

Understanding How Fair Market Value May Impact 2026 Tax Liability

Investors that reinvest capital gains into a Qualified Opportunity Fund (“QOF”) will generally be required to recognize deferred capital gains on December 31, 2026. However, under current opportunity zone rules, the taxable amount may be based on the **lesser of:**

The investor’s original deferred gain

The Fair Market Value (“FMV”) of the QOF investment at the recognition date

This is where IRS Revenue Ruling 59-60 becomes important.

What Is Revenue Ruling 59-60?

Revenue Ruling 59-60 is the IRS framework commonly used to determine the FMV of closely held business interests and illiquid investments, like QOFs.

THE RULING GENERALLY CONSIDERS FACTORS SUCH AS:

- Nature and financial condition of the business
- Current and projected earnings
- Asset values and liabilities
- Market conditions and comparable transactions
- Liquidity constraints and transfer restrictions
- Minority ownership characteristics

Why This Matters for QOF Investors

Certain QOF investments—particularly those involving ground-up development or major redevelopment—may experience periods where appraised FMV is impacted by:



Construction or development timelines



Delayed stabilization



Lease-up risk



Market dislocation or changing economic conditions



Interest rate environments

Under appropriate circumstances, an independently supported valuation completed on a QOF during 2026 may result in an FMV below the investor’s original deferred gain amount — **potentially reducing the taxable amount recognized in 2026, while still retaining the long-term tax exclusion benefits for QOF gains held for 10+ years.**

The Importance of **Defensible Valuation Practices**

The IRS requires valuations to be credible, supportable, and consistent with established appraisal standards.

For QOF investors, this means that valuation methodology and proper documentation from a qualified third-party appraisal matter.

In opportunity zone investing, valuation is not simply an accounting exercise — it can directly impact the preservation of investor tax benefits.

Why **Sponsor Selection Matters**

Because QOF investments are long-term, operationally intensive investments with strict compliance requirements, sponsor and manager selection can play a meaningful role in helping preserve intended tax benefits.

EXPERIENCED QOF SPONSORS MAY HELP SUPPORT:

01 Proper **fund structuring and compliance**

02 Independent third-party **valuation processes**

03 Accurate **financial reporting**

04 Documentation needed for **tax and audit support**

05 **Ongoing operational oversight** throughout the investment lifecycle

Opportunity Zone investments involve material risks, including illiquidity, development risk, market risk, and potential loss of principal. This information is not intended to be, nor should it be construed or used as, financial, legal, tax or investment advice or an offer to sell, or a solicitation of any offer to buy or sell an interest in any private placement. Investors should consult with qualified tax, legal, and valuation professionals regarding their specific situation.

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