

Table 2. Illustration of Opportunity Zone (OZ) Tax Benefits for a Hypothetical Investment of \$100,000 in Reinvested Capital Gains Made in 2019

(Assuming an annual rate of return of 7%)

	A	B	C	D
Year	Investment Value ^a	Basis Adjustment	Mandatory Recognition of Reinvested Capital Gain	Taxable Capital Gains if Sold
2019	\$100,000	\$0	-	\$100,000
2020	\$107,000	\$0	-	\$107,000
2021	\$114,490	\$0	-	\$114,490
2022	\$122,504	\$0	-	\$122,504
2023	\$131,080	\$0	-	\$131,080
2024	\$140,255	\$10,000	-	\$130,255
2025	\$150,073	\$10,000	-	\$140,073
2026	\$160,578	\$15,000	\$85,000	\$60,578
2027	\$171,819	-	-	\$71,819
2028	\$183,846	-	-	\$83,846
2029	\$196,715	-	-	\$0 ^b

Source: CRS calculations.

Notes:

- a. This hypothetical calculates OZ tax benefits from an initial investment of \$100,000 in capital gains earned from outside of an OZ (e.g., sale of appreciated real property) that is rolled over into a qualified opportunity fund (QOF), assuming constant reinvestment over the life of the OZ investment (i.e., no periodic dividends issued from the qualified opportunity fund to the investor).
- b. Investments maintained (a) for at least 10 years and (b) until at least December 31, 2026, will be eligible for permanent exclusion of capital gains tax on any gains from the qualified OZ portion of their investment

¹³ After P.L. 115-97 was enacted, some commentators raised concerns that legislative text created an ambiguity as to whether taxpayers could actually claim the exclusion of qualified OZ investment return gains after 10 years. This was because the capital gains tax exclusion on OZ investment returns provision requires the QOF to hold investments in an OZ for 10 years. The OZ designations were authorized by P.L. 115-97 through 2026. Thus, unless Congress extended OZ designations in subsequent legislation, it would have only been possible for QOFs to hold investments in qualified OZs for a maximum of nine years (i.e., 2018 through 2026). However, the Department of the Treasury released proposed regulations on October 19, 2018, clarifying that the benefit available in year 10 would still be available even if the designations expire at the end of 2026. The proposed regulations state that the benefit will be available until December 31, 2047. Treasury claims that this interpretation is consistent with the legislative intent of P.L. 115-97. See Department of the Treasury, "Treasury, IRS Issue Proposed Regulations on New Opportunity Zone Tax Incentive," press release, October 19, 2018, at <https://www.irs.gov/newsroom/treasury-irs-issue-proposed-regulations-on-new-opportunity-zone-tax-incentive>. The related passage is on p. 16 of the proposed regulation.