BROOKINGS

COMMENTARY

How did the One Big Beautiful Bill Act change Opportunity Zones?

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Editor's note: This post was edited to correct the Joint Tax Committee's estimate of the cost of the changes to OZs in the new law.

Opportunity Zones (OZs), created by the 2017 Tax Cuts and Jobs Act, offer generous tax incentives for private investors who put money into any of 8,764 census tracts across the U.S., nearly all of them low-income communities. "Their purpose," as the Internal Revenue Service puts it ↗, "is to spur economic growth and job creation in low-income communities while providing benefits to investors." The One Big Beautiful Bill Act (OBBBA) ↗ that President Trump signed into law in July 2025 will tweak the program and make the tax incentive permanent. Here is more detail.

How do the original OZs work?

Governors were allowed to designate as OZs up to 25% of the eligible census tracts—with eligibility based on criteria set by law, including median income and poverty levels. Investors with unrealized capital gains can deposit the gains into an OZ fund and defer capital gains tax until 2026, with up to 15% of the deferred gain tax exempt ↗, depending on when the investment was made. Subsequent profits on an OZ investment escape capital gains tax altogether, provided the money is left in the fund for 10 years. More than $100 billion ↗ has been invested in OZs.

About two thirds of the zones, ↗ the bulk of them in metro areas, had received OZ-related investments through 2022 (the most recent data available). Pope Leo XIV's childhood home in Dalton, Illinois, south of Chicago, is in an Opportunity Zone, but no major OZ project has broken ground in that census tract ↗, in which 25% of the residents ↗ are below the poverty line.

Although the initial case for OZs was to draw private capital into job-creating businesses in OZs, 75% of the money through 2022 went to real estate, ↗ most to residential real estate—in part because of the design and implementation of the tax incentives, and in part because the real estate industry has years of experience in taking advantage of tax breaks.

What will the OBBBA law do?

The bill will sunset the current set of OZs at the end of 2026 (instead of 2028 ↗ as in previous law) and create a new set of zones beginning in January 2027. Governors must pick new zones every 10 years. Some census tracts currently eligible for the OZ tax break will not be included in the new round, and the tax break—including the deferral of capital gains—will be available after January 1, 2027, only for investments made in the newly designated zones. The wording of this provision alarms OZ proponents who fear it will discourage new investment in existing OZs during the rest of 2025 and 2026. "Congress has inadvertently engineered a 12-month (or longer) dead zone," ↗ says Jimmy Atkinson of Opportunity Zone.com, an OZ advocate.

The bill also will narrow the eligibility criteria for OZs. The threshold for designating a tract as a "low-income community" falls from 80% of area or statewide median income to 70%. A provision that allowed governors to designate as OZs census tracts contiguous to low-income communities was eliminated. Also, a 2017 provision that made nearly all of Puerto Rico's census tracts into OZs was dropped; now only 25% of the eligible tracts may be designated as OZs in Puerto Rico as in other places. In all, there will be about 20% fewer OZs under the new law, according to OZ advocates. ↗

The law adds incentives for investments in rural areas. Among them, investors who put money in rural communities (defined as any place with fewer than 50,000 people, excluding tracts adjacent to a town or city with more than 50,000 people) and leave it there for five years would get up to a 30% reduction in the capital gains tax they owe on the deferred capital gains; those who invest in other OZs would get up to a 10% reduction. (No one would be eligible for the 15% reduction offered in the original OZ legislation.) Profits on OZ investments held for at least 10 years escape capital gains tax altogether when the assets are sold.

Reporting requirements were dropped in the Senate in the 2017 legislation because of a parliamentary provision known as the Byrd Rule, (https://www.brookings.edu/articles/what-is-reconciliation-in-congress/) but survived in 2025. The new laws says that the Treasury secretary shall "as soon as practical... and annually thereafter" ↗ report the amount of money invested in OZs, the percentage of eligible census tracts that have received OZ investment and how much has been invested in each one, the approximate number of employees in OZ-financed businesses for each census tract, and the number of residential units resulting from OZ projects. Beginning in 2031, the Treasury secretary shall report "the impacts and outcomes...as measured by economic indicators, such as job creation, poverty reduction, new business starts, and other metrics" resulting from designating a census tract as an OZ.

The Joint Tax Committee of Congress estimates ↗ that the OZ provision of the bill will reduce federal revenues by $40.9 billion between 2025 and 2034 versus what revenues would have been had Congress let the 2017 law stand.

What was left out of the new law?

The House bill doesn't make some changes that OZ critics ↗ have advocated ↗. For example, it doesn't provide bigger tax breaks for investors in very poor communities. It doesn't restrict the types of investments eligible for the OZ tax break: self-storage facilities ↗, luxury condos, high-end student housing, pickleball courts ↗, and gold vaults ↗ would still be eligible.

Proponents of OZs have a long wish list ↗ that didn't make the bill—allowing OZ funds to invest in other OZ funds (known as fund of funds), and altering the details to encourage OZ investment in operating business (as opposed to real estate).

What does research on OZs show?

Most of the research about the initial impact of OZs finds that, although investment has flowed to designated areas, much of it might have occurred otherwise, or it has been in communities that already were showing signs of economic revival. One exception is multifamily housing, which seems to have increased more in OZs than would have been expected absent the law.

Only researchers at the U.S. Treasury and the Joint Tax Committee (and their co-authors) have had access to tax return data on OZs. With data through 2022, Treasury economists David Coyne and Craig Johnson, in a paper co-authored with Kevin Corinth of the American Enterprise Institute and Naomi Feldman of Hebrew University, found that about two-thirds of the zones ↗ received some OZ investment, but communities that were already doing better drew more than others. “We find that OZ investment … tends to flow to census tracts with greater pre-existing private investment and other conditions reflective of strong demand, within prosperous counties, and in areas of the country experiencing greater growth,” they said. According to the Joint Committee on Taxation, the states that received the most ↗ OZ investment per capita were Wyoming, Utah, Arizona, and Nevada (in that order), plus Washington, D.C.

Economists who don’t have access to the tax return data have found a variety of ways to try to measure the impact of OZs in the first few years of the program, often comparing OZs with tracts that were eligible but not chosen by governors to be OZs. For instance, writing in the Journal of Economic Perspectives, a peer-reviewed journal of the American Economic Association, Corinth and Feldman concluded, “Overall, a substantial amount of investment has flowed to the designated areas under the policy ↗; however, aside from potentially important effects on residential real estate, it is unclear whether this represents additional investment that would not otherwise have occurred, and the evidence on benefits to residents of these areas is limited.” And Matthew Freedman, Shantanu Khanna, and David Neumark of the University of California, Irvine ↗, looking at 2018 and 2019 data, found “modest, if any, positive effects of the Opportunity Zone program on the employment, earnings, or poverty of zone residents.”

But Harrison Wheeler ↗, now at the University of Toronto, looking closely at 12,000 neighborhoods in 47 large U.S. cities, concluded that new development increased significantly in OZs. More recently, the Economic Innovation Group, which originated and promoted OZs, says ↗ the tally of new addresses reported by the U.S. Postal Service between the third quarter of 2019 (when OZ regulations were finalized) and the third quarter of 2024 suggests that the program has led to an increase in construction of new housing in OZs.

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