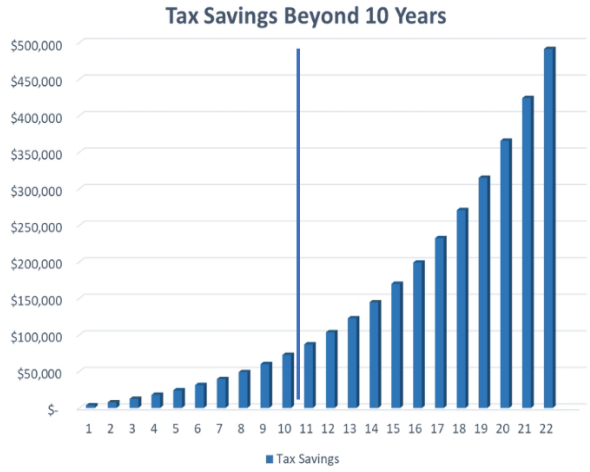
Maximizing Tax-Efficient Opportunity Zone Strategies with Park View OZ

Park View OZ (Symbol: **PVOZ**) is the only Qualified Opportunity Fund (QOF) to offer the convenience and accessibility of public stock ownership. We give investors the means to implement superior tax-efficient strategies.

Here are some examples of the variety of ways QOFs can be utilized:

Long-Term Strategies: Using the Elimination Benefit

"Roth IRA-like" wealth creation. The biggest tax benefit offered by a QOF investment is the potential for tax-free compound growth. A QOF can deliver tax advantages that are similar to a Roth IRA but without annual contribution caps or income restrictions. Once an investor achieves a 10-year hold in the QOF they can elect to step-up their cost basis 100%, eliminating any capital gain liability, including the 3.8% NIIT. This is often thought of as a 10-year benefit, but that is just the beginning because the benefit does not expire until 2047. Compound growth curves accelerate in the outer years, and this is certainly true for QOFs. Using typical market returns, roughly 85% of tax benefits are derived after year 10. Unfortunately, many QOFs have planned liquidations shortly after the 10th year, ending the tax-free compound growth prematurely. If you are fortunate enough to avoid withdrawing from your tax advantaged investment, then the option to keep this powerful wealth-creating tax incentive rolling can be very beneficial.



Hypothetical tax savings on a $100,000 investment growing at 15% with a tax rate of 20%.

This graph illustrates the potential to eliminate tax liability through a QOF investment. Most investors think of the tax elimination as a 10-year benefit but it actually lasts until you exit the QOF or 2047, whichever comes first. The graph shows that roughly 85% of potential tax savings occur after the 10-year hold.

Short-Term Strategies: Using the Deferral Benefit

An investor/trader has a strong year with significant gains, followed by a loss a later year during the deferral period. In this scenario the investor can choose to pay the tax on the gain, reducing their capital. After the capital loss, they would receive a tax loss carryforward. If instead, they deferred the gain with a QOF investment they could then trigger the realization of the gain by selling their QOF stock in the same year as the capital loss resulting in a zero-tax rate. The net effect is the investor has either a tax loss carryforward or the cash. If a loss does not occur the investor still benefits from the deferral.

Using QOFs to Match Gains and Losses

The order you pay gains and losses matters

PAY AS YOU GO STRATEGY

	Current Year	Future Year
Gains	$1,000,000	
Losses		$1,000,000
20% Capital Gains 3.8% NIIT	Taxes Owed $238,000	Tax Loss Carry Forward $238,000

QOF DEFERRAL STRATEGY

	Current Year	Future Year
Gains	$1,000,000 QOF →	$1,000,000 Sell QOF
Losses		$1,000,000
20% Capital Gains 3.8% NIIT		Taxes Owed $0

Would you rather have $238,000 in cash or $238,000 in a tax loss carry forward?

A business owner plans to sell a business and retire. If a business owner realizes a capital gain from selling their business in the same year they are still drawing a salary, they may face a very high-income year and a correspondingly high tax rate. Instead, the taxpayer could consider deferring the capital gain by investing in a QOF. They can then spread the capital gain realization by selling a portion of QOF shares each year during the deferral period. By spreading the capital gain realization across lower-income retirement years, they can reduce the overall tax liability and benefit from a lower tax rate. The desired outcome is deferring taxes while lowering the eventual tax rate paid.

1231 asset taxed at capital gain or ordinary income rates? Gains and losses from business property (1231 gains) are taxed asymmetrically; gains are taxed at capital gains rates, but losses are taken at ordinary income rates. This is an advantageous rule, but there is a "5-year look back period." If you took a loss four years ago and this year you have a 1231 gain, the tax rate for the gain will be at ordinary income tax rates to offset the loss within the "look back" window. A qualifying QOF investment can defer the gains realization date beyond the "5-year look back," thus reducing the tax rate.

1231 Asset 5 Year Look Back Period

June of 2020	2021	2022	2023	2024	2025
Loss of $1,000,000				Gain of $1,000,000 QOF →	Defer the Gain outside the 5 year look back
Tax loss carry forward at 37% tax rate $238,000				Income tax rate 37% Tax of $370,000	Capital gain tax rate 20% Tax of $200,000

Lowering the tax rate by deferring the gain realization results in tax savings of $170,000.
Tax rate is 85% higher without the QOF deferral (170k/200k = 85%).

Lowering the tax rate by deferring the gain realization results in tax savings of $170,000.
Tax rate is 85% higher without the QOF deferral (170k/200k = 85%).

QOF Strategies for 1031 Exchange Investors

How to Defer 1031 Boot. When a property involved in an exchange is ineligible for 1031 deferral or is exchanged into a lower-priced property the difference is taxable and referred to by 1031 practitioners as "boot." Finding 1031 eligible investments with smaller remainder amounts can be difficult. PVOZ makes investing accessible by allowing purchases of as little as one share of stock. For investors hoping to defer tax liabilities on boot, PVOZ may be the only practical choice. QOFs can also defer boot generated from the sale of non-like-kind assets involved in a real estate transaction.

Rescuing a failed 1031 exchange. The rules for executing a successful 1031 exchange are rigid. Investors cannot take possession of the sale proceeds, so typically, an intermediary is hired to keep the cash segregated. The investor has 45 days to identify the properties they will be exchanging into. It is not unusual for a 1031 seller to receive the sale proceeds into their own bank account or to have difficulty finding a new property in such a short window, either of which would make them ineligible for 1031 tax deferral benefits. Luckily, neither of these restrictions apply to QOF investments. This means QOFs are frequently called upon to "save" failed 1031 exchanges.

Liquidity for high tax basis 1031 investors. 1031 exchanges have been a tried-and-true financial planning tool for decades and they are still a great choice in many circumstances. However, there are also many situations where investing in a QOF can be the right choice. This is especially true for investors selling a high-cost basis property, particularly if they would like to have less of their assets encumbered. As an example, if an investor sold a property for 10 million dollars and their tax basis is $9 million, to defer the 1 million-dollar capital gain, a 1031 exchange would require the entire 10 million dollars in proceeds to be reinvested while a QOF investment would only require only 1 million dollars of capital gain be reinvested to defer the entire capital gain liability. Investors using the QOF would be free to use the $9 million in principle as they choose.

Alleviating asset concentration risk for 1031 investors. 1031 investments are a powerful tax deferral tool, but because they require the entire sale proceeds to be reinvested in "like-kind assets" asset class concentration can build up in portfolios over decades. 1031 investors, especially as they approach retirement, often realize they have portfolios with poor diversification and high leverage. Investors can avoid this situation by using QOFs, which only call for a portion of sales proceeds to be reinvested. A QOF investment only requires the capital gain portion of a sale to be reinvested to maximize tax incentives. This gives investors the freedom to allocate the principal portion of their proceeds toward asset diversification, debt reduction, vacations or any other purpose.

Using a qualified intermediary in a 1031 exchange can result in extended QOF eligibility. A unique situation arises when an investor intending to execute a 1031 hires a qualified intermediary (QI) to hold the sale proceeds but the exchange is not completed. If the QI holds the funds into a new tax year the investor can claim installment sale treatment by filing IRS form 6252. This installment sale treatment may be available for funds held by a QI within the same tax year but the issue is relatively new and untested. Under installment sale rules, the day the QI releases the sales proceeds will be the investor's new capital gain realization date. The final opportunity zone regulations allow taxpayers to begin their 180-day investment period on the date of receipt of installment sale proceeds or at their taxable year-end. This allows taxpayers a second chance at deferring their tax liability when a 1031 exchange does not go as planned.

An alternative if a tax return is filed before the 1031 exchange is complete. When a taxpayer initiates a 1031 exchange late in their tax year they might inadvertently end their 180-day exchange window early by filing a tax return. For example, a taxpayer begins a 1031 in December with plans to complete the exchange by May. If they file their taxes on April 15th under 1031 rules, this ends the 180 exchange period making them ineligible to complete the 1031 exchange. However, under opportunity zone rules filing a tax return does not end the 180 investment window. QOF investors are allowed to amend their tax returns. This allows a taxpayer to pivot to a QOF investment and defer their capital gain liability.

Estate Planning

Tax efficiently for passing assets to the next generation. 1031 exchanges offer investors a 100% basis step-up on death, eliminating all capital gains taxes due for the estate's beneficiaries. This is a very tax-efficient strategy for most investors. However, if the investor's estate is large enough to trigger estate taxes, and end of life is near, then you do not want the step up in basis on death because it will be taxable at the 40% estate tax rate. It is better to defer the tax with a QOF which is IRD (income in respect to a decedent) so it does not trigger a basis step up on death and pay the capital gains rate of 20% at the end of the deferral period.

Pairing QOFs with Intentionally Defective Irrevocable Trusts (IDITs). IDITs are a hybrid in tax planning; they remove assets from an estate for estate tax purposes but they intentionally are defective and not recognized under income tax law. This unique trust structure has become a staple of estate planning because the grantor retains some control of the assets in the trust while still removing the assets from the estate. This protects the assets for the next generation from lawsuits, estate tax, nursing home costs, and other claims on the estate. This strategy does come with one unfortunate weakness. Because the assets are no longer part of the grantor's estate, they do not receive the 100% basis step-up on the grantor's death. This can leave the IDGTs beneficiaries facing a substantial unrealized capital gain liability. However, by pairing a QOF with an IDGT the beneficiaries receive all the asset protection plus once the QOF is held 10 years the beneficiaries receive a 100% set up in basis whenever they sell the QOF or 2047, whichever comes first. The holding period is passed on from the grantor so the beneficiary steps into the shoes of the grantor and the 10 year holding period may have already been achieved by the time the benefactors receive the asset. By holding a QOF the IDGT's capital gain weakness becomes a strength.

Additional Topics

Art / collectibles. Taxpayers with capital gains in collectible assets, such as art, precious metals (even ETFs invested in collectibles such as gold ETFs), wine, etc. should be particularly motivated to utilize QOF tax incentives. The same legislation that created QOFs eliminated the eligibility of collectibles to qualify for 1031 (like-kind exchange) tax treatment. Before the Tax Cuts and Jobs Act a collector could sell an appreciated asset and defer the tax by executing a 1031 exchange into a new like-kind asset. Now when a collector has a capital gain, they cannot defer the tax through a "like-kind exchange." They also face a higher marginal capital gains tax rate of 28% versus 20% for most asset classes. They can, however, defer the tax through a QOF investment.

Deferring a capital gain on the sale of a partnership or S corp interest. The sale of the interest in an entity, even if the underlying asset is real estate, is classified as personal property and therefore not"like-kind" to real estate. This makes the sale of interests in a partnership or S corp ineligible for

a 1031 exchange. However, an investment in a QOF can defer tax on the sale of a partnership or S corp interest.

Making cash QOF eligible. For a taxpayer to claim QOF benefits, they have to reinvest an amount equal to or less than capital gains they have taken in the last 180 days. Fortunately, unlike 1031 exchanges, QOF investments do not require the exact funds received from the capital gain. There is no cash tracing requirement, which can be very helpful for an investor with liquidity. If an investor would like to benefit from QOF tax incentives but currently only has cash that is not eligible, they could trigger a gain elsewhere in their portfolio. For example, an investor could sell a stock with a low-cost basis and buy it back immediately. Their money will now be eligible for a QOF tax incentive for the next 180 days – up to the amount of the triggered capital gain. Additionally, they will have eliminated the unrealized capital gain liability from their stock position. This transaction would not be subject to wash sale rules because those apply to harvesting tax losses, not gains.

Socially responsible investing. The idea behind the very generous QOF tax incentives is to drive capital into low-income neighborhoods to energize their local economies. Qualifying investments must include either new ground-up construction or the substantial improvement of an aging property. A QOF cannot simply buy an existing building in a designated opportunity zone, for instance. QOFs are creating jobs and driving economic activity in the areas that need it most, addressing one of the biggest problems facing the United States today which is economic disparity.

Improving Access to QOF Tax Incentives

No lockup – It is your money. Unlike most QOFs, we do not have a 10-year lockup. We have no penalty for leaving early or staying invested for decades. Many investors do not know if they might need access to their funds in the next ten years. This concern has kept many investors from participating in this powerful tax incentive. Having unrestricted publicly traded shares allows our investors to participate in opportunity zone benefits with confidence.

Eliminating high investment minimums. Most QOFs have high investment minimums similar to the traditional real estate partnerships they are patterned after. To attain QOF tax incentives even cash-rich investors can only invest the proceeds of recent capital gains, making achieving these minimums difficult. An investor with a capital gain of $10,000, $40,000 or even $80,000 might have trouble investing the minimum contribution at most funds. Park View OZ's public shares allow investors to participate with a minimum of $10,000 through our subscription agreement or by purchasing as little as one share on the open market.

Relief from investor accreditation requirements. Most of the investing public would not qualify as accredited investors. Even if you are accredited, you may not want to go through the potentially invasive financial disclosures to prove it. Fortunately, there are publicly traded QOFs you can buy and sell in any brokerage account without the accreditation requirement. Public trading is not offered by most QOFs because it requires navigating a significantly more robust and lengthy Securities and Exchange Commission vetting process; however, Park View OZ has successfully completed this process, making its shares available for public trading.

Eliminating K-1 tax forms. K-1 tax forms are notoriously difficult, and the information needed to file them in a timely fashion often becomes available to investors late, forcing them to file a tax extension. To make matters worse, in diversified funds, the owner can receive separate K-1s for each state in which the fund owes tax plus their home state. K-1 forms are distributed to investors

in pass-through entities which is how all QOFs are set up because the structure maximizes tax efficiency. There is one type of pass-through entity that does not issue K-1 tax forms, a real estate investment trust (REIT). A REIT is a corporation that is taxed like a partnership. Their corporate status means that shareholders receive a single, easier, and more familiar 1099-DIV form.

This greatly simplifies a QOF investor's tax filings. While most QOFs are partnerships, some QOF REITs are also available.

As always, these strategies only work if the underlying fund performs, so it is crucial to understand a fund's strategy, management, and fees.

Given the significant tax savings they can deliver and the many ways they can be utilized, qualified opportunity funds (QOFs) are likely to continue to gain prominence as a financial planning tool every investor and advisor should examine when designing a tax-efficient financial strategy.

Please Keep in Mind:

- Not all qualified opportunity funds (QOFs) offer investors the holding period control they will need for many of these strategies.
- This article discusses potential federal tax benefits, but note that most states offer benefits to QOF investors as well.
- Legislation is expected to be introduced which would extend qualified opportunity fund tax incentives with the deferral benefit being extended. It would also bring back the currently expired 5% and 10% tax elimination incentives on the original investment and potentially extend the 100% capital gain elimination beyond 2047. The program is widely regarded as having a strong likelihood of being extended and enhanced in the next congress; however, the final provisions and timing of enactment remain uncertain. Current QOF investors are anticipated to benefit from the potential extension if approved.

There are two ways shares can be purchased with Park View OZ:

- Shares can be bought through our subscription agreement, which offers a fixed price of $100 a share.
- They may be purchased under the stock symbol "PVOZ" through a brokerage account at a price that fluctuates with the market.

The shares of stock and tax benefits are identical regardless of how they are acquired. We recommend you review our offering circular before making a purchase.

To learn more please visit us at www.parkviewozreit.com.

These pages are prepared for informational purposes only and are not offered as legal, tax, or investment advice. All content provided is of a general nature and does not address the particular circumstance of any particular individual or entity. We encourage you to seek guidance regarding your individual financial needs from legal, tax or investment professionals. Investments, including our shares of stock, have inherent risks including the risk of principal loss.