GEORGIA DEPARTMENT OF REVENUE

LOCAL GOVERNMENT SERVICES DIVISION

Advanced Auditing

For Educational Purposes Only:

The material within is intended to give the course participant a solid understanding of general principles in the subject area. As such, the material may not necessarily reflect the official procedures and policies of the Georgia Department of Revenue or the Department's official interpretation of the laws of the State of Georgia. The application of applicability to specific situations of the theories, techniques, and approaches discussed herein must be determined on a case-by-case basis.

Revised September 2014

Table of Contents

Introduction

What is an audit

The word "Audit" carries many different meanings in the assessment office today. One definition of an audit offered by one assessor is to examine all pertinent accounting and physical evidence, to determine the accuracy of the information supplied by the property owner on the personal property reporting form, including an examination of the general ledger, subsidiary ledgers and special journals, physical inventory lists, financial statements and any other supporting documents that are deemed necessary to complete the review.

Another definition is to examine with intent to verify, a formal or official examination verification of an account book, a methodical examination and review.
The CPA defines an audit as an examination of financial statements made in accordance with general accepted auditing standards. To accomplish the examination, significant evidentiary material from both inside and outside sources must be obtained and sufficient tests of transactions must be made to satisfy the CPA that the financial statements fairly represent the financial position of the entity as of the examination date and the results of operation for the stated period.

The IAAO publication Standard on Valuation of Personal Property states an audit is necessary to verify that all personal property items have been reported and that the information given is correct.

Whatever elements of the above definitions are incorporated in your audit/verification program, the bottom line should be that you examine appropriate and pertinent records to substantiate the cost amounts that have been reported by the property owner.

Customer Service

Regardless of how well we understand the importance of auditing, property owners are seldom, if ever, going to appreciate its importance. We must seize opportunities to educate the public whenever possible. Most property owners see audits as intrusive and view our efforts as a covert way for the county to receive additional revenues.

Good customer service and effective public relation skills are paramount to the success of your verification program. The importance of courtesy and professionalism cannot be over emphasized. Auditors are stereotyped as being very rigid and impersonal. As much as possible we should strive to treat our property owners as customers; realizing their needs and being as informative and flexible as possible. Flexibility in scheduling may become very important. While we want accurate and complete results, as much as possible, our efforts should not be intrusive.

PUBLIC RELATIONS

For each of the following situations, write whether "good PR" or "bad PR" is being followed.

GOOD _BAD

a. Due to a data entry error, the assessed value on a personal property tax bill goes out as $100,000 instead of $10,000. The taxpayer is told that the computer has made a mistake, and the bill is corrected.

b. A reporter wants to do a story on personal property compliance. The assessor tells the reporter that he doesn't have time for an interview but will send the appropriate statutes and all other relevant information.

c. An chief appraiser tells the staff that only employees who have completed Course V or the IAAO Personal Property course may answer technical questions about personal property assessments from taxpayers.

d. New legislation imposes complicated procedures for reporting personal property. The assessor promptly accepts an invitation to speak to a group of CP As and attempts to explain the changes to an audience that could become hostile.

e. An assessor routinely schedules audits for all taxpayers who filed appeals during the previous year.

Tracking of Results

Keep up!! Tracking of results is important for many reasons. There are a lot of people or groups of people who may be interested in the results of our audit program. Information may be required by the Board of Assessors, County Governing Authority, individual property owners, etc.

Resources are scarce. To continue to justify audit efforts we must be able to quantify our results. While our overall goal is equity it is also necessary to be able to financially justify the program. Budgets for auditing are quite large. Beyond the obvious costs of human resources there are many administrative costs. Everything from office supplies to office space. The appeals process may be another large cost; especially in the case of litigation.

Inventory

Review of Types of Inventory

The term inventory designates goods held for sale in the normal course of business and, in the case of a manufacturer, goods in production or to be placed in production. In the course of manufacturing, an item starts as a raw material, and then is combined or modified thru production (work in process) into a finished product ready for sale. A retailer or wholesaler has no production process because they purchase finished goods and hold them for resale.

Examples of inventory include the following:

Goods Held for Sale (Resale) This type of inventory is usually merchandise in the hands of a retailer, wholesaler, distributor, or public warehouse, after having passed through various channels of trade. An appraisal of goods held for sale (resale) must carry full accrued costs at the level of trade where the goods are resting.

Raw Materials Raw materials are natural resources used in manufacturing and manufactured goods awaiting assemblage into a new product. The type of inventory is usually in the hands of a manufacturer.

Goods in Process Goods in process have been placed into the manufacturing process, which has begun to change their form. Direct and indirect labor costs and other expenses have accrued thereto in the process.

Finished Goods This property has become a finished product to be shipped to a buyer or profit center of the manufacturer and ultimately sold.

Supplies - Supplies are stocks of goods intended to be consumed during manufacturing or production, but are not part of the raw materials inventory. Examples of supplies include paper, chemicals, clothing, pallets, and repair parts. Unlike most other inventory supplies are held for sale.

Consigned Goods - Consigned goods are inventories in the possession of an agent, usually held for sale by that agent. Ownership of the inventory is retained by the consignor. The agent, as the consignee, simply sells the goods for a fee or commission.

Bill and Hold Goods - Property that has been invoiced to the buyer by the manufacturer, wholesaler, distributor, or retailer, but not shipped, is usually classified as bill and hold goods.

Floor Planned Goods - Goods in the hands of a business for sale, in which the possessor has no equity interest, are known as floor planned goods. Such property may not be reported by the business and may not be easy to locate on the accounting records. The appraiser must therefore be careful to look for it.

In-Transit Goods - Goods in the hands of a common carrier or other carrier are deemed to be in transit. Usually these goods are moving from one point to another and, if traveling interstate, are controlled by the ICC. In most such situations, the goods cannot be assessed if they have not reached their destination.

Valuation of Inventory

Methods of Valuing Inventory

Specific Identification - The specific identification method is usually used for high-priced, low sales-volume items, such as automobiles, machinery, and high fashion items. Even though this method gives an exact inventory, it is seldom used because it is too laborious and time consuming to justify.

First In, First Out Method (FIFO) - The first-in, first-out method of costing inventory assumes that the first goods purchased (first-in) are the first goods sold (first-out). Goods remaining at the end of the period are assumed to be made up of the most recent purchases – the latest costs. The FIFO method assumes that goods are sold in the order they were bought.

Last In, First Out Method (LIFO) - The last-in, first-out method of costing inventory assumes that the last goods bought (last-in) are the first goods sold (first-out). Goods on hand at the end of the accounting period are assumed to be among the first goods purchased for sell. The LIFO method assumes that goods are sold in the reverse order in which they were bought.

Weighted Average Method - The weighted average method is based on the assumption that costs should be assigned to inventory based on the *average* cost of each unit. The average used in this method is arrived at by dividing the total cost of units available for sale by the total number of units available for sale. This results in a ‘weighted’ average rather than a simple average. The value of the inventory is then calculated by multiplying the average cost by the number of units left in inventory.

Methods of Estimating Inventory Value

Gross Profit Method **-** By slightly modifying the cost of goods sold formula, you can estimate an ending inventory value by the ***Gross Profit Method***. Under this method, the expected gross profit rate (gross profit to net sales) for the period is used. The ending inventory can be computed by preparing a partial income statement or cost of good sold equation.

Retail Method - Mainly used by department stores and other types of retail establishments, the retail method is based on the relationship between the costs of the goods available for sale and retail price of such goods. The ending inventory at retail is the difference between the retail prices of the goods available for sale less the sales for the period. The inventory is converted from retail to cost based upon the ratio of cost to selling price.

Freeport

Freeport is an exemption that is based upon the level of trade concept. Freeport is not an automatic exemption; the property owner must apply for the exemption on an annual basis. The Board of Assessors is responsible for reviewing and approving freeport applications.

For inventory to qualify for Freeport exemption the inventory must be at one of the first 'two levels of trade'. The first two trade levels include the inventory of a manufacturer and the inventory of a distributor. Eligible inventory for a manufacturer includes: raw materials, work in process, and finished goods that are less than twelve months old. Eligible inventory for a distributor includes inventory less than one year old that is destined for out of state shipment.

Inventory at the third level of trade is not eligible for freeport exemption. This is stock in trade of a retailer. It is important to note that an individual business may operate at all of the three trade levels. If this is the case a portion of the inventory may be eligible for the exemption.

Statutes specific to freeport exemption can be found in the appendix.

Requirement to Mail Applications

1. Mailing applications.

The appraisal staff shall, by U. S. mail, send a new freeport exemption application to any person, firm or corporation that was approved for freeport exemption by the board of tax assessors for the tax year preceding the tax year for which the application is to be made. The application provided by the appraisal staff shall be deposited with the local post office no later than the 15th day after the official who is responsible for receiving returns has opened the books for returns. The failure of the appraisal staff to comply with this requirement shall not relieve a person, firm or corporation from the responsibility to timely file a freeport application.

Fiscal Year v. Calendar Year End

A ***fiscal period*** is any period of time covering the complete accounting cycle. A fiscal period consisting of twelve consecutive months is a ***fiscal year***. A fiscal year does not have to coincide with the calendar year. Many businesses have seasonal peaks. For those businesses, it is the logical to end the accounting period at the point in the operating cycle in which business activity is the lowest. A fiscal year ending at the business's lowest point of activity is referred to as a ***natural business year***.

Georgia law requires that the assessor value property as of January 1 of each year. Companies having a non-calendar year end should be valued as of their position at January 1. When auditing a business with a fiscal year end care must be taken to accurately included assets that had taxable situs. Companies should be asked to supply interim financial documents to arrive at their January 1 position.

Fixed Assets

Cost Principle / What does Cost Include ??

The cost of an asset includes all normal expenditures necessary to acquire the asset and get it ready for use. In addition to the invoice price, cost includes delivery charges, installation charges, sales taxes, insurance charges while in transit, and any other normal cost of getting the asset ready for use in the business.

For example, Media Developers, Inc. purchases a new DVD press/recorder. The cost is broken down as follows:

Invoice price	$270,000
Delivery charges	9,000
Insurance while in transit	3,600
Sales tax	13,750
Installation charges	6,000
Testing cost	4,000
Total Cost	$306,350

The machine account will be debited for its total cost of $306,350.
The normal expenditure to get an asset ready for use depends on the asset. For example suppose a company bought a used truck, but needed to replace the tires on the truck before putting it on the road. The cost of the tires is a normal cost expected when purchasing a used truck. If the truck cost $45,000 and the tires totaled $1,000, the truck account would be debited for $46,000.

Costs that are not normal are debited instead to an expense account.

Tangible or Intangible

An important distinction in discussion of property is that between tangible and intangible property. *Tangible property* consists of actual physical property. *Intangible property* is the evidence of ownership of property rights, copyrights, notes, mortgages, deeds of trust, and stock certificates. Intangible personal property should not be included in an assessment.

Definition * Appraisal Procedure Manual *****

"Personal property" means tangible personal property that may be seen, weighed, measured, felt, or touched or which is in any other manner perceptible to the senses. Personal property shall include trade fixtures. For the purposes of this Rule, personal property shall not include the capital stock of all corporations; money, notes, bonds, accounts, or other credits, secured or unsecured; patent rights, copyrights, franchises, and any other classes and kinds of property defined by law as intangible personal property.

Construction in Progress

Construction in progress should be included on the property owner’s annual return if applicable. These are assets that are in the process of being installed but are not completed as of January 1. Normally the costs relating to these assets are held in “CIP” accounts until completion of the project. Once complete and all costs are known the CIP accounts will be charged to the appropriate asset accounts.

Information * Appraisal Procedure Manual *****

Property owners who are constructing or installing a large piece or line of production equipment may be required by generally accepted accounting principles to accrue the total costs associated with such equipment in a holding account until the construction or installation is complete and the equipment is ready for production, at which time, the property owner is permitted by such principles to post the total accrued cost to a fixed asset account, taking appropriate depreciation. If such holding account is maintained by the property owner, the appraisal staff shall consider the accrued total cost reported in the property owner's holding account when appraising such property. Construction in progress shall be appraised in the same manner as other similar personal property taking into account that there may be little or no physical deterioration on such property and that the fair market value may be diminished due to the incomplete state of construction. If comparable sales information of personal property under construction is generally not available and there is no other specific evidence to measure the probable loss of value if the property is sold in an incomplete state of construction, the appraisal staff may multiply the identified total cost of construction by a uniform market risk factor of .75.

PT 50-P / Schedule C.

The reporting schedule entitled "Schedule C" may be used to list and describe any construction in progress that is included on the property owner's return.

Depreciation

The appraisal term ‘depreciation’ differs greatly from an accountant’s concept of depreciation. Accounting depreciation is a non-cash expense that allows for the recovery of the cost of an asset. Appraisal depreciation can be thought of as the difference in value between an existing old property and a hypothetical new property taken as a standard of comparison. Appraisal depreciation should measure ‘value inferiority’.

The three types or causes of appraisal depreciation are called physical deterioration, functional obsolescence, and economic obsolescence. The traditional definitions of these are:

<u>Physical deterioration</u> – the loss in value or usefulness of a property due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors.

<u>Functional Obsolescence</u> – the loss of value or usefulness of a property caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property that new technology has developed. – Signs of function obsolescence are excess operating costs, excess capital costs, over capacity, inadequacy, or lack of utility.

<u>Economic Obsolescence</u> – the loss in value or usefulness of a property caused by factors that are external to the property, such as increased cost of raw materials, labor, or utilities (without an offsetting increase in product price); reduced demand for the product; increased competition; environmental or other regulations; inflation; or similar factors.
<u>Age Life Method</u> -- Straight Line

The ratio of a property’s ‘age’ to its ‘life’ can be used to measure physical deterioration. Although this is straight-line depreciation it should not be confused with accounting depreciation. The appraiser is using valuation concepts rather than recovery of costs. Straight line, age life, makes the simplistic assumption that the asset will physically deteriorate in equal amounts each year. While this assumption would be false much of the time, it works well with mass appraisal. Also, it would be unrealistic to fully depreciate an asset as shown below. During one of the later years the property will cease to depreciate. The assumption is that as long as the asset can be ‘economically’ used it will retain some residual value. At the time it becomes not economical to use it will be taken out of service and salvage might be appropriate.

Remaining Life	Cost	Rate	% Good	Value Remaining
9 years	$ 12,000.00	10 %	90 %	$ 10,800
8 years	$ 12,000.00	10 %	80 %	9,600
7 years	$ 12,000.00	10 %	70 %	8,400
6 years	$ 12,000.00	10 %	60 %	7,200
5 years	$ 12,000.00	10 %	50 %	6,000
4 years	$ 12,000.00	10 %	40 %	4,800
3 years	$ 12,000.00	10 %	30 %	3,600
2 years	$ 12,000.00	10 %	20 %	2,400
1 year	$ 12,000.00	10 %	10 %	1,200
0 years	$ 12,000.00	10 %	0%	0

Consolidated Financial Statements

Many larger companies prepare ‘consolidated’ financial statements. This simply means that the results of the company in our jurisdiction may be consolidated with the results of the parent company. When this occurs we must request additional information pertinent to our location so that we may determine the facts about the single location in our jurisdiction. This can be accomplished by requesting apportionment schedules, state income tax returns, internal accounting documents, etc.

Leased Equipment

Leasing is a serious consideration for companies seeking to acquire equipment. Significant factors influence management's decision whether to purchase or lease. Consideration must be given to:

Rapid technology changes: Management may not want to make capital investment in equipment that may become obsolete in a short period of time. Leasing provides companies a hedge against technological changes.

Financial: A lack of capital for the purpose of acquiring equipment may make leasing attractive to a company. Generally, a large initial cash disbursement is not required. Smaller monthly payments may be a favorable alternative.

Accounting: The monthly payment required to lease equipment appears as an expense and therefore, accumulated in the income statement. Purchasing equipment for cash or credit affects the balance sheet. Management may need to consider these financial reports when making acquisition decisions.

There are two basic types of lease agreements. They are operating and capital leases. An operating lease is much like a rental agreement.

These characteristics are typical of an operating lease:

1. The lease does not affect the balance sheet.
2. No rights of ownership transfers from the lessor to the lessee.
3. Depreciation may not be taken by the lessee.
4. The term of the least is negotiable.

A capital lease is a type of financing.

These characteristics are typical of a capital lease:

1. The lease does affect the balance sheet. The lease is capitalized.
2. Rights of ownership transfer to the lessee with the exception of legal title. The lessor retains title until all payments have been satisfied.
3. Depreciation may be taken by the lessee.
4. Lease buy-out is nominal.

Many times the discovery of leased equipment is difficult. Information reported in the 'leased' equipment section of the PT50P should be noted. A desk or field audit may also be a good opportunity to discover unreported leased equipment. All necessary information should be obtained from the lessee/user. Requested information might include:

1. Name and address of lessee.
2. Name and address of lessor.
3. Specific location of leased equipment.
4. Monthly rental charges. Verify that monthly rent does not include supplies or other non-equipment charges.
5. Type of equipment; record make, model, and serial number.
6. Estimated useful life of the leased equipment.
7. Term of lease.
8. Installation costs.
9. Freight costs.
10. Installation date.
11. Selling price, if known.

A personal property statement should be mailed to the lessor/owner. The statement should be verified. If the lessor fails to file a return the monthly rent can be converted into a multiplier to estimate value; assuming enough information was given by the lessee.

A simple example would be a machine costs $1,500 to rent and it is estimated the lessor captures the cost of the equipment in 20 months, the estimated market value would be $30,000.

$1,500 monthly rent x 20 months = $30,000.

The appraiser can study the length of time required by a lessor to capture the cost of an asset by analyzing the personal property statement of the lessor and the monthly rental payment by the lessee.

For example, assume the appraiser receives data from five different computer companies and five different lessees.

Leased Computer Equipment Analysis

Name	Cost from Lessor	Monthly Rent from Lessee	Multiplier
Company A	15,000	750	20
Company B	8,000	425	19
Company C	11,000	525	21
Company D	9,000	450	20
Company E	7,500	375	20

The indicated multiplier for lease computer equipment is 20. Therefore, if Company F leases a computer for $230 per month and the lessor fails to file a return, the value of the property could be estimated to be $4,600. This method also works in estimating the value of equipment during the course of an audit.

The Appraisal Process

Three Approaches to Value

There are three approaches or methods traditionally used in property valuation: the cost approach, the sales comparison approach, and the income approach.

In the cost approach, composite multipliers are used to adjust the original cost to a market estimate. The multipliers simultaneously develop a replacement / reproduction cost new and allow for physical deterioration. If functional or economic obsolescence is present in the property, once proven, additional depreciation must be considered.

The formula for the cost approach is 'RCNLD'; Replacement or Reproduction Cost New – Less Depreciation.

In the sales comparison approach, the value of the subject property is estimated through comparisons with comparable, recently sold properties. This approach has limited use primarily because sales information is not readily available. The appraiser should be familiar with the sales comparison approach. Many times during property appeals sales or market data is presented. The appraiser must be able to evaluate the correctness of information presented.

The income approach involves an estimation of the present value of the property based on its projected income. The most common application of this approach for personal property would be with leased equipment.

All three approaches play important roles in the mass appraisal of property. The cost approach is applicable to most improved properties. The sales comparison approach tends to be the most objective when adequate data on properties that have been sold are available. The income approach tends to reflect the behavior of investors and can be useful in the appraisal of properties that are purchased on their ability to generate income. The appraiser must be well acquainted with all approaches to value when valuing personal property and defending their work.

Reproduction Cost New and Replacement Cost New

The replacement cost new is generally the proper starting point for developing an opinion of value using the cost approach. It is important to understand the difference between replacement cost new and reproduction cost new as a method of determining this starting point.

Replacement cost is the current cost of a similar new property having the nearest utility as the property being appraised. Reproduction cost is the current cost of reproducing a new replica of the property being appraised.

Most physical properties are not replaced with properties of the same size, design, and materials. They are replaced by materially different properties of a more modern type, better designed to meet the owner's present needs. The replacement is one of substitution, rather of reproduction. The appraiser may still chose to use reproduction cost if he believes that there is no material difference between the cost and efficiency of the 'different substitute' and the cost and efficiency of the replica. If a large discrepancy exists the appraiser may incorrectly value the subject.

A clear example of a discrepancy would be with the personal computer. A personal computer purchased in 1990 cost about $3,000. The PC would have a reproduction cost new of about $4,400 based on the current CPI. Obviously, with this example if reproduction cost new were used the asset would be overvalued. As we know the cost of a PC is only a fraction of what it was in 1990 and the utility has been greatly increased.

Value In Use and Value in Exchange

Value in Use As applied to personal property, the concept of value in use implies that equipment is installed and in continual use for generating income or performing its function. Value in use usually sets the upper limit of value and is the concept used with the cost approach.

The following tests are used to determine whether the concept of value in use applies to industrial machinery and equipment:

- The machine is installed
- The highest and best use is as installed for the purpose of producing income or a product/service
- The machine is employed; that is it is part of the business enterprise used to produce income

- The machine is state of the art or a percentage of its productivity is measurable and economical; that is, its operation is economically feasible

Value in Exchange As applied to personal property, the concept of value in exchange implies that the equipment is a commodity and not installed or, if installed, is to be removed from its present site and reinstalled elsewhere.

The following tests are used to determine whether the concept of value in exchange applies to industrial machinery and equipment:

- The machine is not installed, or is to be removed if it is in place
- Highest and best use is not considered because the property is not in use
- The machine is not employed as part of the business enterprise
- The machine is not state of the art

Ready Market – Appraisal Procedure Manual

"Ready market" means a market, possibly global, where exchanges of machinery, equipment, personal fixtures and trade fixtures occur with such regularity and under such conditions as to provide a reliable measure of fair market value. Five conditions that may indicate a ready market are: the items of personal property being sold within the market are reasonable substitutes for each other; there are an adequate number of buyers and sellers of the personal property in the market, no one of whom can measurably affect price; there is an absence of artificial restraints and unusual incentives in the market; the item of personal property is reasonably free to be moved where it will receive the greatest return and buyers are reasonably free to buy where the price is lowest; and buyers and sellers are knowledgeable and informed about market conditions.

2. Selection of approach.

With respect to machinery, equipment, personal fixtures, and trade fixtures, the appraisal staff shall use the sales comparison approach to arrive at the fair market value when there is a ready market for such property. When no ready market exists, the appraiser shall next determine a basic cost approach value. When the appraiser determines that the basic cost approach value does not adequately reflect the physical deterioration, functional or economic obsolescence, or otherwise is not representative of fair market value, they shall apply the approach or combination of approaches to value that, in their judgment, results in the best estimate of fair market value. All adjustments to the basic cost approach shall be documented to the board of tax assessors.

Conclusion

An audit program is designed and developed with several purposes in mind.

1. To encourage voluntary compliance with the reporting procedures for business personal property.
2. To discover all business property subject to taxation.
3. To verify that all business property items have been reported and that the information given is accurate.
4. To equalize the tax burden among taxpayers; uniformity.
5. To set standard audit procedures to insure that the correct valuation procedures are followed to reach reasonable and equitable estimates of market value and assessments among the counties.
6. To establish measurements to determine the level of compliances of business reporting taxable business personal property.

CPA's conduct financial audits in accordance with 'generally accepted auditing standards' that is a through examination of all financial records of a business. The appraiser is not interested in all the financial records. The assessors audit is a limited audit because they are looking at something other than the whole.

The audit must have well defined objectives. The appraiser / auditor must establish the scope of the examination. The APM has a section dedicated to proper auditing procedures.

Appendix

SECTION I – Quick Legal Reference

This section provides a quick reference to selected laws that are relevant to personal property taxation.

Constitution of the State of Georgia - Article VII

Sec. I, Par. III	Constitutional uniformity between classes of property
44-1-2	Realty defined: 1. All lands and the buildings thereon 2. All things permanently attached to land or to the buildings thereon
44-1-3	Personalty defined: All property that is moveable in nature
44-1-6	Fixtures defined: Anything that is intended to remain permanently in place.
48-1-2(19)	Personal Property defined
48-1-2(22)	Tangible Personal Property defined
48-1-2(13)	Intangible Personal Property defined
48-1-8	Computer Software defined
48-2-16	Exchange of tax information (provides basis for Assessors to check figures on property tax returns against income and sales tax figures, etc.)
48-2- 61	Conveyances of property to avoid taxes are illegal.
48-5-1	Legislative intent
48-5-2(1)	Definition of Fair Market Value
48-5-2(4)	Definition of foreign merchandise in transit (port counties)
48-5-3	All personal property subject to taxation, except as otherwise provided by law
48-5-5	Foreign merchandise in transit, as defined, acquires no tax
48-5-6	All property shall be returned at fair market value.
48-5-7	All property shall be assessed at 40% of Fair Market Value.
48-5-9	Persons liable for taxes on property
48-5-10	Property returns
48-5-11	Personal Property returned in county of legal residence
48-5-12	Personal Property of non-residents returned in county where located
48-5-16	Taxability at business situs
48-5-19	Oaths of persons making return
48-5-20	Failure to return property

48-5-41	Listings of exempt property
48-5-41.1	Qualified farm products exemption
48-5-42	Exemptions of household goods
48-5-42.1	$500 Personal Property exemption
48-5-43	Fertilizers exempt, when
48-5-48.1	Tangible Personal Property Inventory exemption
48-5-48.2	Freeport Exemption
48-5-105.1	Uniform Personal Property return forms
48-5-263	Duties of appraisal staff
48-5-268	Designation of Personal Property Appraiser
48-5-269.1	Uniform Procedural Manual for Personal Property
48-5-297	Duties of assessors
48-5-299-(a)	Duties of County Board of Tax Assessors
48-5-299-(2)(B)	Penalty for Unreturned Property
48-5-299.1	Designation of Board of Assessors to Receive Tax Returns
48-5-300	Assessors have subpoena power to require documents, records, etc., deemed necessary
48-5-305	Assessors may develop rules and regulations providing manner of determining value of property not on digest
48-5-306	Board of Tax Assessors Duties
48-5-314	Confidentiality of taxpayer records
48-5-441	Mobile Homes and Motor Vehicles classified as separate class of property, exclusive procedures for determining tax rates and collection
48-5-471	Motor Vehicles owned on January 1 subject to ad valorem taxation
48-5-472	Motor Vehicle inventory
48-5-492	Issuance of mobile home location permits; issuance and display of decals.
48-5-493	Failure to attach and display decal; penalties; venue for prosecution. (mobile homes)
48-5-494	Returns for taxation; application for and issuance of mobile home location permits upon payment of taxes due.
48-5-495	Collection procedure when taxing county differs from county of purchaser's residence. (Mobile homes)
48-5-500	Definitions (1) "Construction Purposes" (2) "Heavy-Duty Equipment"
48-5-501	Equipment subject to ad valorem taxation

Pertinent Statutes

48-5-48.1. Tangible personal property inventory exemption; application; failure to file application as waiver of exemption; denials.

Statute text

(a) Any person, firm, or corporation seeking an exemption from ad valorem taxation of certain tangible personal property inventory when such exemption has been authorized by the governing authority of any county or municipality after approval of the electors of such county or municipality pursuant to the authority of the Constitution of Georgia or Code Section 48-5-48.2 shall file a written application and schedule of property with the county board of tax assessors on forms furnished by such board. Such application shall be filed in the year in which exemption from taxation is sought no later than the date on which the tax receiver or tax commissioner of the county in which the property is located closes his books for the return of taxes.

(b) The application for the tangible personal property inventory exemption shall provide for:

(1) A schedule of the inventory of goods in the process of manufacture or production which shall include all partly finished goods and raw materials held for direct use or consumption in the ordinary course of the taxpayer's manufacturing or production business in the State of Georgia;

(2) A schedule of the inventory of finished goods manufactured or produced within the State of Georgia in the ordinary course of the taxpayer's manufacturing or production business when held by the original manufacturer or producer of such finished goods; and

(3) A schedule of the inventory of finished goods which on January 1 are stored in a warehouse, dock, or wharf, whether public or private, and which are destined for shipment outside the State of Georgia and the inventory of finished goods which are shipped into the State of Georgia from outside this state and which are stored for transshipment to a final destination outside this state. The information required by Code Section 48-5-48.2 to be contained in the official books and records of the warehouse, dock, or wharf where such property is being stored, which official books and records are required to be open to the inspection of taxing authorities of this state and political subdivisions thereof, shall not be required to be included as a part of or to accompany the application for such exemption.

(c) (1) For purposes of this subsection, the term "file properly" shall mean and include the timely filing of the application and complete schedule of the inventory for which exemption is sought on or before the due date specified in subsection (a) of this Code section.

(2) The failure to file properly the application and schedule shall constitute a waiver of the exemption on the part of the person, firm, or corporation failing to make the application for such exemption for that year as follows:
(A) The failure to report any inventory for which such exemption is sought in the schedule provided for in the application shall constitute a waiver of the exemption on the part of the person, firm, or corporation failing to so report for that taxable year in an amount equal to the difference between fair market value of the inventory as reported and the fair market value finally determined to be applicable to the inventory for which the exemption is sought; and
(B) The failure to file timely such application and schedule shall constitute a waiver of the exemption until the first day of the month following the month such application and schedule are filed properly with the county tax assessor; provided, however, that unless the application and schedule are filed on or before June 1 of such year, the exemption shall be waived for that entire year.
(d) Upon receiving the application required by this Code section, the county board of tax assessors shall determine the eligibility of all types of tangible personal property listed on the application. If any property has been listed which the board believes is not eligible for the exemption, the board shall issue a letter notifying the applicant that all or a portion of the application has been denied. The denial letter shall list the type and total fair market value of all property listed on the application for which the exemption has been approved and the type and total fair market value of all property listed on the application for which the exemption has been denied. The applicant shall have the right to appeal from the denial of the exemption for any property listed and such appeal shall proceed as provided in Code Section 48-5-311. Except as otherwise provided in subparagraph (c)(2)(A) of this Code section, the county board of assessors shall not send a second letter of notification denying the exemption of all or a portion of such property listed on the application on new grounds that could and should have been discerned at the time the initial denial letter was issued.
History
(Code 1981, § 48-5-48.1, enacted by Ga. L. 1982, p. 1101, § 1; Ga. L. 1983, p. 3, § 37; Ga. L. 1984, p. 1371, § 1; Ga. L. 1992, p. 2482, § 1; Ga. L. 1997, p. 963, § 3; Ga. L. 1998, p. 128, § 48; Ga. L. 1998, p. 1120, § 1A; Ga. L. 1999, p. 81, § 48.)
Annotations
The 1997 amendment, effective January 1, 1998, and applicable to all taxable years beginning on or after January 1, 1998, in subsection (c), designated the existing provisions of this Code section as paragraph (2), added paragraph (1) and subparagraphs (c)(2)(A) and (c)(2)(B), and substituted "as follows:" for a period at the end of paragraph (2).
The 1998 amendments. The first 1998 amendment, effective March 27, 1998, part of an Act to correct errors and omissions in the Code, added the subsection (c) designation. The second 1998 amendment, effective July 1, 1998, added subsection (d).
The 1999 amendment, effective April 5, 1999, part of an Act to revise, modernize, and correct the Code, substituted "48-5-311" for "48-5-3111" in subsection (d).
Law reviews. - For article, "Freeport Exemption from Property Taxes for Inventory Stored in Georgia But Destined for Shipment Out-of-State", 28 Ga. St. B.J. 108 (1991).

JUDICIAL DECISIONS
Filings not required prior to statute. - Where "freeport" exemption was approved by voters, and at all times relevant to the instant appeal there was no state statutory provisions specifying that the exemption from taxation which had otherwise been granted to inventories was conditioned upon the taxpayer's timely filing of an application therefore, the subsequent enactment of this statute calling for a timely filing in order to obtain the exemption was intended to change the existing law; therefore, procedure denying an exemption for untimely filings used by the county board of tax assessors prior to the statutory addition was not an authorized penalty under state law. TEC Am., Inc. v. DeKalb County Bd. of Tax Assessors, 170 Ga. App. 533, 317 S.E.2d 637 (1984).
Failure to receive the application for exemption form does not excuse the taxpayer from meeting its burden to file the application. Rockdale County v. Finishline Indus., Inc., 238 Ga. App. 467, 518 S.E.2d 720 (1999).
Waiver by untimely application. - Where the only proof of timely mailing of applications for exemption was testimony of corporation's tax specialist that she placed the envelopes in the mailbox in the corporation's home office, and where the envelopes were not imprinted with U.S. Postal Service postmarks, but contained private postage meter stamps, the applications were untimely filed and the exemption was waived. Gwinnett County Bd. of Tax Assessors v. Makita Corp. of Am., 218 Ga. App. 175, 460 S.E.2d 538 (1995).
Amended application. - It was arbitrary and capricious for a board of tax assessors to refuse, under O.C.G.A. § 48-5-48.1(c)(2)(B), to allow a taxpayer to retroactively amend a timely filed and valid freeport exemption when the board changed its valuation method. William L. Bonnell Co. v. Coweta County Bd. of Tax Assessors, 252 Ga. App. 151, 556 S.E.2d 159 (2001).
Taxpayer's understatement of value of personal property did not preclude taking the freeport exemption. Georgian Art Lighting Designs, Inc. v. Gwinnett County Bd. of Tax Assessors, 211 Ga. App. 510, 439 S.E.2d 687 (1993).
Extension of time for filing not authorized. - A county board of tax assessors was not authorized to extend the period of time for accepting applications beyond the date on which the books for the return of taxes in the county were closed. Committee for Better Gov't v. Black, 216 Ga. App. 173, 453 S.E.2d 772 (1995).
Cited in Fulton County Tax Comm'r v. GMC, 234 Ga. App. 459, 507 S.E.2d 772 (1998); Delta Air Lines v. Clayton County Bd. of Tax Assessors, 246 Ga. App. 225, 539 S.E.2d 905 (2000).

OPINIONS OF THE ATTORNEY GENERAL
Waiver by untimely application. - A taxpayer who fails to file a timely application for the freeport inventory exemption in accordance with the requirements of this section has waived that exemption for the tax year. 1987 Op. Att'y Gen. No. U87-7.

48-5-48.2. Freeport exemption.
Statute text
(a) As used in this Code section, the term:

(1) "Destined for shipment to a final destination outside this state" includes that portion or percentage of an inventory of finished goods which the taxpayer can establish, through a historical sales or shipment analysis, either of which utilizes information from the preceding calendar year, or other reasonable, documented method, is reasonably anticipated to be shipped to a final destination outside this state. Such other reasonable, documented method may only be utilized in the case of a new business, in the case of a substantial change in scope of an existing business, or in other unusual situations where a historical sales or shipment analysis does not adequately reflect future anticipated shipments to a final destination outside this state. It is not necessary that the actual final destination be known as of January 1 in order to qualify for the exemption.
(2) "Finished goods" shall mean goods, wares, and merchandise of every character and kind but shall not include unrecovered, unextracted, or unsevered natural resources or raw materials or goods in the process of manufacture or production or the stock in trade of a retailer.
(3) "Raw materials" shall mean any material, whether crude or processed, that can be converted by manufacture, processing, or a combination thereof into a new and useful product but shall not include unrecovered, unextracted, or unsevered natural resources.
(4) "Stock in trade of a retailer" means finished goods held by one in the business of making sales of such goods at retail in this state, within the meaning of Chapter 8 of this title, when such goods are held or stored at a business location from which such retail sales are regularly made. Goods stored in a warehouse, dock, or wharf, including a warehouse or distribution center which is part of or adjoins a place of business from which retail sales are regularly made, shall not be considered stock in trade of a retailer to the extent that the taxpayer can establish, through a historical sales or shipment analysis, either of which utilizes information from the preceding calendar year, or other reasonable, documented method, the portion or percentage of such goods which is reasonably anticipated to be shipped outside this state for resale purposes.
(b) The governing authority of any county or municipality may, subject to the approval of the electors of such political subdivision, exempt from ad valorem taxation, including all such taxes levied for educational purposes and for state purposes, all or any combination of the following types of tangible personal property:
(1) Inventory of goods in the process of manufacture or production which shall include all partly finished goods and raw materials held for direct use or consumption in the ordinary course of the taxpayer's manufacturing or production business in this state. The exemption provided for in this paragraph shall apply only to tangible personal property which is substantially modified, altered, or changed in the ordinary course of the taxpayer's manufacturing, processing, or production operations in this state. For purposes of this paragraph, the cleaning, drying, pest control treatment, or segregation by grade of grain, peanuts or other oil seeds, or cotton shall constitute substantial modification in the course of processing or production operations. For purposes of this paragraph, remanufacture of aircraft engines or aircraft engine parts or components shall constitute manufacturing operations in this state. Remanufacture of aircraft engines or aircraft engine parts or components means the substantial overhauling or rebuilding of aircraft engines or aircraft engine parts or components;

(2) Inventory of finished goods manufactured or produced within this state in the ordinary course of the taxpayer's manufacturing or production business when held by the original manufacturer or producer of such finished goods. The exemption provided for in this paragraph shall be for a period not exceeding 12 months from the date such property is produced or manufactured; or
(3) Inventory of finished goods which, on January 1, are stored in a warehouse, dock, or wharf, whether public or private, and which are destined for shipment to a final destination outside this state and inventory of finished goods which are shipped into this state from outside this state and stored for transshipment to a final destination outside this state. The exemption provided for in this paragraph shall be for a period not exceeding 12 months from the date such property is stored in this state. Such period shall be determined based on application of a first-in, first-out method of accounting for the inventory. The official books and records of the warehouse, dock, or wharf where such property is being stored shall contain a full, true, and accurate inventory of all such property, including the date of the receipt of the property, the date of the withdrawal of the property, the point of origin of the property, and the point of final destination of the same, if known. The official books and records of any such warehouse, dock, or wharf, whether public or private, pertaining to any such property for which a freeport exemption has been claimed shall be at all times open to the inspection of all taxing authorities of this state and of any political subdivision of this state.
(c) Whenever the governing authority of any county or municipality wishes to exempt such tangible property from ad valorem taxation, as provided in this Code section, the governing authority thereof shall notify the election superintendent of such political subdivision, and it shall be the duty of said election superintendent to issue the call for an election for the purpose of submitting to the electors of the political subdivision the question of whether such exemption shall be granted. The referendum ballot shall specify as separate questions the type or types of property as defined in this Code section which are being proposed to be exempted from taxation. The election superintendent shall issue the call and shall conduct the election on a date and in the manner authorized under Code Section 21-2-540.
(d) The governing authority of any county or municipality wherein an exemption has been approved by the voters as provided in this Code section may, by appropriate resolution, a copy of which shall be immediately transmitted to the state revenue commissioner, exempt from taxation 20 percent, 40 percent, 60 percent, 80 percent or all of the value of such tangible personal property as defined in this Code section; provided, however, that once an exemption has been granted, no reduction in the percent of the value of such property to be exempted may be made until and unless such exemption is revoked or repealed as provided in this Code section. An increase in the percent of the value of the property to be exempted may be accomplished by appropriate resolution of the governing authority of such county or municipality, and a copy thereof shall be immediately transmitted to the state revenue commissioner, provided that such increase shall be in increments of 20 percent, 40 percent, 60 percent, or 80 percent of the value of such tangible personal property as defined in this Code section, within the discretion of such governing authority.

(e) (1) If more than one-half of the votes cast on such question are in favor of such exemption, then such exemption may be granted by the governing authority commencing on the first day of any ensuing calendar year; otherwise such exemption may not be granted. This paragraph is intended to clearly provide that following approval of such exemption in such referendum, such exemption may be granted on the first day of any calendar year following the year in which such referendum was conducted. This paragraph shall not be construed to imply that the granting of such exemption could not previously be delayed to any such calendar year.
(2) Exemptions may only be revoked by a referendum election called and conducted as provided in this Code section, provided that the call for such referendum shall not be issued within five years from the date such exemptions were first granted and, if the results of said election are in favor of the revocation of such exemptions, then such revocation shall be effective only at the end of a five-year period from the date of such referendum.
(f) The commissioner shall by regulation adopt uniform procedures and forms for the use of local officials in the administration of this Code section.
History
(Code 1981, § 48-5-48.2, enacted by Ga. L. 1984, p. 1058, § 4; Ga. L. 1992, p. 2482, § 2; Ga. L. 1996, p. 926, § 1; Ga. L. 1998, p. 295, § 3; Ga. L. 1998, p. 1120, § 2.)
Annotations
The 1998 amendments. The first 1998 amendment, effective January 1, 1999, deleted "or 21-3-52, as applicable" from the end of subsection (c). The second 1998 amendment, effective July 1, 1998, added the third sentence in paragraph (1) of subsection (b).

Editor's notes. - Section 9 of Ga. L. 1984, p. 1058, not codified by the General Assembly, provided as follows: "In the event of any conflict between this Act and any other Act of the 1984 General Assembly the provisions of such other Act shall control over the provisions of this Act."
Law reviews. - For article, "Procedure and Problems in Georgia Ad Valorem Tax Appeals," see 26 Ga. St. B.J. 98 (1990). For article, "Freeport Exemption from Property Taxes for Inventory Stored in Georgia But Destined for Shipment Out-of-State", 28 Ga. St. B.J. 108 (1991).

JUDICIAL DECISIONS
Purpose of statutory language. - By using the all-encompassing descriptive term 'inventory of finished goods,' instead of 'tangible property,' the General Assembly intended to include all classes of tangible property under the constitution without enumerating each so that there would be equal treatment to avoid constitutional implications as to equal protection, rational purpose, and disparate treatment. Fulton County Tax Comm'r v. GMC, 234 Ga. App. 459, 507 S.E.2d 772 (1998).
Section gives county discretion as to: (1) whether to submit the exemption issue to a voter referendum; (2) what types of inventory will be submitted to the voters for exemption; and (3) the percentage of the value of goods to be exempted. Levetan v. Lanier Worldwide, Inc., 265 Ga. 323, 454 S.E.2d 504 (1995).

Accounting methods. - O.C.G.A. § 48-5-48.2(b)(1) and (2) did not require a particular accounting method to be used for valuation, so it was arbitrary and capricious to apply a particular accounting method to a taxpayer's freeport exemption application, because the application did not disclose a particular accounting method. William L. Bonnell Co. v. Coweta County Bd. of Tax Assessors, 252 Ga. App. 151, 556 S.E.2d 159 (2001).
Grain merchandising and storage. - Under its pre-1998 version, this section did not apply to farm products stored for a grain merchandising and storage business. Board of Assessors v. McCoy Grain Exch., Inc., 234 Ga. App. 98, 505 S.E.2d 832 (1998).
Evidence to show timely filing. - Without evidence of a United States post office postmark date to prove an application for freeport exemption was mailed timely, or other evidence to show compliance with an internal policy, taxpayer was unable to prove his return was timely filed. DeKalb County Bd. of Tax Assessors v. Lanier Worldwide, Inc., 208 Ga. App. 435, 430 S.E.2d 595 (1993).
Charge on risk of using mail system needed. - Because the instruction sheet for the application for freeport exemption makes it clear that the taxpayer bears the responsibility for ensuring that the postmark date is the same as the mailing date, charge that one who selects the United States mail takes all the risks that are usually incident was relevant. DeKalb County Bd. of Tax Assessors v. Lanier Worldwide, Inc., 208 Ga. App. 435, 430 S.E.2d 595 (1993).
Packaging materials are not "raw materials." Murray Bakery Prods., Inc. v. Board of Tax Assessors, 186 Ga. App. 559, 367 S.E.2d 852, aff'd, 258 Ga. 484, 371 S.E.2d 393 (1988).
Merely assembling purchased packaging materials was not substantial change of personal property in the ordinary course of a cookie maker's manufacturing business, and such materials did not qualify for the freeport exemption. Murray Bakery Prods., Inc. v. Board of Tax Assessors, 258 Ga. 484, 371 S.E.2d 393 (1988).
Business involving both transportation and manufacture. - The fact that a company is in the transportation business is not fatal to its claim for a freeport exemption because it functions as a manufacturer of aircraft parts and a remanufacturer of aircraft engines in the regular course of its business and those operations are located in this state. Delta Air Lines v. Clayton County Bd. of Tax Assessors, 246 Ga. App. 225, 539 S.E.2d 905 (2000).
Inventory being held for leasing purposes. - Computers owned by taxpayer and held in storage until leased to travel agencies, after the period of which lease they are returned to taxpayer, were not "finished goods" being held for "final destination outside this state" within the meaning of this section, and therefore did not meet the requirements to qualify for the exemption under this section. Apollo Travel Servs. v. Gwinnett County Bd. of Supvrs., 230 Ga. App. 790, 498 S.E.2d 297 (1998).
Inventory of finished goods. - Aircraft parts stored at the company and destined for shipment to airport stations outside Georgia qualified for the freeport exemption. The company was not required to prove that the parts were intended for resale. Delta Air Lines v. Clayton County Bd. of Tax Assessors, 246 Ga. App. 225, 539 S.E.2d 905 (2000).
Res judicata and collateral estoppel as to exemption. - Following a final consent judgment, the factual and legal basis for freeport exemption for several previous years became res judicata as to what had been litigated, and collateral estoppel would apply on

the exemption issue on future applications unless there was a substantial factual change. Fulton County Tax Comm'r v. GMC, 234 Ga. App. 459, 507 S.E.2d 772 (1998).
The doctrine of collateral estoppel applied to preclude the county board of tax assessors from relitigating a taxpayer's eligibility for the freeport exemption where there had been no change or development in the law. Gwinnett County Bd. of Tax Assessors v. GE Capital Computer Servs., 273 Ga. 175, 538 S.E.2d 746 (2000).
Role of superior court. - It is initially the county board of tax assessors and, in the event of continued disagreement, the superior court, that must consider the taxpayer's showing and make appropriate grant of freeport exemption if all conditions are satisfied. Fulton County Tax Comm'r v. GMC, 234 Ga. App. 459, 507 S.E.2d 772 (1998).
Motor vehicles and mobile homes. - While motor vehicles and mobile homes are classified as separate classes of tangible property for ad valorem purposes, the General Assembly did not intend to exclude this class of tangible property from the ambit of this section for purposes of freeport exemption. Fulton County Tax Comm'r v. GMC, 234 Ga. App. 459, 507 S.E.2d 772 (1998).
Aircraft engines in the process of remanufacture. - The process of "heavy maintenance," constituting the disassembly of the engine, the replacement of a number of expendable parts, the machine working of other parts to specification, its reassembly and testing over an approximate six to eight week period, is "substantial" for purposes of the exemption under § 48-5-48.2. Delta Air Lines v. Clayton County Bd. of Tax Assessors, 246 Ga. App. 225, 539 S.E.2d 905 (2000).
Whether aircraft engines undergoing "light" maintenance were undergoing "substantial overhauling or rebuilding" for purpose of the exemption under § 48-5-48.2 is an issue meriting submission to a jury Delta Air Lines v. Clayton County Bd. of Tax Assessors, 246 Ga. App. 225, 539 S.E.2d 905 (2000).
Cited in GE Capital Computer Servs. v. Gwinnett County Bd. of Tax Assessors, 240 Ga. App. 629, 523 S.E.2d 651 (1999).

Appraisal Procedures Manual

RULES AND REGULATIONS
CHAPTER 560-11-10 APPRAISAL PROCEDURES MANUAL

560-11-10-.01 - 560-11-10-.10

560-11-10-.01 Purpose and Scope.

(1) Purpose.
This appraisal procedures manual has been developed in accordance with Code section 48-5-269.1 which directs the Revenue Commissioner to adopt by rule, subject to Chapter 13 of Title 50, the "Georgia Administrative Procedure Act," and maintain an appropriate procedural manual for use by the county property appraisal staff in appraising tangible real and personal property for ad valorem tax purposes.

(2) Specific procedures.
In order to facilitate the mass appraisal process, specific procedures are provided within this Chapter which are designed to arrive at a basic appraisal value of real and personal property. These specific procedures are designed to provide fair market value under normal circumstances. When unusual circumstances are affecting value, they should be considered. In all instances, the appraisal staff will apply Georgia law and generally accepted appraisal practices to the basic appraisal values required by this manual and make any further valuation adjustments necessary to arrive at the fair market values.

(3) Board of tax assessors.
The county board of tax assessors shall require the appraisal staff to observe the procedures in this manual when performing their appraisals. The county board of tax assessors may not adopt local procedures that are in conflict with Georgia law or the procedures required by this manual. The county board of tax assessors must consider the appraisal staff information in the performance of their duties. In each instance, however, the assessment placed on each parcel of property shall be the assessment established by the county board of tax assessors as provided in Code section 48-5-306.

(4) Other appraisal procedures.
The appraisal staff may use those generally accepted appraisal practices set forth in the Uniform Standards of Professional Appraisal Practice, published by the Appraisal Foundation, and the standards published by the International Association of Assessing

Officers, as they may be amended from time to time, to the extent such practices do not conflict with this manual and Georgia law.

560-11-10-.02 Definitions.

(1) Definitions.
When used in this Chapter, the definitions found in this Rule shall apply.

(a) Absorption rate.
"Absorption rate" means the rate at which the real estate market can absorb real property of a given type.

(b) Appraiser.
"Appraiser" means a member of the county appraisal staff, who serves the board of tax assessors and whose position was created pursuant to Part 1 of Article 5 of Chapter 5 of Title 48 of the Official Code of Georgia Annotated. This term does not limit its meaning to a single appraiser and may mean one or more members of the county appraisal staff.

(c) Basic cost approach.
"Basic cost approach" means a cost approach procedure, used in the mass appraisal of personal property, which uses standard estimates of the most common factors affecting the value of such property. The basic cost approach is intended to provide a uniform estimate of personal property value.

(d) Depreciation.
"Depreciation" means the loss of value due to any cause. It is the difference between the market value of a structural improvement or piece of equipment and its reproduction or replacement cost as of the date of valuation. Depreciation is divided into three categories, physical deterioration, functional obsolescence, and economic obsolescence. Depreciation may be further characterized as curable or incurable depending upon the difficulty or practicality of restoring the lost value through repair or maintenance.

(e) Economic life.
"Economic life" means the period during which property may reasonably be expected to perform the function for which it was designed or intended.

(f) Economic obsolescence.
"Economic obsolescence" means a form of depreciation that measures a loss of value from negative influence external to the real or personal property. It results when the desirability or useful life of real or personal property is impaired due to forces such as changes in optimum use, legislative enactment that restricts or impairs productivity, and

changes in supply and demand relationships. Economic obsolescence is normally incurable.

(g) Effective age.
"Effective age" means the age of an improvement to property as compared with other property performing like functions. It is the actual age less the age that has been taken off by face-lifting, structural reconstruction, removal of functional inadequacies, modernization of equipment, and similar repairs and overhauls. It is an age that reflects a true remaining life for the property, taking into account the typical life expectancy of buildings or equipment of its class and usage.

(h) Fair market value.
"Fair market value" means fair market value as defined in Code section 48-5-2 (3).

(i) Final assessment.
"Final assessment" means the final assessed value that is determined for the property for the applicable tax year after the following events have occurred: the time period for filing appeals has expired and any appeals that have been filed have been resolved; the authorities authorized to levy taxes on property in the county have approved the final tax levy; the Revenue Commissioner has authorized that the digest may be used as the basis for collecting taxes; the tax commissioner has mailed the final tax bills based on the authorized digest; and in the case of personal property, the appraisal staff has completed its audit of the personal property pursuant to Rule 560-11-10-.08(4)(d) within the seven year statute of limitations.

(j) Functional obsolescence.
"Functional obsolescence" means a form of depreciation that measures a loss of value from a design deficiency or appearance in the market of a more innovative design. Some functional obsolescence may be curable and some functional obsolescence may be incurable.

(k) Inventory.
"Inventory" means goods held for sale or lease or furnished under contracts for service; also, raw materials, work in process or materials used or consumed in a business.

(l) Large acreage tract.
"Large acreage tract" means a rural land tract that is greater in acreage than the small acreage break point.

(m) Mass appraisal.
"Mass appraisal" means the process of valuing a universe of properties as of a given date using standard methodology, employing common data and allowing for statistical testing.

(n) Original cost.
"Original cost" means, in the case of machinery, equipment, furniture, personal fixtures, and trade fixtures in the hands of the final user, all the direct costs associated with acquiring, transporting and installing such property at the site where it is to be used. This includes the cost of the property to the property owner, the cost of transporting the property to its present site, the cost of any on-site assembly or customized modification of the property, the cost of installing the property, the cost of installing personal fixtures and trade fixtures necessary for the proper operation of the property, and any sales or use tax paid on the property. Original cost is equivalent to original cost new if the property owner was the first to put the personal property into service.

(o) Original cost new.
"Original cost new" means, in the case of machinery, equipment, furniture, personal fixtures, and trade fixtures in the hands of the final user, all the direct costs associated with acquiring, transporting and installing such property at the site where it is to be used. This includes the historical cost of the property at the time it was first put into service new, the cost of transporting the property to its present site, the cost of any on-site assembly or customized modification of the property, the cost of installing the property, the cost of installing personal fixtures and trade fixtures necessary for the proper operation of the property, and any sales or use tax paid on the property. Original cost new is equivalent to original cost if the property owner was the first to put the personal property into service.

(p) Paired sales analysis.
"Paired sales analysis" means the comparing of the sale prices of similar properties, some with and some without a particular characteristic, in order to determine what portion of the difference in sales price might be attributable to such characteristic.

(q) Personal fixtures.
"Personal fixtures" means personal property that has been set-up or installed on land or in a building or in a group of buildings and is not permanently attached to such land or buildings. A consideration for whether personal property is a personal fixture is whether its removal would cause significant damage to such property or to the real property on which it has been set-up or installed. The term personal fixtures shall not include trade fixtures. Personal fixtures are classified as personal property. Examples of personal fixtures are desks, shelving, display cases and gondolas.

(r) Personal property.
"Personal property" means tangible personal property that may be seen, weighed, measured, felt, or touched or which is in any other manner perceptible to the senses. Personal property shall include trade fixtures. For the purposes of this Rule, personal property shall not include the capital stock of all corporations; money, notes, bonds, accounts, or other credits, secured or unsecured; patent rights, copyrights, franchises, and any other classes and kinds of property defined by law as intangible personal property.

(s) Physical deterioration.
"Physical deterioration" means a form of depreciation that measures the loss of utility of real or personal property over time from wear and tear, age, and exposure to the elements. Some physical deterioration may be curable and some physical deterioration may be incurable.

(t) Ready market.
"Ready market" means a market, possibly global, where exchanges of machinery, equipment, personal fixtures and trade fixtures occur with such regularity and under such conditions as to provide a reliable measure of fair market value. Five conditions that may indicate a ready market are: the items of personal property being sold within the market are reasonable substitutes for each other; there are an adequate number of buyers and sellers of the personal property in the market, no one of whom can measurably affect price; there is an absence of artificial restraints and unusual incentives in the market; the item of personal property is reasonably free to be moved where it will receive the greatest return and buyers are reasonably free to buy where the price is lowest; and buyers and sellers are knowledgeable and informed about market conditions.

(u) Real estate.
"Real estate" means the physical parcel of land, improvements to the land, improvements attached to the land, real fixtures and appurtenances such as easements.

(v) Real fixtures.
"Real fixtures" means personal property that has been installed or attached to land or a building or group of buildings and is intended to remain permanently in its place. A consideration for whether personal property is a real fixture is whether its removal would cause significant damage to such property or to the real property to which it is attached. The term real fixtures shall not include trade fixtures. Real fixtures are classified as real property. Examples of real fixtures are plumbing, heating and cooling, and lighting fixtures.

(w) Real property.
"Real property" means the bundle of rights, interests, and benefits connected with the ownership of real estate. Real property does not include the intangible benefits associated with the ownership of real estate, such as the goodwill of a going business concern.

(x) Replacement cost.
"Replacement cost" for real property means the cost required to construct a similar structure with like utility as the subject property using modern design, materials, and workmanship. Replacement cost for personal property means the current cost of a similar new item having the nearest equivalent utility as the subject property.

(y) Reproduction cost.
"Reproduction cost" for real property means the cost required to construct an identical or

exact replica structure of the subject property. Reproduction cost for personal property means the current cost of duplicating an identical new item.

(z) Residual value.
"Residual value" means the value of personal property that is at the end of its normally expected economic life but still in use.

(aa) Rural land.
"Rural land" means any land that that normally lies outside corporate limits, planned subdivisions, commercial sites, and industrial sites.

(bb) Salvage value.
"Salvage value" means the value of personal property that is at the end of its normally expected economic life and has been taken out of use.

(cc) Small acreage break point.
"Small acreage break point" means the point, expressed as a number of acres, at which the slope of a trend line, drawn through the plotted qualified sales of rural land on a graph, reflects a distinct and pronounced change. Such graph uses the dollars per acre on the vertical axis and numbers of acres on the horizontal axis. The small acreage break point should show the point below which the market factors of accessibility and desirability of the land primarily influence value, and above which the productivity of the soil and suitability for timber growth primarily influence value.

(dd) Small acreage tract.
"Small acreage tract" means a rural land tract that is equal to or smaller in acres than the small acreage break point.

(ee) Tax situs.
"Tax situs" means the location of personal property for ad valorem tax purposes.

(ff) Trade fixtures.
"Trade fixtures" means fixtures that are owned and temporarily installed or attached to a rented space or building by a tenant and used in conducting a business. For personal property to be classified as trade fixtures the lease or rental agreement has to show intent for the fixtures to be removed by the owner at the termination of the lease. Fixtures that revert to the landlord when the lease is terminated are not trade fixtures. Property shall not be classified as a trade fixture when the cost of removal, or damage that removal would cause to the realty, or to the fixture itself, clearly indicates that a tenant is unlikely to remove such fixture at the termination of the lease. Trade fixtures shall be classified as personal property.

(gg) Transitional real property.
"Transitional real property" means any real property that is undergoing a change in use,

such as residential, agricultural, commercial, or industrial, and has not been firmly established in its new use. Change in use may be evidenced by recent zoning changes, purchase by a known developer, affidavits of intent, or close proximity to property exposed to these market factors.

(hh) Trend.
"Trend" means an observable tendency of behavior such as stable economic direction over extended periods despite temporary fluctuations.

560-11-10-.03 (Reserved).
(Reserved)

560-11-10-.04 (Reserved).
(Reserved)

560-11-10-.05 (Reserved).
(Reserved)

560-11-10-.06 (Reserved).
(Reserved)

560-11-10-.07 (Reserved).
(Reserved)

560-11-10-.08 Personal Property Appraisal.

(1) Personal property identification.
The appraisal staff shall identify personal property, determine its taxability, and classify it for addition to the county ad valorem tax digest in accordance with this paragraph.

(a) Distinguishing personal property.
The appraiser shall be required to correctly identify personal property and distinguish it from real property where the proper valuation procedures, as set forth in this Rule, may be followed.

1. Examples.
As used in this Chapter, personal property shall be that property defined in Rule 560-11-10-.02(1)(r). This Rule shall provide illustrations to assist the appraiser in the proper interpretation of the definition. However, these illustrations should not be construed in a manner that conflicts with the definition. Examples of personal property are tangible items such as aircraft; boats and motors; inventories of retail stock, finished manufactured or processed goods, goods in process, raw materials and supplies; furniture, personal fixtures, trade fixtures, machinery and equipment.

2. Identification of trade fixtures.
When property the appraiser believes is a trade fixture has not been returned by the tenant, the appraiser shall require the tenant to produce their lease agreement and shall carefully review the agreement before making a recommendation to the board of tax assessors regarding the classification of the property in question. The appraiser shall inform the tenant that they may redact, at their option, any information relating to the payments that are required by the lease agreement.

(b) Assessment date.
Code section 48-5-10 provides that each return by a property owner shall be for property held and subject to taxation on January 1 of the tax year. The appraisal staff shall base their decisions regarding the taxability, tax situs, uniform assessment, and valuation of personal property on the circumstances of such property on January 1 of the tax year for which the assessment is being prepared. When personal property is transferred to a new owner or converted to a new use, the circumstances of such property on January 1 shall nevertheless be considered as controlling.

(c) Freeport exemptions.

1. Mailing applications.
The appraisal staff shall, by U. S. mail, send a new freeport exemption application to any person, firm or corporation that was approved for freeport exemption by the board of tax assessors for the tax year preceding the tax year for which the application is to be made. The application provided by the appraisal staff shall be deposited with the local post office no later than the 15th day after the official who is responsible for receiving returns has opened the books for returns. The failure of the appraisal staff to comply with this requirement shall not relieve a person, firm or corporation from the responsibility to timely file a freeport application.

2. Reviewing applications.
The appraisal staff shall, upon receipt of a freeport application, reconcile the figures reported on such form to any inventory totals that may have been returned by the property owner. The appraisal staff may obtain relevant information as is available from financial records or other records of the property owner when needed to reconcile the figures reported on the application. Once the appraisal staff has completed the reconciliation of the freeport application, they shall forward the application and their recommendations, along with any supporting documentation, to the board of tax assessors. When the appraisal staff recommends the freeport application be denied, in whole or in part, they shall include the reasons for their recommendation.

(d) Tax situs.
The appraisal staff shall inquire into the proper tax situs of personal property before preparing the proposed assessment to ensure that the property owner is made subject to only those taxes that may legally be levied. The tax situs inquiry shall be sufficiently

specific to determine whether the property is subject to tax by each of the authorities authorized to levy taxes in the county.

1. General tax situs.
Unless otherwise provided in subparagraph (d) of this paragraph, the appraisal staff shall consider the tax situs of personal property to be as provided in this subparagraph.

(i) Tax situs of personal property of Georgia residents.
The appraisal staff shall consider the tax situs of personal property owned by a Georgia resident as being the domicile of the owner unless such property has acquired a business situs elsewhere. The appraisal staff shall consider the tax situs of personal property owned by a Georgia resident and used in connection with a business as being the location of the business. In making the determination of tax situs, the appraisal staff shall consider such factors as the principal location of the personal property, the base from which its operations normally originate and whether the personal property is connected with some business enterprise that is situated more or less permanently in the county, as distinguished from an enterprise whose location is merely transitory or temporary. When personal property used in connection with a business is moved about in such a manner that it is not predominantly located during the year in one place, the appraisal staff shall consider the headquarters of the business as the tax situs.

(ii) Tax situs of personal property of non-residents.
The appraisal staff shall consider the tax situs of personal property owned by non-residents as being where the property is located. The appraisal staff shall recommend to the board of tax assessors a "no tax situs" status for any personal property owned by a nonresident who does not maintain a place of business in Georgia and who gives the personal property to a commercial printer in Georgia for printing services to be performed in Georgia.

2. Tax situs of boats.
In accordance with Code section 48-5-16 (d), the appraisal staff shall consider the tax situs of a boat to be the tax district wherein lies the domicile of the owner, even when the boat is located within another tax district in the county. When the boat is functionally located for recreational or convenience purposes for 184 days or more in a county other than where the owner is domiciled, the appraisal staff shall consider the tax situs of the boat to be where it is functionally located.

3. Tax situs of aircraft.
In accordance with Code section 48-5-16 (e), the appraisal staff shall consider the tax situs of an aircraft to be the tax district wherein lies the domicile of the owner, even when the aircraft is located within another tax district in the county. When the aircraft's primary home base is in a county other than where the owner is domiciled, the appraisal staff shall consider the tax situs of the aircraft to be where it is principally hangared or tied down and out of which its flights normally originate.

4. Tax situs of foreign merchandise in transit.
The appraisal staff shall recommend to the board of tax assessors a "no tax situs" status for foreign merchandise that is in transit through this state. The recommendation of "no tax situs" shall be made regardless of the fact that while the foreign merchandise is in the warehouse it is assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled, or repackaged. The grant of "no tax situs" status shall be liberally construed. In deciding whether goods are foreign, the appraisal staff shall determine if the point of origin is a non-domestic shipping port. In deciding whether goods are in transit, the appraisal staff shall consider whether the interruption in the transport of the goods may be characterized as having a business purpose or advantage, rather than just being an incidental interruption in the continuity of transit.

(e) Assessments of personal property used on state contracts.
Under Code section 50-17-29 (e)(1), the appraisal staff shall not propose an assessment upon the personal property of any contractor or subcontractor as a condition to or result of the performance of a contract, work, or services by such contractor or subcontractor in connection with any project being constructed, repaired, remodeled, enlarged, serviced, or destroyed for, or on behalf of, the state or any of its agencies, boards, bureaus, commissions, and authorities. The appraisal staff shall inquire into the nature of the use of such property and prepare their proposed assessment in accordance with this Subparagraph.

1. Personal property located in headquarters' county.
When the tax situs of the personal property being used on state projects is in the same county as where the property owner's permanent business headquarters and administrative offices are located, and such property is not used exclusively for the state projects contemplated by Code section 50-17-29 (e)(1), the appraisal staff shall not apportion their proposed assessment of the property. When such property is used exclusively for such state projects, such property is made exempt by Code section 50-17-29 (e)(1) from ad valorem taxation by the county and the appraisal staff shall treat such property as exempt property is treated.

2. Personal property not located in headquarters' county.
When the tax situs of the personal property being used on state projects is in a county other than where the property owner's permanent business headquarters and administrative offices are located, and such property would not be located in the county absent the state projects, then the appraisal staff shall apportion their proposed assessment of such property as follows: The exempt portion of the personal property being used on state projects shall be that pro rata portion of the total value of such property that represents the percentage the contractor or subcontractor can reasonably demonstrate is likely to represent the portion of their business that will result from state projects during the tax year. The appraisal staff may consider the percentage of income, production output, or time attributable to state projects during the preceding year. The appraisal staff shall consider any information submitted by the property owner regarding the basis for the apportionment. The appraisal staff shall not apportion the personal

property when the property owner fails to provide reasonable evidence necessary to determine the portion of the property owner's business that will result from state projects during the year.

(f) Partial assessments.
Unless specifically provided by law and this Rule, the appraisal staff shall not prepare a partial appraisal based on the fact that personal property is owned or used during the year in a manner that would make it exempt part of the year and taxable part of the year.

(2) Classification.
The appraisal staff shall classify personal property as provided in Rule 560-11-2-.21 for inclusion in the county tax digest.

(3) Return of personal property.
In accordance with Code section 48-5-299 (a), the appraisal staff, on behalf of the board of tax assessors, shall investigate diligently and inquire into the property owned in the county for the purpose of ascertaining what real and tangible personal property is subject to taxation in the county and to require the proper return of the property for taxation. The appraisal staff shall make such investigation as may be necessary to determine the value of any property upon which for any reason all taxes due the state or the county have not been paid in full as required by law. In all cases where taxes are assessed against the owner of property, the appraisal staff shall prepare a proposed assessment on the property according to the best information obtainable.

(a) Information sources.
The appraisal staff should develop and maintain information sources for the discovery of unreturned personal property.

(b) Returns.
Property owners shall use Department of Revenue authorized return forms when returning personal property. No other forms shall be provided for this purpose to property owners by the county official responsible for receiving returns unless previously approved in writing by the Revenue Commissioner.

1. Authorized return forms.
The returns described in this subparagraph shall be authorized for use when returning personal property.

(i) Form PT-50P.
The return form PT-50P, entitled "Business Personal Property Tax Return," may be used for the return of business personal property when the property owner is not eligible or does not desire to file an application for freeport exemption.

(ii) Form PT-50PF.
The return form PT-50PF, entitled "Business Personal Property Tax Return / Application for Freeport Exemption," may be used for the return of business personal property and simultaneous application for freeport exemption.

(iii) Form PT-50MA.
The return form PT-50MA, entitled "Marine / Aircraft Personal Property Tax Return," may be used for the return of boats or aircraft.

2. Obtaining returns from receiver.
Each year, after the deadline for filing returns, the appraisal staff shall secure the returns from the official responsible for receiving returns on or before the tenth day following such deadline.

3. Automatic returns.
In accordance with Code section 48-5-20, the appraisal staff shall deem any property owner that does not file a return by the deadline as returning for taxation the same property as was returned or deemed to have been returned in the preceding tax year at the same valuation as the property was finally determined to be subject to taxation in the preceding year.

(c) Reporting schedules.
Property owners shall use Department of Revenue authorized reporting schedules when reporting supporting information for authorized return forms. No other reporting schedules shall be provided for this purpose to property owners by the county official responsible for reviewing returns unless previously approved in writing by the Revenue Commissioner. A property owner may attach other schedules or documents that provide further support for the value they have placed on their personal property return. The appraisal staff shall consider all additional information submitted by the property owner with the return and reporting schedules. The reporting schedules required by Rule 560-11-10-.08(3)(c) and appropriate for the type of personal property being returned and any other information submitted with the return by the property owner are made confidential by Code section 48-5-314 and shall be treated as such by the appraisal staff. The appraisal staff shall not consider as fully returned any property that is omitted, misrepresented, or undervalued on the supporting reporting schedules and accompanying property owner documents, as these provide the basis for the property owner's declarations of value on the return and are necessary for the board of assessors to carry out their responsibility under Code section 48-5-299 to, through their appraisal staff, ascertaining what personal property is subject to taxation in the county and to require the proper return of the property for taxation.

1. Authorized reporting schedules.
The reporting schedules described in this subparagraph shall be authorized for use when reporting information to support the return of personal property.

(i) Schedule A.
The reporting schedule entitled "Schedule A" may be used to list and describe any furniture, trade fixtures, personal fixtures, machinery and equipment that is included on the property owner's return.

(ii) Schedule B.
The reporting schedule entitled "Schedule B" may be used to list and describe any inventory that is included on the property owner's return.

(iii) Schedule C.
The reporting schedule entitled "Schedule C" may be used to list and describe any construction in progress that is included on the property owner's return.

(iv) Schedule D.
The reporting schedule entitled "Schedule D" may be used to list and describe any boats or aircraft that are included on the property owner's return.

(4) Verification.
The appraisal staff shall review and audit the returns in accordance with policies and procedures set by the county board of tax assessors consistent with Georgia law and this Rule.

(a) Omissions and undervaluations.
If not otherwise prohibited by law or this Rule, the appraisal staff shall recommend an additional assessment to the board of tax assessors when any review or audit reveals that a property owner has omitted from their return any property that should be returned or has failed to return any of their property at its fair market value. The appraisal staff shall recommend a reduced assessment to the board of tax assessors when any review or audit reveals that a property owner has overstated the amount of personal property subject to taxation.

(b) Reassessments.
The appraisal staff shall recommend to the board of tax assessors a new assessment when the property owner has omitted personal property from their return or failed to return personal property at its fair market value, when such omission or undervaluation has been discovered by an audit conducted pursuant to Rule 560-11-10-.08(4)(d). The appraisal staff shall not be precluded from conducting such an audit merely because a change of assessment has been made on the personal property as a result of a review conducted pursuant to Rule 560-11-10-.08(4)(c). However, the appraisal staff may not recommend to the board of tax assessors a reassessment of the same personal property for which an audit has been conducted pursuant to Rule 560-11-10-.08(4)(d) and a final assessment has already been made by the board.

(c) Review.
The purpose of a review is to determine if a property owner has correctly and fully completed their return and reporting schedules. It is based upon the good-faith disclosures of the property owner and information that is readily ascertainable by the appraisal staff. The review of an owner's return may consist of, but is not limited to, an analysis of any improper omissions or inclusions, improperly applied or omitted depreciation, and improperly applied or omitted inflation or deflation of the value of the owner's property. The examination should include a comparison of the current return information with return information from prior years. The appraiser should contact the owner or their agent by an on-site visit, telephone call, or written correspondence to attempt to resolve any questionable items. Returns with unresolved discrepancies, unexpected values, or incomplete information should be escalated to an audit.

(d) Audits.
The purpose of an audit is to gather information that will allow the appraiser to make an accurate determination of the fair market value of the property owned by the property owner and subject to taxation. An audit is an examination of the records of the property owner to make an independent determination of the fair market value of such property where such determination does not solely depend upon the good-faith disclosures of the property owner and information that is readily ascertainable by the appraisal staff. The appraisal staff shall perform, consistent with Georgia Law and policies that are established by the board of tax assessors, audits of the records of the property owners to verify the returns of personal property. These audits may take place at any time within the seven-year statute of limitations, which begins on the date the personal property was required by law to be returned.

1. Scope of audit.
The audit may be an advanced desk audit of certain additional property owner records that are voluntarily submitted or obtained by subpoena from the property owner or a complex on-site detailed audit of the property owner's books and records combined with a physical inspection of the personal property. The documents the appraisal staff should secure include, but are not limited to, schedules A, B, and C of form PT-50P; a balance sheet or other type of financial record that for a particular location reflects the business' book value as of January 1 of the tax year being audited; a ledger of capitalized personal property items held on January 1 of the tax year being audited; and an income statement.

(i) Use of subpoena.
The appraiser should request the board of tax assessors to subpoena, within the limitations of their subpoena powers, any existing documents the property owner fails to provide voluntarily, when these documents are deemed by the appraiser to be critical to the audit. Since the appraiser may not request a subpoena for documents that do not presently exist in the format needed, the appraiser should seek existing documents held by the property owner and solicit the owner's voluntary cooperation in obtaining these documents.

2. Contracts with auditing specialists.
The appraiser shall secure non-disclosure statements from any contracted audit specialist to ensure that such specialist shall conform with the confidentiality provisions of Code section 48-5-314 and shall not disclose the property owner's confidential records to unauthorized persons or use such confidential records for purposes other than the county's review for ad valorem tax purposes of the tax return and supporting documentation. The appraisal staff shall provide a copy of such non-disclosure statement to the property owner upon such owner's request. The appraiser shall not recommend to the board of tax assessors any contract or agreement with an audit specialist that provides for such specialist to contingently share a percentage of the tax collected as a result of any audits such specialist may perform.

(i) Notice to property owner.
The lead appraiser shall ensure the property owner is sent a notice they have been selected for an audit of their personal property holdings for ad valorem tax purposes. The notice shall, at a minimum, indicate the following: the purposes and goals of the audit and the law authorizing the audit; the name of the lead appraiser who is primarily responsible for the conduct of the audit; the names of the members of the audit team that will be performing the audit; the number of years that will be audited; a description of the type records that should be made available; a description of how the audit will be conducted; the range of dates desired for the audit; and contact information should the property owner wish to contact the lead appraiser. The notice shall contain a statement that the lead appraiser will be contacting the property owner by telephone to establish the date and time of the audit and to determine the availability and location of records. At the conclusion of the audit, if there is sufficient evidence to warrant a recommended change of assessment, the lead appraiser shall have prepared a list of preliminary audit findings and provide such list to the property owner to afford them an opportunity to meet and discuss the findings and view any supporting schedules and documents relied upon by the individuals conducting the audit. After any such meeting requested by the property owner, the lead appraiser shall have prepared the final audit report and proposed assessment and provide a copy to the property owner and the board of tax assessors.

(e) Audit selection criteria.
The appraisal staff shall recommend to the board of tax assessors a review and audit selection criteria, and the appraisal staff shall follow such criteria when adopted by the board. The criteria should be designed to maximize the number of personal property returns that may be reviewed or audited with existing resources. The criteria should be fair, unbiased, and developed consistent with the requirements of Code section 48-5-299. All personal property accounts should be reviewed or audited at least once every three years.

(f) Property owner records.
The appraisal staff should first endeavor to obtain the records necessary to substantiate the information returned or reported by the property owner through the voluntary cooperation of the property owner. When such voluntary cooperation is not forthcoming,

and the records requested from the property owner are believed by the appraiser to be critical to a proper appraisal of the personal property, the appraiser may request that the board of tax assessors issue an appropriate subpoena for such records. The appraiser may request that the board of tax assessors issue an appropriate subpoena for the testimony of any individuals the appraiser believes poses knowledge critical to determination of the fair market value of the property owner's personal property.

1. Record types.
The types of records the appraisal staff may request the board of tax assessors to issue subpoenas for include, but are not limited to, the following: chart of accounts, general ledger, detailed subsidiary ledgers, journals of original entry, balance sheet, income statement, annual report, Securities Exchange Commission Form 10K. The types of records the appraisal staff may not request the board of tax assessors to issue subpoenas for include the following:

(i) Income tax returns.
Forms and schedules authorized by the Internal Revenue Service or the revenue collecting agencies of the several states for use in filing income tax returns to those agencies;

(ii) Property appraisals.
A property appraisal that the property owner has obtained prior to any appeal that is filed as a result of a change of assessment being made to the property owner's personal property;

(iii) Insurance policies.
An insurance policy that may contain valuation estimates of the insured personal property; or

(iv) Tenant sales information.
A rent roll or document containing the individual tenant sales information on the property owner's rented or leased personal property.

(5) Valuation procedures.
The appraisal staff shall follow the provisions of this paragraph when performing their appraisals. Irrespective of the valuation approach used, the final results of any appraisal of personal property by the appraisal staff shall in all instances conform to the definition of fair market value in Code section 48-5-2 and this Rule.

(a) General procedures.
The appraisal staff shall consider the sales comparison, cost, and income approaches in the appraisal of personal property. The degree of dependence on any one approach will change with the availability of reliable data and type of property being appraised.

1. Information presented by property owner.
The appraisal staff shall consider any timely information presented by the property owner that may have reasonable relevance to the appraisal of the owner's personal property. The appraisal staff shall consider the effect of any factors discovered during the review or audit of the return or directly presented by the property owner that may reduce the value of the owner's personal property, including, but not limited to all forms of depreciation, shrinkage, theft and damage.

2. Selection of approach.
With respect to machinery, equipment, personal fixtures, and trade fixtures, the appraisal staff shall use the sales comparison approach to arrive at the fair market value when there is a ready market for such property. When no ready market exists, the appraiser shall next determine a basic cost approach value. When the appraiser determines that the basic cost approach value does not adequately reflect the physical deterioration, functional or economic obsolescence, or otherwise is not representative of fair market value, they shall apply the approach or combination of approaches to value that, in their judgment, results in the best estimate of fair market value. All adjustments to the basic cost approach shall be documented to the board of tax assessors.

3. Rounding.
The appraisal staff may express the final fair market value estimate to the board of tax assessors in numbers that are rounded to the nearest hundred dollars.

(b) Special procedures.
The appraisal staff shall observe the procedures in this Subparagraph when appraising inventory and construction in process.

1. Valuation of inventory.
When appraising inventory, the appraisal staff shall consider the value of inventory to consist of all the charges incurred from its original state as raw material to its final resting place for ultimate consumption, including such items as freight and other overhead charges, with the exception of the cost of the final sale The appraisal staff shall also consider factors contributing to any loss of value including, but not limited to, obsolescence, shrinkage, theft and damage.

2. Construction in progress.
Property owners who are constructing or installing a large piece or line of production equipment may be required by generally accepted accounting principles to accrue the total costs associated with such equipment in a holding account until the construction or installation is complete and the equipment is ready for production, at which time, the property owner is permitted by such principles to post the total accrued cost to a fixed asset account, taking appropriate depreciation. If such holding account is maintained by the property owner, the appraisal staff shall consider the accrued total cost reported in the property owner's holding account when appraising such property. Construction in progress shall be appraised in the same manner as other similar personal property taking

into account that there may be little or no physical deterioration on such property and that the fair market value may be diminished due to the incomplete state of construction. If comparable sales information of personal property under construction is generally not available and there is no other specific evidence to measure the probable loss of value if the property is sold in an incomplete state of construction, the appraisal staff may multiply the identified total cost of construction by a uniform market risk factor of .75.

3. Overhauls.
When appraising machinery, equipment, furniture, personal fixtures, and trade fixtures, the appraisal staff shall consider the cost of all expenditures, both direct and indirect, relating to any efforts to overhaul an asset to modernize, rebuild, or otherwise extend the useful life of such asset. The following procedure is to be used by the appraisal staff to estimate the value of an overhauled asset: An adjustment to the original cost of the asset is made to reflect the cost of the components that have been replaced. The cost of the overhaul is divided by an index factor representing the accumulated inflation or deflation from the year of acquisition of the asset on which the overhaul was performed to the year of the overhaul. This amount is then subtracted from the original cost of the asset being overhauled. The remainder is then multiplied by the composite conversion factor for the year of the original acquisition as specified in Rule 560-11-10-.08(5)(f)(4)(iii) of this section. The current year's composite conversion factor is then applied to the cost of the overhaul, and these two figures are combined to represent the estimate of value for the overhauled asset.

(c) Level of trade.
The appraisal staff shall recognize three distinct levels of trade: the manufacturing level, the wholesale level, and the retail level. The appraiser shall take into account the incremental costs that are added to a product as it advances from one level to another that may increase its value as a final product. The appraisal staff shall value the property at its level of trade.

(d) Ready markets.
When the appraiser lacks sufficient evidence to demonstrate the existence of a ready market, he or she shall consider any evidence submitted by the property owner demonstrating that a ready market is available. When the property owner cannot prove the existence of a reliable ready market, the appraiser may use other valuation approaches as authorized by law and Rule560-11-10-.08(5).

1. Liquidation sales.
The appraisal staff should recognize that those liquidation sales that do not represent the way personal property is normally bought and sold may not be representative of a ready market. For such sales, the appraisal staff should consider the structure of the sale, its participants, the purchasers, and other salient facts surrounding the sale. After considering this information, the appraisal staff may disregard a sale in its entirety, adjust it to the appropriate level of trade, or accept it at face value.

(e) Sales comparison approach.
The sales comparison approach uses the sales of comparable properties to estimate the value of the subject property being appraised.

1. Widely used pricing guides.
The appraisal staff should make a reasonable effort to obtain and use generally accepted pricing guides that are published and widely used within the market. When using such a guide to estimate the comparative sales approach value, the appraiser shall begin with the listed retail price and then make any value adjustments as provided in the guide instructions, based on the best information available about the subject property being appraised.

2. Lesser-known pricing guides.
The property owner may submit, and the appraisal staff shall consider, lesser known publications, periodicals and price lists of the specific types of personal property being returned. Such lists should be regularly consulted by buyers of the type personal property reported, and should list prices at which sellers, who regularly deal in the types of property reported, typically offer such property for sale.

(i) Validation of lesser pricing guides.
In all cases where unpublished, unrecognized, or unverified sales data are submitted by the property owner, the steps the appraiser may take to validate such data include, but are not limited to, the following:

(I) Arm's length transactions.
Verify that the sales meet the criteria set forth for an arm's length transaction as evidenced in Rule 560-11-02-.56 (1)(d). This may be accomplished by confirmation of the facts of the sale from the buyer, seller, or other knowledgeable parties.

(II) Representativeness.
Verify that the sales data submitted is either all-inclusive or has been randomly selected, so as to be unbiased and fairly represent the market for the personal property being appraised. This may be accomplished by contacting known dealers of the subject personal property to determine whether other significant market data exists that supports the data submitted by the property owner.

(III) Financing.
Adjust the sale price of the subject property for non-conventional financing.

(IV) Time of sale.
Adjust the sale price of the subject property for the date of sale in order to estimate the value as of the January 1 assessment date.

(V) Discounts.
Adjust the sale price to remove trade and cash discounts.

(VI) Comparability.
Adjust the sale price of the subject property for characteristics of the subject not found in the sales to which it is being compared, such as condition, use, and extra or missing features.

3. Other factors.
To finalize the sales comparison approach, the appraiser shall consider any other factors, appropriate to the approach, which may be affecting the value. When the comparative sales approach is used as the basis for the appraisal of personal property, the appraiser shall not make further adjustments to the value to reflect economic obsolescence, functional obsolescence, or inflation.

(f) Cost approach.
The cost approach arrives at an estimate of value by taking the replacement or reproduction cost of the personal property and then reducing this cost to allow for physical deterioration, functional and economic obsolescence.

1. General procedure.
In applying the cost approach to personal property during a review or audit of a return, the appraiser shall identify the year acquired, and total acquisition costs, including installation, freight, taxes, and fees. The acquisition costs shall then be adjusted for inflation and deflation and then depreciated as appropriate to reflect current market values.

2. Book value.
The appraiser should recognize that the appraisal and accounting practices for depreciating personal property might differ. Accounting practices provide for recovery of the cost of an asset, whereas appraisal practices strive to estimate the fair market value related to the current market. The appraiser should consider depreciation in the forms of physical deterioration, functional obsolescence, and economic obsolescence, which may not necessarily be reflected in the book value. The appraiser should consider that accounting practices of property owners might also differ.

3. Valuation as a whole.
The appraiser may arrange the individual items of personal property into groups with similar valuation characteristics and value such group as a whole when the itemized appraisals of each item of personal property will not add substantially to the accuracy of the determination of the cost approach value.

4. Basic cost approach.
The appraisal staff shall determine the basic cost approach value of machinery,

equipment, furniture, personal fixtures, and trade fixtures using the following uniform four-step valuation procedures: Determine the original cost new of the item of personal property to the property owner; determine the uniform economic life group for the item of personal property; and multiply the original cost new times the uniform composite conversion factor appropriate for the economic life group and actual age of the item of personal property. Then determine a salvage value of any item of personal property when it is taken out of use at the end of its expected economic life.

(i) Original cost new.
The appraisal staff shall determine the original cost new of the item of machinery, equipment, furniture, personal fixtures, and trade fixtures. Any real improvements to the real property, including real fixtures that had to be installed for the proper operation of the property, shall be included in the appraisal of the real property and not included in the basic cost approach value of the personal property. Those portions of transportation costs and installation costs that do not represent normal and customary costs for the type personal property being appraised shall be excluded from the original cost new when determining the basic cost approach value.

(ii) Economic life groups.
When determining the basic cost approach value of machinery, equipment, furniture, personal fixtures, and trade fixtures, the appraisal staff shall separate the individual items of property into four economic life groupings that most reasonably reflect the normal economic life of such property as specified in this subparagraph. The appraiser shall use Table B-1 and B-2 of Publication 946 of the U.S. Treasury Department Internal Revenue Service, as revised in 1998, to classify the individual asset into the appropriate economic life group. For property that does not appear in such publication, the appraisal staff may determine the appropriate economic life group based on the best information available, including, but not limited to, the property owner's history of purchases and disposals.

(I) Group I.
The appraisal staff shall place into Group I any assets that have a typical economic life between five and seven years.

(II) Group II.
The appraisal staff shall place into Group II any assets that have a typical economic life between eight and twelve years.

(III) Group III.
The appraisal staff shall place into Group III any assets that have a typical economic life of thirteen years or more.

(IV) Group IV.
The appraisal staff shall place into Group IV any assets that have a typical economic life of four years or less. The appraisal staff shall also place into Group IV those assets

classified as Asset Class 00.12 in Publication 946 of the U.S. Treasury Internal Revenue Service, Table B-1, as revised in 1998.

(iii) Composite conversion factors.
The appraisal staff shall, in accordance with this Rule, use the composite conversion factors as provided in this subparagraph and apply the appropriate factor to the original cost new of personal property to arrive at the basic cost approach value. The last composite conversion factor in each economic life group shall not be trended and shall represent the residual value.

(I) Group I composite conversion factors.
The following composite conversion factors shall be applied to Group I assets to arrive at the basic cost approach value for years one through seven: Y1-.87, Y2-.74, Y3-.58, Y4-.43, Y5-.32, Y6-.26, Y7-.21. Thereafter the residual composite conversion factor shall be .20.

(II) Group II composite conversion factors.
The following composite conversion factors shall be applied to Group II assets to arrive at the basic cost approach value for years one through eleven: Y1-.92, Y2-.85, Y3-.78, Y4-.70, Y5-.63, Y6-.54, Y7-.44, Y8-.34, Y9-.28, Y10-.25, Y11-.25. Thereafter the residual composite conversion factor shall be .20.

(III) Group III composite conversion factors.
The following composite conversion factors shall be applied to Group III assets to arrive at the basic cost approach value for years one through sixteen: Y1-.95, Y2-.91, Y3-.87, Y4-.82, Y5-.79, Y6-.75, Y7-.70, Y8-.63, Y9-.57, Y10-.52, Y11-.47, Y12-.41, Y13-.35, Y14-.31, Y15-.29, Y16-.28. Thereafter the residual composite conversion factor shall be .20.

(IV) Group IV composite conversion factors.
The following composite conversion factors shall be applied to Group IV assets to arrive at the basic cost approach value for years one through three: Y1-.67, Y2-.54, Y3-.31. Thereafter the residual composite conversion factor shall be .10.

(iv) Basic cost approach value.
The basic cost approach value shall be determined by multiplying the composite conversion factor times the original cost new of operating machinery, equipment, furniture, personal fixtures, and trade fixtures.

(v) Salvage value.
Once personal property is taken out of service at or after the end of its typical economic life, it shall be considered salvage until disposed of and the appraiser shall determine a basic cost approach value by taking ten percent of the original cost new of such property. The basic cost approach value for property withdrawn from active use but retained as

backup equipment shall be one-half the basic cost approach value otherwise applicable for such property.

5. Further depreciation to basic cost approach value.

(i) Physical deterioration.
The appraiser shall consider any evidence presented by the property owner demonstrating physical deterioration that is unusual for the type of personal property being appraised.

(ii) Functional obsolescence.
The appraisal staff shall consider any evidence presented by the property owner demonstrating functional obsolescence for the type of personal property being appraised. One method the appraisal staff may use to determine the amount of functional obsolescence is to trend the original cost new for inflation to arrive at the reproduction cost new, then deduct the cost of a newer replacement model with similar or improved functionality.

(iii) Economic obsolescence.
The appraisal staff shall consider any evidence presented by the property owner demonstrating economic obsolescence for the type of personal property being appraised. One method the appraisal staff may use to determine the amount of economic obsolescence is to capitalize the difference between the economic rent of an item of personal property before and after the occurrence of the adverse economic influence.

(g) Income approach.
The income approach to value estimates the value of personal property by determining the current value of the projected income stream. This approach is most applicable to machinery, equipment, furniture, personal fixtures, and trade fixtures. The approach should only consider the income directly attributable to the personal property being valued and not the income attributable to the real or intangible personal property forming the same business. The appraisal staff may use one of the following methods when using the income approach for the appraisal of applicable personal property:

1. Straight-line capitalization method.
The straight-line capitalization method estimates the income approach value of personal property by computing the investment necessary to produce the net income attributable to the personal property. In essence, it is determined by first computing the potential gross income for a subject property by taking the monthly rent, when that is the rental basis, and multiplying that total by twelve months. The potential gross income is then adjusted to a net operating income by subtracting any expenses that legitimately represent the costs necessary for production of that income. The net operating income will represent the amount of revenue left after operating expenses that is available to return the investment, pay property tax on the property, and return a profit to the owner.

(i) Income and expense analysis.
While complete data is not required on each individual property, there must be sufficient data to develop typical unit rents, typical collection loss ratios, and typical expense ratios for various type properties. Income and expense figures used in the income approach must reflect current market conditions and typical management. Actual figures may be used when they meet this criterion. When actual figures are not available or appear to be unrepresentative, typical figures should be used. Income and expense analysis builds upon the following important components: typical unit rent, potential gross rent, collection loss, typical gross income, typical expenses, and typical net income. Excluded are expenses such as depreciation charges, debt service, income taxes, and business expenses not associated with the property.

(ii) Capitalization.
Capitalization involves the conversion of typical net income into an estimate of value. The estimated income is divided by the capitalization rate to arrive the estimated income approach value. The capitalization rate consists of three components. The discount rate, the recapture rate, and the effective tax rate. The discount rate represents the amount of return a prudent investor could reasonably expect on an investment in the subject property. The recapture rate represents the return of the potential investment. The effective tax rate represents the portion of the income stream allocated to pay resulting ad valorem taxes on the property.

(I) Discount rate.
The appraiser should calculate the appropriate discount rate through a method known as the band of investment. The band of investment represents the weighted-average cost of the money needed to purchase the applicable personal property. The appraiser determines the percentage of the cost typically borrowed and multiplies this percentage times the typical cost of borrowing. The appraiser then determines the remaining percentage of the cost typically contributed by an investor and multiplies this percentage times the expected rate of return to the investor. An analysis of similar properties might reveal the discount rate typical for a property of a given type.

(II) Recapture rate.
The appraiser should calculate the recapture rate by dividing one by the number of years remaining in the economic life of the subject property. The resulting percentage is the current year's recapture rate.

(III) Effective tax rate.
The appraiser should calculate the effective tax rate by multiplying the forty percent assessment level times the tax rate in the jurisdiction in which the subject property is located. The effective tax rate is included in the capitalization rate because market value is yet unknown, and property taxes can be addressed as a percentage of that unknown value in lieu of their inclusion as an expense in calculation of net annual income.

2. Direct sales analysis method.
The direct sales analysis method estimates the income approach value of personal property by computing the relationship between income and sales data. This relationship is expressed as a factor. The method represents a blend of the sales comparison and income approaches because it involves application of income data in conjunction with sales data. Sales of items similar to the subject property are divided by the gross rents, for which they or identical properties are leased, to develop gross income multipliers. A gross income multiplier is selected as typical for the market, and multiplied against the gross income of the subject, or that of an identical property, to result in an estimated value. Limiting the income to rental income only produces a gross rental multiplier.

(i) Gross income or rent multiplier.
The appraiser should compute the gross income multiplier by dividing the typical gross income on the personal property by the typical sales price of the personal property. The appraiser should compute the gross rent multiplier by dividing the typical gross rent on the personal property by the typical sales price of the personal property. The appraiser must identify the specific item of personal property to be valued and determine the typical gross income as gross income is determined in Rule 560-11-10-.08(5)(g)(1)(i). The item is then stratified according to its typical use. Typical use strata may include, but are not limited to, office equipment, light-duty manufacturing equipment, heavy-duty manufacturing equipment, retail sales equipment, furniture, personal fixtures, trade fixtures, restaurant equipment, or any other stratum the appraiser believes will have similar sensitivity to market fluctuations as the subject item. The appraiser may develop an individual multiplier on a single item of personal property when there is sufficient sales and rent information. This multiplier may then be used for similar items of personal property for which there may be limited sales and rent information. The income approach value estimate is computed by multiplying the estimated gross income times the gross income multiplier or the gross rent times the gross rent multiplier.

(I) Adjustments.
Income data and sales prices used in the development of income multipliers should be reasonably current. Older sales may be matched against recent income figures when the sales are adjusted for time. Sales must also be adjusted for financing, condition, optional equipment, and level-of-trade.

(6) Final estimate of fair market value.
After completing all calculations, considering the information supplied by the property owner, and considering the reliability of sales, cost, income and expense information, the appraiser will correlate any values indicated by those approaches to value that are deemed to have been appropriate for the subject property and form their opinion of the fair market value. The appraisal staff shall present the resulting proposed assessment, along with all supporting documentation, to the board of tax assessors for an assessment to be made by that board.

USPAP -- UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

STANDARDS AND STANDARDS RULES

STANDARD 1	Real Property Appraisal, Development
STANDARD 2	Real Property Appraisal, Reporting
STANDARD 3	Appraisal Review, Development And Reporting
STANDARD 4	Real Property Appraisal Consulting, Development
STANDARD 5	Real Property Appraisal Consulting, Reporting
STANDARD 6	Mass Appraisal, Development And Reporting
STANDARD 7	Personal Property Appraisal, Development
STANDARD 8	Personal Property Appraisal, Reporting
STANDARD 9	Business Appraisal, Development
STANDARD 10	Business Appraisal, Reporting

STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT

In developing a personal property appraisal, an appraiser must identify the problem to be solved and the scope of work necessary to solve the problem and correctly complete research and analysis necessary to produce a credible appraisal.

Comment: STANDARD 7 is directed toward the substantive aspects of developing a competent appraisal of personal property. The requirements set forth in STANDARD 7 follow the appraisal development process in the order of topics addressed and can be used by appraisers and the users of appraisal services as a convenient checklist.

Standards Rule 7-1

(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, an appraiser must:

(a) **be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;**

Comment: This Standards Rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in personal property practice have a substantial impact on the appraisal profession. Important changes in the cost and manner of acquiring, producing, and marketing personal property and changes in the legal framework in which property rights and interests are created, marketed, conveyed, and financed have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession reviews and revises appraisal methods and techniques and develops methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in personal property appraisal.

(b) **not commit a substantial error of omission or commission that significantly affects an appraisal; and**

Comment: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 7-2(f), to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, when necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

(c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.

Comment: Perfection is impossible to attain, and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Rule requires an appraiser to use due diligence and due care.

Standards Rule 7-2

(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, an appraiser must:

(a) identify the client and other intended users;[48]

(b) identify the intended use of the appraisers opinions and conclusions;

Comment: Identification of the intended use is necessary for the appraiser and the client to decide:

- the appropriate scope of work to be completed, and
- the level of information to be provided in communicating the appraisal.

An appraiser must not allow a clients objectives or intended use to cause an analysis to be biased.

(c) identify the type and definition of value, and, if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:

(i) in terms of cash; or

(ii) in terms of financial arrangements equivalent to cash; or

(iii) in other precisely defined terms; and

(iv) if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraisers opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;

Comment: When developing an opinion of value in a specified market or at a specified market level based on the potential sale of the property, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion.

(d) identify the effective date of the appraisers opinions and conclusions;

(e) identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal, including:

(i) sufficient characteristics to establish the identity of the item including the method of identification;

(ii) sufficient characteristics to establish the relative quality of the item (and its component parts, where applicable) within its type;

(iii) all other physical and economic attributes with a material effect on value;

Comment: Some examples of physical and economic characteristics include condition, style, size, quality, manufacturer, author, materials, origin, age, provenance, alterations, restorations, and obsolescence. The type of property, the type and definition of value, and intended use of the appraisal determine which characteristics have a material effect on value.

(iv) the ownership interest to be valued;

(v) any known restrictions, encumbrances, leases, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature; and

(vi) any real property or intangible items that are not personal property but which are included in the appraisal.

Comment on (i)(vi): If the necessary subject property information is not available because of conditions limiting the appraisers ability to inspect or research the subject property (such as lighting conditions at an onsite inspection, time constraints, lack of attainable information from reliable third-party sources), an appraiser must:

- obtain the necessary information before proceeding, or
- where possible, in compliance with Standards Rule 7-2(g), use an extraordinary assumption about such information.

An appraiser may use any combination of a property inspection and documents or other resources to identify the relevant characteristics of the subject property. The information used by an appraiser to identify the property characteristics must be from sources the appraiser reasonably believes are reliable.
An appraiser may not be required to value the whole when the subject of the appraisal is a fractional interest, a physical segment, or a partial holding.

(f) identify the scope of work necessary to complete the assignment;

Comment: The scope of work is acceptable when it is consistent with:

- the expectations of participants in the market for the same or similar appraisal services; and
- what the appraisers peers actions would be in performing the same or a similar assignment in compliance with USPAP.

An appraiser must have sound reasons in support of the scope of work decision and must be prepared to support the decision to exclude any information or procedure that would appear to be relevant to the client, intended users, or the appraisers peers in the same or a similar assignment.

An appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the intended use of the appraisal.

(g) identify any extraordinary assumptions necessary in the assignment; and

Comment: An extraordinary assumption may be used in an assignment only if:

- it is required to properly develop credible opinions and conclusions;
- the appraiser has a reasonable basis for the extraordinary assumption;
- use of the extraordinary assumption results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

(h) identify any hypothetical conditions necessary in the assignment.

Comment: A hypothetical condition may be used in an assignment only if:

- use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- use of the hypothetical condition results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

Standards Rule 7-3

(This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a personal property appraisal, an appraiser must collect, verify, analyze, and reconcile all information pertinent to the appraisal problem, given the scope of work identified in accordance with Standards Rule 7-2(f).

(a) Where applicable, identify the effect of highest and best use by measuring and analyzing the current use and alternative uses to encompass what is profitable, legal, and physically possible, as relevant to the type and definition of value and intended use of the appraisal;

(b) Personal property has several measurable marketplaces; therefore, the appraiser must define and analyze the appropriate market consistent with the type and definition of value; and

Comment: The appraiser must recognize that there are distinct levels of trade and each may generate its own data. For example, a property may have a different value at a wholesale level of trade, a retail level of trade, or under various auction conditions. Therefore, the appraiser must analyze the subject property within the correct market context.

(c) Analyze the relevant economic conditions at the time of the valuation, including market acceptability of the property and supply, demand, scarcity, or rarity.

Standards Rule 7-4

(This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a personal property appraisal, an appraiser must collect, verify, and analyze all information applicable to the appraisal problem and the type of property, given the scope of work identified in accordance with Standards Rule 7-2(f).

(a) When a sales comparison approach is applicable, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.

(b) When a cost approach is applicable, an appraiser must:

(i) analyze such comparable cost data as are available to estimate the cost new of the property; and

(ii) analyze such comparable data as are available to estimate the difference between cost new and the present worth of the property (accrued depreciation).

(c) When an income approach is applicable, an appraiser must:

(i) analyze such comparable data as are available to estimate the market income of the property;

(ii) analyze such comparable operating expense data as are available to estimate the operating expenses of the property;

(iii) analyze such comparable data as are available to estimate rates of capitalization and/or rates of discount; and

(iv) base projections of future income and expenses on reasonably clear and appropriate evidence.

Comment: An appraiser must, in developing income and expense statements and cash flow projections, weigh historical information and trends, current supply and demand factors affecting such trends, and competition.

(d) When developing an opinion of the value of a lease or leased property, an appraiser must analyze the effect on value, if any, of the terms and conditions of the lease(s).

(e) An appraiser must analyze the effect on value, if any, of the assemblage of the various component parts of a property and refrain from valuing the whole solely by adding together the individual values of the various component parts.

Comment: Although the value of the whole may be equal to the sum of the separate parts, it also may be greater than or less than the sum of such parts. Therefore, the value of the whole must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

A similar procedure must be followed when the value of the whole has been established and the appraiser seeks to value a part. The value of any such part must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

(f) An appraiser must analyze the effect on value, if any, of anticipated modifications to the subject property, to the extent that market actions reflect such anticipated modifications as of the effective appraisal date.

(g) An appraiser must analyze the effect on value of any real property or intangible items that are not personal property but are included in the appraisal.

Comment: Competency in real property appraisal (see STANDARD 1) or business appraisal (see STANDARD 9) may be required when it is necessary to allocate the overall value to the property components. In addition, competency in other types of personal property outside of the appraisers specialty area may be necessary (see STANDARD 7 and the COMPETENCY RULE). A separate valuation, developed in compliance with the STANDARD pertinent to the type of property involved, is required when the value of an item or combination of items is significant to the overall value.

(h) When appraising proposed modifications, an appraiser must examine and have available for future examination:

(i) plans, specifications, or other documentation sufficient to identify the scope and character of the proposed modifications;

(ii) evidence indicating the probable time of completion of the proposed

modifications; and

(iii) reasonably clear and appropriate evidence supporting implementation costs, anticipated earnings, and output, as applicable.

Comment: Development of a value opinion for a subject property with proposed modifications as of a current date involves the use of the hypothetical condition that the described modifications have been completed as of the date of value when, in fact, they have not.

The evidence required to be examined and maintained may include such items as vendors or contractors estimates relating to cost and the time required to complete the proposed modifications; market and feasibility studies; operating cost data; and the history of recently completed similar developments. The appraisal may require a complete feasibility analysis.

Standards Rule 7-5

(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, when the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:[49]

(a) analyze all agreements of sale, validated offers or third-party offers to sell, options, or listings of the subject property current as of the effective date of the appraisal; and

(b) analyze all prior sales of the subject property that occurred within a reasonable and applicable time period, given the purpose of the assignment and the type of property involved.

Comment: The data needed for the required analyses in SR 7-5(a) and 7-5(b) may not be available or relevant in all assignments. See the Comments to Standards Rules 8-2(a)(ix), 8-2(b)(ix), and 8-2(c)(ix) for corresponding reporting requirements.

Standards Rule 7-6

(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, an appraiser must:

(a) reconcile the quality and quantity of data available and analyzed within the

approaches used; and

(b) reconcile the applicability or suitability of the approaches used to arrive at the value conclusion(s).

Comment: See the Comments to Standards Rules 8-2(a)(ix), 8-2(b)(ix), and 8-2(c)(ix) for corresponding reporting requirements.

STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING

In reporting the results of a personal property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.

Comment: STANDARD 8 addresses the content and level of information required in a report that communicates the results of a personal property appraisal.

STANDARD 8 does not dictate the form, format, or style of personal property appraisal reports, which are functions of the needs of users and appraisers. The substantive content of a report determines its compliance.

Standards Rule 8-1

(This Standards Rule contains binding requirements from which departure is not permitted.)

Each written or oral personal property appraisal report must:

(a) clearly and accurately set forth the appraisal in a manner that will not be misleading;

Comment: Since many reports are used and relied upon by third parties, communications considered adequate by the appraisers client may not be sufficient. An appraiser must take extreme care to make certain that his or her reports will not be misleading to the intended users of the appraisal report.

(b) contain sufficient information to enable the intended users of the appraisal to understand the report properly; and

Comment: The person(s) expected to receive or rely on a Self-Contained or Summary Appraisal Report are the client and intended users. Only the client is expected to receive or rely on the Restricted Use Appraisal Report.

(c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, or limiting conditions used in the assignment.

Standards Rule 8-2

(This Standards Rule contains binding requirements from which departure is not permitted.)

Each written personal property appraisal report must be prepared under one of the

following three options and prominently state which option is used: Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report.

Comment: When the intended users include parties other than the client, either a Self-Contained Appraisal Report or a Summary Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Use Appraisal Report may be provided. The essential difference among these three options is in the content and level of information provided.

An appraiser must use care when characterizing the type of report and level of information communicated upon completion of an assignment. An appraiser may use any other label in addition to, but not in place of, the label set forth in this Standard for the type of report provided.

The report content and level of information requirements set forth in this Standard are minimums for each type of report. An appraiser must supplement a report form, when necessary, to ensure that any intended user of the appraisal is not misled and that the report complies with the applicable content requirements set forth in this Standards Rule.

A party receiving a copy of a Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report in order to satisfy disclosure requirements does not become an intended user of the appraisal unless the appraiser identifies such party as an intended user as part of the assignment.

(a) The content of a Self-Contained Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

(i) state the identity of the client and any intended users, by name or type;

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the clients identity in the report.

(ii) state the intended use of the appraisal;[50]

(iii) describe information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;

(iv) state the property interest appraised;

(v) state the type and definition of value and cite the source of the definition;

Comment: Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.

When reporting an opinion of market value, state whether the opinion of value is:

- in terms of cash or of financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

(vi) state the effective date of the appraisal and the date of the report;[51]

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

(vii) describe sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;

Comment: : This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraisers investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.

When any portion of the work involves significant personal property appraisal assistance, the appraiser must describe the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with SR 8-3.

(viii) clearly and conspicuously:

- **state all extraordinary assumptions and hypothetical conditions; and**
- **state that their use might have affected the assignment results;**

(ix) describe the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;

Comment: The appraiser must be certain the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 7-6.

When reporting an opinion of market value, a summary of the results of analyzing the subject sales, offers, options, and listings in accordance with Standards Rule 7-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(x) **state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when reporting an opinion of market value, describe the support and rationale for the appraisers opinion of the highest and best use of the property;**

Comment: The report must contain the appraisers opinion as to the highest and best use of the property, unless an opinion as to highest and best use is unnecessary such as in insurance valuation or value in use appraisals. When reporting an opinion of market value, a summary of the appraisers support and rationale for the opinion of highest and best use is required. The appraisers reasoning in support of the opinion must be provided in the depth and detail required by its significance to the appraisal. In the context of personal property, highest and best use may equate to the choice of the appropriate market or market level for the type of item, the type and definition of value, and intended use of the report.

(xi) **state and explain any permitted departures from specific requirements of STANDARD 7 and the reason for excluding any of the usual valuation approaches; and**

Comment: A Self-Contained Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 7 is not affected by the type of report prepared under STANDARD 8. The extent of the appraisal process performed under STANDARD 7 is the basis for the reliability of the value conclusion.

(xii) **include a signed certification in accordance with Standards Rule 8-3.**

(b) The content of a Summary Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

Comment: The essential difference between the Self-Contained Appraisal Report and the Summary Appraisal Report is the level of detail of presentation.

(i) state the identity of the client and any intended users, by name or type;

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the clients identity in the report.

(ii) state the intended use of the appraisal;

(iii) summarize information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;

(iv) state the property interest appraised;

(v) state the type and definition of value and cite the source of the definition;

Comment: Stating the definition of value requires any comments needed to clearly indicate to the intended users how the definition is being applied.

When reporting an opinion of market value, state whether the opinion of value is:

- in terms of cash or of financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

(vi) state the effective date of the appraisal and the date of the report;

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

(vii) summarize sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;

Comment: This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraisers investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.

When any portion of the work involves significant personal property appraisal assistance, the appraiser must summarize the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with SR 8-3.

(viii) clearly and conspicuously:

- **state all extraordinary assumptions and hypothetical conditions; and**
- **state that their use might have affected the assignment results;**

(ix) summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;

Comment: The appraiser must be certain that the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 7-6.

When reporting an opinion of market value, a summary of the results of the analysis of the subject sales, offers, options, and listings in accordance with Standards Rule 7-5 is necessary. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(x) state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when reporting an opinion of market value, summarize the support and rationale for the appraisers opinion of the highest and best use of the property;

Comment: The report must contain the appraisers opinion as to the highest and best use of the property, unless an opinion as to highest and best use is unnecessary such as in insurance valuation or value in use appraisals. When reporting an opinion of market value, a summary of the appraisers support and rationale for the opinion of highest and best use is required. The appraisers reasoning in support of the opinion must be provided in the depth

and detail required by its significance to the appraisal. In the context of personal property, highest and best use may equate to the choice of the appropriate market or market level for the type of item and the type and definition of value and intended use of the report.

(xi) state and explain any permitted departures from specific requirements of STANDARD 7, and the reason for excluding any of the usual valuation approaches; and

Comment: A Summary Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term "Limited Appraisal" makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 7 is not affected by the type of report prepared under STANDARD 8. The extent of the appraisal process performed under STANDARD 7 is the basis for the reliability of the value conclusion.

(xii) include a signed certification in accordance with Standards Rule 8-3.

(c) The content of a Restricted Use Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

(i) state the identity of the client, by name or type;

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances when the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the clients identity in the report.

(ii) state the intended use of the appraisal;

Comment: The intended use of the appraisal must be consistent with the limitation on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e., client use only).

(iii) **state information sufficient to identify the property involved in the appraisal;**

(iv) **state the ownership interest appraised;**

(v) **state the type of value, and cite the source of its definition;**

(vi) **state the effective date of the appraisal and the date of the report;**48 (note52)

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

(vii) **state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraisers workfile, which describes the scope of work to be performed;**

Comment: When any portion of the work involves significant personal property appraisal assistance, the appraiser must state the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with SR 8-3.

(viii) **clearly and conspicuously:**

- **state all extraordinary assumptions and hypothetical conditions; and**
- **state that their use might have affected the assignment results;**

(ix) **state the appraisal procedures followed, state the value opinion(s) and conclusion(s) reached, and reference the workfile;**

Comment: An appraiser must maintain a specific, coherent workfile in support of a Restricted Use Appraisal Report. The contents of the workfile must be sufficient for the appraiser to produce a Summary Appraisal Report. The file must be available for inspection by the client (or the clients representatives, such as those engaged to complete an appraisal review), state enforcement agencies, such third parties as may be authorized by due process of law, and a duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.

When reporting an opinion of market value, information analyzed in compliance with Standards Rules 7-5 is significant information that must be disclosed in a Restricted Use Appraisal Report. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(x) **state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when reporting an opinion of market value, state the appraisers opinion of the highest and best use of the property;**

Comment: If an opinion of highest and best use is required, the appraisers reasoning in support of the opinion must be stated in the depth and detail required by its significance to the appraisal or documented in the workfile and referenced in the report. In the context of personal property, highest and best use may equate to the choice of the appropriate market or market level for the type and definition of value, and intended use of the report.

(xi) **state and explain any permitted departures from applicable specific requirements of STANDARD 7; state the exclusion of any of the usual valuation approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraisers opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraisers workfile; and**

Comment: When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term "Limited Appraisal" makes it clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The Restricted Use Appraisal Report is for client use only. Before entering into an agreement, the appraiser should establish with the client the situations where this type of report is to be used and should ensure that the client understands the restricted utility of the Restricted Use Appraisal Report.

(xii) **include a signed certification in accordance with Standards Rule 8-3.**

Standards Rule 8-3

(This Standards Rule contains binding requirements from which departure is not permitted.)

Each written personal property appraisal report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

— **the statements of fact contained in this report are true and correct.**

— **the reported analyses, opinions, and conclusions are limited only by the**

reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

— **I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.**

— **I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.**

— **my engagement in this assignment was not contingent upon developing or reporting predetermined results.**

— **my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.**

— **my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.**

— **I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)**

— **no one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.)**

Comment: A signed certification is an integral part of the appraisal report. An appraiser who signs any part of the appraisal report, including a letter of transmittal, must also sign this certification.

In an assignment that includes only assignment results developed by the personal property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes real property, business or intangible asset assignment results not developed by the personal property appraiser(s), any personal property appraiser(s) who signs a certification accepts full responsibility for the personal property elements of the certification, for the personal property assignment results, and for the personal property contents of the appraisal report.

When a signing appraiser(s) has relied on work done by others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent and that their work is credible.

The names of individuals providing significant personal property appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with SR 8-2(a), (b), or (c)(vii), as applicable.

Standards Rule 8-4

(This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

An oral personal property appraisal report must, at a minimum, address the substantive matters set forth in Standards Rule 8-2(b).

Comment: Testimony of an appraiser concerning his or her analyses, opinions, and conclusions is an oral report in which the appraiser must comply with the requirements of this Standards Rule.

See the Record Keeping section of the ETHICS RULE for corresponding requirements.

50. See Statement on Appraisal Standards No. 9 (SMT-9).

51. See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

52. See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).