**Qualified Opportunity Zone Tax Incentives Summary**

A. **Definitions**.

These are high-level definitions of key terms. Each is discussed in further detail below.

1. **Qualified Opportunity Zone ("QOZone"):** A census tract which has been designated as eligible to receive private investments through Opportunity Funds.
2. **Qualified Opportunity Fund ("QOFund"):** Private investment vehicle, certified by the Treasury, to aggregate and deploy capital in Qualified Opportunity Zones for eligible uses defined as Opportunity Zone Property.
3. **Qualified Opportunity Zone Property ("QOZProperty"):** Asset types eligible for investment under the QOZone Program.
4. "**QOZone Business"** is a trade or business in which substantially all of the tangible property owned or leased by the taxpayer is QOZone business property (explained below at C.3.); which derives at least 50% of its gross income from the active conduct of a business within the QOZone and in which a substantial portion of the business' intangible property is used in the active conduct of the trade or business;

B. **Opportunity Funds**.

QOFunds are a new class of investment vehicles (organized as a corporation or a partnership) that specialize in aggregating private investment and deploying that capital in QOZ's to support QOZProperty:

1. A **minimum** of 90 percent of QOFund assets must be invested in QOZ's.
2. The **statute** does not limit the number of funds that can be created, nor does it provide instruction on the nature of investments (i.e., risk/return profile).
3. The QOFund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in a QOZ and that utilizes the investor's gains from a prior investment for funding the QOFund.

C. **Qualified Opportunity Zone Property**.

QOFunds invest (90%) in QOZProperty, which are defined as the **following three types of property**:

1. **QOZone stock** – **any** stock in a domestic corporation if:
   (a) The stock is acquired by the QO Fund after Dec. 31, 2017 from the corporation solely in exchange for cash,
   (b) As of the time that the stock was issued, the corporation was a **QOZone Business (defined above)** (or, in the case of a new corporation, the corporation was being organized for purposes of being a QOZone business), and
   (c) During substantially all of the QO Fund's holding period for the stock, the corporation qualified as a QOZone business.
2. **QOZone partnership interest** – any capital or profits interest in a domestic partnership if:
   (a) The interest is acquired by the QO Fund after Dec. 31, 2017, from the partnership solely in exchange for cash,
   (b) As of the time the interest was acquired, the partnership was a **QOZone Business (as defined above)** (or, in the case of a new partnership, the partnership was being organized for purposes of being a QO Zone Business), and
   (c) During substantially all of the QOFund's holding period for the partnership interest, the partnership qualified as a QOZone business.
3. **QOZone business property** –**tangible** property used in a trade or business of the taxpayer if three requirements are satisfied:
   (a) The property was acquired by the QOZone Business by purchase after Dec. 31, 2017.
   (b) The original use of the property in the QOZone commences with the QOFund or the QOFund substantially improves the property. For this purpose, property is treated as substantially improved by the taxpayer only if, during any 30-month period beginning after the date of acquisition of the property, additions to basis with respect to the property in the QOFund's hands exceed an amount equal to the adjusted basis of the property at the beginning of the 30-month period.
   (c) During substantially all of the QO Fund's holding period for the property, substantially all of the use of the property was in a QOZone.

D. **Tax Incentives for Investors**.

The QOZ Program provides an incentive for investors to reinvest unrealized gains into QOFunds in exchange for a temporary tax deferral and other benefits tied to long-term holdings. (This treatment is generally available to gains within 180 days after gain occurs by a taxpayer election process)

**The provision has two main tax incentives to encourage investment**:

1. **Temporary Deferral**: **allows** for the temporary deferral of inclusion in gross income for gains that are reinvested into Qualified Opportunity Funds. The initial tax basis for investments funded by the gains is zero.
   (a) Investors can roll existing capital gains into QOFunds with no up-front tax bill.
   (b) If investors hold their QOFund investments for five years, the basis of their original investment is increased by 10 percent (meaning they will only owe taxes on 90 percent of the rolled-over capital gains). If investors hold for seven years, the basis increases by a further 5 percent.
   (c) Investors can defer their original tax gain until December 31, 2026 at the latest, or until they sell their QOFund investments, if earlier.
2. **Permanent Exclusion**: excludes from taxable income capital gains on QOFund investments held for at least 10 years. In other words, under this permanent exclusion, any post-acquisition capital gains on investments in QOFunds that are held for at least ten years are excluded from gross income.

E. **QOFund Certification**.

Once the zones are designated, Treasury will provide formal guidance on QOFund certification. Currently, the Statute only outlines two requirements regarding structure and intent of these funds:

1. Must be **organized** as a corporation or a partnership; and
2. Invest a **minimum** of 90 percent of assets in Opportunity Zones.

Given the straightforward nature of statute requirements, it is unclear whether additional qualifications will be made. In a series of IRS Q&A's, the IRS currently states:

"Qualified Opportunity Fund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in an Opportunity Zone and that utilizes the investor's gains from a prior investment for funding the Opportunity Fund."

"To become a 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 released in the summer of 2018) and attaches that form to the taxpayer's federal income tax return for the taxable year. (The return must be filed timely, taking extensions into account.)"

Note that this self-certification process may change after IRS regulations come out.

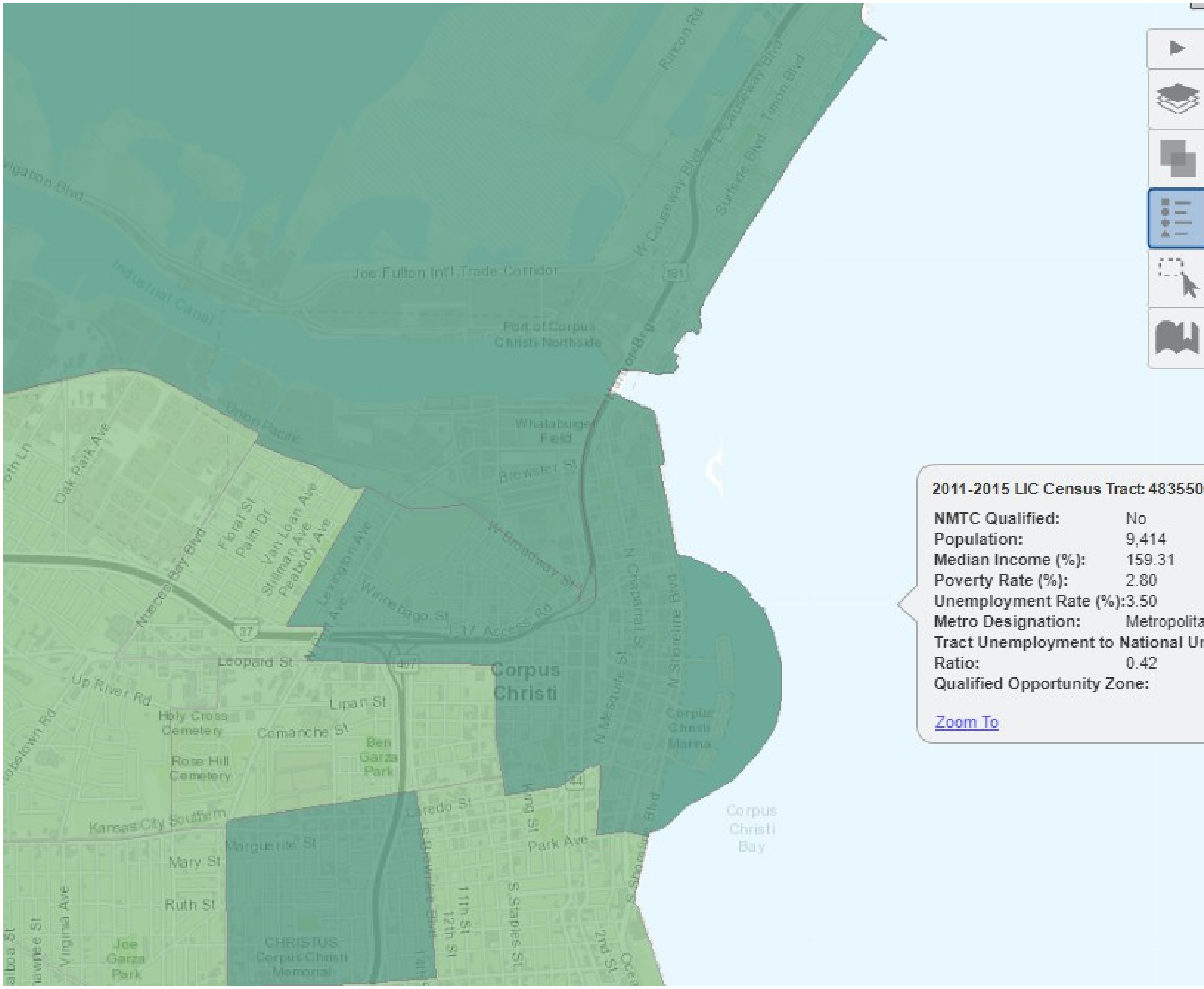
F. **Mixed Investments.**

If only a portion of the investment in QOFund is gain deferred, then the investment is treated as two separate investments in a QOFund, consisting of (1) an investment that only includes deferred gain, and (2) another investment which is not deferred gain. The temporary gain deferral rules, the gain inclusion rules, and, the permanent exclusion election rules only apply to the investment described in item (1).

T initially invests $1.25 million ($1 million gain and $250,000 in additional cash) in the QOFund. T's investment in the QO Fund is treated as two separate investments. One investment consists of $1 million (the temporary gain deferral election applies) and the other investment consists of T's f $250,000 cash (not eligible for QOZ tax benefits).

G. **Overview.**

Eligible taxpayers must make their investments in qualified opportunity zone property through a QOZFund, i.e. as described above, an investment vehicle organized as a corporation or a partnership for the purpose of investing in and holding at least 90 percent of its assets in QOZone property.



2011-2015 LIC Census Tract: 4835500
NMTC Qualified: No
Population: 9,414
Median Income (%): 159.31
Poverty Rate (%): 2.80
Unemployment Rate (%):3.50
Metro Designation: Metropolita
Tract Unemployment to National Un
Ratio: 0.42
Qualified Opportunity Zone:
Zoom To
Rincon Rd
Timon Blvd
Surfside Blvd
W. Causeway Blvd
181
Industrial Canal
Joe Fulton Int'l Trade Corridor
Port of Corpus Christi-Northside
Union Pacific
Whataburger Field
Brewster St
W Broadway St
Oak Park Ave
Nueces Bay Blvd
Floral St
Palm Dr
Van Loan Ave
Stillman Ave
Peabody Ave
Lexington Ave
Winnebago St
I-37 Access Rd
37
Leopard St
407
Corpus Christi
Up River Rd
Lipan St
Holy Cross Cemetery
Comanche St
Ben Garza Park
Rose Hill Cemetery
N Chaparral St
N Shoreline Blvd
N Mesquite St
Corpus Christi Marina
44
Laredo St
Kansas City Southern
King St
Park Ave
Marguerite St
Mary St
Ruth St
Virginia Ave
Joe Garza Park
CHRISTUS Corpus Christi Memorial
11th St
12th St
S Staples St
2nd St
Corpus Christi Bay