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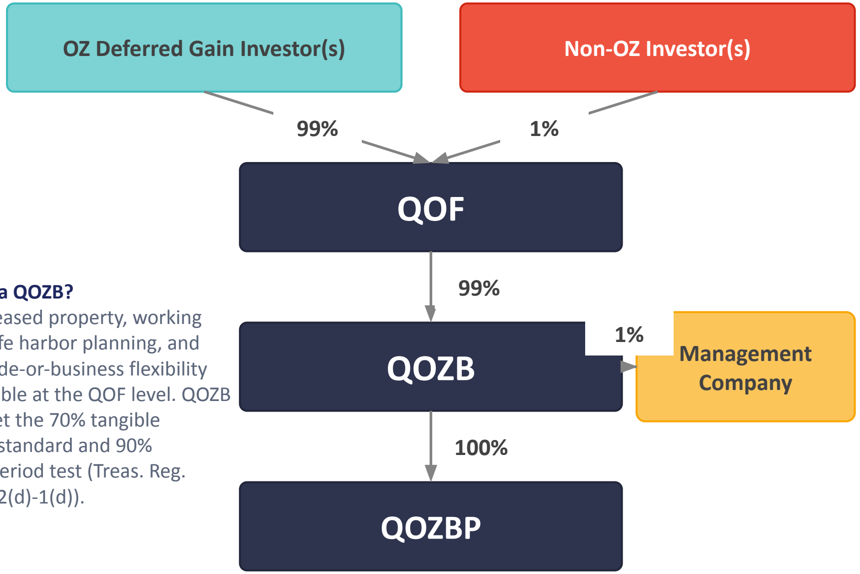
Opportunity Zone Structuring

Indirect, Direct & QROF Investment Structures

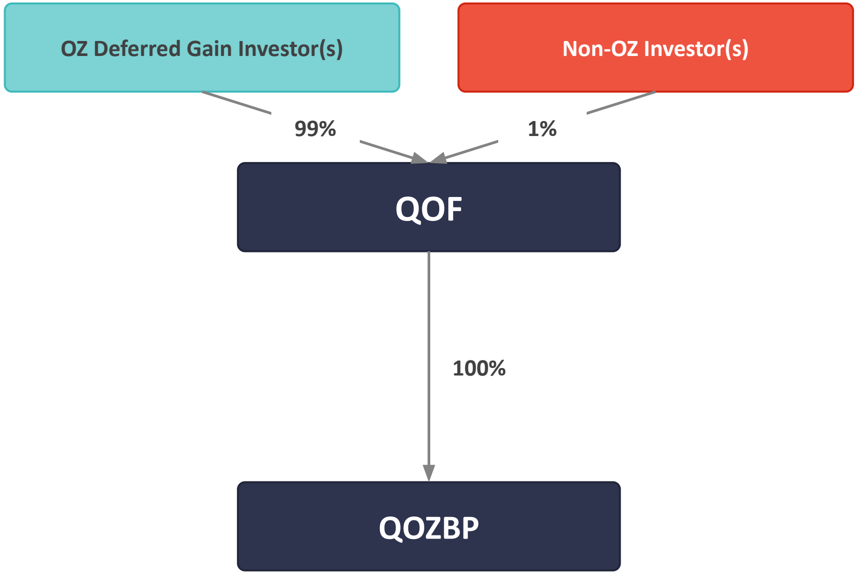
OZ Organization Structures

Indirect Structure (most recommended)



Why use a QOZB?
Permits leased property, working capital safe harbor planning, and active trade-or-business flexibility not available at the QOF level. QOZB must meet the 70% tangible property standard and 90% holding-period test (Treas. Reg. §1.1400Z2(d)-1(d)).

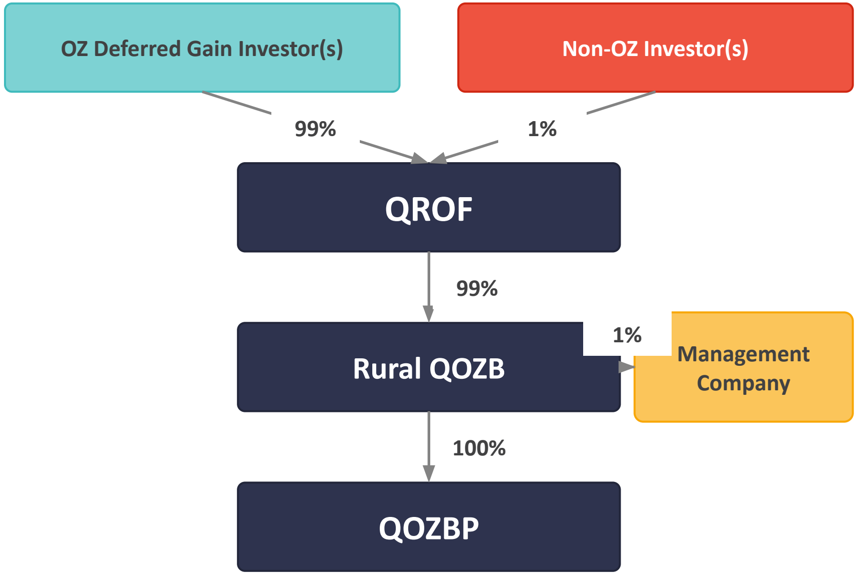
Direct Structure



QOF = Qualified Opportunity Fund • QOZB = Qualified Opportunity Zone Business • QOZBP = Qualified Opportunity Zone Business Property

QROF Variant: Enhanced Rural Opportunity Structure

QROF Structure (Indirect)



What Changes: Standard QOF vs. QROF

Ownership mechanics mirror the Indirect Structure at left; a Direct QROF variant omits the Rural QOZB tier.

Feature	QOF	QROF
Basis step-up (5-yr hold)	**10%**	**30%**
Substantial improvement threshold	**100%**	**50%**
Zone/use requirement	Any QOZ	**Entirely rural**

QROF defined at IRC §1400Z-2(b)(2)(C)(i); rural area = population ≤50,000, excluding adjacent urbanized areas (b)(2)(C)(ii). Enhanced step-up/rural rules apply to post-2026 investments; the 50% improvement threshold is already effective for existing rural tracts. (IRC §1400Z-2(b)(2)(B)-(C), (d)(2)(D)(ii); Notice 2025-50; Rev. Proc. 2026-14)

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OZ Transaction Steps: Deferral to Deployment

1. **Eligible gain.** Capital gain (or qualified §1231 gain) from a sale/exchange with an unrelated person, not required to net against other losses. *(IRC §1400Z-2(a)(1),(e)(2); Reg. §1.1400Z2(a)-1(b)(11),(13))*
2. **180-day period — pass-throughs.** Generally begins on the sale date. If a partnership, S corporation, trust, or estate recognizes the gain and does not defer it at the entity level, each partner, shareholder, or beneficiary may instead start their own 180-day period on: (i) the entity's sale date, (ii) the last day of the entity's tax year, or (iii) the due date (without extensions) of the entity's return for that year. *(Reg. §1.1400Z2(a)-1(b)(4); (c)(7)-(9))*
3. **Contribution to the QOF.** Within the window, the taxpayer contributes cash (up to the eligible gain) to a QOF solely for an equity interest — never debt — electing deferral on Form 8949 (Form 8997 annual reporting). Only the invested gain is a qualifying investment; any excess is a non-qualifying, mixed-funds investment. *(Reg. §1.1400Z2(a)-1(b)(11),(34); (f))*
4. **QOF certification — 90% test.** The entity self-certifies as a QOF on Form 8996 and must hold at least 90% of its assets in qualified opportunity zone property, tested at the first 6-month mark and year-end. *(IRC §1400Z-2(d)(1); Reg. §1.1400Z2(d)-1(b))*

REFERENCE

Key Definitions & Regulatory Authority

OZ Deferred Investor	An eligible taxpayer that elects under IRC §1400Z-2(a) to defer recognition of eligible capital gain by timely investing in a QOF within the 180-day period.	*IRC §1400Z-2(a); Treas. Reg. §1.1400Z2(a)-1*
Non-OZ Investor	An investor that contributes capital to (or holds an interest in) the QOF without making a §1400Z-2(a) deferral election; no special OZ basis or exclusion benefits attach to this equity.	*Treas. Reg. §1.1400Z2(a)-1(b) (mixed-funds investment rules)*
QOF — Qualified Opportunity Fund	Any corporation or partnership organized to invest in qualified opportunity zone property that holds at least 90% of its assets in such property (the "90% asset test"), self-certified annually.	*IRC §1400Z-2(d)(1); Treas. Reg. §1.1400Z2(d)-1*
QOZB — Qualified Opportunity Zone Business	An operating entity in which a QOF holds an eligible interest that satisfies the 70% tangible-property standard, income, intangible-property, and nonqualified financial property tests.	*IRC §1400Z-2(d)(2)(D); (d)(3); Treas. Reg. §1.1400Z2(d)-1(d)*
QOZBP — Qualified Opportunity Zone Business Property	Tangible property purchased after the qualified opportunity zone's applicable date (generally January 1, 2027, for zones designated in the first OZ 2.0 decennial cycle, in lieu of the prior December 31, 2017 threshold), used in a trade or business, with original use commencing with the QOF/QOZB or substantially improved, and substantially all use occurring in a QOZ	*IRC §1400Z-2(d)(2)(D)(i); Treas. Reg. §1.1400Z2(d)-2*

OBBBA (P.L. 119-21, §70421, enacted 7/4/2025) makes the OZ program permanent and adds rolling 10-year designations and a Qualified Rural Opportunity Fund (30% basis step-up), effective for investments made on/after 1/1/2027; it does not change the core QOF / QOZB / QOZBP entity definitions used above. See IRS Notice 2026-40 (OZ 1.0-to-2.0 transition guidance).

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