Opportunity Zone - Example

On June 15, 2018, Brian sells Acme stock with zero basis for $1,000, realizing $1,000 of gain. On July 31, 2018 (within 180 days of the sale date), Brian invests the Acme capital gain in a Qualified Opportunity Fund (QOF), electing to defer the gain. On September 15, 2028, Brian sells the QOF investment for $2,000.

- For 2018, Brian will not include any of the $1,000 gain in taxable income.
  - The $1,000 gain invested in a QOF on July 31, 2018 is deferred.
  - At the end of 2018, Brian's basis in the QOF investment is $0.

- On July 31, 2023 (five years after investment),
  - Brian's basis in the QOF investment is increased to $100 (10% of the $1,000 deferred gain) with no resulting impact on taxable income for 2023.

- On July 31, 2025 (seven years after investment),
  - Brian's basis in the QOF investment is increased by $50, from $100 to $150 (5% of the $1,000 deferred gain) with no resulting impact on taxable income for 2023.

- On December 31, 2026,
  - Brian is required to include the deferred gain in taxable income. The amount of the deferred gain included in Brian's 2026 taxable income is $750 ($1,000 deferred gain less $150 of basis).

- On July 31, 2028 (10 years after QOF investment),
  - Brian sells the QOF investment and makes the election to treat its basis in the QOF shares, otherwise $1,000, as equal to fair market value or $2,000 on the date of sale. Although Brian has realized an additional $1,000 of gain, this amount will not be included in Brian's taxable income under the new QOF rules provided in the 2017 tax reform reconciliation act.

Brian received significant tax benefits by using a QOF. By rolling his proceeds from the Acme stock sale into a QOF, Brian was able to ultimately exclude $15 (15%) of his original gain of $1,000 from Federal taxation. In addition, the appreciation that Brian realized by investing in the QOF of $1,000 (from $1,000 initial investment to $2,000 of value in the year 2028) is also Federal tax free.