CASE STUDY

FINDING OPPORTUNITY IN AN OPPORTUNITY ZONE

CLIENT CHALLENGE

A developer client sold property in 2018 held by a partnership, which generated a sizeable gain. The developer had utilized 1031 like-kind exchanges in the past to defer gain, which required reinvestment of all the sales proceeds. However, this time, the developer did not want to reinvest 100 percent of the proceeds.

The developer discovered that a new commercial real estate project was in a qualified opportunity zone and was therefore interested in learning more about the OZ tax benefits. The project was still in the development phase at the time, and the intention was that the project would be owned for at least 10 years.

THE SOLUTION

The developer was able to defer a portion of the gain through a 1031 exchange and acquired the land for the project, which was in the qualified opportunity zone. The next step was to invest the remaining net gain in a separate entity, a qualified opportunity zone fund, by June 29, 2019. The OZ fund entity will be used to rent the land from the land-owning entity and build the structure and improvements.

THE RESULTS

The total gain was deferred with the portion of the gain invested in the land deferred until the land is sold. The gain reinvested in the OZ fund is deferred until 2026, and 15 percent of the gain will not be taxed if held until then. The deferred gains will be taxed at the capital gain rates at the time of taxation. Gains related to the OZ fund will be permanently excluded if held for 10 years or more.

> ***Contact Laura Culp at laura.culp@sikich.com for more information on opportunity zones and tax incentives.***

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