



COHESIVE
we know the code

The GO Zone

FEDERAL TAX INCENTIVES FOR HURRICANE KATRINA

The Go Zone is Federal legislation that was passed by Congress and signed into law by President Bush in December of 2005. This legislation provides federal tax incentives for areas affected by Hurricane Katrina. The incentives include residential rental property constructed and placed in service after August 28, 2005 and before December 31, 2010.

Understanding the Go Zone Benefits

For new construction, the benefit is an accelerated 50 percent tax depreciation the year a property is placed in service. Instead of your residential rental property depreciating evenly over 27.5 years, 50 percent of the property value is depreciated in the first year (*Go Zone depreciation*) plus you get the normal first year depreciation of the remaining depreciable base.

Assume a new rental home has a depreciable value of \$150,000. In the first two years, the depreciation with or without the benefit would be:

	GO ZONE BENEFIT	WITHOUT GO ZONE Benefit
Year 1	\$77,830	\$5,454
Year 2	\$2,830	\$2,830

The depreciation difference would be \$72,376 the first year with the Go Zone benefit instead of \$5,454 without it.

The Go Zone Advantage for Real Estate Professionals

Unless you are a real estate professional, the GO Zone tax deduction can only be applied against passive income (*depending on your income tax bracket*). To qualify as a real estate professional, you must spend 750+ hours per year actively participating in a real property trade or business. In addition, you must spend more than half of your earned income hours a real property trade or business. This situation gets complicated and can be discussed further during a consultation..

While real estate professionals can offset income such as wages, salaries, dividends and interest, you can usually only take the loss against passive income if you do not qualify as a real estate professional. (*Note: Passive income is income generated by an activity in which the taxpayer does not materially participate. Passive income includes income from rental property, income from a business in which you do not materially participate and, income from equipment leasing. Passive income does not include interest, dividends or gains from the sale of your stocks.*)

The Deduction Details

If you can't use the entire deduction in the first year, you should be aware that net operating losses generated in the Go Zone due to depreciation deductions may be carried back five years and forward 20 years. You may also be eligible to re-file prior year returns and obtain refunds on previously paid taxes.

If you are thinking of selling your Go Zone property, you will want to have a tax analysis because the amount of depreciation you have taken on your home reduces the basis in your home. When you sell the home, you pay taxes on the difference between the sale price and your basis in the home at your applicable capital gains rate.. Your basis in the home is the cost you paid for the home less the depreciation deducted on your income tax return for the home i.e. your GO Zone depreciation. In this case, the bonus depreciation you received will be recaptured as ordinary income if the property is sold before the end of its useful life. Again, this discussion gets detailed and is something we would like to explain to you more during a consultation to provide you with a full understanding of depreciation recapture.

Who is COHESIVE?

With more than 60 years of experience, nationally recognized and licensed in all 50 states, COHESIVE knows the tax code and can help you solve your tax problems.

COHESIVE's enrolled agents are licensed in all 50 states and many are former IRS agents and taxpayer advocates who know the inside workings of the Internal Revenue Service.

In addition to the staff's experience, COHESIVE's team is known for personal customer service that comes from dealing with a national client base, to dealing with tax authorities nationwide. Professionalism, charisma and knowledge is key.

COHESIVE is made up of investors working with investors, we know the code. Our knowledge base is complete. We have the education, the license, and the practical experience necessary to handle all our clients' needs – which includes everything from preparing taxes, to representing clients before the IRS or Revenue Department of any state.

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