

# Qualified Opportunity Zones

Attracting Investment in Your Community!



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# Investor Perspective



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# Why All the Buzz?

- **Incentive** to stimulate investment in certain low income communities
- **Deferral** of Capital Gain Taxation Until 12/31/2026
- **Partial Reduction** in Capital Gain 10% Basis increase if held 5 years and additional 5% Basis increase if held 7 years (as of 12/31/2026)
- **Step-Up** in Basis Reduce or Eliminate Capital Gain Tax on Additional Gains in QOF Investment

In effect, appreciation on the investment, but not the original deferred gain, is eliminated permanently. Depreciation losses should be a permanent benefit with a 10-year hold.

# Investor Economic Value

After-tax Value of Your Original \$100  
Investment is **\$176** in 10 Years

(Sale and Investment in 2019 | Held 10 Years | Assume 7% Growth Rate)

Source: <https://eig.org/opportunityzones>

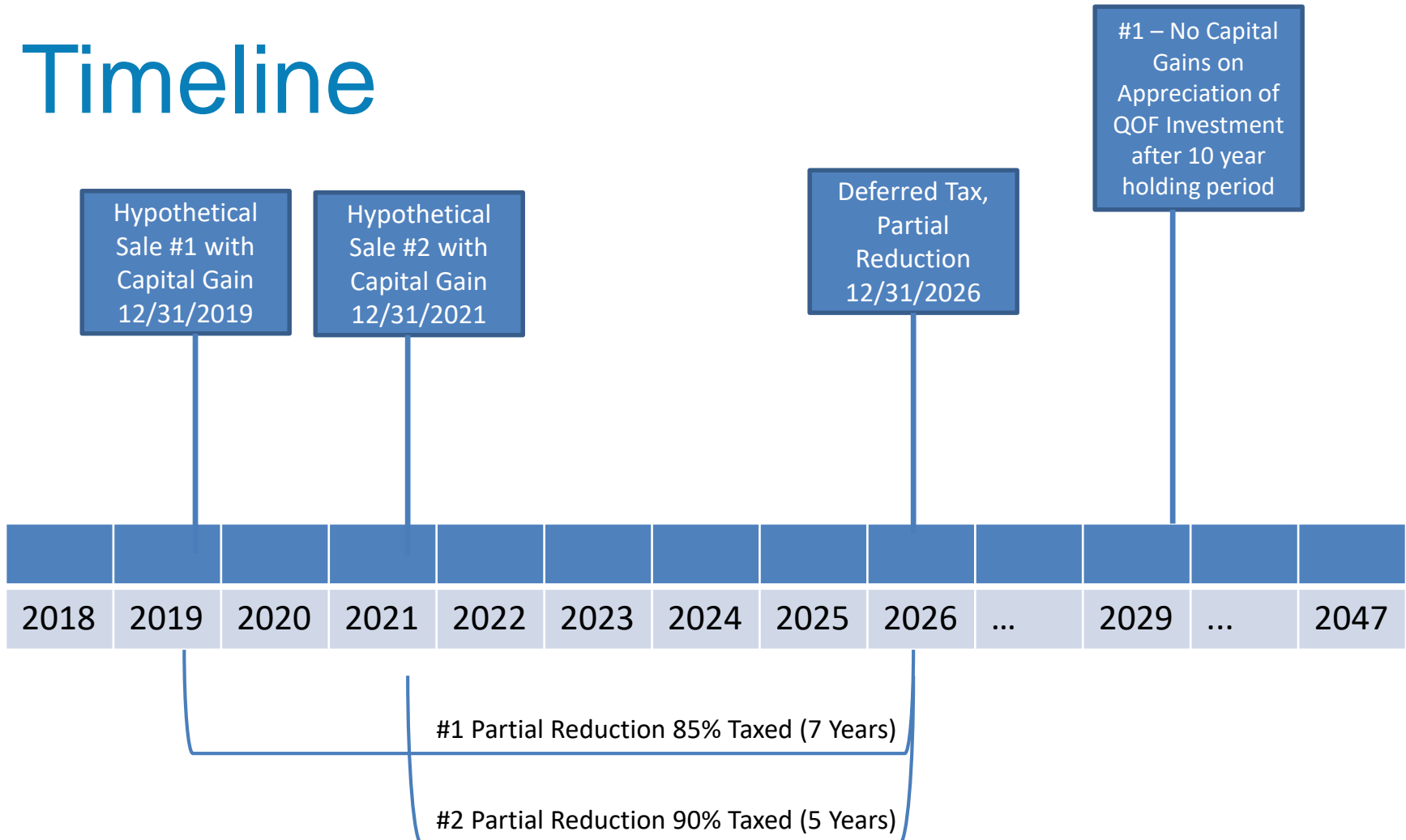
# Steps for Tax Benefits

1. Recognize Capital Gain from a sale or exchange with an unrelated party
2. Invest CASH in QOF within 180 days
3. Investing other money alongside capital gain is permissible, but only the capital gain portion of the investment qualifies for the tax benefits.
4. Elect a QOZ investment (IRS Form 8949)
5. Note that OZ investor does not receive capital account credit for OZ investment.

# Important Dates

- December 31, 2026                      Capital Gain must be recognized; latest date that initial Capital Gain may be deferred and date to measure Partial Reduction in Gain
- The designation of a census tract as a QOZ remains in effect until December 31, 2028.
- Qualified gain must be invested in a QOZ before 12/31/2026 for the OZ benefits.
- Recent regulations clarified that if an investment is made, and during the holding period of the investment the QOZ designation expires, the investor will obtain tax-free appreciation on a sale of their investment until a hard date of 2047.

# Timeline





# Fund Perspective



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# Certified Fund Requirements

- **Organization Test**

Organized as a corporation or partnership
- **Purpose Test**

Formed for the purpose of investing in QOZ Property
- **90% Asset Test**

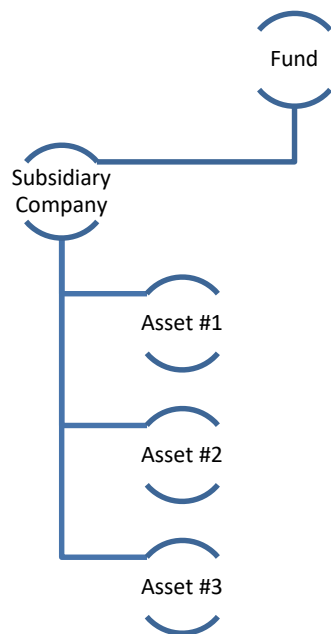
At least 90% of the entity's assets are invested in QOZ Property

# Fund Investments

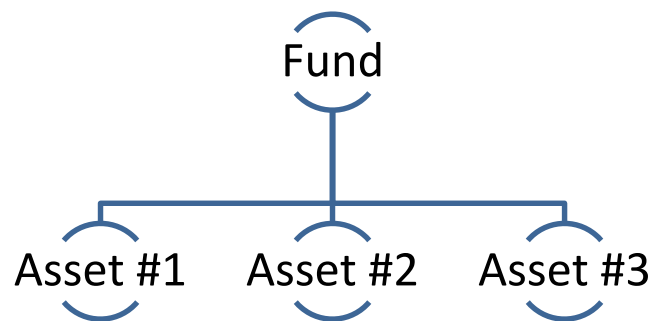
- Real Estate Development
- New Businesses
- Business Acquisition
- Business Growth

# Fund Investment Structure

## Indirect

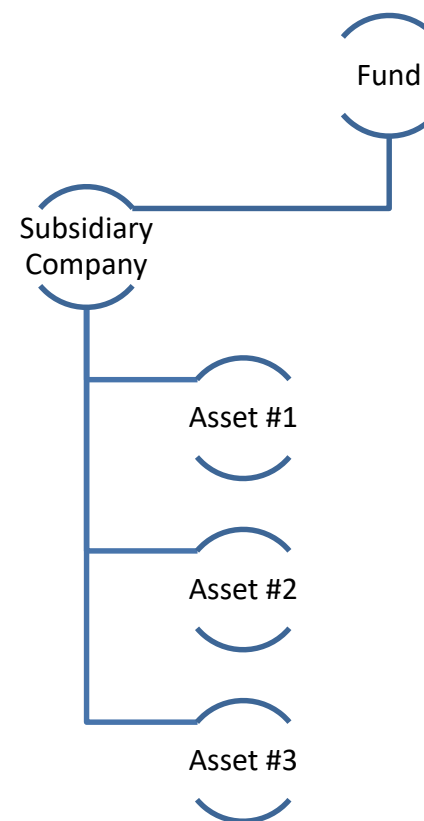


## Direct

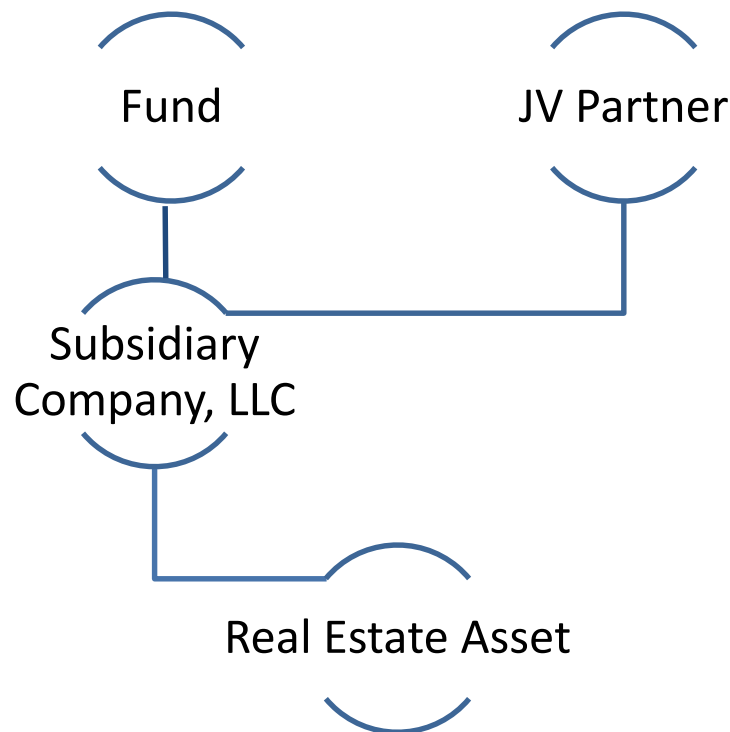


# Indirect Investment Requirements

- **Substantially all** (at least 70%) of its tangible property must be QOZ Business Property
- No “sin business”
- No more than 5% of its assets can be nonqualified financial assets (e.g. cash) – but Safe Harbor for startup Working Capital
- A substantial portion of its **intangible assets** must be used in the active conduct of its trade or business, and
- At least **50% of its gross income** must be from the active conduct of a trade or business within the QOZ

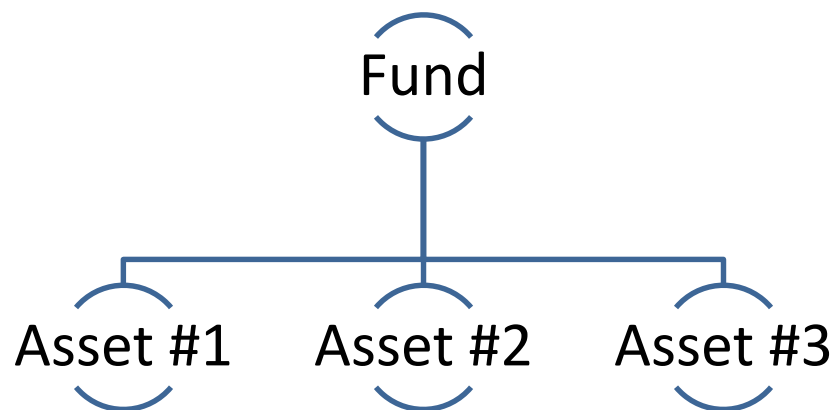


# Example: Real Estate Project (Indirect)



# Direct Investment Requirements

- Purchased by QOF or subsidiary of QOF from unrelated person after 12/31/17
- Original use or substantial improvement within QOZ
  - (i) **original use** in QOZ commences with the QOF or its subsidiary
  - OR
  - (ii) QOF or its subsidiary **substantially improves** such property
- AND
- Substantially all use is in QOZ during substantially all of the time it is held



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