



OPPORTUNITY ZONES

AN IDENTIFIED STATE & FEDERAL INCENTIVE AVAILABLE TO THOSE INVESTING IN MT. PLEASANT

Opportunity Zones, a new tax incentive created by Congress, were added to the tax code by the Tax Cuts and Jobs Act on December 22, 2017 as a tool for spurring economic development and job creation in distressed communities. An Opportunity Zone is a designated area where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as Opportunity Zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation authority to the Internal Revenue Service. Two census tracts in the City of Mt. Pleasant were among 288 census tracts state-wide that were nominated as Opportunity Zones by Governor Rick Snyder in March, 2018. In April, 2018, the U.S. Treasury Department approved the Governor's nominations.

There are three primary mechanisms available to investors to take advantage of the benefits Opportunity Zones offer:

- 1. Temporary Deferral:** A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.
- 2. Step-Up in Basis:** For capital gains reinvested in an Opportunity Fund the basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.
- 3. Permanent Exclusion:** A permanent exclusion from taxable income of capital gains from sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

Qualified Opportunity Fund

A Qualified Opportunity Fund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in an Opportunity Zone and that utilizes the investor's gains from a prior investment for funding the Opportunity Fund. You can get the tax benefits, even if you don't live, work or have a business in an Opportunity Zone; all that is needed is to invest in a Qualified Opportunity Fund.

Uses of The Opportunity Fund

An Opportunity Fund can be utilized as a primary investment in a variety of activities. Funds can be used to create new businesses, new commercial or residential real estate, or infrastructure. Opportunity Funds can be used to invest in existing businesses if it doubles the investment basis over 30 months and can also be used to create new businesses, new commercial or residential real estate, or infrastructure. The Funds can also be combined with other incentives such as New Market Tax Credits (NMTC), Low-Income Housing Tax Credits (LIHTC), and historic rehabilitation tax credits, adding a valuable tool for economic and community development.

There are some prohibitions associated with the use of Opportunity Fund incentives. They cannot be used to engage in any of the following activities: any private or commercial golf course, country club, massage parlor, hot tub or suntan facility, racetrack or other facility used for gambling, or any store where the principal business purpose is the sale of alcoholic beverages for consumption off premises.

The accompanying map depicts the boundaries of the Opportunity Zones as certified for the City of Mt. Pleasant. More specific information will become available as additional guidance is developed by the U.S. Department of Treasury and Internal Revenue Service. In the meantime, those interested in learning whether Opportunity Zones are an appropriate investment incentive for their specific needs should consult with their financial planner or investment manager.

