TRUSTworthy

Russell Bedford
taking you further

FPV & GALINDEZ LLC

Opportunity Zones Example

ASOCIACIÓN DE CONSTRUCTORES DE PUERTO RICO

CAMARA DE COMERCIO DE PUERTO RICO

FPV & GALINDEZ LLC

Relevo y Advertencias legales

- Esta presentación es para propósitos educativos exclusivamente y no tiene como fin, ni debe considerarse, como una consulta contributiva, legal o de contabilidad.

- Cualquier consejo que esta presentación contenga no ha sido considerado o escrito para ser usado, y no puede usarse, con el propósito de evadir penalidades que puedan imponerse al amparo del Código de Rentas Internas o de cualquier disposición contributiva local, estatal o federal.

TRUSTworthy

Russell Bedford
taking you further

Speaker

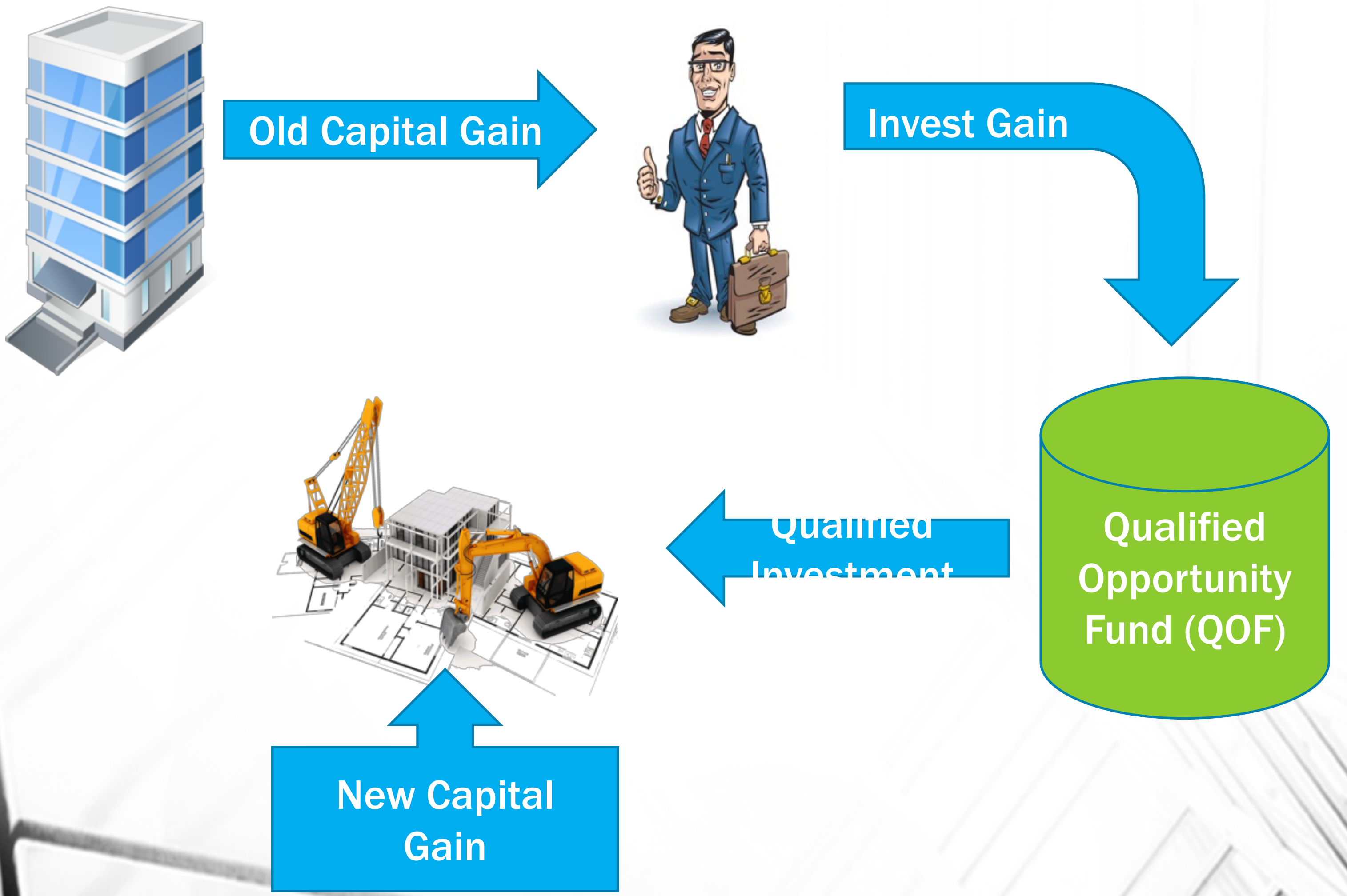
- **Kenneth Rivera-Robles, CPA, Esq., CVA, CGMA, CM&AA**
  Partner – Tax Services
  FPV & Galíndez, LLC
  Tel. (787) 725-4545
  Email. kenneth@fpvgalindez.com

TRUSTworthy
Russell Bedford
taking you further

Examples

Opportunity Zones

- Added to the tax code by the Tax Cuts and Jobs Act (TCJA) on December 22, 2017
- Defined as economically-distressed communities
  - New investments may be eligible for preferential tax treatment
- Designed to encourage economic development and job creation
  - Provides tax benefits to investors
    - Deferral of tax on prior gains reinvested in a Qualified Opportunity Fund (QOF)



Old Capital Gain
Invest Gain
Qualified Opportunity Fund (QOF)
Qualified Investment
New Capital Gain

FPV & GALINDEZ LLC

Example – "Old Capital Gains"

Transaction Summary	
11,000,000	Selling Price
(1,000,000)	Investment
10,000,000	Capital Gain

- A taxpayer held a $1,000,000 long-term investment and decided to sell it for $11,000,000. Therefore, the transaction results in a $10,000,000 capital gain to the taxpayer.

TRUSTworthy
Russell Bedford
taking you further

Normal Tax Computation – Old Capital Gains

Traditional Investment	
11,000,000	Selling Price
(1,000,000)	Investment
10,000,000	Capital Gain
24%	Capital Gain Tax Rate
2,400,000	Tax Due

- A taxpayer held a **$1,000,000 long-term investment** and decided to **sell it for $11,000,000**. Therefore, the transaction results in a **$10,000,000 capital gain** to the taxpayer.

- Assuming the maximum tax rate, the **tax due** for this transaction is **$2,400,000**.

Example – "New Capital Gains"

Transaction Summary	
15,000,000	Selling Price
(10,000,000)	Old Capital Gain Reinvested
5,000,000	New Capital Gain

- The taxpayer sold the reinvested $10,000,000 old capital gain for $15,000,000. This transaction results in a $5,000,000 new capital gain to the taxpayer.

Normal Tax Computation – New Capital Gains

Traditional Investment	
15,000,000	Selling Price
(10,000,000)	Investment
5,000,000	Capital Gain
24%	Capital Gain Tax Rate
1,200,000	Tax Due

- A taxpayer held a **$1,000,000 long-term investment** and decided to **sell it for $11,000,000**. Therefore, the transaction results in a **$10,000,000 capital gain** to the taxpayer.

- Assuming the maximum tax rate, the **tax due** for this transaction is **$2,400,000.**

Assumptions

- Taxpayer timely reinvested the old capital gain of $10,000,000 in a QOF
- Selling Price of reinvestment property is Fixed
  - $15,000,000
    - Old capital gain is $10,000,000
    - New capital gain is $5,000,000
  - For simplicity and comparative purposes
    - It should be higher in real life under the initiative
- Computation does NOT consider time value of money
- Tax rate is 24%

Tax Treatment of QOF Investments

- If the taxpayer elects to reinvest capital gains in a Qualified Opportunity Fund (QOF) **within 180 days of realization**, he can receive three main tax benefits:

1. Temporary tax deferral on old gains reinvested ("the old capital gains")
2. A. 10% step-up in basis for capital gains reinvested **if the investment is held for 5 years.**
   B. An additional 5% step-up in basis **if the investment is held for 7 years.**
3. Permanent exclusion of any capital gains that accrue after the investment in a QOF ("the new capital gains"), **if held for at least 10 years.**

Three Benefits

- 1. Only Deferral
- 2 Step Ups
  A. Deferral + 10% Step Up
  B. Deferral + 10% Step Up + 5% Step Up
- 3. Deferral + 10% Step Up + 5% Step Up + 100% Step Up (New Capital Gain)

1. Temporary Tax Deferral

Investment in QOF (held less than 5 years)	
10,000,000	Old Capital Gain Reinvested
-	
10,000,000	Old Capital Gain
24%	Tax Rate
2,400,000	Tax Due

Sale of Investment in QOF	
15,000,000	Selling Price
(10,000,000)	Old Capital Gain Reinvested
5,000,000	Capital Gain on Sale of Investment
24%	Tax Rate
1,200,000	Tax Due

- Held the investment in QOF for less than 5 years
- Taxpayer is subject to taxes on both capital gains
  - Old capital gain ($10,000,000)
  - New capital gain ($5,000,000)
  - Total Tax Due is equal to $15,000,000 x 24% = $3,600,000

Effective Tax Rate: 24%
Tax Savings: $ -0-

2A. Step-up in Basis (5 years)

Investment in QOF (held for 5 years)	
10,000,000	Old Capital Gain Reinvested
(1,000,000)	10% step-up in basis
9,000,000	Taxable Capital Gain after step-up
24%	Tax Rate
2,160,000	Tax Due

Sale of Investment in QOF	
15,000,000	Selling Price
(10,000,000)	Old Capital Gain Reinvested
5,000,000	Capital Gain on Sale of Investment
24%	Tax Rate
1,200,000	Tax Due

- Held the investment in QOF for **5 years**
- Taxpayer is subject to taxes on both capital gains considering the step-up in basis
  - Old capital gain **after step-up** in basis ($9,000,(
  - New capital gain ($5,000,000)
  - Total Tax Due is equal to $14,000,000 x 24% =

Effective Tax Rate: 22.4%

Tax Savings: $240,000

FPV & GALINDEZ LLC

2B. Step-up in Basis (7 years)

Investment in QOF (held for 7 years)	
10,000,000	Old Capital Gain Reinvested
(1,000,000)	10% step-up in basis
(500,000)	5% additional step-up in basis
8,500,000	Taxable Capital Gain after step-up
24%	Tax Rate
2,040,000	Tax Due

Sale of Investment in QOF	
15,000,000	Selling Price
(10,000,000)	Old Capital Gain Reinvested
-	
5,000,000	Capital Gain on Sale of Investment
24%	Tax Rate
1,200,000	Tax Due

yea

oth capital gains considering the step-up in basis

- Old capital gain **after step-up** in basis ($8,500,
- New capital gain ($5,000,000)
- Total Tax Due is equal to $13,500,000 x 24% =

Effective Tax Rate: 21.6%

Tax Savings: $360,000

USTworthy

Russell Bedford
taking you further

3. Permanent Exclusion (10 years)

Investment in QOF (held for 10 years)	
10,000,000	Old Capital Gain Reinvested
(1,000,000)	10% step-up in basis
(500,000)	5% additional step-up in basis
8,500,000	Taxable Capital Gain after step-up
24%	Tax Rate
2,040,000	Tax Due

Sale of Investment in QOF	
15,000,000	Selling Price
(10,000,000)	Old Capital Gain Reinvested
(5,000,000)	Permanent Exclusion
-	Capital Gain on Sale of Investment
24%	Tax Rate
-	Tax Due

0 years

e old capital gain considering the

step-up in basis

- Tax Due is equal to $8,500,000 x 24% = $2,0

Effective Tax Rate: 13.6%

Tax Savings: $1,560,000

Other Considerations

- Mandatory Recognition
  - A gain has to be recognized by earlier of
    - Selling Date
    - December 31, 2026
- HB 1887
  - Tax Exemptions
  - Tax Credits

3. Permanent Exclusion (10 years) With Tax Credit

Investment in QOF (held for 10 years)	
10,000,000	Old Capital Gain Reinvested
(1,000,000)	10% step-up in basis
(500,000)	5% additional step-up in basis
1,500,000	Tax Credit Increase
10,000,000	Taxable Capital Gain after step-up
24%	Tax Rate
2,400,000	Tax Due

Sale of Investment in QOF	
15,000,000	Selling Price
(10,000,000)	Old Capital Gain Reinvested
(5,000,000)	Permanent Exclusion
-	Capital Gain on Sale of Investment
24%	Tax Rate
-	Tax Due

0 years

e old capital gain considering the

,000 x 24% = $2

- Received a $1,500,000 tax credit

Effective Tax Rate: 14.54%
Tax Savings: $1,200,000
Tax Credit

Closing Remarks

- Expected Infrastructure Fund
- Scoring of Benefits
- Wide Range of Designation
- Rent Gap Considerations

TRUSTworthy

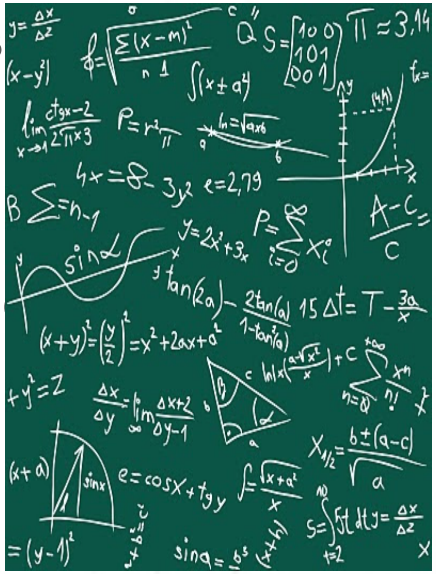
Russell Bedford
taking you further

Expected Funding

- Disaster Relied Payments
  - Government
  - Private (Insurance)
- Should increase value in adjacent infracstructure

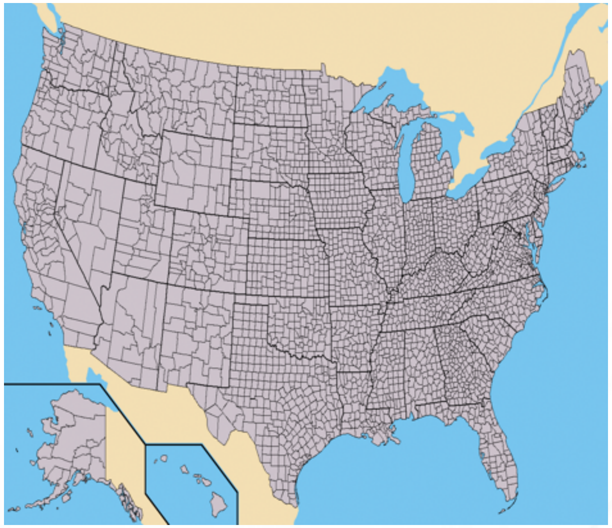
Scoring of Benefits

- The TCJA does not include scoring provisions
  - Employment
  - Level of Income
- HB 1887 has requirement for additional ben



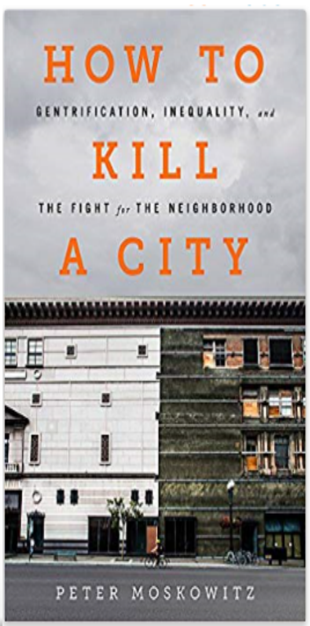
Wide Range Designation

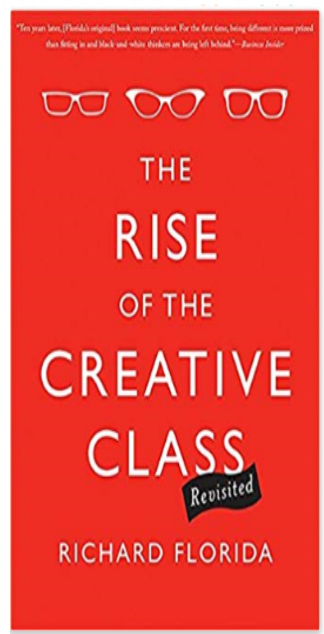
- Close to 97% of the Island has been designated
  - Petition to include 100%
- Easier to select investment areas
  - Some jurisdictions have asked for flexibility in investment requirement



Rent Gap Considerations

- Higher Return on Investment
  - Disaster Areas
  - Economic Distressed Areas
- Gentrification Issues





PREGUNTAS????