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Navigating Designated Opportunity Zones

One of the lesser publicized provisions of The Tax Cuts and Jobs Act (the Act) provides for a new community development incentive designed to increase long-term investments in low income communities throughout the country.

Sections 1400Z-1 and 1400Z-2 of the internal revenue code, which were added by the Act, strive to spur economic development and job creation in distressed communities through the provision of tax incentives to investors.

Tax Incentive

The Act provides for the designation of specific low-income community population census tracts as Qualified Opportunity Zones (QOZs). In order to be designated as a QOZ the area must be nominated by the State in which the tract is located and certified by Secretary of the U.S. Treasury. The Act also introduces Qualified Opportunity Funds (QOFs) - which are specified investment vehicles holding at least 90 percent of their assets in QOZ property.

The Act grants potentially significant tax incentives to taxpayers dispersing private capital to distressed communities through investments in QOFs. Taxpayers may elect to defer the recognition of taxable gain from the disposition of property, if the gain is reinvested in a QOF within the 180-day period immediately following the disposition. Generally, gain is

deferred until the end of the earlier of (1) the disposition of the investment, or (2) Dec. 31, 2026. However, if investors keep their capital in the QOF for five years or more, a portion of the deferred gain from the sale or exchange may be excluded from ultimate recognition. Additionally if the QOF investment is held for at least 10 years, post-acquisition gains on the investment in the QOF may be permanently excluded.

It is important to note that investors do not need to live, work or have a business in an Opportunity Zone to take advantage of the tax benefits. Instead, it is the composition of the investment itself which determines eligibility.

Eligible Fund Investments

QOFs are able to invest in certain eligible QOZ property, including:

- Stock in domestic corporations
- Domestic partnership interests
- Certain tangible property used in QOZ trade or business

Pinpointing The Zones

The list of QOZs currently certified by the Treasury are available from the Treasury Department's CDFI Fund. Please note that this is not the official list, the official list will be published in the Internal Revenue Bulletin at a later date when finalized. Any designation as a QOZ will remain in effect until Dec. 31, 2028, when this program is set to sunset.

Additionally, the IRS will continue to provide additional guidance in the coming months. [Click here](#) to read the IRS FAQs for this new provision.

Next Steps

This new incentive has the potential to generate significant tax savings for taxpayers and large capital investments in economically-distressed communities. QOZ's have been designated in all states. Investors wishing to defer gains and entities operating or considering operating in one of the designated QOZs should contact their tax advisors for additional information and assistance in determining how these provisions might apply to their specific situation.

If you have questions or need more information, contact your tax advisor, or the authors of this article: Nathan Clark or Eric Hessler at info@dhgllp.com.