



Key Points

✓ Investors who hold QOFs for ten years can avoid capital gains taxes

✓ The investor holds this right as this time to 2047

Summary

The Opportunity Zone program was created as part of the Tax Cuts and Jobs Act, which was signed into law in December 2017. The Opportunity Zone provisions were included in the tax reform legislation to encourage long-term private investments in low-income urban and rural communities across the United States.

If an investor holds their Qualified Opportunity Fund (QOF) investment for at least 10 years, they can elect to permanently exclude any post-investment appreciation from capital gains taxes. When the investor sells the QOF investment after 10 years, their basis in the investment is stepped up to the fair market value at the time of sale. This effectively eliminates any capital gains tax on the appreciation. The investor can hold the investment until 2047.

Example:

Let's say an investor has a \$1 million capital gain from the sale of an investment property. They decide to reinvest that \$1 million gain into a Qualified Opportunity Fund (QOF) that acquires and develops an apartment building in an Opportunity Zone.

Over the 10 years the investor holds the QOF investment, the investment appreciates to \$3 million.

Traditional Investment:

- If the investor sold the property after 10 years, they would owe tax on the \$2,000,000 gain, at the 23.8% capital gains tax rate. This would be an additional \$476,000 in taxes owed.

Opportunity Zone Investment:

- If the investor holds the QOF investment for at least 10 years, they can elect to permanently exclude the post-investment appreciation.



Pending Legislation

The proposed Opportunity Zones Transparency, Extension, and Improvement Act does not appear to make any changes to the ten-year tax free sale for Opportunity Zone investments.

Summary

The Opportunity Zone tax incentive program provides investors with a compelling set of current and potential future benefits. Investment in QOFs with significant capital appreciation can offer significant tax savings.

Contacts

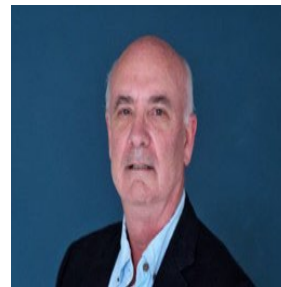


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