STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE
PHONE (317) 232-3775
FAX (317) 232-8779

INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE N1058 (B)
INDIANAPOLIS, IN 46204

To: All Assessing Officials

From: Department of Local Government Finance

Subject: Investment Deduction

Date: January 2008

1. The Department has received questions about the investment deduction for the development, redevelopment, or rehabilitation of real property, and personal property purchased after March 1, 2005 but before March 2, 2007. The questions center on the maximum allowable amount of the investment deduction. Specifically, it was brought to our attention that there was a misunderstanding as to whether the $2 million deduction limit referred to in the statute was a $2,000,000 aggregate limitation or a $2,000,000 limit for each assessment date. The intent of this memorandum is to clarify any confusion.

2. The Department interprets Indiana Code sections 6-1.1-12.4-2 and 6-1.1-12.4-3 to mean the amount of the investment deduction that a property owner may receive "for a particular year" (i.e., assessment year) equals the lesser of $2 million, or the product of the formula provided in the aforementioned sections of the Indiana Code.

3. Example for Real Property:

> March 1, 2006 -- Farmer builds barn with a true tax value of $4,000,000. Barn: $4,000,000 x first year percentage of 75% = $3,000,000.
>
> Farmer can only claim a $2,000,000 deduction, not $3,000,000.
>
> March 1, 2007 -- Farmer builds a tool shed with a true tax value of $2,000,000. Tool shed: $2,000,000 x first year percentage of 75% = $1,500,000. Barn: $4,000,000 x second year percentage of 50% = $2,000,000.
>
> Farmer can only claim a $2,000,000 deduction, not a $3,500,000 deduction.
>
> March 1, 2008 -- No new structures can be claimed due to sunset date of code. Tool shed: $2,000,000 x second year percentage of 50% = $1,000,000. Barn: $4,000,000 x third year percentage of 25% = $1,000,000.
>
> Farmer can claim a $2,000,000 deduction.
>
> March 1, 2009 -- Tool shed: $2,000,000 x third year percentage of 25% = $ 500,000.
>
> Farmer can claim a $ 500,000 deduction.

In conclusion, a property owner could have a $2,000,000 investment deduction for assessment years 2006-pay-2007; 2007-pay-2008; and 2008-pay-2009; and a $500,000 deduction for 2009-pay-2010; in other words, up to $6,500,000 total for the four assessment years. NOTE: As the assessed values for this real property changes as a result of annual adjustments (IC 6-1.1-4-4.5; 50 IAC 21), the investment deduction would also change.

4. Example for Personal Property without the use of Minimum Value Calculation and assuming that Pool Number 2 on Form 103-Long and the corresponding true tax values are used:

> <u>March 1, 2006</u> -- Company buys a press that has a true tax value of $4,000,000 ($10,000,000 cost x 40%). $4,000,000 x first year percentage of 75% = $3,000,000.
>
> Company can only claim a $2,000,000 deduction, not a $3,000,000 deduction.
>
> <u>March 1, 2007</u> -- Company buys a stamping machine that has a true tax value of $3,600,000 ($9,000,000 cost x 40%). $3,600,000 x the first year percentage of 75% = $2,700,000. The March 1, 2006 press now has a true tax value of $5,600,000 ($10,000,000 cost x 56%). $5,600,000 x the second year percentage of 50% = $2,800,000.
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> Company can only claim a $2,000,000 deduction, not a $5,500,000 deduction.
>
> <u>March 1, 2008</u> -- No new equipment can be claimed due to sunset date of code. The March 1, 2007 stamping machine now has a true tax value of $5,040,000 ($9,000,000 cost x 56%). $5,040,000 x the second year percentage of 50% = $2,520,000. The March 1, 2006 press now has a true tax value of $4,200,000 ($10,000,000 cost x 42%). $4,200,000 x the third year percentage of 25% = $1,050,000.
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> Company can only claim a $2,000,000 deduction, not a $3,570,000 deduction.
>
> <u>March 1, 2009</u> -- No new equipment can be claimed due to sunset date of code. The March 1, 2006 equipment is past the three year deduction period. The March 1, 2007 stamping machine now has a true tax value of $3,780,000 ($9,000,000 cost x 42%). $3,780,000 x the third year percentage of 25% = $945,000.
>
> Company can claim $945,000.

In conclusion, a property owner could have the $2,000,000 deduction for assessment years 2006-pay-2007; 2007-pay-2008; 2008-pay-2009; and a $945,000 deduction for 2009-pay-2010; or in other words, a $6,945,000 total for the four assessment years.

5. Example for personal property <u>with</u> the use of Minimum Value Calculation is described below. In our example, it is assumed that Pool # 2 on Form 103-Long and the corresponding true tax value percentages are used. In addition, it is assumed the property taxpayer is below the thirty percent (30%) reporting floor; thus, the use of the Minimum Value Calculation as required by SEA 260-2006 (see IC 6-1.1-12.1-4.5) is used. The values used to calculate the [*]Minimum Value Ratio for use in this memo include:

[*] this Minimum Value Ratio is for illustration purposes and must be recalculated each year.

a. true tax value for all depreciable assets = $10,000,000.
b. 30% floor = $12,350,000.
c. To arrive at the Minimum Value Ratio, divide the 30% floor by the true tax value of the Depreciable Assets ($12,350,000/10,000,00 = 1.23500).

<u>March 1, 2006</u> -- Company buys a press that has a true tax value of $4,000,000. ($10,000,000 cost x 40%). Apply the Minimum Value Ratio of 1.23500 and the true tax value becomes $4,940,000. $4,940,000 x the first year percentage of 75% = $3,705,000.

Company can only claim a $2 million deduction, not $3,705,000 million.

<u>March 1, 2007</u> -- Company buys a stamping machine that has a true tax value of $3,600,000 ($9,000,000 cost x 40%). Apply the Minimum Value Ratio of 1.23500 and the true tax value becomes $4,446,000. $4,446,000 x the first year percentage of 75% = $3,334,500.

The March 1, 2006 press now has a true tax value of $5,600,000 ($10,000,000 x 56%). Apply the Minimum Value Ratio of 1.23500 the true tax value becomes $6,916,000. $6,916,000 x the second year percentage of 50% = $3,458,000.

Company can only claim a $2 million deduction, not a $6,792,500 deduction.

<u>March 1, 2008</u> -- No new equipment can be claimed due to sunset date of statute. The March 1, 2007 stamping machine now has a true tax value of $5,040,000 ($9,000,000 cost x 56%). Apply the Minimum Value Ratio of 1.23500 and the true tax value becomes $6,224,400. $6,224,000 x the second year percentage of 50% = $3,112,200.

The March 1, 2006 press now has a true tax value of $4,200,000 ($10,000,000 cost x 42%). Apply the Minimum Value Ratio of 1.23500 and the true tax value becomes $5,187,000. $5,187,000 x the third year percentage of 25% = $1,296,750.

Company can only claim a $2 million deduction, not a $4,408,950 deduction.

<u>March 1, 2009</u> -- No new equipment can be claimed due to sunset date of code. The March 1, 2006 equipment is past the three year deduction period. The March 1, 2007 stamping machine now has a true tax value of $3,780,000 ($9,000,000 times 42%). Apply the Minimum Value Ratio of 1.23500 and the true tax value becomes $4,668,300. $4,668,300 x the third year percentage of 25% = $1,167,080.

Company can claim $1,167,080.

6. In conclusion, a property owner could have the $2,000,000 deduction for assessment years 2006-pay-2007; 2007-pay-2008; and 2008-pay-2009. For 2009-pay-2010, a $1,167,080 may be deducted. The results for the four assessment years are a total deduction of $7,167,000.

7. If you have any questions, please feel free to contact the Assessment Division Director, Barry Wood, at (317) 232-3762, or bwood@dlgf.in.gov.