



SC REVENUE RULING #88-5

SUBJECT: Property Tax: Capitalized Costs Included on Property Tax Return

EFFECTIVE DATE: May 11, 1988

REFERENCE: S.C. Code Ann. Section 12-37-930 (Supp. 1987)

AUTHORITY: S.C. Code Ann. Section 12-3-170 (1976)  
SC Revenue Procedure #87-3

SCOPE: A Revenue Ruling is the Commission's official interpretation of how tax law is to be applied to a specific set of facts. A Revenue Ruling is public information and remains a permanent document until superseded by a Regulation or is rescinded by a subsequent Revenue Ruling.

Question:"

Does Section 12-37-930 require manufacturers to include on their property tax return all capitalized costs associated with personal property whether listed as depreciable cost or amortizable cost on their income tax return?

Facts:

It has come to the attention of the commission that some manufacturers are not correctly reporting their personal property (machinery, equipment, furniture and fixtures). The Property Division has taken the position that the term "gross capitalized cost" includes all costs associated with personal property whether listed as depreciable cost or amortizable cost.

Discussion:

S.C. Code Ann. Section 12-37-930 (Supp. 1987) provides: "...fair market value of manufacturer's machinery and equipment used in the conduct of the manufacturing business....shall be determined by reducing the original cost by an annual allowance for depreciation.... The term original cost shall mean gross capitalized cost as shown by the taxpayer's records for income tax purposes." This language has been construed by the Tax Commission, the Tax Board of Review and the South Carolina Supreme Court to mean both amortizable and depreciable costs. Two prior cases have examined this issue. In the Crown Cork and Seal Company case heard before the Tax

Board of Review, installation costs of machinery and equipment were held to be includible in the property value for property tax purposes. On its income tax returns, Crown included the installation costs in the capitalized cost of its machinery and equipment. The board ruled that Section 12-37-930 was clear and unambiguous and thus must be given its literal meaning.

The South Carolina Supreme Court has affirmed this position in *Stone Container Corporation v. South Carolina Tax Commission*, Memorandum Opinion Number 88-MO-032. There, the taxpayer was contesting the inclusion of installation expenses such as expendable construction tools, equipment rentals, temporary sanitation facilities for construction workers, demolition, relocation, cleanup, and removal, and construction equipment repair because these items no longer physically existed. Therefore, Stone Container claimed that these were wasted assets which should not be included in the value of the machinery and equipment. The gross capitalized cost of the above items was included in Stone Container's income tax return. The South Carolina Supreme Court affirmed the position of the Circuit Court and Tax Board of Review. The same reasoning used in *Crown* was again used by the Circuit Court in *Stone Container*, however, the Circuit Court expounded on this issue as follows:

Aside from the plain language of Section 12-37-930, it should also be noted that value is more than the mere cost of materials. The value of a machine in operation includes the cost of labor and the use of equipment. Although labor and the use of equipment no longer exist, they are an integral and inherent part of the cost of the machinery, the value of their having existed remains."

Conclusion:

Pursuant to the plain language of Section 12-37-930, manufacturers are required to include on their property tax return all capitalized costs associated with personal property whether listed as depreciable cost or amortizable cost on their income tax return. (May 11, 1988)

SOUTH CAROLINA TAX COMMISSION

s/S. Hunter Howard, Jr. \_\_\_\_\_  
S. Hunter Howard, Jr., Chairma

s/John M. Rucker \_\_\_\_\_  
John M. Rucker, Commissioner

s/A. Crawford Clarkson, Jr. \_\_\_\_\_  
A. Crawford Clarkson, Jr., Commissioner

Columbia, South Carolina

May 11, \_\_\_\_\_ 19,88