

Opportunity Zones 2.0

A permanent framework for converting realized gains into long-duration, tax-advantaged investment

The core idea: Opportunity Zones were created in the 2017 Tax Cuts and Jobs Act (TCJA) to encourage long-term private investment in economically distressed communities, which were nominated by state governors and certified by the U.S. Department of the Treasury. The original Opportunity Zone program, known as OZ 1.0, designated census tracts and created a market-driven incentive through significant tax benefits to investors, primarily through Qualified Opportunity Funds. The 2025 reconciliation law made the program permanent and, beginning in 2027, replaces the original fixed deadline with a rolling five-year deferral, refreshed zone maps every ten years and enhanced incentives for rural investment.^{[1][4]} The program offers several tax incentives:

1

DEFER

Reinvest an eligible realized gain in a QOF within the applicable 180-day period. Under OZ 2.0, recognition generally occurs at the earlier of an inclusion event or five years after investment.

2

REDUCE

At the five-year mark, basis increases by 10% of the original deferred gain - effectively excluding 10%. A qualified rural opportunity fund receives a 30% basis increase.

3

EXCLUDE

After a 10-year holding period, an investor can generally elect to eliminate federal tax on post-investment appreciation. OZ 2.0 preserves the benefit with a 30-year fair-value cap.

The most important investor change in OZ 2.0

The tax benefit is no longer tied to a single national 2026 recognition date. A qualifying investment made on or after January 1, 2027 generally receives its own five-year deferral period, followed by the 10% basis increase (30% for a qualified rural opportunity fund), while the 10-year appreciation exclusion remains intact.^{[4][5]}

Treasury Notice confirms eligible gains realized before December 31, 2026 can be deferred by investing in a QOF on or after January 1, 2027 within the standard 180-day window - meaning a gain triggered in the second half of 2026 can be pulled into OZ 2.0 and capture the above benefits.

Why Investors Pay Attention

More capital stays invested Rather than paying tax immediately on an eligible realized gain, the full qualifying gain can be placed into a QOF, subject to the program rules.	The reward is back-ended The defining economic benefit is the ability to exclude qualifying post-investment appreciation after a 10-year hold.
Real estate can add a second tax layer Depreciation - including 100% bonus depreciation for eligible short-life components - can generate deductions during ownership, separate from the OZ incentive itself.^[7]	Exit treatment can be unusually powerful For qualifying pass-through QOF structures, current final regulations can allow eligible asset-sale gains after 10 years to be excluded, including depreciation-recapture gain, subject to the election and other requirements.^[8]

PART 1 | FROM POLICY EXPERIMENT TO INSTITUTIONAL-SCALE MARKET

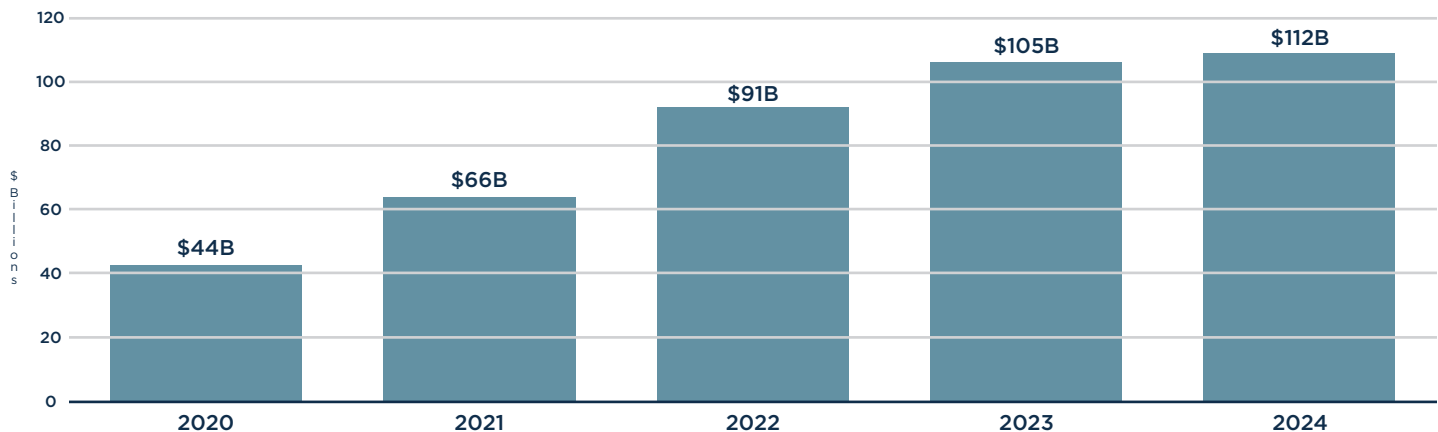
OZ 1.0: The 2017 experiment reached meaningful scale

The policy concept grew out of work focused on unlocking private capital for communities that had not participated fully in the post-financial-crisis recovery. EIG published an early policy framework in 2015; bipartisan legislation followed in 2016; Congress enacted Opportunity Zones in the TCJA in December 2017; and Treasury certified 8,764 census tracts in 2018.^{[1][2]}

How OZ 1.0 Came Together

2013-15 EIG develops the policy concept and publishes its private-capital framework.	2016 Investing in Opportunity Act introduced with bipartisan sponsorship.	2017 TCJA creates Qualified Opportunity Zones and Qualified Opportunity Funds.	2018 Governors nominate; Treasury certifies 8,764 zones nationwide.	2019-24 QOF capital scales across real estate and operating-business investments.
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Qualified Opportunity Zones properly held by QOFs



Source: U.S. Treasury, Office of Tax Analysis, Working Paper 128 (June 2026)

\$112B QOZ property held by QOFs at year-end 2024	77% of designated 50-state/DC tracts had received qualified investment	12,800 QOFs reporting in 2024	85% of Forms 8997 were filed by individuals
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What OZ 1.0 Taught the Market

- The incentive was large enough to influence capital allocation: qualifying property grew from \$44 billion in 2020 to \$112 billion in 2024, even after the five-year basis-step-up deadline passed.^[2]
- The investor base was predominantly individual: about 85% of Forms 8997 were filed by individuals, and the typical individual filer using the incentive had 2024 AGI of approximately \$738,000 versus \$54,000 for a typical e-filed Form 1040 taxpayer.^[2]
- Real estate became the dominant use case. Treasury reports that real estate remained the principal industry represented by QOZ property, while research finds meaningful housing-supply effects in designated communities.^{[2][3]}
- The fixed 2026 recognition date created timing cliffs: investors had to invest by the end of 2021 to preserve the original 10% five-year basis step-up, reducing the value of the program for later entrants.^[2] There were approximately 38,000 investors by tax year 2021 and only approximately 3,000 new taxpayers entered between 2021 and 2024 once the five-year step up expired.

A useful distinction: OZ 1.0 was not a tax credit. Investors received tax benefits only by putting capital at risk in a QOF, meeting program requirements and - for the most valuable exclusion - remaining invested for at least ten years.

PART II | THE 2027 RESET

OZ 2.0: Permanent, rolling and more targeted

Public Law 119-21 converted Opportunity Zones from a one-time program into a permanent framework. Beginning in 2027, new investments receive individualized five-year deferral periods, while states will nominate a refreshed set of zones every ten years. The statute also narrows geographic eligibility, removes the former contiguous-tract pathway and adds materially stronger rural incentives.^{[4][5]}

OZ 1.0 vs. OZ 2.0

Feature	OZ 1.0	OZ 2.0 (investments after 12/31/26)
Program duration	One-time designation round	Permanent; new designation rounds every 10 years
Gain deferral	Earlier of disposition/inclusion event or Dec. 31, 2026	Earlier of disposition/inclusion event or 5 years after investment
Five-year basis increase	10% (with former 15% benefit at 7 years)	10% standard; 30% for qualified rural opportunity funds
10-Year appreciation	Qualifying post-investment appreciation excluded	Preserved; basis election generally available after 10 years
Benefit limit	Benefit generally available for dispositions before 2048 under original rules	FMV basis election is capped at value on 30-year anniversary
Geography/Reporting	Broader LIC test; contiguous tract rule; limited statutory reporting	Tighter LIC criteria; contiguous rule repealed; expanded mandatory reporting

The 2027 Investment Clock is now Investor-Specific

REALIZE Eligible capital gain	0-180 DAYS Invest corresponding amount in QOF	YEAR 5 Deferred gain recognized; 10%/30% basis increase applies	YEAR 10+ Eligible post-investment appreciation can be excluded	YEAR 30 FMV for the special basis election is fixed at 30-year value
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A Deliberate Rural Premium

OZ 1.0 Capital was disproportionately urban

Share of OZ Designations	62% Urban	38% Rural
Share of OZ Capital	84% Urban	16% Rural

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EIG’s analysis of Treasury data shows while rural tracts were no less likely to receive investment, they typically attracted smaller projects and less respective capital. Roughly 38% of OZ 1.0 designations were rural but only received about 16% of total capital. Average investment in an invested rural tract was roughly one-third of the urban average. Congress added a rural premium in OZ 2.0 with a 30% five-year basis increase for qualified rural opportunity funds and a lower substantial-improvement threshold for rural property (50% rather than 100% of adjusted basis).^{[4][6]}

PART III | INVESTOR MECHANICS

How the Tax Benefits work for an Investor

A Qualified Opportunity Fund is an investment vehicle organized as a corporation or partnership for the purpose of investing in qualified Opportunity Zone property and generally must satisfy a 90% asset test. For investors, the program should be understood as three separate federal tax effects - each with its own timing and conditions.^[4]

1

DEFER THE ORIGINAL GAIN

An eligible realized gain can generally be reinvested in a QOF within the applicable 180-day window. For investments made on or after January 1, 2027, the deferred gain is generally recognized at the earlier of an inclusion event or five years after the QOF investment.

2

REDUCE THE ORIGINAL GAIN

If the investment is held for five years, basis increases by 10% of the original deferred gain, reducing the amount ultimately recognized. For an investment in a qualified rural opportunity fund, the five-year basis increase is 30%.

3

EXCLUDE NEW APPRECIATION

After the QOF investment has been held for at least ten years, the investor can generally elect a basis adjustment that eliminates federal income tax on qualifying appreciation generated by the OZ investment. OZ 2.0 preserves this exclusion, subject to a 30-year fair-market-value cap.

The Tax Benefit does not replace underwriting

A tax-efficient investment can still be a poor investment. The OZ rules change after-tax outcomes; they do not change the economics of location, basis, leverage, construction risk, operating performance or exit pricing. Investors should evaluate the underlying asset first and treat the tax benefit as an overlay.

Gain eligibility & timing

What gain is being deferred? When did the 180-day period begin? Is the subscription and funding process designed to satisfy the investor's deadline?

Liquidity for the year-five tax

OZ 2.0 defers - it does not erase - most of the original gain. Investors should plan for cash to pay the federal and applicable state tax when the five-year recognition event occurs.

State conformity

Not every state follows the federal OZ rules in the same way. State residence, source of gain and project location can materially change after-tax results.

Ten-year duration

The largest benefit requires patience. Manager strategy, leverage, refinancing assumptions and asset-level hold periods should be compatible with a 10+ year investor horizon.

Investor Mindset

OZ is best viewed as a long-duration after-tax compounding framework: defer the tax payment, reduce a portion of the original taxable gain, and seek to compound new value for 10+ years without federal tax on qualifying appreciation.

PART IV | THE REAL ESTATE TAX LAYER

Bonus depreciation + OZ: a powerful combination when structured correctly

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What 100% bonus depreciation actually means
It does not mean 100% of a building is deducted in year one. In a real estate project, a cost-segregation study may identify portions of the project as shorter-life property - commonly 5-, 7- or 15-year assets - that can qualify for 100% bonus depreciation. The building shell and other long-life real property generally continue to depreciate over their normal recovery periods; land is not depreciable.

How the two regimes can work together

Stage	Real Estate Tax Treatment	OZ Overlay
Development / Acquisition	Capitalized project costs establish depreciable basis once assets are placed in service.	Qualifying property must also satisfy QOZ/QOZB rules, including original-use or substantial-improvement requirements where applicable.
Placed in Service	Cost segregation can reclassify eligible components into shorter recovery periods; qualifying property can receive 100% bonus depreciation.	Deductions generally flow through a partnership structure subject to allocation, basis, at-risk and passive-activity rules.
10+ Year Exit	Outside OZ, prior depreciation can create depreciation-recapture / unrecaptured Section 1250 tax exposure.	For qualifying investors in a QOF partnership or S corporation, current final regulations permit an election after 10 years to exclude allocable gains from asset sales other than ordinary-course inventory - a rule broad enough to include depreciation-recapture gain. ^[8]

**THE POTENTIAL OZ ADVANTAGE: DEDUCTIONS DURING THE HOLD
+ NO FEDERAL RECAPTURE ON A QUALIFYING 10-YEAR EXIT**
In the common pass-through structure described above, accelerated depreciation may reduce taxable income during ownership, while the special 10-year OZ asset-sale election can exclude qualifying depreciation-recapture gain at exit. This combination is one reason real estate can be especially well suited to long-duration OZ investing.

How the two regimes can work together

- Depreciation deductions are not automatically usable against unrelated portfolio gains. Passive-activity, basis, at-risk and excess-business-loss rules may limit or defer an individual investor’s ability to use losses.
- The “no recapture” result is not a blanket rule for every structure or transaction. The final-regulation asset-sale election specifically applies to qualifying investors in QOF partnerships and QOF S corporations and excludes ordinary-course inventory sales.^[8]
- State tax treatment may differ from federal treatment, including both OZ benefits and depreciation rules. Tax advice should be investor-specific.

Why new development often fits the program
Ground-up development naturally aligns with the OZ policy objective of creating new productive assets, can generate substantial depreciable basis, and may create a broad pool of short-life components for cost segregation. The merits still depend on project economics and execution.

PART III | INVESTOR MECHANICS

What investors should evaluate before committing to a QOF

1. Underlying investment

- Would the asset be compelling without the OZ benefit? Review basis, demand, supply, leverage, construction/operating risks and exit assumptions.

2. OZ compliance architecture

- Confirm how the QOF and QOZB satisfy the 90% / 70% tests, working-capital safe harbors, original-use/substantial-improvement rules and reporting obligations.

3. Gain and subscription process

- Unlike a traditional private real estate fund, an OZ investment begins with the investor's individual tax deadline. Confirm eligible gain, 180-day timing and when capital is admitted and invested. Avoid assuming a soft commitment satisfies tax timing.

4. Tax distribution planning

- Understand whether the fund expects distributions or reserves around the year-five recognition event and whether investors must source tax liquidity independently.

5. Depreciation strategy

- Ask whether cost segregation is expected, when assets are projected to be placed in service, how deductions are allocated, and whether the structure is intended to preserve the 10-year asset-sale election.

6. Hold-period alignment

- A manager should be economically prepared to own qualifying investments for 10+ years rather than forcing a sale or restructuring that compromises investor tax outcomes.

7. State tax analysis

- Federal OZ treatment is only part of the answer. Evaluate the investor's state of residence, source-of-gain rules and state conformity.

8. Manager capability

- Evaluate development/operating track record in the asset class, pipeline visibility, capitalization, compliance resources, reporting quality and alignment of sponsor economics.

Sources & Notes

- [1] Economic Innovation Group (EIG), "Unlocking Private Capital to Facilitate Economic Growth in Distressed Areas" (2015); EIG, "About Opportunity Zones."
- [2] U.S. Department of the Treasury, Office of Tax Analysis, David Coyne & Craig Johnson, Working Paper 128, "Use of the Opportunity Zone Tax Incentive through 2024: An Update" (June 2026).
- [3] Benjamin Glasner, Adam Ozimek & John Lettieri, "The Impact of Opportunity Zones on Housing Supply," Economic Innovation Group (2025; data through Q1 2025). EIG estimates a roughly 70% increase in new residential construction in designated areas and more than 416,000 additional residential addresses relative to the study's counterfactual.
- [4] Joint Committee on Taxation, "General Explanation of the Tax Provisions of Public Law 119-21," S-1-26 (2026), Opportunity Zone provisions at pp. 153-156.
- [5] IRS Notice 2026-40 / Internal Revenue Bulletin 2026-28, transitional guidance for investments made on or after January 1, 2027.
- [6] EIG, "New Treasury Data Emphasize Why OZ Designations Matter" (July 17, 2026), including rural/urban deployment and 2024 QOF statistics.
- [7] IRS, IR-2026-06 (Jan. 14, 2026), Notice 2026-11 and Instructions for Form 4562: permanent 100% additional first-year depreciation for eligible property acquired and placed in service after Jan. 19, 2025.
- [8] Treasury Decision 9889, "Investing in Qualified Opportunity Funds," 85 Fed. Reg. 1866 (Jan. 13, 2020), final regulations under IRC §1400Z-2, including the post-10-year asset-sale election for QOF partnerships and S corporations.
- [9] Landmark Properties, "Sean Morris Joins Landmark Properties as Head of Private Wealth to Capitalize on Opportunity Zone Legislation Permanence," July 15, 2026.

Tax and Legal Notice

This paper is for educational purposes only and reflects federal law and guidance available as of August 2026. It is not tax, legal or investment advice, and it does not address every requirement of IRC §§1400Z-1 and 1400Z-2. Opportunity Zone eligibility, depreciation, loss utilization, state conformity and exit treatment depend on specific facts and structures. Investors should consult their own tax and legal advisers.