

TAX SERVICES

SPECIAL EMPLOYER BUSINESS CREDITS IN HURRICANE AREAS



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Recent legislation has expanded one credit and added a new credit that employers may claim when employing individuals affected by the recent hurricanes. This explanation is designed to help employers compute the credits.

Each credit follows the normal business tax credit rules. Neither credit reduces alternative minimum tax.

WORK OPPORTUNITY CREDIT - HIRING NEW EMPLOYEES

The work opportunity credit is a pre-existing credit available to employers hiring certain targeted groups of employees considered hard to place. The Katrina Emergency Tax Relief Act added a new targeted category, Hurricane Katrina employees. This new category does not include employees affected by Hurricane Rita or Hurricane Wilma.

Follow these steps:

1. IDENTIFY YOUR ELIGIBLE EMPLOYEES

To be eligible, the individual must have had his or her principal residence in the Katrina core disaster area on August 28, 2005.

The individual must have been hired on or after August 28, 2005 and on or before

- August 27, 2007, if the employee's principal place of employment is in the core disaster area, or

- December 31, 2005, if the employee's principal place of employment is outside the core disaster area.

You may have employed the individual before, as long as he or she was not an employee on August 28, 2005 and this is the first rehire of the individual after that date. For this purpose, employers under common control are treated as a single employer.

The employee must have worked at least 120 hours in his or her first year of employment.

Certain employees related to owners of the business are not eligible. See "Ineligible Employees" below.

2. CONFIRM THE EMPLOYEE IS ELIGIBLE

The employee must provide to you reasonable evidence that he or she is an eligible employee. You can use IRS Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credit, for this purpose. If you use this form, you need not require the employee to provide any documentary evidence.

The normal certification procedures for the work opportunity credit do not apply to Hurricane Katrina employees. Keep Form 8850 or your alternative record in your files.

3. DETERMINE THE QUALIFIED FIRST-YEAR WAGES

The credit applies to the first \$6,000 of wages paid or incurred for work performed during the one-year period beginning on the date the employee began work. "Wages" generally has the same meaning as wages subject to the Federal Unemployment Tax Act (FUTA).

4. CLAIM THE CREDIT

You claim the credit by filing Form 5884, Work Opportunity Credit.

The credit is computed by multiplying a defined percentage times the qualified first-year wages. The percentage is determined as follows:

- Employees working at least 120 hours, but fewer than 400 hours - 25%
- Employees working at least 400 hours - 40%

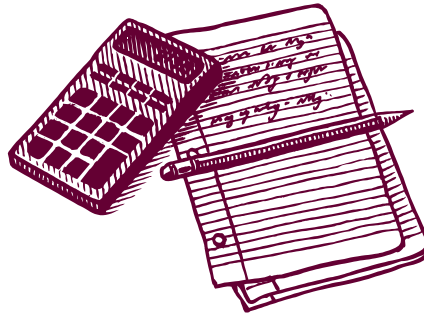
5. REDUCE YOUR COMPENSATION DEDUCTION

You must reduce your compensation deduction by the amount of the credit claimed. *(Note: You cannot add the credit back to compensation when preparing your Louisiana income tax return, even though the credit does not reduce your Louisiana tax. However, Louisiana allows you to compute your federal income tax*

deduction on your Louisiana return before reduction by the credit.)

EMPLOYEE RETENTION CREDIT - ONGOING EMPLOYEES

The employee retention credit is a new credit based on compensation you have paid to your ongoing employees during the period you were unable to provide substantial services at their places of employment because of the effects of Hurricanes Katrina, Rita and Wilma.



1. ARE YOU AN ELIGIBLE EMPLOYER?

To be an eligible employer, you must have conducted a trade or business on August 28, 2005 in the Hurricane Katrina core disaster area, and your business must have been inoperable on any day after August 28, 2005, and before January 1, 2006, as a result of damage caused by Hurricane Katrina.

A prior law limiting the credit to employers with 200 or fewer employees has been repealed. There is no employee number limit.

2. IDENTIFY YOUR ELIGIBLE EMPLOYEES

To be eligible, the employee's principal place of employment on August 28, 2005 must have been in the core disaster area. The employee cannot be eligible for the work opportunity credit.

Certain employees related to owners of the business are not eligible. See "Ineligible Employees" below.

3. IDENTIFY THE CREDIT PERIOD

The credit applies to wages paid or incurred during the period

- Beginning on the day your business first became inoperable at the employee's principal place of employment, and
- Ending on the *earlier* of the date on which your business was able to resume significant operations at the principal place of employment or December 31, 2005.

Because the period depends upon the principal place of employment of the employee, you may have more than one credit period if you have multiple business locations. For example, if you had two restaurant locations and one restaurant reopened on November 15, 2005 and the

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other reopened on January 10, 2006, the credit period for the employees at the first restaurant would end November 15, 2005, and the credit period for the employees at the second restaurant would end on December 31, 2005.

4. DETERMINE THE QUALIFYING WAGES

Wages qualifying for the credit generally have the same meaning as wages subject to the Federal Unemployment Tax Act (FUTA). Qualified wages also include amounts you paid for medical or hospitalization expenses in connection with sickness or accident disability. Qualified wages for any employee must be reduced by the amount of any work supplementation payment you received under the Social Security Act.

You can count any qualifying wages even if the employee performed no services, performed services at a location other than his or her principal place of employment, or performed services at the principal place of employment before significant operations resumed.

5. CLAIM THE CREDIT

The credit is 40% of the first \$6,000 of qualifying wages paid to eligible employees.

You claim the credit by completing Form 5884-A, Credits for Employers Affected by Hurricane Katrina, Rita, or Wilma.

6. REDUCE YOUR COMPENSATION DEDUCTION

You must reduce your compensation deduction by the amount of the credit claimed. *(Note: You cannot add the credit back to compensation when preparing your Louisiana income tax return, even though the credit does not reduce your Louisiana tax. However, Louisiana allows you to compute your federal income tax deduction on your Louisiana return before reduction by the credit.)*

7. HURRICANES RITA AND WILMA

The employee retention credit is also available for employees whose principal place of employment is located in the Hurricane Rita GO Zone or in the Wilma GO Zone. Except

for effective dates, the same rules apply as for Katrina.

For purposes of Hurricane Rita, substitute September 23, 2005 for August 28, 2005 above.

For purposes of Hurricane Wilma, substitute October 23, 2005 for August 28, 2005 above.

INELIGIBLE EMPLOYEES

Certain employees are not eligible for either credit because of their relationship to the owners of the business. This group of employees includes

- if the taxpayer is a corporation, anyone related to an individual who owns, directly or indirectly, more than 50 percent in value of the outstanding stock of the corporation, or, if the taxpayer is an entity other than a corporation, to any individual who owns, directly or indirectly, more than 50 percent of the capital and profits interests in the entity.
- if the taxpayer is an estate or trust, anyone related to a grantor, beneficiary, or fiduciary of the estate or trust,
- a dependent of the taxpayer, or, if the taxpayer is a corporation, of an individual described in the first category above or, if the taxpayer is an estate or trust, of a grantor, beneficiary, or fiduciary of the estate or trust.

- anyone who bears the following relationship to the taxpayer or a grantor, beneficiary or fiduciary of the estate or trust
 - A child or a descendant of a child.
 - A brother, sister, stepbrother, or stepsister.
 - The father or mother, or an ancestor of either.
 - A stepfather or stepmother.
 - A son or daughter of a brother or sister of the taxpayer.



- A brother or sister of the father or mother of the taxpayer.
- A son-in law, daughter-in-law, father-in-law, brother-in-law, or sister-in-law.

WILMA GO ZONE

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

KATRINA CORE AREA

LOUISIANA PARISHES

- 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
- West Feliciana

MISSISSIPPI COUNTIES

- 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
- Yazoo

ALABAMA COUNTIES

- Baldwin
- Choctaw
- Clarke
- Greene
- Hale
- Marengo
- Mobile
- Pickens
- Sumter
- Tuscaloosa
- Washington

RITA GO ZONE

LOUISIANA - The parishes of Acadia, Allen, Ascension, Cameron, Calcasieu, Beauregard, Evangeline, Iberia, Jefferson, Jefferson Davis, Lafayette, Lafourche, Livingston, Plaquemines, Sabine, St. Landry, St. Martin, St. Mary, St. Tammany, Terrebonne, Vermilion, Vernon, West Baton Rouge.

TEXAS - The counties of Angelina, Brazoria, Chambers, Fort Bend, Galveston, Hardin, Harris, Jasper, Jefferson, Liberty, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, Tyler, Walker