



STATE TAX COMMISSION OF MISSOURI ASSESSOR MANUAL

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3.0 ORIGINAL ASSESSMENT

The Sections within the State Tax Commission are advisory, supervisory, administrative, etc. The Original Assessment Section is the sole department which is actually charged with preparing the assessment of centrally assessed companies, including railroads, public utilities, airlines, and private car companies.

1. Missouri Statutes

The statutes of the State of Missouri provide for the taxation of railroad and public utility companies in Chapter 151 and Chapter 153 of the Revised Statutes of Missouri (RSMo)

2. Fair Market Value

It is the obligation of the State Tax Commission to appraise and assess railroad and public utility property at fair market value.

The basic theory of property taxation is that property should be taxed relative to its value, presumably determined by what it would sell for in an open market. The comparable sales concept works well for determining the value of traditional real estate, but is rarely used for determining the value of railroads and public utilities. The appraiser must utilize various methods and techniques to fairly estimate what the utility's property would sell for if it were offered for sale on the open market, by a willing buyer and willing seller, both of whom are knowledgeable, but are not forced to buy or sell.

There are two methods of arriving at fair market value. The first, known as the summation method, inventories each item of property and values it separately regardless of the cooperative effect it may have with the entity's other property. This generally produces values that do not reflect the value of the integrated property taken as an operating unit. The fallacy in this method is that without looking at how the individual piece of property contributes to the whole unit, the individual piece of property may be more valuable or less valuable to the unit than if valued independently of the unit. Because of the limitations of the summation method, the unit method (or "**unit rule**") has been implemented to determine fair market value.



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3. Unit Value

The unit concept means that a collection of tangible assets functioning as an operating unit are to be appraised as a whole without reference to separate value of the component parts. Value accrues to the assets because of their ability to generate benefits as an operating unit.

In 1904, the Wisconsin Supreme Court presented logic behind a unit appraisal when it said:

“The separate value of the parts in the aggregate would not necessarily approximate to or be any legitimate measure of the value of all the parts, viewed as one complete machine so to speak. The plant in its parts as realty and personality according to the character thereof, irrespective of the combination of all into one entire thing, might be of little value, and probably would be, as compared to what they would represent in the new form, produced by the union of many parts into one. The great value is produced by the combination of parts into one complete working machine, adapted in a high degree to the service of man.”¹

The National Tax Association of Tax Administrators' Committee on Unit Valuation stated why a unit appraisal should be used:

“A unit appraisal is superior to summation appraisal ... Not only because it produces a result that is closer to the true value of the property as a whole but because it produces that result by resorting to more reliable and more readily available evidence of value than those that would be used for a summation appraisal.”²

Therefore, the overriding concept in the valuation of utility and railroad property for ad valorem tax purposes is directed toward the unit value concept. Valuation of centrally assessed railroad and utility companies is complicated by the fact that these companies are affected by market forces of supply and demand as well as regulated by government commissions. As a result, basic appraisal

¹ Washburn v. Washburn Waterworks Co., 120 Wis. 575, 585, 98 N.W. 539 (1904)

² Appraisal of Railroad and Other Public Utility Property for Ad Valorem Tax Purpose, Report of the Committee on Unit Valuation, National Association of Tax Administrators (1954)



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principles and procedures may require adaptation to fit the condition of governmental regulation. This factor must be considered throughout the appraisal process of centrally assessed railroad and utility companies.

Consistent with appraisal theory, to arrive at a unit value, three approaches to value for centrally assessed companies are utilized. They are the income approach, the market approach and the cost approach. Utilizing more than one method provides a better indication of value and provides a "check" on each of the other methods.

4. Correlation

Finally, after the three approaches to value have been calculated for centrally assessed companies, the next step is the correlation process. In this step of the appraisal process, the strengths and weaknesses of each approach must be considered and analyzed. The final value is a judgment decision by the appraiser based on knowledge of the facts. The appraiser should not assign a specific weight to be used for each approach, nor simply average the approaches, but should place the most emphasis on the approach or approaches which the appraiser has the most confidence while relying on the other approaches for support.

5. Allocation

After a fair market value has been correlated for centrally assessed companies, the next step is to allocate the portion of the market value which is applicable to the assessing taxing district (i.e., Missouri). This is many times, a difficult and rather subjective task. There are many allocation elements which can be derived. We have utilized a process where we combine quantity and use/value factors to arrive at a Missouri allocation factor.

The State Tax Commission's unit value allocation procedure for the various industries are contained in rules (12 CSR 30-2.016).

After the allocation to the State of Missouri, the market value of locally assessed properties are deducted to arrive at the distributable market value of centrally assessed railroad and utility



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companies.

The county assessor is responsible for the assessment of locally assessed property of centrally assessed railroad and utility companies. These properties include:

Railroad Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Office buildings, warehouses
- Roundhouses, workshops
- Land and buildings not assessed as distributable
- Communication equipment not used in the movement of passengers and freight

Telecommunication Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Office buildings and land
- Land held for future use
- Buildings used predominantly to house local property and land
- Workshops, warehouses and land
- Work equipment and other general equipment

Pipeline Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures



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- Land held for future use
- Communication equipment not used for control of transportation of gas or liquid products
- Workshops, office buildings, warehouses, storage tanks, loading and unloading facilities
- Land associated with other locally assessed property

Electric Companies:

- Motor vehicles
- Construction-work-in-progress
- Materials and supplies
- Office furniture, office equipment, office fixtures
- Coal piles, nuclear fuel
- Land held for future use
- Workshops, warehouses, office buildings and generating plant structures
- Communication equipment not used for control of generation and distribution of power
- Roads, railroads and bridges
- Reservoirs, dams and waterways
- Land associated with other locally assessed property and all generating plant land

The county assessor should use the State Tax Commission's, Schedule 14, Schedule 15, and Schedule 16. The companies are to complete their information and return it to the county assessor by April 1 of the tax year. The county assessor must certify the true market value and assessment of all locally assessed property to the company, the county clerk and the State Tax Commission by April 20. The county assessor should use the applicable statutory assessment rate for locally assessed property.

6. Apportionment

The State Tax Commission shall apportion the distributable assessed values of all centrally assessed railroad and utility companies to each county, municipal township, city or incorporated town, special road districts, library districts, hospital districts, metropolitan zoological park and museum districts, public water supply, fire protection and sewer districts according to the ratio which the number of



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miles in these counties and districts bear to the whole length in the state.

The distributable assessed values of centrally assessed companies are certified to the centrally assessed companies and to the counties in the state.

3.1 AIRCRAFT

1. Fair Market Value

The State Tax Commission is responsible for determining the assessed value of commercial aircraft (aircraft more than 3,000 pounds maximum certificated gross take-off weight) owned by airline companies and may determine the assessed value of commercial aircraft owned by entities other than airlines. As with all property, the assessment date is January 1. The county assessor is responsible for the assessment of aircraft that falls below the weight limit.

The State Tax Commission utilizes the Airliner Price Guide and the Aircraft Bluebook publications to arrive at the market value for commercial aircraft. This market value process is reviewed periodically by the State Tax Commission.

1. Each airline company reports their fleets of commercial aircraft that serve Missouri. The State Tax Commission determines the market value of each fleet. Each aircraft in a fleet is valued and then all aircraft values are summed to arrive at the fleet market value.

After the State Tax Commission determines the market value of the airline's fleets that serve Missouri, allocation factors for the state must be determined. The allocation factor applied to a fleet's market value is based on the prior year's ratio of actual miles flown within the state of Missouri to the total system miles flown. An allocation factor is applied to each fleet's market value. Fleet discounts are utilized, if applicable. The allocated market values of all fleets are summed to determine Missouri's Total Allocated Market Value.

An assessment level of 33 1/3% for personal property is then applied to Missouri's Total Allocated Market Value to determine Missouri's Total Allocated Assessed Value. The assessed value is then



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apportioned on the basis of arrivals and departures within each county.

2. The State Tax Commission may also determine the assessed value of aircraft fully equipped for flight and of more than 3,000 pounds maximum certified gross take-off weight (“commercial aircraft”). The owner of such aircraft, upon the return of the personal property list, must notify the county assessor that they are making a claim of “commercial aircraft”. The information necessary to assess these aircraft must be collected from the taxpayer by the assessor. This information shall be provided to the State Tax Commission by May 1. The allocation factor applied to an aircraft’s market value is based on the prior year’s ratio of actual miles flown within the state of Missouri to the total system miles flown.

The assessed values of commercial aircraft owned by an entity that is not an airline company is certified to the entity and to the county. Any taxpayer disagreeing with the assessment may appeal directly to the State Tax Commission by August 15 without first appealing to the local Board of Equalization.

3.2 PRIVATE CAR COMPANIES

1. Fair Market Value

A private car company owns and/or leases rolling stock (also known as rail cars and flanged wheel equipment) and does not own, control or lease track or trackage rights. This rolling stock is the property subject to the ad valorem tax.

The State Tax Commission certifies the assessed values of centrally assessed private car companies to the Director of the Missouri Department of Revenue (MODOR) for billing and central collection. After the taxes are collected, one percent for the cost of collection is deposited in the state’s general revenue fund. Six-tenths of one percent of the remaining fund amount is transferred to the blind pension fund. The amount of the funds left after these two deductions are apportioned to the counties in the state and placed in the “County Private Car Tax Trust Fund.” The apportionment is based upon the ratio of the total track mileage of railroads which transport private car traffic within each county to the aggregate total of the state. The



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county, upon receipt of the taxes from the Director of Revenue, apportions seventy percent of the revenues received to the county's school districts using the same basis of distribution as used in distributing receipt from the average school tax rate for that year, and the remaining thirty percent to the county general revenue fund.

According to Section 137.022, RSMo, "the equipment owned by said companies known as "flanged wheel equipment" shall be assessed by the State Tax Commission and shall be taxed in the manner of railroads, as provided in Chapter 151, RSMo." The State Tax Commission determines the market value of the railroad's property based on the Unit Rule; however, the cost approach is the only indicator utilized for determining the market value of centrally assessed private car companies due to the limited information available and the number of companies operating within the state.

As with the railroads, the original cost at acquisition is the starting point in the valuation process. This cost is then depreciated at an annual rate to determine the depreciated value. The depreciation schedule used for the private car industry measures all forms of depreciation and obsolescence, including physical, functional and economic. This depreciated cost is considered as the "market value" of the railcars. The following depreciation schedule is used:

<u>Year of Acquisition</u>	<u>Percent Good</u>
1 st Prior	90%
2 nd Prior	80%
3 rd Prior	70%
4 th Prior	60%
5 th Prior	50%
6 th Prior	40%
7 th Prior Year and earlier	30%

The State Tax Commission utilizes a time factor for determining allocation to Missouri. This process uses the maximum number of days in which the railcars of the private car company could travel within a year by multiplying the total number of cars by 365 days. To arrive at the number of days the railcars spend within Missouri, the total number of miles within the state will



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be divided by the "typical" number of miles per day within the state. The typical number of Missouri miles within a day will be based on "time studies" of the private car industry. This allocation process is reviewed periodically by the State Tax Commission.

An assessment level of 33 1/3% for personal property is then applied to Missouri's Total Allocated Market Value to determine Missouri's Total Allocated Assessed Value.

3.3 IMPORTANT DATES TO REMEMBER FOR ASSESSOR'S OFFICE

April:

- 1: Company files Schedule 14, Schedule 15, and Schedule 16 with the County Assessor
- 15: Company files Schedule 13 with the County Clerk
- 20: Assessor files certified Schedule 14 and attachments with the County Clerk, Company and the State Tax Commission

May:

- 1: Company files Schedule 12 with the State Tax Commission
- 1: Deadline for aircraft owners to notify the County Assessor of claim of "Commercial Aircraft" and desire to file with State Tax Commission
- 15: County Clerk files certified Form 40 and each company's Schedule 13 with the State Tax Commission
- 31: Estimation of Market Value for Rural Electric Cooperatives are sent to the County Assessors

June:

- 15: State Tax Commission certifies the assessed values of commercial aircraft
- 30: State Tax Commission certifies the distributable assessed values of centrally assessed railroad and utility company

July:

- Company Contact Information and Tax Situs Report for Commercial Aircraft are sent to the County Clerks
- Aircraft Appraisals are sent to the County Assessors
- Appeal deadline for centrally assessed railroad and utility companies



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August 15:

- Appeal deadline for commercial aircraft

August:

- State Tax Commission certifies the Private Car Tax Rate and the assessed values of centrally assessed private car companies

September:

- State Tax Commission certifies the Private Car Tax Rate and the assessed values of centrally assessed private car companies to the Director of the Missouri Department of Revenue (MODOR)

December:

- County Clerks identify changes in taxing jurisdictions authorized to levy a tax

3.4 FORMS

- Form 20/20A/30
 - Schedule 4 – Mileage of Line located in each county
 - Schedule 13 – County apportionment – number of miles in each taxing jurisdiction
 - Schedule 14 – Local Assessments and Company Contact Information for the County Assessors
 - Schedule 15 – Locally Assessed Real Estate
 - Schedule 16 – Motor Vehicles, Boats, and Motors Requiring Registration by the Missouri Department of Revenue (MODOR)
- Forms 20/20A/30 Cover – Company Contact Information for County Clerks
- Form 40 – County Clerk certification of miles of line and assessed values of the locally assessed operating property

Centrally Assessed Railroad and Utility Company Forms to the County Assessor:

The locally assessed property schedules are due from the company to the County Assessor by **April 1**. Centrally assessed railroad and utility companies should deliver these forms to the assessor by this date, completed up to the columns for market value and assessed value.



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Local Assessment Forms Due to the County Clerk, the Company, and the Original Assessment Section of the State Tax Commission:

The county assessor is required to certify the true market value and assessment of all locally assessed property of centrally assessed railroad and utility companies. The county assessor signs and dates the Schedule 14 and sends the signed and dated Schedule 14 and all attachments to the county clerk, the company and the Original Assessment Section of the State Tax Commission by **April 20**.

Aircraft Assessment:

Aircraft owners of commercial aircraft (aircraft fully equipped for flight and of more than 3,000 pounds maximum certified gross take-off weight) shall notify the county assessor of their claim of "commercial aircraft" and desire to be assessed by the State Tax Commission. This information shall be provided to the State Tax Commission by **May 1**.