

QOZ Tax Benefits in a Nutshell

- If taxpayer invests capital gain in a QOZ Fund within 180 days after incurring the gain, the taxpayer may capture three benefits:
 - Deferral of capital gains until the earlier of sale of the QOZ Fund investment or 12/31/2026
 - Incremental step-up in basis up to 10%-15%
 - Capital gains earned on investment are not recognized after 10 year holding period

Deferral of Capital Gain

- Taxpayer/investor sells stock for \$2mm with capital gain of \$1mm → \$200,000 (20%) capital gains tax liability payable immediately (i.e., on the following April 15)
- If the \$1mm gain is invested in a QOZ Fund within 180 days following the stock sale, recognition of the capital gain is deferred, and the investor has no tax liability for those capital gains until sale of the QOZ Fund investment or 12/31/2026, whichever first occurs.
- Note the value of investing in QOZ Fund ASAP to maximize deferral period.

Step-Up in Basis

- Taxpayer receives 10% step-up in basis if she holds her QOZ Fund investment for 5 years
- Taxpayer receives an additional 5% step-up in basis (for a total of 15%) if she holds her QOZ Fund investment for 7 years
- Example: \$1mm invested receives a step up in basis of 10% (\$100K) after 5-years and an additional 5% (\$50K) after 2 more years (7 years total). Once gain is recognized (after QOZ Fund investment is sold or on 12/31/2026), taxpayer pays tax on gain of \$850,000 rather than \$1mm → pays tax of \$170,000 rather than \$200K

No tax on gain in value

- If the taxpayer holds her QOZ Fund investment for 10 years or more, she pays no Federal capital gains tax on any increase in value of the QOZ Fund investment occurring after the date of investment.
- Example: Taxpayer invests \$1mm into QOZ Fund and then 11 years later sells the investment for \$1.5mm. Taxpayer pays no capital gains tax on the \$500K gain.

Combined Example: No QOZ Fund

February 1, 2019 Investor sells stock for \$2mm with \$1mm basis
→ \$1mm capital gain

July 1, 2019 Investor invests \$1mm in non-QOZ Fund investment

April 15, 2020 Investor must pay \$200K in capital gains tax

August 1, 2029 Investor sells non-QOZ Fund investment for \$1.5mm → \$500K capital gain

April 15, 2030 Investor must pay \$100K in capital gains tax

Combined Example: QOZ Fund

February 1, 2019	Investor sells stock for \$2mm with \$1mm basis → \$1mm capital gains
July 1, 2019	Investor invests \$1mm in QOZ Fund investment (within 180 days)
April 15, 2020	No capital gains tax due
July 1, 2024	Step-up in basis by \$100,000 (10% step-up after 5 years)
July 1, 2026	Step-up in basis of additional \$50K (additional 5% step-up after 7 years)
December 31, 2026	Investor incurs capital gain tax liability on \$850,000 of gain
April 15, 2027	Investor must pay \$170,000 in capital gains tax
August 1, 2029	Investor sells QOZ Fund investment for \$1.5mm → no capital gain

Total Benefit

- \$130,000 in reduced taxes
 - \$200,000 → \$170,000 due to step-up in basis
 - \$100,000 → \$0 due to tax-free gain on QOZ Fund investment
- \$58,185 in value of deferring capital gains tax payment from 04/15/2020 to 04/15/2027 (using 6% discount rate)
- TOTAL BENEFIT: \$188,185

Capturing the Benefit of QOZs

- If you are a third-party investor, find QOZ Funds set up by commercial banks or investment banks
- If you are a developer, consider putting your next project in a Qualified Opportunity Zone and self-certify as Qualified Opportunity Zone Fund.
- If you are an economic development entity, consider forming your own Qualified Opportunity Zone Fund to drive investment to your Qualified Opportunity Zones.

QUESTIONS

To learn more about Qualified Opportunity Zones, contact:



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