Opportunity Zones
A New Federal Tax Incentive for Development

The Opportunity Zone program is a federal tax incentive created as part of the 2018 Tax Cuts & Jobs Act. It provides a tax cut on capital gains for entities that invest in Opportunity Zones. Taxpayers who make qualifying opportunity zone investments can defer and potentially reduce their capital gains taxes.

Opportunity Zones are distressed census tracts that meet standards set by the federal government. Governors in each of the fifty states selected the zones for their state. There are 82 zones in Philadelphia.

This program does not include any state or local subsidies.

HOW THE TAX INCENTIVES WORK:

A taxpayer sells an asset and realizes a capital gain. They can defer and possibly reduce the capital gains tax on that gain by investing it in a "Qualified Opportunity Fund" ("QOF") within 180 days of their realized gain.

By investing the capital gain in a QOF, the taxpayer does not have to pay capital gains tax on it until they sell the QOF investment or in 2026, whichever is sooner.

The amount of capital gains tax owed on the sale of their original asset can be reduced by:

- 10 percent if they hold onto their QOF investment for 5 years
- 15 percent if they hold onto their QOF investment for 7 years

If the taxpayer holds their QOF investment for 10 years or more, they also will not pay capital gains tax on any new gain realized on the sale of their QOF investment.

FOR EXAMPLE:

Phyllis sells an investment for a gain of $100,000 in 2018. She then invests that $100,000 in a QOF within 180 days of the sale.

- If Phyllis sells her QOF investment within 5 years, she pays capital gains taxes on $100,000.
- If Phyllis sells her QOF investment after 5 years, she pays capital gains taxes on only $90,000.
- If Phyllis sells her QOF investment after 7 years, she pays capital gains taxes on only $85,000.
- At the end of 2026, Phyllis must pay all taxes due on the deferred gain, even if she still owns the QOF investment.

If Phyllis keeps her QOF investment for at least 10 years, she will not pay any capital gains tax on any gain she realizes upon selling her QOF investment.

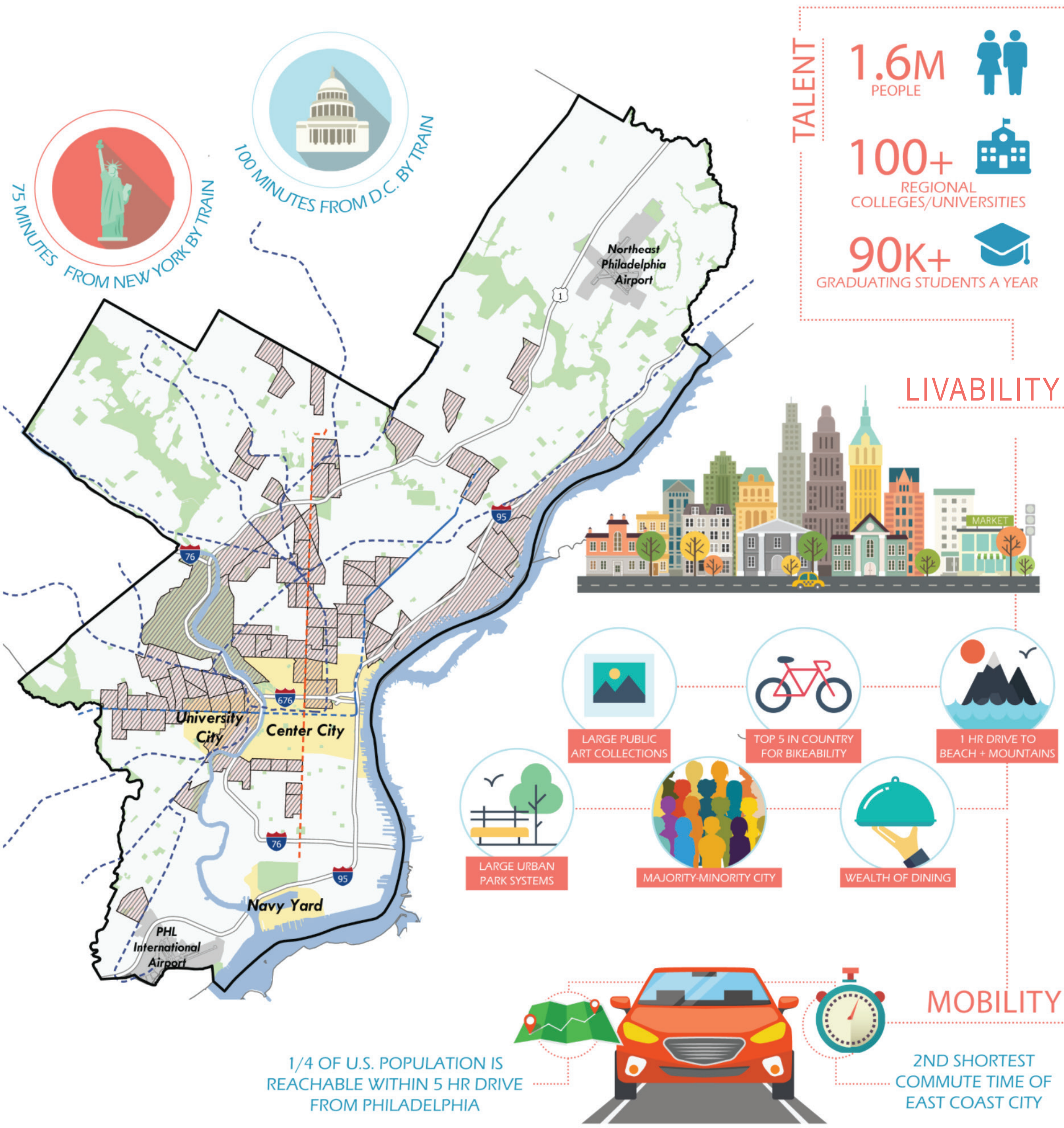
OTHER IMPORTANT NOTES:

- Qualified property may include real estate development (new construction or renovations), new businesses, or expansions
- A fund is eligible to become or remain a QOF if 90 percent of their capital is in a qualifying opportunity zone property or businesses.
- Only property purchased after December 31, 2017 by an 'unrelated party' can qualify as a QOF.
- For real estate to qualify, the qualifying use of that property must begin with the purchase by the QOF, or the new owner must significantly improve the property. (The IRS's proposed regulations would require an improvement worth as much as the purchased property itself.)
- A taxpayer may invest any part of a realized gain in a QOF and apply the tax benefits to that part.

See other side for a map of Philadelphia's Opportunity Zones.

Philadelphia's Opportunity Zones

Philadelphia has experienced 11 straight years of population growth and its job numbers are currently at a 30-year high. At the same time, Philadelphia's cost of living remains significantly lower than its peer northeast cities. Philadelphia delivers the opportunity for additional growth and value creation that investors are seeking.



See other side for an explanation of the Opportunity Zone tax incentives.

City of Philadelphia

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