

Example of Potential Tax Reductions from Investing in a Qualified Opportunity Fund (QOF)

A taxpayer sells stock shares for \$200,000 that were purchased for \$100,000, generating a capital gain of \$100,000. Assuming the taxpayer is subject to the top federal long-term capital gains rate of 23.8%, she would normally owe \$23,800 in tax on the \$100,000 gain. However, if the taxpayer reinvested the \$100,000 into a QOF in 2019 and held that investment for 10 years, she reduces her tax liability twice. First, she would owe only \$20,230 in tax on the original gain in 2026 instead of \$23,800, reducing her tax liability by \$3,570. This is because she is able to defer paying tax on the original \$100,000 gain until 2026, at which point she would have held the QOF investment for seven years, allowing her to receive a 15% tax reduction on the original gain. Second, she would eliminate the entire tax on any capital gain on the QOF investment after holding it for 10 years. If she sells the QOF investment in 2029 for \$215,000 (assuming an annual return rate of about 8%), she would owe zero tax on the \$115,000 increase in the value of the QOF investment, a \$27,370 reduction in tax liability relative to what she would have owed on a regular investment. Her overall capital gains tax reduction would be \$30,940, and the effective tax rate on the aggregate capital gains from the two investments would decline from 23.8% to 9.4%. Since the majority of the tax reduction comes from the exclusion of gains on the QOF investment, the effective tax rate would be lower for QOF investments that have higher rates of return, and higher for investments with lower returns.

Original Investment: Capital Gains Tax Reduction

Purchase Value	\$100,000
Sale Value	\$200,000
Capital Gain	\$100,000
Regular Tax Liability (at 23.8% Top Rate)	\$23,800
Actual Tax Liability in 2026	\$20,230*
Reduction in Tax Liability	-\$3,570
Effective Tax Rate	20.2%

*This tax is based on the top capital gains tax rate of 23.8% and a reduced capital gain of \$85,000. The original capital gain that was realized in 2019 (\$100,000) is eligible for a 15% discount because the QOF investment will have been held for seven years in 2026.



QOF Investment: Capital Gains Tax Elimination

Purchase Value	\$100,000
Sale Value (Assuming 8% rate of return over 10 years)	\$215,000
Capital Gain	\$115,000
Regular Tax Liability (at 23.8% Top Rate)	\$27,370
Actual Tax Liability When Investment Is Sold After 10 Years	\$0
Reduction in Tax Liability	-\$27,370
Effective Tax Rate	0%

Capital gain proceeds reinvested into QOF



Overall Capital Gains Tax Reduction

Total Capital Gains	\$215,000
Regular Tax Liability (at 23.8% Top Rate)	\$51,170
Total Tax Liability	\$20,230
Reduction in Tax Liability	-\$30,940
Effective Tax Rate	9.4%