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there's still time to maximize tax benefits.

Feb. 07, 2024

By Daniel Goodwin, AWMA, Kiplinger Consumer News Service (TNS)

Opportunity zones, created by the Tax Cuts and Jobs Act, were designed to spur economic development and job creation in specific communities and census tract areas, while simultaneously providing substantial tax incentives for investors.

However, with some provisions in the Tax Cuts and Jobs Act (and therefore opportunity zones themselves) set to expire less than three years from now, many are wondering what the future holds for this investment opportunity and, more

to certain stressed or rural parts of the country. Following the passage of the TCJA in 2017, governors designated more than 8,700 neighborhoods in the U.S. and its territories as opportunity zones.

The goal of opportunity zones is to encourage long-term investment in these communities by providing tax incentives for new investment. These incentives include deferral of capital gains taxes, as well as potential elimination of taxes on new investments.

How do opportunity zones work?

Investors can take advantage of opportunity zones by investing in qualified opportunity funds (QOFs). These funds are created specifically for investing in designated opportunity zones and must meet certain requirements to qualify.

Investors can defer paying taxes on capital gains by investing those gains into a QOF within 180 days of the sale of an asset. The payment of the capital gains tax is deferred until the eventual sale of the QOF investment or the program's expiration in 2026, whichever comes first. And while the value of that three-year deferral is not to be underestimated, the real gem of a tax benefit is to be found in the QOF investment itself: If held for at least 10 years, any capital gains earned in those 10 (or more) years are tax-free.

The most common approach for investors is to select from one of the hundreds of existing QOFs that enable investors to focus on a particular region, industry, new or existing business(es), or to diversify their investments across a broad swath of possibilities. While QOFs have been vetted by their underwriters, it's critical for investors to work with an experienced team to perform their own due diligence before making an investment. As with all investments, a QOF needs to stand on its own merits aside from the consideration of tax benefits; as the old saying goes, tax benefits won't turn a bad deal into a good deal, but they may turn a good deal into a

investors have a limited time to take advantage of the extraordinary tax incentives offered by QOF investments.

After the expiration of opportunity zones, investors will no longer be able to deploy new funds to take advantage of the tax incentives offered. However, any investments made before the expiration will still be eligible for the tax benefits, as long as they are held for the required time period.

Some dates to keep in mind

Dec. 31, 2026. The capital gains deferral benefit expires. Investors can expect to account for the original (deferred) capital gains on the taxes that they file on or around April 2027. Importantly, however, investors who hold QOZ investments for 10 years or more will still be able to avail themselves of favorable tax treatment of gains related to the QOZ investment, even if the gains are realized after 2026.

Dec. 31, 2047. The program is scheduled to fully sunset. It is possible that the 2026 expiration could be extended, or that new legislation could be introduced to continue the program beyond 2047 in some form. Recently, a new bipartisan bill, the Opportunity Zones Transparency, Extension, and Improvement Act of 2023 (HR 5761), was introduced for consideration in the current Congress; if passed, it would extend opportunity zones for an additional two years (through December 2028). There is considerable optimism that the bipartisan support that helped pass the original TJCA will also help carry the ball over the line in this current election year. Until it happens, of course, it's prudent to proceed with the likelihood that the current expiration date of Dec. 31, 2026, will hold.

Impact on communities

The expiration of opportunity zones could have a significant impact on the

The expiration of opportunity zones will have a significant impact on investors who are looking to take advantage of the tax incentives that many investors are calling the best opportunity for tax planning in a generation. Investors who have already made investments in opportunity zones should be aware of the expiration and plan accordingly. It may be beneficial to hold on to these investments until the expiration to maximize the tax benefits.

Those who are considering investing for the first time in opportunity zones should act quickly to ensure they can take advantage of the full benefits before the expiration.

With the deadline rapidly approaching, the reasons to make a new investment in a qualified opportunity fund remain compelling:

- **Tax benefits.** A new QOF investment that's held for at least 10 years can benefit from a capital gains tax rate of 0%. The potential for tax-free appreciation should always be considered by intelligent investors. Even if there were no immediate benefit of deferring capital gains taxes through the end of 2026, it's impossible to overstate the value of an opportunity to roll capital into a tax-free investment.
- **Tax benefits, part two.** But, of course, there is the immediate payoff of a deferral of unrealized capital gains taxes now, when those gains are reinvested in a QOF; the deferral won't expire until Dec. 31, 2026.
- **Positive impact.** We tend to focus on the tax benefits supplied to investors, but many investors are equally attracted to the ability to create positive change in transitioning communities. A QOZ investment is an undeniable assist in the creation of jobs, housing, and new business activity in underserved neighborhoods. And with all 50 states represented in the QOZ community, it's possible for investors to focus on a specific geographic area for their investments.

- **QOF innovations.** Some oil and gas QOFs have achieved sector focus by

communities alike.

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