

OHIO MANUFACTURING MACHINERY & EQUIPMENT INVESTMENT TAX CREDIT

DUE TO CHANGES BROUGHT ABOUT BY AMENDED SUBSTITUTE HOUSE BILL 66, THE M&E INVESTMENT TAX CREDIT PROGRAM WILL ONLY APPLY TO TAXABLE YEARS ENDING PRIOR TO JUNE 30, 2005. FOR TAX REPORT YEAR 2006, FRANCHISE TAXPAYERS AND INDIVIDUAL INCOME TAXPAYERS MUST CLAIM THE 1/7-AMOUNTS UNDER THE M&E INVESTMENT TAX CREDIT PROGRAM. ALL INCENTIVES (1/7 AND BALANCES FROM PRIOR YEARS) TAKEN FOR TAX REPORT YEARS 2007 AND THEREAFTER MUST BE TAKEN THROUGH THE M&E INVESTMENT GRANT PROGRAM.

The Ohio Manufacturing Machinery & Equipment Investment Tax Credit was created to encourage the expansion of existing operations by upgrading machinery and equipment with new technology. This tax credit offers a non-refundable corporate franchise or state income tax credit for a manufacturer that purchases new machinery and equipment. This credit only applies to machinery and equipment that is located in Ohio and is used in the production or assembly of manufactured goods.

ELIGIBLE BUSINESSES

The Ohio Manufacturing Machinery & Equipment Investment tax credit is available to any Ohio manufacturing operation: corporation, partnership, limited liability company, or proprietorship. Eligible new investments must exceed the company's three-year annual average investment in machinery and equipment. If a manufacturing operation has multiple facilities, the company must consider the three-year annual average investment of all the facilities located in the same county.

“Manufacturing machinery and equipment” is defined as engines, machinery, tools, and implements of every kind used or designed to be used, in refining and manufacturing. To be considered “new” manufacturing machinery and equipment, the original use in Ohio has to commence with the manufacturer; machinery or equipment used outside Ohio but purchased during the qualifying period and brought into Ohio qualifies as “new” despite its prior use outside Ohio. The cost of retooling manufacturing machinery and equipment qualifies if such costs are capitalized for a federal tax depreciation purpose.

TAX INCENTIVES

A manufacturer can receive a 7.5 percent tax credit on the increase of the investment, which is in excess of the three-year annual average investment on machinery and equipment. A tax credit of 13.5 percent is available to manufacturers making investments in “Eligible Investment Areas.”

Annually the Ohio Department of Development identifies eligible areas. These areas must satisfy the definition of one of the following: distressed area, labor surplus area, inner city distress area, or situational distress area.

The purchase of machinery and equipment must be made between July 1, 1995 and June 30, 2005. The credit is now available for each of the following distinct investment periods: July 1-December 31, 1995, calendar years 1996 through 2004, and January 1 – June 30, 2005. Installation of machinery can be made no later than June 30, 2006. The total value of the tax credit is divided equally over seven years and the manufacturer is permitted to carry forward any unused tax credit amount for up to three years. If the total value of the tax credit exceeds \$1 million, then the manufacturer **must demonstrate** that its total value of machinery and equipment in Ohio **has not** decreased in the previous twelve months. If the total value of machinery and equipment has decreased during the year, a waiver of this requirement may be sought from the Director of the Department of Development. Relocation of equipment within the state is **discouraged**.

A manufacturer is to file a “Notice of Intent” (NOI) form with ODO, Office of Tax Incentives, as soon as possible after the manufacturing equipment purchase has been identified. The “Notice of Intent” forms for each investment period are available at the Manufacturing Machinery & Equipment Grant/Manufacturing Machinery & Equipment Tax Credit website at: www.odod.state.oh.us/edd/itc In conjunction with the changes in Am. Sub. HB 66, there is now a deadline for NOI filings in conjunction with the tax credit. All NOIs, for any and all investment years, must be submitted by this deadline, or a company will not be eligible to take an incentive on the investment. This deadline is based upon a company’s tax return filing date and may vary depending upon when a company’s tax returns (with extensions) are due to the Department of Taxation. These deadlines can be viewed on the M&E Investment Grant/M&E Investment Tax Credit website under the “Notice of Intent filing due dates” bullet.

SAMPLE CALCULATION

1999 New Equipment Purchases	\$10,000,000
Three Year Average Annual Investment*	- <u>\$6,000,000</u>
Net Eligible for Tax Credit	\$4,000,000
7.5% Tax Credit	<u>x 7.5%</u>
Total Tax Credit	\$300,000
Annual Tax Credit (for each of the next 7 years)	\$42,857

*For the first four investment periods (7/95-12/95, 1996, 1997, & 1998), the base years are 1992, 1993, and 1994. However, for the last seven investment periods (1999 through 2005), the base years roll forward one year for each investment period (i.e., for calendar year 1999 investments, the base years are 1993, 1994, & 1995; for calendar year 2000 investments, the base years are 1994, 1995, & 1996; or for calendar year 2005 investments, the base years are 1999, 2000 and 2001).

