The Virgin Islands Consortium

In Major Development, U.S. Dept. Treasury Approves Mapp's Nomination Of VI Communities For Federal Tax Breaks

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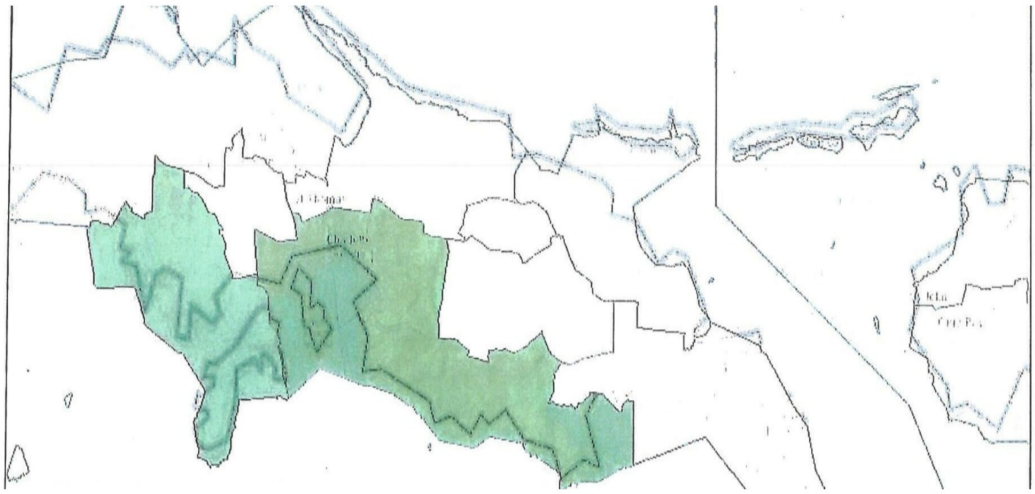

The United States Department of Treasury announced Wednesday that it has approved Governor Kenneth Mapp's nomination of 14 neighborhoods in St. Thomas and St. Croix as Qualified Opportunity Zones eligible for U.S. tax breaks under the massive tax bill passed by Congress last December, according to a release Government House issued late Wednesday.

Governor Mapp has said the new federal tax incentives will strengthen and complement the benefits already available to companies and individuals under the Virgin Islands

Economic Development Commission program.

“These new incentives can help us attract new investments in hotel development, retail businesses and industry in our most underserved communities and can also help those looking to rebuild after the hurricanes,” Mr. Mapp siad. “I would like to thank the U.S. Department of Treasury Secretary Steven Mnuchin and his team for implementing this important program.”

As part of the Tax Cuts and Jobs Act of 2017, Congress created the Qualified Opportunity Zone incentive to encourage investment in communities designated as economically distressed by allowing investors who reinvest the proceeds of capital gains in qualifying properties or businesses located in designated Opportunity Zones to defer and reduce their capital gains taxes.

Under the new tax law, U.S. investors who invest in qualified property in an Opportunity Zone may defer U.S. capital gains tax on the new investment for up to seven years; reduce the amount of those capital gains by as much as 15 percent; and pay zero federal capital gains tax on any appreciation in value of that new investment.

The Treasury Department approved Opportunity Zones for: American Samoa, Arizona, California, Colorado, Georgia, Idaho, Kentucky, Michigan, Mississippi, Nebraska, New Jersey, Oklahoma, Puerto Rico, South Carolina, South Dakota, the U.S. Virgin Islands, Vermont and Wisconsin.

The areas nominated by the governor include Christiansted and all of the western end of St. Croix, as well as most of the southern half of St. Thomas. Qualified Opportunity Zones retain this designation for 10 years.

The following example illustrates how the Qualified Opportunity Zone incentive works: Designation of a tract as a QOZ is designed to encourage investment in the tract by permitting investors to defer and reduce the recognition of capital gain proceeds from other transactions. Consider a U.S. company that invested $10 million in a stock and sells that stock in 2018 for $20 million. Ordinarily, the $10 million gain would be subject to federal capital gains tax in 2018. If, however, within 180 days of selling the stock the company invests the $20 million in a QOZ, it obtains three significant benefits.

- First, it defers payment of federal capital gains tax on the $10 million gain until the earlier of the date it sells its investment in the QOZ or December 31, 2026.
- Second, it receives a 10% reduction in federal capital gains tax if it holds the QOZ investment for at least five years, and an additional 5% reduction if it holds the investment for at least seven years.
- Third, it avoids federal capital gains tax altogether on any further appreciation in its investment in the QOZ.

That is, if the company ultimately sells its investment in the QOZ for $35 million after seven years—a gain of $25 million—it will defer capital gains tax on the original $10 million gain until the date of the sale; reduce the amount of that capital gain by 15%; and pay no capital gains tax at all on the $15 million appreciated gain.

Mr. Mapp once again commended Senator Tim Scott (R-SC) for his leadership in developing the Opportunity Zone legislation and spearheading it through the congressional process. The original proposal did not include the Virgin Islands or other U.S. territories., Government House said, However, after meeting with Mr. Mapp last summer, Mr. Scott agreed to expand the scope of eligible zones to include low-income communities in the territories, according to Government House.