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Qualified Opportunity Zones Offer New Tax Breaks

As part of the Tax Cuts and Jobs Act (TCJA), the IRS recently announced new qualified opportunity zones in low-income areas throughout the country, allowing for a number of favorable tax rules. The goal is to stimulate economic growth through business investment within these zones.

Eligible Tax Breaks in Qualified Opportunity Zones

Eligible investments in these zones come with two distinct tax breaks.

- Temporary deferral of capital gains made from selling a property when the gain is reinvested in a qualified opportunity fund.
- Permanent exclusion of capital gains from selling or exchanging a property when held for ten years in a qualified opportunity fund.

A qualified opportunity fund is defined by the IRS as an investment vehicle used to invest in qualified opportunity zone properties, holding at least 90% of its assets in qualified opportunity zone properties. Eligible types of property include stock, partnership interest, and business properties within a qualified business zone. The fund may be organized as a corporation or partnership and there is no limit on the deferral amount for capital gains.

Currently, the IRS has announced qualified opportunity zones in 18 states. The deferral election is temporary, and is included as income for the earlier of two options:

- The date the qualified opportunity fund investment is sold or exchanged
- December 31, 2026

Qualified Opportunity Zones in California

With states allowed to designate 25% of eligible census tracts (using various poverty qualifiers) as opportunity zones, California now has 879 participating tracts. Governor Jerry Brown utilized three main criteria when making his selections, including:

- Poorest areas within each county
- At least 30 business establishments in order to drive more investment
- Geographic diversity

All of the governor's nominated tracts were approved by the U.S. Department of the Treasury. Maps and other resources can be found on the [California Department of Finance website](#).

Next Steps

To see how your business could effectively take advantage of the new qualified opportunity zones, contact your Seiler tax advisor today.