Opportunity Zones 101

An Opportunity Zone is a designation created by the Tax Cuts and Jobs Act of 2017 meant to encourage investment in economically distressed communities. Opportunity Zones provide a tax incentive for investors to re-invest their unrealized capital gains into dedicated Opportunity Funds, which then invest in Qualified Opportunity Zone property, including stocks, partnership interest or business property.

Tax Incentives

Opportunity Zones offer investors three incentives for putting equity to work in economically distressed communities:

1. **Temporary deferral**
   - An investor can defer capital gains taxes until the end of 2026 by rolling their gains directly over into an Opportunity Fund.

2. **Step-Up in Basis**
   - The deferred capital gains liability is effectively reduced by 10% if the investment is held for 5 years, and 15% if held for 7 years.

3. **Permanent Exclusion**
   - Any capital gains on investments made through an Opportunity Fund accrue tax-free so long as the investment is held for at least 10 years.

How does it work?

- **Individual Taxpayers**
  - **Qualified Opportunity Fund (QOF)**
  - **Qualified OZ Business Property**
  - **Qualified OZ Partnership Interest**
  - **Qualified OZ Stock**
**Timeline of Benefits**

- **Reinvest realized capital gain in an OZ Fund**
  - No more than 180 days
  - +10%

- **Basis increased by 5% of the investment. 85% of investment is taxable.**
  - 5 years
  - +10%

- **Can sell OZ Fund interest free of US federal income tax**
  - 7 years
  - Dec. 31, 2026
  - +15%

- **Deferred capital gain is recognized. Pay 85% of original capital gain.**
  - 10 years

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**How do they compare?**

**Investment in Stock Market at 10% Return on Investment (ROI)**

- **Amount of Capital Gains:** $100,000
- **Federal Cap Gain Tax Liability (20%):** ($20,000)
- **Amount to invest:** $80,000
  
  Year 1: $88,000
  Year 2: $96,800
  Year 3: $106,480
  Year 4: $117,128
  Year 5: $128,841
  Year 6: $141,725
  Year 7: $155,898
  Year 8: $171,488
  Year 9: $188,637
  Year 10: $207,501
  (Capital Gain: $127,501)

- **Federal Cap Gain Tax Liability on $127,501 (20%):** ($25,500)
  
  **Net Value of Stock Market Investment:** $182,001

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**Investment in Qualified Opportunity Fund (QOF) at 10% ROI**

- **Amount of Capital Gains:** $100,000
- **Federal Cap Gain Tax Liability (20%):** $0
- **Amount to invest:** $100,000
  
  Year 1: $110,000
  Year 2: $121,000
  Year 3: $133,100
  Year 4: $146,410
  **Year 5:** $161,051
  (If you realize Capital Gains, eligible for 10% reduction)
  Year 6: $177,156
  **Year 7:** $194,872
  (If you realize Capital Gains, eligible for 15% reduction)
  **December 31, 2026**
  **Federal Cap Gain Tax Liability (15% reduction):** ($17,000)
  Year 8: $214,359
  Year 9: $235,795
  Year 10: $259,375
  (Capital Gain: $159,375)

- **Federal Cap Gain Tax Liability on $159,375 (0%):** $0
  
  **Net Value of QOF Investment:** $242,375

*Example not a replacement for professional legal/accounting advice

The benefits are clear. Investing in an Opportunity Zone maximizes your return and has the potential to make a positive impact on economically distressed communities.

Go to [OpportunityInvestmentConsortium.com](http://OpportunityInvestmentConsortium.com) to learn more about Opportunity Zones in Indiana.