

QOZ BUSINESS CHECKLIST

This checklist presents a summary of certain due diligence items which must be met in order for a business to qualify as a qualified opportunity zone business. This checklist does not constitute legal advice, but rather presents a condensed summary of certain legal issues which, in our experience, may be material to the operation of a qualified opportunity zone business. Application of the items below, and other potential issues not listed, to a given factual situation requires careful analysis and interpretation. We assume no obligation to update this checklist, based upon any changes to U.S. laws or regulations.

OWNERSHIP REQUIREMENTS

- ☐ The stock or partnership interest was acquired in a cash transaction directly from the issuer.
- ☐ At the time of acquisition, the entity qualified as a QOZ Business (or if a new business, was organized for the purpose of being a QOZ Business)
- ☐ The entity qualifies as a QOZ Business for at least 90% of the QOF's holding period.

ASSET REQUIREMENTS

- ☐ The tangible property was acquired (by purchase or lease) after December 31, 2017; and:
 - ☐ If the property was purchased, it was acquired from an unrelated person; or
 - ☐ If the property was leased, it was leased in a market rate lease.
- ☐ The original use of the property in the QOZ commenced with the QOZ Business; or
- ☐ The QOZ Business will substantially improve the property by making investments in the property which will exceed the adjusted basis in the property within 30 months.
- ☐ During 90% of the QOZ Business's holding period for the property, at least 70% of the use of the property was in the QOZ.

OPERATIONAL REQUIREMENTS

- ☐ At least 70% of tangible property owned/leased by the business is QOZ business property.
- ☐ The QOZ Business does not include a sin business.¹
- ☐ At least 50% of the QOZ Business's total gross income is derived from the active conduct of a trade or business, based on:
 - ☐ 50% of the number of hours performed by employees and contractors was in the QOZ; or
 - ☐ 50% of the total amount paid for services was in the QOZ; or
 - ☐ Tangible property in the QOZ and management/operations in the QOZ were necessary for the generation of 50% of the income; or
 - ☐ The facts and circumstances indicate this is the case.
- ☐ At least 40% of the QOZ Business's intangible property was used in the active conduct of the trade or business.
- ☐ Less than 5% of the aggregate unadjusted bases of the QOZ Business's property is attributable to nonqualified financial property.²

¹ Sin businesses include: a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

² Nonqualified financial property includes, debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, annuities, and other similar property, except for reasonable amounts of working capital held in cash, cash equivalents or [short-term] debt instruments.