
I'm an Opportunity Zone Pro: This is How to Deliver Roth-Like Tax-Free Growth (Without Contribution Limits)

Investors who combine Roth IRAs, the gold standard of tax-free savings, with qualified opportunity funds could enjoy decades of tax-free growth.

By Michael Kelley

Whether you are an investor who has maxed out Roth IRAs for decades or someone now racing to catch up, the goal is the same: position as much money as possible for long-term, tax-free growth.

Tax-free investments allow your savings to grow faster and offer more clarity about the assets that will be available to you when you need them. But while taxable and tax-deferred savings are important elements of a financial plan, the value they deliver is subject to the tax rates effective at the time of liquidation.

Future tax rates are unknowable, but we do know that current tax rates are historically low, and that periods of high taxation often follow periods of high national debt. There is a reasonable case to be made that tax rates could be substantially higher in the coming years, further emphasizing the importance of tax-free savings.

Roth IRAs are the gold standard of tax-free savings. They are simple, flexible and truly tax-free for a lifetime, but have hard contribution limits (\$7,500 annual contribution in 2026, or \$8,600 if you're 50 or older), and income phase-outs. Even backdoor strategies have limitations. These limits exist for a reason: allowing tax-free growth is a substantial revenue loss for the Treasury.

Unlike Roth IRAs, qualified opportunity funds (QOFs) do not have annual contribution or income limits. Anyone who realizes a capital gain can make an eligible investment in a QOF within 180 days. Whether the gain is \$10,000 or \$10 million, the full amount is eligible for up to 30 years of tax-free growth.

Thanks to changes enacted in the One Big Beautiful Bill Act (OBBBA) of 2025, opportunity zones just became dramatically more powerful for long-term holders.

Opportunity Zones 2.0: OBBBA Changes Explained

Opportunity zone (OZ) tax incentives were first passed as a temporary program aimed at incentivizing those with recent capital gains to make long-term investments in low-income communities.

They delivered two benefits: Deferral and partial elimination of the original gain, and total exclusion of post-investment QOF appreciation until 2047, after a 10-year hold. However, as the fixed dates ending the deferral and tax elimination benefits grew nearer, the power of these incentives was substantially eroded.

The OBBBA reforms, informally called “OZ 2.0,” fixed that. OZ 2.0’s enhanced benefits are available for investments made on or after January 1, 2027.

	Current OZ Program	OZ 2.0
Timing of eligible investments	QOF investments from capital gains realized on or prior to December 31, 2026.	QOF investments made after January 1, 2027.
Capital eligible for QOF tax incentives	Capital is eligible up to the amount of capital gains realized within the last 180 days.	Capital is eligible up to the amount of capital gains realized within the last 180 days.
Deferral benefit on the original capital gain	Until December 31, 2026.	5 years from the date of the QOF investment. Eliminates 10% of the tax liability if the QOF is held for the full 5-year period.
Capital gain elimination benefit on the QOF investment	Eliminates 100% of capital gains. This benefit expires December 31, 2047.	Eliminates 100% of capital gains. This benefit expires 30 years from the date of purchase.

A Bridging Strategy: Use OZ 1.0 Today to Access OZ 2.0 Tomorrow

QOF investments made through the end of 2026 still follow OZ 1.0 rules (deferral ends on December 31, 2026). This creates a problem because gains realized before July 2026 will typically have their 180-day QOF investment eligibility expire before the enhanced benefits become available in 2027.

Fortunately, when an investor sells their QOF position, they receive a new capital gains realization date and a fresh 180-day investment window for re-investment and re-deferral in a QOF. This gives investors who originally deferred their gains through an OZ 1.0 investment the opportunity to bridge their eligibility to the enhanced OZ 2.0 benefits.

How Qualified Opportunity Funds Work

1. Realize a capital gain from investments such as stocks, real estate, business sales, cryptocurrency or other qualifying assets.
2. Within 180 days, invest up to the gain amount into a QOF.
3. Two ongoing tax benefits then apply:
 - **Five-year deferral + 10% permanent forgiveness.** For investments made after December 31, 2026, the original eligible gain is deferred until the earlier of (a) the date you sell your QOF interest or (b) exactly five years after your QOF investment date. If you hold the QOF for five years, 10% of the original gain is permanently forgiven via a cost basis step-up. This benefit increases to 30% for QOFs focused on rural investments.

- **30-year benefit: 100% elimination of income from capital appreciation.** After holding your QOF investment for at least 10 years, you can elect to step up your cost basis to the full market value at the time of sale. This is better than simply eliminating the capital gains tax. By electing to have the cost basis equal the sale price for tax purposes, the taxpayer has eliminated the capital gain income itself.

This distinction matters. When future tax laws target capital gains, as the net investment income tax (NIIT) does, there is simply no capital gains income to tax. Zero multiplied by anything is still zero. This benefit continues for up to 30 years from your initial investment date, insulating your wealth against unknown tax regimes decades from now.

Why the 30-Year Opportunity Zone Holding Period Matters

There is no penalty for exiting a QOF, and you can access your money at any time. However, doing so ends the tax incentives. Compound growth, including tax-free compound growth, is not linear, it is heavily backend loaded.

As a result, the potential tax savings and wealth creation are greatest in the outlying years. The graph below illustrates the importance of giving your investment the longest possible runway for tax-free growth.

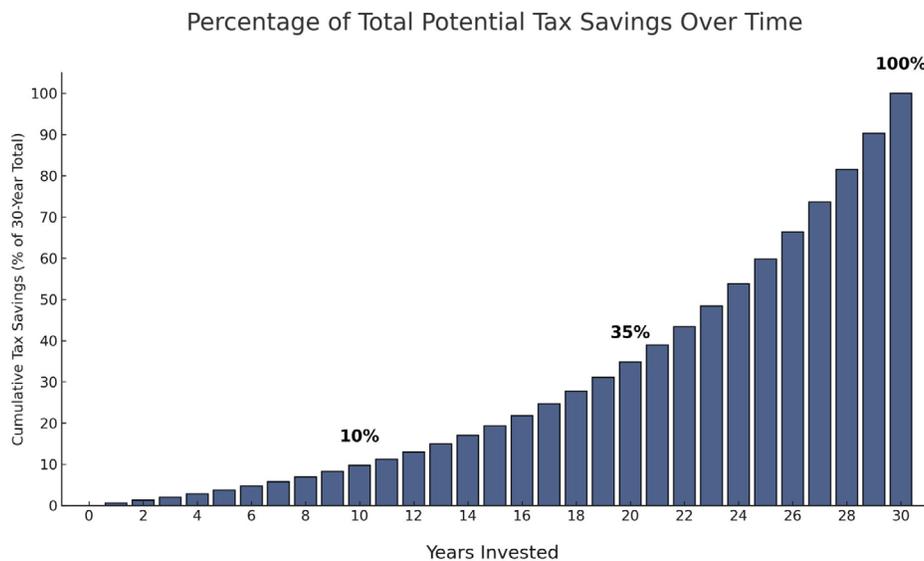


Chart: Percentage of total potential tax savings realized over time with a QOF investment, assuming a 10% growth rate and a 23.8% tax rate (20% capital gains + 3.8% NIIT).

Managing a Long-Term, Tax-Efficient QOF

Surprisingly, taxpayers are the only recipients of opportunity zone tax incentives. The operations of the QOF itself are fully taxable. This means that a QOF, regardless of whether it is captive or run for outside investors, needs to be operated in the most tax-efficient manner that is practical if it wants to mimic the tax efficiency of a Roth IRA.

For example, if a QOF partnership decides to sell one of the fund's appreciated properties, regardless of whether the QOF distributes or reinvests the proceeds in another qualified opportunity zone business property, the capital gain realized by the fund will flow through as a taxable capital gain to

the investors.

Investors who have held the QOF for less than 10 years will have to pay the tax, potentially without receiving any cash proceeds. This will step up the investors' cost basis because they paid the tax, completely negating the QOF's step-up benefit they would have received had they held the QOF for 10 years and beyond.

Investors who have held the QOF between 10 and 30 years can elect to use the 100% elimination benefit. They will not incur any tax liability, but by eliminating the gain this portion of their QOF investment converts to being a non-qualifying interest. With each sale of appreciated property, more and more of the QOF investors' capital will convert to non-qualifying status.

As a result, the turning over of appreciated QOF assets can be highly detrimental from a tax standpoint. This is why it is important for any fund trying to mimic a Roth IRA's tax efficiency to adopt a buy-and-hold strategy.

To achieve this outcome, it is important to align the QOF manager's compensation with tax-efficient outcomes, including eliminating promoted interests (aka carried interest), which reward the sale of appreciated assets.

Likewise, income from operations is also taxable, so QOF managers will want to rely on depreciation and mortgage interest deductions to mitigate taxable income from operations whenever possible.

A long-term tax-efficient QOF should:

- Minimize the realization of capital gains inside the fund (pure buy-and-hold real estate)
- Eliminate carried-interest structures that reward selling appreciated assets
- Use depreciation and interest deductions to shelter cash flow
- Taken together, these steps allow a QOF to more closely approximate the long-term tax efficiency of a Roth IRA.

Risks and Limitations to Qualified Opportunity Zone Investments

Opportunity zones offer powerful benefits but are not risk-free. Investments may be illiquid (a minimum 10-year hold is required for the 100% tax elimination benefit), subject to price volatility and potential permanent loss of capital, concentrated within specific census tracts, and exposed to managerial, operational and legislative risk (as a future Congress could modify the rules).

As always, past performance is no guarantee of future results, and investors should consult qualified tax and legal advisers.

Conclusion: The One-Two Punch of a Roth IRA Plus a QOF

These tools complement each other well. Roth IRA accounts offer unmatched comprehensive tax-free treatment for any number of investments. Although QOFs offer narrower protections, they enable investors to increase their tax-free savings at levels that exceed Roth contribution limits.

The Roth IRA will remain the primary workhorse of tax-free investing. However, now that QOF tax incentives have shed their temporary status, they should be recognized as a valuable tool for

constructing tax-efficient financial plans.

QOFs offer the potential for decades of tax-free growth and are broadly applicable, with capital gains of any size qualifying. Together, they enable a greater share of your savings to compound tax-free.

The author is the founder and CEO of Park View OZ (Trading Symbol: PVOZ), a publicly traded perpetual-life qualified opportunity fund.

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