



Opportunity Zones Frequently Asked Questions

The following questions and answers (Q&As) were prepared in response to inquiries that have been proposed to the IRS. They are intended to provide a basic understanding and awareness of Opportunity Zones.

These Q&As do not constitute legal authority and may not be relied upon as such. They do not amend, modify or add to the Income Tax Regulations or any other legal authority.

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Opportunity Zones — General Information

+ Q1. What is a Qualified Opportunity Zone (QOZ)?

+ Q2. How were QOZs created?

+ Q3. Have QOZs been around a long time?

+ Q4. What is the purpose of QOZs?

+ Q5. How do QOZs spur economic development? (updated October 20, 2021)

Designated Qualified Opportunity Zones

+ Q6. Do I need to live in a QOZ to take advantage of these tax incentives?

+ Q7. I am interested in knowing where the QOZs are located. Is there a list of QOZs available?

+ Q8. What do the numbers mean on the QOZ list in Notices 2018-48 and 2019-42?

+ Q9. How can I find the census tract number for a specific address? (updated October 20, 2021)

Investor Questions

Qualified Opportunity Funds (QOF)

+ Q10. What is a QOF?

Deferral of Eligible Gain

+ Q11. What types of gains are eligible for deferral if I invest in a QOF?

+ Q12. What are qualified 1231 gains?

- ⊕ Q13. I sold some stock for a capital gain, and during the 180-day period beginning on the date of the sale, I invested the amount of the gain in a QOF. Can I defer paying tax on that gain? (updated October 20, 2021)**
- ⊕ Q14. How do I elect to defer my eligible gain?**
- ⊕ Q15. Can I defer 1231 gain for a taxable year under the QOZ rules?**
- ⊕ Q16. Can I still elect to defer tax on that gain if I have already filed my federal income tax return?**
- ⊕ Q17. I sold property in 2015 using the installment sale method, and I'm still receiving installment payments. If I invest the amount of the gain from payments received in 2020, can I defer paying tax on that gain?**
- ⊕ Q18. I sold property in 2020, and the sales proceeds will be paid to me in installments. What options do I have to make investments in QOFs to defer paying tax on that gain?**
- ⊕ Q19. Can I elect to defer gain if I transfer property other than cash to a QOF?**
- ⊕ Q20. May nonresident alien individuals and foreign corporations elect to defer eligible gain by making an investment in a QOF?**
- ⊕ Q21. When I transfer property to a QOF, does my holding period for the property also transfer to my qualifying investment in the QOF?**

180-Day Investment Period

- ⊕ Q22. When do I have to invest the amount of an eligible gain in a QOF to qualify for the QOZ tax incentives?**

⊕ Q23. I am a partner in a partnership and the partnership sold assets generating capital gains on July 1, 2019. The partnership did not make an election to defer the eligible gain. The partnership's taxable year is a calendar year. When does my 180-day investment period begin? Does it matter that on May 1, 2020, I received a K-1 notifying me of the gain?

⊕ Q24. On December 10, 2019, I received capital gain dividends from a Regulated Investment Company (RIC) and a Real Estate Investment Trust (REIT). I am a calendar year taxpayer. When does my 180-day investment period start for my capital gain dividend?

Basis Questions

⊕ Q25. I made an investment in a QOF. After holding it for at least 10 years, I sell or exchange it. Can I adjust the basis in the QOF interest to its fair market value?

⊕ Q26. In connection with a proper deferral election, I made an investment in a QOF partnership. The QOF subsequently invested cash in another partnership (partnership A). Partnership A is a QOZ business, and the QOF's investment in partnership A was solely in exchange for the interest in partnership A. After I held my investment in the QOF for 10 years, partnership A sold a building to an unrelated party for a gain. That gain is part of my distributive share with respect to the QOF and is reported to me on a K-1. May I exclude this gain?

⊕ Q27. I deferred an eligible gain by investing in a QOF partnership. (Thus, my partnership interest in the QOF is a qualifying investment.) The following year, this QOF partnership merged with another QOF partnership. Do I recognize any gain under the QOZ rules due to the merger?

⊕ Q28. I deferred an eligible gain by investing in a QOF partnership and received a qualifying investment. Another partnership in which I am a

controlling partner received a profits interest in exchange for services to the same QOF partnership. How does the profits interest affect my qualifying investment?

- + Q29. I had ordinary gain from the sale of property in 2018. During the 180-day period beginning on the date of the sale, I invested the amount of that gain in a QOF. In 2029, I sell my interest in the QOF. Can I adjust my basis to fair market value?**

Inclusion of Deferred Gain

- + Q30. I deferred an eligible gain by investing in a QOF. What ends the deferral?**

- + Q31. What is an inclusion event?**

- + Q32. I elected to defer eligible gain after I made a qualifying investment in a QOF, and now that QOF has liquidated before December 31, 2026. What happens to my deferred gain?**

- + Q33. I elected to defer eligible gain after I made a qualifying investment in a QOF and, before December 31, 2026, I gave the qualifying investment to my child. Is there anything that I need to do?**

- + Q34. If I give my qualifying investment in a QOF to my revocable grantor trust, does that end the deferral of my eligible gain?**

- + Q35. In 2018, I elected to defer eligible gain after I made a qualifying investment in a QOF. In 2020, my spouse and I divorced and, pursuant to the divorce decree, I transferred the qualifying investment to my spouse. What happens to my deferred gain?**

Q36. I am a partner in a partnership that is certified as a QOF. The QOF

- + partnership made an actual or deemed distribution of property (including cash) to me with respect to my qualifying investment on or before December 31, 2026. This distributed property has a fair market value in excess of my basis in my qualifying investment. Is this an inclusion event?**

Qualified Opportunity Funds Questions

Qualified Opportunity Funds (QOF)

- + Q37. What is a QOF?**
- + Q38. How does a corporation or partnership become certified as a QOF?**
- + Q39. Can a limited liability company (LLC) be a QOF?**

Qualified Opportunity Zone Property

- + Q40. What is QOZ property?**
- + Q41. For a QOF, does working capital qualify as QOZ property? (added October 20, 2021)**
- + Q42. The QOF recently received a large equity contribution consisting of cash. Does this cash qualify as QOZ property?**

Qualified Opportunity Zone Business Property

- + Q43. When is tangible property QOZ business property?**

Purchase Requirement

⊕ Q44. I contributed land located in a QOZ to a QOZ business. The QOZ business plans to construct a new building on the contributed land. Can the new building satisfy the requirement that it be acquired by purchase?

⊕ Q45. When does significant physical work begin?

⊕ Q46. Instead of purchasing equipment to use in my QOZ business, I wish to lease equipment. Can leased property qualify as QOZ business property?

Original Use Property

⊕ Q47. What is “original use” of tangible property?

⊕ Q48. I purchased a building in a QOZ that is currently vacant. Is the building “original use” property?

Substantial Improvement of Property

⊕ Q49. What does it mean for property to be “substantially improved”?

⊕ Q50. A QOF purchased tangible property in a QOZ, and that property is currently undergoing substantial improvement. Is the property substantially improved as QOZ business property for purposes of the 90% investment standard?

⊕ Q51. My QOF, or QOZ business, purchased a hotel that is located in a QOZ. Does the parcel of land on which my hotel building is located need to be substantially improved?

“Substantially All” in the definition of QOZ business property

Q52. The words “substantially all” appear twice in the definition of QOZ

+ business property. Do these words have the same meaning in both places? If not, what are the two meanings, and how do they interact?

+ Q53. I and a few employees operate a landscaping business from a building located in a QOZ. My employees and I meet at our building, receive job instructions for the day, and transport our landscaping equipment to job sites located within QOZs as well as sites that are not located within QOZs. At the end of our job, we transport the equipment back to our building and carry out the rest of our job duties. Can my landscaping equipment qualify as QOZ business property?

+ Q54. Can inventory qualify as QOZ business property?

+ Q55. Can inventory in transit qualify as QOZ business property? (added October 20, 2021)

Qualified Opportunity Zone Business

QOF 50-percent of gross income test

+ Q56. What is the 50-percent-of-gross-income test?

+ Q57. Must a QOZ business meet all three safe harbors to satisfy the 50-percent-of-gross income test?

More information

+ Q58. How can I get more information about QOZs?