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How To Get A Tax Break By Investing In Poor Areas

Larry Light Contributor

Investing

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AN INTERVIEW WITH

Bruce Bell

Bruce Bell is an attorney at the Chicago office of **Schoenberg, Finkel, Newman and Rosenberg.**

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A provision in the Tax Cuts and Jobs Act of 2017 encourages so-called opportunity zones in low-income areas. You as an investor can put money into new enterprises there, using the capital gains you earned on other investments you sold--and get a tax break. For help on how that works, we turn to tax expert Bruce Bell, an attorney at the Chicago office of Schoenberg, Finkel, Newman and Rosenberg.

Larry Light: So how do capital gains holders benefit, exactly?

Bruce Bell: For long-term investments in economically distressed community areas, the tax on the capital gain itself can be deferred for a number of years. Further, the amount of the capital gain, which ultimately will be taxed, can be reduced.

Finally, the appreciation in the qualified opportunity zone investment itself can be permanently excluded from tax. Taxpayers who have realized capital gains, whether from the sale of marketable securities, real estate or other investments, can defer and in some cases reduce their taxable gain by reinvesting the sale proceeds in qualified opportunity zone investments.

Light: How are the investment vehicles set up in the zones?

Bell: Qualified opportunity zones are geographic locations designated by states. As a business, you create a separate entity, such as a limited liability company or a corporation, within a zone and satisfy the law's requirements. Investors with capital gains can then contribute their sale proceeds to these investments.

Light: Who is offering these investments?

Bell: To date, mainly investment institutions or syndicators. The congressional intention is to further community development in economically distressed areas. While these new opportunity zone investments are in their infancy, the expectation is that income tax incentives will entice a lot of taxpayers to deploy cash received from capital gain transactions.

Light: From an investors' standpoint, what's the biggest allure?

Bell: The deferral of tax on capital gains. Taxpayers have 180 days from the date they realize a capital gain to reinvest their sale proceeds in an opportunity zone investment. The capital gain is not taxed until you dispose of the investment or Dec. 31, 2026, whichever is earlier.

Another advantage is that the capital gains tax will decrease by 10% if you hold the investment for five years and 15% if you hold it for seven. A third benefit: You pay no tax on the opportunity zone investment if you keep it for 10 years.

Light: How prevalent do you think these investment offerings in the zones will be?

Bell: Very. Opportunity zone investments are the current rage in income tax planning. New opportunity zone investments are being created on a regular basis by various investment institutions and other promoters.

Taxpayers with gains from real estate investments have always had the opportunity to defer gains by reinvesting sale proceeds in so-called like-kind real estate properties. The 2017 Tax Act now creates a strategy for any investor with a capital gain, real estate or otherwise, to defer tax on a gain while also enjoying other tax benefits.

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