OPPORTUNITY ZONES IN ILLINOIS

ILLINOIS DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY

Illinois Department of Commerce & Economic Opportunity
JB Pritzker, Governor

LEADERSHIP COUNCIL SOUTHWESTERN ILLINOIS

Opportunity Zone Program

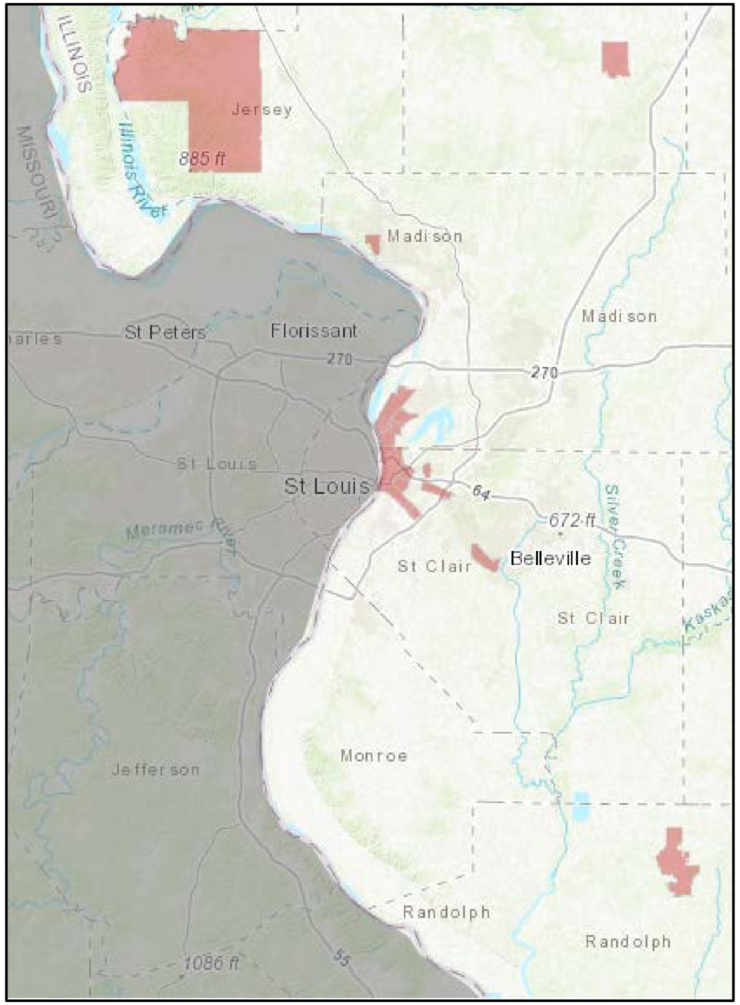
Created as part of the Tax Cuts and Jobs Act, Opportunity Zones are a **federal economic development tool** aiming to improve the outcomes of distressed communities around the country. Opportunity Zones are low-income census tracts that offer tax incentives to groups who invest and hold their capital gains in Zone assets or property.

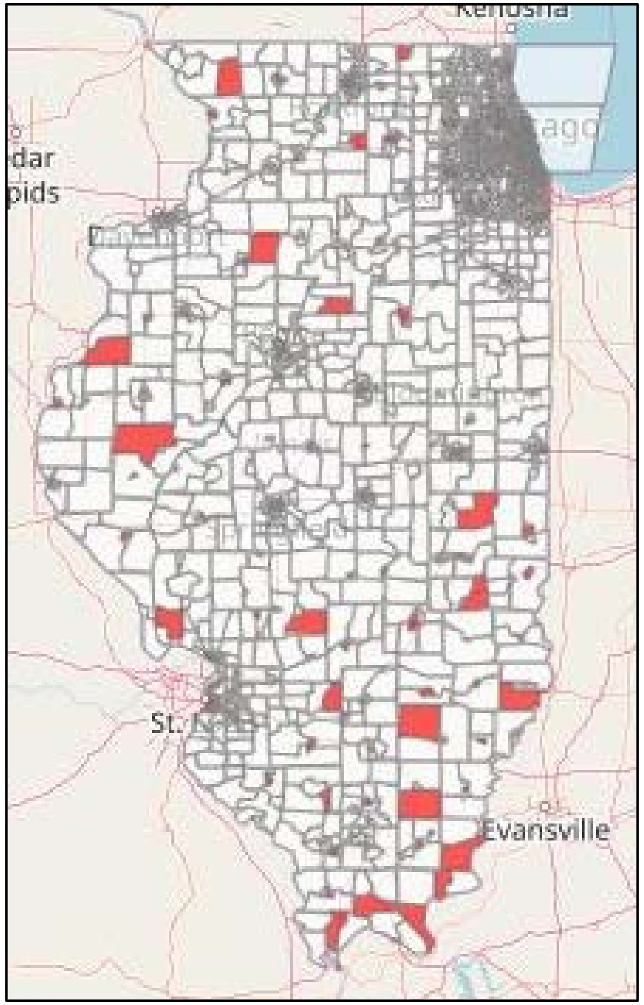
By investing in Opportunity Zones, investors stand to gain a temporary deferral on their capital gains taxes if they hold their investments for at least 5 years, and a permanent exclusion from a tax on capital gains from the Opportunity Zones investments if the investments are held for 10 years.

Opportunity Zones in Illinois

- 327 Opportunity Zones (selected from 1,305 qualifying census tracts).
- Selected in 2018 by the Governor’s Office and Certified by the US Treasury Department.
- 3 Phases in the selection process:
  - Need-Based Indexing (existing poverty & unemployment)
  - Equitable Distribution of zones (geographic requirements)
  - Local Consideration (collaboration/feedback from local entities)
- Map: https://www2.illinois.gov/dceo/Pages/OppZn.aspx

Opportunity Zone Locations in Illinois





Opportunity Zones Overview

Q: What is an Opportunity Zone?

A: Opportunity Zones are **low income census tracts** nominated by governors and certified by the U.S. Department of the Treasury into which investors can now put capital gains dollars to work financing new projects and enterprises in exchange for certain federal capital gains tax advantages. The country now has over 8,700 Opportunity Zones in every state and territory.

Q: What is the purpose of the Opportunity Zone program?

A: Opportunity Zones are an economic development tool. They are designed to **spur investment in distressed communities** leading to increased economic development and job creation.

Opportunity Zone Benefits

- A **temporary tax deferral** for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is sold or December 31, 2026.
- A **step-up in basis** for capital gains reinvested in an Opportunity Fund. The basis of the original investment is increased by 10% if the investment in the qualified opportunity zone fund is held by the taxpayer for at least 5 years, and by an additional 5% if held for at least 7 years, excluding up to 15% of the original gain from taxation.
- A **permanent exclusion from taxable income of capital gains** from the sale or exchange of an investment in a qualified opportunity zone fund, if the investment is held for at least 10 years. (Note: this exclusion applies to the gains accrued from an investment in an Opportunity Fund, not the original gains).

Qualified Opportunity Funds

Q: What is a Qualified Opportunity Fund?
A: A qualified Opportunity Fund is any investment vehicle organized as a corporation or partnership with the specific purpose of investing in Opportunity Zone assets. The fund must hold at least **90 percent of its assets in qualifying Opportunity Zones property.**

Q: Who can create an Opportunity Fund?
A: **Any taxpaying individual or entity** can create an Opportunity Fund, through a self-certification process by using IRS Form 8996

Q: Are there any time constraints on investing in an Opportunity Fund?
A: Yes, any capital gains being invested into an Opportunity Fund need to be invested within 180 days of those gains being realized.

Qualified Opportunity Funds, Continued

Q: What can Opportunity Funds invest in?

A: Opportunity Funds can invest in any qualified Opportunity Zone property, including stocks, partnership interest or business property (so long as property use commences with the fund, or if the fund makes significant improvements to the qualifying property).

Qualified Opportunity Zone Property includes property provided that

- Such property was acquired in a taxable transaction from an unrelated party **after December 31, 2017**;
- The **original use** of such property in the Opportunity Zone commences with the Qualified Opportunity Fund, or such property is substantially improved by the Qualified Opportunity Fund; and
- During substantially all the of the Qualified Opportunity Fund's holding of such property, substantially all **its use was in the Opportunity Zone**

Qualified Opportunity Funds, Continued

Q: Can an Opportunity Fund make investments in multiple Opportunity Zones?
A: Yes - so long as an Opportunity Fund has at least 90% of its assets in qualified Opportunity Zone property, the fund may invest in as many qualified tracts as desired.

Q: Can Opportunity Zones tax incentives be realized beyond 2026?
A: The tax incentive itself does not expire in 2026, only the original tax deferral. Investors in Opportunity Funds that hold investments for at least 10 years will still be able to take advantage of the favorable tax treatment of gains related to the investments into Opportunity Funds, even if realized after 2026.

Case Study

Assumptions:

- $15,000,000 in investible capital gains as of 6/1/19
- 10 year investment
- Tax rate of 26% (Federal & State)
- 7% Annual Rate of Return
- $15,000,000 is invested into an Opportunity Fund within 180 days of 6/1/19
- Tax deferral on $15,000,000 expires in 2026
- Exit from Opportunity Fund on 1/1/30

YEAR	OPPORTUNITY FUND	TRADITIONAL PORTFOLIO
2019	Defer tax on the full $15,000,000 Capital Gain	Pay Tax on initial capital gain: Taxes Due: $15,000,000 x 26% = $3,900,000 $11,100,000 remains
2026	Investment appreciates to $25,772,793	Investment appreciates to $19,071,867
	Pay taxes on deferred gain (Basis is increased by 15%): $15,000,000 x 85% = $12,750,000 Taxes: $12,750,000 x 26% = $3,315,000	No taxes due
2030	Sell investment now worth $31,572,779	Sell investment now worth $23,363,867
	No taxes due	Pay taxes on secondary capital gain: Taxes: $23,363,867 x 26% = $3,188,603
	Total Taxes Paid: $3,315,000 Value Net of all Taxes Paid: $28,257,779	Total Taxes Paid: $7,088,603 Value Net of all Taxes Paid: $20,175,254

Savings of $8,082,525

SOURCES

- Internal Revenue Service
- Illinois Department of Commerce and Economic Opportunity
- KPMG
- Novogradac
- Enterprise Community Partners
- Local Initiative Support Cooperation
- CliftonLarsonAllen

THANK YOU