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Opportunity Zones 2.0: How new tax enhancements could reshape after-tax returns

Nearly a decade after the initial program launch,[1] Opportunity Zones (OZ) are entering a new phase,[2] one that could significantly improve after-tax outcomes and reshape how large capital gains are redeployed.

The Opportunity Zones program was created in 2017 to spur private investment and create jobs in high-need U.S. communities by offering tax benefits to investors.[1] Since its launch, the program has facilitated more than $100 billion of investment across real estate, infrastructure and operating businesses, according to a June 2026 U.S. Treasury report.[3]

With the passage of the One Big Beautiful Bill Act (OBBBA) in 2025, Congress extended and enhanced the program under what is now commonly referred to as "Opportunity Zones 2.0."[2] This next phase introduces program permanence, enhanced tax incentives, and a new rural Opportunity Zones designation.

Key Opportunity Zones 2.0 tax benefits

The value proposition of Opportunity Zones remains centered on three core tax incentives for Qualified Opportunity Zone Fund (QOF) investors: deferral, reduction and exclusion.

1. Tax deferral

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Investors in an OZ program can defer capital gains taxes when gains are reinvested into a QOF. Under OZ 2.0, these deferred gains remain untaxed for a five-year period following the investment.

2. Tax reduction

%

After meeting the required holding period, investors may receive a basis step-up on the deferred gain. This reduces the amount of the original gain subject to taxation, enhancing after-tax returns.

- Traditional OZ investments: 10 percent step-up
- Rural OZ investments: up to 30 percent step-up

3. Tax exclusion

The most significant benefit is realized over the long term.

If an investor holds a QOF investment for at least 10 years, any appreciation generated can be realized tax-free upon exit, with the potential to extend this benefit for up to 30 years in an open-end fund structure.

Importantly, this exclusion applies to the compounded growth of the new investment, not just the original gain, making it a powerful incentive for long-term capital deployment.

Additionally, depreciation benefits generated during the holding period are generally not subject to recapture upon disposition, further enhancing after-tax outcomes (if the QOF investment is held for at least 10 years).

How the program works

The Opportunity Zones program is structured around reinvesting capital gains into Qualified Opportunity Zone Funds (QOFs).

The basic mechanics are straightforward:

- Realize a capital gain from the sale of an asset, such as equities, real estate, or a business.
- Reinvest that gain within 180 days into a QOF.
- Maintain the investment over time to access a sequence of tax benefits tied to the holding period.

Under OZ 2.0, qualifying investments in 2027 and beyond are eligible for the permanent program's enhanced benefits, subject to applicable rules and holding periods.

This structure aligns investor outcomes with long-duration capital formation, encouraging patient investment in communities undergoing transformation.

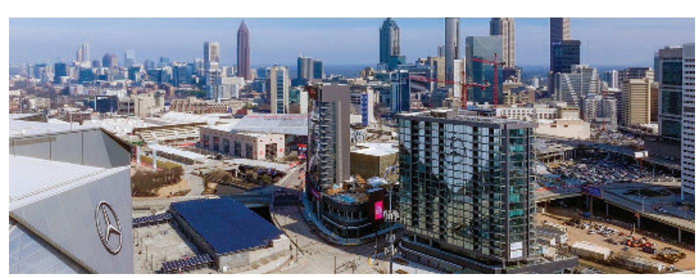
Investors considering an OZ investment should understand the potential risks and requirements of the associated QOF, including liquidity constraints.

How OZ 2.0 may enhance after-tax returns

To highlight the practical impact of OZ 2.0, we compare four hypothetical investment scenarios: a non-OZ investment, a traditional QOF, a rural QOF and a blended QOF strategy. This comparison underscores how OZ 2.0's enhanced incentives may drive incremental after-tax value.

Scenario assumptions:

- 9 percent annual growth rate
- New Jersey income tax rate of 10.75 percent
- Long-term capital gain tax rate of 20 percent
- 10 percent traditional/30 percent rural step-up in basis
- Includes net investment income tax of 3.8 percent
- The blended QOF reflects a 50/50 allocation split between a traditional QOF and a rural QOF.



Hypothetical scenario:

		Non-QOF	Traditional QOF	Rural QOF	Blended QOF
Investment Year:	**2027**				
Capital Gain		$1,000,000	$400,000	$600,000	$1,000,000
Taxes on Realized Gain		($345,500)	$--	$--	$--
End of Deferral Period:	**2032**				
Additional Step-Up in Basis			40,000	$180,000	$220,000
Taxes Net of State Benefit		$ --	($124,380)	($145,110)	($269,490)
End of Investment Period:	**2037**				
Value of Investment		$2,367,364	$946,945	$1,420,418	$2,367,364
Tax Gain		$1,367,364	$546,945	$820,418	$1,367,364
Taxes Net of State Benefit		($472,424)	$--	$--	$--
Amount Contributed Into the Fund		$1,000,000	$400,000	$600,000	$1,000,000
Total Taxes Paid		**($817,924)**	**($124,380)**	**($145,110)**	**($269,490)**
After-Tax Return ($):		$549,440	$422,565	$675,308	$1,097,874
After-Tax Multiple on Invested Capital		1.5x	2.1x	2.1x	2.1x
Gross Pre-Tax IRR		9.0%	9.0%	9.0%	9.0%
Gross After-Tax IRR		**3.5%**	**6.8%**	**7.3%**	**7.1%**

Internal Rate of Return (IRR) calculations assume cash flows occur at the end of each calendar year and represent the discount rate that would result in a net present value of zero, based on a 365-day year, for such cash flows.

Tax assumptions and rates are based on information as of April 13, 2026.

Illustration assumes that in both the QOF and non-QOF scenarios, the entire initial capital gain is reinvested and associated taxes are paid out of pocket. In the non-QOF scenario, original capital gain tax is paid at time of reinvestment and in the QOF scenario, original capital gains tax is paid at the end of the 5th year of their investment into the QOF. Illustration assumes an exit after a 10-year hold period for both the QOF and non-QOF scenarios.

This illustration highlights how, holding the underlying investment profile constant, the introduction of OZ benefits meaningfully enhances after-tax outcomes. Across comparable return assumptions, QOF structures increase after-tax IRR and materially reduce total taxes paid relative to a non-OZ investment, nearly doubling after-tax IRR.

The impact becomes more pronounced as incremental tax benefits compound over time, particularly through the basis step-up and full exclusion of appreciation upon exit. Notably, this analysis isolates the effect of tax treatment and does not incorporate the additional benefit of depreciation, which would further improve after-tax performance.

Key takeaways for advisers

For investors with significant capital gains, investing in an OZ 2.0 program has the potential to materially improve capital efficiency without increasing underlying asset risk. With a higher basis step-up incentive, rural allocations may further enhance outcomes.

As the Opportunity Zones program enters its next phase, the combination of enhanced incentives and program permanence may increase relevance for advisers and investors considering tax implications in portfolio construction.

1) Congress.gov. H.R.1 - An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, https://www.congress.gov/bill/115th-congress/house-bill/1/text.
2) Congress.gov. H.R. 1 An act to provide for reconciliation pursuant to title II of H. Con. Res. 14., https://www.congress.gov/bill/119th-congress/house-bill/1.
3) Treasury.gov. "Use of the Opportunity Zone Tax Incentive through 2024: An Update," David Coyne & Craig Johnson, June 2026

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