Opportunity Fund Example

2019

You have a $1 million long-term capital gain from a real estate sale in 2019 and immediately invest it into a Qualified Opportunity Fund (QOF).

In 2019, you avoid paying $200,000 in capital gains taxes (assuming a 20% capital gains tax rate).

2024

In 2024, you receive the 10% step-up in basis. The $100,000 is subtracted from your gain of $1 million, and your new deferred capital gain is now $900,000.

2026

In 2026, you receive the additional 5% step-up in basis. The $50,000 is subtracted from your gain of $900,000, and your new deferred capital gain is now $850,000.

In 2026, you would have to pay the 20% capital gains tax on the $850,000 deferred gain. This amounts to $170,000 which is a $30,000 tax savings from your original $200,000 deferred tax liability.

2029

In 2029, assuming the QOF is now worth $2 million and you decide to sell the investment, the basis of the investment would increase to the fair market value on the date the investment is sold.

In other words, the basis equals $2 million, resulting in no capital gains tax on the sale. Your only tax liability in this scenario is the $170,000 you previously paid on the deferred gain of your original investment.