Financial, Legal & Tax Advisory

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Qualified Opportunity Zones

Under the Tax Cuts and Jobs Act of 2017 (TJCA), opportunity zones were created to spur economic growth and create jobs by incentivizing investment in these regions. Opportunity zones are generally represented by economically distressed communities that need investment and revitalization. To incentivize those who invest in these low-income communities, the federal government created qualified opportunity zones (QOZ) which can lead to a host of tax benefits available to those who invest via a qualified opportunity fund.

QOZs are created by state governors who nominate a limited number of eligible tracts for official designation. These tracts are often low-income communities, as well as certain neighboring areas. The secretary of the treasury, via their delegation of authority to the IRS, sets forth the certification and designation of an opportunity zone. Specific and detailed information on the eligibility criteria can be found on the IRS website.

To capitalize on the tax benefits of a QOZ, investments must be made through a qualified opportunity fund (QOF). A QOF is an investment vehicle, such as a corporation or partnership, organized to invest in assets within QOZs. For such a corporation or partnership to become a QOF, a self-certified Form 8996 must be filed annually with their federal income tax return. Upon designation, QOFs must invest at least 90% of their assets into designated QOZs to be eligible for tax benefits. Investments from the QOF can be in both real estate and businesses that are located within the QOZ if they meet certain conditions. Remember that certain types of businesses cannot be included in QOFs, even if they reside within QOZs.

They include:

- Golf Courses
- Country Clubs
- Massage Parlors
- Hot Tub Facilities
- Suntan Facilities
- Racetracks or Other Facilities Used for Gambling
- Liquor Stores

The primary tax benefit for investors in QOZs is the eligibility to defer tax payments on capital gains realized from prior investments. If an investor allocates capital gains from a prior investment into a QOF within 180 days from the sale date, then tax payments on the gains can be deferred until the date the QOF is sold or December 31, 2026, whichever may come first. Another benefit implanted was for those who held onto the property for at least 5 years. Those who held their QOF for at least 5 years received a 10% exclusion of the deferred gain. If their QOF was held for at least 7 years, the 10% exclusion shifted to 15%.

Unfortunately, those investors who have yet to invest will be unable to take advantage of the exclusion as December 31, 2026, is less than 5 or 7 years away. The tax advantages associated with QOZs are undoubtedly a great way to defer capital gains. However, there are many complexities associated with the process, including eligibility, timing, and funding. At The Center for Financial, Legal, and Tax Planning, Inc., we specialize in this type of investing. For any questions regarding QOZs, feel free to reach out at our website, www.taxplanning.com, or by phone at (618) 997-3436.

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