ASSET STRATEGY

Helping you Create, Manage, Protect & Distribute Wealth®

2025

INVESTING IN THE ZONE

INTRODUCTION TO QUALIFIED OPPORTUNITY ZONES

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What is the Qualified Opportunity Zone Program?

The Qualified Opportunity Zone Program ("QOZ Program"), which established Qualified Opportunity Zones ("QOZs"), was created by the federal government in 2017 as part of the Tax Cuts and Jobs Act.

This program is intended to encourage investment in lower-income communities across the U.S., principally by providing certain tax incentives in return for committing long-term capital to these communities through investment vehicles called Qualified Opportunity Funds ("QOFs").

What are Qualified Opportunity Zones (QOZs)?

A QOZ is a designated census tract in the United States that has been selected by a state governor and certified by the U.S. Department of Treasury for inclusion in the QOZ Program.

Each state governor was allowed to nominate up to 25 percent of the state's qualifying census tracts for inclusion in the QOZ Program.

In order to qualify for inclusion, a census tract must pass one of the following low-income community ("LIC") tests based on the most recent census information from 2010:

- Have a poverty rate of at least 20%.
- If the LIC is in a metropolitan area, have a median household income not exceeding 80% of the metropolitan median household income (or the statewide median household income, whichever is greater).
- If the LIC is not located in a metropolitan area, have a median household income not exceeding 80% of the statewide median household income.

IN TOTAL, THERE ARE OVER 8,700 QOZS SPREAD ACROSS ALL 50 STATES, D.C., AND SEVERAL U.S. TERRITORIES.

Source: https://opportunityzones.hud.gov/

What are QOFs?

A Qualified Opportunity Fund (QOF) is an investment vehicle organized as either a partnership or corporation that holds at least 90% of its assets in QOZ property. QOFs can make investments in a wide variety of real estate and new or existing businesses, including commercial real estate, housing, infrastructure, and start-up businesses. QOFs can hold single or multiple assets. QOZ property includes interests held by the QOF in a Qualified Opportunity Zone Business ("QOZB").

Potential Tax Benefits of Qualified Opportunity Zones (QOZ)

Potential tax benefits associated with the QOZ Program fall into two main categories:

DEFERRAL

If a taxpayer invests the capital gain from the sale of any property into a QOF within 180 days of recognizing the gain, taxes on such proceeds may be deferred until the earlier of December 31, 2026, or the disposition of the QOF interest.

ELIMINATION

Investors who hold their investment for at least ten years receive a step-up in basis, which means they pay no tax on the appreciation of their QOF Investment upon disposition of such QOF Investment, regardless of the size of the potential profit. In addition, the step-up in basis eliminates any depreciation recapture tax that would otherwise be owed upon sale.

All investments involve risk, and the realization of the benefits is dependent on proper structuring and the structure and performance of the future investments selected. Not all investments will provide all of these benefits.

Source:
A 10% step-up in basis was available for investments made prior to December 31, 2021 and an additional 5% step-up in basis was available for investments made prior to December 31, 2019.

Assumes that the investor is a resident of a state that conforms with the federal Opportunity Zone provisions.

What is a QOBZ?

A QOZB is a business in which at least 70% of tangible assets qualify as QOZ business property owned or located in a QOZ. At least 50% of the gross income earned by the business must be from the active conduct of the business in the QOZ and generally may not be a "Sin Business." No more than 5% of the assets of the QOZB can be non-qualified financial property.

What is an 'Eligible' Gain?

A capital gain is eligible for deferral if it is from the sale or exchange of property with an unrelated party (not more than 20 percent common ownership), and the gain is treated as a capital gain (short-term or long-term) for federal income tax purposes, including gains from:

- Stocks, bonds, options, and hedge funds.
- Primary and secondary residences.
- Businesses, machinery, and commercial buildings.
- Land, livestock, art, wine, automobiles.

What is an 'Eligible' Taxpayer?

QOZ regulations provide that taxpayers eligible to elect gain deferral include:

- Individuals.
- C Corporations, including regulated investment companies (RICs) and real estate investment trusts (REITs).
- Partnerships.
- Certain other pass-through entities.

The first day of the 180-day period to reinvest gains into a QOF generally is the date on which the gain would be recognized for federal income tax purposes.

IMPORTANT DEADLINES

Generally, to receive the QOF Program tax benefits, eligible capital gains must be reinvested in a QOF within 180 days from the sale of an asset. However, the QOZ Program final regulations provide additional flexibility for K-1 partnership gains, resulting in additional planning options for financial advisors. For example, assuming a calendar-year partnership, K-1 partnership gains realized on or after January 1, 2025, have until September 11, 2026, to complete an investment in a QOF that is eligible for QOZ Program tax benefits due to the three options allowed for calculating their 180-day window:

1. 180 days, starting with the date the asset is sold by the partnership.
2. 180 days beginning on the last day of the partnership's taxable year (December 31st for a calendar-year partnership).
3. 180 days starting on the date the partnership's tax return is due, without any extension (March 15th for a calendar-year partnership).

COMPARING QOFs & 1031 EXCHANGES

QOFs and 1031 exchanges both offer the potential for significant tax incentives and can be used in conjunction with one another. However, the two investment vehicles have many differences and, therefore, may be appropriate for different investors.

Under the 2017 Tax Cuts and Jobs Act, real estate is the only asset class that retained its 1031 exchange privilege. Capital gains from assets such as stocks, bonds, art, wine, livestock, classic automobiles, and other collectibles no longer receive the tax benefits of a 1031 exchange. Only real estate held for business or investment purposes can utilize the 1031 exchange, while a capital gain from real estate or most other assets can be invested in a QOF.

SIDE-BY-SIDE COMPARISON

1031 EXCHANGE	CATEGORY	QUALIFIED OPPORTUNITY ZONE
Real estate held for investment purposes.	ELIGIBLE ASSETS*	Any investment including stocks, bonds, real estate, collectables, partnership interests, etc.
Principal and capital gains of the real estate sale.	ROLLOVER PARAMETERS	Capital gains only (principal not required).
Real property without location restrictions.	ELIGIBLE INVESTMENTS	Generally includes commercial real estate, housing, infrastructure, and businesses within an OZ.
Must identify a replacement property within 45 days and close within 180 days.	REPLACEMENT PROPERTY	No identification requirement. The gain must be invested in a QOF within 180 days.
May be deferred indefinitely with a step-up in basis upon death.	CAPITAL GAINS TAX	The original gain may be deferred, but such gain must be included in income on December 31, 2026. Any new gain may be eliminated as well as any depreciation recapture tax that would otherwise be owed upon sale.
Maximize after-tax return through income and appreciation.	INVESTMENT GOALS	Maximize after-tax return through income and appreciation.

****GAINS RECOGNIZED FROM THE DISPOSITION OF THE FOLLOWING ASSETS ARE ELIGIBLE TO RECEIVE THE RESPECTIVE TAX BENEFITS OF THE 1031 EXCHANGES AND INVESTMENTS IN QOFS.***

When it comes to investing in real estate, QOFs do offer certain potential benefits compared to 1031 exchanges. Unlike a 1031 exchange, where an individual must invest all proceeds from the sale of the property to defer all taxes, an individual only has to invest the gain (including any unrecaptured depreciation treated as a capital gain) in the QOF, allowing the individual to pull their basis out. Completing a QOF investment tends to be much simpler than a 1031 exchange, as there is no 45-day identification period, no tracing requirement, and no Qualified Intermediary involved in the transaction.

Understanding when a QOF, a 1031 exchange, and/or a Delaware Statutory Trust ("DST") is appropriate for an individual selling an investment requires a holistic understanding of the individual's personal finances. When it involves the sale of a property, there is even more to consider, including the basis of the property, the amount of depreciation, any debt, and the sale price, among other things. Sometimes, multiple tax strategies may be used. For example, imagine an investor is selling a business along with the physical building where the business operates. A 1031 exchange could be employed to defer tax on the real estate portion of the sale, while an investment in a QOF could defer and reduce certain capital gains tax from the sale of the actual business.

Given the complexity of evaluating these types of situations, investors should seek professional tax, legal, and financial advice in order to determine the best scenario for using one or combining these powerful tax-advantaged wealth creation tools.

TAXABLE INVESTMENT VS. QOZ RETURN COMPARISON

Below is a chart that shows the difference in returns on two hypothetical investments with the same internal rate of return (IRR):

Potential Tax Advantages of Investing in a Qualified Opportunity Fund

SCENARIO:
HYPOTHETICAL AFTER-TAX VALUE[1,2,3]

$1,000,000

INVESTMENT OVER 10-YEAR HOLD

(assuming hypothetical 10% compounded rate of return on both investments)

INVESTORS MAY PAY AS LITTLE AS $0 IN CAPITAL GAINS ON THE NEXT DECADE OF INVESTMENT RETURNS.

	TAXABLE INVESTMENT	QUALIFIED OPPORTUNITY ZONE FUND
ORIGINAL CAPITAL GAIN FROM SALE OR PRIOR INVESTMENT	**$1,000,000**	**$1,000,000**
TAX RATE	**30%**	**30%**
TAX ON ORIGINAL CAPITAL GAIN	**($300,000)**	**Deferred**
INVESTABLE AMOUNT	**$700,000**	**$1,000,000**
COMPOUNDED HYPOTHETICAL ANNUAL RETURN	**10%**	**10%**
APPRECIATION OVER 10 YEARS	**$1,115,620**	**$1,593,742**
TAX ON APPRECIATION AFTER 10 YEARS	**(334,686)**	**Eliminated**
LONG TERM CAPITAL GAINS TAXES PAID IN 2027 ON ORIGINAL CAPITAL GAIN	**$0**	**($300,000) 30% of $1,000,000**
FINAL VALUE	**$1,480,934**	**$2,293,742**

1. This illustration assumes the investor is subject to the top marginal U.S. federal income tax rate of 20% on long-term capital gains for individuals, the net investment income tax of 3.8%, and a state tax of 6.2% for a total tax liability of 30%. No brokerage or investment advisory fees are accounted for with respect to the non-QOF example above.
2. This assumes that the QOF investor is a resident of a state that conforms with the QOZ Program.
3. Assumes that the investor has no capital losses to reduce such capital gain and refers to the inclusion of the original, invested capital gains in such investor's taxable income on December 31, 2026.

For over 30 years, the Asset Strategy network of companies has been providing financial wellness to individuals and families, as well as corporate and non-profit retirement plans. Asset Strategy assists clients with managing the risk and responsibility of sponsoring retirement and investment programs and helping individuals achieve financial confidence.

Who We Are:

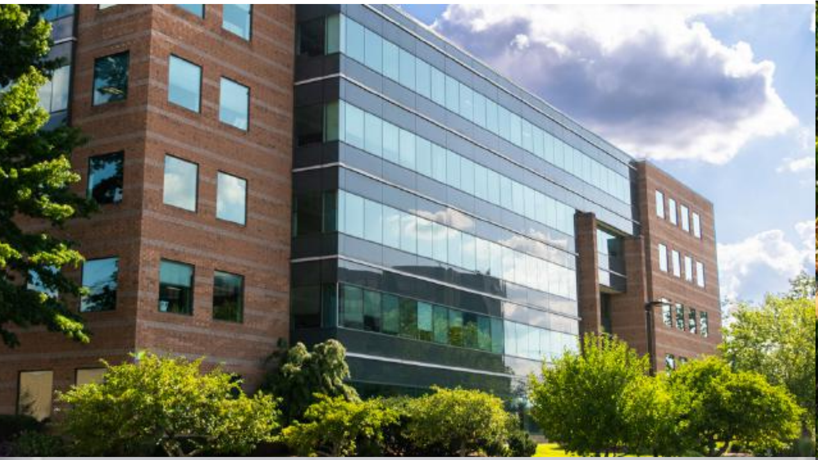
Asset Strategy Advisors is a trusted advisor to investment stewards and fiduciaries, utilizing prudent process, transparency, and a consultative approach to help strengthen the financial future of America's work force.

Our Mission:

To help individuals and families accumulate, preserve, and transfer their wealth. We help them define, plan, and work to achieve their financial goals. To help corporate and not-for-profit retirement plan sponsors deliver a program that helps protect fiduciaries and truly changes participant behavior to drive meaningful outcomes.

Purpose Statement:

Asset Strategy is built on a foundation of right relationships and integrity in dealing with all people. We embrace a corporate climate of trust, accountability, and encouragement. We are here to serve others and to help multiply the gifts, talents, time, and energy of everyone we encounter.



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Because investor situations and objectives vary this information is not intended to indicate suitability or a recommendation for any individual investor.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated. Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

There are material risks associated with investing in DST properties and real estate securities including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal.

Institutional-grade properties generally refer to a property of sufficient size and stature to merit attention from large national or international investors, and typically have the characteristic of high-quality assets in major markets and at price points beyond the reach of individual investors and smaller partnerships.

The hypothetical examples are for illustration purposes only. Individual results may vary.

Certain Qualified Opportunity Zone (QOZ) areas may not be able to appreciate as predictably as more established areas. Some neighborhoods may be more accommodating to development than others, impacting the success of the investment. Development and redevelopment of real estate traditionally have more risk than other types of real estate strategies. The availability and cost of construction and development financing is uncertain and represents a risk inherent in the execution of a QOF strategy. The rules and regulations of the QOZ Program are complex, compliance with the QOZ Program comes with significant challenges. QOFs tend to be illiquid investments for ten or more years. Any discussion regarding “Qualified Opportunity Zones” — including the viability of recycling proceeds from a sale or buyout — is based on advice received regarding the interpretation of provisions of the Tax Cut and Jobs Act of 2017 (the “Jobs Act”) and relevant guidance’s, including, among other things, two sets of proposed regulations and the final regulations issued by the IRS and Treasury Department in December of 2019. A number of unanswered questions still exist, and various uncertainties remain as to the interpretation of the Jobs Act and the rules related to Opportunity Zones investments. We cannot predict what impact, if any.

Advisory Services are offered through Asset Strategy Advisors, LLC (ASA), an-SEC Registered Investment Advisor. Securities offered through registered representatives of Concorde Investment Services, LLC (CIS) member of FINRA/SIPC. Insurance Services offered through Asset Strategy Financial Group, Inc. (ASFG). ASA, CIS, and ASFG are independent of each other.

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