



TAXES TODAY

**eNewsletter for
Tax Professionals**

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Using Qualified Opportunity Funds to Minimize Capital Gains

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An overlooked provision of the new Tax Cuts and Jobs Act (TCJA) is the possible tax-advantages of investing in "[Opportunity Zones](#)." Opportunity Zones are economically-distressed (typically low-income) communities selected by the state, and certified by the U.S. Treasury Department.

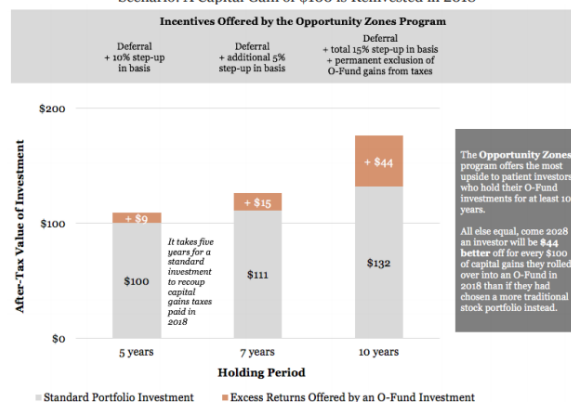
In the United States, there are roughly 8,700 Opportunity Zones, currently covering 12% (!) of all census tracts.

To encourage development in these areas, Congress authorized the creation of tax-efficient vehicles called **Qualified Opportunity Funds (QOFs)**, funds that specifically invest in these communities, just earlier this year.

QOFs may provide an investor substantial tax breaks, as follows:

- A **temporary deferral** of inclusion in taxable income for capital gains reinvested in a QOF. The deferred gain must be recognized on the earlier of the date on which the QOF is disposed of, or December 31, 2026.
- A **step-up in basis** for capital gains reinvested in a QOF. The basis is increased by 10% if the investment in the QOF is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.
- A **permanent exclusion** from taxable income of capital gains from the sale or exchange of an investment in a QOF, if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in a QOF.

Figure 1. Investing in an Opportunity Fund vs. a Standard Stock Portfolio
Scenario: A Capital Gain of \$100 is Reinvested in 2018



* Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and alternative investment.

(source: Economic Innovation Forum)

The takeaway: QOFs provide a tax-efficient vehicle for investors looking to invest in economically-distressed communities by providing either temporary or permanent tax deferral.

To take a deeper dive into QOFs and their possible tax benefits, please read the *Using Qualified Opportunity (Zone) Funds To Minimize Capital Gains* article below, or simply click [HERE](#).

Qualified Charitable Contributions (QCDs) are now more attractive than ever.

A [QCD](#) is a *direct* transfer from a traditional IRA to a 501(c)(3) charity organization. Unlike a regular distribution from a traditional IRA, a QCD is excluded from an individual's taxable income. At the same time, it still satisfies the individual's required minimum distribution (RMD).

While we at [Towerpoint Wealth](#) continue to believe that donating appreciated securities, all else equal, is the optimal gifting strategy due to the *dual* tax benefit of doing so, we do see increased value in QCDs under the TCJA.

The main reason: Taxpayers are now less likely to itemize deductions, and yet, QCDs provide a workaround to clients, affording them a direct tax benefit by donating to charity.

In our view, QCDs make particular sense for clients who:

- Do not have the means or desire to frontload charitable contributions from a taxable account in order to "hurdle" the standard deduction.
- Do not have appreciated securities in a taxable account to gift at all.

Click [HERE](#) to read the article, *New Life For IRA Qualified Charitable Distributions*, discussing QCDs under the TCJA in more detail.

We are here to help.

As always, please feel free to reach out and call (916-405-9166) or email (spitchford@towerpointwealth.com) with any questions, thoughts, or needs you may have. At Towerpoint Wealth, we are happy to be a direct and no-strings-attached resource for you.



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