Opportunity Zone Investments

Congress created federal tax incentives for investors to sell assets that have appreciated in value and reinvest the capital gains into certain funds that invest in distressed areas. The US Treasury Department optimistically estimates that the tax incentives will attract $100 billion of investment into approximately 8700 economically distressed areas throughout the country.

Tax Benefits

The tax benefits are three-fold and rather complicated. By reinvesting capital gains from the sale of assets into qualified **Opportunity Zone Funds** you can; 1. Defer federal capital gains tax on the asset sale, & 2. Reduce the deferred capital gain by 10-15% (this part expired for Opportunity Zone investments purchased after 12/31/21), & 3. Eliminate federal capital gains tax on the growth of the opportunity zone fund (if held for 10+ years).

Example

An investor sells stock for a taxable capital gain of $100,000. Rather than paying tax on the gain she invests $100,000 in a qualified opportunity zone fund. This must be done within 180 days of selling the original investment. The original $100,000 taxable gain is deferred (to be reported on the 2026 tax return). If she holds the opportunity zone fund for 10 years (in total) she pays no capital gains tax on the sale of the Opportunity Zone investment. *Note: This example pertains to Opportunity Zone investments purchased after* 12/31/21.

Where to Begin?

The purpose of this fact sheet is not to tell you which opportunity funds are the best. You can lose money investing in distressed areas, so work with an investment advisor who understands the benefits & risks of this new class of investments.

Once you are comfortable investing, identify an asset to sell that has appreciated in value. This could be stocks, bonds, mutual or exchange traded funds, property, or a business. Work with your investment advisor to identify an appropriate asset to sell. To get the added tax benefits, sell only assets that otherwise would have generated federal TAXABLE capital gain. Don't sell assets that are already tax deferred and/or exempt (such as assets held in a retirement account). Lastly, when you sell the asset, it is wise to reinvest only the capital gain (rather than the entire proceeds of the sale). That's because only the reinvested capital gain qualifies for the tax benefits. If
you choose to invest more than the capital gain you will have to account for it as two separate transactions (one that qualifies for the added tax benefits and another that is treated as an ordinary investment).

This only scratches the surface. There are other ways to take advantage of investing in opportunity zones. For example, you could create your own opportunity zone fund or business. The rules for this are much more complex so work with a specialist to set it up and operate it correctly.

In Summary

If you have a capital gain you want to shelter from federal tax then opportunity zone funds are worth looking into. Always remember that investments can lose value so work with specialists to fully understand the risks.