Getting the Most Out of Opportunity Zone Tax Incentives

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Park View OZ REIT's SEC filings may be found at: EDGAR Search Results (sec.gov)

Agenda

1) Qualified Opportunity Funds (QOFs) the tax incentives and the basics of how they work

2) Issues that have held the adoption of QOF investing back and how to solve them – OZ REIT structure

- Investor access
- Financial planning utility

3) Special Situations

- Comparing QOFs to 1031s
- Collectibles such as art, wine and precious metals
- Estate planning – pairing QOFs with irrevocable grantor trusts

Key Points

Impactful: Qualified opportunity fund (QOF) incentives can substantially improve after tax returns.

Broadly Applicable: They work with any type of capital gain so most investors can benefit.

Improved Accessibility: Owning shares of stock in a QOF is a more suitable option in most circumstances and for most investors.

Improved Utility: Investor must control their own holding period to maximize the QOF benefits for their unique financial needs.

OZ Program Background

"Investing in Opportunities Act" Enjoyed Bipartisan Support – Designed to encourage capital investment in low-income neighborhoods. Promoting economic equality.

Originally championed by Sean Parker (Federal + NIIT + California)
20% + 3.8% + 13.3% = 37.1% = Warehoused Capital

Only capital gain reinvestment is required to defer all the tax.

Incentives are greatest for long term investors.

Warehoused Capital is capital trapped by potential tax liability where it is not needed.

Tax Cuts and Jobs Act (TCJA)

Created two new tax incentives:

Opportunity Zone (OZ) Incentives

- The potential for the deferral and potential elimination of capital gains

Qualified Business Income (sec. 199A)

- The potential for a 20% reduction in income tax

What is a Qualified Opportunity Fund (QOF)?

QOFs are the entity through which the Internal Revenue Service oversees opportunity zone compliance.

You must invest through a QOF to be eligible for opportunity zone tax incentives.

QOFs must invest 90% of their assets in qualified opportunity zone property (QOZP)

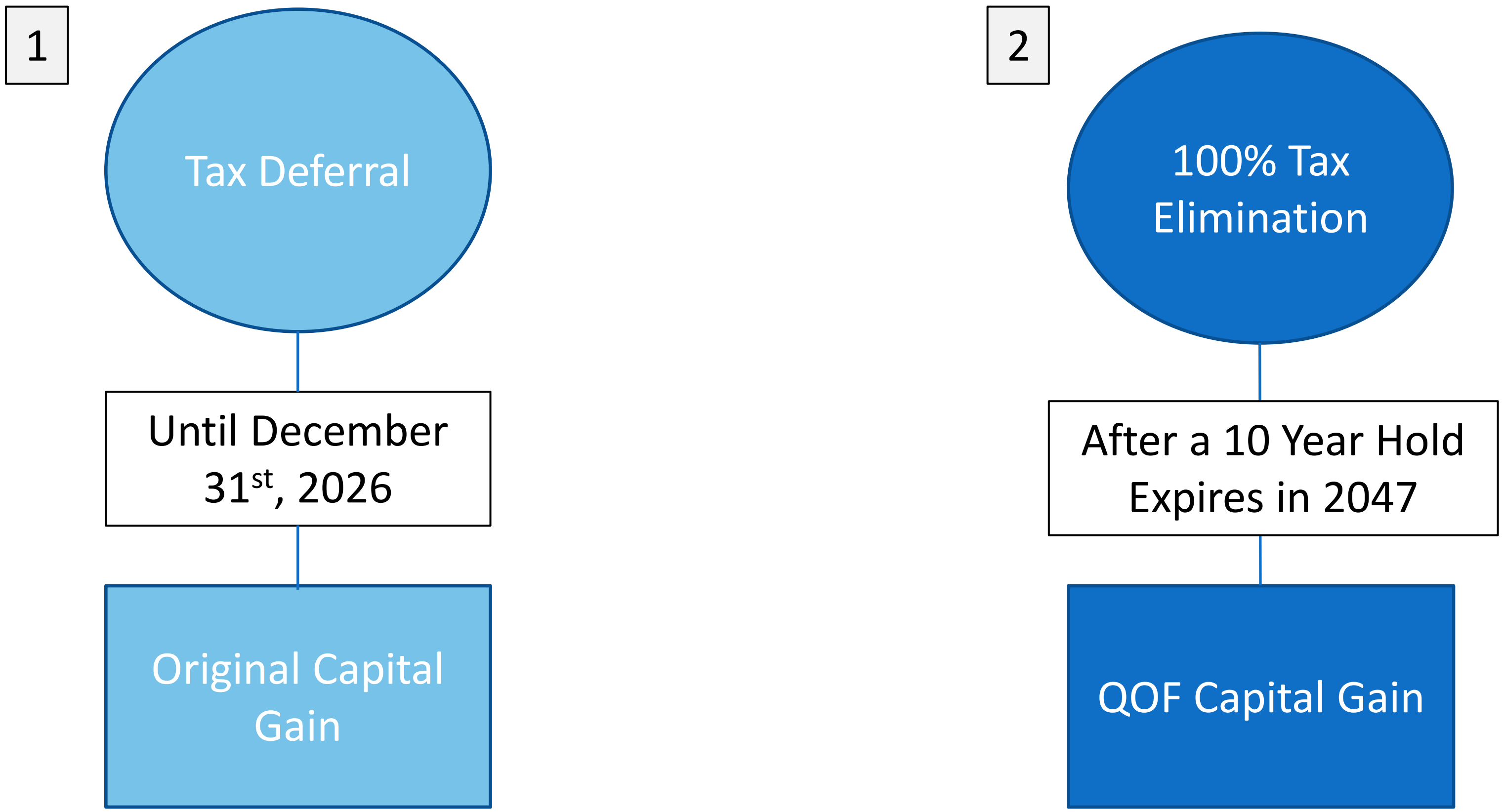
QOFs are tested every six months to determine compliance.

QOF Benefits

1) Tax liability for the original capital gain is deferred until the QOF is sold or December 31, 2026.

2) After 10 years, all capital gain tax liability on the new OZ investment is eliminated (the benefit lasts through 2047.)

QOF Benefits Illustration



How Will QOF Benefits Affect Returns?

Many market pundits calculate the QOF benefits increase returns on an investment earning 7 or 8% by about 3% annually on an after tax equivalent.

This means your capital is returning roughly 40%* (3%/7.5%=40%) more on an after-tax basis year after year.

Because this benefit lasts until 2047, the tax-free compounding effect can be a great wealth creation vehicle.

* https://eig.org/wp-content/uploads/2018/01/Tax-Benefits-of-Investing-in-Opportunity-Zones.pdf

QOF Deferral Benefits Example

Capital Gain of $1,000,000

QOF Investment

Defer Tax up to 12/31/26

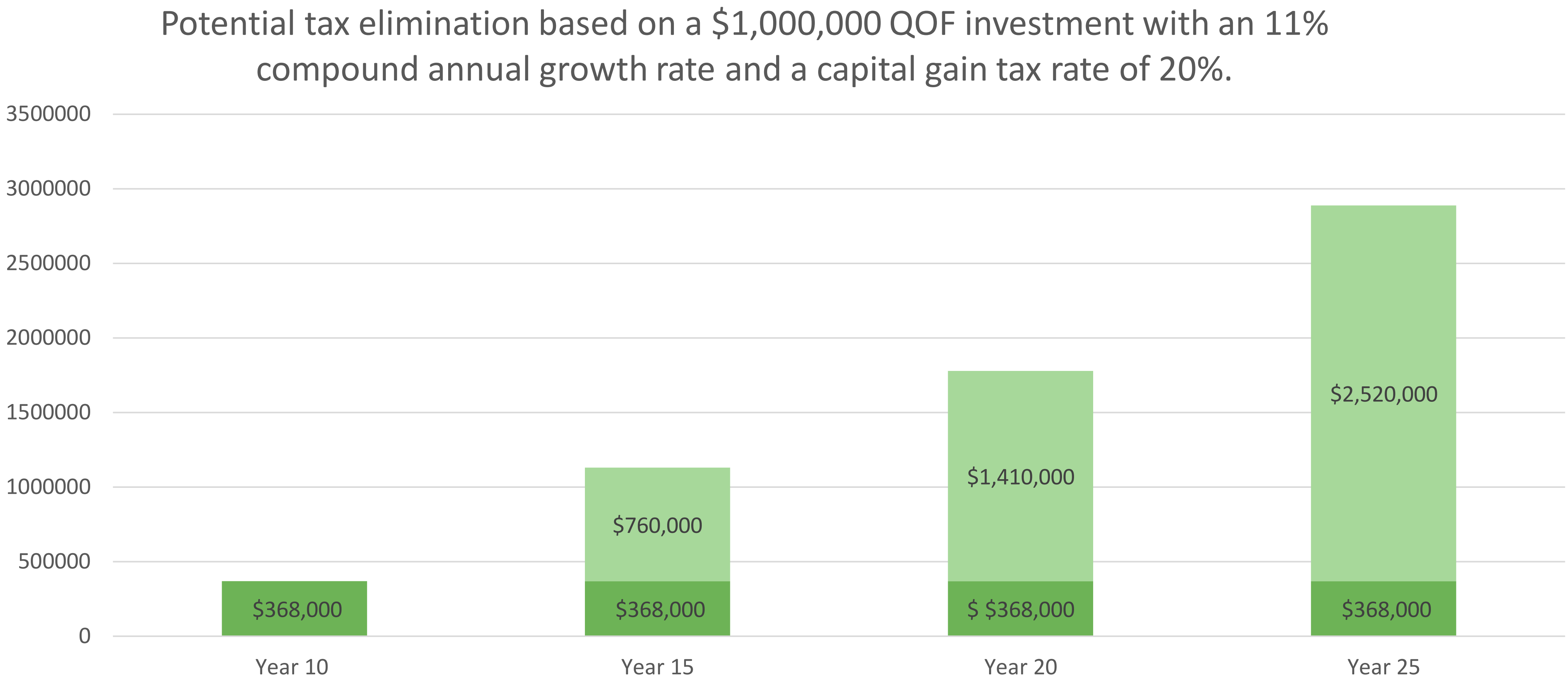
Pay the Tax

Capital Gain	$1,000,000
Tax Liability	$238,000
After tax	$762,000

Tax Rate of 23.8%

Capital Gain	$1,000,000
Tax liability = 20% cap gain + 3.8% NIIT = 23.8%	($238,000)
5-year earnings on deferred tax at 11% CAGR	$401,000
After tax	$1,163,000

This graph illustrates the amount of tax liability that can be eliminated through at QOF investment. Most funds will miss out on the majority of potential tax savings because they plan to liquidate after achieving a 10 year hold. ($368,000 / $2,520,000 = 15%)



Breaking Out the Bazooka

Big – This program can be many times bigger than previous government efforts. EIG estimates that there are 6 trillion dollars of capital gain liability owed by U.S. taxpayers (realized and unrealized).

Concentrated- The QOF incentives are focused on only 25% of eligible census tracts.

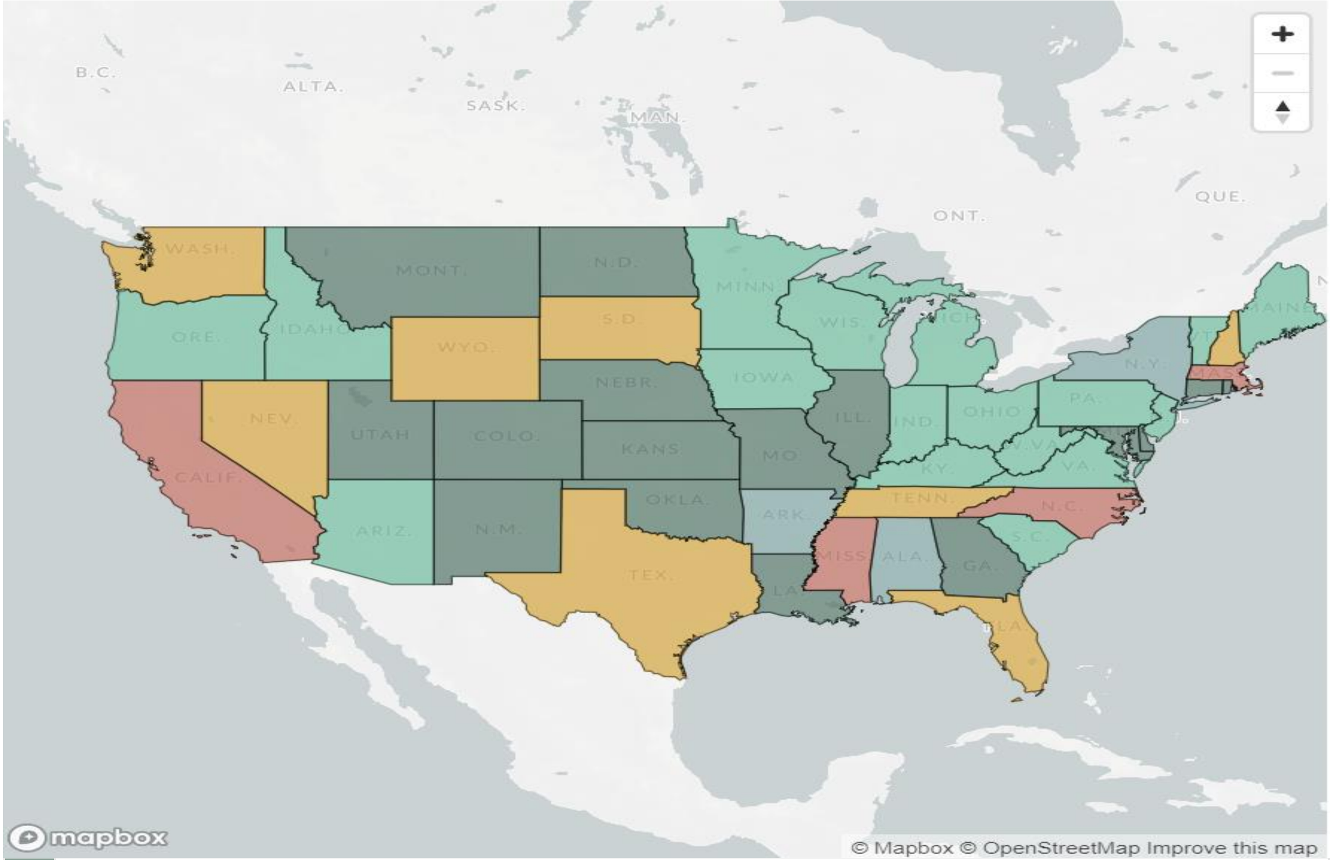
Private Market Driven – The incentives reward economically successful ventures.

Flexible – QOF benefits are stackable with other incentives like historic tax credits, new market tax credits, low-income housing tax credits, 1202 stock, etc.

Conforming States

Individual Income tax

Only California, Massachusetts, Mississippi and North Carolina are OZ non-conforming.

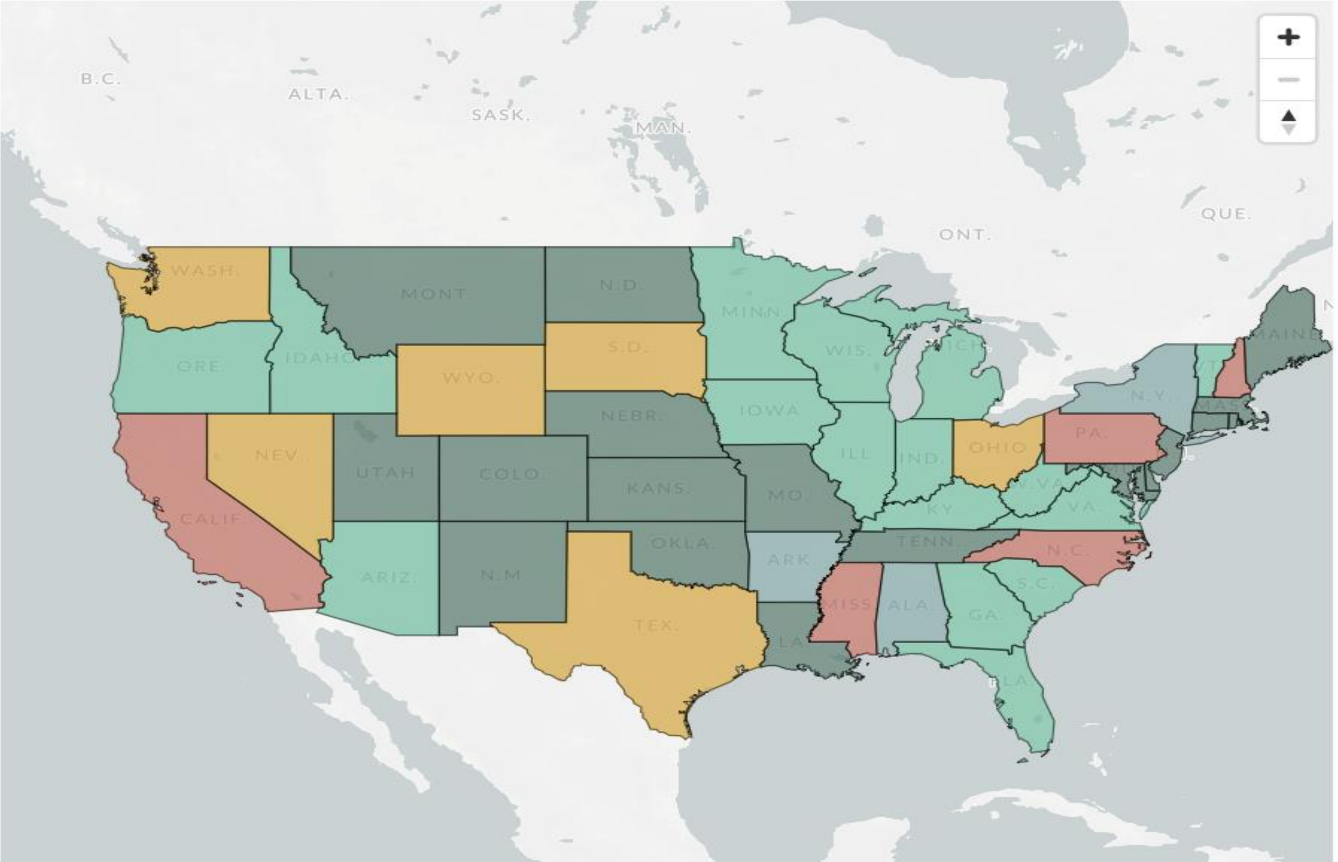


Full Conformity - Rolling: The state automatically conforms to the current IRC as it is amended.
Full Conformity - Adopted: The state conforms to the IRC as of a specific date that is after the enactment of the Opportunity Zones legislation.
Limited Conformity: The state conforms with Section 1400Z-2 in certain limited circumstances.
No Capital Gains Tax: Has no state income tax/generally does not tax capital gains.
Nonconformity: The state conforms to the IRC as of specific date prior to the enactment of the Opportunity Zones legislation or the state has specifically decoupled from the Opportunity Zones provisions of the IRC.

Source: Novogradac

Conforming States

Corporate Income



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Who is Eligible for QOF Benefits?

Anyone with a realized capital gain owed to the IRS.

- Foreign or domestic
- Could be an individual, corporation, a REIT, trust or partnership

Mixed assets - Only the capital gain investment qualifies for the tax benefits, but investing non-capital gains funds is allowed.

What Capital is Eligible for QOF Benefits?

Almost any type of capital gain is eligible.

- Capital which was not at risk, does not qualify. Examples would be one half of an option straddle or carried interest.

The capital gain must be reinvested in a QOF within 180 days. The rule is complex but generous.

180 Day Investment Period
Installment Sales

The capital gain proceeds for an installment sale are considered a new capital gain in the year they are received.

The reinvestment period can start either when the payment is received or at year end.

If you are receiving monthly installment payments, you can aggregate them to year end.

180 Day Investment Period
1231 Gain

1231 gains and losses do not have to be netted.

The investor can choose to begin the 180 day investment period starting:

- on the date of the inclusion event,
- at the taxable year end of the entity or
- on the date the entities taxes are dues without extension.

A 1231 gain is treated as a capital gain, but 1231 losses are treated as income. Typically, gains and losses need to be netted with a five year look back. A QOF can defer a gain beyond the five year look back.

180 Day Investment Period
RICs and REITs

The investor can choose to begin their investment period:

- When the capital gain is distributed.

- At the RIC or REIT's financial year end.

180 Day Investment Period Partnerships

A partnership investor may choose to begin their 180-day investment period:

- On the date the partnership realizes the gain.
- At the partnership's year end – Typically December 31st.
- When the partnership's taxes are due without extensions – Typically March 15th.

What is an Opportunity Zone?

OZs are census tracts that qualify as low-income communities.

Census tracts are typically 2,000 to 8,000 in population.

The Governors of each state were able to choose 25% of their eligible census tracts for OZ designation.

Across the country there are more that 8,700 opportunity zones. (Approximately 11% of the country’s census tracts)

Opportunity Zone Business Property (QOZBP)

Must be tangible commercial property, such as real estate or equipment, acquired from an unrelated party, that meet one of two criteria.

- **Original use**: Not yet placed in service or unoccupied for 3 years.

  or

- **Substantially improved**: Improved by at least as much as the purchase price of the building not including the land.

Additionally, the property must be acquired after December 31, 2017.

During substantially all of the QOF's holding period (90%) at least 70% of all tangible property must be QOZBP.

Why are QOFs a Big Deal

The tax incentives are available for nearly any type of capital gain.

- 6 trillion dollars worth of capital gains owed to the Treasury.
- People do not like paying taxes!

The incentives are substantial.

- Professional investors will fight hard for even a minimal increase in returns. A fund that underperforms markets by half a percent consistently will go out of business. A fund that out performs markets by half a percent consistently will attract asset and thrive.

QOFs, as we have discussed can increase returns by 40%

- (3%/7.5% = 40%)!
- Law and CPA firm set up specialized OZ teams.

What are Financial Professionals Saying?

QOFs continue to be a “hot topic” because of their generous tax incentives and positive social impact.

However, the perception is that QOFs are only accessible to a small and very wealthy portion of the investment community.

What Has Held QOF Investments Back?

Not Accessible: Almost all QOFs are structured like commercial real estate partnerships. These vehicles do not appeal to most investors.

Poor financial planning utility: For investors to maximize their QOF benefits it is important that they can choose a holding period that suits their unique financial needs. In most QOF partnerships all investors share a common holding period.

The A.I.V. Problem

Timing: Matching the investor's 180 day window with the QOF's funding timeline.

Capital: Finding a QOF that needs the amount of gain you are trying invest.

K-1 (partnership) tax forms are notoriously difficult.

Illiquidity - long capital commitment periods.

Asset Profile: Finding a QOF whose asset matches your risk and return needs.

Partnership Minimums: Only recent capital gains get the benefits.

Accreditation requirements.

A.I.V. = Awkward Investment Vehicle

History Repeats - REIT Background

- 1960 sponsored by Senator John Kennedy and signed by President Eisenhower.

- Commercial real estate created great wealth but only a small percentage of the investing public participated.

- Essentially a tax-free corporation.

- In exchange REIT must:
  - Have at least 100 shareholders.
  - No more than 50% can be owned by any five individuals.
  - Payout at least 90% of its income.

Solution is to Structure the QOF as a REIT

The QOF stays open and compliant

Diversified portfolio of Qualifying Commercial Real Estate

Shares are freely tradable

1099-DIV Tax Form. No K-1s (or multiple K-1s)

Open to all investors – No accreditation paperwork is required

No capital calls

Low investment minimum – only recent capital gains receive the QOF incentives

Qualified Business Income (QBI) Deduction

Lower fees

Holding Period is controlled by the investor

Qualified Business Income (QBI) Sec 199A

20% of taxable income paid out as dividends is effectively eliminated.

REITs payout at least 90% of our taxable income through dividends.

Eligible for the QBI deduction but better than QBI.

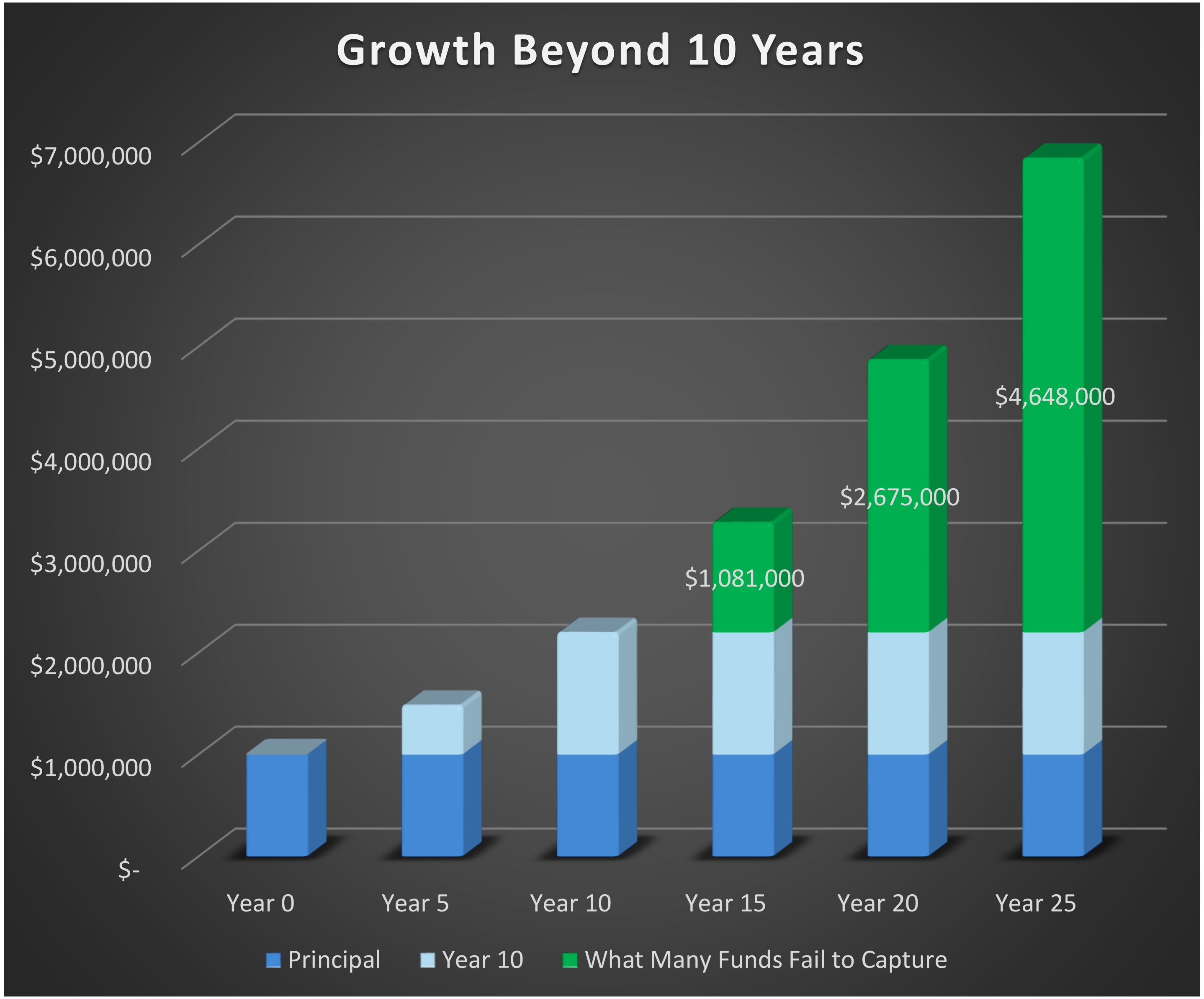
The key is to have a holding period that suits each investor's unique financial needs.

	Tradition Partnership QOF	QOF REIT
	10-year Lock-up / Liquidation	Tradable / Stays QOF Compliant
1 Year Hold	Not Available	Hold Until Jan. 1st, One Year Tax Deferral
4 Year Hold	Not Available	4 Year Tax Deferral
10 Year Hold	Original Gain Deferral Until 2026, 100% Elimination of QOF Capital Gain	Original Gain Deferral Until 2026, 100% Elimination of QOF Capital Gain
15, 20, 25+ Year Hold	Not Available	Deferral, 10% Elimination, Tax Free Compound Growth Potentially until 2047

Tax free compound growth is a great way to create wealth.

Most funds do not allow their investors to capture even half of this benefit.

This example shows a $1 million dollar investment growing at 8% annually.



Making QOFs Work Better for Investors

THOMSON REUTERS
CHECKPOINT

November 2021

Practical Tax Strategies

NEW QUALIFIED OPPORTUNITY FUNDS ARE STARTING TO FULFILL THEIR PROMISE

MICHAEL KELLEY

Park View OZ REIT
Grow quickly by giving investor what they need

Accessibility - Enable all investors to benefit from QOF tax incentives.

Liquidity and flexibility – Let’s investors maximize QOF benefits and financial planning utility.

Low Fee Structure.

Impact investment, putting capital to work where it is needed.

Investment Strategy: Value Driven and Diversified

Good Investments that happen to be in Opportunity Zones

Seek attractive returns while minimizing risk:

1) Valuation / Due Diligence
2) Control Project Risk: Leverage, Permitting, Partnerships
3) Geographic and asset diversification
   - Multi-family, hospitality, mixed use, medical, renewable energy and more.
   - Areas with strong employment and population trends.
   - We want to be in the path of growth!

Development Partners

We will partner with developers who bring geographic and project specific expertise

Cost effective

Increased profit opportunities

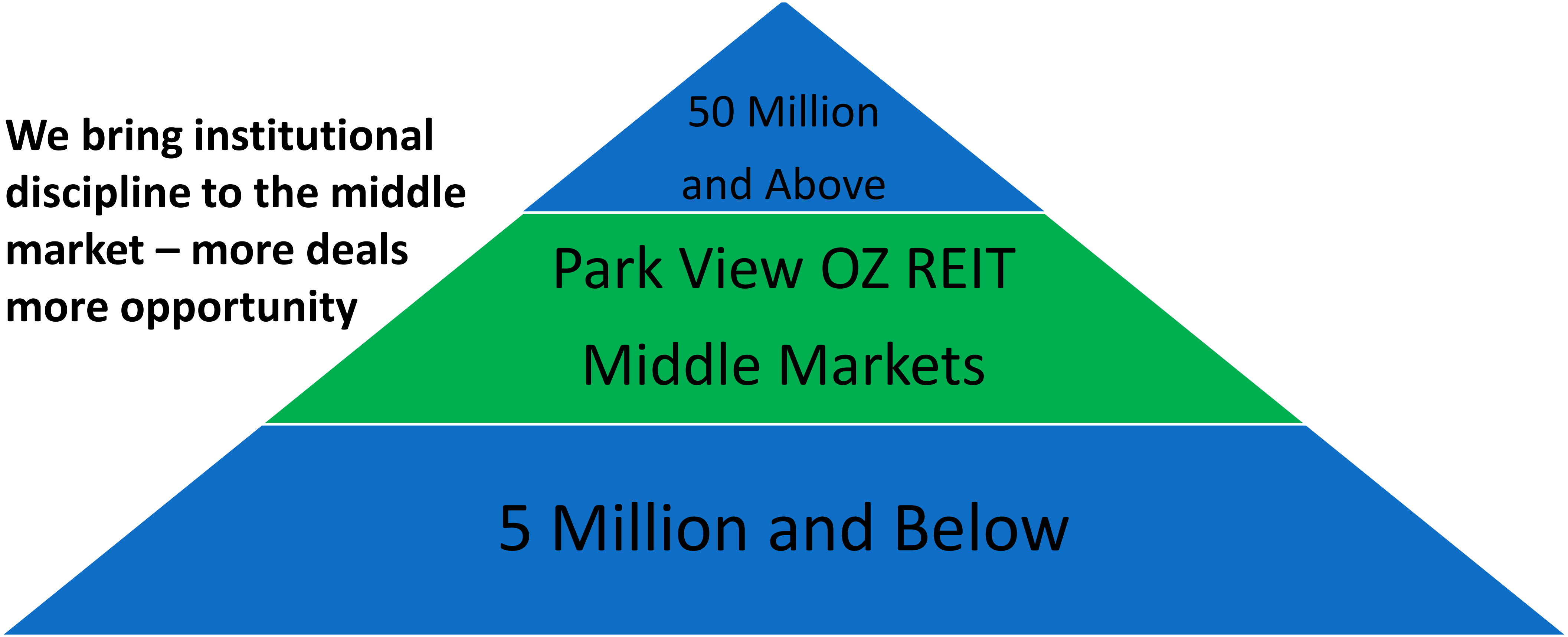
Eliminates conflict of interest on fees and when to build

Positioned as a Preferred Partner

Investment / Financial Advisor — QOF Management — Real Estate Development

Ideal Project Size – Middle Markets

We bring institutional discipline to the middle market – more deals more opportunity



Tax Benefits QOF/QBI

Tax realization on the original capital gain is deferred until the QOF is sold or December 31, 2026, whichever comes first.

After 10 years, all capital gain tax liability on the new OZ investment is eliminated (the benefit lasts through 2047).

Stockholders are eligible to take a 20% federal income deduction on their REIT dividends (QBI deduction)

Benefits Continued

REIT structure means stock ownership with no double taxation.

No K-1 (or multiple K-1s) to wait for: You will receive a 1099-DIV.

Tradable shares give investors much better control of their investment period.

Keep Fees Low

No sales commission or investor service fees

Low 5% carried interest (versus 20% traditionally)

0.75% management fee (versus 2% traditionally)

Transparency and a Low Investment Minimum

Public financial reports and SEC oversight give shareholders much greater financial transparency than private real estate funds

Low investment minimum of $10,000 per investor

Park View OZ REIT Service Providers

NOVOGRADAC & COMPANY LLP®

CERTIFIED PUBLIC ACCOUNTANTS

stc

W | T | P

Whiteford | Taylor | Preston LLP

1031s aka: “Like Kind Exchange”

What is the purpose
- To encourage reinvestment in property used a trade or business or for investment
- To avoid unfair taxation

Proceeds must be segregated
- Typically, a qualified intermediary is hired

45 days to identify property and 180 days to close

Tax act of 2017 led to 1031s being restricted to real property
- Exchanges of machinery, equipment, vehicles, artwork, collectibles, patents and other intellectual property and intangible business assets no longer qualify.

1031 Exchange (continued)

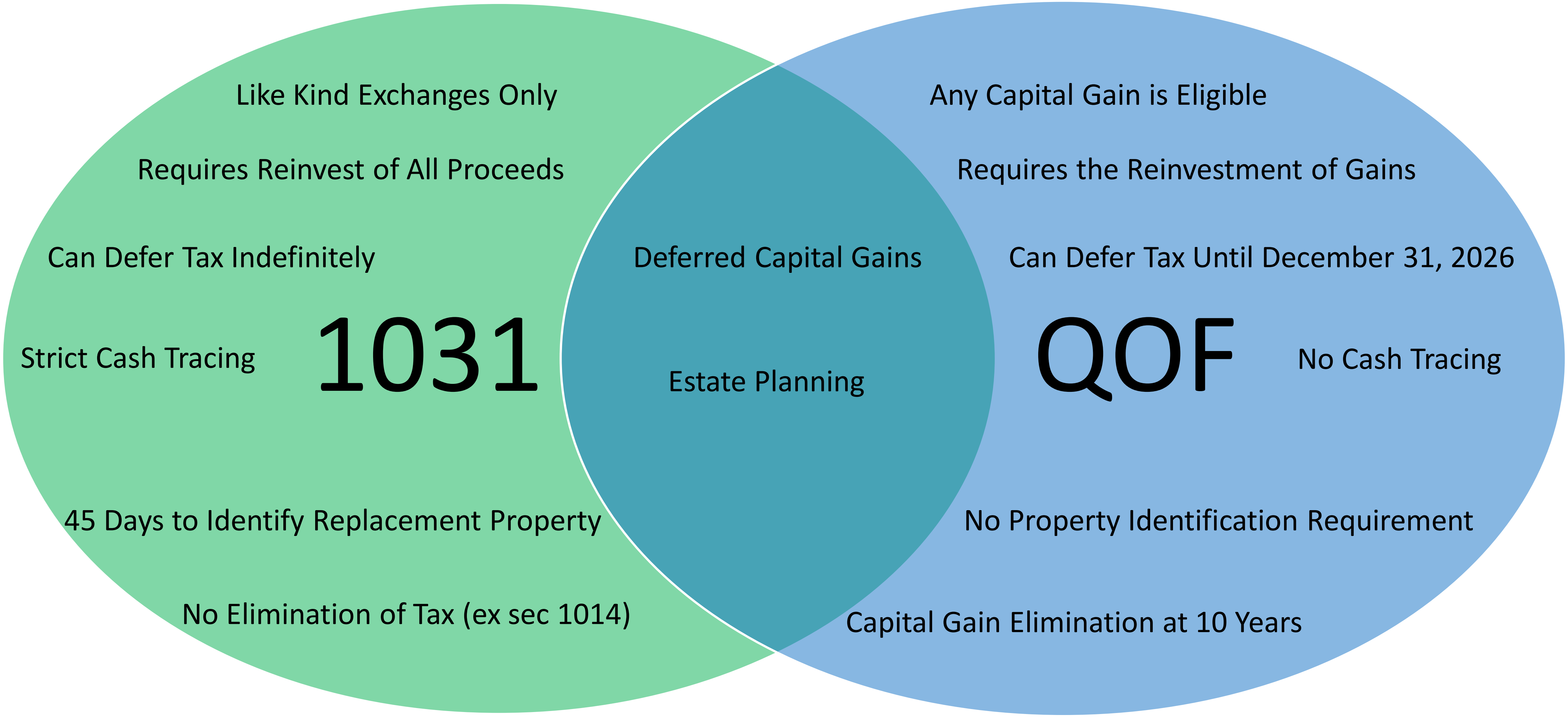
All proceeds must be reinvested to defer the entire capital gain liability

- Gain, principal, debt

The tax deferral can be rolled over into new 1031 properties again and again

- The capital gain liability only becomes due once the cash is no longer invested in an eligible 1031 property

Which is Better for You?



Can 1031s and QOFs Work Together?

Sort of:

- 1031s need to invest directly into real estate – they can not buy a fund like a QOF.
- A QOF could engage in a 1031 transaction.

QOF can help with boot

QOF can help with failed 1031s

- Failure to identify properties within 45 days
- Failure to close within 180 days
- Amount of less than 100K may be difficult to invest in a DST or 1031 partnership

Special Situations

Gains from precious metals (even ETFs), art and other collectibles (28% capital gain tax rate) no longer qualify for a 1031s

Investors with liquidity (available cash) can trigger gains to qualify for QOF investments and repurchase the original asset with a new higher basis

Short term capital gains tax can be painful. New York is 37% + 3.8% + 8.8% = 49.6%

Irrevocable Grantor Trusts Paired with QOF are a Super Charged Way to Transfer Wealth

Trust can be highly effective way to removing highly appreciating assets from an estate subject to estate tax.

Trusts can protect assets from lawsuits and other claims.

Trust do not enjoy a step up in basis on death (Section 1014). Heirs could potentially receive an asset with significant capital gain liabilities attached.

Qualified Opportunity Funds (QOFs) can potentially eliminate capital gain liability not only at death but anytime the asset is sold for 25 plus years (12/31/47).

Benefit of Pairing a QOF with an IGT

	Current Valuation	Sale Price in 25 Years	Cost Basis at Sale	Taxable Capital Gain	After Tax Value
IGT	$10,000,000	$90,000,000	$10,000,000	$80,000,000	$71,000,000
IGT / QOF Pairing	$10,000,000	$90,000,000	$90,000,000	Zero	$90,000,000
Tax Savings					$19,000,000

Using a capital gain rate of 20% plus 3.8% NIIT gives a tax rate of 23.8%. Investment growth rate =9.2%

Summary – Estate Planning Trifecta

Minimize estate tax

Protect assets for the next generation

Minimize capital gain tax

Key Points

- QOF incentives are broadly applicable. Almost all investors will have a capital gain over time
- QOF incentives can significantly increase after tax returns
- Stock ownership greatly increases access to QOF incentives
- Control of the QOF holding period is key to maximizing QOF tax incentives

A Holistic Approach to Wealth Management

- Create a plan suited to each client's unique financial needs.
- tax efficient and low fee investment plan
- Investors control the timing and amount of investment
- Available to accredited and non accredited investors
- Low investment minimum with tradable shares
- Impact Investment – creating jobs and economic equality
- Keep money working for your clients

Appendix: How to Claim Tax Incentives with the IRS

Use form 8949 on entry and exit of the QOF

Use form 8997 annually while invested in the QOF

For QBI deduction use form 8995

You will receive a 1099-DIV not a K-1

Here is a link to our QOF tax information page: https://parkviewozreit.com/qof-tax-form-information/

Further Reading

“How Collectors of Art Can Benefit from QOFs” CPA Journal, March 2019 by Sid Kess and Michael Kelley.

“Preserving Generational Wealth” CPA Journal, January 2020 by Michael Kelley and Michael Gershon

“New Qualified Opportunity Funds are Starting to Fulfill Their Promise” Thomson Reuters, Practical Tax Strategies, November 2021. By Michael Kelley

These articles and more can be found on our website www.parkviewozreit.com

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