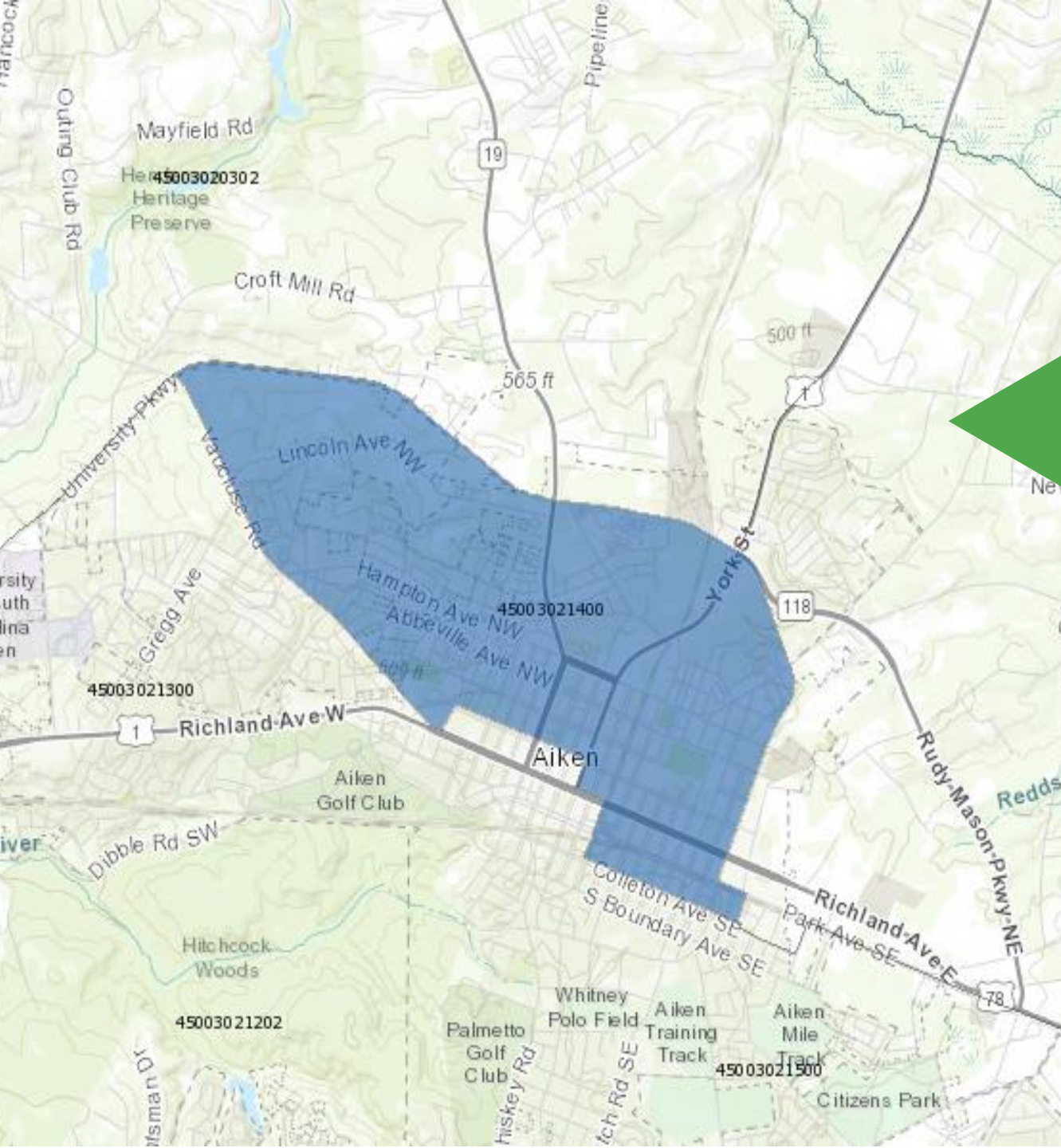




Opportunity Zone Overview

Aiken, SC

Presented by:
Thomas P. Miller & Associates, LLC



Aiken Opportunity Zone

Aiken has one Opportunity Zone:

- Census Tract: 45003021400

Opportunity Zone Designation

- **Enacted as part of the Tax Cuts and Jobs Act of 2017**
 - Census tract determined a low-income community
 - Poverty rate of at least 20%
 - Median family income no greater than 80% of the area median
 - Governors nominated 25% of low-income census tract in each state
 - Treasury completed final designations based on these selections
- **Encourage Economic Development in low income areas**



Opportunity Zone Overview

- **Enacted as part of the Tax Cuts and Jobs Act of 2017**
- **Opportunity zones promote economic development by encouraging targeted re-investment of capital gains – 3-6 trillion dollars**
 - Reduction of up to 15% and deferral until December 31, 2026
 - Elimination of 100% of future capital gains tax on investments in Qualified Opportunity Zones
- **Qualified Opportunity Zone property includes:**
 - Newly issued stock
 - Partnership interests
 - Business property – original use of property must begin with Opportunity Fund or the Fund must substantially improve the property over 30-month period – improvements must exceed acquisition price.



Incentives

- **Gain deferral**
- **Tiered Capital Gains reduction or “Step-Up”**
 - Hold investment 5 years = 10% reduction of Capital Gain
 - Hold Investment 7 years = additional 5% reduction of Capital Gain
 - Deferred gain must be recognized by date OZ investment is sold or December 31, 2026
- **Permanent exclusion of Capital Gains Tax on Opportunity Zone investment**
 - No new gain recognized on sale of OZ property held for at least ten years based on fair market value on date sold



Benefit Advantage

- **Compare Investment in OZ to Traditional Investment in Stocks**
- **Assume both offer 7% annualized return – net after taxes**
 - Stock Investment = 32% gain
 - OZ Investment = 73% gain

Accounting Today, Finding the Opportunity in the opportunity zones, 8/21/2018



QOZ Business Property

- **Tangible property an Opportunity Fund purchased after 2017**
 - Must be used by the Fund of Qualified Opportunity Zone Business in an active trade or business operating in an OZ
- **Original use of the property must begin with the OZ Fund or the OZ fund must substantially improve the property**
- **OZ Business property only qualifies if it acquired from an unrelated party**
 - Prohibits purchases from relatives, entities related through common ownership, or entities from the same controlled group



Opportunity Funds

- **Investments must be made in Qualified Opportunity Funds to receive benefits**
 - Funds are certified by U.S. Treasury
 - Corporation or partnership for the purpose of investing in Opportunity Zone property
 - Opportunity Funds must hold approximately 90% of assets in Qualified Opportunity Zone Business Property
 - Approximately 30% of funds may be invested outside of an Opportunity Zone



External/Local Opportunity Funds

- **Opportunity to attract both External and Local funding**
- **External funds likely to be more focused on returns**
- **Local funds may be more mission driven**
 - **Funds likely contributed by stakeholders with vested interest in Aiken's success**
 - **Willing to be more lenient with returns in exchange for greater community impact**
 - **Needs to be created and managed by private entity with appropriate capacity**



Current Opportunity Funds

- Opportunity Funds can be formed by any taxpayer through a self-certification process which should simplify and expedite the process of creating a fund
- A list of current funds can be found here:
 - <https://www.ncsha.org/resource/opportunity-zone-fund-directory/>



Additional Regulations

- **Legislation specifying the incentive passed December, 2017**
- **First regulations related to the incentive released October 19, 2018 which aim to clarify questions stemming from the original legislation**
- **Regulations can be viewed here:**
 - <https://www.irs.gov/pub/irs-drop/reg-115420-18.pdf>
 - <https://www.irs.gov/pub/irs-drop/reg-120186-18-nprm.pdf>



New Regulations

- **Released April 17, 2019**
- **Provide additional clarity for operating a business in an Opportunity Zone, particularly when it comes to starting a new business venture.**
 - First round of regulations required 50 percent of a businesses income be generated within the Opportunity Zone
- **New regulations will allow a business to meet this requirement if:**
 - At least 50% of the hours the employees or contractors work are spent within the opportunity zone
 - If 50% of its services, based on the amount paid for those services are within the zone; or
 - If the tangible property of a business and the management and operational functions of the business take place within the zone.



New Regulations Continued

- **Treatment of unimproved land**
 - Further guidance that unimproved land without a building on the property must be used in trade or business
 - Prevents Opportunity Funds from simply engaging in land speculation to gain tax benefits without contributing capital into the targeted community
- **Confirmation that investors can buy and sell assets within Opportunity Zones throughout the ten years of the investment**
 - Money must be reinvested in a new qualified Opportunity Zone investment within 12 months and proceeds must be held as cash, cash equivalents, or a debt instrument with a term of 18 months or less.
 - **This means deals will continue to be made throughout the life of the Opportunity Zone provision.**



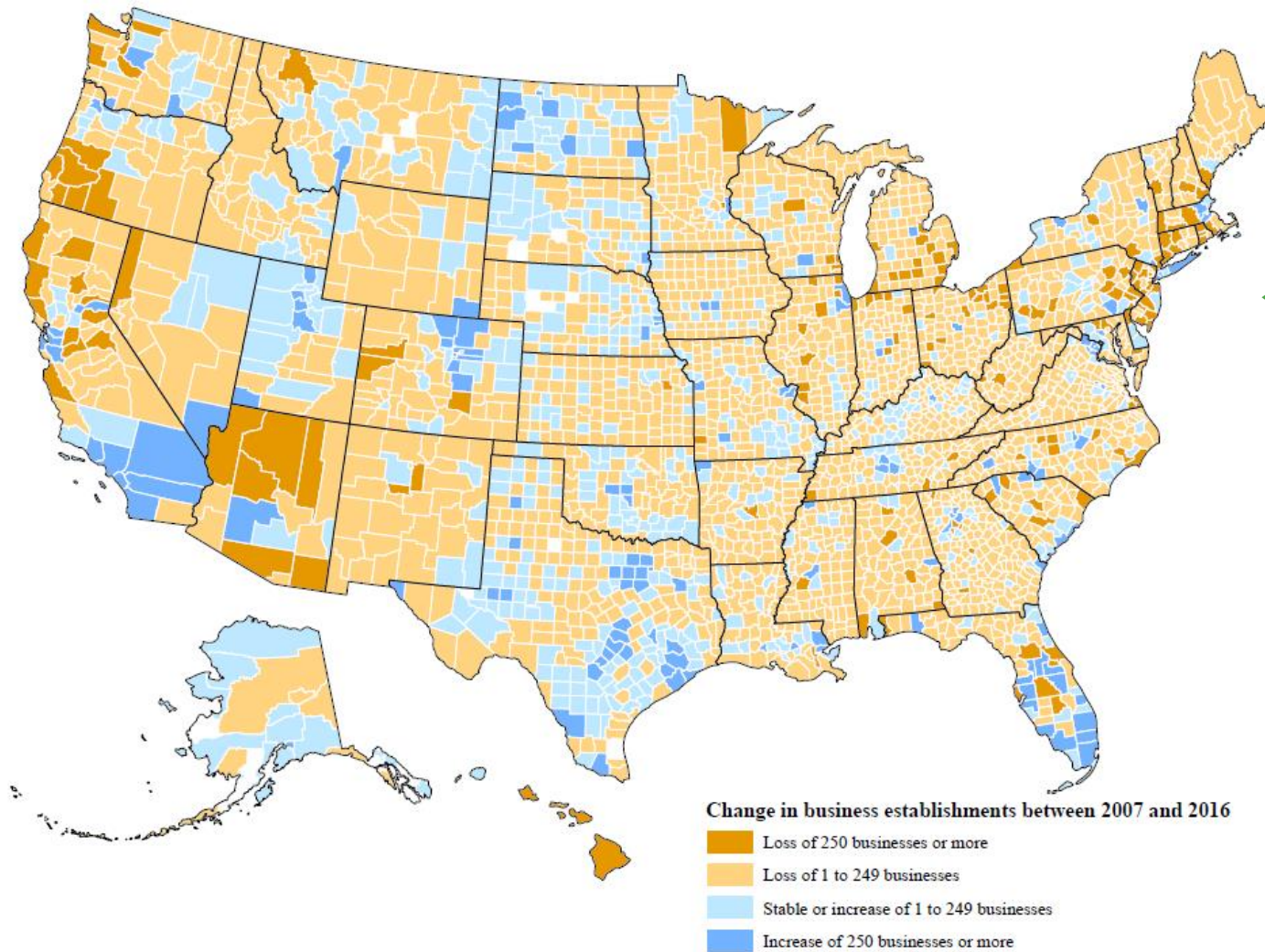


Opportunity Zones in Context

There are **8,700 Qualified Opportunity Zones** in the U.S. and making yours stand out is critical for attracting investment

Communities must take a **proactive approach** to stand out

Figure 1. Change in the number of business establishments between 2007 and 2016



Opportunity Zones in Context:
Business Decline

Project Milestones & Next Steps

- **Key Milestones for the remainder of this project include:**
 - Phase II Community Meeting, & Project Development Meetings – Mid September
 - Final Opportunity Zone Prospectus – October
 - Begin Engaging with Potential Investors/Funders – October/November
 - Continued Technical Assistance – December



Contact Us

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