One Big Beautiful Bill Makes Permanent Qualified Opportunity Zones Program … with Changes

Client Advisories

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On July 4, 2025, President Donald J. Trump signed the bill commonly known as the One Big Beautiful Bill (OBBB) (available here), which includes sweeping tax changes. One of those changes was to the Qualified Opportunity Zones (QOZ) program.

What is the QOZ program?
The QOZ program was created by the 2017 Tax Cuts and Jobs Act (TCJA), signed into law in President Trump's first term, to provide federal income tax incentives for investment in economically distressed communities.

How does the QOZ program work under the TCJA?
The QOZ program provides for several tax benefits: deferral of capital gains, step-up in basis, and no tax on appreciation.

Gain Deferral. The QOZ program allows an investor to defer recognition of gain on sale of an investment if the gains are reinvested within 180 days in a Qualified Opportunity Fund (QOF). A QOF is a corporation or partnership that generally must hold at least 90% of all of its assets within an economically distressed geographic area designated as a QOZ. These areas, within parameters set by statute and Treasury, are designated by states and approved by Treasury, as QOZs. Upon a liquidation of the investment in the QOF or December 31, 2026, whichever is earlier, the investor recognizes the deferred gain.

Basis Step-Up. If the investor holds the investment in the QOF for at least five years, the investor will benefit from a 10% step up in basis to use against the deferred gain. If the investor holds the investment for at least seven years, the investor will benefit from an additional 5% step up in basis.

Tax on Appreciation. If the investment in the QOF is held in excess of ten years, then the investor's basis in the investment will be equal to the fair market value on the date of sale. In other words, the appreciation in the investment will be excluded from income tax.

When does the QOZ program expire under TCJA?

Most of the QOZ program under the TCJA expires December 31, 2026. This means that an investment in a QOF in 2025 will still be available for gain deferral until the earlier of 2026 or the sale of the investment. Such investment will also be available for exclusion of any appreciation if held for at least ten years. However, the step-up in basis will not be available as the deadline to take advantage of those benefits has passed.

How does OBBB change the QOZ program?

Extension of QOZ Program. Where the TCJA had a sunset provision for the QOZ program, OBBB makes the QOZ program permanent, but is now subject to rolling ten-year, or "decennial," designation periods. The first decennial designation date is July 1, 2026. By such date, state governors shall specify QOZs, to be effective from January 1, 2027, through December 31, 2036. On each tenth anniversary thereafter, state governors are to re-designate QOZs, which will be in effect for ten calendar years.

Gain Deferral. The gain deferral is generally the same except recognition shall be no later than five years after the date of the investment. Taxation of capital gain invested in a QOF on or after January 1, 2027, will be deferred until the earlier of the date of disposition of such investment or five years from the date of the investment in a QOF.

Basis Step-Up. The step-up in basis was modified to eliminate the additional 5% step-up. The investor will still benefit from an increase in the basis of 10% of the deferred gain if the QOF investment is held for at least five years. However, an investment held for at least five years in "qualified rural opportunity funds,' a newly defined designation in the OBBB, earns the investor a step-up in basis of 30% of the deferred gain.

Tax on Appreciation. Under OBBB, there is no tax imposed on gain realized when the investment is sold or exchanged, if the QOF investment is held for at least 10 years. However, additional appreciation after 30 years will be subject to tax.

Additional Reporting Requirements. OBBB imposes new reporting requirements, including new IRC Sections 6039K and 6039L, for both QOFs and QOZ businesses. Existing QOF and QOZ sponsors must address their new reporting obligations.

What is next?

Like the initial roll-out of the QOZ program, IRS regulations and guidance will be necessary to clarify specific provisions of the revised program. This includes the revised state QOZ maps, which, based on the narrowing of the definitions of a QOZ in OBBB, is anticipated to be substantially smaller than under TCJA.

QOF sponsors and investors will need to weigh the benefits of pursuing investments in QOZs before January 1, 2027, including the immediate recognition in 2026, compared to waiting for the full benefits available to investments made after January 1, 2027.

To learn more about these issues or discuss how they might impact your business, please contact the Archer lawyer with whom you usually work, or James Smith at jsmith@archerlaw.com or 646-863-4301, or any member of the firm's Tax Group or Business Litigation Group.

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