

Opportunity Zone Tax Benefits

Updated For OZ 2.0

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[OpportunityZones.com](https://www.opportunityzones.com)

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To encourage investment in economically distressed areas, there are multiple powerful Opportunity Zone tax benefits available to U.S. taxpayers who reinvest eligible gains into Opportunity Zones via a Qualified Opportunity Fund.

The ability to achieve unlimited tax-free growth makes [Opportunity Zones](#) the greatest tax incentive ever created.

These tax savings are available to a taxpayer who reinvests an eligible gain into a Qualified Opportunity Fund within 180 days of triggering the gain. Eligible gains include both capital gains and qualified 1231 gains that would be recognized for federal income tax purposes.

The exact Opportunity Zone tax benefits available to investors differ based on when the eligible gain is reinvested into a Qualified Opportunity Fund. With [enactment of the One Big Beautiful Bill Act](#) on July 4, 2025, the Opportunity Zone program was made permanent, and OZ 2.0 was born.

Investments made into QOFs prior to the end of 2026 are subject to the original OZ 1.0 tax benefits. Investments made into QOFs in 2027 or later are subject to new OZ 2.0 tax benefits.

OZ 1.0 Tax Benefits

For gains that are reinvested in QOFs before January 1, 2027, the following four Opportunity Zone tax benefits are available:

1. Deferral of eligible gains until December 31, 2026.
2. Reduction of eligible gains recognition by 15 or 10 percent. (Note: these provisions expired in two phases: on December 31, 2019 and December 31, 2021, respectively.)
3. The big one: Elimination of tax on gains accrued in the Qualified Opportunity Fund after achieving a 10-year holding period.
4. Plus, no depreciation recapture!

OZ 2.0 Tax Benefits

For gains that are reinvested in QOFs after December 31, 2026, the following four Opportunity Zone tax benefits are available:

1. Deferral of eligible gains for a period of five years, beginning on the date that the taxpayer makes an investment in a QOF.
2. Reduction of eligible gains recognition by 10 percent, once a five-year holding period is achieved. This reduction is 30 percent for gains invested in rural Opportunity Zones.
3. The big one: Elimination of tax on gains accrued in the Qualified Opportunity Fund after achieving a 10-year holding period.
4. Plus, no depreciation recapture!

Example Of An OZ 2.0 Investment

Any eligible gains timely invested into a QOF after December 31, 2026 are eligible for the OZ 2.0 tax benefits. Let's consider a \$1 million gain realized on August 1, 2026. This taxpayer could invest in a QOF in 2026. But more powerful tax benefits are available if he waits until 2027 to make the investment.

As the 180-day reinvestment window opens on August 1, 2026, it closes on January 27, 2027. Thus, if the investor reinvests this \$1 million gain into a QOF at some point between January 1 and January 27, 2027, that QOF investment will receive more favorable OZ 2.0 treatment, as follows:

Benefit #1: Deferral of eligible gain recognition for five years.

Let's assume that in this example, the taxpayer reinvests the \$1 million eligible gain into a QOF on January 15, 2027.

This eligible gain is now deferred for five years beyond that date. Thus, the gain is not recognized for tax purposes until January 15, 2032. And the tax bill for this \$1 million gain comes due on April 15, 2033.

This benefit essentially amounts to an interest-free loan from the federal government. A tax bill on this \$1 million capital gain that would normally be due on April 15, 2028 is now deferred until April 15, 2033.

Form 8997 Department of the Treasury Internal Revenue Service	Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments Attach to Form 1040, 1040-SR, 1040-NR, 1041, 1065, 1120, 1120-F, 1120-REIT, 1120-RIC, 1120-S, or 990-T. Go to www.irs.gov/Form8997 for the latest information.	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold; text-align: center;">2025</div> Attachment Sequence No. 997			
Name _____		Taxpayer identification number (TIN) (see instructions) _____			
Part I Total QOF Investment Holdings Due to Deferrals Prior to Beginning of Tax Year If different from last year's ending QOF investment holdings, attach explanation.					
(a) QOF EIN	(b) Date QOF investment acquired (MM/DD/YYYY)	(c) Description of QOF investment (for example, 100 shares or 25% interest)	(d) Special gain code	Deferred gain held in QOF	
				(e) Amount of short-term deferred gain remaining in QOF	(f) Amount of long-term deferred gain remaining in QOF
1 Enter the totals, if any, from continuation sheet					
2 Enter the totals from columns (e) and (f)					
Part II Current Tax Year Capital Gains Deferred by Investing in QOF					
(a) QOF EIN	(b) Date QOF investment acquired (MM/DD/YYYY)	(c) Description of interest acquired (for example, 100 shares or 25% interest)	(d) Special gain code	Deferred gain invested in QOF	
				(e) Amount of short-term deferred gain remaining in QOF	(f) Amount of long-term deferred gain remaining in QOF

Investors in Qualified Opportunity Funds need to file IRS Form 8997 annually with their tax returns.

Benefit #2: Reduction of eligible gains tax liability.

Eligible gains reinvested into Qualified Opportunity Funds are eligible for a 10% basis step-up (essentially reducing the taxpayer’s deferred gains liability by 10%).

In our example, the \$1 million reinvested gain deferred into a QOF on January 15, 2027 is recognized as just a \$900,000 gain on the taxpayer’s 2032 tax return, resulting in tens of thousands of dollars of tax savings.

Investments in Qualified Rural Opportunity Funds (QROFs), which invests at least 90 percent of its assets in [rural Opportunity Zones](#), are subject to receiving a 30 percent basis step-up at the five-year mark, effectively reducing the taxpayer’s deferred gains liability by 30%). In our example, if the \$1 million reinvested gain had been deferred into a rural QOF on January 15, 2027, it would be recognized as merely a \$700,000 gain on the taxpayer’s 2032 tax return.

Benefit #3: Unlimited tax-free growth! The 100% elimination of tax on capital gains from the sale of Qualified Opportunity Fund investments.

This is by far the biggest Opportunity Zone tax break, and the #1 reason why sophisticated investors are reinvesting capital gains in Qualified Opportunity Funds.

So long as a Qualified Opportunity Fund investment is held for at least 10 years, the basis of the investment will be stepped up to the fair market value of the investment on the date on which it is sold, provided that sale takes place within 30 years. In other words, there is zero capital gains tax due on any profits from the sale of an Opportunity Zone investment after a 10-year holding period.

Let's assume the \$1 million gain in our example grows at an 15 percent annual compounded rate for a period of 10 years.

Assuming a certain level of returns, tax bracket, and state tax rate, an OZ investment can deliver 35 to 50 percent higher after-tax returns than a non-OZ investment. The table below compares the 10-year after-tax returns of a Qualified Opportunity Fund investment to a comparable non-OZ investment, and only considers federal taxes.

	Non-OZ Investment	Qualified Opportunity Fund
Initial Gain	\$1,000,000	\$1,000,000
Tax on Gain	(\$238,000)	Deferred
After-Tax Investable Amount	\$762,000	\$1,000,000
10-Year Equity Multiple	2.5x	2.5x
Value After 10 Years	\$1,905,000	\$2,500,000
Total Appreciation	\$1,143,000	\$1,500,000
Tax on Appreciation	(\$272,034)	\$0
Gains Recognized After Year 5	\$0	\$900,000
Gains Tax Paid After Year 5	\$0	(\$214,200)
Ending After-Tax Value	\$1,632,966	\$2,285,800

This assumes a non-rural OZ investment and a 23.8% tax rate applied to capital gains at time of investment and in the deferral year.

Benefit #4: No depreciation recapture.

A fourth benefit (not even included in the table above) is the elimination of depreciation recapture. This can have a massive impact on the triple net returns of an investment that includes one or more depreciable assets. Typically when an asset is depreciated over time (a common accounting practice in real estate), the yearly depreciation is used to offset taxable income.

But when the asset is sold at a gain, the ordinary income tax rate is applied to the amount of the depreciation previously taken on the asset. In an Opportunity Zone investment, this depreciation recapture is 100% eliminated.

About the Author



Jimmy Atkinson is a leading educator and advocate in the Opportunity Zones ecosystem. He founded [OpportunityZones.com](https://www.opportunityzones.com) in 2018 as a dedicated resource for investors, fund managers, developers, and advisors seeking clear, practical guidance on the Opportunity Zones incentive.

Jimmy is also the founder of [OZ Insiders](#), a private Mastermind community where members can gain knowledge, build trusted relationships, and get the edge for OZ 2.0 success.

Jimmy also hosts [The Opportunity Zones Podcast](#), where he interviews fund managers, developers, policymakers, and industry experts on how Opportunity Zones work in practice.

Since the program's inception, Jimmy has been closely involved in the evolution of Opportunity Zones, helping thousands of investors better understand the policy, the mechanics, and the real-world execution of OZ investments.