Six Things You Need to Know About Qualified Opportunity Zone Funds

1. Deferral of Tax Liability on Any Capital Gain Invested in a Qualified Opportunity Zone Fund ("QOF") Until December 31, 2026

How often do you get an interest free loan to invest in something that can grow tax free? The deferral of the tax liability allows an investor the ability to put capital to work that has the opportunity to grow tax free. In addition, it provides time to engage in proactive tax planning for a future gain event that will occur at a pre-determined time (December 31, 2026). This provides the opportunity to potentially minimize the capital gain tax liability when it comes due. How often do you get to prepare for a number of years in advance of a gain event you know will occur?

2. Elimination of Capital Gain on the Appreciation of the Investment in QOF if Held for at Least 10 Years

There are very few investors who do not like the idea of creating pools of capital that will grow tax-free. If you like the underlying investment and you have a capital gain, a QOF may be a very tax efficient way in which to take that exposure given the elimination of capital gains on the appreciation of the investment.

3. Spreading Tax Liability Over Multiple Tax Periods

Investing in a QOF is not an all or none proposition. An investor may invest all or part of a capital gain in a QOF. Investors with large capital gains may want to spread the tax liability over multiple periods by realizing some of the gain in the current period and investing some of the gain in a QOF to push that portion to tax period 2026, payable in 2027.

4. Retroactive Tax Planning Benefits

An investor realizing a capital gain through a pass-through entity like a partnership or S-Corp has three eligible 180-day windows in which to place that capital gain into QOF. The most generous of those windows allows for that investor to invest in a QOF up until September 13 of the following year in which the gain was realized (assuming their pass-through has a tax year ended December 31). This extended look-back provides tremendous opportunities in 2025 for investors who realized gains in 2024. Investors that realized a capital gain outside of a pass-through entity generally have 180 days from the date of gain realization to invest in a QOF. All QOF investments can be made across calendar years as long as they are made within their eligible 180-day windows.

5. Keeping Your Valuable Losses

You do not need to net your losses when determining eligible gain to invest in a QOF. It might be more valuable to carry those losses forward when you do not have a tax strategy like a QOF to utilize or if capital gains rates increase in the future. You may also be able to use those losses in 2026 to offset the tax liability with respect to the gain that was invested in a QOF, to the extent those losses were not used in prior tax-years.

6. Investing Across Calendar Years

An investment in a QOZ must be made within a compliant timeline but that timeline can span across calendar years. A QOZ investment made in 2025 can apply to capital gains realized in 2024 as long as it is made within a compliant timeline.

This information should not be construed as tax advice. Certain exceptions may apply. Investors should consult with their own tax advisors to determine their individual benefits in a QOF investment.

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Not all investors are suitable or qualify to invest into a QOF. You should always read the offering memorandum of any QOF and consult with your financial professional before investing into a QOF.

IMPORTANT RISK FACTORS

An investment in a Qualified Opportunity Zone Fund is not suitable for all investors and is subject to various risks, including but not limited to:

- To be eligible for the tax benefits associated with such funds, investors must comply with various requirements, as specified under Sections 1400z-1 and 1400z-2 of the U.S. Internal Revenue Code, and any U.S. Treasury and Internal Revenue Service guidance promulgated. Failure to comply with these requirements, or the failure of a given fund to qualify as a Qualified Opportunity Zone Fund, may result in a loss of all or a portion of the associated tax benefits. Investors should consult with their tax professional to determine their specific tax implications from an investment in such funds.
- Typically, no public market currently exists, and one may never exist, for the interests of any Qualified Opportunity Zone Fund. Qualified Opportunity Zone Funds are not liquid.
- Qualified Opportunity Zone Funds typically offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment and tax objectives of any particular Qualified Opportunity Zone Fund will be achieved.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- The actual amount and timing of distributions paid by a Qualified Opportunity Zone Fund is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Qualified Opportunity Zone Funds that invest in for-lease properties depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Disruptions in the financial markets and challenging economic conditions could adversely affect a Qualified Opportunity Zone Fund.
- Qualified Opportunity Zone Tax Benefits may not be available under state law and some states may impose their own requirements to qualify for the equivalent of the Qualified Opportunity Zone Tax Benefits under state law.
- An investment in a Qualified Opportunity Zone Fund is highly speculative.

Before purchasing interests, prospective investors should review a fund's offering memorandum, as may be supplemented from time to time, for more complete description of the risks and other disclosure related to participating in the offering.

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