Source: Opportunity-funds.com

How the Opportunity Fund Rollover works - Looking at an Example:

Opportunity Funds were created as part of the Investing In Opportunity Act tax bill of 2017. How does the Opportunity Fund Rollover work? An example is the easiest way to understand.

Let's say that Trisha Taxpayer bought some stock in Apple Computers in 2014 for $20,000, and today it is worth $40,000. Trisha thinks Apple stock has topped out and she wants to sell; selling will cause Trisha to realize $20,000 in capital gain. Before Opportunity Funds, there were only two choices: (1) continue to hold the stock, or (2) sell and pay over $5,000 in income tax. Now there is a third choice - the Opportunity Fund Rollover. If Trisha sells her Apple stock for $40,000, and reinvests the $20,000 gain in an Opportunity Fund, she gets to pocket her original investment of $20,000 and pay no taxes*. And there is more. If Trisha leaves her $20,000 in the Opportunity Fund for 10 years and it triples in value to $60,000, she gets to cash out the entire $60,000 at year 10 - entirely tax free.

And the Opportunity Fund Rollover applies to all assets. You can use the Opportunity Fund Rollover if you sell stocks, real estate, precious metals, art, vehicles, your business, or any other appreciated property.

*The deferral of tax on Trisha's $20,000 in gain is good for 8 years and then the gain must be recognized, but with certain advantages explained in detail below.

Trisha receives three benefits from her Opportunity Fund Rollover

1. <u>8-Year Capital Gains Tax Deferral.</u> Because she rolls her gain into an Opportunity Fund, Trisha does not pay the $20,000 tax today. She does pay the tax after 8 years, but in the meantime her $20,000 has been invested and earning a return (that's like borrowing money from the government, interest free for 8 years, to invest).
2. <u>15% Capital Gains Tax Reduction.</u> Not only does Trisha keep her $20,000 invested and earning her a return for 8 years, the gain that Trisha pays tax on in year 8 is reduced by 15%. Rather than paying tax on $20,000 of gain on her Apple stock, she will pay tax on only $17,000.
3. <u>100% Capital Gains Exclusion.</u> If Trisha leaves her $20,000 invested in the Opportunity Fund for 10 years, all of her gain on the $20,000 is tax free. In our example, if Trisha's Opportunity Fund investment appreciates at 7% per year, then in year 10 Trisha would receive back her $20,000 initial investment, plus an additional $20,000 in tax-free capital gains.

How the Opportunity Fund Rollover Works - The Nuts and Bolts:

1. 8-Year Capital Gains Tax Deferral.

In the case of gain from the sale [of …] any property, … gross income for the taxable year shall not include so much of gain as does not exceed the aggregate amount invested by the taxpayer in a qualified opportunity fund during the 180-day period beginning on the date of such sale or exchange. IRC 1400Z-2(a)(1)(A).

That's pretty clear. Sell property, invest the amount of the gain in an Opportunity Fund within 180 days, and you don't owe the taxes. Now, you do owe the taxes eventually. IRC 1400Z-2(b) says that the taxes must be paid in 2026, or earlier if you sell out of the Opportunity Fund prematurely. (The regulations may cause the 2026 date to roll forward each year so that the tax deferral period for an Opportunity Fund Rollover is always 8 years. We will provide an update when those regulations come out.)

A FEW NOTES:

Although similar to a 1031 Exchange, the Opportunity Fund Rollover is far less complex.

First, 1031 exchanges are only available for real estate starting in 2018. But Opportunity Fund Rollovers are available for real estate and all other types of property - art, autos, precious metals, jewelry, and most importantly, stocks and other securities.

Second, in a 1031 you generally must roll all proceeds from the sale transaction, into the new purchase. Any money you pull out is called 'boot' and is taxable. In an Opportunity Fund Rollover you only need to roll over your gain. You can pull out your entire principal investment, without any tax liability for it.

Third, while the rules to qualify for a 1031 exchange are mind-numbingly complex, the rules about an Opportunity Fund Rollover can be taught to a second grader. To complete an Opportunity Fund Rollover, following the sale of an appreciated asset, you only need to invest the amount of your gain in a Qualified Opportunity Fund within 180 days after the date of the sale. That's it: sell and invest the gain within 180 days. It's accessible to everyone and for every type of asset sale.

2. 15% Capital Gains Tax Reduction

Leave your Opportunity Fund Rollover invested for 5 years, and your capital gains tax on the Rollover amount is reduced by 10%.

Leave your Opportunity Fund Rollover invested for 7 years, and your capital gains tax on the Rollover amount is reduced by 15%

<u>The mechanics of it</u>**.** Under the Opportunity Tax Laws, your basis in an Opportunity Fund Rollover of capital gain is deemed to be zero. After 5 years in the Opportunity Fund, your basis in the Rollover is increased from zero to 10% of the initial investment amount. After 7 years in the Opportunity Fund, your basis in the Rollover is increased from 10% to 15% of the initial investment.

3. 100% Capital Gains Tax Exclusion.

What about the gain you receive in the Opportunity Fund? Normally you would be taxed at the full rate if you sell the Opportunity Fund investment. But there is a fantastic provision in the Opportunity Fund Tax Law: if you wait 10 years or more before selling the Opportunity Fund investment, all of your gain is 100% tax free.

Seriously, it sounds too good to be true. But it's not. Not even retirement accounts are this good. In a Traditional IRA, you don’t pay taxes on the way in, but you pay taxes on the way out. In a Roth IRA, you pay taxes on the way in, but not on the way out. And then there is the Opportunity Fund Rollover - you don't pay taxes on the way in, and provided you leave your investment in place for at least 10 years, you don't pay taxes on the way out either!