



North Carolina Department of Revenue

Michael F. Easley
Governor

E. Norris Tolson
Secretary

December 19, 2006

MEMORANDUM

TO: Users of Cost Index and Depreciation Schedules

FROM: Kirk F. Boone, PPS
Property Valuation Specialist II
Property Tax Division

RE: 2007 Schedules

This letter serves as notice that the Depreciation and Valuation Schedules for the 2007 tax year are available. We will have the Cost Index and Depreciation Schedules on the web as soon as possible. The Division's publication site is at <http://www.dor.state.nc.us/publications/property.html>.

We recommend the use of these schedules in the valuation of business personal property and certain taxable personal property listed as of January 1, 2007.

There were a few changes this year, other than the usual percent good factor adjustments. These changes are for appraisals as of January 1, 2007 and forward only and are not retroactive. The changes have been marked with an asterisk in the index and are described below:

- 1) Under the Cable TV Equipment category, we have attempted to clarify that set top boxes (converters) are part of subscriber connection. Communication systems, such as cable television systems, typically include a headend section for receiving satellite signals and converting the signals to an optical signal for transmission from the headend section over fiber optic cable. Any signal "conversion" equipment that may be part of the headend equipment will be listed as headend equipment.
- 2) We recommend using the A6 schedule for truck mounted cement mixers.
- 3) We recommend the K10 schedule for rental property furnishings that are appraised as business personal property.

The categories described in the index are general. For example, in general, textile manufacturing in North Carolina has been economically challenged in recent years. Much of the original textile manufacturing industry in our state no longer exists. We created a special Schedule for this situation, but it was only for that original textile manufacturing industry that has now mostly disappeared. However, new technologies have resurrected the industry in certain markets. There are innovative products requiring different equipment, much of which is state of the art. So the

special 8 and 10 year Schedule A at the bottom of Page 17 does not necessarily apply to all textile manufacturing equipment. Assessors and appraisers should use their knowledge of individual taxpayers and their equipment to verify if a schedule applies. We encourage business personal property appraisers to become familiar with the business personal property and the businesses in their jurisdiction. In this example, using the incorrect schedule could result in significant appraisal differences.

As another example, software is a very broad category with regards to useful economic life. Using the recommended U5 schedule as a general guide will under appraise some software, but will rarely over appraise it. Software that requires a great deal of initial investment and then upgrades to keep it current could maintain its useful economic life much longer than the U5 schedule indicates because the owner is curing depreciation. In these cases, a 3 or 4-year-old software investment may be identical to a brand new version of the software. The decision to use a different schedule or to allow less depreciation will depend on observations of the appraiser.

In 2005, the North Carolina Court of Appeals affirmed the North Carolina Property Tax Commission's decision in the matter of the appeal of Westmoreland –LG&E Partners from the decision of the Halifax County Board of Commissioners for the tax years 1996-2001. In it's decision, The North Carolina Court of Appeals quoted excerpts from the Property Tax Commission's decision. They quote, "The Tax Administrator properly applied the Cost Index and Depreciation Schedules developed by the North Carolina Department of Revenue..." The Court also writes, "It is well-settled in this State that ad valorem tax assessments are presumed correct." This and other previous cases have solidified our opinion that when used properly, the Cost Index and Depreciation Schedules are well accepted by the courts.

These schedules have been prepared by this office as a general guide to be used in the valuation of business personal property utilizing the replacement cost approach to value. It is important to remember that the schedules are only a guide. There may be situations where the appraiser will need to make adjustments for additional, or less, functional or economic obsolescence, or for other factors.

We feel that the proper use of the schedules will aid in the overall uniformity and equity of property tax assessment practices as required by North Carolina statutes. If you have any questions about these schedules please contact Kirk Boone, Dave Duty, or Gregg Martin at 919-733-7711.