OPPORTUNITY ZONES IN 2026

What Investors Need to Know About the Changing Rules

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Key takeaway

The original Opportunity Zone deferral period generally ends on December 31, 2026. A revised, permanent framework begins in 2027 with rolling five-year deferrals, refreshed zone designations, renewed basis adjustments, and enhanced rural incentives.

Opportunity Zones are entering an important transition period. Originally created in 2017, the program was designed to encourage long-term private investment in economically distressed communities. Investors may receive federal tax benefits by reinvesting eligible gains through a Qualified Opportunity Fund, commonly called a QOF.

Legislation enacted on July 4, 2025, made the program permanent and established a new framework for investments made after December 31, 2026. The changes do not simply extend the original rules. They create different timelines, incentives, zone designations, and planning considerations for future investments.

For investors, understanding which rules apply to an investment is essential. Investments made under the original program and those made beginning in 2027 may receive substantially different treatment.

How Opportunity Zone Investing Works

A Qualified Opportunity Fund is an investment vehicle organized as a corporation or partnership for the purpose of investing in eligible Opportunity Zone property. In general, a QOF must hold at least 90 percent of its assets in qualifying property.

An investor may elect to defer certain eligible gains by investing a corresponding amount in a QOF within the applicable 180-day investment period. Opportunity Zone investments may also offer a basis adjustment after a required holding period and potential exclusion of appreciation after a qualifying investment has been held for at least 10 years.

These tax benefits are subject to detailed requirements, and the timing of the original gain, the QOF investment, and the eventual disposition can affect the outcome.

The Original Deferral Period Ends in 2026

Under the original Opportunity Zone rules, deferred gains must generally be recognized upon the earlier of an inclusion event or December 31, 2026.

An inclusion event may occur when an investor sells, exchanges, transfers, or otherwise reduces a qualifying QOF investment. Investors who continue to hold qualifying investments through December 31, 2026, will generally include the remaining deferred gain in their 2026 taxable income.

The IRS has clarified that gain automatically included on December 31, 2026, cannot be reinvested into another QOF to obtain a second deferral. The original deferral election remains associated with the investment, even though the deferred gain becomes taxable.

Investors should begin preparing for the potential tax obligation before the end of the year. Planning may include reviewing estimated tax payments, available liquidity, capital losses, charitable strategies, and the effect of the income inclusion on the investor's broader tax situation.

The 10-Year Benefit May Continue

The end of the original gain deferral does not necessarily end every Opportunity Zone benefit.

An investor who recognizes the deferred gain for 2026 may continue holding the original qualifying QOF investment. If the investor eventually satisfies the 10-year holding requirement and meets the other applicable rules, the investor may remain eligible to elect a basis adjustment when the investment is later sold or exchanged.

This distinction is important. The original gain may become taxable for 2026, while qualifying appreciation generated by the QOF investment may still be eligible for favorable treatment later.

Investors should not assume that the December 31, 2026 inclusion date requires them to sell their QOF interests.

A New Opportunity Zone System Begins in 2027

The revised program generally applies to amounts invested in Qualified Opportunity Funds after December 31, 2026.

Under the new framework, eligible gains invested in a QOF beginning January 1, 2027, may generally be deferred until the earliest of:

- The sale or exchange of the qualifying investment
- Another applicable inclusion event
- Five years after the date the qualifying investment was made

This replaces the original program's single December 31, 2026 deadline with a rolling five-year deferral period based on each investor's investment date.

For example, an eligible gain invested in a qualifying fund during 2027 may generally be deferred for up to five years, assuming an earlier inclusion event does not occur. An investment made in a later year would have its own five-year timeline.

A New Five-Year Basis Adjustment

For qualifying investments made after December 31, 2026, an investor who holds the investment for at least five years may generally receive a basis increase equal to 10 percent of the deferred gain.

This feature differs from the timing rules that affected investments made during the later years of the original program. Because the revised structure uses a rolling five-year inclusion period, a qualifying investor may have a clearer opportunity to satisfy the holding period before recognizing the deferred gain.

The basis increase can reduce the portion of the original deferred gain ultimately included in taxable income. It does not eliminate investment risk, guarantee a return, or make every Opportunity Zone investment appropriate.

Enhanced Benefits for Qualified Rural Opportunity Funds

The revised rules provide stronger incentives for certain rural investments.

For qualifying investments made after December 31, 2026, an investment in a Qualified Rural Opportunity Fund may receive a basis increase equal to 30 percent of the deferred gain after the applicable five-year holding period. By comparison, the basis increase for other qualifying Opportunity Zone investments is generally 10 percent.

The IRS has defined a rural area for this purpose as an area outside a city or town with a population greater than 50,000 and outside an urbanized area contiguous and adjacent to such a city or town.

Rural Opportunity Zones may also benefit from a lower substantial-improvement threshold. For qualifying property located in an Opportunity Zone composed entirely of a rural area, the required improvement amount has been reduced from 100 percent to 50 percent of the property's adjusted basis. This change became effective July 4, 2025.

These incentives may expand the range of potentially viable rural projects, but investors should continue to evaluate each investment based on its underlying economics rather than its tax benefits alone.

New Zone Designations Take Effect in 2027

The original Opportunity Zone designations are being replaced by a new group of designated census tracts.

States and territories are selecting eligible tracts during 2026. Newly certified zones are scheduled to become effective January 1, 2027, and the first new designation period will continue through December 31, 2036.

A property located in an original Opportunity Zone will not automatically remain in a qualifying zone under the new system. Investors considering projects that will acquire property after December 31, 2026, should confirm that the property is located in a newly designated tract or qualifies under specific transitional guidance.

Location verification will become particularly important for development plans that span both the original and revised programs.

Transitional Rules May Affect Existing Projects

The IRS issued Notice 2026-40 to address several transitional issues involving existing QOFs, Opportunity Zone businesses, and projects extending beyond 2026.

In general, property acquired after December 31, 2026, for use in an original Opportunity Zone may not qualify unless the tract has been designated under the new program or a transition exception applies.

One transition rule may apply to property acquired under a written working-capital safe-harbor plan adopted by December 31, 2026. Among other conditions, the business generally must have received at least 10 percent of the planned working capital and spent at least 5 percent of it by the end of 2026.

Another limited exception may apply to property purchased in the ordinary course of business to replace or modernize existing property. It does not generally cover an expansion or a transition into a new line of business.

Fund managers and investors involved in projects already underway should review these requirements carefully. The existence of an original Opportunity Zone designation alone may not be enough to support acquisitions occurring after 2026.

Long-Term Appreciation Rules Are Changing

Under the revised framework, investors who hold a qualifying investment for at least 10 years may generally elect to adjust its basis to fair market value.

For investments made after December 31, 2026, the revised law places a 30-year limit on this benefit. The basis adjustment is generally determined using the investment's fair market value on the earlier of its sale or exchange or the date 30 years after the investment was made.

The 30-year limitation applies to the revised program. Original-program investments remain subject to the rules applicable when they were made.

What Investors Should Review in 2026

Investors with existing QOF interests should determine the amount of deferred gain expected to become taxable for 2026 and confirm that sufficient liquidity is available to meet the potential obligation. They should also review their original tax basis, investment dates, holding periods, prior distributions, and any transactions that may have created an inclusion event.

Investors considering a new QOF investment should compare the treatment of an investment completed by December 31, 2026, with one completed on or after January 1, 2027. The answer may depend on factors such as:

- The date the eligible gain was realized
- The remaining 180-day investment window
- The location and type of the underlying project
- Whether the fund qualifies as a rural fund
- The expected investment holding period
- The investor's current and projected tax rates
- The liquidity, risk, fees, and exit strategy of the fund

A tax benefit should be evaluated as one component of the decision, not as a substitute for investment due diligence.

Look Beyond the Tax Incentive

Opportunity Zone investments are often illiquid, concentrated, and dependent on long-term real estate or business-development outcomes. Investors should review the fund manager's experience, investment strategy, fees, financing structure, valuation practices, reporting process, conflicts of interest, and exit plan.

It is also important to consider whether the investment fits the investor's overall financial plan. A long holding period may be difficult for someone who expects to need the invested capital for retirement income, healthcare expenses, taxes, or other near-term goals.

The Bottom Line

The 2026 Opportunity Zone transition creates both planning challenges and new possibilities.

Existing investors are approaching the mandatory recognition of deferred gains on December 31, 2026, but they may still retain the potential long-term benefit associated with qualifying appreciation. Beginning in 2027, investors will encounter a permanent program with rolling five-year deferral periods, refreshed zone designations, renewed basis adjustments, and enhanced incentives for qualifying rural investments.

Because the rules are complex and additional Treasury regulations are expected, investors should coordinate with qualified tax, legal, and financial professionals before investing or making changes to an existing QOF position.

Planning perspective

Provident Financial Planning can help investors evaluate how an Opportunity Zone investment may fit within their broader tax strategy, liquidity needs, risk tolerance, and long-term financial plan.