State Tax Commission March 2, 2011 Tip
Topic: Personal Property Reporting Part 4

Dear STaCy,

I have a personal property taxpayer who is a using a “group” method to depreciate some of its personal property. The taxpayer has asked how these assets should be reported on the Personal Property Statement, Form L-4175 (Treasury Form 632). Apparently, the items of personal property in question consist of a large number of small, low cost items which are routinely acquired, year-in and year-out, and are difficult to track individually in the taxpayer’s financial accounting system. The taxpayer tells me that it hired a consultant to determine an overall rate of depreciation for the group. What should I tell this taxpayer?

Sincerely,
Ilove A. Crowd

Dear Ms. Crowd,

This taxpayer should report these items in Section G, on Page 3 of the Statement, for the reason that such items present unusual valuation problems. It is common to use a group method of depreciation when a taxpayer owns many low value items which are similar and which are acquired on a routine basis, year after year. In such cases, the taxpayer does not track any given item to determine if it is continuing to be used, and instead it removes a portion of the booked cost for those items in each successive year that the group is in service, to ultimately remove all of those asset costs from its fixed asset listing. The taxpayer may not be able to determine the vintage year of purchase of a given item, for the reason that it does not track individual items. Instead, the taxpayer simply reports a lower total cost for that vintage year in each successive year after the group is placed in service.

However, if this group depreciation method is used, the method may already account for both disposals and the depreciation of the surviving items. It might not be appropriate to use any of the STC valuation multiplier tables, *for the reason that the remaining fixed asset cost of the group is already a depreciated value*. Further, to the extent that items continue to be used after they have been fully depreciated, or to the extent that the replacement cost has increased, it may even be appropriate to appraise the property at somewhat *more* than the booked fixed asset cost.

The only way to properly value such assets is to investigate and determine a valuation method which will arrive at a correct estimate of true cash value for the group. While there are practical difficulties in using this approach, and it may be necessary to arrive at a practical solution, you should remember that taxation itself is a practical matter.

Sincerely,
STaCy