Qualified Opportunity Zones 101

URBAN CATALYST FUNDS

What is a Qualified Opportunity Zone (QOZ)?

The Opportunity Zone Program was passed into law as part of the 2017 Tax Cuts and Jobs Acts. Over 8,700 federally designated Opportunity Zone tracts were created across the U.S.

The Opportunity Zone program was created to revitalize economically distressed communities using private investments rather than taxpayer dollars. In return, investors participating in the opportunity zones may receive potentially significant tax benefits subject to the satisfaction of certain conditions set forth by the IRS.

What are the potential tax benefits of Qualified Opportunity Zones?

A qualified individual who invests in a qualified opportunity zone is eligible for favorable tax treatment in the form of both deferral of capital gains and tax-free profits.

Deferral

Tax liability on captal gains invested in QOZ is deferred until December 31, 2026. Payable in 2027.

Potential Tax Free Profits

If you hold your investment in the Opportunity Zone for 10 years, you won't owe any federal taxes on any profits earned on your investment.

Who may be best suited for Qualified Opportunity Zone Fund investments?

Qualified Opportunity Zones may be best utilized for clients who have experienced significant capital appreciation within the 180-day deadline window. QOZ could be best suited for investors with a long-term horizon since the IRS requires investors to be invested for a minimum of 10 years to receive the tax benefits of an opportunity zone.

Opportunity Zones are highly illiquid in nature and should be considered only by investors who do not need access to the funds in the near term and fully understand the risks of illiquid investments. Due to the risks associated with opportunity zone investments most opportunity zone funds are structured for a minimum qualification of accredited investors.

What are typical capital gains events?

Any type of long or short term capital gain can qualify for an opportunity zone so long as the investment is made within the 180-day deadline. Below are common types of capital gains:

- Sale of Stock
- Sale of Business
- Sale of Real Estate
- Sale of Crypto
- Sale of Collectibles
- Sale of Primary Residence
- Gains from an S-Corp or Partnership

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Real Estate Risk Disclosure:

There is no guarantee that any strategy will be successful or achieve investment objectives including, among other things, profits, distributions, tax benefits, exit strategy, etc.;

- Potential for property value loss – All real estate investments have the potential to lose value during the life of the investments;
- Change of tax status – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;
- Potential for foreclosure – All financed real estate investments have potential for foreclosure;
- Illiquidity – These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these nvestments.
- Reduction or Elimination of Monthly Cash Flow Distributions – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cashflow distributions;
- Impact of fees/expenses – Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits
- Stated tax benefits – Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.

Opportunity Zone Disclosures

- Investing in Opportunity Zones is speculative. Opportunity Zones are newly formed entities with no operating history. There is no assurance of investment return, property appreciation, or profits. The ability to resell the fund's underlying investment properties or businesses is not guaranteed. Investing in Opportunity Zone Funds may involve a higher level of risk than investing in other established real estate offerings.
- Long-term investment. Opportunity Zone Funds have illiquid underlying investments that may not be easy to sell and the return of capital and realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition or refinancing of such investments.
- Limited secondary market for redemption. Although secondary markets may provide a liquidity option in limited circumstances, the amount you will receive typically is discounted to current valuations.
- Difficult valuation assessment. The portfolio holdings in Opportunity Zone Funds may be difficult to value because financial markets or exchanges do not usually quote or trade the holdings. As such, market prices for most of a fund's holdings will not be readily available.
- Capital call default consequences. Meeting capital calls to provide managers with the pledged capital is a contractual obligation of each investor. Failure to meet this requirement in a timely manner could elicit significant adverse consequences, including, without limitation, the forfeiture of your interest in the fund.
- Opportunity Zone Funds may use leverage in connection with certain investments or participate in investments with highly leveraged capital structures. Leverage involves a high degree of financial risk and may increase the exposure of such investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the assets underlying such investments.
- Unregistered investment. As with other unregistered investments, the regulatory protections of the Investment Company Act of 1940 are not available with unregistered securities.
- It is possible, due to tax, regulatory, or investment decisions, that a fund, or its investors, are unable to realize any tax benefits. You should evaluate the merits of the underlying investment and not solely invest in an Opportunity Zone Fund for any potential tax advantage.
- The above material cannot be altered, revised, and/or modified without the express written consent of Urban Catalyst.