WAC 458-50-180 Appraisal practices relating to valuing intangible personal property. (1) **Unit valuation.** Unit valuation is a method of determining the market value of a company, business, or property as a whole without reference to individual parts or components. For example, a railroad company may have many miles of track, or a pipeline company may have many miles of pipe, but if the track or the pipe is not connected in a useful and interdependent way to the rest of the company's system as a whole, the track or the pipe have considerably less value. However, when all the interdependent assets of a company are working together and functioning synergistically as a unit, the value of the company as a whole is independent of the value of the component parts. Similarly, the roof or the walls of a house may have value independently of the structure as a whole, but the market value of the house, for purposes of taxation, is determined as a unit. Market value is the value of the unit as a whole, not a summation of fractional appraisals of the component parts. The unit value may have enhanced taxable value above, taxable value equal to, or taxable value lower than what the sum of the value of the component parts may indicate. The department is specifically authorized to take into consideration, among other things, "the value of the whole system as a unit," when valuing companies with operating property in more than one county or more than one state. (RCW 84.12.300; *see also* RCW 84.16.050.)

(2) **Situs, allocation, and apportionment.** Property taxes may only be levied upon property having situs in this state, in other words, upon property located in this state. The process of dividing up the unit value of a company among the states where it has a presence is called allocation. The process of dividing up the allocated state value among the taxing jurisdictions within a state is called apportionment. Once the taxable value, meaning the total value of a company's operating property in this state less the exempt value, has been determined, the taxable value is apportioned as required by law.

(3) **Valuation of exempt intangible personal property.** Assessing officials may use one of two methods, as appropriate, to determine the value of intangible personal property that is exempted from a company's unit value. The first method is the method by which the true and fair value of the exempt intangible personal property is deducted from the true and fair value of the operating property at the system level to arrive at taxable value at the system or entity level. The second method is the method by which the true and fair value of exempt intangible personal property is excluded from the value of the operating property at the system level by using a valuation model that approximates the value of the nonexempt assets only. These two methods are explained in more detail as follows.

(a) The first method is a two-step process that involves valuing the entire company operation, the unit, as the first step, using any or a combination of the three traditional approaches to value. Then the exempt property is separately identified, valued, and deducted from the unit value. In valuing the exempt property, assessing officials use generally accepted appraisal practices, including sales of similar intangible personal property, capitalization rates obtained through those sales, or by identifying cash flows attributable to each intangible personal property asset. When using this method, the value resulting from deducting the exempt value of intangible personal property from the entire company value, is the taxable value at the system or entity level. From that value, the proper value must then be allocated to this state and apportioned to the local taxing jurisdictions by law.

(b) The second method involves an appraisal process using an appraisal model that intrinsically approximates the exclusion of exempt intangible value. This process assumes the existence of intangible personal property in the overall value of the company being valued, but does not specifically identify or value individual intangible personal property assets. Although the model may not actually exclude the value of exempt intangible personal property, it simulates the effect of exempting intangible personal property by producing a lower assessed value equivalent to the exclusion of exempt intangible property.

(4) **Unit value at the county level.** When a business operates in more than one location within a county, but is physically, economically, and functionally integrated, it may also be valued by the assessor as a unit. However, properties that share a name, for example, but are independently operated, such as bank branches, retail outlets, radio stations, or hotels or motels that are part of a chain, should generally be valued as stand-alone enterprises, and not as physically, economically, and functionally integrated units. An assessor should consider the unit being assessed to be the same unit a typical purchaser would consider in an openly traded market. If the property being assessed would typically be purchased as a stand-alone and independent operation without reference to a larger entity, then that is how it should be assessed. If the property being assessed would typically be included in the purchase of a larger entity, then the assessor should consider the influence on value that being included within the larger unit would have on the property being assessed.

[Statutory Authority: RCW 84.08.010, 84.08.070, and 84.36.865. WSR 06-24-043, § 458-50-180, filed 11/30/06, effective 12/31/06.]