

# OPPORTUNITY ZONES

## A UNIQUE INVESTMENT STRATEGY

### WHAT IS AN OPPORTUNITY ZONE?

Opportunity Zones are regions classified by state and federal governments as economically distressed. Investments within these areas are incentivized with certain tax benefits.

### WHAT ARE OPPORTUNITY ZONE FUNDS?

Opportunity Zone Funds are special purpose investment vehicles that allow investors to benefit from the tax incentives available to them through their investments in opportunity zones.

## REINVESTMENT ELIGIBILITY

Capital gain events eligible for reinvestment into Opportunity Zone Funds include:

- ✓ Long Term Gains
- ✓ Short Term Gains
- ✓ 1031 Exchange Gains
- ✓ Gains from Business Assets
- ✓ Stock Gains
- ✓ Gains from Sale of Property

Sources of income that do not qualify for reinvestment into Opportunity Zone Funds include:

- ✗ IRA Distributions
- ✗ Ordinary Income
- ✗ Interest/Dividends from Prior Investments



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# TAX INCENTIVES & ADVANTAGES

Reinvesting capital gains into Opportunity Zone Funds provides several tax incentives:



## DEFER TAX PAYMENTS

By timely reinvestment of capital gains into an Opportunity Zone Fund, the investor can defer tax payments on their original gains until December 31, 2026 or until the fund investment is exchanged or sold, whichever date is earliest.



## STEP-UP IN BASIS

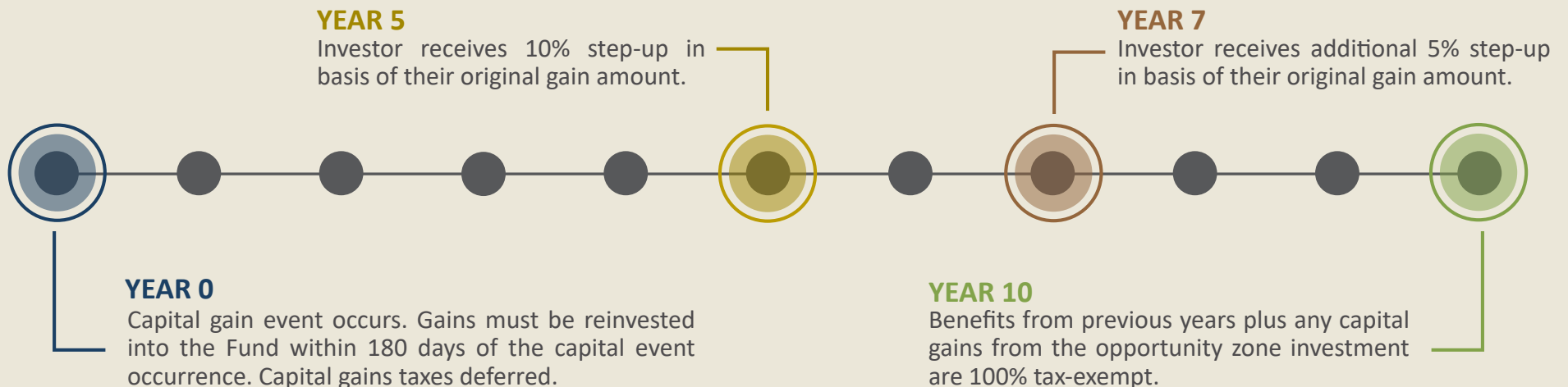
The basis of the reinvestment of capital gains into an Opportunity Zone is increased by 10% if held at least 5 years, and by an additional 5% if held for at least 7 years, thus excluding up to 15% of the original gain from taxation. To receive the full 15% step-up in basis, the investor must commit to an Opportunity Zone investment prior to 12/31/19.



## LONG TERM ADVANTAGES

Investors who remain in the Fund for ten years will not pay capital gains taxes on any appreciation from their original investment amount. This exclusion is permanent.

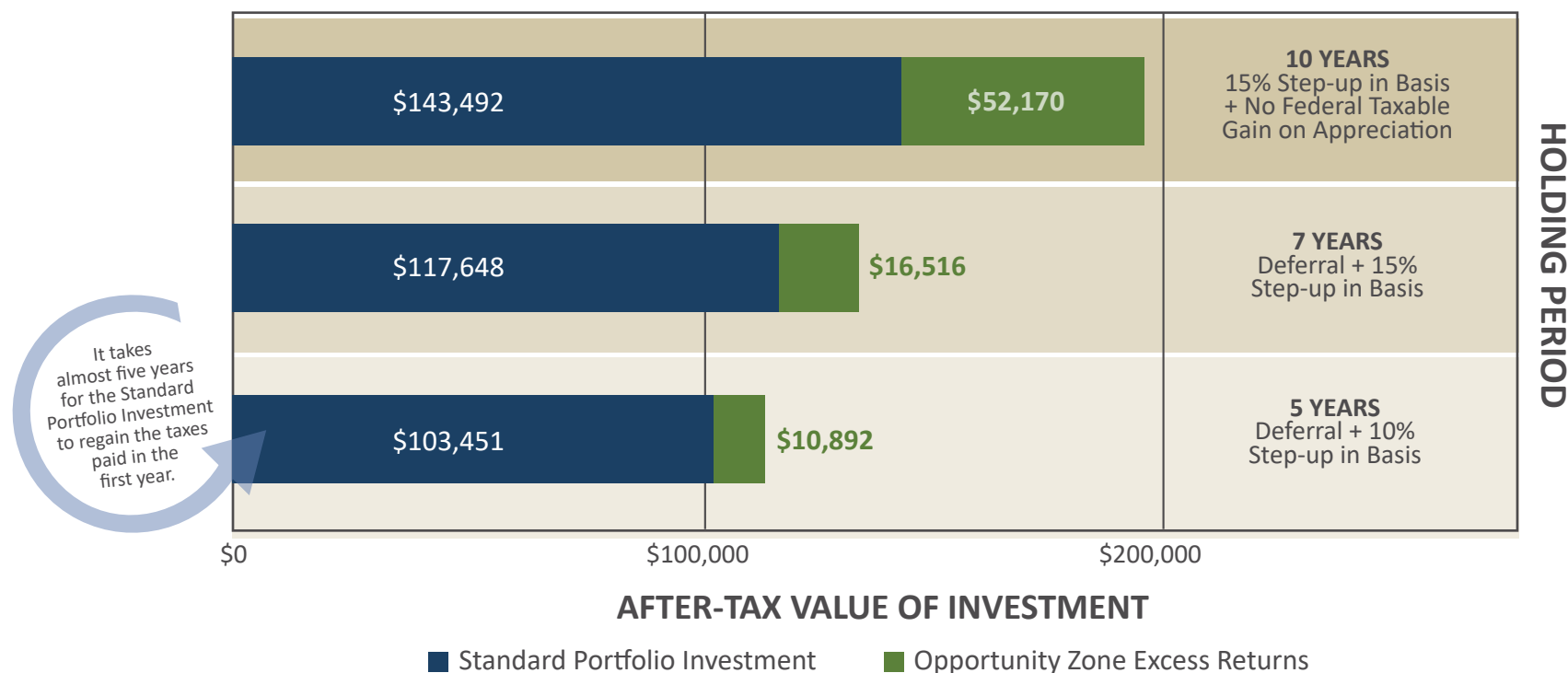
## TIME LINE TO MAXIMIZE TAX INCENTIVES



# A COMPARATIVE ILLUSTRATION:

## Investing in an Opportunity Zone vs. Standard Portfolio Investment

SCENARIO: A CAPITAL GAIN OF \$100,000 IS REINVESTED



The above illustration assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 8% for both the Opportunity Zone and Standard Portfolio Investment. This chart is merely to illustrate the tax advantage of the Opportunity Zones and is not a reflection of actual results, nor is it a guarantee of future gains. Investing in any financial instrument entails risk of loss.

### QUALIFIED OPPORTUNITY ZONE RISKS

- Failing to stay invested in an Opportunity Zone or Qualified Opportunity Zone Fund would decrease or even eliminate the tax advantage.
- Tax laws may change between now and the end of the investment period which could be in excess of 10 years.
- Final IRS tax regulations have not been issued as of January 31, 2019.
- Be sure to read the specific fund documents for additional risks specific to the investments of that fund.

## RESEARCH & REVIEW

SFMG has dedicated resources to properly research the details of Qualified Opportunity Zone Funds and review the investments associated with them.

## DISCOVERY

SFMG has determined that while several tax advantages do exist, investing in Opportunity Zone Funds solely for these benefits without regard to our normal standards of investing is not prudent.

## DUE DILIGENCE

As the demand for Opportunity Zone investments increase, strong due diligence is critical to ensuring the investment has merit beyond the tax benefits.



## TRUSTED FUND SPONSOR

SFMG has worked to identify fund sponsors we would be comfortable investing with even without Opportunity Zone tax advantages.

## THE RIGHT LOCATION

There are over 8,900 Opportunity Zones, many in areas that have experienced gentrification or are situated near airports and universities. SFMG has worked to identify funds focused within these areas.

## THE RIGHT INVESTMENT

SFMG has approved a fund sponsor who is focused on hotel development within Qualified Opportunity Zones and who will continue to source additional funds that meet our criteria.

# HOW SFMG SELECTED THEIR FIRST OPPORTUNITY ZONE FUND SPONSOR

1

**PROVEN TRACK RECORD:** The fund sponsor has a successful track record developing and investing in institutional quality hotels and is well suited to apply their existing strategies within Qualified Opportunity Zones.

2

**FAMILIAR WITH OZ FUNDS:** The fund sponsor identified that 6 of their 12 upcoming development projects fell within Opportunity Zones and made a strategic decision to form an Opportunity Zone Fund for these opportunities.

3

**EXPERIENCED:** The fund sponsor has shown experience with Opportunity Zone regions, as historically 1/3 of their development deals have resided in or within 1 mile of Opportunity Zones.

4

**FUND SPONSOR WITH EXPERTISE:** The fund sponsor has a successful track record and proven expertise in hotel development, hotel redevelopment, and hotel debt financing. The three founders have spent their entire career in the hotel industry.

5

**ASSOCIATED COSTS ARE FAIR:** The fund fees and cost are appropriate and reasonable.

6

**INTERESTS ARE ALIGNED:** The fund sponsors are personally invested in the deal pari-passu (side-by-side and on equal terms) with limited partners.

*Be sure to read the specific fund documents for additional risks specific to the investments of that fund.*

## ABOUT SFMG WEALTH ADVISORS

Founded in 1992, SFMG Wealth Advisors (a Texas LLC), is a leading independent fee-only firm serving families in North Texas and across the country. For more than 25 years the firm has been devoted to helping clients and their families achieve *Confidence for Life™* through highly personalized planning solutions, an unwavering commitment to exceptional service, and a customized approach to investment management offering unique public and private investment opportunities. To learn more about SFMG Wealth Advisors, please visit [www.SFMG.com](http://www.SFMG.com).



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