

WHAT IS THE GO ZONE ACT?

The Gulf Opportunity Act is a bill that was signed into law on December 21, 2005 by President Bush. The law establishes tax incentives and bond provisions to support the rebuilding of communities affected by the devastation of hurricane Katrina in 2005. The GO Zone covers approximately 50 counties in Mississippi.

The GO Zone Act enables private businesses, corporations and governments to borrow money through tax-exempt financing to buy, build, or renovate non-residential real property, qualified residential rental projects, and public utility property in the affected areas. Tax exempt borrowing provides lower cost of capital than conventional debt financing, or the borrowers can take accelerated depreciation in the first year that equals 50% of the cost of new capital investments.

GO Zone bonds must meet certain guidelines, including but not limited to:

- Must be located in the GO Zone.
- 95% or more of net proceeds are used for qualified project costs.
- Projects must be approved by the Governor of the State.
- Election for depreciation benefit expires at the end of the 2008 calendar year.
- Bonds must be issued by December 31, 2010.

Example Assumptions:

- * Newly constructed nonresidential building (used in active trade or business)**
- * Cost/basis \$1,000,000 and placed in service 1/1/07**
- * I.R. Code recovery period (depreciation life) - 39 years (straight-line method)**

Go Zone Depreciation Expense

Year	Bonus	Normal	Yearly Total	*Tax Benefit at 35% Rate
1	\$500,000	\$12,286	\$512,286	\$179,300
2 - 39		\$12,820	\$12,820	\$4,487
40		\$534	\$534	\$187

Not in Go Zone Depreciation Expense

Year	Bonus	Normal	Yearly Total	*Tax Benefit at 35% Rate
1	\$0	\$24,573	\$24,573	\$8,601
2 - 39	\$0	\$25,641	\$25,641	\$8,974
40	\$0	\$1,068	\$1,068	\$374

* The tax benefit of 35% is for federal income tax only. At this time the Mississippi State Tax Commission has stated that it will not go along with the IRS on the bonus depreciation.

Example Assumptions:

- * **Newly constructed residential rental building (used in active trade or business)**
- * **Cost/basis \$1,000,000 and placed in service 1/1/07**
- * **I.R. Code recovery period (depreciation life) - 27.5 years (straight-line method)**

Go Zone Depreciation Expense

Year	Bonus	Normal	Yearly Total	*Tax Benefit at 35% Rate
1	\$500,000	\$17,424	\$517,424	\$181,098
2 - 27		\$18,182	\$18,182	\$6,364
28		\$9,844	\$9,844	\$3,445

Not in Go Zone Depreciation Expense

Year	Bonus	Normal	Yearly Total	*Tax Benefit at 35% Rate
1	\$0	\$34,848	\$34,848	\$12,197
2 - 27	\$0	\$36,364	\$36,364	\$12,727
28	\$0	\$19,688	\$19,688	\$6,890

* The tax benefit of 35% is for federal income tax only. At this time the Mississippi State Tax Commission has stated that it will not go along with the IRS on the bonus depreciation.

Example Assumptions:

- * Newly communication equipment, desks, filing cabinets
(used in active trade or business)**
- * Cost/basis \$1,000,000 and placed in service 7/1/06**
- * I.R. Code recovery period (depreciation life) - 7 years
(straight-line method)**

Go Zone Depreciation Expense

Year	Bonus	Expense Sec. 179	Normal	Yearly Total	*Tax Benefit at 40% Rate
1	\$100,000	\$208,000	\$7,143	\$315,143	\$126,057
2 - 7			\$14,285	\$14,285	\$5,714
8			\$7,147	\$7,147	\$2,859

Not in Go Zone Depreciation Expense

Year	Bonus	Expense Sec. 179	Normal	Yearly Total	*Tax Benefit at 40% Rate
1	\$0	\$108,000	\$21,429	\$129,429	\$51,772
2 - 7	\$0		\$42,857	\$42,857	\$17,143
8	\$0		\$21,429	\$21,429	\$8,572

* The tax benefit of 40% assumes a 35% federal rate and a 5% state tax rate.

The state of Mississippi has agreed to follow the federal law.

What Mississippi Counties are in the GO Zone?

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

Tax Exempt Financing

Until now, tax-exempt financing has been limited to government agencies or non-profit organizations. Under the GO Zone Act, a wide range of businesses, including public and private corporations, retailers, commercial developers, utilities and hospitals, have the opportunity to build or rebuild at interest rates that can be as much as 1.5% to 2% below conventional financing options.

Additional Advance Refunding

Current law limits the number of times that bonds of a state or local government can be advance refunded to one advance refunding. An advance refunding occurs when new bonds are issued to refund existing bonds which are not redeemable for more than 90 days from the date of the new bonds. Under the Act, states, counties, parishes and municipalities located in the Gulf Opportunity Zone are entitled to one additional advance refunding for existing governmental bonds. These refunding bonds must be issued before January 1, 2011. This provision also applies to certain bonds issued for the benefit of charitable organizations described in Section 501 (c)(3) of the Internal Revenue Code of 1986, as amended (the "Code), and certain bonds issued to finance docks, wharves and airports. The maximum amount of advance refunding bonds that may be issued pursuant to this provision is \$2.25 billion in Mississippi. Certain additional provisions of the Code must be satisfied to allow for the issuance of such refunding bonds and the debt service savings they may provide.

Net Operating Losses

A net operating loss is an amount by which a federal taxpayer's allowable deductions exceed his gross income. In most cases, this results in a refund of federal income tax for the carryback year. A carryover of a NOL will reduce federal income tax for the carryover year.

NOLs resulting from GO Zone depreciation and special expensing, casualty losses, moving expenses, repair expenses and temporary housing expenses, incurred after August 27, 2005 and before January 1, 2008, for employees can be carried back 5 years instead of 2 years.

The provisions of the Gulf Opportunity Act of 2005 are very complicated. This document provided by Century 21 ABC Realty, Ltd. is not designed nor intended to provide professional or tax advice. We recommend that you consult your CPA or personal tax advisor.

Low-Income Housing Tax Credits

The Act provides for approximately \$37,000,000 in additional low-income housing tax credits in Mississippi. These credits are available from 2006 through 2008. Also, since the GO Zone is designated under the Act as being a "Difficult Development Area," tax credit investors may increase credits for projects from 100% to 130% on construction or rehabilitation of low-income housing in Mississippi.

Additional First Year Depreciation

A federal taxpayer is allowed to recover, through annual depreciation deductions, the costs of certain property used in a trade or business. The GO Zone allows businesses to claim an additional first-year depreciation deduction equal to 50% of the cost of new property investments made in the GO Zone. This deduction applies to the purchase of computer software, leasehold improvements, certain commercial and residential real estate expenditures and equipment. Property must generally be acquired by purchase on or after August 28, 2005 and placed in service on or before December 31, 2007 (or December 31, 2008 for nonresidential real property and residential rental property). This additional first year depreciation is allowed for both regular tax and AMT purposes for the taxable year in which the property is placed in service.

The Act does not permit one to benefit from both this provision and the tax exempt bond provision of the Act. In Mississippi, one can make use of this additional first year depreciation provision of the Act and under state law do a taxable bond financing to benefit from certain Mississippi tax incentives, including a sales tax exemption on a portion of the construction costs of a project only if certain state law requirements are satisfied.

The Act does not permit individual or business to benefit from both this provision of the Act (for the same real and/or personal property) and the Tax Exempt Bond Financing provision of the Act. An election must be made by the individual or the business. The Act would allow for a building alone to be financed with Gulf Opportunity Zone Bonds and the equipment located in the building to be subject to the accelerated depreciation.

Work Opportunity Tax Credit

This tax credit encourages GO Zone employers to hire new GO Zone employees. Credit is 40% of first \$6,000 of wages paid. Compensation expense deduction is reduced by credit amount. This provision is applicable from August 28, 2005 through August 27, 2007. The approximate benefit quantified at maximum tax rate is \$1,500 per employee. The employee will need reasonable evidence he/she was a qualified resident of the GO Zone on August 28, 2005.

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Excluded Businesses

The provisions of this Act related to tax exempt bond financings, accelerated depreciation, increased expensing for small businesses and NOL's do not apply to certain businesses. Those businesses excluded from the Act include all property used in connection with the following:

- Any private or commercial golf course
- Any country club
- Any massage parlor
- Any hot tub facility
- Any tanning facility
- Any race track
- Any store where the primary source of income is the sale of alcoholic beverages for consumption off premises
- Any property directly connected with gambling, animal racing, or the on-site viewing of such racing, and with respect to buildings or portions of buildings dedicated to such activities (except if the portion so dedicated is smaller than 100 square feet)

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