

Clarion Calls: Opportunity Zones - The Show Goes On

Defer Today's Taxes and Eliminate Potential Future Gains

QOZ 1.0: What You Need to Know

- ✓ **Deferral** of capital gains on prior asset sales until 2026 tax year
- ✓ **Shielding** of rental income using depreciation
- ✓ **Elimination** of capital gains tax on Qualified Opportunity Zone (QOZ) investments sold after a 10+ year holding period

BENEFITS OF QOZ 1.0



Qualified Opportunity Zones 1.0: Today

› What is the Current QOZ Program?

- Established via the Tax Cuts and Jobs Act (2017), it provides investors with potential tax benefits to encourage long-term private sector investments in lower-income communities
- Over 8,700 designated QOZs dispersed across all 50 states; every major city has at least one QOZ
- Taxable investors can reinvest long-term or short-term capital gains from the sale of virtually any asset class into QOZ investments to be eligible for the tax benefits
- The current legislation is set to expire at the end of 2026 & be replaced with an updated QOZ program

› What is the Current Opportunity?

- Reinvestment of capital gains into a QOZ investment allows for deferral of the prior realized gain until the 2026 tax year. Capital gains realized from these QOZ investments, along with depreciation recapture, are eliminated for investors if held for 10+ years
- Clarion believes the current QOZ legislation and zoning provides opportunities for attractive investments in the industrial warehouse and residential rental sectors
- Portfolio diversification into long-term private real estate assets
- Provide investment capital to directly help improve underserved neighborhoods

Source: Economic Innovation Group

*Investors should consult with a tax advisor to determine whether a QOZ investment would be eligible for these benefits. The above refers to federal tax benefits; potential deferral of state tax subject to state tax laws. Risks exist with respect to investments in QOZs generally.

Qualified Opportunity Zones 2.0: *The Next Chapter*

QOZ 2.0: Here to Stay

- ✓ Qualified Opportunity Zones are a permanent part of the tax code
- ✓ The program will take effect on January 1, 2027 for new investments
- ✓ New designated zone map anticipated to be updated in mid-2026

BENEFITS OF QOZ 2.0

An evergreen tool to help mitigate capital gains taxes realized in 2H26 & beyond

Defer*
prior capital gain for 5 years

Reduce*
tax with 10% basis step-up on prior capital gain

Shield*
taxable income using depreciation to offset

Eliminate*
capital gains tax on QOZ investments after 10 year hold

› QOZs: Investor Benefits

- **New zones** will be designated every 10 years, starting January 1, 2027
- **Rolling five year deferral** of capital gains on prior asset sales from the date of your QOZ investment
- **10% basis step-up permitted on deferred gain** after five years (30% for designated rural zones)
- **Elimination of capital gains tax** on QOZ investments sold after a 10+ year holding period as under prior law
- **Expanded reporting for QOZ managers** to provide better data to assess effectiveness of the program
- **20% Qualified Business Income deduction now permanent** — rental income from QOZ investments can qualify, subject to statutory caps



Development - Salt Lake City, UT



Completed - Salt Lake City, UT

Source: Economic Innovation Group

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