



## Understanding Changes to Opportunity Zones & the OBBBA Impact

December 9, 2025 11:00 AM - 12:00 PM EST

# Today's Presenters



**Derek Smith**

Partner, Tax



**Spencer Heywood**

Senior Manager, Washington  
National Tax Office

# Agenda

1. Overview of Opportunity Zone Rules
2. Key Reminders on Timing for OZ 1.0 Funds
3. New OZ 2.0 Rules From OBBBA
4. Questions & Discussion



# 01

## Overview of Opportunity Zone Rules



# Overview of Opportunity Zone Rules

- Low-income community census tracts – selected by Governors back in 2017
- Eligible census tracts met one of the following (OZ 1.0 definition)
  - Census tracts with at least 20% poverty rates
  - Census tracts with median income of 80% or less of statewide median income
  - Metropolitan census tracts with median income 80% or less of statewide median income or metropolitan median income (higher of the two)
- Up to 25% of the eligible census tracts may be designated
  - Allowed certain contiguous tracts (OZ 1.0 only)

# Overview of Opportunity Zone Rules

- Taxpayers eligible to invest in Opportunity Zones
  - Individuals
  - C corporations
  - Regulated Investment Companies (RICs)
  - Real Estate Investment Trusts (REITs)
  - Partnerships
  - S corporations
  - Trusts
  - Estates

# Overview of Opportunity Zone Rules

## Eligible Gains

- Short-term capital gain
- Long-term capital gain
- Sale of collectibles
- Sale of real estate – long-term gain
  - Includes 1231 gain & unrecaptured 1250 gain
- Sale of self-created intangibles (goodwill)

## Ineligible Gains

- Ordinary income from business
- Sale of equipment, furniture, fixtures, & related
  - Ordinary 1245 recapture (depreciation)
- Sale of inventory
- Related party sales

# Qualified Opportunity Fund (QOF)

## Requirements

- Eligible entity
  - Partnership
  - C corporation
  - S corporation
- Set up before investor contributes
- Must have standard QOF language under 1400Z-2 & related
- Investors must contribute to fund
  - Cash contribution
  - Qualified property (limited to basis in asset)
- Must be a trade or business

## Ineligible Items

- Ineligible entities
  - Single-member LLCs (SMLLC)
  - Trusts & estates
  - Individuals
- Certain ineligible businesses
  - Golf course, liquor store, gambling, suntan business, & federally illegal
- Pure triple net leases & land held for invest

# Overview of Opportunity Zones – Other Rules

- QOF investment standard
  - 90% of assets in QOZ property
    - QOZB assets
    - QOZ partnership or stock
  - Testing is done 6-months & year-end
    - Typically, 6/30 & 12/31 – except for initial year
- Most QOF invest in a Qualified Opportunity Zone Business (QOZB)
  - Set up as a partnership or corporation
  - Operates the trade or business
  - QOF owns an interest in the QOZB entity

# Qualified Opportunity Zone Business (QOZB)

- QOZB typically owns the real estate & operates the business
- QOZB must meet asset-based tests as well
  - 70% of the QOZB assets must be located in the OZ
  - 50% of total gross income from active trade or business in the OZ
  - Substantial portion of intangible property used in the business in the OZ
  - Less than 5% is nonqualified financial property (stocks, bonds, etc.)
- Substantial Improvement Test
  - Existing property purchased by QOZB must be improved
  - 100% of cost basis of the tangible property
  - Land is excluded from improvement test

# 02

## Key Reminders on Timing for OZ 1.0 Funds



# Timing Reminders for OZ 1.0

- Opportunity Zones last 10 years (through 12/31/28)
- Investors must reinvest capital gains within 180 days
  - 180 days from the taxable gain
  - Flow-through gains (from K-1s)
    - 180 days from taxable gain
    - 180 days from year-end (12/31/25)
    - 180 days from original due date for pass-through entity (3/15/26)
  - For 2025, gains from pass-throughs must be reinvested by mid-September 2026

# Timing Reminders for OZ 1.0

- 2025 gains are the last gains available for tax deferral or basis adjustment under OZ 1.0
- 2026 gains can be deferred, no tax deferral or basis adjustment benefit, but eligible for 10-year exclusion benefit
  
- All deferred gains (from 2018 to now) are recognized on 12/31/26
- Unless an inclusion event occurred before
- Unless the business or assets are sold before 12/31/26
  
- Investors, developers, promoters have big decision
- QOF set up under OZ 1.0 rules & designated census tracts
- Wait to start the deal after 1/1/27 under OZ 2.0

03

New OZ 2.0 Rules From OBBBA



# Changes for QOF Investors Under OBBBA

No additional gain deferral past 12/31/26

- Prior gains deferred are recognized on 12/31/26
- Unless previously recognized due to sale or inclusion event

New OZ census tracts to be selected

- Selection process starts 7/1/26
- Must be done within 90 days & submitted to Treasury Department
- Treasury Department has 30 days
- Selected by the Governor of the state
- 30-day extension for selection & approval available – Governor requests
- New OZ census tracts selected every 10 years

# Changes for QOF Investors Under OBBBA

- Brand new OZ census tracts selected

## Census tracts more restrictive

- 70% or less of family median income relevant area
- 20% or greater poverty rate & average median income less than 125% of relevant area

## New Rural OZ designation

- Rural is a city or town less than 50,000 inhabitants
- Not adjacent to a city or town with 50,000 or more inhabitants (*e.g.*, in a large MSA)
- 30% basis step-up after 5 years
- 50% substantial improvement requirement
- Effective July 4, 2025

# Changes for QOF Investors Under OBBBA – OZ 2.0

## New to OZ 2.0

- Gains are deferred for 5 years – starting with the date of reinvestment
- Hold QOF investment for 5 years – 10% step-up in basis (means less gain taxed)
- Rural QOF investment for 5 years – 30% step-up in basis (means less gain taxed)
- Same as OZ 1.0 - Hold QOF investment for 10 years – permanent exclusion of capital gains but if held longer than 30 years, basis step-up capped at FMV at 30-year anniversary
- No longer available – additional 5% step-up if held for 7 years

## QOF starts 1/1/27 or later

- Same QOF rules for operating, asset tests, & other requirements
- Same trade or business rules
- Substantial improvement test – 50% in rural OZ funds

# Changes for QOF Investors Under OBBBA – OZ 2.0

Existing reporting for all QOFs

- Still reporting on Form 8996 for QOFs
- Investors still report deferred gains on Form 8997
- K-1 reporting of information for investors

New reporting requirements for all QOFs (new & old alike)

- Reporting forms will be developed by the IRS starting with 2026
- Report total residential units, number of jobs, & other related economic information
- QOZBs will report some information to QOFs that invest in the business
- Large penalties for failure to provide required information - \$500/day

# 04

## Questions & Discussion



# Contact

## Forvis Mazars

### Derek Smith

Partner - Tax

P: 417.865.8701

derek.smith@us.forvismazars.com

### Spencer Heywood

Senior Manager - WNTO

P: 480.834.6030

spencer.heywood@us.forvismazars.com

The information set forth in this presentation contains the analysis & conclusions of the author(s) based upon his/her/their research & analysis of industry information & legal authorities. Such analysis & conclusions should not be deemed opinions or conclusions by Forvis Mazars or the author(s) as to any individual situation as situations are fact-specific. The reader should perform their own analysis & form their own conclusions regarding any specific situation. Further, the author(s)' conclusions may be revised without notice with or without changes in industry information & legal authorities.

© 2025 Forvis Mazars, LLP. All rights reserved.