



Economic Development Tax Incentives -- Original Cost. THE ORIGINAL COST OF QUALIFIED PROPERTY INCLUDES THE PURCHASE PRICE AND THOSE ADDITIONAL COSTS INCURRED IN PLACING THE PROPERTY INTO SERVICE THAT ARE ACTUALLY CAPITALIZED UNDER THE INTERNAL REVENUE CODE.

Advice has been requested as to the expenditures that are part of the original cost for the purposes of the Employment and Investment Growth Act.

The taxpayer is purchasing equipment and is installing the equipment in the project with its own employees. The taxpayer has incurred interest expense on the money borrowed to pay for the equipment, shipping, and labor to prepare the equipment for use.

Section 77-4103(6), R.S.Supp 1987, provides in part that:

Investment . . . For qualified property owned by the taxpayer, the value shall be the original cost of the property.

Generally the amounts spent by the taxpayer in getting equipment ready for use are part of the original cost basis of the property under the Internal Revenue Code (IRC). This would include items such as the purchase price, transportation of the property, and interest expense incurred before the equipment is placed into service.

If the taxpayer had purchased the property installed, or the taxpayer had paid another party to install the property, the cost of the property under the IRC would include the installation. The IRC also requires the capitalization of the installation costs when the labor is provided by the taxpayer.

The term "original cost" shall mean the amount required to be capitalized for depreciation or the amount of the investment credit under the IRC. Any expense, including the labor of the taxpayer that is capitalized as a part of the cost of the equipment, will be considered part of the original cost. This amount shall be used in determining whether the required level of investment has been met and also in determining the amount of the credit earned on investment.

APPROVED:

A handwritten signature in cursive script that reads 'Donald S. Leuenberger'.

Donald S. Leuenberger  
State Tax Commissioner

September 4<sup>th</sup>, 1987