WILLKIE

CLIENT ALERT

One Big Beautiful Bill Act Extends Tax Incentives for Qualified Opportunity Zones

July 14, 2025

AUTHOR

Roger Wise

Among the many changes in the One Big Beautiful Bill Act (the "Act"), H.R. 1, which President Trump signed into law on July 4, were provisions extending the tax incentives for qualified opportunity zones ("QOZs"). This alert provides a brief, preliminary overview of these changes.

As background, the QOZ rules were enacted in 2017 as part of the Tax Cuts and Jobs Act and provide benefits (and costs) as follows:

- Deferral. A taxpayer can elect to defer gain from the sale or exchange of any property by investing such gain in a qualified opportunity fund ("QOF") within six months, and any such gain can be deferred through December 31, 2026 (or until an earlier sale of the QOF investment), when it must be recognized. Unlike a section 1031 "like kind" exchange, gain from any type of property can be deferred, and only an amount equal to the gain, not the entire investment, must be reinvested. For example, if a taxpayer sells stock for $150 that was originally purchased for $50, the $100 gain would be deferred by investing that amount in a QOF, freeing up the original $50 investment.

- Elimination of 10% or 15% of deferred gain based on holding period. If the taxpayer holds the QOF investment for at least five years, 10% of the gain is eliminated; if for at least seven years, an additional 5% of the gain (for a total of 15%) is eliminated. This is accomplished through an increase in basis.

- After 10 years, permanent exclusion of new gain on QOF investment. If the QOF investment is held for at least 10 years, the taxpayer can elect to increase the basis to its fair market value on the date of a sale or exchange. If the $100 investment in the example above is sold after 10 years for $1,000, the taxpayer would avoid tax on the incremental $900 gain.

Here are the major changes to the QOZ program that were made by the Act.

1. New QOZs every 10 years. The Act makes these provisions permanent and permits the designation of new QOZs (in which deferred gains must be invested) every 10 years, with the next round to be designated in 2026 for investments starting in 2027.

2. More targeted definition of low-income communities. Only a low-income community can be designated as a QOZ. Under the Act, a census tract can be treated as a low-income community only if (a) its median family income does not exceed 70% of the state or metropolitan median (for rural and urban tracts, respectively) or (b) it has a poverty rate of at least 20% and its median family income does not exceed 125% of the applicable median.

3. Tax benefits. In general, the tax benefits described above are extended to new QOZ investments, but with only the elimination of 10% of deferred gain after five years. As noted above, after 10 years, any incremental gain is excluded. Under the Act, if the investment is held for more than 30 years, only the built-in gain on the 30th anniversary of the investment is excluded. For example, if an investment appreciates in value by $2,000 after 30 years and is sold for a $2,500 gain after 35 years, only $2,000 of the gain would be excluded.

4. Emphasis on rural QOZs. The Act provides greater incentives for investments in rural areas. An investor in a QOF with at least 90% of its assets invested in rural areas (a "qualified rural opportunity fund" or "QROF") is eligible for a 30% basis step-up after 5 years (rather than the 10% step-up otherwise). A QOF must make a "substantial improvement" to any property that it purchases; for a QROF, a substantial improvement means investing an additional amount equal to 50% of its original investment, rather than 100% under the general rules.

5. Information reporting. The Act imposes additional reporting requirements with respect to QOZ investments, including the value and location of QOZ investments and investor sales of QOF interests, and penalties for failures to comply.

We hope the above is helpful. Please also refer to our alerts from the earlier round of QOZ guidance:

The Opportunity Zone (OZ): the Great and Powerful Tax Incentive?

OZ Proposed Regulations Ease on Down the Road Toward Workable Tax Incentive

Second Round of Opportunity Zone Guidance Closes Holes in O-Zone Layer

There's No Place Like O-Zone: Final Opportunity Zone Regulations Provide Clarity, Flexibility

If you have any questions regarding this client alert, please contact the following attorney or the Willkie attorney with whom you regularly work.

Roger Wise

202 303 1154
rwise@willkie.com