

# Opportunity Zones: Should Your Startup Make One Its Home?

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A Qualified Opportunity Zone (QOZ) is an economically distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment.<sup>1</sup> The U.S. federal government created this tax incentive program as part of the Tax Cuts and Jobs Act of 2017 to attract private investment, create jobs, and promote economic growth and revitalization in designated low-income communities. The U.S. Treasury has designated more than 8,700 QOZs across the United States and Puerto Rico.<sup>2</sup>

Locating your startup in a QOZ can be desirable for a variety of economic and regulatory reasons. Here are some of the advantages of the Opportunity Zone program that founders should consider when looking for a location for their new venture:

1. **Tax Benefits:** One of the primary advantages of the Opportunity Zone program is the potential for significant tax benefits. Investors who reinvest otherwise taxable capital gains into Qualified Opportunity Funds (QOFs) can receive a temporary deferral on the tax liability for the invested capital gains, and the appreciation of the investment in the QOF may be eligible for permanent exclusion from income. Because QOFs are required to direct these funds toward eligible properties or businesses within the Opportunity Zones, QOFs that have already been formed may be looking to invest in startups and innovative ventures located within Opportunity Zones.
2. **Access to Capital:** The tax incentives associated with Opportunity Zones can attract a diverse pool of investors who may be more willing to invest in early-stage startups or businesses located within these zones and who may be looking for businesses that meet the requirements for investment by a QOF. Increased access to capital can provide startups with a crucial source of funding that might otherwise be challenging to obtain.
3. **Reduced Regulatory Barriers:** Some Opportunity Zones have streamlined regulatory processes and reduced bureaucratic hurdles to encourage investment and business development. This can help startups navigate local regulations and expedite the launch or expansion of their operations.

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4. **Collaboration and Networking:** Opportunity Zones can attract a concentration of businesses, investors, and community stakeholders interested in revitalizing the area. This can foster a collaborative environment where startups have opportunities to connect with potential partners, mentors, and customers. The presence of like-minded entrepreneurs and businesses can create a supportive ecosystem that nurtures innovation and growth.
  5. **Infrastructure and Resources:** In order to attract investment, Opportunity Zones often receive additional resources and infrastructure improvements. This can include upgrades to transportation networks, utility systems, and other public amenities. Improved infrastructure can benefit startups by providing better access to markets, suppliers, and talent, as well as enhancing the overall livability of the area.
  6. **Talent Pool:** Some Opportunity Zones are located near educational institutions or underserved communities with untapped talent pools. Startups within these zones can leverage these resources by partnering with local universities or tapping into the talent pool of underrepresented populations. This can give startups a competitive advantage in accessing skilled employees and fostering diversity and inclusion within their workforce.

While Opportunity Zones offer potential benefits for startups, it's important to note that success still relies on various factors, including the viability of the business model, the quality of the team, and the market demand for the product or service. Startups considering operating in Opportunity Zones should carefully evaluate each zone's specific opportunities and challenges and seek professional advice to maximize the potential benefits.

Here are some important points about Opportunity Zones:

1. **Designation:** Opportunity Zones have been selected by state governors and certified by the U.S. Department of the Treasury. They are typically census tracts or neighborhoods identified as economically distressed or lacking investment.
2. **Qualified Opportunity Funds (QOFs):** To take advantage of the tax benefits, investors must invest their otherwise taxable capital gains into Qualified Opportunity Funds (QOFs), which are investment vehicles explicitly created for investing in Opportunity Zones. QOFs can be structured as partnerships or corporations and must invest at least 90% of their assets in qualifying Opportunity Zone properties or businesses.
3. **Eligible Investments:** QOFs can invest in various assets within Opportunity Zones, including real estate development, housing projects, infrastructure improvements, operating businesses, and startups. The intent is to attract a broad range of investment activities that contribute to the economic revitalization of these communities.
4. **Impact and Criticisms:** Proponents argue that Opportunity Zones can drive much-needed investment and job creation in distressed areas, providing new opportunities for residents. However, critics have raised concerns about the program's effectiveness, questioning whether it primarily benefits wealthy investors and developers rather than genuinely helping the targeted communities.
5. **Community Development:** Operating as a QOZ business allows you to contribute to distressed areas' economic development and revitalization. Investing in these designated zones will enable you to positively impact local communities, create jobs, and stimulate economic growth. This can enhance your company's reputation and foster positive relationships with local stakeholders.
6. **Long-Term Investment Opportunities:** QOZ businesses generally require a long-term commitment. To maximize the tax benefits, investors must hold their investment in a QOZ business for at least ten years. This focus on long-term investments can align nicely with businesses with stable growth prospects or projects with extended development timelines.

7. Competitive Advantage: Being in an Opportunity Zone can provide a competitive advantage over businesses outside these zones. The tax incentives and economic benefits associated with QOZ status can attract investors, talent, and customers specifically interested in supporting companies that contribute to community development and have tax advantages.

## Becoming a Qualified Opportunity Zone Business

Determine if your business operates or intends to operate within a designated Opportunity Zone. You can find a list of designated Opportunity Zones on the IRS website<sup>3</sup> or consult with your local economic development agency. To become a Qualified Opportunity Zone (QOZ) business, you must follow certain guidelines and meet specific criteria established by the Internal Revenue Service (IRS).

Remember, it is important to consult with qualified professionals, such as tax advisors, attorneys, or certified public accountants, who can provide personalized guidance based on your specific circumstances and help ensure compliance with all applicable regulations.

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<sup>1</sup> <https://www.irs.gov/credits-deductions/opportunity-zones-frequently-asked-questions>.

<sup>2</sup> <https://www.cdfifund.gov/opportunity-zones> (see link to List of designated Qualified Opportunity Zones (QOZs)).

<sup>3</sup> <https://www.cdfifund.gov/opportunity-zones>.

*Note: We'd like to thank Sarina Rogers, summer associate in the San Diego office, for her assistance in authoring this article.*

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National Law Review, Volume XIII, Number 233

Source URL: <https://natlawreview.com/article/opportunity-zones-should-your-startup-make-one-its-home>