PROVIDENT 1031

Step-By-Step

How to Invest In An Opportunity Zone

1 Find out where opportunity zones are available.

Currently, there are

8,741 qualified opportunity zones across the U.S.,

including the District of Columbia, and other U.S. territories. An interactive map is available on the Department of Housing and Urban Development's website that shows all the QOZs.

While **qualified opportunity zones** exist in all 50 states,

New York, Arizona, and Texas

are among the states with the highest percentage of opportunity zones.

Many of the country's top real estate development firms offer institutional quality real estate investments in ready-made qualified opportunity funds (QOFs), available to accredited investors only.

These investments include Class A apartment buildings, industrial warehouses, life science facilities, self-storage, student housing, and hotels.

An investor may wish to consider the convenience of investing in a ready-made institutional quality QOF that invests in assets that would be out of reach for most individual investors due to the investments' size and scope.

Many of these funds are capitalized with 100 million dollars or more.

QOFs of this nature are available in fractional denominations from securities registered investment advisors and/or broker-dealers.

2 Create your own opportunity fund, or find one that is accepting investment capital.

A qualified opportunity fund is an investment vehicle structured as a REIT or partnership with the specific objective of investing in opportunity zone assets.

The fund must hold and invest at least 90% of its assets

in qualified opportunity zone properties and qualified opportunity zone businesses.

To reap the tax benefits introduced by the Tax Cuts and Jobs Act of 2017, investors cannot invest their capital gains directly into an opportunity zone. Instead, all opportunity zone investments must pass through a qualified opportunity fund to qualify for the associated tax incentives.

Form 8996

A qualified opportunity zone fund can be established by any taxpayer by filing Form 8996 and submitting it with their federal income tax return. The purpose of this form is to certify individuals, partnerships, or corporations as organizations for investing in qualified opportunity zones.

A variety of investments can then be made with these funds, including investments in stocks, partnership interests, or business property. As for the latter, the fund must significantly improve the qualifying property.

QOFs may also invest in multiple QOZs as long as at least 90% of their assets are invested in the QOZs.

3 Invest in qualified opportunity zones and apply investment strategies for leveraging capital gains.

The IRS and the U.S. Treasury Department clearly state that only capital gains can be invested in QOFs, which would be channeled into qualified opportunity zone properties or businesses.

Let's break that down a little more:

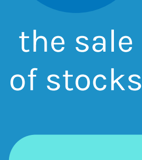
Ordinary income

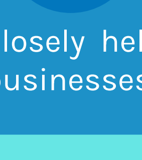
consists of wages and interests, including your salary and interests you get on savings or certificate of deposit accounts. Dividends on stocks are also regarded as regular income. Ordinary income cannot be invested in a QOF.

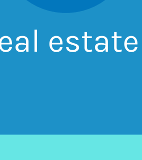
Capital gains

are generated when you sell a capital asset for a price that's higher than its purchase basis.

This includes gains from

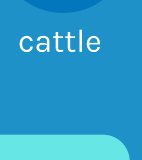

the sale of stocks


closely held businesses


real estate

cryptocurrency

art


cattle

or just about any other type of investment that could generate a capital gain.

180 days

180 DAY DEADLINE: Investments in opportunity zones can help you defer taxes and create tax-free investments.

In exchange for an equity stake in the QOF (qualifying investment), **the eligible gain must be invested in a QOF within 180 days of triggering the capital gain**.

How long should you hold your investment in a qualified opportunity zone?

Investors who want to defer taxes on capital gains can receive tax benefits from opportunity zones if they meet specific time requirements for investing the realized gain in a qualified opportunity fund (QOF).

As a result, investors can postpone paying taxes on realized capital gains until December 31, 2026 (possibly extended to 2028).

For the gains to be 100% tax-free, the investment in a QOF needs to be held for 10 years.

TAX

FREE

The combination of tax deferral and tax-free investing can provide a significant advantage to QOF investments versus other traditional investments that are taxed on investment gains. A good adviser should be able to provide a side-by-side comparison for an investor of paying taxes on capital gains today versus deferring them and investing in a QOF with tax-free growth.

Summary

Investing in qualified opportunity zones isn't that complex, as long as you adhere to the regulations set in place by the IRS, which clearly state that you as an investor, cannot invest in a qualified opportunity zone directly.

However, you can create a qualified opportunity fund, or find a ready-made QOF, which can invest the funds for you into designated QOZs on your behalf. This will allow you to defer taxes and grow your investment tax-free if held to the required 10-year timeline.

Many of the QOFs offered by real estate development firms plan to but do not guarantee, a return of capital tax-free during the five-year mark of the investment via a cash-out refinance. This can help an investor with the liquidity they may need to pay future taxes, but an investor should have other sources to pay the tax, because the cash-out refinance is not guaranteed.

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