

# Opportunity Zones 2.0

## What Are Opportunity Zones?

Opportunity Zones (OZs) are federally designated, economically distressed census tracts that attract private investment through capital-gains tax incentives. Investors who reinvest their gains into Qualified Opportunity Funds (QOFs), which finance businesses, housing, or infrastructure within designated zones, can reduce and defer capital-gains taxes and eliminate taxes on new appreciation if they hold the investment long enough.

The goal is to channel long-term capital into communities that have the potential for growth but struggle to access traditional financing.

## How Opportunity Zone Investments Work

Investors who realize a capital gain from the sale of an asset, such as real estate, stock, or a business, can reinvest that gain into a QOF within 180 days.

When they do:

- **Deferral:** Taxes on the original gain are deferred for up to five years.
- **Reduction:** Investors receive a 10% step-up in basis after five years, reducing the taxable portion of the original gain.
- **Exclusion:** If the investment is held for 10 years or longer, any appreciation on the new investment is tax-free.

QOFs can finance a wide array of projects, ranging from startup operations and commercial developments to adaptive reuse of existing buildings, so long as they meet federal guidelines for eligible property and substantial improvement.

## What's New Under Opportunity Zones 2.0

Congress updated the program through the One Big Beautiful Bill Act in 2025, making it a permanent feature of the U.S. tax code requiring that OZs be redesignated every 10 years as eligibility data is updated and adding new benefits for rural and long-term investments.

### Rolling Five-Year Deferral Window:

Investors can now roll capital gains into QOFs at any time. Each investment receives its own five-year deferral period, replacing the previous fixed deadline system.

### 1. Enhanced Rural Benefits:

A new category of Qualified Rural Opportunity Funds (QROFs) triples the step-up benefit, providing a 30% basis increase after five years for investments in qualifying rural zones. Defines a "rural area" as any area other than:

- a. A city or town with a population of greater than 50,000 and
- b. An urbanized area adjacent to a city or town with a population in excess of 50,000.

Additionally, rural projects now only need to meet a 50% substantial-improvement test instead of the full 100% requirement, allowing more flexible project rehabilitation (The 50% rule is already in effect).

### 2. Updated Eligibility and Mapping:

Low-income communities are defined as census tracts that satisfy one of the following tests:

- a. A median family income below 70% of the state (for non-metro areas) or metro (for metro areas) median (versus 80% in the original OZ provision).
- b. A poverty rate of 20% or greater plus a median family income below 125% of the state or metro median.

The "contiguous tract" provision has been removed. Governors may nominate up to 25% of eligible tracts.

Preliminary interactive mapping tools are available here: [Novogradac OZ 2.0 Mapping Tool](#).

### 3. Greater Transparency and Reporting:

Beginning in tax year 2026, the IRS and Treasury will collect and publish annual data on total dollars invested, project types, jobs created, and housing units delivered — providing a clearer picture of program impact.

## Learn More

- [EIG Explainer: Opportunity Zones 2.0 — Where Things Stand](#)
- [Novogradac Mapping Tool: OZ 2.0 Eligible Tracts](#)
- [IRS Guidance: Treasury and IRS Guidance for Rural Opportunity Zones](#)



# Opportunity Zones: 1.0 versus 2.0

Topic	Opportunity Zones 1.0	Opportunity Zones 2.0
Gain deferral	One fixed deadline (tax due by 12/31/2026).	Rolling five year deferral from each investment date.
Basis step up	Tiered, timing dependent (5%, 10%, 15%, early bird).	Uniform 10% after five years for all investors.
Rural OZs	Not applicable.	Defines a “rural area” as any area other than 1) a city or town with a population of greater than 50,000, or 2) an urbanized area adjacent to a city or town with a population in excess of 50,000.
Rural enhancement	Not applicable.	30% basis step up available only through Qualified Rural Opportunity Funds (QROFs).
Rural fund rules	Not applicable.	QROF must keep at least 90% of assets in OZ projects located wholly in rural tracts.
Rural improvement threshold	100% of basis.	50% of basis for qualifying rural projects.
Designation cycle	One time 2018 map.	New 10 year map in 2026; states reselect zones each decade.
Selection clock	Not applicable (past selection complete).	Governors have 90 days from July 1, 2026 to submit (optional 30 day extension).
Eligibility thresholds	≤80% of area median family income (MFI); limited contiguous add ons allowed.	Income threshold tightened (≤70%); Poverty rate of 20% or greater (unchanged), plus a newly established MFI cap set at 125% of the applicable state or metro median. Contiguous tract rule eliminated.
Reporting and transparency	Minimal statutory reporting.	New reporting requirements and annual federal reporting begin with tax year 2026.
Start of new benefits	Not applicable.	Most new tax benefits effective January 1, 2027.

