

Opportunity Zone Program

The opportunity zone program was created under tax reform to promote investment in economically distressed communities. There are now over 8,700 certified QOZs in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. Investors must invest in a qualified opportunity fund (QOF) within 180 days after the sale or exchange of a capital asset. The QOF is an investment vehicle that must hold at least 90 percent of its assets in qualified opportunity zone property, which includes qualified opportunity zone stock, qualified opportunity zone partnership interest, or qualified opportunity zone business property. Investment of capital gains in a QOF can result in beneficial tax incentives, including the following:

- Deferral of tax due on the capital gains invested in the QOF until December 31, 2026.
- Basis step-up on the capital gains invested of 10 percent if the investment is held for five years and 15 percent if the investment is held for seven years.
- Permanent exclusion from taxable income post-acquisition capital gains on investments in QOFs that are held at least ten years.

Treasury released proposed regulations, a revenue ruling and a draft form on October 19, 2018. Although this guidance answered many questions, the preamble to the Proposed Regulations states that Treasury is working on additional regulations to address other issues. This was the first step of a larger regulatory project that should provide greater certainty in the near future.

Planning Suggestion: Taxpayers with recognized capital gain should consider making an investment in a QOF to obtain significant tax savings. Your advisor can be consulted for further information and assistance.