BONAVENTURE

THE PRIMER

Opportunity Zones



What they are, what the 2025 law changed, and what it does to a $1,000,000 gain.

Three moving parts. 1) The zone is a census tract designated for long-term private investment. 2) The fund (a Qualified Opportunity Fund) pools capital and must keep at least 90% of its assets in qualifying property. This is what you invest in. 3) The business (a QOZB) is the property the fund owns and invests inside the zone. This can be any property ranging from an apartment community, a logistics facility, to a data center.

What 2025 changed. The program was scheduled to sunset; the 2025 law made it permanent. Every investor's deferred gain used to come due on one shared calendar date. Now each investor gets a rolling five-year clock from their own investment date. Zones are re-designated on a recurring cycle, with the new map effective January 1, 2027. It also added a rural category, with a 30% step-up versus 10% for standard.

A $1,000,000 CAPITAL GAIN, THREE WAYS

On a $1,000,000 gain	Pay the tax now	OZ 2.0 Standard	OZ 2.0 Rural
Tax due today	$287,000	$0	$0
Capital working from day one	$713,000	$1,000,000	$1,000,000
Deferral runs until	—	5 yrs from your investment	5 yrs from your investment
Basis step-up at year five	—	10%	30%
Original gain still taxed	$1,000,000	$900,000	$700,000
Tax on the deferred gain	$287,000	$258,300	$200,900
Value after 10 yrs at 10%/yr	$1,849,338	$2,593,742	$2,593,742
Tax on the appreciation	$326,129	$0	$0
Net after ten years	**$1,523,209**	**$2,335,442**	**$2,392,842**

Assumptions. 28.7% all-in rate (20% federal long-term plus the 3.8% net investment income tax plus a 4.9% average state rate. Your own rate may be higher or lower, and several states do not conform at all); 10% annual return; the tax on the deferred gain paid from resources outside the fund. Illustrative only.

Where the value sits

The Step up is not the biggest benefit. In our assumption above, you save $28,700 in standard and $86,100 in Rural. The biggest benefit is the ten year exclusion on the appreciation, which is worth $326,129 in the example above. This exclusion to allow your capital to compound for a decade without a federal tax drag at exit is what makes this program valuable.

Three things the table doesn't show

- **The year-five tax is owed whether or not the fund distributes cash.** Ask any sponsor how they plan to fund it.
- **The exclusion is an affirmative election.** Holding ten years does not deliver it automatically, and federal exclusion is not state exclusion unless your state allows it.
- **Only the capital gain portion of a sale is eligible for investment to receive the tax benefit.**

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