Opportunity Zones or 1031 Exchanges: Exploring Tax Strategies for Real Estate Investing

Qualified Opportunity Zones (QOZs) and 1031 exchanges are both tax-advantaged strategies available to real estate investors, however, each has its set of pros and cons and specific requirements need to be met. The main appeal of QOZ investments is their capital tax deferral benefit. Any capital gains realized within 180 days of a QOZ investment can be eligible for capital gains tax deferral until December 31, 2026, or until the investment is sold, whichever comes first. If the investment is held for at least 10 years, capital gains tax is completely eliminated.

Maximizing QOZ Benefits

Defer taxable income from gain until 12/31/2026

10+ year hold on QOF (qualified opportunity fund) allows for complete tax elimination

Unlike 1031 exchanges, in a QOF transaction, investors with taxable gains from the sale or exchange of virtually any type of property, including the following, may potentially defer gains by reinvesting the proceeds in a QOF within 180 days of the sale or exchange.

- Stocks
- Mutual Funds
- Bonds
- Real Estate
- Business
- Jewelry
- Art
- Cars

With a **1031 exchange**, investors have the potential for continuous capital gain tax deferral when they swap one real estate investment property for another "like-kind" property and continue to "swap till you drop" by reinvesting their gains.

Both strategies can serve as powerful investment tools, each with its own specific timeline to follow. The choice depends on the individual investor's situation and goals.

The table below outlines similarities and differences between a QOZ and 1031 Exchange transaction.

QOZ	1031
Reinvest only capital gain	Reinvest all sales proceeds (basis and gain)
No identification deadline	45 days to identify
180 days to reinvest	180 days to reinvest
Gains from any investment eligible	Like-kind: investment property for investment property
Deferred gain taxed 12/31/26	Gain deferred indefinitely
No taxes due on gain after 10 years	All gain may be recognized upon sale
No debt match requirements	Total purchase price (debt/equity) calculation required
Constructive receipt of proceeds allowable	Qualified Intermediary required
90% test every 6 months	No ongoing compliance required

Please see reverse side for important disclosures.

When should your client consider a QOZ investment?

Sale of Business	• Business Sales and Succession Planning • Equipment • Other Non-Real Estate Associated Assets • Employee Stock Ownership Plans (ESOP)
Sale of Real Estate	• Investment Property • Primary Residences • Secondary Homes or Vacation Homes • Failed 1031 Exchanges
Sale of Stocks	• Portfolio Reallocations • Overconcentrated Stock Positions • Stock Options • Mutual Funds
Sale of Other	• Art Collections • Jewelry • Antiques • Crypto • ANY appreciated asset

Contact your Inland Team for more information on Inland's QOZ opportunities.

Sources:
https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions

Investments in offerings sponsored by Inland Private Capital Corporation (IPC) involve certain risks including but not limited to tax risks, general real estate risks, risks relating to the financing on the applicable property, if any, risks relating to the ownership and management of the property, risks relating to private offerings and the lack of liquidity, and risks relating to the DST or QOZ and QOF structure. In addition, IPC can give no assurance that it will be able to pay or maintain distributions, or that distributions will increase over time. The tax discussion here is not intended, and should not be construed, as tax advice to any potential investor.

QOZ-Specific Risks to Consider

There are substantial risks associated with the U.S. federal income tax aspects of a purchasing interests in a qualified opportunity fund. The following risk factors summarize some of the tax risks to an investor. All prospective investors are strongly encouraged to consult with and rely on their own tax advisors.

- There is a lack of precedent and limited guidance related to qualified opportunity funds.
- A program intended to qualify as a qualified opportunity fund may not constitute a qualified opportunity fund for a variety of reasons, including a failure to substantially improve the property within the first 30 months of its operation. If a fund does not qualify as a qualified opportunity fund, then no deferral or elimination of taxable gain will be available to its members.
- Investors who hold interests in a qualified opportunity fund through December 31, 2026, and who have deferred gain through that time by acquiring such interests, will automatically recognize some or all of the federal income tax gain that they deferred on December 31, 2026.
- The state, local and other tax implications of a qualified opportunity zone investment are unclear.

This communication includes a brief and general description of certain QOZ and QOF guidelines. Prospective investors should consult their own tax advisor regarding in investment in an IPC-sponsored program.

Important Risk Factors to Consider

An investment in an IPC-sponsored program is subject to various risks, including but not limited to:

- No public market currently exists, and one may never exist, for the interests of any IPC-sponsored program. The purchase of interests in any IPC-sponsored program is speculative and is suitable only for persons who have no need for liquidity in their investment and who can afford to lose their entire investment.
- IPC-sponsored programs offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any particular IPC-sponsored program will be achieved.
- The actual amount and timing of distributions paid by IPC-sponsored programs is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- IPC-sponsored programs depend on tenants for their revenue, and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- IPC-sponsored programs may own single-tenant properties, which may be difficult to re-lease upon tenant defaults or early lease terminations.
- Continued disruptions in the financial markets and challenging economic conditions could adversely affect the ability of an IPC-sponsored program to secure debt financing on attractive terms and its ability to service that indebtedness.
- The prior performance of other programs sponsored by IPC should not be used to predict the results of future programs.
- Various tax risks, including but not limited to the uncertainty surrounding the qualification of the investment program as a "qualified opportunity fund", and the operation of the investment program and its subsidiaries in a manner consistent with Section 1400Z-2 of the Internal Revenue Code.
- Certain of the programs previously sponsored by IPC have experienced adverse developments in the past.

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