

PRESENTED AT28th Annual LLCs, LPs and Partnerships

Jul 18-19, 2019

Austin, TX

Qualified Opportunity Zones**Christopher Alan Cunningham****Brandon S. Jones****Kevin Thomason**

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QUALIFIED OPPORTUNITY ZONES

CONTENTS

I.	Introduction.....	1
A.	Terminology	1
B.	Sources of Law.....	1
C.	Opportunity Zones.....	3
II.	Benefits	4
A.	The Deferral Benefit.....	4
1.	Recognition of Deferred Gain	5
2.	Character of Gain when Recognized	7
3.	Deferral and Inside/Outside Basis Discrepancy	7
B.	5-Year and 7-Year Benefits.....	7
C.	10-Year Benefit	8
III.	Obtaining QOZ Benefits	9
A.	“Eligible Taxpayer”.....	9
B.	Investment in QOF	9
C.	“Eligible Gain”	10
D.	180-Day Window	11
E.	Form 8949	12
IV.	Qualified Opportunity Fund (QOF).....	12
A.	QOF Formation and Self-Certification	12
B.	90% of Assets Test.....	13
C.	Consequences of 90% of Assets Test Failure	14
D.	Mixed-Funds QOF Investments	15
E.	Partnership Debt.....	15
V.	Qualified Opportunity Zone Business Property (QOZBP).....	15
A.	Owned Property Requirements	16
1.	Original Use.....	16
2.	Substantial Improvement.....	17
B.	Leased Property Requirements.....	18
C.	“Substantially All” of the Use vs. Holding Period.....	19
VI.	Qualified Opportunity Zone Business (QOZB).....	19
A.	70% of Assets Test.....	21

B.	50% of Gross Income Test	21
C.	40% of Intangible Property Test	22
D.	5% Financial Property Test	22
E.	Prohibited “Sin Businesses”	23
F.	“Active” Trade or Business	23
VII.	Thoughts on QOF/QOZB Structuring	24
A.	One-Tier Fund	24
B.	Two-Tier Fund	24
C.	Split Funds.....	25
D.	Multi-Asset Funds	26
E.	QOF REIT	27
VIII.	Selected Open Issues.....	28
A.	Outside of Leasing, What is an “Active” Trade or Business?	29
B.	What is “Reasonable Cause” that excuses a 90% of Assets Test Failure?	29
C.	Can a Partnership Invest Its 1231 Gain?	30
D.	Is “Substantially All” of the Holding Period a Retroactive Test?.....	30
E.	What is “Original Use” of Former Personal Use Property?.....	30
F.	What is “Insubstantial” Improvement?.....	31
G.	How is a Like-Kind Exchange Treated for the 90% of Assets Test?.....	31
H.	Can there be Marijuana QOZBs?	32

QUALIFIED OPPORTUNITY ZONES

I. INTRODUCTION

A. Terminology

Before discussing qualified opportunity zones, the tax benefits for investing in them, and how to obtain those benefits, we need to introduce the following key terms:

- Qualified Opportunity Zone (“**QOZ**”)¹, defined below in Part I.C, the low-income census tracts from which the benefits discussed below in Part II arise provided that investment is made as described below in Part III;
- Qualified Opportunity Fund (“**QOF**”)², defined below in Part IV, are the investment vehicles through which those investments in QOZs must be made to qualify for those benefits;
- Qualified Opportunity Zone Business Property (“**QOZBP**”), defined below in Part V, the property located in a QOZ which constitutes a QOF’s investment in that QOZ; and
- Qualified Opportunity Zone Business (“**QOZB**”)³, defined below in Part VI, a subsidiary business through which a QOF may invest in QOZs and QOZBP.

B. Sources of Law

The concept of QOZs and their benefits were created by Pub. L. 115-97, formerly known as the “Tax Cuts and Jobs Act.”⁴ Section 13823(a) of Title I of that act created Sections 1400Z-1 and 1400Z-2 of the Internal Revenue Code of 1988, as amended (“**IRC**”). IRC § 1400Z-1 defines QOZs and their designation by state authorities. IRC § 1400Z-2 defines the benefits of investing in a QOZ and how to obtain them (by investing in the QOZ through a QOF). In doing so, it defines the requirements and qualification of a QOF and a QOZB, as well as the QOZBP that the QOF or QOZB must invest in. These materials will concentrate on IRC§ 1400Z-2 and the proposed regulations that implement it.

Unfortunately, IRC § 1400Z-2 contains several drafting errors and left many necessary concepts either un- or under-defined. For example, in defining what gain may be deferred by investing in a QOF (see below in III.C for more on this topic), the title of IRC§ 1400Z-2 referenced

¹ QOZ is often pronounced “OZ,” as in the fictional land created by L. Frank Baum and visited by Judy Garland (also, another term for Australia).

² QOF is often pronounced “quaff,” as in to drink deeply.

³ QOZB is often pronounced “quazbee,” which rhymes with “Crosby” as in the singer-songwriter member of The Byrds and Crosby, Stills, Nash & Young and writer of Bob Dylan’s first number one hit, “Mr. Tambourine Man.” The Authors wish to thank Fleetwood Wynne McNabb Cunningham (Univ. of Texas J.D. ‘06) for educating her husband, co-Author Christopher Alan Cunningham, on all things classic rock. Thank you, Sweetie!

⁴ Section 13823(a), Title I, Pub. L. 115-97, 131 Stat. 2054 (Dec. 22, 2017). The name “Tax Cuts and Jobs Act” originally appeared in Senate version but was removed during the Conference process as part of resolving the differences between the House and Senate versions of the bill.

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First appeared as part of the conference materials for the
28th Annual LLCs, LPs and Partnerships session

"Qualified Opportunity Zones"