ECT Environmental Consulting & Technology, Inc.

U.S. Treasury approves Opportunity Zone applications

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The U.S. Department of the Treasury and the Internal Revenue Service (IRS) recently designated Opportunity Zones in all 50 states, the District of Columbia, and five U.S. possessions. The Tax Cuts and Job Acts created Opportunity Zones to encourage private investment in low-income communities across the country.

According to the IRS, this new act provides financial incentives in the form of tax benefits for investors that reinvest gains from a prior investment into a Qualified Opportunity Fund (QOF). The QOFs are set up as either a corporation or partnership to invest in an eligible property located in an Opportunity Zone. Investors who take advantage of this opportunity will be eligible to defer tax on any prior gains until they sell or exchange the investment, or by December 31, 2026.

According to the rules, if the investor holds the QOF investment for at least 10 years, they will be eligible for an increase in its basis, equal to the fair market value of the investment, on the date it is sold.

The benefits can also be combined with other incentives such as New Market Tax Credits (NMTC), Low-Income Housing Tax Credit (LIHTC), and historic Rehabilitation Tax Credit.

The Treasury and IRS plan to issue additional information on QOFs soon. However, it has already been determined eligible tax payers will need to self-certify to become a QOF. Accordingly, approval or action by the IRS will not be required. To self-certify, the IRS states a taxpayer will need to complete a form, which will be released in summer 2018 and attach that form to their federal income tax return for the taxable year.

Notably, QOFs can be used as a primary investment for a variety of activities, such as creating a new business, new commercial or residential real estate, and **energy and infrastructure**; it works for just about anything that creates productive economic activity. They also can be used to invest in existing businesses, if it doubles the investment basis over 30 months.

In Michigan, 288 census tract zones have been approved for this program – representing nearly every corner of the state. That said, several of these zones include massive tracts of both brownfield and greenfield spaces, some of which are no doubt conducive to **power generation facilities**, both of a **conventional and renewable** nature.

As new information is released by the IRS in the coming months, ECT will continue to follow this developing program, and the potential it might provide **energy sector clients** and **redevelopment authorities** looking to leverage the double bottom line returns earned on investments made in these designated Opportunity Zones.