

The OBBB Renews and Makes Permanent Qualified Opportunity Funds

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On July 4, 2025, President Trump signed the “One Big Beautiful Bill Act” (OBBB), H.R. 1, into law. The OBBB extended and made permanent the general qualified opportunity fund (QOF) legislative framework for investments in qualified opportunity zones (QOZs), while modifying certain significant aspects of the law, including an increased focus on investments in rural areas. This article offers a brief summary of the existing law, enacted by the Tax Cuts and Jobs Act (TCJA) in late 2017, and highlights the significant changes made by the OBBB.

Existing Law

QOZs are designated low-income census tracts where investments can receive preferential tax treatment if made through a QOF that invests at least 90% of its assets in qualified opportunity zone property (very generally, “original use” or “substantially improved” property located in a QOZ or stock or partnership interests in an entity operating a business and owning property in a QOZ). Taxpayers could defer eligible capital gains until December 31, 2026, by investing them in a QOF, generally within 180 days of the gain’s recognition, with the potential for partial exclusion of the deferred gain if the investment was held for at least five (10% exclusion of invested gain) or seven years (additional 5% exclusion). The five-year and seven-year holding periods had to be met prior to December 31, 2026, so this benefit has not been available for several years. An investor in a QOF can obtain a full exclusion of post-investment appreciation if it holds its interest in the QOF for at least 10 years.

Changes Under the OBBB

While the OBBB retains the general framework associated with investments in QOFs (e.g., the type of gain that can be invested in an QOF, general requirements for QOF, and qualified opportunity zone business (QOZB) qualification), the most notable changes introduced by the OBBB are highlighted below:

- 1. QOZs Made Permanent With “Rolling” 10-Year Designations.** The OBBB permanently renews the QOZ program and introduces new, rolling 10-year periods for QOZ designations, with governors designating new QOZs every ten years beginning July 1, 2026 (Decennial Determination Dates) and with the first new designations taking effect January 1, 2027.
- 2. More Stringent QOZ Designation Criteria.** The criteria for census tracts that are eligible to be designated as QOZs has been narrowed, reducing the median family income requirements, and the contiguous tract rule

(allowing looser requirements for certain census tract contiguous to other qualifying tracts) has been eliminated.

3. **Modified Gain Exclusion.** Unlike the TCJA QOF rules, which allowed deferral until a fixed date such that the timing of investment determined whether the five-year (10%) or seven-year (additional 5%) gain exclusion rules (or no gain exclusion at all) would apply, the OBBB always allows a five-year deferral (assuming no intervening gain “inclusion events” take place) and at the end of holding the investment for five years—and prior to inclusion being triggered — there is a 10% gain exclusion. While the five-year deferral is less than the deferral that would have been available for an early investment under the old TJCA law (and there is no possibility of an additional 5% exclusion), the OBBB ensures some meaningful level of deferral regardless of the timing of an investment. The exclusion for post-investment appreciation for QOF investments held for more than 10 years still applies.
4. **Enhanced Benefits for Investments in Rural QOZs.** If a QOF qualifies as a Qualified Rural Opportunity Fund, which generally occurs if 90% or more of its property is located in a rural QOZ, the 10% gain exclusion after a five-year hold is increased to 30%. Additionally, the “substantial improvement” requirement to make property held by the QOF or QOZB good “qualified opportunity zone business property” is reduced, requiring an additional investment in such property equal to only 50% of the initial investment in the property (rather than 100%).
5. **Increased Reporting Requirements.** In an effort to increase transparency and the government’s ability to evaluate the effectiveness of the QOF legislation, QOFs and QOZBs will be required to supply additional information to the government regarding the value of their property and information about employees and investors. Penalties apply for failure to comply.

Future guidance from Treasury is expected to provide additional details on the new legislation, including its interaction with existing QOF legislation. Please feel free to reach out if you have any questions about how the revised QOF legislation will affect your existing investments in QOFs and future fund and real estate investments.

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