Comparing Opportunity Zones and 1031 Exchanges

The Opportunity Zones incentive is a new community investment tool established by Congress in the Tax Cuts and Jobs Act of 2017 to encourage long-term investments in low-income urban and rural areas nationwide. Opportunity Zones provide a tax incentive for investors to re-invest their unrealized capital gains into dedicated Opportunity Funds. A 1031 exchange allows the owner of investment real estate to defer paying capital gains taxes when property is sold by purchasing new investment real estate. The below chart highlights some of the differences between the two tax deferral strategies.

	1031 Exchange	OZ Fund
Is tax deferral possible?	100% tax deferral on each sale and potentially permanent deferral	Temporary deferral- expires by 2026 when taxes will be due
How much investment is required?	Net sale proceeds plus debt replacement	Capital gain
May the taxpayer add capital?	Yes, and there would be an increase in basis	Yes, but not eligible for tax benefit
May the taxpayer invest in a business as well as real estate?	No	Yes
What is the holding period for the new property?	No express time limit	5 or 7 years to receive any reduction of taxes
Is a Qualified Intermediary necessary as part of the transaction?	Yes	No
Which taxpayers are eligible?	All taxpayers are eligible	Most funds require accredited investors
Is there a secondary market?	Yes	Unknown
What assets qualify for tax treatment?	Real estate	Any capital asset
Are established IRS rules and regulations in place?	Yes. Since the 1980s	Final regulations are pending

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