

Gulf Opportunity Zone Act of 2005

Mississippi Economic Impact

This summary of Federal Legislation is intended as a general overview. The Mississippi Development Authority 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. Mississippi counties that are included in the Zone for individual and public assistance are:

Clarke	Harrison*	Lauderdale	Perry
Covington	Jackson*	Leake	Scott
Forrest	Jasper	Marion	Smith
George	Jefferson Davis	Neshoba	Stone*
Greene	Jones	Newton	Wayne
Hancock*	Lamar	Pearl River*	

*The Tax Relief Act of 2006 extends the deadline for property placed in service by the taxpayer on or before December 31, 2010 for the five counties listed above that received hurricane damage to more than 60% of its housing units during 2005.

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 Mississippi'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.

- **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 August 28, 2005 through December 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.

- **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 December 31, 2007, or December 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 August 28, 2005 through December 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 December 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 August 27, 2005 through December 31, 2007. These owners may also elect a five-year carryback of net operating losses incurred after August 27, 2005 and before December 31, 2007.
- **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 January 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 \$4,773,000,000 of a special class of private activity bonds called GO 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 December 31, 2010.
- **Allows Mississippi 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 authorization for Mississippi of \$2.25 billion. This allows the bond issuer to restructure eligible debt by refinancing at a lower rate or spreading interest over a longer period of time. 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 January 1, 2007. Mississippi's allocation is \$100 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.