

LCB File No. T008-03

**ADOPTED TEMPORARY REGULATION OF THE
NEVADA TAX COMMISSION**

Filed with the Secretary of State on 1/28/2003

EXPLANATION – Matter in *italics* is new; matter in brackets ~~[omitted material]~~ is material to be omitted. Regulations 361.134 through 361.140 are included in this packet, as part of the 10 year review process conducted by the Nevada Tax Commission. Unless an addition or deletion is specifically included, this means the regulation is recommended as it is currently written.

AUTHORITY: NRS 360.090, 360.250

Determination of Taxable Value of Personal Property

General Provisions

PART N. Parts O through R below and amendments to NAC 361.134 through 361.140 are intended to be applicable to the valuation of property commencing with the 2004-2005 tax year and thereafter.

PART O. Definitions. (NRS 360.090, 360.250, 361.227)

Section 1. Acquisition cost means the actual cost of the property to its present owner, including the costs of transportation and installation. The costs of installation include costs for direct labor, direct overhead and the capitalized expense of interest or imputed charges for interest which are necessary to make the property operational. The cost of installation does not include any charges for sales tax.

Sec. 2. Original cost means acquisition cost.

Part P. Personal Property Manual required to be published; contents; use by assessors

Section 1. The department shall annually publish a personal property manual describing the methods and standards to be used for the valuation of personal property. The manual must be approved by the commission prior to publication.

Sec. 2. The manual at a minimum must contain annually updated:

(a) Cost index factors to be used in the conversion of acquisition cost into an estimate of replacement cost new;

(b) Expected life schedules indicating the category of expected life for each type of property or type of industry in which the property is used; and

(c) Percent good tables indicating the rate of depreciation to be applied.

Sec. 3. At least one month prior to the manual being presented for Commission approval, the Department must disclose any proposed modifications to the manual and must hold a public workshop on the proposed modifications.

Sec. 4. Each county assessor shall use the personal property manual to determine the taxable value of personal property.

Part Q. Taxable value formula; use by assessors

Section 1. The taxable value of personal property is determined by adjusting the acquisition or original cost by a cost index factor. The adjusted acquisition cost is then reduced by an estimate of applicable depreciation. The taxable value so derived is deemed to be the replacement cost new less depreciation indicator of value.

Sec. 2. The schedules showing the cost index factor, the rate of depreciation and the percent good by year must be arranged according to the expected useful lives identified in Part Q, Sections 3 and 4.

Sec. 3. The assessor must use the schedules by first selecting the appropriate expected useful life of the personal property. The assessor must then select the appropriate cost index factor, based on the year of acquisition, and apply it to each acquisition cost. The result is deemed to be the replacement cost new.

Sec. 4. The assessor may then select the method of applying depreciation by either multiplying the adjusted acquisition cost by the rate of depreciation and subtracting from

100%; or multiplying the adjusted acquisition cost by the percent good factor. The result from either approach is deemed to be the taxable value of the property.

Part R. Determination of expected useful lives; calculation of cost index factors; calculation of depreciation.

Section 1. Personal property may be categorized by the industry in which it is used or by the specific type of property. The industry or property type category in turn must be assigned to a schedule of expected life. Industry or property type categories must be based on commonly available sources of information such as, but not limited to, the Marshall and Swift Valuation Service Life Expectancy Guidelines and other sources to be published in the personal property manual.

Sec. 2. The cost index factors published in the personal property manual shall be determined by calculating the average change in costs over time. The department shall identify the sources used to calculate the average change.

*Sec. 3. For purposes of calculating the amount of applicable depreciation, personal **property** shall be assigned to one of the following expected lives:*

- (a) Three year life;*
- (b) Five year life;*
- (c) Seven year life;*
- (d) Ten year life;*
- (d) Fifteen year life;*
- (e) Twenty year life; or*
- (f) Thirty year life.*

Sec. 4. Depreciation shall be calculated using a declining balance methodology over the expected life of the personal property. Tables providing a method for calculating depreciation other than the declining balance method must be specifically approved by the Commission when it considers approval of the Personal Property Manual.

(a) For purposes of calculating the rate of depreciation, a residual amount of five percent shall be used. Percent good tables using a residual amount other than five percent may be adopted by the Commission provided the department has conducted a market study or has otherwise obtained information indicating a different residual amount is appropriate for the industry or property type.

NAC 361.134 is hereby repealed

~~[NAC 361.134 (NRS 360.090, 360.250, 361.227) Original cost; cost of installation. As used in [NAC 361.134 to 361.140, inclusive] *this section NAC 361.134 to 361.135:*~~

~~*Section 1.* The original cost or cost of acquisition is the actual cost of the property to its present owner, including the costs of transportation and installation.~~

~~*Sec. 2.* The costs of installation include costs for direct labor, direct overhead and the capitalized expense of interest or imputed charges for interest which are necessary to make the property operational.]~~

NAC 361.135 is hereby repealed.

~~[NAC 361.135 (NRS 360.090, 360.250, 361.227) Applicable schedule and tables; cost of replacement less depreciation.~~

~~*Section 1.* Each county assessor shall use the life expectancy schedule in [NAC 361.140] and the tables published in the annual *Personal Property Manual* in determining the taxable value of personal property.~~

~~*Sec. 2.* When the factors for the appropriate year for both conversion and percentage remaining good, which are based on the expected life for that type of property, are applied to the original cost of an item or group of items of personal property used in a business or by a person, the resulting product is the cost of replacement less depreciation.]~~

NAC 361.136 is hereby repealed.

~~[NAC 361.136 Computation of cost of replacement.~~

~~1. The first step in determining the taxable value of personal property is to find an entry for the expected life of the property. For purposes of assessment, expected lives are divided into three ranges: short, average or long. A schedule of expected life which contains a list of expected~~

~~lives (by range) for various types of personal property appears in NAC 361.140. The schedule contains estimates for an entire business and for some individual types of personal property. For example, if an assessor is examining a declaration from a barber shop, the single expected life for all items reported must be computed by using the tables for average life.~~

~~—2.— The second step is to apply the appropriate factor for conversion, based on the expected life for the type of property. The purpose of this factor is to convert the original cost of the property to an estimate of the current cost of replacement. There are three tables of factors for conversion in the annual Personal Property Manual. Turn to the appropriate table as determined by the expected life of the property in question. Select the factor to be applied to the property by locating the appropriate year at the left hand side of the page. Then multiply the original cost by this factor. The product of these two figures is the estimated cost of replacement.~~

~~—Original cost x Factor for conversion = Cost of replacement]~~

NAC 361.137 is hereby repealed.

~~[NAC 361.137—Application of depreciation to cost of replacement.~~

~~—1.— The third and final step in arriving at taxable value—is to apply depreciation to the cost of replacement. This step can be accomplished by two different methods as shown in this section. A county assessor shall select the method most suitable to his system of keeping records.~~

~~—2.— Once the assessor has selected the method he prefers, he shall instruct his staff to use only that method,] to avoid confusion or improper appraisals. The schedules of depreciation reflected in the annual *Personal Property Manual* provide information sufficient to apply either method. These schedules reflect the different expected lives noted in the schedule of expected life.~~

~~—[3.] The two methods are:~~

~~—(a) METHOD I—Use of percentage of depreciation:~~

~~—(1) Determine the cost of replacement.~~

~~—(2) Locate the percentage of depreciation in the schedules of depreciation in the[annual]*Personal Property Manual* which is appropriate for the life of the property and the date of purchase of the property being appraised.~~

~~—(3) Multiply the cost of replacement by the percentage of depreciation to determine the amount of depreciation.~~

~~(4) Subtract the depreciation from the cost of replacement.~~

$$\frac{\text{COST OF REPLACEMENT}}{\text{PERCENTAGE OF DEPRECIATION}} = \text{DEPRECIATION}$$

$$\frac{\text{COST OF REPLACEMENT}}{\text{TAXABLE DEPRECIATION}} = \text{VALUE}$$

~~(b) METHOD II Use of percentage remaining good:~~

~~(1) Determine the cost of replacement.]~~

~~(2) Locate the percentage remaining good in the schedules of depreciation in the annual *Personal Property Manual* which is appropriate for the life of the property and date of purchase of the property being appraised.~~

~~(3) Multiply the cost of replacement by the percentage remaining good to determine the taxable value.~~

$$\frac{\text{COST OF REPLACEMENT}}{\text{PERCENTAGE REMAINING GOOD}} = \text{TAXABLE VALUE}$$

~~4. The procedure described in this section must be repeated for each year that a taxpayer reports acquisitions.]~~

NAC 361.138 is hereby amended to read as follows:

NAC 361.138 (NRS 360.090, 360.250, 361.045) Valuation of leased equipment. For leased equipment, ~~taxable value is the value to the user less any discount which is customarily allowed by a seller.]~~ *the reported acquisition cost* [The “value to the user”] is the cost which the user of the property would incur if the equipment were purchased, *less any discount customarily allowed by a seller.*

NAC 361.139 is hereby amended to read as follows:

NAC 361.139 (NRS 360.090, 360.250, 361.227) Personal property acquired with real property for lump sum; other personal property.

Section 1. In determining the taxable value of personal property which was acquired with real property for a lump sum, the assessor may refer to appropriate guides which list the cost of equipment to determine the value of the personal property in relation to the value of the real property. In addition, the assessor may estimate the age of the equipment by inspecting it or discussing the approximate value of the equipment with manufacturers, dealers or other persons in the business who have knowledge of the value of the equipment. The serial number, if it exists, may enable a manufacturer to determine the date of manufacture and the original cost.

Sec. 2. ~~[If an assessor must appraise personal property which is not covered in NAC 361.134 to 361.140, inclusive, he]~~ *In the event sufficient data is not otherwise available to establish original or acquisition cost, the assessor may use any nationally recognized valuation technique, including, but not limited to:*

(a) ~~[Ask the manufacturer whether he is able to establish]~~ *Establishing* the current cost of replacement of the property with new property *by reference to current manufacturing costs*. If the current cost of replacement is known, the assessor shall apply depreciation to that cost to determine the taxable value.

(b) ~~[Use]~~ *Using* a guide which lists the cost or a procedure recognized by businesses which use such equipment to determine the taxable value. Before such a guide or procedure may be used, an assessor must receive approval from the executive director.

(c) *Using information based on current market data.*

Sec. 3. Upon ~~[an assessor's]~~ request, the division of assessment standards of the department ~~[will]~~ *shall* provide ~~[him with]~~ information on various guides which ~~[he]~~ may *be* used to determine original cost.

NAC 361.140 is hereby repealed.

~~[NAC 361.140 — Schedule of expected life.~~

~~SCHEDULE OF EXPECTED LIFE~~

~~TYPE OF
PROPERTY~~

~~RANGE OF
EXPECTED LIFE~~

~~Aerospace~~

~~Average life~~

TYPE OF PROPERTY	RANGE OF EXPECTED LIFE
Agriculture	Average life
Air Conditioners	Average life
———Window	Short life
Aircraft	Long life
Amusement Park	Average life
Asphalt Seal Surfacing	Average life
Automobile Manufacturing	Average life
———Repair Shops	Average life
Bakeries	Average life
Bar	Average life
Barber Shops	Average life
Beauty Shops	Average life
Blue Print Machines—Large	Average life
———Small Table Model	Short life
Bowling Alley Equipment	Average life
Breweries	Average life
Broadcasting—Radio and TV	Average life
Cable TV	Average life
Canning———	Average life
Car Wash	Average life
Carpet Cleaning—Commercial	Average life
Cash Registers (Electronic)	Short life
Cement	Long life
Cemeteries	Average life
Cereals	Long life
Chain Saws—Woodcutters	Short life
Chemicals	Average life
Civil Engineering Equipment	Average life

TYPE-OF PROPERTY	RANGE-OF EXPECTED-LIFE
Clay Products	Average-life
Closed-Circuit TV—Camera System	Short-life
Coffee-Brewing Equipment	Average-life
Coin-Wrap Equipment	Average-life
Computers	Short-life
Construction	Average-life
———Heavy Use	Short-life
Copy and Duplicating Machines	Short-life
Costume Rental	Short-life
Dairy Production	Average-life
Data-Processing Equipment	Short-life
Dental Office	Average-life
Dispensing Machines (Vending)	Average-life
Distilling	Average-life
Doctor Office	Average-life
Drilling Equipment	Average-life
Electrical Manufacturing	Average-life
———Products	Short-life
Equipment:	
———Heavy Use Mobile	Short-life
———Industrial	Average-life
———Manufacturing	Average-life
———Shop Equipment	Average-life
Fabricated Metal Products	Average-life
Fishing Equipment	Short-life
Fire and Security Equipment	Average-life
Florist and Garden Shops	Average-life
Food Production	Average-life

TYPE OF PROPERTY	RANGE OF EXPECTED LIFE
Fork Lifts	Short life
Furnishings:	
———Apartment	Average life
———Hotel	Average life
———Outdoor Patio	Short life
Furs and Hats	Average life
Gaming Equipment:	
———Electronic Slot Machines or Computers	Short life
———Mechanical Slot Machines	Average life
———Other	Average life
Gas Station	Average life
Glass Manufacturing	Average life
———Special Tools	Short life
Golf Course Machinery and Equipment	Average life
Grain—	Average life
Gypsum Products (Machinery Used to Manufacture)———	Average life
Hand Tools	Short life
Hospitals	Average life
Hot Air Balloons	Average life
Ice and Refrigeration	Average life
Information Systems	Short life
Iron and Steel	Long life
Jewelry Manufacturing	Average life
Juke Box	Average life
Laboratory Equipment	Average life
Laundries	Average life
———Coin Laundries	Average life
———Heavy Use Washers	Short life

TYPE OF PROPERTY	RANGE OF EXPECTED LIFE
———— Dry Clean Equipment, Commercial	Average life
Lawn Mowing Equipment	Short life
Leasing Companies:	
———— General	Average life
———— Special	See specific
————	industry or
————	kind of
————	equipment
Leather Products	Average life
Library, Law and Medical	Average life
Lockers (Public)	Average life
Logging and Lumber	Average life
———— Portable Saw Mill	Short life
———— Stationary Saw Mill	Average life
Machinery	Average life
Medical Equipment	Average life
Metal Products and Processes	Long life
Mining	Average life
Motion Picture	Average life
Motor and Other Vehicles	Short life
———— Inside Use Electric	Average life
———— Outside Use Electric—Golf Course	Short life
Nurseries (Garden)	Average life
Office Equipment	Average life
———— Furniture and Fixtures	Average life
———— Safes	Long life
Oil and Gas:	
———— Development	Average life

TYPE OF PROPERTY	RANGE OF EXPECTED LIFE
Marketing	Average life
Production	Short life
Refining	Average life
Transport by Pipeline	Long life
Optical	Average life
Packing Products	Long life
Paints and Varnishes	Average life
Paper	Average life
Photography	Average life
Plastics	Average life
Special Tools	Short life
Power Generators (Not Public Utilities) and	
Electrical Equipment	Long life
Printing and Publishing	Average life
Professional and Scientific Equipment	Average life
Public Utilities:	
(Local)	
Aircraft Transport	Average life
Bridges	Long life
Electric:	
Steam Generated	Long life
Hydro Electric	Long life
Nuclear	Long life
Gas	Long life
Ice Plants	Long life
Motor Transport:	
Bus	Average life
Trucks	

TYPE OF PROPERTY	RANGE OF EXPECTED LIFE
————— Light	Short life
————— Heavy	Average life
————— Tractor Trailer	Average life
————— Taxi	Short life
————— Broadcasting	Average life
————— Steam Heat	Long life
————— Steam Railroad	Long life
————— Street Railroad	Long life
————— Telephone	Long life
————— Telegraph	Long life
————— Water Supply	Long life
————— Water Transport	Long life
Railroad Car Manufacturing	Average life
Railroad Rolling Stock	Long life
Recreation Equipment	Average life
————— Video and Flipper Games	Short life
Restaurants	Average life
Rubber Goods	Average life
Sand, Gravel, Stone (Machinery Used to Extract)	Average life
————— Marine (Dredge)	Long life
Security and Fire Equipment	Average life
Service Trade Assets	Average life
Ship and Boat Manufacturing	Average life
Shoe Repair	Average life
Signs	Average life
Ski Rentals	Short life
Soft Drink	Average life
Stone Products	Average life

TYPE OF PROPERTY	RANGE OF EXPECTED LIFE
Stores	Average life
Surveying Equipment (Land)	Average life
Telephone Systems and Equipment	Short life
Textiles——	Average life
Theater Equipment	Average life
Tobacco	Average life
T.V. and Motion Picture:	
——— Broadcasting	Average life
——— Production	Short life
——— Manufacture or Repair Equipment	Average life
Video Rentals	Short life
Warehouse Equipment	Average life}

**NOTICE OF ADOPTION OF TEMPORARY REGULATION
LCB File No. T008-03**

The Nevada Tax Commission adopted temporary regulations pertaining to Chapter 361, Property Tax, of the Nevada Administrative Code on January 27, 2003. A copy of the regulations as adopted is attached hereto.

INFORMATIONAL STATEMENT

- 1. A description of how public comment was solicited, a summary of public response, and an explanation how other interested persons may obtain a copy of the summary.**

The Department of Taxation, as staff to the Nevada Tax Commission, solicited comment from the public by sending notices of workshops and hearings by electronic or regular mail as follows:

<u>Date of Notice</u>	<u>Workshop/Hearing</u>	<u>Date</u>	<u># Notified</u>	<u>#Representing Bus.</u>
12-2-02	Workshop	12-19-02	310	156
12-26-02	Hearing	1-27-03	310	156

The mailing list included the interested parties list maintained by the Department, as well as centrally assessed taxpayers, mine operators, and officials of local jurisdictions subject to these regulations.

No oral or written comments were received. A copy of the audio taped comments or the record of proceedings may be obtained by calling the Nevada Department of Taxation at (775) 687-4841 or by writing to the Department of Taxation, 1550 East College Parkway, Carson City, Nevada 89706, or by e-mailing the Department at mmjacobs@govmail.state.nv.us.

- 2. The number of persons who:**

- (a) Attended and testified at each workshop:**

	<u>Attended</u>	<u>Testified</u>
December 19, 2002	15	7

- (b) Attended and testified at each hearing on adoption:**

	<u>Attended</u>	<u>Testified</u>
Members of the Commission	8	
Members of the public	61	5

3. A description of how comment was solicited from affected businesses, a summary of their response, and an explanation how other interested persons may obtain a copy of the summary.

The regulations present no reasonably foreseeable or anticipated adverse economic effects to businesses or to the general public, and none can be quantified. Nevertheless, approximately 75% to 85% of the notices were sent to individuals or associations representing business.

The Nevada Mining Association, Nevada Taxpayers Association, and certain individuals representing centrally assessed properties commented on portions of the regulations, particularly with regard to the valuation methodologies for personal property used by county assessors. Members of the Nevada Assessors Association commented on all of the proposed language changes during the workshop.

A copy of the audio taped comments or the record of proceedings may be obtained by calling the Nevada Department of Taxation at (775) 687-4841 or by writing to the Department of Taxation, 1550 East College Parkway, Carson City, Nevada 89706, or by e-mailing the Department at mmjacobs@govmail.state.nv.us

4. If the regulation was adopted without changing any part of the proposed regulation, a summary of the reasons for adopting the regulation without change.

The regulations as proposed were adopted primarily to conform to changes in the Nevada Revised Statutes; to update appraisal practices with current appraisal literature; or to better clarify the appropriate appraisal or assessment procedure.

5. The estimated economic effect of the adopted regulation on the businesses which it is to regulate and on the public. These must be stated separately, and each case must include:

(a) Both adverse and beneficial effects; and

The adopted regulations present no reasonably foreseeable or anticipated adverse economic effects to businesses or to the general public. It is anticipated the regulations promote and enhance the efficient and fair appraisal and assessment of land and improvements by county assessors.

(b) Both immediate and long-term effects.

The proposed regulations present no reasonably foreseeable or anticipated immediate or long-term economic effects to businesses or to the general public.

6. The estimated cost to the agency for enforcement of the adopted regulation.

The Department anticipates little, if any, additional cost to administer the regulations.

7. **A description of any regulations of other state or government agencies which the proposed regulation overlaps or duplicates and a statement explaining why the duplication or overlapping is necessary. If the regulation overlaps or duplicates a federal regulation, the name of the regulating federal agency.**

There are no other state or government agency regulations that the adopted amendments duplicate.

8. **If the regulation includes provisions that are more stringent than a federal regulation which regulates the same activity, a summary of such provisions.**

There are no federal regulations regarding the appraisal and assessment of property, for state property tax purposes with which these regulations comply.

9. **If the regulation provides a new fee or increases an existing fee, the total annual amount the agency expects to collect and the manner in which the money will be used.**

These regulations do not provide or involve a new fee; therefore there is no total annual amount the Department expects to collect or use.