



## Qualified Opportunity Zone Funds

The 2017 Tax Cuts and Jobs Act initiated a program designed to spur economic growth and development in distressed communities designated as Qualified Opportunity Zones (QOZ). The program provides substantial tax benefits to taxpayers who invest eligible capital gains into Qualified Opportunity Funds (QOF), which can be organized as partnerships or corporations, as long as all requirements defined in the regulations are satisfied. Below are the major highlights of the program:

- To qualify for the program, investors must have eligible capital gains, which include short-term capital gains, long-term capital gains, net section 1231 gains, and certain gains under section 1256 contracts. These gains must be invested into a QOF within 180 days of the date the gain was realized. Net section 1231 gains are deemed to be realized as of the last day of the year.
- Taxpayers that make a qualifying investment in a QOF can elect to defer the capital gain invested until the earlier of the date the QOF investment is disposed or December 31, 2026.
- QOF investments held for a five year period prior to December 31, 2026 are eligible for a 10% reduction in the capital gain that was deferred with a corresponding increase in basis for the investment. QOF investments held for a seven year period prior to December 31, 2026 are eligible for an additional 5% reduction in the capital gain that was deferred, for a total of 15%, with a corresponding increase in basis for the investment.
- QOF investments held for ten years or more receive a basis adjustment that increases the basis of the investment to the fair market value at the date of disposition. This allows taxpayers to sell their QOF investment after ten years and not recognize any gain on the transaction.
- QOF's must invest at least 90% of their assets in qualified opportunity zone property, which includes QOZ business property, stock, and partnership interests.
- QOZ business property must satisfy the following requirements in order to be eligible;
  - o The property must be acquired by purchase after December 31, 2017.
  - o The original use of the property in the QOZ commences with the QOF or the QOF substantially improves the property.
  - o During substantially all of the QOF's holding period for the property, substantially all of the use of the property was in the QOZ.
- QOZ businesses must generate 50% or more of their gross income from the active conduct of a trade or business within a QOZ.

Taxpayers interested in taking advantage of this program should consult their tax advisors in order to structure their investments to adhere to all requirements.