ST COMMERCIAL CAPITAL

The "Big Three" Capital Gains Tax Breaks Under QOZ 2.0

1

Initial 5-Year Deferral

Investment in a QOF within the required time-window following the realization of gain permits deferred recognition of the realized gain up to the amount of the investment (so, defer X dollars of gain by timely investment of X dollars in a QOF). This deferral continues until the earlier of (a) sale of the QOF investment or (b) five years from the time of investment.

Deferral, not elimination

2

Elimination of 10-30% at Year 5

At the end of Year 5 following the initial investment, the taxpayer's basis in the investment is increased by 10% of the amount of originally-deferred gain, meaning the tax on such gain is effectively eliminated (i.e., the obligation "forgiven"); if the QOF's investment is in a QOZ's exclusively consisting of "rural area", forgiveness increases to 30%. (At this point, the remaining 90-70% must be recognized.)

10% standard · 30% rural

3

100% "Forgiveness" of Appreciation

If the QOF investment is held at least 10 years, 100% of the capital gain generated by the investment (i.e., appreciation) is permanently excluded from taxation. This "free appreciation" window stays open for 30 years.

10-year minimum · 30-year cap

HOW THE BENEFITS UNFOLD OVER TIME

Year 0

Recognition of gain up to amount timely invested in QOF may be deferred.

Year 5

10% (or 30% for rural QOF) of original gain "forgiven" (remainder recognized and taxed).

Year 10–30

Sell the QOF interest: 100% of its appreciation is tax-free.

SIMPLE EXAMPLE

YEAR 0 — GAIN DEFERRAL

$100,000

Investor sells stock and realizes a $100,000 capital gain, then invests the full $100,000 into a QOF within the required time-window. Tax on the gain is deferred.

YEAR 5 — GAIN ELIMINATION

$10,000–$30,000

Basis steps up by 10% ($10,000), or 30% ($30,000) if the QOZ property is entirely in a rural area, and thus that portion of the original gain is never taxed. The remaining gain must be recognized (i.e., taxed) at this time.

YEAR 10+ — TAX-FREE GAIN

$0 tax on growth

Suppose the $100,000 investment grows to $250,000 by year 10+. The entire $150,000 of appreciation is 100% tax-free upon sale.