

Opportunity Zones Program: *An Opportunity for Taxpayers with Large Capital Gains*

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Key Takeaways:

- The Opportunity Zones Program is a way to serve communities in need while reducing your tax liability.
- The longer you hold a qualified Opportunity Zone investment, the greater the potential tax benefits.
- The Opportunity Zone investment should align with your goals and asset allocation.

How can you help others and potentially reduce your tax liability? The most common way is with charitable gifts. However, that's not the only option. For certain individuals, the Opportunity Zones Program, begun earlier this year, may be an effective tax strategy.

What is the Opportunity Zones Program?

The Opportunity Zones Program was created to lure investments into neighborhoods that state governments have identified as being severely economically distressed (Opportunity Zones). Taxpayers with realized capital gains who roll them into a qualified investment in an Opportunity Zone (OZ) can defer taxes on those gains and perhaps reduce the taxes due.

Some examples of qualified OZ investments include:

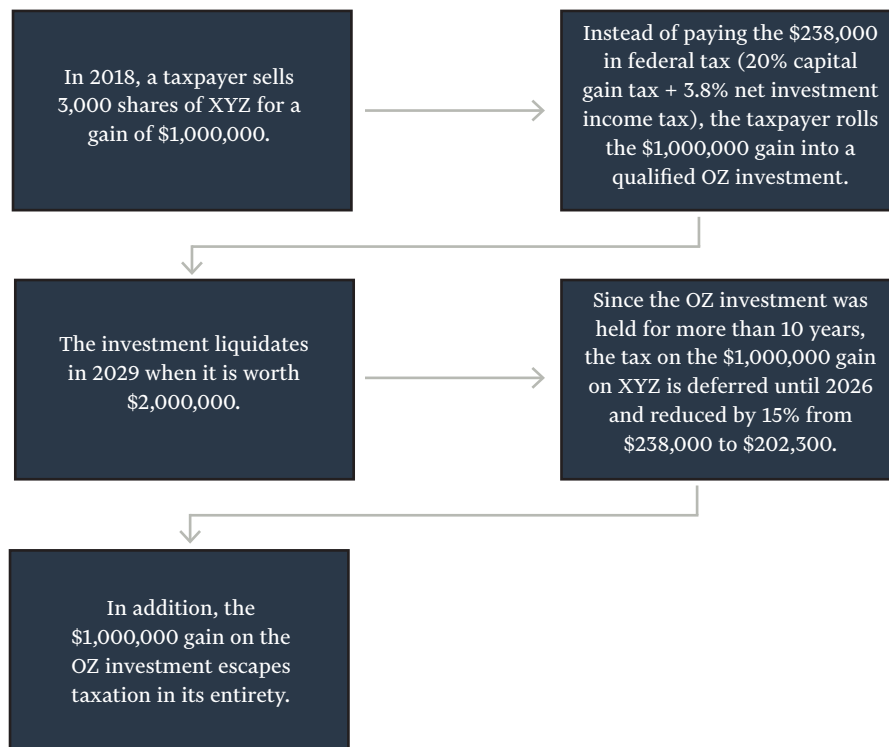
- A national private equity fund that provides growth capital to lower, middle-market operating businesses located in Opportunity Zones
- A local fund that provides the equity capital for the redevelopment of a closed shopping mall into a mixed-use development that includes new neighborhood retail and workforce housing
- A disaster area fund that develops and leases new affordable housing for residents displaced by hurricanes and forest fires

What are the potential tax benefits?

Depending on the length of time the OZ investment is held, the capital gains tax is deferred and in some instances reduced.

OZ Investment Holding Period	Benefits
Less than 5 years	Tax on capital gains is deferred until the date the OZ investment is sold or exchanged.
5-7 years	Benefits as above + 10% of the tax on the capital gains is canceled.
7-10 years	Tax on capital gains is deferred until the earliest of 2026 or the date the OZ investment is sold or exchanged + 15% of the tax on the capital gains is canceled.
More than 10 years	Same benefits as above + no tax is due on the OZ investment.

Let's look at a hypothetical example to better understand how the OZ program works:



What are key considerations for investors?

The decision to participate in the OZ program should not be driven solely by the potential tax benefits. You also have to assess whether the investment fits with your asset allocation and if your capital gains are large enough to meet the minimum investment requirement.

In addition, it's essential to perform due diligence on any investment opportunity, especially given the newness of the OZ program. You'll want to work with a real estate promoter who has experience with:

- Development deals (spending more money on improvements than on the actual purchase)
- Holding/managing an asset over a 10-year period
- Operating in the low-income (affordable housing) market



We're here to help.

Our experienced tax and investment advisors can help you evaluate whether the Opportunity Zones Program makes sense for you given your goals and current tax situation. If it does, they'll then work with you to integrate the strategy into your overall financial plan. Contact Cerity Partners to learn more.

Len Schlangel is a partner in the Cerity Partners New York office. He has over 30 years of wealth management experience, specializing in taxes, financial planning and investment advice for individuals and their related entities.



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