



U.S. Small Business
Administration

The SBA works to ignite change and spark action so small businesses can confidently



START • GROW • EXPAND • RECOVER

SBA Nationwide

Increase confidence and business smarts with free or low-cost mentoring, counseling, and training offered through a [local SBA District Office](#), resources on [SBA.gov](#) and [SBA's network of Resource Partners](#), including:

- [SCORE](#)
- [Small Business Development Centers \(SBDCs\)](#)
- [Women's Business Centers \(WBCs\)](#)
- [Veterans Business Outreach Centers \(VBOCs\)](#)

What Are Opportunity Zones?

- Opportunity Zones were passed in the 2017 Tax Cuts and Jobs Act to promote long term investment and jobs to low-income communities utilizing an estimated **\$6.1 trillion in unrealized capital gains**
- The Tax Law allows investors to take capital gains and defer payment of those taxes by investing the gains back into an OZ Fund. Can invest through 2026 but can sell for **no capital gains after holding for 10 years.** (more later)
- State Governors were tasked with designating up to 25% of their qualified tracks or a total of 8,766 census tracks to be Opportunity Zones, which was completed in every state and 3 territories. Includes 1400 Universities and 200 Military bases.

What Are Opportunity Zones?

- Created in the Tax Cuts and Jobs Act of 2017, an Opportunity Zone is an economically-distressed community where new private investments, under certain conditions, may be eligible for preferential tax treatment
- It's a location-based program based on Low Income Community census tracts
 - Poverty rate \geq or equal 20% or;
 - Median family income does not exceed 80% of statewide family income if located outside of metropolitan area or;
 - Tracts in which median family income does not exceed 80% of statewide median family income or metropolitan area median family income, whichever is higher.
- Individual states could nominate up to 25% of eligible census tracts. Tracts were certified in 2018.
- Designations are valid for ten years
- Administered by the Community Development Financial Institutions Fund of the Department of Treasury

Opportunity Zone Program – How it works

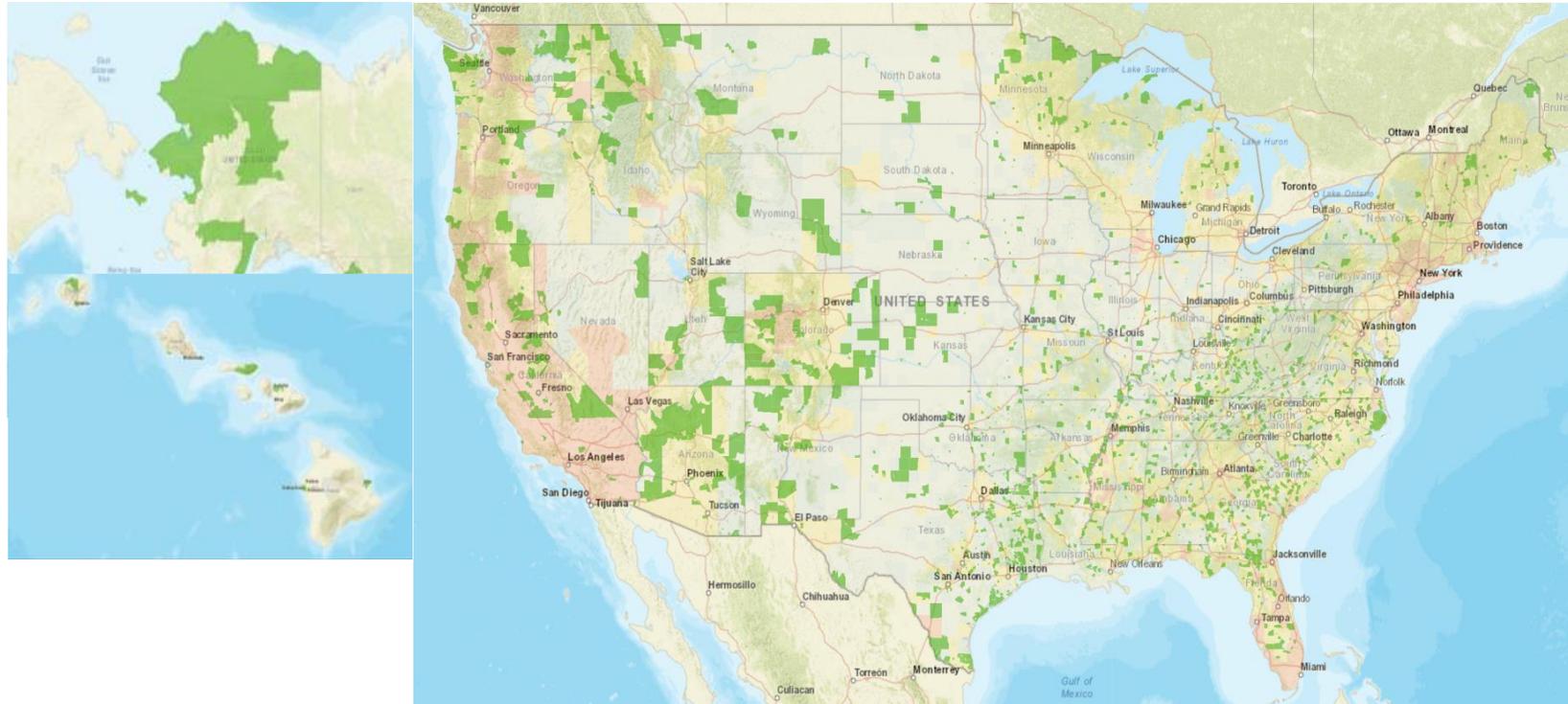
- Investors must create a qualified Opportunity Fund – which is a privately-managed investment fund
 - Treasury must certify Opportunity Funds
 - Fund must invest at least 90% of capital in Qualified Opportunity Zones
- Defer, Reduce, and Eliminate - three incentives for private investors:
 - Temporary tax deferral for capital gains reinvested in an Opportunity Fund
 - “step-in basis” for capital gains reinvested in an Opportunity Fund. The original tax basis of the investment is increased by 10% if held five years and an additional 5% if held at least 7 years
 - Permanent exclusion from taxable income on capital gains from sale or exchange if the investment is held at least 10 years
- Investors can defer tax on any prior gains until no later than December 31, 2026

Important Quality of Opportunity Zones

A key differentiator of the Opportunity Zone program is that it is being driven by state and local governments, rather than being a “top-down” federal program. This approach ensures that issues unique to each community are identified and addressed directly by local leaders for their individual regions.

Where are Opportunity Zones?

More than 8,766 Opportunity Zones in 50 States and 3 Territories



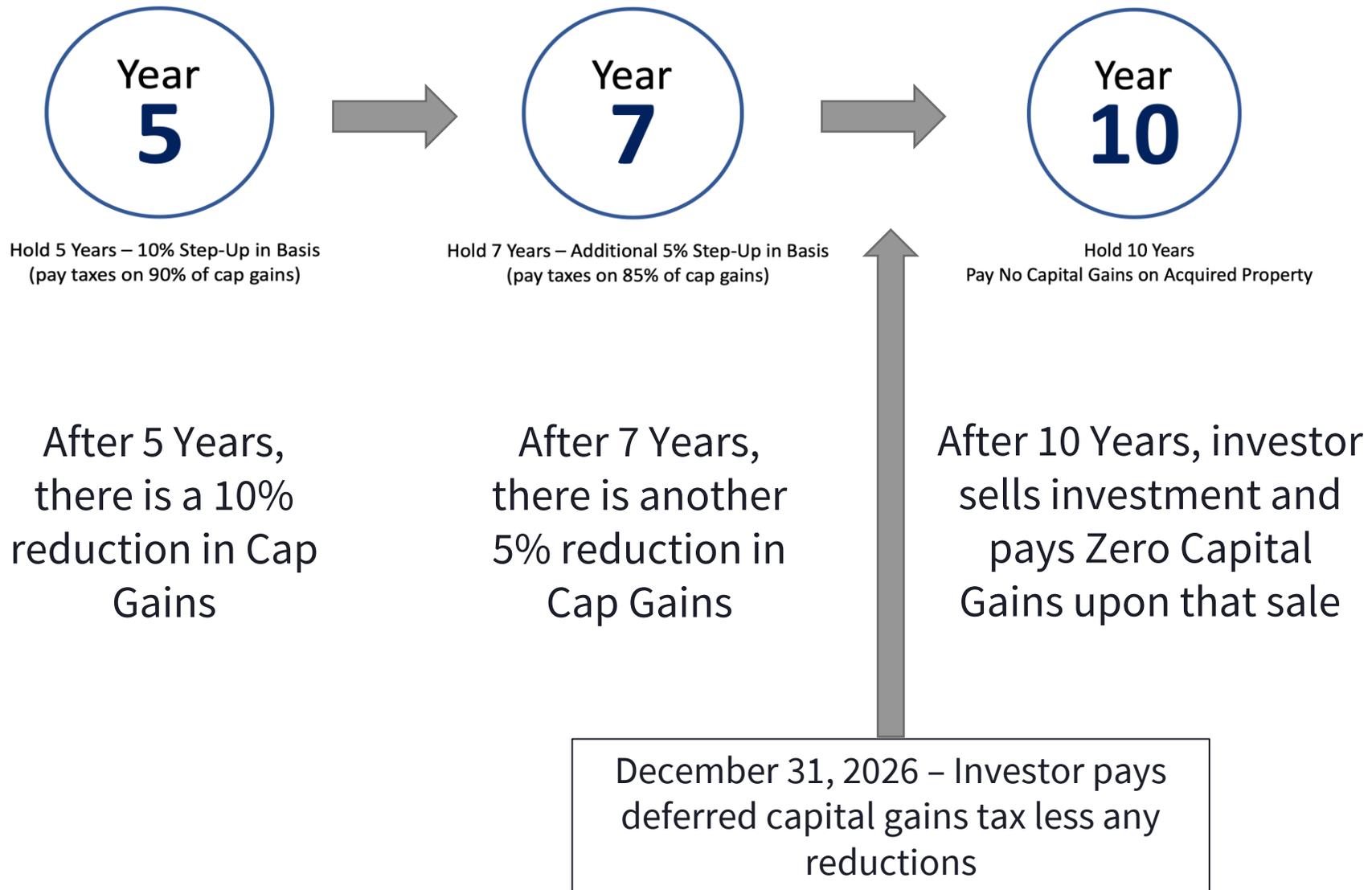
- **Approximately 6,300 or 72% of Opportunities Zones are also designated as a HUBZone.**



How do Opportunity Zones save Taxes?

1. Deferral from paying Capital Gains until **2026** if invested in Qualified Opportunity Fund (QOF)
2. Partial Forgiveness of Gains through a step-up in Basis in year 5 (10%) and year 7 (5%)
3. Total Forgiveness of Additional Gains if held for 10 years or more and up to 29 years to hold investment!

Tax Timing Recap



What are Qualified Investments in OZ's?

Qualified Opportunity Zone Businesses must:

- ✓ Have substantially all (70%) of its business owned or *leased* in OZ
 - Potential boon for high tech or any type of start-up
- ✓ Or at least 50% of income derived from Active conduct of business
- ✓ Or at least 50% of employees live in zone or 70% are paid for work done in OZ (flexible – “landscaper rule”)
- ✓ For Property, must substantially improve basis (must double in 30 months)
- ✓ Some businesses are restricted – gambling, off premise alcohol, etc.

Other Ideas for Small Businesses

- Expand existing business model in other OZ's – perhaps creating separate entity for new investors
- Build needed business assets like warehouses/stores/employee housing with new investors and do a lease buy-back arrangement
- Become franchisee business in OZ's that other investors may not have management skillsets, language, etc.
- Get suppliers to locate closer to your business in OZ's for cheaper transportation and other cost reductions
- If in OZ, pitch new investors that you may not usually approach – insurance companies, pharmaceuticals, major corporations

SBA Support in Opportunity Zones

504 Loan Program

- Long-term, fixed-rate financing
Fixed assets (e.g., real estate, buildings, machinery)

For businesses located in Opportunity Zones:

- Job creation or retention requirements: more relaxed
Incentivize lending by Certified Development Companies (CDCs) and Third-Party Lenders in these areas
- Requirement is to **create or preserve one job for every \$85,000 guaranteed by SBA**
As compared to \$75,000 per job created/preserved for most other businesses

SBA Support in Opportunity Zones

Community Advantage Loan Pilot Program

- Expands small business access to capital in underserved markets
- Allows mission-focused, community-based lenders to make 7(a) loans to small business with an SBA guarantee of 85% for loans of \$150,000 or less and 75% for loans greater than \$150,000 and less than \$250,000

For businesses located in Opportunity Zones:

- SBA expanded Pilot Program definition of “underserved markets” to include Opportunity Zones
- Community Advantage lenders are **required to make at least 60%** of their loans in underserved markets

SBA Support in Opportunity Zones

HUBZone Government Contracting Opportunities

- Historically Underutilized business zones ([HUBZone](#)) program promotes job growth, capital investment, and economic development to qualified & certified businesses
- Once certified, HUBZone-certified businesses compete for set-aside contracts
- **Goal:** 3% of all government contracts awarded to HUBZone-certified businesses

**Approximately 73% of existing Opportunity Zones
are also designated as HUBZones**

New Opportunity Zones Website

OpportunityZones.gov

- Hub of information for all interested in Opportunity Zone initiative
- Up-to-date information about latest actions of White House Opportunity and Revitalization Council

Website includes:

- Interactive map of more than 8,700 Opportunity Zones nationwide
- Links to Opportunity Zone-focused websites for each state/territory
- Comprehensive Federal tools and resources that support Opportunity Zone residents and complement Qualified Opportunity Fund investments
- Completed action items of each White House Opportunity and Revitalization Council member agency

State and Local Efforts

A roadmap to planning for economic development within Opportunity Zones

Opportunity Zones Toolkit

- Developed by members of the White House Opportunity and Revitalization Council
- Initial volume provides roadmap to help communities plan for potential investments in Opportunity Zones, ensuring plans:
 - Consider local needs & preferences
 - Align community assets
 - Establish regulatory tools and financing incentives

Goal: Support investments and form partnerships toward equitable and inclusive community development

Investors/Opportunity Zone Funds

Qualified Opportunity Funds (QOF)

- Investors create **Qualified Opportunity Funds (QOF)**
 - Flexibility to invest (directly or indirectly) in equipment, buildings, property, and businesses
 - [NCHSA Fund Directory](#) contains list of known funds
 - Information on fund size, investment focus, geographic focus, contact information

Explore the list and make contact

What Can You Do?

Get involved!

- Educate yourself on what your state, local, and tribal governments are doing around Opportunity Zones
Some states and communities are more active than others
- Involve your District Office with state and local government efforts regarding community Opportunity Zone initiatives
- Search for Opportunity Zone activity in your community or state to learn more about opportunities near you

Resources

- Opportunity Zone Fund Directory

<https://www.ncsha.org/resource/opportunity-zone-fund-directory/>

- Opportunity Fund Map (must allow adobe flash player):

www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml

- Community Development Financial Institutions Fund

www.cdfifund.gov



U.S. Small Business
Administration