

# Local & State Taxes

---

## Corporate Income Taxes

Indiana's Corporate Adjusted Gross Income Tax is calculated at a flat percentage of the company's adjusted gross income attributable to the company's Indiana sales. The applied Corporate Income Tax rate is being cut from the current 8.5 percent to 6.5 percent by 2015 through 0.5 percent per year reductions beginning July 2012. To determine Indiana's share of an interstate or international corporation's taxable income, a company's adjusted gross income is apportioned based upon a single sales factor with Indiana's portion based solely on the portion of the company's sales in Indiana. Adjusted gross income is a company's federal adjusted gross income with certain adjustments. This method of determination simplifies tax calculations for corporations and does not apply to S corporations and not-for-profit organizations.

## Single-Sales Factor

The single-sales factor calculates the Indiana portion of a corporation's tax based solely on the portion of a company's sales in Indiana.

## Single Sale Tax Apportionment

Indiana transitioned from a "property, payroll and sales" apportionment formula to a "sales" only apportionment system in 2011. This eliminates the tax penalty on companies with substantial Indiana property and payroll.

## Inventory Taxes

There are no taxes paid on inventory in the state of Indiana.

## Investment Reduction

Capital improvements to business properties in Indiana are eligible for simplified investment deduction from the increase in assessed valuation (AV) that occurs as a result of the investment. The amount of the deduction is the lesser of two million dollars (per county) for real and personal property or the increase in assessed valuation resulting from the investment multiplied by 75 percent the first year, 50 percent the second year, and 25 percent the third year. Investments in real and personal property are eligible for the investment deduction.

## Research Expense Tax Credit

The Research and Development (R&D) Tax Credit provides an incentive for business investment in Indiana by providing a credit against state tax liability for qualified company research expenses. The R&D tax credit (also known as the Research Expense tax credit) is based on the increase in Indiana R&D over the prior three-year base. In the base year, research expenses must have been at least half of the research expenses in the current year. The credit equals 15 percent of qualified research expenses on the first \$1 million of investment. The tax credit is applied against income tax liability and may be carried forward 10 years. There is no carry back, and the credit is nonrefundable. This program operates under the Indiana Department of Revenue and uses the definition of "qualified research expense" from the Internal Revenue Code (which includes the costs of wages and supplies).

## Sales and Use Tax

Indiana's Sales and Use Tax is one of the lowest in the Midwest. Purchasers of tangible personal property, public utility services and renters pay a mere 7 percent. Exemptions include wholesale sales, items used directly in production and sales made in interstate commerce. Research and development equipment acquired after June 30, 2007 will be completely exempt from the sales tax. Transactions involving research and development equipment acquired after June 30, 2005, and before July 1, 2007, qualify a taxpayer for a 50 percent refund of the sales taxes paid. Source: Indiana Economic Development Corp.

## Indiana's Workers Compensation Advantages

Low cost for employers - From highest to lowest, Indiana ranked 50 out of 51 jurisdictions with a rate of \$1.24. Source: State of Oregon report 2006 Oregon Workers' Compensation Premium Ranking. Rate indices range from a low of \$1.10 in North Dakota to a high of \$5.00 in Alaska, with a median value of \$2.48. Healthy market attracts competition - Indiana posts fifth best in country accident year combined ratio of 0.89. Results range from a low of 0.71 in Hawaii to a high of 127 in S. Dakota. Source: NCCI Financial Call data used in Calendar-Accident Year Underwriting Results, evaluated as of 12/31/05; 36 states; NCCI website as of 1/2007.

## Unemployment Taxes

Indiana's workers compensation insurance rate is \$1.88/\$100 in payroll.

Indiana Unemployment Taxes	
New Employee Rate	2.70%
Minimum Rate	1.10%
Maximum Rate	5.60%
Workers Training Assessment	0.09%

# Property Taxes

## Real Property Tax Calculation

### Buildings

Real estate assessments for buildings and improvements are determined by using the rules of the Department of Local Government Finance. Assessments are based on fair market value in use, which is usually somewhat less than market value on new construction. However, cost as well as market comparisons can be used to make a reasonable estimate of value. • Tax Formula:  $\text{Cost} \times \text{net tax rate}$

### Land

The assessed value of land is the cost or value of the land, as it is currently used. • Tax Formula:  $\text{Cost} \times \text{net tax rate}$

## Personal Property Tax Calculation

### Depreciable Personal Property

The assessed value for depreciable personal property (machinery, equipment and office furniture) is multiplied by a percentage based on the life of the asset. Straight line depreciation procedures are used. • Tax Formula:  $\text{Cost} \times \text{depreciated \%} \times \text{net tax rate}$

### Inventory

Inventory, which consists of raw materials, work-in-progress and finished goods, is currently taxed as personal property in Indiana. Inventory destined for out-of-state shipment and work-in-progress may be exempt. Hendricks and Morgan counties have already eliminated the inventory tax. All other counties will eliminate the inventory tax in the 2006 payable 2007. • Tax Formula:  $\text{Cost (Indiana portion of inventory)} - 35\% \times \text{net tax rate}$  \* In tax year 2006 payable 2007, the inventory tax is eliminated. \*

## Special Tools

Special tools are property such as tools, dies, molds, jigs and patterns used to produce specific products or product models. The usefulness of special tools ceases with the modification or discontinuation of the product or product model. The assessed value of special tools purchased in the previous twelve months is 76% of cost, while all other special tools on hand are valued at 53% of cost. • Tax Formula: Cost x depreciation% (1st yr. 42%, 2nd yr. 14%, 3rd yr. or more 2%) x net tax rate

## Personal Property Not Placed in Service

Personal property not placed in service as of the assessment date (such as construction in progress) qualifies as a special valuation item. The assessed value of personal property not placed in service is 10% of cost. • Tax Formula: Cost x .10 x net tax rate