



NOVOGRADAC  
& COMPANY LLP  
CERTIFIED PUBLIC ACCOUNTANTS

*12th Annual*

# TAX CREDIT DEVELOPERS *Conference*

Developers Lay a Course  
for a Changeable Market

CO-HOSTED BY:

**Sonnenschein**  
SONNENSCHN NATH & ROSENTHAL LLP

January 11-13, 2006

Hyatt Regency Coral Gables

# 12th Annual Tax Credit Developers Conference

## The Gulf Opportunity Zone Act of 2005, H.R. 4440

- Introduction of Panelists and Audience
- Where are the GO Zones?
- Low-Income Housing Tax Credit Provisions
- Tax-Exempt Bond Provisions
- 50% Bonus Depreciation and Additional Expensing
- Increases in Rehabilitation and New Markets Tax Credits

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## **GULF OPPORTUNITY ZONE ACT OF 2005 (H.R. 4440)**

### Establishment of "Gulf Opportunity Zones":

- 1) "Gulf Opportunity Zone" (GO Zone)  
Any portion of the Hurricane Katrina disaster area
- 2) "Rita GO Zone"  
The portion of the Hurricane Rita disaster area
- 3) "Wilma GO Zone"  
The portion of the Hurricane Wilma disaster area

All three areas above are determined by the President under the Robert T. Stafford Disaster Relief and Emergency Assistance Act

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## Counties in the GO Zone (Katrina)

**Louisiana** - Acadia, Ascension, Assumption, Calcasieu, Cameron, East Baton Rouge, East Feliciana, Iberia, Iberville, Jefferson, Jefferson Davis, Lafayette, Lafourche, Livingston, Orleans, Pointe Coupee, Plaquemines, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Mary, St. Martin, St. Tammany, Tangipahoa, Terrebonne, Vermilion, Washington, West Baton Rouge and West Feliciana

**Mississippi** - Adams, Amite, Attala, Claiborne, Choctaw, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Hancock, Harrison, Hinds, Holmes, Humphreys, 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

Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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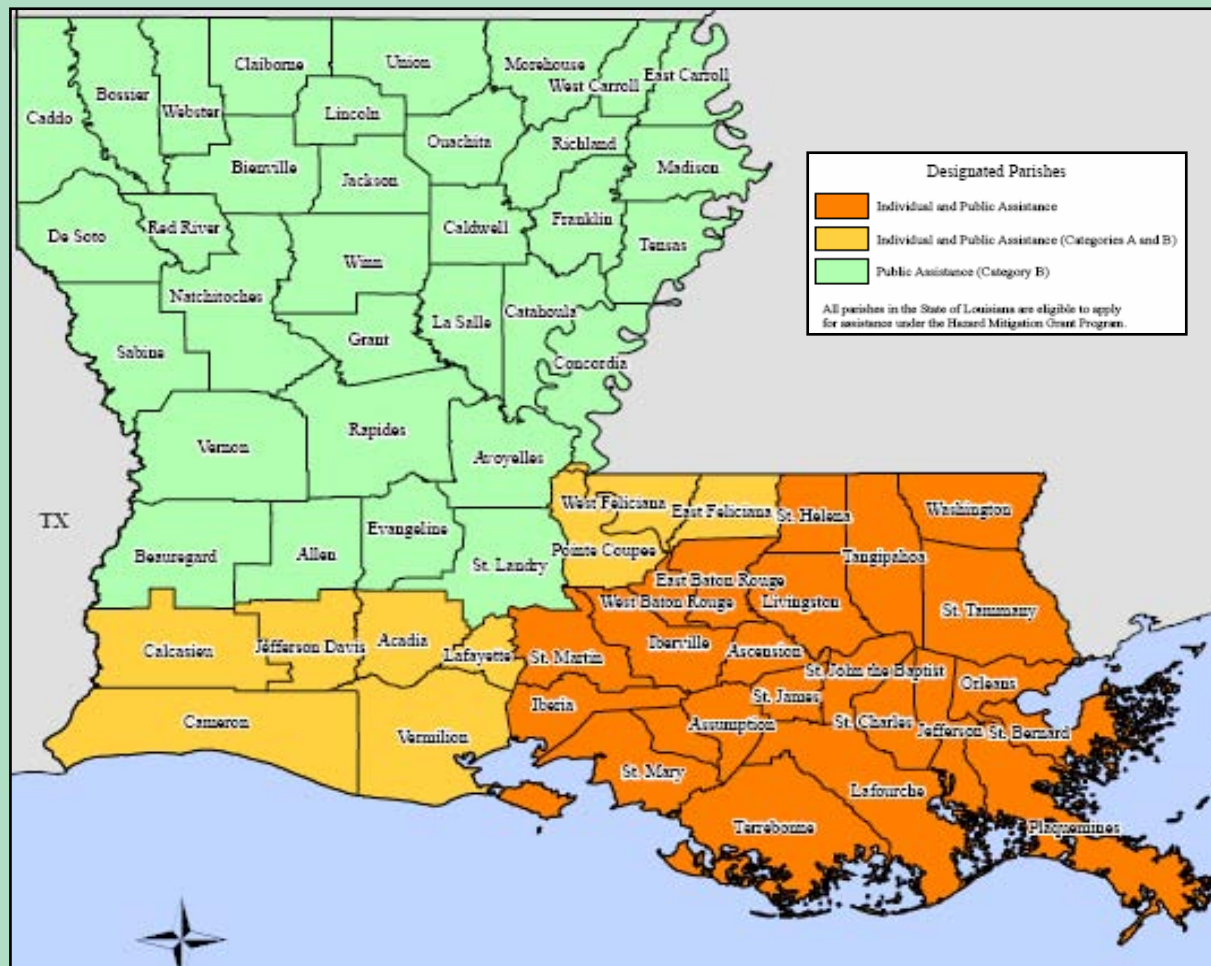
## Counties in the GO Zone (Katrina)

Alabama - Baldwin, Chocktaw, Clarke, Greene, Hale, Marengo, Mobile, Pickens, Sumter, Tuscaloosa, and Washington Counties

Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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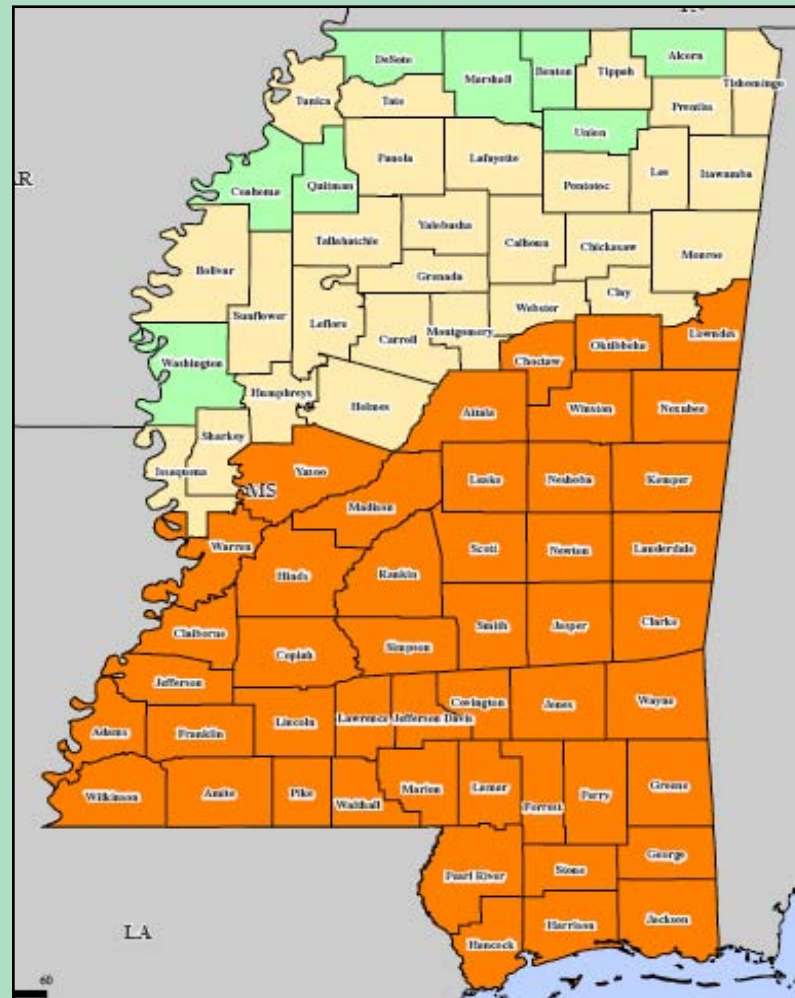
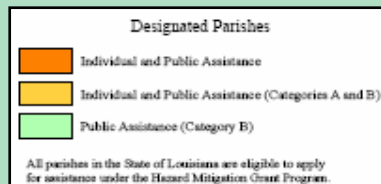
## Go Zone - Louisiana



Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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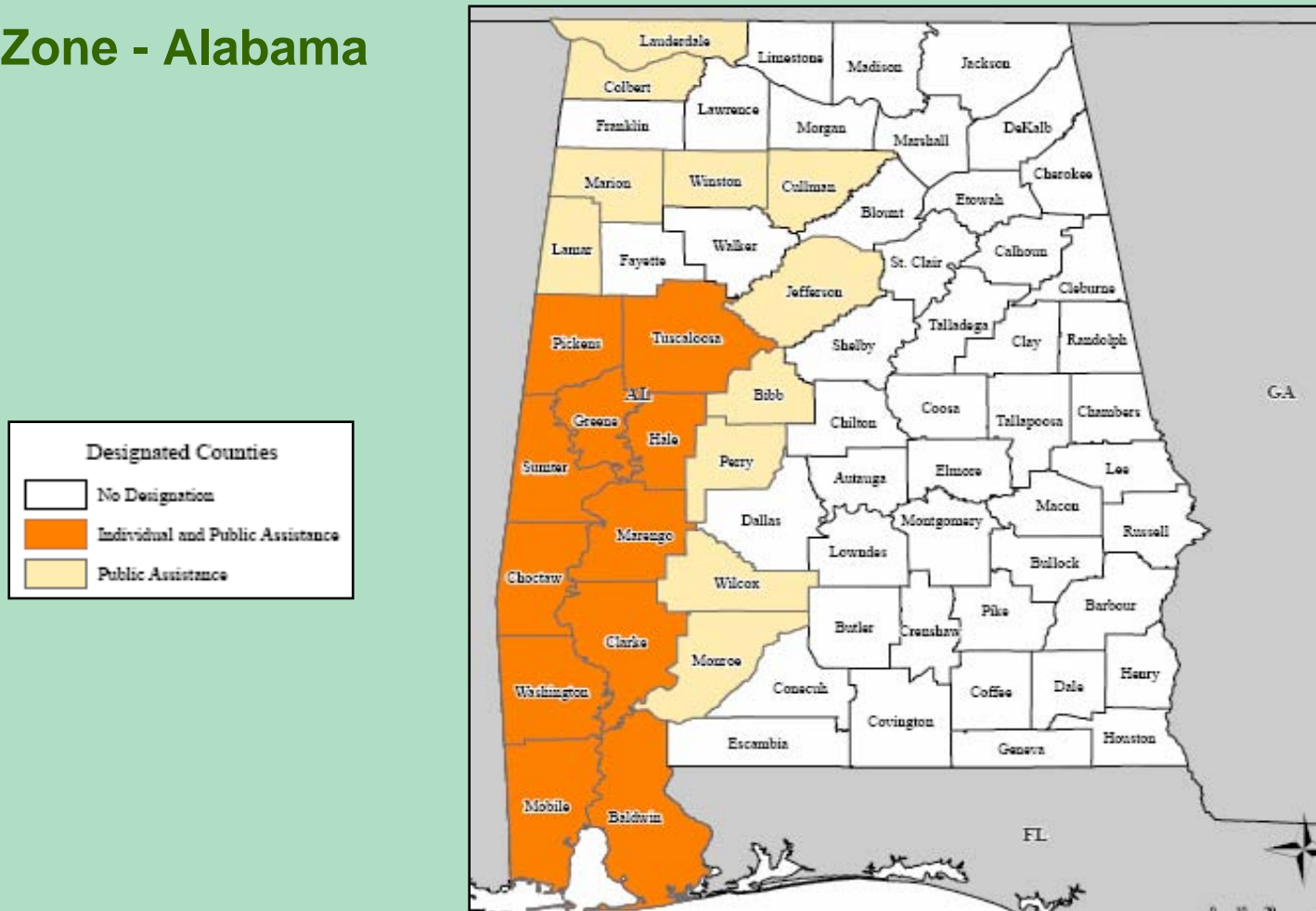
## GO Zone - Mississippi



Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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## GO Zone - Alabama



Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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## Counties in the Rita GO Zone

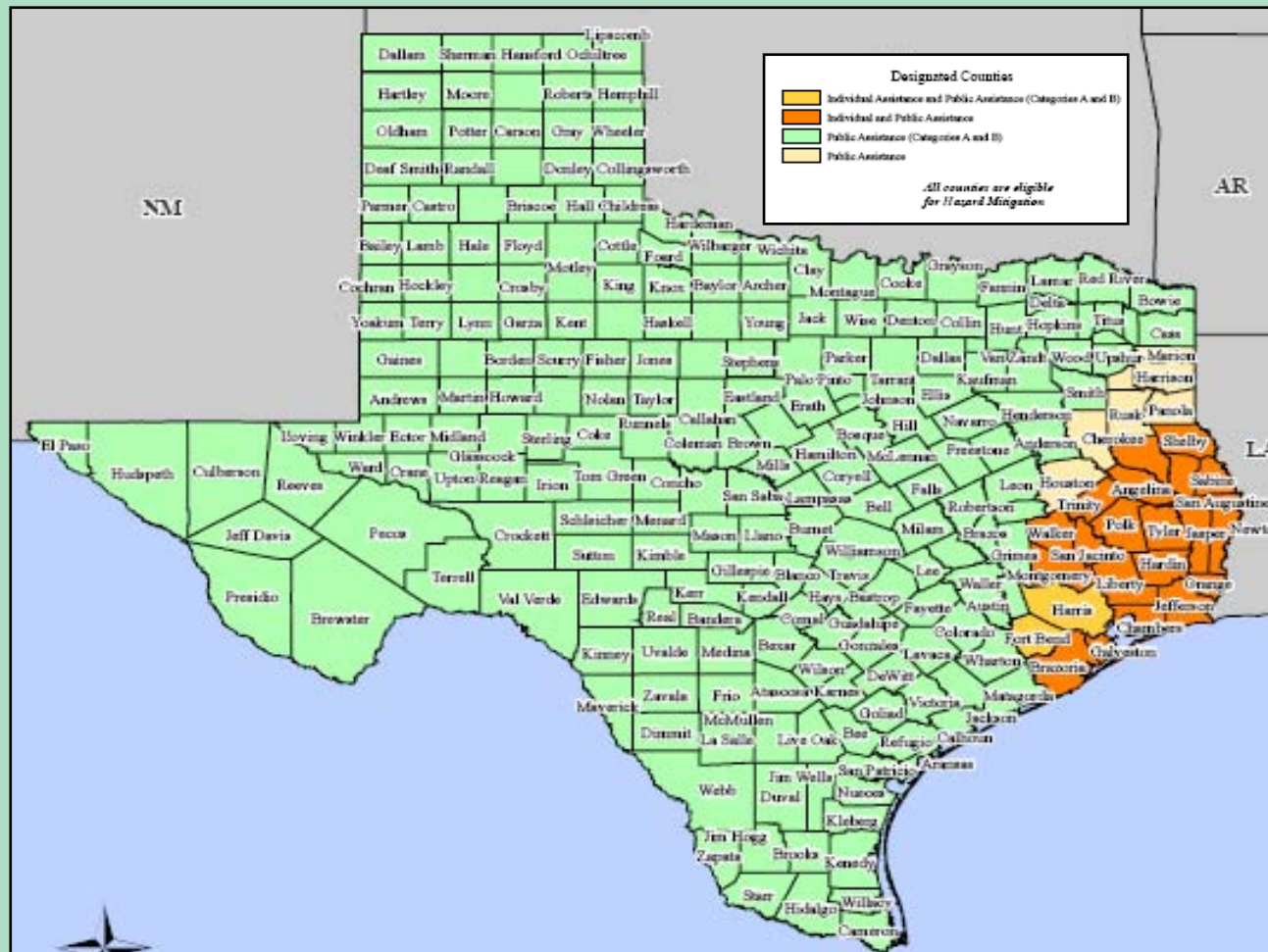
**Louisiana** - Acadia, Allen, Ascension, Cameron, Calcasieu, Beauregard, Evangeline, Iberia, Jefferson, Jefferson Davies, Lafayette, Lafourche, Livingston, Plaquemines, Sabine, St. Landry, St. Martin, St. Mary, St. Tammany, Terrebonne, Vermilion, Vernon and West Baton Rouge

**Texas** - Angelina, Brazoria, Chambers, Fort Bend, Galveston, Hardin, Harris, Jasper, Jefferson, Liberty, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, Tyler and Walker

Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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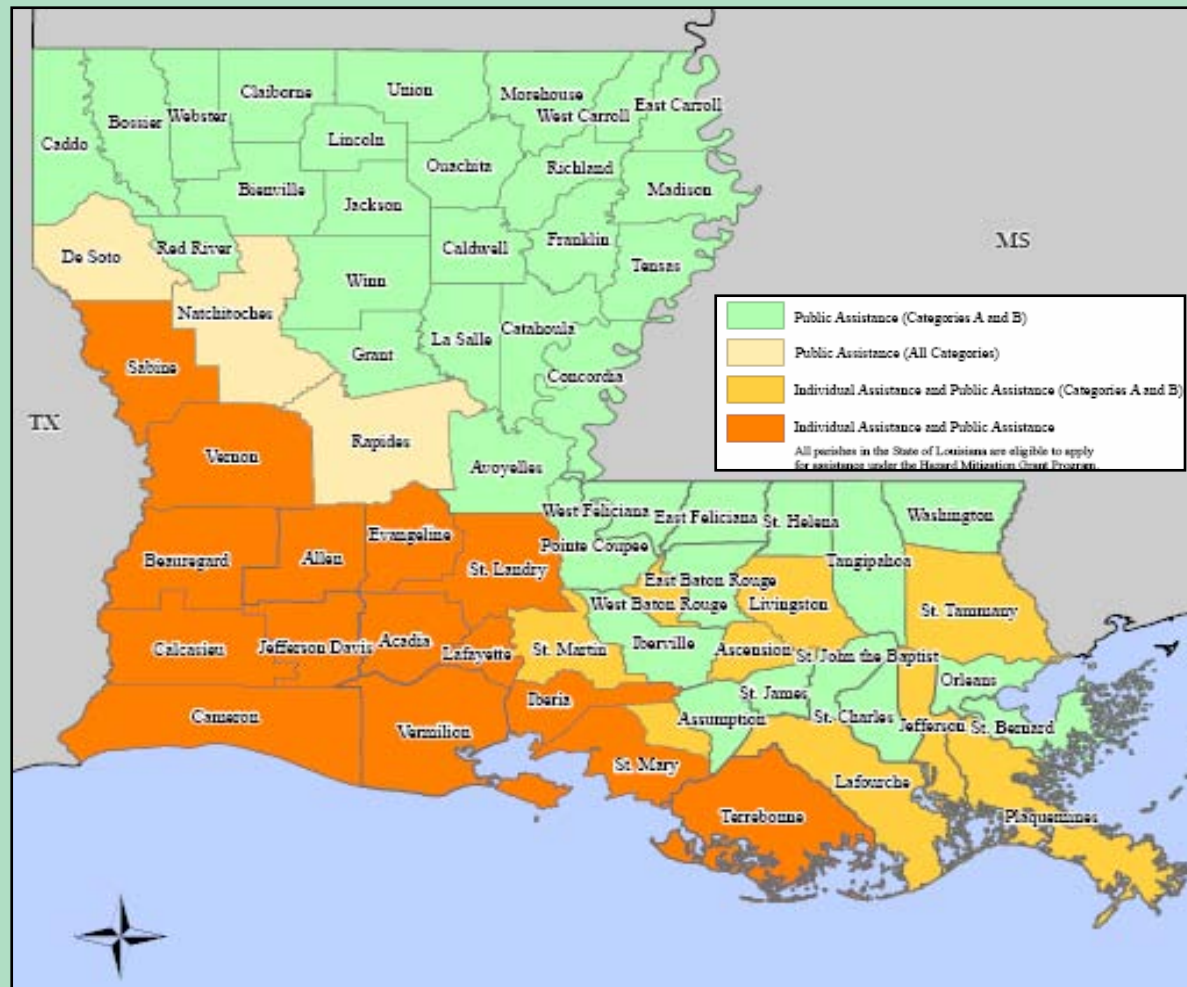
## Rita GO Zone - Texas



Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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## Rita GO Zone - Louisiana



Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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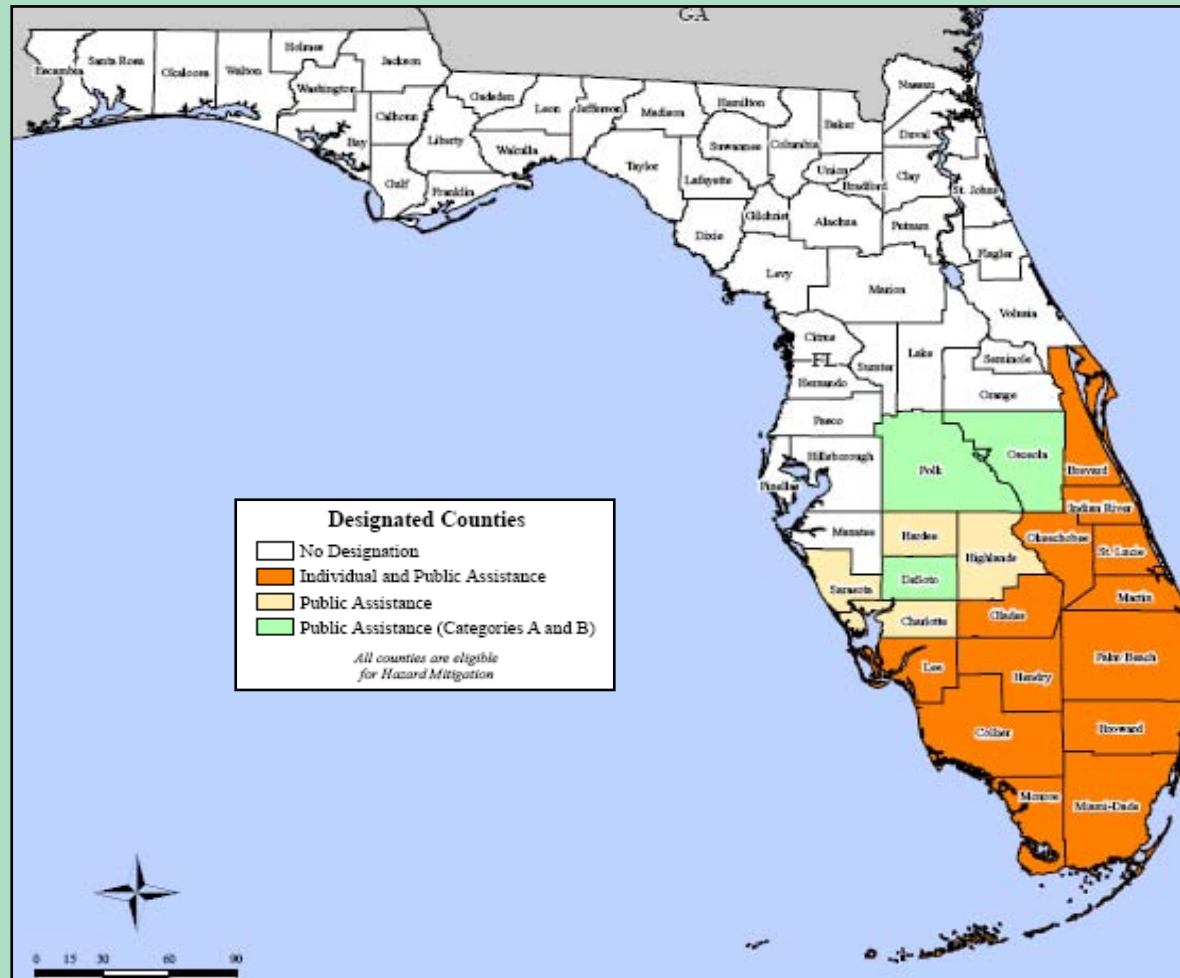
## Counties in the Wilma GO Zone

Florida - Brevard, Broward, Collier, Glades, Hendry, Indian River, Lee, Martin, Miami-Dade, Monroe, Okeechobee, Palm Beach and St. Lucie

Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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## Wilma GO Zone - Florida



Source: Federal Emergency Management Agency, [www.fema.gov](http://www.fema.gov)

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## Low Income Housing Tax Credit Provisions

Additional allocation of Housing Credit authority for years 2006, 2007, and 2008 for each state located in the GO Zone equal to the lesser of:

- Aggregate Housing Credit dollar amount allocated to buildings in GO Zone, or
- \$18 times the portion of the state's population in the GO Zone

Historical federal allocation cap of LIHT credits to states:

<u>Year</u>	<u>Credit Per Capita</u>
2001	\$1.50
2002 through 2003	\$1.75
2004	\$1.80
2005	\$1.85

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## Low Income Housing Tax Credit Provisions

- Based on “stacking rule” the allocations under this additional authority shall be allocated before any other Credit cap amounts.
- Additional \$3,500,000 in Housing Credit authority in 2006 for Texas and Florida.
- Properties located in all three Zones and placed in service in 2006, 2007, and 2008 shall be treated as DDA. Nationwide limits on DDA do not apply. DDA equals 130% Boost in Eligible Basis.
- Properties placed in service in the GO Zone in 2006, 2007, and 2008 in a nonmetropolitan area are eligible to substitute “national nonmetropolitan median gross income” for “area median gross income”

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## Difficult to Develop Area (“DDA”) Designation

- Available for allocations made from 1/1/2006 through 12/31/2008
- Property must be placed in service during 2006, 2007, 2008

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## Private Activity Bonds

Establishment of "Gulf Opportunity Zone Bonds" which may be issued by AL, LA, or MS:

- Not subject to the private activity bond cap (could be read to prohibit the combining of GO Zone bonds and 4% housing credit)
- 95% or more of the net proceeds are to be used for qualified project costs or the cost of any qualified residential rental project in the Gulf Opportunity Zone
- GO Bonds cannot be used for private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises

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## Private Activity Bonds

- Maximum aggregate amount is \$2,500 per person in the GO Zone –
  - approx. \$2.1 billion for AL,
  - approx. \$7.9 billion for LA,
  - approx. \$4.8 billion for MS, based on 2004 US census estimates

### Private Activity Bonds Cap by State as of 2004:

Alabama	\$228 million
Louisiana	\$360 million
Mississippi	\$228 million

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## Gulf Opportunity Zone Bonds

### Other Provisions

- Income Limits Increase:

From	20 / 50	40 / 60
To	20 / 60	40 / 70
- The restriction on acquisition of existing property is applied using a minimum requirement of 50% of the cost of acquiring the building being devoted to rehabilitation
- Arbitrage Rebate is modified to treat Gulf Opportunity Zone Bonds as "Construction Issue"
- Interest on GO Bonds is not a preference item for AMT Purposes

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## Private Activity Bonds:

Allowance of additional advance refunding of certain tax-exempt bonds prior to 1/1/11:

- Limited to: \$4,500,000,000 for LA,  
\$2,250,000,000 for MS,  
\$1,125,000,000 for AL
- Applies to governmental bonds
- Applies to Private Activity Bonds for docks and wharves
- Advance Refundings are bonds issued at least 90 days before the original bonds are redeemed

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## 50% Bonus First-Year Depreciation for Eligible GO Zone Property

- Must be tangible personal property with MACRS or ADS life of 20 yrs or less, computer software, water utility property, qualified L/H improvements, nonresidential real property or residential rental property
- Property must be used in the GO Zone for a Trade or Business

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## 50% Bonus First-Year Depreciation for Eligible GO Zone Property

- Purchase and original use in the GO Zone starts after 8/27/05 and placed in service before 1/1/08
  - Exceptions apply to certain type of property
  - No AMT depreciation adjustment for entire recovery period
  - Election out is available
  - Basis of asset is reduced by bonus depreciation for remaining depreciable life
- Big exception – not applicable to tax-exempt bond-financed property

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## Increased Expensing for GO Zone Property

IRC Section 179 maximum annual expense is increased for GO Zone property:

- By the lesser of (1) \$100,000, or (2) the cost of qualified Sec. 179 GO Zone property placed in service during the year.
- The starting point of the phase out of the expensing allowance is increased by the lesser of (1) \$600,000 or (2) the cost of qualified Sec. 179 GO Zone property placed in service during the year.

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## Increased Expensing for GO Zone Property

IRC Section 179 maximum annual expense is increased for GO Zone property:

- Qualified property as defined in Sec. 179(d)
  - tangible property, other than building or part of building
  - Certain computer software

	<u>2005</u>	<u>2006</u>
- Current Allowance	\$105,000	\$208,000
- Beginning Phase-Out	\$420,000	\$1,030,000

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## Rehabilitation Credit

- The Act raises the rehabilitation credit from 10% to 13% of qualified expenditures for any rehabilitated building other than a certified historic structure.
- It also raises the rehabilitation credit from 20% to 26% of qualified expenses for any certified historic structure.
- Applies only to buildings in the GO Zone.

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## New Markets Tax Credits

Additional amounts of New Markets Tax Credits available:

- 2005      \$300,000,000
  - 2006      \$300,000,000
  - 2007      \$400,000,000
- 
- Additional authority must be allocated among qualified CDEs making qualified low-income investments within the GO Zone
  - Significant mission of the entity must be the recovery and redevelopment of the Gulf Opportunity Zone

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## ?? QUESTIONS ??

### Headquarters

San Francisco, Calif.

[Michael J. Novogradac, CPA](#)

246 First Street, 5th Floor

San Francisco, CA 94105

Telephone: 415.356.8000

Facsimile: 415.356.8001

Austin, Texas

[George Littlejohn, CPA](#)

[Kevin Watkins](#)

11044 Research Boulevard,

Suite 400, Bldg. C

Austin, TX 78759

Telephone: 512.340.0420

Facsimile: 512.340.0421

Long Beach, Calif.

[Diana R. Letsinger, CPA](#)

249 E. Ocean Blvd., Suite 900

Long Beach, CA 90802

Telephone: 562.432.9482

Facsimile: 562.432.9483

Atlanta, Ga. Metro Office

[Bentley D. Stanton, CPA, CMA](#)

2325 Lakeview Parkway, Suite 450

Alpharetta, GA 30004

Telephone: 678.867.2333

Facsimile: 678.867.2366

Washington, D.C. Metro Office

[Brad E. Weinberg, MAI, CCIM](#)

[H. Blair Kincer, MAI](#)

11900 Parklawn Drive, Suite 350

Rockville, MD 20852

Telephone: 301.770.6310

Facsimile: 301.770.6314

Metro Kansas City, Mo.

[Byron Lea, MAI](#)

7227 Metcalf Avenue, Suite 250

Overland Park, KS 66204

Telephone: 913.262.3500

Facsimile: 913.262.3501

Dover, Ohio

[Daniel J. Smith, CPA](#)

303 W. Third Street

Dover, OH 44622

Telephone: 330.602.4600

Facsimile: 330.602.4601

Boston, Massachusetts

[Jim McGowan, CPA](#)

[Charles A. Rhuda III, CPA](#)

419 Boylston St., Suite 801

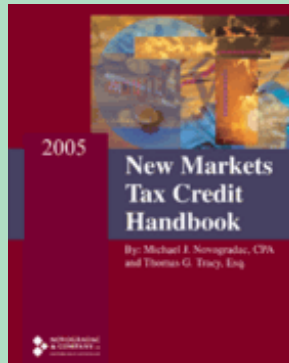
Boston, MA 02116

Telephone: 617.867.9000

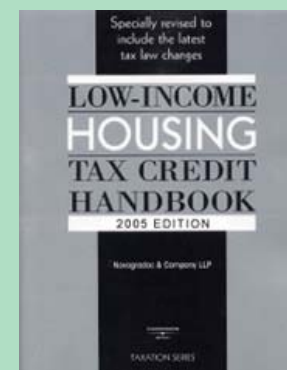
Facsimile: 617.867.9011

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## Novogradac & Company Resources



A screenshot of the Affordable Housing Resource Center website. The page has a purple and white color scheme. At the top, it says "Novogradac &amp; Company LLP" and "Affordable Housing Resource Center". Below this is a navigation menu with links for "State Info", "Policy &amp; Legislation", "Tax &amp; HUD Research", "Financing Tools", "Bulletin Board", and "Hot Links". The main content area is titled "BREAKING NEWS" and features several articles with dates and headlines, such as "Disaster Relief Information" dated Wednesday, January 11, 2006, and "Need Affordable Housing Financing? Think Collateral." The right sidebar contains sections for "ADVANCED SEARCH", "UPCOMING EVENTS" (listing a workshop and a conference), and "TAX CREDIT RESOURCE LIBRARY".



[www.taxcredithousing.com](http://www.taxcredithousing.com)