

Redefining Success When an Opportunity Zone Investment Fails



CLIENT

California-Based Limited
Liability Company



INDUSTRY

Real Estate
Opportunity Zone Funds



CHERRY BEKAERT SERVICES

Tax Services Tax Consulting
Modeling Services

A business entity (the Company) based in Los Angeles, California, invested in an Opportunity Zone (OZ), which provides federal incentives for projects intended to revitalize low-income communities around the country. The Company intended to develop a real estate project in an OZ that consisted of residential apartments and a hotel.

After working with a developer that mismanaged the project, the Company faced bankruptcy. The Company engaged Cherry Bekaert's [Opportunity Zones team](#) to help navigate the tax implications of an OZ business insolvency.

Mitigating Negative Consequences

The OZ program, found in Sections 1400Z-1 and 1400Z-2 of the Internal Revenue Code (IRC), is intended to revitalize low-income or economically disadvantaged areas by providing investors with tax incentives, including:

- ▶ The ability to defer recognition of gains on sales of assets
- ▶ Permanently reducing a portion of the deferred gain to be recognized
- ▶ Permanently exempting any future gain with respect to reinvested proceeds

Failure of OZ businesses can also negatively impact the local economy, hindering economic growth and job creation. Community and individual investors also face the loss of their investment.

The Company was able to complete the construction on the residential units but was unable to construct the hotel due to cost overruns and a lack of increased funding. This, in addition to other delays, had a negative impact on the Company's fiscal state that eventually led to business failure.

In an effort to keep the project viable, the Company had previously utilized Cherry Bekaert's tax and accounting services and partnered with our professionals for additional consulting on available credits and incentives, as well as tax saving measures such as cost segregation and 179D strategies. Upon realization that the project would not reach fulfillment, the OZ team helped the Company understand the impact to the investors and what options may exist at the QOF and/or investor level.

Leveraging Tax Savings

Cherry Bekaert helped the Company make the best of a challenging situation by assisting and educating them each step off the way. Our professionals provided the Company with an estimate of their cancellation of debt income, allocations among members with respect to guarantees, estimates of the inclusion event and the impact on investors relative to their original gain deferral.

Guiding You Through Uncertainty

Our OZ team understands the unique challenges and opportunities of investing in Opportunity Zones. We are equipped to work with business owners to avoid personal financial difficulties and to navigate the potential impacts of OZ investment failure. Our professionals can assist with:

- ▶ Identifying new investment opportunities
- ▶ Learning from failure to make better future investment decisions
- ▶ Investment planning
- ▶ Organizing and structuring funds for qualification under OZ rules

With extensive knowledge in tax, accounting, transaction structuring and compliance issues, we can provide the guidance and support you need. Contact us to see how our team can help you navigate OZ opportunities and failures.

Related Insights

- ▶ Webinar Recording: [Exit Planning 101: How to Plan for the Endgame in Opportunity Zone Investing](#)
- ▶ Webinar Recording: [Investing in Tomorrow: Exploring Opportunities in TOZs](#)
- ▶ Case Study: [Cherry Bekaert Tax Services Help Real Estate Company Optimize Investments, Save Tax Dollars](#)
- ▶ Webinar Recording: [Common Pitfalls Involving the Opportunity Zone Working Capital Safe Harbor](#)
- ▶ Article: [Tax Considerations When Disposing of Qualified Opportunity Zone Business Property](#)
- ▶ Article: [Top 3 Tax-Efficient Strategies for Deferring Real Estate Gains](#)

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