



Opportunity Zones Frequently Asked Questions

Qualified Opportunity Zones were created by the 2017 Tax Cuts and Jobs Act. These zones are designed to spur economic development and job creation in distressed communities throughout the country and U.S. possessions by providing tax benefits to investors who invest eligible capital into these communities. Taxpayers may defer tax on eligible capital gains by making an appropriate investment in a Qualified Opportunity Fund and meeting other requirements.

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Opportunity zones – general information

✓ Q. What is an opportunity zone?

A. An opportunity zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as opportunity zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation of authority to the Internal Revenue Service.

✓ Q. How were opportunity zones created?

A. opportunity zones were added to the tax code by the Tax Cuts and Jobs Act on December 22, 2017.

✓ Q. Have opportunity zones been around a long time?

A. No, they are new. The first set of opportunity zones, covering parts of 18 states, were designated on April 9, 2018. opportunity zones have now been designated covering parts of all 50 states, the District of Columbia and five U.S. territories.

✓ Q. What is the purpose of opportunity zones?

A. Opportunity zones are an economic development tool—that is, they are designed to spur economic development and job creation in distressed communities.

✓ Q. How do opportunity zones spur economic development?

A. Opportunity zones are designed to spur economic development by providing tax benefits to investors. First, investors can defer tax on any prior gains invested in a Qualified Opportunity Fund (QOF) until the earlier of the date on which the investment in a QOF is sold or exchanged, or December 31, 2026. If the QOF investment is held for longer than 5 years, there is a 10% exclusion of the deferred gain. If held for more than 7 years, the 10% becomes 15%. Second, if the investor holds the investment in the Opportunity Fund for at least ten years, the investor is eligible for an increase in basis of the QOF investment equal to its fair market value on the date that the QOF investment is sold or exchanged.

Designated Qualified Opportunity Zones

✓ Q. Do I need to live in an opportunity zone to take advantage of the tax benefits?

A. No. You can get the tax benefits, even if you don't live, work or have a business in an opportunity zone. All you need to do is invest a recognized gain in a Qualified Opportunity Fund and elect to defer the tax on that gain.

✓ Q. I am interested in knowing where the opportunity zones are located. Is there a list of opportunity zones available?

A. Yes. The list of designated Qualified Opportunity Zones can be found in IRS Notices [2018-48 \(PDF\)](#) and [2019-42 \(PDF\)](#). Further, a visual map of the census tracts designated as Qualified Opportunity Zones may also be found at [Opportunity Zones Resources](#).

✓ Q. What do the numbers mean on the Qualified Opportunity Zones list, Notice 2018-48?

A. The numbers are the population census tracts designated as Qualified Opportunity Zones.

✓ Q. How can I find the census tract number for a specific address?

A. : You can find 11-digit census tract numbers, also known as GEOIDs, using the U.S. Census Bureau's Geocoder. After entering the street address, select **ACS2015_Current** in the Vintage dropdown menu and click Find. In the Census Tracts section, you'll find the number after GEOID.

Investor deferring gains

✓ **Q. I sold some stock for a gain in 2018, and, during the 180-day period beginning on the date of the sale, I invested the amount of the gain in a Qualified Opportunity Fund. Can I defer paying tax on that gain?**

A. Yes, you may elect to defer the tax on the amount of the gain invested in a Qualified Opportunity Fund. Therefore, if you only invest part of your gain in a Qualified Opportunity Fund(s), you can elect to defer tax on only the part of the gain which was invested.

✓ **Q. How do I elect to defer my gain on the 2018 sale of the stock?**

A. You may make an election to defer the gain, in whole or in part, when filing your 2018 Federal Income Tax return. That is, you may make the election on the return on which the tax on that gain would be due if you do not defer it. For additional information, see How To Report an Election To Defer Tax on Eligible Gain Invested in a QO Fund in the [Form 8949 instructions](#).

✓ **Q. I sold some stock on December 15, 2017, and, during the required 180-day period, I invested the amount of the gain in a Qualified Opportunity Fund. Can I elect to defer tax on that gain?**

A. Yes. You make the election on your 2017 return. Attach [Form 8949](#), reporting Information about the sale of your stock. Precise instructions on how to use that form to elect deferral of the gain will be forthcoming shortly.

✓ **Q. Can I still elect to defer tax on that gain if I have already filed my tax return?**

A. Yes, but you will need to file an amended return, using [Form 1040-X](#) and attaching [Form 8949](#).

✓ **Q. I deferred a gain based on an investment in a QOF, and now that QOF has dissolved before the end of my deferral period. What happens to my deferred gain?**

A. When the QOF dissolved, the deferral period ended, and you must include the deferred gain when you file your return, reporting the gain on Form 8949.

✓ **Q. I deferred a gain based on an investment in a QOF, and now I gave the investment to my child before the deferral period had ended. Is there anything that I need to do?**

A. Yes. The deferral period ended when you gave away the QOF investment. You must include the deferred gain when you file your return, reporting the gain on Form 8949.

✓ **Q. Can I defer section 1231 capital gain net income for a taxable year under the opportunity zone rules?**

A. Yes. If a taxpayer's section 1231 gains for any taxable year exceed the section 1231 losses for that year, the net gain is long-term capital gain. A taxpayer can elect to defer some or all of this capital gain under section 1400Z-2 by making an investment of a corresponding amount in a Qualified Opportunity Fund (QOF) during the 180-day period that begins on the last day of the taxpayer's taxable year.

✓ **Q. Before the last day of my 2018 tax year but during the 180-day period beginning with the realization of a section 1231 gain, I invested the amount of that section 1231 gain into a QOF. The amount that I invested was less than my 2018 net section 1231 gain. Can I make a valid deferral election based on that investment, even though proposed regulations say that the 180-day period for my net section 1231 gain began on December 31, 2018?**

A. Yes. Under these facts, because your tax year ended before May 1, 2019, your QOF investment can support a valid deferral election. Making that election will not impair your ability consistently to rely on all other aspects of [proposed regulations](#) published on May 1, 2019.

Investor property rules

✓ **Q. Can I transfer property other than cash as an investment to a QOF?**

A. Yes. A taxpayer can transfer property other than cash as an investment to a QOF. However, a transfer of non-cash property may result in only part of the investment being eligible for opportunity zone tax benefits, so that not all of the taxpayer's capital gain is able to be deferred. See proposed regulations §1400Z2(a)-1(b)(9) & (10).

✓ **Q. When I transfer property to a QOF, does my holding period of the property also transfer to my QOF eligible investment?**

A. No. The opportunity zones tax incentives provisions determine a taxpayer's holding period in a qualifying investment in a QOF without regard to the holding period of the cash or other property transferred to the QOF.

Investor adjusting basis to fair market value

✓ **Q. I made an investment in a QOF. After holding it for at least 10 years, I sell or exchange it. Can I adjust the basis to fair market value?**

A. Yes, but only if you made the investment in connection with a proper deferral election. Also, the election must have remained in effect until that post-10-year sale or exchange. The election didn't cease to be in effect solely because – on December 31, 2026 – the law requires you to include in your income the gain that you had deferred under that election.

✓ **Q. I had ordinary gain from the sale of property in 2018. During the 180-day period beginning on the date of the sale, I invested the amount of that gain in a QOF. In 2029, I sell my interest in the QOF. Can I adjust my basis to fair market value?**

A. No. Because the gain wasn't capital gain, you can't elect to defer it. So, your investment in the QOF wasn't made in connection with a proper deferral election. For this reason, the basis adjustment to FMV isn't available for that investment.

Qualified Opportunity Funds (QOF)

✓ **Q. What is a Qualified Opportunity Fund?**

A. A Qualified Opportunity Fund is an investment vehicle that files either a partnership or corporation federal income tax return and is organized for the purpose of investing in Qualified Opportunity Zone property.

✓ **Q. I am interested in forming a Qualified Opportunity Fund. Is there a list of opportunity zone available in which the Fund can invest?**

A. Yes. The list of designated Qualified Opportunity Zones can be found in IRS [Notices 2018-48 \(PDF\)](#) and [2019-42 \(PDF\)](#). Further, a visual map of the census tracts designated as Qualified Opportunity Zones may also be found at [Opportunity Zones Resources](#).

✓ **Q. How does a corporation or partnership become certified as a Qualified Opportunity Fund?**

A. To become a Qualified Opportunity Fund, an eligible corporation or partnership self-certifies by filing Form 8996, Qualified Opportunity Fund, with its federal income tax return. For additional information, see [Form 8996 and its instructions](#). The return with Form 8996 must be filed timely, taking extensions into account.

✓ **Q. Can a limited liability company (LLC) be an Opportunity Fund?**

A. Yes. A LLC that chooses to be treated either as a partnership or corporation for federal tax purposes can organize as a Qualified Opportunity Fund.

QOF property rules

✓ **Q. When is tangible property “original use” tangible property?**

A. Tangible property is original use on the date first placed in service in the qualified opportunity zone for purposes of depreciation or amortization. Used tangible property satisfies the original use requirement if the property has not been previously placed in service in the qualified opportunity zone.

✓ **Q. Can inventory in transit be “Qualified Opportunity Zone business property”?**

A. Yes. Inventory of a QOF, including raw materials, does not fail to be “used in a Qualified Opportunity Zone” solely because the inventory is in transit from a vendor to the QOF or from the QOF to a customer.

QOF 50-percent of gross income test

✓ **Q. What is the 50-percent-of-gross-income test?**

A. A Qualified Opportunity Zone business must earn at least 50 percent of its gross income from business activities within a QOZ. It must do so for each taxable year. The proposed regulations provide three safe harbors that a business may use to meet this test. These safe harbors are the:

- Hours-of-services-received test.
- Amounts-paid-for-services test.
- Necessary-tangible-property-and-business-functions test.

✓ **Q. Must a Qualified Opportunity Zone business meet all three safe harbors to satisfy the 50-percent-of-gross income test?**

A. No. It's enough for a QOZ business to satisfy just one safe harbor.

For example, 50 percent or more of all the hours of services that a business receives and uses were performed in one or more QOZs. This business satisfies the hours test and, therefore, the 50-percent-of-gross-income test.

Second example, a QOF owns a business that operates in multiple QOZs. The business received and used 100,000 hours of services during the year. Of those:

- Employees spent 25,000 hours in QOZ 1.
- Independent contractors spent 20,000 hours in QOZ 2.
- Employees of independent contractors spent 10,000 hours in QOZ 3.
- The remaining 45,000 hours were outside of a QOZ.

This business satisfies the hours test and therefore the 50-percent-of-gross-income-test. The aggregate hours of services in QOZs during the tax year were at least 50 percent of all hours of services obtained by the business in all locations.

More information

✓ Q. How can I get more information about opportunity zones?

A. Additional information can be found at the Tax Reform site of the IRS.gov website. Scroll to Opportunity Zones and click. Also, by entering "opportunity zones" in the search box available at Treasury.gov and IRS.gov.

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