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## What are Opportunity Zones?

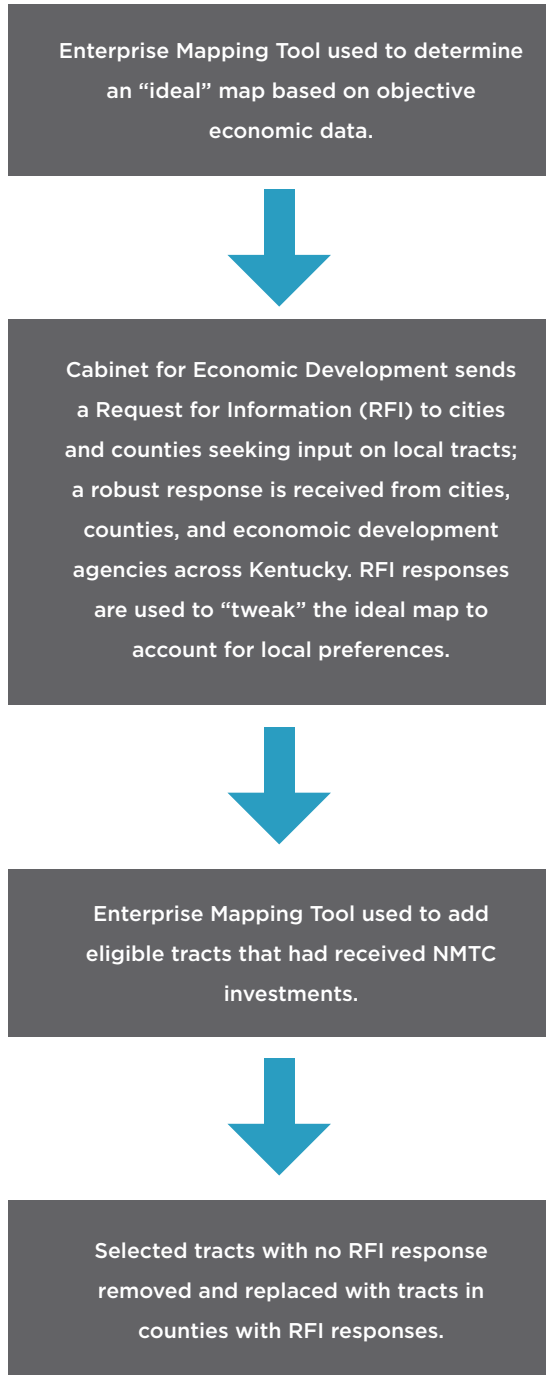
- Opportunity Zones are low-income, distressed and contiguous districts where investors can receive significant federal tax breaks and deferrals for investing in a variety of economic development projects.
- The federal Tax Cuts and Jobs Act of 2017 allowed each state's governor to nominate certain census tracts as Opportunity Zones. Governors were required to submit nominations by March 21, 2018 or request a 30-day extension by that date.
- Gov. Bevin submitted Kentucky's nominations on March 21. On April 9 the Treasury Department certified those nominations, designating 144 Kentucky census tracts as Opportunity Zones.
- Opportunity Zones are effective for 10 years and are intended to assist both existing businesses and new businesses.
- Opportunity Zones can be used for redevelopment of blighted amenities and other infrastructure.
- Opportunity Zones should be used to create wealth and jobs: the goal is to make communities self-sufficient.

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## 1. How many Opportunity Zones could Kentucky select?

- Per the Department of Treasury, Kentucky has 573 low income census tracts. Up to 25 percent of those, or 144 tracts, could be designated as Opportunity Zones. Of those 144 tracts, 5 percent, or 8 tracts, could be certain non-low-income tracts that are contiguous to low-income tracts designated as Opportunity Zones.
  - To qualify as “low-income,” a census tract must meet one of the following qualifications:
    1. The tract has a poverty rate of at least 20 percent; OR
    2. (A) For a census tract in a metropolitan area, the tract's median family income does not exceed 80 percent of the greater of: the metropolitan area median family income or the statewide median family income; or  
(B) For a census tract in a non-metropolitan area, the tract does not exceed 80 percent of the statewide median family income.
- To qualify as a “contiguous” tract, a tract must be contiguous with a low-income tract designated as an Opportunity Zone and have a median family income less than 125 percent of the median family income of the contiguous low-income zone.

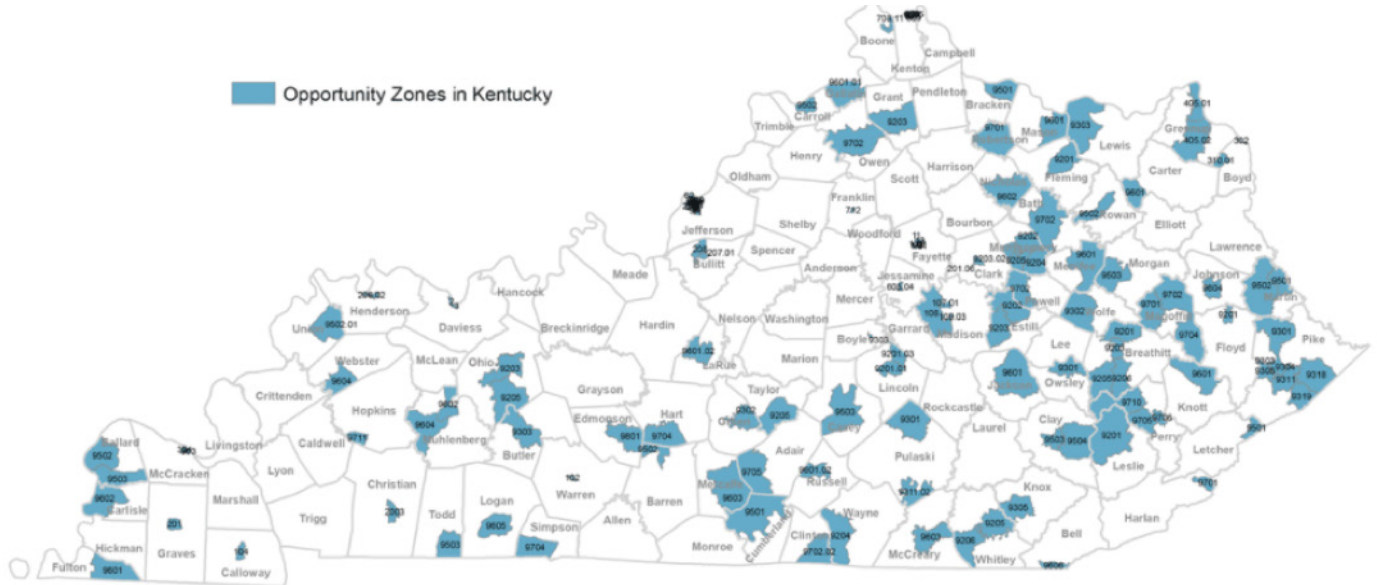
## 2. How were the Opportunity Zones selected?



- Step 1: The Enterprise Mapping Tool was used to determine the “ideal” Opportunity Zones based on capturing the qualified census tracts that fell between the 0-60 percent markers in five economic indicators: housing stability, education, mobility, economic security and health.
- Step 2: The Cabinet sent a Request for Information (RFI) to all judge-executives and mayors in Kentucky seeking information regarding preferred census tracts for designation, the current use of those tracts, and proposed usage of those tracts should investments be available. The Cabinet received 67 responses to the RFI. Many of those responses were regional, and the responses included information about hundreds of census tracts from across Kentucky. The RFI responses were overlaid on the “ideal” map to account for local input and preferences.
- Step 3: The Enterprise Mapping Tool was used to identify and add eligible tracts that had received New Market Tax Credit Investments. On a call with the White House regarding Opportunity Zones, it was conveyed that these Opportunity Zones were intended to be complimentary to NMTC. These tracts have also demonstrated that they can attract investments.
- Step 4: Proposed tracts that were identified in Steps 1 and 3 for which no RFI was received were removed. These were replaced with tracts from counties who did submit RFI responses but did not yet have a selected tract included in the proposal. Every county who submitted an RFI response has at least one census tract designated. This was to again account for local input and preferences.

### 3. Where are Kentucky’s Opportunity Zones?

- Kentucky nominated, and the Treasury Department certified, 144 census tracts as Opportunity Zones. This was the maximum number allowed. There are 84 counties with Opportunity Zones. Opportunity Zones are spread across Kentucky, with one or more Opportunity Zones being within driving distance of all Kentuckians. Visit KYOZ.com for an interactive map.



### 4. How do investors invest in an Opportunity Zone?

- Investments in Opportunity Zones must be made through Qualified Opportunity Funds. Those are investment vehicles set up as either a partnership or corporation for investing in eligible property located in one or more Opportunity Zones. Investors must contribute only money to Opportunity Funds that has been generated through prior investments.
- To become a Qualified Opportunity Fund, an eligible taxpayer self-certifies (thus, no approval or action by the IRS is required). To self-certify, a taxpayer merely completes a form (which will be available in summer 2018) and attaches that form to the taxpayer’s federal income tax return for the taxable year. The taxpayer’s return must be filed timely, taking extensions into account.
- Over the next few months, the Treasury Department and the IRS will provide further details, including additional legal guidance, on this new incentive. More information will be available at Treasury.gov and IRS.gov, as well as at KYOZ.com.

## 5. What is the advantage of investing in an Opportunity Zone?

- Designation as an Opportunity Zone allows certain investors in these zones to realize significant federal tax advantages, specifically:
    - A temporary tax deferral for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is sold or December 31, 2026.
    - A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis of the original investment is increased by 10 percent if the investment in the qualified opportunity zone fund is held by the taxpayer for at least 5 years, and by an additional 5 percent if held for at least 7 years, excluding up to 15 percent of the original gain from taxation.
    - A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in a qualified opportunity zone fund, if the investment is held for at least 10 years. (Note: this exclusion applies to the gains accrued from an investment in an Opportunity Fund, not the original gains).
  - The purpose of these tax advantages is to attract capital investment into economically distressed areas.
  - The IRS has not yet released guidelines for Opportunity Funds but is expected to do so soon.
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## 6. Do other states have Opportunity Zones?

- All states were permitted to designate Opportunity Zones. Kentucky was one of the first 18 states with Opportunity Zones certified.
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## 7. How will Kentucky maximize the benefit of Opportunity Zones?

- The Kentucky Cabinet for Economic Development has been charged with administering the state's Opportunity Zones. The Cabinet, in cooperation with local communities, will maintain and disseminate updated, current information about available sites and opportunities for investment in Opportunity Zones, established Opportunity Funds, and other information necessary to connect investors with opportunities in Kentucky.
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## 8. Where can more information be found?

- The Cabinet will post all information related to Opportunity Zones, including updated federal guidance and regulations and information about investment opportunities, at [KYOZ.com](http://KYOZ.com)