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MISSISSIPPI

The Gulf Opportunity Zone Act of 2005

February 2006

Disclaimer

- 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
- Eligibility and other requirements should be discussed with tax professionals

* Fine Print

Some business types will not qualify

Excluded Businesses

- Golf courses and country clubs
- Massage parlors
- Hot tub and suntan facilities
- Liquor stores
- Gambling and animal racing property

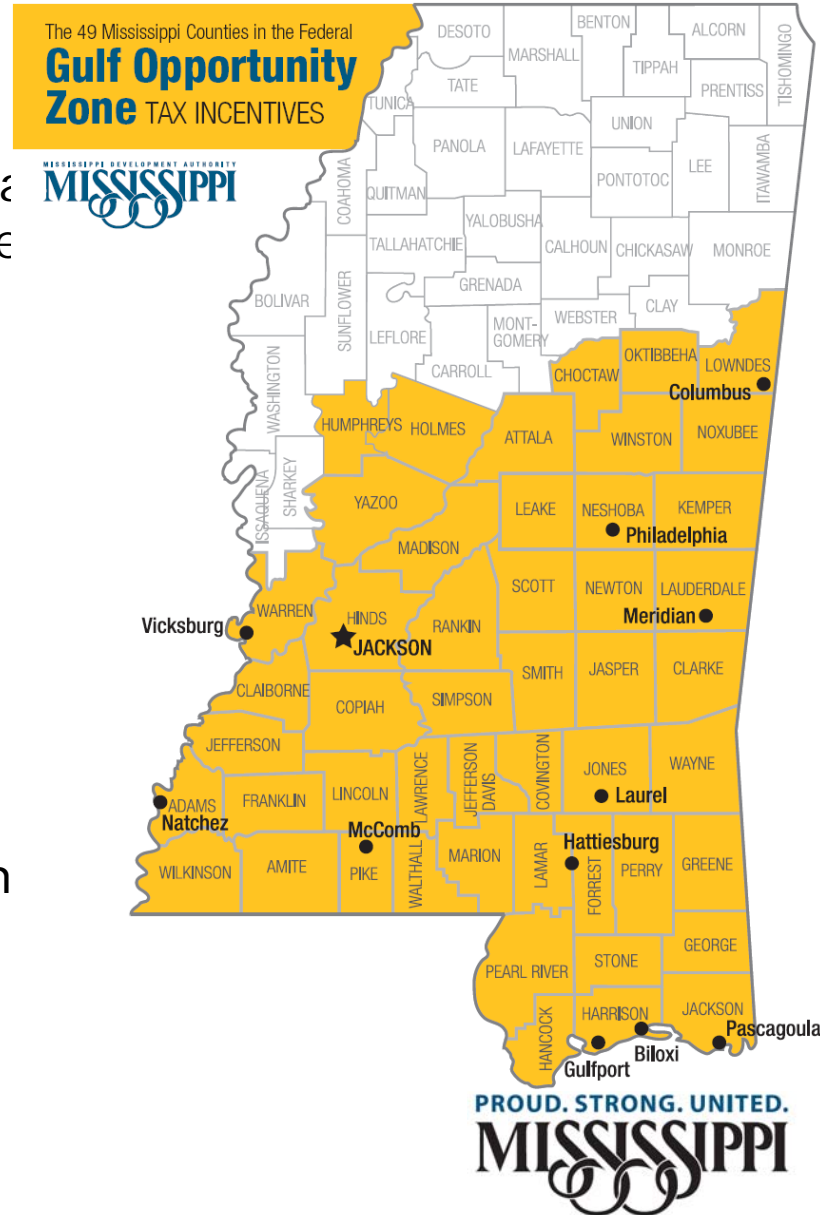
Gulf Opportunity Zone Act of 2005

- Federal legislation passed by Congress and signed into law by President Bush in December
- Provides Federal Tax Incentives for areas affected by Hurricane Katrina



More than Half the State Eligible

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



Summary of Incentives

- Commercial
 - Tax incentives for new investment, clean-up, repair, and employees housing and retention
 - Tax incentives for financing and repairing
 - Private Activity Bonds issued through Mississippi Business Finance Corporation
- Housing
 - Tax exempt low/moderate income housing bonds
- State and Municipal
 - Public bonding authority
 - Debt restructuring

50% Bonus Depreciation*

- First-year 50% depreciation deduction
 - Software, equipment, leasehold improvements and real estate expenditures
- Placed in service through 12/31/07 for equipment or 12/31/08 for real property
- Bonus depreciation may not be used with any tax exempt financing

Bonus Depreciation

Example: EADS North America

- Assuming
 - \$29 million investment in Columbus
 - Assuming 34% tax rate
 - 40 year useful life

Bonus Depreciation:

$$\$29\text{M} \times .5 \times .34 = \mathbf{\$4.93\text{M}}$$

Straight Line Depreciation:

$$\$14.5\text{M} \times .025 \times .34 = \$0.123\text{M}$$

Small Businesses

Section 179 Expensing *

- Businesses with less than \$400,000 of annual investments may expense up to \$200,000 of investments
 - Up from \$100,000
- Placed in service August 28, 2005 through December 31, 2007
- The phase-out floor for investment is increased from \$400,000 to \$1 million through 2007

Small Businesses

Section 179 Expensing Example

- Assuming
 - \$200,000 investment
 - Assuming 34% tax rate
 - 15 year useful life

Additional 179 Expense:

$\$200,000 \times .34 = \mathbf{\$68,000}$ tax savings

Net Operating Loss Carryback*

- The net operating loss carryback period extended from 2 to 5 years for losses
- NOL can be carried forward for 15 years
 - 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 damaged areas
- Utility property losses, either:
 - Carry back a net operating loss attributable to certain casualty losses 10 years
 - Treat certain casualty losses as having occurred five years prior to the disaster

Rehabilitation Tax Credit

Commercial Buildings Restoration

- The existing tax credit of 10% of qualified expenditures for qualified rehabilitated buildings increased to 13%
- For historic structures, this credit was increased from 20% to 26%
- Increases apply to qualifying expenses incurred from 8/28/05 to 12/31/08

Small Timber Owners Relief

- Timber owners with less than 500 acres of timber in the Zone
- May expense \$20,000 of reforestation costs incurred through Dec. 31, 2007
- May elect a five-year carry back of net operating losses incurred after Aug. 27, 2005 and before Dec. 31, 2007

Cleanup Costs Expensing

- May expense 50% of cleanup and demolition costs
- Brownfield expensing is extended and expanded to include sites contaminated by petroleum products
- Expires after December 31, 2007

Employer Provided Housing Incentives

- A 30% tax credit for the cost of employer-provided employee housing
- \$600/month per employee maximum
- Up to \$600 per month of such costs excluded from the employee's income
- For a six-month period

Employee Retention Tax Credit

- For businesses inoperable due to damage by Hurricane Katrina that maintained employees on their payroll
- Tax credit equal to 40% of the first \$6,000 of wages paid per employee
- For wages paid prior to Jan. 1, 2006
- Employee can work at another location while the business is inoperable

GO Zone Bonding Authority*

Private Activity Bonds

- Up to \$4.8B of private activity – GO Zone Bonds
 - Issued by the State through Mississippi Business Finance Corporation
 - For construction & renovation of non-residential real property, fixed equipment & certain residential rental property
 - movable fixtures and equipment excluded
- A project must elect tax-exempt financing **or** bonus depreciation
- Interest payments are not subject to Alternative Minimum Taxes
- Expires December 31, 2010

GO Zone Bonding Authority*

Private Activity Bonds

- Additional State law incentives may be available through MBFC through GO Zone Bonds or traditional MBFC programs
 - Taxable & tax exempt Industrial Development Revenue Bonds and the Small Enterprise Development (SED) Bond program
- Incentives include Rural Economic Development (RED) Debt Service income tax credits, income tax job credits, local property tax exemptions and sales tax exemptions
- Contact MBFC for more information

Housing Incentives/Programs

- Low-income housing rules are relaxed, so more bond proceeds may be used to rebuild
- First-time homebuyer rule waived
- Mortgage revenue bonds may be used to repair homes (up to \$150,000)
- Increases allocation of low-income housing tax credits to \$18 per capita
 - Up from \$1.90 per capita
- This allocation is increased for '06, '07, and '08
- Unused allocations may not be carried forward

**Thanks,
Y'all.**

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