

# Qualified Opportunity Zones

Fall 2018

## *What are they?*

Congress created the federal Qualified Opportunity Zone (“QOZ”) program in the 2017 “Tax Cuts and Jobs Act” to encourage economic growth in underserved communities via tax benefits to investors. The states, territories, and Washington, DC nominated areas (by census tract) to be QOZs in 2018, and the IRS and Treasury finalized the designations that year. This program presents opportunities for real estate investment and development in distressed communities.

## *How does the program work?*

Investments in QOZs must be made via an Opportunity Fund (“O Fund”) to qualify for tax benefits. There are no statutory limits on who may form an O Fund, but there are other requirements:

- May be a partnership or corporation organized for the purpose of investing in QOZ property;
- Must hold at least 90% of its assets in QOZ property, which can be stock, partnership interests and/or other tangible property used in a trade or business, (e.g. real estate), within a QOZ; and
- Must be certified according to forthcoming IRS and Treasury regulations.

## *What are the tax benefits?*

Investors in QOZs can receive both *deferral* on capital gains taxes on investments the profit of which is rolled over into an O Fund (within 180 days) as well as an *exclusion* from tax of up to 15% of those gains. Plus, *full exclusion* of gains earned within the O Fund is available. Here is how it works:

### **For capital gains reinvested *into* an O Fund:**

- Temporary deferral (up to nine years) of capital gains reinvested in an O Fund;
- A 10% reduction in tax on the gain if the investor holds interest in the O Fund for five years;
- An additional 5% reduction in tax if the interest in the O Fund is held for seven years.

### **For future capital gains on investments *accrued while in* an O Fund:**

- If held for at least 10 years, all gains from the O Fund are excluded from tax.

## *What are the state law concerns?*

States may attract more investment in QOZs by conforming state tax laws to the federal laws regarding capital gains. They can offer additional incentives by relieving the investor from paying the state capital gains rates on income earned from QOZ investments. States will likely be reviewing their tax codes in response to the federal changes. [For more information on the states’ capital gains rates, click here.](#)

## *What’s next?*

Proposed regulations for the QOZ program are expected from the IRS in early Fall 2018. NAR is closely monitoring this, and will provide feedback on those proposed regulations to ensure the program is successful. This topic will be featured at the November 2018 REALTORS® Conference & Expo in Boston.

## *Additional Resources*

[IRS FAQ on Opportunity Zones](#)

[List of designated QOZs](#)

[Map of designated QOZs](#)