

WEST VIRGINIA STATE TAX DEPARTMENT

Administrative Notice 2006-13

SUBJECT: Property Tax -- State Tax Commissioner's Statement Concerning Primary Reliance on the Cost Approach to Value for Appraisals of Industrial Personal Property i.e. Machinery, Equipment, Furniture, Fixtures, and Leasehold Improvements Pursuant to §110 CSR 1P-2.5.3.1.

On July 26, 1991, the State Tax Department filed Legislative Rule § 110 CSR 1P-1 et seq. relating to the appraisal of industrial machinery, equipment, furniture, fixtures, and leasehold improvements. This notice will address the Tax Commissioner's primary reliance on the cost approach to value when appraising industrial machinery, equipment, furniture, fixtures, and leasehold improvements, for property tax purposes.

DISCUSSION

There are three (3) generally accepted approaches to value that must be considered when estimating market value of property for ad valorem tax purposes. These are the cost, market, and income approaches. These approaches to value must be considered and should be developed, if appropriate, to properly estimate market value in compliance with generally accepted appraisal principles. The following is a brief discussion of these three (3) approaches to value and their potential use when estimating the market value of industrial machinery, equipment, furniture, fixtures, and leasehold improvements for ad valorem tax purposes.

MARKET APPROACH

The market approach to value is based upon the assumption that the recent selling price of comparable properties if properly analyzed and adjusted, if appropriate, will yield a reasonable estimate of current market value. This valuation approach is widely employed in the appraisal of residential real estate where a considerable number of properties transfer on a reasonably frequent basis. Industrial machinery, equipment, furniture, fixtures, and leasehold improvements sell infrequently and are often liquidation sales, which typically are not at market value. The market approach to value is of little, if any, use in appraising industrial personal property due principally to the lack of a sufficient number of meaningful sales to statistically support development of the approach.

INCOME APPROACH

The income approach to value is based upon the assumption that a property is worth the future income, discounted to present worth, that it will generate for a prospective buyer. The income approach is widely used in the appraisal of various types of income producing properties; however, the approach has limited use in the appraisal of industrial machinery, equipment, furniture, fixtures, and leasehold improvements because of the difficulty in estimating future net benefits; except in the case of certain kinds of leased equipment. When reliable data on equipment leases is available, the income approach can provide reliable estimates of fair market value.

COST APPROACH

The cost approach to value is based upon the assumption that the cost of a property, less depreciation (loss in value), yields a reasonable estimate of market value. Depreciation is a loss

