CASE STUDY: REAL ESTATE & CONSTRUCTION

Cherry Bekaert Tax Services Help Real Estate Company Optimize Investments, Save Tax Dollars

Client
Nationwide Real Estate Company

Our Role
Tax Services

In 2019, a qualified opportunity fund (QOF) within a large real estate holding company (the Company) invested in a qualified opportunity zone business (QOZB), which purchased land for development opportunities. With the disruption of COVID-19, and the various obstacles the pandemic brought to the construction industry, the business decided to sell the property in 2022. The Company turned to Cherry Bekaert to understand the tax implications of the sale.

Cherry Bekaert
Your Guide Forward

Situation

In 2019, a qualified opportunity zone fund raised $5M of capital to invest in a QOZB, which purchased 2.43 acres of land in Myrtle Beach, South Carolina, with the intention of building a 12-unit multi-family property. The COVID-19 pandemic brought rising construction costs, increased interest rates and construction costs and supply chain issues. In 2022, the entity decided to forgo the property development and sell it instead.

The sale of the property, and related cash distribution, is an inclusion event for QOF investors. An inclusion event can trigger the immediate recognition of gain that would otherwise be deferred until 2026. The Company, which had worked with Cherry Bekaert for more than eight years, turned to the Firm to understand its options and the related tax implications.

Guidance

Our professionals helped the Company evaluate its options. We identified the most tax efficient structure to be a reinvestment of sale proceeds at the QOF level, rather than a distribution of the proceeds to investors. The QOF then has 12 months to invest the proceeds into another QOZB.

Results

$ 1 Million
Saved in Tax Dollars

Two-Year Gain Deferment
2019 Holding Period Maintained

The QOF reinvested the sale proceeds into two new QOZB investments, which saved the investors over $1M in taxes. Additionally, because the QOF made the reinvestment, the holding period, which began in 2019, was maintained rather than starting a new 10-year holding period requirement. In addition to maintaining the holding period, the 5% step up in basis was preserved.

Company Background

The Company is a real estate private equity firm with over 50 professionals focused on acquisition, financing and development. The Company has raised over $1B of tax equity to support more than $2B in related projects across the United States. Over the past decade, the Company has leveraged its expertise in the use of tax credits and related incentives to bring real estate directly to investors.

The Company is headquartered in Missouri, with properties and real estate deals across the country.

Related Guidance

Case Study:
Utilizing Opportunity Zones to Maximize Your Investment

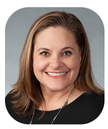
Article:
The Evolving Opportunity Zone Fund: Where Are We Now?

Case Study:
Optimizing Tax Incentives for Real Estate & Construction Firms

Case Study:
Section 45L Tax Credit Saves Real Estate Construction Firm Over $350,000

Case Study:
Protecting Family Assets and Future Generations with Proactive Estate Planning

For More Information Contact:



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About Cherry Bekaert

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