

# Financial, Legal & Tax Advisory

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## ***Qualified Opportunity Zones After the OBBBA***

Under the Tax Cuts and Jobs Act of 2017 (TCJA), opportunity zones were created to spur economic growth and create jobs by incentivizing investment in these regions. The One Big Beautiful Bill Act (OBBBA), passed on July 4, 2025, expanded upon opportunity zones and made them permanent. Opportunity zones are generally represented by economically distressed communities that need investment and revitalization. To incentivize investment in low-income communities, the federal government created qualified opportunity zones (QOZs), which offer a range of tax benefits to investors through a qualified opportunity fund. QOZs are created by state governors who nominate a limited number of eligible tracts for official designation.

These tracts are often low-income communities, as well as certain neighboring areas. The Secretary of the Treasury, through their delegation of authority to the IRS, sets forth the certification and designation of an opportunity zone. Specific and detailed information on the eligibility criteria can be found on the IRS website. To capitalize on the tax benefits of a QOZ, investments must be made through a qualified opportunity fund (QOF). A QOF is an investment vehicle, such as a corporation or partnership, that is organized for the purpose of investing in assets within QOZs.

For such a corporation or partnership to become a QOF, a self-certified Form 8996 must be filed annually with its federal income tax return. Upon designation, QOFs must invest at least 90% of their assets into designated QOZs to be eligible for tax benefits. Investments from the QOF can be in both real estate and businesses that are located within the QOZ if they meet certain conditions. Keep in mind that certain types of businesses. Within the TCJA, the primary tax benefit for investors in QOZs is the eligibility to defer tax payments on capital gains realized from prior investments.

If an investor allocates capital gains from a prior investment into a QOF within 180 days from the sale date, then tax payments on the gains can be deferred until the date the QOF is sold or December 31, 2026, whichever may come first. Another benefit implemented was for those who held onto the property for at least 5 years. Those who held their QOF for at least 5 years received a 10% exclusion of the deferred gain. If their QOF was held for at least 7 years, the 10% exclusion was shifted to 15%. Unfortunately, those investors who have yet to invest will be unable to take advantage of the exclusion, as December 31, 2026, is less than 5 or 7 years away.

The changes within the OBBA include, but are not limited to:

- QOZ program made permanent
- QOZs are redesignated every 10 years, beginning after July 1, 2026
- Capital gain deferral until the sooner of 1) selling the QOZ investment or 2) five years after acquisition
- 10% basis increase after holding for 5 years
- 30% basis increase after holding a qualified rural opportunity investment for 5 years
- After holding a QOZ investment for 10 years, capital gains on qualified investments held in the fund are not taxable for the first 30 years after acquisition
- No special rules for Puerto Rico QOZs

The tax advantages associated with QOZs are undoubtedly a great way to defer capital gains. However, there are many complexities associated with the process, including eligibility, timing, and funding. At The Center for Financial, Legal, and Tax Planning, P.C., we specialize in this type of investing. For any questions regarding QOZs, feel free to reach out at our website, [www.taxplanning.com](http://www.taxplanning.com), or by phone at (618) 997-3436.

Basi, Basi & Associates at The Center for Financial, Legal, & Tax Planning, P.C.

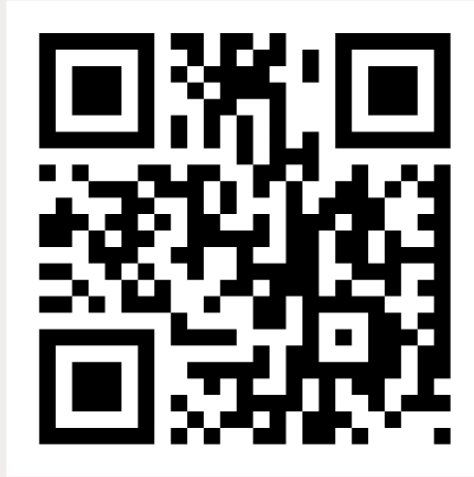
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