

Confidential – Not for Distribution

©2021 CliftonLarsonAllen LLP



Opportunity Zone Webinar

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Disclosures

CliftonLarsonAllen Wealth Advisors, LLC (“CLA Wealth Advisors”)

*The purpose of this publication is purely educational and informational. It is not intended to promote any product or service and should not be relied on for accounting, legal, tax, or investment advice. The views expressed are those of CLA Wealth Advisors and intended for a broad audience. They are subject to change at any time and do not take your individual circumstances into account. **Past performance does not imply or guarantee future results.** Investing entails risks, including possible loss of principal. Diversification cannot assure a profit or guarantee against a loss. Investing involves other forms of risk that are not described here. For that reason, you should contact an investment professional before acting on any information in this publication.*

Financial information is from third party sources. Such information is believed to be reliable but is not verified or guaranteed. Performances from any indices in this report are presented without factoring fees or charges, and are provided for reference and competitive purposes only. Any fees, charges, or holdings different than the indices will affect individual results. Indexes are unmanaged; one cannot invest directly into an index. bonds). Returns assume reinvestment of dividends and interest and when withdrawn, cash is not invested. Indices are unmanaged, do not incur fees and expenses, and cannot be invested in directly. Rebalancing may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events will be created that may increase your tax liability. Rebalancing a portfolio cannot assure a profit or protect against a loss in any given market environment. No one can predict the future and all information presented here is merely a demonstration of past performance.

Securities products, merger and acquisition services, and wealth advisory services are provided by CliftonLarsonAllen Wealth Advisors LLC, a federally registered investment advisor and member FINRA, SIPC.



History and Purpose of OZs

- Opportunity Zones (OZ) were first proposed in the bipartisan Investing in Opportunity Act, originally introduced in Congress in 2016. They were designed with a specific premise: the tax code should encourage private investment in communities struggling to attract capital, create jobs, and lift residents out of poverty.
- The Opportunity Zone program was created and enacted by Congress in the Tax Cuts and Jobs Act of 2017. OZs provide federal incentives for certain types of long-term, productive investments in low-income urban and rural communities nationwide.



Facts and Figures:

8,766 individual census tracts across all 50 states are certified as OZs¹

Nearly a quarter of OZs are in rural areas¹

26.4% is the average poverty rate across all OZs¹

16% of all OZ tracts received at least some investment²

5% of tracts received 87% of total investment²



1) Economic Innovation Group (<https://eig.org/opportunityzones>)
2) Novogradac (<https://www.novoco.com/news/qofs-tracked-novogradac-surpass-20-billion-equity-raised>)

Investor Benefits from OZ Investments

- Investors who invest capital gains into a Qualified Opportunity Zone Fund (QOF) are eligible for certain benefits if they meet the holding period requirements. The benefits of OZ investments can be simplified as: defer, reduce, and pay zero.
 - Defer** —Capital gains can be deferred until December 31, 2026, with the related tax payable in 2027.
 - Reduce** — Investors who hold an OZ investment for five years can exclude 10% of the deferred gain (i.e., they only pay tax on 90% of the gain). To receive this benefit, an investment must be made on or before December 31, 2021.
 - Pay zero** — Investors who hold their investments in OZs for at least 10 years face no taxes on any appreciation in value of the investments when sold.



1) If capital is deployed on or before December 31, 2021 (or on or before December 31, 2020)



Investor Benefits from OZ Investments

- The potential tax benefits from a \$1 million Opportunity Zone investment could be up to \$312,835 when considering the 10% step-up in basis and tax-free exit if held for 10 years or more.
- Additional benefits, not considered in the analysis below, can be generated through OZ investments, such as investing a larger dollar amount and deferring the payment of capital gains.

	Non-QOZ (Current Tax Rate)	QOZ Investment (Current Tax Rate)
Capital Gain	\$1,000,000	\$1,000,000
Less Federal Taxes (Current 23.8%)	(238,000)	0
Available for Investment	\$762,000	\$1,000,000
<u>Deferred Tax Payable at Dec. 31, 2026</u>		
Deferred Gain	\$0	\$1,000,000
Less Permanent Exclusion	0	(100,000)
Taxable Gain	0	900,000
Federal Taxes (Current 23.8%)	\$0	(\$214,200)
<u>After 10-Year Holding Period</u>		
Future Value of Investment (10% IRR)	\$1,976,432	\$2,593,742
Original Investment	762,000	1,000,000
Appreciation (Future Capital Gain)	1,214,432	1,593,742
Federal Taxes (Current 23.8%)	(\$289,035)	\$0
Net Cash Flow After 10 Years (Pre Tax)	\$1,214,432	\$1,593,742
Net Cash Flow After 10 Year (After Tax)	\$925,397	\$1,379,542
Tax Savings from 10% Step-up in Basis	\$0	\$23,800
Tax Savings from No Capital Gains at Exit	\$0	\$289,035
Total Tax Benefit from OZ Investment		\$312,835

* Assumes that deferred tax payable at Dec. 31, 2026 is paid out of cash flow from the QOZ investment, not from investor's outside funds

** Future appreciation over 10-year holding period does not contemplate additional benefits from depreciation or loss allocations



Key Dates and Eligibility

Eligibility and Timeout dates, consult your tax professional!

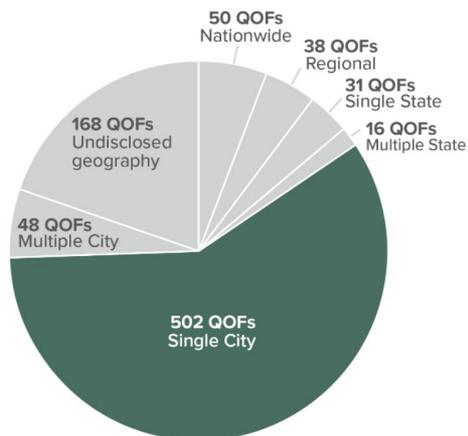
- Eligibility:
 - Capital gain
 - Qualifying section 1231 gain
- Timeout Dates:
 - Closing date + 179 days
 - Multiple variations on closing date depending upon the ownership structure of the asset sale that generated the gain.
 - Direct ownership capital gain will have 180 days from the recognition date, which is likely the closing/sale date.
 - Gains realized in flowthrough entities (i.e., partnerships, s-corporations) may have multiple recognition dates investors can use to start their 180-day window.
 - Closing Date
 - December 31st – End of year for partnership
 - March 15th – Flowthrough entity tax filing date
 - 12/31/21: 10% step-up in basis expires
 - The date the money is transferred to the fund will start the 10-year hold window for that individual investor. If investing in a large diversified fund, 10-year clock will start when the last investors money comes in.



OZ Investments, How and What

- **Diversified funds** aggregate investor capital and deploy it across multiple assets, creating diversification and decreasing risk for the fund and its investors.
- **Single-asset direct QOF investments** allow investors to invest directly into a pre-identified asset — and the investment gives the QOF and investors an ownership position in that single asset.
- As of September 30th, 2021, Novogradac now tracks 1,243 QOFs¹.
- 909 of these funds have reported the amount of equity they've raised, which is now over \$20 billion¹.
- Given the self-reporting nature of this data, the true amount of capital raised by QOFs is expected to be much more than \$20 billion, perhaps by a factor of three, four or more¹.

QOF Geographic Focus¹



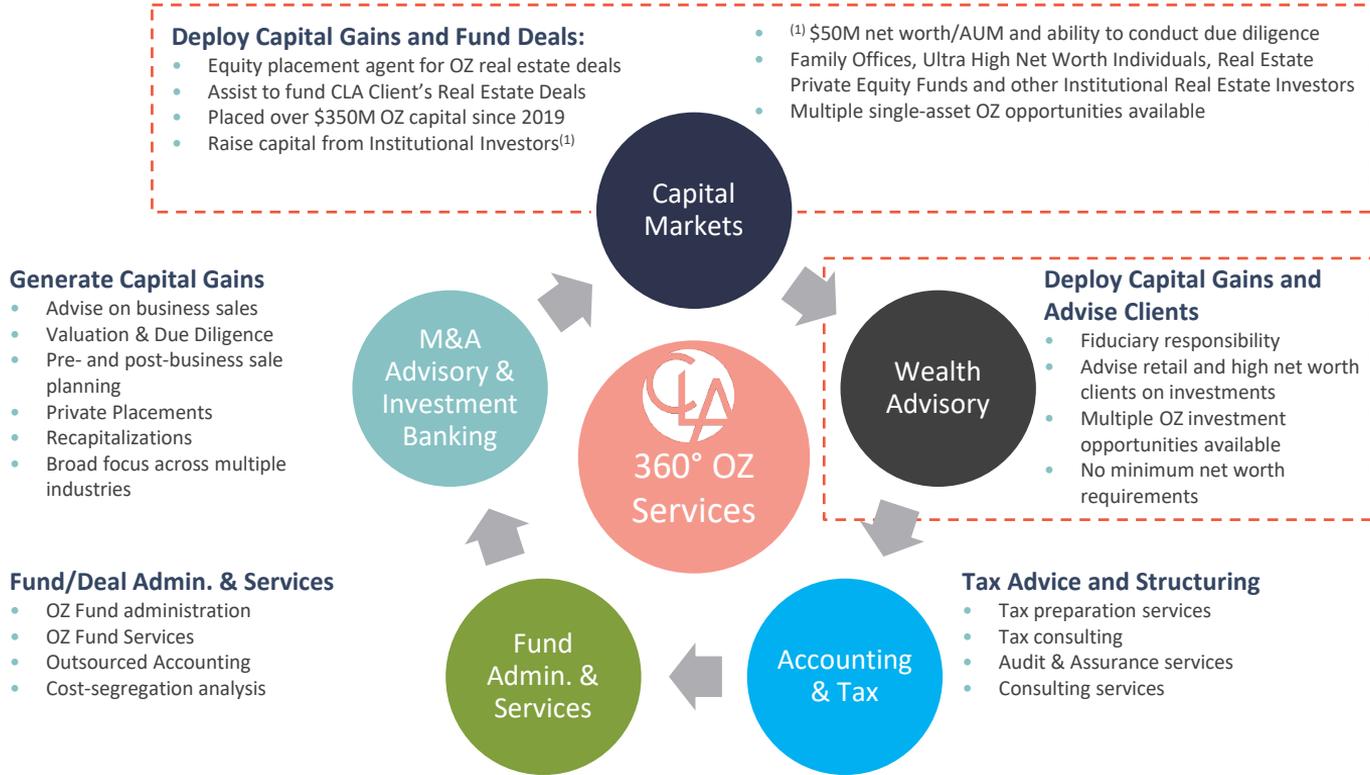
QOF Investment Focus, Residential and Commercial are Top Choice¹



1) Novogradac (<https://www.novoco.com/news/qofs-tracked-novogradac-surpass-20-billion-equity-raised>)

CLA and Opportunity Zones

CLA is uniquely positioned with a 360° view and service offerings for Opportunity Zone compliance and services. CLA has services to produce capital gains, deploy capital gains and service funds and sponsors that are putting together Opportunity Zone deals.



1) Institutional Investor: \$50M in net worth/AUM and ability to conduct due diligence and ability to conduct due diligence



CLA and Opportunity Zones

CLA is a leading service provider to the Opportunity Zones industry through a variety of different business lines and service offerings. Since 2019, CLA has advised on or placed over \$500M of private capital into Opportunity Zone deals and funds.



CLA Resources

CLA Opportunity Zones Landing Page:

- <https://www.claconnect.com/topics/opportunity-zones#Resources>

CLA Capital Markets Landing Page:

- <https://www.claconnect.com/services/wealth-advisory/real-estate-capital-markets>

CLA Developer Services Landing Page:

- <https://www.claconnect.com/industries/real-estate/real-estate-developers>



Questions

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor



Create Opportunities

CLA exists to
create opportunities —
for our clients, our people,
and our communities.

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor