

Gulf Opportunity Zone Act of 2005

Mississippi Economic Impact

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. Mississippi counties that are included in the Zone for individual and public assistance are:

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

Summary of Incentives:

- **Expands low-income housing tax credits within the Zone.** The allocation of low-income housing tax credits was increased for 2006, 2007, and 2008. For these years, Mississippi's credit ceiling is calculated at \$18 per Mississippian in the Zone. This is up from the existing allocation of \$1.90 per capita. Additionally, rules for difficult to develop areas will apply in the GO Zone, which will allow the credit to be calculated as 130% of the basis of the property rather than 100%.
- **Increases Rehabilitation Tax Credit to help restore commercial buildings.** The existing tax credit of 10% of qualified expenditures incurred for rehabilitated buildings constructed prior to 1936 was increased to 13%. For certified 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. All requirements related to structure, facades, brickwork, and other rehabilitation activities must be met. Contact the Mississippi Department of Archives and History for more details on this program.
- **Provides Additional Bonding Authority.** To assist in the rebuilding effort, the state is authorized to issue up to \$4,919,000,000 of a special class of tax-exempt private activity bonds called GO Zone Bonds. These bonds may be used to finance the acquisition, construction, and renovation of commercial real property or residential rental property. This bonding authority expires after December 31, 2010. It should be noted that a business may choose the tax-exempt financing or the bonus depreciation, but not both.

- **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. Property must be used in the active conduct of a trade or business. All depreciation deductions will 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.
- **Provides enhanced Section 179 expensing for Small Businesses.*** Eligible small businesses may expense \$208,000 of investment made in the Zone. This amount is up from \$108,000, and will be allowed on investments from August 28, 2005 through December 31, 2007. The phase-out floor for investment is also increased from \$430,000 to \$1,030,000 through December 31, 2007.
- **Extends Net Operating Loss Carryback.*** The net operating loss (“NOL”) carryback period is extended from two to five years for losses attributable to:
 - 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.
 - Losses created due to claiming the 50% bonus depreciation.

These rules are effective for losses arising in years ending after August 28, 2005.

- **50% Expensing of Demolition Costs.** Businesses may expense half of otherwise capitalized demolition or clean-up costs within the GO Zone. Costs must be paid or incurred before January 1, 2008.
- **Remediation Expensing.** Costs incurred associated with qualified environmental remediation inside the GO Zone, including clean up of petroleum products, may be expensed rather than capitalized. Costs must be incurred prior to January 1, 2008.
- **Expanded Work Opportunity Tax Credits.** The Katrina Emergency Tax Relief Act of 2005 (“KETRA”) allows employers to claim WOTC credits for hiring any employee in the GO Zone area who lived in the core disaster area and is hired after August 28, 2005 and before August 28, 2007. Credit is allowed for 40% of the first \$6,000 of qualified first-year wages paid to the eligible employee.

*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.

This summary of Federal Legislation is intended as a general overview. 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.