Opportunity Zones: What to Know *and OZ 2.0*

Summary

Opportunity Zones are a federal tax incentive for reinvested capital gains. Updated program rules, known as OZ 2.0, begin in 2027. The incentive provides the potential for tax-free growth after a 10-year hold, along with a 10% step-up in basis (30% if rural). This may be an option for investors with appreciated assets or capital gains to reinvest.

Key Takeaways

Created by the 2017 Tax Cuts and Jobs Act, Opportunity Zones were made permanent by 2025 legislation.

OZ 2.0 offers a standard five-year deferral on capital gains and 10% step-up, plus the potential for tax-free growth after a 10-year hold.

A new zone map takes effect January 1, 2027; current zones remain valid through 2028.

Which Gains May Qualify

Opportunity Zones may apply to capital gains from many sources, including:

- Real estate sales
- Stock & securities sales
- Business sales
- Cryptocurrency sales
- Art & collectibles sales

Opportunity Zones Origin: A Brief Look Back

Opportunity Zones (OZ) are a capital gains tax incentive in the U.S. tax code. By reinvesting capital gains into a Qualified Opportunity Fund (QOF) within 180 days, investors can defer tax on the reinvested gain, and potentially eliminate tax on its future growth, while directing capital into under-served communities. A QOF is typically a private placement that invests in real estate or businesses within designated zones. Opportunity Zones are now a permanent part of federal tax law.

The program was created by the 2017 Tax Cuts and Jobs Act, signed into law on December 22, 2017, with the first zones designated in 2018. State Governors nominated low-income census tracts, producing roughly 8,700 zones nationwide that have since drawn more than $100 billion in private capital. The original incentive offered three potential tax benefits to investors who rolled capital gains into a QOF:

THREE ORIGINAL OZ BENEFITS

Tax Deferral: Potentially defer federal tax on reinvested capital gains.

Step-Up in Basis: 10% reduction of the deferred gain when held 5 years, 15% when held for 7 (OZ 1.0; no longer available).

Tax-Free Growth: Potential for tax-free treatment of appreciation when held at least 10 years, if program requirements are met.

*Codified under Internal Revenue Code **Sections 1400Z-1 and 1400Z-2** (current IRS guidance).*

By design, these benefits were temporary and back-loaded. The deferral was set to end on December 31, 2026, so without congressional action the program would have ended after 2026. However, Opportunity Zones legislation was passed to amend and make the benefits permanent.

A Permanent Future for Opportunity Zones

Legislation (OBBBA) signed July 4, 2025, made Opportunity Zones a permanent fixture of the tax code under current law and restructured the incentive into what the industry now calls “OZ 2.0.” The Treasury and IRS issued Notice 2026-40, the initial transitional guidance for the new rules, and governors nominated a new map of opportunity zones effective January 1, 2027.

> Timing matters: the enhanced OZ 2.0 benefits and the new zone map both take effect January 1, 2027, while the current zones remain valid through December 31, 2028, a two-year overlap. The original rules still govern investments made through the end of 2026.

Key Features of OZ 2.0

OBBBA did more than extend the program. It redesigned it, keeping the most valuable original benefit while replacing expiring deadlines with a predictable, rolling structure.

FEATURE	WHAT IT MEANS
Permanent & Predictable	The incentive no longer expires. The OZ map refreshes on a 10-year cycle, with a new map effective January 1, 2027 running through 2036.
Rolling Five-Year Deferral	Every investor receives a standard five-year deferral on reinvested capital gains, regardless of when they invest. No more benefit decay or timing cliffs.
Standard 10% Step-Up	Investors who hold for five years receive a 10% step-up in basis on their original deferred gain.
Tax-Free Growth Preserved	Appreciation on a QOF investment held at least 10 years can be excluded from tax. Investments held 30 years take a basis step-up to fair market value.
Rural Incentive (QROFs) NEW	Qualified Rural Opportunity Funds offer a 30% step-up after five years, triple the standard, and cut the substantial improvement requirement for rural property in half.
Tighter Targeting, Smaller Map	Stricter income tests are expected to shrink the map by roughly 20%, focusing capital on the most distressed communities.
Transparency & Reporting	Treasury must now publish annual reports on QOF assets, housing units created, jobs, and community outcomes.

> **Invest the Gain, Not the Principal**
> Generally, only the realized capital gain, not the original principal, is invested in a Qualified Opportunity Fund (within 180 days) to pursue the program's tax benefits. This differs from a 1031 exchange, which generally requires reinvesting all proceeds. Tax treatment depends on individual facts and current law; clients should confirm details with their own tax advisor.

Ready to Explore Opportunity Zones?

Contact us to see whether an Opportunity Zone strategy could be right for you.

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Opportunity Zone investments are illiquid and speculative and may lose value. See disclosures.

Disclosures

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OPPORTUNITY ZONE INVESTMENT RISK DISCLOSURE

- Illiquidity: Qualified Opportunity Fund interests are typically offered through private placements and are illiquid securities with no established secondary market. Investors should be prepared to hold for the full investment period, which may be 10 years or longer.
- Speculative and development risk: Many OZ investments involve ground-up development or substantial rehabilitation in distressed areas and carry construction, lease-up, financing, and market risks. Projects may not perform as projected.
- Tax law and regulatory risk: OZ tax benefits depend on compliance with complex and evolving IRS rules. Guidance for OZ 2.0 remains in development (for example, IRS Notice 2026-40, issued June 2026), and future legislation or regulation could reduce or eliminate anticipated benefits.
- Zone designation risk: The OZ 2.0 map effective January 1, 2027 is not yet finalized. Census tracts eligible today may not ultimately be designated, and stricter criteria are expected to reduce the number of qualified zones.
- No guarantee of tax benefits: Deferral, step-up, and exclusion benefits are not guaranteed and depend on individual facts, holding periods, and the timely, qualifying investment of eligible gains within required deadlines.
- Sponsor and blind-pool risk: Some QOFs are blind pools that depend on the sponsor's ability to source and execute investments. Returns depend heavily on sponsor experience, judgment, and discretion.
- Loss of principal: All investments carry the risk of loss of some or all of the principal invested. Past performance is no guarantee of future results.
- Professional advice: Opportunity Zone investing involves significant tax complexity. Consult your own tax, legal, and financial advisors before investing. Tangible Wealth Solutions does not provide tax or legal advice.