

Opportunity Zones 2.0 in California

Frequently Asked Questions (FAQ)

1. **What are Opportunity Zones?**

Opportunity Zones are economically distressed communities, defined at the individual census tract level, that are nominated by the governors of each state and territory, as well as the Mayor of the District of Columbia, and certified by the U.S. Secretary of the Treasury through a delegation of authority to the Internal Revenue Service. Under certain conditions, new investments in Opportunity Zones may be eligible for preferential tax incentives.

Opportunity Zones can be a powerful tool for driving private investment into underserved communities. The program was established by the Tax Cuts and Jobs Act (TCJA) on December 22, 2017. Originally created as a temporary initiative, the incentive was later enhanced and made permanent under Public Law 119-21, which was passed by the 119th United States Congress.

To learn more about the program, please visit the [IRS Opportunity Zones FAQ page](#).

2. **What types of projects can Opportunity Zones finance?**

The Opportunity Zone tax incentive can support a wide range of investments, including commercial and industrial real estate, housing, infrastructure, and both existing and start-up businesses. For real estate projects to qualify, the investment must be “original use” or result in the property being “substantially improved.”

3. **What entities are considered investors in the program?**

Any corporation or individual with realized capital gains may be eligible to invest in Opportunity Zones. Eligible capital must be provided as an equity

investment, not debt (though debt may be part of a larger financing package). Additionally, the investment must be made using recently realized capital gains to qualify for the associated tax incentives.

4. What is Opportunity Zones 2.0?

Opportunity Zones 2.0 refers to the permanent renewal and enhancement of the Opportunity Zones program enacted through Public Law 119-21 and signed into law on July 4, 2025. Under the original law, the program was set to expire on December 31, 2026. Section 70421 of the federal statute makes it a permanent feature of the Internal Revenue Code while updating eligibility criteria, tax incentives, and compliance requirements.

5. When did these changes take effect?

Most major changes—including the new tax benefit structure and redesignated zones—apply to investments made on or after January 1, 2027. However, one provision took effect immediately upon enactment: the reduced substantial improvement requirement for rural investments (lowered from 100% to 50%) became effective July 4, 2025.

6. What happens to existing Opportunity Zone investments made before 2027?

Investments made under the original TCJA Opportunity Zone rules are unaffected by Section 70421. The prior rules continue to govern those earlier investments, and the new regulations do not retroactively alter their tax treatment.

7. Will there be an overlap with Opportunity Zones 1.0 and Opportunity Zones 2.0?

Yes. See timeline below:

- January 1, 2027 – Opportunity Zones 2.0 map and investment rules become effective

- January 1, 2027, through December 31, 2028 – Opportunity Zones 1.0 and Opportunity Zones 2.0 maps remain valid
- December 31, 2028 – Opportunity Zones 1.0 tracts sunset; only Opportunity Zones 2.0 zones remain.

8. How will Opportunity Zones be designated going forward?

The program now operates on a permanent, rolling 10-year cycle. Governors must nominate Qualified Opportunity Zones every decade. The first round of new designations must occur within a 90-day window beginning July 1, 2026, subject to U.S. Treasury approval. New designations take effect for investments made on or after January 1, 2027.

9. How many census tracts can a state designate as Opportunity Zones?

Governors may nominate up to 25% of their state's eligible census tracts as Qualified Opportunity Zones. California has 2,469 eligible census tracts, so the Governor may nominate a maximum of 618 tracts.

10. Have the eligibility criteria for census tracts changed?

Yes. Opportunity Zones 2.0 tightens the income eligibility threshold. Census tracts qualify if they meet one of the following:

- Income does not exceed 70% of the applicable median family income; OR
- Poverty rate is at least 20% and income does not exceed 125% of the applicable median family income.

Note: The U.S. Department of the Treasury determined median family income for each census tract based on the 2020-2024 American Community Survey (ACS) 5-year estimates.

11. How do I find out if a census tract in my jurisdiction is eligible?

The U.S. Department of the Treasury released the official list of eligible census tracts on April 6, 2026. Please see [Qualified Opportunity Zones |](#)

[U.S. Department of the Treasury](#) to see the official list. You may also consult interactive mapping tools provided by organizations such as [Novogradac](#) and the [Economic Innovation Group](#) to explore eligible tracts. Please contact us if you need assistance identifying eligible tracts in your jurisdiction.

12. Can a tract that is currently an Opportunity Zones 1.0 zone be recommended for Opportunity Zones 2.0?

Yes, if the tract appears on Treasury's official Opportunity Zones 2.0 eligible tract list. Existing Opportunity Zones 1.0 tracts are not automatically eligible or ineligible — each tract must independently meet the new, updated eligibility criteria under the federal statute. Some Opportunity Zones 1.0 tracts will not qualify under the stricter Opportunity Zones 2.0 standards.

13. Can governors still nominate contiguous census tracts that are not otherwise eligible?

No. Opportunity Zones 2.0 eliminates the contiguous tract designation option. Only tracts that independently meet eligibility criteria may be designated.

14. What is a Qualified Rural Opportunity Fund?

A Qualified Rural Opportunity Fund is a new investment vehicle targeting rural communities. It is similar to a standard Qualified Opportunity Fund but requires investments to be located entirely within rural areas. A rural area is defined as any area that is **not**:

- a city or town with a population greater than 50,000
- An urbanized area contiguous and adjacent to a city or town with a population greater than 50,000

15. What tax benefit does a Qualified Rural Opportunity Fund provide?

A Qualified Rural Opportunity Fund provides a 30% basis step-up after a five-year holding period, compared to 10% for a standard Qualified

Opportunity Fund in a non-rural area. The permanent exclusion of taxable income on appreciation (new gains) from the Qualified Opportunity Fund investment after a 10-year holding period applies to both rural and non-rural QOFs.

16. Is the substantial improvement threshold different for rural investments?

Yes. For rural opportunity zones, the substantial improvement requirement is reduced from 100% to 50% of the purchase price.

17. Are there new reporting requirements for Qualified Opportunity Funds and Qualified Rural Opportunity Funds?

Yes. Opportunity Zones 2.0 imposes expanded reporting requirements, including annual reporting on property type, residential units, asset value, employment, and specific census tracts of investment.

18. Is the State considering state-level Opportunity Zones 2.0 incentives?

At this time, the state has not had formal discussions about state-level conforming incentives for Opportunity Zones 2.0.

19. How will the State of California select census tracts for nomination?

The state will consider major demographic and other socioeconomic factors, outlined below, alongside local recommendations (see detail on process below) to inform California's proposed census tract nominations. Those proposed nominations may be further refined through a public comment period.

20. What are the State's priorities for census tract nomination?

In evaluating potential census tracts for nomination, California intends to prioritize a range of considerations, including:

- **Poverty** – measures the concentration of residents living below the poverty line and a primary indicator of economic hardship

- **Median family income** - measures how incomes compare to the surrounding area, capturing both economic disadvantage and financial capacity
- **Renter occupancy and rent as a percentage of income** - measures housing cost and availability, based on the share of renter households spending 35 percent or more of income on gross rent, indicating financial strain
- **Crowding** - reflects constrained housing conditions (more than one person per room), often driven by limited housing supply or affordability pressure, and is associated with housing instability and displacement risk
- **Unemployment**
- **Geographic equity** - considers statewide inclusion of eligible census tracts
- **Statewide and regional economic development objectives** – considers economic development priorities, including regional plans, Jobs First priorities, and [business ready sites](#).

21. Will the State of California have a local engagement process for recommending Opportunity Zones 2.0 census tract designations?

Yes. GO-Biz, in coordination with DOF, will initiate a formal process allowing local communities to recommend census tracts for the Governor’s consideration. GO-Biz will publish a web form on its [Opportunity Zone webpage](#) requesting local partners to provide responses to specific questions demonstrating how the recommended census tract includes projects or activities aligned with regional and statewide economic development priorities.

There will also be a public comment period following the initial recommendation phase for additional community input.

22. How many census tracts can a local partners recommend?

There is no defined limit on the number of eligible tracts a local jurisdictional authority may recommend. However, we encourage local governments to be strategic and prioritize their strongest candidates. The

Governor may nominate no more than 25% of the state's total eligible census tracts to the U.S. Treasury.

23. When will the application period for census tract recommendations from local communities take place?

It is anticipated that GO-Biz will begin accepting recommendations via an online web form beginning June 15, 2026. The closing date for online submittals is expected to be July 25, 2026. The online web form will be posted on the GO-Biz [Opportunity Zone webpage](#),

24. Which entities are eligible to recommend census tracts during this initial round of consultation?

Formal census tract recommendations can be submitted by local jurisdictional authorities:

- Cities and municipalities
- Counties
- Special Districts
- Regional Joint Powers Authorities
- Councils of Governments
- State legislators and elected officials
- Tribal Governments

It is recommended that other interested community-based parties, including chambers of commerce and local economic development organizations, connect and work collaboratively with their local jurisdictional authorities outlined above. Those wishing to weigh in on the designations will also have an opportunity in the subsequent public comment period.

25. Are tribal communities eligible to recommend census tracts?

California-based federally and non-federally recognized tribes and entities designated by the subject tribes may also submit census tract

recommendations. Equitable treatment of eligible Native American census tracts is a fundamental consideration in this process.

26. Will the State publish the list of census tracts to be nominated by the Governor?

Yes. DOF, in partnership with GO-Biz, will publish a draft list of selected census tracts for nomination. This list will then be open for public comment in August 2026. Final nominations will be submitted to the U.S. Treasury by September 28, 2026, and the final list of Opportunity Zones will be posted on the GO-Biz and DOF websites.

27. Will the State host information-sharing sessions to provide an overview of the Opportunity Zones 2.0 selection process?

Yes. GO-Biz is hosting a series of informational webinars. Dates and registration details can be found on the GO-Biz website at [Opportunity Zones in California](#).

28. Will the State consider a process for analyzing and nominating census tracts that are not included on the official eligibility list published by the U.S. Treasury (commonly referred to as “off-list” census tracts)? If so, what data or supporting analysis would the State want to see as part of that evaluation?

The U.S. Treasury is expected to publish specific guidance regarding the type of data and supporting analyses states must provide in order to nominate “off-list” census tracts. Treasury has indicated that this information will be provided directly to Governors.

At this time, GO-Biz and DOF are awaiting to receive that guidance before determining whether it will consider nominations for off-list census tracts as part of the Opportunity Zones 2.0 selection process.

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