

Rural Opportunity Zones

The 30% Basis Step-Up



Summary

OZ 2.0 added a second type of Opportunity Zone fund for rural projects, the Qualified Rural Opportunity Fund. A rural fund gets a 30% basis step-up at five years instead of 10%, and it has to meet only half the substantial improvement requirement.

Key Takeaways

A rural fund holds at least 90% of its assets in Opportunity Zone property located outside a city or town of more than 50,000 people.

The five-year step-up is 30% of the deferred gain, compared with 10% for a standard fund.

Rural benefits follow the same OZ 2.0 timeline and apply to investments made on or after January 1, 2027.

This brief covers what is specific to rural funds. For program history, qualifying gains, the January 1, 2027 effective date, and the rules that apply to all Opportunity Zone investments, see the companion white paper, Opportunity Zones: What to Know and OZ 2.0.

What Makes a Fund Rural

A Qualified Rural Opportunity Fund (QROF) is a Qualified Opportunity Fund that invests at least 90% of its assets in Qualified Opportunity Zone property located in a rural area, generally defined as land outside a city or town with a population above 50,000.

Under the original program, rural and urban investments were treated the same way, and most Opportunity Zone capital went to urban development. Congress responded in OZ 2.0 by attaching a larger tax benefit to rural projects.

Standard Fund vs. Rural Fund

FEATURE	STANDARD FUND	RURAL FUND (QROF)
Basis step-up at five years	10% of the deferred gain	30% of the deferred gain
Deferral structure	Rolling five years from investment	Rolling five years from investment
Substantial improvement threshold	100% of basis	50% of basis
Maximum exclusion window	30 years	30 years

The 30% in Dollars

A \$500,000 gain deferred into a rural fund and held five years may have up to \$150,000 permanently excluded from tax, compared with \$50,000 in a standard fund. Illustrative only; results depend on individual facts, fund qualification, and current law.

The Lower Improvement Threshold

Cutting the requirement in half also changes the economics of a deal. A rural project can satisfy the requirement with roughly half the rehabilitation spending an urban project needs, which widens the range of properties a sponsor can realistically take on.

Bonus Depreciation Inside the Fund

Many rural Opportunity Zone funds hold real estate or business property that may qualify for 100% bonus depreciation, which OBBBA made permanent for qualifying property acquired after January 19, 2025. Where a fund holds depreciable property with a recovery period of 20 years or less, it may be able to pass a depreciation deduction through to investors in the year the property is placed in service. How much of that deduction you can actually use depends on the passive activity loss rules, at-risk and basis limits, and the rest of your return. Model it with your own tax advisor before you invest.

Ask a sponsor how the fund intends to exit. If you hold your fund interest at least 10 years and elect to step basis up to fair market value on a sale of that interest, federal tax on appreciation, and in some structures on depreciation recapture, may be eliminated. If the fund instead sells the underlying property and passes the gain up to investors, recapture at the asset level may remain taxable. The result depends on fund structure and your own facts.

QUESTIONS TO ASK A RURAL FUND SPONSOR

Rural qualification: How does the fund satisfy the rural area definition and the 90% asset test, and what happens if it falls short?

Exit structure: Does the fund expect to exit by selling investor interests or by selling the underlying property? This determines how recapture is handled.

Depreciation: Will the fund pass bonus depreciation through to investors, in what year, and roughly how much?

Improvement plan: How does the 50% substantial improvement threshold change the project budget and timeline compared with a 100% requirement?

Who This May Suit

A rural Opportunity Zone fund may be worth a closer look if you:

- Have a significant realized capital gain to defer and reduce
- Can commit capital for a 10-year or longer horizon
- Are comfortable with illiquid private placements
- Want to model whether bonus depreciation could offset other passive income

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

Considering a Rural Opportunity Zone Fund?

Contact us to model how a rural fund could fit your gain and your tax picture.

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

Disclosures

GENERAL DISCLOSURE

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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.