



IWM Advisors, LLC
INDEPENDENT WEALTH MANAGEMENT

REDUCE YOUR CAPITAL GAINS TAXES BY INVESTING IN QUALIFIED OPPORTUNITY ZONES?



Here is a summary of the key provisions in the 2017 Tax Cuts and Jobs Acts related to “Qualified Opportunity Zones”:

- 1. Tax Deferral.** If you sell an asset and reinvest the capital gain, within 180 days, in a Qualified Opportunity Fund, tax on the gain is deferred until the earlier of (a) the sale of the Opportunity Fund investment or (b) 12/31/26.
- 2. Tax Reduction.** If you hold the Opportunity Fund investment for five years, your basis in the Opportunity Fund is increased by 10% of the deferred gain; if you hold the Opportunity Fund for seven years, your basis is increased by 15%.

3. Tax Elimination. If you hold the Opportunity Fund investment for 10 years, the basis in the Opportunity Fund is stepped up to the fair market value at the date of sale or exchange.

In summary, if you reinvest a capital gain in an Opportunity Fund, and hold the Fund for 10 years:

- You will defer tax on the original gain for seven years;
- Your basis in the Opportunity will be reduced by 15% of the deferred gain; and
- After you pay the tax on the deferred gain in Year 7, you will pay no more tax.

Here are some practical considerations when thinking about investing in an Opportunity Fund:

1. Based on initial research, preferred returns in Opportunity Funds appear lower (5%-6%) than preferred returns in more traditional real estate funds (8%).
2. To really analyze the investment, you need to compare the combined benefit of the return from the Opportunity Fund plus the tax savings against a traditional real estate fund. (IWM Advisors can help you with that.)
3. To get the maximum benefit of the tax deferral, you have to stay in the deal for up to 10 years. So, there's a liquidity issue there that needs to be considered.
4. The market is becoming flooded with the launch of Opportunity Zone funds. At bottom, these are still real estate investments, so only invest with experienced developers who know the market.

For more help in understanding and analyzing Opportunity Funds, please contact us at 917.697.4156 or peterculver@iwmnyc.com.