

## Opportunity Zones Offer Tax Advantages with Social and Financial Benefits

Created to revitalize economically distressed communities using private investments rather than taxpayer dollars, qualified opportunity zones (QOZs) are a tax-advantaged investment solution that offers both social and financial benefits.

### A QOZ PRIMER

Defined under the 2017 Tax Cuts and Jobs Act, the QOZ program was designed to spur economic development and job creation within economically distressed communities throughout the U.S. In return, participating investors can receive potentially significant tax benefits.

QOZs are census tracts (permanent statistical subdivisions of a county) composed of economically disadvantaged communities, including a small percentage of tracts contiguous to low-income census tracts. With more than 8,700 QOZs currently identified, this source of untapped capital to revitalize underserved communities has attracted significant attention.

### LEADERSHIP

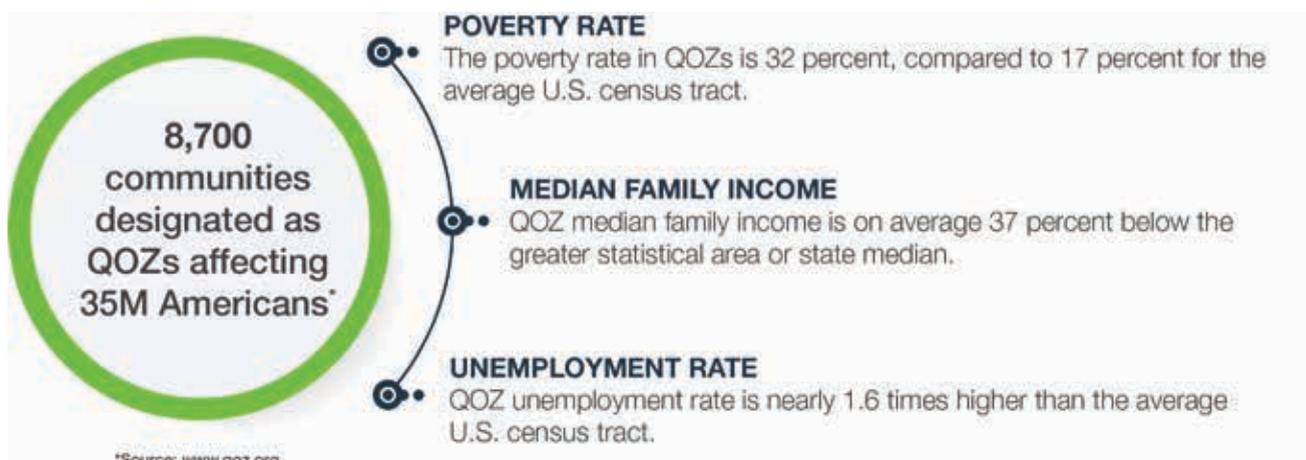


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### HOW IT WORKS

A qualified opportunity fund (QOF) is an investment vehicle that is created for the purpose of investing in a QOZ property. QOFs are typically organized as a corporation or partnership, which must hold at least 90 percent of its assets in QOZ businesses and assets. Following the date of the sale of an appreciated asset that triggers taxable gains, an investor has 180 days to invest up to the amount of those gains in a QOF in order to benefit from the potential tax advantages of the program.

### QOZS AT A GLANCE



## POTENTIAL TAX BENEFITS

An individual who invests in a QOZ is eligible for favorable tax treatment in the form of both deferral and forgiveness. The potential tax benefits include:

- An investor who holds an interest in a QOF for at least five years will receive a step-up in basis equal to 10 percent of the gain deferred by reason of the investment in the QOF. This interest must be acquired on or before December 31, 2021.
- An investor who holds an interest in a QOF for at least seven years will receive an additional step-up in basis equal to 5 percent of the gain deferred by reason of the investment in the QOF (for a total basis step-up of 15 percent of the deferred gain). This interest must be acquired on or before December 31, 2019. If an investment in the QOF is not completed by December 31, 2019, the seven-year step-up basis may not qualify.
- An investor's deferral period with respect to the gain reinvested in the interests in a QOF ends on the earlier date on which the investor disposes of their investment in the fund or December 31, 2026.
- If the investor holds an interest in a QOF for at least 10 years then, in connection with the sale of such interest, the investor's basis in such interest will be equal to the fair market value of such interest on the date it is sold, thereby eliminating any federal income tax with respect to any appreciation in the value of the interest.

## DIFFERENCES BETWEEN QOZS AND 1031 EXCHANGES

While QOZs and 1031 exchanges both offer benefits and tax incentives to investors, here are some differences between the two that investors should consider:

- QOFs allow the investment of any capital asset, whereas 1031 exchanges only allow the investment of real assets.
- 1031 exchanges require all sales proceeds (the basis and gain) be invested, while QOZs only require the capital gains to be invested.
- 1031 exchanges require a Qualified Intermediary and QOZs do not.
- With QOZs, investors must hold the asset for at least 10 years in order to receive full tax advantages. In 1031 exchanges, the tax on investment gain can be deferred indefinitely.

As with any real estate investment, the location of the asset and fundamentals of the deal are still key drivers in marking the success of an investment.

### ABOUT INLAND PRIVATE CAPITAL

Inland Private Capital Corporation (IPC) remains the industry leader in securitized 1031 exchange transactions. As a part of The Inland Real Estate Group of Companies, Inc. (Inland), IPC provides tax-focused private placement real estate investment solutions to accredited investors as an alternative to traditional stocks and bonds. Many of its offerings are designed to qualify as replacement property for an IRS Section 1031 exchange through multiple-owner investment structures. Inland is one of the nation's largest commercial real estate and finance groups, which recently celebrated 50 years in the real estate industry.

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