Opportunity Zones: how the tax benefit works in real estate

A summary for investors holding a realized capital gain who are weighing a development investment instead of a tax bill.

Reflects the program as amended in July 2025 · Current as of September 2026

An Opportunity Zone investment lets you roll a realized gain into a project in a designated census tract rather than paying tax on it now. **Hold the position ten years and federal tax on everything the project appreciates above your basis goes to zero.** Only the gain has to be reinvested — the rest of your sale proceeds stay with you.

Day 0

Defer. Tax owed on the original gain is postponed for five years from the date you invest. Cash that would have gone to the IRS goes into the project instead.

Year 5

Reduce. 10% of the deferred gain is permanently forgiven through a basis increase. Qualified rural funds receive 30%.

Year 10

Eliminate. Elect a step-up to fair market value on exit. Appreciation earned inside the fund carries no federal capital gains tax.

Year 30

If you have not sold by then, the step-up applies automatically.

What the investor actually does

1. **Realize an eligible gain**
   Sale of stock, a business, crypto, or property. Short or long term both qualify.
2. **Reinvest within 180 days**
   The clock runs from the date the gain is realized, not the date you find a deal.
3. **Subscribe to a Qualified Opportunity Fund**
   The fund self-certifies with the IRS; you file Form 8997 each year you hold.
4. **Hold ten years, then elect the step-up**
   The benefit is a function of time in the deal, not of how the deal is sold.

Why development fits the rules

Ground-up construction clears the hardest test. New building is original use, so there is no substantial-improvement threshold to hit on an existing structure.

The compliance calendar matches a build. The 90% asset test and 30-month improvement window line up with a normal permitting, construction and lease-up schedule.

Depreciation still works during the hold. The zone benefit removes tax at exit; it does not take away the shelter on operating cash flow along the way.

Florida charges no state income tax. For a Miami project the federal exclusion is effectively the entire tax bill.

The date you invest decides which set of rules you get

Through December 31, 2026

Original rules. Deferred gain comes due on **December 31, 2026** no matter when you invested, so there is little deferral left to capture this year, and the five- and seven-year reductions can no longer be reached.

The ten-year exclusion still applies in full — which is the largest of the three benefits.

From January 1, 2027

The program is now permanent. A gain invested from 2027 forward gets a **rolling five-year deferral** measured from your own investment date, the 10% reduction at year five, and the same ten-year exclusion.

Existing zones stay designated through **December 31, 2028**. States nominate the next map in late 2026 for a term running 2027 to 2036.

Prepared as a general summary of the Qualified Opportunity Zone provisions of the Internal Revenue Code as amended in July 2025. It is not tax, legal, or investment advice, and it is not an offer to sell securities. Zone designation, fund qualification, and the treatment of any specific gain must be confirmed with your own CPA and counsel before you rely on them.

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