

# Virginia Opportunity Zones

Kristen Dahlman  
Senior Policy Analyst



**VIRGINIA DEPARTMENT OF HOUSING  
AND COMMUNITY DEVELOPMENT**

*Partners for Better Communities*

[www.dhcd.virginia.gov](http://www.dhcd.virginia.gov)

# Agenda

- What is the Opportunity Zone Program?
- DHCD Role
- Strategies for Local Governments
- Additional Information

# Opportunity Zones

- Enacted in Federal Tax and Jobs Act (2017)
  - Goal to encourage private equity in economically distressed areas
  - Chief Patron: Sen. Tim Scott (R-SC)
- Another tool in toolbox for investment and revitalization in communities

# Opportunity Zones

- Taxpayers can get capital gains tax deferral for making timely investments in Opportunity Funds and Opportunity Zone properties and businesses
- Equity investments in growth-stage businesses and real property
- Can connect investors to credit-worthy but often overlooked properties and businesses in low income areas

# Tax Benefits

- Benefits when capital is invested in a Qualified Opportunity Zone Fund
  - Temporary Tax Deferral
    - Recognized at exit of fund or December 31, 2026, whichever is earlier
  - Step up in basis
    - 5 year = 10% reduction in tax liability of original capital gain
    - 7 year = 15% reduction in tax liability of original capital gain
  - 10 year holding period: permanent exclusion of tax on any gains made in the fund

SAMPLE INVESTMENT  
**OPPORTUNITY ZONES**

**JANUARY 2, 2019**



Taxpayer receives \$1M in capital gains generated from a sale

**JUNE 30, 2019**

Taxpayer has 180 days to contribute capital gains into a Qualified OZ Fund

The QOF invests the \$1M in Qualified OZ Property



**JUNE 20, 2023**



Basis: 0K to 100K

Taxpayer basis increases by 10%. Basis is considered to start at zero when funds are first invested

**JUNE 30, 2025**

Taxpayer basis increases to 15%

Basis: 100K to 150K



**DECEMBER 31, 2026**



850K taxed

Deferral period ends. Taxpayer pays 85% in basis on OZ fund. Basis then increases to \$1M

**JUNE 30, 2028**

Basis is Fair Market Value. Taxpayer sells investment for \$3M. Taxpayer does not owe tax on appreciation of investment.

# Opportunity Zone Funds

- Taxpayer can self-certify on tax return
  - Tax form 8996 (draft form)
- Fund can be organized as a Corporation or Partnership
  - LLC can be an OZ fund
- Must hold 90% of assets in QOZ property
  - Penalty for non-compliance
- Have 6 months to deploy capital from first month into project and is measured based on 90% asset test

# Opportunity Zone Business Property or Business

- Opportunity Zones can be used for a variety of uses
  - Commercial Real Estate and Renovation
  - Opening new business in an OZ
  - Expansion of existing business in an OZ or large expansion of a business already in an OZ
- At least 50% of income derived from active conduct of trade or business
- “Substantially all” of tangible property owned or leased by taxpayer is O-Zone business property, substantial portion of intangible property used in active conduct of business



# Other Incentives

- Can be layered with other incentives
  - Other tax credits
  - State Grants
  - Foundation grants
  - Other capital
  - Loans

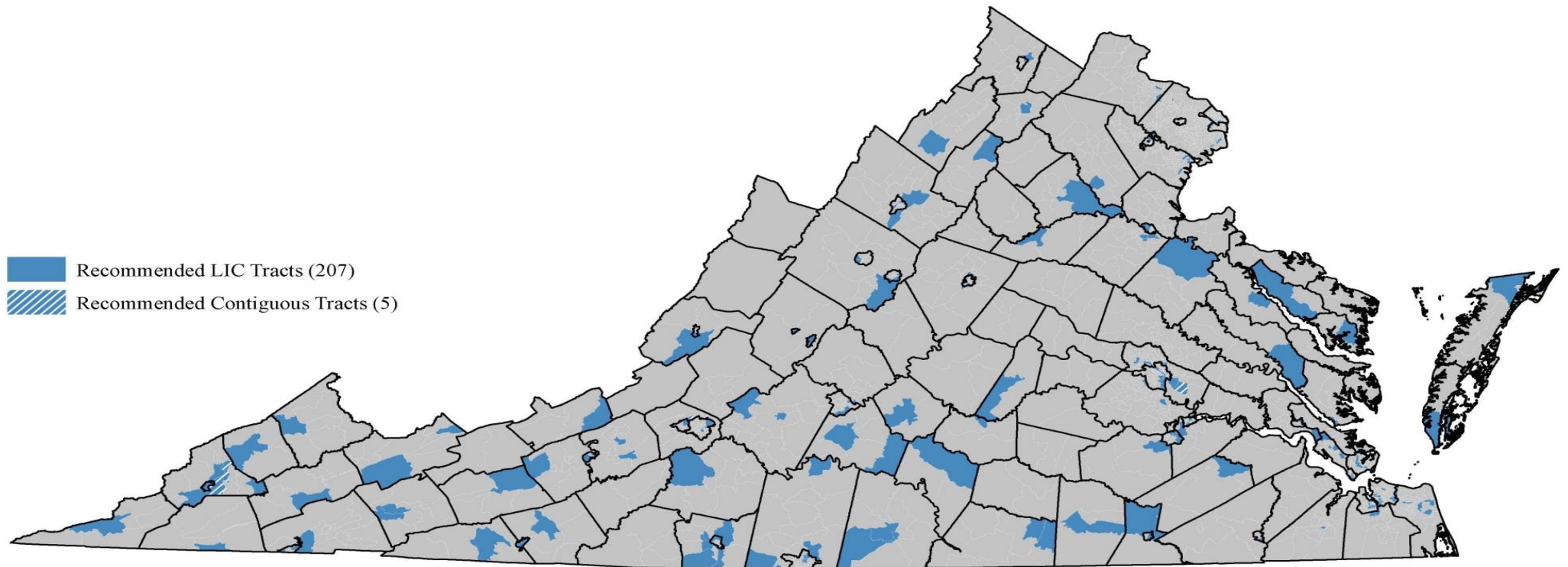
# What are Opportunity Zones?

- Low Income Census tract as per criteria by U.S. Census
- Based on poverty rate of 20% or median family income that is 80% of statewide median income

# Virginia OZs

- The State's role in the program was to nominate low income census tracts to be designated as Opportunity Zones
- Virginia nominated 212 out of 901 low income census tracts for OZ designation
- Approved & Certified by U.S. Treasury in May
- This represents the maximum number of low income census tracts that could be nominated in Virginia

# Virginia Qualified Opportunity Zones

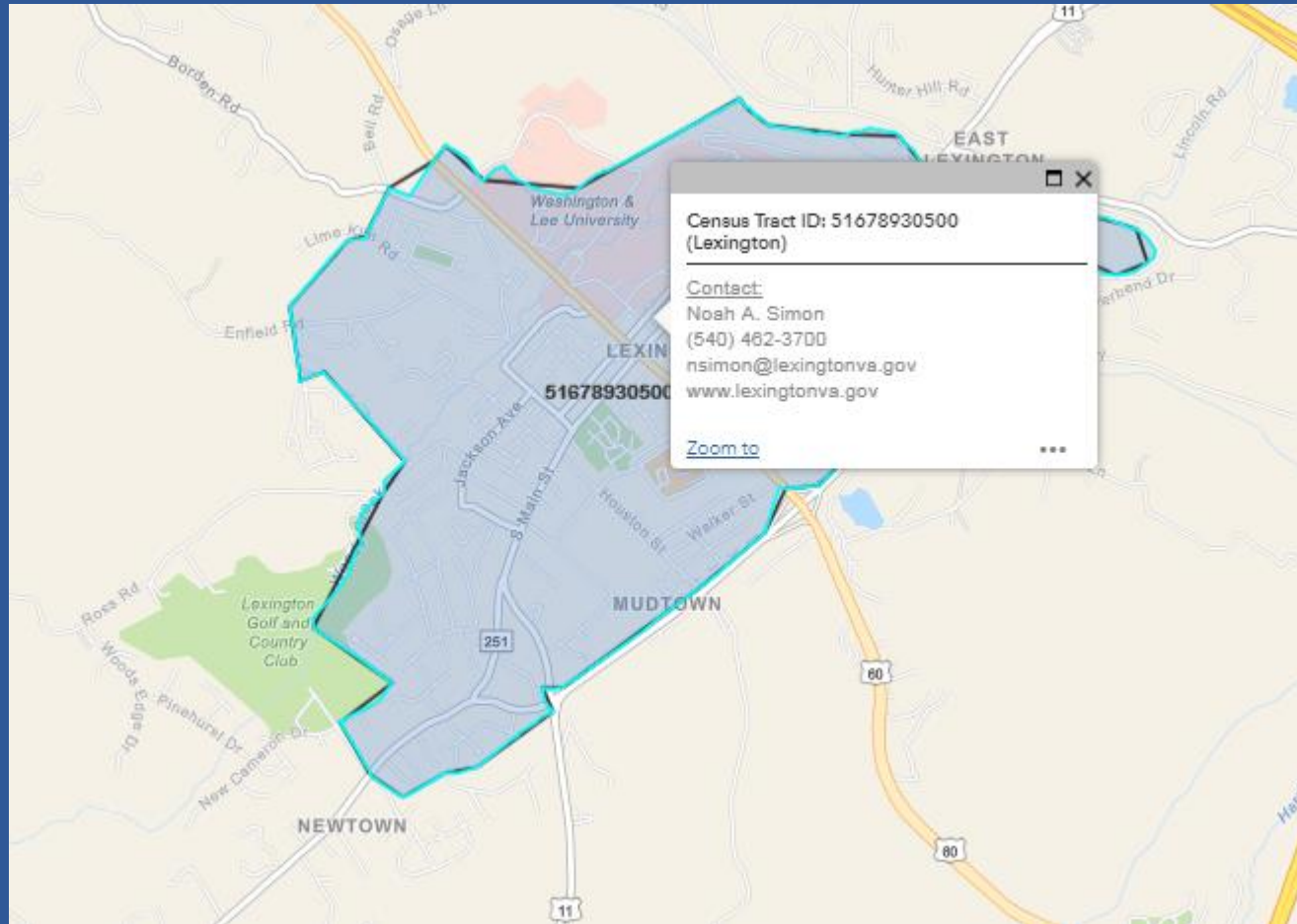


Virginia Qualified Opportunity Zones

# Current State Efforts-DHCD

- Connecting investors, local governments and developers
- Clearinghouse
- Educational Briefings
- Educational Documents

# Current State Initiatives



# Where are we now?

- Draft regulations posted on Friday October 19, 2019 for a 60 day comment period
  - Comment period ended December 28, 2018
- 3 documents released
  - IRS Tax Form (draft)
  - Proposed regulations
  - Special rules for capital gains invested in OZ

# Draft Regulations

- 10 year holding period special rule
- 70% of a qualified opportunity zone business tangible property will meet “substantially all” requirement
- 31 month working capital grace period for meeting 90% asset test



# Strategies and Tips for Local Governments

- Identify target businesses and properties
- Create a [marketing prospectus](#) for investors
  - Provide market data and information
    - Workforce data, demographics, etc
  - Existing properties
  - Pipeline of potential projects
  - Highlight investable deals
  - Tell your local story

# Strategies and Tips for Local Governments

- Unclear whether OZ equity can be used for public facilities such as schools but if those are part of a mixed use development, OZ capital can be used for other parts of the development
- Remember, a new asset class with equity is entering the market ready to invest in Opportunity Zones that could help enhance a project in your locality
- OZ equity will provide about 5-30% of capital for a project

# Additional Information

- [DHCD Opportunity Zones](#)
- [CDFI OZ Resources](#)
- [IRS OZ FAQ](#)
- [Economic Innovation Group](#)
- [Enterprise Community Partners](#)

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[kristen.dahlman@dhcd.virginia.gov](mailto:kristen.dahlman@dhcd.virginia.gov)