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**HURRICANE KATRINA & THE GULF
OPPORTUNITY ZONE ACT OF 2005:
WHAT IT MEANS TO YOUR BUSINESS**

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INTRODUCTION

On December 21, 2005, President Bush signed into law The Gulf Opportunity Zone Act of 2005 to provide federal tax incentives to areas located in the Gulf Opportunity Zone ("GoZone").

This summary of the Gulf Opportunity Zone Act is provided as a general overview of certain provisions of the federal legislation. It is offered in the hope that it will serve as a resource for those affected by Hurricane Katrina.

The following counties in Mississippi are located within the GoZone:

Adams	Jasper	Oktibbeha
Amite	Jefferson	Pearl River
Attala	Jefferson Davis	Perry
Claiborne	Jones	Pike
Choctaw	Kemper	Rankin
Clarke	Lamar	Scott
Copiah	Lauderdale	Simpson
Covington	Lawrence	Smith
Forrest	Leake	Stone
Franklin	Lincoln	Walthall
George	Lowndes	Warren
Greene	Madison	Wayne
Hancock	Marion	Wilkinson
Harrison	Neshoba	Winston
Hinds	Newton	Yazoo
Jackson	Noxubee	

The following parishes in Louisiana are located within the GoZone:

Acadia	Jefferson Davis	St. John
Ascension	Lafayette	St. Mary
Assumption	Lafourche	St. Martin
Calcasieu	Livingston	St. Tammany
Cameron	Orleans	Tangipahoa
East Baton Rouge	Pointe Coupee	Terrebonne
East Feliciana	Plaquemines	Vermilion
Iberia	St. Bernard	Washington
Iberville	St. Charles	West Baton Rouge
Jefferson	St. Helena	West Feliciana
	St. James	

The following counties in Alabama are located within the GoZone:

Baldwin
Chocktaw
Clarke
Greene

Hale
Marengo
Mobile
Pickens

Sumter
Tuscaloosa
Washington

This summary is for informational purposes only and is provided as a service to the public. It is not legal advice or a substitute for legal counsel, and it is not intended to create nor does it create an attorney-client relationship.

SUMMARY OF BUSINESS INCENTIVES

Allows for Additional Bonus Depreciation

The Act allows businesses to claim a first-year depreciation deduction equal to 50% of the cost of qualified property investments made within the GoZone. The depreciation deduction applies to certain nonresidential real property and residential rental real estate expenditures and to certain equipment and software expenditures. The provision applies to property acquired on or after August 28, 2005, and that is placed in service on or before December 31, 2007, or on or before December 31, 2008, for nonresidential real property and residential rental property.

The basis of the property and the depreciation allowances in the year of purchase and later must be appropriately adjusted to reflect the additional first-year depreciation. All depreciation deductions are exempt from Alternative Minimum Taxes.

Increases Section 179 Expensing for Certain Small Businesses

Before the Gulf Opportunity Zone Act, certain small businesses (here defined as businesses with less than \$400,000 of annual investments) can deduct \$100,000 of new investment property rather than depreciate it. This deduction amount is reduced dollar for dollar for the total cost of property over \$400,000. The Gulf Opportunity Zone Act increases the \$100,000 deduction by the lesser of \$100,000 or the cost of qualified GoZone property. As a result small businesses can expense up to \$200,000 of new investments made within the Zone. The Act also increases the \$400,000 trigger for dollar-to-dollar reduction of the deduction by the lesser of \$600,000 or the cost of section 179 GoZone property placed in service during the taxable year. As a result, the \$400,000 trigger is increased to a maximum of \$1,000,000. This provision applies to property acquired on or after August 28, 2005, and that is placed in service on or before December 31, 2007 (December 31, 2008 for nonresidential real property and residential real property).

Expands the Employee Retention Tax Credit

The Act provides a tax credit equal to 40% of the first \$6,000 of wages paid per employee to employers that maintain eligible employees on their payroll. The credit only applies if wages were paid prior to January 1, 2006, and the credit is not available if the employee reported to work at another location while the business was not operating.

Expense rather than Capitalize Demolition and Cleanup Costs

The Act provides that a taxpayer may elect to expense up to 50% of the costs related to site cleanup and demolition. These costs are otherwise capitalized. This provision is effective for amounts paid or incurred on or after August 28, 2005, through December 31, 2007.

Extends the Net Operating Loss Carryback

The Act increases the carryback period for net operating losses from 2 years to 5 years. For purposes of this extension, net operating losses are limited those attributable to:

- a. Qualified casualty losses
- b. Certain moving expenses
- c. Temporary housing expenses for employees working in the Zone
- d. Repair expenses
- e. Depreciation deductions for qualified property for the taxable year the property is placed in service

Extends the Deduction for Environmental Remediation Costs

The Act extends the Section 198 deduction for expenditures incurred to cleanup qualified contaminated sites until December 31, 2007. In addition, for purposes of the Section 198 deduction, the Act treats petroleum products as hazardous substances. This provision applies to expenditures paid or incurred on or after August 28, 2005, and before December 31, 2007.

Increases the Rehabilitation Tax Credit for Commercial Buildings

The Act increases the tax credit for certain rehabilitation expenditures incurred with respect to certified historic structures from 20% to 26% and with respect to non-historic structures from 10% to 13%. To qualify as a certified historic structure, the building must be listed on the National Register of Historic Places and after rehabilitation the building must be used for commercial or residential rental purposes. Non-historic structures must have been built before 1936, and it must be used exclusively for commercial purposes. This provision applies to qualified expenditures incurred between August 28, 2005, and January 1, 2009.

Reforestation of Timber Property and Increase of Net Operating Losses

Currently, there is a \$10,000 limit on the deduction for reforestation costs. The Act increases the deduction to \$20,000 for taxpayers owning less than 500 acres of qualified timber within the Zone. Furthermore, the Act allows these taxpayers to elect a five-year carryback of net operating losses rather than 2 years. These provisions apply to reforestation costs paid or incurred from August 27, 2005, through December 31, 2007.

Employer Provided Housing Incentive

The Act provides employers a 30% tax credit for employer provided housing for employees up to a maximum cost of \$600 per month per employee. Up to \$600 per month is excluded from the income of the employee.

SUMMARY OF STATE AND LOCAL GOVERNMENT BENEFITS

Increases the New Markets Tax Credits

The Act provides for an additional allocation of \$1 billion from 2005-2007 to community development entities. Community development entities are domestic corporations or partnerships whose primary mission is providing investment capital for low-income persons. The Act provides for an additional allocation of new markets tax credits to these organizations of \$300 million in 2005 and 2006 and \$400 million in 2007. These allocations are to be made to community development entities active in recovery efforts within the GoZone.

Provides Additional Bonding Authority

The Act provides for the issuance of private activity bonds, called GoZone bonds, by Mississippi, Louisiana and Alabama which bonds will be outside of state volume caps. Bond authority is \$4.8 billion for Mississippi, \$7.9 billion for Louisiana, and \$2.1 billion for Alabama.

Allows States to Restructure Debt

The Act allows a bond issuer to restructure eligible debt by either refinancing at a lower rate or spreading interest payments over a longer period of time.

Authorizes Gulf Tax Credit Debt Service Bonds

The states are authorized to issue debt service tax credit bonds to help various communities meet their debt service requirements. The bonds must mature within 2 years of issuance and must be issued before January 1, 2007. The allocation for Louisiana is \$200 million, \$100 million for Mississippi, and \$50 million for Alabama.