

December 20, 2005

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 "original cost" for the purposes of the Nebraska Advantage 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 77-5710, R.S.Supp. 2005, provides in part that:

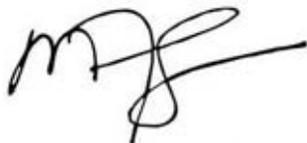
Investment means the value of qualified property incorporated into or used at the project. For qualified property owned by the taxpayer, the value shall be the original cost of the property.

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 under the IRC. Any amount, including the labor of the taxpayer, that is capitalized as a part of the cost of the equipment or that is written off under section 179 of the IRC, will be considered part of the original cost. Any amounts that are not capitalized or written off under section 179 are not a 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:



Mary Jane Egr
State Tax Commissioner

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