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October 24, 1978

LTA. 78/187

TO COUNTY ASSESSORS:

No. 78/187

CLASSIFICATION OF MACHINERY AND EQUIPMENT
AS IMPROVEMENTS OR PERSONAL PROPERTY

As you are all aware, Proposition 13 limits the frequency of reappraisal of real property but places no such restriction on personal property. In view of this, it is appropriate to review a few court decisions on classification of property and the three tests the courts historically rely on. Also, we have attached a schedule showing approximately 100 different types of companies and the typical improvement allocations of machinery and equipment as used by several counties and the Division of Intercounty Equalization. The schedule is for your information only. We propose to publish a schedule containing recommended improvement percentages at a later date after a review by assessors and taxpayers.

In determining whether machinery and equipment qualifies as improvements or personal property, the appraiser should be guided by Sections 104, 105, and 106 of the Revenue and Taxation Code; Board Rules 122, 123, and 124; and court decisions on classification, including Southern California Tel. Co. v. State Board of Equalization, 12 Cal. 2d 127; Trabue Pittman Corp. v. Los Angeles County, 29 Cal. 2d 385; Bank of America v. Los Angeles County, 224 Cal. App. 2d 108; Tele-Vue Systems, Inc. v. Contra Costa County, 25 Cal. App. 3d 340; Exchange Bank v. Sonoma County, 59 Cal. App. 3d 608; Specialty Restaurants Corp. v. Los Angeles County, 67 Cal. App. 3d 924; and Seatrain Terminals of California, Inc. v. County of Alameda, 83 Cal. App. 3d 69 (the decision in this case is currently being appealed).

Historically, the courts have relied on three tests to determine whether or not property is a fixture (improvement) or personalty. These tests are:

(1) The manner of annexation (attachment).

Annexation is concerned with the term "affixed to land." Section 660 of the Civil Code states in part:

"A thing is deemed to be affixed to land when it is attached to it by roots, as in the case of trees, vines, or shrubs; or imbedded in it as in the case of walls, or resting upon it as in the case of buildings; or permanently attached to what is thus permanent, as by means of cement, plaster, nails, bolts, or screws...."

The courts have said:

"In addressing the question of annexation, we initially observe that the common law test of technical affixation of the article to the realty is no longer an absolute prerequisite to 'fixture status.' On the contrary, the modern trend of case law underlines that fixtures include articles such as heavy machinery whose permanent annexation is not manifested by the use of bolts, screws, and the like, but which are of such weight that the mere retention in place of gravity is sufficient to give them the character of permanency and therefore affixation to the realty." (P.M. Moller, Inc. v. Wilson, 8 Cal. 2d 31.)

(2) Adaptability to the use and purpose for which the realty is used.

The article must be permanent but need not be perpetual.

"It is sufficient if the article shall appear to be intended to remain where fastened until worn out, until the purpose to which the realty is devoted has been accomplished or until the article is superseded by another article more suitable for the purpose." (San Diego Trust & Savings Bank v. San Diego County, 16 Cal. 2d 142.)

(3) The intention with which the annexation is made.

The court said in Southern California Tel. Co. v. State Board of Equalization, 12 Cal. 2d 127, "...for taxation purposes, the intention must be adjudged by the physical facts rather than the subjective intention of the parties."

The courts have also said:

"It is well settled, however, that such contract, whether express or implied, is not effective against those not bound by the agreement; for example, innocent third persons. In such cases the intent that is material is that reasonably manifested by outward appearances." (Trabue Pittman Corp. v. County of Los Angeles (1946), 29 Cal. 2d 385, 397.)

Of more importance is the fact that recent court decisions and authorities recognize that the annexation can be of a "constructive" nature rather than actual; i.e., although the property in question may not be attached to the realty, it comprises a necessary, integral, or working part of some object which is attached. Southern California Tel. Co. v. State Board of Equalization, Bank of America v. Los Angeles County, Specialty Restaurants Corp. v. Los Angeles County, Seatrain Terminals of California, Inc. v. County of Alameda.

The following are types of property, generally considered to be personalty, but due to the theory of constructive annexation, they were classified as improvements.

(1) Head sets and stools used with central office equipment. Southern California Tel. Co. v. State Board of Equalization, 12 Cal. 2d 127.

(2) Sorter-readers and related equipment used with electronic computer systems. Bank of America v. Los Angeles County, 224 Cal. App. 2d 108.

(3) Cranes mounted on rails at a wharf area. Seatrain Terminals of California, Inc. v. County of Alameda, 83 Cal. App. 3d 69.

(4) Pit cars mounted on rails used at a specific site, coal mine. Titus v. Poland Coal Co., 275, PA 431.

(5) Vault doors attached to vaults. San Diego Trust & Savings Bank v. San Diego County.

(6) Cradles mounted on tracks. United Pacific v. Cann., 12 Cal. 2d 127.

(7) Portable buildings and movable machinery and equipment at shipyards. Kaiser Co. v. Reid., 30 Cal. 2d 610.

(8) A ship anchored at a specially constructed pier with various land based support lines for water, sewage, air conditioning, heating, etc. Specialty Restaurants, Corp. v. Los Angeles County, 67 Cal. App. 3d 924.

(9) Pumps of such a size they are not easily moved and from outward appearances, to third parties, appear to be permanent. Bell v. Perris., 52 Cal. App. 2d 66.

(10) Movable structures anchored to realty by the force of gravity. Rinaldi v. Goller., 48 Cal. 2d 276.

We suggest that the appraisers review the court decisions regarding classification and take note of how the three tests are generally applied.

Attached is an example listing three methods that could be used, post Proposition 13, in appraising machinery and equipment when an allocation to improvements/fixtures is indicated.

Please contact Bud Florence or David Lucero if you have any questions.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

VW:ce
Enclosures

CLASSIFICATION AND VALUATION EXAMPLES

The following are methods that may be employed in calculating values for assessment purposes when machinery and equipment are reported on Schedule C of a business property statement with no distinction as to what are improvements and what is personalty.

For this example, assume a can manufacturer with these reported costs for the 1978 lien date.

Calendar Year of Acquisition	Cost
1978	$ 500,000
1977	1,500,000
1976	1,000,000
1975	4,000,000
1974	1,000,000
1973	1,000,000
Total	$9,000,000

Physical appraisals and audits have resulted in 50 percent of can manufacturers' machinery and equipment being classified as improvements and 50 percent being classified as personalty. Typically, 15-year lives have been assigned to machinery and equipment used in this type of manufacturing operation.

In deriving the improvement factor for property acquired prior to 1975, the 1975 RCLND of the property must be determined first prior to applying the annual inflation rate compounded to arrive at the 1978 value. For example, assuming 100-percent improvements, the 1973 and 1974 values for lien date 1978 would be computed in this manner:

Year	Cost	*AH 581, GP. 6 Index Factor	RCN	*AH 581-15 Percent Good	1975 RCLND	Prop 13 Factor	1978 Value
1974	$1,000,000	100	$1,000,000	95	$ 950,000	1.0612	$1,008,140
1973	1,000,000	115	1,150,000	89	1,023,500	1.0612	1,086,138

To obtain the single factor that might be used, one would take the indexing factor times the percent good factor times the Proposition 13 factor. Thus, for the two years in our example:

1974 = 1.00 x .95 x 1.0612 or 1.008
1973 = 1.15 x .89 x 1.0612 or 1.086

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* From 1975 Assessors' Handbook Section 581, Equipment Index Factors and Inventory Ratios.

METHOD 1

Schedule C—Cost Detail—Machinery and Equipment

Year of Acquisition	Cost	Personal Property Factor 1/	Personal Property Amount	Improvement Factor 2/	Improvement Amount
1978	$ 500,000	100	$ 500,000	1.0000	$ 500,000
1977	1,500,000	96	1,440,000	1.0000	1,500,000
1976	1,000,000	98	980,000	1.0200	1,020,000
1975	4,000,000	99	3,960,000	1.0404	4,161,600
1974	1,000,000	109	1,090,000	1.0080	1,008,000
1973	1,000,000	120	1,200,000	1.0860	1,086,000
Totals	$9,000,000		$9,170,000		$9,275,000
Allocation			x.50		x.50
Taxable Values			$4,585,000		$4,637,800

METHOD 2

Schedule C—Cost Detail—Machinery and Equipment

Year of Acquisition	Cost	Percent Personal Property	Personal Property Factor 1/	Personal Property Amount	Percent Improvement	Improvement Factor 2/	Improvement Amount
1978	$ 500,000	50	100	$ 250,000	50	1.0000	$ 250,000
1977	1,500,000	50	96	720,000	50	1.0000	750,000
1976	1,000,000	50	98	490,000	50	1.0200	510,000
1975	4,000,000	50	99	1,980,000	50	1.0404	2,680,800
1974	1,000,000	50	109	545,000	50	1.0080	504,000
1973	1,000,000	50	120	600,000	50	1.0860	543,000
Totals	$9,000,000			$4,585,000			$4,637,800

1/ Personal property factor is combination of trend factor (AH 581, GP. 6) and percent good factor (AH 581—15 years).

2/ Improvement factor is based on the lesser of the cost of living index or a 2-percent increase per year compounded from 1975 forward. 1973 and 1974 are factored using 1975 trend and percent good factors to reflect their RCLND as of March 1, 1975.

METHOD 3

Schedule C—Cost Detail—Machinery and Equipment

Year of Acquisition	Cost	Personal Property Factor 3/	Personal Property Amount	Improvement Factor 4/	Improvement Amount
1978	$ 500,000	50.0	$ 250,000	50.00	$ 250,000
1977	1,500,000	48.0	720,000	50.00	750,000
1976	1,000,000	49.0	490,000	51.00	510,000
1975	4,000,000	49.5	1,980,000	52.02	2,080,800
1974	1,000,000	54.5	545,000	50.40	504,000
1973	1,000,000	60.0	600,000	54.30	543,000
Totals	$9,000,000		$4,585,000		$4,637,800

3/ The single factor used here is the result of the trend factor (AH 581, GP. 6), percent good factor (AH 581—15 years), and percentage allocation (50 percent).

4/ The single factor used here is the result of using a 2-percent increase per year compounded from 1975 times the percentage allocation (50 percent), except that 1973 and 1974 are times 1.023 and .95 respectively to reflect their RCLND as of March 1, 1975.

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

SERVICE, REPAIR, AMUSEMENT	COUNTIES										DIE		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Auto Repair (Garages)	-	-	20	-	40	-	-	-	-	-	-	80	-
Barber Shop	-	75	70	70	20	20	20	-	-	-	-	50	50
Beauty Shop	-	-	50	20	50	-	20	-	-	-	-	70	70
Bowling Alley	-	-	90	-	70	70	70	60	-	-	-	100	100
Brake Shops W/Alligment	-	-	-	-	40	40	-	-	-	-	-	80	-
Car Wash (Automatic)	-	-	90	80	80	80	80	90	-	-	-	100	100
Car Wash (Self Service)	-	-	90	90	-	-	90	90	-	-	-	-	-
Cold Storage	-	-	80	80	-	70	80	100	40-60	75	-	95	-
Dentists	-	75	60	40	30	30	40	-	-	-	-	40	-
Dry Cleaners	-	75	90	70	60	70	50	90	-	-	-	-	-
Hospitals	50	-	30	30	50	-	30	-	25-80	-	-	100	100
Hotels	-	-	-	30	-	-	40	-	0-66	-	-	60	-
Launderettes (Coin Operated)	100	75	90	70	70	70	70	90	-	-	-	20	-
Laundries	-	-	90	60	60	60	70	90	-	-	-	-	-
Loan Companies	-	-	-	20	50	-	20	-	-	-	-	60	-
Machine Shop	-	25	80	60	-	-	80	60	40-90	-	-	80	-
Mortuaries	-	-	-	70	60	-	-	-	-	-	-	-	-
Radio Broadcasting	-	-	80	60	50	-	-	80	50-90	-	30	40	40
Savings and Loan Association	-	-	50	30	50	-	30	40	0-40	-	-	100	100
Shoe Repair	-	-	80	20	60	60	80	-	-	-	-	100	-
TV Broadcasting	-	-	80	40	50	-	-	80	30-100	-	30	40	40
Theatres (Drive-In)	-	-	90	50	-	60	50	40	-	-	-	-	
Theatres (Inside)	-	-	90	70	70	70	70	60	-	-	-	-	-
Tire Recapping	-	-	-	20	60	50	-	-	-	-	-	-	-
Title Insurance and Escrow	-	-	-	20	30	-	20	-	-	-	-	-	-
Veterinarians	-	-	30	-	20	-	-	-	-	-	-	-	-
Ski Resort	-	-	-	-	-	-	-	-	-	-	-	100	100

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

WHOLESALE AND DISTRIBUTORS	COUNTIES										DIE		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Apparel, Textiles	-	-	20	20	30	-	20	40	-	-	-	-	-
Auto Parts	-	75	20	20	30	-	-	-	-	-	-	-	-
Dairy Products	-	-	20	20	30	-	40	40	-	-	-	-	-
Drugs	-	50	20	20	30	-	30	40	-	-	-	25	-
Electrical Goods	-	-	20	20	30	-	-	30	-	-	-	-	-
Food	-	75	20	20	30	-	40	40	40-60	-	-	-	-
Hardware, Building Supplies	-	-	20	20	30	-	40	30	-	-	-	-	-
Liquor	-	75	20	20	30	-	60	30	60-75	-	-	90	90
Meat Packers and Distributors	-	-	-	80	60	70	80	40	60-85	75	50	90	-
Stationery, Office Equipment	-	75	20	20	-	-	20	-	-	-	-	80	-

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

RETAIL TRADE	COUNTIES										DIE		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Apparel	75	50	50	60	30	-	20	-	15-35	-	-	100	60
Appliance	75	25	-	-	20	-	-	-	-	-	-	50	-
Auto Parts	75	50	-	20	30	-	20	40	-	-	-	100	50-60
Bakeries	75	-	90	40	50	50	-	40	-	-	40	60	50
Building Materials	75	25	50	20	20	-	40	40	-	-	-	90	—
Cabarets/Cocktail Lounges	75	75	80	40	60	40	80	40	-	-	-	100	40-60
Dairy Products	75	50	-	80	50	50	-	40	75	-	20	100	100
Department Stores	75	50	50	50	20	20	40	40	55	-	-	100	60
Drugs	75	50	80	40	30	-	30	40	50-55	-	-	80	-
Florists	75	50	-	60	30	30	-	-	-	-	-	60	-
Furniture	75	25	-	20	20	-	-	-	-	-	-	95	-
Groceries	20	50	80	40	50	30	40	40	50-55	-	-	100	60
Hamburgers, Fast Foods	75	75	80	40	60	60	-	40	80	-	-	100	40-60
Hardware	75	50	-	30	20	-	40	-	35-55	-	-	100	60
Jewelry	75	50	80	30	30	-	30	-	-	-	20	20	20
Liquor	75	50	80	60	30	60	60	40	-	-	-	100	-
Lunch Rooms, Coffee Shops	75	75	80	-	60	60	-	40	50	-	-	100	40-60
Plumbing, Electrical	75	50	-	20	20	-	-	40	-	-	-	20	-
Refreshment Stands	75	75	80	30	60	60	-	-	80	-	-	100	40-60
Restaurants, Dinner Houses	75	75	80	40	60	60	80	40	50	-	-	100	40-60
Shoes	75	50	50	60	30	50	-	-	50-60	-	-	100	—
Sporting Goods	75	50	-	20	30	-	20	40	-	-	-	100	-
Variety (5&10)	75	50	-	20	20	-	20	40	35-55	-	-	100	60

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

MANUFACTURING	COUNTIES										DIE		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Food Products:													
Syrup Mfg.	-	-	-	-	-	-	-	-	-	-	-	50	50
Dairy Products	-	-	-	-	-	-	-	-	-	-	10	100	100
Bakery	-	-	80	70	50	70	-	40	60-75	75	50	80	80
Canned and Frozen Foods	80	75	80	70	60	70	80	60	60-80	75	40	100	90
Soft Drink	-	-	-	70	60	60	-	60	70-80	-	-	-	-
Sugar Refinery	-	-	-	-	-	-	-	-	-	-	-	93	93
Candy, Gum	-	-	-	-	-	-	-	-	-	-	96	97	96
Slaughter House	-	-	-	-	-	-	-	-	-	-	80	90	90
Flour Milling	-	-	-	-	-	-	-	-	-	-	-	95	95
Nut Processing	-	-	-	-	-	-	-	-	-	-	30	60	60
Grain Processing	-	-	-	-	-	-	-	-	-	-	60	85	65
Cereal Mfg.	-	-	-	-	-	-	-	-	-	-	80	92	92
Dehydrated Foods	-	-	-	-	-	-	-	-	-	-	-	100	100
Meat Processing	-	-	-	-	-	-	-	-	-	-	50	90	80
Textile Mill:													
Floor Covering	-	-	-	-	-	-	-	-	-	-	70	90	90
Fabric	-	-	-	-	-	-	-	-	-	-	-	90	90
Cotton Gin and Feed Processing	-	-	-	-	-	-	-	-	-	-	80	100	100
Apparel Mfg.	80	50	70	30	60	-	80	40	20-30	-	70	90	90
Lumber and Wood Products:													
Sawmill	-	-	-	-	-	-	-	-	-	-	50	100	90
Furniture Mfg.	-	-	-	-	-	-	-	-	-	-	20	60	50
Plywood	-	-	-	-	-	-	-	-	-	-	-	95	95
Pressed Wood	-	-	-	-	-	-	-	-	-	-	-	90	90
Box and Pallet Mfg.	-	-	-	-	-	-	-	-	-	-	50	100	60

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

MANUFACTURING (Continued)	COUNTIES										DIE		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Alcoholic Beverages:													
Brandy Distillery	-	-	-	-	-	-	-	-	-	-	-	80	80
Winery	-	-	-	-	-	60	80	60	-	75	50	100	75
Brewery	-	-	-	-	-	-	-	-	-	-	-	100	100
Distillery Bottler	-	-	-	-	-	-	-	-	-	-	-	80	80
Paper Products	-	-	-	-	-	-	-	-	-	-	75	100	99
Printing:													
Newspapers	-	75	80	60	60	-	60	60	90	-	50	66	50
Other	-	-	-	-	-	-	-	-	-	-	25	50	50
Fertilizer	-	-	-	-	-	-	-	-	-	-	-	100	100
Chemical:													
Detergent	-	-	-	-	-	-	-	-	-	-	90	100	100
Plastic	80	-	80	40	60	-	80	80	50-60	-	50	80	75
Drug	-	-	-	-	-	-	-	-	-	-	-	80	80
Paint	80	-	-	-	60	60	80	60	60-80	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	88	100	100
Industrial Gas	-	-	-	-	-	-	-	-	-	-	-	100	100
Petroleum Refining	-	-	-	-	-	-	-	-	-	-	95	100	100
Rubber Products	-	-	-	-	-	-	-	-	-	-	70	100	90
Leather Products	-	-	-	-	-	-	-	-	-	-	-	50	50
Glass, Concrete, Etc.:													
Glass and Bottle Mfg.	-	-	-	-	-	-	-	-	-	-	86	100	100
Cement Plant	-	-	90	70	-	80	-	60-90	60-90	-	82	100	100
Asbestos, Adhesive	-	-	-	-	-	-	-	-	-	-	-	100	100
Clay, Brick, Tile, Pipe	80	-	80	70	70	70	80	40	-	-	90	100	95
Gypsum Batch Plants--Cement and Asphalt	-	-	90	70	-	80	-	60-90	60-90	-	-	100	100

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

MANUFACTURING (Continued)	COUNTIES										DIE		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Metal Smelting and Refining	-	-	-	-	60	60	-	90	60-75	-	60	100	95
Metal Products Fabrication	80	-	80	60	50	70	-	30	50-60	75	50	100	95
Industrial and Construction Machinery Mfg.	-	-	-	-	-	-	-	-	-	-	-	80	80
Electrical Equipment Manufacture	-	-	-	-	-	-	-	-	-	-	37	80	75
Electronic Equipment Mfg.	-	-	-	-	-	-	-	-	-	-	20	80	50
Trailers, Automotive Parts	-	-	-	-	-	-	-	-	-	-	60	100	80
Aircraft and Aerospace Mfg.	-	-	-	-	-	-	-	-	-	-	20	80	70
Scientific or Professional Equipment Mfg.	-	-	-	-	-	-	-	-	-	-	20	70	70