Make the most of Opportunity Zones

With Opportunity Zones now in place across all 50 states, U.S. territories, and the District of Columbia, many privately held companies are starting to ask how they can make the most of the new tax provisions. In this edition of Privately Speaking, we explain what Opportunity Zones are and how they can help privately held companies to drive growth while reducing the tax burden.

What is an Opportunity Zone?
Created as part of the Tax Cuts and Jobs Act in December 2017, Opportunity Zones are essentially an economic development tool that aims to encourage job growth and economic development in “distressed” and low-income communities.

How does it work?
Opportunity Zones allow investors to defer tax on any prior gains made from the sale or exchange of any asset as long as they are invested into a Qualified Opportunity Zone (QOZ) through a special purpose vehicle known as a Qualified Opportunity Fund (QOF).

Simply put, a QOF is an investment vehicle organized as a corporation or a partnership for the purpose of investing in and holding at least 90 percent of its assets in Qualified Opportunity Zone (QOZ) property (which includes any QOZ stock, any QOZ partnership interests and any QOZ business property).

What are the tax benefits?
The benefits for private market companies could be significant.

Did you know?
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.

Qualified opportunity zones offer private market companies a new tool for deferring and reducing capital gains by unlocking substantial tax incentives. If your company expects to realize capital gains over the next year, you may want to consider investing into a QOZ.

—Bill Jackson, Tax Partner
Learn more!

In a recent webcast on Opportunity Zones, professionals from KPMG’s National Tax and State and Local Tax practices provide an overview of the recently proposed regulations. Find out how companies like yours are using the new Opportunity Zones in this webcast.

Opportunity Knocks

Read our latest report where we present insights on the Opportunity Zones program. Learn more about the potential tax benefits, necessary qualifications based on recent proposed regulations, and the timeframe to act in order to maximize tax savings.

Get the latest insights

The guidance around QOZs and QOFs is still evolving. Find out everything you need to know about Opportunity Zones on our dedicated website: read.kpmg.us/opportunity-zones.

Sample roadmap to Opportunity Zone success

2018

Trigger event

Sale of original assets
— Sell assets for $110 million with a basis of $10 million during 2018
— Realize $100 million of capital gain

2019

Action taken

Investment of capital gain into QOF
— Invest $100 million within 180 days after sale
— Realized capital gain of $100 million is deferred until no later than December 31, 2026

Reminder:

Act fast!
Invest in QOF by 2019 in order to potentially capture the basis reduction benefit

2023

Milestone

5-year basis step-up
— 10 percent basis step-up
— Reduction of deferred capital gain to $90 million

2025

Milestone

7-year basis step-up
— Additional 5 percent basis step-up
— Reduction of deferred capital gain to $85 million

2026

Milestone

Deferred gain recognized
— No later than December 31, 2026
— Gain on original capital investment of $100 million (as reduced by $15 million of basis step-ups) is included in income (reduced further to the extent FMV of interest is lower than deferred gain)

2028

Milestone and trigger event

10-year exclusion and QOF investment sale
— Sell investment for $220 million
— Incremental realized capital gain of $120 million may be excluded (through basis step-up to FMV)
— Gain from appreciation in QOF investment may be eliminated if the investment is held for at least 10 years (but no later than December 31, 2047)

While the tax benefits of investing into Opportunity Zones are powerful, investors still must evaluate the opportunity and make sure it is an appropriate investment as the tax benefits are only beneficial if the investment is successful.

— Brad Sprong, National Private Markets Group Tax Leader

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We can help!
Regardless of where you are in your journey, KPMG professionals can assist in responding to the associated challenges and help you realize the significant value from your investments. Click here to contact your local KPMG member firm.

How can KPMG help?
Our professionals understand how the new tax provisions impact private market companies and what it takes to make the most of Opportunity Zones and Qualified Opportunity Funds. We recognize that capturing the potential benefits of QOZs requires companies to take a cross-functional approach. That is why we have assembled a diverse team of specialists who work together to provide a wide-ranging suite of services that help private market companies mitigate risk, enhance efficiencies, and deliver value.

We work with private companies to help determine the applicability and potential benefits of Opportunity Zone investment and then provide a range of services—from the preparation of feasibility studies and project profiles through to the implementation and compliance management of QOF investments—to help private market companies enhance the value of this new tax provision.

Privately Speaking focuses on the issues that matter most to privately held entities, including private equity- and venture capital–backed companies.
KPMG LLP’s (KPMG) Private Markets Group understands what it takes to drive private company growth. In each edition of Privately Speaking, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

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