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CLIENT ALERT

TAX DEFERRAL/SAVINGS WITH A QUALIFIED OPPORTUNITY ZONE INVESTMENT

The Tax Cut and Jobs Act (TCJA) created an ability to defer tax on long-term capital gains and potentially avoid tax on future capital gains by investing the capital gains in a Qualified Opportunity Fund (QOF).

Under the new TCJA code section, if the capital gain is invested in a QOF within 180 days of realizing the gain, tax on the gain is deferred until the QOF is sold or December 31, 2026 "whichever comes first." NOTE: it is the "gain" that is elected to be invested in the QOF, NOT the proceeds of the transaction. In addition, if the QOF is held for five years there is a 10% increase in tax basis and if held for seven years an additional 5% increase in basis. If the fund is held for ten years, any appreciation in value is not subject to any tax.

A taxpayer wishing to benefit from a QOF can either establish their own QOF complying with the Internal Revenue Service requirements or invest in an already established QOF. In general, a QOF must invest at least 90% of its assets within a Qualified Opportunity Zone (QOZ). Every state, District of Columbia, Puerto Rico, and possessions have established QOZ that have been approved by the Internal Revenue Service. New Jersey has established 75 QOZ with at least one locality in every county.

While there are various rules and procedures, the following is a basic example of how tax deferral/savings works:

An asset is sold for $250,000 with a tax basis of $150,000 resulting in a gain of $100,000. Federal tax is $15,000 to $20,000 plus New Jersey. If you invest the $100,000 in a QOF, the Tax is deferred until the QOF is sold or December 31, 2026. If the QOF is held for five years, basis is reduced by 10%, which in this example reduces the taxable gain $10,000. If the QOF is held for seven years, an additional $5,000 of gain is not taxed. If the QOF is held for at least ten years none of the appreciation is taxed. So, if after ten years the investment is worth $160,000, none of the $60,000 is taxed.

While not for everyone, if you do realize substantial long-term capital gain, investing in a QOF is an alternative. More information is available at www.irs.gov and www.opprotunityzones.nj.gov.

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Disclaimer: ***This e-mail represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.***

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