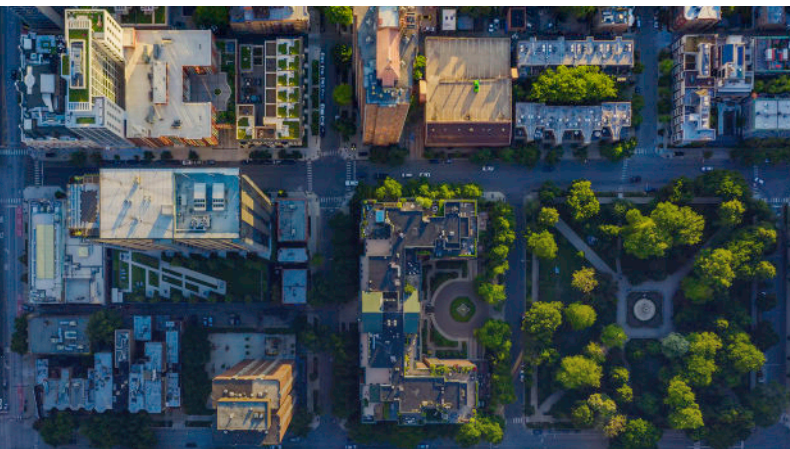


A Solution for 2019 and 2020 Capital Gains: There is Still Time

Individuals with sizable capital gains are looking for proactive solutions to address their taxable event.

WHAT IS THE QUALIFIED OPPORTUNITY ZONE PROGRAM (“QOZ PROGRAM”)?

The QOZ program, made available under the 2017 Tax Cuts and Jobs Act, is one option gaining a lot of interest. The QOZ Program was created to encourage investment in designated communities across the U.S. by providing certain



tax incentives in return for committing long-term capital to these communities through investment vehicles known as Qualified Opportunity Funds (“QOFs”). Final regulations for the QOZ Program were released on December 19, 2019 by the U.S. Treasury Department and IRS Notice 2021-10 was issued on January 19, 2021. The regulations provide clarity on the program and offer investors additional flexibility for certain gains realized back to October 4, 2019 on almost any type of asset. There is additional flexibility for K-1 partnership gains and Section 1231 property gains realized on or after January 1, 2019.

WHAT ARE QUALIFIED OPPORTUNITY ZONES (“QOZs”)?

QOZs are designated census tracts throughout the United States that have been selected by state governors and certified by the U.S. Department of Treasury for inclusion in the QOZ Program. Each state governor was allowed to nominate up to 25 percent of the state’s qualifying census tracts for inclusion in the QOZ Program. In total, there are over 8,700 QOZs spread across all 50 states, D.C., and several U.S. territories.

Investors, which can be individuals and certain entities, may receive a combination of potential tax benefits when short and/or long-term capital gains are invested in a QOF and held for the required time-frame. A QOF is an investment vehicle organized as either a partnership or corporation that **invests at least 90% of its assets in Qualified Opportunity Zone Property (“QOZ Property”)**. QOZ Property includes a wide variety of real estate and new or existing businesses, including commercial real estate, housing, infrastructure, and start-up businesses located in QOZs. QOFs can hold single or multiple assets. The investments made by QOFs are intended to drive economic growth and job creation in the communities in which the investments are made.

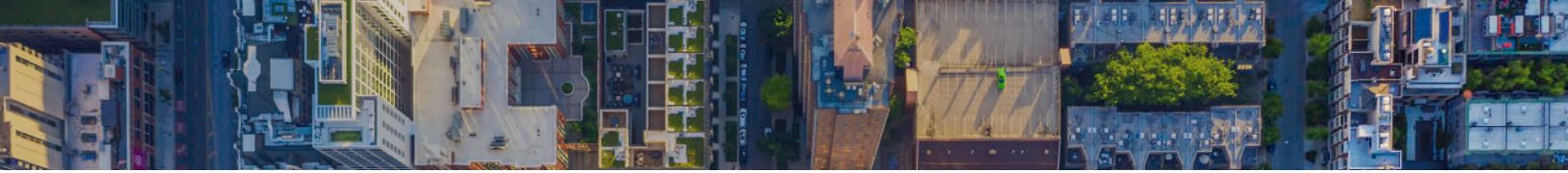
The potential tax benefits of investing in a QOF apply to federal income taxes. Potential tax benefits may also be available in certain states (see specific guidelines for appropriate state of residence). **The tax benefits fall into three categories: Deferral, Reduction, and Elimination.**

DEFERRAL Generally, if a taxpayer invests the capital gain from the sale of a qualifying asset into a QOF **within 180 days of recognizing the gain**, taxes on such proceeds may be deferred until the earlier of December 31, 2026 or when the QOF investment is sold.

REDUCTION If a taxpayer invests an eligible capital gain into a QOF prior to December 31, 2021, and holds the investment until at least December 31, 2026, the amount of the gain on which taxes are owed is reduced through a step-up in basis equal to 10% of the original gain amount invested in the QOF.

ELIMINATION Investors who hold their QOF investment for at least ten years, pay no tax on its appreciation upon sale, regardless of the size of the potential profit, as far out as 2047.

In order to receive tax benefits through the QOZ Program, investors must recognize capital gains from the sale of an asset and, generally, invest those gains into a QOF within 180 days of selling the asset. There is flexibility in the timing for certain capital gains.



WHAT GAINS ARE ELIGIBLE?

Amongst other requirements, a gain is eligible for deferral if it is from the sale or exchange of property with an unrelated party (not more than 20 percent common ownership) and the gain is treated as a capital gain (short-term or long-term) for federal income tax purposes, including gains from:

- Stocks, bonds, options, hedge funds
- Primary and secondary residences
- Businesses, machinery, commercial buildings
- Land, livestock, art, wine, automobiles

The period to invest gains into a QOF and be eligible for the applicable tax benefits is generally 180 days from the date the gain would be realized for federal income tax purposes. However, there are now extensions allowing for more time.

COVID-19 RELIEF

Due to the challenges brought on by the COVID-19 pandemic, the IRS provided **additional relief for taxpayers** through the issuance of **IRS Notice 2021-10**. The notice extends the deadline for completing an investment in a QOF to March 31, 2021 for any investor whose 180-day investment period would have ended on or after April 1, 2020

and before March 31, 2021. Any type of eligible gain, short or long-term, realized on or after October 4, 2019 is still eligible for the tax benefits of the QOZ Program until at least March 31, 2021, **even if the taxpayer has already filed 2019 taxes and/or paid taxes on that gain.**

K-1 PARTNERSHIP GAINS AND SECTION 1231 PROPERTY GAINS

The **final regulations** issued in December of 2019 provides additional flexibility for Section 1231 Property (real property used in a trade or business) and K-1 partnership gains. The final regulations together with IRS Notice 2021-10 now provide that **Section 1231 property gains and K-1 partnership gains (assuming a calendar-year partnership) realized on or after January 1, 2019, have until March 31, 2021 to complete an investment in a QOF that is eligible for QOZ Program tax benefits.**

WHAT NEXT?

Investors who have filed 2019 or 2020 tax returns or paid taxes on 2019 or 2020 gains may still be able to complete a QOF Investment. Due to the complexities of the QOZ Program, individuals considering an investment in a QOF should consult a qualified professional for financial, tax, and legal advice.

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For additional information about the Qualified Opportunity Zone Program, contact Cantor Fitzgerald at **855-9-CANTOR** or cfsupport@cantor.com.

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