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## Qualified Opportunity Zone Funds: The New Tax Incentive

**Legal Update**

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Taxpayers looking for a way to defer and potentially reduce or exclude taxes on capital gains have their answer in a new tax incentive called a Qualified Opportunity Fund (QOF). Where other investment vehicles that defer gain, such as 1031 exchanges, have burdensome requirements or limitations, QOFs have various advantages, such as allowing taxpayers to self-certify and permitting QOFs to hold single or multiple projects.

Proposed regulations on QOFs were released by Treasury on October 19, 2018. These proposed regulations answer various key questions about QOFs and are expected to further spur investment activities.

To participate, taxpayers reinvest capital gains into a QOF, which directs the gains to one or more projects in Treasury-certified "Opportunity Zones." Minnesota's 128 Opportunity Zones were formally certified on May 18, 2018. Capital gains reinvested into a QOF can receive up to three tax benefits:

- Deferral of capital gains tax, with the option to trigger when advantageous;
- Exclusion of a percentage of the reinvested capital gains from taxable income; and
- Permanent exclusion of investment appreciation from taxable income.

QOF tax benefits increase as the investment term lengthens:

*\*Capital gains tax on the amount reinvested in a QOF can be deferred until December 31, 2026, or until the sale or exchange of the reinvestment, whichever comes first. Taxpayers can trigger deferred gain earlier than December 31, 2026, if tax-advantageous.*