

OBBBA Business Tax and Opportunity Zone Changes

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Select OBBBA Business Tax Changes

- **Bonus Depreciation**
 - 100% depreciation for certain property acquired post 1/19/25
 - Enhanced Sec. 179 expensing (deduction cap increased to \$2.5M starting in 2025 and phase-out threshold increased to \$4M)
- **Qualified Small Business Stock Capital Gain Exclusions**
- **Opportunity Zone changes**

Current
(Pre-OBBBA)
Opportunity Zone
Tax Credit Through
End of 2026

- Enacted as part of 2017 Tax Reform
- Final IRS Regulations December 2019
- Over 8700 designated zones, covering 11% of the US
 - Massachusetts has 138 tracts in 79 communities classified as Opportunity Zones
- Does not preclude other Federal, State and Local Tax Credits
- Over \$42 billion invested in Qualified Opportunity Zone Funds since 2019 (Novogradac surveys)

HOW DO TAXPAYERS BENEFIT?

Taxpayers can defer
and potentially reduce
taxation on capital gains



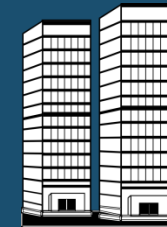
by using eligible capital gain
funds to make timely
investments in

A Qualified Opportunity
Fund ("QOF")

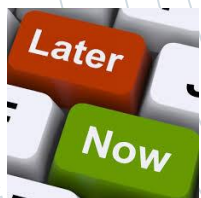


which invests in

Opportunity Zone Property
or
Opportunity Zone Businesses



OZ Tax Benefits (effective for new investments after 1/1/27)



1. Deferral of capital gain

- Invest Capital Gain in a QOF within 180 days after gain realized.
- Defer gain earlier of when sell QOF interests or until 5 years after investment.

2. Exclusion of a percentage of the deferred capital gain

- Hold investment for 5 years, exclude 10% of gain permanently

3. Exclusion of appreciation from taxation

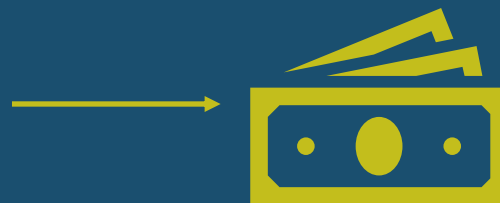
- If investment in QOF held for at least 10 years, exclude all appreciation from taxation.

OBBBA Changes

1. Permanent part of code
 - New / renewal of zones every 10 years
2. Exclusion of a percentage of the deferred capital gain
 - Hold investment for 5 years, exclude 10% of gain permanently
3. No sunset in 2047, just freeze on gain exclusion
4. New Rural OZs
5. New Reporting Functions

TAX BENEFIT EXAMPLE (REAL ESTATE)

Taxpayers sells IBM Stock
on April 15, 2028 for a
\$500,000 gain
(\$119,000 potential tax at
23.8% tax rate)

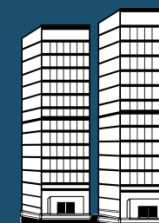


Which is invested in the QOF on
9/1/28 (within 180 days of gain
recognition)

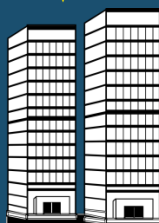
She forms a QOF with
another partner, elects to
defer gain, and elects QOF
treatment



QOF buys the building
and substantially improves it



She finds a
building in an
OZ



Sept 2033
10% Exclusion
(\$50,000 cap gain
excluded)

**Sells interests after
9/2/2038 for \$800,000**
Appreciation tax-free
(total of \$350,000 cap gain
excluded from income)



12/31/2033
Tax on \$450,000 of
remaining deferred gain

General Requirements

- Capital gains have to be re-invested **directly** in a QOF
- QOF has to hold at least 90% of its assets in “qualified opportunity zone property”.
- Original use of property has to be in OZ or property has to be “substantially improved” within 30 months.
- 10-year hold period to obtain exclusion tax benefit
- Needs to be a “trade or business” conducted, certain businesses are ineligible.

Questions?



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