



opportunity zones overview

MSK Client Alert

April 19, 2019

On April 17, 2019, the highly anticipated, second round of proposed regulations (the "April 2019 Proposed Regulations") were finally issued, and taxpayers were rewarded for their patience.

The primary tax benefit for a qualifying investment in a QOF is the investor's ability to step up his or her QOF investment basis to FMV if a 10-year holding period is met. The plain language of the statute appears to limit the benefit of the basis step-up to the equity interest in the QOF itself, but not the QOF's assets.

However, in the case of a QOF that is organized as a partnership, the April 2019 Proposed Regulations generously extend the FMV basis step-up benefits to the QOF partnership's assets where the investor has satisfied the 10-year holding period. First, if the investor sells or otherwise exchanges a QOF partnership interest that has been held for at least 10 years, then immediately prior to the sale or exchange, the basis of the investor's proportionate share of the QOF partnership's assets (including unrealized receivables and inventory) are also adjusted to FMV (similar to a section 743(b) adjustment) in addition to the FMV basis step-up in the QOF partnership interest.

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