

Chapter 3. Real and Personal Property

§301. Definitions

Composite Multiplier - a factor obtained by multiplying the cost index for the base year times percent good.

Depreciation – loss in value of an object, relative to its replacement cost new, reproduction cost new, or original cost, whatever the cause of the loss in value. Depreciation is sometimes subdivided into three types: physical deterioration (wear and tear), functional obsolescence (suboptimal design in light of current technologies or tastes), and economic obsolescence (poor location or radically diminished demand for the product).

Economic Life - the normal useful life of the property as experienced by a particular business or industry.

External (Economic) Obsolescence – the loss of appraisal value (relative to the cost of replacing a property with property of equal utility) resulting from causes outside the property that suffers the loss. Usually locational in nature in the depreciation of real estate, it is more commonly marketwide in personal property, and is generally considered to be economically infeasible to cure.

Effective Age of a Property - its age compared with other properties performing like functions. It is the actual age less the age which has been taken off by facelifting, structural reconstruction, removal of functional inadequacies, modernization of equipment, etc. It is an age which reflects a true remaining life for the property, taking into account the typical life expectancy of buildings or equipment of its class and usage. It is a matter of judgment, taking all factors into consideration.

Extended Life Expectancy - the increased life expectancy due to seasoning and proven ability to exist. Just as a person will have a total normal life expectancy at birth which increases as he grows older, so it is with structures and equipment.

Fair Market Value - the price for property which would be agreed upon between a willing and informed buyer and a willing and informed seller under usual and ordinary circumstances; it shall be the highest price estimated in terms of money which property will bring if exposed for sale on the open market with reasonable time allowed to find a purchaser who is buying with knowledge of all the uses and purposes to which the property is best adapted and for which it can be legally used.

Functional Obsolescence – loss in value due to lack of utility or desirability of part or all the property, inherent to the improvement or equipment. Thus a new structure or piece of equipment may suffer functional obsolescence.

Inventory - raw materials, work in process, finished goods or supplies.

Non-Operating or Non-Utility Property - property owned by a public service company used for purposes other than the normal operation of that public service company. See §2901, Public Service Properties section for further details.

Obsolescence – a decrease in the value of a property occasioned solely by shifts in demand from properties of this type to other types of property and/or to personal services. Some of the principal causes of obsolescence are: (1) changes in the esthetic arts; (2) changes in the industrial arts, such as new inventions and new processes; (3) legislative enactments; (4) change in consumer demand for products that results in inadequacy or overadequacy; (5) migration of markets that results in misplacement of the property.

Percent Good – equals 100 percent less the percentage of cost represented by depreciation. It is the present value of the structure or equipment at the time of appraisal, divided by its replacement cost.

Physical Depreciation – loss in value due to physical deterioration.

Reconciliation – the final step in the valuation process wherein consideration is given to the relative strengths and weaknesses of the three approaches to value, the nature of the property appraised, and the quantity and quality of available data in formation of an overall opinion of value (either a single point estimate or a range of value). Also termed “correlation” in some texts.

Remaining Life - the normal remaining life expectation. It is the length of time the structure or equipment may be expected to continue to perform its function economically.

Rules and Regulations of the Tax Commission - guidelines and procedures adopted which establish criteria to be applied uniformly in determining fair market value, use value and/or assessed value as stated in the section applicable to a particular type or class of property.

Taxpayer – as used in the Tax Commission’s Rules and Regulations, the terms “taxpayer” and “property owner” are interchangeable and mean the individual(s) and/or entity(ies) who own the property and/or is responsible for payment of property taxes.

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