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IRS Signals New OZ Tax Break Details to Come Shortly.

In possibly less than two weeks, financial advisors and their clients may hear the answers they've been anticipating from the IRS about additional regulatory guidance on the Opportunity Zones-based capital gains tax waivers.

On March 12, the IRS dispatched to the White House's Office of Information and Regulatory Affairs and the Office of Management and Budget its second tranche of proposed OZ program regulations.

This new set of rules will likely: "address what types of property qualify as qualified OZ business property; steps an OZ business must take to be qualified; the penalty for a qualified opportunity fund's failure to meet the 90 percent investment standard; and more," according to Novogradac, an organization of accountants that closely follows the new tax-sheltering option.

Plenty of FAs and their employers will welcome more details from the IRS about the program.

"While the proposed regulations addressed a number of key questions, many investors, practitioners, and community stakeholders are awaiting clarification on a number of open items," Andrew Lee, who is head of Americas sustainable and impact investing at UBS Global Wealth Management, wrote in a report issued in January.

"Opportunity Zone" investments became an option for clients following the passage of the Tax Cuts and Jobs Act of 2017. Congress identified capital gains tax relief as a way to induce investment into long-neglected U.S. neighborhoods. Ultimately, the U.S. Treasury approved some 8,700 census tracts, located in all 50 states, as economically disadvantaged enough to be eligible for OZ investments.

But investors have been waiting for the IRS to finalize the regulations for the new program.

The IRS sent a first set of proposed regulations last year, and the White House and the OMB reviewed those for 36 days before releasing them for public comment. The OMB has a required 10 days of review before releasing any new proposed rules.

At a public hearing in mid-February on the IRS's first set of rules, an overflow crowd lobbed a wide array of questions and recommendations at agency officials. Many commenters focused on ways to make it easier for investors to purchase stakes in operating businesses rather than just real estate properties in the OZ census tracts and still preserve the preferential capital gains tax treatment.

"This is obviously an exciting area of the tax law with a great deal of potential to have significant impact throughout various parts of the country. It's also, as you well know, rules that are not particularly specific," and leave a great deal of questions, Scott Dinwiddie, associate chief counsel for the IRS, told the audience at the start of that hearing.

Financial Advisor IQ

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