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Five common misconceptions about Opportunity Zone investing

> The five things advisors and investors most often get wrong, and what the rules say instead.



1. "Opportunity Zones eliminate the tax on my original gain."

They defer the original gain and reduce it. You still owe tax on the original gain, reduced by a basis step-up. Under the rules applying to investments made from 2027 onward, that step-up is 10% — or 30% if the fund qualifies as rural — and the gain is recognized five years after you invest. Under OZ 1.0 rules the timing and percentages differ. What is genuinely eliminated is something else entirely: the tax on the appreciation of the Opportunity Zone investment itself, after a ten-year hold. Two separate benefits, easy to conflate.

2. "I have to reinvest the entire sale proceeds."

Only the gain. Your basis (generally what you paid, less any depreciation) is yours to keep. This is one of the clearest differences from a 1031 exchange, where the full proceeds generally have to be rolled to defer the whole gain. You can also elect to defer only part of a gain if that suits your situation better.

3. "It works like a 1031 — I need an intermediary and escrow."

You do not. There is no exchange and no like-kind requirement, so there is no qualified intermediary, no escrow account, and no identification period. You contribute eligible gain into a Qualified Opportunity Fund within 180 days of your recognition date and make an election on your return.

4. "If the fund sells a building, my ten-year clock restarts."

It does not. Your holding period runs on your investment in the fund, not on the assets inside it. A fund selling or refinancing a property is not an event that accelerates your deferred gain or breaks your clock. If the sale happens before your ten-year mark, the fund's own gain on it may be taxable and passes through to you that year. After your ten-year mark, different treatment may be available at the asset level — ask your sponsor how they intend to handle it.

5. "Only real-estate gains qualify."

Any eligible capital gain works — the sale of a business, public or private stock, crypto, collectibles, or real estate. The gain has to be a capital gain and invested within the window, but its source is largely irrelevant. One genuine exception to know about: gain from a sale to a party related to you does not qualify, tested at a 20% threshold, rather than the standard 50%.

> *The first misconception is the expensive one: deferral is not elimination, and the bill still arrives.*

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