

## WHAT DOES GO ZONE MEAN TO MY BUSINESS?

We are seeing many clients who have questions about how the Gulf Opportunity Zone Act of 2005 (the "GO Zone Act") may affect their business. Many executives and small business owners have heard of the GO Zone Act and know that it does something for Louisiana businesses, but they do not know if or how the new law can help their bottom line.

One way that the GO Zone Act helps businesses looking to rebuild or expand their operations in South Louisiana is by allowing them to expense 50% of the cost of new equipment and other purchases put to use in the GO Zone. From tanker trucks to computer hardware, much of the new equipment that your business has purchased since the hurricane, and will purchase through 2007, is eligible for the GO Zone's "bonus depreciation" provision. By tracking your expenditures and knowing about this provision, you may be able to significantly reduce your business's tax liability, and possibly even obtain a refund of federal taxes paid in past years.

### **"Bonus" Depreciation for New Equipment Used in the GO Zone**

The GO Zone Act allows a business that purchases qualified new property to be used in the GO Zone, or used property that is moved into the GO Zone from outside it, to deduct 50% of the business's basis in the property (usually its cost) during the first year that the property is placed in service. The remaining basis is depreciated according to the standard schedule for the property at issue.

For example, assume ABC, Inc. buys a new widget-making machine for \$1 million, and that the machine would normally qualify for straight-line

depreciation over five years. If ABC uses the machine outside of the GO Zone area, it can depreciate its basis at 20% per year, allowing it a Year One depreciation of \$200,000. If ABC uses the machine at its plant in the GO Zone, however, it can depreciate \$600,000 in Year One. The GO Zone Act allows ABC to depreciate one-half of its basis (or \$500,000) during Year One. The remaining basis (\$500,000) is depreciated over five years, or \$100,000 per year under the straight-line method, including Year One. By making widgets in the GO Zone, ABC gets a Year One depreciation allowance of \$600,000—three-times greater than would be allowed if it made the widgets somewhere else. The bonus first-year depreciation allowance is calculated after accounting for any Section 179 savings, discussed below. The bonus depreciation is not allowed for purchases of residential real property or nonresidential rental property, and cannot be taken by golf courses, casinos, and certain other businesses.

The new bonus depreciation provision is just one of the many tax incentives available to businesses under the GO Zone Act. Please contact a Kean Miller attorney or your certified public accountant to get more details about this provision or others that may apply to your business.<sup>1</sup>

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<sup>1</sup> This newsletter does not have space to discuss all the GO Zone Act provisions that could affect your business. Please talk to a Kean Miller attorney or a qualified accountant for specific tax advice about how the GO Zone Act can assist you and your business. Any federal tax advice contained in this material is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties imposed under the Internal Revenue Code, pursuant to IRS Circular 230 and IRS regulations.

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