WARNER & ASSOCIATES PLLC Presentation For Clients

- QUALIFIED OPPORTUNITY ZONE FUND
- FORM 8996
- PROPOSED TIMELINE

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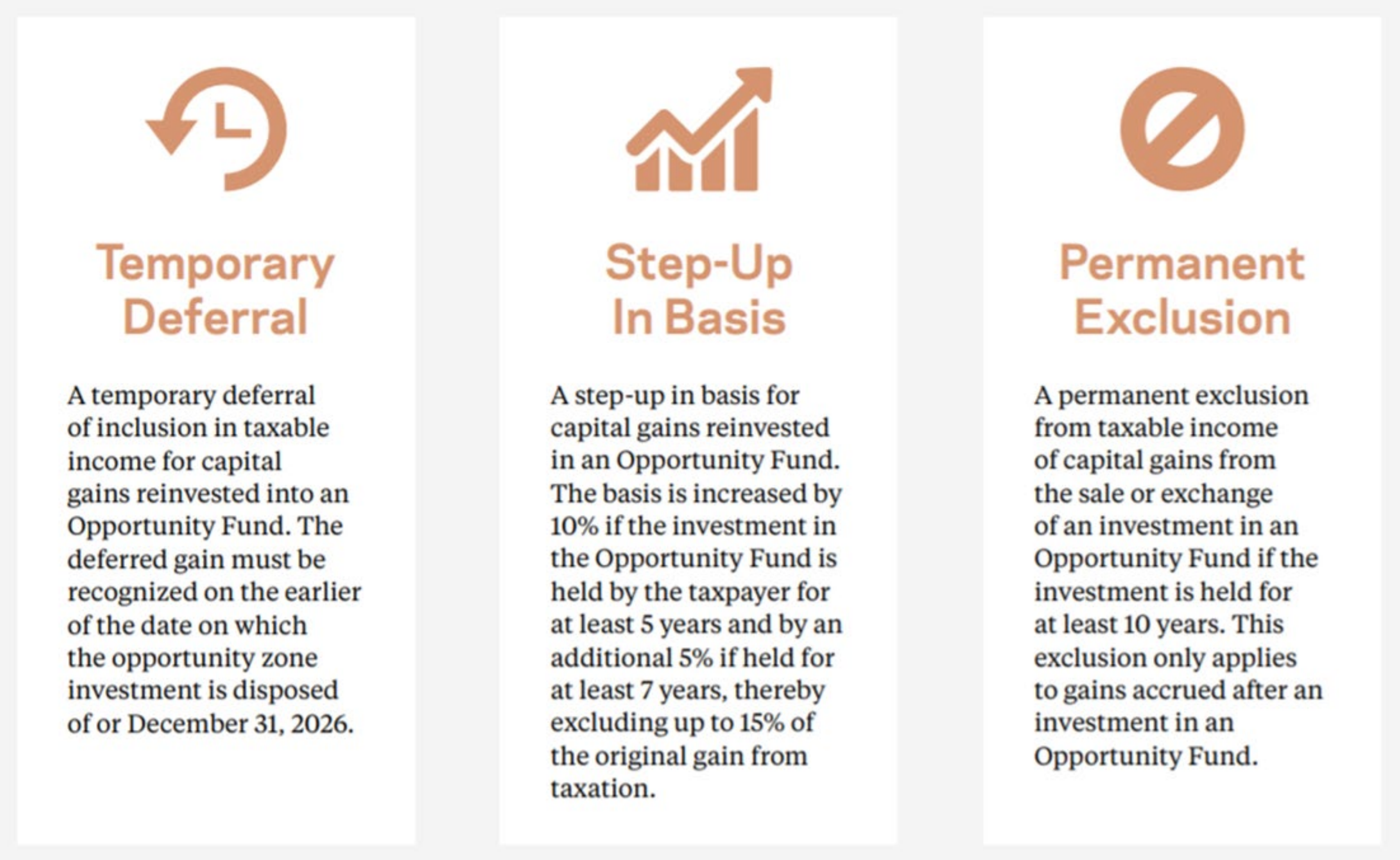
BACKGROUND & PURPOSE OF OPPORTUNITY ZONES

- Established by the 2017 Tax Cuts and Jobs Act

- Opportunity Zone tax program (Sections 1400Z-1 and 1400Z-2 of the Internal Revenue Code) was established as an innovative approach to spur long-term investments in low-income urban and rural communities nationwide (labeled as opportunity zones) through qualified opportunity funds.

- Investments may be made in three categories of assets:
  - Business Property
  - Corporate Stock
  - Partnership Interest

OPPORTUNITY ZONE TAX INCENTIVE



Source: Economic Innovation Group

OPPORTUNITY ZONE PROJECT

Opportunity Zone Funds

- Redirect capital gains toward economic development
- $2.3 trillion in capital gains
- Investor benefits
  - Deferred tax on invested gains
  - Tax abatement on invested gains
    - 5-7 yrs = 10%
    - 7-10 yrs = 15%
  - Tax abatement on generated gains
    - 10 yrs = 100% abatement
- Qualified Opportunity Funds (QOFs) direct investment

Opportunity Zone Investments

- Real Estate
  - New construction; or
  - Substantially improve existing
    - 30 month test
- Stock, partnership interests or business property in QZ business
  - Assets must be new and located in QZ
  - Equity must be newly issued
- Loans not eligible

Qualified Opportunity Fund

- All Opportunity Zone Investments must be made in a Qualified Opportunity Fund (QOF) in order to receive investors benefits
- QOFs are certified with US Treasury Department
- QOFs must hold 90% of their assets in Qualified Opportunity Zone Property (“QOZP”)(i.e. qualified assets within an Opportunity Zone)
- Property includes, newly issued stock (or partnership or LLC interests) in a qualified business
- Investments by a QOF are limited to equity investments in businesses; real estate; and business assets: in each case located with an Opportunity Zone.

FORMATION OF QOF

- **Structure**:
  - Corporation or a Partnership (also LLC treated as a C Corp or partnership will work)
- **Purpose**:
  - Organized for the purpose of investing in Qualified Opportunity Zone Property.
- **Filings**: Entity files Form 8996 with IRS to certify as a QOF
  - Files Form 8996 with your tax return (initially to register and annually to report that QOF meets the Investment standards) (Penalty if QOF fails to meet standard)
  - Annual report filed with Entity's Tax Return each year
  - Initial certifying date (first date certifying as a QOF) is either (i) date of formation, (ii) date entity choose to be a QOF or (iii) date entity first receives qualifying investments.
- **Investment Standard**:
  - QOFs must hold 90% of their assets in Qualified Opportunity Zone Property
  - Determined by average of % of QOZP held by QOF (A) on last day of the first 6 month period of the tax year and (B) on the last day of the tax year.
  - Certification is self reporting

ANNUAL REPORTING

- **90% Test (90% of assets in Qualified Opportunity Zone Property)**:
  - Determined by the average of the % of QOZP held by the QOF as measured on the last day of 6th month and 12th month of tax year
  - If you prepare a financial statement for another agency or if it is audited, use the financial statement to determine value of the assets
    - You can exclude reasonable amount of WC from value calculation (see detailed rules)
  - If NOT, then use QOF's cost basis of assets on the date of acquisition.
  - Compare Entity value to value of QOZP
- Penalties for not meeting Asset Test (assessed for each failed month)

TIMELINE

- **Week 1-2**
  - Determine Name
  - Determine Type of entity
  - Disclose owners & ownership
  - Select registered Agent
  - File Certificate of Formation for Entity

- **Week 3-4**
  - Prepare Organizational Documents
  - Obtain EIN number
  - Select CPA for books and records; and investment tracking
  - Register Entity with SEC as QOF

- **Six Month End Reporting - IRS**
  - Calculate 90% Asset Test

- **Year End Reporting - IRS**
  - Prepare and file Tax Return
  - Prepare and file Form 8996

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- **Formation and PPM Costs**:
  - Limited Partnership $1,500 plus filing fee
  - Limited Liability Company $1,500 plus filing fee
  - Corporation $1,500 plus filing fee
  - Registered Agent Fee $ 600 annually
  - Investment Agreement $2,500 form agreement
  - Private Placement $10,000 plus filing and blue sky fees