

PRIMER · BEFORE THE WORKED EXAMPLE

OZ IOI — the rules in plain English

A short orientation for investors who haven't worked with Opportunity Zones before. Read this first, then turn to the Investor tax mechanics worked example.

WHAT IT IS

An Opportunity Zone (OZ) is a federally designated census tract where the IRS grants special tax treatment to investors who deploy realized capital gains into a qualifying real-estate or business project inside the tract. Investors don't put in fresh cash — they roll a taxable gain from a prior sale (stock, business, real estate, crypto) into a Qualified Opportunity Fund (QOF), which invests in a Qualified Opportunity Zone Business (QOZB) that owns and operates the project.

Indiana Dunes Club sits in Tract 430 (Michigan City, LaPorte County, IN) — verified as a designated QOZ under the permanent OZ 2.0 program enacted by the OBBBA (July 2025), effective January 2027.

Three stacking tax benefits

1

Deferral — push the bill 5 years

Roll only the tax portion of a capital gain into a QROF within 180 days of the triggering sale and the federal tax on that gain is deferred for 5 years. The after-tax basis stays free in the investor's hands.

On \$1M gain @ 23.8%: \$238K rolled into QROF; \$762K kept free.

2

30% rural step-up — forgive 30%

Indiana Dunes Club is a rural QROF (all four LaPorte County OZ tracts classified rural). Rural QROF investors get a 30% basis step-up at Year 5 — versus 10% for standard urban QOFs.

On \$238K deferred tax: \$71,400 permanently eliminated.

3

10-yr exclusion — zero federal tax

Hold the QROF interest 10+ years and elect a basis step-up at sale. 100% of the project's appreciation is excluded from federal capital-gains tax — depreciation recapture is forgiven.

The big one — the reason investors accept the 10-year hold.

Rules an investor must satisfy

Eligible gain	Any capital gain — short- or long-term — from the sale of a capital asset to an unrelated party. Stocks, business sales, real estate, crypto, collectibles. Only the gain portion is eligible — the after-tax basis stays free. Unlike §1031, no requirement to reinvest full proceeds.
180-day rollover	Gain must be invested in a QOF within 180 days of the triggering sale (K-1 gains have an extended window ending March 15 of the following year).
Fund structure	QOF must hold 90%+ of assets as qualified OZ property (twice-yearly test). QOF invests down into a QOZB, which must earn 50%+ of gross income from active OZ business and keep 70%+ of tangible assets in the OZ.
Substantial improvement	If the QOZB acquires an existing building, it must invest an amount equal to the building's basis in improvements within 30 months. Ground-up development (Indiana Dunes Club) satisfies this automatically.
Hold period	Deferral runs 5 yrs. 30% basis step-up unlocks at Year 5 (rural QROF; 10% for standard QOF). Full 100% federal exclusion requires holding the QROF interest at least 10 years and electing basis step-up at sale.
Reporting	Investor files Form 8949 + Form 8997 annually. QOF files Form 8996. State conformity varies — most states follow federal treatment; some (CA, MA, others) do not.

Tax implications — timeline at a glance

YEAR 0 Rollover Realize a capital gain, roll it into the QOF within 180 days. Zero federal tax owed in the year of the triggering sale.	YRS 1–4 Build & stabilize Construction, lease-up, ramp. Cost-seg depreciation begins at C-of-O and shelters property NOI (and other income if STR rules are met).	YEAR 5 Deferred tax due Investor pays federal tax on 70% of the original deferred gain (30% rural step-up permanently forgives the rest). Cash out-of-pocket — plan liquidity.	YEAR 10+ Exit — tax-free Sell the QROF interest, elect basis step-up. Zero federal tax on appreciation, and depreciation recapture is forgiven.
--	--	---	--

WHAT OZ 2.0 DOES NOT DO — PLAIN-LANGUAGE LIMITS

- It does not shelter the Year-5 deferred-gain tax with cost-segregation depreciation. The Year-5 tax is on the original capital gain from a prior asset — the project's depreciation offsets project income, not that legacy gain.
- It does not shelter ordinary income by default. Depreciation is passive and offsets passive income — unless the STR 7-day average-stay test is met and the investor materially participates, which reclassifies losses as non-passive.
- It does not waive state tax. Federal exclusion is automatic; state conformity depends on residency.
- It does not eliminate underwriting risk — rents, exit cap, construction costs, hold period. OZ is a tax overlay; the deal still has to work on its own economics.
- It does not allow rollover of gain from a related-party sale, ordinary income, or gains realized outside the 180-day window.

NEXT

How Indiana Dunes Club sets up your fund and LLC for you →

ENTITY SETUP · TURN-KEY · SPONSOR-FACILITATED

Fund setup, made simple.

You bring the capital gain. Indiana Dunes Club Development LLC coordinates the entity work, the tax filings, and the compliance calendar so your QOF is ready to receive your rollover well inside the 180-day window.

WHY AN ENTITY IS REQUIRED

Under IRC §1400Z-2 and IRS Form 8996 instructions, the OZ tax benefits only flow through a Qualified Opportunity Fund — an entity classified as a corporation or partnership for federal tax purposes. An individual cannot roll their gain into their own name, and a single-member LLC will not qualify because the IRS treats it as a disregarded entity.

The standard structure is a two-tier stack: a QOF LLC (taxed as a partnership) that owns membership units in a QOZB LLC (the project company where Indiana Dunes Club sits). The QOF self-certifies with the IRS by filing Form 8996 — no pre-approval, no allocation process.

The 6-step setup Indiana Dunes Club facilitates

1

Form the QOF LLC

Delaware or Indiana LLC organized for the purpose of investing in qualified opportunity zone property — the exact language the IRS requires in the operating agreement.

Indiana Dunes Club provides the template operating agreement pre-cleared by our tax counsel.

2

Qualify as a partnership

Add a second member — spouse, family trust, or a nominal 1% Indiana Dunes Club affiliate — so the LLC is a partnership for federal tax purposes. A single-member LLC will not qualify.

Indiana Dunes Club can serve as the 1% co-member at no cost to the investor.

3

Form the QOZB LLC

Project-level LLC owned by the QOF that holds the Indiana Dunes Club parcels and improvements. This tier unlocks the 31-month working-capital safe harbor.

Indiana Dunes Club forms and manages the QOZB as part of the JV structure.

4

Open QOF banking

EIN, operating account, wire instructions. The investor wires the rolled gain into the QOF, which then capitalizes the QOZB — all inside the 180-day window.

Indiana Dunes Club coordinates with the investor's chosen bank; we can recommend one.

5

Self-certify with the IRS

QOF files Form 8996 with its first partnership return. Investor files Form 8949 to elect deferral and Form 8997 to report the QOF investment annually.

Indiana Dunes Club's tax counsel prepares the fund-side filings and provides investor 8949 / 8997 packets.

6

Ongoing compliance

Semi-annual 90% asset test at the QOF, quarterly 70% tangible-property test at the QOZB, annual Form 8996, and K-1s issued to the investor each year.

Indiana Dunes Club runs the compliance calendar for the life of the fund.

What the investor provides

- ✓ Realized capital gain (stock, business sale, real estate, crypto)
- ✓ Investor tax counsel review of the rollover election
- ✓ KYC / accredited-investor documentation
- ✓ Wire transfer within 180 days of the triggering sale
- ✓ Annual signature on Forms 8949 & 8997 (Indiana Dunes Club prepares)

What Indiana Dunes Club provides

- ✓ QOF LLC + QOZB LLC formation (Delaware or Indiana)
- ✓ OZ-compliant operating agreements pre-cleared by tax counsel
- ✓ 1% affiliate co-member to establish partnership tax status
- ✓ EIN, banking setup, wire instructions
- ✓ Form 8996 self-certification and annual QOF returns
- ✓ Investor Form 8949 & 8997 packets each tax year
- ✓ Semi-annual 90% and quarterly 70% compliance testing
- ✓ K-1s and annual investor tax package

Typical timeline from first call to funded QOF

Week 1 Intro call, NDA, investor tax counsel intro, subscription docs delivered.	Weeks 2–3 QOF and QOZB entities formed. Operating agreements executed. EIN issued.	Weeks 3–4 QOF bank account opened. Wire instructions delivered. Investor wires rolled gain.	Tax season Form 8996 filed with QOF return. Investor files 8949 to elect deferral, 8997 to report holding.
--	--	---	--

Not legal or tax advice. Each investor should retain their own tax counsel to review the rollover and confirm state conformity. Indiana Dunes Club facilitates entity setup and files fund-level returns; investor-level filings are the investor's responsibility with counsel support from Indiana Dunes Club's tax firm.

NOW YOU'RE READY

See the structure work on a real \$1M rolled gain →

\$1M CAPITAL GAIN · OZ 2.0 RURAL · WORKED EXAMPLE

Investor tax mechanics

An investor with a \$1M capital gain rolls only the \$238K deferred tax into an Indiana Dunes Club QROF and keeps the \$762K after-tax basis free. This is the split-basis advantage over §1031 — no boot, no forced full reinvestment. The example shows how the \$238K QROF unit performs across the 10-year hold.

Investment structure (per \$238K unit)		Year 5 — deferred tax comes due	
Original capital gain (investor-side)	\$1,000,000	Deferred federal tax on \$1M gain	\$238,000
Federal tax deferred at 23.8%	\$238,000	Rural QROF 30% step-up	(\$71,400)
After-tax basis kept free by investor	\$762,000	Federal tax owed to IRS at Year 5	\$166,600
Rolled into Indiana Dunes Club QROF	\$238,000		
Construction period	Yrs 1–2	Value of the 30% rural step-up	\$71,400
Operating period	Yrs 3–10 (8 yrs)	(permanently forgiven vs. 10% urban)	
NOI on the unit (~8% yield)	\$19,040 / yr		
Cumulative NOI Yrs 3–5	\$57,120	3 yrs of NOI applied against bill	(\$57,120)
Exit value at Yr 10 (2× MOIC)	\$476,000	Net check to IRS after NOI	\$109,480

Key nuance: the Year-5 tax is on the original §1400Z-2(a) deferred gain — cost-segregation depreciation from the property cannot offset the deferred-gain tax itself. However, cost-seg depreciation shelters the property's NOI during the hold, which the investor can then apply against the Year-5 tax bill as it comes due. Net effect: three years of sheltered NOI covers roughly \$57K of the \$166,600 owed — the property funds most of its own deferred tax.

Cost segregation — project-level vertical improvements (per \$1M unit basis)

Class	% of vertical	Amount / unit		Treatment	Year 3 deduction
5-yr personal property (FF&E)	25%	\$175,000	100% bonus in Yr 3		\$175,000
15-yr land improvements	10%	\$70,000	100% bonus in Yr 3		\$70,000
39-yr structural shell	65%	\$455,000	SL \$11,667 / yr		\$11,667
Total (project-level, per home)	100%	\$700,000			\$256,667

OBDDA made 100% bonus depreciation permanent for property placed in service after 1/19/2025. Depreciation flows through the QROF K-1 to the investor pro-rata by unit interest — a \$238K unit (23.8%) receives ~\$61K of accelerated Year-3 deduction, which shelters the unit's operating NOI over the hold. Cost seg does not offset the Year-5 deferred-gain tax; it shelters property income during the hold.

Operating years 3–10 · 10-year exit · per \$238K unit

Operating (Yrs 3–10) · per \$238K unit	
Total NOI (8 yrs @ 8% yield)	\$152,320
Depreciation flow-through (K-1)	\$80,542
Net taxable operating income	\$71,778
Year 10 exit · per \$238K unit	
Exit value (2× MOIC)	\$476,000
Investor QROF basis	\$238,000
Gain on the unit	\$238,000
Federal tax on exit gain	\$0

Bottom line — three vehicles for a \$1M gain			
	Pay tax	§1031	OZ 2.0
Yr 0: federal tax on \$1M gain	\$238,000	—	—
Yr 0: reinvestment required	\$0	\$1,000,000	\$238,000
Yr 0: after-tax basis kept free	\$762,000	\$0	\$762,000
Yr 5: deferred tax coming due	—	—	\$166,600
Yr 10: LTCG on project gain	n/a	deferred	\$0
Yr 10: depr recapture (~25%)	n/a	deferred	\$0
Total federal tax realized	\$238,000	\$0+	\$166,600
Federal tax saved vs. paying now	\$71,400	≈ 30% permanent reduction	
Exit-year exclusion (Yr 10)	100%	federal cap-gains + recapture	

Two distinct benefits: (a) 30% rural step-up permanently eliminates \$71,400 of federal tax on the deferred gain, and (b) 100% exclusion at Yr 10 eliminates federal tax on the QROF unit's own appreciation and recapture. Time-value of the 5-yr deferral is additional but not quantified here to avoid double-counting.

Exit-year note. Under §1400Z-2(c) the QROF investor elects a basis step-up to fair market value on the 10-year sale. The full unit gain — including gain attributable to prior depreciation — is 100% federally excluded. Depreciation recapture is forgiven to the extent the 10-year exclusion applies. This is the OZ vs. §1031 differentiation: §1031 defers indefinitely but never eliminates — the basis carries forward until a taxable sale or the §1014 step-up at death.

Sources & authorities. OZ 2.0 rolling 5-yr deferral, 30% rural basis step-up, permanent program: Thomson Reuters — OBBBA changes to OZs; Grant Thornton — Rural OZ guidance; The Tax Adviser — Rural OZ 50% substantial-improvement threshold. §1031 requires full-proceeds reinvestment (boot rules) and defers indefinitely without permanent exclusion during life: IRS — §1031 like-kind exchanges. Cost seg + OZ interaction, depreciation recapture forgiveness on 10-year exit: Plante Moran — OZ IRR with cost seg. † §1031: federal tax realized is \$0 during the hold but the carryover basis triggers full recognition on any future taxable sale unless the §1014 basis step-up at death applies. 100% bonus depreciation permanent post-1/19/2025 under OBBBA: Thomson Reuters.

REFERENCE · KEEP THIS HANDY

Acronym & term legend

Every OZ term used in this document, defined once. Investors familiar with OZ rules can skip. On the website (indianadunesclub.pplx.app) these definitions appear on hover.

OZ VEHICLES & ENTITIES

QOF	Qualified Opportunity Fund. The entity (LLC taxed as partnership, or corporation) that receives your rolled capital gain and invests it into the project.
QROF	Qualified Rural Opportunity Fund. A QOF whose project sits in a rural OZ tract (population <50K per OBBBA). Rural QROFs receive a 30% basis step-up at Year 5 (vs. 10% for urban QOFs) and only 50% substantial-improvement threshold (vs. 100%). Indiana Dunes Club is a QROF — all four LaPorte County OZ tracts are rural.
QOZB	Qualified Opportunity Zone Business. The project-level LLC (owned by the QOF) that owns the parcels and improvements. The two-tier QOF → QOZB structure unlocks the 31-month working-capital safe harbor.
QOZ	Qualified Opportunity Zone. A federally designated census tract. Indiana Dunes Club sits in Tract 430 (Michigan City, IN).
OZ 2.0	The permanent Opportunity Zone program enacted by the One Big Beautiful Bill Act (July 2025), effective January 2027. Restores rolling deferral, adds 30% basis step-up at Year 5 for rural QROFs (10% for standard urban QOFs), and 100% federal tax exclusion at Year 10.
OBBBA	One Big Beautiful Bill Act. The July 2025 tax law that made the OZ program permanent and introduced rural QROF benefits.
IRC §1400Z-2	Section of the Internal Revenue Code that authorizes the OZ tax benefits.
§1031	Like-kind exchange. Real-estate-only vehicle that defers capital gains when full sale proceeds are reinvested into replacement property. Any cash kept ("boot") is taxed immediately. Unlike OZ 2.0, §1031 defers indefinitely but never permanently eliminates the tax during the investor's life — basis carries forward until a taxable sale or the §1014 step-up at death.

TAX TERMS

LTCG	Long-Term Capital Gains. The federal rate applied to gains on assets held over one year. 20% federal + 3.8% NIIT = 23.8% for high earners.
NIIT	Net Investment Income Tax. A 3.8% surtax on investment income for high earners, added on top of the 20% federal LTCG rate.
IRS	Internal Revenue Service. The federal tax authority.
IRC	Internal Revenue Code. The federal tax law.

FEDERAL FORMS FILED

Form 8996	Annual self-certification the QOF files with its first partnership return to confirm the 90% asset test.
Form 8949	The investor's tax form used to elect deferral of the rolled capital gain in the year of investment.
Form 8997	The investor's annual tax form used to report their QOF investment holding each year.
K-1	IRS Schedule K-1. The annual tax form a partnership issues to each member showing their share of income, deductions, and credits.
EIN	Employer Identification Number. The federal tax ID required to open a bank account for the QOF LLC.

DEAL & OFFERING TERMS

LLC	Limited Liability Company. The standard legal entity used for both the QOF and the QOZB.
JV	Joint Venture. The sponsor-investor partnership structure that owns the project.
GP / LP	General Partner (sponsor) and Limited Partner (investor). The GP manages the project and earns promote above the preferred return; the LP contributes capital and receives the preferred return.
Reg D 506(c)	SEC Rule 506(c) under Regulation D. The private-offering exemption that allows general solicitation to verified accredited investors only.
NDA	Non-Disclosure Agreement. The confidentiality agreement executed before the offering package is delivered.

UNDERWRITING METRICS

MOIC	Multiple on Invested Capital. Total dollars returned divided by dollars invested. A 2.0× MOIC means the investor doubled their money.
IRR	Internal Rate of Return. The annualized rate of return on the investment, expressed as a percentage.
NOI	Net Operating Income. Property revenue minus operating expenses, before debt service, taxes, and capital reserves.
LTV / LTC	Loan-to-Value and Loan-to-Cost. Ratios of the loan amount to appraised value or total project cost, respectively.
DSCR	Debt Service Coverage Ratio. NOI divided by annual debt service. Lenders typically require 1.20×–1.35×.
IO	Interest-Only. A loan structure where the borrower pays only interest during the term, with principal due at maturity.
STR	Short-Term Rental. Nightly or weekly rental income (typically via VRBO or Airbnb) used to underwrite operating cash flow.

Illustrative planning summary. Not tax, legal, or investment advice. Investors should consult their own qualified tax counsel before making any Opportunity Zone election. Indiana Dunes Club Development LLC. indianadunesclub.pplx.app · invest@dunesreserve.com.