

Central Assessment Intangible Property Discussion Paper

Date: January 22, 2015
Contact: John Phillips

- Issue:** Intangible personal property taxation of centrally assessed (CA) companies (ORS 308.515)
- Background:** Intangible property is property without a physical presence such as franchise fees, trade names, customer lists and goodwill. Under Oregon property tax law, the intangible property of only centrally assessed companies is subject to taxation.
- Appraisal:** The Revenue Department is responsible for valuing over 500 centrally assessed companies each year. CA appraisal involves valuing the entire company without regard to amount or proportion of the tangible or intangible components. For CA, unitary valuation recognizes the integrated nature of companies and their respective values. For example, one mile of power line installed over 50 years ago has little to no value in isolation; but, its contribution to the power network means the whole is worth more than the sum of the individual parts.
- Intangible Value**
- Limitation Concept:** The challenge in attaining property tax relief from the taxation of intangible property for centrally assessed companies is that intangible property is not separately valued or identified in the appraisal. Other states that “exempt” intangibles have typically assigned a proxy percentage and reduced the company value by that amount. In other state’s experience this also generates litigation on factors used to generate the proxy. Oregon is looking at a proxy that limits the amount of a company’s intangible property subject to taxation in the form of a “cap”. This “cap” attempts to resolve the wide ranging differences in business models from high percentage intangible to high percentage tangible infrastructure. The cap would limit intangible property relative to the original cost of tangible assets. For example, a company’s intangible assets would be limited to a percent of the historical cost of tangible assets. The result would be compared to the appraised real market value of the company less exemptions and the tax would be assessed on the lesser of the two.

Application Scenarios

	System Value (RMV) * Tangible & Intangible Property Unitary Value by Appraisal	Historical Cost Tangible Property Only Not Value	Intangibles Cap % of Tangible Cost Ex. 130% to 150%	Lesser of System RMV & Test Basis for Oregon Allocation	Savings (RMV) RMV Value & Not Tax
Company A					
75% Tangible Value	\$8,250,000	\$10,725,000	\$13,942,500	\$11,000,000	\$0
25% Intangible Value	\$2,750,000		(Historical Cost * 1.30)		
Total Value	\$11,000,000		\$15,015,000		
			(Historical Cost * 1.40)		
			\$16,087,500	\$11,000,000	\$0
			(Historical Cost * 1.50)		
Company B					
50% Tangible Value	\$5,500,000	\$7,150,000	\$9,295,000	\$9,295,000	\$1,705,000
50% Intangible Value	\$5,500,000		(Historical Cost * 1.30)		
Total Value	\$11,000,000		\$10,010,000		
			(Historical Cost * 1.40)		
			\$10,725,000	\$10,725,000	\$275,000
			(Historical Cost * 1.50)		
Company C					
25% Tangible Value	\$2,750,000	\$3,575,000	\$4,647,500	\$4,647,500	\$6,352,500
75% Intangible Value	\$8,250,000		(Historical Cost * 1.30)		
Total Value	\$11,000,000		\$5,005,000		
			(Historical Cost * 1.40)		
			\$5,362,500	\$5,362,500	\$5,637,500
			(Historical Cost * 1.50)		

* Value breakout between tangible and intangible property is for demonstration only, DOR does not segregate values. Company A is more representative of capital intensive legacy companies, Company C is more representative of newer intangible heavy communication companies.

Companies with higher amounts of tangible property relative to intangible will have little or no benefit.
Companies with higher amounts of intangible property relative to tangible property will have increasing benefits.