



## Summary of QOZ 2.0

(Qualified Opportunity Zone program under the “One Big Beautiful Bill Act” or OBBBA)

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### QOZ 2.0 — Key Highlights

#### 1. Program Permanence

- QOZ becomes a **permanent feature of the tax code**, no longer set to expire.

#### 2. Rolling 5-Year Gain Deferral

- For investments made **after December 31, 2026**, capital gains are deferred for **five years** from the investment date, instead of a fixed end date.

#### 3. Basis Step-Up Incentives

- After five years:
  - **10% basis step-up** for standard Qualified Opportunity Funds (QOFs).
  - **30% basis step-up** for rural QOFs (QROFs).

#### 4. 10-Year Tax Exclusion

- Gains on QOF investments held for at least **10 years** remain **fully tax-exempt**, just like in the original program.
  - **For investments held for at least 10 years but less than 30 years:** The basis of the QOF investment will be stepped up to its fair market value at the time of sale or exchange, effectively eliminating capital gains tax on the appreciation.
  - **For investments held for 30 years or more:** The basis step-up will be fixed at the fair market value of the investment on its 30th anniversary. This means any further appreciation beyond the 30th anniversary will be subject to capital gains tax upon sale or exchange.

#### 5. Rural-Focused Enhancements

- QROFs receive:
  - Higher basis step-up (30%).
  - A **50% “substantial improvement” threshold** (down from 100%), easing redevelopment of existing structures.

## 6. Decennial Redesignation of Zones

- Starting **July 1, 2026**, U.S. governors will redesignate QOZs every **10 years**, with new zones becoming effective **January 1, 2027**, then 2037, and so on.

## 7. Stricter Eligibility Standards

- The “low-income community” definition tightens:
  - Median family income must be **≤ 70%** of area or state median (down from 80%).
  - Alternative test: poverty rate **≥ 20%** and income **< 125%** of median.
  - Eliminates contiguous tract rule and removes blanket designation for Puerto Rico.

## 8. Enhanced Transparency & Oversight

- QOFs and QOZ businesses will face **expanded reporting requirements** (e.g., on asset locations, employment, housing impacts) and **steeper penalties** (up to \$50,000 for noncompliance).

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### Summary Table

Topic	What’s New in QOZ 2.0 (Post-2026)
Program Status	Made <b>permanent</b>
Tax Deferral	<b>Rolling 5-year</b> deferral from investment date
Basis Step-Up	<b>10%</b> (standard); <b>30%</b> (rural) after 5 years
Tax-Free Exit	Gains from investments held <b>≥10 years</b> remain tax-exempt
Rural Incentives Zone Designations	Lower improvement burden (50%), higher step-up Re-evaluated every 10 years starting 2026
Eligibility Rules	Stricter income thresholds; contiguous rule removed
Compliance	Much stronger reporting and penalties

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### Why It Matters

- **For developers and investors:** The permanence of QOZ gives long-term confidence. Enhanced tax incentives and rural benefits make it more appealing, especially for sustained, impact-driven investments.
- **For communities:** Tighter eligibility and recurring redesignation ensure resources target truly disadvantaged areas. Improved reporting promotes accountability and transparency.