State of Indiana

Notes to Tax Information

Indiana has no tax in the following categories:

***Franchise** ***Inventory** ***Most Services** ***Local Wage, Sales, Payroll (local income is taxed)**

Corporate Adjusted Gross Income Tax

Indiana has a single sales factor, which will decline annually from 5.75% (July 2018) to 4.9% (July 2021). However, the tax reduction only applies to C corporations. Indiana has a single sales factor formula that shifts the tax burden away from in-state companies with significant Indiana property and payroll to out-of-state companies that have in-state sales. This could potentially lower the Indiana corporate tax paid. There are no alternative apportionment formulas. Incentives in the form of corporate income tax credits may be available to eligible companies, and are typically performance-based, on jobs and investment. (Please see our Incentives fact sheet for more details about those programs).

In 2008 Indiana began offering a deduction for income related to qualified patents. IC 6-3-1-3.5; IC 6-3-2-21.7

Sales/Use Tax

Production machinery & equipment:	-	Exempt
Replacement/repair parts:	-	Exempt
Non-production machinery & equipment:	X	
Pollution control equipment:	-	Exempt
Raw materials:	-	Exempt
Building construction materials:	X	
Building construction labor:	-	Exempt
Office furniture/fixtures/equipment:	X	
Software:	X	
Electricity:	-	Possibly exempt if used in production
Natural gas:	-	Possibly exempt if used in production
Water:	-	Possibly exempt if used in production
Sewage:	-	Exempt if used in production
Telecommunication costs:	X	
Professional services:	-	Most are exempt
Mail order sales:	*	Use tax if sourced to Indiana (IC 6-2.5-3-2)

Indiana offers a sales tax exemption on machinery, tools and equipment acquired for direct use in the direct production, manufacture, fabrication, assembly, processing, refining or finishing of tangible personal property. IC 6-2.5-5-3; 45 IAC 2.2-5-8. It is possible that the client may qualify for sales tax exemptions depending on their facts. For example, if the client was packaging products on behalf of a manufacturer, the manufacturing exemption may be extended to include the packaging process completed via the client.

The 9-county Indianapolis Region includes Boone, Hamilton, Hancock, Hendricks, Johnson, Madison, Marion, Morgan and Shelby counties.

Indy Partnership
E-mail: info@indypartnership.com
Website: www.indypartnership.com

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Indiana offers a sales tax exemption on utilities used in certain manufacturing capacities. This exemption could potentially be expanded to the client's utilities "used in production" depending on its facts. IC 6-2.5-4-5

Indiana offers a sales tax exemption for tangible personal property acquired for resale. IC 6-2.5-5-8

Indiana offers a sales tax exemption for transactions involving tangible personal property and services, if the person acquiring the property or service directly uses or consumes it in providing public transportation for persons or property. IC 6-2.5-5-27; 45 IAC 2.2-5-61; 45 IAC 2.2-5-62; 45 IAC 2.2-5-63.

Property Tax

Production machinery & equipment:	X	Local property tax abatement may be available for up to 10 years for all categories.
Replacement/repair parts:	X	
Non-production machinery & equipment:	X	
Pollution control equipment:	-	Exempt
Office furniture/fixtures/equipment:	X	
Software:	-	Exempt

Property Taxes are assessed and collected on a local level. The tax rate that is applied to real and tangible personal property includes a small levy to support the State Fair Board and State Forestry operations, as well as Welfare, County Government, Township Government, Libraries, Schools and the City or Town if applicable). IC 6-1.1-2-3

Indiana offers a property tax exemption for tangible personal property that is part of a system used to control or reduce water or air pollution. IC 6-1.1-10-9; IC 6-1.1-10-12. Personal property that is exempt as pollution control equipment must be reported and claimed as exempt on an annual return filed with the township assessor. IC 6-1.1-10-10; IC 6-1.1-10-13. Motor vehicles, trailers and commercial vehicles that are subject to the annual excise tax are exempt from property tax. IC 6-1.1-2-7 Application software, other than software held in inventory, is excluded from the definition of tangible personal property. IC 6-1.1-1-11

Indiana requires a taxpayer to report all inventory including raw materials, work-in-process, finished goods, stock-in-trade, and supplies that it owns or possesses as of the March 1 assessment date, but provides for a 100% deduction of the value of inventory such that inventories are not taxed. IC 6-1.1-12-42. Indiana also provides numerous additional exemptions for inventories to the extent that the goods are ultimately shipped out-of-state. IC 6-1.1-10

Real Property, including land, buildings, and improvements, is valued based upon the estimated value in use and market conditions as they existed on January 1st of the calendar year prior to the assessment date. IC 6-1.1-4. Real Estate Construction in Progress is valued based upon the percent completed as of the March 1 assessment date.

Tangible personal property other than inventory, including machinery and equipment, furniture and fixtures, and computer equipment, is valued using depreciation or percent good tables prescribed relative to the life used for income tax

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E-mail: info@indypartnership.com
Website: www.indypartnership.com

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depreciation. Most depreciable tangible personal property falls under the factors found in Pool #2 (5 – 8 year tax life). 50 IAC 4.2-4-7. The prescribed valuation factors for Pool #2 are:

Year of Acquisition	Percent Good
1	40%
2	56%
3	42%
4	32%
5	24%
6	18%
7 and thereafter	15%

Indiana also imposes a minimum value factor such that "… the total valuation of a taxpayer's assessable depreciable personal property in a single taxing district cannot be less than thirty percent (30%) of the adjusted cost of all such property of the taxpayer." 50 IAC 4.2-4-9 Tangible personal property that is not placed in service as of the March 1 assessment date (including personal property construction in process) is valued at 10% of the cost incurred as of the assessment date and is excluded from the 30% minimum valuation calculation. 50 IAC 4.2-6-1

The annual property taxes relative to real estate or tangible personal property are calculated by applying the gross tax rate for the specific jurisdiction where the property is located to the net assessed value of the property. This gross tax amount is then reduced by the corresponding rate for the Property Tax Replacement Credit to arrive at the net taxes due. IC 6-1.1-21 The 2007 General Assembly changed legislation regarding the "circuit breaker" for all non-homestead property including business real estate and personal property. The current statute provides that, beginning with the March 1, 2009 assessment date (taxes payable in 2010), a taxpayer's liability for real or business personal property taxes may not exceed three percent (3%) of the taxpayer's gross assessed value. IC 6-1.1-20.6

Indy Partnership
E-mail: info@indypartnership.com
Website: www.indypartnership.com