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The 2026 Opportunity Zone Tax Deadline Is Approaching: What Investors Should Be Doing Now

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The Qualified Opportunity Zone (QOZ) program was created as part of the Tax Cuts and Jobs Act of 2017 to encourage long-term investment in designated communities throughout the United States. Investors who reinvested eligible capital gains into a Qualified Opportunity Fund (QOF) received several tax incentives, including the deferral of the original gain and, for many early investors, a partial basis step-up.

While the gain deferral received much of the initial attention, the most valuable benefit of the program remains the potential exclusion of federal capital gains tax on future appreciation if the investment is held for at least 10 years and all applicable requirements are met.

As investors look toward the future, however, another important milestone is approaching. Under current law, deferred gains invested in Qualified Opportunity Funds generally become taxable on December 31, 2026, regardless of whether the underlying investment has been sold.

Qualified Opportunity Funds are also subject to ongoing compliance requirements, including a requirement that at least 90% of fund assets be invested in qualified Opportunity Zone property. Investors should continue to monitor both the tax implications and the ongoing health and compliance of their investments.

A Simple Example

Assume an investor sold a business interest in 2019 and realized a \$1 million capital gain. The investor timely reinvested that gain into a Qualified Opportunity Fund, allowing the gain to be deferred.

Because the investment was made before December 31, 2019, the investor may have qualified for the 10% basis increase available under the original Opportunity Zone rules. As a result, only \$900,000 of the original deferred gain may ultimately be subject to tax when the gain recognition event occurs on December 31, 2026.

Unfortunately, the investor may owe tax on that gain even if the Opportunity Zone investment has not been sold and has not generated sufficient cash distributions to cover the resulting tax liability.

The good news is that the investor may still qualify for the program's most significant benefit—the potential exclusion of future appreciation—if the investment is held for at least 10 years and all applicable requirements are satisfied.

Planning Considerations Before December 31, 2026:

Evaluate Tax-Loss Harvesting Opportunities

One of the most effective ways to offset the upcoming gain recognition is through strategic tax-loss harvesting.

Investors should review taxable investment accounts for positions trading below their cost basis and determine whether realizing those losses could help offset future capital gains. In some cases, an investor may still believe in the long-term prospects of an investment but choose to recognize the loss for tax purposes while maintaining similar market exposure through another investment or repurchasing the security after more than 30 days to satisfy the wash sale rules.

Review Liquidity Needs

One of the unique challenges of the 2026 gain recognition event is that the tax liability may arise without a corresponding cash distribution from the QOF investment.

Investors should begin evaluating how any resulting tax liability will be funded, whether through cash reserves, investment accounts, anticipated distributions, or other sources of liquidity. Planning ahead can help avoid unnecessary asset sales or financing decisions.

Coordinate Other Tax Planning Strategies

The recognition of deferred Opportunity Zone gains should not be viewed in isolation. Investors may benefit from coordinating business sales, real estate transactions, charitable giving, capital loss carryforwards, and other planning opportunities as part of a broader tax strategy. Evaluating these items in advance often provides more flexibility than waiting until year-end.

Verify Gain Recognition Calculations

Many Opportunity Zone investments were made years ago, making this an ideal time to review prior tax filings and supporting documentation.

Investments made by December 31, 2019 generally qualified for a 10% basis increase before the 2026 gain recognition event. Confirming basis calculations now can help avoid surprises later.

A surprising number of returns contain reporting errors related to Opportunity Zone investments, basis adjustments, and deferred gain tracking. Investors should also review recent fund communications regarding compliance with the Qualified Opportunity Fund 90% asset test and other ongoing Opportunity Zone requirements.

Income Tax Questions to Consider

As 2026 approaches, investors should consider the following questions and impact on their income tax planning:

- What is my projected gain recognition amount on December 31, 2026?
- Have I properly received any available basis adjustments, including the 10% basis increase for pre-2020 investments?
- What is my estimated federal and state tax liability related to the gain recognition?
- Do I have unrealized capital losses that could be harvested to offset some of the tax impact?
- Will I have sufficient liquidity available to pay the resulting tax liability?

- Are there charitable planning opportunities that should be considered before year-end 2026?
- Is my Qualified Opportunity Fund continuing to satisfy the 90% asset test and other compliance requirements?
- Does the underlying investment still support my long-term objectives and expected holding period?

The Bottom Line

The mandatory gain recognition event scheduled for December 31, 2026 is an important planning milestone for Opportunity Zone investors. While the deferred gain will eventually become taxable, the long-term benefits of the Opportunity Zone program—particularly the potential exclusion of future appreciation after a 10-year holding period—remain available for investors who continue to meet the program's requirements.

The best planning opportunities are often identified well before the filing deadline arrives. Investors who begin reviewing their tax exposure, liquidity needs, and overall investment strategy today may be better positioned to navigate the 2026 gain recognition event while preserving the long-term benefits that attracted them to the Opportunity Zone program in the first place.

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