Deferral of Gain Invested in a Qualified Opportunity Fund (QOF)

If you realized a gain from an actual or deemed sale or exchange with an unrelated person and, during the 180-day period beginning on the date the gain is realized, you invested any portion of the gain in a QOF, then you may be able to elect to temporarily defer such eligible capital gain that would otherwise be includible in the current tax year's income. If you make the election, the eligible capital gain is included in taxable income only to the extent, if any, the amount of realized gain exceeds the aggregate amount invested in a QOF during the 180-day period.

A taxpayer may elect to temporarily defer a qualified section 1231 gain (gains derived from the sale of property used in a trade or business, including gains from installment sales and like-kind exchanges) by investing the amount of the eligible gain into a QOF. Qualified section 1231 gains are eligible to be invested into a QOF to the extent the section 1231 gain exceeds any amount that is treated as ordinary income due to depreciation recapture as required by sections 1245 and 1250. Sections 1245 and 1250 gain may not be deferred into a QOF. For more information, see section 1400Z-2 and the related regulations.

How to report. Report the gain including any depreciation recapture required by sections 1245 and 1250 as it would otherwise be reported if you were not making the election. Then, on Form 4797, line 2, report the qualified section 1231 gains you are electing to defer as a result of an investment into a QOF within 180 days of the date sold. If you are reporting the sale directly on Form 4797, line 2, use the line directly below the line on which you reported the sale. In column (a), identify the section 1231 gains invested into a QOF as "QOF investment to Form 8949"; columns (b), (c), (d), (e), and (f) will remain blank. Report the amount of section 1231 gains invested into a QOF as a negative amount (in parentheses) in column (g).

For example, if a taxpayer realizes $300,000 of section 1231 gains in a tax year but chooses to defer $75,000 of section 1231 gains by investing those gains into a QOF within 180 days of the date of sale, the taxpayer would enter "QOF investment to Form 8949" in column (a) and enter ($75,000) in column (g).

Similarly, if the taxpayer disposed of an investment in a QOF during the tax year triggering recognition of section 1231 deferred gains, the taxpayer should report the gain on a separate row in line 2, enter "QOF inclusion from section 1231 gains" in column (a), and report the $75,000 of previously deferred and currently recognizable section 1231 gains as a positive number in column (g).

Make the election for the deferred amount invested in a QOF on Form 8949. See the Instructions for Form 8949. If you held a qualified investment in a QOF at any time during the year, you must file your return with Form 8997 attached. See the instructions for Form 8997. For more information about QOFs, see *IRS.gov/Ozfaqs*.

Exclusion of Gain From Sale of DC Zone Assets

If you sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that you acquired after 1997 and before 2012, and held for more than 5 years, you may be able to exclude the amount of "qualified capital gain." This exclusion applies to an interest in, or property of, certain businesses operating in the District of Columbia.

DC Zone asset. A DC Zone asset is any of the following.

- DC Zone business stock.
- DC Zone partnership interest.
- DC Zone business property.

Qualified capital gain. The qualified capital gain is any gain recognized on the sale or exchange of a DC Zone asset that is a capital asset or property used in a trade or business that you would otherwise include on Form 4797, Part I. It does not include any of the following gain.

- Gain treated as ordinary income under section 1245.
- Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation.
- Gain attributable to real property, or an intangible asset, which is not an integral part of a DC Zone business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.
- Gain attributable to periods after December 31, 2016.

See section 1400B (as in effect before its repeal) for more details and special rules.

How to report. If applicable, report the entire gain realized from the sale or exchange as you otherwise would without regard to the exclusion. To report the exclusion, enter "DC Zone Asset Exclusion" on Form 4797, line 2, column (a), and enter as a (loss) in column (g) the amount of the exclusion that offsets the gain reported on Part I, line 6.

CAUTION *Any unrecaptured section 1250 gain is not qualified capital gain. Identify the amount of gain that is unrecaptured section 1250 gain and report it on the Schedule D for the return you are filing.*

Exclusion of Gain From Qualified Community Assets

If you sold or exchanged a qualified community asset acquired after 2001 and before 2010, you may be able to exclude the "qualified capital gain." The qualified gain is, generally, any gain recognized in a trade or business that you would otherwise include on Form 4797, Part I. This exclusion also applies to an interest in, or property of, certain renewal community businesses. See sections 1400F(c) and (d) (as in effect before their repeal) for special rules and limitations.

Qualified community asset. A qualified community asset is any of the following.

- Qualified community stock.
- Qualified community partnership interest.
- Qualified community business property.

Qualified capital gain. Qualified capital gain is any gain recognized on the sale or exchange of a qualified community asset that is a capital asset or property used in a trade or business. It does not include any of the following gains.

- Gain treated as ordinary income under section 1245.
- Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation.
- Gain attributable to real property, or an intangible asset, that is not an integral part of a renewal community business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.
- Gains from periods after December 31, 2014.

See section 1400F (as in effect before its repeal) for more details and special rules.