

# Qualified Opportunity Zones

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# What are they?

- **Qualified Opportunity Zones** (Opportunity Zones) were created by Congress in the 2017 Tax Cuts and Jobs Act to stimulate investment in low-income communities throughout the US
- Investments in Opportunity Zones must be made through a partnership or corporation, commonly known as **Qualified Opportunity Fund (QOF)**
- Federal tax incentives:
  - Capital gain deferral and partial gain exclusion on realized gains reinvested in Opportunity Funds
  - Full gain exclusion on appreciation of the Opportunity Fund itself - if the investment is held for 10 years



# Overview of Tax Benefits

- 1. Capital Gains Deferral:** Realized capital gains that are reinvested in an Opportunity Fund within 180 days can be deferred from taxable income until the earlier of December 31, 2026 or the date the Opportunity Fund is disposed of. The existing investment can include publicly traded stock, business assets, personal assets or any other property qualifying for capital gain tax treatment.
- 2. Step-up in Cost Basis:** An investor can exclude up to 10% of the original realized gain if the Opportunity Fund is held for five years and up to 15% of the original gain if the Opportunity Fund is held for seven years. In other words, just 85% of the original gain will be included in taxable income if the Opportunity Fund is held for seven years.
- 3. Tax Forgiveness on Capital Appreciation:** If an Opportunity Fund is held for ten years or more, the investor may elect to treat the cost basis as equal to the fair market value. The election permits an investor to exclude any gain on the sale of the Opportunity Fund from taxes.



# Example of Tax Benefits

**Jan. 2, 2019**

Taxpayer enters into a sale that generates \$1M of capital gain

**June 30, 2019**

(Within 180 days), Taxpayer contributes entire \$1M of capital gain to a Qualified Opportunity Fund

- Taxpayer is deemed to have a \$0 basis in its QOF investment
- QOF Invests the \$1MM in Qualified Opportunity Zone Property

2019

2020

2021

2022

2023

2024



# Example of Tax Benefits

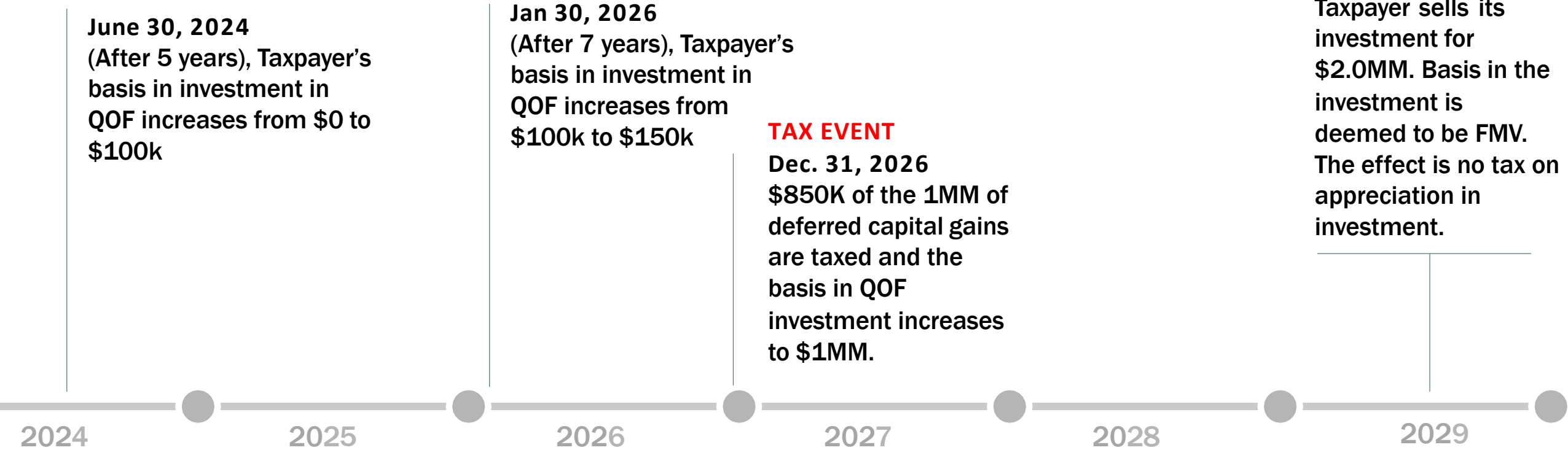
**June 30, 2024**  
(After 5 years), Taxpayer's basis in investment in QOF increases from \$0 to \$100k

**Jan 30, 2026**  
(After 7 years), Taxpayer's basis in investment in QOF increases from \$100k to \$150k

## **TAX EVENT**

**Dec. 31, 2026**  
\$850K of the 1MM of deferred capital gains are taxed and the basis in QOF investment increases to \$1MM.

**June 30, 2029**  
(after 10 years), Taxpayer sells its investment for \$2.0MM. Basis in the investment is deemed to be FMV. The effect is no tax on appreciation in investment.



# Qualified Opportunity Fund Statutory Requirements

- Corporation, Partnership or LLC
- Organized for the purpose of investing in **Qualified Opportunity Zone Property (QOZP)**
- **90%** of Assets Must Be Invested in QOZP Property (including ownership equity in **QOZ Business**)
- Include purpose as QOF in organizational documents



# Certification Process for QOF

- Eligible taxpayer **self-certifies** to become a certified QOF
- No IRS approval or action is required
- File **Form 8996** with federal income tax return for the taxable year
- The return must be filed timely, taking extensions into account



# Qualified Opportunity Zone Businesses (QOZB)

A **trade or business** in which:

- At least **70%** of the **tangible property** owned or leased is **qualified opportunity zone business property (QOZBP)**
- Substantial portion of intangible property is used in active conduct of business
- At least 50% of its income is derived from active conduct of the QOZ business
- < 5% of its assets are **nonqualified financial property** (debt, stock, cash)

*Exceptions:*

- *Working capital designated in writing for the acquisition, construction or substantial improvement of tangible property in a QOZ and spent within 31 months of receipt*
- *Reasonable amount of working capital with a term of less than 18 months*
- Can't be a "Sin Business"





# Qualified Opportunity Zone Business Property (QOZBP)

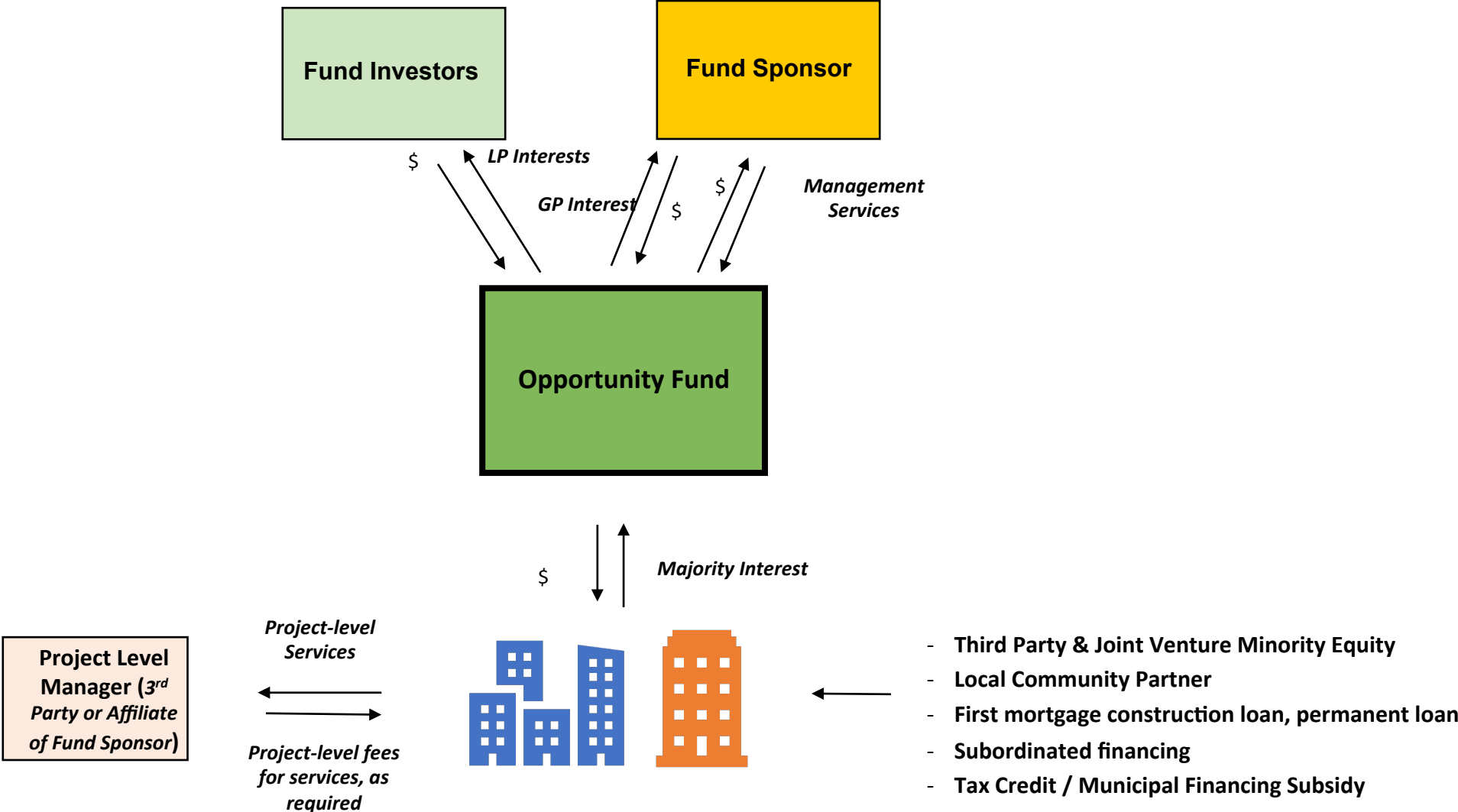
- **Tangible** property used in a trade or business
  - Includes working capital designated in writing for the acquisition, construction or substantial improvement of tangible property in a QOZ and spent within 31 months of receipt
- Acquired by **purchase from an unrelated party** (20% standard) after **December 31, 2017**
- During substantially all of holding period, substantially **all the use** is in a QOZ
- **Original use in the QOZ** commences with the taxpayer OR taxpayer **substantially improves** the property
  - during any 30-month period after acquisition, **double** the original basis of the property
  - value of land is ignored for purpose of substantial improvement



# Qualified Opportunity Zone Property



# Real Estate Fund Structure



# Questions?

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