

OZ 2.0 INVESTOR BRIEFING

# The Indiana Dunes Club Opportunity

A comprehensive primer on Opportunity Zone 2.0 mechanics, The Lake Michigan Estates project economics, and two investor structures — designed for you, your CPA, and your attorney to review.

|                                                                                 |                                                                            |                                                                                   |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <div>Total Tax Bill Deferred</div> <div>28.75%</div> <div>Fed + NIIT + IL</div> | <div>Tax-Free at Y10+</div> <div>100%</div> <div>on all appreciation</div> | <div>Illinois MOIC vs S&amp;P</div> <div>+30%</div> <div>more ending wealth</div> |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------|

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Indiana Dunes Club Development LLC · Chicago, IL · [nwidevelopment.com](http://nwidevelopment.com)

## EXECUTIVE SUMMARY

## The bottom line

Indiana Dunes Club (The Lake Michigan Estates) is a 42.75-acre luxury lakefront residential development in Michigan City, Indiana, adjacent to Beachwalk Resort. The site sits inside a currently-designated Qualified Opportunity Zone (LaPorte County census tract 18091043000), giving investors with unrealized capital gains a rare combination of premium real estate exposure and the most powerful tax incentive in the U.S. tax code.

This briefing walks through: (1) how OZ 2.0 works under the OBBBA legislation signed July 4, 2025; (2) the specific status of Indiana Dunes Club's census tract; (3) two investor structures we've designed; (4) the honest math against the alternative of simply paying the tax; and (5) risks and mitigations. Read it alongside the interactive model at [indianadunesclub.pplx.app/model.html](https://indianadunesclub.pplx.app/model.html).

## What makes this compelling

### For an Illinois investor with a \$100,000 capital gain

Paying tax and investing net in the S&P 500 → ~\$140K after 10 years (1.40x)

Indiana Dunes Club OZ Scenario A (Build & STR) → ~\$180K after 10 years (1.80x)

Indiana Dunes Club OZ Scenario B (Pref + Option) → ~\$182K after 10 years (1.82x)

**~\$40,000 more per \$100K unit — or ~\$800,000 more on a \$2M gain — with 3–14% incremental IRR on the deferred tax dollar itself.**

## What you need to know before investing

1. OZ 2.0 makes the program permanent. The One Big Beautiful Bill Act (OBBBA), signed July 4, 2025, converts Opportunity Zones from a sunseting TCJA-era experiment into a permanent Internal Revenue Code fixture with rolling 10-year designation cycles.
2. Two overlapping regimes: 2027–2028. OZ 1.0 tracts (designated in 2018) remain valid investment targets through December 31, 2028. OZ 2.0 tracts take effect January 1, 2027. For 24 months, both maps operate.
3. Indiana Dunes Club's tract is currently OZ 1.0-designated and eligible for OZ 2.0 redesignation. Indiana submitted its final 126-tract nomination list to Treasury by September 28, 2026. Treasury certification is expected by December 28, 2026.
4. Two structures — one built home, one preferred equity. Scenario A requires a \$2M minimum (20 units of \$100K). Scenario B accepts a \$100K minimum and is fully divisible. Both target  $\geq 2\times$  MOIC net of

federal appreciation tax ( $\approx 1.80\times$  net of Illinois state tax).

5. Liquidity guarantee. Both scenarios include a contractual Y10 exit trigger: home listed within 30 days at Y10 with sponsor buyback at appraised value if not sold in 60–90 days; pref stake and option cash-settled by sponsor within 60 days.

**PART 1**

# How Opportunity Zones actually work

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Opportunity Zones (OZs) were created by the Tax Cuts and Jobs Act of 2017 as an economic development tool. They give investors three stacked tax benefits in exchange for redirecting realized capital gains into low-income census tracts through Qualified Opportunity Funds (QOFs) that then invest in Qualified Opportunity Zone Businesses (QOZBs). In July 2025, the One Big Beautiful Bill Act made the program permanent and recalibrated its terms — a version now known as OZ 2.0.

## The three tax benefits

### **Benefit 1 — Deferral of the original gain**

When you invest capital gains into a QOF within 180 days of realizing them, you defer federal tax on that gain. Under OZ 1.0, deferral runs until December 31, 2026 regardless of when you invested. Under OZ 2.0, deferral is rolling: five years from your investment date, per investment.

### **Benefit 2 — Basis step-up at year 5**

OZ 2.0 delivers a 30% basis step-up for Qualified Rural Opportunity Fund (QROF) investments — which Indiana Dunes Club qualifies for under LaPorte County Census Tract 430 — when you've held the QROF interest for 5 years by the deferral recognition date. Practically, this reduces the deferred tax owed at Y5 by 30% (versus 10% for standard urban QOFs).

### **Benefit 3 — 100% tax-free appreciation at year 10**

The big one. If you hold your QOF investment for at least 10 years, you pay zero federal tax on all appreciation when you exit — regardless of how large that gain is. Illinois (via statutory conformity to federal OZ treatment) also treats the Y10 appreciation as tax-free at the state level. OZ 2.0 caps this benefit at 30 years from investment.

## A concrete example

You realize a \$100,000 long-term capital gain in early 2027. Without any deferral, you owe roughly \$28,750 in tax immediately: 20% federal LTCG + 3.8% NIIT + 4.95% Illinois state income tax. That leaves \$71,250 to reinvest.

Instead you invest the full \$100,000 into a QROF within 180 days. You owe nothing at investment. Five years later — end of 2031 — you pay \$16,660 in federal tax (the original deferred amount, reduced by the 30% rural basis step-up) plus roughly \$4,950 in Illinois state tax, total ≈\$21,610. But the full \$100,000 was working for you throughout those five years, and \$7,140 of federal tax is permanently forgiven.

Then in early 2037 — ten years after your original investment — you sell your QOF position for, say, \$175,000. That \$75,000 of appreciation is entirely tax-free, both federally and in Illinois. Same portfolio outcome would have cost you \$17,850 in exit tax under the pay-and-invest counterfactual.

## OZ 1.0 vs. OZ 2.0 — Key Differences

| Feature                      | OZ 1.0 (Original)                | OZ 2.0 (OBBBA)             |
|------------------------------|----------------------------------|----------------------------|
| Sunset                       | Dec 31, 2026 for new investments | Permanent                  |
| Deferral period              | Until Dec 31, 2026 (fixed)       | 5 years rolling            |
| Basis step-up at Y5          | Repealed by OBBBA                | 10% (30% for rural QROFs)  |
| Y10+ tax-free appreciation   | Yes, until 2047 sunset           | Yes, 30-year cap           |
| Tract designation cycle      | One-time (2018)                  | Every 10 years             |
| Substantial improvement rule | 100% of adjusted basis           | 100% (50% for rural QROFs) |
| State (Illinois) conformity  | Yes                              | Yes                        |

Sources: Thomson Reuters (Dec 2025); Plante Moran (Nov 2025); HUD.gov Opportunity Zones Updates.

## Key dates to remember

| Date         | Event                                                              |
|--------------|--------------------------------------------------------------------|
| July 4, 2025 | OBBBA signed — OZ 2.0 created                                      |
| Jan 29, 2026 | Census releases 2020–2024 ACS data — determines OZ 2.0 eligibility |
| Apr 8, 2026  | IRS Rev. Proc. 2026-14 issued — publishes 25,332 eligible tracts   |
| Jul 1, 2026  | Governor nomination window opens (90 days)                         |
| Jul 17, 2026 | Indiana's public nomination portal closes                          |
| Sep 28, 2026 | Governors submit final tract lists to Treasury                     |
| Oct 28, 2026 | Latest possible governor submission (with 30-day extension)        |
| Dec 28, 2026 | Latest possible Treasury certification date                        |
| Dec 31, 2026 | OZ 1.0 deferral recognition date (for pre-2027 investments)        |
| Jan 1, 2027  | OZ 2.0 tax rules and new map take effect                           |
| Dec 31, 2028 | OZ 1.0 tracts sunset (start of 2-year overlap ends)                |
| Dec 31, 2036 | First round of OZ 2.0 tracts expire                                |

Sources: HUD.gov OZ Updates; IEDC (Indiana Economic Development Corporation); IRS Rev. Proc. 2026-14; Cohen & Co. (July 2026); JD Supra Notice 2026-40 analysis.

PART 2

## Indiana Dunes Club's tract status

The specific census tract underlying The Lake Michigan Estates is LaPorte County Census Tract 18091043000 (short reference: tract 430). Here's everything we know about its OZ status as of this briefing.

### Current status: OZ 1.0-designated through Dec 31, 2028

Tract 430 was one of 156 Indiana tracts nominated by Governor Holcomb in 2018 and certified by the U.S. Treasury. It has been an active Opportunity Zone since July 9, 2018, and remains OZ 1.0-eligible through December 31, 2028. Any capital gain invested into a QOF that acquires property in this tract by December 31, 2026 falls under the OZ 1.0 rules. Any investment made January 1, 2027 or later falls under OZ 2.0 — provided the tract has been redesignated (see below) or one of two narrow exceptions applies.

### OZ 2.0 eligibility: strong on both statutory tests

Under the OBBBA's stricter eligibility criteria, a tract qualifies as an eligible OZ 2.0 candidate if either (a) its median family income is  $\leq 70\%$  of statewide/MSA median (was 80% in OZ 1.0), or (b) it has a poverty rate of  $\geq 20\%$ . Tract 430 clears the poverty test decisively.

| Metric                     | Tract 430 | OZ 2.0 threshold           |
|----------------------------|-----------|----------------------------|
| Median Family Income Ratio | 83.1%     | $\leq 70\%$                |
| Poverty rate               | 30.8%     | $\geq 20\%$ (satisfies)    |
| Type classification        | Rural     | Eligible for QROF benefits |

Source: OpportunityZones.com analysis of 2020–2024 ACS data (verified Aug 2026).

### Nomination status: submitted, awaiting Treasury

As of August 20, 2026, Indiana's Governor Braun office is finalizing the nomination list for submission to Treasury by September 28, 2026. Only 126 of Indiana's 501 eligible tracts can be nominated (the 25% statutory cap). Tract 430 is one of the candidates. Treasury certification is expected between late November and December 28, 2026. The new map takes effect January 1, 2027.

### What tips the odds in favor of redesignation

- Continuity: Currently OZ 1.0-designated — a natural candidate for renewal.
- Rural classification: Indiana's OZ 2.0 program officially prioritizes rural tracts.
- Statutory qualification via poverty rate: 30.8% poverty rate exceeds the 20% threshold by 50%.

- Project readiness: IEDC has stated it will prioritize tracts with active development plans, regional coordination, and evidence of private capital interest — all of which Indiana Dunes Club demonstrates.
- National context: Only ~60% of OZ 1.0 tracts nationally are OZ 2.0-eligible; tract 430 is in that eligible group.

Sources: IEDC OZ Nomination Portal; JD Supra (Jul 2026); Prosody Labs OZ 2.0 Monitor (verified Aug 17, 2026); OpportunityZoneInvest.com Tracker.

## The insurance policy: Working Capital Safe Harbor

Even in the unlikely event tract 430 is NOT redesignated as OZ 2.0, IRS Notice 2026-40 (June 2026) provides a critical grandfathering pathway. If Indiana Dunes Club's QOZB has a valid Working Capital Safe Harbor (WCSH) plan with at least 10% of planned working capital committed by December 31, 2026, the project remains eligible for OZ 2.0 investments made in 2027 and beyond — regardless of the tract's OZ 2.0 status. Indiana Dunes Club Development LLC is on track to satisfy this requirement well before the deadline.

Source: IRS Notice 2026-40 (June 2026); analyzed by HCVT and JD Supra.

## PART 3

## Two investor structures

Every OZ investor sizes their position in \$100,000 units — corresponding to \$100K of realized capital gains. A \$500,000 gain buys 5 units; a \$2 million gain buys 20 units; a \$5 million gain buys 50 units. Below are two structures for how a unit is deployed. Investors can pick one or blend both.

### Scenario A — Build & STR a luxury home

**Minimum: 20 units (\$2 million). Structure: Whole-home ownership within QOZB.**

The QOF acquires one Indiana Dunes Club lot (\$500K basis) and funds construction of a 3,500 square-foot luxury lakefront home (\$1.4M all-in at \$400/sf) with a \$100K working capital reserve. A \$600,000 construction bridge loan at 7% supplements. Completed value at \$700/sf finished tier: \$2.45M. The home operates as a short-term rental for 10 years — \$240K/yr gross Year 1, growing 4%/yr, 32% opex ratio. Owner gets 14 days/year personal use (per IRS §280A limits for OZ mixed-use). Depreciation shield adds ~\$17.8K/yr in cash tax savings against the owner's other rental income. Home is listed for sale within 30 days of Year 10 anniversary; sold tax-free.

| Gross MOIC   | Net MOIC          | IRR        |
|--------------|-------------------|------------|
| 2.15×        | 1.80×             | 7.7%       |
| federal-only | Illinois-adjusted | annualized |

### Scenario B — Preferred equity + lot option

**Minimum: 1 unit (\$100,000). Fully divisible. Structure: QOZB pref equity + fractional lot option.**

The QOF invests directly into Indiana Dunes Club QOZB preferred equity. The investor receives a 9% cash-pay preferred return (\$9,000/unit/year) beginning Year 2 through Year 10. Each unit also carries a proportional option to acquire 1/20th of an Indiana Dunes Club lot at a \$20,000/unit strike (20% discount to today's \$500K lot price). At Year 10, the sponsor call-right triggers: pref stake redeemed at par, option cash-settled at then-appraised value less strike — all tax-free at appreciation. Assuming 6.5% annual lot appreciation, option gain is roughly \$22,000/unit.

| Gross MOIC   | Net MOIC          | IRR        |
|--------------|-------------------|------------|
| 2.00×        | 1.82×             | 7.5%       |
| federal-only | Illinois-adjusted | annualized |

## Per-unit cash flow comparison (Illinois-adjusted)

| Year         | Scenario A       | Scenario B       | Event                                 |
|--------------|------------------|------------------|---------------------------------------|
| 0            | (\$100,000)      | (\$100,000)      | Invest capital gain into QOF          |
| 1            | \$0              | \$0              | Construction — no distributions       |
| 2            | \$5,431          | \$9,000          | A: STR opens · B: pref begins         |
| 3            | \$5,719          | \$9,000          | Operations                            |
| 4            | \$6,020          | \$9,000          | Operations                            |
| 5            | (\$20,037)       | (\$17,370)       | Deferred cap gains tax paid (\$26.4K) |
| 6            | \$6,659          | \$9,000          | Operations                            |
| 7            | \$6,999          | \$9,000          | Operations                            |
| 8            | \$7,353          | \$9,000          | Operations                            |
| 9            | \$7,726          | \$9,000          | Operations                            |
| 10           | \$153,895        | \$126,928        | Exit — appreciation tax-free          |
| <b>Total</b> | <b>\$179,765</b> | <b>\$181,558</b> | <b>Net gain per \$100K unit</b>       |

Full model: [indianadunesclub.pplx.app/model.html](http://indianadunesclub.pplx.app/model.html). All figures net of federal AND Illinois state tax.

PART 4

# The real comparison

MOICs and IRRs are only meaningful in comparison to the alternative. What if you just paid the tax and invested the net in something conventional? This section answers that question honestly, for an Illinois resident at the top LTCG bracket, over the same 10-year horizon.

## The thesis

**The 28.75% you never earn back.**

An Illinois investor’s capital gain loses 28.75% to tax on day one — \$20,000 federal, \$3,800 NIIT, and \$4,950 to Illinois. That’s not a risk that can be diversified away or recovered in a good market year. It’s a permanent 40% capital handicap versus the OZ investor next to you (\$28,750 / \$71,250).

Indiana Dunes Club’s underwriting is deliberately conservative — 6.5% appreciation on lakefront land where the 20-year regional median is higher; STR revenues indexed to Beachwalk’s verified performance, not to what’s possible. And even at these conservative assumptions, the OZ tax structure alone makes the counterfactual math almost impossible to close: the S&P has to grow by 40%+ before it even reaches OZ’s starting line, and then pay its own capital gains tax on exit.

**That’s the thesis: you don’t have to bet on Indiana Dunes Club being a heroic real estate return — you just have to bet that conservative real estate + zero exit tax beats aggressive equities + a 28.75% cut on both entry and exit. Over 10 years, that’s a bet the math wins for you.**

## Starting point: the tax you avoid

A \$100,000 long-term capital gain, if recognized today, triggers \$28,750 in immediate tax: \$20,000 federal LTCG (20%), \$3,800 Net Investment Income Tax (3.8%), and \$4,950 Illinois state income tax (4.95%). That leaves \$71,250 to redeploy. This is the number OZ investors compare against.

## Four ways to invest \$71,250 for 10 years

| Strategy                       | Ending value | MOIC* | Net gain |
|--------------------------------|--------------|-------|----------|
| Muni bond ladder — 4% tax-free | \$105,467    | 1.05× | +\$5,467 |

| Strategy                                | Ending value     | MOIC*        | Net gain         |
|-----------------------------------------|------------------|--------------|------------------|
| Private real estate — 6.5% total return | \$124,372        | 1.24×        | +\$24,372        |
| S&P 500 — 7% after-tax CAGR             | \$140,181        | 1.40×        | +\$40,181        |
| Indiana Dunes Club OZ Scenario A        | \$179,765        | 1.80×        | +\$79,765        |
| <b>Indiana Dunes Club OZ Scenario B</b> | <b>\$181,558</b> | <b>1.82×</b> | <b>+\$81,558</b> |

\*MOIC calculated against the original \$100,000 pre-tax gain, so the counterfactual scenarios reflect the tax drag of paying the LTCG upfront. All figures net of federal and Illinois state tax. S&P 500 7% after-tax CAGR reflects ~10% nominal S&P total return net of ~3%/yr blended tax drag on qualified dividends and LTCG on exit for an Illinois investor at the top bracket.

## Incremental IRR: what the OZ election alone is earning

MOICs are total-dollar comparisons. The incremental IRR isolates a different question: what return am I earning specifically on the \$28,750 tax I chose to defer, by electing OZ instead of paying the tax and investing the net? This is the most economically honest measure of what the OZ structure adds on top of the underlying real estate return.

| OZ Scenario vs. counterfactual | Incremental IRR | Incremental MOIC on \$28,750 |
|--------------------------------|-----------------|------------------------------|
| Scenario A vs. Muni bonds 4%   | 12.00%          | 2.58×                        |
| Scenario A vs. Private RE 6.5% | 6.23%           | 1.60×                        |
| Scenario A vs. S&P 500 7%      | 4.34%           | 1.38×                        |
| Scenario B vs. Muni bonds 4%   | 13.98%          | 2.33×                        |
| Scenario B vs. Private RE 6.5% | 6.36%           | 1.35×                        |
| Scenario B vs. S&P 500 7%      | 3.00%           | 1.13×                        |

Read each row as: "If I could deploy the \$28,750 tax dollar somewhere else at this rate for 10 years, it would produce the same wealth outcome as electing OZ instead of the counterfactual." All incremental IRRs are positive — the OZ election adds economic value against all three benchmarks, even the highest-returning one. The Muni comparison is the strongest (12–14%) because tax-free muni yield is the closest apples-to-apples on tax treatment but far below OZ's return ceiling.

## Why the OZ scenarios pull ahead

Three effects compound:

- Full principal working for you. \$100K vs \$71,250 — that's 40% more capital deployed on day one.
- Five-year tax deferral. The government provides an interest-free loan of \$28,750 for five years. At Indiana Dunes Club's underlying returns, that loan alone is worth an extra \$8,000 per unit.

- Tax-free appreciation. Every dollar of upside on the property or preferred stake escapes federal AND Illinois capital gains tax at Year 10+. Compare to the S&P 500, where the exit is taxed at 28.75%.

### THE BOTTOM LINE

Indiana Dunes Club OZ delivers ~\$40,000 more per \$100K unit than the S&P 500 for an Illinois investor — ~30% more ending wealth, without market equity risk. On a \$2M capital gain, that's ~\$800K in additional net worth, while the deferred tax dollar earns 3–14% incremental IRR across every benchmark.

## Assumptions & sensitivities

S&P 500: 7% after-tax CAGR reflects historical ~10% nominal S&P total return minus ~3%/yr blended tax drag: 15%/23.8% federal tax on qualified dividends, 4.95% IL on all dividends, and 28.75% LTCG on exit for an Illinois investor at the top bracket. Higher pre-tax returns would narrow the gap but not close it — the OZ tax-free exit is structural.

Muni bonds: 4% federal and Illinois tax-free is a reasonable 10-year expectation for high-grade munis. This is the closest apples-to-apples on tax treatment, but the return ceiling is much lower.

Private real estate: 6.5% total return assumes typical direct-ownership real estate net of a 15% effective tax drag (mix of depreciation-shielded income and LTCG on exit). More favorable than the S&P but still meaningfully behind OZ.

OZ scenarios: assume the Y5 deferred tax bill of \$21,610 per unit (federal \$16,660 + Illinois \$4,950) under the 30% rural QROF step-up. Assume 6.5% annual real estate appreciation. Assume Illinois conformity to federal OZ appreciation exclusion (current statutory position).

## PART 5

## Advanced tax mechanics

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OZ is powerful on its own. Combined with cost segregation, 100% bonus depreciation, the short-term-rental non-passive rule, and the OZ recapture exclusion, it becomes the single most powerful legal tax vehicle currently available to a high-income investor deploying a capital gain. This section documents the mechanics with primary-source citations.

### 5.1 The three OZ tax benefits, in order

A common misconception is that OZ “makes the tax go away.” It does not — not entirely. The program stacks three distinct benefits under IRC §1400Z-2, and only one of them is permanent:

(1) Deferral (Year 0). The investor rolls the capital gain into a QOF within 180 days. The \$28,750 tax bill on a \$100K Illinois gain (20% federal LTCG + 3.8% NIIT + 4.95% IL) is deferred, not erased. This is effectively a 5-year interest-free loan from the government.

(2) Basis step-up (Year 5). Under OZ 2.0's 30% rural QROF step-up (which Indiana Dunes Club qualifies for under Tract 430), the federal portion of the deferred tax is calculated on \$70K instead of \$100K. The revised Y5 bill becomes ~\$21,610 (federal \$16,660 + Illinois \$4,950). Illinois does not conform to the step-up. Savings: ~\$7,140 per \$100K unit (vs. only \$2,380 under the 10% urban step-up). The investor still writes a real check in Year 5.

(3) Permanent exclusion (Year 10+). This is the benefit that drives the OZ outperformance. At sale, 100% of the appreciation from Year 0 to sale is federal AND Illinois tax-free. An S&P 500 investor with the same \$80K of appreciation would owe ~\$23K in tax at exit — the OZ investor keeps that entire \$23K. This is where the “40% capital handicap” permanently compounds.

### 5.2 The 10-year exclusion covers ALL gains — including depreciation recapture

Under Treas. Reg. §1.1400Z2(c)-1(b)(2)(ii)(A) (Final Regulations, effective March 13, 2020), a taxpayer holding a qualifying QOF investment for at least 10 years may elect to exclude all gains and losses — including §1245 and §1250 depreciation recapture — except gains from inventory sold in the ordinary course of business.

This is a critical clarification. Earlier Proposed Regulations had limited the exclusion to capital gains only. The Final Regulations explicitly broadened it. Some older tax blogs still reflect the outdated Proposed-Regs position; the operative rule is the Final Regs.

**The double-dip in one sentence. Under Indiana Dunes Club Scenario A, the investor gets to take aggressive Year-1 depreciation deductions against active income AND avoid the corresponding recapture tax at exit — something only OZ 10-year holds enable.**

### 5.3 100% bonus depreciation permanently restored (OBBA 2025)

Under the One Big Beautiful Bill Act (P.L. 119-21, signed July 4, 2025), IRC §168(k) was permanently reinstated at 100% for qualifying property acquired and placed in service after January 19, 2025. IRS Notice 2026-11 provides implementation guidance. This is a significant departure from the pre-OBBA scheduled phase-down (40% in 2025, 20% in 2026, 0% by 2027) that would have made this analysis dramatically less favorable.

On a ~\$1.2M vertical build in Scenario A, a cost segregation study typically reclassifies 20–30% of the building basis from 27.5-year residential rental into 5-, 7-, and 15-year property (appliances, cabinetry, fixtures, furniture, landscaping, driveways, decking). Assuming a 25% reclass, the investor identifies ~\$300K of accelerated basis, and the entire \$300K is expensed in Year 1 under 100% bonus. Adding straight-line depreciation on the remaining \$900K building shell (~\$33K/yr), the total Year 1 deduction is ~\$333K on a \$1.2M asset.

### 5.4 STR non-passive treatment (the 7-day rule)

Under Treas. Reg. §1.469-1T(e)(3)(ii)(A), a rental with average customer use of 7 days or less is NOT treated as a rental activity for §469 passive-loss purposes. Because STR guest stays at Indiana Dunes Club typically average 3–5 days, this rule applies naturally.

The investor does not need Real Estate Professional Status (REPS). They only need to satisfy one of the seven material participation tests under Treas. Reg. §1.469-5T — the most common being the 100-hour test (100+ hours annually AND more than anyone else, including the property manager). If met, the ~\$300K of Year 1 bonus depreciation losses can be deducted against W-2 wages or other active income at the investor's marginal rate. For a top-bracket Illinois investor (37% federal + 4.95% IL), that's ~\$126K in Year 1 tax savings on top of the OZ deferral.

### 5.5 Optional bonus: QBI deduction under IRC §199A

If the STR activity rises to a Section 162 trade or business (or meets the safe harbor of IRS Notice 2019-07), the STR income may qualify for the 20% Qualified Business Income deduction under IRC §199A. Requirements: 250+ hours of documented rental services per year; personal use kept below §280A limits (14 days or 10% of rental days, whichever is greater); investor taxable income below QBI phase-out thresholds. This is another ~20% haircut on the taxable slice of STR NOI — modest but material over 10 years.

### 5.6 Why Scenario A beats Scenario B on after-tax outcomes

OZ makes the capital gain tax-free at exit, but ongoing income during the 10-year hold is not OZ-protected. That is the key insight: Scenario B pref payments (\$8K/yr) are taxed as ordinary income at up to 37% federal + 4.95% Illinois — ~41% total drag on cash yield. Scenario A STR income is also technically ordinary rental income, but it is largely shielded by depreciation on the building itself. In most years, the taxable slice of STR NOI is near zero after depreciation.

For a top-bracket Illinois investor with substantial W-2 or business income, the Year 1 depreciation shield alone (~\$126K federal + IL savings) plus the OZ recapture exclusion at exit typically makes Scenario A the superior after-tax outcome — even though headline MOICs look similar.

## 5.7 What has to be true for this to work

The double-dip does not happen automatically. Five items must be structured correctly:

1. QOF/QOZB operating agreement must commit to the §1400Z-2(c) asset-sale election at Y10+, restrict inclusion events, and allocate depreciation appropriately under §704(b).
2. Cost segregation study must be commissioned by a qualified engineering firm at placed-in-service to document short-life reclassifications.
3. STR average guest stay must be tracked at the property level, per tax year, to preserve the 7-day rule (Treas. Reg. §1.469-1T(e)(3)(iii)).
4. Material participation must be documented contemporaneously — typically via investor involvement in marketing, guest communication, or property oversight beyond what a full-service manager provides.
5. Personal use should be kept below §280A limits (14 days or 10% of rental days) to preserve QBI eligibility and full deductibility.

## 5.8 Primary sources cited in this section

IRC §168(k) as amended by OBBBA P.L. 119-21 (PKF O'Connor Davies; RSM US).

Treas. Reg. §1.1400Z2(c)-1(b)(2)(ii)(A) (Cornell CFR; Proskauer Tax Talks; Gray Robinson).

Treas. Reg. §1.469-1T(e)(3)(ii)(A) (Cost Seg Smart; The Real Estate CPA).

IRC §199A + IRS Notice 2019-07 (Journal of Accountancy; IRS QBI guidance).

This analysis is illustrative and requires review by the investor's own CPA and tax counsel. Specific benefits depend on the investor's income profile, participation level, and the final QOF/QOZB operating agreement.

## PART 6

## Risks & mitigations

OZ investing carries real risks. Below are the material ones for the Indiana Dunes Club investment specifically, and how the deal is structured to address them.

| Risk                                                  | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tract 430 not redesignated as OZ 2.0                  | Working Capital Safe Harbor: 10% of planned working capital committed by Dec 31, 2026 preserves OZ 2.0 eligibility for 2027+ investments regardless of tract status (IRS Notice 2026-40).                                                                                                                                                                                                                                                                                                                    |
| Illiquidity during 10-year hold                       | Contractual Y10 exit trigger: home listed within 30 days of Y10 anniversary; sponsor buyback right at MAI appraised value if not sold within 60–90 days. Scenario B: sponsor call-right within 60 days of Y10. Backed by an active \$1M–\$3M comp set: 9+ Michigan City / Long Beach lakefront closings between \$1.25M and \$3.5M in the last ~18 months (1852 Lakeshore Dr \$2.15M under contract in 7 days; 2306 Lake Shore Dr \$3.5M at 96% of list; 2925 Lake Shore Dr \$1.47M at 93% of list, 46 DOM). |
| Y5 deferred tax bill unfunded                         | Scenario A: annual STR distributions fund the Y5 tax bill from operating cash flow. Scenario B: three years of pref payments (\$27K by Y5) exceed the tax owed.                                                                                                                                                                                                                                                                                                                                              |
| Construction cost overruns                            | Fixed-price GC contract with 10% contingency reserve. Construction bridge from local lender at 7% covers cost overruns up to 10% before triggering additional equity call.                                                                                                                                                                                                                                                                                                                                   |
| STR market softness / regulatory change               | Michigan City STR permits grandfathered. Indiana Dunes Club sits in unincorporated LaPorte County (fewer restrictions than city limits). Fallback to seasonal LTR available.                                                                                                                                                                                                                                                                                                                                 |
| Personal use limit (14 days/year) restrictive         | Structured to comply with IRS §280A vacation-home rules while preserving depreciation shield. Investor family may pre-book off-season blocks.                                                                                                                                                                                                                                                                                                                                                                |
| Illinois state tax nonconformity risk                 | Illinois has statutorily conformed to federal OZ treatment since 2018. State legislature would need to affirmatively decouple — considered low probability.                                                                                                                                                                                                                                                                                                                                                  |
| Inclusion event during hold (early sale, refinancing) | Operating agreement restricts inclusion events. Refinancing capped at 55% LTV to avoid QOZB disqualification. Any triggered inclusion event still preserves the original deferral benefit.                                                                                                                                                                                                                                                                                                                   |
| Federal OZ program repeal                             | OBBBA made OZ a permanent Internal Revenue Code fixture (§1400Z-2). Repeal would require new legislation. Even if passed, existing investments would almost certainly be grandfathered.                                                                                                                                                                                                                                                                                                                      |

All risk mitigants require final legal, tax, and sponsor documentation before commitment.

## PART 7

## Sources & further reading

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All data in this briefing is drawn from primary tax authorities, government agencies, and reputable tax-advisory publications. Reference these directly for the underlying detail your CPA or tax counsel will need.

### Statutory & regulatory sources

- H.R. 1 (One Big Beautiful Bill Act of 2025) — Public Law 119-XX, signed July 4, 2025. Section on §1400Z-2 amendments creates OZ 2.0. [Treasury OZ 2.0 announcement](#)
- IRS Notice 2026-40 (June 2026) — Transitional guidance on OZ 1.0 → OZ 2.0 hand-off. Details WCSH grandfathering. [HCVT analysis](#)
- IRS Rev. Proc. 2026-14 (April 2026) — Official list of 25,332 eligible OZ 2.0 tracts. [Interactive eligibility map](#)
- Treasury Notice / Rev. Proc. 2026-XX — Transitional guidance published July 2026. [Polsinelli transition roadmap](#)

### Indiana-specific sources

- Indiana Economic Development Corporation (IEDC) — OZ 2.0 program page: [iedc.in.gov/program/indiana-opportunity-zones](http://iedc.in.gov/program/indiana-opportunity-zones)
- IEDC Nomination Process: [iedc.in.gov OZ designation process](#)
- Indiana Eligibility Map: [iedc.in.gov OZ eligibility map](#)
- OpportunityZones.com Indiana: [Full list of 501 eligible tracts](#)

### Tax-advisory commentary

- Thomson Reuters — [OBBBA Changes to Opportunity Zones](#) (Dec 2025)
- Plante Moran — [The OBBB and Opportunity Zones 2.0](#) (Nov 2025)
- JD Supra / Hogan Lovells — [Opportunity Zones 2.0 – Back to the Land of OZ](#) (July 2025)
- Withum — [Opportunity Zones Reimagined](#) (July 2025)
- Cohen & Co. — [OZ 2.0 Nomination Timeline](#) (July 2026)
- Williams Mullen — [Big, Beautiful Changes to the QOZ Program](#) (July 2025)
- Seyfarth Shaw — [7 Key Changes to the QOZ Incentive under OBBBA](#) (July 2025)

### Government & data sources

- HUD — [Opportunity Zones portal](#)
- HUD Updates — [Current program status and key dates](#)

- Congressional Research Service — [Round Two Selection Process \(R48952\)](#) (May 2026)
- Brookings Institution — [How OBBBA Changed Opportunity Zones](#)
- Economic Innovation Group — [OZ 2.0 Where Things Stand](#) (July 2025)

## Tracker & analysis

- Prosody Labs OZ 2.0 Monitor — [State-by-state OZ 2.0 status](#)
- OpportunityZoneInvest.com — [Nomination Tracker](#)
- opportunityzones.com — [OZ 2.0 State Tracker](#)

## Local market comparables (\$1M–\$3M liquidity)

- Quadwalls — [10 Most Expensive Homes Sold in Northwest Indiana in 2025](#) (1852 Lakeshore Dr, Michigan City — \$2.15M, under contract in 7 days; 1114 Lake Shore Dr, Michigan City — \$2.31M; 2930 Lake Shore Dr, Long Beach — \$2.625M)
- Redfin — 2306 Lake Shore Dr, Long Beach: [Sold Dec 4, 2025 for \\$3,500,000](#) on a \$3.65M list (96% of list, ~90 DOM)
- Coldwell Banker — 2925 Lake Shore Dr, Long Beach: [Sold Dec 5, 2025 for \\$1,470,000](#) on a \$1.59M list (93% of list, 46 DOM)
- Redfin — 2931 Lake Shore Dr, Long Beach: [Sold Jan 2024 for \\$2,400,000](#)
- Homes.com Michigan City sold records — [1705 Lake Shore Dr, Long Beach sold Oct 6, 2025 for \\$1,775,000](#)
- Trulia Long Beach sold — [2731 Lake Shore Dr sold at \\$1,250,000](#)

This briefing was prepared August 23, 2026, and reflects publicly available information as of that date. Program mechanics, dates, and tract designations are subject to change. Consult qualified legal, tax, and financial advisors before making any investment decision. This document does not constitute an offer to sell or a solicitation to buy any security.

**NEXT STEPS**

# Ready to explore further?

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Interactive model · [indianadunesclub.pplx.app/model.html](http://indianadunesclub.pplx.app/model.html)

Full site · [indianadunesclub.pplx.app](http://indianadunesclub.pplx.app)

**Rob Harte · Indiana Dunes Club Development LLC**

Chicago, IL · [nwidevelopment.com](http://nwidevelopment.com)

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## REFERENCE · KEEP THIS HANDY

## Acronym & term legend

Every OZ term used across the Indiana Dunes Club investor materials, defined once. Investors familiar with OZ rules can skip. On the website ([indianadunesclub.pplx.app](http://indianadunesclub.pplx.app)) these definitions appear on hover.

### OZ VEHICLES & ENTITIES

|                     |                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>QOF</b>          | Qualified Opportunity Fund. The entity (LLC taxed as partnership, or corporation) that receives your rolled capital gain and invests it into the project.                                                                                                                                                                                                                      |
| <b>QROF</b>         | 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.                                                  |
| <b>QOZB</b>         | 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.                                                                                                                                                                      |
| <b>QOZ</b>          | Qualified Opportunity Zone. A federally designated census tract. Indiana Dunes Club sits in Tract 430 (Michigan City, IN).                                                                                                                                                                                                                                                     |
| <b>OZ 2.0</b>       | 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.                                                                                                    |
| <b>OBBBA</b>        | One Big Beautiful Bill Act. The July 2025 tax law that made the OZ program permanent and introduced rural QROF benefits.                                                                                                                                                                                                                                                       |
| <b>IRC §1400Z-2</b> | Section of the Internal Revenue Code that authorizes the OZ tax benefits.                                                                                                                                                                                                                                                                                                      |
| <b>§1031</b>        | 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

|             |                                                                                                                                            |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <b>LTCG</b> | 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. |
| <b>NIIT</b> | Net Investment Income Tax. A 3.8% surtax on investment income for high earners, added on top of the 20% federal LTCG rate.                 |
| <b>IRS</b>  | Internal Revenue Service. The federal tax authority.                                                                                       |
| <b>IRC</b>  | Internal Revenue Code. The federal tax law.                                                                                                |

### FEDERAL FORMS FILED

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

### DEAL & OFFERING TERMS

|                     |                                                                                                                                                                                                  |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>LLC</b>          | Limited Liability Company. The standard legal entity used for both the QOF and the QOZB.                                                                                                         |
| <b>JV</b>           | Joint Venture. The sponsor-investor partnership structure that owns the project.                                                                                                                 |
| <b>GP / LP</b>      | 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. |
| <b>Reg D 506(c)</b> | SEC Rule 506(c) under Regulation D. The private-offering exemption that allows general solicitation to verified accredited investors only.                                                       |
| <b>NDA</b>          | Non-Disclosure Agreement. The confidentiality agreement executed before the offering package is delivered.                                                                                       |

### UNDERWRITING METRICS

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