

ARIZONA COMMERCE AUTHORITY

OPPORTUNITY FUNDS GUIDANCE UPDATE



ACA MISSION

The mission of the Arizona Commerce Authority is to grow and strengthen Arizona's economy and facilitate the creation of quality jobs for its citizens by attracting and supporting business in high-growth industries throughout the state. Why? Because a vibrant, diverse, state-wide economy means increased opportunities for our citizens.

It's about helping people.



ATTRACT

Recruit out-of-state and international companies to establish operations in Arizona



EXPAND

Work with existing Arizona companies to grow their businesses here and beyond



CREATE

Partner with entrepreneurs to create new Arizona businesses in targeted industries

STRATEGIC FRAMEWORK

VISION

Arizona is the top location for high-quality business growth.

MISSION

To grow and strengthen Arizona's economy and facilitate the creation of quality jobs for its citizens by supporting and attracting businesses in targeted, high-value base sectors throughout the state.

1

Attract businesses to Arizona.

2

Grow Arizona businesses.

3

Create new Arizona businesses.

STRATEGIES

Monitor & Strengthen Competitiveness

Increase Awareness

Lead Economic Development Efforts

Target High-Value Industries

Accelerate Advanced Manufacturing

Cultivate Entrepreneurial Ecosystem

Expand International Trade

Create Workforce of the Future

Encourage Infrastructure

Enhance Rural Economic Growth

CULTURE

Transparency • Accountability • ROI • Leadership • Engagement • Long-Term Vision • Short-Term Action • Collaboration



OPPORTUNITY ZONES & FUNDS

ACA'S ROLE

1

IDENTIFY

SOLICIT LOCAL INPUT,
FINALIZE TRACT LIST,
SUBMIT NOMINATIONS.

2

COMMUNICATE

SHARE INFORMATION WITH
STAKEHOLDERS AROUND
ARIZONA.

3

CONNECT

BRING INVESTORS, ECONOMIC
DEVELOPERS AND COMMUNITY
LEADERS TOGETHER TO
MAXIMIZE OZ/OF IMPACT.

4

MEASURE

IDENTIFY OPPORTUNITY ZONE
PROJECTS AND FUNDS,
SHARE DATA & SUCCESSES.

EARLY 2018: IDENTIFYING OPPORTUNITY ZONES

1,526

TOTAL ARIZONA
CENSUS TRACTS

671

ARIZONA CENSUS TRACTS
MEET CRITERIA*

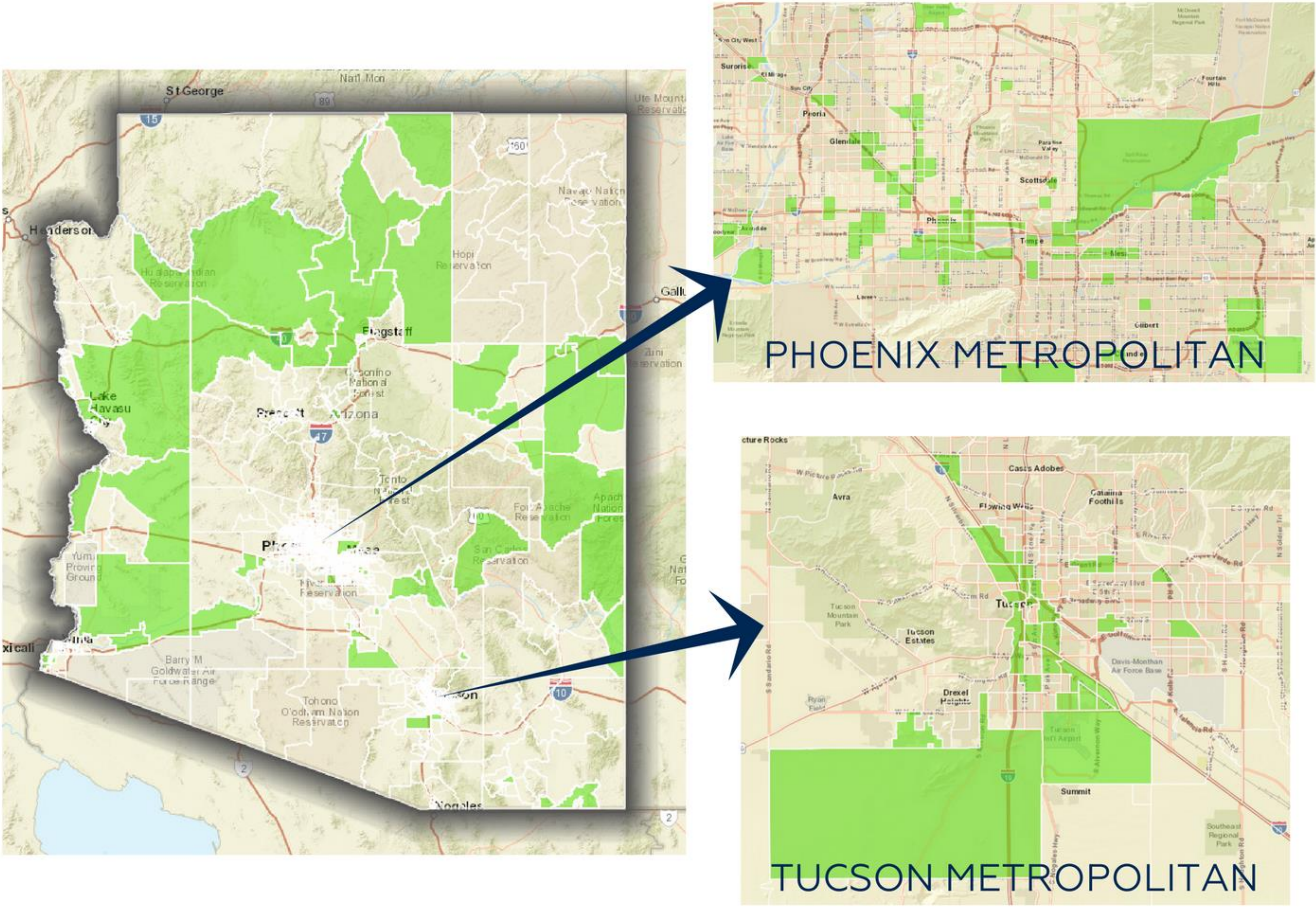
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CENSUS TRACTS
NOMINATED & APPROVED

REMARKABLE DEVELOPMENT OPPORTUNITIES ACROSS ARIZONA

**CRITERIA BASED ON THE 2011-2015 AMERICAN COMMUNITY SURVEY DATA*

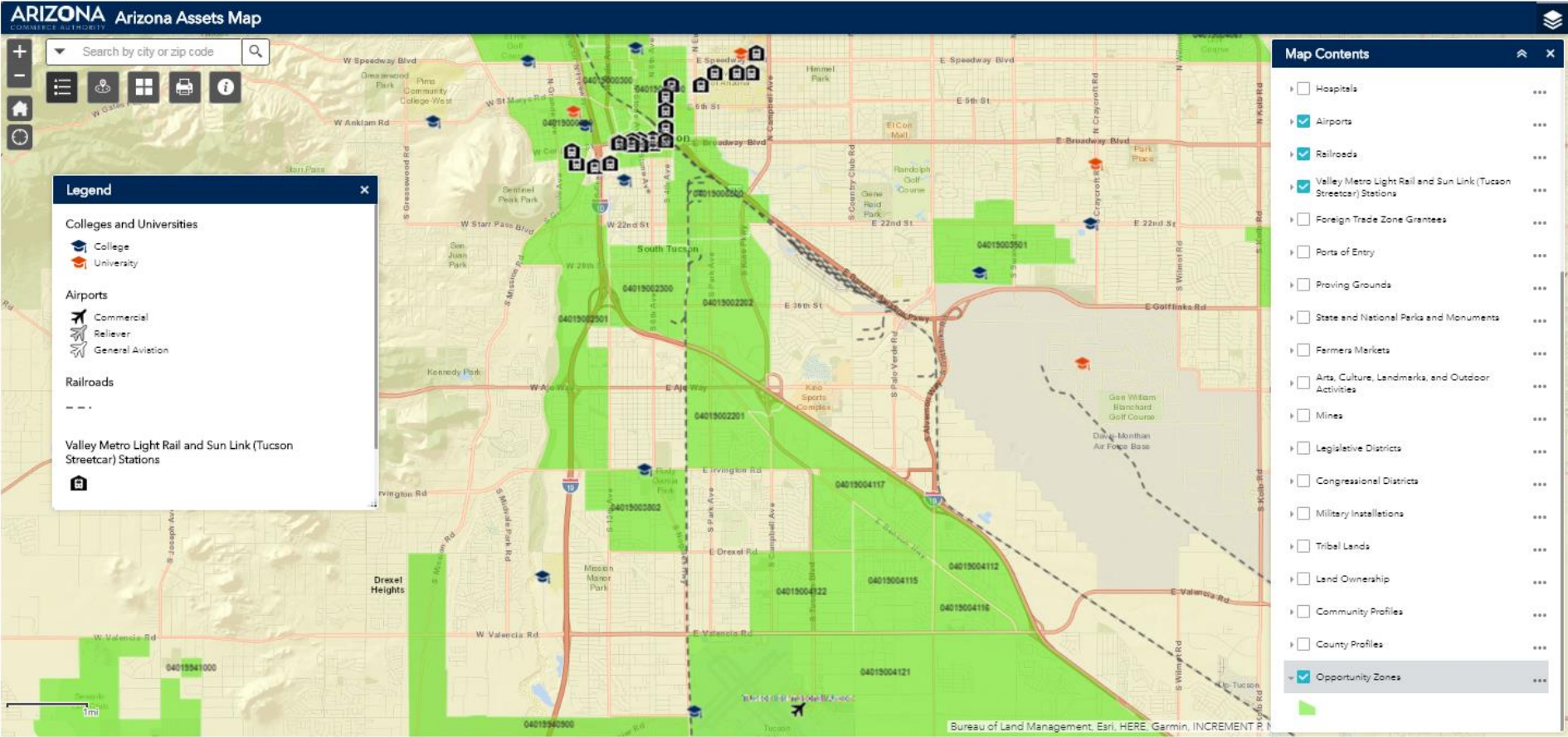
ARIZONA'S OPPORTUNITY ZONES



[View Arizona's Opportunity Zones.](#)



ARIZONA ASSETS MAP



[View the Arizona Assets Map.](#)



FEDERAL TAX BENEFITS

1

DEFERRAL

REALIZE A CAPITAL GAIN,
REINVEST IT IN AN OPPORTUNITY
FUND. TAXATION ON THAT GAIN
DEFERRED UNTIL 2026.

2

10% REDUCTION

IF OPPORTUNITY FUND INVESTMENT
HELD FOR 5 YEARS BY 12/31/26, TAX
ON PREVIOUS DEFERRED GAIN
REDUCED 10 PERCENT.

3

15% REDUCTION

IF OPPORTUNITY FUND
INVESTMENT HELD FOR 7 YEARS,
BY 12/31/2026, TAX ON PREVIOUS
DEFERRED GAIN REDUCED 15
PERCENT.

4

ELMINATION

IF OPPORTUNITY FUND
INVESTMENT IS HELD FOR 10+
YEARS, NO CAPITAL GAINS TAX
ASSESSED ON THAT (SECOND)
INVESTMENT.

OZ INVESTMENTS: 3 OPTIONS

Opportunity Funds may invest in a qualified Opportunity Zone business by purchasing:



STOCK



**PARTNERSHIP
INTEREST**



**BUSINESS
PROPERTY**

Purchases must be made for cash. Business cannot be a country club, massage parlor, hot tub facility, sun tan facility, liquor store, racetrack or “other facility used for gambling.”

TREASURY'S ROLE

By statute, the U.S. Department of the Treasury is responsible for establishing rules to:

CERTIFY
OPPORTUNITY
FUNDS

PROVIDE "A
REASONABLE
PERIOD OF TIME"
TO REINVEST
RETURNED
CAPITAL

PREVENT
ABUSE



TREASURY GUIDANCE

- On Oct. 19, the U.S. Department of the Treasury issued proposed regulations and a revenue ruling for Opportunity Funds. This answered some, but not all of the key questions investors, fund sponsors, land owners and others were voicing.
- The guidance is proposed. Treasury is accepting comments on the guidance and will hold a hearing in January about it. Investors and others may, in good faith, rely on it now.



TREASURY GUIDANCE, DETAILS

Here is some of what the guidance does:

- Clarifies that only capital gains qualify for tax benefits if invested in Opportunity Funds.
- Notes that taxpayers should use Form 8949 to let IRS know they plan to defer tax payment on capital gains invested in Opportunity Funds.
- Releases draft Form 8996 to set up Opportunity Funds and submit annual reporting



TREASURY GUIDANCE, CONTINUED

- Establishes a “working capital safe harbor” (exempt from the requirement that 90 percent of a fund’s capital be deployed within 6 months) for capital that’ll be used in 31 months.
Funds need:
 - A written plan for developing the property
 - A written development schedule
 - Adherence to the plan and schedule
- Defines what it means for an Opportunity Zone business to have “substantially all” its tangible property in an Opportunity Zone as 70 percent



TREASURY GUIDANCE, CONTINUED

- Clarifies the requirement that an Opportunity Fund spend more on improving a property than it spent acquiring it uses as its baseline the cost of the buildings on the property, not the total cost of acquisition—so only the value of the buildings has to be accounted for in planning rehabilitation.
- Specifies that to determine the value of an asset an Opportunity Fund should use the value on its financial statement. If it does not have a financial statement, it should use the cost to the Fund to acquire the asset.



TREASURY GUIDANCE SUMMARY

Altogether, the guidance should:

- Provide investors and fund sponsors with the paperwork and details they need to get going
- Make multi-year projects feasible
- Make rehabilitation projects more desirable
- Make investing in businesses that are largely, but not wholly, in Opportunity Zones feasible



FUTURE TREASURY GUIDANCE

Topics that future guidance will need to address:

- The meaning of “substantially all” in several places
- “Transactions that may trigger the inclusion of gain that has been deferred”
- The “reasonable period” to reinvest proceeds from a sale without penalty
- Administrative rules regarding what happens when a fund fails the 90 percent assets test
- Reporting requirements



WHERE WE GO FROM HERE



CONTINUED ACA SUPPORT



TREASURY
GUIDANCE



SUPPORT &
ASSISTANCE



DATA
COLLECTION

SUPPORT & ASSISTANCE



ACA will support efforts to develop Opportunity Funds and Opportunity Zone projects with our partners across the state.

ACA also will continue to build expertise regarding Opportunity Zones and Funds to better assist our state's businesses, land owners, developers, investors, philanthropists and communities.

ACA PROGRAMS

Arizona has lowered taxes, streamlined regulations and established a suite of programs to support corporate growth and expansion.



QUALITY JOBS TAX CREDIT

Provides up to \$9,000 of income or premium tax credits over a three-year period for each net new job to the state and concurrent qualifying capital expenditures.



QUALIFIED FACILITY TAX CREDIT

Provides refundable income tax credits up to \$20,000 per qualifying net-new job to eligible manufacturing companies that invest in one or more qualifying facilities.



RESEARCH & DEVELOPMENT TAX CREDIT

Provides income tax credits for increased R&D activities conducted in the state. Additional tax credits are available for R&D executed in collaboration with state universities.



MILITARY REUSE ZONE

Provide property tax reductions and TPT exemptions to qualifying projects located in MRZ.



COMMERCIAL/INDUSTRIAL SOLAR

Provides income tax credits for the installation of solar energy devices at Arizona business facilities.



JOB TRAINING GRANT

Grant to reimburse a portion of qualifying costs associated with hiring and training of net new employees.



FOREIGN TRADE ZONE

Provides approximately a 72 percent reduction in property taxes for a property located in a foreign trade zone.



EXEMPTION FOR MACHINERY AND EQUIPMENT

Provides TPT Tax and Use Tax exemptions at the state, county and local levels on qualifying purchases of CDC equipment.



ADDITIONAL DEPRECIATION

Accelerates depreciation to substantially reduce business personal property taxes.

DATA COLLECTION



ACA will collect data about projects and Funds, analyze it and share it so we all benefit from a fuller understanding of how Opportunity Zones and Funds are working in Arizona.

We will need your help to make this work. We look forward to collaborating with you as we make Arizona a leader in maximizing the impact of Opportunity Zones and Funds.

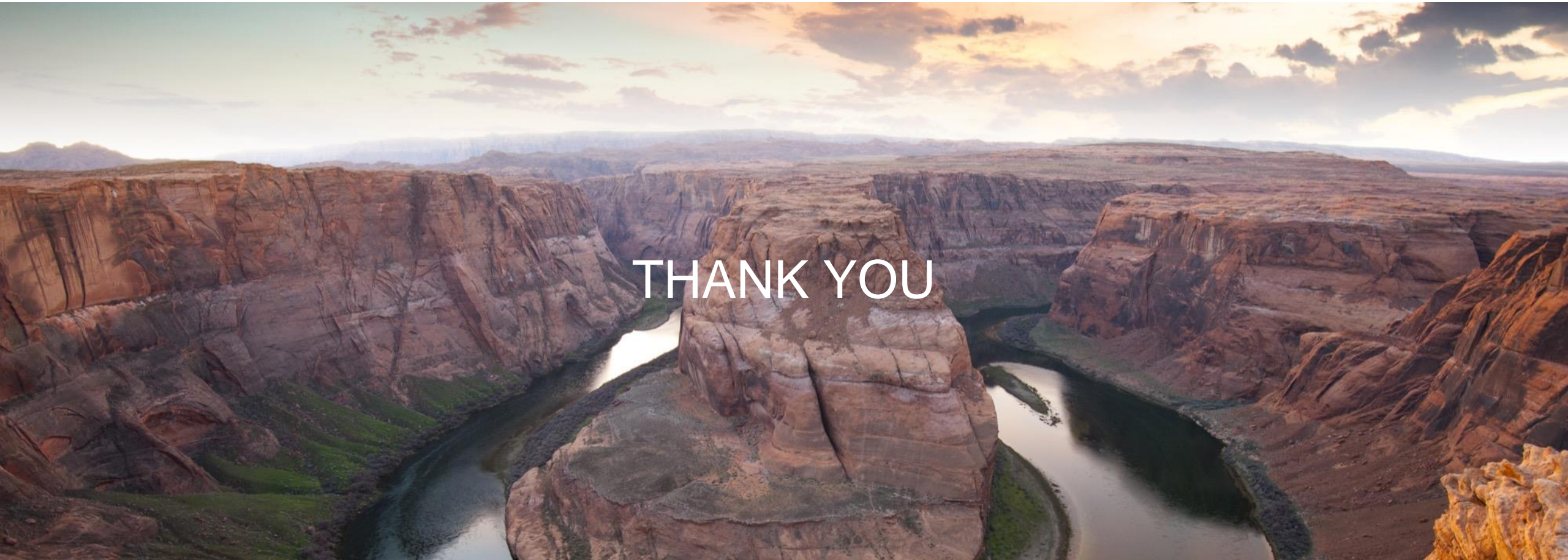
WE'RE HERE TO HELP!



ADDITIONAL QUESTIONS?

Shawn Neidorf, Ph.D
Senior Vice President, Research
ShawnN@AZcommerce.com

VISIT:
AZCOMMERCE.COM/ARIZONA-OPPORTUNITY-ZONES



THANK YOU

