

REVENUE PROCEDURE 2026-XX

SECTION 1. PURPOSE

This revenue procedure provides guidance regarding the application of § 1400Z-2 of the Internal Revenue Code to qualified opportunity funds (QOFs) and qualified opportunity zone businesses (QOZBs). Certain qualified opportunity zone (QOZ) designations § 1400Z-1(f) as enacted by Public Law 115-97, known as the Tax Cuts and Jobs Act of 2017 (TCJA) will cease to be in effect after December 31, 2028.

This revenue procedure establishes a safe harbor under which a QOF or QOZB's ability to satisfy the requirements enumerated in Section 4.03 below (QOZ Compliance Requirements) through December 31, 2047, is not impaired solely because the TCJA QOZ designation ceases to be in effect.

SECTION 2. BACKGROUND

Sections 1400Z-1 and 1400Z-2 were enacted to encourage investment in low-income communities by providing favorable tax treatment including the deferral and reduction of eligible capital gains reinvested in QOFs, as well as a basis step-up in certain newly acquired property if the QOF investment is held for at least ten years. Investments in QOFs made in 2026 are not eligible for deferral or reduction.

QOFs and QOZBs must meet certain QOZ Compliance Requirements, requiring property or operations to be in a QOZ.

Under § 1400Z-1(f) as enacted by the TCJA, QOZ designations are effective until December 31, 2028 (for tracts that were designated in 2018 in Notice 2018-48, as amplified by Notice 2019-42). Although Treas Reg § 1.1400Z2(c)-1(c) allows investors in QOFs to make a basis step-up election through December 31, 2047, even after the QOZ designation is no longer in effect, it is unclear whether or how QOFs and QOZBs can satisfy certain QOZ Compliance Requirements after a census tract's QOZ designation ceases to be in effect, potentially subjecting QOFs to significant penalties.

In the absence of the QOZ designation ceasing to be in effect, eligible gains invested in a QOF in December 2028, assuming they are timely contributed to a QOZB (and designated in a written plan for the development of a trade or business in a QOZ that meets the requirements of Treas. Reg. § 1.1400Z2(d)-1(d)(3)(v)(B) and (C)), would not otherwise need to be fully expended in a QOZ until July 2031 under existing guidance, which allows for a working capital safe harbor period of up to 31 months (and potentially longer, if the consumption of the working capital assets is delayed waiting for government action or if rules for federally declared disaster areas are applicable). In the case of a startup business the working capital safe harbor generally allows a QOZB to satisfy the requirement to conduct a trade or business for a maximum of 62 months

through the end of the working capital safe harbor period, provided that the requirements of Treas. Reg. § 1.1400Z2(d)-1(d)(3)(vi)(A) are satisfied, including that each application of the working capital safe harbor independently satisfies the requirements of Treas. Reg. § 1.1400Z2(d)-1(d)(3)(v)(A) through (C), and that each overlapping or sequential application of the working capital safe harbor includes a substantial amount of working capital assets (i.e., cash, cash equivalents or debt instruments with a term of 18 months or less, or debt instruments describe in section 1221(a)(4)).

The One Big Beautiful Bill Act of 2025, H.R. 1, 119th Cong. (2025), made the opportunity zone regime permanent, further heightening the need for transitional guidance to ensure that the program doesn't lose momentum and that there is no adverse impact on the development of new or existing trades or businesses geographically located within the initial TCJA qualified opportunity zones.

SECTION 3. SCOPE

This revenue procedure applies to QOFs and QOZBs invested in QOZs whose designations under § 1400Z-1(f) as enacted by the TCJA cease to be in effect, for purposes of determining whether certain QOZ Compliance Requirements are satisfied and outlines procedures for submitting a reliance statement.

SECTION 4. DEFINITIONS

For purposes of this revenue procedure, the following definitions apply:

.01 **Grandfathered QOZ.** A census tract that satisfies the requirements of Section 5 of this revenue procedure.

.02 **Disqualifying Event.** An event described in Section 5.03 of this revenue procedure.

.03 **QOZ Compliance Requirements.**

Requirements under § 1400Z-2 or the regulations thereunder that depend on whether property owned by a QOF or QOZB or a trade or business engaged in by a QOF or QOZB is located in a QOZ, including:

- (1) The requirement under § 1400Z-2(d)(2)(D)(i), § 1400Z-2(d)(3)(A)(i), and Treas. Reg. § 1.1400Z2(d)-2(d) that for tangible property to qualify as qualified opportunity zone business property (QOZBP), substantially all of the use of the tangible property by a QOF or QOZB must be in a QOZ for substantially all of the QOF's or QOZB's holding period for the tangible property.
- (2) The requirement under § 1400Z-2(d)(3)(A)(ii) and Treas. Reg. § 1.1400Z2(d)-1(d)(3)(i) that at least 50 percent of a QOZB's gross income be derived from the active conduct of a trade or business in the QOZ.

- (3) The requirement under § 1400Z-2(d)(3)(A)(ii) and Treas. Reg. § 1.1400Z2(d)-1(d)(3)(ii) that intangible property of a QOZB be used in the active conduct of a trade or business in a QOZ.
- (4) The requirement under Treas. Reg. § 1.1400Z2(d)-1(d)(3)(v)(A) that to qualify for the working capital safe harbor amounts must be designated in writing for the development of a trade or business in a QOZ.

.04 Permitted Entity. A QOF or QOZB meeting the requirements of Section 5.02 of this revenue procedure.

.05 Start-Up Period. The period beginning on the date that an eligible entity adopts a Written Plan and receives a Substantial Amount of Working Capital Assets until the date that such trade or business begins to engage in the active conduct of a trade or business.

.06 Substantial Amount of Working Capital Assets. An amount described in Treas. Reg. § 1.1400Z2(d)-1(d)(3)(vi)(A)(4) for the business under a facts-and-circumstances analysis, or an amount equal to at least 10 percent of the aggregate amount of working capital assets expended during the Start-Up Period of the trade or business as described in one or more Written Plan(s) of the eligible entity.

.07 Written Plan. A written plan meeting the requirements of Treas. Reg. §§ 1.1400Z2(d)-1(d)(3)(v)(A) through (C) and adopted on or before December 31, 2028. The Written Plan must clearly specify the trade or business that will be developed within 31 months of the receipt by the business of the working capital assets, including a written schedule consistent with the ordinary start-up of a trade or business for the expenditure of such working capital assets, or, in the case of multiple overlapping or sequential applications of the working capital safe harbor, a maximum of 62 months, if the requirements of Treas. Reg. § 1.1400Z2(d)-1(d)(3)(vi)(A) are satisfied. Any additional activities or future phases of development not completed within 31 months from the adoption of the Written Plan, or 62 months for a start-up business (taking into account any permissible tolling under Treas. Reg. §§ 1.1400Z2(d)-1(d)(3)(v)(C) or (D)), will be considered outside the scope of the Written Plan.

SECTION 5. SAFE HARBOR FOR GRANDFATHERED QUALIFIED OPPORTUNITY ZONES

.01 General rule

A census tract whose QOZ designation under the TCJA has ceased to be in effect shall be treated as a Grandfathered QOZ with respect to a Permitted Entity, and as a result such census tract will be deemed to still have a QOZ designation in effect, solely for purposes of the QOZ Compliance Requirements for a Permitted Entity applying this safe harbor, until the earlier of December 31, 2047, or a Disqualifying Event.

.02 Permitted Entity

The Permitted Entity must have either:

- (1) Begun to engage in the conduct of an active trade or business within a QOZ on or before December 31, 2028; or
- (2) Satisfied the following requirements:
 - (A) adopted a Written Plan;
 - (B) received a Substantial Amount of Working Capital Assets pursuant to a Written Plan on or before December 31, 2028, either (i) from an eligible taxpayer making a qualifying investment (within the meaning of Treas. Reg. § 1.1400Z2(a)-1(b)(34)) in the case of a QOF, or (ii) from a QOF in the case of a QOZB; and
 - (C) the Written Plan was not adopted at a time when the census tract's QOZ designation had ceased to be in effect.

.03 Disqualifying Event

A Disqualifying Event includes

- (1) the use of capital in a manner that is not substantially consistent with the description and written schedule(s) in its Written Plan(s), as in effect on or before December 31, 2028, or
- (2) a substantial change in the scope of the trade or business beyond what is described in the Written Plan as in effect on or before December 31, 2028, except as otherwise permitted by the Secretary.

SECTION 6. EXAMPLES

.01 Example 1: (1) Facts. (A) On March 1, 2025, QOF A creates partnership P to develop a residential real estate project in census tract T and acquires equity of P solely in exchange for cash. Census tract T was designated as a QOZ in 2018. Also on March 1, 2025, P writes a plan meeting the requirements of Treas. Reg. §§ 1.1400Z2(d)-1(d)(3)(v)(A) and (B), which includes a 31-month schedule for the use of the contributed cash to develop the residential housing project, which is expected to be complete prior to October, 2027. The plan clearly specifies the residential real estate trade or business that will be developed within 31 months of the receipt by P of the cash from QOF A.

(B) P's Written Plan included a reasonable schedule and budget for the development of its trade or business. P completes the project and places the residential housing project in service in August 2027.

(C) In September 2026, the chief executive officer of the state in which census tract T is located nominated census tracts to be designated as qualified opportunity zones effective January 1,

2027. In November 2026, the Secretary designated those nominated tracts as qualified opportunity zones. Census tract T was neither nominated nor redesignated as a qualified opportunity zone in 2026. Accordingly, on January 1, 2029, census tract T's designation as a QOZ ceases to be in effect.

(2) Analysis. P is a Permitted Entity under section 5.02(1). P's Written Plan indicated that P's trade or business would commence on or before December 31, 2028, and P in fact began to engage in a trade or business in census tract T on or before December 31, 2028. Because P is a Permitted Entity and no Disqualifying Event has occurred, census tract T is a Grandfathered QOZ with respect to P. Census tract T shall be deemed to still have a QOZ designation in effect for purposes of determining whether QOF A's interests in P qualify as QOZ property solely for purposes of the QOZ Compliance Requirements beyond the date that census tract T's designation as a QOZ ceased to be in effect.

.02 **Example 2:** (1) Facts. (A) Assume the same facts as above, except that: (1) P's residential housing project is expected to cost a total of \$95 million and utilize multiple overlapping or sequential applications of the working capital safe harbor when P's Written Plan is initially adopted; (2) P receives \$5 million of working capital from QOF A on March 1, 2025, pursuant to its Written Plan and schedule of expenditures; (3) QOF B is formed in January 2027 and funded with eligible gains; (4) P receives an additional \$5 million of working capital from QOF B on October 1, 2027, pursuant to its Written Plan and schedule of expenditures; (5) P receives an additional \$90 million of working capital from both QOF A and QOF B after 2028 pursuant to its Written Plan and schedule of expenditures to complete construction of the residential housing project taking into account cost overruns; (5) P expends \$100 million of working capital assets in a manner substantially consistent with the description and written schedules included in its Written Plan; and (6) P places in service the residential housing project and commences the active conduct of a trade or business on April 1, 2030.

(2) Analysis. P is a Permitted Entity under section 5.02(2). P's Written Plan indicated that P's trade or business would commence within a maximum 62-month Start-Up Period, beginning with the adoption of an initial Written Plan on March 1, 2025, and continuing in the form of multiple overlapping or sequential applications of the working capital safe harbor and satisfying the requirements of Treas. Reg. § 1.1400Z2(d)-1(d)(3)(vi)(A). P received a Substantial Amount of Working Capital Assets pursuant to its Written Plan from QOF A and QOF B on or before December 31, 2028. Census tract T's designation had not ceased to be in effect on this date. P's working capital of \$100 million was expended in a manner substantially consistent with the description and written schedules in its Written Plan in effect as of December 31, 2028, and did not change the scope of P's trade or business beyond what is described as being developed in its Written Plan. Because P is a Permitted Entity and no Disqualifying Event has occurred during P's Start-Up Period, census tract T is a Grandfathered QOZ with respect to P. Census tract T shall be deemed to still have a QOZ designation in effect for purposes of determining whether QOF A's and QOF B's interests in P qualify as QOZ property solely for purposes of the QOZ

Compliance Requirements beyond the date that census tract T's designation as a QOZ ceased to be in effect.

.03 **Example 3:** (1) **Facts.** On December 28, 2026, taxpayer T sells a capital asset to an unrelated person (within the meaning of § 1400Z-2(e)(2)) and realizes \$50 million of capital gain. On January 4, 2027, T contributes \$50 million to QOF C, an eligible entity electing to self-certify as a QOF in January 2027. On January 15, 2027, QOF C acquires original-issue stock from domestic corporation D solely in exchange for \$50 million of cash. Also, on January 15, 2027, D writes a plan meeting the requirements of Treas. Reg. §§ 1.1400Z2(d)-1(d)(3)(v)(A) and (B), which includes a reasonable 31-month schedule for the use of the contributed cash to acquire land in census tract U on which it plans to construct and lease a commercial building. Census tract U was designated as a QOZ under Notice 2018-48, but was neither nominated nor redesignated as a qualified opportunity zone in 2026 by the chief executive officer of the state within which U is located. On February 1, 2027, D acquires the land in census tract U for \$10 million. Between March 1, 2027 and December 31, 2028, D spends \$40 million constructing the commercial building, which is placed in service on January 15, 2029. D used its working capital in a manner that was substantially consistent with its Written Plan and 31-month schedule, as required by Treas. Reg. § 1.1400Z2(d)-1(d)(3)(v)(C).

(2) **Analysis.** D is a Permitted Entity under section 5.02(2). D adopted a Written Plan, together with a reasonable written schedule, on or before December 31, 2028, for the use of working capital assets received from QOF C that indicated D's trade or business would commence within 31 months of receipt by the business of such assets, and D expended its working capital assets in a manner substantially consistent with such Written Plan. D's Written Plan adopted in January 2027 clearly specifying the trade or business that it would operate at the end of its 31-month working capital safe harbor period, and D did not change the scope of its trade or business beyond what is described as being developed in its Written Plan. Because D is a Permitted Entity and no Disqualifying Event occurred, census tract U shall be deemed to still have a QOZ designation in effect for purposes of determining whether T made a qualifying investment in QOF C within the meaning of Treas. Reg. § 1.1400Z2(a)-1(b)(34), and QOF C's interests in D qualify as QOZ property solely for purposes of the QOZ Compliance Requirements beyond the date that census tract U's designation as a QOZ ceased to be in effect.

SECTION 7. RELIANCE AND NO INFERENCE

This revenue procedure provides a safe harbor. Taxpayers that satisfy the requirements of this revenue procedure may rely on it. No inference is intended or implied with respect to the federal income tax treatment of taxpayers that do not satisfy the terms of this safe harbor, whether before or after the effective date of this revenue procedure.

Taxpayers are required to attach a statement titled “GRANDFATHERED QOZ RELIANCE STATEMENT – REV. PROC. 2026-XX” to Form 8996 (for a QOF) or to the federal income tax return of the QOZB (for a QOZB). The statement should include: (1) the census tract identification (tract number and state/county identifiers); (2) the Written Plan adoption date; (3) identification of the applicable pathway in Section 5.02 (first clause or second clause); and (4) a representation that no Disqualifying Event has occurred as of the end of the taxable year (or, if one has occurred, the date of occurrence).

SECTION 8. EFFECTIVE DATE

This revenue procedure applies to QOFs and QOZBs for taxable years beginning on or after January 1, 2026. Taxpayers may rely on this revenue procedure for periods prior to its publication.

SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is _____ of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact _____ at (202) _____.
