



FEDERAL Opportunity Zones

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Federal Opportunity Zones

The 2017 Tax Cut and Jobs Act created the federal Qualified Opportunity Zone (QOZ) program that offers flexible tax savings and diversification tool for taxpayers generating large gains. The goal of the program is to spur investments in low-income areas to promote business growth and economic revitalization providing social, community and individual benefits. Individuals, C and S Corporations, REIT's, partnerships and other pass-through entities can sell their appreciated capital assets and elect to reinvest the resulting capital gain income into a Qualified Opportunity Fund (QOF).

To participate in the QOZ program, the taxpayer must roll all or a portion of their short-term or long-term capital gain into a QOF within 180 days of the recognition date of the gain. The QOF must then timely invest the deferred gains into undeveloped or developed real estate, a new or existing QOZ-based business, or other qualified QOZ property.

An eligible taxpayer who invests their capital gains into a QOF can defer reporting the initial gain for up to eight years. In addition to the deferral, there are also partial permanent tax savings (10% and 15% gain exemption) for holding the QOF investments for five or seven years, respectively. Gains accruing after the investment into the QOF will be tax-free upon sale if the investment is held for at least ten years. This full gain exclusion remains effective on QOF holding periods through December 31, 2047, giving investors up to 29 years to accrue (federal) tax-free gains.

California has not yet adopted the federal OZ program, therefore HCVT can assist you with comparing the pros and cons of QOF investing vs. other options such as 1031/Like-Kind Exchanges for real estate, installment sales, and other planning opportunities.

How it Works

A taxpayer investing \$1,000,000 of deferred tax gain into a QOF on June 30, 2018, will start with a \$0 tax basis in the QOF since the gain has not been recognized. On July 1, 2023 after meeting the 5-year holding requirement the taxpayer will receive a 10% step-up to \$100,000, leaving \$900,000 of deferred tax gain, on July 1, 2025, the 7-year step-up of an additional 5% will bring the cumulative tax basis to \$150,000 and lower the deferred gain to \$850,000. At December 31, 2026, the deferred gain of \$850,000 will be includable in the taxpayer's 2026 tax return, and their QOF tax basis will then be \$1,000,000 (\$150,000 basis step-up plus the \$850,000 deferred gain recognized).

Once the investor has held the QOF for at least ten years, the tax basis in the QOF will fluctuate with the changing fair market value, and the taxpayer can elect to exempt the post-investment federal tax gain upon disposition for as long as 2046 – allowing decades of potential tax-free appreciation.



How HCVT Can Help:

Investing in or creating a QOF requires careful analysis. The tax professionals at HCVT can help you evaluate the tax gain deferral and the business investment opportunities, provide recommendations for structuring, assist with tax compliance services, and provide assistance with the ongoing monitoring of the qualification of the QOF and sub-entities.

About HCVT

Founded in 1991, HCVT is one of the fastest growing CPA firms in the nation validating the technical experience of our team and our approach to client service. We provide tax, accounting, business management, and mergers & acquisition services to private companies, closely-held businesses, public companies and high net worth individuals and family offices. We provide audit and assurance services to privately held businesses, funds, and employee benefit plans. Today, we are the fifth largest CPA firm in Los Angeles, and the 34th largest firm in the United States. We are a team of over 600 members, including over 100 partners and principals. We serve our clients from eight offices in Southern California, and offices in Northern California, Fort Worth, Texas, Park City, Utah, and Phoenix, Arizona.

Validating the strength of our people and the success of our firm, HCVT has been recognized by Inside Public Accounting as one of the "Best of the Best" Firms for a record 14 consecutive years. Accounting Today recognized HCVT as one of the Best Accounting Firms to Work For, and we are very proud of this recognition.

BIOGRAPHIES



Blake Christian brings over 35 years of experience providing tax consulting and compliance services to clients that include multinational, publicly traded corporations, as well as closely held owner-managed businesses. Throughout his entire career, Blake has specialized in federal, state and local tax incentive programs. Blake is leading the firm's efforts in providing tax consulting services for Qualified Opportunity Zones. A thought leader, Blake has been recently interviewed by US News and World Reports and other national publications providing insights into this powerful, yet complex, tax incentive program and has authored several articles and HCVT Tax Alerts about Qualified Opportunity Zones (OZ) and Qualified Opportunity Funds. Blake has developed unique insights into OZ strategies for real estate developers and investors, as well as for operating business start-ups and expansions. In addition to tax incentive consulting, Blake provides partnership and individual tax planning and compliance services. His industry experience is broad and includes manufacturing and distribution, service companies, restaurant, shipping and transportation, energy and healthcare. Blake joined HCVT to open the firm's Long Beach office over 26 years ago and opened the firm's Park City, Utah office in 2014. Blake began his career at KPMG LLP and was admitted to its partnership. Blake holds a master's of taxation from the University of Southern California and a bachelor's degree in accounting and a minor in finance from California State University, Long Beach.

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Alejandra Lopez brings over ten years of experience providing tax consulting and compliance services to clients that are closely held owner-managed businesses. Her industry experience is diverse and includes manufacturing, retail and distribution, service companies, shipping, transportation, energy, healthcare, real estate, and high net worth individuals. In addition to corporate, partnership and individual tax compliance and planning, Alejandra specializes in the federal Opportunity Zone program, state and local tax incentive, tax credits, grants and other benefits associated with hiring and investing. Alejandra began her career at HCVT. She holds a master's of taxation from the University of Southern California and a bachelor's degree in accounting from California State University, Long Beach. She is active in her community and is a member of the Long Beach Chamber of Commerce, the Long Beach Young Professionals, and the Long Beach Red Shoe Society.

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