# Policy Behind QOZ Law:

*Encourage Investment in Low-Income Communities*

Policy - The public policy goal of the qualified opportunity zone law is to encourage investment in low-income areas. It does this by establishing qualified opportunity zones (QOZ's) that meet low-income demographic criteria, and incentivizing investment in those QOZ's by offering tax breaks to taxpayers who invest in them in a qualifying manner.

Implementation - QOZ's are U.S. Census tracts that (a) meet the median family income and/or poverty rate criteria of IRC §1400Z-1(c)(1),* (b) are nominated to become QOZ's by the state governor (who may nominate up to 25% of all qualifying tracts in their state), and (c) are certified by the U.S. Treasury Secretary. The **two major requirements** imposed on a real estate investment fund in order to qualify as a qualified opportunity fund (QOF) are:

- 90% of a QOF's investment must be made and maintained in one or more QOZ's; and
- If real estate in a QOZ is acquired, unless the QOF is its "original user" (either (i) vacant land or (ii) buildings with a sufficient duration or percentage of vacancy), the QOF must additionally invest 100% of the original amount into the property (or 50%, if the QOZ is a "Rural QOZ"**).

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* Under the criteria of IRC §1400Z-1(c)(1), QOZ's must be selected from among census tracts meeting ***either*** of the following tests:

Median Family Income (MFI) Test:

Non-metro - If the tract is not within a metropolitan area,*** its MFI does not exceed 70% of the statewide MFI, ***or***

Metro - If the tract is located within a metropolitan area, its MFI does not exceed 70% of the metropolitan area's median family income.

Poverty Rate/MFI Two-Part Test:

Poverty prong –

The tract has a poverty rate of at least 20%,

***and***

MFI prong –

Non- metro - If not located within a metropolitan area, the tract's MFI does not exceed 125% of the statewide MFI,

***or***

Metro - If located within a metropolitan area, the tract's MFI does not exceed 125% of the metropolitan area's MFI.

** Rural QOZ = a QOZ consisting entirely of rural area, where "rural area" means any area neither in, nor urbanized and contiguous to, a city of > 50,000 residents; "urbanized area" is a U.S. Census Bureau designation (IRC §1400Z-2(b)(2)(C)(ii); Treasury Notice 2025-50, §4.03).

*** Metropolitan area is not defined, but the determination appears to come from the Office of Management and Budget; regardless, the final authority on "low-income community" designation is the U.S. Treasury-published qualifying tracts list (Rev. Proc. 2026-14, Appendix).



*This summary is for general informational purposes only and does not constitute tax, legal, or investment advice. Consult your tax advisor regarding your specific circumstances.*