

# Opportunity Zone FAQ

## **Q: Am I restricted to using only capital gains proceeds to fund Opportunity Zone investments?**

Not necessarily.

Under the 2017 Tax Cuts and Jobs Act, investors can take advantage of an opportunity to defer, potentially reduce, and eliminate certain capital gains by reinvesting them into a Qualified Opportunity Fund investment.

While the program has significant potential to provide attractive opportunities for taxable investors, the capital contributed to a Qualified Opportunity Funds need NOT be from a capital gain.

## **Q: Do I have to use a specific account to fund my Opportunity Zone investment?**

Investment accounts that are approved for tax benefits include:

- Individual investors
- Multi-member and Single-member LLCs
- S Corporations
- Partnerships
- Regulated Investment Companies (RICs)
- Real Estate Investment Trusts (REITs)
- Trusts and Estates

## **Q: When does the 180-day investment period end?**

Investors may defer capital gains tax on any recently sold investment, including the sale of stocks, bonds or real estate. Capital gains must be reinvested into a QOZ within 180 days following the sale. Upon execution of a subscription agreement and funding to an EquityMultiple QOF, the capital gains are safe to receive beneficial tax treatment.

## **Q: What are the differences between a 1031 exchange and an Opportunity Zone investment? Can I use my 1031 exchange investment to roll into an OZ investment?**

There are many differences between the tax benefits from a 1031 exchange, as compared to investment in an Opportunity Zone offering.

In a 1031 exchange, only real assets qualify for a like-kind exchange. For Opportunity Zone investments, all assets (for example; stocks, bonds, mutual funds, businesses, real estate, etc.) that constitute a capital gain can qualify. To receive the full benefit of a 1031 exchange, your replacement property should be of equal or greater value. You must identify a replacement property for the assets sold within 45 days and then finalize the exchange within 180 days.

An investment in a Qualified Opportunity Zone Fund (QOF) allows investors to reduce or eliminate certain capital gains associated with a QOF investment. An investment in a 1031 exchange provides a tax deferral for the beneficiary of capital gains and a step-up in basis only occurs upon death.

## **Q: How many Opportunity Zone deals is EquityMultiple planning for the year?**

In order to maximize the tax incentives for investing in a Qualified Opportunity Zone Fund, investors must close an investment prior to December 31, 2019.

Our underwriting team is constantly evaluating investment opportunities, and vetting each Sponsor's track record. EquityMultiple intends to have 5-10 Opportunity Zone offerings this year.

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### **Q: Are all Opportunity Zone offerings only equity investment offerings?**

Our historical real estate investment offerings have been across the capital structure, including debt and equity. However, Opportunity Fund investments are exclusively equity investments in businesses, real estate, and business assets that are located in a Qualified Opportunity Zone. Debt products are not eligible for the tax benefits.

### **Q: Why is the minimum higher than for other offerings?**

Often our minimum investments for Opportunity Zone Funds are anticipated to be significantly lower than what most institutional fund managers are willing to accept. Traditional fund managers often raise institutional capital, where the commitment sizes are in the millions or even billions of dollar ranges. As a result, our partners prefer our investors' minimums to be high. Our goal is to strike a balance between "access" and "affordability" and we intend to minimize operational logistics by continuing to service your opportunity zone investments.

### **Q: Taxes on my capital gains are initially deferred and capital gains on my Qualified Opportunity Zone investment may be eliminated entirely, subject to hold period requirements, but are the distributions paid during the term of my investment taxed at ordinary income?**

Yes, income from a qualified opportunity zone investment will be taxed as ordinary income.

### **Q: How can I attest that my capital gains proceeds are deployed into a QOF?**

Individual taxpayers would report gain from the sale of stock on Form 8949 and Schedule D (Form 1040). Below is a summary of instructions:

- In order to invest in a qualified opportunity zone deal and receive the tax benefits, an investor must have either short-term or long-term capital gains and invest the gains into a Qualified Opportunity Zone Fund (QOF) within 180 days after realizing the capital gains.
- Form 8949 is a federal tax form which was in use prior to the Opportunity Zone rules and is used to report sales of capital assets such as stock. There has been no change to these forms from 2017 to 2018. If you invest your gains into a QOF, your tax preparer will use form 8949 to report the investment by entering code Z in column (f). By making this entry the IRS knows you are deferring your gain.

### **Q: Ten years is a long hold period - longer than your typical offerings - why is this?**

A ten year hold period is the minimum term to maximize the tax benefits (assuming investments are made prior to year end 2019). There will typically be flexibility in qualified opportunity zone funds to sell properties sooner. In those instances, it is anticipated that the economic outcome of an early exit would outweigh the potential tax benefits of a longer term hold.

### **Q: The final set of Opportunity Zone ruling has not yet been finalized. How have you gotten comfortable accepting investor money?**

The second set of proposed regulations went to the Office of Information and Regulatory Affairs (OIRA) for review mid-March 2019. After a digestion period, regulations should be released to the public in late April. Our objective is to operate in an environment on rulings that are complete, and not in any gray area. There is enough certainty in the existing Opportunity Zone tax guidance to affirmatively move ahead. Again, to maximize the tax benefits investments must be completed by year end 2019. The main outstanding items in the tax rules largely relate to operating businesses, treatment of leases and further clarity on depreciation.



**Q: How are the various returns from my Qualified Opportunity Zone investment (QOZ) treated? For example, if the deal is returning a significant amount of capital back upon a refinance, how will I be taxed on that amount?**

QOZ requires that the property be “substantially improved”, which requires that for the 30-month period following the acquisition date of the property by the QOZ the basis in the investment must double (less the cost of the land).

As a result, ALL Opportunity Zone investments will involve significant capital investment, development and the execution of a comprehensive business plan in order to substantially improve the property. Given the time requirement to implement these improvement strategies, QOZ properties are not anticipated to generate near term or current cash flow and many of these projects will involve ground up or transformative construction to existing real estate.

In our Metro Phoenix Industrial Opportunity Zone offering, lease-up is anticipated throughout 2020 with stabilization in early 2021. The Sponsor expects to refinance the construction loan with long term financing upon stabilization of the Property, with the aim of returning approximately 50% of investor equity at that time. The return of capital lowers an investor's basis in their capital account and is not a taxable event.

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