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CAPITAL PARTNERS

Seize the Opportunity (Zones):

Using OZs to Save Taxes and Raise Capital

December 13, 2018

Presenters:

Daniel Walter

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Envisioning Our Roles

Attorney

- Entity Formation
- Drafting Agreements
- Structuring
- Legal Opinions
- Due Diligence

CPA

- Projections
- Tax and Transaction Advisory
- Fund Asset Certification
- Testing
- Annual Financial Statement Audits
- Annual Tax Returns
- Financial Due Diligence
- Tax Planning
- Fund Certification
- Compliance

Fund Manager

- Investment Due Diligence
- Capitalization of Fund
- Deployment Strategy
- Investor Communications
- Fund Certification
- Investment Identification
- Asset Management
- Asset Tracking and Reporting

What is an Opportunity Zone?

- **Opportunity Zone (OZ)**

- Specially designated low income census tracts nominated by the governors of each state and certified by the U.S. Department of the Treasury

- **Investments in OZ communities are eligible for favorable tax treatment**

- Investor sells a capital asset and realizes capital gains

- Investor reinvests the amount of gain in a Qualified Opportunity (QO) Fund within 180 days after the date of the sale

- Investor receives tax benefits

Opportunity Zone Tax Benefits



Defer

Temporary deferral of taxable income for capital gains reinvested in a QO fund until the earlier of the sale of the investment or December 31, 2026

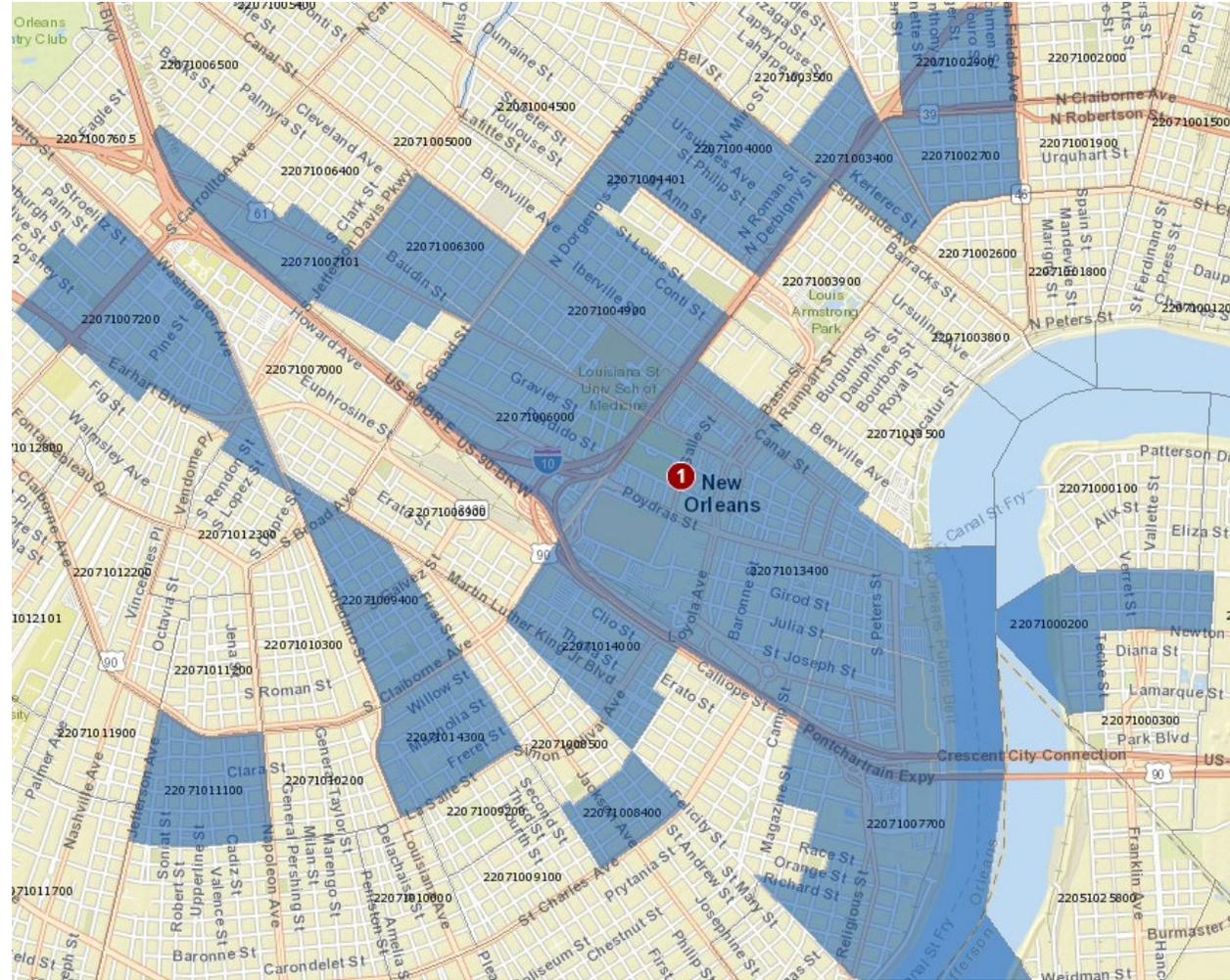
Reduce

Reduce taxable capital gains by 10% if investment is held for 5 years, and an additional 5% if held for 7 years (total 15%)

Forgive

Hold investment in a QO fund for 10 years, and all appreciation since initial investment is tax-free

Opportunity Zones in Downtown New Orleans



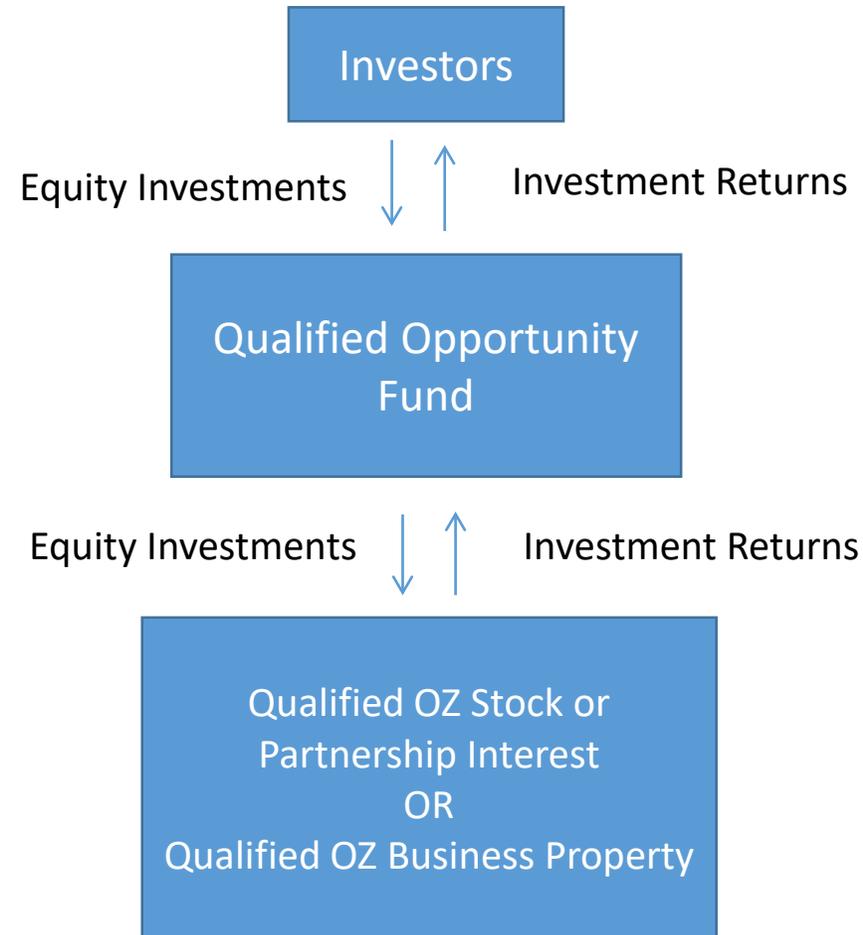
Opportunity Zone Resources

- CDFI Fund
 - <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>
- Louisiana Economic Development
 - <http://led.maps.arcgis.com/apps/View/index.html?appid=117d9113148c47f3945ce9bef6342625>
- Economic Innovation Group
 - <https://eig.org/opportunityzones>
- GNO Inc.
 - <https://gnozone.org/>

Qualified Opportunity Funds

- To obtain the OZ tax benefits, a taxpayer must make an investment in an OZ through a QO Fund
- A QO Fund is any investment vehicle organized as a corporation or a partnership for the purpose of investing in Qualified OZ Property
- An entity must self-certify with the IRS to qualify as a QO Fund
- The QO Fund must hold at least 90% of its assets in Qualified OZ Property
 - Qualified OZ Business Property
 - Qualified OZ Stock/Partnership Interest

Qualified Opportunity Funds



Qualified OZ Business Property

- Tangible property used in a trade or business in an OZ acquired by purchase from an unrelated party after 2017
- Either
 - The original use of the property commences with the purchaser
 - OR the property is substantially improved
 - i.e., within 30 months after the acquisition, the purchaser spends at least the amount of the purchase price in improving the property
- Substantially all of the use of the property is in an OZ

Qualified OZ Stock/Partnership Interest

- Equity Interest in a Corporation or Partnership IF:
 - The interest is acquired after 2017 by the QO Fund directly from the entity
 - The interest is acquired solely for cash
 - The entity is an “OZ Business” at the time the equity interest is issued
 - OR for a new entity, is being organized for the purpose of being an OZ Business
 - AND the entity continues to qualify as an OZ Business during substantially all of the QO Fund’s holding period

Qualified OZ Business

- Substantially all (70%) of the business' tangible property is OZ Business Property
- At least 50% of total gross income is derived from the active conduct of the business
- A substantial portion of the use of intangible property is in the active conduct of the business
- Less than 5% of the assets are “nonqualified financial property”

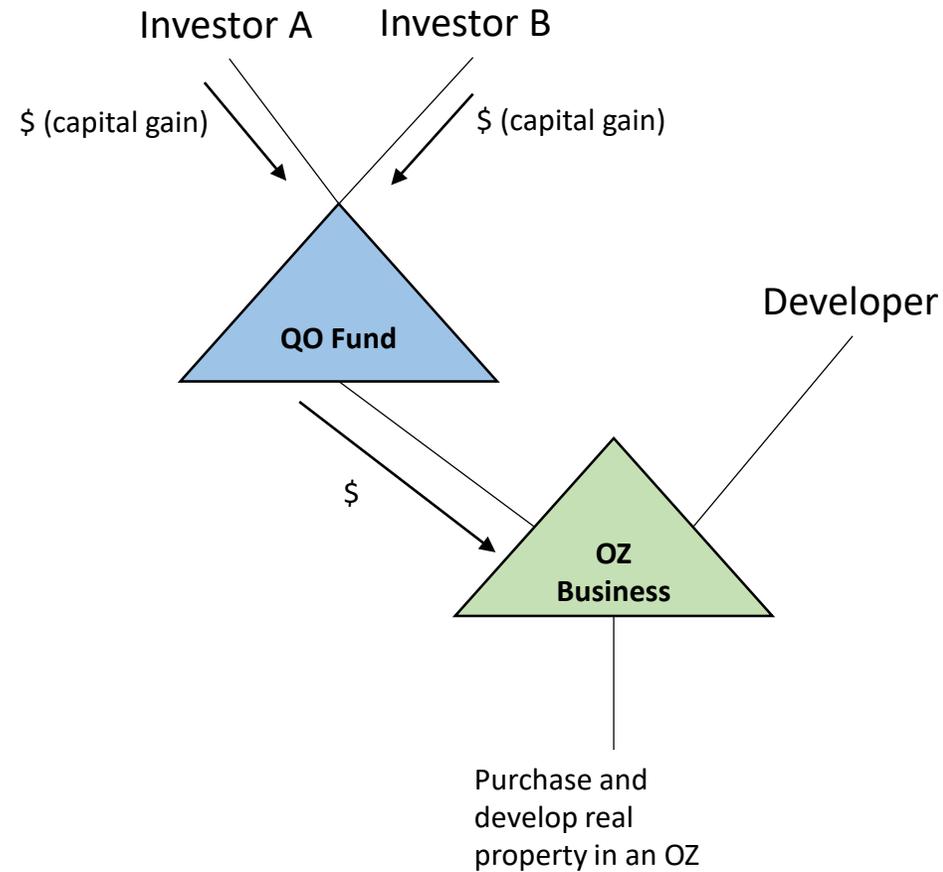
Broader Opportunity Zone Issues

- OZ Investment as a Catalyst for Economic Development
 - Opportunity to support and develop vendor/supplier relationships with major projects currently underway
 - Potential to recruit businesses from other locales to Ozs
 - Partnerships with local schools to develop curricula and job training, workforce development and analytics
- Leadership in Impact Investing and Measurement
 - Spirit of legislation to spur economic development and job growth, combat perception of program as solely a tax haven for the few
 - Currently no measurement or tracking requirements which opens program up to criticism and backlash
 - JCP's experience with SBIC program makes for ideal leadership in program

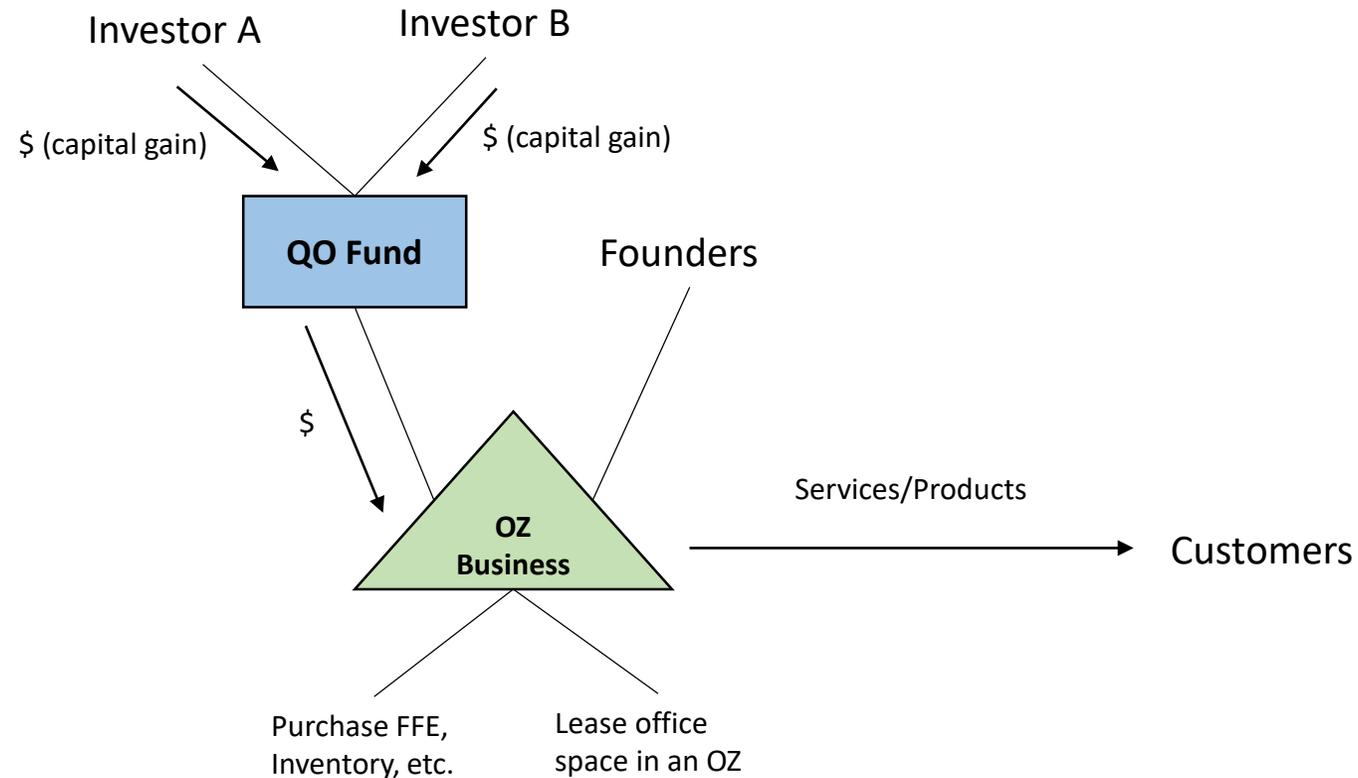
OZ Investing Through a Fund Structure

- A qualified fund that is formed and capitalized by a manager who employs deployment strategy and communicates with interested investors
- Investment Sourcing
- Asset Management
- Reporting and Compliance
- Risk Management

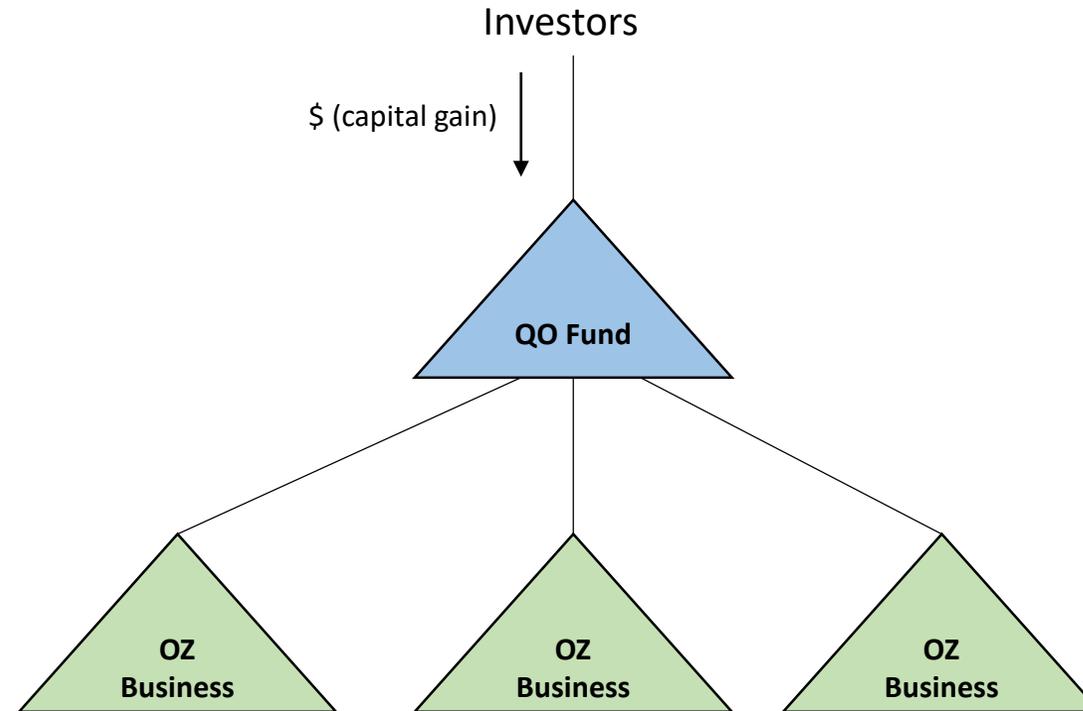
Example – Real Estate



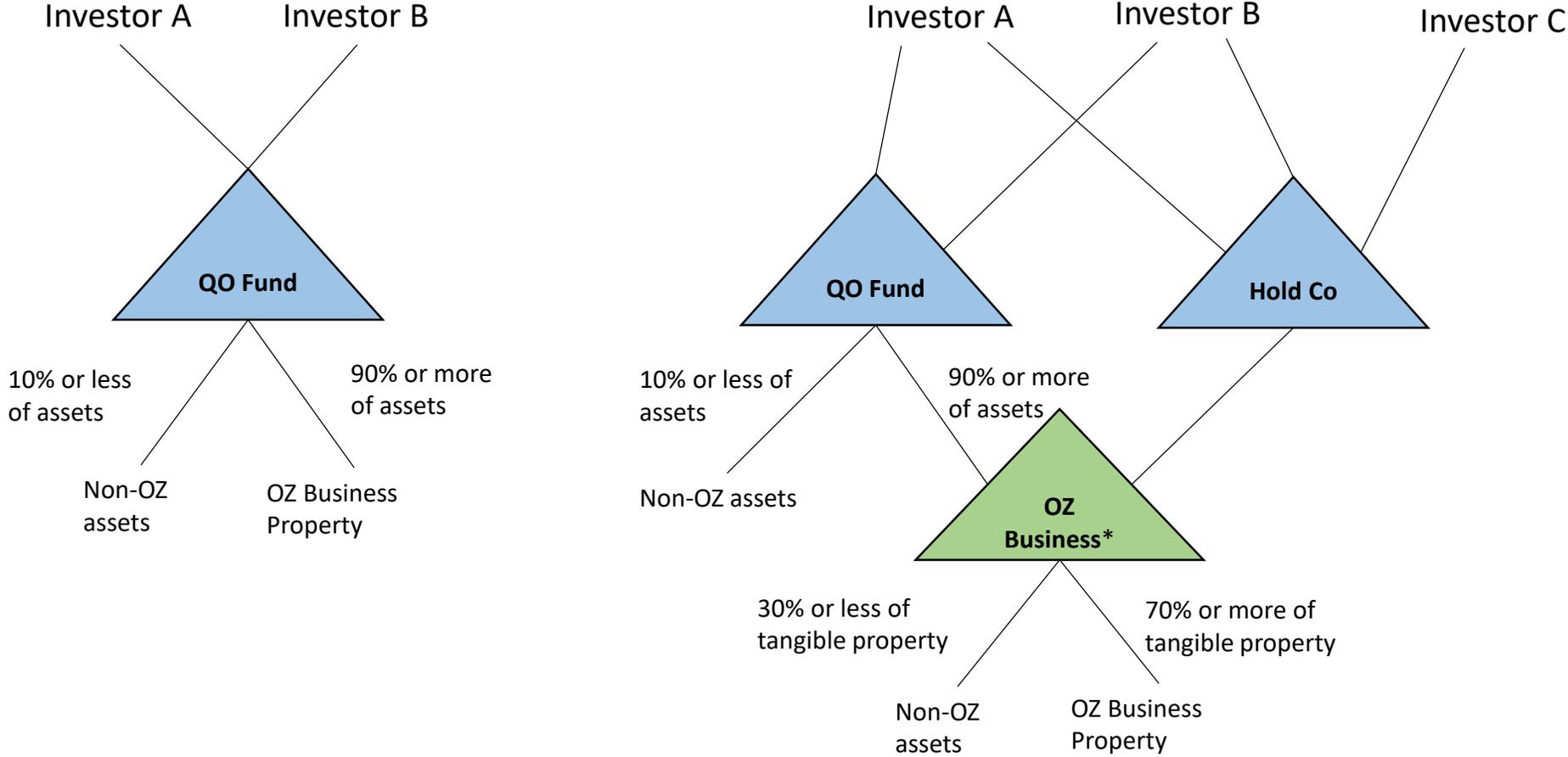
Example – Operating Business



Example – Fund Structure

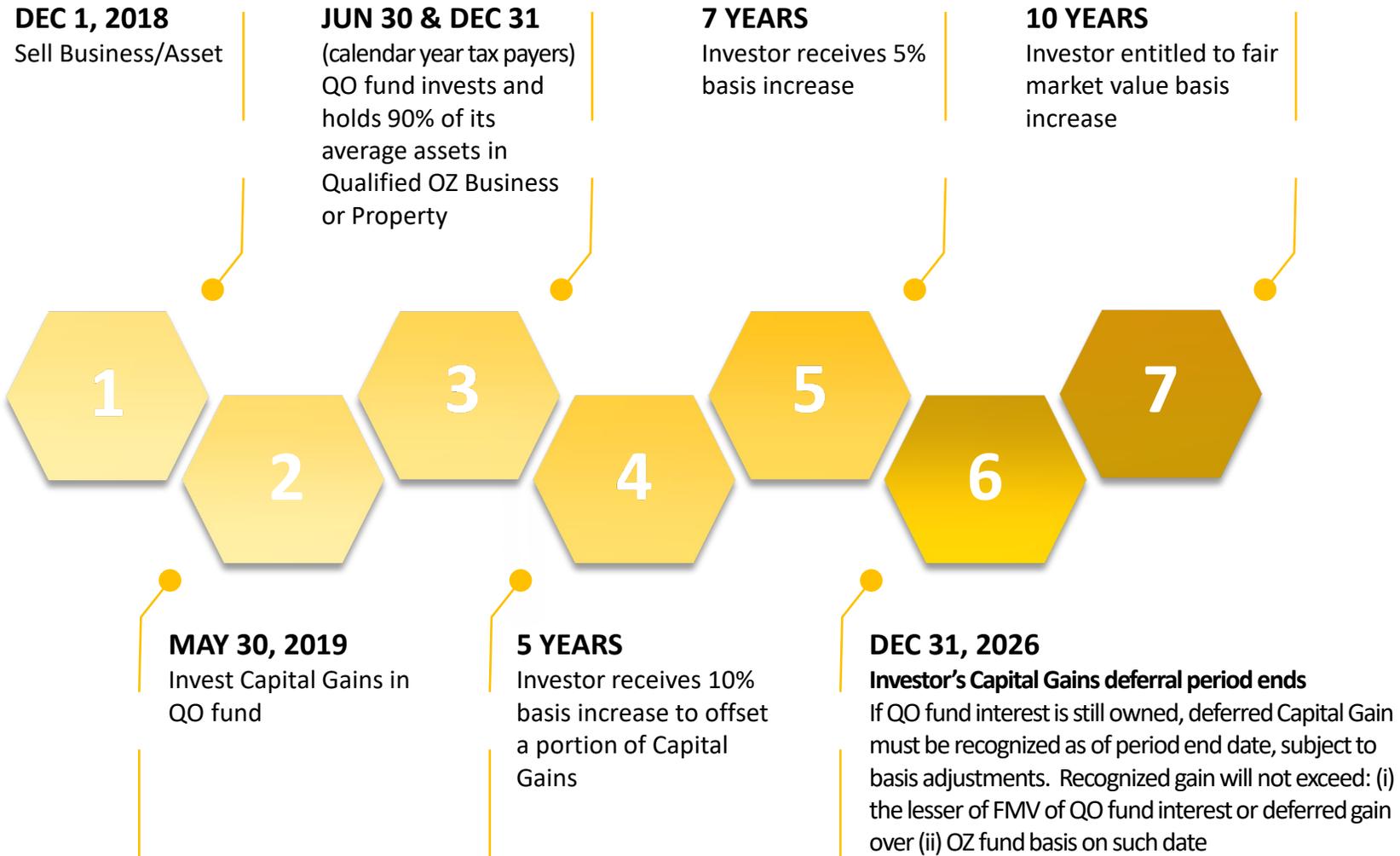


Example – Direct vs. Indirect Investment



* Intangible Property Subject to Section 1397C(b)(4) Limitation

OZ Program Timing Stages



QUESTIONS?

Presenters



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Mr. Walter represents clients primarily in the areas of partnership and corporate tax, federal and state tax credits and incentives, real estate and corporate transactions, executive compensation and general corporate matters. He is a Tax Law Specialist, certified by the Louisiana Board of Legal Specialization. Prior to commencing his legal career, he worked as a pension actuary for a major human resources consulting firm and owned and operated a music venue in New Orleans.

Presenters



Ken Abney, CPA, MS Tax

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Ken Abney has over 25 years of public accounting tax experience with non-profit organizations, closely held and public companies, and individuals. Ken has a deep knowledge of the real estate industry where he focuses on projects that qualify for federal and state tax credits.

He has focused much of his practice on assisting clients with solutions to an array of complex tax credit compliance issues. Ken leads CRI's tax credit practice which focuses on federal and state tax credit incentives, Opportunity Zones, and related investments.

Presenters



Joseph Truhe

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Mr. Truhe's career includes over 10 years of investing experience. Prior to joining Jefferson Capital in 2013 Mr. Truhe was a Portfolio Manager with Whitney Bank in New Orleans, Louisiana, where he oversaw the company's Trust accounts and served as the Energy sector analyst for the Hancock Horizon Funds. Prior to Whitney, Mr. Truhe was an analyst and member of the investment committee at HFR Asset Management, a multi-billion dollar hedge fund platform in Chicago, Illinois. There, Mr. Truhe reviewed and maintained investment discretion over the firm's Event Driven and Asia-focused hedge fund allocations. He was also responsible for the expansion of the firm's Asia-focused fund offerings.