Marcus & Millichap

Special Report

Opportunity Zones FAQs

Fourth Quarter 2018

Q. What is an Opportunity Zone?

A: *Opportunity Zones are areas in each state where Qualified Opportunity Funds can invest gains from other investments into real estate and businesses to defer and reduce capital gains taxes.*

Q: Why were Opportunity Zones created?

A: *Opportunity Zones were added as part of the Tax Cuts and Jobs Act on Dec. 22, 2017, to encourage investment, development and job creation in economically distressed communities.*

Q: What is a Qualified Opportunity Fund?

A: *Investors put capital gains from other investments such as the sale of stocks into a Qualified Opportunity Fund to defer and reduce taxes on capital gains. The fund invests at least 90 percent of that money into properties located in opportunity zones and must substantially improve the property with development equal to or greater than the purchase price within 30 months.*

Q: Is this a "limited time" opportunity?

A: *Gains that are placed in an Opportunity Fund are only deferred until the end of 2026. As a result, the equity investment must be made by the end of 2019 to get the full 15 percent tax basis "step-up" from investing in an Opportunity Fund for seven years.*

Q: Are the rules still being defined? What guidance is coming?

A: *Guidance is still pending on many elements of this newly created tax rule. One open question is how funds are treated during the substantial improvement phase. The statute allows 30 months to complete the substantial improvements, but requires that 90 percent of the funds be invested within six months. This rule, and many others, will require additional guidance from the Treasury Department and the IRS.*

Q: How do investors benefit by investing in Opportunity Zones?

A: *If investors invest capital gains into a Qualified Opportunity Fund within 180 days of selling an asset such as stocks, they can potentially defer or reduce their capital gains taxes:*

- **Five-Year Hold:** *If the taxpayer holds the fund shares for five years, there is a 10 percent basis step-up. They only pay taxes on 90 percent of the capital gains they invested.*
- **Seven-Year Hold:** *If the taxpayer holds the fund shares for seven years, there is another 5 percent basis step-up (to a total of 15 percent). They only pay taxes on 85 percent of the capital gains they invested.*
- **Taxes Due:** *When the taxpayer sells the investment, or on Dec. 31, 2026, – whichever comes first – the taxpayer must pay taxes on the deferred capital gains.*
- **10-Year Hold:** *If the taxpayer holds the fund shares 10 years, the taxpayer still receives the 15 percent basis step-up, but also pays no capital gains taxes on the profits on the assets in the fund.*

Q: How is a Qualified Opportunity Fund Created?

A: *An eligible taxpayer self-certifies by filing with the IRS as a partnership or as a corporation. Investors place capital into the fund within 180 days of recognizing a gain from other investments.*

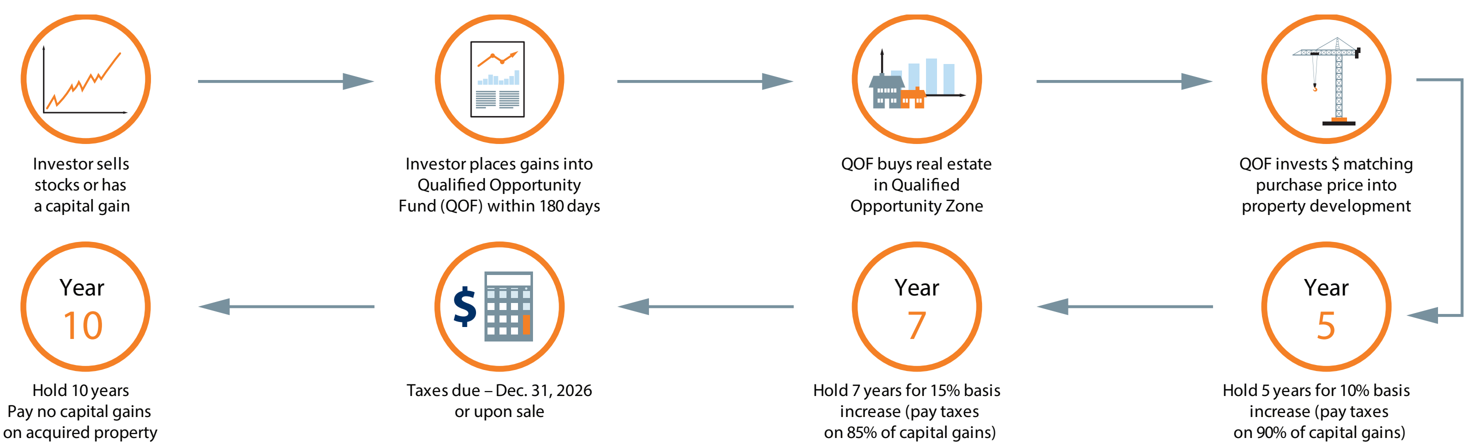
Q: Do Opportunity Zones only apply to real estate?

A: *Although this FAQ focuses on commercial real estate and redevelopment, Opportunity Funds can also invest in new construction and businesses located in these areas. Separate rules apply to those options.*

Q: Can investors 1031 Exchange into an Opportunity Fund?

A: *Investors cannot use a 1031 tax deferred exchange to move profits from real property into an Opportunity Fund, nor can gains from an Opportunity Fund be exchanged into real property using a 1031 exchange.*

OPPORTUNITY ZONE PROCESS SNAPSHOT



This report is not intended and should not be considered tax or investment advice. It provides an interpretation of the potential effects of the new tax law on the commercial real estate market. A tax accountant should be consulted for guidance on specific tax rules.