



The Puerto Rico Chamber of Commerce
and the Puerto Rico Builders Association
present



PUERTO RICO
BUILDERS
ASSOCIATION

Opportunity Zones

What are they, how do they work and
what are the opportunities?

US Federal Tax Rules
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Opportunity Zones

What is an Opportunity Zone?

- an economically-distressed community where new investment, under certain conditions, may be eligible for preferential tax treatment
- a locality qualify as Opportunity Zones if it has been certified as such by the Secretary of the US Treasury via his delegation authority to the Internal Revenue Service
- Qualified Opportunity Zone designation remains in effect for 10 years

Opportunity Zones



What are the incentives*?



A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized the earlier of the date on which the opportunity investment is disposed of or December 31, 2026.



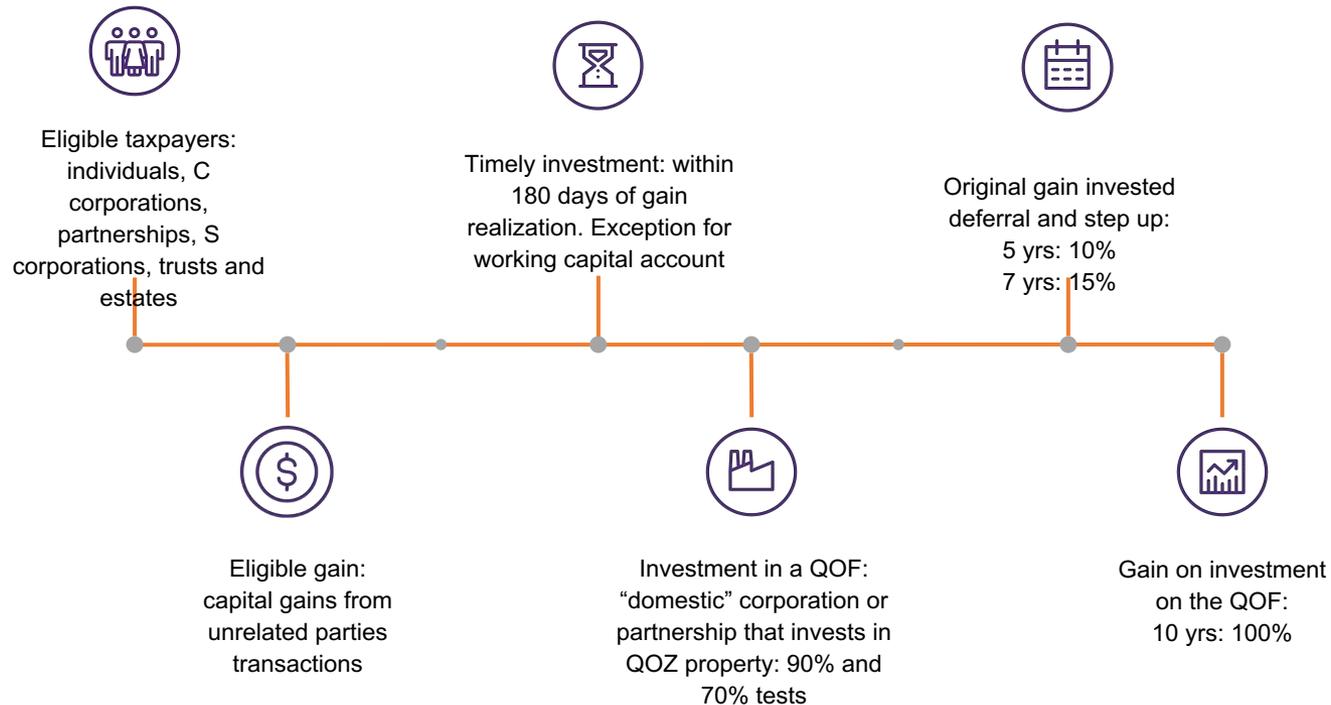
A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment is held for at least 5 years and by 15% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.



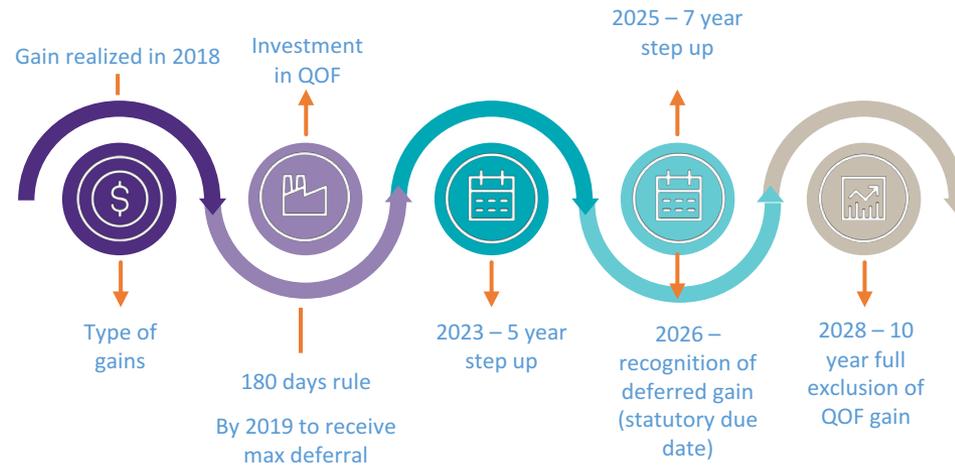
A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Zone if held for at least 10 years. This exclusion applies only to the gains accrued after the investment in an Opportunity Zone.

*Enacted as part of the 2017 Tax Cuts and Jobs Act

Basic principles



How does it work?



Opportunity Zones

Working capital safe harbor

- the QOF may place funds in a working capital account for as long as 31 months if:
 - there is a written plan identifying purpose of the account for the acquisition, construction or improvement of QOZ tangible property,
 - there is a written schedule consistent with ordinary start-up of business operations that shows funds will be used within 31-month period, and
 - QOF substantially complies with the schedule

Opportunity Zones

Working capital safe harbor (cont.)

- working capital account means cash, cash equivalents and debt instruments with 18 month or shorter maturity
- income generated by the working capital account will be treated as qualifying active trade or business income

Opportunity Zones

Original use and substantial improvement

- QOF rules require that either (i) the original use of the QOZ property begins with the QOF or (ii) the QOF substantially improves property within 30 months by making capital improvements that exceed the cost of the property

regulations reserve definition of original use – it is unclear whether QOF can purchase newly constructed building that is not yet in service; what if property was abandoned?

substantial improvement rules are taxpayer friendly

substantial improvement is measured by cost of building, not including land



Thank you

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