

CR 83-28

CERTIFICATE OF RULE ADOPTION.

STATE OF WISCONSIN )  
 ) SS  
DEPARTMENT OF REVENUE )

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

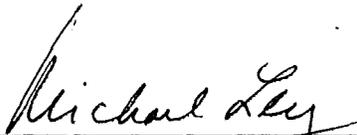
I, Michael Ley, Secretary of the Department of Revenue and custodian of the official records of said department do hereby certify that the annexed rules relating to procedures used in developing full market value of operating property of any company enumerated under s. 76.02 Stats. were duly approved and adopted by this department on October 13, 1983.

I further certify that said copy has been compared by me with the original on file in this department and that the same is a true copy thereof, and of the whole of such original.

RECEIVED

OCT 14 1983  
9:50am  
Revisor of Statutes  
Bureau

IN TESTIMONY, WHEREOF, I have hereunto set my hand at 125 South Webster Street in the City of Madison, this 13th day of October 1983.

  
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Michael Ley  
Secretary of Revenue

12-7-83

ORDER OF THE DEPARTMENT OF REVENUE  
ADOPTING RULES

.....  
IN THE MATTER creating TAX 6.50  
relating to procedures used in  
developing full market value  
of operating property of any  
company enumerated under  
s. 76.02 Stats.  
.....

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OCT 14 1983

Revenue Department  
Bureau

Analysis Prepared by the Department of Revenue

The proposed rule is mandated by s. 76.07(5) and is intended to clarify the statutory basis used by the department to determine fair market value assessments. Such clarification is intended to serve both the taxpayers and the department during its normal administrative assessment process and further to serve all concerned in the event an assessment is appealed to the courts.

Statement of Statutory Authority

Pursuant to authority vested in the department by s. 76.07(5), Stats., the department hereby creates rules interpreting s. 76.02, Stats.

SECTION 1. Tax 6.50 is created to read:

TAX 6.50 Full Market Value (s. 76.07(5) Stats.)

(1) GENERAL. (a) The entire operating property of any company enumerated in s. 76.02, Stats., shall be valued together as a unit at full market value unless, in the opinion of the department, any of the property is so segregated that a separate assessment is warranted. The department shall apply recognized appraisal methods in determining full market value. The cost, stock and debt, and capitalized income indicators of value and reasonable variations shall be applied by the department in accordance with the general principles set forth in subs. (4) to (6).

(b) Indicators of value other than those enumerated in subs. (2)(g)1 to 3 of this rule which result from recognized appraisal methods may be used by the department after due promulgation of general principles of application for the indicators of value by amendment to this rule.

(c) In determining the full market value of the operating property of any company enumerated in s. 76.02, Stats., the department shall not be limited to the method of accounting for legitimate business purposes used by the taxpayer but the

department shall give due consideration to generally accepted accounting principles and regulated accounting practices in applying recognized appraisal methods. Whenever accounting principles and practices are not accepted by the department it shall provide an explanation to the company in writing setting forth the reasons for unacceptance and an explanation of any adjustments made.

(2) DEFINITIONS. In this section:

(a) "Discount rate or capitalization rate" is that rate of interest which is the most probable rate of return to be expected to prevail in the industry for companies of comparable risk at the time of assessment. This market rate of capitalization is a composite of rates which the market indicates that investors demand as interest for secured capital, bonds and equipment trust certificates, or other evidences of value, and rates which the market indicates as necessary to attract equity capital, common and preferred stock. The final capitalization rate used may not be lower than the rate or cost of bonded debt nor higher than the cost of raising equity capital. The discount or capitalization rate may be derived by the band of investment method, summation method or the comparative method. Any one of these methods or any combinations of, may be used by the department in deriving the appropriate capitalization rate, provided, however, that the department provides the company with documentation as to the method or combination used and the reasons for use of the method or methods.

(b) "Going concern value" is the enhanced value of assets due to their existence within an operating business that is expected to continue its operation in the foreseeable future with no intention or necessity of liquidation or the material alteration of the scale of operation.

(c) "Method of accounting" is a system of recording and summarizing business and financial transactions in books of account and analyzing, verifying and reporting the results, usually for a period of one year or less. The results of accounting methods which are prescribed by regulatory bodies and generally accepted accounting principles may not be synonymous with the results of valuation methods.

(d) "Operating property" is real and personal property including all rights, franchises and privileges used in and necessary to conduct the business of the enterprise subject to taxation under s. 76.02, Stats.

(e) "Present worth" is the value today of something to be received in the future. It is calculated by a discounting process that takes into consideration the time-interest concept of money by the application of a present worth factor.

(f) "Present worth factor" is that ratio, expressed as a decimal equivalent, as shown in a compound interest table at a specific interest or discount rate for the appropriate period.

(g) "Recognized appraisal or valuation method" is the mode of inquiry employed in estimating or predicting the price in terms of money a property may bring in a competitive and open market under all conditions requisite to a fair sale and include:

1. The method whereby the investment expenditure required to purchase the land or land rights, materials, labor and services necessary to bring a new property into existence is estimated and which is commonly referred to in appraisal and valuation literature as the cost method. Indicators of value within the cost method include:

- a. Historical cost of the property when first put into use.
- b. Original book cost of the property to the present owner.
- c. Reproduction cost to currently reproduce the same kind of property.
- d. Replacement cost to currently replace the property with its functional equivalent.

2. The method whereby the investment expenditure required to purchase an existing property is estimated and which is commonly referred to in appraisal and valuation literature as the market method. Where there are few unit sales, value under the market method shall be computed by using the stock and debt indicator of value. Indicators of value within the market method include:

- a. Sale of the subject or comparable property by acquisition or merger.
- b. Sale of the debt and equity interest of the subject or comparable enterprise as a proxy for the market value of the property presented on the balance sheet. This indicator is commonly referred to in appraisal and valuation literature as the stock and debt indicator.

3. The method whereby the investment expenditure required to purchase the anticipated future benefits resulting from the operation of the property is estimated and which is commonly referred to in appraisal and valuation literature as the capitalized income method. Indicators of value within the capitalized income method include:

- a. The capitalization of the estimated future income to the present owner or to a prospective purchaser. The estimated future income is that income which remains after book depreciation and federal tax expenses actually paid have been subtracted.
- b. The discounted or the present value of the estimated future cash flow to the present owner or to a prospective purchaser. The estimated future cash flow is that cash flow which remains after the asset replacement expenditures and the federal income taxes paid have been subtracted.

(h) "Unit valuation" is the appraisal as a whole of an integrated property operated as a going concern without any reference to the value of its component parts.

(3) DERIVATION OF INDICATORS OF VALUE. In principle each recognized appraisal method shall as near as possible follow a logic which is separate and unique and the department will attempt to apply the various appraisal methods in a manner which maximizes the uniqueness of each method.

(4) COST INDICATORS OF VALUE.

(a) In determining cost indicators, the department may consider four kinds of cost described as follows:

1. historical cost of the property when first put in service;
2. original cost of the property to the present owner;
3. reproduction cost to currently reproduce the property; and
4. replacement cost to currently replace the property with its functional equivalent.

(b) The department shall make adequate and reasonable allowances for loss of value due to all causes including physical depreciation, functional and economic obsolescence, regulatory required write-offs and utility plant acquisition adjustments. The department shall also make required allowances for property which is not taxable under Chapter 76, Stats., which includes but is not limited to, future use property, except when included in the rate base, approved waste treatment facilities, licensed motor vehicles, nonoperating property, property allocable outside the state and property leased to others. The cost indicator for regulated public utilities shall recognize that an asset's value generally is limited by its value for ratemaking purposes. The cost indicator shall include construction work in-progress regardless of the treatment for ratemaking purposes.

(5) STOCK AND DEBT INDICATORS OF VALUE.

(a) Stock and debt indicators are determined by the application of the general financial appraisal principle that the market value of the debt and equity interests of the enterprise are equal to the market value of the assets presented on the balance sheet. Stock and debt indicators determine the value of a company's assets by appraising the value of the shareholders' equity and liabilities of the company, such as current liabilities, long-term debt, reserves and deferred credits. Appropriate reductions shall be made for nonoperating property of the company. The department may consider the following ratios to eliminate nonoperating properties:

1. nonoperating book value to total book value, or
2. nonoperating income to total income.
3. nonoperating market value to total market value.

(b) The department shall also make required adjustments for nontaxable properties as set forth in subs. (4).

(6) CAPITALIZED INCOME INDICATORS OF VALUE. Capitalized income indicators are determined by the application of the general appraisal principle that the full market value of operating property is the present worth of anticipated future benefits to be derived from ownership of the property. Future benefits are the summation of

the positive and negative cash flows which a fully informed person is warranted in assuming will be produced by operations of the property as a going concern. The department shall reflect earnings limitations imposed upon regulated utilities in this determination.

(7) CORRELATIONS OF INDICATORS OF VALUE.

(a) The validity of a determination of value may be measured against the supporting evidence and documented data from which the determination of value was derived. Accordingly the department shall consider and weigh, in its best judgment any or all available indicators of full market value enumerated in subs. (2)(g)1 to 3. In this correlation process it shall consider the following:

1. The speculative nature of estimates used in developing the indicators of value and the degree of reliability of each of the indicators of value.
2. The consistency of weighting indicators of value from year to year.
3. Uniformity of assessments within taxpayer classifications
4. Buyer's and seller's viewpoints.
5. The reasonableness of the correlated full value market estimate when compared to:
  - a. actual sales of comparable properties in an arm's-length transaction between independent parties;
  - b. rate base;
  - c. other states' correlated estimates of full market value of the same company adjusted for differences in state law;
  - d. net salvage value;
  - e. additional evidence of full market value submitted by the company or the department;
  - f. value asserted in prospectus; and
  - g. all other facts obtainable bearing on the value of the property collectively.

(b) In the case of regulated utilities, a sale is comparable only if there is the sale of an entire operation capable of functioning independently and the parties thereto are subject to regulatory policies similar to those of Wisconsin.

(8) REQUESTS FOR DOCUMENTATION. Upon written request the department shall provide to the company copies of its computational worksheets used in determining full market value.

(9) CORRECTION OF ERRORS. Errors which are agreed to be palpable or computational and which are discovered after issuance of the assessment shall be adjusted by the department in the next subsequent assessment year and the department shall provide the company with evidence of such adjustment.

The rules contained in this proposed order shall take effect pursuant to authority granted by s. 227.026(1)(intro.), Stats.

Dated: October 13, 1983

DEPARTMENT OF REVENUE

  
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Michael Ley  
Secretary of Revenue

NOTE: Explanatory example of TAX 6.50(2)(e). If a cash benefit of \$1,000 is to be received some years hence, the value today of such benefit is equal to \$1,000 multiplied by the appropriate present worth factor.