

A REAL ESTATE INVESTOR'S GUIDE TO OPPORTUNITY ZONE FUNDS



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INTRODUCTION

You made a successful sale, congratulations! The catch now is that you have a big tax headache! Like everyone else, you want to know how to keep as much of your money as possible.

Introducing Qualified Opportunity Zone (QOZ) Funds. An investment vehicle in real estate that allows for the deferral of taxable gains from highly appreciated stock, sale of a business, or real estate, with the TAX FREE treatment of capital gains in the QOZ (after 10 years).

There are several components that make a QOZ Fund an attractive option for people who have experienced a liquidity event. Let's explore the doors that a QOZ Fund may open.



What is a Qualified Opportunity Zone (QOZ) Fund?

In 2017, congress passed the Tax Cuts and Jobs Act that created the ability for local governments to identify certain real estate areas as a Qualified Opportunity Zone. This allows for funds/ capital gains to be invested (within 180 days of sale) into specified properties to be granted tax-favored status.



Tax Deferment

In the IRS tax code, present capital gains invested into a QOZ Fund will not owe their taxes until April 15, 2027*, or earlier if the fund closes. Meaning you

* Or when the asset is disposed of, if earlier

can defer the tax bill from your sale today for a reasonable time, while you invest that portion into a QOZ Fund.

Tax Free Growth Opportunity

A beneficial aspect of a QOZ Fund is tax free growth potential of the real estate that you invested "inside the zone". As long as your funds are inside a QOZ Fund for minimum 10 years, any potential growth will be non-taxable.

Potential Passive Income

Since QOZ Funds have longer hold times, the real estate that the developer has designed is structured to rent out to tenants which seeks to create passive income. Like all real estate, this income is in addition to any potential growth.



Benefits of Using a QOZ Fund

To help paint the picture of potential impact using a QOZ Fund, below is a hypothetical example of paying the taxes now with no tax benefits, versus using a QOZ fund:

TODAY	Paid Taxes	Used QOZ Fund
Capital Gain	\$1,000,000	\$1,000,000
Capital Gains Due Today (20% Fed + 3.8% NIIT = 23.8%)	-\$238,000	\$0
After Tax Dollars to Invest	\$762,000	\$1,000,000
YEAR 10		
Net Investment Value (Assumed 2.25x Multiple)	\$1,714,500	\$2,250,000
Deferred Capital Gains Due in 2027 (23.8% on Original Amount)	\$0	-\$238,000
Capital Gains Tax on Appreciation (23.8%)	-\$226,695	\$0
Year 10 After-Tax Value	\$1,487,805	\$2,012,000
After Tax Profit	\$725,805	\$1,012,000
After-Tax Annualized Return	6.90%	10.20%

The hypothetical example is for illustration purposes only. Individual results will vary. Returns used are not guaranteed, may vary, and could be lower than anticipated. Tax rates subject to local, state and federal tax laws. After-Tax Annualized Net Return also assumes the same investment basis as equivalent tax investment of \$762,000.

How a QOZ Fund Works



*Original capital gains deferral amount is subject to time frame invested in QOZ fund.

Things to Know

Qualified Opportunity Zone Funds (QOZ Funds) are real estate investments that have helpful tax advantages. Because the hold periods can be up to 10 years, the government incentivizes investors to hold their investment by rewarding them with having any potential growth to be non-taxable. Additionally, you are able to defer the tax bill for your original gains until April of 2027.

Investing with a QOZ Fund brings limited liability to the investor, as well as limited responsibility. When we say “responsibility”, we mean that there are no landlord duties involved since the sponsoring company (general partners) take on the operations, development/construction, as well as the liability of the loan should there be one.

Having access to QOZ Funds also allows the investor to diversify their funds into multiple real estate asset holdings, since the minimum investment for most QOZ Funds are \$100,000.



WANT TO LEARN MORE?

Looking to defer and eliminate capital gains from a recent sale? Interested in investing in investment grade properties *without* the hassle of being a landlord? Let's talk!

Call or visit our website to schedule a free consultation today!



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Disclosure:

Because investor situations and objectives vary this information is not intended to indicate that an investment is appropriate for or is being recommended to any individual investor.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated. Diversification does not guarantee profits or guarantee protection against losses.

Certain Qualified Opportunity Zone (QOZ) areas may not be able to appreciate as predictably as more established areas. Some neighborhoods may be more accommodating to development than others, impacting the success of the investment. Development and redevelopment of real estate traditionally have more risk than other types of real estate strategies. The availability and cost of construction and development financing is uncertain and represents a risk inherent in the execution of a QOF strategy. The rules and regulations of the QOZ Program are complex, compliance with the QOZ Program comes with significant challenges. QOFs tend to be illiquid investments for ten or more years. Any discussion regarding “Qualified Opportunity Zones” — including the viability of recycling proceeds from a sale or buyout — is based on advice received regarding the interpretation of provisions of the Tax Cut and Jobs Act of 2017 (the “Jobs Act”) and relevant guidance’s, including, among other things, two sets of proposed regulations and the final regulations issued by the IRS and Treasury Department in December of 2019. A number of unanswered questions still exist, and various uncertainties remain as to the interpretation of the Jobs Act and the rules related to Opportunity Zones investments. We cannot predict what impact, if any.

QOZ Fund properties are only available to accredited investors (typically defined as having a \$1 million net worth excluding primary residence or \$200,000 income individually/\$300,000 jointly of the last two years; or have an active Series 7, Series 82, or Series 65. Individuals holding a Series 66 do not fall under this definition). If you are unsure if you are an accredited investor and/or an accredited entity, please verify with your CPA and Attorney.

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