



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

Special Attention of:

All CPD Division Directors
HUD Field Offices
HUD Regional Offices
All CDBG Grantees
All CDBG-DR Grantees
All HOME Participating Jurisdictions
All HTF Grantees

NOTICE: CPD-26-07

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Cross References: 24 CFR Parts
92, 570, 574

Subject: Aligned Community Planning and Development (CPD) Program Funds
for Opportunity Zone Investment.

I. Purpose

The purpose of this Notice is to provide updated guidance, promote the use of CPD programs and drive investment in designated Opportunity Zones (OZs). The flexibility of CPD programs, particularly the Community Development Block Grant (CDBG) Program, Section 108 Loan Guarantee Program, CDBG Disaster Recovery (CDBG-DR), HOME Investment Partnerships (HOME) Program, and Housing Trust Fund (HTF) Program provide for a range of activities that can offer communities financial tools to support development and encourage investments in OZs.

Opportunity Zone investment is not guaranteed simply because a community is in or includes a designated OZ. Communities need to have a strong community and economic development plan that can send a signal to the private sector that the area has established a clear vision for the future, identified its important assets and challenges, and engaged key stakeholders to effectively position itself for investment. This Notice encourages grantees to consider how to align their CPD programs so that they are streamlined, reduce administrative burden and are effective for OZ investment.

Notes Regarding Applicability

This Notice provides general guidance on CPD programs that grantees may consider in conjunction with OZs. It does not provide an exhaustive list of eligible activities; it is instead meant to provide an overview for how grantees could consider leveraging CPD funds in OZs.

This Notice uses the term “grantee” generically, to also include HOME participating jurisdictions, except where the term appears in discussions explicitly limited to one of the other covered funding programs. Provisions of this Notice covering the Entitlement CDBG program also apply to insular area grantees and CDBG non-entitlement county grantees in Hawaii, as the Entitlement CDBG program regulations also apply to their CDBG funds.

The contents of this document, except when based on statutory or regulatory authority or law, do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity regarding existing requirements under the law or agency policies. This Notice provides updated guidance and is supplementary to [CPD Notice 20-06: Guidance on Using HUD’s Community Planning and Development Program \(CPD\) Funds in Opportunity Zones](#).

II. Background

In 2017, Congress passed, and President Trump signed into law, the *Tax Cuts and Jobs Act* (TCJA), [Public Law 115-97](#). Among other things, the TCJA sought to further drive private investment into designated low-income communities. This effort was spearheaded by President Trump’s Opportunity Zone agenda.

The OZ initiative is not a top-down government program from Washington D.C. but an incentive to spur private and public investment in America’s underserved communities. America’s governors (including U.S. territories) nominate Opportunity Zones which are economically distressed communities, defined by individual low-income census tracts. These census tracts are then certified by the Department of Treasury and under certain conditions, new investments in Opportunity Zones may be eligible for preferential tax incentives. The initial designation of Opportunity Zone census tracts and related tax benefits from the TCJA is known as “OZ 1.0”.

The new, permanent Opportunity Zones tax incentive is known as “OZ 2.0,” and provides more certainty for communities and investors. OZ 2.0 was created from the 2025 *One Big Beautiful Bill Act* (OBBA), [Public Law 119-21](#), which was signed into law by President Trump on July 4, 2025.

In OZ 1.0, there were 8,764 designated census tracts in the United States. The OZ 1.0 map is in effect through the end of 2028. In 2026, governors will nominate census tracts for the Department of Treasury to certify and designate, creating a new OZ 2.0 map. The OZ 2.0 map will become effective January 1, 2027, and be in effect for ten years, through the end of 2036. New OZ maps with designated census tracts will be chosen every ten years.

For OZ 2.0, the “Low Income Community” definition amends the eligible census tract criteria and eliminates the option to nominate some adjacent census tracts. As such, the OZ 2.0 map will include more distressed communities due to the reduction of the median family income from 80% to 70%. This stricter criterion is designed to ensure investments reach truly distressed areas and are expected to reduce the total number of designated census tracts by roughly 25% compared to OZ 1. However, with the addition of new tax benefits for OZ investments in rural communities, it is also likely more rural communities will be nominated by governors and be eligible to receive OZ investment.

Key Structural Changes in OZ 2.0	
New Low Income Community (LIC) Eligibility Criteria	<p>The tract's Median Family Income (MFI) must not exceed 70% of the statewide or metropolitan area MFI.</p> <p>The tract must have a poverty rate of at least 20% AND the tract's MFI must not exceed 125% of the Statewide or metropolitan area MFI.</p> <p>The MFI cap is a new anti-gentrification measure to disqualify high-income tracts that happen to have high poverty rates.</p>
Elimination of Contiguous Tracts	Governors can no longer nominate non-low income tracts simply because they are adjacent to an eligible LIC
Decennial Redesignation	Opportunity Zones are redetermined every 10 years based on updated census data.
Puerto Rico Reform	The blanket designation for all LICs in Puerto Rico has been repealed. It is now subject to the same 25% designation limit as U.S. States.
Designation Cap	Governors may only nominate up to 25% of their state's eligible LIC tracts for final certification.

Opportunity Zone 1.0 and Opportunity Zone 2.0 Benefits:

Qualified Opportunity Funds (QOFs) are financing vehicles used to make equity investments in OZs. The preferential tax treatment given to QOFs incentivizes individuals and companies to invest proceeds from realized capital gains into real estate projects or in businesses located in OZs. It does so by enabling them to temporarily defer and reduce their tax liability on investments in privately or publicly managed QOFs. QOFs must invest funds in real estate projects or businesses located in OZs. Under OZ 1.0 there are three key tax benefits:

1. Investors can defer the taxation of certain prior gains invested in a QOF until the earlier of either: (i) the date on which the investment in the QOF is sold or exchanged; or (ii) December 31, 2026.
2. If the QOF investment is held for at least five years (only if invested by December 31, 2021), 10% of the gain that was originally deferred is eliminated completely. If the QOF investment is held for at least seven years (only if invested by December 31, 2021), an additional 5% (15% total) of the original deferred gain is eliminated completely. This is known as “step-up in basis.” This tax benefit for QOF investments has expired under OZ 1.0.
3. If the investor holds the QOF investment at least ten years, when the investor sells or exchanges the investment, the investor is eligible to eliminate the gain on the QOF investment from any increase in value of the QOF investment during the investor’s holding period. The gain must be recognized by December 31, 2047.

OZ 2.0 maintains the spirit of OZ 1.0, with certain reforms to enhance the benefits and tying them to the date of the investment rather than a pre-determined date. Below is a summary of the OBBB's changes to non-rural OZ:

1. On a five-year rolling basis, investors can defer the taxation of certain prior gains invested in a QOF beginning on the date the investment is made.
2. If the QOF is held for at least five years, 10% of the gain that was originally deferred is eliminated.
3. The gain elimination period is a rolling 30-year period from the date of the QOF investment.

Opportunity Zone Benefits and Rural Communities

In addition to the changes above, OZ 2.0 also created a new form of a QOF for rural communities, known as a "Qualified Rural Opportunity Fund" (QROF). Investors that invest in a QROF that holds 90% of its assets in a qualified OZ property, which is a Qualified OZ Business (QOZB) property all of which was in an OZ comprised entirely of a "rural area;" or is a Qualified OZ Stock (QOZS) or Qualified OZ Partnership Interest (QOZPI) all of which tangible property owned or leased is QOZB property and substantially all the use of which is in an OZ comprised entirely of a "rural area," will receive the enhanced OZ 2.0 tax benefits. The OBBB includes a specific definition for a "Rural Area."

Below is a summary of OBBB reforms as it relates to rural OZs:

1. Similar to non-rural OZs, investors can defer the taxation of certain prior gains invested in a QROF beginning on the date the investment is made.
2. If the QROF is held for at least five years, investors receive a 30% Step-up in Basis, compared to 10% for non-rural OZs.
3. The gain elimination period is a rolling 30-year period from the date of the QOF investment.
4. After acquiring a property, QOFs must double their basis in improvements to qualify the property as a QOF business. If the investment does not double the basis, they may still qualify under certain exception authorities and alternative standards. One example is that for non-rural OZs, it must have 100% improvements. For investments in a rural OZ through a QROF, as of July 4, 2025, this standard is reduced to 50%; thus, this benefit is now in effect for OZ 1.0 and will be in effect for OZ 2.0 as of January 1, 2027. For other exceptions and alternative standards, reference should be made to the Internal Revenue Service (IRS) OZ regulations and guidance.

Key Consideration: To qualify for OZ tax benefits, land acquired by a QOF must generally be "substantially improved" within 30 months, meaning investors must invest 100% of the land's acquisition cost in improvements. For rural OZs, this requirement is reduced to 50%. Improvements must increase the land's utility or value, such as through new construction, landscaping, or paving.

Opportunity Zone Low Income Community Determination

As previously mentioned, OZ 2.0 amends its definition of low income community (LIC). This distinction is important when determining the appropriate use of CPD funding for eligible activities.

	Census Tract	OZ 1.0	OZ 2.0
Income Only	Median Family Income	Within a metropolitan area: may not exceed 80% of the greater of statewide median family income or the metropolitan area median family income. Not in metropolitan area: may not exceed 80% of statewide median family income	May not exceed 70% of the greater of statewide median family income or the metropolitan area median family income.
	Contiguous Tracts	Communities were able to add non-low-income contiguous census tracts if certain additional criteria were met.	No longer able to include higher income, contiguous census tracts to OZ.
Poverty + Income	Poverty Rate	At least 20%	At least 20 percent and the tract's median family income must not exceed 125% of the statewide or metropolitan area MFI.
LIC Designation Period		OZ ends December 31, 2026, but LIC designation remains in place until December 31, 2028.	Governors select new zones every 10 years starting July 1, 2026.
Similar to following Designations		New Market Tax Credits Neighborhood Revitalization Strategy Areas (NRSA) Choice Neighborhoods	New Market Tax Credits Neighborhood Revitalization Strategy Areas (NRSA) Choice Neighborhoods Qualified Census Tracts

Key Consideration: The high-poverty designation requirement for OZs indicates a high likelihood that eligible activities within an OZ will meet CPD program low and moderate income (LMI) criteria. CPD grantees should consider the location of a proposed OZ project when considering program LMI eligibility.

- **OZ 1.0:** Grantees should be aware of the LIC expiration date when assessing LMI eligibility. Additionally, OZ 1.0 communities were able to add non-low-income contiguous census tracts if certain additional criteria were met. Grantees should also assess whether a project located in a non-low-income census tract would still meet program eligibility requirements.
- **OZ 2.0:** The income limit is reduced to 70%. Grantees should assess whether a project would still meet program eligibility requirements if it were designed for moderate income persons. Grantees should also be aware of the OZ 2.0 renewal date when assessing LMI eligibility.

III. Opportunity Zone Reporting Requirements

OZ 1.0 required minimal reporting to the IRS through self-certification and reporting on capital gains. However, new OZ 2.0 reporting requirements go into effect for both OZ 1.0 and OZ 2.0 QOF's in the 2026 tax year.

The OZ 2.0 framework introduces significantly enhanced reporting requirements for QOFs and Qualified Opportunity Zones Businesses (QOZBs) to improve transparency and measure economic impact. These reporting requirements are effective December 31, 2026, and are filed with the IRS annually during the tax year. QOFs must provide granular investment-level and community impact data:

- **Investment Details:** Must report the name and EIN of each QOZB, the specific census tract(s) of the investment, and the dollar value invested in each business.
- **Asset Classification:** Disclosure of the amount invested in real estate versus operating businesses.
- **Business Industry:** Mandatory reporting of the North American Industry Classification System (NAICS) code for each underlying business.
- **Community Impact Data:**
 - **Employment Data:** Number of full-time equivalent (FTE) jobs created or retained at each project location, along with average wages and benefits.
 - **Housing:** Total number of residential units constructed or preserved, categorized by affordable, market rate, or mixed income status.

Key Consideration: Communities that are able to align CPD funding for both eligibility and reduced reporting burden will be able to offer more attractive incentives to OZ investors. As communities design their programs to attract OZ investment, they should consider investor appetite for administrative burden as it determines reporting requirements as well as the source of funds used.

- For example, a new housing project could be provided CDBG funds for land acquisition, housing-enabling infrastructure, or neighborhood amenities instead of HOME funds for new housing construction, thereby reducing required reporting requirements and long term administrative burden.
- Where practicable, the timing of accomplishment reporting to the grantee could be aligned as closely as possible with OZ 2.0 reporting requirements so that the QOF does not need to duplicate administrative requirements.

IV. Important Opportunity Zone Dates

There are several important dates for communities to be aware of given that the intent of QOFs are to incentivize individuals and companies to invest proceeds from realized capital gains into real estate projects or in businesses located in OZs. A grantee’s knowledge of these key dates for investors and an aligned consolidated plan can maximize a community’s ability to attract and support OZ investment and achieve sustainable community revitalization goals.

Important OZ Dates for Investors & Communities		
<u>DATE</u>	<u>OZ EVENT</u>	<u>APPLICABILITY</u>
Dec. 22, 2017	OZ 1.0 Enacted via the TJCA	OZ 1.0
July 9, 2018	OZ 1.0 Census Tracts Designated	OZ 1.0
Dec. 31, 2019	Step-Up (Last Day to Invest for 7-Year 15%)	OZ 1.0
Dec. 31, 2021	Step-Up (Last Day to Invest for 5-Year 10%)	OZ 1.0
July 4, 2025	OZ 2.0 Enacted via the OBBB	OZ 2.0
July 4, 2025	Rural 50% Substantial Improvement Benefit Begins	OZ 1.0
July 1, 2026	Governor’s OZ 2.0 Nomination Window Opens	OZ 2.0
Aug. 31, 2026	Governor’s OZ 2.0 Nomination Window Ends	OZ 2.0
Sept. 1, 2026	Governor’s OZ 2.0 Nomination 30-Day Ext. Opens	OZ 2.0
Sept. 30, 2026	Governor’s OZ 2.0 Nomination 30-Day Ext. Ends	OZ 2.0
Oct. 1, 2026	Treasury’s OZ 2.0 30-Day Certification & Nomination Period Opens	OZ 2.0
Oct. 31, 2026	Treasury’s OZ 2.0 30-Day Certification & Nomination Period Ends	OZ 2.0
Nov. 1, 2026	Treasury’s OZ 2.0 30-Day Certification & Nomination Ext, Period Opens	OZ 2.0
Nov. 30, 2026	Treasury’s OZ 2.0 30-Day Certification & Nomination Ext, Period Ends	OZ 2.0
Dec. 31, 2026	Original Gain Deferral for OZ 1.0	OZ 1.0

Important OZ Dates for Investors & Communities		
<u>DATE</u>	<u>OZ EVENT</u>	<u>APPLICABILITY</u>
Jan. 1, 2027	OZ 2.0 Designation Begins	OZ 2.0
Dec. 31, 2028	OZ 1.0 Designation Ends	OZ 1.0
Dec. 31, 2047	Gain Elimination Period for OZ 1.0	OZ 1.0
Rolling 30- Years	Gain Elimination Period for OZ 2.0	OZ 2.0
Rolling 5- Years	Original Gain Deferral for OZ 2.0	OZ 2.0

V. Opportunity Zone Working Capital Requirements

In an OZ, working capital refers to cash, cash equivalents, and short-term debt held by a Qualified Opportunity Zone Business (QOZB) and designated for projects like construction or improvements. An OZ places requirements on this working capital by requiring a written plan and a schedule for the development, construction, or improvements in the OZ. A QOZB must expend its working capital within 31 months without it being classified as a non-qualified financial property. This 31-month period is known as a “safe harbor”. In comparison, the IRS would normally limit a QOZB to holding no more than 5% of its assets in “nonqualified financial property” like cash. Grantees looking to attract OZ investment should consider various ways it can make its CPD funding easier to access so that a QOZB is able to meet its timing requirements without its project becoming “non-qualified”. For example, a Section 108 revolving loan fund provides an opportunity for grantees to invest in transformational projects throughout the program year and is not dependent upon an annual appropriation.

Aspects of OZ Working Capital	
31-Month Safe Harbor	QOZBs can hold cash for up to 31 months (extendable in some cases) without it being classified as non-qualified financial property, provided there is a written plan to use it for project development.
Written Plan Requirement	The cash must be designated in a written plan for the acquisition, construction, or substantial improvement of tangible property in an OZ.
Compliance Mechanism	This rule allows projects to hold cash in a "cash-rich" state during development while remaining compliant with the requirement that 90% of assets must be qualified.
Safe Harbor Benefits	While under the 31-month safe harbor, the working capital is treated as a qualifying asset, and tangible property acquired with these funds is considered in compliance.

Key Consideration: OZ projects must start within 180 days of realizing a gain. Proactive investors are initiating projects in 2025/2026 to ensure their holding periods start, aiming for tax-free appreciation after 10 years, even with potential legislative changes.

Working Capital Safe Harbor – 24 Month Extension

Under the OZ program, QOZBs are provided a 24-month extension (up to 55 months total, or 62+ months in some cases) in the amount of time it is able to hold its working capital under the following circumstances:

- **Federally Declared Disaster:** The business is located in a Qualified Opportunity Zone within a federally declared disaster area. These businesses may receive up to an additional **24 months** to consume their working capital assets, extending the total period up to 55 months.
- **Complex Projects:** Projects with sequential capital infusions may be able to extend the safe harbor up to 62 months.
- **COVID-19 Relief:** A nationwide 24-month extension was previously granted in response to the COVID-19 pandemic for businesses with plans in place before June 30, 2021.

Whether a QOZB’s working capital is within the 31-month or longer, the safe harbor time period is a critical requirement for grantees to understand as they design their economic development and housing programs to be able to fully attract and leverage OZ investment in their low-income communities. The following outlines a few program design elements to consider. While not inclusive of all eligible activities, the intent is for communities to consider how CPD funding can best align investor concerns for both timing and administrative burden.

CPD Program	Program Integration Considerations
CDBG	<p>Alignment: CDBG funding supports community development, which can overlap with the development goals of a QOZB, including infrastructure, housing, and economic development.</p> <p>Section 108: Section 108 funds can be used in QOF projects. Funds can be loaned or granted to a QOZB to pay for eligible costs to perform an eligible activity that meets a national objective. Funds can also be loaned or granted to a QOF, which will further invest in or loan funds to a QOZB to pay for eligible costs to carry out an eligible activity that meets a national objective. Funds can be used directly by the CDBG grantee/Section 108 borrower, one of its non-profit subrecipients or business borrowers to carry out an activity in support of a QOZB that will meet a national objective.</p> <p>Flexibility: CDBG funds can be used for projects in low-income areas, aligning with the goal of Opportunity Zones to stimulate development in underserved areas. CPD encourages grantees to explore whether designated OZ census tracts would also qualify as Neighborhood Revitalization Strategy Areas (NRSAs) under CPD Notice 16-16 when considering strategies to facilitate the use of CDBG/Section 108 funds in an OZ.</p>

CPD Program	Program Integration Considerations
	<p>Leverage: QOZB projects can leverage CDBG funding as part of their capital stack to meet the requirements of the working capital plan.</p> <p>Regulatory Flexibility: Low-and moderate- income area eligible activities provide an opportunity to lessen reporting burden over the OZ designated period.</p>
HOME	<p>Enhanced Feasibility: Combining OZ tax benefits with HOME grants can make low-income housing projects financially viable that might otherwise lack sufficient return for private investors.</p> <p>Flexibility in Layering: The safe harbor allows developers to "stack" various funding sources over time as the project progresses through its multi-year development timeline.</p> <p>Eligible Activities: HOME funds typically cover acquisition, "hard" construction costs and "soft" costs like architectural and engineering fees. HOME funds may also be provided directly to low-income households as homebuyer assistance to support long-term affordable housing opportunities.</p> <p>Restrictions: HOME funds generally cannot be used for project reserve accounts or operating subsidies (other than initial operating deficit reserves for a project developed with HOME funds), whereas the QOZB safe harbor specifically protects the "working capital" reserves held for future development. HOME funds must be provided directly to the entity that is developing and will own the housing project, such as the QOZB undertaking the development, and may not be routed through a QOF for subsequent investment into another single-asset entity to carry out the development.</p> <p>Compliance: Projects must independently satisfy the requirements of both programs. For example, while the QOZB safe harbor manages tax compliance for the investment, the project must still meet HOME's affordability and occupancy standards for low-income residents.</p>
HTF	<p>Eligible Activities: acquisition, new construction, and rehabilitation activities that directly align with the "substantial improvement" or "original use" requirements of the OZ program. HTF is exclusively targeted families with incomes at or below 50% area median income.</p> <p>Strategic Layering: Developers may layer HTF grants with OZ equity to fill financing gaps and operating shortfalls in affordable housing projects. It is often used with mixed-income rental projects. The Working Capital Safe Harbor (WCSH) is vital here because these projects often face long pre-development phases (permitting, environmental reviews) where unspent capital would otherwise trigger OZ non-compliance.</p>

CPD Program	Program Integration Considerations
	<p>Compliance: While the WCSH protects the tax-advantaged status of the private OZ equity, the HTF program imposes its own requirements, such as a 30-year affordability period for rental units.</p>
CDBG-DR	<p>Working Capital Assistance: CDBG-DR has many uses depending upon the disaster, including providing cash to small businesses (typically <50 employees) for operational needs—such as rent, utilities, and payroll—to prevent closures and retain jobs after a disaster, often as a gap financing mechanism. While some guidance notes short-term assistance, programs can structure assistance to cover operating expenses over a defined period (e.g., up to 24 months). Businesses must show a "tie-back" to the disaster, often including a written plan, a detailed timeline for deployment of funds, and demonstration of financial viability. Grantees must perform underwriting to ensure cost reasonableness, prevent duplication of benefits, and confirm the business is not merely substituting CDBG funds for existing financial support. Priority is often given to businesses in heavily impacted areas or those serving low-to-moderate income (LMI) populations.</p> <p>Regulatory Flexibility: OZs projects may also benefit from HUD’s broad authority to waive program regulations and provide alternative requirements.</p> <p>Project Completion: Many CDBG-DR economic development and small business assistance programs require activities to be completed within a specified 24-month project completion period.</p> <p>New Housing Construction: CDBG-DR funds can support <i>new</i> construction.</p> <p>Job Retention/Creation: For certain national objectives, jobs are expected to "turn over" to low- and moderate-income (LMI) persons within a two-year period.</p>

HUD believes that a better alignment of a grantee’s consolidated plan and a consideration of program reporting requirements provides an opportunity to optimize the investment of Federal, state and local resources for sustainable, innovative economic and community development projects. Grantees are encouraged to maximize their program design to attract and support OZ investment and achieve sustainable community revitalization goals.

VI. Additional CPD Opportunity Zone Resources

HUD provides additional information on Opportunity Zones at [HUD.gov Opportunity Zones](https://www.hud.gov/opportunity-zones) and CPD specific information at [HUD Exchange Opportunity Zones](https://www.hud.gov/exchange-opportunity-zones). HUD has created two OZs toolkits to support OZ 1.0 with planning activities: [Opportunity Zones Toolkit Volume 1: Roadmap to Planning](#) and [Opportunity Zones Toolkit Volume 2: Local Best Practices & Case Studies](#). HUD has also created a “[Leveraging Section 108 with Opportunity Zone and Historic Tax Credit Financing](#)” webinar and the [HOME and HTF Funds within OZs: About this Guidebook - HUD Exchange](#).

VII. For Further Information

CPD Grantees with questions concerning this Notice should contact their local HUD Field Office of Community Planning and Development at <https://www.hud.gov/contactus/local>. Field Offices should direct their questions to the following Headquarters program offices as applicable: Office of Block Grant Assistance (CDBG) and Office of Affordable Housing Programs (HOME, HTF) at OAHP@hud.gov; Section 108 Loan Guarantee Program at Section108@hud.gov; and the Office of Disaster Recovery (CDBG-DR) at ODR@hud.gov.