QUALIFIED OPPORTUNITY ZONE FUND INVESTING

Qualified Opportunity Zone Fund After-Tax Comparative Benefit

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THE INFORMATION CONTAINED IN THIS MATERIAL, ARE NOT REPRESENTATIVE OF ANY SPECIFIC PROPERTY OR OPPORTUNITY. THE CALCULATIONS HEREIN REMAIN SUBJECT TO CHANGE AS APPLICABLE BASED UPON SUBSEQUENT REGULATORY GUIDANCE ISSUED UNDER SUBCHAPTER Z OF THE INTERNAL REVENUE CODE AND OTHER REGULATORY OR TAX RELATED CHANGES.

IMPORTANT RISK FACTORS

An investment in a Qualified Opportunity Zone Fund is subject to various risks, including but not limited to:

- No public market currently exists, and one may never exist, for the interests of any Qualified Opportunity Zone Fund. Qualified Opportunity Zone Funds are not liquid.
- Qualified Opportunity Zone Funds offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any particular Qualified Opportunity Zone Fund will be achieved.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- The acquisition of interests in a Qualified Opportunity Zone Fund may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended (the “Code”) for tax-deferred exchange treatment.
- The actual amount and timing of distributions paid by a Qualified Opportunity Zone Fund is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Qualified Opportunity Zone Funds depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Disruptions in the financial markets and challenging economic conditions could adversely affect a Qualified Opportunity Zone Fund.
- Disruptions in the financial markets and challenging economic conditions, including as a result of a pandemic such as the recent outbreak of COVID-19, could adversely affect a Qualified Opportunity Zone fund.

What are the relative tax benefits associated with an investment in a Qualified Opportunity Zone Fund ("QOZF") and how may that change if capital gains tax rates increase?

In order to help address these questions, we assume the following for purposes of the enclosed comparative financial analysis:

- Two investment opportunities that earn the same return, one in a Qualified Opportunity Zone Fund (the "QOZF Investment") and the other is not (the "Traditional Investment").
- The internal rate of return for both investments is 9.0%.
- Investor deploys $1 million in net capital gains into each investment in 2021. Note, the QOZF investment could be made through the end of 2021 and the investor would still benefit from the 10% basis step up at the end of 2026 in the realized capital gains he or she invested.
- The investor is an Alabama taxpayer, which state's tax legislation conforms to the Federal QOZ legislation contained in Subchapter Z of the Internal Revenue Code. We selected Alabama as its highest marginal tax rate is 5.0%, which is a good proxy for a 'typical' investor given the current average highest marginal tax rate in the United States is 5.2%
- The long-term capital gains tax rate utilized is 20.0% plus the Affordable Care Act tax of 3.8%, for a total tax rate of 23.8%.
- The investment duration is 10 years thereby allowing for the 100% fair market value basis step-up in the QOZF investment to the investor.
- There are no interim distributions of debt-financed proceeds or operating cash flow.

Based upon these assumptions, we note the following:

- The initial net $1 million capital gain investment yields total Net After Tax Proceeds to the investor of approximately $1.68 million for the Traditional Investment as opposed to approximately $2.10 million for the QOZF Investment, a relative increase in Distributable After-Tax Cash Flow of $422,601 – 25.0% more than the Traditional Investment.
- This differential equates to an approximately 2.9% increase in the Net After-Tax Internal Rate of Return to the QOZF Investment, which, when 'grossed up' by the combined State and Federal taxes, yields an additional 4.1% in Pre-Tax Equivalent Internal Rate of Return.

These examples do not represent any particular QOF investment.

They are merely hypothetical examples based on the assumptions listed to show the potential tax benefits of investing in a QOF investment. The tax rates and returns used in the assumptions of these examples may vary greatly and should not be construed as any results you would achieve in a QOF investment. This information should not be construed as tax advice. Investors should consult their own tax advisors to determine their individual benefits in a QOF investment.

In this hypothetical transaction, we used the highest marginal state personal income tax rate in Alabama of 5.0%. Currently, the average highest marginal state tax rate in the United States is 5.2%. As such, we used the Alabama personal income tax rate as we deem the same reflective of the average investor's experience. State personal income tax rates vary and calculations will change based on both state tax rates and conformance with the QOZ rules. Some states do not have any taxes or have tax rates under the 5% rate used in the above example and, as such, the tax benefit differential for residents of those states could be substantially lower than what is shown above. Likewise, there are some states that have tax rates above 5% and residents of those states could have a substantially higher tax benefit differential than what is shown above.

How will the relative tax benefits change should the Federal long-term capital gains rate increase to 39.6%? Am I better off paying the capital gains tax now if I think these rates are going to increase?

This question has been posed with greater frequency given Joe Biden's articulated plan to increase the top marginal tax bracket for individuals to 39.6% and subject long-term capital gains tax rates to the same personal income tax rate schedule. Particularly now that the Democrats effectively control the Senate.

Based upon the same previous assumptions, and subjecting both the deferred capital gains taxes due for QOZF Investment in 2027 as well as the capital gains taxes due from a Traditional Investment in 2031 to the highest combined marginal tax rate of 43.4% (inclusive of the 3.8% Affordable Care Act tax), we note the following:

- The initial net $1 million net capital gain investment yields total Net After Tax Proceeds to the investor of approximately $1.41 million for the Traditional Investment (a decline of 15.9% compared to the existing capital gains tax rate example) as opposed to $1.93 million for the QOZF Investment (a decline of approximately 8.3% compared to the existing capital gains tax rate example), a relative increase in Distributable After-Tax Cash Flow of $514,204 – 36.2% more than the Traditional Investment.
- The reason the After-Tax Proceeds are impacted more on the Traditional Investment relative the QOZF Investment is the significant increase in taxes due when the Traditional Investment is liquidated in 2031. The tax-free growth in the QOZF Investment provides significant relative after-tax benefit.
- This differential equates to a 3.2% increase in the Net After-Tax Internal Rate of Return to the QOZF Investment, which, when 'grossed up' by the combined State and Federal taxes, yields an additional 6.3% in Pre-Tax Equivalent Internal Rate of Return.
- Isolating the increase in capital gains tax rates and comparing the two QOZF Investments with the differing tax rates, the investor's Net After-Tax Internal Rate of Return over the 10-year holding period is reduced approximately 1.1% as a result of the increase in capital gains tax rates.

KEY TAKEAWAYS:

- Based upon the above analysis, investing in the QOZF Investment is significantly accretive to investor returns relative to paying capital gains taxes today and investing in a Traditional Investment.
- This relative benefit still holds true, and is in fact more positively impactful to the QOZF Investment, should capital gains taxes be increased in the future.

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QOZF AFTER-TAX COMPARATIVE BENEFIT

Hypothetical Assumptions		
Capital Gain Proceeds from Sale		$1,000,000
LT Cap Gains Rate (Federal + ACA)		23.8%
Investment Duration prior to 12/31/26		5.0
Percent of Capital Gain Taxes Stepped Up in QOZF Investment Held for at Least 10 Years		10.0%
Taxpayer's State	Alabama	5.0%
Conforming State Legislation?		Yes
Traditional Portfolio Return (annual IRR)		9.0%
QOF Pro-Forma Return (annual IRR)		9.0%
	Traditional Investment	**QOF Investment**
Investment Year	**2021**	**2021**
Capital Gain Reinvested	$1,000,000	$1,000,000
Capital Gain Tax Paid on Realized Gain	(288,000)	—
End of Deferral Period	**2026**	**2026**
Capital Gain Taxes Payable	—	(259,200)
End of 10-Year Investment Period	**2031**	**2031**
Future Value of Investment	2,367,364	2,367,364
Taxes due	(393,801)	—
Net After Tax Sales Proceeds	$1,973,563	$2,367,364
Summary of QOF Tax Benefit Differential		
Initial Capital Gain	$1,000,000	$1,000,000
Gain on Investment	1,367,364	1,367,364
Taxes Paid	(681,801)	(259,200)
Net After Tax Proceeds	$1,685,563	$2,108,164
Net After-Tax Cash Benefit of QOF Investment		**$422,601**
Relative Increase in Distributable After-Tax Cash		***25.0%***
Net After-Tax IRR Benefit of QOF Investment		***2.9%***
Pre-Tax Equivalent of IRR Benefit of QOF Investment		**4.1%**

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QOZF AFTER-TAX COMPARATIVE BENEFIT

(Assuming an increase in the Federal Personal Income Tax Rate to 39.6%)

Hypothetical Assumptions		
Capital Gain Proceeds from Sale		$1,000,000
LT Cap Gains Rate (Federal at 20% + ACA)		23.8%
Increased LT Cap Gains Tax Rate (Federal to 39.6% + ACA)		***43.4%***
Investment Duration prior to 12/31/26		5.0
Percent of Capital Gain Taxes Stepped Up in QOZF Investment Held for at Least 10 Years		10.0%
Taxpayer's State	Alabama	5.0%
Conforming State Legislation?		Yes
Traditional Portfolio Return (annual IRR)		9.0%
QOF Pro-Forma Return (annual IRR)		9.0%

	Traditional Investment	QOF Investment
Investment Year	**2021**	**2021**
Capital Gain Reinvested	$1,000,000	$1,000,000
Capital Gain Tax Paid on Realized Gain	(288,000)	—
End of Deferral Period	**2026**	**2026**
Capital Gain Taxes Payable	—	(435,600)
End of 10-Year Investment Period	**2031**	**2031**
Future Value of Investment	2,367,364	2,367,364
Taxes due	(661,804)	—
Net After Tax Sales Proceeds	$1,705,560	$2,367,364

Summary of QOF Tax Benefit Differential		
Initial Capital Gain	$1,000,000	$1,000,000
Gain on Investment	1,367,364	1,367,364
Taxes Paid	(949,804)	(435,600)
Net After Tax Proceeds	$1,417,560	$1,931,764
Net After-Tax Cash Benefit of QOF Investment		**$514,204**
Relative Increase in Distributable After-Tax Cash		***36.2%***
Net After-Tax IRR Benefit of QOF Investment		**3.2%**
Pre-Tax Equivalent of IRR Benefit of QOF Investment		**6.3%**

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GRIFFIN CAPITAL
guardians of wealth

18191 Von Karman Avenue
Suite 300
Irvine, CA 92612

310.469.6100
www.griffincapital.com

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