

# THE ULTIMATE TAX BREAK

Investors who plow a 2018 capital gain into an opportunity fund get three tax breaks: deferral of tax on their 2018 gain until 2026; a 15% reduction on those gains when they are taxed in 2026; and tax-free growth of their opportunity investment, as long as they hold it for at least ten years. Results for residents of New York City, who can save state and local taxes by investing in an O-fund, are shown in blue, while those for residents of Texas (one of the seven states without a state income tax) are in red. Note: Not all states with income taxes will match the O-fund break. Taxes for 2028 are calculated with the assumption that the Trump tax changes will be extended. —Janet Novack



2018

## Conventional Investment

  
**\$1,000,000**  
 Long-term gain realized on stock sale

## O-zone Investment

Pay tax on \$1 million gain  
**Texan** **New Yorker**  
 -\$238,000 -\$364,960

Funds left to invest  
**Texan** **New Yorker**  
 \$762,000 \$635,040

Buy new taxable investment that appreciates 8% a year

Invest \$1 million gain in opportunity fund  
**First tax break:**  
 All gains tax is deferred until 2026

2026

**Second tax break:**  
 \$1 million initial taxable gain is reduced to \$850,000

Leave money in O-fund and from outside funds pay deferred tax on \$850,000  
**Texan** **New Yorker**  
 -\$202,300 -\$310,216

2028

After 10 years it grows to:  
**Texan** **New Yorker**  
 \$1,645,101 \$1,371,004

Sell investment and pay long-term capital gains tax  
**Texan** **New Yorker**  
 -\$210,178 -\$268,597

Conventional investor is left with:  
**Texan** **New Yorker**  
 \$1,434,923 \$1,102,407



After 10 years of appreciating at 8% a year, \$1 million O-fund investment is now worth:  
**\$2,158,925**

**Third tax break:** Appreciated O-fund holding is sold with no capital gains tax due

Subtract tax paid in 2026 and lost earnings on those 2026 tax payments  
**Texan** **New Yorker**  
 -\$227,716 -\$342,537

Investor in O-fund is left with:  
**Texan** **New Yorker**  
 \$1,931,209 \$1,816,388

