The 2026 Opportunity Zones Handbook

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Introduction

The Opportunity Zone program is one of the greatest tax incentives ever made available to U.S. investors. And in 2026, it enters a new era.

When OZs were first enacted as part of the Tax Cuts & Jobs Act in December 2017, the program was designed as a perishable incentive — subject to hard expiration dates, Congressional whims, and ongoing uncertainty about whether it would ever be extended. For years, that uncertainty was one of the central storylines in the OZ industry.

That storyline is now over. In 2025, Congress made Opportunity Zones **permanent**.

The One Big Beautiful Bill Act, signed into law on July 4, 2025, fundamentally reshaped the program by making it a permanent feature of the U.S. tax code. The new framework — commonly referred to as **OZ 2.0** — preserves the core incentive structure that investors have relied on since 2018, while restoring and enhancing several benefits that had lapsed over time.

But before we get to OZ 2.0, here is something that needs to be said clearly: **OZ 1.0 is still very much alive and worth your attention in 2026.** Yes, the deferral benefit has become nominal. Yes, the basis step-ups expired years ago. But those two benefits were never the main event. The crown jewel of the OZ program — the ability to permanently exclude all appreciation in a Qualified Opportunity Fund (QOF) investment from federal capital gains tax after a 10-year hold — remains fully intact for investments made through the end of 2026. That benefit alone has always been the reason serious investors engage with this program, and it isn't going anywhere.

OZ 2.0 doesn't fully take effect until **January 1, 2027**. Throughout 2026, QOF investors are still operating under the original OZ 1.0 rules. Understanding what applies now versus what applies next year is one of the most consequential decisions an OZ investor can make in 2026.

This guide provides a clear, updated summary of how the OZ incentive works today, how OZ 2.0 will change things beginning in 2027, and the key dates and forms every OZ investor and professional should have on their radar this year.

Section 1: How The OZ Incentive Works (Updated For 2026)

Opportunity Zones are a place-based investment incentive embedded in the U.S. tax code. The program identifies specific geographic areas — designated census tracts selected based on income and poverty metrics — and offers powerful tax benefits to investors who deploy long-term capital into businesses or real estate located within those areas. All investments must flow through a **Qualified Opportunity Fund (QOF)**, a specially designated investment vehicle that deploys capital into qualifying OZ assets.

Often called a "Super Roth IRA," the OZ incentive is built on a simple but powerful premise: reinvest an eligible capital gain into a QOF within 180 days of realizing it, hold the investment for at least 10 years, and pay *zero* federal capital gains tax on any appreciation within the QOF.

The Three Core Tax Benefits

The OZ incentive was originally structured around three distinct benefits. Here is where each stands as of 2026 for investors making new investments under OZ 1.0:

- **Benefit #1 — Capital Gains Tax Deferral.** An investor who reinvests an eligible gain into a QOF within 180 days can defer recognition of that gain. Under OZ 1.0, the deferred gain is recognized on December 31, 2026 — meaning that for new investments made in 2026, the deferral window is nominal at best. The tax on the original gain will still be owed, due April 15, 2027.
- **Benefit #2 — Capital Gains Tax Reduction.** Originally, investors who held their QOF investment for five or seven years could receive a 10% or 15% step-up in basis on the deferred gain — effectively reducing the original tax bill. These step-ups expired in December 2019 and December 2021, respectively. They are no longer available for new OZ 1.0 investments made between 2022 and 2026.
- **Benefit #3 — Capital Gains Tax Elimination.** This is the crown jewel of the program — and it remains fully intact. If an investor holds their QOF investment for at least 10 years, any appreciation above the original invested amount is permanently excluded from federal capital gains tax. Not deferred. Not reduced. Eliminated. Depreciation recapture can also be excluded when the investment is structured properly. This benefit remains available for OZ 1.0 investments made through the end of 2026.

What This Means For New Investments Made In 2026

For investors deploying capital into a QOF in 2026, the practical reality is this: the deferral is nominal and the step-up is gone. But the 10-year exclusion — the benefit that has always moved the needle most — is fully available. And it is the reason OZ 1.0 remains a compelling opportunity right now, not just a footnote before OZ 2.0 arrives.

Think about it this way. Of the three original OZ benefits, the deferral was always the smallest. A few years of deferred tax payments is meaningful, but it's not transformational. The step-up — 10% or 15% off the original gain — was a nice bonus. But the ability to permanently exclude potentially millions of dollars of appreciation from federal capital gains tax after a 10-year hold? That's the benefit that makes this program genuinely extraordinary. And it still applies to every qualifying investment made in 2026.

To illustrate: an investor who places $1 million into a QOF in January 2026, and that investment grows to $3 million over 10 years, would owe zero federal capital gains tax on the $2 million of appreciation upon sale — assuming the 10-year hold is achieved. The original $1 million gain would still be recognized and taxed (by April 15, 2027), but the new appreciation is permanently excluded. There is no other mainstream federal incentive that offers this outcome for long-term investors.

OZ 1.0 may be in its final year. But it is far from irrelevant.

Key Point: The 180-Day Rule

An investor generally has 180 days from the date a capital gain is realized to reinvest it into a QOF and receive OZ tax treatment. For gains reported on a Schedule K-1 (through a partnership or other pass-through entity), the investor may elect to begin the 180-day window on the date of the transaction, on the last day of the entity's tax year (typically December 31), or on the due date of the entity's tax return (typically March 15 of the following year). This flexibility is especially significant for 2026 — more on this in Section 2.

Which Gains Are Eligible?

Most capital gains are eligible for OZ deferral — including gains from the sale of stock, real estate, a business, partnership interests, and other appreciated assets. The gain must be a recognized capital gain for federal tax purposes, and it must be reinvested into a QOF within the applicable 180-day window.

What Types Of Investments Qualify?

Opportunity Zone investments are more flexible than many investors realize. The program is not limited to real estate. To qualify, an investment must be made through a QOF that deploys capital into one of the following:

- **Qualified Opportunity Zone Property (QOZP):** This includes newly constructed real estate or existing real estate that is substantially improved — meaning the investor must double the value of the existing structure within 30 months of acquisition. Simply buying and holding existing property does not qualify.
- **Qualified Opportunity Zone Business (QOZB):** Operating businesses — including manufacturing, energy, healthcare, technology, and service companies — can qualify as long as they are located in a designated OZ and meet specific asset, income, and activity tests.

Qualification is the starting line, not the finish line. The OZ incentive can turn a good deal into a great one — but it doesn't rescue weak execution or poor underwriting.

Section 2: How OZ 2.0 Will Work, Beginning In 2027

OZ 2.0 is not a replacement for OZ 1.0 — it's a restoration and expansion of the program on a permanent footing. For investors who have been frustrated by the loss of the deferral and step-up benefits over the past several years, OZ 2.0 brings good news: both are back.

The Five Key OZ 2.0 Provisions

1. **Permanent program framework with decennial zone selection.** Opportunity Zones are no longer a one-time, perishable map. New OZ designations will occur every 10 years, beginning January 1, 2027. Each set of zones remains active for 10 years.
2. **Narrower eligibility criteria.** The definition of a qualifying low-income community has been tightened under OZ 2.0 — from ≤80% of area median income to ≤70%, with an additional poverty rate test. This means some tracts that qualified under OZ 1.0 will not make the cut under OZ 2.0. Approximately 6,500 tracts are anticipated in the first OZ 2.0 designation cycle, down from 8,764 under OZ 1.0.
3. **Restored deferral and basis step-up.** Gains invested into QOFs on or after January 1, 2027 receive a five-year deferral from the date of investment — not a fixed December 31 expiration date. And at the five-year mark, the investor receives an automatic 10% basis step-up, meaning only 90% of the original gain is ultimately recognized for tax purposes.
4. **Rural incentives.** Investments in designated rural OZs receive enhanced benefits: a 30% basis step-up (vs. 10% for non-rural) and a reduced substantial-improvement threshold of 50% (vs. doubling the value under the standard rule).
5. **Expanded reporting requirements.** OZ 2.0 introduces more robust fund-level reporting requirements, aimed at improving transparency and accountability — a change that has been widely supported by OZ advocates as necessary for the long-term credibility of the program.

OZ 2.0 Example: A $1 Million Gain Invested In 2027

Assume an investor realizes a $1 million capital gain in late 2026, and invests it into a QOF on January 15, 2027, thereby accessing OZ 2.0 treatment. Here is how the math works:

- **Deferral:** The $1 million gain is deferred for five years from the date of QOF investment — until January 15, 2032. The tax on the original gain is not due until April 15, 2033.
- **Basis step-up:** At the five-year mark, the investor receives a 10% basis step-up. Only $900,000 of the original $1 million gain is ultimately recognized. (For a rural OZ investment, the step-up is 30%, meaning only $700,000 is recognized.)
- **10-year exclusion:** If the investor holds the QOF investment for at least 10 years (until January 15, 2037 or later), all appreciation above the original $1 million is permanently excluded from federal capital gains tax.
- **Depreciation recapture:** Just as under OZ 1.0, depreciation recapture can be eliminated at exit when the investment is properly structured.

OZ 1.0 vs. OZ 2.0: Side-By-Side Comparison

	OZ 1.0	OZ 2.0
Enacted	Tax Cuts & Jobs Act (12/22/2017)	One Big Beautiful Bill Act (7/4/2025)
Duration	Temporary; expires 12/31/2026	Permanent with 10-year cycles; starts 1/1/2027
Zone Designation	One-time (July 2018)	Every 10 years, starting 1/1/2027
Zone Expiration	12/31/2028	Every 10 years, starting 12/31/2036
Zone Eligibility	≤80% area/statewide median income; or ≥20% poverty rate	≤70% area/statewide median income; or ≥20% poverty rate + ≤125% AMI
Contiguous Zones	Up to 5% non-low-income contiguous tracts	N/A
Number of OZs	8,764	6,544 (Projected)
Reporting	Minimal	Expanded
Gain Deferral	Until 12/31/2026	5 years from date of QOF investment
Basis Step-Up	15% (by 12/31/2019); 10% (by 12/31/2021); None after 2021	10% at 5-year mark; 30% for rural OZ investments
10-Year Exclusion	QOF appreciation excluded after 10-year hold. No depreciation recapture. Step-up to FMV must be taken by 12/31/2047.	QOF appreciation excluded after 10-year hold. No depreciation recapture. Step-up to FMV must be taken by 30-year mark.

Rural Benefits	N/A	30% basis step-up; 50% substantial-improvement threshold

The 2026 Transition Year: Which Rules Apply To You?

This is the most practically important question for investors in 2026, and the answer hinges on a single factor: **when capital is invested into a QOF** — not when the underlying gain was realized.

- QOF investments made on or before December 31, 2026 → **OZ 1.0 rules apply.**
- QOF investments made on or after January 1, 2027 → **OZ 2.0 rules apply.**

Because investors typically have a 180-day window to invest a gain into a QOF, a gain realized in 2026 may — depending on timing — be eligible for OZ 2.0 treatment. The details depend on how the gain was generated:

For gains not reported on a Schedule K-1 (direct individual gains): The 180-day clock starts on the date the gain is realized. This means a gain realized on or after July 6, 2026 can be invested into a QOF in 2027 and receive OZ 2.0 treatment. A gain realized before July 6, 2026 must be invested before year-end and receives OZ 1.0 treatment.

For gains reported on a Schedule K-1 (pass-through gains): The investor has three options for when to start the 180-day clock: (1) the date of the underlying transaction; (2) the last day of the pass-through entity's tax year (typically December 31); or (3) the due date of the entity's tax return (typically March 15 of the following year). As a result, a K-1 gain realized at any point in 2026 can generally be invested into a QOF in 2027, qualifying for OZ 2.0 treatment.

Why This Matters

Two investors with identical economic gains in 2026 can end up with very different OZ outcomes depending solely on how and when the gain was generated. Investors approaching a liquidity event in 2026 should understand these timing rules — ideally before the gain is triggered — so they can evaluate whether OZ 1.0 or OZ 2.0 treatment is more advantageous for their specific situation.

The 2027–2028 Overlap Period

One more important nuance: the original OZ 1.0 zones — the 8,764 census tracts designated in 2018 — do not simply disappear when OZ 2.0 launches. They remain active through **December 31, 2028**. This means there will be a two-year overlap period beginning January 1, 2027, during which both OZ 1.0 and OZ 2.0 zones are simultaneously in effect. New zones designated under

OZ 2.0 will take effect January 1, 2027, while existing OZ 1.0 investments in tracts that don't carry over are fully grandfathered.

Section 3: Key OZ Deadlines & IRS Forms For 2026

The following dates are ones that OZ investors and fund managers should have on their radar for 2026 and into early 2027.

Key Dates

Date	What It Means
January 1, 2026	Earliest date a 2025 gain reported on a Schedule K-1 could be eligible for OZ 2.0 treatment, if the investor elects to begin the 180-day window on the last day of the pass-through entity's 2025 tax year (December 31, 2025) and invests in a QOF on or after January 1, 2027.
March 15, 2026	Due date for partnership and S-corporation tax returns (Form 1065 / Form 1120-S). Also the date from which the 180-day QOF investment window may begin for K-1 gains from the 2025 tax year, under the partnership return due date election.
April 15, 2026	Due date to file 2025 federal tax return (or an extension). QOF investors must file Form 8997 with this return.
July 1, 2026	Window opens for OZ 2.0 eligible census tracts to be nominated for Opportunity Zone designation by state governors.
July 6, 2026	Critical dividing line for non-K-1 gains. Gains realized on or after this date fall outside the 180-day window that ends December 31, 2026 — meaning they can be invested into a QOF in 2027 and qualify for OZ 2.0 treatment.
October 15, 2026	Due date to file extended 2025 federal tax return.
Summer–Fall 2026	U.S. Treasury designates new OZ 2.0 census tracts from governors' nominations.
December 31, 2026	Final date to generate a capital gain that can be invested into a QOF under OZ 1.0 rules (subject to the 180-day window). Also the mandatory gain recognition date for all existing OZ 1.0 deferrals — the original deferred gain is recognized on this date regardless of how long it has been held in a QOF.
January 1, 2027	OZ 2.0 officially takes effect. New OZ 2.0 census tracts become active. QOF investments made on or after this date fall under OZ 2.0 rules, with a five-year deferral and 10% basis step-up.

IRS Forms

Form 8997 — Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments. This form is filed annually with the federal tax return by any taxpayer who has invested capital gains into a QOF. All QOF investors must file Form 8997 every year until they exit their QOF investment.

Form 8996 — Qualified Opportunity Fund. This form is filed annually by entities that have elected to be treated as a Qualified Opportunity Fund. Most individual investors who invest passively into a QOF will not file this form — it is only required for investors who have established their own QOF.

Section 4: Recommended Resources For OZ Investors & Professionals

OpportunityZones.com has been the leading independent educational platform for Opportunity Zones since 2018. Here are the key resources available to OZ investors and professionals:

OpportunityZones.com — Our flagship website includes a full suite of tools and resources, including an interactive Opportunity Zone map, OZ tax savings calculator, fund directory, and FAQ library.

The Opportunity Zones Podcast — Hosted by Jimmy Atkinson, the show features over 350 interviews with OZ fund managers, developers, policymakers, and service providers. It is the most comprehensive audio resource on Opportunity Zone investing available anywhere. New episodes publish weekly.

OZ Pitch Day — A live online event series for accredited investors seeking passive QOF investment opportunities. OZ Pitch Day brings together fund managers and developers presenting actively raising deals side-by-side, allowing investors to compare strategies and ask questions in real time. The event is hosted three times per year.

OZ Insiders — The premier private Mastermind community for Opportunity Zone executives, professionals, and investors. OZ Insiders members gain access to advanced educational content, exclusive masterclasses, expert Q&A sessions, and a curated peer network of high-performing OZ practitioners. As the program enters the OZ 2.0 era, OZ Insiders is where the most substantive conversations in the industry are happening.