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WHAT'S THE DEAL WITH
OPPORTUNITY ZONES?

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WHAT'S THE DEAL WITH OPPORTUNITY ZONES?



By Steven Bankler, CPA

The Tax Cuts and Jobs Act introduced a new tax-lowering investment tool called Qualified Opportunity Zones (QOZ's). Those willing to invest long-term in QOZ's receive special tax advantages. But it's new territory for both investors and developers, and with that new territory comes a learning curve.

QOZs are a tool designed to spur economic development and job creation in distressed communities. There are now more than 600 designated QOZ's in Texas alone, with 24 throughout San Antonio and Bexar County. QOZ's are in several key neighborhoods from the northeast corridor down through the far south and far southeast areas of the San Antonio metro area. In fact, San Antonio is second only to Houston for the number of opportunity zones it has available in Texas.

You don't need to live, work or have a business anywhere near a particular QOZ to invest in it though.

"All you need to do is invest a recognized gain in a Qualified Opportunity Fund (QOF) and elect to defer the tax on that gain," the IRS points out. A QOF is defined by the IRS as an investment vehicle that files either a partnership or corporation federal income tax return and is organized for the purpose of investing in Qualified Opportunity Zone property. You can either form your own or invest in a publicly offered QOF.

The IRS will allow you to defer taxes on capital gains made elsewhere as long as they are invested in a QOF within 180 days of the sale. It's critical to note that the longer you invest, the more tax savings can be earned. If the QOF is:

Held for longer than five years, 10 percent of the gains are tax-free.

Held for more than seven years, 15 percent of the gains are tax-free.

Held for 10 years or more, the investor is eligible for an increase in basis equal to the fund's fair market value on the date it's sold or exchanged (which means 100 percent of the gains could be tax-free).

Property owners and developers who want their entities to become qualified opportunity zone businesses (QOZB's) can seek additional tax advantages and incentives. For instance, the City of San Antonio offers a tax abatement, fee waiver program, Center City Housing Incentive, and tax-increment financing for eligible QOZB's. New or substantially rehabilitated mixed-use buildings, multi-tenant residential buildings and commercial rental properties are ideally suited for this type of scenario.

Investing in QOZ's and even starting a QOZB can be great ways to economically bolster low-income areas while receiving tax breaks, but they require a tax strategy that shouldn't be decided without professional guidance. In other words, it's a new tax vehicle that can take you far, but you'll need to maneuver it without a well-established road map.

Steven Bankler has more than 43 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection, as well as exit-strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.