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Q: What is a qualified opportunity fund (QOF)?
A: These are investment vehicles created by the Tax Cuts and Jobs Act of 2017. When a taxpayer has a capital gain and reinvests that gain in one of these funds, there are significant tax benefits. These funds were created to drive resources to qualified opportunity zones, which consists of low-income communities.

Q: What are the tax incentives of investing in qualified opportunity funds?
A: There are two major benefits of investing in a qualified opportunity fund. The first is a deferral of the reinvested capital gain until it is later sold. The second benefit is if you hold the interest in the qualified opportunity fund for over 5 years, there is a 10% basis increase (or in other words, a 10% reduction in taxable gain) when you sell the interest in the fund. If the interest is held 7-10 years and then sold, there's an additional 5% basis increase. If held for greater than 10 years and then sold, any gain on the appreciation of the QOF is fully excluded.

Q: Is there a window or time period that a capital gain must be invested in a QOF?
A: The taxpayer must re-invest a capital gain in a QOF within 180 days after the sale or exchange of the capital asset.

Q: Can you provide an example of how the gain deferral and basis increases work?
A: In 2019, Taxpayer A has a long-term capital gain of $100,000 from the sale of securities. Within 180 days, A reinvests the gain in a QOF. A holds the interest in the QOF for six years and decides to sell it. At year six, the value of the interest is $150,000. The 10% basis increase is $10,000 ($100,000 x 10%). A's taxable gain is $150,000 less the basis of $10,000; $140,000. Effectively, A has reduced their taxable gain and deferred the 2019 gain until 2025.

Q: I'm interested in possibly investing in a QOF. What should I consider?
A: There are several tax considerations with investing in these funds. Contact your CPA to discuss your tax planning opportunities.