Opportunity Zones Hot Topics

This summer marks five years since the effective launch of the opportunity zones (OZ) incentive. In this episode of Tax Credit Tuesday, Michael Novogradac, CPA, and guests John Sciarretti, CPA, and Jason Watkins, CPA, discuss OZ hot topics, such as the recently introduced Small Business Jobs Act, which would create rural opportunity zones and create reporting requirements. They also discuss eight common OZ mistakes and how to avoid or correct them.

Summaries of each topic:

1. Introduction (00:00-03:50)
2. Opportunity Zones Transparency, Extension and Improvement Act (03:51-25:39)
3. Eight Common Opportunity Zones Mistakes
   - Mistake #1: Self-Certification (25:40-29:03)
   - Mistake #2: The Penalty Calculation for Failing the 90% Test (29:04-35:14)
   - Mistake #3: Not Having a Working Capital Safe Harbor Plan/Schedule (35:15-39:00)
   - Mistake #4: Acquiring Property Directly with a Qualified Opportunity Fund (39:01-44:28)
   - Mistake #5: Not Setting Up Partnerships Correctly (44:29-47:43)
   - Mistake #6: Trying to Sell a QOZB Partnership Interest Directly to a QOF (47:44-51:04)
   - Mistake #7: Not Knowing the Considerations of Mixed-Fund Investments (51:05-54:04)
   - Mistake #8: The 10-Year Hold Clock (54:05-57:05)
4. Other OZ Reminders (57:06-1:00:50)
5. Conclusion (1:00:51-1:03:37)
6. Off-Mike Section (1:03:38-1:10:09)

Editorial material in this transcript is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding tax credits or any other material covered in this transcript can only be obtained from your tax adviser.

© Novogradac & Company LLP, 2023. All rights reserved. Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law. For reprint information, please send an email to cpas@novoco.com.
Transcript

Introduction

[00:00:10] Michael Novogradac, CPA: Hello, I'm Michael Novogradac and this is Tax Credit Tuesday. This is the July 11th, 2023, podcast. This summer marks five years since the effective launch of the opportunity zones incentive. Opportunity zones allow taxpayers to defer a portion of their capital gains and receive other tax benefits in return for investing in designated underserved areas.

The opportunity zones incentive was created as part of the Trump Tax Cuts enacted at the end of 2017. However, actually making investments in opportunity zones was impossible until the states nominated census tracts and then the Internal Revenue Service officially designated them as opportunity zones. That occurred in June of 2018.

That's just a little over five years ago now. In the years since we’ve seen tens of billions of dollars invested in opportunity zones through qualified opportunity funds, those being the vehicle through which investments are made. On prior episodes of Tax Credit Tuesday, we’ve addressed guidance from the Treasury Department, the semi-annual reports from Novogradac on opportunity zones investment, and much, much more.

In today's podcast, we're going to address some key current issues concerning the opportunity zones incentive. Now, as this comes as no surprise to our listeners, we at Novogradac focus on helping our clients use opportunity zones to access capital to invest in distressed areas. In light of that, I’m pleased to share that in a little more than three-and-a-half months, we’re going to be hosting the Novogradac 2023 Fall Opportunity Zones Summit in Washington, D.C.

Now the specific date is Wednesday, Nov. 1. Our one-day Opportunity Zones Summit is being held the day before our 2023 Fall Renewable Energy and Environmental Tax Credits Conference. That being Nov. 2-3 and both the Summit and Renewable Energy Conference will be hosted at the same hotel. So that's a great chance to attend both events and network with opportunity zones as well as renewable energy professionals.

Now let's get back to today's podcast. We're going to break this episode into two major sections. In the first half, my guests will discuss the Small Business Jobs Act legislation recently introduced in the House of Representatives.

That bill includes provisions that would effectively expand the number of opportunity zones as well as implement reporting requirements. We'll discuss both aspects of that bill with respect to opportunity zones in more detail. The other topic we'll review are some of the more common opportunity zones
compliance mistakes, now, mistakes made by qualified opportunity funds and qualified opportunity business more specifically. Joining me for this discussion today are two of Novogradac leading experts on opportunity zones, and many of our listeners know who those two are, my partner John Sciarretti and Novogradac Principal Jason Watkins. John is based in Novogradac's Dover, Ohio, office and is a frequent guest on Tax Credit Tuesday, and Jason is based in Novogradac's Metro Atlanta office.

John and Jason do work in multiple practice areas at Novogradac, including the new markets tax credit and historic tax credits, as well as opportunity zones. I'll note that John leads our Opportunity Zones Working Group, and Jason is heavily involved as well. John has written several blog posts about investments in qualified opportunity funds, and I note that he will soon be publishing a post about investment data through June 30 of this year.

There's a lot that we want to get to, so if you're ready, let's get started.

Opportunity Zones Transparency, Extension and Improvement Act

[00:03:51] Michael Novogradac, CPA: John and Jason, welcome back. I should say, John, welcome back to Tax Credit Tuesday. Jason, welcome to Tax Credit Tuesday.

[00:04:00] John Sciarretti, CPA: Great to be back, Mike.

[00:04:02] Jason Watkins, CPA: Yeah, it's great to be invited to my first episode, so thank you.

[00:04:05] Michael Novogradac, CPA: Yes, and Jason, this is your first, we'll be inviting you back. So last month, as I noted in the intro, in June, the House Ways and Means Committee Chair Jason Smith introduced the Small Business Jobs Act to promote the growth of small businesses.

Now, as noted in my intro, two provisions of the bill would expand and enhance opportunity zones. So, Jason, since you're new to the podcast, I figured why not start with you? If you could please walk us through the two headline provisions of that bill that relate to opportunity zones.

[00:04:41] Jason Watkins, CPA: Sure. Thank you. The bill, the portion of the bill, or a portion of the bill would create rural opportunity zones.

And so these are opportunity zones that are located in rural areas that have suffered through persistent poverty over the past 30 years. And so the, this new bill, the actual makeup of the bill is really similar to the existing opportunity zones incentive. And I'll go through those in more detail shortly.

First off, the definition of what a rural opportunity zone is. It is required to meet two criteria. First, it has to be located in a rural county. And then secondly, the, as I mentioned before, it has to have suffered through persistent poverty for the last 30 years. And these are defined within the bill itself.
[00:05:26] Jason Watkins, CPA: And these are, this, these are data points that are provided by the U.S. Census Bureau, that makes it possible to see where these tracts are actually located. So under this incentive, would allow for the deferral of capital gains similar to the existing incentive, but this now would be through the year 2032.

So the bill, if enacted, would allow for investments beginning Jan. 1st, 2024. So up to a nine-year deferral period through 2032. Other than that, the incentives are really similar. There are basis step ups at five years and seven years that allow for a portion of the deferred gain to be tax free.

And then if the investors hold their investment for 10 years, that subsequent gain at exit can also be tax free. The rest of the tax, like I said, is pretty identical, sets up funds, qualified rural opportunity funds and qualified rural opportunities on businesses. The one big change, that we see in, for this bill is that it would require reporting requirements both from these newly created rural opportunity funds and then also with existing opportunity fund, opportunities zones incentives. So existing funds and existing qualified opportunities zones businesses would be subject to these new reporting requirements. And folks who have followed the other legislation that’s been introduced such as the Opportunity Zones Transparency, Extension and Improvement Act, will note that these reporting requirements are almost identical to what was in that OZ Transparency, Extension and Improvement Act that was introduced during the last congressional session.

We expect it to be hopefully reintroduced soon during the current session. The one big change is that there are no additional investor reporting requirements within this bill and those additional investor reporting requirements are in the OZ Transparency, Extension and Improvement Act.

So thank you for that, Jason. If I’m a listener, I’m thinking, okay, we’re going to have these, you know, rural opportunity zone census tracts. And then the question becomes how many do we think we’ll have? So what can you share about the types of rural, where how many rural opportunity zones there’ll be, and any other information about the projected rural opportunity zones?

[00:07:44] Jason Watkins, CPA: Sure. Like I said, the two criteria that had to be met are that it, the census tract, has to be located in a rural county and part of the 2020 U.S. Census, all the rural counties have been identified. Additionally, the census tract has to be subject or be in a persistent poverty status over 30 years.

And so that's also a census report that can be, that is provided. And so by intersecting those two lists, we're able to determine that there would be under this bill, 1,926 census tracts that would meet both criteria. And these are census tracts that are located, they're actually in 46 of the states.

Even states that are more typically seen as primarily urban do still have these tracts. However, the bulk of the tracts are concentrated in the southeast, Midwest, Appalachia, those areas. And so, the top six
tracts, as far as the, or top six states as far as the number of rural opportunity zones are all located in these areas.

Jason Watkins, CPA: That’d be Kentucky, Mississippi, Georgia, Louisiana, Texas and Alabama. And each one of those states has at least 100 census tracts that would be rural opportunity zones. We did actually prepare an entire list of these that we have shared with members of our Opportunity Zones Working Group so that they can get a jump on doing some additional research into these areas and to see if there might be some potential investments for their clients.

And so that's really a, we've been able to very specifically determine what some of these areas would be because of the Census Bureau information that’s available.

Michael Novogradac, CPA: So thank you for that. And you know, given those sort of numbers, it's about 20, slightly over 20% more zones that could be in investible, obviously with the rural opportunity zones having a longer investment period than the rest. Sounds about right?

Jason Watkins, CPA: That sounds about right. There's a little in excess of 8,700 current rural zones that this would be 1,926. And there is overlap. About a third of these rural opportunity zones are already opportunity zones. So if this legislation were to pass, presumably investors that want to invest into those census tracts would probably choose to invest under proposed 1400Z-3, which would be the rural opportunity zone provisions of the code versus the 1400Z-2, because they’d have six more years of deferral available.

Michael Novogradac, CPA: That’s a good point about the overlap in terms of the one-third. So thanks for pointing that out. So, John, I don’t want you to feel lonely and not participating in the podcast.

John Sciarretti, CPA: I've been enjoying this.

Michael Novogradac, CPA: But, you know, rural areas, I mean, these are sort of distressed areas with persistent poverty. So there's been challenges to make investments in these areas. Historically, the opportunity zones designation will help them give additional incentives for capital to go into these areas. But are there types of investments that you think are more likely to be successful in these tracts?

When we think about the opportunity zones incentive more widely, we know that initially there was a strong desire by investors to be investing in residential rental. And it’s obviously expanded and does a lot more than a residential rental. But that is a major investment area, which is actually good in a country that is struggling with affordable housing needs and housing needs in general.

But when you think of opportunity zones, these rural opportunity zones tracts, what types of investments do you think are more likely to draw capital from rural opportunity funds?
[00:11:25] John Sciarretti, CPA: I think you're accurate in saying that. At least the original designations. There's parity between rural tracts and urban tracts, but the investment in those areas, the rural tracts have lagged compared to the urban areas.

I think that should this pass, you know, the incentive to invest in these rural areas, the only additional incentive when you look at the text is this additional nine years of deferral. So it'd be interesting to see if that additional nine years attracts investment in these areas.

But you know, I think that these types of areas, they're not going to attract the same type of investment. To date, opportunity zone investments have been tilted towards residential real estate. When you look at the class of investment and there's not a lot of large residential projects in these urban areas.

And so, you know, I expect that, should it attract investment, you're going to see more industrial type investment, more manufacturing type investment. With respect to residential housing, I think you probably will see money invested in mobile home communities. We've seen that to date in some of the rural areas.

Some of the funds have done nice jobs propping up mobile home communities, making them fantastic places to live, and most of those tend to be in rural areas. So that would be my take on where investment would go.

[00:12:58] Michael Novogradac, CPA: So I think it was a good point about if we think of like a third of the areas overlapping already as opportunity zones, and now you have, you know, the two-thirds more and given wherever the track record is of existing investment and the rural opportunity zones that are already opportunity zones, in order to get even more investment in that, in those areas and the additional areas, there's probably some adjustments to legislation that could be made to attract even greater investment.

And what are some of the ideas you have in terms of how the legislation can be modified to drive more investment in rural opportunity zones?

[00:13:37] John Sciarretti, CPA: That's an excellent question, Mike, as to what additional incentives. As I mentioned, you know, the lion's share of investment into opportunity zones to date has been real estate and particularly residential real estate.

And we haven't seen, at least we haven't seen a lot of investment into operating businesses. My guess is there's probably a lot of investment in operating businesses that we don't see because it's done privately. But given that I, you know, I think that there are some things that could affect operating business investments and also for the same reasons, some things that could affect more investment in rural areas.
And that I think you’d need additional incentives that track these investments as well as, maybe a tweak, some tweak to the regulations that are out there today. As I said, most of these investments in these rural areas are not going to be large residential real estate developments, but in order to entice folks to, to create investment in operating businesses and in investments that get jobs because that’s the title of this bill.

I think we may need some additional incentives. We've talked a lot in our working group about additional incentives in order to attract operating-type business and investment in rural areas. And we did this in the context of Opportunity Zones 2.0 where we're sort of getting ready for another bite at this apple once the original opportunity zone sunsets, the incentive sunsets. And one of the, one of the ideas that we had as a member group is a higher gain exclusion on the front end. As you know now, an investor gets up to 15% exclusion on that original gain deferral and that, that time has run out because we don't have the five- or seven-year period before the 2026 date and we thought it would be good to have a higher gain exclusion, maybe even up to 50% of that original gain.

And that would give folks more incentive and to invest, not only in rural areas, but in this investments that might have a little more risk, like an operating business-type investment. In addition to that, the original or the original extension bill that we're waiting for a reintroduction of this year, we're hopeful. We see reintroduction of that extension bill in the fourth quarter of this year, but it did have a provision of a fund-of-funds, investment are permitted. A qualified opportunity fund cannot invest in another qualified opportunity fund. And so, this provision would allow funds to sort of club investments, among a number of funds, smaller investments, and club them together to make investments in some of these smaller communities that were, that have lacked investment to date. And so we think that would be a good provision as well.

In addition, it would be good if this incentive allowed folks to reinvest any gains in the interim. So, as you know, the current opportunity zone legislation, you have to hold your investment for 10 years to exclude any gain on the back end. And I think that is one of the reasons that opportunity or operating businesses haven't attracted as much investment.

Because operating businesses, holding periods tend to be shorter, maybe seven years, let’s say. And so if we're looking to get jobs into these rural communities, it would be good if the legislation permitted any gains that were realized in the interim, let’s say seven years to be reinvested into another opportunity zone opportunity.

And therefore you can defer that gain through the remainder your 10-year period. We thought at one point that the regulations would permit that, and we still think there might be some wiggle room there. And so, as Jason said, the regulations for this new bill, it may look the same as the old regulations, and it does give us flexibility and in that we don't have to wait around for regulations.
I, I believe the original regulations, we waited two years before we could invest. So when you look at the text being similar to the old, to the original opportunity zone legislation, you know, we can predict sort of what the regs are going to say, but it would be good, and I think they could have the flexibility to maybe give us a little more wiggle room and a little more incentive in that they could allow for the reinvestment of these interim gains.

We’re hopeful. And so that’s another way that they could add incentive to this new bill. We've actually asked for that on a number of correspondence with Treasury and their priority guidance request and hopeful maybe we get to see some traction if this this new bill is passed. So those are some of the things I think would help increase the incentive and attract more dollars to these rural areas.

Without that, you know, all we have is additional deferral period, and it may not be enough to increase investment.

[00:19:05] **Michael Novogradac, CPA:** Right. At least not increase investment as dramatically as I’m sure Chairman Smith would like to see in rural areas. And I do appreciate you referencing the interim gains reinvestment because as you noted, we pushed hard because we think that statute can be read to allow the reinvestment of interim gains. Unfortunately, Treasury reg writers disagreed and do not allow the interim gains to be reinvested. And so now that seems like the solution would need to be statutory. And if you did have interim gains reinvestment for operating business investments, I think it would be pretty huge in terms of bringing venture capital investment into opportunity zones.

And even if we could maybe get the legislation and not just apply to rural opportunity zones, but also opportunity zones more generally, but thanks for mentioning that.

[00:20:00] **John Sciarretti, CPA:** Yeah, I agree with that, Mike. I mean, I think if you don’t have that flexibility in a non-rural or an urban opportunity zone, then you know, it would entice you to move your money, especially in a manufacturing concern where location isn’t as important as it is with real estate or even retail type investments.

[00:20:26] **Michael Novogradac, CPA:** So we, the working group, the Opportunity Zones Working Group members, you know, have this initial draft of which areas, would be designated as rural opportunity zones, you know, based upon our best estimates at this time. So, you know, one thing, you know, listeners who are members of the Opportunity Zones Working Group have is this list of, estimated, in census tracts that will be rural opportunity zones.

What do you think listeners should be doing differently or what should they be just be doing that they’re not doing now in light of the proposed legislation? And maybe John, you could give your thoughts and then Jason, if you have anything else to add, please weigh in.
[00:21:04] **John Sciarretti, CPA:** I mean, I think the potential investors should be following this bill closely. And if passed, you know, investments could begin actually January of 2024. So likely they're still in their starting, their planning phase of new opportunities. And so it'd be good to familiarize yourself with the eligible tracts now that we have that information now to help you inform you where you want to locate any business that you might be looking to invest in.

[00:21:36] **Michael Novogradac, CPA:** Jason, any additional thoughts?

[00:21:38] **Jason Watkins, CPA:** Sure. I definitely think it's important because as you noted earlier, we, we don't have a nomination designation period that we have to wait for, and we probably have pretty decent comfort with the existing OZ regulations, that those will be more or less applicable to the, to these new rural OZs.

And so investors should be ready to go live Jan. 1 and just really monitor this bill. If it looks like it's going to get included or if it looks like it might be moving towards passage, it'd be good to be ready to get those investments done as soon as possible in 2024 to take advantage of the longest deferral period as possible.

And something else to note is that, as we've seen with the existing OZ statute, there are a lot of states have come up with companion legislation to help entice and encourage additional investment into their states. And we would expect some of these rural states would probably take similar actions if this were to become law.

And so, if investors have contacts with local representatives or state representatives to start discussing now ways that the states could help to boost additional investment into these rural areas, now's a good time to start.

[00:22:51] **Michael Novogradac, CPA:** And, you know, this observation I'm about to make isn't what the drafters of this legislation probably would want to be the result, but, if you're one of the, if you're in a thinking of investing in a rural opportunity zone, and right now it is an opportunity zone, but it's in that one-third or so that's overlapping, and you were thinking make an investment this year, might you look at that and say, I need to see the status of this legislation because I might want to wait until January of next year to make the investment?

[00:23:25] **Jason Watkins, CPA:** Absolutely for an additional six years of deferral, it would be worth delaying for six months now just to see where this is going to go. So I, that might be an unintended consequence of this proposed bill right now.

It might be a reason why it would be nice if the Ways and Means Committee made it retroactive to this year so that doesn't happen. And oftentimes tax legislation does that. So that would be one of my, additional recommendations with respect to modifications of this bill because of that unintended
consequence aspect. And like I said, with other bills, it's been just that where the chairman of one of the Senate Finance Committee or the Ways and Means Committee, you actually announced that it's going to be effective at a certain date or not even retroactive for this year. But just say, okay, it would be effective at date of enactment or date of passage by the Ways and Means Committee so that then investors would know that they can go ahead and make their investments knowing that if it does pass, they'll get the benefits.

That's a great idea just to avoid any unintentional or unfortunate delays in investment. That's a great idea.

**Common Opportunity Zones Mistakes**

Michael Novogradac, CPA: That's right. And listeners, if you have other thoughts, please email cpas@novoco.com with additional thoughts that you have on this. So we've talked about the rural opportunity zones and you mentioned briefly about the reporting. I don't think we need to spend more time on the reporting, and I'd like to move on to the second part of our discussion today and that's common compliance mistakes made by qualified opportunity funds and qualified zones businesses. And the topic is obviously very, or maybe not so obviously, but it is very timely because there are common mistakes, your misunderstandings with opportunity zones compliance that can be addressed now in time for tax season next year.

So John and Jason, I'm wondering what are some of the common mistakes you're seeing? And not just what are some of the common mistakes that you're seeing, but perhaps more importantly, how can listeners avoid them or correct the errors if they've already made them? And I'm not sure which of you want to go first.

We have a handful of misunderstandings or errors that we identified in the course of preparing for the podcast.

Jason Watkins, CPA: Sure I'll, I'd be happy to go ahead and jump in.

Michael Novogradac, CPA: Great, jump in, Jason.

**Mistake #1: Self-Certification**

Jason Watkins, CPA: So one thing that we have seen a lot of is that the qualified opportunity funds aren't necessarily aware at the beginning that they are required to self-certify annually as a qualified opportunity fund. If they don't self-certify, then any investments into that fund don't qualify because the investment wouldn't be invested into a qualified opportunity fund because the fund itself didn't self-certify. And so we've seen just many, many, many funds that have retroactively realized that A, they just failed to timely file the return.
They maybe filed it late, or B, they failed to include the form 8996, which that's the form that a fund uses to self-certify as a fund annually, or C, they just didn't file a return at all because they weren't aware that even though they may not have a tax filing requirement because they have no profit and loss for the year, they do still have this self-certification requirement.

So because of that, in order to get comfort that their funds will still meet the qualifications as being self-certified, they've had to submit private letter ruling requests, which are costly and time consuming it. It can cost up upwards of $30,000 to file one of these private letter ruling requests to get the IRS to say, yes, we do agree and do we'll, allow you to make a late self-certification.

So, the key here is to make sure if you're a qualified opportunity fund, that you are annually filing that return, even if you don't have any other filing requirement. This is something that the Opportunity Zones Working Group has taken up as well. We've noted that to date there, there have been in excess of 70 private letter rulings that have been submitted by these qualified opportunity funds.

So far, all have received positive responses and have been allowed to make this late cell certification, but it's expensive and sometimes the same entity is having to file. If they have five or six funds, didn't file, they're having to file five or six separate private letter ruling request with the IRS because each one has to be done separately.

One private letter ruling can't be used to support another one. It can't. Can't be used like that unfortunately. So we've submitted a request letter to Treasury, requesting a revenue procedure that would allow for late certification to be done without having to go through this private letter ruling request.

[00:28:01] **Jason Watkins, CPA:** And that's pending. At this point, our letter's been submitted and we hope to get a positive response and to help folks out and not have to go through this awful process. But the key takeaway is to make sure that the fund is filing a tax return every single year as soon as it has received the first investment dollar from a gain deferring investor.

[00:28:21] **Michael Novogradac, CPA:** And I would just note to that and that, you know, we become aware of this issue, through seeing the private letter ruling request come out through members of the working group. Or through panic calls from new opportunity zones clients who weren't aware of these requirements. So, you know, we like to grow our practice and all the rest, but helping clients solve this issue isn't the way we want to be bringing in new clients.

But if you have the issue, obviously, reach out to us, we can help you. But avoiding it is probably is what we'd like to see more in the opportunity zones world do. I don't know, John, if you had any other comments on that or if you wanted to touch base on another, common mistake?
Mistake #2: The Penalty Calculation for Failing the 90% Test

[00:29:04] John Sciarretti, CPA: Yeah, no comments on that, Mike. One issue that's fresh in my mind, I'm not, it's not really a compliance issue, but more of a misunderstanding among taxpayers is the penalty calculation for failing the 90% test. The way the 90% test works, it's a snapshot of sort of where you are on the 90% ratio, at the end of June and at the end of December, and we've had taxpayers operate under the condition that if they fail it, by the way, the way the penalty works is the penalty is on what the portion of the 90% test that you fail.

And so if you're off by 1%, 89%, you have a penalty, but it's only sort of on that 1% miss. And, taxpayers have sort of felt like if they barely missed that test, that the June date or at the December date, that you know, the penalty won't be much. And, you know, they're comfortable with the miss.

Unfortunately, the way the penalty calculation works is once you fail the test at those. In each of those dates June and December, you actually look back. You have to look back each month and calculate the ratio each month and the penalty's based upon how much you missed that 90% test in that month. And so now that the penalty rates have went from 3% to 7%, and you know, taxpayers may have sort of failed the 90% test by a large margin ramping up to those June and December dates, you know, we've seen some pretty large penalties.

And so it's good to be aware that, first of all, if you're light in the months up to the test date, you know it's in your best interest to meet the 90% test on the testing date because those months that you were late, you would have a, you know, maybe perhaps a larger penalty. So it's just something that we've seen happen through the tax season and calculating some of these families that really caught some clients off guard.

What we do with most of our clients, that we're active with throughout the year is we look at this 90% test routinely throughout the testing period, or at least, in enough time before a testing date that, you know, they can take action. And so, you know, it's been very helpful to keep that constant communication with our clients in order they don't get into this, have the same issue.

[00:31:48] Michael Novogradac, CPA: Thank you, John. That's a great point about the failing by 1%, not actually being a small penalty. So Jason, please, weigh in that if you wanted to or move to our next, you know, mistake or misunderstanding.

[00:32:00] Jason Watkins, CPA: Sure. Just sort of following up on what John said, we talked to a lot of funds the last week of June and the last week of December to make sure that they're, that things are going to go right for them and to give them time to be able to move additional investment into an opportunity zone business if necessary, to make sure that they meet those tests.
Michael Novogradac, CPA: I couldn't help but think, but in, in the startup year, the dates are different and all the rest. So if you're listening to this, June and December isn't hard and fast, you know, every year, and then year out.

Jason Watkins, CPA: That's a really good point. So, June and December is if you have a calendar year, a full year as a fund, or if an investment was made, initial investment was made in January of the year.

If the initial investment was made in March, your testing dates are going to be August 31st and December 31st. And so it's always six months. It's the end of the six month, starting with the first day of the month that investment was received, the initial investment was received is that first six-month period.

And a lot of folks missed that because it's not as clear as it could be probably. And so that's a confusing item that we see a lot of. And you also have to gather information from any business that you've invested into, if you're a fund as of that same date as well, which may differ, that may be a additional special request that you'll need to make of the investee entity of the opportunity zone business that you've invested into.

John Sciarretti, CPA: I'll just follow up with just one comment, like there was, you know, there were a lot of intended investments that just didn’t work out because of the pandemic. So folks, you know, held their money in the fund be because an investment might have fallen through, or they changed their focus, you know, given the work from home or what have you.

And so we've seen a lot of that. There is a reasonable cause exception and we don't know what is reasonable cause. There's no guidance around what that means. I would think that reasonable cause exceptions based on the pandemic, you know, would be a reasonable cause. But I think you have less than less of a chance as the, the, the, disaster period ended for the government based on the pandemic. And so I think that to use the pandemic as reasonable cause going forward might be a little more difficult than it was in the past. And I'm not aware of anyone who actually was successful using the pandemic as a reasonable cause. But I would think that would be, you know, a good, reasonable cause standard but again, you know, that subsided.

There was COVID relief, too, for 2020 and 2021 to where even if would've incurred a penalty for failure to meet that 90% standard, there, there were no penalties assessed for those years and that, but that ended in 2022. In 2022 the penalties were live again.

Michael Novogradac, CPA: Right. Well, thank you both for that on the monthly penalty calculation. If nothing less, listeners now know that there's a lot of complexity in the calculations and a lot of potential traps for the unwary as well as opportunities to potentially avoid a penalty, even though mechanically it would show that you have the penalty due.
Mistake #3: Not Having a Working Capital Safe Harbor Plan/Schedule

Jason Watkins, CPA: Sure. The next topic is opportunity zones businesses that don't have a current or at all have a working capital safe harbor written plan and schedule, which there's been a lot of discussion around that topic and the guidance isn't so great. But put simply, a typical structure for these opportunities on investments is a qualified opportunity fund invest cash into a qualified opportunity zone business.

The business holds that cash for construction or for business development purposes, and it has a period of time in which it has to suspend that which is 31 months. And I’m not going to go into all the details of this, but in order for a business to be able to treat that cash being held as reasonable working capital so that it doesn’t fail some of the tests that are required for opportunity zone businesses, it has to have this written working capital safe harbor plan and schedule that, that describes how and when that cash is going to be spent either for construction or for business development. So if an opportunity zone business is holding cash, that it intends to use for construction but doesn’t have a written plan, then it's technically not reasonable working capital.

It's just basically disallowed cash that's being held. There's a term for it called non-qualified financial property, which is complex and confusing, and I won't try to dig into here. But if that cash is treated as failing that non-qualified financial property, limit, which is only 5% of total assets, then the opportunities on business technically doesn't qualify as an opportunity on business.

And then any fund that is invested into that qualified opportunity zones business will find that this investment doesn’t qualify and will almost assuredly fail the 90% test and have penalties like we talked about in the last item. So it’s really important that when a fund invests into a business, that it asks for a copy of the working capital safe harbor plan that business has, and that it review that.

And then businesses should also be doing this and keeping in mind that every infusion of capital, so both capital equity infusions as well as loan proceeds, need to be accounted for in this working capital safe harbor plan. And we'll note this a little more later in the call or later in, in the podcast I believe.

But the, there is some relief when there’s a federally declared disaster that allows for these working capital safe harbor plans to be revised or even replaced. But there is a time restraint on that and it's important that, you only have 120 days following the conclusion of a federally declared disaster in which you are for sure allowed to be able to revise these working capital safe harbor plans.

And the COVID federally declared disaster ended on May 11. So time is running short, to be able to update those working capital safe harbor plans.
[00:38:07] Michael Novogradac, CPA: So thank you for that, Jason. And this is definitely one of those issues that always makes me a little bit nervous because it's one of those issues that, for the uninformed, they could just be marching down the road thinking they have, you know, a qualified investment and it's went under audit that this would end up being identified and then you could end up finding you didn't have a qualified investment. And it's super important for investors and opportunity funds to make sure to ensure that they're doing due diligence on the qualified offices on businesses to ensure that they have these written plans and schedules.

So let's move on, John, next topic. I wish there weren't so many. But we do have, for our listeners, we do have eight. There's more, but we limited to eight.

**Mistake #4: Acquiring Property Directly with a Qualified Opportunity Fund**

[00:39:01] John Sciarretti, CPA: Yeah. So something that's fairly common that we see when taking on a new client is investors that acquire property directly with their qualified opportunity fund.

You can own qualified opportunity zone business property through your fund directly, and that's permitted. However, it's not ideal because the regulations didn't provide time to construct the project at the fund level. In addition, the testing is a little more stringent in that you have to meet 90, 90% of that property has to be qualified opportunity zone property, where if you have property qualified opportunity zone business, property owned by an entity or the business below the fund, you know that's the 70%.

And again, like I said, you have time to construct. So it's not ideal to own a direct investment directly from the QOF. And so clients that make this mistake feel like they could just drop it into a qualified opportunity zone business as their investment in that business. Unfortunately, qualified opportunity zones business property has to be purchased from an unrelated party for cash.

And so simply dropping, contributing the property to a business below the QOF so you have a two-tier structure and can take advantage of the flexibility that I spoke of doesn't work. In addition, we’ve seen folks purchase two parcels, let's say, with the intention of sort of splitting those parcels into two separate investments at a later date. And unfortunately, a division of a partnership is also sort of not covered under the regulations. And, a merger is fine, but a division isn’t covered. So to split that, those two parcels into two separate business entities, could be deemed that you contributed the property to the new entity.

And so it’s suspect that would be a qualified investment. And so a warning in that you want to make sure that you buy any sort of property that’s intended to be a qualified opportunity zone business, directly from the entity that the fund is going to invest in, not the fund itself, or that if you're intending to have two separate businesses, that you put those businesses in separate entities on the front end.
Not that a QOF can't invest. Not that you couldn't, you know, run two businesses under one entity, but a lot of times it's not advantageous from an investor perspective to have all their eggs in one qualified business. And so it's good to sort of start out with two entities if that's your intent from the beginning.

It all comes back to you just can't contribute property, you know, into a business and have it be good property. And you can't sell the property to the business because it's typically going to be a related party issue. If the investors, if the QOF is more than 20% owner of the ultimate underlying business, it would be a related party purchase.

And so it creates a lot of issues that aren't unwound very easily. So, the warning is to just make sure that you set up the structure correctly from the beginning and have the ultimate owner, be the original owner of any property that you buy.

[00:42:36] **Michael Novogradac, CPA:** So thanks for that, John. I guess I would just tell the listeners that I'll emphasize John's point about setting it up right to begin with.

It sounds obvious, but if you did or you have questions, please reach out to John or Jason, to see if there isn't an approach to continue your qualification, but restructuring. And John, you did mention, actually, do you want to comment on something before I was going to follow?

[00:42:59] **John Sciarretti, CPA:** No, I just was thinking of that commercial call before you dig. We have a, yeah, call us before you buy.

[00:43:07] **Michael Novogradac, CPA:** That's right. We need a phone number. You did mention the notion of having, sort of two businesses in one, entity as a qualified opportunity on business. And do you agree that there's still a bit of confusion about if you actually conceptually had two businesses in one entity, how the rules even apply to a qualified opportunity, an entity that has two businesses?

Is it, do you aggregate them as one qualified opportunity zone business? Are they separate businesses and how do you do the calculations?

[00:43:40] **John Sciarretti, CPA:** Yeah, I agree. There's confusion. I mean, there are separate rules for startups. And so if one starts up before the other, you know, do those, does that additional flexibility for startups supply to the second business? We don't know.

[00:43:55] **Michael Novogradac, CPA:** And that's just always makes you nervous if there's more than, if there is more than one conceptual business. When I say conceptual business, I mean, when you think about it in a business sense, they're two businesses. And then the question just becomes, are they two businesses or one business for purpose of these rules? Which is why I always like to just say, keep it clean.

[00:44:15] **John Sciarretti, CPA:** Absolutely.
[00:44:15] **Michael Novogradac, CPA:** And have, you know, each business being a separate entity and thinking about having a separate entity. Maybe Jason, you can go to our, the fifth topic we identified in advance that deals with this issue of is it a separate entity or not?

**Mistake #5: Not Setting Up Partnerships Correctly**

[00:44:29] **Jason Watkins, CPA:** A very good point. So it’s very important when you’re setting up an opportunity fund or an opportunity zone business to make sure that they are entities that are regarded for tax purposes, they need to be partnerships. They need to have at least two partners, assuming you’re using an LLC or LP, type of, type of entity, but need to make sure they have two partners because a single member, let’s say that a QOF is the only investor and is a single member of a QOZB.

So if the QOZB is disregarded, then the investment is disregarded and it’s treated as property of it’s owned directly by the QOF, which is a terrible fact pattern, like, like John mentioned a minute ago. A QOZB has the ability to, well, we’ll start with a QOF. A QOF has to have 90% of its assets and qualified property, whereas a QOZB has to have 70% of its tangible property be qualified.

So it’s a very different threshold that has to be met. Additionally, like John mentioned, a QOZB is able to avail itself of this working capital safe harbor that a QOF isn’t. And so it could really cause problems if a QOF thinks that it is invested into a qualified opportunity zone business and then later finds out that it wasn’t cause it was a single member, same thing at the QOF level.

So the statutory requirement is that a qualified opportunity fund has to be organized as either a corporation or a partnership. So if an investor has invested into a fund, a qualified opportunity fund, that the investor owns 100% of, it’s not a qualified investment. And so that gain that they thought they were deferring is not actually going to be gained.

And since this may not be found for potentially years later under audit, there could be quite a few years of potential filing penalties and late payment penalties that could be occurring this whole time. And the investor is unaware.

[00:46:22] **Michael Novogradac, CPA:** So thank you for that, Jason. And as you know, and I’ll just sort of make sure listeners, to clarify for listeners when, Jason’s talking about, qualified fund, having one owner or up to a business, having one owner.

They can’t conceptually be partnerships because partnerships have, you know, more than one partner. So then the only real option from a statutory perspective is either to be disregarded or elect to be treated as a corporation. And there are qualified review funds that are corporations. But when you have a single member qualified opportunity fund, usually you’re not thinking of it being a corporation.
So you’re thinking of it being a partnership, but you’ll be left with the option of corporation or no QOF and the same thing with the qualified opportunity zone business. If it is a single, if it's only owned by the single members of the QOF, either it’s going to be a disregarded entity in the assets will be treated as if owned by the QOF, QOF being qualified opportunity fund.

Or you elect to be a C corporation and there aren't very many opportunity funds that are partnerships that want to own C Corporation qualified opportunity zone business. That’s not good tax planning. Do you agree with everything I just said Jason or do you want to amplify anything?

[00:47:34] Jason Watkins, CPA: No, absolutely. I agree with everything you just said.

[00:47:37] Michael Novogradac, CPA: So let’s move on to our sixth item, John, unless you wanted to weigh in on disregarded entities.

**Mistake #6: Trying to Sell a QOZB Partnership Interest Directly to a QOF**

[00:47:44] John Sciarretti, CPA: No, I'll move on. You know, one issue that we’ve seen in the past, more than once, is that you have to understand that a QOF acquiring its interest in a QOZB in the business below, like we've been talking, it has to be an original issue interest.

And what that means is that they have to buy the interest from the partnership itself or buy the interest from the corporation itself, you know, a new issuance. And if not, it's not a good investment. And so, you know, for various reasons, QOZBs may, the partners of a QOZB may want to sell their interest directly to a QOF for more favorable tax treatment on their end, perhaps.

But it doesn’t work. And so you have to make sure that when you purchase your interest in the QOZB that you're purchasing it from the QOZB entity, in other words, contributing capital for an interest and not purchasing an interest from it, its partners. Even if you do purchase the interest from the entity and the entity itself distributes that money to a partner, it could be construed as a purchase from that partner.

It's under the disguised sales rules. And so that's also important to pay attention to, and that if you contribute to a QOF and the QOF in turn distributes that money to a retiring partner, then in form it's an original issue, but in substance it's a disguise sale. And so that also could disqualify your interest, or a portion of your interest.

You know, so it’s important to understand that. And I don't think folks pay attention to that because there are, you know, competing tax advantages for existing partners of a partnership to sell their interest, you know, to a co-op or to a new partner. And so it's, it is important that you pay attention that doesn't work.

It has to be original issuance.
Michael Novogradac, CPA: Well, thank you for that, John, and thanks for pointing out the example because it, you know, when we talk about this issue, the fact that it has to be original issue, is somewhat more widely known. Obviously, we pretty obviously get new clients that wasn't as widely known as we would've hoped for someone operating a qualified opportunity fund.

But that the notion that it is original issue because you make the capital contribution and not paying attention to what the partnership does with the money, and the partnership context, that it can be a disguised sale. And there are structuring ways, and it's not always a disguised sale. There's a presumption, and we don't go into all the disguised sale rules here, but they do play a role in investments in qualified opportunity funds as well as investments in qualified opportunity zones businesses that are partnerships.

And it's something that, you know, every investor and opportunity fund should be quite mindful of. So maybe turn to the seventh item out of our list of eight. And Jason, maybe you can talk about accidentally creating mixed fund investments and why that would be bad.

Mistake #7: Not Knowing the Considerations of Mixed-Fund Investments

Jason Watkins, CPA: Right. So under the opportunity zone regulations, there's this theory of creating a mixed fund investment.

And that's where an investor, a portion of the investor's interest in the fund was from a deferred capital gain and a portion wasn't. So we see a lot of funds that have multiple capital calls from their investors over a period of time. And typically on the first capital call, it's a deferred gain that's being invested, but perhaps on a leader, a subsequent capital call that, that particular investor or more than one investor may not have a gain that needs to be deferred at that time.

And so they put in non-gain deferred capital. So by doing that, the investor now has a mixed fund investment. And so what that means under the OZ rules, even though they have one partnership interest for some of the OZ rules, it's treated as two partnership interest and then any activity thereafter is treated as being allocated between these two OZ only portions of the interest, which can be, it could be devastating.

At a later point when an investor thinks that at exit, their entire gain from the sale of the underlying property is going to be tax free, but then they find out that since half of their investment was actually derived from a non-capital gain deferral, half of that gain is going to be taxed. And so that's an important issue to keep aware of if a fund intends to have multiple capital calls with the same investors.

Michael Novogradac, CPA: And then that would be something that the investors have to be tracking because that's not something that the fund itself ends up tracking, right?
[00:52:36] **Jason Watkins, CPA**: Correct. Correct. It really needs to be education, from the fund to its investors saying if we, if you contribute additional funds into this fund, if it's not coming from a derived or derived from a capital gain deferral, then you have, you will then have a mixed fund investment going forward.

It's not really the fund's responsibility, it's the investor's responsibility to track that, but the investors should be made aware that there is this possibility of creating a mixed fund investment with multiple tranches of capital into a fund.

[00:53:07] **John Sciarretti, CPA**: Right. I agree. It's not the fund's responsibility, but in my experience, our clients QOFs, do a nice job of educating their investors and a lot of times they bring us in the conversation and, you know, we help our funds educate their investors on the rules so that they, you know, understand exactly what they're getting with respect to the tax incentive.

[00:53:31] **Michael Novogradac, CPA**: Thank you, because I definitely think it's very important for the fund to be educating their investors on that point.

And obviously that becomes a question about timing. Do they have capital gains and all the rest? And that's certainly one of the challenges of multiple capital calls, in opportunity funds. But there's also another item, our eighth and sort of final item, that we wanted to talk about today that's tied into multiple capital calls and might be something that investors and funds aren't aware of.

Maybe you could discuss that other issue around multiple capital calls, John.

**Mistake #8: The 10-Year Hold Clock**

[00:54:05] **John Sciarretti, CPA**: Right. So the 10-year hold clock is, you know, 10 years from your investment. And what that means is that if you sell your investment, if you hold your investment for 10 years, you know you're eligible for the gain exclusion on the back end.

But that's 10 years from your investment. And what you see in most funds, there are multiple capital calls from their investors. So there, so it's important to understand that 10-year rule, with respect to that investor would be, would likely be 10 years from the last investment, because of the unitary partnership rules.

And we don't really have guidance, you know, sort of around that. What I mean by the unitary partnership rules is that, you know, your capital account, and the regulations did not sort of give us the flexibility of sort of a first in, first out approach where you could track that investment, in pieces based upon, you know, when you made your investment.

It doesn't mean that you couldn't take a reasonable position and argue that we just don't have guidance that says that, you know, that there's an exception to the unitary capital rules. And we don't have
guidance that says when you sell your investment, let’s say for example, that 80% of your investment was at 10 years and 20% was the second capital call, and it was at eight years, we don’t have guidance that says you get an 80% gain exclusion, like the guidance they gave us around the mixed fund where you do take a pro rata share, right, of your mixed fund. And so, you know, because of the lack of guidance, I know, most of the funds operate such as they close their investment period and they, you know, intend to make best efforts to not sell until 10 years after that last investment.

That’s typically how it’s done in the industry. But just note the issue. That in order to be confident that maybe all of your gain excluded on the backend that you set that clock after your last investment.

Michael Novogradac, CPA: Right? Thank you for that, John. That’s, obviously, pretty critical because you’d hate to be the investor that thought it was maybe 80-20 because you had 80% was met the 10 years or such.

And then the IRS would take the position that it’s the last contribution under the unitary partnership concept and you end up without the full, without any, we don’t, without the gain, exclusion, on the appreciation of your investment. That would obviously be, quite the shock. So we listed, we went through eight, issues, kind of mistakes or misunderstandings and I mentioned that there’s, you know, obviously, more than that and we can’t cover all of them.

But I did think maybe John or Jason, if there’s one or two or something else you wanted to comment as to any advice you would give listeners about deadlines or common pitfalls to also be aware of?

Sure. As I noted earlier, there is this ability currently to be able to revise or replace a working capital safe harbor plan.

Other OZ Reminders

Jason Watkins, CPA: Because you have 120 days from the end of the federally declared COVID disaster to do that. And the COVID disaster ended on May 11. So Sept. 8 is the last day that working capital safe harbor plans and written schedules can officially be revised. We don’t have any guidance that they can’t or that they can be revised in any other situation at this point other than cause of a federally declared disaster.

So we want to make sure that listeners are aware, but that Sept. 8 is a pretty hard deadline.

John Sciarretti, CPA: Right. And those are proposed regs, but it’s interesting that in the one of the few private letter rulings that we have, it isn’t related to a proper election for a fund. They do rely on in the private letter ruling on the, that proposed reg.

And we’ve actually communicated with the Treasury, to give us guidance around, modifying working capital plans for just general business interruptions or change of plans, which is reasonable. But we
don't have that now. And so, you do have the 120 days at least some guidance in your pocket, with respect to COVID.

And so again, Sept. 8 is an important date to, to remember. Another date, important in September, is this Sept. 11 date. And what that is, in the regulations in order to make an investment timely, you have to invest within 180 days of receiving the gain. But if you receive that gain through a pass-through entity, you have all the way until you have six months from the due, the original due date of the tax return of that pass through entity, which brings us to us Sept. 11.

And so that's an important date, that you can, that the deadline for deferring any sort of gains that you might have realized through a pass through in say, 2022, and you have all the way until Sept. 11, 2023, to invest those gains. And then finally, for I'd say an important date for our Ohio listeners, I'm in Ohio, so I keep track of this stuff, is that Ohio has a tax credit for opportunity zone investments. A 10% tax credit up to $2 million per taxpayer. And they just released their, application round for the months investments made January 2023 through June of '23. And that application period opens. It's actually, you can look at the application now and actually, it's an online application. you have access to it.

It's actually submitted on, July 11th. And so that's an important date for Ohio investors. The, the limit, I think the total limit is $75 million. It's a pretty big, number that's been increased, from $50 million in earlier years. And it's first come, first serve, so it's important to you know, apply early because, in our experience, has been oversubscribed in earlier years.

So, so July 10 is another important date, Mike.

[01:00:22] Jason Watkins, CPA: I do want to note that as, listeners are probably aware, we are pre-recording this podcast, but the dates of the, the July application round for the Ohio OZ tax credit run from, yesterday for the release date of this, July 10th, and that runs through Aug. 1.

So, like John mentioned, it is first come, first served, so we do encourage investors to get those applications submitted as soon as possible.

[01:00:48] John Sciarretti, CPA: Yep. Thanks for that, Jason.

Conclusion

[01:00:51] Michael Novogradac, CPA: Great. Thank you, Jason and John. You shared some great insights today. I wish we had time to cover more issues and you could share more insights.

I will include your email addresses, in the show notes because I am sure there are listeners that have an issue or two that you spurred them to wonder about, or at least they’re wondering if they have an issue and they may want to talk to you and have you look at some of their investments and tax trends and the like to ensure they don't have issues.
Also I'll share information about the Opportunity Zones Working Group. I would encourage listeners that are involved in opportunity zones to become members of the Opportunity Zones Working Group. It's a group that, you know, meets on a monthly basis. John and Jason sort of lead the group and it's a great way to stay current on new developments, as well as serve as a forum for discussing issues you might have, or questions you might have around opportunity zones investments and compliance and the like. So, Jason, John, please do stick around to the end of the podcast for our Off-Mike section where I get to ask you for some fun off-topic recommendations and words of wisdom.

And to our listeners, be sure to tune in to next week's podcast when my guest will be my partner Thomas Stagg. He's in Novogradac's Metro Seattle office and is our resident expert on rent and income limits for the low-income housing tax credit. Thomas and I will discuss issues related to HUD's 2023 income limits, and perhaps more importantly, we'll be discussing the national cap on percentage increase in any given area with respect to income limits, which then translates into the maximum percentage increase in rents in a given area. This is also a topic of my Washington Wire column in the July issue of the Novogradac Journal of Tax Credits.

Thomas is going to share his insights on the history of a national cap, and what issues arose with the formula HUD has used over the past two years. Two years ago, they did change the formula and that has ramifications to the long-term viability of existing developments, as well as the financial feasibility of developments under construction.

We'll discuss how the cap works and whether there might be a more predictable and transparent formula that would better encourage development of more affordable rental housing. It is a, in some levels a simple topic. It's a national cap, but it's also a complex topic. It's certainly extremely important to everyone in the for housing community.

So once again, I encourage you to please tune in.

**Off-Mike**

[01:03:38] **Michael Novogradac, CPA:** Now, I'm pleased to reach our Off-Mike section, where I get to ask for some advice and tips from the podcast guests unrelated, or at least I'm not directly related to tax credits. It can relate to tax credits. And Jason, since this is your first appearance on Tax Credit Tuesday, I figure I'll start with you.

And I'm wondering if there's a book that you'd recommend for our listeners to add to their summer reading list, or instead of going down that book route, you could go down the show or movie route that you'd suggest adding to, our listeners' watch list. Or you could do one of each.

[01:04:14] **Jason Watkins, CPA:** I might, I think I'll do one of each. I've really been enjoying Paul McCartney's "The Lyrics," which is a self authored, book that, that Sir Paul has put together that really
gives, he goes into a lot of detail about the inspiration of where his songs have come from, lyrically. And it, this covers everything he's ever published.

So it's Beatles through Wings, through solo work. I think the book might have come out last year. But it's alphabetical and it's just a great read. And then for a TV show, this is probably under the radar, but there's a show, it's actually a British show. It's on Amazon Prime, probably on Redbox. It's called "Inside Number Nine." And, every episode it was created by, and every episode is written by the two actors that star in the show, and they play different roles. It's sort of a drama-thriller and it's almost like a modern day British version of "The Twilight Zone" where they're, these, they're put in these odd situations and kind of how that plays out.

A lot of unexpected twists and turns. So it's a fun, fun show. There's something like eight or nine seasons now available. So there's, people can lose the rest of their summer streaming that one if they wish.

[01:05:26] **Michael Novogradac, CPA:** Well, that, you sold it when you said it's, like a modern version of "Twilight Zone."

So, I'll be, listening to an episode and "Lyrics" sounds like a great book. John, how about you?

[01:05:40] **John Sciarretti, CPA:** Oh, a book I'm currently reading. It's a little bit dated, but it's called "The Inevitable" and it's written by Kevin Kelly and Kevin Kelly of Wired Magazine. It's not that dated and it's actually a, 30-year look of how the technological forces of today are going to shape our future.

And it's written from a really positive perspective. It's not like man versus the machine, but how man can use the new machines, in order to, you know, take advantage of all the changes in the future. I kind of look at it as, similar to, when Bill Gates came out with his "Road Ahead" book 30 years ago, maybe 25 years ago, and a lot of what he sort of predicted came true, and, Kevin has a way of writing and very clear prose and, it's an enjoyable read.

So I, I would recommend that to folks. So, especially with all the AI craze going on right now. As far as, TV shows or movies, I don't have a recommendation. I tend to be a YouTube junkie and, don't watch a lot of shows on a regular basis.

[01:06:38] **Michael Novogradac, CPA:** Okay. Well thank you for that, John. And I'm glad you didn't, because off I didn't mention off limits is to say Tax Credit Tuesday is your favorite podcast.

Novogradac's YouTube channel is your favorite YouTube channel.

[01:06:50] **John Sciarretti, CPA:** That's right.
Michael Novogradac, CPA: That's sort of not allowed. And I will note that, there's respect to Kevin Kelly, in addition to the book that you recommend, there's also his book that came out, a couple months ago, I think. "Excellent Advice for Living: Wisdom I Wish I'd Known Earlier."

John Sciarretti, CPA: I did see that come out. Yep. Yeah.

Michael Novogradac, CPA: And it's really, and it's basically just a series of, of one, one or two line advice. So it's definitely something that is interesting to have by your bedside or every morning, pick it up and read one or two of his, you know, words of advice and maybe think about it, in the course of the day.

So I'm a big Kevin Kelly fan and have "Inevitable" on my Goodreads "want to read" list. So I'm moving it up based upon your advice, John,

John Sciarretti, CPA: I'll send you my copy when I'm done.

Michael Novogradac, CPA: Well, I'm an Audible and Kindle guy, so.

John Sciarretti, CPA: Oh, okay. I kind of like the book

Michael Novogradac, CPA: I do for evening reading, I have a paperback because I, because of the blue light issues and things of that nature.

So, yeah, I'll maybe I'll take you up on, on that. So my second question is another sort of timely one as people are planning their summer vacations. So John, I'll start with you on this question. Is there a particular travel destination that you'd recommend for a summer vacation or road trip? Or at least one, not necessarily the best or whatever, because that puts too much pressure on, but one that, either you're thinking of going on or you went on that you'd recommend listeners consider in terms of a summer vacation or road trip?

John Sciarretti, CPA: Yeah, so I'm not a world traveler. You know, my definition of a successful vacation tends to be getting all my kids in the same place. That's successful for me. And so we typically end up down south somewhere on a beach. And it's interesting. I was talking to a friend this morning, who just took a river cruise on the Danube. And, you know, he shared a lot of his experience and it just appealed to me that's something that I would really like. And it's on my bucket list as well.

Michael Novogradac, CPA: Great. Jason, your thoughts?

Jason Watkins, CPA: I think mine's a little less exciting, but I would just recommend getting out into nature and experiencing nature.

As you can find time, the quiet, the solitude. The Appalachian Trail starts just a few miles north of where I live in north Atlanta. And so I, I would recommend it, it runs all the way to Maine, so there's
plenty of spots. You can pick it up. You don't have to try to hike the whole thing. But I would certainly, certainly recommend folks get out and just experience, experience some nature, get some quiet, put down the screens for a few minutes and listen to nature.

[01:09:33] Michael Novogradac, CPA: Well, thank you for that, Jason. So John, thanks for the, the Danube River Cruise idea. That sounds, you know, quite lovely. And Jason, I love your reference to forest bathing in terms of going out and getting outside. I'm a big fan of forest bathing and there's a lot of kind of research about some of the other benefits of, you know, getting out in nature.

So it's interesting to see how that research develops, in the coming years. So thank you both for joining me on Tax Credit Tuesday. And to our listeners, I'm Mike Novogradac. Thanks for listening.


Additional Resources

Email

John Sciarretti

Jason Watkins

Working Group

Opportunity Zones Working Group

Legislation

S. 4065, Opportunity Zones Transparency, Extension, and Improvement Act