

# OPPORTUNITY ZONES: MTC EQUITY PARTNERS FAQ

## What is an Opportunity Zone?

- A low-income census tract specifically nominated by the Governor of a State. A full list of Opportunity Zones in Florida can be found the Florida Department of Economic Opportunity's website: <http://www.floridajobs.org/business-growth-and-partnerships/for-businesses-and-entrepreneurs/business-resource/opportunity-zones>
- These zones are designed to spur economic development and job creation in low-income communities.
- Billions of dollars are expected to be deployed to low-income communities through the Opportunity Zone program.

## How do Opportunity Zones Spur Investment?

- The OZ Program is centered around a set of tax incentives which accrue to long-term investors in Opportunity Zones.
- If an investor deploys capital gains into projects within OZs, they are eligible to receive favorable tax benefits.

## How do the Tax Benefits Work?

- The tax treatment of capital gains is tied to the longevity of an investor's stake in a qualified Opportunity Fund.
- First, if an investor deploys and re-invests capital gains into a qualified Opportunity Fund within a specific timeframe, that investor can defer taxes on those capital gains until 2026. Several additional tax benefits are granted depending on the longevity of the investment in the OZ as shown in the chart below.
- To receive the 7-year tax benefit, investments must be made by the end of 2019. To receive the 5-year tax benefit, investments must be made by the end of 2021.



## Example of the Tax Benefits

Let's assume a taxpayer invests \$1,000,000 of capital gains in an Opportunity Zone Fund. By investing, the taxpayer can postpone taxes on those capital gains until 2026, or the date on which such investment is sold or exchanged, whichever is earlier. If the taxpayer deploys the investment by the end of 2019 and keeps their investment in the Opportunity Zone fund for five years, the taxable amount of the initial capital gain invested is reduced by 10%, to \$900,000. After seven years, it is reduced by another 5%, to \$850,000.

Most attractive from an investment perspective, if the taxpayer keeps a capital gains investment in an Opportunity Zone fund for 10 years, any appreciation in the value of the investment is exempt from taxation. Thus, if the taxpayer invests \$1,000,000 and after ten years, the value of the investment is \$4,000,000, the taxpayer will not have to pay capital gains taxes on the \$3,000,000 increase in value; taxes would only be owed on the \$850,000 in taxable capital gains from the initial investment. Since investing in low-income tracts is inherently riskier than investing in wealthier locations, Opportunity Zones are designed to allow investors a large benefit on their investments.

## What is an Opportunity Fund?

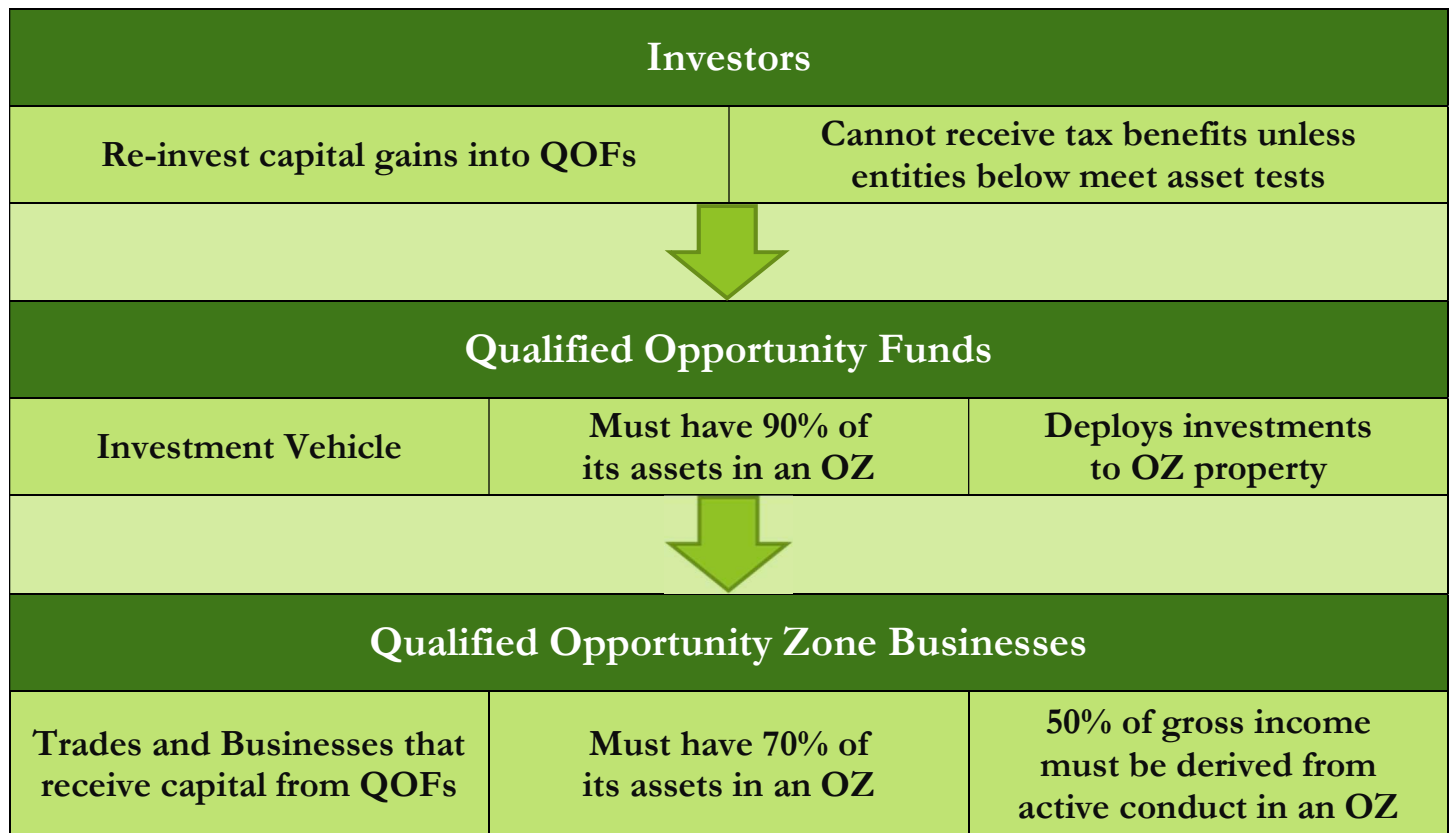
- An investment vehicle organized as a corporation or partnership for the purpose of investing in qualified opportunity zone property and qualified opportunity zone businesses.
- To be a Qualified Opportunity Fund (QOF), the entity must hold at least 90% of its assets in an OZ.

## What is a Qualified Opportunity Zone Business?

- Any trade or business in which substantially all the tangible property owned or leased by the investor is newly acquired and/or which substantially improves the property.
- In current IRS regulations, “substantially all” means 70%.
- Note: “Trade or business” is very broad. These can be all trade or businesses except statutorily defined “sin businesses” such as golf clubs, tanning salons, and liquor stores. The trade or business is not required to have ties to the local community.

## How do these entities tie together?

There may be some confusion about how investors, Qualified Opportunity Funds, and Qualified Opportunity Zone Businesses interact. The chart below demonstrates this interaction:



## What is MTC Equity Partners LLC's Role in Opportunity Zones?

The Opportunity Zones program is the most hands-off Federal initiative designed to spur economic development in low-income communities over the past 50 years. Current IRS regulations do not require OZ projects to meet, for example, affordable housing requirements or other reporting standards that have characterized Enterprise Zones, the Low-Income Housing Tax Credit, the New Markets Tax Credit, and/or similar past programs.

Because the definition of a “trade or business” is so broad when characterizing a Qualified Opportunity Zone Business that can receive OZ capital, there is the potential that many projects may bear little relationship to a community’s needs. **MTC Equity Partners is focused on ensuring that our Opportunity Zone investment will benefit a low-income community the Program was designed to serve. We are dedicated to making sure that Opportunity Zone projects revitalize communities, without displacing existing residents.**

### 1. EDUCATION

The Opportunity Zones initiative was a relatively small portion of the Tax Cuts and Jobs Act of 2017. MTC Equity Partners is available to educate local governments, investors, developers, community stakeholders, and other interested parties on how the program works and how it can be utilized to revitalize low-income communities. We, along with community development partners, can provide on-site or remote education on OZs, regular updates on new regulations, and examples of projects that have successfully utilized the OZ program.

### 2. LOCAL GOVERNMENT PLANNING

Although Opportunity Zones are a federal initiative, the effects will be felt locally. MTC Equity Partners works with local governments to plan and prepare for OZ investment within their communities. Because of the hands-off approach of the Federal government, local governments have

the responsibility to ensure that OZ investment benefits existing communities, without causing displacement.

We can help local governments act as an investment promotor, matchmaker, and steward. First, we recognize that not all Opportunity Zones are created equally. Some OZs are naturally primed for growth and will receive investment without local government involvement. However, there will be OZs within communities that struggle to attract investment. MTC Equity Partners works with local governments on attracting investment to areas of the community by exploring the pairing of other available local government incentives, with OZ capital.

Second, we can assist local governments in becoming an ideal matchmaker in the OZ context. At its core, local government can be the place where all members of the community come together to plan for revitalization and equitable growth. MTC Equity Partners can assist in forming OZ workgroups and workshops that connect local investors, anchor institutions, businesses, and communities to form a localized strategy for maximizing the potential of the OZ program.

Third, MTC Equity Partners can work with local governments in utilizing their land use authority to plan and prepare for OZ investment. This may include amending comprehensive planning documents and land development regulations to attract and aid investment, and otherwise using the OZ program as a catalyst for devising best practices for community development through local land use authority. We can also advise on how government-owned lands, the Brownfields program, and other local tools can be used to capitalize on Opportunity Zones.

### **3. COMMUNITY-CENTRIC DEVELOPMENT**

Because of the attractive tax benefits and lack of reporting or performance standards at the federal level, there will be projects that bear little relationship to the needs of low-income communities. There will be high net-worth investors that use this program simply to make millions in tax-free appreciation through developments that price-out existing residents. However, there will also be

community-minded investors that want to utilize this program to help finance community-centric projects.

MTC Equity Partners can provide technical assistance and education to community-based investors that want to utilize OZ capital for affordable housing and other community-based projects. MTC Equity Partners is dedicated to assisting organizations through the development process. We assist with financing, community outreach, and other items to ensure that local impact investors can maximize community good through the OZ program.

## Contact Us

If you have any questions on the Opportunity Zone program and how MTC Equity Partners can assist your work, please contact us at [info@memorytrees.co](mailto:info@memorytrees.co) or call 561.290.8833.

MTC Equity Partners LLC is a business unit of Memory Trees Companies. Additional operating entities include Memory Trees Corporation (a registered tax-exempt organization under IRS Code 501.c.3) and Memory Trees LLC (a for-profit community development organization).

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