

2025 Opportunity Zones Legislation Report

June 2025 Update

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Background on Opportunity Zones

Opportunity Zones were created by the *Tax Cuts and Jobs Act* of 2017 to stimulate economic investment in low-income and distressed communities. The policy allows investors to defer, reduce, and eliminate capital gains taxes by reinvesting those gains into Qualified Opportunity Funds (QOFs), which then invest in designated zones.

Special tax incentives are available to QOF investors, including:

- **Deferral of capital gains** reinvested in a QOF until December 31, 2026.
- **Basis step-up:** 10% increase after five years and an additional 5% after seven years (for a potential total increase of 15%). Note: these basis step-ups were available to early OZ investors and expired in 2021 and 2019, respectively.
- **Permanent exclusion of appreciation** on OZ investments held for at least 10 years.

Since implementation, an [estimated \\$150 billion](#) of equity has flowed into QOFs, fueling community redevelopment, infrastructure projects, housing development, and job creation. But the policy is perishable and is scheduled to sunset after 2026. New legislation by Congress is needed to extend or renew the program.

Two Categories of Opportunity Zone Legislation

1. Extension of the Current OZ Incentive

Initial legislative discussions dating back several years considered extending the original December 31, 2026, deferral date. However, political consensus on this extension has waned significantly. As of June 2025, it appears increasingly unlikely that Congress will extend this date, and investors should prepare accordingly.

2. Renewal and Enhancement of the OZ Incentive (OZ 2.0)

With the impending sunset of the original Opportunity Zone incentives, advocates and lawmakers have pivoted toward renewal and enhancement—collectively termed OZ 2.0. The goal of OZ 2.0 legislation is to refine, strengthen, and reauthorize the program, addressing criticisms and enhancing its effectiveness.

The remainder of this report focuses on OZ 2.0 legislation and the broader legislative vehicle to which these provisions are currently attached—namely, the *One Big Beautiful Bill Act*, which was passed by the House last month.

2025 Legislative Timeline

- **November 5, 2024:** Donald Trump wins the Presidential election; Republicans gain control of both the House and Senate.
- **February 25, 2025:** House approves their 2025 budget resolution.
- **April 5, 2025:** Senate amends and passes the House budget reconciliation framework.
- **April 10, 2025:** House approves Senate's amended budget resolution, initiating the reconciliation process.
- **May 12, 2025:** House releases draft text of their reconciliation bill, which includes OZ 2.0 provisions.
- **May 22, 2025:** House passes the reconciliation bill, titled the *One Big Beautiful Bill Act*.
- **June 2, 2025:** Senate returns from recess to take up the House version of the bill.

What's In The Current House Bill

The House reconciliation bill, the *One Big Beautiful Bill Act*, outlines significant updates to OZ policies. However, substantial Senate revisions are anticipated, rendering many of the provisions discussed below moot in a matter of weeks. That said, here are the OZ provisions currently in the House version of the bill:

- **New OZ Designation Period:** Initiates new OZ designations from January 1, 2027, through December 31, 2033, tightening eligibility significantly, especially targeting rural and lower-income areas.
- **Modified Basis Step-Up Regime:** Adjusts the existing basis step-up benefit to a simplified 10% increase after five years.
- **Enhanced Rural Incentives:** Introduces incentives specifically targeting Qualified Rural Opportunity Funds (QROFs), including up to a 30% basis increase and lower substantial improvement thresholds.
- **Limited Ordinary Income Participation:** Caps ordinary income investments at \$10,000 lifetime per taxpayer.
- **Tighter Zone Eligibility Criteria:** Introduces a stricter definition of what qualifies as a “low-income community” and prohibits non-low income contiguous tracts from

designation. An OpportunityZones.com analysis projects [22% fewer Opportunity Zone designations](#) as a result of the revised criteria.

- **Heightened Compliance and Reporting:** Establishes detailed reporting requirements and stiff penalties for noncompliance.

Importantly, this legislation is proceeding through budget reconciliation, a special parliamentary procedure which expedites the passage of certain federal budget legislation in the Senate by overriding the Senate's filibuster rules.

Bills passed through budget reconciliation can avoid filibuster and pass the Senate by a simple majority of 51 votes. Like the 2017 *Tax Cuts and Jobs Act*, which also passed via budget reconciliation, the *One Big Beautiful Bill Act* is expected to pass along partisan lines.

Core Policy Recommendations to Strengthen OZs

To address critical gaps and significantly improve the effectiveness of the Opportunity Zones policy beyond what was included in the House bill, our stakeholder group at OpportunityZones.com and OZ Insiders recently submitted a [letter to key lawmakers](#), advocating for the following five core policy recommendations:

1. Make the Opportunity Zones incentive permanent, with rolling deferral and recurring rounds of zone designations. Permanent authorization would provide long-term certainty to investors, incentivize sustainable community engagement, and ensure ongoing economic revitalization. Rolling deferrals would permit investors to continually defer gains by reinvesting into OZs, and periodic zone redesignations would adapt the program to evolving community needs and data.

2. Remove statutory barriers to OZ investment in operating businesses—specifically addressing interim gains treatment and qualification criteria for existing businesses as Qualified Opportunity Zone Businesses (QOZBs). Current regulations discourage investment in operating businesses. Clear statutory language allowing deferral of interim gains when reinvested promptly into other OZ businesses and simplified criteria for existing businesses to qualify as QOZBs would greatly enhance business investment.

3. Avoid an Opportunity Zone capital freeze by providing a clear 2025–2026 transition framework. Without proper transition provisions, uncertainty around legislative timelines and zone designations may lead to investment pauses or capital withdrawal. Clearly defining interim rules and grandfathering existing investments through the 2025–2026 transition period will prevent disruptions and maintain investment momentum.

4. Enable fund-of-funds structures to broaden access and efficiency. Allowing Qualified Opportunity Funds (QOFs) to invest in other QOFs greatly improves investment diversification, facilitates larger-scale community projects, and increases access for smaller investors. This structure would enhance capital flow efficiency and community impact.

5. Allow meaningful participation of ordinary income. The House bill's limitations on ordinary income investment are impractical, and would severely restrict broader participation. Significantly raising or removing the cap on ordinary income participation would democratize access to OZ investments, encourage local investment from middle-income earners, and substantially increase community involvement and economic inclusivity.

These specific policy recommendations directly align with extensive stakeholder feedback and current advocacy efforts, aiming to ensure OZ 2.0 is a robust, inclusive, and impactful economic development tool.

What's Next For OZ Legislation

The Senate is now considering the entirety of the One Big Beautiful Bill Act, including its OZ 2.0 provisions. As of June 10, 2025, the Senate is likely a few weeks away from releasing amendments to the House bill and conducting a floor vote.

Following Senate passage of an amended version of the House bill, the bill will then head back to the House for either a final vote or a further round of amendments.

It is likely that a final version of the bill, passed by both the House and the Senate, will head to the President for enactment later this summer, possibly as soon as July or August.

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