GULF OPPORTUNITY ZONE ACT OF 2005

Louisiana Economic Impact

This summary of federal legislation is intended as a general overview and was compiled from a variety of sources including the Mississippi Development Authority and the United States House of Representatives' Ways and Means Committee. Louisiana Economic Development has no control or influence over the content or implementation of this legislation, and does not administer or approve these programs. This document lists only selected incentives and does not address all requirements, exclusions and limitations outlined in the act. Eligibility and other requirements related to these incentives should be discussed with the recipient's tax professionals.

The Gulf Opportunity Zone Act of 2005 is federal legislation that was passed by Congress and signed into law by President Bush in December of 2005. This legislation provides for Federal Tax Incentives to areas affected by hurricanes Katrina, Rita and Wilma that were designated as warranting individual or public and individual assistance. The following 37 Louisiana parishes are included in the Katrina and/or Rita Zones for individual and public assistance:

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

SUMMARY OF INCENTIVES

Expands low-income housing tax credits within the Zone. The emergency allocation of low-income housing tax credits is $18 multiplied by Louisiana's population in the Zone. (This is up from the existing allocation of $1.90 per capita.) This allocation is increased for 2006, 2007 and 2008. Unused allocation amounts may not be carried forward. The size of the credit is increased from 100% of qualifying project costs to 130% of such costs by designating the Gulf Opportunity Zone or Rita Zone each as a "Difficult Development Area" in 2006, 2007 and 2008. The operator of a qualified residential rental project may rely on the representations of prospective tenants of prospective tenants of Hurricane Katrina for purposes of determining satisfaction of income limitations.

- **Increases Rehabilitation Tax Credit to help restore commercial buildings**. The existing tax credit of 10% of qualified expenditures incurred for qualified rehabilitated buildings was increased to 13%. For historic structures, this credit was increased from 20% to 26%. These increases apply to qualifying expenses incurred from Aug. 28, 2005 through Dec. 31, 2008.

- **Allows Employer Provided Housing Incentives**. For a six-month period, employers are eligible for a 30% tax credit for the cost of employer-provided housing for employees, with a maximum cost of $600 per month per employee located in the Zone. Additionally, up to $600 per month of such costs would be excluded from the employee's income.

- **Expands the availability of below-market mortgages in the disaster areas.** Under current law, state and local governments may issue mortgage revenue bonds (MRBs) to finance low-interest rate mortgages for first-time homebuyers who meet certain income and purchase price limits. The proposal waives the first-time homebuyer requirement so that individuals whose homes were rendered uninhabitable by Hurricanes Katrina, Rita or Wilma can qualify for these low-interest rate mortgages through 2010. In addition, the proposal provides that up to $150,000 of the loan proceeds may be used to repair damaged homes. To be eligible, the new home must be located in one of the declared disaster areas.

- **Allows 50% Bonus Depreciation within the Zone**.* This incentive allows businesses to claim an **additional** first-year depreciation deduction equal to 50% of the cost of new property investments made in the Zone. This depreciation allowance applies to software, leasehold improvements, and certain equipment and real estate expenditures. All depreciation deductions would be exempt from Alternative Minimum Taxes. This provision applies to property placed in service through Dec. 31, 2007, or Dec. 31, 2008, for real property. The provision also provides a one-year extension of time to place assets in service in the Zone in order to qualify for the bonus depreciation provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003.

- **Provides enhanced Section 179 expensing for Small Businesses**.* Eligible small businesses (businesses with less than $400,000 of annual investments) may expense $200,000 of investment made in the Zone. This amount is up from $100,000 and will be allowed on investments from Aug. 28, 2005, through Dec. 31, 2007. The phase-out floor for investment is also increased from $400,000 to $1 million through 2007.

- **Extends Net Operating Loss Carryback**.* The net operating loss ("NOL") carryback period is extended from two to five years for losses attributable to:

  - New investment and repair of existing investment damaged by Hurricane Katrina
  - Business casualty losses due to Hurricane Katrina
  - Moving expenses and temporary housing expense for employees working in areas damaged by Hurricane Katrina.

  Taxpayers with losses associated with public utility property caused by Hurricane Katrina may either carryback a net operating loss attributable to certain casualty losses 10 years or treat certain casualty losses as having occurred five years prior to the disaster.

- **Provides for expensing of cleanup costs.** Businesses may expense 50% of cleanup and demolition costs in the Zone. Brownfield expensing is also extended and expanded to include sites contaminated by petroleum products. This incentive expires after Dec. 31, 2007.

- **Provides relief for small timber owners.** Timber owners with less than 500 acres of timber in the Zone may expense $20,000 of reforestation costs incurred from Aug. 27, 2005, through December 31, 2007. These owners may also elect a five-year carryback of net operating losses incurred after Aug. 27, 2005, and before Dec. 31, 2007. These incentives are also available to eligible counties and parishes affected by hurricanes Rita and Wilma.

- **Expands the Employee Retention Tax Credit.** 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. Wages must have been paid prior to Jan. 1, 2006. This credit is available to employers whose businesses are inoperable as a result of damage sustained by Hurricane Katrina and is not affected if the employee reported to work at another location while the business was inoperable.

- **Increases New Markets Tax Credits.** $1 billion in New Markets Tax Credit authority is provided from 2005 through 2007. This authority is for investment in Community Development Entities with recovery and redevelopment of the Zone as a significant mission.

- **Increases Hope Scholarship and Lifetime Learning Credits.** This provision doubles the Hope Credit dollar amounts so the maximum credit is $3,000 and doubles the Lifetime Learning Credit percentage to 40%, for a maximum Lifetime Learning Credit of $4,000. Room and board are considered qualified expenses.

- **Provides additional Bonding Authority.*** To assist in the rebuilding effort, the state is authorized to issue up to $7.9 billion of a special class of private activity bonds called Gulf Opportunity Zone Bonds outside the state volume caps. The state or municipalities may issue these bonds with the proceeds used to pay for acquisition, construction and renovation of non-residential real property. Low-income housing rules are relaxed, so more bond proceeds may be used to rebuild housing in the Zone. Mortgage revenue bonds may be used to repair homes (up to $150,000), with the first-time homebuyer rule waived. Interest payments are not subject to Alternative Minimum Taxes. This authority expires after Dec. 31, 2010.

- **Allows Louisiana and municipalities to reduce costs by restructuring outstanding debt.** One additional advance refunding before January 1, 2011, is allowed for states and municipalities within the Zone, with an additional $4.5 billion authorization for Louisiana. This allows the bond issuer to restructure eligible debt by refinancing at a lower rate or spreading interest over a longer time period. Certain 501(c)(3) bonds are also eligible for advance refunding as well.

- **Authorizes Gulf Tax Credit Debt Service Bonds.** The state is authorized to issue debt service tax credit bonds to help devastated communities meet their debt service requirements as a result of the hurricane. Bonds must mature no more than two years after issuance and must be issued before Jan. 1, 2007. Louisiana's allocation is $200 million.

- **Gulf Coast Recovery Bonds.** Expresses the sense of Congress that one or more series of savings bonds should be designated as "Gulf Coast Recovery Bonds."

*GO Zone bonus depreciation, section 179 expensing, extended NOL carryback, and bonding authority will not be allowed for private or commercial golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, liquor stores, or gambling or animal racing property.

TITLE II: INDIVIDUAL TAX RELIEF RELATED TO HURRICANES RITA AND WILMA

The *Katrina Emergency Tax Relief Act of 2005* (P.L. 109-73) provided charitable giving incentives and tax relief for families affected by Hurricane Katrina. The following provisions from P.L. 109-73 are extended to families affected by hurricanes Rita and Wilma in areas designated for individual or individual and public assistance.

- Waives the 10% penalty for early distributions from pensions and IRAs if the taxpayer suffered an economic loss by reason of Hurricane Rita or Hurricane Wilma. The income tax can be paid over three years. Amounts repaid to the pension or IRA within a certain time are not subject to income tax.

- Allows corporations to claim a charitable deduction for cash contributions related to hurricanes Rita or Wilma without regard to the 10% of taxable income cap.

- Allows full deductibility of individual casualty losses occurring in the Rita or Wilma Zones by eliminating the $100 and 10% of adjusted gross income thresholds for losses related to the hurricanes.

- Authorizes the Secretary of the Treasury to suspend the time period for certain acts, such as the filing of tax returns and the payment of taxes, by taxpayers affected by Hurricane Rita or Hurricane Wilma.

- Authorizes the Secretary of the Treasury to adjust rules so that individuals displaced by the hurricanes do not lose tax benefits -- such as the Earned Income Credit and the child credit-- because of a change in their eligibility status due to a prolonged dislocation.

TITLE III: OTHER PROVISIONS

- **Treating combat pay as earned income under the Earned Income Credit.** Under current law, combat pay is ignored for purposes of calculating the Earned Income Credit (EIC). Ignoring combat pay can reduce the EIC in some cases. A special rule gives military personnel the option to include combat pay in the EIC calculation. *The House has already passed a similar provision Dec. 7, 2005, as part of H.R. 4388 with a bipartisan vote of 423-0.*

- **Authority for IRS undercover operations.** Under current law, the IRS has the authority to use income earned by an undercover operation to pay additional expenses incurred in the undercover operation. This authority is extended by one year. *The House has already passed a similar provision on Dec. 7, 2005, as part of H.R. 4388 with a bipartisan vote of 423-0.*

- **Authority for the IRS to disclose certain tax information.** Under current law, the IRS may share certain tax information with certain other federal and/or state authorities to: (1) facilitate combined employment tax reporting, (2) investigate terrorist activities and (3) facilitate the repayment of student loans that are contingent on income. This disclosure authority is extended by one year. *The House has already passed a similar provision on Dec. 7, 2005, as part of H.R. 4388 with a bipartisan vote of 423-0.*

- **Elimination of interest suspension.** The requirement that the IRS suspend interest on tax deficiencies determined more than 18 months after the due date of the return is eliminated with respect to certain tax shelters, subject to exceptions for (i) taxpayers participating in the IRS global tax shelter settlement initiative, (ii) taxpayers acting with reasonable cause and good faith and (iii) certain closed transactions. The provision also eliminates interest suspension on certain amended returns.

TITLE IV: TECHNICAL AND OTHER CORRECTIONS

H.R. 4440 includes technical and other corrections with respect to the *American Jobs Creation Act of 2004, CAFTA* and other legislation.

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