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Kentucky Technical Advice Memorandum

KY-TAM-18-01

SUBJECT: Preparation of Trend Factor Schedules for personal property – Business personal property tax for Communication Service and Multi-Channel Video Programming Service Providers.

EFFECTIVE DATE: Effective 1/1/2018

SUPERSEDES: N/A

REFERENCE: [Kentucky Constitution Section 172](#)
[KRS 132.190](#)
[KRS 132.825](#)

AUTHORITY: [KRS Chapter 13A](#)
[KRS 131.130 \(8\)](#)

SCOPE: The purpose of a Technical Advice Memorandum (“TAM”) is to provide direction to the public and to Department of Revenue (“Department”) personnel. It is issued to apply principles of law to a set of facts or general category of taxpayers. It is the Department’s position until withdrawn, superseded or modified by a change in statute, regulation, case law, or another Departmental guidance. A TAM does not constitute a final ruling, order or determination of the DOR, which can be appealed.

I. Issue/Question(s)

1. How does the Department compute the composite conversion factors, which are utilized in personal property returns for communication service and multi-channel video programming service providers to estimate the fair cash value of business personal property?

II. Law

[Kentucky Constitution Section 172](#)

All property, not exempted from taxation by this Constitution, shall be assessed for taxation at its fair cash value, estimated at the price it would bring at a fair voluntary sale....

[KRS 132.190 \(3\)](#)

Property shall be assessed for taxation at its fair cash value, estimated at the price it would bring at a fair voluntary sale....

[KRS 132.825 \(2\)](#)

The Department shall have sole power to value and assess all tangible personal property of multichannel video programming service providers and communications service providers. Such property shall be valued and assessed in accordance with procedures established for locally assessed tangible property. The department shall develop forms for reporting.

III. Facts/Discussion

As of January 1, 2018, the Department calculates the composite conversion factors for Communication Service Providers and Multi-Channel Video Programming Service Providers annually based upon (a) Producer Price Index (PPI) published by the U.S. Bureau of Labor Statistics, and (b) the percent good determined from the six economic life classes listed on form 61A500 Schedule A-1 and A-2.

[Derivation of Conversion Factors](#)

The composite conversion factors are the product of a cost multiplier (index factor) and a percent good. A composite conversion factor is a “one step calculation” where the trend index factor and the percent good factor are multiplied together to create a single composite factor. The example below utilizes trend factors from the Producer Price Index for the Wireless Telecommunications Carriers.

Cost Multiplier = Cost Index of Valuation Year/Cost Index of Purchase Year

Example (utilizes 2015 acquisition year property):

July 2017 Cost Index	=	44.9
July 2015 Cost Index	=	53.0
2015 Cost Multiplier	=	44.9/53.0= 0.847

The second component of the factor is known as the percent good. Appraisal depreciation is the actual loss in market value of the property over time. Market value loss is not the same as the loss calculated for income tax purposes and accounting purposes (accounting depreciation). Therefore, the economic useful life should be utilized instead of an accelerated useful life.

The percent good for each class is based upon the following depreciation methods:

<u>Classification</u>	<u>Economic Life</u>	<u>Depreciation Type</u>
Class I	5 years	Straight line
Class II	6 - 8 years	Straight line
Class III	9 -11 years	Straight line
Class IV	12 - 14	Not Applicable for Communication and Multi-Channel Video Programming Service Providers.
Class V	15 - 17 years	Straight line
Class VI	18 and Over	Straight line

Example calculation of a composite conversion factor:

Cellular switching equipment with a useful life of 5 years (class I) with an installed cost of \$105,500

1/5 (useful life)	=	0.2000
2015 Acquisition Year	x	3.0000
Depreciation percent good (1- depreciation)	=	0.6000
	=	0.4000

Percent Good	0.4000	
cost multiplier	x	
	0.8470	
conversion factor	=	0.3390
2015 cellular switching equipment		\$105,500
conversion factor	X	0.3390
Estimated fair cash value		\$35,764.50

The Department utilizes a 10% salvage value as published by Marshall and Swift Valuation Service for the average/ median for salvage value.

IV. Conclusion

Beginning for assessment date January 1, 2018, this valuation method applies to the economic class lives and depreciation type specifically related to Communication Service Providers and Multichannel Video Programming Service providers. It incorporates a 10% salvage value and utilizes indexes from the PPI, published by the U.S. Bureau of Labor Statistics.

V. Questions

For questions concerning this TAM, contact Policy at DOR taxpolicy@ky.gov.

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