Summary

Created in 2017, Opportunity Zones (OZs) are designated, low-income census tracts where qualifying investments are eligible for reduced capital gains taxes. By channeling investment where it is needed, OZs help stimulate jobs, generate economic opportunity, and improve the built environment in low-income communities. The decentralized design of OZs allows more investors and stakeholders to participate in the market and invest in these projects.

The One Big Beautiful Bill Act (OB3 Act), signed into law on July 4, 2025, permanently extended the OZ tax incentives and made a number of helpful reforms that will further increase the provisions' positive impact in low-income communities.

Since the passage of the OB3 Act, the Real Estate Roundtable has focused on ensuring that investment and capital continue to flow into OZs during the transition from the OZ 1.0 to OZ 2.0 regime.

IRS Notice 2026-40 incorporates several Roundtable recommendations and provides helpful guidance for businesses and funds that are undertaking ambitious, long-duration, and sustained real estate investments.

Specifically, the guidance allows for investments in OZ 1.0 census tracts after 2026 if the expenditure is made in the ordinary course of the business, or if it is pursuant to a working capital plan and the business receives and spends certain percentages of its working capital by the end of 2026.

Key Takeaways

- In their short tenure, OZs have created jobs and spurred billions of dollars of new investment in economically struggling communities across the country.
- Opportunity Funds finance affordable, workforce, and senior housing; grocery-anchored retail centers; and commercial buildings that create spaces for new businesses and jobs.
- Recent estimates suggest OZs have attracted over $120 billion in capital.
- Congress should continue working on improvements to the OZ tax incentives to boost their scale and impact. These improvements should include:
    - Removing limitations on the type of capital eligible for investment in Opportunity Funds.
    - Adding a new OZ tax benefit for the conversion of older, obsolete commercial buildings to housing.
    - Codifying, lengthening, and improving the OZ working capital safe harbor.
    - Increasing flexibility of Opportunity Fund ownership, investment, restructuring, and leasing arrangements.
    - Modifying the substantial improvement threshold to cover a broad range of real estate rehabilitation and development projects.
    - Promoting greater foreign investment.