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ONE-PAGER · WHAT CHANGED

Rural Opportunity Zones: the enhanced incentive

The current law created a separate, more generous track for rural investment. Here is what is different.



Three things change in a rural fund

	STANDARD FUND	RURAL FUND
Basis step-up at five years	10% of the deferred gain	**30% of the deferred gain**
Substantial-improvement threshold	Must exceed the building's basis	Half that threshold
Ten-year exclusion	Applies	Applies — unchanged

What "rural" actually means

It is a statutory definition, not a judgement call. A rural area is any area other than (a) a city or town with a population over 50,000, or (b) a census-designated urbanized area contiguous to and adjacent to such a city or town. The eligibility criteria are set; tract-by-tract certification follows the state nomination and designation process.

It does not mean farmland

The definition captures a great deal of land that is neither remote nor agricultural — including sites suited to industrial use, manufacturing, logistics and edge data centers, manufactured homes, and workforce housing in growing secondary markets. The common assumption that rural means farms is the single biggest misreading of this provision. The same investment in a standard fund can also be applied to a rural tract.

What the larger step-up is worth — same $1,000,000 gain

ON A $1,000,000 DEFERRED GAIN	STANDARD FUND	RURAL FUND
Basis step-up at the five-year mark	10%	**30%**
Step-up in dollars	$100,000	**$300,000**
Gain still subject to tax	$900,000	$700,000
Tax due at the five-year mark	$258,300	**$200,900**
Advantage of the rural sleeve — $57,400 less tax		

Illustrative. The 28.7% assumes a top federal long-term capital gains rate plus the net investment income tax and an average state rate; your own rate may be higher or lower, and several states do not conform at all. The amount recognised is also capped at the value of your investment on that date, so a decline in value reduces the bill in either column.

The constraint investors should understand

The bigger step-up is all or nothing, and it is decided fund by fund — not deal by deal. A fund earns the 30% only if substantially all of what it owns is rural Opportunity Zone property. This matters because there is no partial credit: put a few non-rural deals into an otherwise rural fund and the whole fund drops to the standard 10% — including for the rural deals it does hold. You do not get a blend of the two. You get the lower one. So a sponsor who wants to do both kinds of deals runs two separate funds, one rural and one standard, and lets investors choose which to join — or split their money across both. A single fund trying to do both would cost its rural investors the very benefit they came for.

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