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Your OZ 1.0 position and the 2026 deadline



> If you invested in an Opportunity Zone fund before 2027, a tax bill is coming. Here is what to do about it.

The date that matters

For investments made under the original Opportunity Zone rules, the deferred gain you rolled in is recognized on the **earlier of an inclusion event or December 31, 2026.** For most investors that means the tax lands on the 2026 return you file in 2027 — whether or not your fund distributes any cash to pay it.

> *The deferral ends. The investment does not.*

You may owe less than you think

The amount recognized is the **lesser of** your original deferred gain or the fair market value of your fund investment at the recognition date, reduced by any basis you have earned. If the investment has fallen in value, the taxable amount falls with it. This is the first thing to check, and it is frequently missed.

What you still keep

- **Your ten-year exclusion is unaffected.** Recognizing the deferred gain in 2026 does not end your investment or reset your clock. Hold to your own ten-year mark and the appreciation on the fund investment can still be excluded.

- **Your earned basis step-up reduces the bill.** Under the original rules a five-year hold earned a 10% step-up and a seven-year hold earned 15%. Both windows have now closed for new investment — whether you qualify depends entirely on when you originally invested.

Four things to do now

1. **Confirm the number.** Ask your fund sponsor for your deferred gain, your basis step-up percentage, and the current value of your interest. Do not wait for the K-1.

2. **Find the cash.** Your fund is under no general obligation to distribute money to cover this. Check your operating agreement for a tax-distribution provision — many older funds do not have one.

3. **Do not sell early to fund the tax.** Disposing of your interest before your ten-year mark forfeits the permanent exclusion on all the appreciation. That is almost always the most expensive way to raise the money. If you sell a portion of your investment, you still get the benefits on what you have left, but you don't get the benefit on any appreciation on what you sold.

4. **Check your state.** If your state conforms to the Opportunity Zone rules, you'll likely have deferred state taxes due, as well.

Timing matters more right now than it usually does

A gain invested **before the new regime takes effect** still runs against the old fixed 2026 recognition date, which leaves almost no deferral runway. A gain invested **once the new rules apply** gets a full five years measured from your own investment date, plus a larger step-up if the fund qualifies as rural. For new gains, the calendar is now the most important variable.

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