

September 26, 2005

Louisiana Katrina Reconstruction Act – Tax Provisions

Senators Landrieu (La. D.) and Vitter (La. R.) have introduced legislation cited as the "Louisiana Katrina Reconstruction Act" which includes tax provisions which must be passed by the House and the Senate before becoming law. The Act is in addition to and follows passage of the earlier Katrina Tax Bill by the House and Senate which provides largely individual tax relief including tax favored relief for (1) worker tax credits, (2) withdrawals and loans from qualified / retirement plans, (3) an exception for cancellation of indebtedness income, (4) suspension of certain limitations on personal casualty losses, (5) special rules for mortgage revenue bonds and (6) extension of the replacement period for nonrecognition of property located in the affected area.

The pending Act's tax provisions include:

Relocation Tax Credit. For individuals and businesses relocating back to an affected area, a 100 percent tax credit is provided for expenses in temporarily leaving and expenses incurred in returning to the affected areas.

50 Percent Income Tax Holiday. For the tax period beginning August 28, 2005 and ending on December 31, 2007, individuals may exclude from taxable income for each taxation year the lesser of \$35,000 (\$70,000 in the case of a joint return) or 50 percent of eligible wages and net incomes from self-employment.

Tax Credits and Bonus Depreciation for Qualified Hurricane Katrina Disaster Zone Property. Tax credits of 15 to 20 percent and bonus depreciation of 50 percent for certain real and personal property placed in service in the affected areas.

Small Business Interruption Tax Credit. For employers with less than 300 employees in the affected areas whose business has been interrupted a \$1,000 tax credit per employee, not to exceed \$100,000.

New Market Tax Credit. Multi-billion dollars of new market tax credits for investments in community development entities within the affected areas.

Five Year Carryback of Net Operating Losses and Temporary Suspension of 90 Percent AMT Limit. Allows businesses to apply losses incurred as a result of Hurricane Katrina against past tax liability for up to 5 years, and suspends the alternative minimum tax 90 percent limit through January 2007.

Tax-Exempt Bond Financing. Provides Louisiana with \$30 billion in tax exempt bond financing authority for rebuilding in the affected areas.

Premiums for Mortgage Insurance. Premiums paid or accrued for qualified mortgage insurance with respect to a residence in the affected areas shall be treated as deductible qualified residence interest.

Low-Income Housing Credits. Modifications of credit allocation and requirements to qualify for low-income housing tax credit in the affected areas.

Expedited Refund Claims. Provides for the IRS to establish a special office to expedite any refund claims resulting from the provisions of the Act.

Home Purchase Tax Credit. A tax credit of up to \$50,000, depending upon one's modified adjusted gross income, upon the purchase of a principal residence in the affected area to replace a principal place of abode rendered uninhabitable by Hurricane Katrina.

Air Transportation Excise Taxes. Air transportation excise taxes are suspended for air transportation beginning or ending in any air port located in the affected area during the 3-year period beginning on August 28, 2005.

The above highly favorable provisions must still go through the legislative process and therefore may or may not be enacted into law. For more information, contact Alex Trostorff at 225.248.2042.