



November 16, 2021

Mr. Paul Adams
Internal Revenue Service
Room 6526
1111 Constitution Avenue NW
Washington, DC 20224

Re: Comments on Draft Income Tax Form 8996 – Qualified Opportunity Fund

Dear Mr. Adams:

On behalf of the members of the Novogradac Opportunity Zones Working Group (the OZ Working Group), we are responding to the Internal Revenue Service (IRS) Notice Document Citation Number 86 FR 51955, *Proposed Collection; Comment Request Forms 1065, 1066, 1120, 1120-C, 1120-F, 1120-H, 1120-ND, 1120-S, 1120-SF, 1120-FSC, 1120-L, 1120-PC, 1120-REIT, 1120-RIC, 1120-POL, and Related Attachments*, dated September 17, 2021 (the Notice).

Our comments, set forth in the appendix to this letter, are regarding draft income tax Form 8996 – Qualified Opportunity Fund. Our comments are meant to bring taxpayer reporting into conformity with this legislation and regulatory guidance.

The OZ Working Group was founded to identify and address technical and administrative issues that arise under the federal OZ incentive. The OZ Working Group includes qualified opportunity funds (QOFs), community development entities (CDEs), community development financial institutions (CDFIs), investors, syndicators, lenders, for-profit and nonprofit developers, consultants, law firms, and other community development professionals who work together to suggest consensus solutions to technical OZ incentive issues and provide recommendations to the government to make the OZ incentive more efficient in delivering benefits to residents and businesses in low-income communities.

We appreciate your consideration of these comments and welcome an opportunity to discuss these issues further.

Yours very truly,
Novogradac & Company LLP

By
John S. Sciarretti, Partner

Attachment: Comments on Draft Income Tax Form 8996 - Qualified Opportunity Fund



**Comments on Draft Income Tax Form 8996 – Qualified Opportunity Fund
Opportunity Zones Working Group Hosted by Novogradac & Company LLP**

Form 8996, *Qualified Opportunity Fund*:

- Part I, Line 6 of the draft 2021 Form 8996 and the related instructions are currently reserved for future use, though previous drafts of the form included instructions for how an entity may voluntarily decertify as a QOF. We recommend that the following language be added back to the final version of Form 8996 and its instructions to provide QOFs with decertification guidance:

Check this box only if you are electing to decertify as a QOF. The election to decertify as a QOF is voluntary. If you make this election, you must attach a statement to the Form 8996 making this election along with the date of the election.

The election to decertify becomes effective on the first day of the month after the month in which the QOF elects to decertify as a QOF. For example, if an entity elects to decertify on July 1, the decertification becomes effective on August 1.

- We recommend that Part II, line 7 and line 10, Part IV, Line 3, Part V, columns (b) and (c) and Part VI column (c) should address the option to include recently sold or disposed of property for which the QOF intends to reinvest the proceeds in qualified opportunity zone property (QOZP) within 12 months of the date of the sale or disposition allowed under Treasury Regulation 1.1400Z2(f)-1(b).
- The draft instructions for Part IV – penalty relief note the following:

*Penalty relief has been provided for QOFs impacted by the Coronavirus disease. The failure to satisfy the 90% investment standard is due to reasonable cause for any QOF whose last day of the first 6-month period of the tax year or the last day of the tax year falls between April 1, 2020 through **March 31, 2021 (emphasis added)**. To obtain this relief, you must complete all lines on the Form 8996 and enter -0- on Part IV, line 8. You must also file Form 8996 with your timely filed federal income tax return (including extensions).*

We believe the extension of the 90% investment standard relief through March 31, 2021 listed in the draft instructions above is in error as IRS Notice 2021-10 states the following:

*In the case of a QOF whose (i) last day of the first 6-month period of a taxable year or (ii) last day of a taxable year falls within the period beginning on April 1, 2020, and ending on **June 30, 2021 (emphasis added)**, any failure by that QOF to satisfy the 90-percent investment standard for that taxable year of the QOF is due to reasonable cause under section 1400Z-2(f)(3).*

We recommend that the instructions be updated to state that the penalty relief is for the period April 1, 2020 through June 30, 2021.