

STATE OF MICHIGAN



JAMES J. BLANCHARD, Governor

DEPARTMENT OF TREASURY

ROBERT A. BOWMAN, State Treasurer

STATE TAX COMMISSION

4th Floor Treasury Building
Lansing, Michigan 48922 Telephone 517 373-0500

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RENTAL VIDEO TAPES

COMMISSION MEMBERS

THEODORE P. MANSOUR
LEROY J. NELSON
ROBERT O. VANDERMARK

TO : ASSESSORS AND EQUALIZATION DIRECTORS

FROM: STATE TAX COMMISSION

RE : VALUATION OF RENTAL VIDEO TAPES

In response to inquiries from many assessing officials, the Property Tax Division has investigated the valuation of rental video tapes in order to make recommendations to assessing officials.

The purpose of this advisory is to describe some of the major elements affecting the value of rental video tapes and to discuss methods of valuing the rental video tapes of stores whose only business is the rental of video tapes. THESE RECOMMENDATIONS ARE NOT SUGGESTED FOR THOSE BUSINESSES WHERE THE RENTAL OF VIDEO TAPES IS ONLY A SMALL PART OF A TOTAL BUSINESS, E.G. A SUPERMARKET WHICH ALSO RENTS TAPES. These types of businesses are usually valued by the application of one set of original cost multipliers to all of the personal property of the business rather than breaking out components of the business for separate consideration. This is as directed by Chapter 15 of the Assessor's Manual. However, the State Tax Commission does allow computer equipment and software to be broken out and to be depreciated using the short-lived multipliers.

Rental video tapes are usually classified as "A" tapes and "B" tapes. "A" tapes are new releases of recent movies and tapes which are advertised to create a demand. "A" tapes frequently make up 80% of a video stores's stock. "B" tapes include travel logs, sports instruction tapes, children's themes, classic movies, etc.



Physical deterioration is not the main cause of depreciation of video tapes. If shown reasonable care, a video tape can last for over 200 plays.

There are two economic factors which are the major causes of the lessening in value of video tapes. The first is the pattern of the income stream generated by video tapes. When a new tape is released, there is considerable demand for it but soon that demand is sharply reduced. It is not unusual for a tape to generate 90% of it's income during the first 6 months of it's life.

The second economic factor is the practice by distributors of reducing the price of new tapes 30 to 60 days after they first appear on the market. Thus, a tape which might sell for \$60 to \$70 when first released can often be purchased new from the same distributor 30 to 60 days later for \$15 to \$25.

An analysis was made of the value of the stock of a typical video rental store taking into consideration the depreciation factors described above. That analysis indicates that the stock of a typical video rental store has an average true cash value of about \$16.00 per tape. This is based on a breakdown of 80% "A" tapes and 20% "B" tapes. The more "A" tapes a store has, the higher the value per tape. The more "B" tapes a store has, the lower the value per tape. This analysis is also based on a store starting its business with new tapes rather than used tapes.

It was also discovered that the value of video tapes is closely approximated by applying the short-lived multipliers to acquisition costs of tapes by year of acquisition and then further reducing this figure by multiplying it by 50% to reach a true cash value estimate.

These guidelines are subject to change as the supply and demand factors of the rental video business change.