

Do You Qualify For Receiving GO Zone Benefits Using Residential Real Estate Properties?



50% Bonus Depreciation In The GO Zone:

TABLE OF CONTENTS

How Do You Get Started In The GO Zone? 3

Introduction To The GO Zone 3

Does The Property Qualify? 5

Can You Take Advantage Of Bonus Depreciation? 6

 Special Case 1: Real Estate Professional 7

 Special Case 2: < \$150,000 Adjusted Gross Income (AGI) 9

 Special Case 3: Any Income, With Other Passive Income 10

 Special Case 4: Any Income, One Person Working Less Than Full Time 11

 All Other Cases 12

What Should You Do Next 13

50% Bonus Depreciation In The GO Zone:

How Do You Get Started In The GO Zone?

Because of the complexity of information that exists on the web about the GO Zone and Bonus Depreciation, there is a lot of confusion about how to get started. Let us give you a very simple path to follow:

- Step 1: Read this document to understand in principle the GO Zone is for you;
- Step 2; Take that knowledge and talk to your tax advisor or with one that we recommend;
- Step 3; Get with a GO Zone property group than can get you top notch properties;
- Step 4; Work with established property management to get your properties rented.

We can help you with all aspects of the GO Zone from understanding if you qualify, to access to top tax pro's, to access to quality properties, to getting your properties leased fast

For now, let's get you started on Step 1.

Introduction To The GO Zone

The Gulf Opportunity Zone Act of 2005 (the Act), which was signed into law in December 2005, includes a number of tax relief measures to assist victims of Hurricanes Katrina, Rita, and Wilma. The Act also includes tax incentives to encourage rebuilding in and revitalization of the areas most affected by the hurricanes. The Katrina Emergency Tax Relief Act of 2005 (KETRA) also provides relief under several provisions.

Of particular importance to residential real estate investors is the Bonus Depreciation established by this act. Specifically, the Act provides a 50% bonus first-year depreciation allowance to help businesses rebuild in the GO Zone. Businesses get the bonus write off for the cost of most new property investments made in the GO Zone, including purchased computer software, leasehold improvements, certain commercial and residential real estate, machinery, and equipment. All depreciation deductions (including bonus depreciation) for property qualifying for the bonus first-year write off are exempt from the AMT. The 50% bonus depreciation allowance applies to property acquired after Aug. 27, 2005, and placed in service before Dec. 31, 2008 in some areas (defined later) and Dec. 31, 2010 in others.

This bonus depreciation can result in substantial tax savings if implemented properly. For example, consider:

- \$150,000 home purchase
- Qualified for GO Zone
- \$20,000 land value + \$130,000 structure value;
- Bonus Depreciation = \$65,000!

GO Zone Benefits Expire after 2008 in some areas and 2010 in others

Imagine being able to take \$65,000 off of your income tax return while

© TDH Capital Group, LLC

Notice: *The purpose of this summary is to provide general information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date it was written. Accordingly, this summary should not be viewed as a substitute for the guidance and recommendations of a retained professional.*

50% Bonus Depreciation In The GO Zone:

getting to purchase a great appreciating asset in the process.

Before you can just blindly charge forward, however, you need to understand if you can take advantage of these GO Zone benefits. To make it simpler, it is best to ask the question in two parts:

1. Does the property qualify?
2. Can you realize tax savings from the bonus depreciation?

In the next two sections, we will address each topic separately.

Relevant Resources:

- [Publication 4492 \(1/2006\), Information for Taxpayers Affected by Hurricanes Katrina, Rita, ...](#)
- [Additional Guidance for Those Affected by Hurricanes](#)

Important Concept
*First understand what it takes for a property to qualify for Bonus Depreciation. Then, decide if **you** can benefit from that bonus depreciation.*

50% Bonus Depreciation In The GO Zone:

Does The Property Qualify?

For purposes of this discussion, we are going to restrict our attention to residential properties since this that is the opportunity being considered with **McHenry Hills Subdivision**.

To qualify for bonus depreciation, substantially all the use of the property must be in the GO Zone in the active conduct of the taxpayer's trade or business. An activity qualifies as a business if the primary purpose for engaging in it is for income or profit, and the individual is involved in the activity with continuity and regularity. Since residential property is not mobile, it will meet the requirements if:

- It is located in an appropriate county in the GO Zone;
- It is new or substantially renovated;
- It is put in service by the deadlines;
- It meets the requirements of being a part of the taxpayer's trade or business

Important Concept
A new rental property can readily qualify if located in the right county and put into service by the appropriate date.

For purposes of bonus depreciation, a trade or business is actively conducted by a taxpayer "if the taxpayer meaningfully participates in the management or operations of the trade or business"(Notice 2006-67). The determination will be made based on all facts and circumstances.

Net leases generally do not satisfy the meaningful participation requirement. A shareholder, member, or partner in a corporation, LLC, partnership or other pass through entity meaningfully participates either by his own activities or by others acting on behalf of the entity.

A great resource for determining the specific counties and dates where bonus depreciation is allowed is from the [American Institute Of Certified Public Accountants](#).

Relevant Resources:

- [Publication 4492 \(1/2006\), Information for Taxpayers Affected by Hurricanes Katrina, Rita, ...](#)
- [List of Counties & Dates For Bonus Depreciation](#)

© TDH Capital Group, LLC

Notice: *The purpose of this summary is to provide general information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date it was written. Accordingly, this summary should not be viewed as a substitute for the guidance and recommendations of a retained professional.*

50% Bonus Depreciation In The GO Zone:

Can You Take Advantage Of Bonus Depreciation?

This is by far the most misunderstood topic by many surrounding the GO Zone. There is two ways you can take advantage of Bonus Depreciation:

- You, or your spouse is a Real Estate Professional;

OR

- You, or your spouse actively participate in the business of renting the property.

We emphasize “OR” because we had many “tax professionals” advise our clients, and their former clients, that the only way to take advantage of the GO Zone benefits was to be a real estate professional. This is simply not true.

Also, there is many ways one can structure oneself to take advantage of the GO Zone Bonus Depreciation. For some, they may find out with a couple simple steps, themselves or their spouse could become a real estate professional by forming an LLC management company. For others, they may already be in position to take advantage of GO Zone benefits but their tax professional may not be up to speed.

To help you, and ultimately your tax advisor understand the realm of possibilities, we divide this section into 5 generalized situations:

- You or your spouse are already a real estate professional;
- Your combined Adjusted Gross Income (AGI) is less than \$150,000;
- Your AGI > \$150,000 And You Have Other Passive Income;
- You, Or Your Spouse Work Less Than Full Time;
- All Other Cases

Relevant Resources:

- [Passive Activity and At-Risk Rules](#)

Important Concept
There are many ways to take advantage of Bonus Depreciation. Most Tax Professionals Only Work With 1-2 Clients Per Year In This Specialty Area. A Specialist That Works GO Zone & Real Estate Transactions As A Major Part Of Their Business Can Be A Great Addition To Your Team.

© TDH Capital Group, LLC

Notice: *The purpose of this summary is to provide general information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date it was written. Accordingly, this summary should not be viewed as a substitute for the guidance and recommendations of a retained professional.*

50% Bonus Depreciation In The GO Zone:

Special Case 1: Real Estate Professional

First let's talk about why this is important. The IRS treats most rental activities as passive, and passive losses can be offset only by passive income for many taxpayers. If an individual is a "qualifying taxpayer" a.k.a. a real estate professional, the activity is considered non-passive, thus allowing losses from qualifying real estate activities to offset other non-passive income such as wages, interest, dividends, capital gains, trade or business income, etc.

For example, suppose you are a very successful real estate broker and you expect to make \$600,000 this year. You know that you are facing a heavy tax burden. If you qualify as a real estate professional for GO Zone purposes, then you could conceivably zero out all of that income with GO Zone Bonus Depreciation.

Directly from [publication 925](#), the definition of Real Estate Professional is

Qualifications. You qualified as a real estate professional for the year if you met both of the following requirements.

- *More than half of the personal services you performed in all trades or businesses during the tax year were performed in real property trades or businesses in which you materially participated.*
- *You performed more than 750 hours of services during the tax year in real property trades or businesses in which you materially participated.*

Do not count personal services you performed as an employee in real property trades or businesses unless you were a 5% owner of your employer. You were a 5% owner if you owned (or are considered to have owned) more than 5% of your employer's outstanding stock, outstanding voting stock, or capital or profits interest.

If you file a joint return, do not count your spouse's personal services to determine whether you met the preceding requirements. However, you can count your spouse's participation in an activity in determining if you materially participated.

Real property trades or businesses. A real property trade or business is a trade or business that does any of the following with real property.

- *Develops or redevelops it.*
- *Constructs or reconstructs it.*
- *Acquires it.*

Important Thought
If you are not a real estate professional now, is it possible to structure to become one? For many whose spouses, work less than full time, the answer may be yes!

© TDH Capital Group, LLC

Notice: *The purpose of this summary is to provide general information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date it was written. Accordingly, this summary should not be viewed as a substitute for the guidance and recommendations of a retained professional.*

50% Bonus Depreciation In The GO Zone:

- *Converts it.*
- *Rents or leases it.*
- *Operates or manages it.*
- *Brokers it.*

Remember, you will still need to meet [material participation requirements](#) which are also found in Publication 925. Generally these can be met with proper structuring and logging of hours.

50% Bonus Depreciation In The GO Zone:

Special Case 2: < \$150,000 Adjusted Gross Income (AGI)

As discussed in Special Case 1, the IRS treats most rental activities as passive, and passive losses can be offset only by passive income for many taxpayers. If an individual is a “qualifying taxpayer” aka a real estate professional, the activity is considered non-passive, thus allowing losses from qualifying real estate activities to offset other non-passive income such as wages, interest, dividends, capital gains, trade or business income, etc.

However, for taxpayers having adjusted gross income (AGI) less than \$100,000, there is another option. AGI is your, and your spouses gross income if married, with either itemized or standard deductions subtracted. This AGI is a standard line item on your tax return. There is a [special allowance](#) that allows you to deduct up to \$25,000 in rental loss from your regular income.

Important Concept
For taxpayers with adjusted gross incomes less than \$100,000, you could receive a \$25,000 special allowance.

For taxpayers between \$100,000 and \$150,000, then there is a special [phase out rule that can be found here](#).

Remember, you will still need to meet [material participation requirements](#) which are also found in Publication 925. Generally these can be met with proper structuring and logging of hours.

In addition to tax implications, taxpayers in this bracket should also remember that this may be a great way to enter into a longer term, appreciating asset to grow future wealth.

50% Bonus Depreciation In The GO Zone:

Special Case 3: Any Income, With Other Passive Income

Many higher net worth individuals are ideal candidates for reaping Go Zone Bonus Depreciation. Why? Because many of them already own income producing properties or other assets that produce passive income. If you get income from activities other than a regular job or sale of stocks/bonds, you really should explore with your tax advisor if any of that qualifies as passive income.

Anybody with past, present, or future passive income should look seriously at the GO Zone benefits.

Bonus depreciation can be taken on qualifying GO Zone property. If a taxpayer has passive income, then passive losses generated from bonus depreciation can be used to offset passive income.

50% Bonus Depreciation In The GO Zone:

Special Case 4: Any Income, One Person Working Less Than Full Time

This situation is extremely common however the many tax advisors overlook a simple approach that could substantially benefit their clients.

Consider the case of one spouse working with high income and another that does not work a full time job. It is quite conceivable that with the purchase of one or more GO Zone properties, the non-working spouse could be set up to run a management LLC for purposes of managing those properties.

By accounting for all time spent while researching properties on the net, dealing with advisors, making decisions on renters, logging incoming income, etc., it becomes quite conceivable for that person to now qualify as a real estate professional.

Before stating what that requires, let's explore the benefit. If the non-working spouse meets the real estate professional requirements, then all bonus depreciation losses could be used to reduce the ordinary/non-passive income of the working spouse. That could be a huge benefit.

Qualifications. You qualified as a real estate professional for the year if you met both of the following requirements.

- *More than half of the personal services you performed in all trades or businesses during the tax year were performed in real property trades or businesses in which you materially participated.*
- *You performed more than 750 hours of services during the tax year in real property trades or businesses in which you materially participated.*

***** Very Important Note:** You do **NOT** have to get a real estate license to qualify as a real estate professional.

Many of our clients become real estate professionals even though their regular jobs do not involve real estate. The key is to establish the person working the least number of hours as the RE professional.

50% Bonus Depreciation In The GO Zone:

All Other Cases

If you are the case where your adjusted gross income is greater than \$150,000, you and your spouse both work full time, and you have no passive income, then you are admittedly in the most difficult category to realize GO Zone benefits.

We suggest you and your tax advisor explore your situation relative to the other cases that we have presented here to make sure there is not a method for you to use.

© TDH Capital Group, LLC

Notice: *The purpose of this summary is to provide general information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date it was written. Accordingly, this summary should not be viewed as a substitute for the guidance and recommendations of a retained professional.*

50% Bonus Depreciation In The GO Zone:

What Should You Do Next

Hopefully by this point you have a working idea if the GO Zone might be right for you. Don't worry if you are still a bit confused at this stage..... the IRS never makes anything easy.

Returning to our four step process,

Step 1: Read this document to understand in principle if the GO Zone is right for you;

Step 2; Take that knowledge and talk to your tax advisor or with one that we recommend;

Step 3; Get with a GO Zone property group than can get you top notch properties (such as the one that has brought you the **McHenry Hills Subdivision** project);

Step 4; Work with established property management to get your properties rented.

A tax professional that understands the GO Zone and works with clients daily on Go Zone issues can be a very valuable tool.

We see that you have now completed Step 1. Congratulations, you now know a lot more about the GO Zone than most investors and many tax professionals around the country.

Our next suggested step is to contact a tax professional that can help you really understand how this applies to YOUR EXACT situation. You can do this in one of two ways:

1. Take this information to your existing tax professional;
2. Use the tax professional that we have worked with extensively.

Either way, don't expect a tax professional to work for free on this. With the Tax Professional that we use, we have structured a special relationship where our clients can meet (Phone) with them and really analyze their exact situation relative to the GO Zone. The intent of this meeting is for the client to walk out knowing exactly what their savings would be if they participated. This group typically charges \$250 for this service but has reduced to \$160 for our clients. For the thousands upon thousands of dollars of potential tax savings, we believe this to be a very good deal.

To participate in this next step with the Tax Professional, and to participate in the **No Risk, Tax Qualification Program™** contact your Agent or Broker, fill out the forms to get started!

© TDH Capital Group, LLC

Notice: *The purpose of this summary is to provide general information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date it was written. Accordingly, this summary should not be viewed as a substitute for the guidance and recommendations of a retained professional.*