

# Tax mechanics & timing.

*Four questions come up in nearly every Indiana Dunes Club investor conversation. This memo answers them precisely, with primary sources.*

## QUESTION 01

### What is NIIT, and where does the 23.8% federal rate come from?

NIIT = Net Investment Income Tax. It is a 3.8% federal surtax on investment income — capital gains, dividends, interest, rental income, and passive business income — that applies to high earners with modified adjusted gross income above \$200,000 (single) or \$250,000 (married filing jointly). Enacted in 2010 to help fund Medicare, it is sometimes called the “Medicare surtax on investment income.” [IRS overview](#).

The 23.8% figure used throughout Indiana Dunes Club investor materials is the all-in top federal rate on long-term capital gains for high earners:

|                                                    |              |
|----------------------------------------------------|--------------|
| Federal long-term capital gains rate (top bracket) | 20.0%        |
| Net Investment Income Tax (NIIT)                   | + 3.8%       |
| <b>Top all-in federal rate on LTCG</b>             | <b>23.8%</b> |

For most Indiana Dunes Club investors — anyone selling appreciated stock, real estate, or a business — the 3.8% NIIT applies on top of the 20% federal capital gains rate, and both are eligible for deferral under Opportunity Zone rules. When the gain is invested into a Qualified Opportunity Fund within 180 days, the full 23.8% is deferred alongside the underlying gain. [IRS Opportunity Zones FAQ](#).

## STATE TAX TREATMENT

# Does Illinois defer too?

## QUESTION 02

### Does Illinois's 4.95% state tax also defer under OZ, or is deferral federal only?

For Illinois residents: yes, the state tax also defers. This is the direct result of how Illinois's income tax code is structured, and it is worth understanding because it materially changes the size of the deferral for Illinois investors.

Illinois conforms to the federal Internal Revenue Code on a rolling basis for individual income tax purposes. Illinois taxable income begins with federal adjusted gross income, and when a capital gain is deferred federally under IRC Section 1400Z-2 (the Opportunity Zone statute), the deferred amount is not in federal AGI — and therefore is not in Illinois taxable income either. [Illinois Department of Revenue — Individual Income Tax](#).

Illinois's individual income tax rate is 4.95% (a flat rate applied to all taxable income). [Illinois DOR income tax rate reference](#).

#### ILLINOIS INVESTOR · TOTAL COMBINED MARGINAL RATE DEFERRED

# 28.75%

23.8% federal (20% LTCG + 3.8% NIIT) plus 4.95% Illinois state, all deferred in the year of the gain when proceeds are timely invested into an Indiana Dunes Club QOF. An Illinois resident deferring a \$1M gain defers ~\$287,500 of first-year tax, not the \$238,000 that federal-only math suggests.

Important state-specific caveat. Not every state conforms to federal OZ deferral. California, Massachusetts, Mississippi, and North Carolina have decoupled — investors in those states defer federal but still owe state tax on the gain in year one. Illinois did not decouple, which is one reason Indiana Dunes Club's target Chicago-metro audience benefits disproportionately from the deferral structure.

The 10% federal basis step-up available at year five under OZ 2.0 also flows through to Illinois taxable income for the same conformity reason. The state follows the federal treatment of the deferred gain when it is eventually recognized.

# The bridge window.

## QUESTION 03

If an investor has a capital gains event in August 2026, can they still invest in OZ 2.0 in January 2027?

Short answer: yes, and this is one of the strongest structural windows in the market right now. An investor with a Q3 or Q4 2026 gain can wait to fund a QOF until on or after January 1, 2027 — as long as they are still inside their 180-day rollover window — and receive full OZ 2.0 treatment, skipping OZ 1.0's imminent recognition trigger entirely.

## THE 180-DAY RULE

Under IRC 1400Z-2(a)(1), an investor has 180 days from the date of the gain-triggering event to invest the proceeds into a Qualified Opportunity Fund and receive OZ tax deferral. [IRS Opportunity Zones FAQ](#). An August 2026 gain has a 180-day window that ends in late February 2027 — well after OZ 2.0's January 1, 2027 start date.

## WHY WAITING FOR OZ 2.0 IS THE BETTER OUTCOME

|                                            | OZ 1.0 (invest before Jan 1, 2027) | OZ 2.0 (invest on/after Jan 1, 2027)  |
|--------------------------------------------|------------------------------------|---------------------------------------|
| Recognition date on deferred gain          | December 31, 2026                  | 5 years after investment              |
| Basis step-up on deferred gain             | None remaining                     | 10% at year 5                         |
| Rural QOF bonus step-up                    | N/A                                | Additional 30% (40% total)            |
| Tax-free QOF appreciation after 10-yr hold | Yes                                | Yes                                   |
| Program status                             | Sunsets Dec 31, 2026               | Permanent, rolling 10-yr designations |

The critical asymmetry: under OZ 1.0, an August 2026 gain deferred by investing before year-end would trigger recognition on December 31, 2026 — literally weeks after the investment. That is a bad outcome. Waiting until January 1, 2027 preserves the full deferral clock and adds the 10% basis step-up at year 5.

### THE BRIDGE WINDOW

Any capital gains event on or after roughly July 5, 2026 has a 180-day window that reaches into 2027 — the investor can wait, fund an Indiana Dunes Club QOF on or after January 1, 2027, and receive full OZ 2.0 treatment. Gains earlier than July 5, 2026 cannot bridge; their 180-day windows expire before OZ 2.0 opens. [Novogradac OZ 2.0 timing analysis](#).

# Is OZ 2.0 better than a 1031 exchange?

## QUESTION 04

### Is Opportunity Zone 2.0 better than a 1031 exchange? Why?

For most investors evaluating an Indiana Dunes Club allocation, yes — OZ 2.0 is structurally superior to a 1031 exchange on four dimensions: eligible capital, permanence of the tax benefit, treatment of depreciation recapture, and exit flexibility. A 1031 exchange is a powerful tool for lifelong real-estate operators who intend to keep rolling gain into replacement property indefinitely and eventually pass to heirs at a stepped-up basis. For a Chicago-metro investor with a one-time gain — from a business sale, appreciated stock, an inherited property, or a single investment property being liquidated — OZ 2.0 does more of the work.

#### THE MECHANICAL DIFFERENCE

A 1031 exchange is a deferral. Gain rolls forward into replacement real property under IRC §1031 and the taxpayer's basis carries over, so the same deferred tax remains on the books indefinitely and depreciation recapture is preserved on the replacement asset. [IRS §1031 like-kind exchange guidance](#). Selling out of the chain triggers the entire deferred gain plus recapture; the only clean exit is death and a step-up in basis to fair market value for heirs.

OZ 2.0 is a deferral plus a permanent exclusion. The deferred capital gain is recognized on a rolling five-year clock (unlike OZ 1.0's fixed December 31, 2026 recognition date), with a 10% basis step-up at year 5. After a 10-year hold, all appreciation on the QOF investment itself — including depreciation recapture on the underlying real estate — is permanently exempt from federal income tax. [JD Supra — OZ 2.0 transition roadmap](#).

#### HEAD-TO-HEAD

|                              | 1031 Exchange                           | OZ 2.0 (Indiana Dunes Club QOF)                   |
|------------------------------|-----------------------------------------|---------------------------------------------------|
| Eligible source of gain      | Real property held for investment only  | Any capital gain (stock, business, real estate)   |
| 180-day clock                | 45-day ID + 180-day close               | 180 days from gain to fund QOF                    |
| Replacement rules            | Like-kind, qualified intermediary       | No like-kind requirement; substantial improvement |
| Deferred tax                 | Deferred, basis carries over            | Deferred 5 yrs; 10% permanently forgiven at yr 5  |
| Depreciation recapture       | Carries forward on replacement property | Forgiven at year 10 exit (permanent)              |
| Post-investment appreciation | Taxable when eventually sold            | Tax-free after 10-year hold (permanent)           |

|                           |                                     |                                             |
|---------------------------|-------------------------------------|---------------------------------------------|
| Clean exit without tax    | Only via step-up at death           | Sell the QOF interest anytime after year 10 |
| Ongoing management burden | Must keep rolling exchanges forever | Passive LP interest; hold 10 yrs and exit   |

## WHEN 1031 IS STILL THE RIGHT ANSWER

1031 remains the correct tool for a career real-estate operator with a long chain of existing exchanged property, active management preference, and estate-planning intent to hold until death. It also remains the only deferral vehicle for pre-July-2026 real-estate gains that cannot bridge into OZ 2.0's January 1, 2027 window (see Question 03). For a one-time capital-gains event with an investor who wants a defined 10-year exit and a permanent, not deferred, tax outcome, OZ 2.0 is the cleaner structure.

### THE BOTTOM LINE

1031 delays the tax bill; OZ 2.0 reduces it and eventually eliminates it. For the Indiana Dunes Club investor with a fresh capital-gains event and a 10-year horizon, the OZ 2.0 upgrade is material — permanent exclusion of appreciation and recapture at year 10 is a benefit 1031 cannot match outside of dying with the asset. Every investor should confirm the fit for their specific facts with a qualified CPA.

## WORKED EXAMPLE

# A \$1M Illinois investor, August 2026 gain.

The numbers below make the answers concrete for a common Indiana Dunes Club investor profile: an Illinois resident realizing a \$1,000,000 long-term capital gain in August 2026 who wishes to defer into a Indiana Dunes Club QOF.

|                                                      |                                                             |
|------------------------------------------------------|-------------------------------------------------------------|
| Investor profile                                     | Illinois resident, top marginal bracket                     |
| Capital gain event                                   | \$1,000,000 long-term gain, realized August 2026            |
| 180-day investment window ends                       | Late February 2027                                          |
| <b>Federal LTCG at 20%</b>                           | <b>\$200,000</b>                                            |
| <b>Net Investment Income Tax at 3.8%</b>             | <b>\$38,000</b>                                             |
| <b>Illinois state tax at 4.95%</b>                   | <b>\$49,500</b>                                             |
| <b>Total first-year tax exposure</b>                 | <b>\$287,500</b>                                            |
| <b>Path A: recognize in 2026 (no OZ)</b>             | Pay \$287,500 in April 2027                                 |
| <b>Path B: invest into OZ 1.0 before 12/31/26</b>    | Defer \$287,500, but recognized 12/31/26 anyway             |
| <b>Path C: Indiana Dunes Club OZ 2.0 in Jan 2027</b> | <b>Full \$287,500 deferred to 2032; 10% step-up at yr 5</b> |

The Path C outcome is the reason timing matters. An investor who acts before understanding the bridge window may accept Path B and lose the OZ 2.0 upgrade — the same \$287,500 of deferral, but forced recognition in weeks instead of years, and no year-5 step-up.

Indiana Dunes Club is not a tax advisor and this memo is not tax advice. Every investor should confirm their specific facts and residency with a qualified CPA or tax attorney before making an OZ investment decision. The mechanics above reflect publicly available guidance under the Internal Revenue Code, Illinois Department of Revenue conformity, and the One Big Beautiful Bill Act as of the date of this document.

The full Indiana Dunes Club investor materials are available at [indianadunesclub.pplx.app](https://indianadunesclub.pplx.app).