

Qualified Opportunity Zones



Background

- Concept developed by Economic Innovation Group in 2015.
- Introduced as a separate bill with bipartisan support in 2017 well before Tax Cuts and Jobs Act.
- Ultimately enacted as late addition to Tax Cuts and Jobs Act.
- Primary goal: encourage private capital investment in economically challenged areas.

Opportunity Zones

- Each State and territory have designated opportunity zones.
- Up to 25% of low-income/high poverty census tracts and limited number of contiguous tracts.
- Approximately 8,000 census tracts.
- No further formal role for state in administration of opportunity zones.
- Zones expire December 31, 2028, maybe December 31, 2027 for Puerto Rico.
- For interactive map of Colorado opportunity zones, see <https://choosecolorado.com/oz/>

Designation of Colorado Zones

- 126 census tracts
- Diverse portfolio attractive to a variety of investment types (businesses, commercial real estate, housing, other infrastructure) and high-profile targeted projects
- Focus on areas where designation could be catalytic
- If area is already growing rapidly, instead of generating new activity OZ may only increase profits and encourage gentrification (e.g., RiNO)
- If area does not have existing activity or key assets, the OZ status will not by itself catalyze any new activity (e.g., very remote rural tract)

Colorado Eligibility



Key Projects Covered

Regional Tourism Projects:
National Western Center, US Olympic Museum, Professional Bull Riders University, near Stanley Film Center



Colorado Springs: Catalyst Campus, National Cybersecurity Center, Colorado Springs Airport

Aurora: Anschutz & Aerotropolis



Sun Valley Redevelopment in Denver

Outdoor Recreation Projects: Mayfly Colorado Outdoors Park in Montrose, Bonsai Design Riverfront at Las Colonias Park, In Grand Junction, Powderhorn Ski Resort



Pueblo: Evraz & adjoining Excel site, State Fair, Riverwalk

Simple Concept

- Fund invests in qualified property, corporations, or partnerships.
- Reinvest capital gain in Fund (equity interest in Fund only).
- Receive tax benefits
 - Defer tax on reinvested gain.
 - Permanently exclude part of reinvested gain.
 - Permanently exclude post-investment gain.

Possible Tax Benefits

1. Temporary deferral of capital gain recognition from a prior investment.
 - Recognition not later than December 31, 2026.
 - Already some discussion about extending this.
2. Permanent exclusion of up to 15% of the deferred gain.
 - 10 % if held for 5 years
 - 15% if held for 7 years
3. Permanent exclusion of future gains if held 10 years.

Fundamental Limitation

- Benefits apply only to capital gain invested into QOF within 180 days of realization of gain.
 - 180-day period begins on day gain would be recognized but for its reinvestment in a QOF
- Capital invested in excess of the gain is not eligible for the OZ tax benefits.
 - Treated as a traditional investment, but does not free OZ from investment restrictions

Example

- Prior to December 31, 2019 taxpayer sells stock for \$500. Basis \$300. Capital Gain \$200.
- Investment of \$200 in QOF within 180 days, elects to defer gain.
- Year 5 - 10% (\$20) basis step up.
- Year 7 - 5% (\$10) basis step up.
- December 31, 2026 gain of \$170 recognized.
- All post-investment appreciation tax free after 10 years
 - Must sell no later than December 31, 2047

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Timeline for Investment



If investment made after 2019, not eligible for last 5% gain exclusion on deferred gain
 If investment made after 2021, not eligible for gain exclusion on deferred gain

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