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# The Ultimate Guide to Qualified Opportunity Zones: OZ 2.0

How the permanent Opportunity Zone program works for capital gains invested on or after January 1, 2027.

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# Inside This Guide

Opportunity Zones are now permanent, and the rules for new investments change on January 1, 2027. This guide explains what changed, how the new timeline works and what to ask before you invest.


**01** What changed under OZ 2.0?

**02** What are Qualified Opportunity Zones and Funds?

**03** What are the tax benefits?

**04** How does the OZ 2.0 timeline work?

**05** Can my 2026 gain qualify for OZ 2.0?

**06** Where are the new Opportunity Zones?

**07** What is a Qualified Rural Opportunity Fund?

**08** How is an Opportunity Fund structured?

**09** What should I ask about the sponsor and the project?

**10** How do QOFs compare with a 1031 exchange into a DST?

**11** How do states treat Opportunity Zone benefits?

**12** Weighing the benefits and the risks

**13** How SREI Group can help


**Map your own dates.**

Our free Opportunity Zone Timeline Calculator shows your 180-day window, which version of the rules applies and your 5-, 10- and 30-year dates: https://sreigroup.com/education/opportunity-zone-timeline-calculator/

01

# What changed under OZ 2.0?

The Working Families Tax Cuts legislation, signed into law in July 2025, made the Opportunity Zone program permanent and set it on a rolling 10-year cycle, with a new zone map every decade.

The original program, now called OZ 1.0, had a single deadline that applied to every investor. OZ 2.0 replaces that with a separate five-year clock for each new investment made on or after January 1, 2027. December 31, 2026 is the last day a deferred gain can ride under the original rules, and sponsors have stopped offering new OZ 1.0 funds.

| | OZ 1.0 (investments through Dec. 31, 2026) | OZ 2.0 (investments on or after Jan. 1, 2027) |
|---|---|---|
| **Deferral ends** | December 31, 2026, for every investor | Five years after each investment, or an earlier sale |
| **Basis step-up** | 10% or 15%, only for investments made by 2019 or 2021 | 10% after five years; 30% for a Qualified Rural Opportunity Fund |
| **10-year benefit** | Appreciation can be tax-free; sale needed by December 31, 2047 | Appreciation can be tax-free; basis capped at value on the 30th anniversary |
| **Zone map** | 8,764 zones designated in 2018, expiring December 31, 2028 | 6,576 zones (2,594 rural), January 1, 2027 to December 31, 2036 |
| **Rural incentives** | None | 30% step-up and a lower improvement requirement |
| **Reporting** | Standard fund reporting | Expanded reporting for funds and the businesses they invest in |

**If you already own an OZ 1.0 investment,** your deferred gain is recognized on December 31, 2026, and the tax is generally due with your 2026 return. Your investment keeps its own 10-year benefit under the original rules. Review your situation with your tax advisor.

02

# What are Qualified Opportunity Zones and Funds?

Qualified Opportunity Zones (QOZs) are designated low-income census tracts where investors can reinvest capital gains through a Qualified Opportunity Fund (QOF) in exchange for federal tax incentives.

Congress created the program in 2017 to channel private capital into underserved communities. Senators Tim Scott (R-SC) and Cory Booker (D-NJ) conceived it with Representatives Ron Kind (D-WI) and Pat Tiberi (R-OH), and it became Sections 1400Z-1 and 1400Z-2 of the Internal Revenue Code. Opportunity Zone investing has attracted more than $100 billion in private capital since the program launched.

**A Qualified Opportunity Fund (QOF)** is a vehicle designed to pool capital and invest in QOZs. The QOF then invests in real estate, businesses or other assets in designated zones, and its investors can benefit from the program's tax incentives.

**Your gain does not have to come from real estate.** Unlike a 1031 exchange, a QOF investment does not require the original gain to come from a like-kind asset. An investor can roll a capital gain from selling a business, stock or another appreciated asset into a QOF, and only the gain itself needs to be reinvested.

## What QOFs invest in

- **Multifamily and commercial real estate,** the largest share of Opportunity Zone investment, because the rules favor long-term development of tangible property.
- **Affordable housing,** often paired with Low-Income Housing Tax Credits (LIHTC).
- **Operating businesses** inside a zone, such as manufacturing, logistics or secure storage, so investors receive the program's tax treatment through a business rather than a building.
- **Historic rehabilitation and mixed-use projects,** which can combine OZ benefits with historic tax credits.

Certain businesses, including golf courses, country clubs, gambling facilities and liquor stores, cannot qualify.

03

# What are the tax benefits?

OZ 2.0 offers three potential federal tax benefits: a five-year deferral of the original gain, a 10% basis step-up (30% for rural funds), and tax-free appreciation after a 10-year hold.

1. **Deferral.** For QOF investments made on or after January 1, 2027, the tax on the original gain is deferred for five years from the date of the investment, or until the investment is sold, if that comes first.
2. **Basis step-up.** Investors who hold for the full five years receive a 10% basis step-up, or 30% for a Qualified Rural Opportunity Fund (QROF). That portion of the original gain is never taxed.
3. **Tax-free appreciation.** If a QOF investment is held 10 years or more, the investor can generally elect to step up its basis to fair market value when it is sold, so the appreciation is not taxed. That step-up is capped at the investment's value on its 30-year anniversary, so gains after year 30 would be taxable.

> **HYPOTHETICAL EXAMPLE, FOR ILLUSTRATION ONLY**
>
> An investor sells a business in March 2027 with a $500,000 capital gain and invests that gain in a standard QOF within 180 days. Tax on the gain is deferred for five years. At the five-year mark, the investor's basis increases by 10%, so $450,000 of the original gain is taxed rather than $500,000. In a QROF, the step-up would be 30%, so $350,000 would be taxed. If the investor holds the QOF investment for at least 10 years, any appreciation on it can be excluded from tax when sold. This example does not reflect any actual investment, return or tax rate.

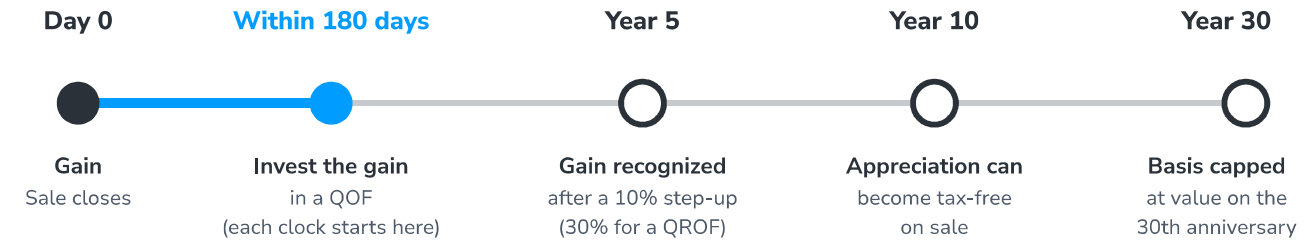
## Points to plan for

- **The year-five tax.** The remaining deferred gain becomes taxable in year five whether or not the investment has been sold. Plan the cash to pay it. Some sponsors plan a refinancing or distribution near that date, but distributions are never guaranteed.
- **Only the gain qualifies.** Cash invested beyond the eligible gain is treated as a separate investment without Opportunity Zone benefits.
- **Elections matter.** Deferral and basis elections must be made correctly on your tax return to receive the benefits.

04

# How does the OZ 2.0 timeline work?

Every OZ 2.0 investment runs on its own clock: 180 days to invest the gain, then milestones at 5, 10 and 30 years after the investment date.




Milestones are measured from the investment date. Gains reported on a Schedule K-1 may have other start dates.

Timeline not drawn to scale.

**HYPOTHETICAL EXAMPLE, FOR ILLUSTRATION ONLY**

A gain realized February 1, 2027 must be invested by July 30, 2027. If it is invested April 15, 2027, the five-year date is April 15, 2032, the 10-year date is April 15, 2037 and the 30-year date is April 15, 2057.

**Map your own dates.**

The Opportunity Zone Timeline Calculator shows your investment window and milestone dates and can add them to your calendar: https://sreigroup.com/education/opportunity-zone-timeline-calculator/. Confirm your dates with your tax advisor.

05

## Can my 2026 gain qualify for OZ 2.0?

Possibly. A gain realized in 2026 can qualify for OZ 2.0 if it is invested in a QOF on or after January 1, 2027 and within its 180-day window, as the IRS confirmed in Notice 2026-40.

- **Gains on or after July 6, 2026.** For gains not reported on a Schedule K-1, a 180-day window that begins on or after July 6, 2026 reaches into January 2027.
- **Partnership and S corporation gains.** Owners who receive gains on a K-1 may be able to choose a 180-day period that extends into 2027.
- **Installment sales.** Certain installment sale gains recognized in 2027 may also qualify.
- **Invest too early and the rules change.** A gain invested before January 1, 2027 falls under OZ 1.0, which now offers little remaining deferral.

**Check your window before you act.**

Enter your gain date in the Opportunity Zone Timeline Calculator to see whether your 180-day window reaches into 2027, then review the timing with your tax advisor: https://sreigroup.com/education/opportunity-zone-timeline-calculator/

06

## Where are the new Opportunity Zones?

On November 5, 2026, the U.S. Department of the Treasury and the IRS released the list of census tracts that will be Qualified Opportunity Zones (QOZs) under the permanent program. The new map designates 6,576 tracts across all 50 states, the District of Columbia and the U.S. territories, including 2,594 rural tracts. The designations take effect January 1, 2027, and remain in place for 10 years.

- **A smaller map.** The original 2018 round designated 8,764 Opportunity Zones; the new map has 6,576, roughly one-quarter fewer.
- **Timing matters.** Under IRS guidance (Notice 2026-40), property acquired after December 31, 2026, generally must be located in a newly designated zone to qualify, subject to limited exceptions. The original zone designations generally remain in effect through December 31, 2028.
- **How to check a property.** The CDFI Fund publishes the official list and map of designated tracts at https://www.cdfifund.gov/opportunity-zones. A sponsor should be able to confirm the census tract for each property or business a fund owns.

Before investing in a QOF in 2027 or later, confirm that its properties are in tracts on the new map.

07

# What is a Qualified Rural Opportunity Fund?

A Qualified Rural Opportunity Fund (QROF) is a QOF that holds at least 90% of its assets in Opportunity Zones located in rural areas, and its investors receive a 30% basis step-up instead of the standard 10%.

Rural areas are generally places outside cities or towns of more than 50,000 residents and their surrounding urbanized areas. Rural properties also face a lower improvement requirement, which can make rehabilitation projects easier to qualify, though rural real estate carries its own market and liquidity risks.

| | Standard QOF | Qualified Rural Opportunity Fund (QROF) |
|---|---|---|
| **Where the fund invests** | At least 90% of assets in Opportunity Zone property | At least 90% of assets in rural Opportunity Zones |
| **Basis step-up after 5 years** | 10% | 30% |
| **Improvement required for existing buildings** | Generally equal to the building's original basis | Generally half of the building's original basis |
| **Appreciation tax-free after 10 years** | Yes | Yes |

## What "substantial improvement" means

Property a fund buys must either be newly placed in service in the zone or substantially improved within 30 months. For example, if a fund buys a property for $1 million and $600,000 of that is the building, it must invest more than $600,000 in the building within 30 months. In a rural zone, more than $300,000 would generally be enough. Land improvements such as parking lots do not count toward the building's test.

**Rural tracts on the new map.**

Of the 6,576 tracts designated for 2027 through 2036, 2,594 are rural. The 30% step-up depends on investing through a fund that qualifies as a QROF. Owning property in a single rural tract is not the same thing, which is why the fund’s structure matters as much as the map.

08

# How is an Opportunity Fund structured?

Most real estate-focused Opportunity Zone funds use a two-tier structure: the QOF you invest in holds an interest in one or more Qualified Opportunity Zone Businesses (QOZBs) that own and develop the property.




**Why two tiers?**
The QOZB's 70% test and 31-month working capital safe harbor give a development project time to build and lease up.

- **Pass-through taxation.** Both tiers are typically partnerships or LLCs taxed as partnerships, so income, gains, losses and depreciation flow through to you. That is what preserves the Opportunity Zone benefits.
- **The sponsor controls the investment.** The sponsor, or an affiliate, serves as general partner and controls financing, construction, leasing and the eventual exit.
- **Sponsor compensation.** The general partner is typically paid a management or asset-management fee plus a promote, a share of profits after investors receive a preferred return.
- **You are a passive owner.** As a limited partner, you don't vote on operating or financing decisions, so you rely on the sponsor's judgment for the life of the hold.

09

# What should I ask about the sponsor and the project?

Without a shared statutory deadline pushing investors to decide quickly, the case for investing rests on the strength of the specific opportunity: the sponsor's track record, the underwriting and the deal itself.

Many first-generation Opportunity Zone projects launched into pandemic-related construction delays, rising materials and labor costs, and a rapid run-up in interest rates. A long holding period doesn't, on its own, protect an investment from financing or execution risk. Two things deserve a hard look before capital moves.

### The sponsor

- **Full-cycle experience.** Realized results on completed and exited projects, not projections.
- **Relevant experience** with this property type and market.
- **Financial capacity** to absorb a cost overrun, slower lease-up or soft refinancing market.
- **Alignment of interest.** How much of its own capital is invested alongside yours.
- **Reporting.** How often you'll see construction, budget, leasing and debt updates.

### The project

- **Zone status.** In a tract on the new map that takes effect January 1, 2027.
- **Entitlement.** Fully permitted, or still working through zoning and approvals.
- **Capital stack.** How much debt, at what rate, fixed or floating.
- **Construction contingency.** A realistic reserve, or a budget that assumes flat costs.
- **Rent and lease-up assumptions** grounded in current market comparables.
- **Exit assumptions.** The rates assumed at refinance or sale, and how sensitive returns are to them.

**Every offering is reviewed first.**

Every offering SREI Group presents to investors must first be approved through the due diligence process of Saxony Securities, Inc. Approval does not guarantee performance, and these questions still belong in every conversation.

10

# How do QOFs compare with a 1031 exchange into a DST?

A 1031 exchange swaps investment real estate for like-kind real estate, such as an interest in a Delaware Statutory Trust (DST). A QOF investment accepts gains from almost any asset, and only the gain itself needs to be reinvested.

| | 1031 exchange into a DST | Qualified Opportunity Fund |
|---|---|---|
| **Source of the gain** | Investment real estate only | Almost any asset: a business, stock, real estate |
| **What must be reinvested** | Generally the full sale proceeds | Only the gain |
| **Deadlines** | 45 days to identify, 180 days to close; a Qualified Intermediary is required | Generally 180 days to invest; no identification period |
| **How long the deferral lasts** | Can continue through successive exchanges | Five years, then the gain is recognized after the step-up |
| **New appreciation** | Deferred, not excluded | Can be tax-free after a 10-year hold |

Which approach fits, or whether a combination does, depends on the asset sold, the amount of gain and your time horizon. Alongside QOFs and DSTs, SREI Group also works with Section 721 UPREIT exchanges, REITs and other private market real estate. Track your 1031 dates with our 1031 Exchange Deadline Calculator: https://sreigroup.com/education/1031-deadline-calculator/

11

# How do states treat Opportunity Zone benefits?

The benefits in this guide are federal. Whether your state follows them depends on its own tax code, so confirm your state's treatment with your tax advisor.

- **Conformity varies.** Many states follow the federal deferral and exclusion to some degree; others do not, or conform only in part.
- **OZ 2.0 conformity is still developing.** Each state decides whether and when to adopt the July 2025 changes.
- **No state income tax.** In states without a personal income tax, there is generally no state capital gains tax to defer. Washington taxes certain long-term capital gains, so residents there should check how that tax applies.

12

# Weighing the benefits and the risks

Opportunity Zone investments are alternative investments. They can be complex and illiquid and carry real risk, including the potential loss of principal.

### Potential benefits

- Deferral of the original gain for five years.
- A 10% basis step-up, or 30% in a rural fund.
- Appreciation that can be tax-free after 10 years.
- Diversification across sponsors, property types and locations.
- Professional development and management.

### Risks to consider

- **Illiquidity.** Interests are hard to sell, and an early sale can forfeit tax benefits.
- **The year-five tax** is due even if no cash has been distributed.
- **Development and market risk:** delays, cost overruns, vacancies and falling values.
- **Sponsor risk** and lack of investor control.
- **Fees** that reduce overall returns.
- **Loss of principal.** You could lose all or a substantial part of your investment.

## At a glance

| | |
|---|---|
| **Minimum investment** | The tax code sets no minimum. Sponsors typically set minimums from $50,000 to $250,000, and some require $1,000,000. |
| **Holding period** | Designed for a hold of 10 years or more, which may not align with every estate plan. |
| **Income** | Not all QOFs pay distributions. Many reinvest cash flow into the property, and certain distributions may trigger a taxable event. |
| **Availability** | Most QOFs are private placements available only to accredited investors. |

13

# How SREI Group can help

SREI Group helps accredited investors compare Qualified Opportunity Funds, 1031 exchanges into DSTs, UPREIT exchanges and other private market real estate after a capital gain or property sale.

## How we work

1. **Attentive Consulting.** We learn your goals and build a full picture of your gain, liabilities and timeline.
2. **Strategy.** We shape an approach around your risk tolerance and objectives, working with your outside advisors.
3. **Design and Assemble.** We draw on offerings approved through Saxony due diligence.
4. **Performance.** We coordinate execution and fulfillment through closing.

## Ready to consider your next investment purchase?

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