REPLACE DON'T ERASE
BUSINESS PERSONAL PROPERTY TAX

TERMINOLOGY

ACQUISITION COST: Acquisition cost refers to the cost an asset was purchased for initially. It includes the purchase price and all associated transaction costs. It appears on the top line of balance sheets, prior to the application of depreciation.

BALANCE SHEET: The balance sheet shows all of the assets and liabilities of an entity. Business personal property should show up on the balance sheets under the asset category.

DEPRECIATION: Depreciation in accounting allows the cost of an asset to be recorded over the useful life of the asset instead of recording the entire cost at the time of purchase. This is useful in financial accounting because it does not skew costs towards the time period when capital investments are made, better communicating the entity's financial position. In tax accounting, only the portion of the asset that is depreciated is considered an expense for income tax purposes that can be deducted.

DEPRECIATION SCHEDULES: There are conventional depreciation schedules that exist in both financial and tax accounting, and they are not always the same (a single entity may use different depreciation schedules for their financial statements and tax returns). The schedule shows you how much of an asset should be depreciated in each year and over what period of years depreciation to zero should be undertaken. Straight-line depreciation is common in financial accounting because it evenly spreads out the cost of the asset over the useful life. Accelerated depreciation is common in tax accounting because it loads more of the cost early in the life of the asset and increases the tax benefit of capital investment. Indiana Administrative Code provides several depreciation schedules for different asset classes for the purposes of business personal property tax that must be used to calculate assessed value for taxation. They can be found in 50 IAC 4.2-4-7.

ASSESSED VALUE: The assessed value of business personal property is the acquisition cost less the accumulated depreciation (the sum of the depreciation applied in each prior year). It is referred to interchangeably as "true tax value."

DEPRECIATION FLOOR: Notwithstanding the accumulated depreciation on any individual asset, the total amount of assessed value cannot be less than 30% of the total acquisition cost of all of the business' assets. This floor is in the aggregate, and is not applied to any individual asset or asset class.

SELF-ASSESSED: Some may point out that business personal property is self-assessed which is true. It is, however, taken off of balance sheets (and the depreciation is taken off of income statements) that are used in filing income tax and are subject to audit by the IRS and DoR.