



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.

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.
- In 2020, the White House Council of Economic Advisers estimated that the Opportunity Funds had raised **\$75 billion** in private capital in the first two years following the incentives' enactment, including **\$52 billion** that otherwise would not have been raised. The council projected this capital could lift one million people out of poverty, decreasing poverty in OZs by 11 percent.
- Despite major hurdles such as COVID-19 and high interest rates, more recent estimates suggest OZs have attracted over **\$120 billion** in capital.
- Today, **72 percent** of U.S. counties contain at least one OZ, and **32 million** people live in the 8,764 OZ-designated census tracts.

Background

Tax Cuts and Jobs Act of 2017 (TCJA)

- First introduced by Senator Tim Scott (R-SC) and supported on a bipartisan basis, OZs were created under section **1400Z of the Internal Revenue Code** as part of TCJA. The three main OZ tax benefits were a **deferral of prior capital gain** rolled into an OZ fund, an increase (partial "step-up") in the basis of the prior investment after a five or seven-year holding period, and the **exclusion of gain** on the OZ investment after 10 years.
- The final OZ regulations were issued four months before the COVID-19 lockdown. Prior to the OB3 Act, the tax benefits were **gradually phasing down**, with the deferral of prior gain ending in **2026** and the partial basis step-up having already expired for new OZ fund contributions.

One Big Beautiful Bill Act

- The OB3 Act permanently extended the OZ tax incentives, including the full exclusion of capital gain on OZ investments held for 10 years.
- Beginning in 2027, the new law provides a rolling, five-year deferral period for prior gain that is invested in an Opportunity Fund (this ends the prior problem of a shrinking OZ tax incentive as the statutory recognition date for deferred gain approaches).
- The law also provides for a re-designation of OZ census tracts by state governors every 10 years and tightens the definition of a low-income census tract that is eligible for an OZ designation.
- The OB3 Act establishes additional benefits for rural OZs, including a lower substantial improvement test

for real estate projects, as well as transparency/reporting measures for all Opportunity Funds.

Recommendations

Support Implementation of New Rules: The OB3 Act represented an important and positive step forward in OZ tax policy and will ensure that the incentives continue to help mobilize capital for productive real estate investment, spur hiring in low-income areas, and boost housing supply.

- The U.S. Department of the Treasury should act quickly to lock in the legislative gains with well-designed guidance that supports implementation of the new rules. The guidance should clarify the eligibility of projects that started but were not completed prior to the expiration of the TCJA deadlines. Continuing expenditures on these long-term projects should qualify for OZ benefits.
- Treasury and/or Congress should consider actions that can be taken to encourage continued OZ investment in 2026. Otherwise, there is a risk that OZ investment will largely cease ("OZ dead zone") as investors wait until the new OZ regime takes effect on Jan. 1, 2027. In December 2025, RER submitted a [formal request](#) to Treasury for an expedited Revenue Procedure that provides safe harbors for long-term investments in expiring TCJA OZs.
- Congress should also 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.