



Analysis

3 Takeaways From Budget Law's Opportunity Zone Revamp

By Asha Glover · July 22, 2025, 3:11 PM EDT

President Donald Trump's signing of a comprehensive tax and spending bill carries key changes for the federal opportunity zone program, making it permanent and introducing measures to encourage rural development and improve data collection on its economic impact. (AP Photo/Mark Lennihan) The new budget law makes the federal opportunity zone program permanent and makes other significant changes, including instituting reporting requirements. According to the U.S. Department of Housing and Urban Development, the program is intended to incentivize private and public investment in economically distressed communities.

The program, which stemmed from the 2017 Tax Cuts and Jobs Act, allows investors to defer taxes on capital gains — or profits they realize by selling assets — by reinvesting those gains into a qualified opportunity fund. It also lets investors who hold on to their interest in a qualified opportunity fund for five years or more see a 10% or larger reduction in the deferred tax amount when the time comes to pay.

There are three major takeaways from the revamped program, said David Shapiro, a tax partner at Saul. "No. 1 is that it's been made permanent ... and made permanent in a way that I think takes away some of the economic distortions that the old statute had," Shapiro said.

"No. 2 is that there's more wading toward rural development, and that's both in the number of rural zones that are going to be designated and also in additional economic preferences for rural projects." The third major change is the law's institution of reporting requirements, Shapiro said. Government officials will now have a collection of more detailed data, including information about project demographics, job creation and the types of businesses in each zone, he said.

"There's a bunch of stuff there that was intended to be in the original bill but didn't make it in the last reconciliation," Shapiro said.

Permanency

The law's biggest change is the permanency of the opportunity zone program, which will start a new round of opportunity zone designations, said Liam Krahe, co-founder of SF QOZ, a qualified opportunity zone fund in Miami.

"I really think it's a great thing that it's now a permanent fixture in the tax code," Krahe said. "I also like the fact that there will be new designations of opportunity zones every 10 years. I think that's important for the communities and for the purpose of the program."

Making the program permanent eliminates economic distortions resulting from the current regime, Shapiro said. Under the program's original design, taxpayers who invest in a qualified opportunity fund have their gains deferred until the earlier of Dec. 31, 2026, or whenever they dispose of their interest in the fund, Shapiro said.

"That was a hard date, so there was more economic return just based on that deferral for those who got in the door earlier," Shapiro said. Investors who had projects ready to move forward and investors who had capital gains to invest in 2018 "got a much better deal than projects that are just coming up for investment now," he said.

However, investors participating in the original version of the program are still tied to the December 2026 deferral deadline. But governors must pick new zones on a rolling basis every 10 years, starting in January 2027.

The 2017 version of the program has been left to "kind of peter out and expire," said Jessica Millett, a tax partner at Hogan Lovells, adding that current investors will still be required to pay tax on that date.

She said she's received "a lot of calls from clients" asking about whether the rules of the program's original version still apply and if their deadline to pay tax has been pushed back.

"Sorry, no dice," she said.

The program's permanency leaves lots of areas for the U.S. Department of the Treasury to issue guidance, including on transitional rules for investments made in zones right before new zones are designated, Millett said. One question is what happens if a taxpayer makes an investment in a zone during the final year of the 10-year window and that zone isn't redesignated during the next round, she said.

If taxpayers are required to hold their property in opportunity zones for 10 years in order to get the benefit, "they're going to have to find some way for the old zones to survive for people who already made their investments there," Millett said.

"There's plenty of open questions about things like that that we're going to need Treasury to issue regulations on," she said.

Rural Zone Expansion

The new law offers greater incentives for investments in rural areas, including an increase in the basis step-up after five years. Investors who hold on to their interest in a rural opportunity zone fund for five years could see a 30% reduction to their deferred capital gains tax, rather than the 10% that applies to nonrural funds.

Under the law, a rural zone must hold at least 90% of its assets in rural areas, specifically cities and towns with less than 50,000 inhabitants and surrounding areas.

The incentives aim to boost rural development, Shapiro of Saul Ewing said. Considering overall demographics, in many states, the majority of available census tracts for development will be in either urban or greater urban metropolitan areas due to factors such as general population density and workforce, he said.

"There's going to be sort of [a] natural push in that direction," Shapiro said. "But because there's going to be a requirement that more of the zones be designated rural and ... you've got the 30% incentive —between the two, there's likely to be more rural investment."

The 30% step-up in basis is fairly significant, Krahe of SF QOZ said.

The law also lowers the "substantial improvement" requirement for investments in rural areas. Under the original version of the program, funds that bought an existing building were required to substantially improve the property by doubling the initial cost basis within a two-and-a-half-year period, Hogan Lovells' Millett said.

Rural zone funds must only invest an additional 50% to meet the threshold, Krahe said.

"That's a pretty big deal," Krahe said. He added that his fund focuses on urban development in high-density areas but that he will be interested in opportunities to invest in rural zones, in part due to the new changes.

"We'll look at it to see if there is an opportunity there for single-family home development or some other type of development opportunity there where we can take advantage of it," Krahe said.

Reporting Requirements

The law establishes annual filing requirements for funds and investors. The information that has to be reported includes the value of the total assets held by a fund, the number of residential units in real property held by a fund and the average monthly number of full-time employee of opportunity zone businesses, according to the bill.

Treasury will be required to compile the data into a publicly available report, Millett said. The reporting requirements under the new law are an element that lawmakers wanted to include in the 2017 tax bill but were unable to fully implement, Millett said.

The original opportunity zone program's reporting requirements were more high-level, "but it wasn't a ton of real important economic metric data that would allow anybody to really evaluate whether the program" works, she said.

The new requirements are more thorough, Shapiro said. "It's not just reporting on whether your property is in the zone or out of the zone," he said. "It's reporting on what kind of jobs you're creating, it's reporting on what you're doing in much greater detail."

Additional reporting means additional work, but many of Shapiro's clients and industry contacts favor reporting because it demonstrates what they're doing within the zones and how it works, he said.

"There was a lot of concern where there wasn't reporting in the first bill that it was going to be very hard to extend because people were not going to have data to see what was happening and what might work," Shapiro said.

The program was also more open to criticism without the new rules, Millett said. The requirements will provide concrete proof of the program's impact, Krahe said.

"It's something that's a bipartisan thing," Krahe said, adding that people who have opposed the opportunity zone program have also advocated for the requirements.

The "more transparency, the better, is how we view this," Krahe said. "There is a cost to it, but in the same sense, I think it's important that we get it right and that funds and investors are aware of where that capital is being deployed and how it's being used."