OPPORTUNITY ZONE

2220 NE Lafayette Ave. Apartment Complex is located in a "Qualified Opportunity Zone". This program offers the following three tax incentives for investors and developers for investing in low-income communities.

Temporary Deferral

A temporary deferral of inclusion in taxable income for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.

Step-Up in Basis

A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

Permanent Exclusion

A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

For example...

It is 2018; Marshal has $100 of unrealized capital gains in a stock investment. He decides to reinvest those gains into an O-Fund.

10 Year Hold

Marshal holds that investment for 10 years. His benefits from this O-fund investment are:

- Deferral of tax on the original $100 of capital gains until 2026.
- His basis is increased by 15% (effectively reducing the $100 of taxable capital gains to $85).
- He will owe $20 (23.8% of $85) of tax on the original capital gains.
- Because the investment is held for 10 years, Marshal owes no capital gains tax on its appreciation.

Assuming 7% annual growth, the after-tax value of his original $100 investment in 2028 is $176. Marshal now has a 5.8% effective annual return.

7 Year Hold

Marshal holds that investment for 7 years, selling in 2025.

- He temporarily defers the tax he owes on the original capital gains
- He receives a steps-up in basis by 15%, so that in 2025 he will owe $20 (23.8% of $85) of tax on his original capital gains.
- Unlike the 10 year hold scenario, Marshal will owe capital gains tax on the appreciation of the O-Fund investment.

Assuming 7% annual growth, in 2025 Marshal will owe $15 (23.8% of $61) of tax on the O-Fund investment's capital gain. Marshal did not take full advantage of the Opportunity Zone program but still received a 3.3% effective annual return.

5 Year Hold

Marshal holds that investment for 5 years, selling in 2023.

- He temporarily defers the tax he owes on the original capital gains
- His step-up in basis is only 10%, in 2023 He will owe $21 (23.8% of $90) of tax on his original capital gains.
- Marshal receives no exemption from capital gains tax on the appreciation of the O-Fund investment.

Assuming 7% annually growth, in 2023 Marshal will owe $10 (23.8% of $40) of tax on the O-Fund investment's capital gain. Marshal did not take full advantage of the Opportunity Zone program but will have received a 1.8% effective annual return.

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