

## **Additional extension of COVID relief for Qualified Opportunity Zone Funds**

Last month, the IRS issued [Notice 2021-10](#), providing further extensions of relief regarding qualified opportunity zone funds (“QOFs”) in light of the ongoing pandemic.

### **Relief for QOF Investors: 180-Day Investment Period**

Generally, taxpayers have 180 days from the date gain is realized from a sale or exchange to reinvest those gains into a QOF and defer those gains. Under the additional relief, QOF investors now have until March 31, 2021 to defer the following capital gains (including Section 1231 gains) by investing in a QOF:

- Gains realized between October 4, 2019 and October 2, 2020, and
- Gains allocated from pass-through entities (as reported on K-1s) realized at any time during 2019.

If you realized significant capital gains in 2019 and/or 2020 that fall under either category above, there is still time to invest in a qualified opportunity zone fund to defer those gains. Note that if you opt to defer 2019 gains, an amended tax return will be required.

If you would like to discuss the potential tax benefits of investing in a QOF, please call us. While investing in a QOF can provide significant tax savings, we urge you to consult with your investment advisor to ensure it is the right investment for you.

The following relief was also provided to those operating QOFs:

### **30-month Substantial Improvement Period Tolloed**

The 30-month period during which property held by a QOF or qualified opportunity zone business must be substantially improved is tolled during the period beginning on April 1, 2020 and ending March 31, 2021 (extended from December 31, 2020 under prior COVID relief).

### **90-Percent Investment Standard**

The standard that requires a QOF to hold at least 90 percent of its assets in QOZ property or be subject to a penalty is temporarily waived. The new notice provides that for a QOF whose (i) last day of the first six-month period of the taxable year or (ii) last day of the taxable year falls within the period beginning on April 1, 2020 and ending on June 30, 2021, a failure to meet this standard for that taxable year is due to reasonable cause on account of the COVID-19 pandemic. Calendar year QOFs formed before January 1, 2021 will effectively not be subject to penalties for all of 2020 and 2021.

### **24-Month Extension of Working Capital Safe Harbor Spending Deadline**

One of the requirements to be a QOZ business is that less than 5 percent of the entity's property be nonqualified financial property, but taxpayers may qualify for up to a 31-month maximum working capital safe harbor (62 months for start-ups). Qualified opportunity zone businesses holding working capital intended to be covered by the working capital safe harbor before June 30, 2021 (extended from December 31, 2020 under prior COVID relief) receive up to an additional 24 months to spend the working capital on qualifying property, for a maximum safe harbor period of not more than 55 months total (86 months for start-ups).

### **12-Month Extension of Reinvestment Period for QOFs**

Under the QOZ regulations, a QOF will continue to satisfy the 90% investment requirement if it reinvests proceeds from sales of QOZ property or stock within 12 months. Under the new notice, QOFs are given up to an additional 12 months to reinvest QOZ property/stock if the QOF's initial 12-month reinvestment period includes June 30, 2020. The additional 12 months includes any additional time provided under prior COVID relief, for a maximum reinvestment period of 24 months total.

Please let us know if you have any questions regarding these latest extensions.

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