)
- [Enterprise Community Partners](#)
- [Opportunity 360 Tool](#)

Questions?

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