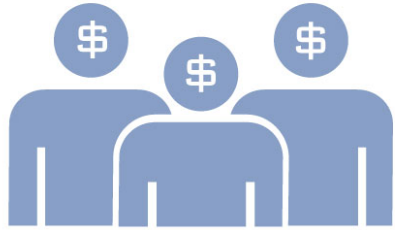




# OPPORTUNITY ZONE “OZ” INCENTIVES

**WILLIAMS MULLEN**

# The OZ Incentives



Investors with eligible capital gains

Qualified Opportunity Fund ("QOF") Investment

Temporary **DEFERRAL**  
Through 12/31/26  
Or earlier "Inclusion Event"

Permanent **TAX REDUCTION**  
Up to 15%

Permanent **TAX AVOIDANCE**  
For QOF interests held for 10+ years

# The OZ Incentives



## > The Deferral Election

- Permits taxpayer to defer recognition of deferred gain on sale or exchange of property to *unrelated* person
  - Generally, taxpayers must invest deferred gain in a QOF within 180 days following sale or exchange
    - Partners in a partnership have 180 days after the end of the partnership's taxable year to make deferral election, provided partnership does not make deferral election
    - Certain gains (e.g., 1231 gains) have different 180-day start times

## > Election Mechanics – Form 8949

- Filed with tax return for the year of deferral

# The OZ Incentives



## > Amount Recognized

- No later than **December 31, 2026**, Taxpayer recognizes:
  - The lesser of:
    - The deferred gain, or
    - The FMV of its QOF Investment, over
  - The Taxpayer's Basis in the QOF investment
- If the value of the QOF investment depreciates –
  - Taxpayer should obtain valuation as of 12/31/26
- Deferral period ends before 12/31/26 if:
  - Sale or exchange of QOF interest, or
  - Other “inclusion event”

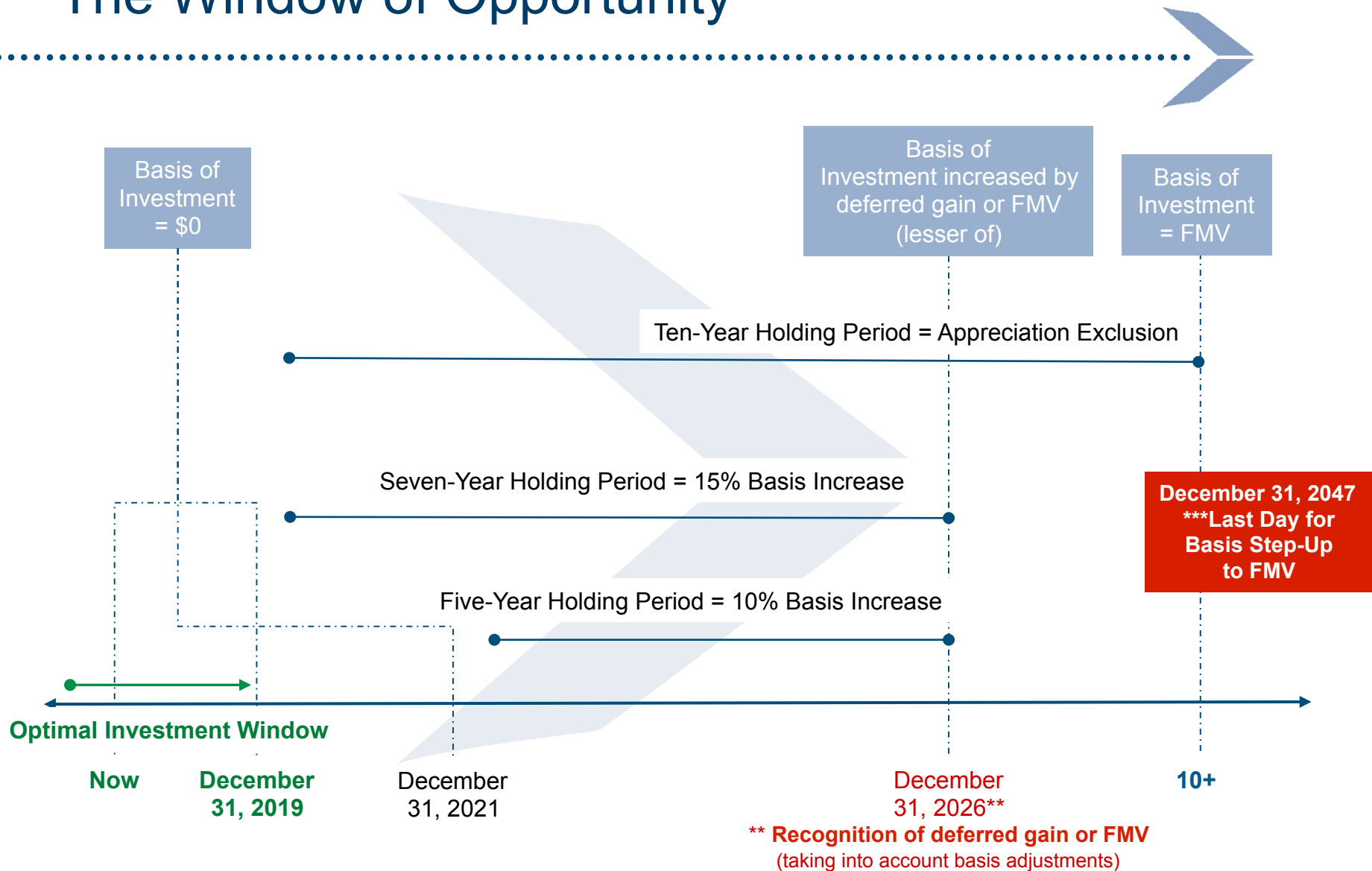
# The OZ Incentives



## > Permanent Tax Avoidance

- Gain Exclusion Election
  - If QOF investment is held **at least 10 years** prior to **December 31, 2047**, and
  - Taxpayer makes a valid election...
    - Basis of QOF investment is increased to its **FMV** as of the date it is sold or exchanged
  - If QOF sells opportunity zone property (“OZ Property”), investor in QOF may elect to exclude capital gain allocated to it provided that QOF investment held at least 10 years
- Election mechanics
  - Requires further guidance

# The Window of Opportunity



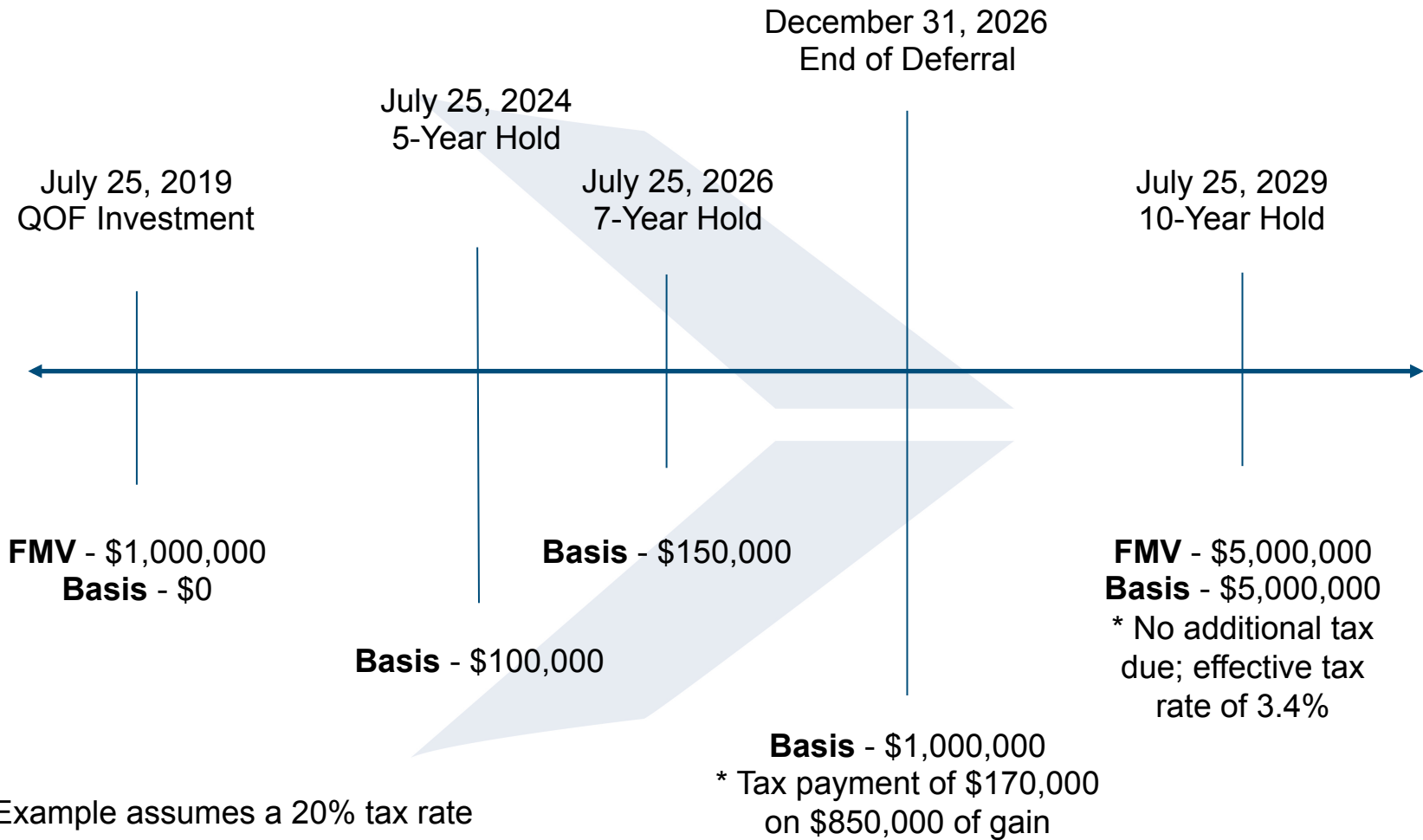
# The OZ Incentives



## > Operative Through Basis Adjustments

- Eligible investments in QOFs
  - Initial tax basis = \$0
    - Preserves investor's unrecognized capital gain
  - Holding period basis increases:
    - At least 5 years prior to 12/31/26 = 10%
    - At least 7 years prior to 12/31/26 = 15%
  - FMV basis increase:
    - Basis = FMV on date of sale/exchange of QOF investment
      - » Must hold investment for at least 10 years
      - » Must sell or exchange investment on or before 12/31/47

# Example – The OZ Incentives





# Questions and Contact



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<https://www.williamsmullen.com/practice/qualified-opportunity-zones>

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