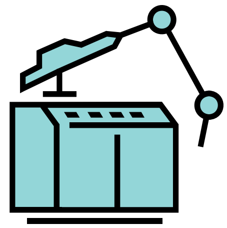
State Tax Commission March 1, 2011 Tip
Topic: Personal Property Reporting Part 2



Dear STaCy,

I have a personal property taxpayer who has requested that part of the "original cost" of "non-taxable components of high-technology medical equipment" be excluded from the cost, prior to applying the State Tax Commission's Section D (Table D) recommended valuation multipliers. The requested cost exclusions include costs of warranties, training and software. Should I exclude these costs before I apply the Table D valuation multipliers?

Sincerely,
Softy Ware

Dear Ms. Ware:

You probably should not.

First, MCL 211.9d exempts most software, but there are two prominent exceptions, both relating to instances where it would be difficult to separate out the cost of acquiring the software and the cost of the hardware. The first exception is that software is assessable if it is incorporated as a permanent component in hardware and is not commonly available for purchase separately. The second exception is that software is assessable if it is purchased in the same transaction as the hardware with which it is used, unless the separate cost of the software is commemorated at the time of acquisition, both by a separate invoice or invoice amount *and* by the assignment of a separate line entry in the fixed asset records developed for financial accounting purposes. Essentially, the cost of these types of *assessable* software cannot first be imputed, or estimated, and then removed from the reported cost of related hardware. It sounds like this software may be a permanent component of the medical equipment, but more significantly, it appears that the software was not booked as a separate asset in the taxpayer's accounting system.

The other exclusions which have been requested, for warranty and training, should be included in the cost to which Table D multipliers are applied, unless these services are separately contracted additional "products" that were negotiated in a separate transaction, for a separate price. Warranties are typically provided in transactions for the sale of most goods. Further, for high-technology equipment training is typically part of the normal services provided by the vendor. In both cases, the purpose was to aid in the marketing of the product. Such warranties and services were considered when the State Tax Commission's recommended valuation procedures were developed. Warranties and training are excluded only in cases where there is an extended warranty or special training that is not provided as part of the typical product purchase.

Sincerely,
STaCy