

## **Ohio Manufacturing Machinery and Equipment Investment Grant**

### What it is

The Ohio Manufacturing Machinery and Equipment Investment Grant (M&E Investment Grant) was created in Amended Substitute House Bill 66 (HB 66) and became effective July 1, 2005. This new program, authored in Sections 122.172 and 122.173 of the Ohio Revised Code, is an incentive mechanism to companies investing in manufacturing equipment. This new program will effectively replace the former M&E Investment Tax Credit as the mechanism to take a non-refundable incentive against a corporation's franchise tax liability or an individual's state income tax liability.

### What the grant applies to

The M&E Investment Grant applies to manufacturers that purchase qualified new or retooled machinery and equipment that the manufacturer uses in manufacturing - the same parameters that applied to the M&E Investment Tax Credit. The M&E Investment Grant applies to taxable years ending on or after July 1, 2005. Therefore, for report year 2006, franchise taxpayers and individual income taxpayers whose taxable year ends on or after July 1, 2005 must claim the grant (even for the 1/7 credit amounts from 2004 and earlier qualifying periods).

“Manufacturing machinery and equipment” for the grant program is defined in the same manner it was for the M&E Investment Tax Credit – defined as engines, machinery, tools, and implements of every kind used in refining and manufacturing. To be considered “new” manufacturing machinery and equipment, the original use in Ohio must commence with the manufacturer; machinery and 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 cost is capitalized for federal tax depreciation purposes. For repaired and refurbished equipment to qualify as new, it must meet Federal Standards: IRC Section 46.

The M&E Grant, like the M&E Investment Tax Credit applies to new machinery and equipment purchased between July 1, 1995 and June 30, 2005 and installed by June 30, 2006 will qualify for the grant. Purchases made on July 1, 2005 or thereafter do not qualify for the M&E Investment Grant. The total value of the grant is divided equally over seven years and a manufacturer is permitted to carry forward any unused 1/7-grant amount for any given year for three years beyond the year that it otherwise could have been claimed. Like the former credit, the grant is computed on purchases of qualifying equipment during a calendar year regardless of whether the taxpayer's taxable year is a calendar year.

For those taxpayers that are subject to the franchise tax phase-out, the grant will end with their final (2009) franchise tax report, because any unused 1/7 amounts cannot be applied against Ohio's new Commercial Activity Tax (CAT). Those franchise taxpayers that are not subject to the phase-out may continue to claim their unused 1/7-grant amounts after the 2009 report. Individual income taxpayers may continue to claim their unused 1/7-

grant amounts against their Ohio individual income tax liability just as they could before the enactment of HB 66.

#### How the grant is calculated

The M&E Investment Grant is calculated in exactly the same manner as the prior M&E Investment Tax Credit. The method of calculating the M&E Investment Grant incentive, outlined in ORC Section 122.173, operates in exactly the same fashion as the M&E Investment Tax credit. For each Ohio county, the grant amount will equal either 7.5% or 13.5 % of the amount by which the taxpayer's purchases of new manufacturing machinery and equipment for use in the county exceeds the taxpayer's base investment in that county.

Companies must continue to file Notice of Intents (NOI) for investments made between July 1, 1995 and June 30, 2005 for which the company intends to claim the M&E Investment Grant. If a company has previously been filed a NOI under the M&E Investment Tax Credit, the company DOES NOT have to file an additional NOI for the M&E Investment Grant. However, if the company has not filed a NOI for its purchases for a particular calendar year within the qualifying purchase period, then the company must do so by the date of a timely files return, including extensions, for that taxable year that includes September 30, 2005. This date will vary depending on the taxpayer's taxable year, and the filing deadlines can be found on this website under "Notice of Intent filing due dates".

Prior M&E Investment Tax Credit amounts - both the total incentive amount and the annual 1/7<sup>th</sup> amount taken against the corporate franchise or state income tax - that have been previously calculated do not have to be re-calculated for the M&E Investment Grant. These 1/7<sup>th</sup> incentive amounts, plus any existing carry forwards, can now be taken through the M&E Investment Grant program.

#### How the grant is taken

For taxable years ending on or after July 1, 2005, a taxpayer must complete a grant request form and file the form with the tax return for the taxable year in which the grant is claimed. The Department of Taxation and the Department of Development will be creating this grant request form, and, once completed, it will be available on both Taxation's and Development's websites.

The grant is applied against the tax liability, and will reduce a company's liability by the total grant amount taken in a given year. Any unused 1/7 amount of the grant in excess of a filer's tax liability can be carried forward for up to three subsequent years.