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RAISE MONEY FOR YOUR BUSINESS AT GLOBEHUB, A QUALIFIED OPPORTUNITY ZONE WITH INVESTMENT INCENTIVES

One of the most difficult things for startups and small businesses is the challenge of raising money to get started and or expand. This is all about to change. A new section in the Tax Code (26 U.S. Code & 1400 Z) provides tax incentives for investments in targeted areas in the United States. This can be done through investment vehicles known as Opportunity Funds. These funds are to promote economic development in select communities known as Opportunity Zones by offering investors substantial federal tax advantages only offered through this new program. Economic development is not limited to property, i.e. land and buildings, but also includes ventures such as startups and small businesses that operate within Opportunity Zones.

How It Started

This first set of proposed regulations for Opportunity Zones, a provision of the Tax Cuts and Jobs Act (TJ), created an attractive set of tax incentives meant to encourage investment in economically distressed communities. The first set of Opportunity Zones, covering parts of 18 states, were designated on April 9, 2018. Opportunity Zones have now been designated in all 50 states, the District of Columbia and five U.S. territories.

How It Works

The tax incentive works like this: Suppose you just made a \$1M profit in the stock market. You can invest these capital gains in an opportunity fund, which in turn invests in properties within a designated Opportunity Zone. This will permit you to defer paying capital gains tax on your \$1M profit until the end of 2026. In addition, 15 percent of that gain is tax-exempt if you hold your Opportunity Fund investment for 7 years; after 10 years, all further appreciation becomes tax-exempt as well.

The IRS also said that Opportunity Funds could make qualifying investments in a business where a minimum of 70 percent of its assets ("tangible property") is in the Zone—meaning that 30 percent could be held elsewhere. This flexibility would make it easier to invest in operating businesses. And, significantly, the IRS guidance expands a TJ provision that required investors to spend at least as much to improve property as they paid for it. The proposed regulation only applies this requirement to buildings and not to underlying land value. This considerably expands opportunities for real estate investors.



1954 Airport Rd #120 Chamblee, GA 30341



(404) 566-9455



info@theglobehub.com

THE NUTS & BOLTS

Qualified Opportunity Fund (QOF) Structure

A prerequisite to securing any of the tax benefits described above is that the relevant investments must be made in a QOF. A QOF is (i) any investment vehicle, (ii) formed as a corporation or partnership, (iii) organized in one of the 50 states, the District of Columbia, or in the United States possessions, (iv) for the purpose of investing in Qualified Opportunity Zone (QOZ) property (other than another QOF).

The proposed regulations clarify that the entity must also be classified as either a corporation (presumably including an S corporation, if eligible) or a partnership for Federal income tax purposes—so no disregarded entities. Limited liability companies (LLCs) treated as partnerships for tax purposes are also eligible (as long as they are not single-member LLCs, which are treated as disregarded entities).

REITs and RICs also appear eligible to be QOFs. Further, the proposed regulations provide that pre-existing entities may qualify as QOFs as long as they satisfy the statutory requirements.

QOZ properties can be one of the following:

- 1. QOZ Business Property:** Tangible property, either new or substantially improved, used in a trade or business of the QOF or QOZ business, purchased by the QOF or QOZ business from an unrelated party after December 31, 2017, and held for use in the QOZ;
- 2. QOZ Stock:** Stock of a U.S. corporation that is a QOZ business; or
- 3. QOZ Partnership Interests:** Capital or profit interests in a U.S. partnership that is a QOZ business.

While it was not entirely clear whether preferred QOZ stock or QOZ partnership interests with special allocations qualified as QOZ property, the proposed regulations provide that they do.

A QOZ business is, generally, a trade or business in which substantially all (defined by the proposed regulations as at least 70 percent) of the tangible property owned or leased by the taxpayer is QOZ business property (with certain stipulations related to the amount of active trade or business income, the use of intangible property, and the amount of property attributable to nonqualified financial assets, such as cash and cash equivalents).

Subject to the above requirements, any type of business—including residential or commercial real estate development—can potentially qualify as a QOZ business (although there is an exclusion for certain so-called “sin” businesses such as golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, racetracks, gambling facilities and liquor stores).

Because the Opportunity Zone provision is all about moving capital into economically disadvantaged areas of the country, it is important to note that the statute requires that substantially all the use of the QOZ property be in a QOZ.



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More than 8,700 census tracts have been officially designated as QOZs. (For more information on where the QOZs are located go to our website at: www.theglobehub.com/map)

Although the statute technically provides that the designation of all QOZs will expire on December 31, 2028 (calling into question whether investors will benefit from the permanent exclusion of the post-acquisition economic appreciation for investments made in 2019 and later), the proposed regulations provide that the benefit remains available for sales of QOF investments until December 31, 2047.

GlobeHUB is situated in a certified Opportunity Zone location. Visit us at: theGlobeHUB.com or via e-mail at: info@theglobehub.com



**References and sources and Disclaimer

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