

Navigating Opportunity Zone Investment in Washington State



SUMMARY

Recent tax reform has created a once-in-a-lifetime chance to defer and eliminate capital gain taxes. With the help of state Governors around the country, certain low-income areas were designated as Opportunity Zones with the intent to spur investment in these economically depressed areas. The reinvestment of *any* capital gain into these specified Opportunity Zones allows taxpayers to take advantage of three powerful new tax provisions.



THE PROVISIONS

- Pay no tax on the deferred capital gain reinvested in the Opportunity Zone until 2026.
- When tax on the deferred gain comes due, potential permanent 10% or 15% tax elimination.
- If the Opportunity Zone investment is held for 10 years, pay no federal tax ever on the appreciation.



MORE BENEFITS

Opportunity Zone incentives provide additional benefits over another popular tax saving strategy, 1031 Like-Kind Exchanges.

- Unlike a 1031 Like-Kind Exchange, only the taxable gain needs to be reinvested, not the full proceeds.
- Also unlike 1031 exchanges, investors can receive and hold their sales proceeds personally for up to 180 days while determining how to reinvest.
- And finally, investors are not limited to reinvestment in the same asset class. They can sell stock, their company, or real estate and invest the proceeds in any qualifying asset.



THE BOTTOM LINE

While still being finalized, The Opportunity Zone incentive will be a powerful investment vehicle for qualifying investors. See the reverse side for an illustration of the Opportunity Zone incentive in practice.

There are a number of technical requirements that need to be met in order to qualify for the Opportunity Zone tax benefits. To learn more, connect with your Berntson Porter tax advisor.

IN THE ZONE

Qualifying individuals investing a capital gain from 2018 into an opportunity fund are eligible for three tax breaks: deferral of tax on their 2018 gain until 2026; a 15% reduction on those gains when they are taxed in 2026; and tax-free growth of their opportunity investment provided they hold it for at least ten years.

The illustration below outlines the impact of a qualifying investment of \$1,000,000 compared to a traditional investment – assuming both were made by a Washington State resident.

