

# Understanding Qualified Opportunity Zone Funds

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*A Comprehensive  
Guide for Investors*





# Qualified Opportunity Zone Program Overview

The **One Big Beautiful Bill Act**, signed July 4, 2025, made the Qualified Opportunity Zone program a permanent fixture of the U.S. tax code ("QOZ 2.0"). The program, which initially passed with a sunset provision in the Tax Cuts and Jobs Act in 2017, has now been updated with expanded benefits effective January 1, 2027, which position QOZ investing as a cornerstone of sophisticated tax and wealth planning.

A **Qualified Opportunity Zone ("QOZ")** is a census tract nominated by the states and certified by the U.S. Treasury, where long-term private investment is encouraged through federal, and often state, tax incentives.

The program is designed to do two things at once: channel capital into specific communities (supporting job creation, housing, and revitalization), offering investors the potential for meaningful tax benefits for their long-term capital commitment.

Investors access the program through a **Qualified Opportunity Zone Fund ("QOF")**, the vehicle that pools capital and holds the qualifying investments.



The property depicted was previously developed and owned by Griffin Capital or its affiliates and does not represent any particular investment offering.

# A Compelling Tax-Advantaged Strategy

The proposition is straightforward for investors with capital gains: invest all or part of a realized capital gain into a QOF and have the opportunity to **defer** that gain for five years. At the end of the deferral period, a portion of that gain is permanently **reduced**. Once the investment is held for 10 years, all capital gain tax created by the investment is **excluded** (basis is stepped up to fair market value upon exit) with no depreciation recapture.

For investors with capital gains, the combination of deferred recognition and tax-free compounding is one of the most powerful after-tax planning tools available in the U.S. tax code.



## QOZ Tax Benefits Overview



### Deferral

Gains reinvested into a QOF are deferred for five years from the date of investment.

### Reduction

A qualifying capital gain invested in a QOF for the duration of the five-year deferral period receives a 10% basis step-up at the expiration of the deferral period or 30% if the investment is made in a Qualified Rural Opportunity Zone Fund ("QROF").

### Elimination

As long as the investment in a QOF is held for at least 10 years, and up to 30 years, capital gains taxes are eliminated upon exit of the fund.



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# Hypothetical QOF 2.0 Investment Example

The following example compares investing a \$1,000,000 capital gain in a QOF against placing the same gain in a comparable taxable (non-QOF) private placement, with both assumed to earn a 9% annual return over a ten-year hold. In this hypothetical, deferring the original gain, reducing it at year five, and eliminating tax on the investment's appreciation at year 10 leaves the QOF investor with roughly **\$422,601** more in after-tax proceeds or about **25% more** distributable cash than the taxable alternative.

## Assumptions



|                                                                             |                    |
|-----------------------------------------------------------------------------|--------------------|
| Realized Capital Gain for Investment                                        | <b>\$1,000,000</b> |
| LT Cap Gains Rate (Federal + ACA)                                           | <b>23.8%</b>       |
| State (Conforming) Tax <sup>1</sup>                                         | <b>5.0%</b>        |
| Non-QOF Private Placement Investment (internal rate of return) <sup>2</sup> | <b>9.0%</b>        |
| QOF (internal rate of return) <sup>2</sup>                                  | <b>9.0%</b>        |

|                                                 | Non-QOF Private<br>Placement Investment | QOF<br>Investment |
|-------------------------------------------------|-----------------------------------------|-------------------|
| <b>Investment Year</b>                          | <b>2027</b>                             | <b>2027</b>       |
| Realized Capital Gain for Investment            | \$ 1,000,000                            | \$ 1,000,000      |
| Capital Gain Tax Paid on Realized Gain          | (288,000)                               | —                 |
| <b>End of Deferral Period (Rolling 5-years)</b> | <b>2032</b>                             | <b>2032</b>       |
| Capital Gain Taxes Payable                      | —                                       | \$ (259,200)      |
| <b>End of 10-Year Investment Period</b>         | <b>2037</b>                             | <b>2037</b>       |
| Future Value of Investment                      | \$ 2,367,364                            | \$ 2,367,364      |
| Taxes Due                                       | (393,801)                               | —                 |
| Net After Tax Proceeds                          | \$ 1,973,563                            | \$ 2,367,364      |

| Summary of QOF Tax Benefit Differential                        |              |               |
|----------------------------------------------------------------|--------------|---------------|
| Initial Capital Gain                                           | \$ 1,000,000 | \$ 1,000,000  |
| Gain on Investment                                             | 1,367,364    | 1,367,364     |
| Taxes Paid                                                     | (681,801)    | (259,200)     |
| Net After Tax Proceeds                                         | \$ 1,685,563 | \$ 2,108,164  |
| <b>Relative Increase in Distributable After-Tax Cash</b>       |              | <b>25.07%</b> |
| <b>Net After-Tax IRR Benefit of QOF Investment<sup>3</sup></b> |              | <b>2.82%</b>  |

**Difference with QOF \$422,601**

This hypothetical illustration is based on the assumptions listed to show the potential tax benefits of investing in a QOF investment. It should not be construed as a guarantee or projection of the performance of an actual QOF investment. The tax rates and returns used in the assumptions of this example may vary greatly and should not be construed as any results you would achieve in a QOF investment. This information should not be construed as tax or legal advice. This illustration assumes the investment satisfies all applicable requirements under Sections 1400z-1 and 1400z-2 of the Internal Revenue Code and any U.S. Treasury regulations or other U.S. Internal Revenue guidance promulgated thereunder to qualify for the tax benefits illustrated. Investors should consult their own tax advisors to determine their individual benefits in a QOF investment. The illustration assumes that each investment earns a pre-tax annually compounded rate of return of 9%, net of all fees and expenses, and that any required taxes due upon the end of the applicable deferral period are paid with additional capital from the hypothetical investor. QOF investments entail various risks and limitations, including the risk of losing all or a portion of that invested capital, which investors should consider carefully before investing. Additional information regarding the calculations, risks, and limitations related to this illustration will be provided promptly upon request.

## Who Is Eligible to Invest?<sup>4</sup>

Eligibility is driven by the gain, not the taxpayer. Virtually any capital gain reportable on a U.S. tax return qualifies; whether realized from the sale of publicly traded securities, a privately held business, real estate, or other appreciated assets.



### Individuals

Including Foreign Individuals Filing U.S. Tax Returns



### Family Offices, Trusts, and Estates



### Corporations

(S Corps and C Corps)



### Real Estate Investment Trusts ("REITs")



### Partnerships

Any of the above may invest, and the gain must generally be placed in a QOF within 180 days of recognition with important nuances for pass-through gains that create more generous investment windows.





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# Investment Timelines



## QOF Investment Deadlines:

### **Capital Gains Recognized by Individuals:**

Individuals have 180 days from the date a gain was realized to invest all or a portion of it into a QOF. This investment can span across calendar years.

### **Capital Gains Recognized and Distributed Through a Pass-Through Vehicle:**

Investors realizing capital gains through a pass-through vehicle must still invest all or part of those gains into a QOF within 180 days. However, investors may elect to start the 180-day window one of three ways:

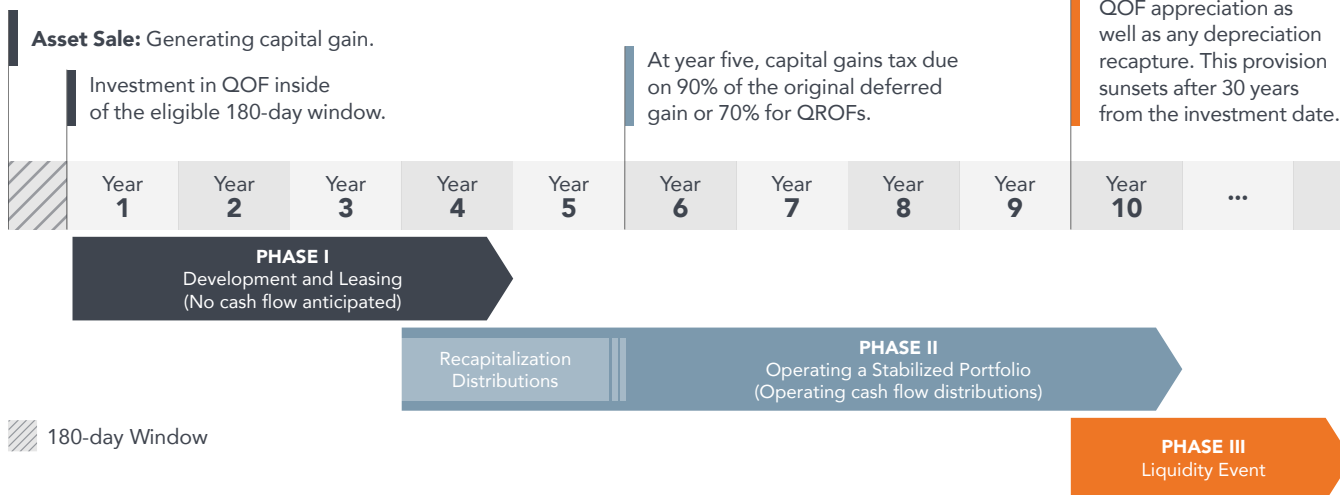
1. On the date of sale/gain recognition;
2. On the last day of the pass-through vehicle's taxable year (i.e., December 31 for pass-through vehicles with calendar year-ends); or
3. The due date of the pass-through vehicle's tax return (i.e., March 15 for pass-through vehicles with calendar year-ends).

## Hypothetical QOF Investment Timeline<sup>5</sup>

In a real estate-focused Opportunity Zone Fund investment, there are typically three phases throughout its life cycle. The example below outlines these phases, the possible sources of returns during the investment period, and how the three benefits—deferral, reduction, and elimination—can work over the life of a QOF investment.



Basis in QOF investment can be stepped up to fair market value if the investment is held for at least 10 years when a gain occurs, eliminating capital gains tax on QOF appreciation as well as any depreciation recapture. This provision sunsets after 30 years from the investment date.



The timeline provided assumes no Inclusion Events by the fund or the investor. These tax benefits are applicable to federal and most state taxes, however, some states have not conformed to this federal legislation.

# Common QOF Investor Profiles

Any capital gain that would be reported on a U.S. Tax Return is eligible to be invested in a QOF. The most common use cases are as follows:

## Securities Sale

### Use-Case:

- Re-balancing a securities portfolio with embedded capital gains.
- The sale of concentrated position(s).

### Potential Benefits:

- Creates a pool of capital that can potentially generate tax-advantaged income<sup>6</sup> and grow tax-free<sup>7</sup> over a long duration that can be repositioned into other asset classes in the future without tax implications.
- Creates additional portfolio diversification with a real estate allocation.
- Creates time to minimize or eliminate the capital gain invested in the QOF.



## Business Sale

### Use-Case:

- Exit from a privately held business or ownership interest.

### Potential Benefits:

- Provides the ability to spread a tax liability over multiple tax periods.
- Creates a pool of capital that can potentially generate tax-advantaged income<sup>6</sup> and grow tax-free<sup>7</sup> over a long duration that can be repositioned into other asset classes in the future without tax implications.
- Creates additional portfolio diversification with a real estate allocation.
- Creates time to minimize or eliminate the capital gain invested in the QOF.



## Sale of Real Estate

### Use-Case:

- A client has capital gains from the sale of personal or investment real estate.

### Potential Benefits:

- Provides the ability to spread a tax liability over multiple tax periods.
- Is a tool to separate basis from gain, creating immediate liquidity from the basis.
- Unrecaptured depreciation (section 1250 gain) is eligible to be invested in a QOF.
- Creates a pool of capital that can potentially generate tax-advantaged income<sup>6</sup> and grow tax-free<sup>7</sup> over a long duration that can be repositioned into other asset classes in the future without tax implications.
- Creates additional portfolio diversification with an allocation to investment real estate if the gain is derived from a personal residence.
- Creates time to minimize or eliminate the capital gain invested in the QOF.

## KEY CONSIDERATIONS

### Netting Losses to Determine Gains:

An investor does not need to net losses when determining capital gains eligible to invest in a QOF.

### Investing Across Calendar Years:

A QOF investment can span across calendar years as long as it is made within a compliant timeline.

A photograph of a modern multi-story building at dusk. The building has a mix of dark grey and light grey panels. Large windows on the left side are brightly lit from within, showing a warm yellow glow. The sky is a deep blue with some light clouds. The building's architecture is contemporary with clean lines and large glass windows.

## Capital Gains Use Cases

### Source of Capital Gain

### Opportunity Zone Fund

Concentrated Stock Position



Sale of Business



Sale of Investment Real Estate



Sale of Personal Real Estate



Sale of Collectibles



## Learn More

A Qualified Opportunity Zone Fund can be a powerful tax and wealth-planning tool, but it is not right for every investor. To explore whether a QOF fits your goals, contact your financial professional to learn more.



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## ENDNOTES

### Past performance is no guarantee of future results.

1. We used a hypothetical state tax of 5%; state taxes vary, and calculations will change based on both state tax rates and conformance with the QOZ rules. Some states don't have any taxes or have tax rates under the 5% used in this illustration, and as such the tax benefit differential for residents of those states could be substantially lower than what is shown. Likewise, there are some states that have tax rates above 5% and residents of those states could have a substantially higher tax benefit differential than what is shown in this hypothetical illustration.
2. Represents the pre-tax internal rate of return of the investment over a 10-year holding period.
3. Represents the difference between the after-tax internal rate of return of the Non-QOF Private Placement Investment and the QOF Investment.
  - If the Non-QOF Private Placement Investment and QOF Investment each were to achieve a 6.0% IRR instead of a 9% IRR, the resulting Net After-Tax IRR Benefit of the QOF Investment drops from 2.82% to 2.02% with an after-tax difference of \$256,564 between the two investments.
  - If each were to achieve a 3% IRR, the resulting Net After-Tax IRR Benefit of the QOF Investment drops to 1.07% with an after-tax difference of \$127,848.

However, there are no guarantees there will be a positive IRR in any investment.

4. Prospective investors should confirm their suitability with a financial professional before investing.
5. This information should not be construed as tax advice. Certain exceptions may apply. Investors should consult with their own tax advisors to determine their individual benefits in a QOZ investment. **These timelines are hypothetical in nature and do not reflect any actual QOF investment. Actual timelines of a QOF investment may differ materially. QOF investments are subject to various risks that should be reviewed carefully before investing. The ability of an actual QOF investment to achieve stabilization or pay recapitalization and operating cash flow distributions depends on the performance of the investment and may not occur.**
6. There are no guarantees the development properties in a QOF will be completed, stabilized, and generate any income.
7. Provided there is a gain in the QOF investment and the investor's interest in a QOF is held for at least 10 years. There is no guarantee of a positive gain in any QOF investment.



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**This information should not be construed as tax advice. Various exceptions apply. Investors should consult with their own tax advisors to determine their individual benefits in a QOF investment.**

**THIS IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES. AN OFFERING IS MADE ONLY BY A PRIVATE PLACEMENT MEMORANDUM. THIS LITERATURE MUST BE READ IN CONJUNCTION WITH A PRIVATE PLACEMENT MEMORANDUM IN ORDER TO UNDERSTAND FULLY ALL OF THE IMPLICATIONS AND RISKS OF SECURITIES TO WHICH IT RELATES. A COPY OF A PRIVATE PLACEMENT MEMORANDUM MUST BE MADE AVAILABLE TO YOU IN CONNECTION WITH AN OFFERING.**

Not all investors are suitable or qualify to invest into a QOF. You should always read the offering memorandum of any QOF and consult with your financial professional before investing into a QOF.

### IMPORTANT RISK FACTORS

An investment in a Qualified Opportunity Zone Fund is not suitable for all investors and is subject to various risks, including but not limited to:

- To be eligible for the tax benefits associated with such funds, investors must comply with various requirements, as specified under Sections 1400z-1 and 1400z-2 of the U.S. Internal Revenue Code, and any U.S. Treasury and Internal Revenue Service guidance promulgated. Failure to comply with these requirements, or the failure of a given fund to qualify as a Qualified Opportunity Zone Fund, may result in a loss of all or a portion of the associated tax benefits. Investors should consult with their tax professional to determine their specific tax implications from an investment in such funds.
- Typically, no public market currently exists, and one may never exist, for the interests of any Qualified Opportunity Zone Fund. Qualified Opportunity Zone Funds are not liquid.
- Qualified Opportunity Zone Funds typically offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment and tax objectives of any particular Qualified Opportunity Zone Fund will be achieved.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- The actual amount and timing of distributions paid by a Qualified Opportunity Zone Fund is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Qualified Opportunity Zone Funds that invest in for-lease properties depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Disruptions in the financial markets and challenging economic conditions could adversely affect a Qualified Opportunity Zone Fund.
- Qualified Opportunity Zone Tax Benefits may not be available under state law and some states may impose their own requirements to qualify for the equivalent of the Qualified Opportunity Zone Tax Benefits under state law.
- An investment in a Qualified Opportunity Zone Fund is highly speculative.

Before purchasing interests, prospective investors should review a fund's offering memorandum, as may be supplemented from time to time, for more complete description of the risks and other disclosure related to participating in the offering.

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