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An opportunity for more — What's next for Opportunity Zones

By Joseph P. Heins and Christopher A. Fynn
Phillips Lytle LLP

As the dust settles around the passage of the One Big Beautiful Bill Act (OBBB) last year, the implications of its many provisions are beginning to come into focus, including a major overhaul of the Qualified Opportunity Zone program, a consequential program in the world of commercial real estate.

What are Opportunity Zones?

Joseph P. Heins
Special Counsel

Christopher A. Fynn
Attorney

Opportunity Zones (OZs) are an economic development tool that use tax incentives to encourage those with capital gains to invest in low-income and undercapitalized communities. They were designed under the original law to draw private capital into economically distressed areas by allowing investors to defer paying tax on gains for a certain period of time if those gains were invested in qualified opportunity funds, which invest in designated geographic areas. In addition, OZs provide further incentives for making long-term investments in two ways. First, by providing a step-up in basis for investments held for at least five years, with an additional increase after seven years. Second, taxpayers holding investments for more than 10 years are exempt from any additional gains above the original investment in the program. In other words, there would be no capital gains due on earnings from the qualified fund. By way of example, an investor who sells stock or a business can reinvest the capital gain into a qualified fund instead of paying tax immediately. If the investment is held for 10 years, only 85% of the original gain is taxed, and there will be no gain due on the appreciation from the OZ investment itself.

Important Updates From OBBB — a/k/a OZ 2.0

OBBB does more than extend the program; in many ways, it reshapes it.

First, the OZ program is now permanent (the original program was scheduled to expire at the end of 2026), removing much of the recent uncertainty in this area. At the same time, eligibility has been narrowed. Fewer areas will qualify under a stricter definition of "low-income community," and the practice of designating nearby or "contiguous" tracts has been eliminated.

In addition, OBBB created a rolling five-year deferral period, with OZ investors receiving a 10% basis step-up at the end of the five-year period. Notably, in an effort to encourage OZs to have a larger impact throughout all different areas of the country, the 10% basis triples to 30% for rural investments (i.e., investments in a qualified fund that holds 90% of its investments in rural areas).

It is very important to note, however, that the OBBB also created new reporting requirements and stringent penalties for non-compliance. Both investors and funds need to be aware of these new obligations.

What Does This Mean to You?

If you realize capital gains of any kind, from selling stock, a business or a real estate transaction, you can roll the gains into a qualified fund for dual benefit — investing in the neighborhoods that need it the most, while also receiving meaningful tax benefits.

Joseph P. Heins, Special Counsel and member of Phillips Lytle's Real Estate Industry Team, has extensive experience in the retail sector. He provides counsel to landlords and tenants alike to service their real estate portfolios, including leasing, sales, acquisitions, financing, public-private partnerships, project development, and title matters. He can be reached at 716-847-7004 or jheins@phillipslytle.com.

Christopher A. Fynn, attorney and member of Phillips Lytle's Real Estate Industry Team, can be reached at 716-847-5703 or cfynn@phillipslytle.com.