CANTOR
PERSPECTIVES

April 1, 2025

QOZ Program Considerations Surrounding the Expiration of the Tax Cuts and Jobs Act and Meeting the Deferred Tax Liability

With the conclusion of the Qualified Opportunity Zone Program approaching, what do financial advisors and investors need to know?

The **Qualified Opportunity Zone Program ("QOZ Program"),** made available under the 2017 Tax Cuts and Jobs Act ("TCJA"), is a tax advantaged investment opportunity continuing to attract significant capital from high net worth and institutional investors. The QOZ Program was created to encourage investment in designated communities across the U.S. by providing certain tax incentives in return for committing long-term capital to these communities through investment vehicles known as Qualified Opportunity Funds ("QOFs").

Since its inception in 2017, the QOZ Program has attracted substantial investment. In surveys, QOFs have reported raising over $40 billion in equity as of year-end 2024. This figure represents as little as one-third of the total QOF capital raised, implying more than $120 billion in actual investment.[1] This estimate far exceeds early projections, indicating strong investor appetite.

Potential Tax Benefits of Investing in a QOF

The potential tax benefits of the QOZ Program apply to federal income taxes and are available in most states (see specific guidelines for appropriate state of residence). **The primary tax benefits fall into two categories, deferral and elimination, with the latter being potentially more impactful.**

Deferral

Generally, if a taxpayer invests the capital gain from the sale of a qualifying asset into a QOF within the qualifying timeframe, taxes on such proceeds may be deferred until the earlier of December 31, 2026[2] or the disposition of the QOF interest.

Elimination

Investors who hold their investment for at least ten years receive a step-up in basis which means they pay no tax on the appreciation of their QOF investment upon disposition (so long as such disposition occurs prior to January 1, 2048), regardless of the size of the potential profit.[3] In addition, the step-up in basis eliminates any depreciation recapture tax that would otherwise be owed upon sale, multiplying the tax benefit.

Keeping it Simple

Comparing a QOF to a ROTH IRA may be a worthwhile way to think about the primary tax benefit. Despite several differences between a ROTH IRA and a QOF, the treatment of the growth of after-tax monies deserves thoughtful consideration. With a ROTH IRA, contributions are made with after-tax money, meaning you've already paid taxes on the money before depositing them into the account. As a result, the growth of these contributions and any withdrawals of contributions are typically tax-free, provided certain conditions are met. With a QOF, the original gain is recognized in 2026, thus becoming after-tax money. Any appreciation on those after-tax monies becomes tax-free upon exit provided the QOF is held the required amount of time and the QOF and its subsidiaries meet all of the relevant tests during the life of the QOF.

Meeting the Deferred Tax Liability

As powerful as the elimination tax benefit may be, having a plan to meet the deferred tax liability due in 2027 is paramount. Many QOFs, especially ones that have been in existence for a few years, may have a portfolio of projects that have been built, leased up, and are generating consistent cash flow. Those QOFs may be able to replace the construction financing with permanent debt and, as a result, make a non-taxable refinancing distribution to help investors meet their deferred tax liability. More recently launched QOFs may not have that ability as the construction to stabilization to refinancing timeline will often extend beyond the first quarter of 2027, when the deferred tax is due.

Investors may have ample liquidity in their portfolio to pay the tax in 2027. For investors who don't, there are two other options to consider:

1. Investors could look to harvest capital losses in their portfolios and combine with any other carry forward losses previously realized. These losses can offset some or all of the deferred gain originally invested in the QOF if the deferred gain was capital gain.
2. An investor can decrease the amount they invest in the QOF upfront, creating liquidity that can be invested and earmarked for the deferred tax liability in 2027. To better understand this concept please review the illustration below:

Hypothetical Scenario: Decreased Upfront QOF Investment[3,4,5]

Assume an individual was considering investing $1 million in a QOF but was concerned with meeting the deferred tax liability in 2027 and didn't have material carry forward losses or unrealized losses in their investment portfolio. Assuming tax rates don't change, the investor faces a tax liability of $300,000 in 2027 ($1 million x 30% = $300,000).

Instead of investing $1 million in the QOF:

- the individual could reduce his initial investment to $713,025 (reducing the future tax liability at a 30% tax rate to $213,908) while recognizing the tax on the remaining $286,975 not invested in the QOF in the current year.
- net of a 30% tax on the $286,975, the individual is left with $200,882 which can be invested in a low-risk security earning around 5% compounding through April 15, 2027, netting $213,908 which can then be used to pay the deferred tax on the QOF investment.

Original Capital Gain from sale of prior investment		$1,000,000
Amount Invested in QOF assumed to be made on December 31, 2024		$713,025
2026 Tax Liability Paid in 2027 at 30% Tax Rate	⊜	$213,908
Taxable Amount from Original $1,000,000 Gain		$286,975
Taxes Owed at 30% Tax Rate	⊖	$86,092
After Tax Investable Amount	⊜	$200,882
Compounded After Tax Annual Return Rate	⊗	5.00%
Proceeds to Pay 2027 Deferred Tax Liability	⊜	$213,908
Additional Proceeds Required to Pay Deferred Tax Liability in 2027	⊜	**$0**

Outlook for Extension and Improvements: Toward "OZ 2.0"

As of now, new investments in QOFs will only be accepted until December 31, 2026. However, there is growing bipartisan momentum in Washington to extend and enhance the QOZ Program, especially with key provisions of the TCJA set to expire at the end of 2025.

This proposed legislation (often dubbed "OZ 2.0") includes a suite of reforms to extend the deferred tax recognition date, and strengthen the incentive's impact and accountability.

There is still time to participate in the QOZ Program to realize the potentially lucrative tax benefits offered, whether or not it gets extended. In addition, investors with K-1 partnership realized gains on or after January 1, 2024, and January 1, 2025, have until September 11, 2025, and September 11, 2026, respectively, to complete an investment in a QOF.

Even if new investments were to cease after 2026, the tax advantages and current attractive entry points in the CRE market make investing in QOFs during the 2025–2026 window a compelling strategy. Carefully weigh the considerations and consult with a financial professional to determine if a QOF investment aligns with your investment strategy.

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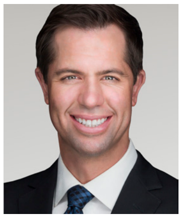
For additional information about the Qualified Opportunity Zone Program, visit www.cantorassetmanagement.com or contact Cantor Fitzgerald Asset Management at (855) 9-CANTOR or cfsupport@cantor.com.



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[1] Novogradac, "QOFs Tracked by Novogradac Surpass $40 Billion in Equity at End of 2024," February 3, 2025. (https://www.novoco.com/notes-from-novogradac/qofstracked-by-novogradac-surpass-40-billion-in-equity-at-end-of-2024).

[2] A 10% step-up in basis was available for investments made prior to December 31, 2021, and an additional 5% step-up in basis was available for investments made prior to December 31, 2019.

[3] Assumes that the investor is a resident of a state that conforms with the QOZ Program or a no state income tax state, otherwise the investor will owe tax on any realized gain in investor's state.

[4] This illustration assumes that the investor invests on January 1, 2024, and is subject to the top marginal U.S. federal income tax rate of 20% on long-term capital gains for individuals, the net investment income tax of 3.8% and a state tax of 6.2% for a total tax liability of 30%. No brokerage or investment advisory fees are accounted for with respect to the example.

[5] This assumes that the QOF investor is a resident of a state that conforms with the QOZ Program. The state and local income tax consequences of investing in a Qualified Opportunity Fund are complex and may vary depending on each investor's particular tax situation. While some states have adopted the QOZ Program (including through conformities with U.S. federal income tax legislation), some states have not conformed to the QOZ Program. In addition, in some cases, the legislatures of states that currently conform to the QOZ Program have introduced legislation that, if enacted, would modify or terminate such conformity. Investors residing in non-conforming states may be unable to defer state income tax on the eligible capital gains invested in a Qualified Opportunity Fund and may also be required to recognize gain for state income tax purposes on their eventual sale of interests in a Qualified Opportunity Fund (or capital gain dividends attributable to sales of property by such fund), even if such gain would otherwise be entitled to the permanent exclusion under the QOZ Program. Investors are urged to consult with their tax advisors in evaluating the amount of state and local income tax, if any, such investors may be subject to in light of their particular tax situation.

[6] Assumes that the investor has no capital losses to reduce such capital gain and refers to the inclusion of the original, invested capital gains in such investor's taxable income on December 31, 2026. Also assumes that there is no early withdrawal in the QOF investment, which would result in additional tax drag; an investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration does not reflect these factors.

[7] Cantor Fitzgerald refers to Cantor Fitzgerald L.P. and all its affiliates and subsidiaries.

All investments involve risk, and the realization of the benefits is dependent on proper structuring and the structure and performance of the future investments selected. Not all investments will provide all of these benefits.

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Risk Factors

There is no guarantee of success. Investors could incur a loss of all or a portion of their investment. Risk factors include, but are not limited to, the following:

- Investors in QOFs will need to hold their investments for certain time periods in order to receive the full QOZ Program tax benefits. A failure to do so may result in the potential tax benefits to the investor being reduced or eliminated.
- If a fund fails to meet any of the qualification requirements to be considered a QOF, the anticipated QOZ Program tax benefits may be reduced or eliminated. Furthermore, a fund may fail to qualify as a QOF for non-tax reasons beyond its control, such as financing issues, zoning issues, disputes with co-investors, etc.
- Distributions to investors in a QOF may result in a taxable gain to such investors.
- The tax treatment of distributions to holders of interests in a QOF are uncertain, including whether distributions impact the aforementioned QOZ Program tax benefits.
- A QOF must make investments in Qualified Opportunity Zones, which carries the inherent risk associated with investing in economically depressed areas.
- Any additional legislation or administrative guidance may reduce or eliminate the expected potential QOZ tax benefits or increase the burden of compliance with the QOZ Program.
- Investors in a QOF may not be able to take advantage of the QOZ Program's tax benefits if they do not properly make a deferral election on IRS Form 8949.
- A QOF may encounter significant opposition from local communities, political groups, or unions, which may damage their goodwill and reputation and adversely affect operations.
- An investment in a QOF is speculative, illiquid, and involves a high degree of risk. This is no guarantee that investors will receive any return.

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