



Understanding the Tax Cuts and Jobs Act of 2017

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What is it?

- A comprehensive tax reform bill
- It creates “Opportunity Zones” and “Opportunity Funds”
- Allocates \$3.5 Billion in New Markets Tax Credits



Opportunity Zones

- Governors of all 50 states and of Puerto Rico designate up to 25% of their high-poverty census tracts as Opportunity Zones.
- 5% of Opportunity Zone Tracts may be non low-income as long as they are contiguous to a qualified, nominated tract and their median income does not exceed 125% of the contiguous qualified tract.
- If there are fewer than 100 such high-poverty census tracts, the Governor may designate up to 25 tracts regardless of poverty level.



Opportunity Zones (cont.)

- Governors must choose areas that: (1) are currently the focus of mutually reinforcing state, local or private economic development initiatives to attract investment and foster startup activity; (2) have demonstrated success in geographically targeted development programs such as promise zones, the new markets tax credit, empowerment zones, and renewal communities; and (3) have recently experienced significant layoffs due to business closures or relocations.
- Treasury Secretary certifies the Governors' recommendations.



How Do They Work?

- Allows taxpayers to defer paying federal tax on capital gains from property sales if the gains are invested in Qualified Opportunity Funds that invest 90% of their assets in businesses located or property used in a designated low-income community.
- Investors receive modest tax reductions if they maintain their investments for at least 5 and/or 7 years.
- Investors that hold capital in those funds for 10 years do not have to pay capital gains tax on the appreciation of their Opportunity Zone investments.



NMTC vs Opportunity Zones

- New Market Tax Credits (“NMTC”) and Opportunity Zones are similar but distinct.
- NMTC are normally used to subsidize loans to qualified businesses in low-income communities. Opportunity Funds are required to use funds from deferred gains to make equity investments or acquire property in Opportunity Zones.
- NMTC is subject to an annual limit; recently it has been \$3.5 Billion. Opportunity Zones have no limits.



Maintaining Competitiveness

- The Governance Project recommends four principles that should guide the selection and development of Opportunity Zones.
- (1) Identify areas that demonstrate both social need and market traction.
- (2) Link capital investments to human capital strategies to maximize impact for lower income residents.



Maintaining Competitiveness (cont.)

- (3) View Opportunity Fund investment capital as integral to a comprehensive, multi-year investment strategy that leverages and partners with additional public, private, and independent sector debt and equity providers to build sustainable businesses, ensure a skilled workforce, and strengthen community development.
- (4) Ensure a high quality data system to collect information on investments and provide a feedback loop for ongoing measurement and improvement.

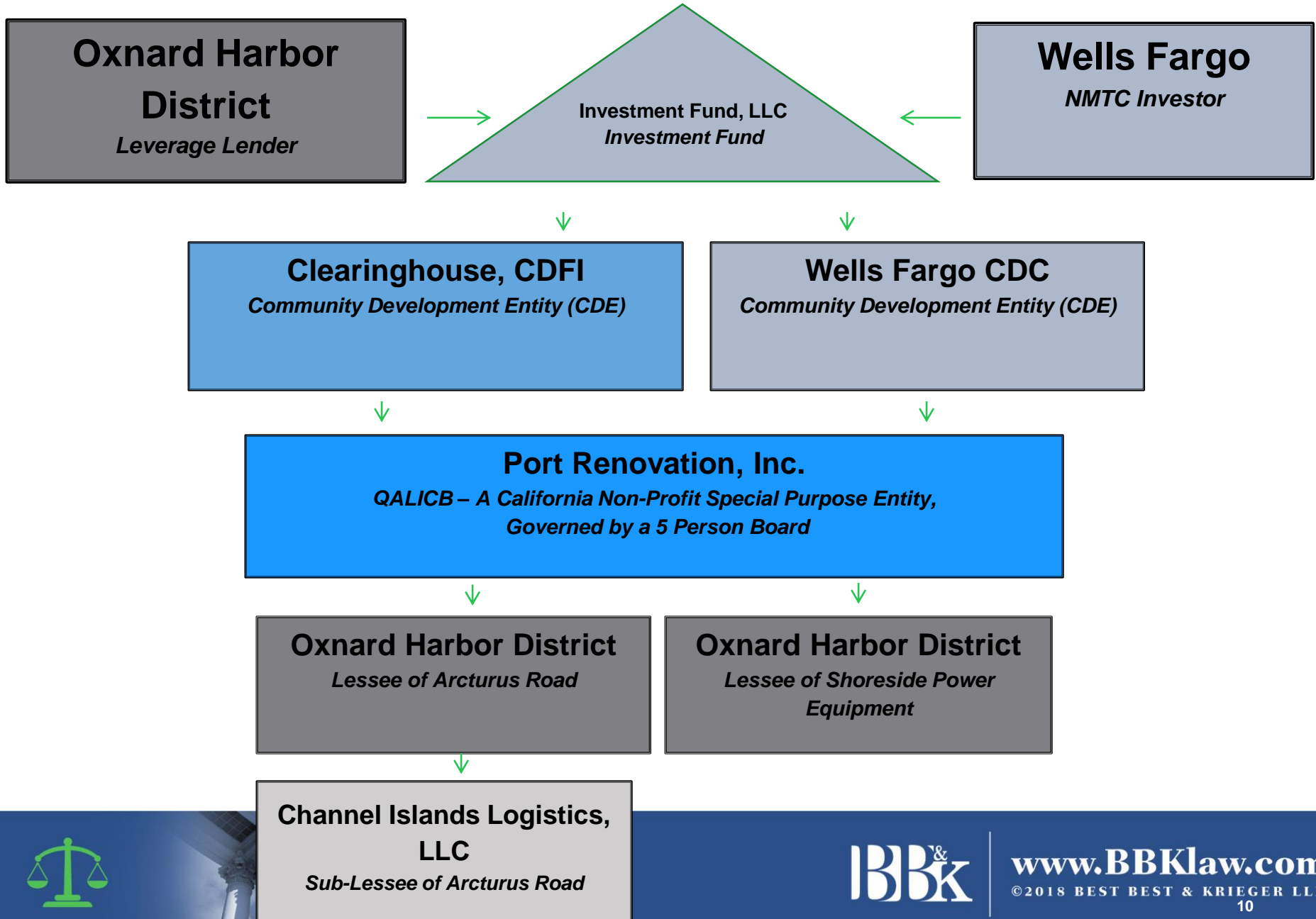


Why Does this Matter?

- Some say there is \$2.3 Trillion in unrealized capital gains on stocks and mutual funds. Opportunity Zones can be the recipients of that capital.
- Congress intends to preserve incentives for affordable housing expansion, **economic development investment** in low-income communities, and development of specific renewable energy technologies, including solar and wind, as well as encouraging **increased investment into capital assets, including equipment**, for the expanded production of income.



Port of Hueneme - NMTC Structure



Port of Hueneme NMTC

- Emissions reduction – up against a looming deadline.
- Shoreside Power is part of the answer.
- Where's the money?
- Enter: New Markets Tax Credits
- Our story



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Hueneme's NMTC Story

- The Money
- The Need
- The Politics
- The Project evolves



NMTC Basics

- The Power
- The Players
- The Priorities
- The Process



Questions and Thanks

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