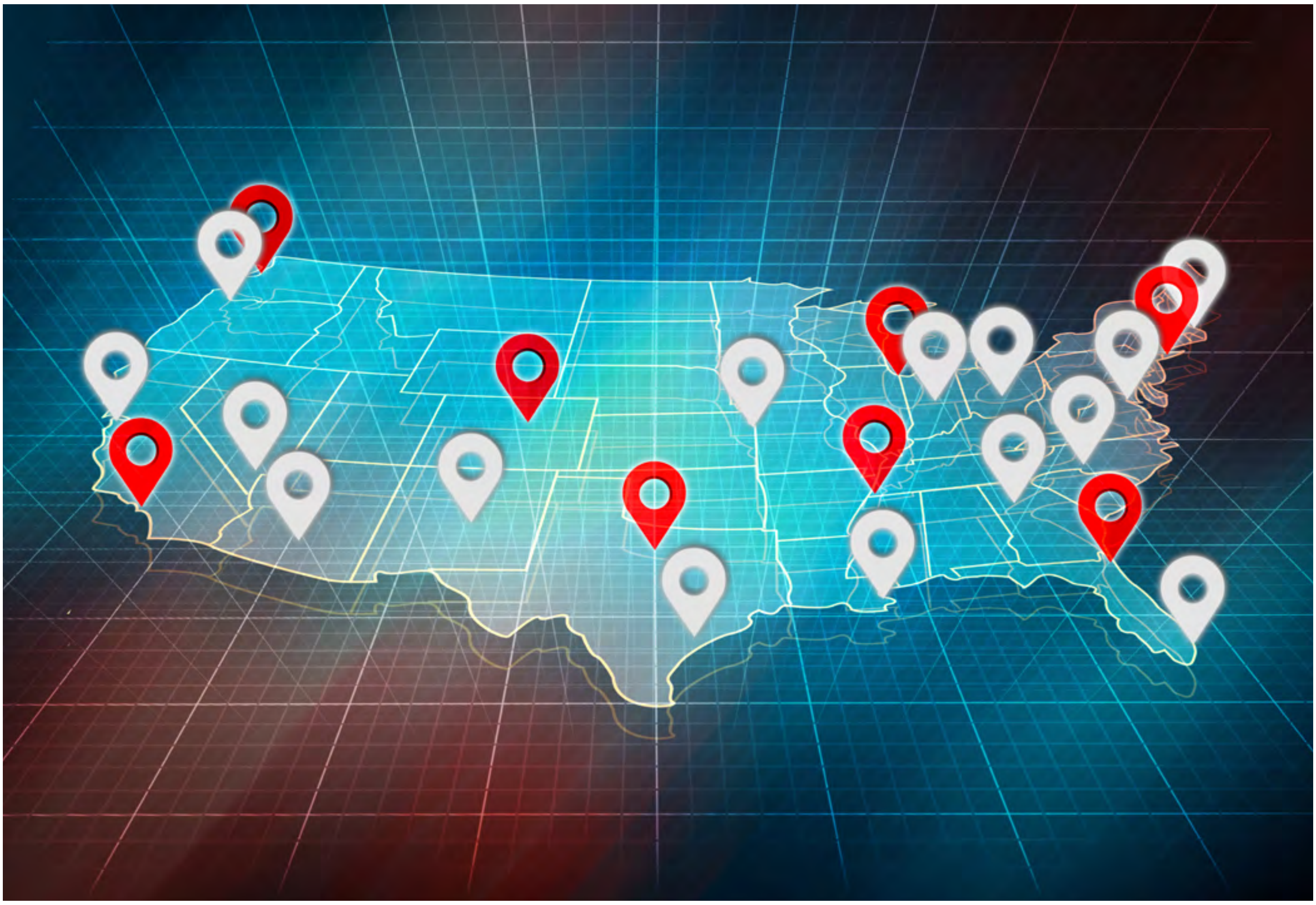
SOVEREIGN MAN
Confidential
ALERT
SURVIVE AND THRIVE IN THE AGE OF TURMOIL

Opportunity Zones: Invest in "emerging markets" right in the US... and get three fantastic tax breaks



This is a redacted preview of our Opportunity Zone Report

Become a member of *Sovereign Man: Confidential (SMC)* to access the full version of this report, our proprietary OZ tax savings calculator and an update on the final details the IRS released recently.

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Sean Parker is an extremely sharp and successful guy.

Sean Parker

In the 90s, he co-founded Napster – the first-ever peer-to-peer file-sharing platform that violated all possible copyright laws and was shut down by regulators. But, the company existed long enough to revolutionize the entire music industry.

In 2004, Parker was one of the few to recognize Facebook's enormous potential when it was just a five-month-old startup. He became its first president.

And much later, Parker became the first major investor to back Spotify when it was still an unknown Swedish startup. With his assistance, Spotify grew to be the most popular music streaming service in the world today with over 80 million subscribers.

But, Parker's life hasn't always been grand.

In 2005, Parker was arrested for cocaine possession.

That arrest didn't sit well with Facebook's major investors, leading Parker to "resign."

With more free time on his hands, he traveled to western Tanzania. There, he explored the United Nations' progress on malaria prevention and economic development.

Western Tanzania is far from the country's rapidly developing capital of Dar es Salaam on the east coast.

Tanzania receives around $2 billion in foreign direct investment each year, but Parker suspected that none of it ever ended up in the hills of western Tanzania.

When Parker later returned home, the Tanzania experience gave him a new lens. He noticed similar disparity patterns in rundown areas of Los Angeles and San Francisco – one of America's wealthiest cities and top investment destinations.

And beyond LA and San Francisco, Parker observed that other major American cities, no matter how successful, had distressed areas deprived of any serious investments for decades.

Being a natural problem-solver, Parker thought about how to get individuals to invest in these distressed areas. The solution would be complex… and likely would take the shape of a nation-wide government policy.

But, over the last 25 years, the Federal government had already enacted various programs to incentivize distressed area investments. These programs were heavily regulated and had a myriad of conditions attached.

And at best, their results have been mixed.

Parker's idea was to create a new, market-based solution with as little government involvement as possible.

As an investor in many very successful tech companies, Parker knew that his Silicon Valley buddies were sitting on enormous capital gains.

And they were reluctant to do anything. They wanted to avoid a massive tax bill from Uncle Sam.

Today, this trend has only escalated.

The US stock market now is officially **the longest-running one** in history. US household wealth hit a record **$107 trillion in the second quarter of 2018**. Properties in most parts of the country have never been more expensive. And the meteoric rise of cryptocurrencies in the last few years brought a lot of (untaxed) riches.

In total, the potential pile of unrealized capital gains is larger than **$6 trillion** – a third of

America's Gross Domestic Product (GDP).

So, Parker's idea was to incentivize investors to both realize these massive gains and invest the proceeds in distressed communities across America.

In 2013, Parker co-founded the Economic Innovation Group (EIG) – a Washington, DC-based think tank to develop and lobby this market-based solution.

The policy developed by the EIG shaped the **Investing in Opportunity Act.**

And the final version made it into the 2017 Tax Cuts and Jobs Act (Trump's tax reform legislation). We covered the legislation's most important points in our January 2018 Sovereign Man: Confidential Alert.

In the tax reform legislation, the program got a new name: **Opportunity Zones**. This comes from the nearly 9,000 economically distressed communities – Opportunity Zones – across America that in 2018 became eligible to receive tax-incentivized investments.

The program gives investors the option to sell their appreciated assets and invest the capital gains in one (or more) Opportunity Zones across the country. (We'll cover the exact program rules in this Alert.)

Considering America's current "everything bubble" – stocks, bonds, real estate, etc. – caused by relentless Federal Reserve money printing, the program's timing could be perfect.

And the best part is that the program is much simpler than its predecessors. It actually has a high chance of success.

Even if a small portion of this untapped capital finds its way into America's distressed communities, it can bring significant change to the people living there, while creating amazing tax-savings opportunities for investors.

The program is still new, and the government is still finalizing the details. But in this SMC Alert, we'll cover everything there is to know about the Opportunity Zones program.

You'll learn where you can invest in the US, the tax benefits, and step-by-step instructions of investing in Opportunity Zones.

This is shaping to be a tremendous opportunity for US and foreign investors that you don't want to miss.

Opportunity Zones basics

The Opportunity Zones program is a new tax incentive established by the US Congress. Its goal is to encourage long-term investments in low-income communities across the US.

As we stated above, not all the details have been worked out yet. The Internal Revenue Service (IRS) has promised to implement guidance and clarifications by the end of 2018.

For now, it's important to learn as much as you can about Opportunity Zones. So when the final rules are in place, you can take action as quickly as possible. Here are the program's highlights:

- Every state is home to multiple Opportunity Zones. And every major city has at least one. For example, most of Detroit is an Opportunity Zone… as well as large chunks of Baltimore… and **even parts of Manhattan**.
- To receive tax benefits, investors need to sell their appreciated assets and invest their realized **capital gains** into one or more designated Opportunity Zones.
- Any appreciated asset that triggers capital gains tax upon its sale should qualify. **That means that the program will work not only for Americans but also for foreigners with potential US capital gains tax obligations.**
- After selling your appreciated asset, you have **180 days** to move your capital gains into the Opportunity Fund.
- You can invest any type of money into Opportunity Zones (not just capital gains). But it will **not be eligible** for the incredible tax incentives.
- The **longer** you hold an investment in an Opportunity Zone, the **more your potential tax benefits will grow**. We'll cover the exact benefits in the next section.
- Individuals must invest in Opportunity Zones through **Opportunity Funds**, which should be organized as corporations or partnerships.
- New Opportunity Funds will **not require official IRS approval**. Any investor can self-certify the fund by submitting the yet-to-be-released IRS form with their tax return.
- Opportunity Fund **ownership is liberal** – an individual, a small number of partners, or a large pool of investors operating with a professional fund manager can own a fund.
- There is **no investment amount limitation** – you can invest as little as one dollar or as much as billions in an Opportunity Fund.

- While lots of Opportunity Funds have already been announced, the ones we talked to don't take public money yet. They're waiting for the final rules from the government.

Approved Opportunity Zones across the country

In early 2018, every US Governor designated certain communities as Opportunity Zones in his or her state.

Besides merely looking at poverty rates, the federal government's additional instruction to governors was to identify areas with:

1) an investment *need*

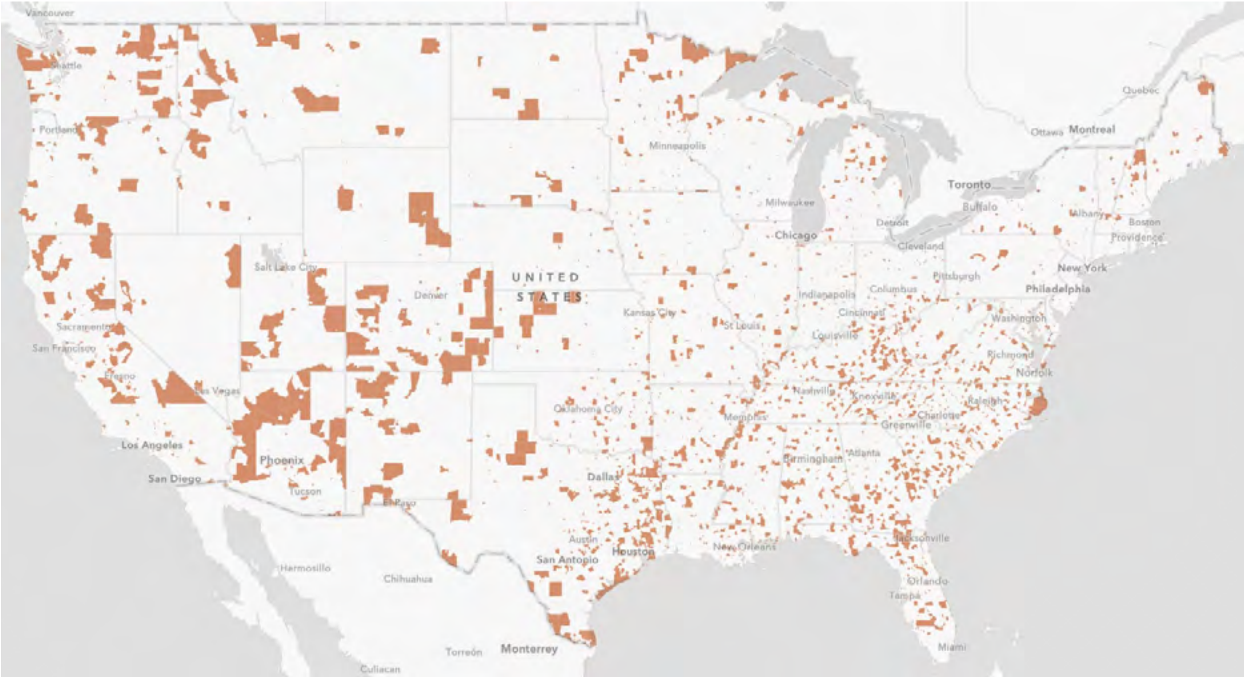
2) the *capacity* to attract and absorb new investments

3) the *potential* for an economic revival from this new, private capital

Also, some areas that were NOT low-income could still be elected as Opportunity Zones if they were adjacent to low-income ones (limited to 5% of all Opportunity Zones selected by a state.) The logic is that the development of such communities can provide jobs to people living in adjacent, low-income communities.

As of the summer of 2018, this job is complete – all 50 states, five territories, and Washington, DC designated their Opportunity Zones. This selection will stay unchanged for the next ten years.

In total, there are **8,762 Opportunity Zones** that cover about 12% of America's land mass. They are home to approximately 35 million people with an average poverty rate of 32%. (In 2018, **earning less than $12,140** a year makes a single person officially poor in the US.)

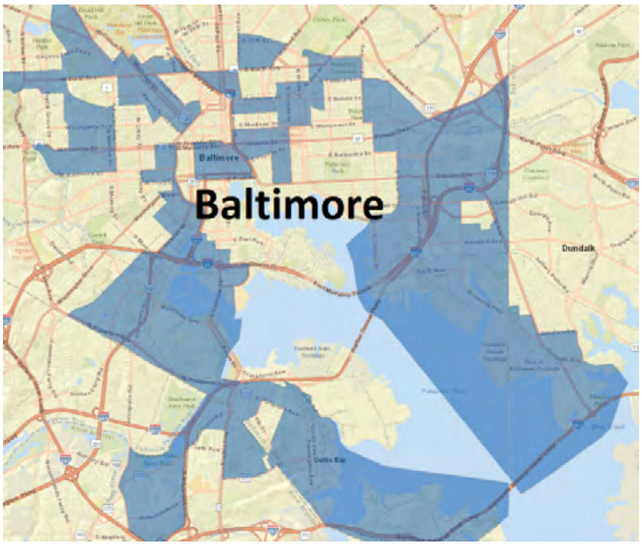


Designated Opportunity Zones across the contiguous United States

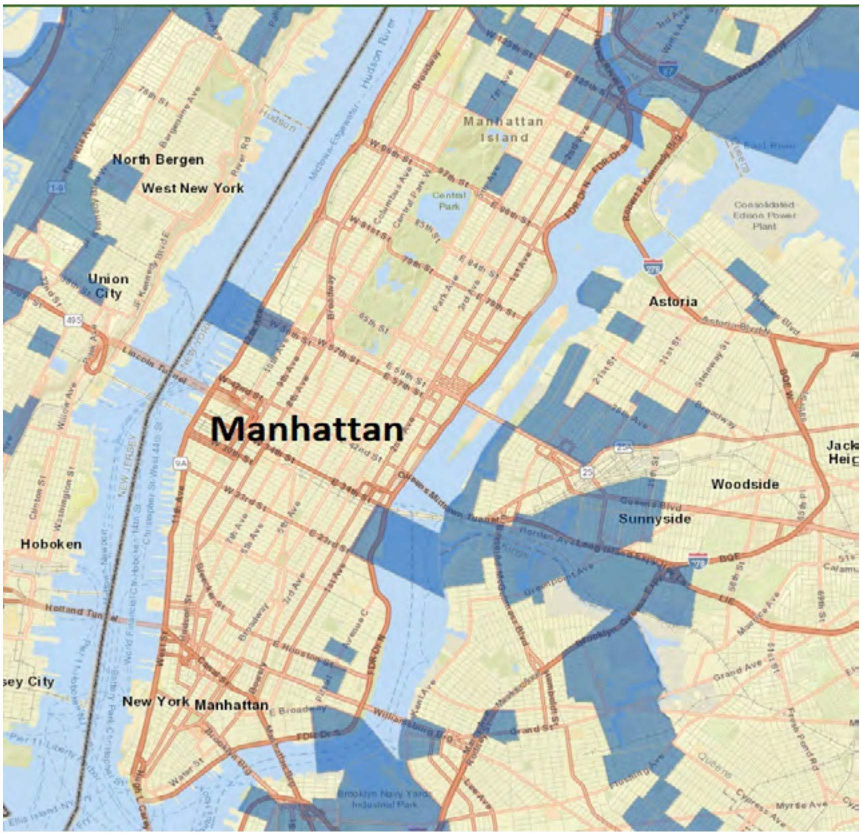
It is a mix of metropolitan, suburbs, and rural parts of the country.

Every large city has at least one opportunity zone.

Much of Detroit's metropolitan area is now a designated Opportunity Zone.



As well as big chunks of Baltimore.



Even parts of Manhattan have been designated as Opportunity Zones.

And because of Hurricane Maria's devastation, the entire island of Puerto Rico has been designated as an Opportunity Zone. (We will have more to say about Puerto Rico in one of our next reports.)

Here is the finalized **list of all Opportunity Zones**.

And here is the **official interactive map** of all designated Opportunity Zones. Clicking on each zone will give you the area's poverty and demographics data. Frankly, the map didn't work every time we tried. If this happens to you too, try this **similar interactive map on the EIG's website**.

Or use this impressive interactive tool put together by – a nonprofit organization building affordable housing in low-income areas. Besides the map, it provides heaps of statistical data on each zone. To access the statistics report, click on the zone you like, and in the pop-up click the "Opportunity360 Report for Tract XXX."

Also, many states and cities are taking a proactive approach. They're offering tours of the most alluring opportunities in their territories to potential investors. Many plan to set up dedicated websites.

We should see much more state and city-level involvement once the program takes off.

The Three Benefits to Investing in Opportunity Zones

And now the exciting part – tax breaks.

Potential benefits grow with time – the longer you hold your Opportunity Zone investment, the greater your tax benefits. Your tax benefits start from day one, grow over time, and after ten years reach its maximum.

Here are the three main benefits associated with the Opportunity Zones program:

Benefit 1. Deferral of the original capital gains tax obligations.

After selling your appreciated asset, you won't pay capital gains tax until December 31, 2026 or until you sell your new Opportunity Zone investment (whichever comes first).

For example,

Benefit 2. Discount of 10% or 15% on the taxable amount of your original capital gains.

If you hold your Opportunity Zone investment for **five** years, the taxable amount of your original capital gain decreases by 10%.

Benefit 3. Elimination of capital gains tax on your Opportunity Zone investment.

And finally, if you hold your Opportunity Zone investment for **ten** years or more, you will pay NO capital gains tax on any appreciation of your Opportunity Zone investment.

[illegible]

That's a very compelling combination of tax breaks.

To better show you the available benefits, in the table below we broke down the benefits by investment duration.

Opportunity Zone Investment Duration	Benefits you receive
Less than 5 years	[illegible]
1-7 Years	[illegible]
1-10 Years	[illegible]
10 years or more	[illegible]

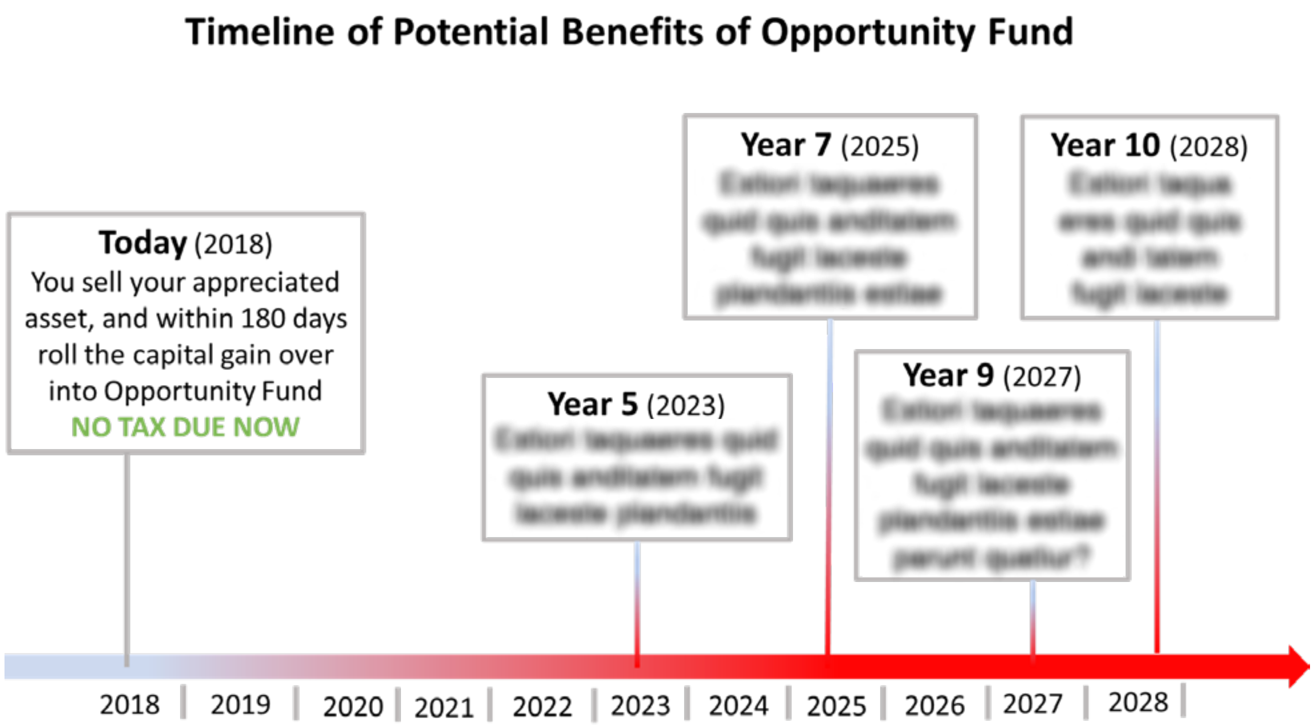
As you can see from the table above, you'll maximize your tax benefit if you hold an Opportunity Zone investment for at least ten years:

First, any capital appreciation of your Opportunity Fund investment becomes 100% tax-free, which is amazing by itself.

Second, while you still pay tax on the original capital gain, the taxable amount is reduced by 15%.

And third, the payment of your original capital gain tax gets deferred until the end of 2026.

Here is the graphical timeline of your potential benefits:



And finally, below are the tips to maximize your potential benefits:

- **To get a maximum 15% discount**
- **To get a 10% discount**
- And for the **maximum possible** tax benefit under the program, you will need to do two things:

a)

b)

The program's details and step-by-step instructions

The main advantage of the Opportunity Zones program over previous (mostly failed) programs is its simplicity.

After creating the initial framework and picking eligible zones, the government will largely be out of the picture. (Again, governors have already selected all the Opportunity Zones.)

There will be no city, state or federal-level oversight over how you invest in those areas. The government will not be involved in assigning tax credits or picking eligible investment projects as it did in previous programs.

And the good news – **you won't have to move into one of those distressed areas, work there or run an active business there.**

All you need to do is

IMPORTANT!

Here is how you take advantage of this opportunity:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Tax savings calculation example

Now let's look at the tax difference between a traditional investment and an Opportunity Zone investment.

We will continue with the Apple example that we already started.

A few years ago, you invested $20,000 in Apple stock, which grew to $220,000 today. So, you have a $200,000 capital appreciation.

If you sell your Apple stock today and do nothing with the money or choose some other traditional investment, you will face a hefty tax bill.

But if you invest in an Opportunity Fund within 180 days of selling your Apple stock, you can defer capital gains tax until the end of 2026. Also, you receive a reduction on your tax obligation by as much as 15%.

Below are the two scenarios of selling your Apple stock in 2018, investing the gain amount either in an Opportunity Zone or a traditional investment (say, some other stock), and holding this new asset for ten years.

Let's assume that after ten years, your investment doubles in size under either scenario.

And for purposes of this tax calculation we also assumed that you are:

- A single filer
- In the 15% tax bracket for long-term capital gain purposes
- Live in a state with no income tax

(Not every state made it clear if they plan to mirror the program's tax benefits on a state level. Many states confirmed they would treat the program in line with Federal regulation, but some have yet to announce their position.)

Long-term capital gains taxation in the US

Tax Rates on qualified dividends and long-term capital gains	Single Taxpayers	Married Filing Jointly
0%	Up to $38,600	Up to $77,200
15%	$38,600-$425,800	$77,200-$479,000
20%	Over $425,800	Over $479,000

Additionally, the 3.8% Obamacare surcharge kicks in for single filers with an income of $200,000 or more and for joint filers with an income of $250,000 or more.

Traditional Investment	Opportunity Zone Investment
2018 (today) You sell your Apple stock and realize a [redacted] gain You pay long-term cap. gains tax on [redacted] this year and invest the remaining [redacted] in a new investment **TAX TO PAY:** [redacted]	You pay no tax this year and invest the entire [redacted] in an Opportunity Zone
2027	**(declare and pay tax by [redacted])** Taxable amount of your original capital gain decreases to [redacted] (15% discount) **TAX TO PAY:** [redacted]
2028 After 10 years, your investment doubles to [redacted] At this point you sell it and pay long-term capital gains tax **TAX TO PAY:** [redacted]	After 10 years, your [redacted] investment in the Opportunity Zone doubles to [redacted] At this point you sell it and pay no capital gains tax **TAX TO PAY:** [redacted]
Traditional Investment Results Your original [redacted] will turn into [redacted] after paying all taxes – a [redacted] net annualized return. **TOTAL TAX TO PAY:** [redacted]	**Opportunity Zone Investment Results** Your original [redacted] will turn into [redacted] after paying taxes – a [redacted] net annualized return. **TOTAL TAX TO PAY:** [redacted]

And keep in mind – This is for federal tax obligations only. Those with other income and those living in high-tax states such as New York or California should reap even bigger tax benefits from Opportunity Zones.

Important: To help you model investment scenarios closest to your personal situation, we have built an interactive calculator. ***Once you become an SMC member, you will be able to download this interactive calculator.**

Preview of the interactive calculator

INPUT SECTION				
Capital gains amount you plan to invest	Annual projected growth of your new investment	How many years do you plan to hold your new investment?	Your filing status	Your other annual income (to determine your tax bracket correctly)
$200,000	11.0%	25	SINGLE	$300,000

Inlcude your and your spouse's othe approximate annual incomes during t years you will pay capital gains taxes the original appreciated asset and th new investment (traditional or Opportunity Fund)

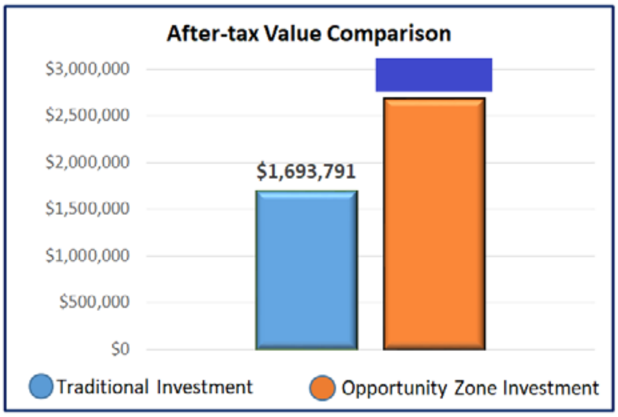
RESULTS SECTION

Traditional Investment	
You sell your appreciated asset and realize a capital gain of:	$200,000
You pay a capital gains tax of:	**$40,710**
Then, you invest in a new investment this remaining amount:	$159,290
Your new investment grows at the annual rate of:	11.0%
Twenty-five year(s) later, your new investment grows to:	$2,164,029
When you sell it, your new investment's taxable amount is:	$2,004,739
You pay an additional capital gains tax of:	**$470,238**

Opportunity Zone Investment	
You sell your appreciated asset and realize a capital gain of:	$200,000
You pay no tax at this point and instead invest the entire amount	
into an Opportunity Fund that grows annually at:	11.0%
Twenty-five year(s) later, your new investment grows to:	$[redacted]
Your Opportunity Zones tax benefits breakdown	
1) Your original capital gains tax is deferred until:	Dec 31, 2026
2) Discount on the taxable portion of the original capital gain:	[redacted]%
New taxable amount of your original capital gains:	[redacted]
Tax liability on your original capital gains:	[redacted]
3) Tax on Opportunity Fund appreciation eliminated?	YES
Taxable amount of your Opportunity Fund cap gains:	$0
Tax liability on your Opportunity Fund appreciation:	**$0**

Traditional Investment Summary	
Your original capital gain of:	$200,000
...grows to this amount after accounting for federal taxes:	**$1,693,791**
It represents a net annualized return of:	8.9%
TOTAL TAX LIABILITY under this scenario:	**$510,948**
Your effective tax rate on both investments:	**255.5%**

Opportunity Zone Investment Summary	
Your original capital gain of:	$200,000
...grows to this amount after accounting for federal taxes:	$[redacted]
It represents a net annualized return of:	[redacted]
TOTAL TAX LIABILITY under this scenario:	**$[redacted]**
Your effective tax rate on both investments:	[redacted]%



How you invest in Opportunity Zones

While the rules for Opportunity Zones are simple, you can't just go out and buy a property or a business in one of the designated zones.

You must use a special investment vehicle – an Opportunity Zone Fund (aka Opportunity Fund).

Those funds have already started to appear. And once the IRS releases the final rules later in 2018, many more funds will be available.

You can already see some of the available options. This private resource dedicated to Opportunity Funds has a dozen of them listed.

Opportunity Zones vs. Section 1031 for property investors

Section 1031 – also known as "1031 Exchange" or "The Like-kind Exchange" – is an existing provision in the tax code that allows investors to defer tax on qualifying real estate exchanges.

It has been used by real estate investors for decades (the history of 1031 exchanges started in the 1920s) and until today was the only option if you wanted to defer capital gains taxes on real estate.

As of 2018, the 1031 Exchange allows investors to indefinitely defer capital gain tax on the sale of your productive real estate (personal residences do not qualify), as long as you buy a similar piece of real estate within 180 days.

But now, the Opportunity Zones program emerges as a more flexible alternative

[illegible]

But if you know what you are doing and prefer to be in full control of your investments, nothing should stop you from forming your own fund and then investing this way.

You can also consider starting your fund if you picked the zone you'd love to invest in, but no public funds exist there yet. (It's likely that some zones will get a lot of interest, while others will remain overlooked.)

The exact procedures of creating a fund are [illegible]

- The Opportunity Fund must be structured [illegible]
- There are no ownership restrictions – [illegible]
- No formal IRS approval is required [illegible] IRS form [illegible]
- You can invest as little [illegible] and as much as [illegible].
- An Opportunity Fund needs to invest at least [illegible] into a qualified Opportunity Zone. Governments will conduct semi-annual compliance tests to ensure that the fund stays at least [illegible] invested. If the fund fails the test, [illegible]

Rules for Opportunity Funds

To take advantage of tax breaks, you – through your Opportunity Fund – will need to invest in real estate, new or existing business(es), or business assets located in a designated Opportunity Zone.

We expect that real estate-related investments will get the most traction. It's a very popular and well-understood investment.

And it will likely become even more popular. For investors and real estate developers, Opportunity Zones offer cheap real estate and unlimited, untaxed upside if a neighborhood takes off.

You can invest in

And we are already starting to see clear preference towards real estate in the previously announced funds. Most of them are focused on property development/restoration.

Keep in mind that if you decide to go the real-estate route too, you must do more than just stash cash in a piece of land or some crumbling property. The government wants investors to make

To qualify for tax perks under the program, you will need to

The government hopes that new real estate projects will result in new office buildings, industrial districts, restaurants, and affordable housing—all of which can lay the groundwork for the area's economic revival.

And outside of real estate, the government hopes that incentives will spur a growth of businesses in the zones – the real job creators.

To help with that, you can invest in a new or existing business in the area.

An existing business can be almost anything –

But to qualify for benefits under the program, most of the existing business's assets must be

And if you would like to start a brand-new business, you can do that too.

If you start "the next Facebook" today say in Oakland, CA, - which is home to plenty of approved Opportunity Zones – and ten years later sell it for a $1 billion, you will **owe zero dollars** in capital gains tax.

That's an incredible incentive, so I won't be surprised if many existing and future companies move from San Francisco across the bridge to Oakland, or from Manhattan to Long Island City, etc.

But not all types of businesses will be eligible for tax breaks:

- Any "sin"

Below are other examples of companies that **will not** qualify for benefits:

- A financial institution
- Fund of
- Holding

There are still many gray areas awaiting clarification

Not all pieces of the puzzle are in place.

Here are some of the issues that investors are waiting for answers on:

Additional Resources

We will keep you in the loop regarding the most critical developments in the Opportunity Zones field. But if you would like to educate yourself more (which is a great idea), below are useful resources:

- [illegible]
- [illegible]
- [illegible]
- [illegible]

Conclusion

We believe that the Opportunity Zones program can be a huge success. It will benefit both investors and people living in distressed areas across the nation.

All indications tell us that the program could represent a once-in-a-generation opportunity.

It's definitely something we are very excited about and plan to monitor very closely.

The US stock market is likely close to the end of its decade-long bull run. This Opportunity Zones program could be the perfect occasion to sell your overvalued assets and invest in undervalued assets in distressed communities, while saving a fortune on taxes.

The program is designed to be as simple as possible. But it's still brand-new. And not all the rules to create and maintain the Opportunity Funds are clear yet.

But if you are currently sitting on large, unrealized gains, now is the perfect time to start educating yourself about Opportunity Zones. We will help you with that by providing comprehensive updates as soon as the new regulations emerge later this year.

Stay tuned.

Get the full version of this report

And learn how to take full advantage of this opportunity

The full version of this report is only available to members of *Sovereign Man: Confidential*. Become a member today for just $995.

If you're currently sitting on ANY capital gains and you're looking for a strategy to help save you a fortune in taxes, $995 is a small price to pay.

And as a member, you'll not only get access to the full version of this report, but also to our future coverage of Opportunity Zones and 6-years-worth of comprehensive research archives on a variety of Plan B topics.

Click here to become a Sovereign Man: Confidential member for just $995 and get the full version