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February 25, 1988

TO COUNTY ASSESSORS:

No. 88/15

THE MAY DEPARTMENT STORES COMPANY v. COUNTY OF LOS ANGELES ET AL.
196 CA 3d 755

On November 30, 1987 the Second Appellate District rendered a decision on the above captioned case. The case relates to the assessment of property for property tax purposes. Five assessment related issues were litigated.

One issue of statewide impact was treatment of the investment tax credit (ITC). The appellate court ruled that, when using the cost approach, the purchase price of a qualifying property need not be reduced by the ITC. Some language from the decision is stated in relevant part as follows:

"The ITC is so substantially different from both a rebate and sales tax that the Assessor did not act arbitrarily in refusing to take it into account.

"Because of the seemingly unending difficulties encountered in any analysis of the federal tax laws, we hold ITC need not be taken into account by the Assessor in determining fair market value."

Other issues resolved by the court relate to assessment practices specific to Los Angeles County in the following areas:

Supplies/Inventory: The May Company contended certain of its price tags, sales receipts, and other similar items were misclassified by the assessor as taxable supplies rather than as inventory. The appellate court agreed.

Carpeting, Double Assessment: The May Company charged that the assessor had taxed the store carpeting twice, once in the income approach as land and building and again in the cost approach as personal property. The appellate court disagreed.

Point of Sale Equipment: This equipment is similar to electronic cash registers. The issue involved assignment of service life and the use of a minimum percent good. The appellate court approved the assessor's depreciation method.

Abandoned Property: In this issue the assessor accepted a verified assessee formula for 1977 estimating the value of fixtures in older

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stores. Formulas for years prior to 1977 were rejected by the assessor because physical surveys substantiating the formula were not possible. The appellate court agreed with the assessor.

May Company filed a petition for review of this case with the California Supreme Court but the petition was denied.

Please contact the Business Property Technical Services Section at telephone number (916) 445-4982 if you have questions on this decision. A copy of the case is available on request.

Sincerely,



Verne Walton, Chief
Assessment Standards Division

VW:sk