

## Corporate Client Alert: Welcome to the “No Tax” Zone

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Would you be interested if we told you there was a way to significantly reduce, or in certain cases entirely eliminate, your obligation to pay taxes on certain qualifying capital gains? If so, we would suggest you take a minute to learn about Qualified Opportunity Zone Funds (“QOF(s)”)—a new investment vehicle created by the Tax Cut and Jobs Act in order to spur economic investment in certain pre-identified areas.

While final rules regarding QOFs have not yet been promulgated, at a high level, QOFs allow investors to defer—and in certain cases reduce or eliminate—the payment of capital gains taxes on qualifying investments. More specifically, the new law allows investors to “roll” recognized capital gains into a QOF within 180 days of recognition, which, at a minimum, defers the taxes due on the invested gains until the liquidation of the QOF investment. If structured properly, and in accordance with issued regulations, the current rules provide investors “off-ramps” at five (5), seven (7), and ten (10) years. If an investment in a QOF is liquidated after five (5) years the underlying investment is subject to a ten percent (10%) tax exclusion on the initial deferred capital-gain investment—which steps up to fifteen percent (15%) in the event the investment is held for a seven (7) year period. If the investment is held for the full ten (10) year period, in addition to the aforementioned fifteen percent (15%) tax exclusion, the tax basis of the underlying QOF asset will be brought up to fair market value on a liquidation event—which, in thereof, completely eliminates any taxable gains resulting from the QOF investment.

At this time the specific rules regarding the mechanics of QOF investments are still being finalized by the U.S. Department of Treasury, with the period for public comment ending on December 28, 2018. Rules likely to follow in short order. Stay tuned for additional updates as QOFs have the potential to be the investment vehicle of 2019.

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